

**UNITED REPUBLIC OF TANZANIA
MINISTRY OF INDUSTRY AND TRADE**



**SMALL AND MEDIUM ENTERPRISE
DEVELOPMENT POLICY
2003**

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ACRONYMS and ABBREVIATIONS

BET	- Board of External Trade
BIS	- Basic Industrial Strategy
BoT	- Bank of Tanzania
BOs	- Business Organisations
BDS	- Business Development Services
BEST	- Business Environment Strengthening for Tanzania
BRELA	- Business Registration and Licensing Agency
CAMARTEC	- Centre for Agricultural Mechanization and Rural Technology
CDTF	- Community Development Trust Fund
COSTECH	- Tanzania Commission for Science and Technology
CRDB	- Co-operative and Rural Development Bank
CBE	- Collage for Business Education
CTI	- Confederation for Tanzanian Industries
COSOTA	- Copyright Society of Tanzania
DFID	- Department for International Development - United Kingdom
DIT	- Dar-es-Salaam Institute of Technology
EDC	- Entrepreneurship Development Centre
FAWETA	- Federation of Associations of Women Entrepreneurs Tanzania
ISOs	- Institutional Support Organisations
ISP	- Information Service Providers
IPI	- Institute of Promotion Innovation
ITDT	- Institute for Technology Development and Transfer
MCM	- Ministry of Cooperatives and Marketing
MEDA	- Mennonite Development Associates
MFIs	- Micro-finance Institutions
MIT	- Ministry of Industry and Trade
MSEs	- Micro and Small Enterprises
MSME	- Micro Small and Medium Enterprises
MoE	- Ministry of Education
MoL	- Ministry of Labour
MoF	- Ministry of Finance
MoH	- Ministry of Health
MCDWC	- Ministry of Community Development, Women and Children
NCPT	- National Cleaner Production Tanzania
NEDF	- National Entrepreneurship Development Fund
NEMC	- National Environmental Management Commission
NGOs	- Non-Governmental Organisations
NIGP	- National Income Generation Program
NMB	- National Micro-finance Bank
PSRC	- Parastatal Sector Reform Commission
PTF	- Presidential Trust Fund
PSI	- Private Sector Initiative
PRIDE	- Promotion of Rural Initiatives and Development of Enterprises
RFF	- Rural Finance Fund
ROSCA	- Rotating Savings and Credit Associations
RALG	- Regional Administration Local Government
SACCOS	- Savings and Credit Co-operatives
SADC	- Southern Africa Development Community

SIDO	- Small Industries Development Organisation
SIDP	- Sustainable Industrial Development Policy 1996--2020 (MIC)
SMEs	- Small and Medium Enterprises
TBS	- Tanzania Bureau Standards
TCCIA	- Tanzania Chamber of Commerce, Industries and Agriculture
TEMDO	- Tanzania Engineering and Manufacturing Design
TDTC	- Technology Development and Transfer Centre
TGT	- Tanzania Gatsby Trust
TIC	- Tanzania Investment Centre
TIRDO	- Tanzania Industrial Research and Development Organisation
TISCO	- Tanzania Industrial Studies and Consulting Organisation
TASISO	- Tanzania Small Industries Society
TAFOPA	- Tanzania Food Processors Association
TPSF	- Tanzania Private Sector Foundation
TRA	- Tanzania Revenue Authority
Tsh	- Tanzanian Shilling
UCLAS	- University Collage of Land and Architecture
UDSM	- University of Dar-es-Salaam
VETA	- Vocational and Educational Training Act
VPO	- Vice President Office
WDF	- Women Development Fund
YDF	- Youth Development Fund

FOREWORD

It is now increasingly recognised that the Small and Medium Enterprises (SMEs) play a crucial role in employment creation and income generation in Tanzania. SMEs all over the world and in Tanzania in particular, can be easily established since their requirements in terms of capital; technology, management and even utilities are not as demanding as it is the case for large enterprises. These enterprises can also be established in rural settings and thus add value to the agro products and at the same time facilitate the dispersal of enterprises. Indeed SMEs development is closely associated with more equitable distribution of income and thus important as regards poverty alleviation. At the same time, SMEs serve as a training ground for emerging entrepreneurs.

In Tanzania, the full potential of the SME sector has yet to be tapped due to the existence of a number of constraints hampering the development of the sector. They include: unfavourable legal and regulatory framework, undeveloped infrastructure, poor business development services, limited access of SMEs to finance, ineffective and poorly coordinated institutional support framework etc. It is for this reason that this SME Development Policy was formulated so as to address the constraints and to tap the full potential of the sector. Ad hoc and piecemeal measures will then be replaced with sustainable, integrated and coordinated interventions. This policy will serve as guidelines to all stakeholders and thus stimulate new enterprises to be established and existing ones to grow and become more competitive. The expected outcome is to have a significantly increased contribution of the SME sector to economic development of Tanzania.

The policy preparation process was basically participatory. Between 1998 and mid 2001, several zonal workshops were held to discuss the status of the sector and to lay down strategies for boosting the development of the sector. Based on the inputs received, a draft policy document was prepared and again discussed by stakeholders in zonal workshops held at Dodoma, Mbeya, Mwanza, Arusha, Kibaha and Dar-es-Salaam. The Commonwealth Secretariat, United Nations Industrial Development Organisation (UNIDO), DFID and USAID did offer assistance in the formulation of this policy. Let me take this opportunity to

extend my sincere appreciation to the above mentioned workshop participants and our development partners and to all others who facilitated the preparation of this policy. May I also take this opportunity to reiterate the Government's commitment towards continued improvement of the enabling environment for SMEs development. Just as participatory approach was followed in the preparation of this policy, public- private partnership will be ensured during the implementation as well as monitoring and evaluation of the various interventions. The success of this policy framework relies to a great extent on the cooperation of all stakeholders. Let me therefore take this opportunity to invite all stakeholders to play their part in revamping this sector.

We do consider the SME Development Policy as a challenge to all and indeed a noble vehicle of facilitating the attainment of the objectives of the National Vision 2025. In deed, as Mwalimu Julius Nyerere once said: " It can be done, play your part".

*Hon. Dr. Juma Ngasongwa MP.
Minister for Industry and Trade
November 2002*

CHAPTER 1 INTRODUCTION

1. The Tanzania Development Vision foresees that by the year 2025, *“Tanzania should have created a strong, diversified, resilient and competitive economy, which can effectively cope with the challenges of development and, which can also easily and confidently adapt to the changing market and technological conditions in the regional and global economy”*. The challenge is therefore to mobilise human and other resources towards that goal.

2. Economic Reform Programmes implemented by the Tanzanian Government have been based on the philosophy that Tanzania is committed to a market economy whereby the private sector will take the lead in creating incomes, employment and growth. On the other hand, the State will be a producer of public goods, play a regulatory role to level the playing field and create conducive environment for the private sector to take the lead in driving economic growth. This philosophy is evident in almost all policy statements made since 1986 and in particular after 1996. The private sector has started playing an ever-increasing role in creating incomes and employment. Small and Medium Enterprises (SMEs) account for a large share of the enterprises active in Tanzania. In fact Small and Medium Enterprises are the emerging private sector and do form the base for private sector-led growth.

3. SMEs, important as they are to the economy, have been facing a number of problems despite the on-going reform programmes. This is due to a number of factors, one of which is a persistent culture that has not recognised the value of entrepreneurial initiative in improving the lives of the people. Other factors include complex, bureaucratic and costly legal, regulatory and administrative environment where SMEs are at a greater disadvantage than their counterparts that are larger in size. The high cost of compliance to regulations may discourage potential entrepreneurs from formally setting up their businesses, while driving some existing enterprises out of business and those working for them into unemployment. Also due to insufficient competition and inadequate information on the credit markets of Tanzania, banks are discouraged and not willing to lend to SMEs. Legislation and regulation on collateral exclude movable assets as mortgages, thereby putting smaller businesses that own more of these assets into a disadvantaged position vis-à-vis their larger business counterparts. SMEs have lower demand for business

development services such as training, counseling, advising and consultancy due to cost considerations and lack of knowledge about the benefits of external services in improving competitiveness.

4. In the course of implementing the economic reforms the government has put in place a number of strategies and programmes aiming at addressing some of the major constraints. Such programmes and strategies include: - Rural Development Strategy, Agricultural Sector Development Strategy, Strategic Trade Policy, BEST Programme, Micro-finance Policy and Poverty Alleviation Strategies. To complement these and other existing initiatives, this SME Development Policy shall ensure that SME related components are adequately implemented, harmonized and coordinated.

5. Strategies for implementing the SME development policy focus on three main areas, namely, the creation of an enabling business environment, developing of financial and non-financial services and putting in place supportive institutional infrastructure. The SME Policy takes into account the special constraints and opportunities faced by this sector and aims at strengthening institutions which will address these constraints and maximise exploitation of the opportunities.

CHAPTER 2
SME DEVELOPMENT IN TANZANIA

6. SMEs all over in the world are known to play a major role in social economy development. This is apparently the case of Tanzania, where SMEs contribute significantly to employment creation, income generation and stimulation of growth in both urban and rural areas.

2.1 Definition

7. The SMEs nomenclature is used to mean micro, small and medium enterprises. It is sometimes referred to as micro, small and medium enterprises (**MSMEs**). The SMEs cover non-farm economic activities mainly manufacturing, mining, commerce and services. There is no universally accepted definition of SME. Different countries use various measures of size depending on their level of development. The commonly used yardsticks are total number of employees, total investment and sales turnover. In the context of Tanzania, micro enterprises are those engaging up to 4 people, in most cases family members or employing capital amounting up to Tshs.5.0 million. The majority of micro enterprises fall under the informal sector. Small enterprises are mostly formalised undertakings engaging between 5 and 49 employees or with capital investment from Tshs.5 million to Tshs.200 million. Medium enterprises employ between 50 and 99 people or use capital investment from Tshs.200 million to Tshs.800 million. This is illustrated in the table below:

CATEGORIES OF SMEs IN TANZANIA

Category	Employees	Capital Investment in Machinery (Tshs.)
Micro enterprise	1 – 4	Up to 5 mil.
Small enterprise	5 – 49	Above 5 mil. to 200 mil.
Medium enterprise	50 – 99	Above 200mil.to 800 mil.
Large enterprise	100 +	Above 800 mil.

N.B. In the event of an enterprise falling under more than one category, then the level of investment will be the deciding factor.

2.2 Importance of Small and Medium Enterprises

8. It is estimated that about a third of the GDP originates from the SME sector. According to the Informal Sector Survey of 1991, micro enterprises operating in the informal sector alone consisted of more than 1.7 million businesses engaging about 3 million persons, that was, about 20% of the Tanzanian labour force. Though data on the SME sector are rather sketchy and unreliable, it is reflected already in the above data that SME sector plays a crucial role in the economy.

9. Since SMEs tend to be labour-intensive, they create employment at relatively low levels of investment per job created. At present, unemployment is a significant problem that Tanzania has to deal with. Estimates show that there are about 700,000 new entrants into the labour force every year. About 500,000 of these are school leavers with few marketable skills. The public sector employs only about 40,000 of the new entrants into the labour market, leaving about 660,000 to join the unemployed or the underemployed reserve. Most of these persons end up in the SME sector, and especially in the informal sector. Given that situation and the fact that Tanzania is characterised by low rate of capital formation, SMEs are the best option to address this problem.

10. SMEs tend to be more effective in the utilisation of local resources using simple and affordable technology. SMEs play a fundamental role in utilising and adding value to local resources. In addition, development of SMEs facilitates distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, SMEs technologies are easier to acquire, transfer and adopt. Also, SMEs are better positioned to satisfy limited demands brought about by small and localised markets due to their lower overheads and fixed costs. Moreover, SME owners tend to show greater resilience in the face of recessions by holding on to their businesses, as they are prepared to temporarily accept lower compensation.

11. Through business linkages, partnerships and subcontracting relationships, SMEs have great potential to complement large industries requirements. A strong and productive industrial structure can only be achieved where SMEs and large enterprises not only co-exist but also function in a symbiotic relationship. However, the linkages between SMEs and large enterprises are very weak in Tanzania. SME development Policy, therefore, creates the potential for enhancing linkages within the economy. In addition, SMEs serve as a training ground for entrepreneurship and managerial development and enable motivated individuals to find new avenues for investment and expanding their operations.

12. There are also opportunities indicating a bright future for SME sector development in Tanzania. This includes the various on-going reforms that are oriented towards private sector development and, thus, lay the ground for SMEs development. In addition, the recognition of SME sector that it has higher potential for employment generation per capital invested attracts key actors to support SME development programmes. Since SME development does contribute significantly to poverty alleviation, resources earmarked for poverty alleviation will also be availed to the SME sector.

13. Various initiatives towards improving the infrastructures and especially roads do provide an added opportunity for SME development. Furthermore, there are several on-going schemes aimed at strengthening SME service providers such as Small Industries Development Organisation (SIDO), Vocational Education Training Authority (VETA), Micro Finance Bank (NMB) and various Industrial Support Organisations. These interventions do provide opportunities for growth of the SME sector.

14. Given the fact that Tanzania is endowed with abundant natural resources, the creation of enabling business environment will facilitate exploitation of these resources through SMEs. This is again an opportunity for SMEs development.

2.3 Government Efforts

15. In recognition of the importance of SME sector, the Government has continued to design and implement a number of policies and programmes supportive to the development of the sector.

2.3.1

Policy Development

16. *Tanzania Development Vision 2025* seeks to transform from a low productivity agricultural economy to semi-industrialised one lead by modernised and highly productive agricultural activities which are buttressed by supportive industrial and service activities through actively mobilisation of people and other resources towards the achievement of shared goals. In the *Poverty Reduction Strategy*, the Government has decided to promote private sector participation including Small and Medium Enterprises.

17. The *Sustainable Industrial Development Policy - SIDP* (1996 - 2020) places specific emphasis on promotion of small and medium industries through the following measures: supporting existing and new promotion institutions, simplification of taxation, licensing and registration of SMEs and improve access to financial services. In addition, SIDP encourages informal sector businesses to grow and be formalised. Furthermore, the policy identifies measures to enable indigenous entrepreneurs, women, youth and people with disabilities to take part in economic activities.

18. The *National Micro Finance Policy* covers the provision of financial services to small and micro enterprises in rural areas as well as in the urban sector that are engaged in all types of legal economic activities. Furthermore the *Agricultural and Livestock Policy* is aimed at the development of agricultural and livestock activities that are performed by both small farmers and livestock keepers. The priority is given to resources-based enterprises particularly activities that add value to agricultural products. Nevertheless, agriculture is still the backbone of our economy. It contributes more than 50% of the country's GDP and accounts for about 60% of the country's foreign earnings.

20. The *Minerals Policy of Tanzania* identifies the artisanal and small scale mining operations as a major target group to be promoted through improved access to finance and availability of tools, equipment and consumables, supportive extension services, simplified licensing and enhanced marketing opportunities. The *National Employment Policy* recognises that the private sector including SMEs is the major source of employment in Tanzania and outlines policies that will contribute to the creation of an enabling environment for private sector development.

21. There are also a number of government policies already in place aimed at facilitating growth of the economy, which have a bearing on the development of the SME sector. These include: Gender and Women Development Policy, Cooperative Development Policy, the National Energy Policy and the National Environmental Policy and Rural Development Strategy. Central to all these policies, is a creation of an enabling environment, building of a robust private sector and articulation of strategies that will create a sustainable growth. A number of institutions, both public and private were established to implement and coordinate various programmes arising from these policies. Furthermore, the government has undertaken various measures aimed at creating an enabling environment to enhance enterprise development. These include, among others, maintaining macro-economic stability; review of tax regime; simplification of licensing procedures; implementing a programme on 'Business Environment Strengthening for Tanzania- BEST' and implementation of a 'Competition Policy'.

2.3.2 Institutions

The Institutions and programmes established in support of the SME sector in Tanzania include:-

2.3.2.1 Small Industries Development Organisation-SIDO

22. The first major attempt to promote the small industries sector in Tanzania was undertaken in 1966 when the National Small Industries Corporation (NSIC) was formed under the National Development Corporation (NDC). The NSIC set up small industrial clusters, which were basically training cum production workshops. Thereafter, the Small Industries Development Organization (SIDO) was established in 1973 by Act of Parliament to plan, coordinate, promote and offer every form of service to small industries.

23. SIDO remains the main government arm for promoting SMEs in the country. Some of the measures employed in the process included:- the construction of 16 industrial estates with more than 140 sheds at regional headquarters; the establishment of 10 training-cum-production centres that offered simple rural based technologies; introduction

of hire purchase programs through which more than 2000 entrepreneurs were assisted with machines and working tools; and setting up of regional extension services offices that rendered advice on setting up of new industries, choice of technology, preparation of feasibility studies, preparation of economic surveys, installation, operation of machinery, maintenance and marketing of products.

24. SIDO in collaboration with other stakeholders supported establishment of SME association to empower the private sector. Some of those associations include Tanzania Food Processors Association (TAFOPA), Tanzania Small Industries Organisation (TASISO) and 'Vikundi vya Biashara Ndogo' (VIBINDO). These associations have been useful in involving the members in all issues related to advocacy as well as accessibility to market, information, raw material, packaging and micro credit services.

2.3.2.2

Other Initiatives/Programmes:

25. Apart from SIDO, various institutions were established to support enterprise development in Tanzania. These institutions cater for the whole enterprise sector including SMEs. They include the Tanzania Industrial Research Development Organisation (TIRDO) which supports local raw materials utilisation; Centre for Agricultural Mechanization Rural Technology (CAMARTEC) which is involved in promotion of appropriate technology for rural development; Tanzania Engineering and Manufacturing Design Organisation (TEMDO) responsible for machine design; Tanzania Bureau of Standards (TBS) mandated to promote standards; Board of External Trade (BET) which is instrumental in promotion of exports mainly through trade fairs; and the Institute of Production Innovation (IPI) now known as Technology Transfer Centre which is active in proto-type development and promoting their commercialisation.

26. The Vocational Education and Training Act of 1994 provides the framework for the vocational training system in Tanzania. This Act led to the formation of Vocational Education Training Authority which has over 630 centres in the country offering training in more 34 different trades. In 1999, the University of Dar-es-Salaam established Entrepreneurship Development Centre within the Faculty of Commerce and Management. The Centre provides consultancy and training in SME related issues.

Furthermore the College of Business Education offers business training including entrepreneurship development.

27. A number of initiatives have been designed by the Government to set up funding mechanisms and schemes to address poverty and employment related problems through promoting SMEs. Such funds include National Entrepreneurship Development Fund (NEDF), Youth Development Fund (YDF) which is managed by the Ministry of Labour, Youth Development and Sports and the Women Development Fund (WDF) that is managed by the Ministry of Community Development and Women Affairs and Children. Apart from these, there are other related programmes that were established through Government/donor joint efforts including the Small Entrepreneurs Loan Facility (SELF), National Income Generating Programme (NIGP), Presidential Trust Fund and Community Development Trust Fund. Another initiative towards this direction has been the establishment of the National Micro-finance Bank (NMB), meant to cater specifically for micro enterprises.

28. In recent years, the country has witnessed the mushrooming of Non-Government Organisations that are doing a commendable job in promoting SMEs. Most of the NGOs are mainly involved in credit delivery, business training, providing general consultancy, supporting market linkages and addressing gender and environmental issues. However, most of the institutions supporting SMEs are rather weak, fragmented, concentrated in urban areas and uncoordinated. This calls for the need to strengthen the institutions supporting small and medium enterprises. Therefore the SME Development Policy intends to support and strengthen these institutions.

2.4 Constraints faced by SMEs in Tanzania

29. Generally, SMEs are confronted with unique problems including heavy costs of compliance resulting from their size. Other constraints include insufficient working premises and limited access to finance. In addition, Business Development Services, namely services related to entrepreneurship, business training, marketing, technology development and information are underdeveloped and not readily available. On the other hand, SME operators lack information as well as appreciation for such services and can hardly afford to pay for the services. As a result, operators of the sector have rather low skills. Also, there is no umbrella association for SMEs. At the same time, the institutions

and associations supporting SMEs are weak, fragmented and uncoordinated partly due to lack of clear guidance and policy for the development of the sector.

CHAPTER 3

RATIONALE FOR SME DEVELOPMENT POLICY

30. In Tanzania the SME sector has been recognised as a significant sector in employment creation, income generation, poverty alleviation and as a base for industrial development. The sector is estimated to generate about a third of GDP, employs about 20% of the Tanzanian labour force and has greatest potential for further employment generation. However, Tanzania has never had a specific policy focusing at the development of SME sector. The different policies have various uncoordinated programmes and interventions aimed at supporting the sector with limited impact. This has resulted in a number of gaps leading to inability to address the core constraints inhibiting the growth of the sector. This has made it difficult to exploit the existing potentials for acceleration of SME development and limits its ability to exploit the exciting potential of SMEs to accelerate growth.

31. Moreover, the SIDP does address the aspect of small industries but as a matter of fact, the SME sector covers more economic activities than manufacturing alone. As such strategies and programmes identified by SIDP have lopsided effect since they neglected a greater part of SME activities in the areas of commerce, mining and services. This requires an all-embracing policy in terms of covering the whole range of economic activities being performed by SME broad-spectrum sector perspective. In addition, the SMEs by nature of their scale require specific interventions to nurse them. In the international perspective, economies that have strong SME sectors have being due to having in place, clear guidance, focused visions and appropriate strategies arising from well-designed SME policies.

32. Based on the importance of this sector and its potential, the SME Development Policy has been designed to revitalise the sector to enable it to contribute to the objective of the National Development Vision 2025. Furthermore, it aims at creating a mechanism to put in place an effective institutional framework for its implementation, coordination, monitoring and evaluation. Central to all these strategies is the ultimate objective of attaining rural industrialisation in line with the Poverty Reduction Strategy and the Vision 2025. The policy aims at revolutionising the SME sector to make it a vibrant and

sustainable agent of stimulation of growth of the economy. In recognition of this, various interventions, including policies and programmes have been initiated to develop the sector. Based on all these considerations it is of paramount important that a special tailored policy to take into account the development of this sector is envisaged.

CHAPTER 4

OBJECTIVES OF THE SME POLICY

4.1 Vision

33. The objective of the National Vision 2025 is to transform the predominantly agricultural economy to a semi-industrialised one. The SME sector has a significant role to contribute towards attaining this goal. It is on this basis that the Sustainable Industrial Development Policy identified specific strategies targeting at stimulating the SME sector to be able to play this crucial role.

34. The **vision** of the SME Development Policy is **to have a vibrant and dynamic SME sector that ensures effective utilisation of available resources to attain accelerated and sustainable growth.**

4.2 Mission

35. The **mission** of this Policy is to **stimulate development and growth of SME activities through improved infrastructure, enhanced service provision and creation of conducive legal and institutional framework so as to achieve competitiveness.**

4.3 Overall Objective

The **overall objective** of this policy is to **foster job creation and income generation through promoting the creation of new SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzanian economy.**

4.4 Scope of the Policy

36. The policy covers the following key areas:
- i. Reviewing and reconsidering public policies and regulations that discriminate against or hinder the start-up, survival, formalisation and growth of SMEs.
 - ii. Enhancing the growth of the sector.
 - iii. Identifying and assigning clear roles of key actors.

- IV. Developing strategies that will facilitate provision of financial and non-financial services to SMEs.
- V. Developing and institutionalising public-private partnerships for SME sector development.

CHAPTER 5

POLICIES AND STRATEGIES FOR DEVELOPMENT OF THE SME SECTOR

37. An assessment of the SME sector has shown that it is facing constraints which need to be addressed adequately through this policy. Given the importance of the sector and the need to transform it to a vibrant and dynamic one, it is crucial to put in place strategies that will facilitate the removal of those constraints so that it can attain the desired vision and identified objectives. In the SME Development Policy strategies have been identified focusing on areas which have maximum impact on the sector. The major areas of focus include: creation of the enabling business environment, developing the infrastructure, strengthening financial and non-financial services and establishing and strengthening institutions supportive to SME development. In this policy, problems are identified, Government statements are articulated and appropriate strategies are specified.

5.1 Legal and Regulatory Framework

38. Despite of various interventions aimed at improving the business environment in Tanzania, the legal and regulatory framework is bureaucratic, costly and centralised. These characteristics of the legal and regulatory environment affect all sizes of businesses adversely. However, SMEs are further constrained in this environment in comparison to larger businesses due to the disproportionately heavy costs of compliance arising from their size. As a result most of informal enterprises have failed to formalise and micro enterprises have been unable to grow and graduate into Small and Medium Enterprises.

39. The tax regime in Tanzania is also unfavorable for SMEs development. Taxes are many, rather high and collected by various authorities including Tanzania Revenue Authority and the Local Government Authorities. Furthermore, entrepreneurs are ignorant of tax matters and the cost of complying with tax regulations is considered high. Whereas taxation of businesses is a necessity for national economic development, the present tax regime imposes a major burden on SMEs.

Policy Statement:

The Government will enhance implementation of programmes aimed at simplification and rationalisation of procedures and regulations so as to encourage compliance and minimise transaction cost.

Strategies:

42. Strategies aimed at improving the legal and regulatory framework include:
- i. Simplify business registration and licensing procedures.
 - ii. Simplify tax system and introduce tax incentives to nurse SMEs.
 - iii. Review Government Procurement procedures to facilitate SMEs' participation.
 - iv. Establish a window within the commercial court for handling SME business disputes.
 - v. Train and sensitise SMEs on intellectual property rights.

5.2 Physical Infrastructure

43. The poor infrastructure in Tanzania including working premises, roads, cold rooms, warehouses, power, water and communication adversely the development of the SMEs. Even where these services are available, the supply is unreliable and costly. Serviced land or business premises are in short supply in most of the cities and towns, especially for industrial use. The very poor state of infrastructure makes it difficult to attract even local investors to the rural areas where almost 80% of Tanzanians live. This has been an obstacle in promotion of SMEs especially in rural areas.

Policy Statement:

The Government will continue to improve the physical infrastructures and provision of utilities in collaboration with Local Authorities, private sector and development partners.

Strategies:

44. The following strategies are designed to address infrastructural requirements in respect to SMEs:

- i. Local Authorities to allocate and develop land for SMEs
- ii. Develop industrial clusters and trade centres
- iii. Identify and allocate underutilised public buildings to SMEs.

5.3 Business Development Services

5.3.1 Entrepreneurship Development

45. Tanzania is endowed with a rich natural resource base. Even then, with all these resources Tanzania is still a least developed country. The challenge lies in the ability to transform efficiently and effectively the resources into goods and services that can be availed to the market at competitive prices. One of the major limiting factors is the lack of entrepreneurs at different levels. Some of the traditions, perceptions and values have tended to create a culture that is anti-entrepreneurial. Furthermore, past policies limited individual entrepreneurship initiatives. In addition, the education system has tended to create employment seekers rather than job creators.

Policy Statement:

<p>The Government will promote entrepreneurship development through facilitating improved access of SMEs to financial and non-financial services</p>

Strategies:

46 In order to overcome this situation, the following measures will be undertaken:

- i. Inculcate through education, training and other programmes values and attitudes that are conducive to development of entrepreneurship.
- ii. Review school curricula to accommodate entrepreneurship development.

- iii. Introduce entrepreneurial programmes in vocational and technical training.
- iv. Facilitate entrepreneurship development programmes for selected target groups/sectors e.g school leavers.
- v. Facilitate capacity building in entrepreneurship development

5.3.2 Business Training

47. SME operators in Tanzania have rather low business skills and seem not to appreciate the importance of business education. On the other hand, the quality of training provided by existing business training institutions and costs involved has tended to be unattractive and unaffordable to the potential beneficiaries.

Policy Statement:

The Government will enhance the capacity of institutions providing business training to SMEs.

Strategies:

48. In order to improve the business skills of SME operators, the following strategies will be pursued:
- i. Embark on capacity building of business training institutions aimed at improving quality of services provided
 - ii. Facilitate tailor-made business training programmes for start-ups and for strengthening existing businesses.

5.3.3 Information

49. In this millennium information has become a prime mover of all economic undertakings. However, the situation of SMEs in Tanzania is that of limited access to information caused by lack of awareness on its importance and the prohibitive costs of acquiring the same.

Policy Statement:

The Government will facilitate and support programmes aimed at increased access of information pertinent to the development of SMEs.

Strategies:

50. The measures to be undertaken include:
- i. Set up of business centres so as to ensure that SME operators at all levels have access to information at affordable costs.
 - ii. Support training on information technology e.g. E-commerce .
1. Establish a data bank for the SMEs including a national web-site for SMEs and a directory of service providers.
- iii. Conduct a census for SMEs

5.3.4 Technology

51. Technology advancement and transfer are important aspects for SMEs development. SMEs have limited access to technology development partly because they lack the relevant information. The problem is further compounded by the existence of industrial support institutions which are weak and do operate in isolation without focusing on the actual requirements of the SME sector. Furthermore, technologies available are not disseminated to the potential clients. In addition, SMEs cannot afford the services provided by the relevant institutions. As a result of the above, SMEs continue to hold on poor and obsolete technologies.

Policy Statement:

The Government will facilitate acquisition and adaptation of technologies as well as enhance networking between R&D Institutions and SMEs in a bid to upgrade technologies so as to raise the productivity and competitiveness of the sector.

Strategies:

52. The following strategies have been designed to handle technological aspect of SMEs.

- i. Establish mechanism for enhancing networking between SMEs and technology providers.
- ii. Facilitate joint ventures aimed at enhancing technology upgrading and transfer.
- iii. Facilitate capacity building of Industrial Support Organisations (ISOs) and other service providers.
- iv. Facilitate establishment of incubators.

5.3.5. Marketing

53. Sustainability of a firm depends largely on its performance in the marketing. Unfortunately, many enterprises are facing problems of marketing due to poor quality of products, poor packaging, inadequate marketing skills and stiff competition.

54. Inadequate marketing services have been prohibiting SMEs to become competitive in local and international markets.

Policy Statement:

<p>The Government is committed to facilitating support programmes aimed at improving SMEs' access to market.</p>

55. On marketing, the following strategies will be undertaken:

- i. Promote business linkages between large and small enterprises.
- ii. Strengthen marketing agencies and institutions that support SMEs.
- iii. Create SMEs bulk provision systems through a cooperative mechanism.
- iv. Facilitate SMEs participation in local and international markets through trade fairs and missions.
- v. Establish SMEs exhibition centres.
- vi. Facilitate SMEs to meet standards

- vii. Facilitate training on trade issues i.e multilateral trading systems and regional trading arrangements
- viii. Facilitate SMEs benefit from government procurement needs and activities

5.4 Access to Finance

56. The SME sector in Tanzania has limited access to finance due to the following factors: the sector is perceived as a high risk one; inability of the SME operators to fulfill the collateral requirements; most banks do not operate an SMEs financing window; some of the banks operate in limited geographical areas; inexperience of Bank Staff in issues related to Micro-finance; lack of a guarantee scheme to back up banks financing SMEs; high cost of screening and administering small loans spread over big areas and inability of borrowers to prepare and present applications that meet bank's requirements.

57. The current reforms have resulted in liberalisation of the financial sector to a great extent. This has led to establishment of a number of banks including the Micro Finance Bank, liberalisation of financial rates and establishment of a stock exchange market. In spite of all these, the SME sector is facing a major constraint in accessing finance. This limits their capacity to survive, increase capacity, upgrade its technologies and even in many cases, expand their markets and improve management or raise productivity and eventually increase incomes.

Policy Statement:

The Government will enhance financial reforms aimed at further liberalisation of the financial sector and the creation of financial intermediaries to cater for SMEs

Strategies:

58. To take care of this concern the following strategies will be implemented:-

- Promote transferring lessons and good practices from traditional financing mechanisms into suitable financial products for financing SMEs
- Facilitate opening up of SME windows in financial Institutions.
- Promote innovative financial products for SMEs such as hire purchase scheme, leasing, inventory financing, venture capital SMEs and, Saving and Credit Schemes.
- Promote improving access of SMEs to bank financing through simplification of procedures
- Mobilise resources and promote development of new financial institutions for financing SMEs.

5.5 Institutional Framework for SMEs Development

59. The institutions supporting the SME sector are weak, fragmented, uncoordinated and concentrated in urban areas. Currently, numerous stakeholders made up of Government ministries and agencies, private sector associations, NGOs and development partners are involved in the development of programmes aimed at supporting the SME sector in Tanzania. Most of their programmes are ineffective and their efforts are uncoordinated. Although the government has put in place a number of Industrial Support Organisations, including the Small Industries Development Organisation (SIDO), these institutions are ill equipped in terms of equipment, personnel and operational funds, and therefore, unable to discharge their mandated responsibilities. Furthermore, it has been established that government officials responsible for development of the sector do not have adequate knowledge, skills and SME orientation to create the desired enabling environment for the sector.

Policy Statement:

The Government will facilitate strengthening of institutions and associations supporting the SME sector.

60. Strategies designed to improve the institutional framework include:
- i. Support establishment and strengthening of Associations of SMEs
 - ii. Establish a forum for SMEs

- iii. Facilitate strengthening and networking of service providers of SMEs
- iv. Strengthen Government capacity to coordinate monitor and evaluation of the Policy
- v. Enhance the knowledge and skills of relevant government officials at all levels on SMEs development.

5.6 Rural Industrialisation:

61. Agriculture accounts for about 50% of the national income, 60% of merchandise exports and is a source of livelihoods of about 80% of Tanzanians. Despite this importance, its performance over years has not been impressive. This has been caused by the following major factors: inadequate access to extension services; lack of improved farm inputs; poor infrastructure; lack of comprehensive market information; lack of credit; multiple taxes and levies; dominance of low technologies; inadequate processing capacities in the rural areas; poor or inadequate research and weak link between extension services and research.

62. The Tanzania Development Vision 2025 emphasises the need to transform the economy from a predominately agricultural one to a diversified semi-industrial economy with a modern agricultural sector. Small and medium industries have a critical role to play in attaining this goal due to the following factors: SME technologies tend to be simple, affordable and manageable and thus appropriate for rural areas; SMEs can process effectively locally available raw materials and thus add value. In addition, SMEs provide backward and forward linkages, which maximise the multiplier effect to the rural economy.

Policy Statement:

The Government will facilitate the establishment of manufacturing enterprises in rural areas so as to add value to agro products

Strategies:

63. This policy has the following strategies to facilitate rural industrialisation include: -

- i. Strengthen extension services aimed at promoting industrialisation through SMEs.
- ii. Facilitate the establishment of industrial clusters/business centres at regional, district and ward levels
- iii. Facilitate the transfer of technology to rural areas, including upgrading of existing technologies.
- iv. Support establishment of rural industrial cooperatives

5.7 Cross Cutting Issues:

5.7.1. Environmental Considerations:

64. Latest developments in environmental issues have tended to create limitations to the development of SMEs in terms of legal requirements and complexities in compliance to changing regulations. They demand environmentally friendly technologies that are expensive, clear waste disposal techniques and systematised waste management. Furthermore, environmental law and regulations require environmental impact assessment and do impose penalties for non-compliance to laid down regulations. All these require resources, which are not within the reach of SMEs. This is more compounded by the limited awareness of SME operators on the environmental issues.

Policy Statement:

<p>The Government will ensure that environmental considerations are given due emphasis in all SME development interventions</p>
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Strategies:

65. Environment at the moment is a major consideration in all aspects of development. To facilitate environmentally friendly SME development, the following strategies are designed:-

- i. Facilitate creation of awareness on environmental issues to SMEs and their service providers.
- ii. Facilitate simplification of environmental impact assessment procedures.
- iii. Encourage proper waste management including recycling techniques.
- iv. Facilitate production of technologies which apply renewable energy.

5.7.2 Gender and the Disadvantaged Groups

66. Women are a significant part of the Tanzanian labour force and as such any meaningful development effort must mainstream women. Unfortunately, they have less access to productive resources such as land, credit and education due to cultural barriers. As such, it is clear that men and women stand on uneven ground and thus the need for specific measures for promoting women entrepreneurship. The same applies to youth and people with disabilities. Due to these facts there is a need to rectify the situation by facilitating their involvement in the economic activities through participation in the SME sector.

Policy Statement:

Government will ensure that gender mainstreaming is enhanced in all initiatives pertaining to SME development

Strategies:

67. This policy focuses at encouraging women and other disadvantaged groups' participation in SME activities through the following strategies:

- i. Facilitate SME service providers to design special programmes for women and disadvantaged groups.
- ii. Identify factors inhibiting women and other disadvantaged groups from going into business and design programmes which will address those factors.

5.7.3. HIV-AIDS

68. The HIV-AIDS pandemic is a threat to the whole world including Tanzania. It affects the labour force in terms of supply, skills and productivity. It is estimated that an increasing number of Tanzania's population is infected with the deadly HIV-AIDS disease. Consequently, all sectors including SMEs are affected negatively.

Policy Statement:

The Government will continue to implement programmes that check the spread of HIV-AIDS amongst SME operators

Strategies:

69. Strategies designed to check the spread of the epidemic and minimise its impact to the SME sector include:

- i. Create awareness on HIV/AIDS related matters amongst the SME operators.
- ii. Support potential vulnerable groups to engage in income generating projects.

70. In conclusion, the SME development policy seeks to further the objectives of Tanzania Development Vision 2025. The implementation of the SME Development policy is based on the following basic principles: consensus-building through dialogue; active participation of all key stakeholders; capacity building to ensure effective utilisation of all factors of production and periodic review to identify bottlenecks in the implementation process with a view to finding their solutions. Best practices of implementation will be applied and will provide input to further refine the strategies outlined.

CHAPTER 6

ROLES AND RESPONSIBILITIES UNDER THE SME DEVELOPMENT POLICY

71. Effective implementation of any policy depends on clarity on assigning responsibilities and roles to different stakeholders. This facilitates smooth operationalisation of programmes and projects with clear demarcation of levels of accountability. Since SMEs cut across institutional mandate of various government ministries and executive agencies, local authorities, various private sector agencies, different development partners and range of NGOs, coordination is of critical importance. An environment and mechanisms conducive to participation and consultation are desirable in various interventions aimed at implementing the policy as well as in facilitating its effective monitoring and evaluation of impact. In this regard the roles of various stakeholders is as follows:

6.1 Government

6.1.1 Developmental Role

72. The Government's main role is to create a conducive macroeconomic environment that will allow SMEs to emerge, survive and grow. In addition, the government has the responsibility of putting in place the requisite infrastructural facilities which will provide a basic support for the growth of the sector. There is need to develop entrepreneurship through education and training and fostering pro-active entrepreneurship attitude within the civil service and local government service.

73. In the financial services sector, the Government will take measures that will reduce the risks and transaction costs of lending to increase competition in the financial sector and strengthen the capabilities to serve small and medium enterprises. The government will provide seed capital and other financial resources for SMEs. Local government authorities will allocate and develop areas for use of SMEs.

74. In the non-financial services sector, major role of the Government will be to encourage and support market development to facilitate greater demand and supply of BDS. The government will support the establishment and strengthening of extension services for the SMEs.

75. The Government will promote consultations and partnership with the private sector. This will be achieved by ensuring appropriate representation of SME relevant issues on the agenda of the Tanzania National Business Council.

6.1.2. Supervisory role of the Ministry of Industry and Trade

76. The Ministry of Industry and Trade (MIT) shall have the overall responsibility for coordinating the implementation of the SME Development Policy. MIT will function as the secretariat of the SME Forum and publish the Annual SME Report that will include information on the status of the SME sector. The Ministry will establish a data bank to function as research and information clearing house, interconnected with major stakeholders. The Ministry will also coordinate the activities of all SME stakeholders and will be responsible for organising monitoring and evaluation of implementation of the SME Development Policy. MIT will continue to assist SMEs produce high quality goods both for domestic and external markets. Special attention will be focused on packaging which is a critical marketing aide.

6.2 Private Sector

77. The private sector has assumed the leading role in carrying out direct investment in industries. Given this role they are expected to be the major investor in the SME sector. They will have to mobilise resources, implement projects, manage operations and in so doing ensure that the policy is put into effective implementation. Furthermore, it will, through their constituencies provide BDS which will foster the creation of a competitive SME sector. Through their associations they will strengthen the representation of SMEs to promote advocacy in the respective dialogue with the government.

6.3. Non Governmental Organisations (NGOs)

78. NGO's intervention in supporting SMES in Tanzania range from institutional capacity building, direct provision of financial and non-financial services to infrastructure development.

6.4 Development Partners

79. Development partners of Tanzania are intensively involved in all key areas of intervention that are covered in this policy. They provide finance for micro finance operations, physical infrastructures, capacity-building of the SME institutions and various activities intended to create a favourable environment for the SME development. Development partners are expected to design and implement sustainable interventions especially in the financial and non-financial services for the SMEs in compliance with the principles stated in this policy.

CHAPTER 7

POLICY MONITORING AND EVALUATION

80. In implementing the various strategies mentioned in this policy, there will be specific programmes to be put in place and implemented by various stakeholders. These programmes are to be implemented within 3 to 5 years. The Ministry of Industry and Trade, being the focal institution responsible for the coordination of the policy implementation, will collect, compile and analyse information on the implementation of the various programmes. All stakeholders will be relied upon to furnish the Ministry with the relevant information. This information will then be processed so as to compare the various benchmarks with actual implementation of the programmes. The processed information will be published in a document which will be discussed at a forum of SME stakeholders. As such, this monitoring and evaluation mechanism will be a major policy instrument.

81. The implementation programmes are detailed in terms of activities with specific timeframe as per **annex 1**. The activities will be benchmarked so as to form the basis for assessment of the implementation of the SME Development Policy.

IMPLEMENTATION OF NATIONAL SME DEVELOPMENT POLICY

A strategy for SME development policy has been formulated in the form of priority programmes and projects that cover up to 5 years. Policy makers expect that through the participatory and consultative process built into this policy statement, lessons learnt during the first 5 years of implementation will enable stakeholders to continuously update the portfolio of priority programmes and projects to be adopted in the future periods to steer towards the overall objective of the SME Development Policy: “**a Tanzanian SME sector that contributes increasingly to equitable economic growth, income and employment generation**”.

PRIORITY PROGRAMMES AND PROJECTS

	OBJECTIVES AND ACTIVITIES	TIMEFRAME	
	Objective 1: Enabling Legal and Regulatory		
1.1	<i>Simplify business registration and licensing procedures.</i>	2003 - 2006	M M
1.2	<i>Simplify tax system and introduce tax incentives to nurse SMEs.</i>	2003 – 2004	M
1.3	2.1.1. <i>Review Government Procurement procedures to facilitate SMEs’ participation.</i>	2003 – 2006	M M M
1.4	<i>Establishment of a window within the commercial court for handling SME disputes.</i>	2003 – 2006	M
1.5	<i>Train and sensitise SMEs on property rights.</i>	2003 – 2006	M M
	Objective 2: Improved Access to Physical Infrastructure and Work Places		
2.1	<i>Local Authorities to allocate and develop land for SMEs</i>	2003 – 2008	M

2.2	<i>Local Authorities to allocate and develop land for SMEs Develop industrial clusters and trade centres</i>	2003 – 2008	M C
2.3	<i>Identify and allocate under-utilised public buildings to SMEs.</i>	2003 – 2008	M
	Objective 3: Strengthened Entrepreneurial Culture and Markets for Sustainable Business Deve		
	3.1 Entrepreneurship Development		
3.1.1	<i>Inculcate through education, training and other programmes, value attitudes that are conducive to development of entrepreneurship.</i>	2003 – 2008	M T
3.1.2	<i>Review school curricula to accommodate entrepreneurship development.</i>	2003 – 2004	D D S E
3.1.3	<i>Introduce entrepreneurial programmes in vocational and technical training.</i>	2003 – 2004	M
3.1.4	<i>Facilitate entrepreneurship development programmes for selected target groups/sectors e.g school leavers.</i>	2003 – 2008	M
	3.2 Business Training		
3.2.1	<i>Embark on capacity building of business training institutions aimed at improving quality of services provided</i>	2003 – 2008	M
3.2.2	<i>Facilitate tailor-made business training programmes for start-ups and for strengthening existing businesses.</i>	2003 – 2008	E
	3.3 Information Services		
3.3.1	<i>Set up of business centres for SMEs.</i>	2003 – 2006	M
3.3.2	<i>Support training on information technology e.g. E-commerce.</i>	2003 – 2004	
3.3.3	<i>Establish a data bank for the SMEs including a national web site for SMEs and a directory of service providers.</i>	2003 – 2006	M
3.3.4	<i>Conduct a census for SMEs</i>	2003-2006	M
	3.4 Technology and Environment		

3.4.1	<i>Establish mechanism for enhancing linkages between SMEs and technology providers.</i>	2003 – 2006	M E
3.4.2	<i>Facilitate joint ventures aimed at enhancing technology upgrading and transfer.</i>	2003 – 2008	
3.4.3	<i>Implement capacity building of Industrial Support Organisations (ISOs) and other service providers.</i>	2003 – 2006	M
3.4.4	<i>Promote incubators .</i>	2003 – 2008	S
3.5 SME Market Access			
3.5.1	<i>Promote business linkages between large and small enterprises</i>	2003 – 2006	M S
3.5.2	<i>Strengthen marketing agencies and institutions that support SMEs.</i>	2003 – 2004	M F
3.5.3	<i>Create SMEs bulk provision systems through a cooperative mechanism.</i>	2003 - 2004	
3.5.4	<i>Facilitate SMEs to participate in local and international markets through trade fairs and missions.</i>	2003 - 2008	M A
3.5.5	<i>Facilitate SMEs to meet standards</i>	2003-2008	M
3.5.6	<i>Facilitate training on trade issues i.e multilateral trading systems and regional trading arrangements</i>	2003-2008	M
Objective 4: Improved SME Access to Finance			
4.1	<i>Promote transferring good practice models and lessons learned in traditional financing mechanisms into modern financial products for SMEs</i>	2003 - 2008	E F
4.2	<i>Facilitate the establishment of SME windows within existing banks and encourage simplification of procedures.</i>	2003 - 2006	M I F
4.3	<i>Promote innovative financial products for SMEs such as hire purchase scheme, leasing, inventory financing, venture capital SMEs</i>	2003 - 2008	M I
4.4	<i>Facilitate simplification of procedures of financial institutions</i>	2003-2008	M
4.5	<i>Mobilise resources and promote establishment of new financial institutions for SME development</i>	2003-2008	M
Objective 5: Strengthened stakeholder capacities to achieve effective implementation of SME a and interventions			

5.1	<i>Support establishment and strengthening of Associations of SMEs.</i>	2003 - 2006	M
5.2	<i>Establish a forum for SMEs</i>	2003 - 2006	M F E
5.3	<i>Facilitate strengthening and networking of service providers of SMEs</i>	2003 - 2006	
5.4	<i>Strengthen Government capacity to coordinate monitor and evaluate Policy</i>	2003 - 2006	M
5.5	<i>Enhance the knowledge and skills of relevant government officials at all levels on SMEs development.</i>	2003 - 2006	M
Objective 6: Enhanced Rural Industrialisation			
6.1	<i>Strengthen extension services aimed at promoting rural industrialisation through SMEs.</i>	2003 - 2008	F
6.2	<i>Facilitate the establishment of industrial clusters/business centres at regional, district and ward levels</i>	2003 - 2006	M F
6.3	<i>Facilitate the transfer of technology to rural areas, including upgrading of existing technologies.</i>	2003 - 2006	T
6.4	<i>Support establishment of rural industrial cooperatives.</i>	2003 - 2006	M
OBJECTIVE 7: CROSS CUTTING ISSUES			
7.1 ENVIRONMENTAL CONSIDERATIONS			
7.1.1	<i>Facilitate creation of awareness on environmental issues to SMEs and their service providers.</i>	2003 - 2006	\
7.1.2	<i>Facilitate simplification of environmental impact assessment procedures.</i>	2003 - 2006	\
7.1.3	<i>Encourage proper waste management including recycling techniques.</i>	2003 - 2006	\
7.1.4	<i>Facilitate production of technologies which apply renewable energy.</i>	2003 - 2006	\
7.2 GENDER AND DISADVANTAGED GROUPS			

7.2. 1	<i>Facilitate SME service providers to design special programmes for women entrepreneurs and disadvantaged groups.</i>	2003 - 2006	↑
7.2. 2	<i>Identify factors inhibiting women and the disadvantaged groups from going into business and design programmes which will address those factors.</i>	2003 - 2006	↑
	7.3 HIV-AIDS		
7.3. 1	<i>Create awareness on HIV/AIDS related matters amongst the SME operators.</i>	2003 - 2008	↑
7.3. 2	<i>Support potential vulnerable groups to engage in income generating projects.</i>	2004 - 2008	↑ F