

# **ASSOCIATION OF TANZANIAN EMPLOYERS (ATE)**

## **ENHANCING SMES CONTRIBUTION TO EMPLOYMENT AND POVERTY REDUCTION WITHIN NATIONAL POVERTY REDUCTION STRATEGY**

**POSITION PAPER ON ENHANCING SME'S ACCESS TO  
GOVERNMENT PROCUREMENT AND FOOD STANDARDS  
PRESENTED AT THE STAKEHOLDER WORKSHOP,  
REGENCY PARK HOTEL, DAR ES SALAAM, 30<sup>TH</sup> SEPTEMBER  
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## List of Abbreviations

WB	The World Bank
ATE	Association of Tanzanian Employers
CSO	Civil Society Organisations
EADB	East African Development Bank
EU	European Union
FCC	Fair Competition Commission
MIT	Ministry of Industry and Trade
MOF	Ministry of Finance
MSE(s)	Micro and Small Enterprise(s)
MSME(s)	Micro Small and Medium Enterprises
MYLD	Ministry of Labour and Youth Development
MVIWATA	Muungano wa Vikundi vya Wakulima Tanzania
NCC	National Construction Council
NGO	Non-Governmental Organisation
NSGRP	National Strategy for Growth and Reduction of Poverty
PRSP	Poverty Reduction Strategy Paper
PSO	Private Sector Organisations
R&D	Research and Development
SIDO	Small Industries Development Organisation
SME(s)	Small and Medium Enterprise (s)
TAFOPA	Tanzania Food Processors Association
TBC	Tanzania Business Council
TBS	Tanzania Bureau of Standards
TCCIA	Tanzania Chamber Of Commerce, Industry and Agriculture
TFDA	Tanzania Food and Drug Authority
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
UDEC	University of Dar Es Salaam Entrepreneurship Centre
UDSM	University of Dar Es Salaam
UNIDO	United Nations Industrial Development Organisation
URT	United Republic of Tanzania
VIBINDO	Jumuia ya Viwanda na Biashara Ndogondogo
VPO	Vice President's Office
WTO	World Trade Organisation
PRS	Poverty Reduction Strategy
MKUKUTA	Mkakati wa Kukuza Uchumi na Kuondoa Umaskini
BEST	Business Environment Strengthening for Tanzania
PPRA	Public Procurement Regulatory Authority
PPAA	Public Procurement Appeals Authority

## **EXECUTIVE SUMMARY**

### **Introduction**

The Association of Tanzania Employers (ATE) has made a strategic decision of taking a more pro-active role in contributing to Small and Medium Enterprise (SME) development, as a way of furthering its mission of improving labour relations in the private sector. In 2004/05, the Association conducted a study of the influence of policies, laws and regulations on SMEs, with particular emphasis on effects on access to market, an issue known to influence quantity and quality of jobs in SMEs. This was conducted with support from the International Labour Organisation's Bureau for Employer's activities, under a project designed to enhance SMEs contribution to job creation and poverty within national poverty reduction strategy. The study established that the public procurement and standards regulatory regimes are among the main issues hampering access to markets for SMEs. Subsequently a more in-depth study was conducted on these two issues. ATE and the ILO decided to share the results with other stakeholders for validation and also as part of a wider agenda of engaging them in a reform process. This document presents results of the study as well as the inputs from the stakeholders' workshop.

### **Approach**

The initial study was done mainly through a review of literature. Four policy fields judged to have the greatest potential for influencing SMEs access to markets were selected: finance, taxation, standards and trade. The results suggested that areas with the greatest effect on performance of SMEs are related to access to government procurement and food standards. A deeper analysis was done in these areas through interviews with senior officials in the related regulatory bodies.

### **Issues and constraints related to public procurement**

There are a lot of potentials for SMEs to sell to central and local government institutions. Access is most severely constrained in sub-sectors where there are also strong foreign companies. Recent reforms have seen the enactment of a new Public Procurement Act (PPA) 2004 and related regulations, establishing a Public Procurement Regulatory Authority (PPRA) a Public Procurement Appeals Authority (PPAA) and providing preferential treatment for local enterprises, most of which are SMEs. The preferential treatment for include: exclusive preference for local companies for project ranging from Tshs 50 million 1 billion (depending on type of activity); margin of preference

for locally owned firms, ranging from 4% to 10% (depending on local participation); margin of preference for locally manufactured or mined goods of up to 15%; and splitting of contracts to make them accessible to local companies.

Despite these efforts, SMEs may not benefit from these developments. Regulations and guidelines for PPA, 2004 are yet to be disseminated widely to the public. PPRA perceives that access to government procurement will be limited to fairly well established SMEs. For this reason, they communicate in English and then through the Internet and serious newspapers, avenues that reach a very small proportion of SMEs. As a result, awareness of the provisions among central government, local government, public institutions, business associations and SMEs themselves is very low.

### **Issues and constraints related to food standards**

The main laws regulating foods and drugs are Tanzania Food, Drug and Cosmetics Act, 2003<sup>1</sup> and the Standards Act No 3 of 1975 (as amended by Act No 1 of 1977). The main standards related issues affecting SMEs access to markets are that (i) the Laws and their regulations are largely out of reach of most MSEs, (ii) Unclear role of the regulatory bodies, especially the Tanzania Bureau of Standards (iii) weaknesses in the administration of the two laws. The role of TBS is not quite clear in the minds of the public. Some consumers, retailers, institutional buyers and even SME operators believe that one is not allowed to sell any manufactured product without TBS certification. In reality, TBD standards mark is voluntary. Even some senior official of TBS argue that it is illegal to manufacture and sell any product without TBS certification.

There is a widespread ignorance of standards and regulations that have a strong bearing on market access. This is attributed to inadequate communication by TBS and TFDA. All materials are in English and centralized in their Dar es Salaam offices, meaning that they are inaccessible to those who cannot read documents written in English or those who operate outside Dar es Salaam. Their libraries do not keep easy to read and follow guidelines and procedures which would be useful to a small business operator.

Although both TBS and TFDA provide very important services to enterprises, they only have offices in Dar es Salaam. They are expected to function through Health Officers in all local governments throughout the country. However, rather than facilitate the process, some health officers are a hindrance as they charge MSEs exorbitant costs for travel and subsistence to send and collect samples for testing to Dar es Salaam.

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<sup>1</sup> [http://tanzanet.org/downloads/laws/the\\_tanzania\\_food\\_drug\\_and\\_cosmetics\\_act\\_2003\\_\(1\\_2003\).pdf](http://tanzanet.org/downloads/laws/the_tanzania_food_drug_and_cosmetics_act_2003_(1_2003).pdf)

## **Conclusions and recommendations**

It is recommended that the PPRA adopts a more broad-based stance towards promoting local company's access to public procurement, taking into account that different types and sizes of enterprises can access public contracts. Documents and messages from PPRA, TBS and TFDA to the public should be designed and communicated in an easy to follow form, language and media. Guidelines should be prepared for local government and SMEs. The relevant ministries should sensitise their staff on the nature, reality and importance of SMEs and review laws and regulations to conform to the reality in terms of compliance and enforcement capacity. The ministries should also support decentralisation of testing facilities in other parts of the country

Business Associations should pro-actively seek and disseminate information on public procurement and standards and communicating this effectively to members. The associations should work with the regulatory agencies to come up with effective communication mechanism. They should also identify capacity limitations and come up with initiatives to address them.

## **Way forward**

During the stakeholder workshop, participants agreed in principal that the report reflects the situation in the procurement and standards regimes and that the barriers identified are real. Also the recommendations proposed were considered appropriate ways of addressing these constraints. As a way forward, it was agreed that ATE could take leadership, in the context of the ILO Bureau of Employer's Activities support to ATE in helping address some of these barriers as follows:

- The validated report be circulated to key stakeholders who are supposed to take action. These include the relevant regulatory bodies, business associations, the Ministry of Finance, Ministry of Health, the Business Environment Strengthening Programme for Tanzania (BEST) Programme, etc
- A working group be constituted, comprising representatives of key business associations and regulatory agencies to come up with mechanisms and instruments for improving the way information is communicated.
- ATE should explore the possibility of building partnerships with other actors, including media organisations to periodically communicate information pertinent to access to markets.
- A few micro-enterprises should be selected and assisted through awareness and capacity building to meet the TFDA and TBS standards. These few cases should then be showcased as role models, demonstrating that it is possible to complete the certification

## **1. INTRODUCTION**

### **1.1 Background**

In recognition of the fact that the greatest potential for economic growth lies in small firms, the Association of Tanzanian Employer's (ATE) has strategically decided to take a more pro-active role in contributing towards the creation and development of Small and Medium Enterprises (SMEs) in Tanzania. ATE believes that its central agenda of promoting good labour relations shall not be realised sufficiently if performance of small and medium enterprises is poor.

As part of this endeavour, ATE conducted a study recently to identify policy and regulatory barriers to the development of small and medium enterprises with support of the International Labour Organisation's (ILO) Bureau for Employers' Activities. Previous studies had identified a strong link between SMEs access to markets and the quality and quantity of employment that they generate<sup>2</sup>.

With this in mind, this study sought to identify policy and regulatory issues with a bearing on market access.

### **1.2 Situation of the SME sector in Tanzania**

There is no universally accepted definition of SME. The SMEs nomenclature in Tanzania is used to mean micro, small and medium enterprises engaged in non-farm economic activities. According to the 2003 SME Development Policy, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to US\$ 5,000 majority of which fall under the informal sector. Small enterprises are mostly formalized undertakings engaging between 5 and 49 employees or with capital investment from US\$ 5,000 up to US\$ 200,000. Medium enterprises employ between 50 and 99 people or use capital investment from US\$ 200,000 to US\$ 800,000<sup>3</sup>.

The SME sector plays a crucial role in the economy, generating about a third of the GDP. SMEs have the greatest potential for generating widely shared growth and contributing to poverty reduction. This is because they create employment at relatively low levels of investment per job, tend to be more effective in the utilisation of local resources and use simple and affordable technology. With only 40,000 of 700,000 entrants in the labour market in Tanzania able to find jobs in the formal sector, SMEs development is seen as the main source of jobs in the future.

The sector is however dominated by informal micro enterprises with an extremely low incidence of graduation to formal small and medium size. The enterprises remain marginal players, creating and sustaining low quality jobs

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<sup>2</sup> See Chijoriga, M. D. Olomi and D. Mwaipopo. The influence of national policies, laws and regulations on employment in MSEs. SEED background paper. (Geneva:ILO).

<sup>3</sup> Small and Medium Enterprise Development Policy, 2003-2013. Ministry of Industries and Trade, United Republic of Tanzania (see

and unable to effectively contribute to economic competitiveness, exports, tax revenue and economic growth. Among the main reasons for this poor state and performance of the sector are unfavourable policies, laws and regulations and attitudes of responsible public officials and limited capacity of the operators. The way the policies, laws and regulations are applied (administration) also affects SMEs.

### **1.3 SME Development and Poverty Reduction Endeavours**

Since the year 2000, the government has been implementing Poverty Reduction Strategies (PRS). The first generation of these strategies (Poverty Reduction Strategy I) ended in 2004. It put a lot of emphasis on improving access to social services. The second generation of the PRS has been termed National Strategy for Growth and Reduction of Poverty (NSGRP) – MKUKUTA (2005-2010) reflecting increased emphasis on tackling income poverty.

According to the 2005-2010 National Strategy for Growth and Reduction of Poverty (NSGRP) policies should be designed to ensure that the benefits of growth in high-growth sectors, such as mining, industry and tourism are transmitted to the poor in the form of increased livelihoods. The strategy also gives priority to improvements in the level and quality of employment. Realising the potential for micro and small enterprises to generate widely shared growth, the strategy puts a lot of emphasis in addressing constraints that limit their establishment and development. The enabling factors for SME development include ensuring access to resources, facilitating linking of domestic producers and foreign R&D institutions, promoting fair competition, enhanced regulatory framework and enhancing access to markets<sup>4</sup>.

### **1.4 Objectives of this paper**

The study established that there are already many ongoing reforms in the policy and regulatory framework for SMEs. However, there are many issues that still need to be addressed in terms of reviewing policies, regulation or accelerating their implementation or improving the way they are administered to enhance SMEs access to markets. The main issues with a bearing on market access include a public procurement system which make it very difficult for SMEs to access it; product standards which are out of reach of most micro and small enterprises, limited access to finance, etc.

It was decided to select a few aspects and consider the way forward for an advocacy agenda. The issues selected for advocacy were “Making government procurement and standards accessible to SMEs”. In order to move this agenda ahead, ATE will need to work with other stakeholders.

This paper has been developed to provide a focus and basis for engaging key stakeholders in a process which will bring the necessary improvements in

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<sup>4</sup> National Strategy for Growth and Reduction of Poverty (NSGRP-MKUKUTA), Vice President’s Office, United Republic of Tanzania



these two aspects to complement governments' strategy for growth and reduction of poverty (NSGRP). The paper analyses in detail the two issues and provides actionable recommendations and way forward.

### **1.5 Methodology**

This study was done in three phases. In the first phase, a literature review on the Tanzanian policy and regulatory framework as it affects SMEs access to market was done. From this analysis, a number of constraints were identified. Among these the public procurement regime and food standards were judged to be the most strategic issues, because reforms in these areas will potentially affect a great number of SMEs and have a substantial impact on poverty. Thereafter a more focused analysis of the situation of these two aspects was done, identifying problem areas and recommending actions by various actors. This was done through further literature review as well as visits and interviews with key officials of the relevant regulatory agencies.

This analysis was synthesized in a position paper, which was presented to a stakeholders' workshop on 30<sup>th</sup> September 2005 for validation and for agreeing on the way forward. The stakeholder workshop was attended by 50 participants from 7 regions. They included representatives of local government authorities, relevant national regulatory bodies, business associations, academic institutions, civil society organisations; and entrepreneurs. The list of participants and their affiliations is shown in Appendix 1 under the Stakeholder Workshop Report (Annex 1). These discussed the contents of the report and gave suggestions as to what should be done and by whom to move the reforms ahead and deal with the constraints identified.

### **1.6 Organisation of the report**

After this introductory section, constraints to SMEs' access to government procurement are discussed in section 2. This is followed by analysis of constraints related to standards in the food processing industry in section 3. Section 4 presents conclusions and recommendations to various actors, whereas section 5 outlines the way forward.

## **2. ISSUES AND CONSTRAINTS TO GOVERNMENT PROCUREMENT**

### **2.1 Key areas of government procurement potential**

The public sector includes a wide range of organisations which outsource most of the goods and services they need. They include: central government ministries, government agencies, parastatal organisations and local government authorities. These procure a range of products and services. They include acquisition, construction, repair and maintenance of different kinds of structures and equipment; use of various support services, including cleaning, consultancy, catering, decoration, organisation, etc.

The areas with the greatest government procurement potential for SMEs vary by capacity of enterprises as reflected in their size. The following table shows some examples of areas where there is the greatest potential for different categories of SMEs.

**Table 1. Areas of government with procurement potential for different size types**

<b>Size Category</b>	<b>Type of products of services</b>
Micro enterprises (singly or jointly)	Catering, consultancy, joint supply of building materials,
Small enterprises	Consultancy, supply of stationary, catering, supply of building materials, construction, etc
Medium enterprises	Construction, cleaning services, supply of stationary, building materials, servicing of equipment, etc

It must therefore be appreciated that there are different levels of the “public sector”, different categories of “SMEs” and different types and complexity of products or services which different kinds of SMEs can supply to the public sector.

However, in terms of access, local firms, most of which are SMEs have had the greatest difficulties accessing markets where larger foreign firms also compete, and these are mainly construction related activities. It is estimated that local construction firms, which are mainly SMEs constitute 80% of the enterprises in this industry, but get only about 5% of construction projects.

## **2.2 Current situation of the procurement regime in Tanzania**

Substantial reforms in the public procurement arena have taken place in the recent past. Public Procurement in Tanzania is now governed by the Public Procurement Act of 2004<sup>5</sup> (Act of Parliament Number 21 of 2004). The Act was enacted in February 2005. It is underpinned by the Public Procurement (Selection and Employment of Consultants) Regulations of 2005 (No. 98)<sup>6</sup> and the Public Procurement (Goods, Works, non-consultant services and Disposal of Public Assets by Tender Regulations of 2005 (GN. No 97).

The former Central Tender Board (CTB) has been disbanded and in its place two institutions have been set up. These are the Public Procurement Regulatory Agency (PPRA)<sup>7</sup> and the Public Procurement Appeals Authority (PPAA)<sup>8</sup>. The role of the former is to regulate public procurement, which is now decentralised to various ministries and other semi-autonomous public entities. This role includes ensuring fairness, harmonising systems and practices, setting standards and ensuring compliance. PPRA is also charged with the task of developing local procurement capacity in the United Republic

<sup>5</sup> See <http://www.ppra.go.tz/acts.asp> for the Act, Tender Guidelines, Manuals, etc

<sup>6</sup> <http://www.ppra.go.tz/pdf/publicprocurementSelectionEmploymentofconsultantsRegulations05.pdf>

<sup>7</sup> <http://www.ppra.go.tz>

<sup>8</sup> <http://www.ppa.go.tz>

of Tanzania. However, both of these bodies are still in the process of being established.

Under the PPA 2004, several provisions have been made to enhance local companies access to government procurement. These include:

**(i) Exclusive preference for local firms for contracts with the following values.**

**Table 2: Exclusive preference**

Type of goods/services	Up to Tshs
Works	1,000,0000.000
Goods	200,000,000
Non-consulting services	250,000,000
Consulting services by firms	500,000,000
Consulting services by individuals	50,000,000

This preference is applicable for local firms and associations of local firms and foreign firms in which the contribution of the local firm is more than 75%.

**(ii) Graduated margin of preference based on the contribution of local firms in the contract**

Local firms have also been given margins of preference depending on degree of ownership as follows:

**Table 3: Margin of preference**

Contribution of Tanzanian firm	Margin of preference
80%	10%
60-80%	8%
40-60%	6%
20-40%	4%
Less than 20%	0%

Suppliers supplying goods mined or manufactured in Tanzania shall be granted a margin of preference of up to 15%.

**(iii) Splitting of contracts**

As a matter of principle, the PPA 2004 prohibits splitting of contracts. However, the Public Procurement Regulatory Agency can allow splitting of contracts aimed at encouraging participation of local firms.

The assumption is that giving preference to local firms will automatically benefit SMEs, since almost all local firms are SMEs, and given the relatively small contract values are given preferential treatment.

Stakeholders in government procurement have hailed the decision to separate the regulatory, tendering and appeals function and locate them in three different entities. The provisions to enhance access to public procurement by local companies have also been hailed by stakeholders. It is believed that the provisions in the Act will become extremely important with the coming into force of the East African Common Market, at which time businesspersons from Kenya and Uganda will be able to easily do business in Tanzania.

However, many observers have lamented that the Public Procurement Reforms which culminated into the enactment of the Public Procurement Act 2004 were championed and very much driven by stakeholders in the construction industry in Tanzania and that the provisions to enhance access to local companies are designed mainly around the needs of this industry.

### **2.3 Issues and limitations of the current legislation and its administration**

The PPRA has already prepared the regulations and guidelines for public procurement which are in line with the new Act. However, these are yet to be disseminated to the public. Despite these efforts, SMEs may not benefit from these developments, if concerted efforts are not done to address the following related issues:

#### **Targeted beneficiaries of the preferential treatment in public procurement**

Discussions with some of the senior officials in the regulatory agencies shows that their perception is that their facilitation of access to government procurement will be limited to fairly well established SMEs and that smaller, less established ones will have to wait till they build their capacity before they can access government contracts. However, the scope of SMEs' involvement in government procurement is quite wide. SMEs, including micro and small enterprises in both urban and rural areas can singly or jointly supply products and services to different levels of the "public sector".

For example, in 2004, the Tanga Municipal Council gave a procurement contract for aggregates to an informal group of women miners<sup>9</sup>. Local governments and even other government entities can creatively use procurement to support local economic activities in their area.

#### **Awareness of the changes in the public procurement regime**

In order for SMEs to benefit from the reforms, they need to be aware of them. Although the reforms in the Public Procurement Act, 2004 were done in a participatory way, awareness of these changes is still very limited even among business associations. In the stakeholder workshop where this report

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<sup>9</sup> This group was one of those assisted by an ILO supported project called "promoting gender equality and decent work throughout all stages of life"

was discussed, less than 5% of participants were aware of these provisions. This is a major concern because stakeholder workshop was composed of individuals who are supposed to be very informed about developments in the sector.

This low level of awareness may partly be explained by the fact that the reforms are still very recent and even some of the regulations are yet to be gazetted. However, the way the information has been communicated has also contributed. The main avenues for communicating these developments have been stakeholder workshops, the Internet (PPRA website<sup>10</sup>) and advertisements in the newspapers. However, these don't seem to be reaching the wider population of SMEs or even their representatives. Few of them can or do access the Internet on a regular basis, let alone being able to access a website they do not know it exists. Few Tanzania read newspapers, especially serious ones. Participation in the stakeholders' workshops was also biased towards the construction industry, whose players perceived the strongest need for change.

### **Access to information among SMEs**

In addition to using media with limited outreach to SMEs, access has been severely limited by the language used and the way information is disseminated.

Almost all laws, regulations, procedures and forms related to doing business in Tanzania are in English. This includes the PPAA statute itself, the various regulations and guidelines. Although tenders are announced in the mass media (including Swahili newspapers), almost all of those which are announced by central government, government agencies and parastatals come in English.

There is an implicit assumption that a serious business (which can potentially successfully bid for a public contract) should be able to communicate and transact in English. However, in Tanzania, only a small minority of people can read and clearly understand technical information which is presented in English. Yet the transition rates from primary to secondary education has, until recently, been less than 20%. This means that the policy and regulatory framework is seriously biased against the majority who cannot read and transact in English. This is inappropriate because as seen before, some micro enterprises can supply goods and services to local government or other government agencies, either singly or jointly. They also need to be aware of the opportunities availed by the reforms.

Physical access to the various laws and regulations affecting SMEs, including procurement related one is quite problematic. One would expect these to be available in places where those who are supposed to be guided or comply with them can readily access them, such as the private sector organizations

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<sup>10</sup> <http://www.ppra.go.tz>

(PSO), Small Industries Development Organisations (SIDO) regional officers, the Tanzania Revenue Authority (TRA), local government officers or local bookshops and libraries where business people frequent. However, many of these laws and regulations are quite difficult to trace, even for a consultant. There is one outlet in Dar es Salaam, which sells government publications, but this stocks only some of the laws and regulations. Even the PPA 2004 is not in the shop.

### **Promotion of local value addition**

Stakeholders agree that the biggest challenge facing Tanzania is to promote value addition on locally available resources through manufacturing and in the process create jobs and foster linkages in the economy. Most of what government and other stakeholders buy is imported. This is very unfortunate because public funds could be used to buy (as much as possible) locally processed products and in the process stimulate job creation, poverty reduction and economic vitality and growth. The provision that suppliers of locally manufactured or mined goods can get a margin of preference of up to 15% is intended to address this issue. However, this provision alone will not achieve the intended results unless it is coupled with an aggressive campaign to simultaneously raise awareness and deliberately promote capacity of Tanzanian firms and a preference for Tanzanian made products in the public sector.

## **3. STANDARDS AND SME ACCESS TO MARKETS**

### **3.1 Role of standards in accessing markets**

There are two main types of standards, both of which play a key role in accessing markets. In modern economies, there are certain statutory or compulsory standards which must be met for products to be certified for use and sale. Where such standards are fully enforced, one cannot do business in a related area without first being certified as having conformed to the minimum safety standards. For example, all foods, beverages and drugs must ideally be certified as fit for human consumption. Safety conscious customers and middlemen will typically not buy or use products which are not certified in this way.

However, in an economy which is still in transition from traditional, informal to an industrial formal one, one finds many products being consumed and even traded without first being certified. This happens because the processing capacity, consumption patterns, purchasing power and enforcement capacity have not evolved to a level where everything or most things can be done as formerly as in a developed industrial economy. It is therefore quite typical in developing economies to have part of the economy operating outside the formal regulations. This is explained by the fact that the regulatory framework is often imported from developed countries and therefore it fits only the relatively developed part of the economy in the recipient country.

The other type of standards is mainly used to demonstrate conformity to certain set good practices. Such standards are voluntary. A good example is the standard mark issued by the International Standards Organisation (ISO) or the Tanzania Bureau of Standards. They may not be statutory, but they give some credibility and confidence about the products to customers and the public.

### **3.2 Key areas where standards have big potential for influencing access to markets**

There are certain areas which are normally heavily regulated because of the potential for harm to society. These include food, drug and beverage processing. Because Tanzania is largely an agricultural economy, and given the relative under-development of the industrial sector, most food and beverage processing is done in micro and small scale operations spread throughout the country. This is therefore where the greatest potential for impact of standards lies and the rest of the paper dwells on this sector.

### **3.3 Current situation with regard to standards and their impacts to SMEs**

#### **3.3.1 Introduction**

The main laws regulating foods and drugs are Tanzania Food, Drug and Cosmetics Act, 2003<sup>11</sup> and the Standards Act No 3 of 1975 (as amended by Act No 1 of 1977). The main standards related issues affecting SMEs access to markets are that (i) the Laws and their regulations are largely out of reach of most MSEs, (ii) Unclear role of the regulatory bodies, especially the Tanzania Bureau of Standards (iii) weaknesses in the administration of the two laws.

#### **3.3.2 Laws out of reach of most SMEs and impossible to enforce**

**Tanzania Food, Drug and Cosmetics Act, 2003.** This Act established the Tanzania Food and Drugs Authority (TFDA), a regulatory body responsible for controlling the quality including safety and effectiveness of food, drugs, herbal drugs, cosmetics and medical devices. The Directorate of Inspection and Surveillance is responsible for ensuring that all dealings in food, drugs, herbal drugs, cosmetics and medical devices are done after obtaining relevant licenses and permits. According to this law, premises used for processing foods and beverages must be inspected, registered and licensed. However, only a very small proportion of micro and small enterprises is able to meet these requirements. Therefore a large majority operates informally. This limits their ability to access formal markets, such as the supermarkets, hotels and export markets.

**Tanzania Bureau of Standards Act, No 3 of 1975 (as amended by Act No 1 of 1977).** The Act establishes a National Standards Institute (Tanzania

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<sup>11</sup> [http://tanzanet.org/downloads/laws/the\\_tanzania\\_food\\_drug\\_and\\_cosmetics\\_act\\_2003\\_\(1\\_2003\).pdf](http://tanzanet.org/downloads/laws/the_tanzania_food_drug_and_cosmetics_act_2003_(1_2003).pdf)

Bureau of Standards - TBS<sup>12</sup>) as Tanzania's sole body for the preparation and publication of Tanzania Standards. It is responsible for recommending rules/conditions related to specifications, codes of practice, safety, trade descriptions, sampling methods, and testing methods about:

- a. Production of a commodity,
- b. Any component, raw material, machinery, instrument or apparatus used directly or indirectly in production of a commodity.

In section 17 of the Act, the Minister for Commerce and Industry may declare, upon recommendation from the Board, compulsory standards for a commodity, or for manufacture, production, processing or treatment of any commodity. In addition, several steps are set forth for producers to voluntarily certify their products with TBS so as to notify consumers of their products' quality.

TBS integrates the following main areas of activity: preparation and publication of Tanzania Standards; testing and calibration; and certification of products. Tanzania standards are supposed to be developed through consensus of all interested parties i.e. consumers, producers, buyers, research institutions, etc. The Standards are prepared by some 100 Technical Committees composed of about 800 members from various sectors of the economy. However, no deliberate mechanisms are in place to assure that these "stakeholders" include micro and small enterprises.

TBS operates a **Standards Mark Scheme**, which allows manufacturers who have conformed to relevant Tanzania Standards to use the TBS Standards Mark on their products. The standards mark on a product indicates that it complies with the relevant specifications. License to use the mark is granted only to manufacturers conforming to the rigorous quality auditing requirements of the standards mark licensing procedures. Regular surveillance inspections are conducted after a license has been granted to ensure that the product continues to comply with the standard.

It is a violation of the law to sell a commodity with a standard mark if the commodity or process is not actually licensed and/or not in compliance with the established standard (see the Standards Certification Regulations, GN 91/81).

Second, where the particular product does not have a "standard" but the manufacturer or dealer of a product would like to demonstrate that the product or its process meets certain minimum quality standards, the producer may apply for Tested Product Certificate, using a product specification which is approved by the Specification Approval Committee (SAC) of the National Standards Institute (see Tested Products Regulations, GN 137/84).

In particular, the applicant is to refer to national or international standards used as a basis for the specification and the Tanzania Bureau of Standards is

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<sup>12</sup> <http://www.tbs-tz.org>



to draft a scheme of inspection and test (SIT) with which the producer will be required to comply in order to hold the Tested Product Certificate. TBS also has the authority to carry out surprise inspections to ensure that the conditions of the certificate are being implemented<sup>13</sup>.

Third, compulsory standards may be declared by TBS. The Standards (Preliminary Notice of Recommendation of Compulsory Standards) Notice, GN 138/84, announced several of these standards. Standards are relevant both for the products themselves as well as the manufacturing processes.

TBS Certification is very important for accessing large local markets (institutions, supermarkets) as well as export markets. Yet, only a very small proportion of SMEs can practically meet the costs and rigour demanded by the Bureau. This automatically leaves a large majority of manufacturers out.

In the recent past, TBS has started a scheme of encouraging small producers to get through the certification process free of charge. The idea is that more and more small manufacturers should be encouraged and trained to qualify. However, the capacity to do so in TBS is very limited and hence very few enterprises will be reached. There is a need for a comprehensive programme to assist a large number of SMEs to qualify for the certification. According to TBS, less than 10% of micro and small enterprises qualify for its certification. Therefore, in the context of the Standards Act, over 90% of micro and small enterprises are unable to get quality certification and hence unable to access large, formal markets.

TFDA and TBS and relatively small organisations and their capacity are already over-stretched by the formal sector enterprise which they are dealing with. Some stakeholders believe that they still cannot effectively regulate the formal activities. Especially for the TFDA, everyone agrees that it cannot implement the Act effectively, because there are so many enterprises which are unable to comply. Even if TFDA could enforce the standards, this would kill hundreds of thousands of enterprises leading to a serious employment and food supply crises. Therefore, we have a law that everyone knows that it is not implementable.

### **3.3.3 Role of the two agencies not quite clear**

The role of TBS is not quite clear in the minds of the public. Some consumers, retailers, institutional buyers and even SME operators believe that one is not allowed to sell any manufactured product without TBS certification. Even some senior official of TBS argue that it is illegal to manufacture and sell any product without TBS certification. However, nowhere in the Standards Act is this clearly stated. Yet, some potential buyers refuse to buy products made by SMEs which do not have the TBS mark. Indeed, during the stakeholders' workshop, the TBS representative position was that.

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<sup>13</sup> <http://www.lead.or.tz/publications/env.handbook/4.4.c.bureau.of.standards.php>

“TBS is the only organisation mandated to set standards. Other regulatory agencies, including TFDA, get the standards they enforce from TBS”

While the above argument is correct, TBS still administers and enforces standards parallel to those issued to and administered by other agencies, such as TFDA.

A food processor has to have TFDA certify/licence the factory, the process and products she produces before she can get a business license. However, if she wants to have the TBS quality mark, she still has to get TBS to inspect and certify the factory, the process and the product

Therefore, “standards” enforced by TFDA are different from those directly enforced by TBS, although they all originate from TBS. The role of the TFDA is to ensure that food products meet the minimum quality and safety standards set by the TBS. The role of TBS is less clear, because it both sets standards enforceable by other agencies, while also setting the standards for quality marks which it directly enforces parallel to the other agencies. This is what causes confusion as to its role and relationship with the other bodies.

### **3.3.4 Administration of the Standards**

#### **Inadequate Awareness**

There is a widespread ignorance of standards and regulations that have a strong bearing on market access. This is attributed to inadequate communication. TBS boasts of a well-equipped library to cater for standards and standards related information needs of manufacturers, researchers, academicians and businessmen. The library has full text copies of Tanzania standards, foreign standards and technical regulations for reference or purchase in print. The library also maintains a full set of international and regional standards like ISO, IEC, WHO/FAO Codex Alimentarius and East African Standards. Copies of books, standards catalogues, journals, news bulletins and other publications related to standardisation are kept as well. However, all materials are in English and centralized in their Dar es Salaam office, meaning that they are inaccessible to those who cannot read documents written in English or those who operate outside Dar es Salaam. The library does not keep easy to read and follow guidelines and procedures which would be useful to a small business operator.

#### **Bias against micro and small enterprises**

Some regulatory agencies have shown a direct bias against SMEs. For example, although the Food Control Commission (forerunner of TFDA)

licensing requirements did not specify how big the production facility should be to be licensed, some officials refuse to certify some businesses on account of size. The following example illustrates this.

Sabela is a small-scale food processor that has been in business for 6 years now. She operates from a small, clean structure built in their farm, outside one of the largest municipality in Tanzania, where she also has access to electricity and water. She believes she has met all the FCC licensing requirements. However, when the FCC officials visited her to inspect her premises, they told her she could not be licensed because her structure was “too small”. Until now, she operates informally and for this reason, she cannot sell to the supermarkets

### **Facilities are centralised in Dar es Salaam**

Although both TBS and TFDA provide very important services to enterprises, they only have offices in Dar es Salaam. They are expected to function through Health Officers in all local governments throughout the country. However, there are two serious problems with this arrangement. First of all, neither of the two organisations have mandate over District or Municipal Councils in which the Health Officers work. The two agencies are therefore toothless in regulating the behaviour and conduct of the functionaries at the local level. Secondly, all testing facilities are in Dar es Salaam. Therefore all product samples have to be brought to Dar es Salaam for testing. This can be prohibitively expensive for micro and small enterprises located far away from the city. In theory, Health Officers are supposed to facilitate the process of testing products, by sending them to Dar es Salaam. However, since there is often no budget provided by local government to facilitate this, the officials demand that enterprises which want to use their services meet their cost of travel and subsistence while travelling to Dar es Salaam. Such costs can be hundreds of thousands of shillings.

## **4. CONCLUSIONS AND RECOMMENDATIONS**

### **4.1 Introduction**

Based on the foregoing observations, it can be concluded that, despite recent reforms in the public procurement and standards regime, there remains serious obstacles to SMEs access to markets. These obstacles are mainly related to the way the related laws and regulations are administered. The recommendations that follow are therefore intended to improve implementation of these well-intended reforms so that they can have the desired impacts on SMEs.

### **4.2 Recommended Improvements in government procurement and process that is SME friendly**

The following recommendations are made to make public procurement more accessible to SMEs

## **Public Procurement Act 2004**

This Act has just been enacted. It provides for preferential treatment of local firms. However, this may not necessarily lead to widely shared access. It is extremely important that the impact of the act is monitored, so that remedial actions are taken in a timely fashion.

## **Public Procurement Regulatory Agency**

It is recommended that this agency adopt a more broad-based stance towards promoting local company's access to public procurement. Specifically, it should take into account that different types and sizes of micro, small and medium enterprises can participate in public procurement at one level or another. With this in mind all statutes, regulations, procedures, forms and message should be designed and communicated in a way which reaches and can be accessed by the different categories of SMEs.

In connection with this, it is recommended to the PPRA that:

- (i) Since the preferential treatment is targeted at local including micro and small ones in rural areas, ALL communication aimed at raising awareness about this should be in both Kiswahili and English. Other regulations, procedures and forms should also be in both English and Kiswahili
- (ii) Given the importance of enabling local companies, and especially micro, small and medium enterprises to access markets, there should be a carefully designed mass media campaign to raise awareness of the opportunities availed by the Act and at the same time promote a strong "Buy Tanzania" culture within the public sector.
- (iii) It prepares easy to follow leaflets targeted specifically to local companies, explaining the provisions made to enable them access public procurement opportunities. This should be done in partnership with representatives of small and micro enterprises.
- (iv) Provides easy to understand guidelines to local government authorities and other agencies on how to treat local companies and especially micro and small ones

## **Public Procurement Appeals Authority**

This authority is still in the process of establishing itself. It should design its appellate system in such a way that it is accessible to different types of enterprises. The system should be sensitive to the limitations facing small enterprises, including limited financial and human resources to endure long processes far from the business location, legal expertise, etc.

## **Ministry of Finance**

The Ministry of Finance is the one that allocates funds to all other public entities. Taking into account the critical need to promote local economic activity in order to enhance job creation the Ministry should play a more pro-active role in encouraging public ministries and agencies to buy more locally.

### **Business Associations**

Business Associations are primarily responsible for advocacy and providing pertinent information to members. The associations should be pro-active in accessing information about public procurement system and communicating this effectively to members. Associations can also advise members on how to make the most out of the provisions made to increase their access to government procurement. Business associations should take a pro-active role in working with the regulatory agencies to come up with simple information dissemination mechanisms and tools to reach their membership.

Despite the provisions in the procurement regime to enhance access to contracts by local companies, most SMEs lack the capacity to successfully tender for government contracts. This capacity needs to be developed aggressively. This can best be done through sector associations, since capacity limitations vary widely by sector. Business associations should identify capacity limitations and come up with initiatives to address them. The National Construction Council, in collaboration with other stakeholders in the construction industry, has come up with several ideas on how to address capacity limitations which constrain contractors' access to government contracts. For example, a "Construction Industry Development Fund for Growth and Competitiveness" with the mission of empowering the construction sector to undertake more construction projects competitively has been set up.

Other sector associations can also come up with measures to address constraints faced by SMEs in collaboration with government support agencies, such as the Small Industries Development Organisation (SIDO)

### **National Strategy for Growth and Reduction of Poverty and SME Development Policy**

One of the main thrusts of the SME Development Policy and the NSGRP/MKUKUTA is to promote widely shared growth. In pursuit of this goal the strategy also commits itself to pursue some key actions to empower SMEs, including enhancing their access to markets. This is in recognition of the link between SMEs access to market and their contribution to quality job creation, poverty reduction and growth. However, despite the changes in the legislation, SMEs access to government procurement may not improve, for one reason or another.

It is therefore recommended that SMEs access to government procurement be monitored as one of the progress made towards achievements of the aspirations in these national efforts. The Ministry of Industry and Trade has established a committee to monitor implementation of the SME Policy. The

Ministry will also soon carry out a baseline of the SME sector as a basis for monitoring its health and development. It is strongly recommended that the baseline study also captures the extent to which SMEs are able to access markets, including government procurement at central and local level so that corrective measures may be taken, where necessary.

### **Members of Parliament**

Members of Parliament have a very big role in educating their constituencies about opportunities availed by reforms in public procurement as well as influencing further positive changes in the procurement regime. It is recommended that members of parliament should closely follow the functioning of the procurement regime and in particular to ensure that the intention of widening access to government procurement is realised. Members of Parliament should also lead and participate in the “Buy Tanzania” campaign, and demonstrate their commitment through their behaviours (even what they order for their own offices). They should be vigilant to question and departments which spend public funds without regard to the positive discrimination. It is important for each Parliament to be sensitised on important reforms, including those in the public procurement regime, so that they can communicate the information to their constituencies.

### **Public**

There is strong preference for imported products within both the public and private sector. Tanzanians need to recognise the strong link between what we consume and our economic well-being. If we consume almost exclusively what we don't produce, we are destined to remain poor and dependent. Under the obtaining global trade regime, there are limits beyond which a country can protect its industries through legislation. The public needs to change its taste and preference and be proud of what we produce.

### **SMEs themselves**

May Tanzanians, including SME operators, do not have the culture of reading and seeking information. SME operators should pro-actively look for information on what is going on in the sector and build capacity to access government contracts.

Also SMEs should pro-actively and systematically invest in upgrading their capacities in terms of competencies, technology, equipment, etc, so that they can better access government contracts. In many cases, they can enhance their chances by aggregating their capacities.

### **4.3 Recommendations for advocacy for better administration of standards**

It is recommended to do the following in order to create a regulatory environment which is conducive to small food and beverage processing

## **Ministry of Health**

The Ministry of Health is the main policy maker when it comes to matters related to food and drug safety and certification. The Ministry should sensitise its staff to the reality and importance of informal and micro processing establishments. In collaboration with TFDA, business associations, the Small Industries Development Organisation, the Ministry of Industry and Trade and other stakeholders, the Ministry should review the TFDA Act to conform with the reality that for many years to come, Tanzania will continue to have food and drug processing activities which do not comply with the law as it is. This is the only way on making sure they operate under some form of recognition and regulation. The regulations have to take into account the nature of the enterprise and realistic, reasonable capacity to enforce them in a cost effective way.

Also, the Ministry of Health should establish zonal laboratories for testing common products, such as those related to food and beverages. Before this is done, the Ministry should liaise with the local government authorities so as to put in place an accessible mechanism for micro and small enterprises to get their products tested without incurring too much expense.

## **Tanzania Bureau of Standards**

The Standards Act of 1975 (as amended by Standards Act.) does not state that enterprise must meet the TBS standards for them to be licensed. Also the business licensing procedures do not require enterprises to meet TBS standards before they can operate. Yet, TBS gives consumers and buyers the impression that their standards are mandatory. TBS should therefore stop promoting its standards to buyers and consumers as if they are compulsory and by so doing condemning over 90% of the operators to “illegal” activities. This way, it will not need to review its activities to include those which are unable to meet its standards. This is the most sensible option because it will take a lot of resources to build a sufficiently large standards organisation to cater for the hundreds of thousands of processing enterprises in Tanzania. The effort would also not be worthwhile. The Bureau should continue with its efforts to get more SMEs to meet their standards and get their quality mark.

The TBS should prepare easy to follow guidelines specifically for SMEs to understand and seek to be certified through mass media educational sessions. The documents should be prepared in both English and Kiswahili, in order not to discriminate against those who cannot read in English. The guidelines should also be made widely available to SMEs through their associations and local libraries.

TBS should also explore ways of bringing its services closer to upcountry enterprises. One way would be to appoint a partner who has some basic testing facilities in each Zone. In the long term, TBS should establish more testing centres in the regions.

## **Tanzania Food and Drug Authority (TFDA)**

The TFDA should work with the Ministry of Health and other stakeholders to come up with more realistic licensing regulations, which take account of the nature of enterprises at different levels of development.

Also TFDA should prepare easy to follow guidelines for prospective and existing businesspersons and make them available, on a continuous basis at their premises and also with business associations and libraries

## **Business Associations**

There are certain associations whose membership is directly affected by these two statutes. These include the Tanzania Food Processors' Association (TAFOPA), VIBINDO Society and Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA). These are responsible for advocacy and providing pertinent information to members. They should use every opportunity to educate the government and the relevance agencies that it is unreasonable to stick to regulations which cannot be implemented. The associations should also be pro-active in accessing information about the importance of standards and communicating this effectively to members.

## **National Strategy for Growth and Reduction of Poverty and SME Development Policy**

One of the main thrusts of the SME Development Policy and the NSGRP/MKUKUTA is to review the regulatory framework and come up with one which is more accessible to micro and small enterprises. The idea of condemning a majority of micro and small enterprise activities to "illegal" operations simply because they have had no capacity to comply to imported regulations, however well intended they may be, is not consistent with the concept of bottom up development and sustainable poverty reduction. It also defeats the intention to support micro and small enterprises to access markets.

It is therefore recommended that recognition of micro and small enterprises currently condemned to "illegality" by the existing standards be one of the things to be monitored in implementation of the SME Policy and the MKUKUTA.

## **SMEs themselves**

SMEs should pro-actively and systematically invest in upgrading their capacities in terms of skills, knowledge, machines, buildings, so as to be able to comply with standards.



## 5.0 WAY FORWARD

During the stakeholder workshop, participants agreed in principal that the report reflects the situation in the procurement and standards regimes and that the barriers identified are real. Also the recommendations proposed were considered appropriate ways of addressing these constraints. As a way forward, it was agreed that ATE could take leadership, in the context of the ILO Bureau of Employer's Activities support to ATE in helping address some of these barriers as follows:

- The validated report be circulated to key stakeholders who are supposed to take action. These include the relevant regulatory bodies, business associations, the Ministry of Finance, Ministry of Health, the Business Environment Strengthening Programme for Tanzania (BEST) Programme, etc
- A working group be constituted, comprising representatives of key business associations and regulatory agencies to come up with mechanisms and instruments for improving the way information is communicated.
- ATE should explore the possibility of building partnerships with other actors, including media organisations to periodically communicate information pertinent to access to markets.
- A few micro-enterprises should be selected and assisted through awareness and capacity building to meet the TFDA and TBS standards. These few cases should then be showcased as role models, demonstrating that it is possible to complete the certification

## **Annex 1: Stakeholder Workshop Report**

### **1. Introduction**

The workshop was organised by the Association of Tanzania Employers (ATE) with technical and financial support of the ILO's Bureau for Employer's activities.

### **2. Workshop Objectives**

The objectives of the workshop were:

- To share the results of the study with stakeholders
- To validate the results of the study
- To build a consensus for a reform agenda to be pursued by ATE and other stakeholders to address the issues agreed upon

### **3. Participants**

The workshop was attended by 50 participants from a wide range of stakeholders, including local government, central government, business associations, NGOs, academia, regulatory agencies, etc. Participants came from Dar es Salaam, Tanga, Arusha, Manyara, Singida, Dodoma and Morogoro regions.

### **4. Opening**

The workshop was officially opened by Hon Juma Kapuya, the Minister for Labour and Youth Development. Due to other commitments, he delegated the task of opening to Acting Labour Commissioner, Mr. Anthony Teve.

Before the Guest of Honour was invited to give the opening speech, the following remarks were made:

- (i) Mr. Mark Mfunguo, ATE's Acting Executive Director, welcomed participants to the workshop. He then invited ATE Chairmain to give his remarks
- (ii) The Chairperson of ATE, Mr. Nicholaus Mbwanji thanked the Guest of Honour for responding positively to the invitation. He noted that ATE would the workshop to herald in a new era of collaboration and consultative dialogue amongst us as social partners and stakeholders in working together to improve the socio-economic performance of the SMEs which are critically important for the successful implementation of the 2005 to 2010 National strategy for Growth and Reduction of Poverty (NSGRP) or MKUKUTA. He reiterated ATE's belief that the success of SMEs is a sustainable approach towards addressing the employment creation and income generation agenda. He explained a number of

measures ATE has taken in this direction and challenges all actors to play their part as, it can be done!

- (iii) Mr. Ali Ibrahim, Director of ILO Office for Tanzania, Kenya, Somalia and Uganda thanked ATE for inviting him and for the timely study. After reminding participants of the importance of SMEs and the ILO's record in supporting the sector, he commended the efforts to enhance SMEs access to public procurement and standards. He concluded by calling for an advocacy process to untie aid in relation to procurement, noting that some of the aids programme which are supposed to be pro-poor have procurement procedures that set too high standards for SMEs to participate in the bidding process. He called for procurement procedures of development programmes to favour the beneficiaries, thus making the poverty programmes pro-poor in their totality

(iv) **The Guest of Honour**

## **6. Proceedings**

After the opening ceremony, participants selected a chairperson of the workshop. The immediate Chairperson of ATE, Mr Nicholas H. Mbwani was selected to chair the workshop. Then the consultant was invited to present the paper.

Immediately after presentation, participants were invited to ask questions of a clarification nature. Then they were invited to comment on the paper. After this discussion, participants were assigned in groups of 6-8 persons to discuss the report and provide feedback to plenary.

## **7. Observations and Recommendations**

### **General observations**

- All participants of the workshop who had the opportunity to speak as well as all groups agreed the contents and recommendations presented in the consultant's report

Participants made the following additional suggestions in order to increase SMEs access of SMEs to public procurement and standards.

### **Standards:**

With regards to compliance to standards participants recommended the following:

- (i.) The role of TBS and TFDA should be practically demarcated and known by actors in SME sector. Thus TBS should set standards while TDFA should implement them.
- (ii.) TBS and TFDA should promote awareness of their activities to SME sector; this is due to the fact that standard compliance by SMEs is

- hampered by lack of adequate information by SME owners. This can be done through participation of PSOs, media, TBS and TDFA.
- (iii.) TDFA and TBS should decentralize its activities so as to enable SMEs in remote areas to access its services and reduce cost barriers by SMEs in standards compliance.
  - (iv.) TDFA and TBS should prepare their guidelines in simple English and Swahili language and make them available to SMEs.
  - (v.) MKUKUTA money should be used to enable SMEs to conform to quality standards.

**Access to Public Procurement:**

- (i.) Ministry of Finance should set measurable levels for each government contract awarded to ensure that local SMEs participate. For example it could set a minimum percentage of the contract value that should go to local SME sector.
- (ii.) The Public Procurement Act and relates regulations and guidelines should be translated in Swahili language to facilitate its understanding by majority of stakeholders in SME sector.
- (iii.) There should be more transparency in tender opening and awarding processes at all level of public procurement. Participants recommended that one of the ways to increase transparency is to involve private sector in tender boards.
- (iv.) It was reported that some local governments and other public agencies make procurement decisions internally and only send them to the tender boards for “rubber stamping”, suggesting that corruption is still widespread in public procurement
- (v.) Members acknowledged that few SME owners know about preferential treatments for local firms as indicated in public procurement Act. It was therefore recommends that PPRA should enhance awareness of PPA to the SME sector nationwide. Awareness of PPA can be promoted through the involvement of other stakeholders such as PSOs, and media.
- (vi.) All public procurement tenders should be advertised in both Swahili and English unlike the current practice whereby most of tenders are advertised in English.
- (vii.) PPRA should introduce a strong monitoring and evaluation team at all levels of public procurement. The team should draw its members from private, public and the civil society.

**Recommendations to the Government:**

- (i.) The government through MIT should continue to strengthen the capacity of business associations and BDS thereby building capacity of SMEs
- (ii.) The government should increase subsidies to TBS and TDFA, so that as to enable the increased outreach of their services and offer their services more affordably to SMEs. Regulatory bodies should not rely on charging fees to sustain themselves; they should receive a budget for their operations
- (iii.) The government should establish a special Ministry dedicated to SMEs development

- (iv.) The government should spearhead policy and regulatory reforms leading to establishment of an SME bank to address issues of access to finance among SMEs
- (v.) Participants commended efforts taken by the government to strengthen business environment and capacity of SMEs in the country through development of different programmes such as BEST, the SMEs competitiveness facility, etc. However, concern was expressed regarding limited coordination and overlaps in these programmes. Therefore participants recommends MIT to coordinate all SME development programs in the country.
- (vi.) It was also suggested that the BEST programme should be brought under the umbrella of MIT instead of PO-PP.
- (vii.) The government through MIT and private sector should conduct a comprehensive baseline study to capture data on SME sector and monitor its development. This should involve establishment of SME directory.
- (viii.) Government should clearly provide guideline to differentiate SME sector and informal sector.
- (ix.) Government should involve the private sector in policy formulation from early stages unlike the current practice where by private sector is involved at a very later stage making their contribution to policy reforms insignificant.
- (x.) PPRA should incorporate special needs of SMEs in public procurement process.

## **8. The Way Forward:**

In the connection to the above recommendations the participants agreed on the following way forward:

- ATE and ILO should lead a process of forming a Working Group on Regulatory Information, to include the key regulatory bodies (TBS, TFDA, PPAA, PPRA). This Working Group should lead/co-ordinate efforts by a technical person(s) to develop model communication (leaflets, newspaper adverts, etc. Which are accessible to even the smallest enterprise. It is hoped that these regulatory bodies will from this process gain the experience of communicating appropriately with SMEs
- The validated report be circulated to key stakeholders who are supposed to take action. These include the relevant regulatory bodies, business associations, the Ministry of Finance, Ministry of Health, the Business Environment Strengthening Programme for Tanzania (BEST) Programme, etc
- ATE should explore the possibility of building partnerships with other actors, including media organisations to periodically communicate information pertinent to access to markets.
- A few micro-enterprises should be selected and assisted through awareness and capacity building to meet the TFDA and TBS standards. These few cases should then be showcased as role models, demonstrating that it is possible to complete the certification

- The need for promoting a strong culture for “Buy Tanzania, Build Tanzania” in both the private and public sector should be given weight by all agencies concerned with SME development.

**Appendix 1: List of Participants at the Stakeholder Workshop, 30<sup>th</sup> September 2005**

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**Annex 1.1 List of Media Personnel**

NO	FULL NAME	POSITION	COMPANY, ADDRESS
01	Maria Kapalasula	Journalist	Radio Tanzania Dar es Salaam Box 9191, Dar es Salaam
02	Noor Shija	Journalist	Uhuru / Mzalendo
03	Daniel Semerya	Journalist	Business Times
04	Ahmed Abolu	Photo Journalist	MSC
05	Albart Jackson	Freelance Photo Journalist	Tumaini Letu
06	Faraja Kilongole	Journalist/ Camera Person	DTV/Channel 10
07	Gunze Victor	Journalist/ Camera Person	TVT
08	Anita John	Reporter	DTV/Channel 10
09	Jafari Haniu	Reporter	TVT
10	Joseph Mwamunyange	Journalist	The East African Box 8101, Dar es Salaam
11	Flora Nzewa	Journalist	East Africa TV
12	Rweliabura Rugambwa	Journalist	East Africa Radio
13	Lusekelo Philemon	Journalist	The Guardian
14	Stephen Chuwa	Journalist	ITV
15	John Lugendo	Journalist	Radio One
16	Obeid Mwangasa	Cameraman	ITV
17	Matilda Kassanga	Journalist	The Guardian

## Appendix 2: Speeches at the Stakeholder Workshop

### **ASSOCIATION OF TANZANIA EMPLOYERS**

Welcome Remarks By The Acting Executive Director Of The Association Of Tanzania Employers (Ate), Mr. Mark K. Mfunguo At The Opening Of "Ate/Ilo Dissemination Workshop On Study Report On Enhancing Smes Contribution To Employment Creation And Poverty Reduction Within The Mkukuta Policy Advocacy In Tanzania" On Friday 30<sup>th</sup> September, 2005 At Regency Park Hotel, Msasani - Dar Es Salaam

Mr. Nicholas H. Mbwanji,  
Chairperson,  
Association of Tanzania Employers;

The Guest of Honour,  
Hon. Alhaj Professor Juma Athumani Kapuya,  
Represented by the Acting Labour Commissioner,  
Mr. Anthony Teye;

The Secretary General,  
Trade Union Congress of Tanzania (TUCTA)  
Mr. Nestory K. Ngulla;

Mr. Ali Ibrahim,  
Director, ILO Office for Kenya, Somalia,  
Tanzania and Uganda;

The Senior Employer Specialist  
ILO/ACTEMP, Addis Ababa,  
Mr. Joel Kaswarra, and  
Mr. Joni Musabayana;

The Consultant-Cum-Researcher of the Study Report,  
Dr. Donath Olomi;

Distinguished Invited Guest and Participants;

Members of the Media;

Ladies and Gentlemen:

Permit me at the outset to cordially welcome you to this important workshop on the "Dissemination of Study Report on Enhancing SMEs Contribution to Employment Creation and Poverty Reduction within the National Strategy for Growth and Reduction of Poverty (MKUKUTA) Policy Advocacy in Tanzania" being held here at the Regency Park Hotel today.

The Study Report which will be presented by the Consultant and discussed by us here today is of major importance to the development of Tanzania as it will add to the

national efforts in the implementation process of MKUKUTA by Stakeholders and collaborators including our development partners.

Allow me therefore to kindly request the Chairperson of the Association of Tanzania Employers (ATE) Mr. Nicholas H. Mwanji to deliver his welcome statement.

Thank you for responding to our invitation and welcome all.

**M. K. M**

Statement by the Chairperson of the Association of Tanzania Employers (ATE), Mr. Nicholas H. Mbwangi, at the Opening of "ATE/ILO Dissemination Workshop On Study Report On Enhancing Smes Contribution To Employment Creation And Poverty Reduction  
Friday 30<sup>th</sup> September, 2005

The Guest of Honour,  
Hon Alhaj Professor Juma Athumani Kapuya,  
Minister for Labour, Youth Development and Sports,

Director, ILO Office for Kenya, Somalia, Tanzania and Uganda  
Mr. Ali Ibrahim,

The Secretary General  
Trade Union Congress of Tanzania (TUCTA)  
Mr. Nestory K. Ngulla,

The Senior Employer Specialist ILO/ACTEMP, Addis Ababa,  
Mr. Joel Kaswarra and  
Mr. Joni Musabayana,

The Consultant-Cum-Researcher of the Study Report,  
Dr. Donath Olomi,

Distinguished Guests,

Ladies and Gentlemen:

It is my pleasure and privilege to cordially welcome you all to this important workshop on the "Dissemination of Study Report on Enhancing SMEs Contribution to Employment Creation and Poverty Reduction within the National Strategy for Growth and Reduction of Poverty (MKUKUTA) Policy Advocacy in Tanzania"

**The Guest of Honour, Ladies and Gentlemen,** the Study Report which will be presented to us today by the Consultant is of major of importance to the development of our country, that is why the Association of Tanzania Employers is eagerly looking forward to the actions that will be developed for implementing the recommendations of the Study Report.

On behalf of the Association of Tanzania Employers (ATE), I would like to express our appreciation and gratitude for the financial and technical support from ILO/ACTEMP Addis Ababa, that has enabled the Consultant to come up with this important Report which we shall deliberate on its dissemination strategies in order to enhance SMEs contribution to Employment Creation and Poverty Reduction within the MKUKUTA Policy Advocacy in Tanzania.

As you may agree with me, the unemployment and under employment, particularly with the youth, is a serious problem of the day which need urgent attention. According to the Integrated Labour Force Survey conducted in 2000/01, Tanzania had a labour force of about 17.8 million people. 90% of these were in the traditional agriculture and the informal sectors, while only about 10% were in the formal sector (public and private). The Survey did further establish that, about 650,000 people entered the labour market a year, most of who were school leavers with few

marketable skills. This means that about 65,000 people joined the formal sector, while the rest about 585,000 joined the “army” of the unemployed or the under employed.

It is about four years now since the Survey was done, and it is possible that the situation has changed for the worse! It is also likely that the situation has remained the same. Therefore if we are to extrapolate those figures to-date to reflect sectors with strong potential for employment and income generation for the young people, it is the agriculture and the informal sectors which would absorb the largest number of gainfully employed persons.

**The Guest of Honour, Ladies and Gentlemen**, in Tanzania and like many other developing countries, the majority of SMEs are unfortunately found in the informal sector. SMEs tend to be labour-intensive thus creating employment at a relatively low level of investment per job created. Therefore if we are to address the problem of unemployment, then indeed we are left with one option that of addressing problems that hinder the development of SMEs in our country. I hope the Consultant’s Report will stimulate critical deliberations by all of us, so as to come up with recommendations which will be incorporated in the Report’s implementation plan.

**The Guest of Honour, Ladies and Gentlemen**, we in the Association note with appreciation the numerous steps which have been taken by the Third Phase Government to create an enabling environment for the SMEs. Some of the steps taken include:

- Maintaining macro-economic stability,
- Review of tax regime,
- Simplification of licensing procedures,
- Promotion of small industries sector through SIDO,
- Skills development through Vocational Education and Training, Entrepreneurship Development Centre of UDAR ES SALAAM/College of Business education to mention but a few,
- Funding mechanisms and Schemes to address poverty and employment for example the Youth Development Fund, Women Development Fund SELF, National Micro-finance Bank (NMB) and many others, and
- Supporting the NGOs that support SMEs.

However, we are of the opinion that a lot more need to be done to enhance the SMEs. Areas of further improvement would include access of SMEs to markets. Access to markets includes a public procurement policy which facilitates SMEs access to it; and products which are within the reach of most micro and small enterprises. We can make a big leap forward by advocating for a policy of “Making Government Procurement and Standards accessible to SMEs” while assisting the SMEs to rise up to the challenge by improving their business performance standards and operational practices.

SMEs need to have a political and policy voice to make their needs heard, without undermining the principles of competitiveness. Linkages between SMEs and large enterprises need to be explored so that joint ventures, subcontracting, supplies and marketing efforts are facilitated.

We look forward that the Fourth Phase Government will continue to create a conducive environment for economic growth that promote job growth and enable businesses to pay taxes.

**The Guest of Honour, Ladies and Gentlemen,** the Association of Tanzania Employers (ATE) would like today's Event to herald in a new era of collaboration and consultative dialogue amongst us as social partners and stakeholders in working together to improve the socio-economic performance of the SMEs which are critically important for the successful implementation of the 2005 to 2010 National strategy for Growth and Reduction of Poverty (NSGRP) or MKUKUTA.

In conclusion, I have no doubt whatsoever in my mind that, the success of SMEs is a sustainable approach towards addressing the employment creation and income generation agenda. Let us play our part, it can be done!

Thank you very much, for your kind attention.

**Statement of Mr. Ali Ibrahim, Director of ILO Office for Tanzania, Kenya, Somalia and Uganda at the ATE/ILO Dissemination Workshop on Study Report on Enhancing SMEs Contribution to Employment Creation and Poverty Reduction in Tanzania on 30<sup>th</sup> September, 2005 at the Regency Park Hotel.**

I thank the Association of Tanzania employers (ATE) for inviting me to participate in this important workshop and congratulate ATE for commissioning a study on improving SMEs contribution to employment creation and poverty reduction, with particular emphasis on enhancing market access of small and medium enterprises through review of government procurement and standard.

Indeed, it is a timely study and ATE deserves to be congratulated for this commendable initiative.

It is indisputable that in most of the African countries, including Tanzania, Small and Medium Enterprises have been playing a pivotal role over the years in economic growth. In most countries, including Tanzania, the private sector (both in the formal and informal economies) is larger than the public sector and the majority of jobs and incomes are created by the private sector, though small and medium enterprises.

As the engine of growth and the driving force for sustainability, the private sector, though the SMEs, has a unique role in poverty alleviation by helping to unleash the creativity and imagination of Tanzanians, particularly men and women who have their own capacities and are path breakers of their own ideals as innovators.

This creativity is more needed now, given the uncertainties and insecurities stemming out from globalization, and its linkages with local economies. Globalization and internationalization of markets directly affect enterprises as most businesses – are linked directly or indirectly too complex and dynamics networks. Here, the fairness of the process of globalization, based on universally shared values, and respect for human rights and individual dignity, productive and equitable markets, fair rules and deeper partnership need no emphasis.



Indeed, at the national level, businesses also require fair rules conducive to business development and deeper partnership with the rest of the society in the broader agenda of wealth generation and poverty reduction.

Millions of our citizens survive on a one meal a day with no other basic necessities. If these millions escape the poverty cycle and become consumers, consuming goods and services produced by the SMEs, the benefits for our nations, and, in particular for business, will be enormous.

Self-initiative is one asset that exists in abundance in our societies and even in the poorest communities. We should, together, aim to work with those concerned such as ATE to tap this asset and convert it into higher income and job creation. If the entrepreneurial interest of women and the young are rightly aroused, the success of the initiative could be guaranteed, taking into consideration the phenomenal increase in recent years in the growth of businesses owned by women in the country.

While many of these businesses fall into the category of small enterprise, an increasing number is developing into larger ventures. Furthermore, there are indications that the social structures influencing female entrepreneurship often lead to alternative business policies and practices. These new ways emphasize social policies, participatory decision-making, cooperation and diversity. These are very much the values and strategies likely to be most successful for entrepreneurship in this century.

The international Labour Organization has a global programme dealing with the promotion of small and medium enterprise and produced high quality and internationally recognized studies on various aspects of SMEs. In 1998, the International Labour Conference adopted Recommendation 189 on General conditions for the promotion of job creation through small and medium-sized enterprises. The Recommendation recognizes the importance of setting a policy and legal environment conducive to small enterprises development and further recommends to ILO Member States to adopt and pursue appropriate fiscal, monetary and employment policies to promote an optimal economic environment.

The recommendation of ATE's study to enhance SMEs access to government procurement and standards and to continue a dialogue for the full realization of its initiative with other stakeholders deserves commendation.

It is also important to advocate for the untying of aid in relation to procurement and to demand for the democratic reform of the international procurement procedures to make them beneficial for the common man and for the SMEs to access them. Most of the aid programmes are considered to be pro-poor, but some of the supporting procurement procedures set higher standards and ceilings that often benefit a few and indirectly discriminate SMEs to participate in the bidding process. Let the procurement procedures of the development programmes also favour the beneficiaries to make poverty programmes pro-poor in its totality.

In conclusion, may I reiterate my thanks to the leadership of ATE for inviting us?

I thank you for your patience.