

**PROCEEDINGS OF 2ND INTERNATIONAL INVESTORS' ROUND TABLE MEETING HELD ON 27TH MAY
2003, ZANZIBAR BEACH HOTEL, ZANZIBAR**

PRESENT:

List Attached

1.0 OPENING:

- 1.1 The Chairman of the Executive Committee of the Tanzania National Business Council, Mr. Matern Lumbanga, welcomed representatives and observers to the meeting noting the commendable preparatory work done by the Working Groups and Secretariat, thanking also the Government of Zanzibar for hosting the 2nd IRT meeting. The Chairman of the Executive Committee invited the Chairman of the Tanzania National Business Council, HE. Benjamin William Mkapa, the President of the United Republic of Tanzania to call the meeting to order.
- 1.2 The Chairman of TNBC welcomed participants to Zanzibar and called upon HE Amani Abeid Karume, President of Zanzibar, the host, to formally welcome IRT members and participants to Zanzibar.

2.0 WELCOMING SPEECH BY PRESIDENT AMANI ABEID KARUME

2.1 Main highlights from the President's welcoming speech: -

- Grateful for selecting Zanzibar as venue for the review meeting pledging to work closely with TNBC in the resolve to implement the issues raised by 1st IRT;
- Reiterated Zanzibar total commitment to the IRT process and joint endeavour to attract foreign investors as a major way to eradicate poverty;
- A major step in Zanzibar since the last IRT meeting was completion of the draft Zanzibar Investment Policy currently awaiting endorsement by the Government and House of Representatives.
- Zanzibar was committed to creation of a strong, diversified, resilient and competent economy through investments to cope with the growing challenges of globalization and poverty eradication. In that respect, there was need to raise investment level from current level of 10% -15% of GDP to 25% - 30% of GDP and to raise economic growth rate from present 4% to 8% by 2020.
- Strategies to be applied to meet this challenge include management of macro-economic stability to ensure competitiveness of the Zanzibar economy
- Other strategies include provision of adequate, reliable and efficient infrastructure to meet needs of a growing economy, welcoming private public partnership in various infrastructural projects in Zanzibar; development of mechanism to aggressively promote and market potential investment and business opportunities particularly in SMEs, manufacturing, fisheries, agriculture, service industry, trade and tourism; and exploitation of unique trade opportunities offered by EAC, SADC, NEPAD, AGOA and EBA.
- Strategies for revolutionizing tourism, being the mainstay of Zanzibar economy, include infrastructural development, continuation of peace and stability, business climate, aggressive marketing and developing new products including national park for eco-tourism.
- Holding the second CBC-Tanzania Investment Forum immediately after 2nd IRT meeting confirms that Tanzania was emerging as a leading investment destination as also reported by Center for International Development at Harvard University.

- Like the Union Government, Zanzibar was fully committed to improving infrastructure, completing legal and regulatory reforms, reforms to land act and labour law and institutional framework for investment promotion.

3.0 ADOPTION OF THE AGENDA

The agenda was adopted as presented.

4.0 OPENING STATEMENT BY THE CHAIRMAN OF TNBC, HE PRESIDENT BENJAMIN WILLIAM MKAPA:

4.1 Main highlights from the President's speech include: -

- a) Special thanks and appreciation to HE President Amani Abeid Karume for hosting the 2nd IRT meeting in Zanzibar and to TNBC Secretariat and World Bank for organizing the meeting assuring participants of Government resolve to protect all visitors and citizen
- b) Stressed that Tanzania has no enemies but was suffering on account of its friendship with those that others consider to be their enemies, but was determined to fight terrorism with others for a peaceful world.
- c) Highlighted achievements made by Government in addressing fast track issues on business climate as proposed by the inaugural IRT meeting as follows:
 - In tackling land related issues to facilitate collateral use of land in bank borrowing and to spur private investment in agriculture, review of the 1999 Land Act and attendant National Land Policy was in advance stage while credible land bank had been identified.
 - In tackling labour related initiatives, major steps have been taken to facilitate importation of needed skilled labour and it is expected that by the next IRT, time spent processing requests will have decreased to not more than 5 days from present 11 days. Furthermore, legal and other impediments to the efficient functioning of the labour market were being eliminated through the proposed Employment and Labour Relations Act. 2003 and the Labour Institutions Act. 2003 which have been prepared together with Codes of Good Practices and Guidelines such as Collective Bargaining, Strikes and Lockouts and Termination of Employment. The various labour bills, codes and guidelines on discrimination, sexual harassment, HIV/AIDS, mediation and arbitration will be presented to Parliament in October 2003.
 - Intensive tax reforms for rationalizing central and local Government taxation and alleviate the tax burden on agricultural sector have been carried out in consequence of which three types of tax reforms will be launched in the context of 2003/04 Budget namely: - abolition of nuisance taxes at central and local Government level; abolition of local Government taxes which were a burden on rural population, making Tanzania Revenue Authority (TRA) investor - and taxpayer friendly, and, promulgation by Parliament of a revised Income Tax Law in October 2003 aimed at broadening tax base and strengthening tax administration.
 - Progress has been made in rationalization of business licensing so as to reduce transac-

tion costs and avoid over taxation with one window for issuance of licenses at Ministry of Industry and Trade. Along with mass sensitization on various reforms, another round of reforms will be launched in the 2003/04 budget. Increasingly, the primary goal of licensing in Tanzania will be regulatory rather than as a revenue measure.

- In recognition of the importance of regional and extra-regional trade and integration as a stepping stone into the global market, Tanzania is already a key member of EAC, SADC and the vision is to be able to trade freely and efficiently with all African countries. Already bilateral discussions are underway with COMESA countries which are not members of EAC and SADC. Since the last IRT, an Export Processing Zone Act has been enacted and related regulations gazetted and the first EPZ project has been inaugurated. Efforts are now directed towards creating financial and other facilities directed at galvanizing private investment to exploit AGOA, EBA and other preferential trading schemes.
 - Over the last year, there has been tremendous improvement in security for people and property including investments in the country and the Government will intensify its efforts again in the 2003/04 budget. Peoples' militia and other community based policing initiatives have taken root in the war against crime.
- d) Commended efforts of the Working Groups of the private sector and Government under the umbrella of TNBC which deliberated on growth-promoting strategies and policies in five areas, namely development of agriculture and agribusiness, manufacturing, tourism, human capital development and image building.
- e) Affirmed that IRT process has become an important adjunct of Tanzania policy process and an instrument for broadening and deepening economic reforms hence the interest in the progress of IRT Working Groups.
- f) Affirmed further that there were helpful ideas from the working groups on policies, strategies and actions that could augment the ongoing work of the Government Ministries, Departments and Agencies. Nevertheless, further work and effort by the IRT working groups was required to determine and concretize objectives, policies and strategies and other measures in specific areas. In the meantime the following immediate actions were directed:
- Out of the Tourism Working Group report, the Ministry of Natural Resources and Tourism to spearhead review of useful proposals from the report and prepare a revised development strategy, supported by time-bound action plans for the sector. These will get fast track Government consideration and approval before the end of September 2003.
 - The Ministries of Agriculture and Food Security, Water and Livestock Development and related Government organs to review carefully Agribusiness Working Group report and determine practical steps to implement the good ideas it contains. Private businesses to emulate the good examples of Kilombero Sugar Company, Mtibwa Sugar Ltd, in forging linkages with out-growers, small-scale farmers and peasants
 - From the Image and Perception Working Group report, the President's Office, Planning and Privatization, jointly with other Government departments and development partners to build a comprehensive image building strategy including hiring of a qualified consulting firm before end of August 2003 to help build the image of Tanzania internationally, mobilize national media in support of country's image building tasks, and foster enhanced communication of the Government's objectives, strategies and action plans.

5.0 NOTING RECORD OF PROCEEDINGS OF 1ST IIRT MEETING:

Record of Proceedings of 1st IIRT Meeting was noted and approved as presented.

6.0 SUMMARY OF ISSUES DISCUSSED AND RECOMMENDATIONS MADE:

6.1 Working Groups Report

a) Reported that out of the ten issues, TNBC formed Working Groups incorporating members of the IRT, individuals and institutions identified by TPSF to handle 5 issues leaving 3 issues to be handled by the Government. The five Working Groups formed are handling image and perception of Tanzania, agribusiness, tourism, manufacturing and human capital development.

b) Image and Perception of Tanzania (IWG)

- IWG commends concerted efforts by Governments of Tanzania, USA and UK in handling image and perception issues under the present climate. Efforts should be directed towards enhancement of the country's capacity to respond to terror threats and ensure security to travelers and investors.
- Expressions of interest by Public relations firms have been received from GGA Communications Public and Government Relations (Canada), Kamber Group (USA) and TSE Consulting (UK).

c) Agribusiness Working Group (AWG)

The Working Group is proposing measures towards quick-wins in agribusiness and attracting investors to agriculture as follows:

- Reviving livestock sector, continuation of identification of villages and individuals with land suitable for commercial ranches through TIC Land Bank.
- Revolutionize horticulture and floriculture not only in places such as Arusha but also new locations such as Iringa, Morogoro and Coastal regions,
- Revolutionize cotton and oil seeds farming and processing side by side with peasantry farming and small scale milling in rural areas,
- Revive spinning, weaving and garment sub-sectors through EPZs to enter the AGOA, EBA and other preferential regional markets.
- Revolutionize food-processing, packing and marketing along with traditional exports
- Focused discussion on how to address peasant farming in investment promotion
- Completion of ongoing reforms particularly the Land Act; taxation, SMEs promotion and empowerment
- The Working Group commends the Government's plan to remove all taxes on agricultural inputs and measures to create agricultural credit schemes and rural based financial institutions accessible by the poor but advocates for further incentives to agriculture including selective subsidies and removal of barriers to agricultural trade, improvement in channels of distribution and market access, removing internal as well as cross border trade barriers, provision of supporting services particularly feeder roads and supply of utilities in rural areas.

- As deliverable to the 3rd IRT meeting, appeal was made to all IRT members to support the AWG effort in identifying investors in the quick-win areas outlined above. Appeal was also made to identify and engage best practice individuals who were behind the success stories in agribusiness in countries and places such as Mauritius, India, Malaysia, Vietnam and Thailand to be consulted by AWG.

d) Tourism Working Group (TWG)

- A comprehensive report circulated to members is receiving Government attention particularly on issues relating to the legal and regulatory framework, multiplicity of taxes, tourism promotion and empowerment of Tanzanians in the sector.
- TWG was instrumental in successful establishment of a tourism sector business association in Zanzibar and was urging members to deliberate on practical approaches in marketing the Tanzania tourism product and promoting new investments in the sector, cautioning further that travel advisory and terrorism warnings issued regularly by the American and British Governments were detrimental to investment promotion initiatives and existing investments in the sector and recommended:
 - fulfillment of pledges by World Bank/MIGA in promoting initiatives of the Working Group and the sector as promised during the Tourism Investment Forum held in Arusha in October 2002,
 - getting Government response on migration and visa issues affecting tourism in Mainland and Zanzibar
 - getting an indication of when Tourism policy, adopted recently, will be implemented as it was adequate for revolutionizing the sector
 - TATO and the World Bank/MIGA to finalize proposals for empowering local tour operators and other SMEs in the sector.

e) Manufacturing Working Group (MWG)

- Comprehensive reports prepared by CTI on the sector were used to guide the work of MWG. These were circulated to members and are receiving Government attention. MWG recommends deliberate actions to revive the manufacturing sector through:
 - Promoting resource based industries—textiles, leather goods etc
 - Establishment of industrial development bank for the sector providing credit at reasonable cost
 - Reduction of electricity tariff rates and provision of reliable and quality power through the national grid.
 - Attracting foreign direct investment to the sector through well functioning EPZs, improved infrastructure mainly trunk roads, harbours and railways to take advantage of geographical position in the Great Lake Region, regional economic groupings such as EAC, SADC, etc and preferential trade initiatives such as AGOA, EBA, Canadian and Japanese initiatives.
 - Promotion of SMEs for economic growth and employment creation.
- Specific recommendations include deliberate efforts by Ministry of Finance in pursuing:-
 - TRA refunds of VAT
 - Tax incentives to edible oil and soap manufacturing sub-sectors along

with textiles for employment creation and to take advantage of AGOA EBA and other trade preferential regimes.

- An export promotion regime and implementation of EPZ Policy
- Time frame for completion of harmonization of local and central Government taxes, for reduction of tariffs relating to water, energy and telecommunication.

c) Human Capital Development Working Group (HWG)

- HWG is still engaged in discussions ranging from re-examining overall curricula for education in a private sector led economy to finding ways of attracting Tanzanians in the Diaspora back into the country.
- Some of the positive initiatives and achievements include the pledged Chief Executive Officers' Scholarship Fund whose implementation is now contingent on Government counterpart funding.

6.2 Government Report

a) Removing Investment Impediments

- Since September 2002, respective Government Ministries/Departments have routinely been reporting directly to HE the President on quarterly basis, progress achieved in removing investment impediments on the issues related to: Land; Labour Policy/Legislations; Tax; Legal/Judicial System; Security; Business Licensing; Regional Trade; Road Transport and Country Risks.
- Other important issues such as Governance, Change of Culture of Civil Service and Private Sector Advocacy Capacity are now being addressed in the same fashion and are core components of the Business Environment Strengthening for Tanzania (BEST) Programme being undertaken in partnership with donors.

b) Inadequate Land Acts, Delays in Issuing Title Deeds and Unavailability of Land for Investors

- The Ministry responsible for Land has completed preparation of a Cabinet Paper for discussion in June 2003 forming the basis of Bill for amendment to Land Acts. The respective Bill will be tabled to the forthcoming Parliamentary Session in June 2003.
- As of December 2002, a total of 3,010 title deeds had been issued and advertised in the media for information to the public. Another lot of 2,577 title deeds will be issued by June 2003. It is intended to issue 39,0516 title deeds by June 2004.
- Land bank measuring about 4.4 million ha has been secured by TIC and was available to investors and for joint ventures.

c) Cumbersome Procedures for Importation of Skilled Labour and Shortage of Skilled Manpower in Tanzania

- Bills for Employment and Labour Relation Act 2003 together with Labour Institutions Act 2003 will be presented to Parliament in October 2003.
- Laws related with employment creation will now be reviewed from June 2003.
- Restrictions on the importation of skilled labour by investors have been removed by abolishing the requirements to seek Labour Exchange Centre approval. To this end TIC and Ministries responsible for Labour and Immigration matters have established a fast track system through which all required residence permits by investors are processed by TIC within 14 days.
- To complement initiatives by the Tanzania CEO's scholarship fund the Government, the private sector together with Donors, are mobilizing US \$ 6.3 million for the fund.

- The Government is reviewing the entire curricula of Primary, Secondary and Tertiary Education to meet the requirements of a private lead economy and will work together with the HWG.

d) Complex Government Tax System and Unfriendly Tax Administration System.

- Substantial progress has been made to reduce nuisance taxes and realign taxes to strengthen their impact on economic development. In the context of the 2002/03 Government Budget, the following specific measures were taken:-
 - Abolition of all taxes on agricultural inputs.
 - Removal of stamp duty on sale of farm produce and on school fees.
 - Land rent reduced and rent arrears on land written off.
 - VAT refunds on transportation, processing and packaging materials for export crops ploughed back to farmers.
 - Duty drawback application period extended from three to six months to enable exporters to claim refunds of import duty paid on inputs without undue impediments.
 - A Treasury Voucher system introduced for administering indirect tax exemptions applying to exempt NGOs.
 - A new centralized motor vehicle registration and driver license system will be effected by June 2003.
 - Introduction of container scanner system to enhance efficiency of customs clearance will be in operation by December 2003.

e) Local Government Taxation system and Inefficient Tax Administration

- A comprehensive strategy for harmonizing local Government taxes and levies has been developed. Government has announced guidelines to local councils for rationalization of local Government taxes, levies, and licensing, including equity and fairness of local Government tax system.
- The Government is significantly increasing the tax administration effectiveness of the Tanzania Revenue Authority's by:-
 - Increasing the coverage of Tax Identification Number (TIN)
 - Consolidating the operations of the Large Tax Payers Department, to improve compliance.
 - A new Income Tax Bill has been prepared and will be submitted to Parliament before the end of this year. This will enable, among other things, adoption of self-assessment of income tax liabilities.
 - The existing tax-based departments of TRA will be integrated in a functional organization structure.
 - The exemption regime is undergoing further rationalization.
 - The Customs Tariff Act, Excise Ordinance and Stamp Duty Act are undergoing review with a view to making major amendments.
 - TRA is finalizing its corporate plan for 2003/04 – 2007/08 period with a view to modernizing its organization and operations and improving its effectiveness.
 - TRA is in the process of re-engineering its business processes and develop an integrated computer system.
 - The VAT threshold is undergoing review with a view to adjusting it to improve compliance.
 - The Government will soon introduce measures that would make the petroleum sector less susceptible to tax evasion and improve compliance.

- The Government has operationalised the Joint Finance Commission between the Union Government and the Revolutionary Government of Zanzibar. The Commission aims to strengthen budgetary coordination and address any remaining issues on smuggling and tax evasion between Mainland Tanzania and Zanzibar.
- In the bid to remove nuisance taxes, rationalization of Central and Local Government taxes is under way.

f) Excessive Delays in Legal Reforms and Ineffectiveness of Courts in Delivery of Justice.

Implementation of the Legal Sector Reform Programme (LSRP) has taken off with three major initiatives as follows:

- **Commercial Court:**
Expansion of the services of the Commercial Court to Arusha, Mwanza, Mbeya, Tanga and Kilimanjaro and building capacity of the lower courts in handling commercial disputes is in progress the objective being to reduce the time taken for settlement of commercial disputes from 18 months in 2000 to three to six months by 2004 in the whole country.
- **Capacity Building of Law Reform Commission:**
The Commission is building capacity to enable it undertake legislative reviews of commercial laws, criminal and administrative laws by 2004.
- **Establishment of the Commission of Human Rights and Good Governance:**
The objective is to provide capacity, adequate facilities, working tools and promoting awareness to the public on the role of the Commission
 - A "Quick-Start" Project to provide a boost to the implementation of the LSRP has started.
 - Drafting underlying regulations for the Companies Act, 2002, to be completed by July 2003.
 - As part of updating Commercial Framework, the BEST programme, expected to start in July 2003, will enhance timely settlement of commercial disputes.

g) Rising Tide of Incidents of Personal and Business Insecurity

- Tanzania continues to be a stable country, an island of peace, a place of inspiration and refuge for all its neighbours.

The Government has stepped up internal security activities to combat increased wave of crime and worldwide terrorist activities and the following actions have been taken:

- 2,000 new police officers have been recruited and 2,501 police officers underwent re-training locally while 118 others were trained outside the country.
- Modern surveillance equipment, detection facilities, laboratories for anti-narcotics etc and investment in modern communication, logistical and accommodation facilities have been made.
- The public is now involved in combating crime through private security firms (41 by May 2003) and revival of Peoples Militia activities. Community policing system will be introduced soon.
- Overall the crime rate in Tanzania has continued to be lower than neighbouring countries.

- h) Too Many Licenses and too Many Licensing Agencies.**
- A Cabinet Paper for discussion in October 2003 recommends that multiple licenses should be removed through Ministerial Order as provided for by section 5(2) of the Business Licensing Act 1972.
 - Requirement to produce tax clearance certificate as a precondition for licensing and individual professional licenses has been abolished through Miscellaneous Amendment Act of April 2003.
 - The Ministry of Industries and Trade has now become A One Stop Center for all licenses and the future out-look is to accomplish business licensing reform within one year.
- i) Weaknesses in Negotiating Trade Agreements and Unfocussed Policy on Suspended Duties.**
- Ministry of Industries and Trade is now including representatives from the Private Sector, Research and Academic institutions in its trade teams in the effort to develop the capacity to address the weaknesses in negotiating trade Agreements.
 - An anti-dumping Cabinet Paper was approved in February 2003 to deal with effective rate of protection and unfocussed Government Policy on suspended duties. The Bill will be presented during the June 2003 Parliamentary Session.
- j) Private Sector Policy in Development of the Road Network.**
- The Cabinet approved a Construction Industries Policy Paper in February 2003. Stakeholders will discuss strategies and Action Programme in September 2003.
- k) Negative “Imaging” and Domestic Negative Perception of Investors.
Government efforts include: -**
- The operationalization and implementation of the TIC’s investors targeting scheme by country and by sector which involved country presentations in South Africa, China, Mauritius, India, Austria, U.S.A. and U.K. These presentations are augmented by concrete project profiles of specific targeted sectors like Tourism, Textiles, Garments/Apparels, Mining, Food processing and Floriculture/Horticulture done in collaboration with UNIDO.
 - To change negative perception on investors, a comprehensive sensitization program has been started targeted at Members of Parliament, Heads of Political Parties, Local Business Community, Academia and Media.

6.3 Discussion of the Reports by Members:

- 1) Noted with appreciation the interest and commitment by HE President Mkapa in genuinely promoting private sector in Tanzania.
- 2) Proposed to engage international community on a dialogue aimed at removing agricultural subsidies and prohibitive tariffs in developed countries.
- 3) Suggested that in order to ensure growth in tourism, image issues should be tackled fast and the work of image and tourism working groups should at best be merged. Serious consideration should be given to the possibility of merging agri-business with manufacturing working groups in order to ensure prominence to agro-processing for

value addition and for faster growth.

- 4) Commended CTI paper in prioritizing areas for consideration in order to achieve higher growth rates. Recommended all investors in Tanzania to support the CTI initiative of promoting local products through the “Buy Tanzanian Build Tanzania” marketing campaign.
- 5) For the image and tourism campaigns to succeed, there is urgent need to work closely with the British and American Governments on travel advisories as a moral obligation for the friendship with these countries.
- 6) For a sustainable private sector development, ownership of enterprises was extremely important underscoring the need for joint ventures between local and foreign investments as a positive gesture.
- 7) Need for responsible environmental and ecological practices in investments and the responsibility of investors to educate their employees on environmental and ecological practices.
- 8) Tourism sector worldwide is hit and recovery is not round the corner. It is expected that Asian countries will campaign for attracting tourists from USA and Europe. It is recommended that Tanzania should also step-up efforts to market itself in the same sources.
- 9) There is abundant capital in Tanzania as banks were seated on huge deposits with very few entrepreneurs to utilize the resources. What was needed was to empower indigenous entrepreneurs and to create a vibrant land market, which will assist in the process of empowering indigenous private sector, as land was the only asset they had.
- 10) Need to work on a “universal infrastructure services provisioning policy” similar to EPZ, including incentives, tax regime, etc which should go a long way in employment creation and poverty alleviation.
- 11) The world and Governments will eventually be used to living in a stormy environment created by terrorism hence travel advisories given were similar to “meteorological” warnings. Tanzania and Zanzibar had rightly chosen to cooperate with international community to mitigate the impact of the warnings.
- 12) Tanzania is a country underselling itself, spending too little time to understand and aim for its target audience with most images and messages targeted at domestic audience.
- 13) Image and brand goes to the heart of everything one does hence need for coherence in messages. Donors are giving a vote of confidence to Government through budget support where there is a single version of truth. The private sector should also carry a single version of the truth when it comes to information on licenses, permits, tax, regulations etc.
- 14) Zanzibar was ripe for major developments including industries to process spices, coconut based products, textiles, tobacco, supplies to tourism sector, supplies to AGOA and EBA urging investors to take a critical look at the island.

- 15) Equity capital locked in form of buildings is not used productively due to lack of a conducive land tenure system and current land reforms might not go far enough to unlock the equity capital in Tanzania.
- 16) Access to finance and credit to majority of people must be discussed by members of the local banking association as a special request.
- 17) The World Bank through MIGA reiterated commitment to the IRT process for improvement of the competitiveness of Tanzania. Capital markets study for East Africa identified lack of capital, the type of instruments available, capital tied up in private property as major issues currently being researched by the Bank
- 18) Proposed to leverage ICT through subsidies in the same manner as agricultural subsidies in developed countries so as to leapfrog development in poor countries by enabling the poor to access ICT.
- 19) Suggested that the private sector should be able to access aid funds and subsidies presumably through a kind of auctioning of aid funds for large projects, where aid funds could be made available at concessionary or even negative interest rates, the purpose being to bring funds to the private sector for efficient use, which are normally available to the Government.
- 20) Stressed that developed countries should practice what they preached and hence foster better terms of development, not of trade alone, if the world economic order should be meaningful, emphasizing that a principle proclaimed and practiced in one part of the world should be practiced worldwide to avoid hypocrisy.
- 21) Cautioned that travel advisories done without high-level consultation are in effect similar to a motion of economic sanction done without considering the stunning collateral effect and economic consequences as it becomes difficult to maintain the confidence for investment after such warnings and advisories are issued. There is urgent need for further dialogue on security issues.
- 22) Emphasized that all businesses have to obtain moral licenses from the communities they operate from and create the human capital and skill development programs to support growth for sustenance.
- 23) Commonwealth Business Council and indeed the British Government condemns subsidies and will always urge for a common stand among Commonwealth countries in WTO rounds of talks. The Cairns Group established in Australia has a noble task ahead, which is fundamentally important for the forthcoming WTO Cancun (Mexico) meeting urging Tanzania to associate itself.
- 24) Development assistance and development of the private sector should go hand in hand in a complementary way if the private sector is to become the solution for the conundrum of millennium development goals. A mechanism is urgently needed for ensuring that development assistance and development of private sector are complementary and mutually supportive. Recommended to form a sub-group to ensure that issues discussed are captured in a more meaningful way and as part of the redirection of development assistance strategies for Tanzania.

- 25) Visible concern ahead is now how to get growth following the hard work of reforms. There is no business plan for Tanzania as to “ how we are going to reach where we need to be”. Like “Japan Incorporated”, what was needed is to have “Tanzania Incorporated” in real terms i.e. how does the IRT members continue to become an asset to the President and the country at large and pull common knowledge for the benefit of the country.
- 26) Investment level in technical education and technical skills is far too low for a meaningful growth of the economy.
- 27) Creation of movers and shakers of the Tanzania economy is constrained by lack of development finance. This issue is not currently addressed by Breton Woods Institutions, which have an upper advisory hand to the Government. Banks are risk averse hence interested in risk free investments such as treasury bills and short term lending. Land Act had been a further exaggerated excuse for not extending credit to the Tanzania private sector but this has now been rectified to the comfort of Banks.
- 28) Bankers observed that the process of increasing credit to the country had started but needed acceleration, emphasizing the need for bankable projects.
- 29) Building a credible local entrepreneurial class in form of SMEs to play a key role in the growth of Tanzania economy is highly recommended. This will be achieved through cooperation between small and large enterprises. The middle class created through SMEs will be a reliable market for large investments. To this effect, the Government intention to establish Credit Guarantee Schemes for SMEs should go hand in hand with creation of long-term financial institutions for SMEs.
- 30) Although there was impressive consistence in creating the right business climate for investors, Tanzania to become competitive at a regional setup should explore ways of broadening tax base rather than penalizing a few successful businesses.
- 31) Tanzania Agriculture Development Strategy is highly commendable but there was need to offer incentives to agriculture in the same way as mining sector. The strategy to stop dumping should go hand in hand with increased local output, which calls for improvement in technology in the sector, including reduction of time it took for releasing new products.
- 32) Observed that the challenge ahead of Tanzania was to devise means of lifting per-capita income from US \$ 1 per day to US \$ 2per day in a short period, as this will have a dramatic impetus to attraction of investors.
- 33) Reported that out of 2,000 projects handled since 1990, 60% were manufacturing SMEs (US \$ 100,000 – US \$ 200,000 capital outlay) mainly in consumer goods, spread in main townships. This was a bleak indication of the emergence of a middle class. Recommended to look into the India model of SME taxation and tax holidays system and formulate a strategy to stimulate emergence of middle class in Tanzania.
- 34) Recommended that Treasury should set-up a privatization fund as a collection centre of privatization proceeds to address lack of capital as opposed to using the privatiza-

tion funds entirely in recurrent expenditure.

- 35) Tourism Working Group be challenged to define what quality tourism was and report to the forthcoming IRT meeting

6.4 Draft Summary Report of the 2nd IRT Meeting

1. Major Developments in Zanzibar

Noted that Zanzibar has already put in place an investment development policy. This will clear a lot of issues on investment such as:

- Diversification of investment opportunities in Zanzibar including Tourism
- Implementing legal and Regulatory Reforms.

2. Implementation of the recommendations of the 1st IRT meeting:

Noted that both the Government and private sector took measures in implementing the recommendations of the 1st IRT meeting. This includes land related issues, labour, taxation and business licensing where the Government will now have in place appropriate legal instruments by October 2003.

3. Recruitment of PR Company for Image and Branding of Tanzania:

Reported that the Government will employ a PR company by August 2003 to work on improvement of image and branding of Tanzania.

4. Agribusiness and Tourism Working Groups Recommendations:

Recommendations made by the working groups on Agriculture and Tourism will be studied by the Government and incorporated in the Government strategy policy papers on Agriculture and Tourism.

5. Specific issues:

Development of Agriculture and Agro-business

- The sector is still largely dominated by SMEs with little commercialization and growth of the sector was impeded by lack of access to capital on one hand and lack of bankable projects on the other hand.
- Adequate infrastructure is required to motivate investors to invest in rich agricultural areas.
- The sectors' attractiveness is still impeded by high taxes and restrictive policies including the resistance to adoption of new products.
- New and pragmatic incentives similar to mining are required to motivate investments in Agriculture.
- External impeding factors include trade barriers, dumping and subsidies. Recommendation was made for Tanzania to join the Cairns Group established under the auspices of Commonwealth Business Council to bring together common stand among developing commonwealth countries in for lobbying at WTO rounds of talks.

Support for infant private sector and SMEs

- Enhance special relationship between Government, Development Partners and Private Sector by redirecting flow of development assistance resources and adopting best practices from other countries.
- Develop vibrant SMEs sector as a growth pole, as it has leverage for industrialization, value addition and for emergence of a viable local market for locally produced goods.

Tourism

- Noted good report by the working group
- Serious concern was expressed on the travel advisory alerts issued by western Governments, recommending that in order not to turn these alerts into economic sanctions, in future foreign Governments should have a proactive consultation with Tanzania Government before issuing warnings so that the advice becomes cautionary rather than restrictive bearing in mind the economic cost of these alerts.
- Development of tourism projects should include requirement for investors to comply with environmental issues.
- Further reduce the cost of doing business in this sector to make investment in this sector competitive.

Image and Branding

- Noted that Tanzania has not yet been able to market itself effectively.
- Emphasized the need to build image by coherently disseminating “single information of truth” consistent in public and private sector.
- Brand building should involve people as communities, which call for taking the messages of IRT to the Tanzanian communities for them to grasp the value and need for image building.

Access to Capital

- Tanzania does not have functioning development banks apart from a handful of smaller financing windows. Concerted efforts should be directed towards formation of vibrant development banks to address needs of the private sector even on a sectoral basis.
- The Bankers’ Association should discuss access to loans and special working group should be formed to address the overall issue of finance for development.
- Tanzania investors should also study availability of investment funds through MIGA website.

Information Technology

- IRT accepts the recommendation to form an ICT working group to deal with issues of Technology and to look into ways of gaining better access to ICT, IT finance, development of rural telecommunication, ICT in schools etc. Initial members to include InfoTech, Ericsson and Microsoft.

Special Working Group/Task Force

- IRT accepts the formation of a special small working group to advise the President on prioritization of key issues. This would be a more regular and intimate Steering Group to work with the President, similar to one in South Africa comprising the President, key ministers and selected businesses, for prioritization of issues and giving direction to future dialogue.
- To fast track the work accomplished by 2nd IRT and recognizing the crucial need for direct development support to the private sector, it was recommended to ensure that issues discussed are captured comprehensively and used in redirection of development assistance agenda including sequenced planning of donor assistance activities to determine priorities. The task should be undertaken at three levels to avoid traffic jam as follows:
 - i. Creation of conceptual framework for embracing by Government, private sector and donors on the philosophy of what is happening (i.e. definition of brand and branding before the PR

- consultant is engaged, conceptualization of tasks from recommendations of agribusiness group, SMEs development etc);
- ii. Strategizing and prioritization as a matter of urgency on cross sectoral issues such as liberalization of domestic capital, start-ups in generic sense and what we can learn from start-ups such as mining sector etc;
 - iii. Practical proposals lifted from each of the working groups so as to create a road map with timelines and benchmarks and clear ideas of where we are going and in as detailed manner as possible;

6.5 Highlights of H.E. President Mkapa's Closing Remarks

1. The IRT process is advisory and should remain so.
2. Thrust of work over the past year was Government work and 2nd IRT report shows bottlenecks, progress and projections for improving business climate between now and 3rd IRT meeting and the promises and targets must be achieved. For sustainability, there was need to report also on how Corporate Responsibility was emerging and unfolding itself in the economy hence the need for regular review in the same manner and fashion as the Government is reporting progress.
3. While dealing with country imaging and professional marketing, serious attention should be directed to the role of local media to see how the media is assisting and facilitating the work of improving business climate. The media should understand the reforms and be able to inform the general population through balanced reportage while avoiding negative reporting in order to assist the consultative process.
4. When the Government controlled business, it was possible to raise resources at concessionary terms from multilateral lending institutions. Now that the Government is no longer in business while there was still a need for economic growth, it is necessary to devise mechanisms to engage the same multilateral lending institutions, particularly the non-normative ones, for them to fill the void left by Government withdrawal from business. This entails investigating and recommending new roles of the Government to enable flow of capital to the private sector from these institutions so as to attain the desired economic growth rate of 8%.
5. Proposal to establish a special Steering Committee was reasonable and acceptable as this would focus and give clearer shape to the key issues under consideration and for subsequent meetings.

6.6 Highlights of H.E. President Karume's Closing Remarks

1. Reiterated appreciation for the well conducted and attended meeting which was in response to his invitation during the 1st IRT meeting.
2. The record attendance was a clear testimony of the peace and tranquility of Zanzibar and participants were the best ambassadors to the World on the security and climate of Zanzibar.
3. Following the first IRT meeting, a number of new investors have already opened shop in Zanzibar including leading telecommunication and banking companies in the region.
4. It was high time the issue of image and perception was addressed in the manner to reflect the truth as was seen by delegates. As a partner in the fight against terrorism, Zanzibar was committed to work together with all peace-loving nations in the global campaign.
5. Zanzibar offers a wide range of investment opportunities ranging from agro-processing including sugar production, cigarettes, textiles, tourism, financial services, marine products etc all of which can be targeted at the export market and can be established under EPZ to

- ensure competitiveness.
6. The way forward charted during the meeting will be fully embraced by the Zanzibar Government and inroads must start with building Human Capital base in Zanzibar to efficiently run the expected businesses.
 7. Zanzibar Government pledges to support the IRT process.

6.7 Dates and Venue for Next Meeting

Proposed to meet during the 3rd Week of November. The venue of the meeting would be determined in due course.

6.8 Closing:

The meeting was closed at 17:45hrs

**CHAIRMAN
H.E. BENJAMIN WILLIAM MKAPA
PRESIDENT OF THE UNITED REPUBLIC OF TANZANIA**

**SECRETARY
DUNSTAN GIDEON MRUTU
EXECUTIVE SECRETARY
TANZANIA NATIONAL BUSINESS COUNCIL**