

**BUSINESS FOR DEVELOPMENT:
IMPLICATIONS FOR EXPORT STRATEGY-MAKERS**

THE UNITED REPUBLIC OF TANZANIA

**TRADE RELATED TECHNICAL ASSISTANCE:
WHAT WORKS AND WHAT DOESN'T**

Cancún, Mexico – September 2003

1. Introduction

Globalization is challenging to the developing countries, particularly the Least Developed Countries (LDCs) where the countries face the threat of marginalization not only from participating in the global economy but also from losing their domestic markets. The First WTO Ministerial Conference held in Singapore in December 1996 identified the need to address the marginalization of LDCs in global trade and a Plan of Action was developed. The Plan of Action was adopted by six multinational agencies namely, the International Monetary Fund (IMF), the International Trade Center (ITC), United Nations Conference on Trade and Development (UNCTAD), the World Bank (WB), and the World Trade Organization (WTO) which agreed that an Integrated Framework (IF) for the provision of trade related technical assistance to the LDCs should be drawn-up. Thus, in October 1997 the IF concept was endorsed at a High-Level Meeting on Integrated Initiatives for LDCs' Trade Development; during which several other multilateral and bilateral agencies, and the private sector acceded to it.

Tanzania became one of the six pioneer 12 pilot scheme LDCs that participated in the Round Table with the six core multilateral agencies at the High-Level Meeting held in Geneva in October 1997. It presented a needs assessment of trade-related technical assistance in the IF context which was assessed by the six agencies and responded to jointly.

2. Constraints to Trade in Tanzania

Tanzania took further step to fit appropriately in the IF initiative and organized another Round-Table Consultative Meeting on 14th October 1999 in Dar-es Salaam. The guest of honor to the Round-Table emphasized the need to alleviate poverty and highlighted economic growth as a means of reducing poverty, and trade as an engine of economic growth.

2.1 Profile of Tanzania's Endowments

Despite its endowment in natural resources i.e. mining products and a fertile land that has allowed a range of traditional exports to be exported abroad, Tanzania has the potential to diversify its export base especially in tourism, transit trade, horticulture and marine products. However, Tanzania has been constrained by three broad clusters of constraints: -

- Supply side constraints encompassing low capacity for production and delivery of goods and services;
- Lack of trade support services;
- Lack of capacity to effectively participate in the multilateral trading systems (MTS).

The National Export Development Strategy (EDS) report undertaken jointly by the Government of Tanzania and the World Bank Task Force reflecting on the view of both the private and public sectors, recommended focus on the following sectors for accelerated export growth: -

- Upgrading the legal system and improving the regulatory framework, particularly controlling smuggling of goods and corruption;
- Aligning the institutional framework to the export development mission and strengthening it;
- Fulfilling the unmet finance needs of SME exporters and providing them with insurance and guarantees;
- Improving the physical infrastructure that constraints not only exporters, but producers more broadly;
- Strengthening Tanzania's capacity at all levels in support of export development.

3. Tanzania's Role in the Integrated Framework

As a follow-up and implementation of the IF, a National Steering Committee drawing members from bilateral and multilateral donor agencies, Government Ministries, public and private sector institutions was formed. This committee works together to translate the "needs" discussed in Round-Tables to transform them to specific projects, starting with those agreed at the High-Level meeting in Geneva. The process has two phases:

- Phase I – the projects are presented to the donor community for the purpose of diagnostic stage/ expression of interest;
- Phase II – process for financial commitments and pledges from the donor community/implementation of action plans.

4. The Export Development Strategy Project

It is widely accepted that high rates of economic growth will result into the reduction of poverty incidence and the experience has shown that trade could induce economic growth as an engine of growth. The Newly Industrializing Countries (NICs), in particular, with their experience of export-orientation success story of growth have gained popularity in the past slightly more than two decades. The developing countries have therefore shifted their attention from inward looking to outward looking for markets of their labor intensive manufactures and Tanzania is not an exception. However Tanzania is still facing the challenge of uncompetitive production costs that have resulted into high price of commodities even in the domestic market itself.

5. Private Sector Development

The government of Tanzania has put a special emphasis in the private business development to promote its central role in poverty reduction efforts. According to a World Bank Group SME Department Country Mapping, Tanzania's business is hampered by three categories of constraints:

- **Business environment:** - SME suffer from very limited managerial capacities, cumbersome and costly legal and regulatory framework, expensive and unreliable utilities and limited access to serviced land, all of which have resulted into limited competitiveness.
- **Capital:** - Access to finance, especially long-term credit is very limited. While there are 19 commercial banks, credit is available to a few high value borrowers, often large companies with large stocks of real assets. Interest rates range from a moderate 12 percent for good borrowers to as high as 25 percent for most borrowers, especially SME. This is due to limited creditor enforcement of contracts, high bank overhead costs, and non-performing loans.
- **Enterprise Support Services** - The existing services are either designed and finally supported by donors for micro enterprises or offered by professional consulting firms, leaving SMEs with no access to affordable quality training, consultancy, advisory, auditing and legal services.

These constraints are being addressed in collaboration with development partners as follows: -

5.1. Business Environment Strengthening for Tanzania (BEST) Programme

The BEST Programme addresses legal, regulatory and administrative constraints currently faced by both local and foreign enterprises seeking to do business in Tanzania. Four countries namely, the UK, Sweden, Netherlands and Denmark jointly fund it. The programme was approved by the Cabinet of the Government of Tanzania on 22nd July 2002 and at the moment the appraisal is being undertaken by the donors ready for implementation around early July, 2003.

The rationale of the BEST is poverty reduction through private sector led-economic growth, with activities designed to focus on small and medium-sized enterprises. Small enterprises are those employing 5 – 50 employees with investment capital of TShs. 5.1 – 200 million; while medium enterprises are those with 51 – 100 employees and TShs. 201 – 800 million investment capitals.

The scope of the interventions is firstly, to provide an “enabling environment” for private sector development in the context of better policy, administrative, legal, regulatory and judicial environment. Secondly, to enhance public-private partnership to achieve better policies and a more enabling environment; this will be administered by a unit called Better Regulation Unit (BRU) to be established in the President’s Office, Planning and Privatization (POPP), directly under the Permanent Secretary.

5.2. Business Sector Programme Support II (BSPS II)

The BSPS II is a second phase of a programme supported by the Danish Government under DANIDA in its international co-operation endeavor to contribute actively to build capacity in the developing countries for the purpose of enabling these countries to participate in international negotiations on trade and investments. It is a five-year programme starting implementation in July 2003. The programme has four components covering the three major areas hampering conducting business in Tanzania; namely: -

- **Business Environment Strengthening for Tanzania** – the details have already been provided above.
- **Improved Access to Markets**– the intention of this component is to improve the access of Tanzanian products to the international, regional and domestic markets.
- **Improved Labour Market** - the main thrust of this component is to create conducive and peaceful labour relations through the establishment of adequate, flexible labour market institutions.
- **Viable Commercial Banking and Financing** – the objective of this component is to establish financially viable and commercially sustainable national financial institutions capable of servicing segments of the Tanzanian population that were previously neglected in assessing financial services, in particular poor women, the majority of mainly poor Tanzanian households, micro and small enterprises. Access to financial services, including credit for consumption purposes, investment and working capital is expected to promote the development of the MSME sector, increasing employment and income opportunities for a larger share of the population.

5.3 Joint Integrated Technical Assistance Programme (JITAP)

- The Joint Integrated Technical Assistance Project (JITAP) has the objective of assisting African countries to benefit from the new multilateral trading system (MTS) based on the Uruguay Round and its subsequent World Trade Organization (WTO) Agreements. Under the programme five groups have been identified to work for national positions in relation to the WTO Agreements.

6. Following are the Suggestions on how Effective Trade – Related Technical Assistance should be:

- Trade –related Technical Assistance should focus towards direct support of enterprises such as SMEs since these are backbone to our export oriented economy. Also efforts should be directed into building capacity of intermediary agencies that play a significant role of coordination and key government personnel for the purpose of having effective negotiation skills as well as policy implementation.
- Technical assistance should be effective if directed to institutions particularly private sector membership organizations such as Confederation of Tanzania Industries (CTI), Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), etc for the capability to increase awareness, information dissemination and business advocacy for the members.
- Technical assistance in short term can be delivered by foreign consultants who will be entrusted with the role of building capacity to local consultants who will be effective in long term requirements. Training should be locally organized with overseas exposure wherever possible. This has both costs implication as well as continued efficiency in long run.
- Formulation of technical assistance programmes should be participatory involving the agency that will provide the assistance and the recipient as this engenders commitment and ownership by both parties. The review and monitoring process should also be participatory.
- Technical assistance should be designed by a combination of foreign agencies and local institutions. This will increase the sharing of skills and experiences accrued from each party.
- A successful technical assistance project is that which fulfils its mission and vision to the expectation of stakeholders and which does not fold up once external support ends. It has to be sustainable beyond the lifetime of the assistance.