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STRATEGIC OBJECTIVE GRANT AGREEMENT

BETWEEN

THE UNITED REPUBLIC OF TANZANIA

AND

THE UNITED STATES OF AMERICA

FOR

**INCREASED MICRO AND SMALL ENTERPRISE PARTICIPATION IN THE
TANZANIA ECONOMY**

DATE: 29 Sept 2000

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Strategic Objective Grant Agreement

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STRATEGIC OBJECTIVE GRANT AGREEMENT

This STRATEGIC OBJECTIVE GRANT AGREEMENT, is entered into between the UNITED REPUBLIC OF TANZANIA, acting through the Ministry of Finance ("Tanzania Government ") and the UNITED STATES OF AMERICA, acting through the U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT ("USAID").

WHEREAS, the Tanzania Government and USAID (the "Parties") desire to consolidate in this single Strategic Objective Grant Agreement (SOAg) activities which promote increased micro and small enterprise participation in the Tanzania economy, including but not limited to activities which had been funded under the Finance and Enterprise Development project (FED) and the Agricultural Transportation Assistance Program (ATAP), and

WHEREAS, the Parties from this date forward desire to consolidate activities heretofore funded under the FED Project Grant Agreement and the ATAP Grant Agreement, by funding them under this single Strategic Objective Grant Agreement with the understanding that all prior understandings, implementation letters, and implementation arrangements, to the extent not inconsistent with the Agreement continue in force.

WHEREAS, the Tanzania Government of Tanzania and USAID hereby reaffirm their financial, in-kind, and other commitments and understandings made pursuant to the Program Grant Agreements specified above,

WHEREAS, in order to focus and strengthen the efforts of the Parties in promoting "Increased Micro and Small Enterprise Participation in the Tanzania Economy,"

NOW, THEREFORE, the Parties hereto hereby agree as follows:

Article 1: Purpose.

Section 1.1. Purpose.

The purpose of this Strategic Objective Grant Agreement (hereinafter referred to as the "Agreement") is to set out the commitments and understandings of the Parties about the Strategic Objective described below in Article 2.1 and Annex 1.

Section 1.2. Title of Agreement.

The title of this Agreement is "Increased Micro and Small Enterprise Participation in the Economy."

Article 2: Strategic Objective and Results

Section 2.1. Strategic Objective.

The Strategic Objective is "Increased Micro and Small Enterprise Participation in the Economy"(the "Objective").

Section 2.2. Results.

Activities under this agreement should accomplish, or contribute to, one or more significant results ("Results") which, taken together, are expected to achieve the Objective. The Results sought under this Agreement are:

1. Improved micro and small enterprise policy environment;
2. Broadened micro and small enterprise access to markets; and
3. Strengthened capacity of micro and small enterprises.

These Results may only be amended by formal written amendment of this Agreement.

Section 2.3. Annex 1, Amplified Description.

Annex 1, attached, describes the program established to achieve the Objective and Results. Within the limits of the above definition of the Objective in Section 2.1, Annex 1 may be changed by written agreement of the authorized representatives of the Parties without formal amendment of this Agreement.

Article 3: Contributions of the Parties.

Section 3.1. USAID Contribution.

a) The Grant: Current Increment. To help achieve the Objective and Results set forth in this Agreement, USAID, pursuant to the Foreign Assistance Act of 1961, as amended, hereby grants to the Tanzania Government under the terms of the Agreement an amount not exceeding Seven Million, Six Hundred Ninety-nine Thousand Six Hundred and Four United States ("U.S.") Dollars (\$7,699,604). This represents the first amount of funding pursuant to this Agreement.

Prior funding obligated pursuant to the FED Project Grant Agreement and ATAP Program Grant Agreement shall remain separate and is not incorporated herein.

b) Total Estimated USAID Contribution. USAID's total estimated contribution to the achievement of the Objective and Results from the signing of this document through September 30, 2003 will be twenty-five million, one hundred ninety-nine thousand, six hundred and four U.S. Dollars (\$25,199,604), which will be provided in separate amounts. Subsequent amounts will be subject to the availability of funds to USAID for this purpose and the mutual agreement of the



Parties, at the time of each subsequent increment, to proceed with the program. Estimates of Life of Project funding and other funding levels anticipated under the FED Project Grant Agreement and the ATAP Grant Agreement, shall remain in force and any anticipated amounts not provided to date shall be provided in future under this Agreement, unless otherwise agreed to by the Parties.

c) **Excess Funds.** If at any time USAID determines that its contribution under Section 3.1(a) exceeds the amount which reasonably can be committed for achieving the Objective and Results or activities during the current or next U.S. fiscal year, USAID may, upon written notice to the Tanzania Government, withdraw the excess amount, thereby reducing the amount of the Grant as set forth in Section 3.1(b). Actions taken pursuant to this subsection will not revise USAID's total estimated contribution set forth in 3.1(b), subject to the availability of funds to USAID for this purpose and the mutual agreement of the parties at the time of each subsequent increment, to proceed with the program.

d) **Uses of the Grant.** The grant funds may be used to finance foreign currency and local currency costs of goods and services which are associated with the implementation of activities designed to achieve results listed in Article 2 above and in Annex 1 hereto.

Section 3.2. Tanzania Government Contribution.

USAID agrees to waive the host country contribution required of the Tanzania Government Tanzania by USAID policy. The commitment of the Tanzania Government for the achievement of this Objective is very strong. With the waiver of the host country contribution, the Tanzania Government agrees, however, to supply in-kind contributions which are judged vital to the achievement of the Objective and Results under this Agreement. Such in-kind contributions may include office space, salaries, operating expenses, and other costs of Tanzania Government institutional counterparts. Although necessary for achieving the Objective, such contributions need not be tracked under this agreement.

Article 4: Completion Date.

(a) The Completion Date, for this Strategic Objective SOAG is September 30, 2003 or such other dates prior thereto, which the Parties might have agreed to in writing as the date by which the Parties estimate that respective activities necessary to achieve the Objective and Results will be completed.

(b) Except as the Parties may otherwise agree to in writing, USAID will not issue or approve documentation which would authorize disbursement of the Grant for services performed or goods furnished after the Completion Date.

(c) Requests for disbursement from the implementing agencies shall be approved by the Ministry of Finance, accompanied by necessary supporting documentation prescribed in [redacted]. Requests for disbursement shall be received by USAID no later than nine (9) months following the completion date or such other date as USAID agrees to in writing before or after such period. After such period USAID, at any time or times, may give notice in writing to the Tanzania Government and reduce the amount of the grant by all or any part thereof for which requests for disbursement,



accompanied by necessary supporting documentation prescribed in Implementation Letters, were not received before the expiration of such period.

Article 5: Conditions Precedent to Disbursement.

Section 5.1. First Disbursement.

(a) Prior to the first disbursement under the Grant, or to the issuance by USAID of documentation pursuant to which disbursement will be made, the Tanzania Government will, except as the Parties may otherwise agree in writing, furnish to USAID in form and substance satisfactory to USAID:

(b) A statement of the name of the person holding or acting in the office of the Tanzania Government specified in Section 7.5, and of any additional representatives authorized to sign documents and communications on behalf of the Tanzania Government other than formal amendments of this Agreement, together with a specimen signature of each person identified in such statement. This condition was satisfied pursuant to the Project Grant Agreement and Limited Scope Grant Agreement specified above and implementing documents for USAID Field Support activities specified above and the representatives named and specimen signatures provided remain in force. If a Tanzania Government representative changes or an additional representative is appointed, USAID shall be notified within 45 days. For new activities, this condition shall be satisfied as requested by USAID in writing.

Section 5.2. Notification.

USAID will promptly notify the Government of Tanzania when USAID has determined that a condition precedent has been met.

Section 5.3. Terminal Date for Conditions Precedent.

The terminal date for meeting the condition specified in Section 5.1 is 45 days from the date of this Agreement or such later date as the Parties may agree to in writing before or after the terminal date above. If the condition precedent in Section 5.1 has not been met by the above terminal date, USAID, at any time, may terminate this Agreement by written notice to the Government of Tanzania.

Section 5.4. Continuation of Prior Conditions Precedent and Covenants.

The Tanzania Government will not in any way discontinue, reverse or otherwise impede any action it has taken in satisfaction of any condition precedent or covenant agreed to in the FED Project Grant Agreement and ATAP Grant Agreement, or implementation letters related thereto, or to any condition precedent or covenant contained herein, except as USAID and the Government of Tanzania may otherwise agree in writing.

Section 5.5. Conditions Precedent to Future Disbursements.

The Parties agree to collaboratively establish conditions precedent to be met prior to the disbursement of future portions of funds under this Agreement if assessments of progress achieved towards the Objective and Results indicate such undertakings are necessary in order to ensure that the Objective and Results specified are achieved under the Agreement.

Article 6: Special Covenants.

Section 6.1. Guiding Principles.

The parties pledge to cooperate and use best efforts to achieve the Objective "Increased Micro and Small Enterprise Participation in the Economy."

Section 6.2. Collaborative Assessment of Progress.

The Parties agree to cooperate fully in determining whether satisfactory progress is being made towards the Objective and Results under this Agreement. The Parties further agree to make available all relevant information to achieve this collaborative assessment of progress, as more fully described in Annex 1 and Implementation Letters.

Section 6.3. Not applicable.

Section 6.4. Salaries of Government Officials.

The Tanzania Government agrees that no individuals paid salaries from funds provided under this Agreement will, at the same time, draw a Tanzania Government salary.

Section 6.5. Visas, Work Permits and Assignment Approvals.

The Tanzania Government will facilitate the prompt and timely approval and issuance of visas, work permits, and assignment approvals for individuals working for partner organizations receiving USAID financing in furtherance of the Objective and Results.

Section 6.6. Personnel Exemptions, Privileges and Benefits.

All personnel under contract with, or employed by public or private organizations under contract with the Government of the United States of America, or financed by the Government of the United States of America, who, not being citizens of or normally resident in Tanzania, are present in the United Republic of Tanzania to perform work in furtherance of the Objective and Results, shall enjoy the exemptions, privileges and benefits set forth in Paragraph 5(d) of the Agreement on Economic and Technical Cooperation, dated February 8, 1968, between the Government of the Tanzania and the Government of the United States of America, including without limitation the benefit conferred by the Private Motor Vehicles Registration Tax (Technical Assistance Exemption) Order, 1965. Such personnel shall include without limitation employees of the following institutions and any other contractor, grantee, subcontractor or other



cooperating agencies of the Government of the United States financed in connection with the furtherance of the Objective and Results: The U.S. Internal Revenue Service (IRS).

Article 7: Miscellaneous.

Section 7.1. Maintenance of Records.

The Tanzania Government shall maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records and underlying documentation relating to the Project Grant Agreement, Program Grant Agreement, the agreements for USAID Field Support activities specified above, and this Agreement, as are necessary to show adequately, without limitation, compliance with all of these agreements. Such books and records will be audited regularly in accordance with generally accepted auditing standards, and shall be maintained for three (3) years after the Completion Date.

Section 7.2. Inspections and Audits.

The Tanzania Government will afford authorized representatives of USAID the opportunity at all reasonable times to inspect the books, records, and other documents maintained by the Tanzania Government relating to this Agreement. Notwithstanding the provisions of this paragraph, USAID reserves its rights with respect to audits of records, documents, and accounts which will not be infringed by arrangements for audits by the Tanzania Government or by arrangements for audits by independent auditors.

Section 7.3. Implementation Letters.

Project Implementation Letters were issued which furnish additional information about matters related to the Project Grant Agreement and Program Grant Agreement specified above. These remain in force. From the date of this Agreement, Implementation Letters will be issued pursuant to this Agreement. The Parties may use these Implementation Letters to confirm and record additional understandings and commitments related to this Agreement. Implementation Letters may not be used to amend the text of this Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the Amplified Description and budget as set forth in Annex 1. Signature authority for Implementation Letters shall be delegated to appropriate government units responsible for implementation of this agreement and they shall be approved by the authorized signatory of the Ministry of Finance on behalf of the Tanzania Government. Implementation Letters shall be binding on the Parties unless revoked, modified, or superseded by subsequent Implementation Letters or amendments to this Agreement.

Section 7.4. Communications.

Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or telefax, and will be deemed duly given or sent when delivered to such Party at the following address:

To USAID:

Mailing Address: Director
USAID/Tanzania
P.O. Box 9130
50 Mirambo, 2nd Floor
Dar es Salaam, Tanzania
Fax: 255-22-2116-559

To the Tanzania Government:

Mailing Address: Permanent Secretary
Ministry of Finance
The United Republic of Tanzania
P.O. Box 9111
Dar es Salaam, Tanzania

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

Section 7.5. Representatives.

For all purposes relative to this Agreement, the Tanzania Government will be represented by the individual holding or acting in the office of the Permanent Secretary, Ministry of Finance. USAID will be represented by the individual holding or acting in the office of the Mission Director, USAID Mission to Tanzania. Each of whom, by written notice, may designate additional representatives for all purposes other than signing formal amendments to the Agreement. The names of the representatives of the Tanzania Government, with specimen signatures, will be provided to USAID, which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 7.4. Standard Provisions Annex.

A Standard Provisions Annex is attached as Annex 2 to this Agreement and forms part of this Agreement.

IN WITNESS WHEREOF, the United Republic of Tanzania and the United States of America, each acting through its duly authorized representative, have caused this Strategic Objective Grant Agreement to be signed and delivered in their names as of the day and year first above written.

THE UNITED REPUBLIC OF TANZANIA

THE UNITED STATES OF AMERICA

BY: [Signature]
NAME: Gray S Mgawje
TITLE: Deputy Permanent Secretary
DATE: 29/09/00

BY: [Signature]
NAME: Lucretia Taylor
TITLE: Director
DATE: 29 Sept 2000

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[Signature]

**Strategic Objective Grant Agreement
Amplified Description**

I. Introduction

This Amplified Description summarizes the activities to be undertaken and results to be achieved with funds obligated in this Agreement. Nothing in this Annex shall be construed as amending any of the definitions or terms of the Agreement.

II. Background

Since 1992, Tanzania has undertaken bold reforms across a variety of sectors. Many of the constraints affecting private sector businesses have been removed or substantially reduced. Reforms have been particularly important in the financial sector. The development of competition and the restructuring and privatization of state banks has revitalized the sector; there are now 17 commercial banks. Over the near term, this will have significant spin-off effects in terms of ensuring efficient resource allocation throughout the economy. A major area of government withdrawal from the economy has been through privatization where over half of the government's previous commercial holdings have been divested. Probably the best evidence of growth in the private sector is the greater availability of choice to the consumer. The change is more noticeable in urban than in rural areas.

Progress to Date: USAID/Tanzania has supported private sector development through the Finance and Enterprise Development program (FED) since 1992 and improved rural roads through The Agriculture Transportation and Assistance Program (ATAP) since 1988. Both programs have made important contributions to the Tanzanian economy. For example, financial sector assistance through the FED program led the way in creating greater access to credit and stimulating other sources of investment financing. USAID assistance to the Bank of Tanzania (BOT) and support to the expanding venture capital and enterprise loan fund industries were pivotal to the development of this sector. Today, institutions initially supported by USAID, such as BOT and the Tax Revenue Authority (TRA) are strong institutions fully able to manage their operations and provide important analysis and policy guidance to the Government.

The rural roads program accomplishes its objectives through use of the private sector to execute road works, build institutional capacity, and provide local funds for road maintenance. A 1996 evaluation of the program found that transportation of people and goods in the rural areas showed tremendous improvements. Average daily traffic on some routes increased four fold, passenger traffic levels increased up to ten fold,

passenger fares dropped as much as 30 percent vehicle operating costs decreased by up to two-thirds, and travel times decreased by half.

Remaining Challenges: Despite improvements in Tanzania's macroeconomic climate, structural problems continue to limit participation of private enterprise in the economy. Removing these remaining constraints will help to reduce the costs of doing business, strengthen incentives for entrepreneurs and create greater certainty for investors.

A secondary level of challenges is to streamline interactions between the government and the private sector. Private entrepreneurs report that most day-to-day contacts with the government remain complex, and subject to costly delays. This argues for greater private sector advocacy, as well as re-examination of procedures and regulations with a view to more productive, less contentious public-private interactions.

A third challenge is to expand national reforms to areas outside of the capital. The rural economy has received a significant boost from the liberalization of agricultural prices and rural transport services. However, other elements of the reform agenda have yet to penetrate the rural areas. An essential challenge for the private sector is to deepen the rural economy, encourage the responsible exploitation of available resources, and start to create a larger mass of rural consumers.

USAID'S REVISED PROGRAM: Given these challenges, USAID/Tanzania proposes a revised private sector that will focus on:

- **Small and micro enterprises.** Tanzania's economic restructuring has given a greater role to the private sector in the economy. Larger firms have benefited but more attention needs to be paid to increasing participation by smaller enterprises where most of the poverty reduction, employment, and broad-based benefits will be realized.
- **Rural areas.** Rural outreach will touch a broad segment of private sector enterprises in agriculture, mining, tourism, marine resource development and private health initiatives. Rural, agricultural (versus industrial) growth reduces poverty in both rural and urban areas. Over 70% of Tanzania's poverty is rural. Growth in rural/agricultural domestic product has twice the impact on per capita income of the bottom 25% of Tanzania's population. A non-industrial, agricultural bias will also address gender imbalances, given that the largest percent of enterprises in rural areas are women-operated
- **Rural roads.** The improvement of district roads is a means to rural development, in particular the development of small scale trade and agricultural marketing. Improving district roads in a sustainable manner lowers transport costs and increases year-round market access. This in turn enhances incentives for farming and rural enterprises leading to increased rural incomes, social well being and economic growth. Providing even more direct support to enterprises in these areas creates powerful synergies.

- **High potential areas.** A geographic focus on six high potential regions will ensure that USAID/Tanzania's private sector program has significant, measurable impact. The proposed geographic focus will encompass the four administrative regions presently served by the rural roads program plus two contiguous administrative regions north and south of Dar es Salaam. These regions are Mbeya, Iringa, Ruvuma, Rukwa, Morogoro and Tanga that are highly productive agriculturally and rich in minerals. These six regions – home to 8 million of Tanzania's 30 million people – contribute almost one-third of the total gross domestic product for the country. This area has excellent potential for development of micro and small enterprise activities.

III. Funding

Since 1988, USAID has provided more than \$79.6 million in support of private sector development under the FED program and ATAP. In addition, in 2000, USAID began a program with the U.S. Internal Revenue Service (IRS) to assist the TRA with compliance. This Agreement provides an additional \$25,199,604 during the period 2000-2003. The illustrative budget for the SO4 program is set forth in Annex 1A.

IV. Results to be Achieved; Proposed Indicators

Strategic Objective 4 (SO 4) is *“Increased micro and small enterprise participation in the economy.”* Small and micro enterprises (SMEs) are the largest employers in the country, far outstripping the Government as the major employer. They have the most direct impact on gender and poverty alleviation. In addition, segments of these small and micro enterprises represent the largest growth area in the country. Given their importance in the economy, measures to encourage improvements in performance should have a significant effect on sustainable growth through out the country. This contributes to USAID/Tanzania's overall country goal of “sustainable development.”

There are approximately 2.5 million small and micro enterprises in Tanzania, classified by size or legal status. Micro enterprises are informal and usually employ one or two people. Informal small firms tend to have fewer than 5 employees, most being family members. Activity is often seasonal, not licensed, nor recognized by the government. These firms are often limited to trading rather than manufacturing or service provision. Handicraft production is an exception. Formal small firms tend to have fewer than 10 employees. They are often involved with services, small manufacturing or workshop related work. Formal small enterprises are licensed by the government and have to interact with authorities in a number of ways.

The **performance indicators** for this strategic objective will be:

- The number of new small and micro enterprises created annually in the six regions.
- The number of small and micro enterprises in the six regions that remain in business at least two years.

Intermediate Results: USAID/Tanzania will work to achieve this Strategic Objective through three key Intermediate Results (IRs) as follows:

IR 4.1: Improved micro and small enterprise policy environment: SME entry into the formal sector is a pre-requisite for greater market access, but such entry is constrained by bureaucratic requirements for registration, licensing and taxes. Tanzania's leaders recognize the importance of small and micro enterprises, but evolution of the legal and regulatory environment to encourage SME growth has been slow. SO4 has a two-pronged approach to addressing these constraints: (1) strengthening advocacy of business associations representing small and micro enterprises; and (2) improving policy formulation capabilities of select government agencies and services of executive agencies that inhibit enterprise participation.

The **performance indicator** for this intermediate result will be a composite rating of the micro and small enterprise policy environment, compiled by representatives of business associations, micro enterprise NGOs, and academic researchers. USAID/Tanzania will develop this index in the first year and undertake annual ratings, which will be broadly published in Tanzania, as an advocacy effort to improve the policy environment for small and micro enterprises.

IR 4.2: Broadened micro and small enterprise access to markets: Many small and micro enterprises are restricted to local markets comprised mostly of buyers with very limited purchasing power. Competition between small and micro enterprises within local markets is intense; increasing local market share for one enterprise generally comes at the expense of others who are providing the same commodity or service. Some micro and small enterprises have products and services that could enjoy a wider customer base outside their immediate local areas. However, these enterprises are often unable to broaden their market base due to their physical isolation, inability to forge business relationships in wider markets and a general lack of information on marketing opportunities. SO 4 will address these three critical constraints by: (1) improving rural roads; (2) increasing micro and small enterprise market linkages; and (3) expanding micro and small enterprise business information.

The **performance indicators** for this intermediate result will be:

- The growth in exports of goods and services from the six target regions to other locations in Tanzania, in East Africa, and in other international markets; and
- The reduction in regional price differences within/outside the six regions explained by improved roads, business relationships and business information.

IR4.3: Strengthened capacity of small and micro enterprises: With the shift towards a market economy, to prosper, businesses must take advantage and respond to emerging opportunities. Limited human and financial resources seriously handicap many existing and potential entrepreneurs. The population at large has limited understanding of marketing principles, product pricing strategies or customer services within the emerging business community. These limited business skills, along with a lack of information and sustainable credit delivery mechanism, also constrain SMEs' access to finance. To address these two resource constraints, SO4 will provide assistance to: (1) enhance micro

and small enterprise business skills; and (2) increase micro and small enterprise access to finance.

The **performance indicator** to measure achievement of this intermediate result will be the increase in revenues reported by small and micro enterprises supported by the program.

V. Illustrative Activities

A set of SO4 program activities will support achievement of the results outlined above. These will include ongoing, as well as selected new or follow-on activities. All ongoing activities began under separate agreements and mechanisms. For the purposes of managing the SO4 Program, prior agreements, understandings, implementation letters, and implementation arrangements, to the extent not inconsistent with this Agreement, remain in force. This SO Agreement does not replace or supercede the existing agreements but rather references them and provides a mechanism for future funding of ongoing activities. Existing agreements and mechanisms referenced in this Agreement include:

- The Finance and Enterprise Development Program (FED);
- The Agricultural Transportation and Assistance Program (ATAP);
- The Participating Agencies Service Agreement (PASA) with the Internal Revenue Service.

IR 4.1: Activities to Improve Micro and Small Enterprise Policy Environment:

• Strengthening business associations

Business associations are a critical conduit for the articulation of the views of the private sector. As such, they are important for ensuring that government policy formulation that affects private enterprises is improved. Associations of interest include apex organizations that embrace several sector specific associations, particularly in sectors of interest to USAID/Tanzania and the six target regions. USAID/Tanzania will identify associations that have the potential to meet their goals in terms of articulating and lobbying for their members. Criteria to be used in selecting associations to support will include:

- mandate to speak for small and micro enterprises;
- level of membership activity;
- cohesiveness of management;
- use to which previous donor funds have been put;
- quality of strategic intent; and
- customer service mentality.

USAID/Tanzania will provide a portfolio of different business services to selected associations in support of their plans to improve performance. These services include management training, marketing tools, professional lobbying skills, and technical assistance for developing and marketing policy reforms. In order to avoid undermining

an otherwise private sector initiative with donor money, USAID/Tanzania will avoid direct funding and provision of resources.

- **Strengthening Fora for Public-Private Micro-Small Enterprise Dialogue**

In order for the private sector to engage the government in debate about future policy, it needs to believe that the government will listen. For the government to talk to the private sector, it needs to know who to talk to and how to consult them. These two factors form the backbone of the rationale for high-level fora of government decision-makers and private sector representatives. Such fora will be key to ensuring that there is sustained private sector input into policy formulation in the future. USAID/Tanzania assisted with the early conception of such a forum, now called the National Business Council.

- **Assistance to Ministry of Finance Policy Analysis Division**

This activity will include lessons learned from the successful USAID/Tanzania undertaking to strengthen the policy unit of the Tanzania Revenue Authority (TRA). In this case, however, capacity building will be at a higher level and have wider impact. Once strengthened, the Policy Analysis Division (PAD) will compliment TRA capacity in policy analysis. Specific activities here will include training PAD personnel, particularly in improving macro-economic modeling.

- **Assistance in Tax Compliance**

USAID/Tanzania has assisted the Tanzania Revenue Authority effectively in the past, and several donors have taken over this support. The TRA has now requested assistance from the U.S. Internal Revenue Service (IRS) in the area of tax investigations. TRA suffers from a lack of credibility in compliance. The IRS will provide technical assistance and training in the area of compliance through the Africa Trade and Investment Policy Program (ATRIP). USAID/Tanzania believes that TRA will be more willing to consider means of reducing the tax burden on smaller firms if it can increase tax collections from larger firms that are currently outside of the tax system.

- **Addressing Mining Policies**

USAID/Tanzania has provided limited assistance to address the emerging issues in Tanzania's mining industry that affect both small and large miners. These included workshops to define stakeholder concerns, such as how the VAT will apply to mining, and clarity and security of mineral rights. The Tanzanian tax and mining activity will provide assistance for policy dialogue, diversification of economic opportunities, and technical assistance and training. USAID/Tanzania intends to support this activity through the ATRIP program. This activity will work with small miners in the six target regions.

- **Supporting Business Registration and Licensing services**

USAID/Tanzania will assist newly created executive agencies to facilitate the growth of small enterprises. These include the registrar of companies which has just been established under the BREDA (Business Registration and Licensing Agency) and the pharmaceutical licensing and the food control boards which are to be established as the

Food and Drug Administration. Other potential executive agencies include the transport licensing board and the weights and measures bureau.

In close collaboration with the Government's Public Sector Reform Program, USAID will support organizational streamlining to reduce business costs and contribute to the growth of new enterprises. SO4 will provide training in business planning, computerization, management information systems, and implementing new support systems. Interventions will focus on the basic needs of small and micro enterprises, i.e. to make the basic registration and licensing process simpler and more transparent.

IR 4.2 Broadened micro and small enterprise access to markets:

- **Rural Roads Rehabilitation**

USAID/Tanzania has been supporting rural roads in Tanzania since 1988. The purpose of the current rural roads program is to improve district roads in ways that are sustainable by collaborative efforts of Government, private sector and rural communities. The rural roads program is operating in 12 of 20 districts in the four regions comprising the southern highlands. The rural roads program will expand into the remaining eight districts of these four regions over the next year -- assisting primarily with road maintenance but also with some timely rehabilitation.

Under this SO Agreement, USAID/Tanzania will integrate the rural roads program with its private sector activities. Future road activities will expand into districts in two additional regions depending on availability of funding, road conditions, and other donor involvement. One adjustment to the ongoing program is that future road selection will factor in potential contribution to micro and small enterprise participation in the regional economies. The rural roads program will continue to strengthen local public and private sector capabilities to maintain and rehabilitate rural roads.

- **Strengthening Market linkages**

Access to markets is constrained by a series of intangible factors, which inhibit linkages between buyers and sellers. Companies, especially large ones, wishing to purchase a product from villagers find it difficult to communicate their quality needs. Villagers find it difficult to trust a large foreign company sufficiently to invest their time and effort growing a new type of product. Companies wishing to outsource seed production to small holders find it difficult to organize and police the input credit schemes, which are necessary for effective production. Credibility, communication style, learning and trust all influence the effectiveness of the markets. When these things go wrong otherwise profitable opportunities are lost.

SO4 will facilitate market access assistance to small Tanzania enterprises. Typically, a small enterprise employs 1 to 5 workers, uses low technology, is rural and works on small pieces of land or in shops. These characteristics present possibilities for improvement through linkages, organization, and improved techniques. Examples of possible participants are the seaweed producers, who are very small and mostly women. The mango and citrus producers working .25 to 2 hectares are also candidates as are the small-holder tea and coffee producers, fishermen, wood carvers, weavers, artisanal

miners, honey growers, ecotourist promoters, etc. In most cases, they are working as individuals, in families or in small groups. Some come together on specific tasks; others are better organized into different types of associations. These activities have excellent potential for growth.

SO4 will begin with a few select commodities and producer/processor groups. In the case of products whose quality standards are already established internationally, such as coffee or tea, export links may be straightforward. However, in other cases such as handicrafts and horticultural commodities, a training-technical component may be needed. The outcome of this activity will be self-sustaining commercial relationships between small producer/processor supplier groups in the six regions with outside buyers.

- **Improving Business Information**

Two related activities are possible, both aiming to increase the access of rural entrepreneurs to business information. Radio programs can serve as a medium of business information for rural entrepreneurs. USAID will revive its successful weekly radio programs run by The Business Center to broadcast timely, reliable and inexpensive market information in the six SO4 regions. The radio program will also be used to provide specific knowledge about common business practices, business connections and linkages that could lead to partnerships.

The other opportunity lies in increasing access and mastery of the Internet as a tool for rural enterprise. USAID/Tanzania will support Tanzanian Internet service providers that wish to serve the private sector in the six regions. This activity will offer training on how the Internet can be used to obtain market information. Organizations in the six regions will be encouraged to increase access points for rural entrepreneurs (such as at business association facilities). Support will be offered to Tanzanian information providers to publish web material in Kiswahili that is useful to small and micro enterprises. Pilot e-commerce activities, such as marketing handicrafts over the Internet, will also be carried out.

IR 4.3 Strengthened Capacity of small and micro enterprises:

- **Business Skills Training**

USAID will continue to sponsor training programs that highlight entrepreneurial potential and stimulate the small and micro enterprises of the future. This training will include selected for-fee courses and educational programs as experience shows that people are willing to pay for the valuable information they receive

- **Expanding Rural Credit**

Tanzania now has a private banking system and a number of micro-finance programs are underway. SO4 will implement a two-pronged approach to access to credit for rural enterprises. First, a survey will be conducted in the six highland regions to: (a) assess credit needs, and (b) make recommendations on how to address them. USAID will support the survey and the implementation of the survey findings. Based on this survey, USAID/Tanzania will decide whether to enhance the Risk Management Profit Sharing

(RMPS) Fund to support small enterprises in the six regions. This Fund presently provides loans in the \$3,000 to \$100,000 range for small and medium enterprises. Such loans are out of the reach of Tanzanian micro enterprises. However, there are strong linkages possible between small-medium enterprises in the six regions and those in the micro enterprise range.

Second, SO4 will facilitate matching existing credit with the needs of small and micro enterprises. It will monitor small and micro-finance developments and promote replication of successful models. SO4 will also promote distribution of information on credit available to targeted small and micro entrepreneurs through the radio and Internet programs mentioned above. Finally, the activity will help financial institutions to understand the needs of smaller businesses, as well as the institutional and policy barriers they face.

V. Roles and Responsibilities of the Parties

For the purposes of this Amplified Description, the SO 4 Program includes and constitutes the management framework for the following sub-activities: the FED Project; the ATAP Program; the PASA with the IRS; and any new or follow-on activities funded under this SO Agreement.

USAID: The USAID/Tanzania Mission will provide staff to oversee the day-to-day management of the SO 4 Program.

The Government of Tanzania: The Government of Tanzania partners in the achievement of SO4 include, but are not limited to: Policy Analysis Division (PAD) of the Ministry of Finance; the Tanzania Revenue Authority (TRA); the Business Registration and Licensing Agency (BRELA); the Ministry of Works; and, the Ministry of Regional Administration and Local Government. These partners will participate in program activities and management fora. The Government of Tanzania will also contribute to achievement of SO4 by supplying in-kind contributions, such as office space, salaries, operating expenses and other costs.

Collaborative management: Overall management of SO4 will be by a Strategic Objective Team (SOT) comprised of the Government of Tanzania, USAID representatives, and other stakeholders.

VI. Monitoring and Evaluation

The SO4 Program Performance Monitoring Plan (PMP) will provide the basis for ongoing assessment of progress toward achievement of SO4 program goals and objectives as set forth in the Results Framework. Measures of performance will be based on several sources, including information systems of Government partner organizations, USAID and other donor-financed studies, and SO4 Program activity reports. In support of the SO4 PMP, all activities managed and/or funded under this Agreement will include monitoring and reporting requirements to help in evaluating achievement of activity

results and performance targets. In addition to defining performance measures and targets for the overall SO4 Results Framework, the PMP will also set forth guidelines and requirements on performance monitoring and reporting by SO4 program activities and partners. The SO4 PMP will be approved by the Government of Tanzania and USAID through an Implementation Letter.