

**TANZANIA ASSISTANCE STRATEGY (TAS)
A SYNOPSIS OF
PRIVATE SECTOR DEVELOPMENT**

1. Background

1.1 The Tanzania Private Sector Foundation and Private Sector Development

The Tanzania Private Sector Foundation was legally registered on November 4, 1998 as an association under the laws of Tanzania. The TPSF Memorandum and Articles of Association were signed by 33 founding organizations. Today the number of member associations has increased to 90. This present number of signatories makes a powerful statement about the broad base of support that is already in place for the organization.

The establishment of the Tanzanian Private Sector Foundation (TPSF) marks the beginning of a new era for the private sector in Tanzania. The new organization is a culmination of a long and sometime difficult process carried forward by diverse elements of the Tanzanian business community: trade associations, chambers, business support organizations, and institutions. TPSF is now a well established entity which is both responsive to its multiple constituencies and able to serve as an effective focal point for the articulation of private sector-led approaches to Tanzanian economic and social development.

Despite certain differences, the private sector does have common interests. Only if the private sector can surmount the factionalism of the past and rise above the narrow interests of a few to work on behalf of the private sector as a whole, will the business community be able move forward on all fronts simultaneously to modernize the economy and contribute to socio-economic development.

1.2 TPSF Vision

Over the next several years, the Foundation will be built to last using a democratic and more market oriented approaches, and give top priority to the notion of service as well as customer or stakeholder satisfaction as its primary reason for being. The Foundation will help member organizations broaden their support among their constituencies and improve their own service packages. They will promote dialogue around key issues and help build consensus with other TPSF members. Most importantly, the new Foundation will provide new mechanisms through which member organizations can effectively dialogue with government, influence public policy and improve the overall business climate. The keynotes of TPSF are service, dialogue and joint action for the development of Tanzania.

2 Situation Analysis

2.1 The Expanding Role of Private Sector:

Tanzania, like many other African countries that adopted the structural adjustment program in the mid '80s, soon discovered that Public led economic development had inherent weaknesses. And yet, as people are learning, building

a new and sustainable open market economy is extra ordinary difficult and complex. A continuing and significant effort needs to be made to promote an expanding role of the private sector in its broader context and to promote within it a greater understanding of the responsibilities for fostering economic growth and development. Indeed, a flourishing private sector bring about rising income levels needed to eradicate poverty. The sector is therefore an essential condition for social economic development.

2.2 The Privatization Process

Privatization in Tanzania include reforms from below and from above. Privatization from below involves the establishment of new, private firms and the expansion of the existing ones. It entails the lifting of former restrictions for domestic enterprises, joint ventures and foreign domestic investments. This includes among other things regulating and where necessary abolishing in practice of all kinds of bureaucratic barriers and creating favorable enabling environment for private investment.

Privatization from above is the transformation of public enterprises (PE) and state owned assets into individual or private property through sale or in other forms.. Over the 1994 -1999 period, Tanzania divested about 150 of the 385 PE's initially held, implying privatization of 40% of the total state owned industry. These included mainly small-medium PE's in tradable goods sectors, but also a number of large PE's i.e brewery, cigarette factory, soft drinks factory, cement factory etc. As part of the Tanzania's private sector development strategy to improve economic efficiency through expanded private investment, plans are underway to finalize the restructuring of the banking sector and regulate the utilities and infrastructure.

The privatization process has proven to be very complicated, the main economic problem being the valuation of assets, which is difficult in the absence of a functioning capital market. Legally, socially and politically, privatization presents another cluster of formidable hurdles. As the state owned enterprises have not been responsible, as private companies are for the creation of wealth, privatization of PE's has opened up markets for private entrepreneurs and improved output and efficiency. Today, most of the private enterprises are self dependent, self managed and self financing than before, increasing the Gross National Product (GNP).

3. **Critical Issues of Economic Growth and Poverty Reduction**

Tanzania needs substantial external support to achieve sustained economic reform and recovery. With the enormous debt overhang, the nation's reform objectives of stabilization, marketization and restructuring are unlikely to be achieved without substantial external help.

Gender inequality and uneven development permeates throughout the private and public sectors, with women underrepresented in most occupational

categories in the economy. The Tanzanian labour market is still characterized by poverty and deep inequalities.

Employment, by providing people with access to wages, constitute one of the important forces in improving economic equity. Without sufficient growth in employment opportunities, the ability of the economy to eradicate poverty and inequality is severely compromised. Today the employment and creation of employment in Tanzania is a critical issue of economic growth given the decline of the formal sector employment which has led to an increase of employment in the informal sector of the economy.

The TPSF and TNBC will continue to focus on tackling the problems of low growth in employment and social inequity. Low incomes provide an indication of the social development challenges that the TPSF and TNBC are facing.

4. Priority Areas in the Next 5 Years:

While faced by the enormous task of building a new and sustainable open market economy, it is necessary to move forward on both private and public fronts simultaneously. A number of priority areas have been identified to expand the role of the private sector in fostering economic growth and development as follows:

4.1 Social Dialogue for Good Governance and Economic Management

The liberalization of the economy requires strong visible governance and good economic management. Leadership, which is willing to absorb criticism and which in addition to requirements in the area of technical competence, must possess perseverance and faith in the open market economy. Deliberate efforts will be made by the Private Sector Foundation to promote good governance and management as instruments for the promotion of economic growth, equity, unity and peace; and participate together with civil service in the war against corruption and vices in the society to create a better business environment. A mechanism for promoting dialogue, consultations and network of various players in the development process will be promoted through the Private Sector Foundation (TPSF) and Tanzania National Business Council (TNBC) to promote the goals of economic growth, equity and even development. As both the Foundation and Council are in infancy stage, resources priority will be accorded to develop their institutional capacities.

4.2 The Delivery of Services and Infrastructure:

The delivery of services and infrastructure is a precondition to a flourishing of the private sector, and an essential mechanism for ensuring the eradication of poverty and inequality. In this context, TPSF will continue with its deliberate efforts to mobilize and encourage the business associations to effectively participate in strengthening the delivery of services and infrastructure through expanded private investments in health services, transport and telecommunication, housing, water and sanitation, power and electricity.

4.3 Skills Competence and Capacity to Utilize of Technology

Education levels, skills competence are vital to the capacity of the players in the private sector and general public to address, access and fully utilize appropriate technologies. The Foundation will continue give special emphasis to provide member organizations with access to technical support services in such areas as membership expansion, human resources development, strategic planning and fund raising. Further private sector outreach efforts will made to provide general and tailored training and workshop activities to member associations, in addition to dissemination of business information.

The Foundation will also continue to put emphasis to regular entrepreneur orientation necessary for the business associations to widen their business horizon and impart new business skills to enable them to successfully manage their enterprises.

4.4 Development of Legal and Regulatory Framework

Further, priority will be given to put in place an effective legal and regulatory framework to ensure participation in the world market in the context of national and global realities. In addition, efforts will be made to debureaucratise the public service to act decisively for the country's benefit. Further, importance will be given to influence the improvement on service delivery of the civil service to make the country more business friendly and enhance the attractiveness of the private sector and Tanzania in general for foreign direct investments (FDIs)

4.5 Foreign Trade

As the entire economy is moving toward an increase in efficient resource distribution, it is important that the changes in the competitiveness of the products of the private sector be stimulated, promoted towards foreign trade. In this regard, TPSF in liaison with relevant institutions (such as MIT and BET) will make concerted efforts to increase trade links between member countries in the EAC and SADC region, and the world market to permit growth of the export trade. The Foundation will continue to strongly promote and encourage the private sector to engage, hand in hand with the Government, in strategic bilateral and multilateral business missions not only to attract FDIs, but also to establish mutual co-operation necessary for increased trade. This will also entail strengthening the consultations with our embassies and trade missions abroad.

Further, the Foundation will increase efforts to provide to the private business community the trade information and related information systems vital for effective participation in foreign trade. Further, the Foundation will make deliberate efforts review from time to time the developments in the business sector to ensure effective private sector participation in the world market in the context of national and global realities.

4.6 Mobilization of Resources of the Private Sector

Progress and development in the business sector is impossible in the absence of a properly functioning financial sector operating in accordance with the rules of the market. A private banking sector channeling resources to profitable projects is of primary importance for setting the economy on the proper path. Accordingly among the priority areas to be addressed in the next 5 years is the completion of the privatization process of the country's major banks which had previously been influenced by the state. This need to be expedited in order to bring about the consolidation of the private sector into a flourishing sector. Through this process, the investors in private sector should be given the opportunity to mobilize substantial amount of resources toward establishing new enterprises and purchase of shares in enterprises undergoing privatization. This will constitute the required incentive for attracting foreign investors and contribute to making the privatization process of the remaining PE's including Habours Authority, Dawasa, TANESCO, Postal and Telecommunication proceed more smoothly.

5 Conclusion:

The decision to transfer part of its functions and responsibilities to the private sector through privatization of state owned enterprises and liberalization policies meant that both the government and the private sector had to quickly adjust to the dynamic ways of the market economy. As people are learning, building a new and sustainable open market economy is extra ordinary difficult and complex. Legally, socially and politically, privatization presents another cluster of formidable hurdles. A continuing and significant effort therefore needs to be made to promote an expanding role of the private sector in its broader context and to promote within it, a greater understanding of the responsibilities for fostering economic growth and development. Indeed, a flourishing private sector bring about rising income levels, needed to eradicate poverty, and today, most of the private enterprises are self dependent, self managed and self financing than before, increasing the Gross National Product (GNP).

Gender inequality and uneven development permeates throughout the private and public sectors, with women underrepresented in most occupational categories in the economy. Employment, by providing people with access to wages and incomes, constitute one of the important forces in improving economic equity

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By:

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