



TANZANIA: LESSONS IN BUILDING LINKAGES FOR COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP

TAMARA BEKEFI

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The report forms part of a series of publications illustrating new models of multi-sector partnership and collective corporate action that are fostering small enterprise, promoting economic growth and reducing poverty through supporting competitive and responsible entrepreneurship and pro-poor industrial development in developing countries.

Other titles in the series currently include:

- **Building linkages for competitive and responsible entrepreneurship:** Innovative partnerships to foster small enterprise, promote economic growth and reduce poverty in developing countries.
 - **Viet Nam: Lessons in building linkages for competitive and responsible entrepreneurship**
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Authored by Tamara Bekefi

Designed by Alison Beanland

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PREFACE

“Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important.”

* *The DAC Guidelines: Poverty Reduction.* Development Assistance Committee, The Organisation for Economic Co-operation and Development (OECD). 2001

Increasing economic opportunity, productivity, and growth offers one of our best hopes for reducing poverty. As the Organisation for Economic Co-operation and Development’s Development Assistance Committee (OECD DAC) has commented, however, ‘Increasing economic growth rates is essential – but it is not enough. The quality of growth – its sustainability, composition and equity – is equally important.’ Crucial elements of reducing poverty are creating jobs, income-generating opportunities, and livelihoods for the poor. In particular, growth must encompass improving the access of small enterprises to finance, skills, technology, information, sound business practices, legal rights, and markets.

In Tanzania, as in many developing countries, achieving the goal of reducing poverty requires effective partnerships and intermediaries that are able to address the market failures, governance gaps, and institutional constraints that currently exclude or disadvantage most small entrepreneurs from accessing these public goods and business opportunities. Such partnerships are also essential in helping small enterprises upgrade and integrate into broader production networks and value chains, a growth that in turn is crucial for raising productivity and employment levels.

These partnerships include brokerage mechanisms, business linkage initiatives, hybrid commercial and social business models, innovative financing instruments, enhanced enterprise support services, and new types of alliances among companies, trade associations, governments, donors, academic institutions, and non-governmental organisations. They offer great potential for promoting enterprise development, reducing poverty, and helping to spread more competitive and responsible business practices along the value chain between large- and small-scale firms. Yet such partnerships are relatively new and untested. They are currently few in number and disconnected from each other at the global and national levels. Because of this, they are limited in scale and effectiveness.

In 2004, the United Nations Industrial Development Organization (UNIDO) and the Kennedy School of Government established a joint research project, *Building Linkages for Competitive and Responsible Entrepreneurship*, to analyse these emerging partnership models and to make recommendations for increasing their scale and effectiveness. The project aims to:

- 1) review some of the major challenges to competitive and responsible entrepreneurship in developing countries;
- 2) assess different ways in which public policy, corporate social responsibility practices by large domestic and foreign companies, and new models of partnership among companies, business associations, governments, donors, academic institutions, and non-governmental organisations can help to overcome these challenges;
- 3) provide a conceptual framework for categorising some of these different models of multi-sector partnership and collective corporate action (Exhibit 1);
- 4) investigate these models in more detail by undertaking field research in selected developing countries to assess what works and what doesn't; and
- 5) draw lessons and recommendations from these existing practices for business leaders, policy makers, and donors.

The research project has focused on six core types of multi-sector partnership or collective corporate action. These are summarised in Exhibit 1.

EXHIBIT 1 MULTI-SECTOR PARTNERSHIP AND COLLECTIVE ACTION MODELS TO SUPPORT COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP

1) Individual company value chains and 'hybrid' business models

These models are individual corporations partnering with governments, donors, NGOs, and community organisations to extend the reach and development impact of their own value chain and their core business assets and competencies – beyond what could be justified on a purely commercial basis or through non-intermediated business-to-business (B2B) linkages.

2) Collective business linkage initiatives

These initiatives are formed from groups of companies in the same industry sector or geography working collectively with each other and with governments, donors, NGOs, academics, and others to increase the number, scale, and overall development impact of business linkages with or between small enterprises.

3) Enhanced trade and industry associations

These are joint efforts to expand the scope and strengthen the governance and operational capacity of indigenous trade and industry associations to enable them to serve the needs of small enterprises better and to support broader development and corporate responsibility objectives beyond direct business interests.

4) 'Blended value' financing mechanisms

These mechanisms catalyse, pool, or leverage a combination of private and public funds and commercial capital and social investment to deliver financial services to small enterprises in an economically viable manner. Many of these mechanisms also deliver technical assistance or partner with other initiatives that do so.

5) Institutionalised enterprise support services

These services are dedicated enterprise support initiatives that provide combinations of technical assistance, training, mentoring, and evaluation and brokerage services, as well as finance in some cases, aimed at improving and integrating small enterprise access to essential resources, skills, information, and business opportunities, including improved environmental and workplace practices.

6) Multi-stakeholder public policy structures

These are joint structures to facilitate more organised and systematic engagement of the private sector and other non-governmental actors in public policy consultations aimed at supporting national poverty reduction strategies, good governance, pro-poor growth and investment, environmental goals, and other broader development objectives beyond direct business interests.

The following report on Tanzania is one in a series of country case studies that focus on specific partnership models aimed at promoting more competitive and responsible entrepreneurship, with an emphasis on small enterprises.

Part I of the report looks briefly at Tanzania's political economy, the growing importance of the country's private sector, and the enabling environment for small enterprise development and corporate social responsibility. It emphasises the critical role of effective public policy and donor co-ordination by

- creating an enabling framework for private sector development in general,
- providing targeted assistance to support pro-poor growth and small enterprises,
- creating support capacities for responsible business practices, and
- improving aid effectiveness.

Two examples of government and donor-led partnership are highlighted as good practices and interesting models for other countries to review: the Tanzania National Business Council, established by President Mkapa in 2001, and the donor-led Private Sector Support Programme, established jointly by the United Nations Development Programme (UNDP), UNIDO, and the ILO. Both of these examples illustrate new models of governance and policy making that emphasise pro-active public sector engagement with donors, the private sector, and civil society organisations to achieve common goals.

Part II of the report focuses on three multi-sector partnerships that aim to address, in different ways, the following solutions to three core obstacles to small enterprise development and pro-poor industrialisation in developing countries:

- 1) Improve access to finance, business services, and legal and institutional support for small enterprises.
- 2) Upgrade and integrate small enterprises into value chains and production networks.
- 3) Implement responsible business practices in small enterprises with the goal of helping them to better manage risks and costs; improve quality, productivity, and innovation; and harness new business opportunities and relationships.

The three partnership examples offer very different approaches, but they share two characteristics. First, they harness a combination of either commercial and social funding or private and philanthropic resources. Second, they pursue a combination of direct economic self-interest and broader development objectives. They illustrate important – albeit largely still experimental – new models of doing business, which also focus on broader development goals.

The first model, the **Private Sector Initiative (PSI)**, is a partnership between 17 Tanzania-based companies and the Small Business Project (SBP), a South African business development and research organisation. PSI's market-focused and market-driven goal is to create a more 'joined up' economy by encouraging large

Our goal is to illustrate existing multi-sector partnership initiatives, profile examples of innovative public policy and governance structures, highlight key lessons from existing practice, and contribute to both the debate and the practice of new types of partnership for achieving pro-poor industrial development, and the Millennium Development Goals more broadly.

In economic and industrial development, a critically important role is played by micro, small and medium enterprises which, on average, make up over 90% of enterprises and account for 50-60% of employment – in particular in the developing world.

companies to source from local SMEs. PSI holds training programs to help local SMEs improve their businesses and their end products.

The second model, **Growing Sustainable Business (GSB)**, is a partnership between companies in different sectors, the Norwegian Ministry of Foreign Affairs, the Tanzanian government, and UNDP. The GSB addresses the challenge of creating market-based solutions to poverty with projects that have goals ranging from creation of new supply chains to improved access to telecommunications.

The third model, **Cleaner Production Centre of Tanzania (CPCT)**, is a partnership primarily among UNIDO, UNEP, the Tanzania Industrial Research Organisation, and the Tanzanian Ministries of Finance and Environment. Its strategy is focused largely on working with local enterprises, and its advisory structure encompasses a range of other institutions. Its overriding goal is to promote and help Tanzanian industry and government implement cleaner production methods in a manner that is economically viable and beneficial.

In each case, this report looks at the background context and drivers for the creation of the partnership and its core operations – its governance structures, strategy and deliverables. The report then provides a brief evaluation of the partnership's impact, effectiveness, and potential for replication or scale-up, before offering some lessons and recommendations, both for each specific partnership and more generally.

It is our goal that this report and others in the *Building Linkages for Competitive and Responsible Entrepreneurship* series illustrate existing multi-sector partnership initiatives, profile examples of innovative public policy and governance structures, highlight key lessons from existing practice, and contribute to the debate on and practice of new types of partnership for achieving pro-poor industrial development, and the Millennium Development Goals more broadly.



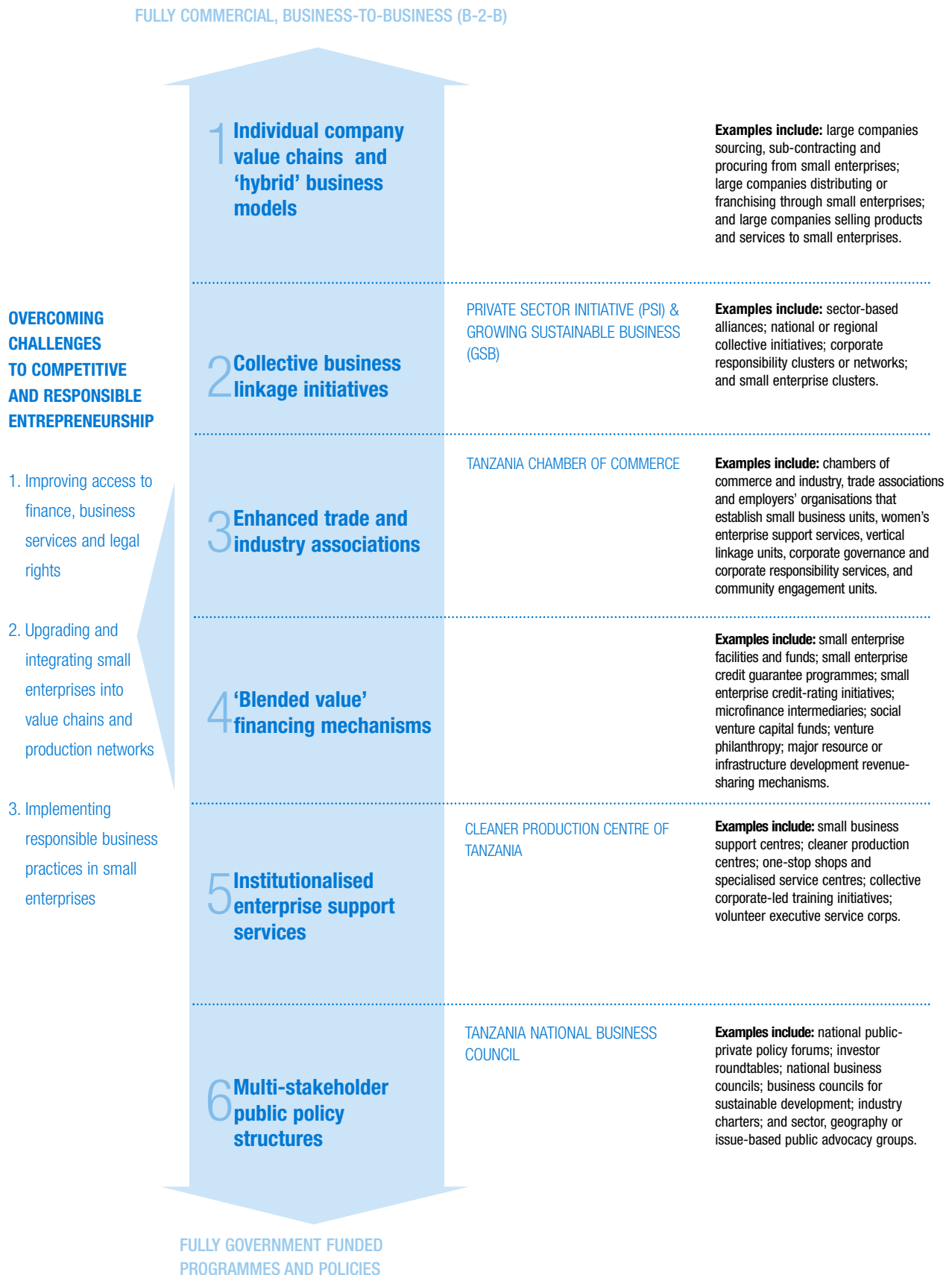
Wilfried Luetkenhorst
Chief of Cabinet, UNIDO



Jane Nelson
Director, CSR Initiative, Kennedy School of Government, Harvard University

May 2006

EXHIBIT 2 TANZANIAN MULTI-SECTOR PARTNERSHIP AND COLLECTIVE ACTION MODELS TO PROMOTE COMPETITIVE AND RESPONSIBLE ENTREPRENEURSHIP



I. INTRODUCTION

SMEs are viewed by many development economists as the stepping stone for robust market activity.

The concept that sustained national economic growth is central to poverty alleviation in developing countries is gaining currency among development practitioners, policy makers, and the private sector. Although pains must be taken to ensure that such growth includes all sectors of society, a market-oriented approach to international development is currently emerging.¹ Increasingly, this market orientation is focusing on the private sector as a driver of opportunities for employment and entrepreneurial innovation as well as products and services. Two recent publications delineate the emerging model of the private sector's development role: *A Better Investment Climate for Everyone* (World Bank: World Development Report 2005), and *Unleashing Entrepreneurship: Making Business Work for the Poor* (UN Commission on the Private Sector and Development, 2004).

When conceptualising the role of the private sector in the economic growth equation, many jump to the conclusion that it includes only large or multi-national firms that opt to produce, source, or serve poorer countries. These firms do play a significant role in economic development, from providing jobs, training, and products to raising quality standards and providing markets for small local companies. Often the activities of large multi-nationals in developing countries – activities that range from establishing working standards to supporting the local economy through business linkages and supply chains – are considered by the firms themselves to be classified as corporate social responsibility (CSR). These initiatives emerge for a variety of reasons, which include consumer and activist pressure, risk mitigation, reputation management, opening new markets, or streamlining operations. Regardless of the catalyst, however, corporate responsibility is increasingly moving from pure philanthropy to business-driven decision-making. This greater awareness of CSR among large firms has often created positive multiplier effects for firms in their supply chains and communities.

Although large firms are critical players, so too are small and medium enterprises (SMEs). SMEs are viewed by many development economists as the stepping-stone for robust market activity. Wilfried Luetkenhorst, former Director of UNIDO's SME branch, emphasises that '...in economic and industrial development, a critically important role is played by micro, small and medium enterprises which, on average, make up over 90% of enterprises and account for 50-60% of employment – in particular in the developing world. While being important at all levels of development, empirical studies have clearly shown that at the lower income levels typical for developing countries, the prevalence of SMEs is particularly pronounced. Also, as average income increases, the size distribution of firms typically moves upwards, with the share of micro-enterprises going down and

that of more sophisticated medium enterprises rising.²² Close to 80 per cent of Tanzania's formal industries are SMEs, each employing between 5 and 99 people. Although the relevance of SMEs to macro-economic growth is important, so too is the way that these businesses operate and expand. High levels of pollution and low levels of health and safety standards are often the hallmark of industrial development, though these side effects are neither necessary nor always cost effective in the short and long terms.

The following case studies of three programmes in Tanzania – the Private Sector Initiative (PSI), Growing Sustainable Business (GSB), and the Cleaner Production Centre of Tanzania (CPCT) – seek to illustrate the theoretical framework developed in *Building Linkages for Competitive and Responsible Entrepreneurship* and to provide models of sustainable and profitable industrial development for use by policy makers, business coalitions, firms, and the development community.

1. TANZANIA'S POLITICAL ECONOMY

Present-day Tanzania came into being in April 1964, the product of a union between newly independent Tanganyika and Zanzibar, both countries that had been under colonial rule. Tanzania is one of the poorest countries in the world, with per capita income estimated at US\$330.³ Although it lacks most of the mineral resources of its neighbours, Tanzania's government is committed to reducing poverty through economic growth. It has developed a strategy to reach its goals known as *Mkukuta* (National Strategy for Growth and Reduction of Poverty). This strategy is a reaction to the poor performance that has characterised Tanzania's economy since 1967.

An early proponent of African socialism known as *Ujamaa* (togetherness), Tanzania's first president Julius Nyerere issued the 1967 Arusha Declaration in an attempt to bolster Tanzania's weak post-colonial economy. This agenda called for the nationalisation of factories, plantations, private companies, and banks; marketing and exporting crops through crop boards; and fostering self-reliance by resettling peasants in communal villages.

Although Tanzania experienced an initial boom and recorded progress in education and health, eventually the country's formal economic base shrank and production fell. Dropping export prices on the world market together with appreciating real exchange rates and a policy shift towards food crops over export crops led to foreign exchange shortages and a reduction in imports of intermediate goods and raw materials. This in turn led to a sharply curbed production of goods and to the decline of the country's infrastructure. These factors worsened Tanzania's economic position, increasing reliance on external borrowing. The average inflation rate rose to 38 per cent while the government's external debt reached US\$9 billion.⁴ In addition, peasants resisted relocation and corruption thrived. Although largely acknowledged as an economic failure, the *Ujamaa* period successfully sowed the

seeds of national unity, which later served as the foundation for peaceful implementation of radical economic reforms.⁵

Rising oil prices and the falling value of Tanzania's main exports in the 1970s also played a role in the country's economic decline during this period. To compound these troubles, Tanzania engaged in two costly military operations in 1979 and 1981 to overthrow neighbouring Uganda's president, Idi Amin.

In addition to its growing and thriving tourist industry, Tanzania's economy now rests on agriculture, which accounts for 45 per cent of the country's GDP, provides 85 per cent of its exports, and employs 80 per cent of the labour force.

Tanzania's second president, Ali Hassan Mwinyi, came to power in 1985. Mwinyi tried to stem the weakening economic tide by introducing reforms intended to transform the economy from a statist to a market-oriented system. This included encouraging private sector investment, providing government incentives to export-oriented businesses, attempting to attract foreign investment and raise productivity, and dissolving government control over the economy. In addition to an International Monetary Fund (IMF)-backed structural adjustment programme, policies were established to reduce the budget deficit and improve monetary control, depreciate the overvalued exchange rate, liberalise the trade regime, remove most price controls, ease restrictions on the marketing of food crops, free interest rates, and initiate a restructuring of the financial sector.⁶

Between 1994 and 1999, Tanzania's government divested approximately 150 of the 385 public enterprises it initially held, privatizing 40 per cent of the total state-owned industries. These were mainly SMEs in the tradeable goods sectors, although a number of large public enterprises such as the national brewery, cigarette factory, soft drinks factory, and cement factory were also privatised.

President Benjamin Mkapa was elected in 1995 in the country's first multi-party election and stepped down after his second term in November 2005. Mkapa continued this reform agenda, introducing the *Mkukuta* and encouraging popular participation in the process. The government's stated macro-economic objectives have been to⁷

- attain a high rate of annual GDP growth, averaging 8 to 9 per cent per annum;
- reduce inflation and maintain a low, single-digit inflation rate;
- strengthen the country's balance of payments position, which includes raising the proportion of imports covered by export earnings;
- achieve fiscal stability through prudent fiscal management, which includes controlling public expenditures, avoiding domestic bank borrowing to finance budget deficits, and strengthening domestic revenue collection; and
- maintain monetary stability and strengthen the financial sector.

In addition to its growing and thriving tourist industry, Tanzania's economy now rests on agriculture, which accounts for 45 per cent of the country's GDP⁸, provides 85 per cent of its exports, and employs 80 per cent of the labour force.⁹ The country's export-oriented agricultural output focuses on coffee, sisal, tea,

The private sector is at the core of Tanzania's economic development plan, and the government has been actively courting both domestic and foreign direct investment.

cotton, pyrethrum (insecticide made from chrysanthemums), cashew nuts, tobacco, cloves, corn, wheat, cassava (tapioca), bananas, fruits, and vegetables. Industrial production, which accounts for 10 per cent of GDP and is the smallest in Africa,¹⁰ concentrates on agricultural processing (sugar, beer, cigarettes, sisal twine), soda ash, oil refining, shoes, cement, apparel, wood products, fertiliser, and salt.¹¹ The service sector – banking and tourism – accounts for 16 per cent of GDP, while 5 per cent of GDP stems from diamond, gold, and iron mining, which earns 50 per cent of the country's foreign exchange.¹² According to the Confederation of Tanzania Industries (CTI), 70 per cent of Tanzanian industry is in and around the commercial capital, Dar es Salaam.

Tanzania is now considered 'one of Africa's better performers', with an average GDP growth of 4.7 per cent since 1995.¹³ Although the IMF predicts that GDP growth will accelerate to 5.2 per cent, this estimate could be constrained by drought, HIV/AIDS, or adverse commodity price movements.

The private sector is at the core of Tanzania's economic development plan, and the government has been actively courting both domestic and foreign direct investment (FDI). Though Tanzania's investment climate is relatively unattractive, according to the US State Department, FDI has increased substantially, from US\$50.2 million in 1994¹⁴ to US\$192.8 million in 2000.¹⁵ In 2002 FDI accounted for 2.1 per cent of GDP while official development assistance (ODA) accounted for 13.1 per cent, or US\$1,232.8 million, in the same year.¹⁶

To encourage FDI and facilitate public sector co-operation, the Tanzania Investment Centre (TIC) was established in 1997 by the Tanzania Investment Act No. 26 to be 'the primary agency of Government to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the Government on investment related matters'.¹⁷ Eight senior government officials have been permanently posted to the TIC, representing the Lands Department, the Tanzania Revenue Authority (TRA), the Immigration Department, the Labor Division, the Directorate of Trade, and the Business Registration & Licensing Agency (BRELA).

Further, on 20 June 2002, President Mkapa launched the **Presidential Investors Roundtable** as 'an innovative mechanism to further pursue and strengthen the avenues for interaction and dialogue between the government and the private sector on policies and strategies to bolster private sector investment in the country'.¹⁸ The group is hosted by the Tanzania National Business Council and is funded by the World Bank.

The Tanzanian government is also making great efforts to reform its institutions in order to attract FDI and enhance the country's competitive position. A democratic multi-party system was established in 1992, with successful elections in 1995 and 2000. Tanzania's government has redrawn the tax codes, floated the exchange rate, licensed foreign banks, and created an investment promotion centre to eliminate

red tape. In addition to establishing the Sustainable Industrial Development Policy of 1996 and the SME Policy of 2003 (see below), legal and regulatory reforms have been undertaken to simplify business registration, reform property rights, and generally make the environment in Tanzania more conducive to doing business. According to the Norwegian Agency for Development Co-operation (NORAD)'s *Study on Private Sector Development in Tanzania*, since 1995 the Tanzanian government has implemented a 'wide-ranging set of PSD (private sector development)-friendly reforms that have led to a more liberal regime for the private sector than at any time since the 1960s.' These reforms include the Income Tax Act (2004), the Land Act (2004), the Privatization Act (1993), and the establishment of a commercial arbitration court.

The Tanzanian Government has recognised the crucial role that small and medium enterprises play in economic development, employment, and income generation.

According to NORAD,

Recent experience has shown that very tangible results can be achieved in a remarkably short time, when interventions are well founded. This has been the case in the financial sector, where Tanzania has developed one of the region's most attractive foreign-exchange regimes, and attracted five well-known international banks and around 20 different second-tier banks, within less than a decade. This has contributed to a tenfold increase in Foreign Direct Investment in Tanzania since 1990. A similar rapid development is seen within mobile telephony, where three private companies and one partly privatised company quickly expand their services at a rate of 5000 new customers per month.¹⁹

Still plaguing the country and creating obstacles to investment, however, are 'bureaucratic intransigence, corruption, poor physical infrastructure, and a slow judiciary system',²⁰ according to the US Department of Commerce. That said, the World Bank sees indications that the overall governance picture in Tanzania may be getting rosier.²¹

2. THE ENABLING ENVIRONMENT FOR SME DEVELOPMENT AND CORPORATE SOCIAL RESPONSIBILITY (CSR) IN TANZANIA

i) Small and Medium Enterprise Development

The Tanzanian Government has recognised the crucial role that SMEs play in economic development, employment, and income generation. In the background papers to the National Trade Policy, the Ministry of Industry and Trade states that 'the private sector is now formally recognized and accepted as the engine of growth in Tanzania and is expected to be the producer of goods and services for the domestic and export market, the leading employer and the primary vehicle for the achievement of poverty reduction'.²² This same publication acknowledges that Tanzania's private sector requires serious support in five areas to counter sluggish growth. These areas are

- credit facilitation,
- provision of business support services,

Up to 80 per cent of Tanzania's formal industries are SMEs, each employing between 5 and 99 people.

- technological services,
- skills and entrepreneurial development, and
- sector-specific initiatives.²³

Section 4.2.2 of the National Trade Policy mimics this language, and the country's 2003 Private Sector Development Strategy concentrates on creating an enabling environment for business. The Government of Tanzania also developed a *Small and Medium Enterprise Policy* in April 2003. Following a participatory workshop aimed at involving the country's citizens, the policy was formulated to outline the government's plans through the year 2025. In addition to delineating the constraints that SMEs face and the policies that the government is fostering, it covers programmes that have been established to address

- Rural Development Strategy
- Agricultural Sector Development Strategy
- Strategic Trade Policy
- Business Environment Strengthening for Tanzania Programme (BEST)
- Micro-finance policy, and
- Poverty Alleviation Strategy.

According to the Confederation of Tanzania Industries, up to 80 per cent of Tanzania's formal industries are SMEs, each employing between 5 and 99 people. In 1998 the World Bank estimated that 10 per cent of these were agricultural, 22 per cent were in manufacturing, 16 per cent were in the service sector, 50 per cent were in trade and 2 per cent were in construction.²⁴ Firms with fewer than five employees hold the majority of business licenses in Tanzania.²⁵

The Tanzanian president's office launched the **Tanzania National Business Council** (TNBC), with assistance from UNIDO, in April 2001 to hold ongoing discussions with business leaders about economic development and the business climate in the country. The president serves as the chairman of the council; the president of the Private Sector Foundation is the vice-chairman. There are 20 government representatives and 20 private sector representatives, and both the public and private sectors are equally represented on all groups, including the council, the executive committee, the Investors' Round Table, and Working Committees. TNBC's objectives are

- To provide a forum for public-private sector dialogue with a view to reaching consensus or mutual understanding on strategic issues relating to the efficient management of development resources;
- To promote the goals of economic growth with social equity and even development;
- To review from time to time developments in the external and domestic business environment, the challenges they pose to Tanzania, and propose appropriate course of action;

- To exchange views on the prevailing operating and regulatory environment, and propose ways to facilitate the public service, improve service delivery, and make the civil service business friendly;
- To review and propose changes in the policy environment to enhance the attractiveness of Tanzania for both domestic and Foreign Direct Investment (FDI), and improve the competitiveness of Tanzanian products in the world market;
- To encourage and promote the formulation of co-ordinated policies on social and economic matters, including consideration of existing and proposed economic legislation, and make appropriate recommendations; and
- To consider any other matter deemed relevant to the achievement of the above objectives.²⁶

Thus far the TNBC has addressed the country's legal and regulatory framework and worked on reforms to create an easier climate in which to do business.

Twenty select members of the TNBC make up the Tanzania Private Sector Foundation, a trade industry association that represents, among others, the manufacturing sector, journalists, and the chamber of mines. Other trade associations are becoming established, including the Confederation of Tanzania Industries and the Chamber of Commerce, Industry and Agriculture, which has regional offices.

In addition, the government has convened the national SME steering committee, chaired by the Ministry of Industry, which meets four times per year to coordinate all SME activities in the country.

From the donor side, there are also encouraging signs of increased aid co-ordination and policy coherence, as well as growing donor support for building institutional capacity in the private sector. The United Nations Development Program (UNDP), United Nations Industrial Development Organisation (UNIDO), and the International Labor Organisation (ILO), for example, have banded together to create the **Private Sector Support Program (PSSP)**, which aims to bridge the capacity gap faced by local suppliers. Through technical assistance and capacity building programmes, the PSSP feeds directly into the national plan for growth and poverty reduction as well as building on the United Nation's *Unleashing Entrepreneurship* model.

On-going donor-funded support for institutions that promote business and SME development is increasing, and include support for

- the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA),
- the Confederation of Tanzania Industries (CTI),
- the Parastatal Sector Reform Commission (PSRC),
- the Tanzania Bankers Association (TBA),
- the Tanzania Chamber of Mines (TCM),

- the Tanzania Private Sector Foundation (TPSF),
- the Tourism Council of Tanzania (TCT),
- the Tanzania Oil Marketing Companies (TOMC),
- the Tanzania Association of Consultants (TACO),
- the Tanzania Chamber of Agriculture and Livestock (TCAL),
- the Tanzania Food Processors Association (TAFOPA), and
- the Tanzania Association of Micro-Finance Institutions (TAMFI).

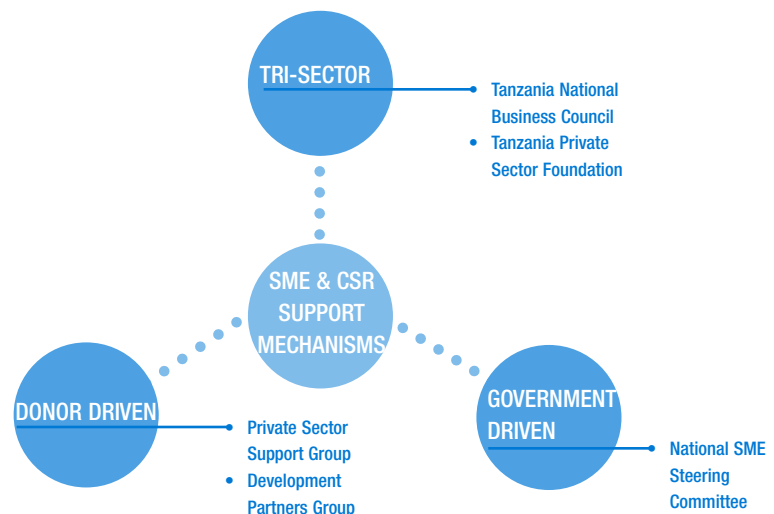
In recent years, there has been a concerted effort to align a myriad of donor programmes with Tanzania's Poverty Reduction Strategy, now in its second iteration as the *Mkukuta*.

Sources of funding and technical support include Sida, USAID, the DFID, UNIDO, DANIDA, and the German Technical Collaboration Agency (GTZ). Activities vary depending on the institution. These activities have included training in business chamber management and advocacy, equipment, meeting part of the salaries of executive staff, meeting the cost of meetings and planning activities.

In recent years, there has been a concerted effort to align a myriad of donor programmes with Tanzania's Poverty Reduction Strategy, now in its second iteration as the *Mkukuta*. In 2002 the government developed the Tanzanian Assistance Strategy (TAS) as a framework for delivering development assistance. This fits into the larger context of the international High Level Forum on Harmonization 2003-2005, during which representatives from 20 multi- and bi-lateral aid organisations and 50 countries met to discuss streamlining their work. The forum culminated in the 2003 Rome Declaration, which is now superseded by the more meaningful Paris Declaration (see the OECD website).²⁷ In 2004 the donor community in Tanzania formed the **Development Partners Group (DPG)**, a formalisation of the already-existing Tanzania Development Assistance Committee. The DPG meets monthly to co-ordinate development partners' activities with the government. It has two facilitators: the UNDP resident representative and a bi-lateral head of Development Co-operation. Appendix 1 provides a full overview of donor co-ordination and institutional support that has recently been developed.

Exhibit 3 illustrates the SME support landscape.

EXHIBIT 3 TANZANIA'S SME SUPPORT LANDSCAPE



Although support for the formal sector is critical to development in Tanzania, according to the World Bank this sector accounts for a mere 30 per cent of the workforce, while 70 per cent of Tanzanian workers, or 2,370,000 people, are engaged in informal production of goods and services.²⁸ These firms, according to the 1996 Tanzania Investor Roadmap, face huge hurdles:

Among the main hurdles besetting SMEs in Tanzania are the legal and regulatory environment, which is still cumbersome, bureaucratic, costly, and centralized; many taxes and high rates, lack of/inadequate physical infrastructure (e.g. roads, cold rooms, warehouses, power, water and communication), and limited access to finance.

While the current regulatory environment is difficult for medium and large scale formal sector firms, it is largely inappropriate and irrelevant to micro and small scale informal businesses. ... It is virtually impossible for small businesses to operate legally. ... Consequently, the current environment encourages businesses to remain small, informal, and operating outside many of the constraints faced by large more visible operations. Although informal sector entrepreneurs, by being informal, may operate outside some of the constraints faced by larger enterprises, they face multiple obstacles of similar and different nature. Besides the fact that informal sector entrepreneurs often cannot operate without permits and do face regulatory constraints, they also have to deal with insecure and inappropriate working places, harassment by authorities and limited access to utilities and other inputs and services.²⁹

The Tanzanian government has begun to address some of the challenges facing the informal sector. In July 2000 it introduced a simplified tax code, for example, although – according to a 2002 UNDP, UNIDO, and ILO *Roadmap study* – there exists a

... break of faith between the government and the ordinary people. While the government has started delivering an economic environment within which enterprise can prosper, when it comes to the regulatory framework the problems have not yet started to be tackled. It is extremely complex, with unhelpful institutional arrangements, and gives rise to many opportunities for corrupt practices on the part of both the civil servants dealing with informal owner managers directly, and the entrepreneurs. All of this creates a straitjacket of constraints around the informal business, barring it from operating legally and optimally, stifling growth and killing off positive attitudes.³⁰

ii) Obstacles to SME Expansion

According to the Small Business Project's (SBP) dipstick survey of Tanzania's SMEs, 'Among the main hurdles besetting SMEs in Tanzania are the legal and regulatory environment, which is still cumbersome, bureaucratic, costly, and centralized; many taxes and high rates, lack of/inadequate physical infrastructure (e.g. roads, cold rooms, warehouses, power, water and communication), and limited access to finance.'³¹

Compounding these challenges are the overarching issues facing Tanzania's private sector, particularly the large firms that would be a natural market for the country's SMEs. The high cost of doing business in the country leads to high prices of

products, both for raw materials and for the end product that reaches market. Electricity is expensive and infrastructure, such as the ports, rail system, and roads, are poorly maintained, which encourages large companies to source internationally rather than from local businesses. One highly successful businessman is quoted as saying ‘It’s often cheaper and easier to get goods from Dubai to Dar es Salaam than it is from Mwanza [Tanzania’s second largest city that is 1227km away].’

iii) Corporate Social Responsibility (CSR)

CSR is still at a nascent stage in Tanzania, largely due to the obstacles faced by business, generally, as well as the fact that the informal sector and SMEs comprise a large per cent of the private sector landscape. Although strides are being made by larger companies to implement CSR initiatives, the costs and competitiveness issues facing SMEs create a huge barrier to uptake. That said, however, efforts are being made, spurred in large part by the private sector and key players in the country, to introduce CSR activities to industry. The most notable and well established of these is the purely business-driven *Private Sector Initiative* (see page 19), as well as the *Cleaner Production Centre of Tanzania* (see page 39). Efforts to institute the UNDP’s *Growing Sustainable Business* (see page 28) programme are still at an early stage, though here, too, progress is unmistakable.

II. EXAMPLES OF MULTI-SECTOR PARTNERSHIPS

Beginning in the mid-1990s, there was a recognition in Tanzania that although large, mainly multi-national companies were finding business success in the country and there was a thriving informal economy, there was a ‘missing middle’ of robust SMEs from which large companies could source on a long-term and reliable basis.

Following are three examples of multi-sector partnerships in Tanzania that assist firms in gaining competitive advantage, creating new markets, developing sustainable product lines, and increasing efficiencies by implementing better environmental standards.

1. THE PRIVATE SECTOR INITIATIVE

Tanzania’s **Private Sector Initiative** (PSI) was an outgrowth of a South Africa-based programme to build small business linkages and support black-owned and black-managed small firms to reduce poverty and unemployment. Between 1998 and 2003 the Small Business Project (SBP), a South African business development and research organisation, established six business linkage centres, providing links with over 80 corporations in South Africa. These links resulted in the creation of 3,000 jobs and investment by large corporations of over 1 billion South African rand in SMEs.³²

i) Background

With the increased FDI beginning in the mid-1990s, there was a recognition in Tanzania that although large, mainly multi-national companies were finding business success in the country and there was a thriving informal economy, there was a ‘missing middle’ of robust SMEs from which large companies could source on a long-term and reliable basis. Tanzania’s largest firms were sourcing the majority of their inputs from abroad for a combination of reasons – goods from local enterprises often did not meet quality standards; production costs in the country were high, so input goods were costly and therefore internationally uncompetitive; and the country’s infrastructure was a challenge to transporting raw materials in a timely fashion. However, importing goods was costly and large businesses recognised that building the ‘missing middle’ would benefit the sourcing companies, SMEs, and the Tanzanian economy as a whole.

ii) Creation

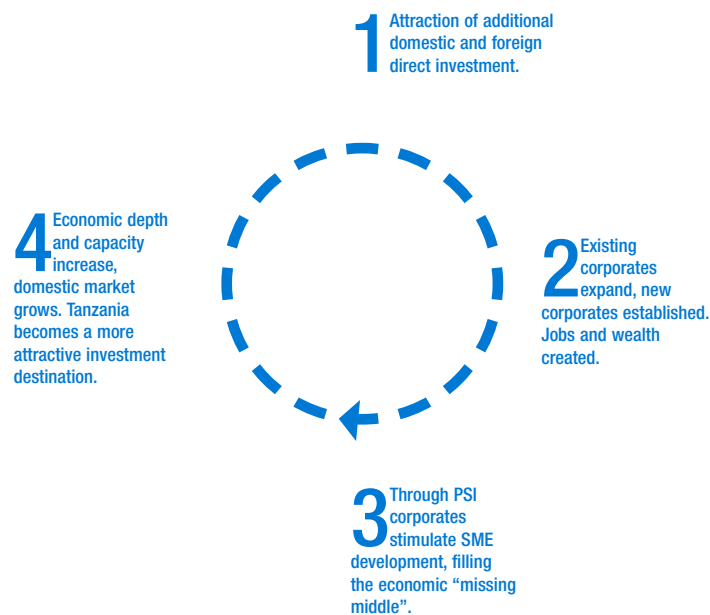
Recognizing a potential win-win situation for large and small businesses in Tanzania, British Petroleum (BP) approached SBP to establish a private sector initiative in that country based on the two organisations’ previous experience of working successfully together in South Africa through BP’s economic empowerment programme. With the co-operation of eight large companies, which became its charter members, Tanzania’s Private Sector Initiative was created in May

2001 with funding from the UK's Department for International Development Business Linkages Challenge Fund (BLCF). PSI's aim, however, was to become self-sustaining within the first three years and remain 100 per cent market focused and market driven rather than become donor dependent.

PSI's goal was to provide a vehicle for large companies to collaborate with each other, the government, and the donor community to promote a more 'joined up' economy. These companies wanted to create a trickle-down effect by which their business performance would spur economic growth and reduce poverty, as well as lower the cost of their own raw materials. In addition, creating business opportunities for local suppliers addressed one of the largest problems facing Tanzania's SMEs: lack of a market. Currently, the PSI has 17 corporate members who account for 60 per cent of Tanzania's government revenue.

Exhibit 4 illustrates the PSI's theory of the virtuous economic cycle spurred by its activities.

EXHIBIT 4 PSI'S VIRTUOUS ECONOMIC CYCLE³³



Source: From A Model That Works: The PSI Tanzania. SBP p. 7.

The PSI offers a good example of individual companies building local business linkages along their own supply chains while simultaneously benefiting from participating in a collective business linkage programme.

iii) Operations

Governance Structure

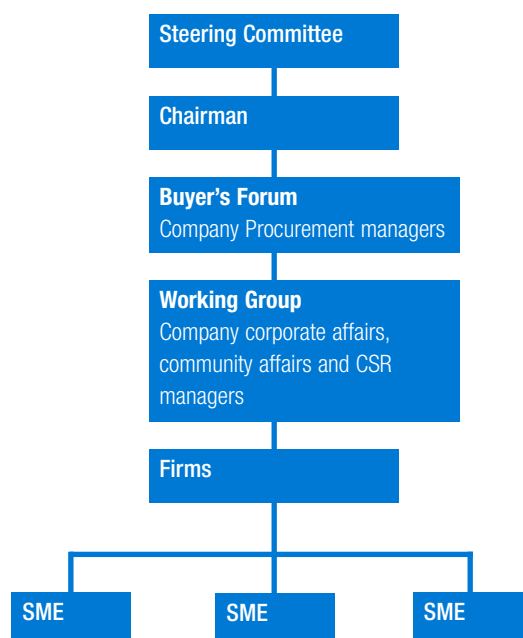
The PSI has a steering committee consisting of the CEOs of the participating companies. The committee's role is to oversee the organisation's overall vision and strategic direction; it meets once per year. The fact that the participants are at the top level of their companies is significant. Such participation not only indicates buy-in and commitment at the highest level but also indicates to procurement managers – who, when sourcing from SMEs in this project are striking a tenuous balance between maintaining cost efficiency and raising local SME engagement – that risk-taking is sanctioned at the highest level.

The working group consists of company managers from departments ranging from corporate affairs to community affairs and corporate responsibility. This working group meets four times per year to share information about new suppliers and other value chain issues. Corporate performance reviews of the managers serving in the working group include an assessment of their input to the PSI.

The PSI's Buyer's Forum establishes the criteria on which SME performance is measured. It is also responsible for creating the vendor rating and for managing the database that houses information and resources about all the SMEs engaged with the member companies. Corporate procurement managers participate in this group.

Exhibit 5 illustrates PSI's governance and organisational structure.

EXHIBIT 5 PSI ORGANISATIONAL STRUCTURE



Strategy & Core Deliverables

The PSI's overarching objective is to develop local markets. 'One of the primary constraints on emerging indigenous SMEs is the underdevelopment of the domestic market, and this low demand for the food or services they sell. A proven strategy is for the corporation to effectively act as the market during the crucial early stages of development, thereby leveraging sustainable small business development.'³⁴ In other words, the PSI aims to address one of the main challenges facing Tanzanian SMEs – the lack of a market for its products. In addition, recognizing the challenge of securing financing for capital expansion, the PSI's member companies have often acted as quasi-loan guarantors, writing letters to lending banks stating that they would ensure a market for products produced by the loan seeking company, thereby guaranteeing payment to the bank.

Members of the Private Sector Initiative are quick to point out that it is a market-driven programme, not a philanthropic initiative or a charitable donation.

Members of the PSI are quick to point out that it is a market-driven programme, not a philanthropic initiative or a charitable donation. These companies hope to create a system in which their purchases from SMEs will build and strengthen those businesses, which will then buy from other SMEs – creating a multiplier effect in the Tanzanian economy. Some of the businesses, such as the Sumaria Group that currently chairs the organisation, cites commitment to the programme because of their own histories as small enterprises; others simply see the business benefits of sourcing locally and building the indigenous market.

In its first phase (2001-2003), the PSI's focus was on improving budgetary decision-making and supply chain development. In 2002, the PSI's eight companies spent approximately US\$21 million, 35 per cent of their aggregate purchasing budgets, with Tanzanian SMEs. This, however, accounted for only 12.7 per cent of these eight companies' total purchasing budgets.³⁵ The PSI aims to increase both the spending via local SMEs and the complexity of the types of items purchased to create a multiplier effect whereby Tanzanian SMEs will develop and source from other local SMEs, thereby contributing to local economic development. By its second year there was a 40 per cent increase in spending via Tanzanian SMEs, accomplishing the PSI's goal of increased expenditure.

The PSI's second phase (2003-2005) marked local ownership of the initiative, which is currently being chaired by the Sumaria Group, a 49-year-old Tanzanian firm with interests in consumer products, plastics, pharmaceuticals, Coca-Cola bottling, dairy products, and agro-processing. In this second phase the organisation has concentrated on expanding its membership, systematising its processes, improving SME capacity, and finding increased opportunities for SMEs.

By 2005 PSI had doubled its membership base, adding eight additional companies: Geita Gold, Placer Dome Tz, Resolute Tanzania, CRDB, Coca-Cola Kwanza, Celtel, Mac Group, and Standard Chartered Bank. In a push to systematise its information and linkages with SMEs, the organisation has created a web-enabled intranet-based database inclusive of on-line supplier ratings and

recommendations available to members. In order to meet its goal of improved SME capacity, each member company has ‘adopted’ one high-potential supplier for mentorship. In addition, the PSI is holding training programmes on quality control, customer service, and good work practices.

Following are two examples of PSI’s projects.

iv) Case Example: KILOMBERO BUSINESS LINKAGES PROJECT

The Kilombero Sugar Company Ltd (KSCL) privatised in 1998 and is currently owned by Illovo Sugar (55 per cent), the Tanzanian government (25 per cent), and the UK-based sugar trading company EDF&Man (20 per cent). It operates two mills in the Tanzania’s Morogoro region. In 1998, at the point of privatisation, KSCL was a state-owned sugar plantation that had fallen into disrepair. Production had declined to 29,000 tons; the company could not meet its tax obligations; the staff was on reduced pay; and the outgrowers – small-scale farmers who grow sugar cane on private or communal land to supply the company – were delivering less than 100,000 tons of raw materials.

Under its new management, the company envisioned becoming a low-cost producer of sugar that had good return on investment in a region that had been growing sugar since the 1920s. However, there were serious impediments to the cane farmers’ ability to expand – the SMEs upon which KSCL depended for its raw materials, and therefore its own survival and success, were in need of development in several crucial areas:

- lack of access to finance and loan conditions;
- lack of support services and skilled contractor networks;
- outgrowers’ infrastructure;
- skills deficiencies;
- weak representation of the cane farmers;
- high farm plot fragmentation;
- lack of access to health, education, and clean water: and
- lack of access to new technology, seed varieties, and irrigation.³⁶

Recognising that lack of development among outgrowers would have an adverse effect on its own company’s ability to flourish, KSCL took an active role in addressing the challenges that its suppliers faced. The firm established dedicated systems to interface with outgrowers, including a reliable cane payments system, an outgrower department, support for infrastructure assistance, a retention fund for bulk input supply, and a division of proceeds and cane supply agreements.

KSCL also became actively engaged in community development in the farming region, investing over 3.5 billion Tanzania shillings or US\$3.5 million) since 1998. Projects ranged from schools, hospitals, and employee housing to providing a potable water supply and buildings for primary courts.

CREATION

Beyond the company’s philanthropic participation in community development in the region, KSLC established the Kilombero Community Trust in 2001. The aim of this trust was to provide a sustainable fund-generation mechanism for outgrower and community projects based on profits from leasing 1200 hectares of land for cane farming. In 2002 the company joined in a partnership with the International Finance Corporation (IFC) and the Africa Project Development Facility (APDF),

creating the Kilombero Business Linkages Project (KBLP) to address the obstacles to outgrower progress.

KBLP's objective was to increase the tonnage produced by cane growers that was being stymied by weak land tenure and lack of collateral, low technical skills, and poor access to business inputs. The project's initial analysis found that it would be necessary to increase outgrowers' access to finance and assist farmers to improve crops, adopt new technologies, and essentially view their farms as profit-making operations. In order to achieve this, the following priority activities were identified:

- Develop a comprehensive management information system linked to aerial maps and soil surveys of the outgrower areas.
- Enhance business, agriculture, and technical skills.
- Contribute to SME and micro-entrepreneur development.
- Improve infrastructure in outgrower areas.
- Increase access to finance for existing and new farmers, and SMEs.
- Build the capacities of the organizations that represent outgrower farmers and the local micro-credit institutions.³⁷

OPERATIONS

In addition to convening a multi-stakeholder project team involving representatives from outgrower associations, the local business community, KSCL, and the local government, the KBLP also coordinates activities with the Kilombero Community Trust. The project was managed by the IFC and co-funded by the IFC and South African company, Illovo Sugar.

Aerial mapping and the creation of a Kilombero Management Information System (KOMIS) assisted in crop planning and information management. Capacity building needs were addressed by conducting donor-funded training programmes on agriculture, business, and leadership training. The infrastructure challenges are being addressed by an outgrower Road Fund and attracting support from the Swiss Agency for Development and Cooperation (SDC) to improve roads and transportation. To address the lack of access to finance, the KBLB worked with DANIDA on training and awareness-raising; the KBLB also worked with the IFC, which served as a quasi loan guarantor for farmers needing to upgrade equipment or undertake other improvements. SME development was supported by business skills training courses, a business forum event, and the creation of a Business Alliance network.

EVALUATION

Results from the first two years of the project have been promising. Outgrower farms have increased from 2760 to over 5000, the cane production area in the region has grown 43.7 per cent and the annual cane harvest tonnage has increased 42.5 per cent.³⁸ In the first year of the Kilombero Business Linkages Project financial inputs to the local community from cane payments and payments for support services increased from 7-8 billion Tanzania shillings to 11 billion Tanzania shillings, or approximately US\$4 million in a single season. This has also meant that the KBLP was able to leverage increased donor funds for infrastructure projects such as roads, bridges, and other physical infrastructure developments, thus enabling the farmers to move their product.

LINKS TO THE PSI

The KBLP was created at approximately the same time that the PSI was established, but it was a totally different project. The KBLP was initially introduced at the PSI forum as a demonstration of what Illovo Sugar/ Kilombero Sugar Company (KSC) was doing to develop locally based supply chains. The KBLP's focus is on the development of small-scale sugar cane farmers and outgrowers and related SMEs, such as equipment contractors and haulers; the PSI's other member companies focus more on industrial SMEs such as glass producers and printers. Therefore, after their initial introduction, there was little interaction between the KBLP and the PSI. The Kilombero Sugar Company remained involved with the PSI on the procurement and supply chain side of their business, rather than through the KBLP. Although the PSI and the KBLP run on largely similar and parallel tracks, the KBLP's profile has been raised because of its involvement with the PSI, and the latter has proven beneficial directly to KBLP's parent company, the Kilombero Sugar Company.

v) Case Example: TANZANIA BREWERIES

Tanzania Breweries, a subsidiary of SABMiller, is a founding member of the Private Sector Initiative. Following the country's independence in 1961, Tanzania Breweries belonged to East African Breweries and then became 100 per cent government owned. During this period the company struggled – it had a single brand; it could not produce enough product for the market's demands; and often its bottles were of inferior quality, leading to breakage and waste. In 1993 the company was privatised and became a joint venture with South African Breweries. This move improved capacity but the under-supplying issue remained a challenge. In addition, the company was importing almost 98 per cent of its raw materials. Because of Tanzania's weakening exchange rate these raw materials were becoming increasingly costly, but the company could not raise the product price to match the increased costs. As a result, Tanzania Breweries decided that the only solution was to source locally. The challenge was that there were no competent suppliers to produce at the capacity or the standard that the beer company needed.

Tanzania Breweries calculated that the excess money it was spending on importing raw materials could be used to support local SMEs.

The brewery calculated that the excess money it was spending on importing raw materials could be used to support local SMEs. In making this decision, Tanzania Breweries considered three elements:

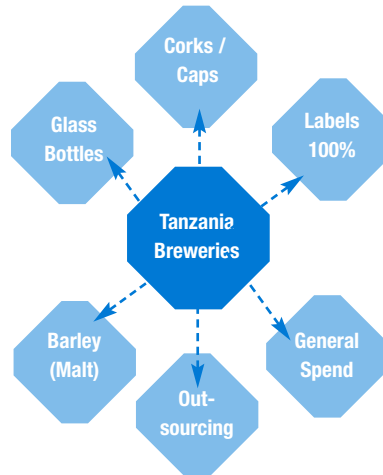
- 1) price, where the question was 'Is the local supply cheaper than an imported landed price?'
- 2) quality, and
- 3) service and technical support

Part of calculating the cost of imports includes the time spent clearing such items, the risk of stocking out, the insurance cost, and the risk of the ship sinking in addition to the potential need to import a consultant for technical support if a problem arises.

Tanzania Breweries saw an advantage to sourcing locally because it could get cheaper goods and build local capacity. To this end the company decided to invest money in technical support for those suppliers that it identified as willing to participate but that could not meet the specifications. This decision led to technical assistance that increased the capacity or the quality or both of companies producing the raw materials necessary for the brewery, including glass, barley for malt, labels, and general supplies.

Exhibit 6 illustrates Tanzania Breweries' import substitution solution that created a local supply chain.

EXHIBIT 6 TANZANIA BREWERIES' SUPPLY CHAIN FROM LOCAL SOURCES



The case of Kioo Limited illustrates Tanzania Breweries import substitution methodology. The glass bottle maker was producing sub-standard products with a high breakage rate. Tanzania Breweries decided to explore sourcing from this company, but first it had to raise the bottle quality. The brewery guaranteed that it would buy all of the bottles produced if they were of better quality and sent a South African engineer to assist in a major production systems upgrade. Tanzania Breweries signed a contract ensuring that all bottles made would be bought, so the glass company was assured that it would get a return on its investment. Kioo Limited is now the primary glass manufacturer in Africa and supplies 100 per cent of Tanzania Breweries bottles, as well as producing for Coca Cola and Pepsi in Tanzania.

The brewery undertook a similar process when it came to labels, which it sources from Tanzania Printers, originally a book and newspaper publisher. The Brewery involved the printer in its supplier partnership programme (SPP), providing technical input so the printer could begin producing high-quality labels. This implied significant trust on the part of the printer, since one of the brewery's requirements was that there would be open-book accounting. Following consultation, Tanzania Printers invested US\$2.5 million³⁹ in new technology and is now the supplier to Tanzania Breweries (which buys approximately 50 per cent of its labels from this printer, a figure which rose to 100 per cent in October 2005).

Tanzania Breweries also owned abandoned farmland in West Kilimanjaro and encourages farmers to use this land to grow barley for malt. The brewery gives farmers the necessary inputs, including financing and fertiliser; these input costs are deducted from payment to the farmers.

Tanzania Breweries began to support local enterprises for four reasons:

- Importing raw materials was expensive – in order to import a product, the company pays a handling fee to get the product from the manufacturer to the port, sea freight charges, and import duty, which can range from 0 to 25 per cent.
- The company was hoarding money in unused stock supplies and it was interested in shifting to a just-in-time model.
- The company was interested in creating jobs for the local population.
- The company believed that being a good corporate citizen meant spending corporate profits in the home country.

Although Tanzania Breweries is already engaged in supporting local SMEs and views it as profitable for its business, it has found participation in the PSI to be very useful. When the brewery sources from the same businesses as other PSI members, it allows the supply chain company to grow and invest because of increased capital, which in turn leads to higher capacity resulting in lower prices for the buyer. In addition, the existence of the PSI supplier database means that supply managers no longer have to hunt for companies, which significantly simplifies their jobs.

According to Tanzania Breweries, the PSI's achievements to date include:

- improving local spent to over 40 per cent where $total\ local\ spent = local\ spent / total\ spent$;
- improving local capacity;
- increased employment in Tanzania;
- increased taxes to government from growing SME revenues; and
- creating domestic product using local products for the domestic market, which keeps the end price down.

The Private Sector Initiative is an easily replicable, business-based solution to sourcing and growing the middle sector of the economy.

vi) PSI Challenges

Some of the current challenges include an assumption by the SME that quick support, like money, will be provided by the larger companies, even though this is not part of the PSI's business model. In addition, bringing more companies into the initiative is sometimes a challenge since the new companies are either unaware of PSI or unsure how it would benefit their company. This challenge has been addressed to some extent by PSI's current chairman, who has done extensive outreach to large companies in Tanzania.

vii) Evaluation

The PSI has recently created a unified method of evaluating the SMEs doing business with member companies. These evaluations – based on quality, price, and delivery – are available to members on the newly created PSI intranet. PSI evaluates its own progress based on improvement in the quality of the SME production, as well as an annual assessment of 'local spent' – the aggregate increase in import substitution enacted by its member companies. Participating managers and directors are also evaluated by their own companies based on their performance in the PSI.

viii) Replication and Scalability

The PSI has plans to export its model to Kenya and Uganda in 2005–2006. It is an easily replicable, business-based solution to sourcing and growing the middle sector of the economy. PSI Tanzania plans to share its database and intranet as well as its meeting format and monitoring system with those interested in establishing similar programmes in these east African countries. In order to better assist the SMEs in its network, the PSI would like to establish skills and capacity-building trainings, particularly around issues such as quality control, customer service, and good work practices. This is of particular relevance to SMEs at the cusp of growth. To this end the PSI is currently engaged in talks with TechnoServe – a US-based non-profit

working with developing country entrepreneurs to build businesses that create income, opportunity, and economic growth – to establish such programmes. In addition, a critical factor to both replicability and sustainability of the PSI's efforts is the engagement of government to address the high cost of doing business in Tanzania.

2. GROWING SUSTAINABLE BUSINESS

Growing Sustainable Business'
objective is to facilitate business-led
enterprise solutions to poverty in
advancement of the Millennium
Development Goals.

Growing Sustainable Business (GSB) emerged from a UN Global Compact policy dialogue on business and sustainable development convened in 2002. The World Business Council on Sustainable Development (WBCSD), the International Chamber of Commerce (ICC), and the Global Compact convened a meeting, chaired by Shell Oil's former chairman Sir Mark Moody Stuart, to consider options for creating an alliance to address the challenges of sustainable development.

i) Background

WBCSD, the ICC, and the Global Compact recognised that recent increases in foreign direct investment (FDI) often do not reach the world's least-developed countries. In addition, participants emphasised that business could have a role in sustainable development beyond traditional philanthropy and compliance. That role would be focused in harnessing core business investments and innovative products and services aimed at new markets and new relationships with local enterprises.

The alliance that was established to address sustainable development challenges through these new, more mainstream business approaches comprised businesses and the public sector. It was presented and endorsed at World Summit on Sustainable Development in Johannesburg in 2002 and led to the formation of the Growing Sustainable Business unit at the UNDP.

The GSB's objective is to facilitate 'business-led enterprise solutions to poverty in advancement of the Millennium Development Goals. These enterprise solutions will accelerate and sustain access by the poor to: needed goods and services; and/or employment and livelihoods opportunities'.⁴⁰ The GSB currently functions in six countries: Cambodia, Ethiopia, Kenya, Madagascar, Tanzania, and Zambia. The UNDP coordinates its ongoing activities.

ii) Creation

The GSB commenced in Tanzania in large part because of interest expressed by Ericsson, the telecommunications giant, and ABB, a leader in power and automation technologies. Both firms are members of the UN Global Compact. Following consultation with the government, the private sector, the NGO, and the donor community, UNIDO, the UNDP, and the ILO launched GSB Tanzania in September 2003.

UNDP Tanzania and its UN counterparts in-country convened a meeting that was led by Ericsson, ABB, Tanga Cement, and Kilombero Sugar to discuss GSB's

strategy in Tanzania. The outcome of this discussion included formation of a coordinating group, creation of project groups, and definition of success criteria.

iii) Operations

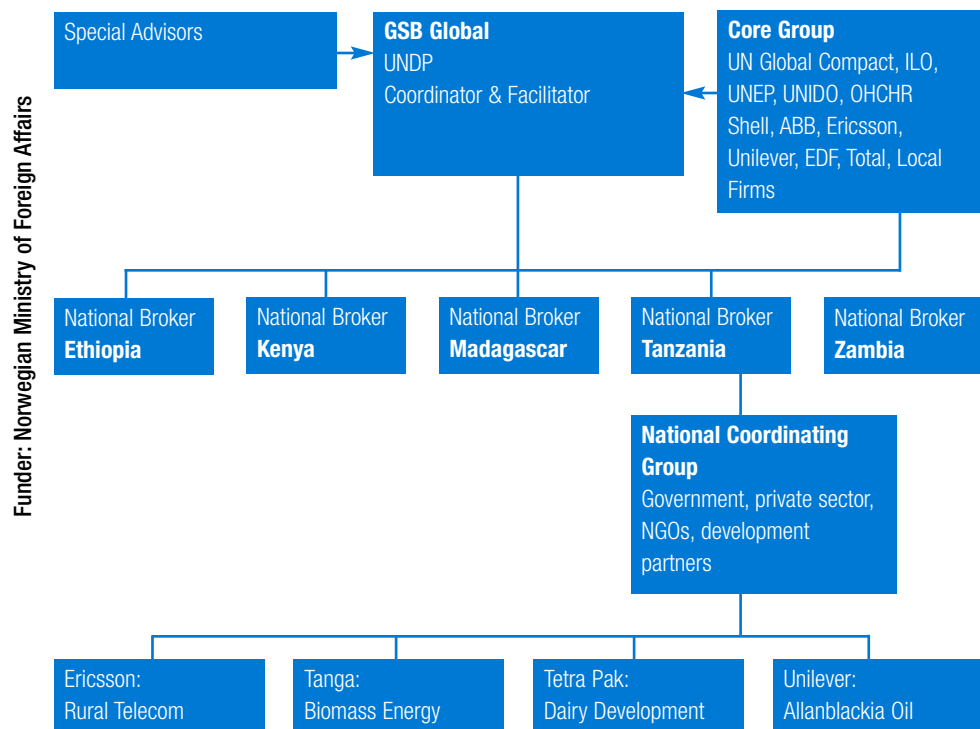
The Norwegian Ministry of Foreign Affairs supports GSB financially. The coordinating group in Tanzania is comprised of members from government, the private sector, NGOs, and development partners.

Governance Structure

Each firm undertaking a ‘GSB project’ develops its own market-based solution to the issue it sees. The GSB provides input on research and brokers relationships; it can provide some technical assistance, and in some cases it can provide funding for feasibility studies and technical assistance, though only on a co-funding basis. GSB does not provide capital or bridge finance for the project itself. The GSB broker does, however, frequently assist in bridging access to finance by methods such as introducing the project to relevant donors and development institutions. GSB Tanzania offers a good example of a collective business linkage initiative bringing together companies from different sectors within one country. Each has its own unique value chain and core competencies but also benefits from being part of a larger collective network when it comes to developing new types of business-led solutions to tackling poverty.

Exhibit 7 illustrates GSB’s governance and organisational structure.

EXHIBIT 7 GSB’S ORGANISATIONAL STRUCTURE



Strategy & Core Deliverables

GSB's core deliverables vary depending on project focus, but they can be generally classified as market-based solutions to poverty that are both beneficial to society and to the business that is engaged in the programme. These deliverables range from improved access to telecommunication and basic services to increased income for rural communities through the creation of a new supply chain (such as Allanblackia nut oil that is used as a base ingredient for margarine) or enhanced milk production. The beneficiaries of these programmes are both the communities that are engaged and the business that either expands its products, sources its inputs, or taps a new market. The GSB's aim is to identify commercial projects that are sustainable because they are good business and that also address development challenges.

Although GSB is still in a nascent stage, its approach to facilitating business-led solutions to poverty is based on a tri-partite platform:

- brokering and facilitating public private partnerships;
- assisting research by providing co-funding for socio-economic and feasibility studies, which inform specific business plans related to a potential investing company's core business or value chain, and by connecting and sharing data;
- providing technical assistance by helping local stakeholders involved in GSB project implementation.⁴¹

The GSB posits that the types of poverty-alleviating business projects it advocates present unfamiliar risks to business. Its own 'value proposition', however, provides risk and cost mitigation at various points along a project's life cycle. Exhibit 8 illustrates GSB's value proposition.

EXHIBIT 8 GSB'S VALUE PROPOSITION⁴²



Challenge/Risk Factor

GSB Value Proposition

Identification of opportunities & partners

Lack of resources (e.g. no presence in country) to actively seek and respond to opportunities

Limited ability to identify and partner with local, value-adding partners

Limited access to government and development partners

Traditional mind-sets inhibit new models from emerging

Active, on-the-ground help in identifying and developing new investment opportunities

Active, on-the-ground help in identifying and developing new partnerships with NGOs, SMEs, and financing partners

Help in identifying government and donor counterparts to facilitate access & dialogue

Showcase ideas for inspiration, encourage cross-sector solutions in partnership with other GSB companies in the country or region

Market Research

Limited public information about target clients; limited financial incentives where commercial viability is highly uncertain

Limited knowledge of local circumstances and needs/demand

Lack of coordinated involvement and feed-back from relevant stakeholders

Difficulties in ensuring alignment with national priorities and development plans

Co-funding of research with the private sector (e.g. feasibility studies) allows for understanding of client needs & obstacles at granular [micro] level and leads to better business plans and greater buy-in

Provision of local development expertise and skills tailored for commercial purposes

Organize constructive feed-back and involvement through multi-stakeholder coordinating group or similar

Help in active collaboration with government and development partners

Business Model Development

Lack of appropriate information as foundation for sound business plan

Limited ability to identify and partner with local, value-adding partners

Limited knowledge on maximization of "business plus development" benefits

Lack of coordinated stakeholder involvement and applicable feed-back to business ideas and plans

Lack of systematic exploration of possible cross-project synergies

Help in identifying existing data sources and in carrying out research directly linked to specific investment project

Active, on-the-ground help in identifying and developing new partnerships with NGOs, SMEs, and financing partners

Help in investment design to ensure benefits based on international best-practice

Organize and support multi-stakeholder investment alliance (implementation group) led by company

Active support in identifying possible cross-sector synergies

Financing

Limited internal financial resources to develop investment where commercial viability not yet proven

Capacity building or targeted public infrastructure investments not within commercial viability of business models, yet required for success

Help bridge access to finance to make the business case viable, including loans, grants, and development finance

Help bridge access to finance for key partners and infrastructure projects

Implementation

Limited capacity and skills of key partners involved in planning or implementation

Corruption and other obstacles such as inadequate infrastructure

Political/regulatory issues or barriers to implementation

Limited engagement of government and other key players such as regulators and NGOs

Active help in building capacity of key partners through technical assistance and financial support

Establishment of a UNDP-sponsored "comfort zone" where information can be shared, and issues raised and resolved

Use influence with government to actively resolve barriers, and inform policy/reform work

Active brokerage to engage counterparts, showing genuine benefits and need for genuine support

Monitoring & Evaluation

Limited human, financial, and technical resources to do M&E

Limited incentive to monitor and evaluate development impacts

Provision of human, financial and technical resources

Actively encourage monitoring and evaluation to assist in replication and up-scaling best practices

Source: *Growing Sustainable Business for Poverty Reduction* UNDP.

GSB Tanzania currently supports four in-country business-led enterprise projects:

- Ericsson's Tanzania Rural Telecoms Project,
- Holcim/Tanga Cement and Biomass Energy Ltd's Biomass Energy Project,
- Tetra Pak's Dairy Development Project, and
- Unilever-initiated public-private partnership to establish an Allanblackia Oil Supply Chain (the Novella Project).

Two of these GSB programs are described below.

In addition, the GSB is facilitating the development of an Internet portal, the *Investment Intelligence Network* (I2Net) to supply critical market, economic, and investor information to interested parties. This project was developed because of an understanding that lack of crucial business information has created a gap for firms interested in investing in, or growing their businesses in, Tanzania. This information shortfall creates instability, the GSB believes, that in turn discourages investment. I2Net is being developed in conjunction with the Tanzania Investment Centre (TIC), the University of Dar es Salaam's Centre for Entrepreneurship Development, the Ministry of Industry and Agriculture, and the Board of External Trade.

iv) Case Example: NOVELLA PROJECT: UNILEVER

Unilever, a world leader in foods, detergents, and personal care products, was looking for a new sustainable raw material to produce margarine. Dr Harry Hendrickx of the company's Sustainable Agriculture Research Unit discovered that the Allanblackia tree produced a nut the oil of which is solid at temperatures below 30 degrees centigrade, making it a good alternative to palm oil for cooking. Allanblackia oil also has a melting behaviour that makes it excellent as a hard stock for margarine and spreads. Unilever began the Novella Project, to source the Allanblackia (AB) nut from local populations, in Ghana in the 2000/2001 growing season. This nut was later found in four mountainous regions of Tanzania. The farmers in these areas are under pressure to transform indigenous forests into arable land, with potential environmental costs.

AB seeds have a very limited use on local markets. Some rural populations use AB oil as a traditional salve, but it has no market price, and there is no sub-Saharan or international market demand for it. In addition to its potential use in margarine, Unilever identified AB oil as a replacement product for palm oil and as a potential base for soap. Using the oil as a soap base is a contingency plan in case the market for AB oil as a substitute for palm oil does not bear out. Unilever plans to produce 60,000 tons of AB oil by 2015, and estimates that it is a 40,000,000 euro business that will not affect the palm oil market in any significant way.⁴³ Furthermore, building a demand for AB oil will provide alternative sources of income for rural communities and encourage farmers to conserve the indigenous forests instead of clearing them for farmland.

CREATION & STRATEGY

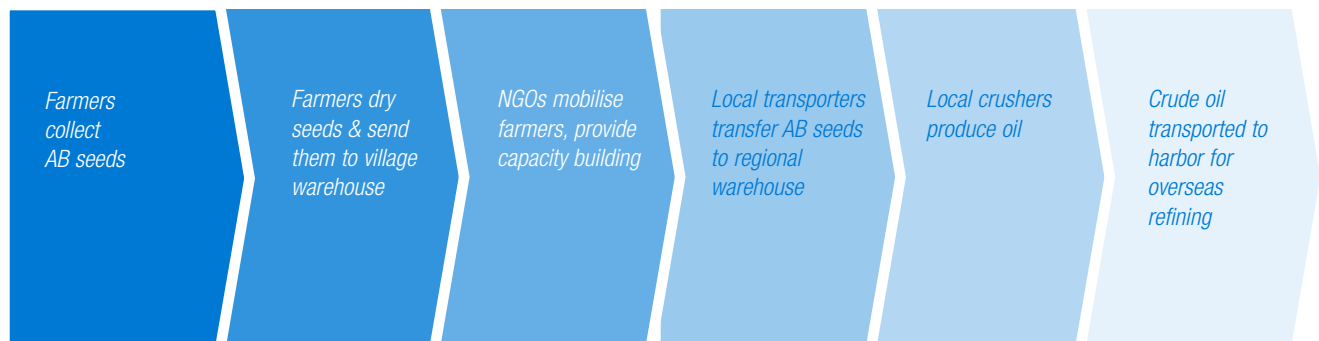
The Tanzania Novella Project, established in 2003, is a public-private partnership between Unilever, which employs 7050 people in Tanzania, and the Netherlands-based, international development organisation SNV, the Netherlands Development Organisation, the Tanzania Forest Conservation Group (TFCG), and FAIDA Market Linkages (FAIDA MaLi). The project had inputs from the Forestry and Bee Keeping Division of Tanzania's Ministry of Natural Resources and the Tanzania Forestry Research Institute (TAFORI) at the local level. At a higher level the partnership extends to the World Conservation Union (IUCN) and the World Agro Forestry Center (ICRAF). The UNDP is working with the project at both the local level (through the GSB) and internationally.

The Tanzania Novella Project aims to provide an additional income source to subsistence farmers who now rely on maize, bananas, yams, and cassava crops, and to conserve biodiversity in Tanzania's Allanblackia nut growing regions.

The project aims to provide an additional income source to subsistence farmers who now rely on maize, bananas, yams, and cassava crops, and to conserve biodiversity in Tanzania's AB-growing regions. Unilever estimates that farming Allanblackia as a cash crop could increase a family's annual income by over 40 per cent annually within three months.⁴⁴

The first phase of the Allanblackia project (Novella I: 2004–2007) is aimed at creating a new sustainable supply chain that would generate income for local farmers. After introducing the concept to national or village authority, the supply chain begins by encouraging farmers to collect AB seeds in the course of their daily activities. They then dry the seeds and send them to a village warehouse. Partnership member NGOs provide the farmers with capacity building around contract farming and business skills while local transporters are contracted to transfer AB seeds to central warehouses. Local crushers are then engaged to produce AB crude oil, which is then transported to the harbour for shipment and refinement overseas. By 2005, the second year of the project, 3000 farmers were involved with an aggregate earned income of 60 million Tanzania shillings. Exhibit 9 illustrates the Novella Project's supply chain.

EXHIBIT 9 NOVELLA'S SUPPLY CHAIN



Once the glitches in this process have been addressed, the partnership assumes that the supply chain will effectively run itself, with minimal input from the group. Phase two of the project (Novella II) is focusing on the domestication of Allanblackia trees to spur increased production from domesticated trees. A consortium has been formed to facilitate this goal. The effort to establish Allanblackia nurseries is being undertaken jointly by Unilever, the UNDP, the IUCN, and ICRAF. A central tree nursery with more than 46,000 Allanblackia seeds is currently being established, and a second nursery is being prepared in West Usambara.

OPERATIONS & GOVERNANCE STRUCTURE

In June 2004, an evaluation meeting was held at which it was decided that the project should extend into new geographic areas of the country in order to access more seeds. To do this, however, new partners had to be identified, so the Institute of Cultural Affairs of Tanzania and INADES Formation Tanzania, a pan-African NGO, joined the project. The GSB became involved; it is currently co-funding a socio-economic baseline study and an environmental impact assessment on *Allanblackia* nut collection on both farmland and in forests. In addition, the GSB played a key convening role in coordinating the various NGOs and stakeholders involved in Novella II, which was focused on:

- making the AB project financially sustainable through expanded production, and
- research and pilot work in AB domestication.

The GSB is also facilitating meetings where partners review project progress and plans.

The SNV, the Dutch development organisation, is involved with partner capacity building. This organisation facilitated the formulation of a work plan as well as the *Memorandum of Understanding* between Unilever and the other parties involved in Novella Tanzania.

Faida MaLi (Faida Market Linkages) is an NGO that facilitates market linkages between farmers and markets. It has been working on the Novella Project from the project's inception, forming farmers groups, training farmers on business skills, and helping to facilitate the relationship between the Novella Project and farmers' groups. Originally 13 farmers' groups were mobilised; currently there are 49 village groups involved with the programme. The increase in the numbers is due in large part to the input from the ICA and INADES, which assisted in outreach to new areas. Each farmers' group has a democratically elected leadership structure, forms a constitution, and registers legally with support from Novella partners. These farmers' groups determine issues such as drying methods, storage, payment logistics, market days, and management of collection centres.

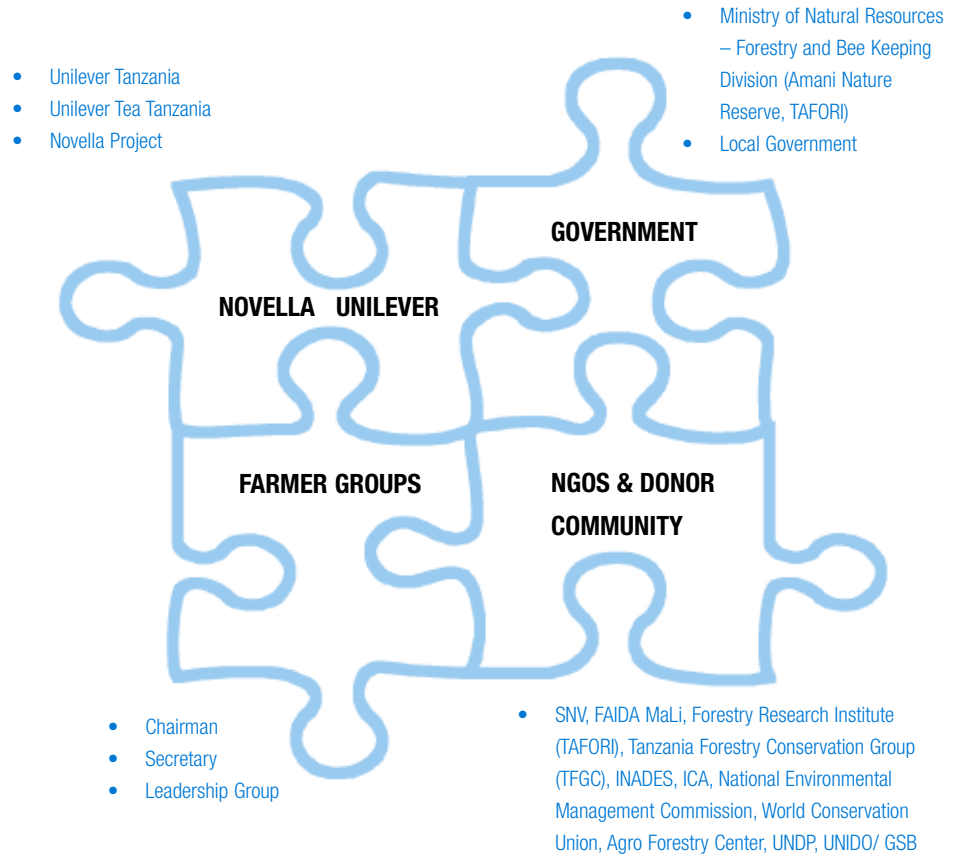
Unilever signs agreements with each farmers' group annually, outlining the price at which the seeds will be bought, quality standards, and recourse in case either party reneges. Key issues that feature in the agreements are non-use of child labour, no corruption, support for women's participation, and environmental conservation. Unilever is committed to buying all *Allanblackia* stock available. The agreement is witnessed by the local government and includes a dispute resolution mechanism.

The Tanzania Forest Conservation Group (TFCG), a Tanzanian NGO that promotes conservation of forest biodiversity, has supported the Novella forest conservation programme and has been instrumental in the creation of Tanzania's Forestry Policy.

Exhibit 10 illustrates the Novella Project's interactive governance structure.

Unilever signs agreements with each farmers' group annually, which outlines the price at which the seeds will be bought, quality standards, and recourse in case either party reneges. Key issues in the agreements include: non-use of child labour, no corruption, support for women's participation, and environmental conservation.

EXHIBIT 10 NOVELLA'S GOVERNANCE STRUCTURE



CORE DELIVERABLES

The Novella Project's core deliverables focus on increased harvest of *Allanblackia* seeds to produce its unique oil. In order to accomplish this in an environmentally sound manner that benefits the local community, partners to the project have, individually or in partnership:

- accomplished a socio-economic baseline study and environmental impact assessments of forest reserves;
- provided input to the 1998 Tanzania National Forest Policy and 2002 Tanzania Forestry Act;
- provided training on issues including business skills, contract farming, group dynamics, and environmental conservation;
- created a new supply chain in Tanzania, which has included strengthening businesses along the chain;
- increased economic participation of rural women in *Allanblackia* growing regions; and
- improved community education on conservation and land use.

Although an overall evaluation of the project's impact has yet to be undertaken, assessments have shown that farmer participation in the project has doubled since its inception. Tree preservation and conservation education has been undertaken and new trees have been planted, all of which contributes to forest conservation. In addition to training participating farmers on environmental laws and business issues, a new supply chain has been established. Though the income contribution is still low because of the low number of trees, Novella II is poised to address this issue by starting an

aggressive tree-planting programme that will lead to significant increases in coming years. Tangentially related to this, women are earning money in their own right, and possibilities are being explored for a project that would bring banking services to rural areas.

v) Case Example: ERICSSON MOBILE TELEPHONY

Mobile telephony has a significant positive impact on economic growth and this impact may be twice as large in developing countries compared to developed countries.

'Mobile telephony has a significant positive impact on economic growth and *this impact may be twice as large in developing countries compared to developed countries...* A developing country which had an average of 10 more mobile phones per 100 population between 1996 and 2003 would enjoy a per capita GDP growth that was 0.59 percent higher than an otherwise identical country.⁴⁵ The impact, therefore, of bringing mobile telephones to the developing world has great potential to positively influence economic development.

Tanzania has historically, however, been characterised by an extremely low penetration of information and communication technology (ICT). In 2004 the 35.3 million strong population – 34.4 per cent of whom live in urban areas – had access to approximately five fixed phone lines per 100 people.⁴⁶ Conversely, the International Telecommunication Union (ITU) estimates that in the same year there were 891.000 mobile phones in Tanzania, 2.5 mobiles per 100 people,⁴⁷ which were often shared among several users. It is clear, even to the casual observer, that mobile phone use is proliferating in Tanzania – the *Sunday News* recently reported that mobile phone subscribers have grown from 50.000 to 2 million in less than six years.⁴⁸ This growth, although strong, is constrained somewhat by cost to the end user but also largely by infrastructure and competitiveness issues.

CREATION

Ericsson, the largest supplier of mobile systems worldwide and a member of the UN Global Compact, saw a market opportunity in Tanzania that would also spur development objectives. The telecommunications giant found that its developed-country market was becoming saturated and began looking for new markets for its products. It found a potential market in rural areas of the developing world. The company recognised that entering such areas would require a new understanding of the business environment with its inherent risks and opportunities, and saw Tanzania as a potentially good entry point.

Despite strong growth in Tanzania's telephony, however, 90 per cent of the country's area and 75 per cent of its population is not being reached by either the existing mobile or fixed-line telephone network.⁴⁹ Ericsson initiated its rural telephony endeavour because it saw a sustainable business opportunity, not a charitable donation. The GSB ICT project's objectives are to:

- 1) Secure adequate access to communication, information, and services for people of Tanzania. This includes 'affordable connectivity' and appropriate ICT facilities and services for all areas.
- 2) Work towards achieving the Millennium Development Goals.
- 3) Identify and pursue opportunities for social and economic development for the rural population in Tanzania – that is, speed up economic growth in less-developed parts of Tanzania.
- 4) Identify options and assist in market-driven sustainable economic growth. This includes, for example, technical and socio-economic assessments, business proposals, and public-private partnership models.⁵⁰

Ericsson linked the telephony programme with the Growing Sustainable Business programme because the GSB's facilitation allowed all of the players to see their goal collectively, and because there was good support from the UNDP.⁵¹ Partners from each sector are participating in the rural ICT project. They include Ericsson, ABB, Agrifocus, Celtel, TTCL, the Ministry of Transport and Communications, the President's Office – Planning and Privatization, the Vice President's Office (Poverty), the TCRA, SIDA, the World Bank, the IFC, and the UNDP.

OPERATIONS & GOVERNANCE STRUCTURE

Local personnel undertook a socio-economic study of three pilot districts – studying 12 villages in three districts and holding discussions with 1200 people – to determine interest in and demand for ICT services, review local energy sources, undertake a quantitative and qualitative analysis to structure pricing, and conduct a risk analysis.

The rural telephony project is still at an early stage, and it does not have a formal governance structure beyond the partnerships being established between the private sector entities and the cooperation that has begun among the government, regulators, the donor community, and the companies.

In order to create a workable and realistic business model that was not based on false assumptions about the poor in Tanzania, the UNDP, Sida, and Ericsson jointly funded a socio-economic study of three pilot districts. This investigation examined the interest and demand for ICT services, reviewed local energy sources, undertook a quantitative and qualitative analysis to structure pricing, conducted a risk analysis, defined and analysed three target groups – ordinary citizens, businesses, and institutions – and identified key issues for further research. Local personnel undertook the analysis, which studied 12 villages in three districts and involved discussions with 1200 people, some of whom already had cell phones and were waiting for service to arrive in their area. The report, which found that general knowledge of mobile phones is very good in Tanzania and that the target population are willing and able to expend up to 7 per cent of their income on communication, was presented in a Rural ICT Investment Forum on 2-3 March 2005.⁵²

STRATEGY

Following the completion of the feasibility study, Ericsson made a strong business case to its head office in Sweden for creating a new business model and a public-private partnership to bring mobile telephony to Tanzania's rural areas. It proposed the creation of a network that would be shared among all of the mobile phone providers in Tanzania (TTCL, Celtel, Mobitel, and Zanzibar Zantel). Although competition among these firms is strong, none could incur the cost of installing the necessary network infrastructure alone and still provide service at a price that the market would bear.

Together, however, these firms could create rural development and expand their businesses by 'leveraging existing mobile infrastructure to quickly and incrementally establish basic telephony services using low cost mobile handsets or fixed radio terminals. In addition to that modern data capabilities of mobile technologies can be deployed to the maximum feasible extent using SMS, GPRS and EDGE. The technologies can cope with many of the data (Internet) communications needs.'⁵³

The business plan to establish this unified infrastructure system open to all operators and service providers is currently being finalised. It will include the creation of a commercial entity to manage the project, in which three national operators will participate, and include the possibility of franchising applications and services to rural entrepreneurs and telecentres.

CORE DELIVERABLES

All of the partners in the GSB ICT project recognise that establishing ICT capabilities in Tanzania's rural areas would be beneficial to several sectors:

- **Health.** ICT capabilities could be used for remote diagnosis and for sharing educational and disease burden information about infectious diseases, particularly HIV/AIDS.
- **Education.** ICT could provide distance learning opportunities in local schools and for professionals.
- **Information and Entertainment.** ICT would distribute news and programming as well as provide access to the Internet.
- **Aid Agencies.** ICT would facilitate work of aid agencies and NGOs.
- **Eco-tourism.** ICT could provide connectivity to spur this sub-sector of the tourism industry
- **Companies and Institutions.** ICT could make companies and institutions in the country more competitive locally and internationally; it would also make the country more attractive to investment.
- **Agriculture.** It has been demonstrated in India that farmers with information about prices in nearby markets substantially increase their earnings.
- **Banking.** Mobile telephones can be used as banking outlets, allowing those with no physical access to the bank to make financial transactions.
- **Small Enterprises.** ICT provide access to information that is now lacking, for SMEs.

To these ends, the partnership is co-operating to provide a low-cost telecommunication infrastructure that will serve rural communities, SMEs, and social service providers. In addition, the potential for a “cluster” effect has emerged from the Ericsson investment rural areas whereby related businesses can grow and flourish. For example, each base station requires a consistent power source, and as a result, Ericsson and GSB's development partners are exploring opportunities to develop locally-produced energy, specifically through biofuels. This would create income opportunities for the very farmers who are also benefitting from access to cellphone coverage. Similar potential benefits may arise by facilitating microfinance or remote payment plans through the cellphone network.

Tanzania's regulators have been very supportive of this initiative because it aligns with the aim of getting rural Tanzania connected. The UNDP's role as facilitator has also been crucial because it has the ability to drive the process, field new ideas, and foster co-operation between the different sectors, none of which would have been able to accomplish this project independently. Anders Wihlborg, Ericsson's general manager in Tanzania, noted that the technology for this project already exists – it is the institutional framework and business plan based on a public-private partnership approach and collective corporate action among ICT competitors that is innovative.

vi) Replication and Scalability

The GSB programme is still at an early stage in Tanzania. Although some of its core projects are well under way, progress has thus far been only partially facilitated by the GSB's involvement. It is too early to tell if such a programme could or should be replicated or brought to scale. In theory, scalability and success seem feasible, but this will become evident only as each of the sector projects rolls out and its impacts are measured.

Although it is still at an early stage, GSB Tanzania's flexibility allows innovative sector- and company-specific models to be created while adept brokering and insightful socioeconomic research is provided by the UNDP.

vii) Lessons Learned

The GSB has the potential to be a model for market-driven public-private partnerships that are beneficial to both business and the community. Although it is still in the early days, the programme's flexibility allows innovative sector- and company-specific models to be created while adept brokering and insightful socio-economic research is provided by the UNDP.

Several lessons that focus largely on the first stages of implementing such a programme have been gleaned from the process thus far:

- The GSB Delivery Mechanism is best kicked off through a consultative, participatory and transparent process lead by an impartial convener such as UNDP;
- Participating companies should focus on their own core business activities;
- Enterprise solutions often benefit from research, feasibility studies, and local socio-economic knowledge to inform business and financing models;
- The expertise of local partners assists in developing and refining opportunities and models that are adapted to local circumstances and needs;
- The GSB Delivery Mechanism provides a good platform for credible multi-stakeholder consultations, action, and decisions;
- The GSB Broker can effectively unearth and inspire investment opportunities and match these with company interest, or vice versa;
- The GSB Broker can broker a value-adding discussion between participating companies and financing partners such as commercial banks, IFC, and/or the donor community;
- The flexibility of the GSB Delivery Mechanism allows it to broker both small and large investments;
- The GSB Public-Private Consultation and Delivery Mechanism has the potential to inform policy and reform efforts.⁵⁴

The goal of Cleaner Production centres is to take a preventive approach to the link between economic development, industrialisation, and negative environmental impacts.

3. CLEANER PRODUCTION CENTRE OF TANZANIA

The 1992 Earth Summit in Rio de Janeiro, the world's second global environment conference, was convened by the United Nations to help national governments rethink economic development and to encourage development that would avoid pollution and the devastation of irreplaceable natural resources. In addition to coining the term *sustainable development*,⁵⁵ the establishment of the UNIDO/UNEP National Cleaner Production Centre (NCPC) Programme in 1994 was one of several significant outcomes of this meeting.

i) Economic Development, the Environment, and Cleaner Production

The goal of Cleaner Production centres is to take a preventive approach to the pattern that often links economic development, industrialisation, and negative environmental impacts. The programme supports economic growth and, through experts at its national centres, helps businesses in developing countries identify inefficiencies in resource use or pinpoint better ways of producing goods that have a reduced environmental impact. The UNEP defines *Cleaner Production* as:

‘... the continuous application of an integrated preventive environmental strategy to processes, products, and services to increase overall efficiency, and reduce risks to humans and the environment. Cleaner Production can be applied to the processes used in any industry, to products themselves and to various services provided in society.

A Cleaner Production centre promotes and implements a locally appropriate CP strategy through government policies and enterprises, and develops local capacity to meet the demand that is then created for Cleaner Production in the country.

- **For production processes**, Cleaner Production results from one or a combination of conserving raw materials, water and energy; eliminating toxic and dangerous raw materials; and reducing the quantity and toxicity of all emissions and wastes at source during the production process.
- **For products**, Cleaner Production aims to reduce the environmental, health and safety impacts of products over their entire life cycles, from raw materials extraction, through manufacturing and use, to the ‘ultimate’ disposal of the product.
- **For services**, Cleaner Production implies incorporating environmental concerns into designing and delivering services.⁵⁶

The purpose of an NCPC is two-fold: it promotes and implements a locally appropriate CP strategy through government policies and enterprises, and develops local capacity to meet the demand that is then created for CP in the country.⁵⁷ This focus on building local capacity is predicated on the recognition that CP can be thoroughly integrated into a country’s industrial and policy framework only if there is local capacity to sustain it.

There are currently 24 UNIDO/UNEP NCPCs spanning the globe from Brazil to Zimbabwe and approximately 50 additional bi-lateral local CPCs.⁵⁸

ii) Creation of the Cleaner Production Centre of Tanzania

Established October 1995, the Cleaner Production Centre of Tanzania (CPCT) is a component of the UNEP/UNIDO National Cleaner Production Centres Programme and was among the first eight such centres established worldwide under the UNIDO-UNEP programme. It is the second initiative on CP established in Tanzania. The first was a 1994 one-year pilot, supported by DANIDA and launched by the Division of Environment in the Ministry of Tourism, Natural Resources and the Environment. The CPCT was then launched under the UNIDO-UNEP NCPC project as a three-year programme and is

hosted by the Tanzania Research and Industrial Development Organization, thus linking the programme to both the Ministry of Industry and Trade and the Ministry of the Environment housed in the office of Tanzania's vice president.

When the original UNIDO-UNEP three-year programme was concluding, CPCT began looking for funding to continue its activities. The Norwegian government offered financial support for a five-year programme, beginning December 1999 until December 2004.

The establishment and continued success of the CPCT is in large part a result of committed leadership displayed by its current director, Professor C.L.C. Migiro. Dr. Migiro was personally approached by UNIDO to head the CP programme in Tanzania. He considers CP ideal for the developing-country context because it is a way to deal with waste management by introducing the concept of prevention from the outset rather than running costly waste-treatment programmes. In engaging in CP, according to Dr Migiro, businesses are being pro-active by managing costly waste from the outset, protecting the environment, and protecting their own employees.⁵⁹

The Cleaner Production Centre of Tanzania's mission is ten-fold. It aims to:

- promote the CP concept through information dissemination;
- undertake project demonstrations in industrial establishments;
- conduct technical and environmental audits for industrial processes, emissions, and wastes;
- produce technical publications;
- stimulate expert working groups;
- offer training programmes on cleaner production;
- offer technical assistance to industry through advisory services;
- support evaluations of the barriers to implementing CP techniques and technologies;
- develop and operate an information management system to facilitate information with its network locally and abroad; and
- provide advice to key policy makers, particularly in the ministry responsible for the environment, emphasising the advantages of incorporating the CP approach into environmental policy.⁶⁰

The CPCT's work has progressed in two phases. The first phase (1994-1998) concentrated on assisting the Tanzanian government with creating policy around CP from the perspectives of industrial production and the environment. In addition, pilot projects were conducted in 14 companies to train personnel on CP methodologies, collect data to prove to the financial case for CP, and disseminate these findings to other businesses. These goals were successfully accomplished and

the CPCT is now in a new phase of disseminating its practices to a broader range of businesses.

In its third phase, the CPCT has achieved independent legal status in Tanzania and is now legally classified as a trust. It now has the mandate to oversee all issues related to sustainable development and consumption in the country. It remains a non-regulatory mechanism to assist the private sector in CP. In acknowledgement of its success, the UNEP is hosting its 9th Cleaner Production Meeting, in 2006, in Tanzania.

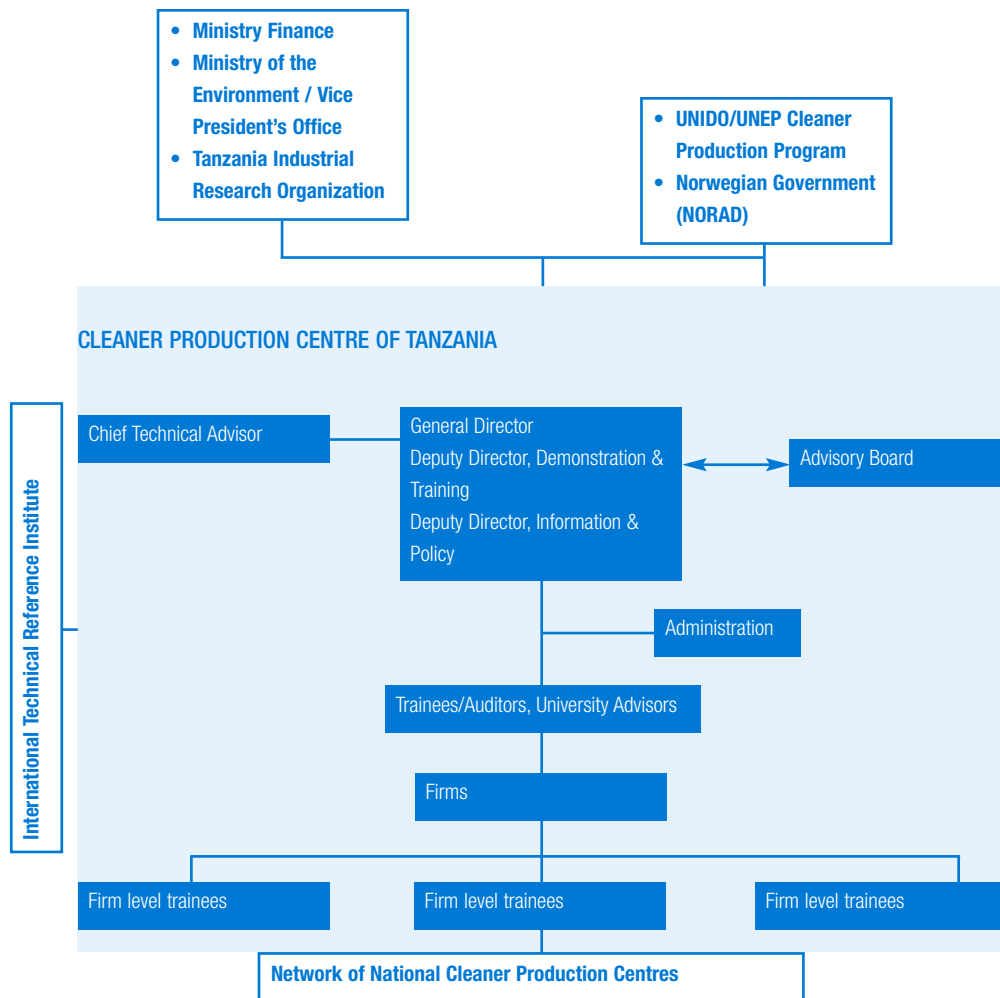
iii) Operations

Governance Structure

The CPCT has a board of multi-sector trustees consisting of four representatives from the private sector, the government, civil society, and academia. The board guides the centre in strategic planning and annual work plans; oversees programme accomplishments and financial expenditures; and gives recommendations on policy dialogues with government and business.

Exhibit 11 illustrates CPCT’s governance and organisational structure.

EXHIBIT 11 CPCT ORGANISATIONAL STRUCTURE



Strategy & Core Deliverables

The CPCT aims to 'facilitate the transfer of technical information, know-how and cleaner technology from developed and developing countries to industrial enterprises and environmental management agencies in Tanzania, in order that they might incorporate cleaner production techniques and technologies in their industrial pollution reduction programmes.'⁶¹ The centre's strategy is to take a holistic approach that involves the producers, distributors, and consumers of industrial products. Its activities are aimed at industry, which has the potential to take preventive action; government, which can either promote or inhibit cleaner production; and industry associations and NGOs, which have the ability to influence societal values on these issues.

The Cleaner Production Centre of Tanzania is currently working with 47 companies in 21 sectors or sub-sectors.

In the initial phase of its programme, the organisation approached enterprises trying to entice them to join. The CPCT targeted 10 to 15 companies for engagement in an 8-12 month programme. The CPCT provided two trainers who conducted 'train-the-trainer' programmes in which the company identified a CP team within the enterprise that consisted of participants from various sectors of the enterprise, including the financial and management departments. The CPCT staff trained the company team, gave assignments to the participants over a three-month period, conducted follow-ups, and continued training. The team approach allowed for two-way communication by which the CPCT trainers could hear from the CP team about where there were problems and how they could be addressed. At the end of the training programme the CPCT held a national training seminar in which the companies involved in the programme shared the advantages of having a CP programme in their enterprises with their peers. This business-to-business model of information sharing is based on the idea that it is more credible for businesses to hear these lessons from colleagues than from the CP centre staff. The outcomes from the initial phase have also provided data proving that engaging in CP activities had an economic benefit. In addition, during its first phase of operations (1994-1998) CPCT worked closely with the Tanzanian Government on policy guidelines related to cleaner production.

During its first phase of operations (1994-1998) the CPCT also worked closely with the Tanzanian government on policy guidelines related to CP.

The combined accomplishments of positive financial data, proof of efficacy of CP, and a national policy that embraces the CP ethos demonstrates that the CPCT has successfully accomplished its mission in the first years of operation.

The CPCT is currently working with 47 companies in 22 sectors or sub-sectors: health, chemicals, wood, cosmetics, dairy, fibre, abattoir, pharmaceutical, electroplating, rubber, motor, essential oils, cement, fish processing, vegetable oil, flour, sugar, soap, steel, beverage, textile, and tobacco processing. The CPCT promotes the CP concept through an emphasis on the dual economic and

environmental benefits coupled with improved occupation health and safety.⁶² This approach is a unique model among national cleaner production centres worldwide.

The CPCT undertakes its objectives with a six-pronged approach:

- 1) information dissemination
- 2) awareness raising / demonstrations to industry
- 3) training
- 4) research
- 5) publications, and
- 6) policy dialogue.

The organisation approaches the demonstration and training aspects of its CP mission, to which it dedicates the majority of its energy, by concentrating on the economic benefits of CP. The CPCT demonstrates, using the examples of its core companies from Phase I, how a company that embraced the CP concept from the economic perspective would also benefit in terms of pollution abatement and control. The focus groups are comprised of both individual factory management and industrial organisations such as the Confederation of Tanzania Industries and the Tanzania Chamber of Commerce, Industry and Agriculture.

Between 1998 and 2002 participating enterprises invested a total of US\$37.404 in the implementation of CP recommendations, helping them cut their combined yearly costs by an estimated US\$747.314.

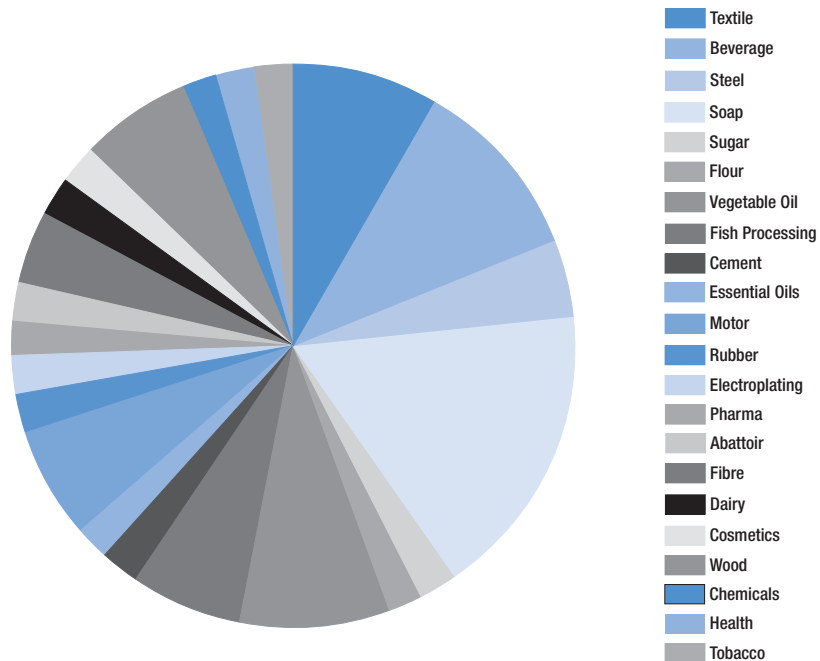
Training trainers was a main component of Phase II, and was aimed at developing a core of technical experts within the country. The CPCT partnered with the Norwegian Institute of Technology to launch an eight-month course for qualified technical personnel. Five CP training workshops have been held with approximately 60 participants from companies, factories, city councils, government, and non-governmental organisations. In addition, the CPCT holds awareness raising seminars, in which approximately 180 CEOs, policy makers, and trainers have participated, and has disseminated its newsletter, with a circulation of approximately 1,000, to companies and other institutions.

The 'end user' beneficiaries of the CPCT's efforts are companies and the industry clusters that need or demand CP services and on which the organisation concentrates. These include, largely, SMEs as well as export-oriented firms. Other beneficiaries are the individuals and institutions that are trained to be advisors and assessors of CP activity in Tanzania.

The CPCT completed 109 Cleaner Production Assessments and trainings between the years 1998 and 2002. During this period, the participating enterprises invested a total of US\$37.404 in the implementation of CP recommendations. This outlay has helped the firms cut their combined yearly costs by an estimated US\$747.314. Phase I, alone, of the CPCT's work resulted in the creation of 251 CP options, 80 per cent of which were considered feasible by the participating firms. Of these options, 73 per cent were short-term, free, or low-cost; 12 per cent were medium-term; and 15 per cent were long-term investments.⁶³

The companies with which the CPCT works fall in sectors illustrated in Exhibit 12.

EXHIBIT 12 CPCT'S COMPANIES BY SECTOR



The Cleaner Production Centre of Tanzania has positioned CP on the national policy-making agenda with influential input to both the industrial development and environmental policies.

The CPCT has also positioned CP on the national policy-making agenda with influential inputs to both the industrial development and environmental policies. The CPCT worked closely with the Tanzanian government, which was reviewing the country's industrial policy. This review resulted in specific legislation by which the country's industrial policy has embraced the concept of cleaner production very clearly. Item 3.5.3 on Sound Environmental Management⁶⁴ in the government's *Sustainable Industrial Development Policy* (1996-2020) outlines steps to be taken to implements ecologically sound industrial development. Tanzania's environment policy also highlights the concept of CP: sections on technology (p. 13) and human settlements (p. 23) specifically address CP concepts,⁶⁵ while section 79 of the *Environmental Management Act* of 2004 specifically addresses 'promotion of cleaner production and sustainable consumption of goods and services'.⁶⁶

To further promote CP, the organization has held three national seminars to disseminate its findings and raise awareness in the country.

iv) Evaluation

Auditing teams, which examined their own companies, cover three main areas:

- 1) **Productivity.** Work in this area identifies sources of losses. What environmental issues are causing losses, and, when rectified, how does this contribute to productivity? Examples include materials losses, such as water and steam leakages, that the firm pays for but does not use.
- 2) **The Environment.** Work in this areas identifies sources of pollution. What are the sources of discharges, effluents, solid wastes, and air pollution? Are there management protocols to address these sources?

3) **Health and Safety.** This area is a key incentive for workers engaged in the programme. The CP programme was perceived as being personally profitable in addressing health and safety issues in addition to being positive for the firm and the state.

v) Replication and Scalability

The CPCT has achieved many of its goals within a context rife with constraints and barriers. It continues to face these challenges while trying to scale up its endeavour. One of the initial prominent issues – lack of donor support – that occurred at the close of Phase I was dealt with proactively. Current thinking is that, with the positive financial results available to serve as proof that CP creates monetary savings, firms will start to pay for consultative services.

One of the great hurdles that the Cleaner Production Centre of Tanzania had to overcome was the after-effects of industry privatisation in Tanzania.

One of the great hurdles that the CPCT had to overcome was the after-effects of industry privatisation in Tanzania. Initially there had been a reluctance on the part of state-owned enterprises that had had the monopoly in their sectors to engage in CP because they fixed their prices at ‘cost plus’, where the cost for resource use, in addition to profit, was borne by the consumer. The game changed when Tanzania’s government privatised. Now competition meant finding ways to save costs to undercut the competition. However, in this transition period there were radical changes in many of the now privately held firms. In some cases personnel who had been trained in CP were not employed by the new private owners, resulting in a loss of expertise; new management had different attitudes to CP; and a climate of fear and mistrust among personnel sometimes emerged within firms – some participants were afraid that they would lose their jobs if they reported on negative environmental outcomes because it would reflect badly on their work.

Privatisation also resulted in the erosion of industrial enterprises within Tanzania. Where there were no private entities to take over from the government, businesses often floundered and failed. This changed, however, with new outside investment coupled with new legislation that supported the private sector.

Lack of skilled labour and motivation within firms were also great obstacles. Workers were not well paid and therefore they were not motivated to identify cost savings to the company because those savings did not benefit them. Furthermore, there was a fear that reporting on ways to save by reducing waste would reflect badly on the worker.

To disseminate the CP message as widely as possible to business, the CPCT works with both companies and umbrella industry groups. However, the industry groups had been quite weak and were relatively powerless to disseminate information on CP to their members. This meant that much of the organisation’s information sharing had to be done one-on-one rather than through networks.

High among the factors that have contributed to the Cleaner Production Centre of Tanzania's current success is a dedicated and enlightened leader who understands the potential of CP for business, for the environment, and for the country.

Within the firms, there was sometimes suspicion and reluctance on the part of management because workers were inquiring into resource use and other financial issues. Management sometimes suspected that the workers were going to report these findings to the government and that they would be found to be in breach of their taxes, which made management nervous. The CPCT made it clear, however, that they needed to put a value on the losses that the company was experiencing, otherwise it would be very difficult to implement change.

Lack of legislation, which has only recently been passed, posed a challenge for the CPCT in its initial phases. The companies with which it worked engaged in the programme on a purely voluntary basis and there was no enforceable legal structure that would provide incentives for businesses to take up CP methodologies or technologies. This may have been beneficial in the early stages, as the participants that were engaged were willing and committed to positive end results. It remains to be seen how widely the new environmental regulations will be enforced and what results this enforcement will have.

Given the latest phase of its activities, its plans to become self-financing, its strong leadership, and the new legislative landscape in Tanzania, the scalability of the CPCT's work is expected. However, it depends on many interlinked factors.

vi) Lessons Learned

Several factors have contributed to the CPCT's current success. High on the list is a dedicated and enlightened leader who understands the potential of CP for business, for the environment, and for the country. Collecting data to demonstrate the positive economic impact of undertaking CP is critical both to entice new companies and to sustain commitment at all levels within CP-friendly firms. To this end, the engagement of workers is also important. The CPCT's health and safety component creates a self-interested incentive among workers to implement and maintain CP practices.

Working closely with the government and other stakeholders is also critical to creating an enabling environment for CP uptake. Embedding CP issues in law provides the 'stick' to complement the economic savings incentive for firms. Finally, fostering committed management within firms who will encourage workers to engage in CP issues, view it in terms of their own self-interest, and brainstorm about new ideas is critical to sustaining these practices within individual businesses.

III. CONCLUSION

Tanzania is in the early stages of developing a robust private sector-oriented economy that integrates CSR based on a business and competitive advantage rationale. In examining the current state of SME development and corporate responsibility in Tanzania through the lens of Growing Sustainable Business, the Private Sector Initiative, and the Cleaner Production Centre of Tanzania, several key findings have emerged. Within Tanzania these could be used to support and scale up already-existing programmes and to encourage government to focus on continuing to create a dynamic enabling environment for business. Outside the Tanzanian context these lessons may be utilised by other developing countries seeking to build competitiveness through SME development and corporate responsibility initiatives.

- **Donor Co-ordination and Harmonisation of Aid with Government Planning**
In countries such as Tanzania where development assistance is such a large part of GDP, it is critical that donors co-ordinate their efforts both among agencies and with the government. Not co-ordinating these efforts increases the danger of programme replication between agencies, undermining government development strategies, creating donor dependence, and creating distorting economic effects. For this reason convening a group such as the Private Sector Support Group or the Development Partners Group can be beneficial.
- **Importance of the Enabling Environment**
Ensuring that the legal and regulatory framework is conducive both to establishing and to growing a business is a critical element for ensuring sustained growth and development in the private sector. Likewise, addressing seemingly non-business-related issues such as transport infrastructure systems and taxation can spur import substitution and local sourcing.
- **Individual Leadership**
The importance of individual local leadership cannot be understated. The Cleaner Production Centre of Tanzania is a case in point, as is the leadership of companies such as BP and Ericsson. Long-term commitment and visionary insight into the local relevance of one's mandate are key.
- **Local “Buy-In”**
Convening groups at every level to ensure that policy is relevant, comprehensive, and applicable is important, though this can work well only in certain contexts. The Tanzanian government and the Confederation of Tanzania Industries have both found this approach to be successful as a means of getting feedback on policy and initiatives.

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APPENDIX 1⁶⁷

OVERVIEW OF DONOR FINANCED PRIVATE SECTOR DEVELOPMENT ACTIVITIES IN TANZANIA, 2005

Donor	Area	Project or Program	Amount	Recipient	Start/end date	Description / objective
Canada	Micro Finance	Micro-enterprise Business Development Project	US\$2.8 million	Huduma ya Maendeleo – Tanzanian NGO	1995-09/2002	The objective of the project is to develop a local institution that will promote the role of micro-enterprise in the Tanzania economy. The project strategy is to provide loan capital for lending to micro-enterprises on a sustainable basis so as to increase their financial stability, potential for growth and employment creation.
Canada	Micro Finance / capacity building	Micro finance Capacity Building Facility	US\$3.3 million	GoT	Tentative 2002-07	To support Tanzania in poverty reduction by increasing the income generating capacity primarily of the underprivileged by strengthening the capacity of a selected number of micro finance institutions to deliver financial services to small businesses and income generating activities.
Canada	Micro Finance / capacity building	Capacity Building for Savings and Credit Cooperative Societies	US\$0.5 million	Savings and credit Cooperative Societies	06/2001-03	To develop the management and technical capacities of grass root micro finance institutions to provide quality services to micro-entrepreneurs.
Canada	Micro finance / policy formulation	Enabling environment for micro finance industry	US\$1 million	GoT	2002-05	The purpose of the project is to strengthen the capacity of the Bank of Tanzania to develop a regulatory and supervisory framework for promoting the development of an efficient and effective micro finance service industry.
Denmark	Training	Vocational Education and Training Authority - VETA	US\$8 million	VETA/Ministry of Labour and Youth Development	01/1998-12/2002	Support to VETA to improve vocational and educational training by making it demand oriented and receptive to the changes and demands of the private sector.
Denmark	Micro Finance	Micro Finance Component	US\$2 million	CRDB	01/1998-12/2002	Pilot project to strengthen SACCOs and other MFIs to receive credit through CRDB, thus making CRDB an apex bank.
Denmark	Finance sector	CRDB Restructuring	US\$8 million	CRDB	1994-2002	DANIDA has purchased 30 per cent share in CRDB, and has financed technical assistance and hardware for the information system (satellite based) among other things.
Denmark	Finance sector	Venture Capital fund	US\$3.5 million	FEDHA Fund	1994-2002	DANIDA has purchased 26 per cent share in FEDHA fund, as well as 20 stake in First Capital Partners that manage said fund – Venture Capital for high growth potential companies in Tanzania
Denmark	Finance sector	Bankers' training	n/a	Tanzanian Bankers Association	2002-n/a	Establishment of a Bankers Training Institute/School
Denmark	Policy formulation	MYLDS	US\$0.6 million	MYLDS	03/2001-12/2002	Institutional support to the Labour department in Ministry of Labour and Youth Development and Sports (MYLDS) including upgrading of office. Hearing, discussing and preparing a new labour law.
Denmark	Policy formulation / legal reform	Review of insolvency law	US\$250,000	Mkono Co. Law Firm		A review of the insolvency and bankruptcy law, as a first step in drafting a new law.
Denmark	Policy formulation / legal reform	Drafting and hearing of new insolvency law	US\$80,000	n/a	06-12, 2001	Drafting and hearing of new insolvency law
Denmark	Policy formulation / legal reform	Review and drafting of law on industrial design	n/a	n/a	06-12, 2001	Review and drafting of law on industrial design
Denmark	Policy formulation / legal reform	Establishment of Commercial Court	US\$1.8 million (phase one)	Court of Appeal	1999-2002 (phase 1) 2003-07 (phase 2)	Twining with Danish and Canadian commercial courts. Computer based court handling system, extensive training of professional staff
Denmark	Policy formulation / legal reform	Support to BRELA, Tanzania Bureau of Standards, Weights and Measures and Government Chemist	n/a	MIT	2002-n/a	Regionalisation of the services offered, computerisation of work etc.
Denmark	Advocacy	Confederation of Tanzania Industries (CTI)	US\$1.5 million	CTI/DI	1998-12/2002	Twining with Confederation of Danish Industries (DI), support to various studies and professional staff.
Denmark	Capacity building	PSD Support	n/a	n/a	January 2001 permanent	Twining program for joint ventures, support for studies, visits, project investment, technical assistance and environmental investment.
Denmark	Advocacy	Trade Union Movement	US\$1.5 million		2001-02	Support to strengthen the Trade Union as a major player in civil society and a counter balance to the business organisations – project document under development.
Germany	SME Service Delivery	Strengthening self-help organisations in the informal economy	US\$6.8 million	SIDO and other NGOs	1991-04/2002	The target is the Small Industries Development Organisation (SIDO) to improve its capacity to deliver business development services effectively on a sustainable basis.
Germany	SME Service Delivery	Business development services		SIDO and municipalities		The improvement of entrepreneurship and business management training delivery of three regional SIDO offices. Assistance to get additional loan funds. In addition, facilitation of local business promotion activities of the respective municipalities.
Germany	SME Service Delivery	Support to small businesses		Hans Seidel Foundation, Small businesses and NGOs		Support to small businesses with training and consultancy services. In addition, subsidies go to non-governmental initiatives in this field.
Germany	Financial sector	Tanzania Development Finance Company (TDFC)		TDFC		German Investment and Development Company (DEG) is a partner in the TDFC.



OVERVIEW OF DONOR FINANCED PRIVATE SECTOR DEVELOPMENT ACTIVITIES IN TANZANIA, 2005 continued

Donor	Area	Project or Program	Amount	Recipient	Start/end date	Description / objective
Germany	Financial sector	Tanzania Venture Capital Fund (TVCF)		TVCF		German Investment and Development Company (DEG) is shareholding in TVCF.
Germany	Fiscal	Tax Administration Programme		TRA	1998-2001 (next 3-year phase agreed)	The objective is to collect income tax in a fair, effective and efficient way, and to increase revenues.
Germany	Capacity building	Joint Integrated Trade Assistance Program (JITAP)		MIT	Ends 1997/2002	Capacity building in relevant government bodies and private sector organisations through special training programs, to enable Tanzania to cope with the WTO agreement on liberalised markets.
Germany	Regional integration	Support to East African Community		EAC	1998-2007	Enlargement of the markets available to regional firms and the subsequent increase in interregional trade flows as well as increased competition as a pre-condition for lower prices, higher standards of products and sustainable export development are in the focus of the Secretariat.
Germany	Capacity building	TCCIA				Part of the Private Sector Promotion Project East Africa. The aim is to improve the service delivery and advocacy capacity of the chamber through capacity building. At a later stage, the networking with the private sector representative organisations in the other East African countries will also be a focal point of the project.
Germany	Training	Vocational and Educational Training Authority (VETA)		VETA	Ends 1997-20/02	To strengthen VETA's role as facilitator and coordinator in the VET system. Improvement of VETA's advisory, management and labour market analysis capacity as well as improvement cooperation with employers and other training providers. Assistance in expansion of training concept to meet the needs of target groups not yet addressed by the formal training programs.
ILO	Informal sector	Assistance to Informal Sector Associations	US\$8000	VIBINDO - FISOTA	01/02/2001	Assistance to strengthening VIBINDO SOCIETY, an informal sector organisation in Dar es Salaam. Assistance to the creation/inauguration of FISOTA, Federation of Informal Sector Organisations in Tanzania.
ILO	SME service delivery	Start and Improve Your Business (SIYB)		Private trainers/consultants and training institutions (IFM, SIDO, MEDA, ZAD, OICT)	01/1998- ongoing 01/97-03/01	Training of trainers program in different training modules: 'Generate Your Business Idea', 'Start Your Business', and 'Improve Your Business'.
ILO	SME service delivery	Environmentally sustainable urban development	US\$0.2 million	Local training institutions	2001-04	Training of small and medium enterprises in waste handling, business management, marketing, occupational safety and health, etc.
ILO	Bridging the gap		US\$25.000	Eastern Southern African Management Institute (ESAMI), Arusha		Strengthening capacities of non-bank financial intermediaries to set up, operate, expand and monitor guarantee funds. A programme in support of non-bank financial institutions managing guarantee funds for small and micro-enterprises.
ILO					06/01-04/02	A qualitative analysis of constraints and coping mechanisms of micro-enterprises in Tanzania. Research study on regulatory and non-regulatory constraints faced by micro-entrepreneurs, and analysis of how they deal with these constraints.
ILO	Policy formulation / informal sector	Informal Sector Roadmap	US\$85.000	Enterprise Development Centre (EDC)	02-10/01	Research study on regulatory and non-regulatory constraints faced by micro-entrepreneurs, and analysis of how they deal with these constraints.
ILO	Micro /small scale enterprises	Micro /small scale enterprises	US\$22.151	Economic and Social Research Foundation (ESRF)	07/99-06/02	A review of policy, legal, and regulatory framework and its impact on employment International comparative research project on the impact of policy and regulation on employment in SMEs.
Netherlands	Capacity building	FAIDA Small Enterprises Promotion	US\$1 million	Farmers and business development service providers	01/2000-12/2002	Facilitation of the establishment of market linkages for farmers.
Netherlands	Capacity building	PSD Lake Zone	US\$1 million		07/1999-	Facilitating advocacy, business development services, and training.
Netherlands	Financial services	FAIDA Small Enterprises Promotion		SMEs through CRDB	06/1992-2002	Guarantee scheme jointly with the CRDB for lending to SMEs.
Netherlands	Financial services	Financial sector development			2001-05	Facilitate the accessibility of financial services to the rural poor.
Netherlands	Financial services	Smallholder Dairy Support Programme (SDSP)	US\$4.3 million	Small dairy farmers		Provides credit in kind (heifers) to smallholder farmers.
Netherlands	Financial services	Equity Participation		ACB	2002	Provides equity funds to Akiba Commercial Bank and Venture Capital.
Netherlands	Policy formulation	BEST			07/1999-	To improve the business environment.
Netherlands	SME service delivery	TCCIA branches in districts	US\$650.000	Business services providers	06/2002-2000-02	Organising business groups in order to increase their lobby power in districts.
Netherlands	Linkages	PMOA	US\$4 million	Tanzanian / Dutch firms	2001-03	Promotion of Dutch investment in Tanzania by linking up with Tanzanian firms.
Sweden	Capacity building	Promotion of Rural Initiatives for Micro Enterprises (PRIME)			2000-02	Establishment of market linkages between markets and farmers
Sweden	Micro Finance	Promotion of Rural Initiative and Development Enterprises (PRIDE)	US\$0.4 million	PRIDE		Institutional support is provided for research and development activities to further improve on the PRIDE micro-finance model.



OVERVIEW OF DONOR FINANCED PRIVATE SECTOR DEVELOPMENT ACTIVITIES IN TANZANIA, 2005 continued

Donor	Area	Project or Program	Amount	Recipient	Description / objective
Sweden	Financial sector	Bank of Tanzania (BOT)		BOT	Assistance is provided to the BOT Task Force on the review of the legal, regulatory, and supervisory framework for micro-finance in Tanzania.
					1996-2002
Sweden	Financial sector	Capital Markets & Securities Authority (CMSA)	US\$800.000	Capital Markets & Securities Authority (CMSA)	Support is provided to enable the authority to develop its regulatory and supervisory capacity and strengthen and develop the newly established Dar es Salaam Stock Exchange (DSE).
					From 1997
Sweden	Financial sector	Tanzania Venture Capital Fund (TVCF) and Fedha Fund	Until now US\$800.000	Tanzania Venture Capital Fund (TVCF) and Fedha Fund	Support is provided in the form of conditional loans to Swedfund International AB, which is owner of the Swedish shares in the two funds. Both TVCF and Fedha Fund make investments in industrial ventures in Tanzania.
					2001
Sweden	Financial sector	Financial Sector Assessment	US\$250.000	Capital Fund (TVCF) and Fedha Fund	The outcome will provide guidelines and directions for additional Swedish interventions in support of financial sector development in Tanzania during the coming years.
					2000-02
Sweden	Policy formulation	National Trade Policy	US\$200.000	MIT	Support to the formulation of the national trade policy
Sweden	Capacity Building	Capacity Building Project for MIT	US\$750 000	MIT	The capacity building project consists of the following three projects: 1) Implementing competition policy and law; 2) Reducing business transaction costs, and 3) Upgrading the ministry's registry function.
					2000-02
Sweden	Capacity Building	Tanzania Bureau of Standards (TBS)	US\$0.3 million	Tanzania Bureau of Standards (TBS)	Capacity building
					2001-04
Sweden	See main report.	Business Environment Strengthening for Tanzania (BEST)		See main report.	See main report.
					1996-2003;
Sweden	Advocacy	TCCIA support	US\$1.5 million	TCCIA	Development of TCCIA into a sustainable and member-driven chamber network, able to provide appropriate services and authorities to the business community.
					probably 3-year ext.
Sweden	Linkages	Enterprise Development Programme (EDP)			Assistance is given to facilitate and support the development of commercial relationships between Swedish and Tanzanian companies.
					1998-2001
UNDP	Micro finance	Micro Save Africa	US\$660.000		Assistance to organisations for strengthening their ability to enhance saving service development. The micro-finance team will provide technical advisory input to AFCAP on savings-related issues, provide technical advisory input to MFIs, and take forward the UNDP Africa Regional Savings Mobilisation Initiative (ARSMI).
UNIDO	Training	Integrated Training Programme for Women Entrepreneurship Development	US\$620.000	Ministry of Industry and Trade/SIDO	Entrepreneurship development programme targeting women involved in micro-scale food processing activities.
UNIDO	SME Service delivery	Small and Medium Enterprises Development	US\$71,500	MIT	Strengthening capacity of the Ministry of Industry and Trade for SME promotion and policy formulation.
UNIDO	Policy formulation	Strengthening capacity of Ministry of Industry and Trade for SME promotion and policy formulation.	US\$163.500	MIT	Investment promotion strategy, revising of Act, and regulatory and institutional environment.
UNIDO	Policy formulation	Assistance in Implementation of Sustainable Industrial Policy (SIDP)	US\$182.000	MIT	Strategy and plan of action for implementation of SIDP, industrial partnership, and consultative mechanism between public and private sector.
UNIDO	Advocacy	Tanzania Private Sector Foundation (TPSF), Confederation of Tanzania Industries (CTI) and Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA)	US\$630.831	Tanzania Private Sector Foundation (TPSF), Confederation of Tanzania Industries (CTI) and Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA)	Improving capacities in private sector institutions, improving dialogue between government and private sector.
					1999-2002
United Kingdom	SME service delivery	Small Enterprise Development Agency (SEDA)	US\$1.4 million	SEDA	Assistance to build up institutional capacity to transform and manage itself as a sustainable provider of financial services to micro entrepreneurs, particularly women.
					1999-2004
United Kingdom	Micro finance	FINCA	US\$2.2 million	FINCA	FINCA will provide credit and savings services to low-income entrepreneurs, primarily women, with a view to increasing their income and improving their standard of living. The approach will be to work through an expanding Village Banking Network saved by a sustainable financial intermediary, FINCA, Tanzania.
					1999-2002
United Kingdom	Micro finance	AFCAP	US\$6.6 million		AFCAP is a micro-finance capacity building programme in Africa aimed at enhancing the capacity of micro-finance institutions to deliver financial services to poor people on a sustainable and replicable basis.
					1998-2001
United Kingdom	Micro finance		US\$660.000		Assistance to organisations for strengthening their ability to enhance saving service development. The micro-finance team will provide technical advisory input to AFCAP on savings related issues, providing technical advisory input to MFIs and take forward the UNDP Africa Regional Savings Mobilisation Initiative (ARSMI).



OVERVIEW OF DONOR FINANCED PRIVATE SECTOR DEVELOPMENT ACTIVITIES IN TANZANIA, 2005 *continued*

Donor	Area	Project or Program	Amount	Recipient	Start/end date	Description / objective
USA	Capacity building	Private Enterprise Support Activities	US\$1,330,000		09/2001-09/2005	Market linkage and information development, business skills training.
USA	Fiscal	Tax and mining policy			06/2001-09/2003	Policies to support artisanal mining and the optimal investment of government income from the mining sector.
USA	Policy formulation	06/01-09/03		TRA, BRELA, CSD, TIC, etc.	06/2001-09/03	Capacity building for the Policy Analysis Department of the Ministry of Finance.
USA	Policy formulation / capacity building	Private Enterprise Support Activities		TPSF	06/2001-09/05	Capacity building and 'Quick Wins' in selected Government of Tanzania agencies.
USA	Advocacy	Tanzania Private Sector Foundation (TPSF)	US\$95,000	Bank of Tanzania	10/2000-06/01	Start-up operational support.
World Bank	Micro finance	Rural and micro-financial services project	US\$ million	Bank of Tanzania/National	2000-02	
World Bank	Financial sector / micro finance	Second Financial Institutions Development Project	US\$27 million	Micro-finance Bank	2000-03	

Source: NORAD. *Study of Private Sector Development in Tanzania*. June 2002.

Note: n/a = not applicable.

Acronyms

AB Allanblackia nut	PSRC Parastatal Sector Reform Commission
BLCF Business Linkages Challenge Fund (DFID)	PSSP Private Sector Support Programme (European Commission)
BRELA Business Registration & Licensing Agency	SBP Small Business Project
CP Cleaner Production	SDC Swiss Agency for Development and Cooperation
CPCT Cleaner Production Centre of Tanzania	SIDA Swedish International Development Cooperation Agency
CSR Corporate social responsibility	SME Small and Medium Enterprises
CTI Confederation of Tanzania Industries	SNV Stichting Nederlandse Vrijwilligers (Dutch Volunteer Organization)
DAC Development Assistance Committee (OECD)	TA Technical Assistance
DFI Development Finance Institution	TACO Tanzania Association of Consultants
DFID British Department for International Development	TAFOPA Tanzania Food Processors Association
DPG Development Partners Group	TAFORI Tanzania Forestry Research Institute
FDI Foreign Direct Investment	TAMFI Tanzania Association of Micro-Finance Institutions
FES Friedrich Ebert Stiftung	TAS Tanzanian Assistance Strategy
GDP Gross domestic product	TBA Tanzania Bankers Association
GTZ Deutsche Gesellschaft für Technische Zusammenarbeit	TCAL Tanzania Chamber of Agriculture and Livestock
GSB Growing Sustainable Business	TCCIA Tanzania Chamber of Commerce, Industry and Agriculture
IBLF International Business Leaders Forum	TCM Tanzania Chamber of Mines
ICRAF International Center for Research in Agroforestry	TCPC Tanzania Cleaner Production Centre
ICT Information and communication technology	TCT Tourism Council of Tanzania
IFC International Finance Corporation	TFCG Tanzania Forest Conservation Group
ILO International Labour Organisation	TIC Tanzania Investment Centre
INADES Institut Africain pour le Développement Economique et Social	TNBC Tanzania National Business Council
IUCN World Conservation Union	TNC Transnational Corporation
KOMIS Kilombero Management Information System	TOMC Tanzania Oil Marketing Companies
KSCL Kilombero Sugar Company Ltd	TPSF Tanzania Private Sector Foundation
NCPC Cleaner Production Centre	TRA Tanzania Revenue Authority
NGO Nongovernmental Organisation	UNDP United Nations Development Programme
NORAD Norwegian Agency for Development Co-operation	UNEP United Nations Environment Programme
ODA Official Development Assistance	UNIDO United Nations Industrial Development Organization
OECD Organisation for Economic Co-operation and Development	USAID United States Agency for International Development
OHCHR Office of the High Commissioner for Human Rights	
OHS Occupational Health and Safety	
PSI Private Sector Initiative	

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UNIDO

The United Nations Industrial Development Organization (UNIDO) is a Specialised United Nations Agency with a mandate to prevent the marginalisation of developing countries and to contribute to the eradication of poverty through the promotion of sustainable industrial development. The UNIDO CSR Programme is based on the Organization's business partnership approach that aims to upgrade the overall productivity and competitiveness of small enterprises and suppliers in order to facilitate their access to larger value chains and trade networks. This initiative is multi-disciplinary in character, integrating environmental and social issues into a productivity and quality upgrading programme. Thus, it promotes the broader concepts of good corporate citizenship and responsible competitiveness as prerequisites for sustainable industrial development. The UNIDO CSR Programme may be seen as a practical contribution to the ongoing CSR debate, developing interventions at the company and policy levels that support businesses, in particular small and medium enterprises, to successfully adhere to CSR-related principles and norms.

Kennedy School of Government, Corporate Social Responsibility Initiative

The Corporate Social Responsibility Initiative at the Kennedy School of Government is a multi-disciplinary and multi-stakeholder program that seeks to study and enhance the public role of the private enterprise. It explores the intersection of corporate responsibility, corporate governance and strategy, public policy, and the media. It bridges theory and practice, builds leadership skills, and supports constructive dialogue and collaboration among different sectors. It is a cooperative effort among the Kennedy School's Mossavar-Rahmani Center for Business and Government, Center for Public Leadership, Hauser Center for Non-Profit Organizations, and Joan Shorenstein Center on the Press, Politics, and Public Policy. It was founded in 2004 with the support of Chevron Corporation, The Coca-Cola Company, General Motors, and Walter H. Shorenstein.

Tamara Bekefi

As a Research Fellow and Manager, Business and International Development Research at Harvard's Kennedy School of Government Corporate Social Responsibility Initiative, Bekefi analyses the intersection of business and international development, including risk management, small and medium enterprise development and competitiveness, and multi-sector partnerships.

Previous to working at the Kennedy School, Bekefi worked for the oil industry group IPIECA, ExxonMobil, Phillips-Van Heusen, KLD – a social investment research and analysis firm, and Orientation Global Networks – an international telecommunications firm. She received her MA from the Fletcher School of Law and Diplomacy with a concentration in international business and political risk, and her BA summa cum laude from McGill University.



Corporate Social Responsibility Initiative
John F. Kennedy School of Government
Harvard University
79 John F. Kennedy Street
Cambridge, MA 02138
USA
www.ksg.harvard.edu/m-rcbg/CSRI

United Nations Industrial Development Organization
Vienna International Centre
P.O. Box 300
A-1400 Vienna
Austria
www.unido.org