

**PROCEEDINGS OF 3RD INTERNATIONAL INVESTORS' ROUND TABLE MEETING
HELD ON 24TH NOVEMBER 2003, NGORONGORO CRATER.**

PRESENT:

Attached list 130

1.0. OPENING.

- 1.1. The Chairman of the Executive Committee of the Tanzania National Business Council, Mr. Matern Y.C. Lumbanga welcomed IRT Members and Observers to the meeting noting the commendable preparatory work done by the Working Groups and Secretariat. The Chairman of the Executive Committee invited HE Amani Abeid Karume, President of Zanzibar to chair the meeting.
- 1.2. HE President Amani Abeid Karume called the meeting to order and requested for self-introductions.

2.0. ADOPTION OF THE AGENDA

The Agenda was adopted as proposed.

3.0. OPENING STATEMENT BY HE PRESIDENT AMANI ABEID KARUME.

3.1 Opening:

Warmly welcomed IRT Members and Observers to the World Heritage Site of Ngorongoro Crater, which is also known as the Garden of Eden and Eighth Wonder of the World.

Briefed the meeting on the absence of HE President Benjamin William Mkapa, Chairman of TNBC, on health grounds and prayed for his steady and fast recovery.

3.2. Highlights on developments since the 2nd IRT.

Fiscal measures:

- Introduction of measures to rationalize central and local government taxation and removal of nuisance taxes. A supplementary budget to be tabled to Parliament to cover deficit caused by the rationalization process.

Labour and Employment:

- Two bills related to Employment and Labour Relations were submitted to Parliament for first reading in November 2003 seeking correction of deep-seated weaknesses in the labour market particularly wage determination, rights of employers and employees and labour disputes resolution.
- Bills seek formation of Labour Economic Social Council, Commission for Mediation and Arbitration and Labour Court as a division of the High Court.
- Bills seek to put in place appropriate legal and institutional framework in the areas of Occupational Health and Safety, Workmen's Compensation and Employment creation.

Land:

- A bill for amendments to the Land Act 1999 has been submitted to Parliament for first reading objectively to pave way for more effective use of land as collateral in raising credit.
- Embarkment on countrywide verification of submissions for Land Bank with the objective to determine and accelerate the surveying and issuing of title deeds.

Investments in agricultural sector:

- The Government is examining, jointly with stakeholders, ways of providing investment funds in rural infrastructure as incentive for private sector investment in the agricultural sector.

Access to Finance:

- Increase in Export Credit Guarantee Facility to US\$ 19.5 million through supplementary budget.
- Parliamentary approval of a plan to privatize the National Microfinance Bank.
- Expansion of network of savings and credit institutions and community banks in line with national micro-finance policy.
- Commencement of preparatory work for registration of assets and investments in the informal sector aiming at paving the way for more people to access credit and other services offered by financial institutions.

Income Tax Act

- The Government is to submit to Parliament the Income Tax Bill in early 2004 and embark on intensive public consultations in order to put in place an Income Tax Act that is fair to all, technically sound and development oriented.

Zanzibar:

- The House of Representatives has approved the Zanzibar Investment Policy and has liberalized the clove and petroleum industries, fish industry and rubber plantations.
- Major developments seen in rehabilitation of roads, sea and airports to cope with the demands of a private sector driven economy.

3.3. Noted the following achievements.

- The annual current rate of real GDP growth rate of over 6% makes Tanzania among the well performing economies in Sub Saharan Africa.
- The annual inflation rate of 4.5% is among the lowest in Africa.
- The ratio of families subsisting on a budget of less than one US dollar has declined to less than 20%, the ratio is lower than that of many countries in Sub-Saharan Africa.

3.4. Challenges ahead.

- The Government to carry out far-reaching re-assessment of the country's development strategy, to determine ways of increasing the GDP growth rate to above 8% for effective poverty reduction.
- Special drive in the operationalization of EPZ and cooperative movement.
- The provision of an enabling policy environment and key socio-economic infrastructure for the development of the agricultural sector.
- Tanzania to exploit fully opportunities offered under EBAs, AGOA and other preferential schemes.
- Welcomed with appreciation views and gestures of IRT Members including offers to support the holding of investors' conferences in London and Hong Kong.

4.0. NOTING RECORD OF PROCEEDINGS OF 2ND IIRT MEETING.

Record of Proceedings of 2nd IIRT Meeting was noted and approved as presented.

5.0. PROGRESS REPORT ON IMPLEMENTATION OF 2ND IIRT ISSUES.

5.1 WORKING GROUPS REPORT

5.1.1 Formation of Working Groups:

- Image and Tourism Working Groups as well as Manufacturing and Agro-business Working Groups have been merged while new Groups including Finance, Agriculture, Technology and Special Advisory Working Group have been formed as recommended by the 2nd IRT.
- All Working Groups were operationalized, with the exception of the Special Advisory Working Group which is expected to start its work after the 3rd IRT Meeting.

5.1.2 Finance

- Under the Financial Sector Assessment Project (FSAP) a comprehensive diagnostic study is planned to establish the status of the Tanzania Investment Bank (TIB). The objective is to assess the demand for development banks in Tanzania, establish the feasibility of converting TIB into a development bank, a commercial bank or remain an investment cum merchant bank, establish the best approach of establishing a development bank should there be a need and identify the sectors to be covered.
- The private sector is highly encouraged to take initiative to establish long term-finance facilities to complement Government efforts.

5.1.3 Image and Tourism Tourism

Policy implementation

- Policy documents in relation to Tourism Development framework, Tourism Human Development Strategy, Tourism Promotion and Marketing Strategy and Institutional and Legislative framework have been developed and implementation is now expected to start in July 2004.

Hotel Classification

- Under the auspices of the East African Community (EAC), uniform hotel classification criteria and guidelines have been agreed and drawn up and classification will start in July 2004.

Tourism Marketing and Promotion.

- Tourism Promotion and Marketing Strategy implementation will start in July 2004.

Tourism statistics

- The Ministry of Tourism and Natural Resources, Bank of Tanzania, Bureau of Statistics, Immigration Department and Zanzibar Commission for Tourism are jointly carrying out a survey to obtain reliable tourism statistics. The final report to be discussed at a stakeholders meeting in December 2003.

National College of Tourism

- The Ministry of Natural Resources and Tourism with the assistance of the French Government are constructing the tourism college, “a centre of excellence” for the tourism industry. The civil works will start in early 2004 for completion and opening by late 2005.

Tourism Investment Forum

- Out of the Tourism Forum that took place in October 2002 under the coordination of the Ministry of Natural Resources & Tourism with support from MIGA, Swiss Government and EU, the following success stories have been registered:-
 - Studies on collateral guarantee scheme, project incubator facility, profile of potential tourism development sites and profile of financial institutions have been conducted with the objective of assisting small and medium investors.
 - The sale and redevelopment of the Kilimanjaro Hotel.
 - The conclusion of the agreement for a US\$ 36.0 million hotel project in Zanzibar.
 - Commencement of construction of Kikoni Camp, first major wildlife camp investment in the Southern circuit.
 - The finalization of the sale of Mafia Lodge.
 - IFA Hotel and Resorts announcement of a US\$ 50.0 million investment in Zanzibar, targeting tourists from the Middle East.
 - A tourism investment website to be officially launched to provide the necessary information on the tourism industry investment potential.

Image

- Working Group has been working closely with Unilever, an IRT member, on branding and image setting for the country.
- Adopted broad recommendations presented urging other experienced members to join the Working Group and the Government to hasten mobilization of funds for the exercise in order to keep abreast with competition for attracting investments and tourists.

5.1.4 Human Capital Development.

- Concentration was towards operationalization of the CEO Scholarship Program and recommended to take the form of an endowment fund to start during the financial 2004/05 through Government and CEO contributions.
- Future work will entail re-examination of the overall education curricula for a private sector lead economy and explore ways of attracting Tanzanians in the Diaspora.

5.1.5 Agriculture Working Group

- Concerned with the low investment in the agricultural sector, the Working Group recommends following actions for quick gains and success in the sector:
 - Private sector investment in improved seed production.
 - Private sector investment in livestock sub-sector
 - Major private sector and Government drive to boost Outgrowers and Contract Farmers system
 - The Government should support the requisite public infrastructure (especially roads and power), which are beyond the resource capacity of private investors.
 - The private sector to refrain from importation of locally available inputs and goods and should encourage contract outgrowers (i.e. wheat, barley, oil seeds, livestock products etc)

- **Investment in Farm Service Centers.**
Private sector investments to ensure supply of farm inputs, tractor and machine hire services, farm machinery repairs, market information, produce harvesting, transportation, storage and marketing.
- **Agricultural marketing.**
Government to finalize restructuring of commodity boards, promote establishment and strengthening of cooperatives and other farmers organizations and eliminate remaining local and cross-boarder trading barrier.
- **Investment on Irrigation Infrastructure.**
Over dependency on rain-fed agriculture renders Tanzania's agriculture highly vulnerable and risky. Recognizing the fact that stable yields, higher returns and increased national food security can be assured through irrigation farming, the following quick measures are recommended:
 - The Government should revive the operation and maintenance of existing small-holder irrigation schemes
 - Irrigation schemes should be leased to private operators especially where water users/associations are unable to handle operation and maintenance function.
 - The Government should consider additional incentives for private investments in new irrigation schemes including longer tax holidays.

5.1.6 Manufacturing and Agribusiness Working Group

Manufacturing

Power

- Recognising the crucial role of availability of power at competitive tariff and reliable supply for manufacturing, the Group commends the Government for the following:-
- reduction of tariff rates to industrial users by 17%.
- contracting new management to run TANESCO and unwavering resolve to restructure, reorganize TANESCO in preparation for privatization of the utility company.
- The Songosongo Gas to Electricity Project which is now under construction.

EPZ

- To date three Operators' Licenses to private investors to operate in two declared areas zones in Dar es Salaam have been issued and plans are underway to establish upcountry EPZs starting with Kigoma, Kilimanjaro, Mwanza, Tanga, Lindi and Mtwara.

SMEs

- Following the official launching of SME Development Policy in August 2003, preparations are underway for implementation of the policy as follows:-
- **Preparation of Implementation Program.**
The Ministry of Industry and Trade in collaboration with UNIDO have prepared the "SME Development Program Framework and Process Document" meant to serve as an operational tool to guide the coordination and implementation of the policy.
- **Gender Mainstreaming of SME Policy.**
A one-year program developed in collaboration with ILO aiming at ensuring that all the programs for implementing SME Development Policy are gender mainstreamed.
- **SME Implementation under Business Environment Strengthening for Tanzania**

(BEST) program.

The operationalization of the BEST program will also cover SME Development Policy in relation to issues covering improving legal and regulatory framework, review of tax regime, advocacy and changing mindset.

- **Improved Access to Finance**

The establishment of Credit Guarantee Scheme of Shs 500.0 million in 2003/04 financial year

- **Enhanced Capacity of SIDO to implement SME Development Policy.**

Allocation of Shs 500.0 million for institutional capacity building for SIDO to enable it implement the program.

- **Sensitization and Dissemination of SME Development Policy.**

The Ministry of Industry and Trade is conducting Zonal Workshops for sensitization and disseminating of SME Development Policy and the SME Policy is being translated into Swahili.

Agri- Processing

The Working Group has identified key sub-sectors for value addition and quick gains as follows:

- **Edible Oil:**

A study conducted by CTI for developing the sub-sector has led to revival of three existing edible oil mills and establishment of a brand new factory costing US \$ 20.0 million (for opening by January 2005). CTI is campaigning for farmers to expand production of oil seeds and palm oil in Kigoma and Kyela as backward linkage.

Successful implementation of the initiatives will make Tanzania a net exporter of edible cooking oil instead of an exporter of oil seeds and importer of cooking oil.

- **Cashew nuts:**

Currently Tanzania is exporting 80% of cashews out of which only 10% is locally processed. It is envisaged to expand local processing so as to ultimately export processed cashews. As is the case in Brazil and India where raw commodity exports are prohibited, incentives should be given to local processors to ensure elimination of raw exports. Same should apply for other sectors including marine, mining and forestry products.

- **Textile Sub-Sector:**

Working Group recognises the position of Tanzania textile industry which was the 3rd largest in Sub-Saharan Africa in late 1970's and urges that it should be revived through proper incentives so that cotton crop is processed and exported at least as yarn or grey cloth. The group recommends drastic improvements in the quality of cotton starting from quality of seeds, areas to grow ideal staple and cotton ginning practices.

- **Agribusiness:**

Recognising the fact that about 30% of the potential crop yield is lost due to post harvest loss/damage and inadequate storage facilities and that seasonal over supply of perishable products results in depressed market prices and excessive waste, agro processing investments particularly in seasonal products in rural areas would minimize post harvest and storage losses, create rural employment and lay foundation for rural industrialization while adding value to agricultural produce.

- Sub-sectors highly recommended include fruit and vegetable processing, grain milling, dairy and beef processing, leather etc.

- The Working Group, while commending bold steps taken by the Government in subsidising fertiliser and farm inputs to key grain producing regions, reiterates the need for special and specific incentives to agriculture in the same spirit as the mining sector and urges Agricultural ministries to devise means of revolutionising peasantry farming.

5.1.7 Technology

- The Technology Working Group recognized the urgent need for Tanzania to leverage the immense possibilities presented by advances in information and communication technologies (ICT) to speed up socio-economic development of our country. Among the ideas considered for presentation to the 3rd IRT were:
- Microsoft's Concept of spreading IT knowledge and services to the disadvantaged poor in remote rural areas of underdeveloped economies. This concept is known as "*Partners in Learning*".
- An innovation by the Telecom Company Ericsson of Sweden that aims to bring telephony and internet services to rural communities based on *Mini-GSM technology*.

These ideas however could not be developed to presentable material due to logistical and time constraints.

The Group's presentation to the 3rd IRT in Ngorongoro was a comprehensive Tanzanian response to the important question:

"How can we create broadband internet in Tanzania?"

The proposal explored what the Working Group called the flawed privatization strategy of TTCL. As the incumbent public switched network operator with international gateway exclusivity for the first four years, the privatized TTCL was expected to become a powerful backbone infrastructure provider for access operators and the main provider of voice communication services in the country. It was also envisaged to become a major vehicle for launching Tanzania into the Internet age. However, a combination of unforeseen developments in technology, a flawed business model, a poor regulatory framework and other problems has cancelled out this possibility.

Instead of rolling out its network to 800,000 lines in four years after privatization, the TTCL network has shrunk to half its original size in two years. The market is now dominated by mobile services operating on modern technology platforms with lean and efficient workforces while TTCL is left to struggle with outdated technologies, a bloated and inefficient workforce, a hostile regulatory regime and delinquent customers.

Little or no advances have been made in taking telecommunication services to rural areas and Internet access in Tanzania remains the most limited and expensive all over the world. Under the present circumstances, there seems to be no chance of connecting Tanzania to the rest of the world by way of cheaper and efficient backbone infrastructure such as fiber optic cable or microwave technology in order to achieve lower connectivity tariffs and bigger bandwidths.

The Technology Working Group proposed a comprehensive recovery strategy in its presentation that was made to the members by way of a separately bound document.

5.2 GOVERNMENT REPORT

5.2.1 Background.

In response to the genuine concerns expressed by the private sector from the start of the dialogue process in June 2002, the Government has taken appropriate actions aiming at improving the business environment along with fast tracking of the reform process and the following issues have been covered:-

5.2.2 Inadequate Land Act, Delays in Issuing Title Deeds and Lack of availability of Land for Investors.

- The Land (Amendments) Act 2003 Bill was submitted for first reading to the November 2003 Parliament Session. Further reading and debate to take place in the Parliamentary session of February 2004.
- Land Bank has been established to be managed by Tanzania Investment Centre. 743 land parcels with a total areas of 3.14 million hectares were verified of which 695,988 hectares are now surveyed land.

5.2.3 Labour Policy and Legislations.

- Two bills one on Employment and Labour Relations and the other on Labour Institutions were submitted in November 2003 in Parliament for the first reading. The Bill to be adopted during the next Parliament in February 2004.
- These Bills aim at correcting deep-seated weaknesses in the labour market especially those relating to wage determination, rights of the employer and employees and the resolution of labour disputes.

5.2.4 Tax related problems.

- The identified problem is complex central Government tax system and investor unfriendly system of tax administration. In this respect, during the 2003/04 Budget, the Government continued with measures already undertaken to reduce tax distortions with a view to increasing efficiency, effectiveness and voluntary compliance in the tax system, notably rationalization and realignment of taxes and removal of nuisances taxes.
- A Draft Income Tax Act 2003 is currently under scrutiny by a Task Force composed of Government and private sector members.
- Further measures to curb tax evasion and to reduce tax exemption in the petroleum sector, the result of which was a sharp increase in revenue collection.

5.2.5 Legal and Judicial system.

- Excessive delay in carrying out legal reforms and effectiveness of the courts in delivering justice timely especially on economic and financial disputes.
- A training needs assessment for strengthening administrative support of the legal sector and institutions is being carried out by the Government through the support of Quick Start Project Basket Fund of the Government of Sweden, Denmark, Finland, Norway, Canada and the Netherlands.
- The Government has signed contract with M/s Resource Development and Management Associates to design a training program to be ready by end of December 2003.
- Business Environment Strengthening for Tanzania (BEST) program aims at improving the legal and regulatory framework will be launched in January 2004.

5.2.6 Security.

- Training of more police officers and enhancement of their salaries to boost their morale.
- Increased budgetary allocation to the internal security for provision of vehicles, motorcycles and acquisition new communication equipment.
- Specialized investigation laboratory and equipment are being acquired through USA Government assistance.
- Formation of people's militia and community policing system is in progress.

5.2.7 Business Licensing.

- A Government study on the regulatory and revenue implications of business licensing practice came up with the following findings.
 - Lack of licensing policy.
 - Extensive regulatory licensing regime based on business Licensing Act of 1972.
 - All licenses issued are short term – one year.
 - Revenue generations objective had led to multiplicity of licenses.
 - Lack of coordination between the numerous licensing institutions.
- A stakeholders' meeting recommended formation of two categories of licenses one being regulatory to be issued by designated institutions and non regulatory (registration certificate) to be issued by Local Authorities; recommending further that the period of licenses be extended for more than one year. In this regard the Ministry of Industry and Trade is preparing a Cabinet paper to streamline business licensing.

5.2.8 Regional Trade Agreements and Regulation of International Trade.

- To resolve underlying weakness in negotiating trade agreements and unfocused Government policy on use of suspended duties, a National Technical Working Group, under the Ministry of Industry and Trade, which also includes the private sector to handle trade agreements has been established. The Group participated in the SADC summit and WTO – Cancun meeting.
- On COMESA, the Government has held discussions with Governments of Egypt, Sudan, Ethiopia, Burundi, Rwanda, Comoros, Djibouti and Eritrea on bilateral issues. Results from initial discussions have led to a decision to develop a Trade Model Agreement for dealing with those countries where Tanzania has sizeable trade.

5.2.9 Road Transport.

- Following launching of Road Construction Policy which defines the role of the private sector in road construction, stakeholders are scheduled to discuss strategies and implementation action plan in December 2003.
- In an effort to enhance Public Private Partnership and to build capacity in the road sub-sector, the National Construction Council (NCC) jointly with TIC are establishing a capacity building facility through SADC Banking Council Association and CIDA. This facility is expected to be operational in April 2004..

5.2.10 Country risks.

- The strategy to develop a solution to the negative “imaging” of Tanzania is being addressed in the IRT Working Groups report.

- In dealing with local negative perception, regional investment sensitization seminars are being carried out by Tanzania Investment Center (TIC).

5.2.11 Financial Sector.

- The Ministry of Finance in collaboration with the Bank of Tanzania have developed and established:-
 - Export Credit Guarantee Scheme (ECGS) with capital of Shs 14.6 billion. The scheme facilitates granting of guarantees for short term pre and post shipment credit requirements covering up to 75%.
 - Community banks such as Dar es Salaam Community Bank, Mufindi Community Bank, Mwanga Community Bank, Mbinga Community Bank etc. to provide micro-finance credit.
- Parliament has approved privatization of the National Microfinance Bank in November 2003 ushering way to increased availability of resources for micro finance.

5.2.12 Zanzibar.

- **Investment Policy**

- The House of Representatives has approved the Zanzibar Investment Policy. The Ministry of Finance and Economic Affairs is now preparing the institutional and legislative frameworks as well as Zanzibar Investment Authority Corporate Plan.

- **Diversification of Zanzibar Tourism.**

- The Zanzibar Tourism Policy and Tourism Master Plan will be presented to the forthcoming House of Representatives session.
- The Zanzibar Association of Tourism Investors (ZATI) has been established.
- Introduction of Eco-Tourism has commenced and a Cultural and Eco-tourism symposium is scheduled for December 2003.

- **Zanzibar Business Licensing, Labour Law and Land Act.**

- Ministry of Trade, Industries, Marketing and Tourism is instituting measures to become a “one stop centre” for all licenses under the business licensing reform process. A business licensing bill is under preparation.
- Review of the Zanzibar Labour Law and Security of Employment is in progress.
- Review of Land Act has been finalized and has been endorsed by the Government and the House of Representatives.

- **Zanzibar SMEs Policy.**

- SMEs Policy is under preparation by the Government of Zanzibar with assistance from UNIDO.

- **Zanzibar EPZ facilities.**

- Fund mobilization for improving infrastructures and facilities in EPZ is underway along with investment promotion drive targeted at attracting garment manufacturers to utilize AGOA market opportunities.

5.3 DISCUSSION OF THE REPORTS BY MEMBERS.

5.3.1 Background.

- Noted with appreciation Government’s resolve to pursue economic reforms which have resulted into better macro economic performance as demonstrated by impressive GDP growth rate of over 6% and inflation rate of 4.5%.
- Appreciated the work done by the Working Groups and the TNBC Secretariat, as this IRT is one of the best run in Africa.

5.3.2 Human Capital Development.

- Endorsed the idea of establishing the CEO Scholarship Program
- If the program is to be sustainable, among other things, should consider providing loans to students to be paid later.
- Although sending students to best Universities in the world is a sound idea, emphasis and focus should be to bring the best lecturers/professors which will give more coverage and will be cheaper as well as country specific.
- Adopt EU Scheme of establishing regional centers of excellence which are more practical and incorporate local experiences.
- Experience has demonstrated that bonding people to work for the Government is not practical.
- It is important to improve the working environment for the public and private sector to retain the trained employees.
- Emphasis should be to train both pre-service and in-service civil servants while at the same time recognizing that the civil service reform agenda has a training component.
- Look at the Japanese experience of secondments between Government and Private Sector.
- Adopt the Unilever experience of specific training course program.

5.3.3 Technology.

- Noted that the Government has approved ICT Policy and efforts are directed towards implementation of the policy;
- The Ministry of Finance has liberalized taxes for importation of technology related equipment and may consider further liberalization if deemed necessary.
- Government should invest in backbone infrastructure to promote the use of the common infrastructure by many people thus reducing investment and operating costs to licensed operators.
- Improve regulatory framework.
- Review business model of Tanzania Telephone Communication Limited (TTCL) to make it a carriers'-carrier network.
- Support COMESA efforts to provide carrier network linking South Africa and Egypt. Building the carrier network has potential to serve a minimum of US\$ 100.0 Million per year.
- Support the proposed marine cable network that will connect South Africa, Mozambique, Tanzania and Kenya to European network.
- Noted that cell phone technology is fairly advanced in Africa, however other forms of communication technologies such as the Internet are lagging behind.

5.3.4 Image and Tourism.

- Commended the work done by the Working Group assisted by Unilever for preparing the basic branding framework.
- Reiterated the need to involve more stakeholders both in the Government and private sector in the branding exercise
- Acknowledged the fact that it can take up to 5 years before the brand takes a firm hold.
- While tourism development policies are scheduled to be implemented from July 2004, internet marketing of Tanzania as a tourism destination can be done at minimum costs without delay.

5.3.5 **Agriculture.**

- Potential growth areas identified include horticulture and floriculture.
- IRT Members should advise on the development of the livestock industry for quality beef production and exports and for revolutionizing the leather industry learning from the experiences of Botswana and Zimbabwe.
- Provision of agricultural incentives including access to loans and more friendly tax regime.
- Provide clear incentive policy on agro-processing for value addition and improved quality seed availability and distribution by involving the private sector.
- Implementation of recommendations of study on the rationalization of the livestock industry as approved by the Government.

5.3.6 **Good Governance.**

- Government should promote the rule of law without failure since good governance is a key attraction to investments.
- Human rights issues are given due priority and Tanzania has created a Human Rights Commission.
- Anti corruption measures have been taken aggressively over the years. And results from Transparency International have shown decline in the level of corruption.
- Creation of Good Governance Unit in the President's Office with the assistance of UNDP underscores the resolve to promote good governance.

5.3.7 **Business Environment: Investment Climate.**

- In the context of the 2003/04 Budget the Government has abolished 60 nuisance taxes in the local government.
- VAT rate of 20% in Tanzania is the highest in the region. The Government is to review the structure and administration of VAT in order to make broad based improvements.
- New Income Tax Act 2003 (Draft) is currently under scrutiny by the various stakeholders, the Government, private sector etc with the objective of having a fair, simple, implementable and pro growth legislation.
- Poverty Reduction Strategy Paper was developed with the assistance of the private sector and covers, among other things the issue of governance as advocated in NEPAD.
- To promote link with NEPAD the Government is preparing a policy paper on peer review.
- Government is working on the fiscal regime to revamp the agricultural sector.
- While investors look at labour productivity, Africa's productivity is much lower than Asia and China calling for development of critical mass for private sector development through education and training of Africa's workforce.
- Business Environment Strengthening for Tanzania (BEST) program aiming at improving the legal and regulatory framework is to be launched in early 2004.
- Experience from the EU on policy on the reform of public enterprises – particularly the regulatory framework of utility companies in developing countries is important for Tanzania.
- Commended improvement at Dar es Salaam port in cargo handling process.

5.3.8 **SMEs Development.**

- For successful development of SMEs in Tanzania, it is important to observe that:-
- SMEs do not only need capital but deliberate effort with regards to access to mar-

ket and customers.

- Since SMEs appear to be high-risk ventures, it is important for the banks to engage in entrepreneurial skills training to enable SMEs provide bankable projects.
 - Since banks/companies have commercial considerations, the Government should provide subsidies if they are to play a development role. A typical case is a deal between Coca Cola and the South African Government in the creation of 5,000 new retailers.
 - Borrow a leaf from the South African Charter, a social contract between the Government, private sector and the civil society in an effort to address the concerns of the marginalized sections of the society, ownership of financial institutions, preferential procurement and widened access to banking.
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- In order to deliberately empower Tanzanians through SMEs, causes of failure of small companies to cope with the requirements of the Procurement Act should be addressed.
 - Large companies should procure their requirements from SMEs in order to promote forward and backward linkages and to build the key middle class for their survival.
 - Emphasize the need to promote the creation of Tanzanian middle class.

5.3.9 **Zanzibar.**

- Noted the increase in the establishment of business associations.
- Government together with the private sector are in the process of preparing SME Policy with the assistance from UNIDO.
- To review the regulatory and legal framework – may wish to borrow a leaf from the BEST program.
- Seeking assistance from the development partners for establishment of Zanzibar Business Council.

5.4 **THE WAY FORWARD.**

- Emphasized the need to strengthen the public and private sector dialogue in the effort to promote economic reforms and private sector led economy.
- Requested IRT Members to put more time and efforts in the Working Group operations to make the discussions more focused. Local issues between the government, local investors and development partners should be resolved in Working Groups ahead of the IRT meeting so as to provide more time for inputs from the international members.
- The international IRT Members should come up with case studies in order to make the IRT process a success.
- IRT process should concentrate on a few international issues for it to be a success.
- Each IRT meeting in future should end up with division of tasks among the members. The Unilever case of branding exercise was cited as a good example and Coca Cola was willing to participate.
- Proposed the establishment of Trade Issues Working Group with the objective of strengthening international trade and investment negotiation capacity.

6.0 HIGHLIGHTS OF H.E. PRESIDENT AMANI ABEID KARUME'S CLOSING REMARKS.

- Reiterated the Government resolve to deepen the public private sector dialogue process. The bottom line is we were making progress in that direction.
- Emphasized the need for human resource development defining what professional courses to be pursued locally and abroad.
- The regulatory framework should be simple, the main objective is to impress on the required standards.

7.0 DATE AND VENUE OF THE NEXT MEETING.

The Secretariat to contact H.E. President Mkapa to set the date and venue of the next meeting.

8.0 Closing.

The meeting was closed at 17:45 hours.

**CHAIRMAN
H.E. AMANI ABEID KARUME
PRESIDENT OF ZANZIBAR**

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