



REVOLUTIONARY GOVERNMENT OF ZANZIBAR

**MINISTRY OF TRADE AND INDUSTRIAL DEVELOPMENT
ZANZIBAR**

THE MICRO, SMALL AND MEDIUM ENTERPRISES POLICY

2020

Table of Contents

LIST OF ABBREVIATIONS.....	iii
FOREWORD.....	v
CHAPTER 1: BACKGROUND.....	1
1.0 INTRODUCTION	1
1.1 Contribution of MSMEs to the Zanzibar economy	2
1.2 Purpose of the review of MSMEs Policy (2006)	2
1.3 Rationale for MSMEs Policy.....	3
1.4 A Snapshot of socio-economic data	3
1.4.1 Zanzibar Consumer Price Index	4
1.4.2 Employment Situation.....	4
1.4.3 Government Revenue and Expenditure.....	4
1.4.4 Import and Export Trading	4
CHAPTER 2	6
2.0 MSMEs SITUATIONAL ANALYSIS.....	6
2.1 Formation of MSMEs in Zanzibar	6
2.2 Distribution of Employment Opportunities in MSMEs	6
2.3 Supportive Mechanism toward Developing MSMEs.....	6
2.4 Financial and Economic Reforms	7
2.5 Property and Business Formalization Program (MKURABITA).....	8
2.6 Cross Cutting Issues.	9
2.7 Climate Change and Sustainable Environment	9
2.8 Definition of MSMEs.....	9
2.9 Classification of Establishments of MSMEs.....	10
2.10 MSMEs Support Services	10
2.11 MSMEs SWOC ANALYSIS	11
2.11.1 STRENGTHS	11
2.11.2 WEAKNESSES	12
2.11.3 OPPORTUNITIES.....	14
2.11.4 CHALLENGES	14
CHAPTER 3	19
3.0 Policy Alignment with MSMEs Policy	19
3.1 Vision 2020	19
3.2 Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) MKUZA III	20
3.3 Industrial Policy (2019)	21

3.4 Zanzibar Investment Promotion Policy (2003)	21
3.5 Education Policy (2006).....	21
3.6 Employment Policy (2008)	21
3.7 Zanzibar Fisheries Policy (2016)	22
3.8 Land Policy (1995)	22
3.9 Zanzibar Energy Policy (2009)	22
3.10 Zanzibar Environmental Policy (2013).....	23
3.11 Agricultural Sector Policy (2003)	23
3.12 Zanzibar Livestock Policy (2011)	23
3.13 Zanzibar National Trade Policy (2006).....	23
3.14 Zanzibar Technical and Vocational Education and Training Policy (2020)	24
3.15 Private Sector Development Policy (2020).....	24
CHAPTER 4	25
4.1 Vision	25
4.2 Mission	25
4.3 Policy Objectives	25
4.4 Guiding Principles	25
4.5 Strategic Areas of Policy Interventions.....	26
4.5.1 Agriculture	26
4.5.2 Agricultural products marketing	27
4.5.3 Fishing and seaweed farming.....	27
4.5.4 Tourism.....	28
4.5.5 Manufacturing.....	28
4.5.6 Business Services.....	28
CHAPTER 5	35
5.0 IMPLEMENTATION, MONITORING AND EVALUATION	35
5.1 Policy Implementation.....	35
5.1.1 Legal Framework	36
5.1.2 Institutional Framework	36
5.1.3 Role of Development Partners	36
5.1.4 Agencies.....	37
5.1.5 Financing the Policy.....	37
5.2 Monitoring and Evaluation.....	37

LIST OF ABBREVIATIONS

AGOA	African Growth Opportunity Act
AZASPO	Association of Zanzibar Salt Producers Organizations
BOT	Bank of Tanzania
BPRA	Business and Property Registration Agency
CGCLA	Chief Government Chemist Laboratory Agency
COMESA	Common Market for East Sub-Saharan Africa
COSTECH	Commission for Science and Technology
EAC	East African Community
EEZ	Exclusive Economic Zone
EU	European Union
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
ICT	Information Communication Technology
KIST	Karume Institute of Science and Technology
MANLF	Ministry of Agriculture, Natural Resources, Livestock and Fisheries
MCZ	Manufacturers' Council of Zanzibar
MICT	Ministry of Infrastructure, Communication and Transportation
MLEEWC	Ministry of Labour, Empowerment, Elderly, Women and Children
MKURABITA	Mpango wa Kurasimisha Rasilimali na Biashara za Wanyonge Tanzania
MFP	Ministry of Finance and Planning
MTI	Ministry of Trade and Industry
MSMI	Micro, Small and Medium Industries
MSMEs	Micro, Small and Medium Enterprises
NTFP	National Task Force on MSMEs Policy
PBZ	People's Bank of Zanzibar
PBFP	Property and Business Formalisation Programme
PPP	Public Private Partnership
R&D	Research and Development
SACCOS	Savings and Credit Co-Operative Society
SADC	Southern African Development Community
SIDO	Small Industries Development Organization
SDG	Sustainable Development Goals
SME	Small and Medium Enterprises
SMIDA	Small and Medium Industries Development Agency
SUZA	State University of Zanzibar
Tan Trade	Tanzania Trade Development Authority
TIRDO	Tanzania Industrial Research and Development Organization
TBS	Tanzania Bureau of Standards
UAE	United Arab Emirates
UWAMWIMA	Association of Vegetables Producers of West District
UNIDO	United Nation Industrial Development Organization
URT	United Republic of Tanzania
USD	United States Dollar
VAT	Value Added Tax
VICOPA	Village Cooperative Banks
VTB	Vocational Training Authority
ZAFIRI	Zanzibar Fisheries Research Institute

ZALIRI	Zanzibar Livestock Research Institute
ZAWA	Zanzibar Water Authority
ZBS	Zanzibar Bureau of Standards
ZECO	Zanzibar Electricity Corporation
ZEMA	Zanzibar Environment Management Authority
ZFDA	Zanzibar Food and Drugs Agency
ZIP	Zanzibar Industrial Policy
ZIPA	Zanzibar Investment Promotion Authority
ZNCC	Zanzibar National Chamber of Commerce
ZSTC	Zanzibar State Trading Corporation
ZSGPR	Zanzibar Strategy for Growth and Poverty Reduction
ZURA	Zanzibar Utilities Regulatory Authority
ZU	Zanzibar University

FOREWORD

Zanzibar has since the early 1980s pursued trade liberalization and import-substitution, export-led and consolidation strategies to foster industrial and MSMEs development. The MSMEs Policy was first produced as a written policy document in 2006 on the approach to strategize industrial development. This document set out the Government's approach to MSMEs development against a backdrop of significant changes in the global economic environment. The success of the sector is crucial for the prosperity of the country. The policy developed is underpinned by a number of policy measures, including fiscal and financial incentives, tariff protection and trade preferences, standardization, ICT, market access, fair competition, financial support, institutional support and infrastructural services. These have contributed to the emergence of the MSMEs sector as an important pillar of the economy, helping to diversify the economic base, creating employment opportunities, substituting imports, saving foreign exchange, expanding exports and generating foreign exchange earnings.

It gives me great pleasure and honour to present the Micro, Small and Medium Enterprises (MSMEs) Sector policy 2020. The formulation of this Policy has been a comprehensive and inclusive process based on analysis and wide stakeholder consultations that involved Government Ministries, Public Sector Implementing Agencies, Private Sector Associations, Development Partners, Educational and Research Institutions as well as Civil Society. I wish to take this opportunity to thank most sincerely all those who participated in putting together the road map for the growth and development of the private sector, but mostly the MSMEs. There is no doubt that MSMEs play a crucial role in value chain supply for sustainable economic growth with their contribution in the GDP and employment creation irrespective of age and gender.

However, the MSMEs sector has grappled with wide ranging challenges, both legal and institutional, supply constraints, quality, market access, access to credit, initial and working capital among others. These challenges impede the growth and development of the full potential of MSMEs. The Zanzibar Strategy for Growth and Poverty Reduction III (ZSGPR III) addresses, among other things, the strengthening of Zanzibar Competitiveness for sustainable wealth creation, inclusive growth and employment". The Government through the Ministry of Trade and Industry recognises the importance of developing the MSMEs policy in guiding the private sector as an important vehicle for knowledge exchange, technology transfer and innovation development, research and investment towards a significant contribution to sustainable and efficient value addition.

The Ministry fully recognises the contribution of other stakeholders cited in this Policy document and shall coordinate, support, develop and promote the implementation of MSMEs development policy strategic framework for 2020 -2030. The Government will continue to engage the cooperation, participation and involvement of all stakeholders in the implementation process of this policy, with the aim of attaining the national objectives of vision 2020.

While technological innovations provide entrepreneurs with tools to improve efficiency and productivity, it is important to note that lack of affordable financing, inadequate use of ICT, knowledge/skills deficiency, negative socio-cultural perceptions and product certification and standardisation remain major obstacles for many MSMEs participation in global value chain trade. These shortcomings, among others, are the bottlenecks the MSME policy shall address and attempt to overcome.

The Government places great importance on the role played by the private sector and all other stakeholders in the socio-economic transformation of our country, and the Ministry, therefore, commits itself to full implementation of this policy, with the support of all stakeholders.

**HON. AMBASSADOR AMINA SALUM ALI
MINISTER OF TRADE AND INDUSTRY
ZANZIBAR.**

Acknowledgment

The production of Zanzibar Micro, Small and Medium Enterprises (MSMEs) policy is the joint collaboration of the Ministry of Trade and Industry and other various stakeholders. The Ministry of Trade and Industry would like to thank those who participated in one way or another in the preparation of this new policy for their tireless efforts during the whole period of preparing the policy. Particular thanks should go to the staff of the Department of Industry for their dedication and extraordinary support in polishing this policy to take the present shape.

Juma Hassan Reli
PRINCIPAL SECRETARY
MINISTRY OF TRADE AND INDUSTRY

CHAPTER 1: BACKGROUND

1.0 INTRODUCTION

Zanzibar comprising of the islands of Unguja and Pemba is a small island economy where about 70% of the population depends directly or indirectly on agriculture for its livelihood (ZASDP 2019). The islands had a combined population over 1.3 million people by the end of 2012 growing at an estimated rate of 2.8% per annum. The population density for Zanzibar increased from 530 persons per square km in 2012 to 603 persons per square km in 2019 (Zanzibar Statistical Abstract 2020). For Governments throughout the world, the role of Micro, Small and Medium sized Enterprises (MSMEs) in becoming increasingly prominent. MSMEs can be established in any locality for any kind of business activity in urban or rural areas. The primary reasons for the existence of MSMEs are:

1. To provide goods and services to satisfy customers' needs
2. To increase employment opportunities in the society
3. To contribute to the National economy.

While several initiatives have been taken to improve the business environment including institutional and regulatory reforms, there is a special need to improve the MSMEs sector for sustainability and growth. These initiatives include: establishment of Business and Property Registration Agency (BPRA), Business Licence Regulatory Council (BLRC), Zanzibar Bureau of Standards (ZBS), Zanzibar Fair Competition Commission (ZFCC), Small and Medium Industries Development Agency (SMIDA), Zanzibar National Business Council (ZNBC), Zanzibar Industrial Policy (ZIP) and Technical and Vocational Education and Training (TVET) Policy.

In order to devise a basic framework for the growth and development of MSMEs the specific policy was developed to provide guidance and create an enabling environment for MSMEs activities. The policy aims at achieving the following objectives;

- ❖ Achieve discrete policy and regulatory space for MSMEs along with identification of key areas for reforms concerning laws, regulations, and programs.
- ❖ Develop MSMEs Policy by identifying roles of all stakeholders including public and private sectors in SMEs sector development.
- ❖ Define strategies of MSMEs support and set priorities.
- ❖ Institutionalize MSMEs support to ensure regular information sharing among all stakeholders.
- ❖ Propose detailed support programs for MSMEs sector development.
- ❖ Propose separate economic indicators to institute monitoring and evaluation mechanisms for MSMEs Policy and Programs.
- ❖ Propose a National level authority to coordinate activities for MSMEs development.

The Policy also highlights issues and strategies on areas of business environment, access to finance & related services, access to resources & services, SMEs definition and monitoring mechanism. The SMEs Policy review was a participatory process through which private sector bodies, chambers of commerce and industries, trade associations, public sector organizations and MSMEs across the country were consulted.

1.1 Contribution of MSMEs to the Zanzibar economy

The Micro, Small and Medium Enterprises sector plays a very important role in the economy of Zanzibar, and is acknowledged in the Zanzibar Strategy for Growth and Poverty Reduction (ZSGRP) as crucial towards addressing the concerns and aspirations of the Zanzibar Vision 2020. Zanzibar depends on commercial and service activities for economic growth and most of the activities are carried out by the MSMEs who are engaged in small-scale businesses, manufacturing, agriculture, fishing, and business services. These sectors together with the hospitality industry, contribute significantly to the GDP and poverty reduction through employment creation and direct taxes to the Government coffers.

MSMEs also play a fundamental role in utilizing and adding value to local raw materials including agricultural produce. The development of MSMEs facilitates the distribution of economic activities within the economy and thus fosters equitable income distribution. Furthermore, MSMEs technologies are easier to acquire, transfer and adopt. In addition, MSMEs are better positioned to satisfy the limited demands of the small domestic market.

1.2 Purpose of the review of MSMEs Policy (2006)

The Revolutionary Government of Zanzibar (RGoZ) approved its Small & Medium Enterprises (MSMEs) Policy in October 2006, which envisioned having a vibrant and dynamic competitive SMEs sector that will effectively transform the available physical and human resources through sustainable processes into national wealth that is equitably shared.

The mission of the Policy of 2006 was to stimulate development and growth of MSMEs activities through an improved enabling environment, enhanced service provision and the creation of a conducive legal and institutional framework to achieve improved growth, sustainability and competitiveness in the SMEs sector. This revised Policy focuses on MSMEs advanced development and will provide the necessary connectivity between public and private sectors to create a conducive environment for the development and growth of the MSMEs to prevent their marginalization in the globalization process.

The purpose of the review is to take stock of the measures taken since the promulgation of the 2006 SMEs Policy, to identify results achieved to date, as well as obstacles encountered in its implementation. The review is forward-looking, as its findings, regarding the progress in the implementation of this policy are the basis for recommendations for the main stakeholders on the way forward for the coordination and/or the implementation of pro-SMEs interventions in Zanzibar.

The SME Policy review was necessary to go in tandem with the economic reforms taking place in the country and internationally. The adoption as well as implementation of the Zanzibar Strategy for Growth and Poverty Reduction III (ZSGPR III), business formalization and licensing reform programs and technological advancement call for the re-alignment of the MSMEs Policy to meet the current demands and situation.

On the other hand, the Policy review was necessary in implementing the Sustainable Development Goals (SDGs), which among other things, calls for ending poverty in all its forms by eradicating extreme poverty for all people everywhere, reduce at least by half the proportion of men, women and

children of all ages living in poverty in all its dimensions according to national definitions, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including micro finance. The SDG goals also emphasize on promoting sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all, sustain per capita economic growth in accordance with national circumstances, promote inclusive and sustainable industrialization and foster innovation and, by 2030, significantly raise industry's share of employment and gross domestic product, in line with national circumstances, and double its share in least developed countries increase the access of small-scale industries and other enterprises particularly in developing countries, to financial services, including affordable credit, and their integration into value chains and markets.

1.3 RATIONALE FOR MSMEs POLICY

The development of a vibrant MSMEs sector is vital for every world economy in terms of generating employment opportunities, income and wealth generation and poverty alleviation. The Government of Zanzibar, in line with most Governments in the world recognise that the MSMEs sector is the most important source of job and wealth creation and that the existence of a vibrant and competitive MSMEs sector is the key to poverty alleviation.

The Government also recognises that the development of the MSMEs sector in Zanzibar is inhibited by a number of factors including a wide range of legislative and regulatory factors which impede the potentially positive impact of the sector on the economy. Whilst a number of different policies have been introduced towards the overall goal of poverty alleviation in the country, implementation has been restrained by capacity and resources gaps and to date there has been no overall coordination and focus of the Policy and implementation measures to address the critical needs of the SMEs sector.

The vast majority of business enterprises in Zanzibar are MSMEs and it is recognised that historically the formal consultative process between the private sector and Government in terms of developing an agreed agenda for growth has been weak. This Policy as the product of close collaboration and consultation between the public and the private sector is needed as a vital framework for coordination, direction and prioritisation of a number of initiatives and policy measures towards the development of the MSMEs sector in Zanzibar.

The MSMEs Policy clearly states that SMEs sub-sector will be a driving force for the development of the country. Other sectoral policies, such as those of agriculture and tourism development also underpin the key national goals of the Zanzibar Poverty Reduction Programme and highlight the need for job creation and the development of the SMEs sector.

The MSMEs Policy recognizes that the development of the MSMEs sector requires specific interventions across a wide range of Government policies and the development of capacities and capabilities in both private and public sector and is fully in accordance with stated national policies and objectives.

1.4 A Snapshot of socio-economic data

Overall, the socio-economic performance of Zanzibar is characterized by strong GDP growth rates over the past years. According to Zanzibar Statistical Abstract 2020, the GDP at constant (2015) market prices grew by 7.0 percent in 2019. The three broad sectors which registered growth are

agriculture, forestry and fishing (5.7 per cent), industry (9.7 per cent) and services (8.0 per cent). The GDP growth and the contribution by sector for the last five years is shown in the table below:

Table 1: The GDP growth and the Contribution by sector

Year	GDP	Agriculture	Industry	Service	Tax on Product
2015	6.2	22	18.4	49.8	9.8
2016	5.8	21.9	19.2	48.7	10.1
2017	7.7	21.5	19.6	48.6	10.3
2018	7.1	21.3	17.8	51.3	9.7
2019	7.0	21.2	18.3	50.6	9.9

Source: Zanzibar Statistical Abstract (2020)

1.4.1 Zanzibar Consumer Price Index

The Zanzibar Consumer Price Index for the year 2019 was recorded as 110.3 compared with an average of 107.3 for the year ending 2018. The index for non-food stood at 111.9 showing relative rapid price movement compared to the food index which recorded 108.1. The change in price level paid by the consumer for the year 2019 stands at 2.7%, referred to as inflation. The trend of the overall inflation rate in Zanzibar for the last five years remained in a single digit. Meanwhile, the Tanzanian Shilling has shown a trend of depreciation from TZS 1,997 against one USD in 2015 to TZS 2,289 in 2019.

1.4.2 Employment Situation

The total employment for all sectors (Government, Parastatals and Private) increased by 6.3 percent to 62,804 in 2018/2019 compared with 59,079 in 2017/2018. The total wage bill was TZS 538,277 million of which TZS 405,766 million was used for payment of salaries and TZS 20,751 million for free ration. The private sector in 2018/2019 accounted for 24,009 employees of whom 16,031 were males, of which the accommodation and food service industry had the highest number of employees-12,387. The wage bill for all private industries was TZS 182,228 million of which TZS 135,207 million was salary payment and TZS 29,542 million as payment in kind and other benefits paid to employees. (Zanzibar Statistical Abstract 2020)

1.4.3 Government Revenue and Expenditure

During the financial year 2018/2019 a total resource of TZS 1,115.8 billion had been received which indicated an increase of 22.8 percent compared to TZS 908.9 billion in the previous year. This included domestic revenue of TZS 749.8 billion which shows an increase of 8.9 percent compared to TZS 688.6 billion in 2017/2018. The tax revenue contributed 89.6 percent of domestic revenue.

The overall government expenditure in 2018/2019 reached TZS 1,130.8 billion showing an increase of 25.5 percent compared to that of 2017/2018. A total of TZS 704.5 billion was allocated to meet recurrent expenditure. Total development expenditure was TZS 426,278.8 of which 102.4 billion was spent during the year from domestic revenue and TZS 323.9 billion from external resources.

1.4.4 Import and Export Trading

In 2019, Zanzibar recorded a total volume of trade worth 803,884.6 million which is an increase of 1.8 percent compared with the recorded volume in 2018. The recorded export value in 2019 was 48,573.3 million which was lower by 16.5 percent to that recorded in 2018. The value of imports in 2019 was 755,311.3 million indicating an increase of 0.6 percent compared to that of 2018. The trade balance in 2019 has shown a deficit of TZS 706,738.1 million compared with the balance of TZS 701,935.8

million recorded in 2018. The exported value of clove recorded in 2019 was TZS 19,844.6 million which is equivalent to 40.9 percent of the total export.

Table 2: Trend of import and export value from 2015- 2019.

	Export	Import	Trade balance
2015	42,407	427,938.1	-385,531.1
2016	96,234.9	460,919.9	-364,884.9
2017	145,756.8	531,026.2	-385,669.4
2018	58,187.0	760,122.8	-701,935.8
2019	48,573.3	755,311.3	-706,738.1

Source: Zanzibar Statistical Abstract (2020)

CHAPTER 2

2.0 MSMEs SITUATIONAL ANALYSIS

2.1 Formation of MSMEs in Zanzibar

The implementation of the MSMEs Policy, (2006) has shown a great change in the sector and entrepreneurs in general. In recent years, more people, especially the youth, have engaged themselves in entrepreneurship activities including manufacturing, agriculture, agro and food processing, service and trade.

As of June 30th, 2020, the Business and Property Registration Agency office registered 353 trade names, 1,603 sole proprietorship, 102 foreign companies, 1,255 companies limited by shares, 22 limited but guarantees and one public company engaged in different projects for income generation.

MSMEs is a leading sector in providing employment opportunities for Zanzibar. There is a high increase of MSMEs projects where MSMEs projects exceed 97% based on the interpretation of the SMEs Policy (2006) of Zanzibar.

2.2 Distribution of Employment Opportunities in MSMEs.

According to the Zanzibar Census of Establishment Report (2016), there are 27,281 establishments carrying out businesses in fixed premises in Zanzibar engaging 180,851 workers. Urban West Region has the largest number of establishments (13,208 equivalent to 48.7 percent) followed by Kusini Pemba with 4,689 establishments (17.2 percent), while Kusini Unguja Region has the lowest number with 2,500 establishments (9.2 percent). Kaskazini Pemba has 3,247 establishments which is equivalent to 11.9 percent and Kaskazini Unguja has 3,565 establishments equivalent to 13.1 percent.

About half of all establishments (48.7 percent) are located in the Urban West administrative region, in the city and main port of Zanzibar; and only 9 percent are located at South Unguja. About 61.0 percent of these establishments are engaged in distributive services (i.e. trade and transport) and only 4 percent in agriculture. 79.3 percent of establishments are of size 1-4; and individuals (Tanzanians) own 54.9 percent of the non-family establishments. Of all establishments, 82.2 percent are family owned, of which only 17.8 percent are solely owned by females. In general, the 27,281 establishments employ a total of 180,851 people of which 113,365 (equivalents to 62.7 percent) are engaged in the services sector.

2.3 Supportive Mechanism toward Developing MSMEs

The MSMEs sector benefits from Government and private sector support which is in the form of technical, financial and non- financial. There is a high improvement in terms of skill and knowledge

transfers to the entrepreneurs through trainings such as production skills, packaging, business management, entrepreneurship, customer care service, identifying business opportunities, record keeping, and credit management. More than 14,379 MSMEs including individual entrepreneurs, SACCOS and cooperatives groups were trained from 2016 to July 2018.

There are also a number of measures taken to overcome financial challenges. According to the 9th Sectoral Empowerment Report of 2016, the Empowerment Fund was established in 2003 with a capital of TZS 1.573 billion. From June 2017 to July 2018, the Empowerment Fund extended to MSMEs a total of 279 loans totaling TZS 660,471,000.00. About TZS 461,779,438.00 had been paid back to the Fund by MSMEs.

The establishment of a Vocational Training Authority facilitates the promotion of technical and entrepreneurial skills in vocational training centers run by the Authority itself or by other public, private and NGO institutions. The main objective of the vocational training is to impart necessary skills towards self-employment of graduates. Notable initiatives in the development of entrepreneurship in Zanzibar include the establishment in 2013 of an incubation center at the Karume Institute of Technology and Science, the continuous task of establishing a Vocational Training center in each region of Zanzibar and the mushrooming of vocational training centers by other players offering a variety of professions. There are other schemes and initiatives supporting MSMEs in Zanzibar undertaken by the Ministry of Livestock and Milele Foundation (NGO). Almost all of these institutions offer training and financial support in the form of grants or soft loans to eligible MSMEs.

Meanwhile, a women center for production of solar energy equipment was established at Kibokwa by 12 women trained by technicians from India. In terms of quality of products, there are notable improvements in packaging and general awareness in conforming to the established standards. The Zanzibar Bureau of Standards promotes good manufacturing practices by MSMEs to meet local, regional and international market needs.

In the past five years, the Government in collaboration with the Zanzibar National Chamber of Commerce (ZNCC) facilitated the introduction and use of barcodes for locally produced goods to ensure their traceability as required by current practices. The sensitization work continues, and so far, only 93 barcodes are in use by MSMEs. The Government also support in marketing of MSMEs products through facilitation of participation every year in different trade fairs and shopping festivals nationally and internationally. The fairs include the Saba Saba international trade fair, SADC industrialization week, EAC trade exhibitions (Juakali) and trade festivals in Zanzibar.

2.4 Financial and Economic Reforms

The Government issued the action plan for reform areas under Zanzibar Poverty Reduction Plan. The action plan detailed areas to implement a number of interventions under a series of reforms including good governance reform, economic and financial reform (this includes the adoption of PBB/MTEF budget and planning concepts within the public sector), strengthening Clove Industry, improvement of Government Accounting, financial reporting, auditing, procurement and use of IT, improvement of data collection and publication, strengthening the public enterprise and public sector management. Similarly, a number of institutional and human resource reforms encompassing civil service reform were implemented.

Based on the recognition that there was no regulatory framework in place for Micro-Finance Institutions (MFIs), the Ministry of Finance recently promulgated a Micro-Finance Policy (2016). Its implementation strategy is under preparation. Other initiatives include the Economic Empowerment Fund (2013) funded by the Government and managed by the Ministry responsible for empowerment issues. The Fund aims at providing soft financial loan with the maximum size of TZS 5 million per loan. The existence of an SMEs Guarantee Scheme by the Bank of Tanzania involving commercial banks. However, the scheme is not very active in Zanzibar. According to Bank of Tanzania, for the period of March 2007-December 2015, commercial bank lending was dominated by personal loans, followed by lending to the trade and tourism sectors. The levels of lending by commercial banks to agriculture, manufacturing, transport and export remained very low.

Some commercial banks have established windows for MSMEs lending, but it is too early to assess its result. Over the past decade, some other regulations, procedures and practices with impact on MSMEs development have been reviewed. These include business registration, business licensing, and business taxation.

With respect to business registration, this resulted in the Business Entities Registration Act and the creation of the Zanzibar Business and Property Registration Agency through Acts No.12 and 13 (2012) respectively. In streamlining the functions of business registration, the Agency was transferred to the Ministry of Trade and Industry from the Ministry of Constitutional Affairs and Justice.

Regarding business licensing, an analysis of the business licensing regime in Zanzibar, (report of 2011), revealed the multiplicity of licenses, permits and certification rules administered by multiple authorities having different procedures and requiring annual renewals which is cumbersome and costly for businesses. As per Act No.13 (2013), the Business Licensing Regulatory Council was formally established with the aim of putting in place uniform and simplified procedures and, overall, a transparent, effective, efficient and low-cost licensing system. With respect to business taxation, reforms have been introduced, such as the combination of stamp duties and individual income tax into one single tax.

Other legislations related to the improvement of business environment includes Zanzibar Standards Act No.1 (2011), the Secured Transaction Act (2011), Zanzibar Trading Act No.4 (2013), the Companies Act (2015), the Public-Private Partnership Policy (2014) and Business Licensing Regulatory System Act (2013), Legislation relating to Business and Property Registrations Act (2012), Fair Competition and Consumer Protection Act (2018) and Food, Drugs and Cosmetic Agency Act (2017). There also other legislations supporting MSMEs development including Investment, Utilities and Land Act.

2.5 Property and Business Formalization Program (MKURABITA)

The Property and Business Formalisation Programme (PBFP) known as MKURABITA in Kiswahili (Mpango wa Kurasimisha Rasilimali na Biashara zaWanyonge Tanzania) is an initiative of the Government of the United Republic of Tanzania assisted by the Institute of Liberty and Democracy (ILD), Peru. The program was conceived by the Government of the United Republic of Tanzania with the aim of empowering people in the informal sector. This is the main target of MKURABITA. The purpose of the programme is to empower the poor majority of the population in Tanzania by increasing their access to formal financial markets and other services by formalisation of their property rights and

business. The program also intends to compliment with the NSGPR (MKUKUTA), the use of assets to access capital and use of assets as collateral to access loans for business and improve business organization forms. The main objective of establishing the MKURABITA program is to create a unified legal and institutional framework that recognizes secured and accessible property rights and constitutes an important stepping stone to a wide range of economic benefits available in the formal market. Other specific objectives are to identify key barriers to business formalization e.g. (administrative and legal), identify best quality archetypes that can be adopted, design reform proposals for business formalization, link with other on-going reforms and identify gaps for intervention by MKURABITA and identify and review policies and laws that need reforms.

2.6 Cross Cutting Issues.

Gender: The majority of MSMEs in Zanzibar are either wholly or partly owned or run by women and youth. These MSMEs also play a leading role in clusters for spices, agro-processing and handicraft production. However, they are also the ones most affected by challenges of not getting affordable credit facilities and having to operate in unsuitable premises. Especially when in some instances, the women are the bread earners of their families. The Government has the duty of supporting and encouraging women and youth initiatives through SMEs activities. The Policy provides equal opportunities to women and youth in attaining all facilities including knowledge, financial and non-financial support as required that can enhance their performance in their endeavor.

Vulnerable groups: The Government always emphasizes developing special groups engaged in MSMEs sector so as to enhance opportunities for vulnerable and disadvantaged groups such as orphans, youth and the disabled. There are already a number of these groups engaged in the entrepreneurship activities in production or service provision.

HIV/AIDS: HIV/AIDS has a great impact in MSMEs where the most affected group are the youth. The recent situation of HIV/AIDS in Zanzibar however shows an improvement since the prevalence of HIV/AIDS cases has dropped from 0.6 percent in 2010 to 0.4 percent currently. The Revolutionary Government of Zanzibar has been persistently implementing education programs and advocacy to the most vulnerable groups, youth in particular with the aim of controlling the spread of the disease.

2.7 Climate Change and Sustainable Environment

The Policy emphasises on the conservation and protection of the environment, through rational and sustainable utilization of natural resources for good performance of the MSMEs sector. It is envisioned that sustainable MSMEs should be accompanied by proper environmental management so that natural resources can be utilized for future MSMEs development. This can be assured by promoting production that is socially desirable, economically and environmentally sustainable.

2.8 Definition of MSMEs

The definition of micro, small and medium enterprises includes all types of enterprises irrespective of their legal form (such as family enterprises, sole proprietorships, partnerships and cooperatives) or whether they are formal or informal enterprises to ensure inclusiveness.

The Office of Government Statistician through its Census of Establishments has adopted a categorization of enterprises based on the fulfillment of the minimum requirements of any two of the following criteria namely; number of employees, capital investment and annual sales turnover.

2.9 Classification of Establishments of MSMEs

Micro, Small and Medium Enterprises could cover all independent businesses, informally all legally registered as businesses with competent authorities and they should have tax registration with a limited number of employee and annual sales turnover. The criteria for formally registered MSMEs are as shown below.

Table 3: The criteria for formally registered MSMEs

Category	Number of Employees	Annual Turnover in TZS Million	Total Assets in TZS Million	Tax Registration	Business Registration	Independent Business
Micro	1-4	Less than 28	Not more than 11	Yes	Yes	Yes
Small	5-19	Less than 140	More than 11 and not exceeding to 57	Yes	Yes	Yes
Medium	20-99	Less than 2,000	Not Less than 57 and not exceeding to 650	Yes	Yes	Yes

Source: SME policy 2006

A Micro enterprise is an enterprise which has total assets worth not more than Tanzania Shillings eleven million (TZS 11,000,000) and employs not more than four (4) employees

A Small Enterprise is one which has total assets worth more than Tanzania Shillings eleven million (TZS 11,000,000) but not exceeding to Tanzania Shillings fifty-seven million (TZS 57,000,000) and has not less than five (5) but not more than nineteen (19) employees.

Medium enterprises are the ones which have total assets not less than Tanzania Shillings fifty-seven million (TZS 57,000,000) but not exceeding Tanzania Shillings six hundred and fifty million (TZS 650,000,000) and /or employs not less than twenty (20) but not more than ninety-nine (99) employees.

2.10 MSMEs Support Services

There is an increase in private business services in Zanzibar supporting MSMEs activities. These include management consulting and legal firms, bookkeeping and accounting, international courier services, private photocopy and secretarial service operations. There are about six internet service providers and a number of internet cafes in Unguja and few in Pemba. There are also a number of freight forwarders and clearing agents that provide service to importers and exporters.

More institutions that provide advisory and information services to MSMEs have emerged to assist their initiatives. The Zanzibar National Chamber of Commerce has established a Business Information

Center (BIC) at its premises that provides business information at affordable cost. The Center expects to morph up into a Business Support Centre. Recently mobile E-banking and mobile payments are also gaining prominence in providing financial services.

2.11 MSMEs SWOC ANALYSIS

An analysis of the socio-economic conditions within the entire economy of Zanzibar and the conduct of MSMEs in the delivery of their services was carried out using the strengths, weaknesses, opportunities and Challenges (SWOC) model. The following was revealed:

2.11.1 STRENGTHS

Stable Macroeconomic Environment

Over the last two decades, Zanzibar has enjoyed stable a macroeconomic environment characterized by single digit inflation rate, dynamic foreign exchange rate, GDP growth rate of 7.5% in 2017/2018, and income per capital of USD 907 for 2017/2018. This outlook provides a strong foundation for MSMEs to flourish.

Supportive Institutions

There are both Government and private institutions supporting MSMEs development. These include the Ministry of Labour, Empowerment, Elderly, Women and Children, Ministry of Trade and Industry, Ministry of Agriculture, Livestock and Fisheries, Ministry of Finance and Planning, Zanzibar Investment Promotion Authority, Zanzibar Business Incubation Center, Zanzibar Vocational Training Authority and academic institutions. Among the private sector institutions are National Chamber of Commerce and Milele Foundation. These continue to implement the necessary initiatives, policies and programs that support the development of the MSMEs sector. Significant success has been achieved in skills development, entrepreneurship promotion, and research and business incubation for MSMEs.

Supportive Policies and Legal Framework

Because of the multi-sectoral nature of MSMEs, a number of policies and laws supporting various sub-sectors will consequently complement this MSMEs Policy. These include the Zanzibar Trade Policy (2006), Zanzibar Investment Policy (2003), Land Policy (1995), Industrial Development Policy (2019), Tourism Policy (2017), Public Private Partnership Policy (2014), Micro Finance Policy, and Employment Policy (2008). Among the supportive legal instruments are Zanzibar Trade Act (2013), Zanzibar Standards Act (2011), Zanzibar National Business Council Act (2017), Business Licensing and Registration Council Act (2013). These policies and laws will complement the MSMEs Policy to address the existing gaps in the sector.

Enterprising and Trainable Labor force

There are public and private universities and several institutions offering business, technical and vocational education and training. These offer a steady supply of trained and trainable labor force as well as potential entrepreneurs that MSMEs can tap in to.

Natural Resource Endowments

Zanzibar is gifted by nature with expanses of arable land and fertile soils that support agro-based enterprises and sea with various fish species; a variety of fruits, tourism activities and oil and gas potential which is under exploration. These natural resources support a wide range of MSMEs activities toward employment, income generation and contribute to national economy.

Establishment of MSMEs Development Funds

The Government has established MSMEs Development Funds to support the development of MSMEs activities. These funds include Small and Medium Industrial Development Funds (SMIDF) under SMIDA and Empowerment Funds under the Ministry of Labour, Empowerment, Elders, Women and Children. Since its establishment a total of 3,785 entrepreneurs have benefited from these funds from which 3,758 benefited from the Empowerment Fund.

Presence of Agency to foster Growth of MSMEs Industry (SMIDA)

The establishment of Small and Medium Industries Development Agency (SMIDA) in 2018 was a game change for industrial sector particularly Micro, Small and Medium Industries (MSMI). The Agency will only focus on Micro, Small and Medium Industries development by providing the MSMIs sector with skills development, marketing skills, infusion of appropriate technology, suitable production premises, and affordable credit facilities.

2.11.2 WEAKNESSES

The weaknesses that hinder the MSMEs development include the following:

Limited Access to Affordable Finance

The major and often cited constraint for MSMEs is limited access to affordable finance needed to meet their capital and operational needs, limited access to and high cost of obtaining credit risk collateral. This normally affects enterprises established by entrepreneurs from manufacturing, business services, as well as agriculture-based enterprises whose businesses are perceived to be risky. However, whereas these financial products exist, interest rates charged are still very high which most MSMEs cannot afford.

Access to finance remains an issue to MSMEs in Zanzibar which are obliged to borrow from commercial banks and other micro finance institutions which offer short-term rather than long-term lending at high interest rates (around 16-18%) unaffordable for industrial or MSMEs projects. Some initiatives have been established to minimize the problem including the operation of the Empowerment Fund (2013) funded by RGoZ and managed by the Ministry of Labour, Empowerment, Elders, Youth, Women and Children, various saving and credit entities known as SACCOS, VICOBA and private financial institutions like Pride Tanzania and others. Also, some commercial banks are reported to have established MSMEs windows but it is too early to assess its result. For example, the People's Bank of Zanzibar started such a scheme in 2016. There is also a MSMEs Guarantee Scheme by BoT involving commercial banks.

The Dominant Informality of the Sector

The majority of enterprises within the micro, small and medium sector operate informally. Most MSMEs are reluctant to formalize their businesses due to perceived fear of taxes and ignorance of the benefit of registration. This high incidence of the informal economy in all its aspects is a major

weakness for the achievement of growth and expansion of the enterprises, enterprise productivity, and working conditions and has a negative impact on the development of sustainable enterprises, public revenues and government's scope of action, particularly with regard to economic, social and environmental policies, the soundness of institutions and fair competition in national and international markets.

Inadequate Technical and Business Skills

Whereas the country has been blessed with an increasing number of academic and training institutions, there is still a gap in the entrepreneurship, technical and management skills. Developing these skills will engender enterprising persons who should be equipped to fulfill their potential and create their own businesses.

Limited Access to Appropriate Technology

Enhanced value addition of products and services by MSMEs needs diverse technology according to the wide range of products and services. In order for the MSMEs to ensure the competitiveness of their products and/or services, the need to access, adopt and/or adapt appropriate technologies is vital. MSMEs must have access to appropriate technologies to facilitate and improve productivity and efficiency.

Limited Access to Quality Assurance & Affordable Product Certification Services

MSMEs face the challenge of a costly process for their product certification and standardization. This puts MSMEs in a disadvantageous position within local, regional and export market access for their products and services. In reality, many of them cannot comply with the present minimum quality and certification requirements due to limited capital.

Uncoordinated Structure of MSMEs Sector

Presently, the MSMEs sector is highly fragmented which undermines competitiveness, growth and sustainability of the sector. As a result, the MSMEs do not have a single common voice and forum for effective policy dialogue or to influence policy in lobbying for government support. This can be attributed to weak internal capacities of associations representing MSMEs and the liberal policies that lack industry to industry supplier linkages and development. A strong apex body is needed to strengthen and coordinate MSMEs to cope successfully with challenges and opportunities of globalization and facilitation of linkages between larger enterprises and MSMEs.

Gender Inclusiveness in MSMEs Development

Women in Zanzibar comprise more than 50% of the labor force and are an important pool of potential talent to help the country meet its development goals, especially in the area of entrepreneurship and micro, small and medium enterprises. However, it is generally known that women face more challenges than men in starting, managing and growing their enterprises as they are more likely to be impeded by a lack of the necessary capacities, skills and resources. Women have also been more disadvantaged than men due to legal impediments, established cultural norms and attitudes about women's roles. Their limited mobility due to domestic responsibilities does not give many women time to concentrate on their enterprises.

2.11.3 OPPORTUNITIES

Access to Regional and International Markets

Zanzibar MSMEs have access to the East African Community market (EAC) which has 6-member states and a population of approximately 130 million people. Zanzibar under the umbrella of United Republic of Tanzania is also a member of the Southern Africa Development Community, consisting of 16-member states with a population of over 300 million people. The current tripartite negotiations EAC-COMESA-SADC which brings the total population of 520 million puts Zanzibar at strategic geographical advantage to establish international trade links. Zanzibar products also enjoy preferential access to the European Union, the United States and other trading blocs as well as some countries in Asia.

Unexploited Skills and Knowledge Potentials

There is a great opportunity for MSMEs in general to acquire entrepreneurial skills and knowledge via academic institutions available in Zanzibar. The entrepreneurial based knowledge is important for the betterment of developing their business sustainably.

Unexploited Linkages Between Different Economic Sectors

MSMEs have an opportunity to expand their businesses by targeting manufacturing value addition on spices, herbs, essential oils, cosmetics, seaweed, anchovies, fruits and vegetables, furniture and handicrafts to cater for the tourism market.

African Growth Opportunity Act (AGOA)

The Government recognizes the importance of all these regional and international multilateral relationships that offer an immense opportunity for MSMEs products to reach the premium competitive markets.

2.11.4 CHALLENGES

Limited Infrastructural Facilities

Limited infrastructural facilities such as modern village markets, industrial parks, business premises, clusters, and access to land for operation, common facility centers and business incubators hinder the innovativeness and creativity of the MSMEs. The existing infrastructural facilities related to transportation and basic utilities (roads, power transmission and distribution, water supply, telecommunication) are not only inadequate but also expensive rendering the cost of production and doing business high for MSMEs.

Working premises is a fundamental infrastructure for entrepreneurship development. Many MSMEs in Zanzibar do not have proper working premises for their activities and commonly operate in their residential premises or in the areas not approved for industrial/production purposes. This problem leads to unhygienic and poor-quality products, limited production capacities with consequent limited supply capacities of the MSMEs. One of the main functions of the recently established Small and Medium Industries Development Agency (SMIDA) is to construct industrial buildings which MSMEs can occupy on lease and suitable working areas at affordable rents.

Limited Access to Markets and Business Information Services

MSMEs are faced with a number of challenges in accessing reliable local and export markets for their goods and services. The limited access to market information such as strict international standards, fluctuating foreign exchange rates, free trade areas, stiff competition from similar products makes MSMEs less aware of opportunities and challenges in the market. On the other hand, limited business development services in providing entrepreneurs with business development skills, business information and industrial knowledge to raise MSMEs' productivity is still fragmented and not demand driven.

Existence of Non-tariff barriers for MSMEs Products

In addition to limited access to markets and inadequate business information services, MSMEs in Zanzibar are faced with challenges of non-tariff barriers within EAC Region. Transporting MSMEs products from Zanzibar to Tanzania Mainland and other EAC Countries is complicated with unnecessary barriers such as documentation, certifications, multiple charges and delays in customs procedures.

Existence Legislative Environment Governing Businesses in Zanzibar

All businesses in Zanzibar, but specifically MSMEs due to their small size and limited resources, are affected by a wide range of legislations and implementing regulations at national, district and municipal level. Some of the legislations are only motivated as sources of revenue collection with the imposed fees that have impact on MSMEs development. However, some of these burdensome legislations are being reviewed with particular reference to those dealing with business licensing, quality assurance, business registration and taxation.

Cost of Business Registration

In Zanzibar, all businesses are required to register their business names with the Business & Property Registration Agency (BPRA) Act No.13 (2012). The online registration internal process is relatively time consuming and costly.

Business Licensing

The report by the Ministry of Trade and Industry in 2011 regarding the licensing regime in Zanzibar revealed the existence of multiplicity of licenses, permits and certification rules administered by multiple authorities having different procedures and requiring annual renewals which are burdensome and costly for businesses. As per Act No. 13 (2013), the Business Licensing Regulatory Council was formally established with the aim of putting in place uniform and simplified procedures and, overall, a transparent, effective, efficient and low-cost licensing system. Reforming a licensing regime is a long process, but the Council is expected to streamline the licensing procedures in Zanzibar.

Existence of Multiple Taxation

With respect to business taxation, there are two authorities for collecting taxes; TRA collecting union taxes, i.e. import taxes and income taxes, and ZRB covering domestic consumption taxes. MSMEs in Zanzibar are required to register with both taxation organs which is inconvenient and the tax imposed on the MSMEs is usually perceived as burdensome and a hindrance to the growth of the sector. In addition, the enterprises are subjected to levies and charges imposed by Local Government Authorities.

However, some of these levies and charges were eliminated in the 2020/2021 Government budget speech. In addition, the Tax Registration Authority reforms have been introduced, such as the combination of stamp duties and individual income tax into one single tax.

Barriers at Points of Entry

Zanzibar's external trade goes through its ports, and mainly through the Zanzibar Port. Among the most important trade regulations are those related to import and export taxes and the import-export procedures. Businesses and MSMEs in Zanzibar are confronted with numerous administrative barriers at points of entry to a customs area when importing and exporting goods. Importers and exporters have to deal with a multitude of institutions at the Zanzibar Port, namely, Zanzibar Port Corporation, Tanzania Revenue Authority, Zanzibar Shipping Corporation, Zanzibar Food and Drugs Authority, Zanzibar Bureau of Standards, Ministry of Agriculture, Tanzania Atomic Energy Commission, Freight Forward Bureau, Shipping Agents, Clearing and Forwarding Agents and Zanzibar Revenue Board.

Business and MSMEs dealing with imports and exports through the Zanzibar entry points all find the procedures cumbersome, time consuming and expensive. The Government has taken measures to address these challenges by harmonizing the procedure through the establishment of single window clearance procedures.

Inadequate Investment Incentives

The Zanzibar Investment Promotion and Protection Act No.14 (2018), provides opportunities to approved projects with a minimum capital of 100,000 USD for locals to enjoy investment incentives. However, these incentive packages do not cater for MSMEs by virtue of their small sizes and meagre financial resources in relation to the established criteria. Therefore, there is a need for the Government to review the Investment Act so as to accommodate both large and MSMEs investors in benefitting from the incentives provided.

Limited access to Public Procurement Opportunities

MSMEs still find it difficult to access public procurement due to their sizes, low production capacities and technologies and hence they cannot compete fairly in the open public procurement process. The Public Procurement Act no.11 (2016) offers general reserved schemes for Zanzibaris in public procurement but without clearly emphasizing on local content conditionality or consideration of the rules of origin for the supplies. It is feared that the local producers especially MSMEs will be crowded out by indigenous traders who may qualify to supply totally imported goods. The Government should build processes and capacities in implementing a fair and transparent public procurement system and special consideration from which MSMEs can benefit.

Limited Private Business Associations.

In general, the level of development of business organizations in Zanzibar is weak, and there is an absence of strong key organized groups and associations which play a major role internationally through group initiatives in the development of the SME sector. Sector specific business organizations are emerging in Zanzibar. Apart from Zanzibar National Chamber of Commerce (ZNCC), there is the Zanzibar Association for Tourism Investors (ZATI), Zanzibar Tour Guides Association (ZATOGA), Zanzibar Tour operators (ZATO) and the Manufacturers' Council of Zanzibar (MCZ).

There is also the Association of Non-Governmental Organizations of Zanzibar (ANGOZA), Association of Small Producers (UWAZI), Zanzibar Food Processors Association (ZAFOPA), Zanzibar Federation of Informal Society Organization (ZAFISO), Association of Zanzibar Salt Producer Organizations (AZASPO), Gando Entrepreneurship Program (GEP), Miliki of Companies, Nungwi Development Association (LABAYKA), Association of Vegetable Producers of West District (UWAMWIMA), Association of Spice Growers etc.

Limited MSMEs Coordination

It is a fact that there are many stakeholders in the development of the MSMEs sector. The stakeholders are from the public and private sectors, NGOs, the International donor agencies etc. The implementation of MSMEs Policy activities by these many stakeholders is difficult, sometimes leading to duplication of efforts and wastage of scarce resources. The MSMEs consultative committee under the Ministry of Trade and Industry was established to promote, speed up and coordinate all entrepreneurial activities by different stakeholders in Zanzibar as part of MSMEs Policy implementation. The committee comprises of an equal number of members from both private and public sectors. The committee is required to meet at least four times a year but due to financial and manpower constraints, it fails to meet regularly to perform its responsibilities as required.

Lack of Proper and Affordable Packaging Materials

One of the challenges facing MSMEs in Zanzibar is the lack of proper and affordable packaging materials. The effect of using imported packaging material makes the product less competitive in the market. Most of these packaging materials are expensive and imported from Tanzania Mainland or countries like Kenya and China, increasing the cost of production to MSMEs. There is an **urgent** to attract investments to produce packaging materials within Zanzibar.

Inadequate Enabling Environment for MSMEs

MSMEs and the private sector can flourish under stable macroeconomic conditions even though this alone is not sufficient in itself for a high level of enterprise creation and sustained growth of existing businesses. An enabling environment should be friendly to new business creation and to the growth of existing businesses through, among other things, availability of physical infrastructure and effective entrepreneurial supporting institutions. Some important steps are in place including enactment of Business Licensing Regulatory Council (ZBLRC) Act no.13 (2013), Concession Project Act no.1 (1999) and its Policy (2016), Business & Property Registration Agency (BPRA) Act no.13 (2012), Zanzibar Standards Act no.1 (2011) and Zanzibar Trading Act no.14 (2013).

Limited Synchronization between MSMEs and Research and Academic Institutions

There is a skill gap in the MSMEs sector that requires to be addressed for the MSMEs to flourish. The gap is caused by the mismatch between the demand of MSMEs and training programs offered by academic institutions. For MSMEs to grow and produce the expected benefit to the economy there is a need to have collaboration with the training and research institutions.

Table 4: Summary of SWOC Analysis

STRENGTH <ul style="list-style-type: none"> ~Stable macroeconomic environment ~Supportive institutions ~Supportive policies and legal framework ~Enterprising and trainable labour force ~Natural resource endowments ~Conducive business climate ~Establishment of MSMEs development funds ~Presence of agency to foster growth of MSMEs industry (SMIDA) 	WEAKNESS <ul style="list-style-type: none"> ~Limited access to affordable finance ~The dominant informality of the sector ~Inadequate technical and business skills ~Limited access to appropriate technology ~Limited access to quality assurance & affordable product certification services ~Uncoordinated structure of MSME sector ~Gender inclusiveness in MSMEs development
OPPORTUNITIES <ul style="list-style-type: none"> ~Access to Regional and International Markets ~Unexploited skills and knowledge potentials ~Unexploited linkages between different economic sectors ~African Growth Opportunity Act (AGOA) 	CHALLENGES <ul style="list-style-type: none"> ~Limited Infrastructural facilities ~Limited synchronization between MSMEs and research and academic institutions. ~Lack of proper and affordable packaging materials ~Limited MSMEs coordination ~Limited access to public procurement opportunities ~Limited private business associations. ~Inadequate enabling environment for MSMEs (Inadequate investment incentives, barriers at points of entry, existence of multiple taxation, business licensing, cost of business registrations and legislation, unfair competition) ~Existence of non-tariff barriers for MSMEs products ~Limited access to markets and business information services ~inadequate promotion of product hygiene, safety and quality standards.

CHAPTER 3

3.0 Policy Alignment with MSMEs Policy

The Government has adopted a number of policies to address the development of this country. These include national and sectoral policies some of which have been initiated and implemented soon after the trade liberalization policy in the mid-eighties. The bulk of the financial and economic sectoral policy reforms have been initiated since the late 1990's. This MSMEs Policy encompasses key elements of these reforms and is fully compatible with high level national objectives.

3.1 Vision 2020

The revisited Vision 2020 articulates the overall development goal for Zanzibar as the eradication of absolute poverty and the attainment of sustainable human development. In order to achieve this goal, Vision 2020 stated that it was necessary to re-define the roles of the central and local government institutions in the process of social and economic development by establishing an appropriate legal framework and the creation of a conducive environment for the operation of the private sector.

In order to promote the diversification and transformation of the economy so as to create a robust, resilient and competitive economic environment, Vision 2020 lists a number of priorities:

- Modernization of agriculture;
- Promotion of sustainable tourism;
- Promotion of sustainable fishing;
- Promotion of sustainable industrialization, including the development of MSMEs;
- Strengthening the Free Economic and Export Processing Zones;
- Promotion of transit trade and free port facilities;
- Strengthening of the domestic and international trade sectors.

The revisited Vision 2020 accords a leading role to the private sector and MSMEs in contributing to the development of the country by also participating in the development of physical and social infrastructures and envisages the establishment of a public-private partnership for development as an essential policy tool. At the same time, the Government through Vision 2050 states that a competitive MSMEs sector supported by strong business support services with strategies to promote local industry and linkages with agriculture and tourism and high quality and volume of local manufactured products and MSMEs services can be attained through the provision of appropriate reciprocal control mechanism.

The priority objective of the strategy for the development of Small and Medium Sized Enterprises and entrepreneurship in Zanzibar is to create an enabling environment for the development of a sustainable

internationally competitive and export oriented MSMEs sector and subsequently to secure economic and social growth in the country which will be reflected in

1. An increase in the standard of living
2. Significant increase in employment
3. Stronger and steadier regional development through the principle of Decentralization by Devolution
4. Reduction in dependence on commodity crops
5. An increase in resources for other sectors in particular education and health.

3.2 Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) MKUZA III.

The focus of the MKUZA III is on nurturing the growth of dynamic economy based on tourism potential and the associated supportive sectors of agriculture and fisheries. The aim is to undertake transformative innovations to enhance the tourism sector productivity as a means to economic and social transformation. In line with the revised Zanzibar Vision 2020 “Achieving middle income status by 2020” (ZV2020), the focus of MKUZA III will be poverty reduction and improvement in the quality of livelihoods and hence the theme **“Economic and social transformation for the wellbeing of all to be realized”**.

Presumably, as relatively more appropriate technologies are deployed, an economy not only grows but also changes structurally to ensure both quantity and quality service delivery. Over the last decade, there has been a change in the focus of development policy away from mere quantitative changes in the rate of output towards a concern for the changing qualitative nature of economic growth encapsulated in the concept of economic transformation. This suggests that while economic growth is necessary, it is not enough to avert poverty and guarantee human development. It also requires a significant economic transformation involving a fundamental change in the economy’s structure focusing on people’s livelihoods through production of greater wealth that is distributed equitably.

MKUZA III places emphasis on the private sector to spearhead the economy. It is therefore important to create a conducive business environment to allow the private sector to responsibly thrive and create jobs in profitable investments.

The reviewed Zanzibar Trade Policy of 2006 is envisaged to fully support the MSMEs development and entrepreneurship culture as a source of employment opportunities and income generation. The policy addresses the issue of the designing and implementation of instruments to promote the “productive agglomeration and clustering of MSMEs” through associative arrangements and collective action, considering different social and productive situations. Productive agglomeration requires that the public sector develops institutional capacities to strengthen and take advantage of the associative experiences.

The Policy states that, the government shall create a conducive environment on both legislative, institutional and regulatory instruments to enhance a vibrant and dynamic competitive MSMEs sector that will effectively transform the available opportunities of physical, natural and human resources through sustainable strategies. The Policy strategies include:

- ❖ Centralize regulatory authority and administrative environment of MSMEs to ensure proper promotion, support and development of MSMEs. This will also facilitate proper licensing, registration and taxation system
- ❖ Remove legal and regulatory barriers and unnecessary procedures to enterprise and sole traders to facilitate MSMEs development and competitive business environment
- ❖ Formulate micro financial policy to improve access to financial services and promote the concept of SMEs windows in financial institutions.

3.3 Industrial Policy (2019)

The Revolutionary Government of Zanzibar developed the new Industrial Policy of 2019, which clearly recognizes the MSMEs sector as a driving force for development and provides strategies for private sector promotion. The Policy has emphasized both promotion of export-oriented industries as well as the small-scale industries, at the same time supporting MSMEs industries that are ancillary to the basic industries. The Policy's aim is to transform the economy and enable producers utilize the locally available or imported raw materials using more efficient technologies. In that regard, the Policy recognizes the indispensable need to fully engage the citizens and the private sector MSMEs in particular, in the industrialization process that would encompass optimal utilization of natural resources of Zanzibar.

3.4 Zanzibar Investment Promotion Policy (2003)

The Government of Zanzibar formulated an Investment Policy that outlines the overall investment policy objectives and a number of priority sectors including financial and business services, with off-shore banking and free port center activities among the priority areas, developing the tourism sector as the basis for urban and rural development, manufacturing, especially with an export orientation (and emphasis on MSMEs), regional headquarters for financial and business services (including information and communication technology services), developing the fish and marine sub-sectors, trading of goods and services. Investments under ZIPA enjoy tax incentives such as tax holidays from corporate taxes and exemptions in import duties for imported capital goods and raw materials.

3.5 Education Policy (2006)

Education is an important factor for the development of the MSMEs activities. In this manner, the Education Policy emphasises on education as a pillar for getting skilled laborers in the country. Therefore, the Government provides education, skills and knowledge to youth through technical and vocational education and training so as to prepare skilled labour which performs well in both public and private employment. Technical and vocational education/training is a necessary ingredient towards poverty reduction as it provides opportunity for self-employment. Therefore, the Policy lays more emphasis on technical education and vocational education and training to be designed in line with labour market demands. There are different universities, colleges and technical institutions offering skills at different levels.

3.6 Employment Policy (2008)

The Employment Policy of 2008 acknowledges the role of the MSMEs sector for employment in the rural community, especially for women and youth. The Policy Statement emphasizes that a sustainable manufacturing sector driven by the development of MSMEs shall be promoted with a view to accelerating economic growth and reducing poverty through income generation and employment creation in this sector. The Policy Strategies focuses more on:

- Promoting MSMEs competitiveness by facilitating access to capital and non-financial services, such as training, information and advisory services, product quality improvement and market support.
- Creating incubators and other similar programs for potential manufacturing activities and creating opportunities for producing unique export products.
- Promoting the use of more productive and efficient technologies supported by relevant research and development programs.
- Maintaining manpower with adequate skills levels and skill mixes to support the desired manufacturing activities.
- Strengthening institutions to support industrial development and research and development with special attention to supporting MSMEs, as indicated in the Industrial Development, Trade and MSMEs Policies, and
- Strengthening export processing zones and free port facilities and supporting and promoting value chain and value addition for products marketed by women and youth groups.

3.7 Zanzibar Fisheries Policy (2016)

As well as other national policies, the Zanzibar Fisheries Policy (Draft) 2016, also emphasizes private sector investment in production and marketing of traditional and non-traditional products to increase national income and employment opportunities in the sector. The draft policy aims at promoting growth in the post-harvest fishery sector including increasing fish supply and value addition and improving the quality of fish and fisheries products in line with food security requirements of the population of Zanzibar and meeting international standards to support fish trade. The objectives of the Fisheries Policy are to:

- (i) Ensure the sustainability of fishery resources and contribute to preserving the integrity and biodiversity of the reef ecosystem which will *inter alia* contribute to sustaining the development of tourism and related activities;
- (ii) Enhance the social and economic performances of the fishery sector through improving the management of inshore fisheries and creating a conducive environment.

3.8 Land Policy (1995)

Currently, there is no official land Policy in Zanzibar. However, the National Land Use Plan (1995) recognizes the role of agriculture as a major land user, absorbing about 60% of total land area. The four major agro-ecological types of zones - namely Tree and Plantations, Coral, State Farms or Ranching and Rice Cultivation zones - have been clearly described under this plan. However, the plan does not recognize the possibility for diversification to aquaculture production under the coral rag areas and vast areas along the shore.

3.9 Zanzibar Energy Policy (2009)

The Policy aims to increase energy efficiency within Zanzibar, increase the reliability, affordability and independence of modern energy supply in Zanzibar and increase the supply of energy from indigenous renewable energy sources. Also, the Policy states that power utility shall proceed to make sustainable arrangements for installation of back-up by:

- ❖ Generation of facilities, and to maintain an emergency plan for the necessary actions and priorities.
- ❖ Promotion of financial arrangements by Zanzibar through banking systems, micro-finance

institutes or specific financial institutions making funds available for investments in energy efficiency and in generation of renewable energy.

Currently, the Zanzibar Sugar Factory at Mahonda generates 2 MW of electricity using biogases for the factory's own use. Also, there is a study of assessing potential generation of wind and solar power in Zanzibar under EU sponsorship.

3.10 Zanzibar Environmental Policy (2013).

The overall objective of the Zanzibar Environmental Policy (ZEP) is to pave the way for the protection, conservation, restoration and management of Zanzibar's environmental resources. The Policy is based upon guiding principles, including availability of mitigating or greener technologies that reduce waste generation, emissions, and exploitation of natural resources. Also, the Policy aims to improve waste management systems in the country and reduce negative environmental and health impacts and control environmental contamination and pollution from hazardous substances.

3.11 The Agricultural Sector Policy (2003)

The Agricultural Sector Policy of 2003 emphasizes the need to modernize and commercialize the agricultural sector so as to increase productivity and rural incomes while ensuring an ecologically sustainable environment. The Policy also emphasizes on promoting primary processing and providing agricultural raw materials for agro-processing and agro-based enterprises. At the same time the agricultural marketing Policy's objectives is to improve market efficiency through expanding marketing infrastructure and appropriate regulations in order to encourage private sector involvement in production, processing and provision of market services.

Strategically, the Policy focuses on improvement of the market infrastructure such as roads, transport, markets and communication systems to ensure smooth movement of agricultural products from production areas to the final markets, both internally and externally; creation and enforcement of regulations, marketing procedures and guidelines for the operation of wholesale and retail markets for agricultural commodities in order to ensure improvement and fair competition, and promote private sector participation in the production and provision of market services.

3.12 Zanzibar Livestock Policy (2011)

The Zanzibar Livestock Policy emphasizes adoption of recent innovations in the livestock sector development through provision of better extension services. The issues of marketing, standards and linkages with tourism and export sectors receive due consideration along with the promotion of small-scale processing plants. The Policy also seeks to improve zoo-sanitary standards and promote value addition of livestock products for local industry and export market and to strengthen livestock research and extension services towards increased production and productivity.

3.13 Zanzibar National Trade Policy (2006)

The Zanzibar Trade Policy of 2006 which is under review fully supports the MSMEs development and entrepreneurship culture as a source of employment opportunities and income generation. The Policy addresses the issue of designing and implementation of instruments to promote the "productive agglomeration and clustering of MSMEs" through associative arrangements and collective action, considering different social and productive situations. Productive agglomeration requires that the public sector develops institutional capacities to strengthen and take advantage of the associative experiences.

The Policy states that, the government shall create a conducive environment in both legislative, institutional and regulatory instruments to enhance a vibrant and dynamic competitive MSMEs sector that will effectively transform the available opportunities of physical, natural and human resources through sustainable strategies.

3.14 Zanzibar Technical and Vocational Education and Training Policy (2020)

The Technical and Vocational Education and Training Policy of 2020 acknowledges some of the challenge facing the MSMEs sectors which include (i) TVET graduates' unemployment as an ever-present problem, often caused by lack of creativity, lack of start-up capital and lack of skills for entrepreneurial self-employment. There are limited support services for business start-up after completion of training. TVET trainees are not adequately sensitized to become job-creators instead they are job seekers. (ii) Lack of manpower in the TVET institutions which is why the policy emphasizes the need to train and retain the instructors and trainers in the TVET system so as to equip the workforce with appropriate skills and upgrade their qualification in order to enhance competence, productivity and quality of the deliverables in TVET for MSMEs.

The Technical and Vocational Education and Training Policy focuses on provision of adequate resources to TVET Sub-sector and associated institutions, educating and training in response to market signals and demands, while equally balancing the need for quality of programs and social equity in access to the programs.

3.15 Private Sector Development Policy (2020)

This Policy address as the fact that it is important to support MSMEs in their present state and also important to formalize their business. Informality has the inherent risks of missing markets and mispricing of property. Similarly, it is easy for formalized entities to borrow and use resources from financial institutions to bolster their investments as benefit of economic formalization.

CHAPTER 4

MSMEs DEVELOPMENT POLICY 2020

4.1 Vision

The vision of the MSMEs Policy is:

To have a vibrant and dynamic competitive MSMEs sector that will effectively transform national endowment into national wealth.

4.2 Mission

To stimulate development and growth of SMEs activities through an improved enabling environment enhanced service provision and creation of conducive legal and institutional framework to achieve improved growth, sustainability and competitiveness in the SMEs sector.

4.3 Policy Objectives

The broad objective of the MSMEs Development Policy is to create a conducive environment that will develop in a partnership and consultative manner MSMEs activity in Zanzibar, in fostering job creation and income generation and maximizing value added through supporting them in their efforts to improve performance and competitiveness.

The specific objectives of this Policy are:

- i. To provide an enabling environment through policy, legal and institutional coordination frameworks
- ii. To promote research, product/process development, innovation, value addition and use of appropriate technologies.
- iii. To promote the use of ICT in production, management and marketing
- iv. To promote product and service standards for quality assurance
- v. To support access to markets and business information services
- vi. To increase access to credit and financial services
- vii. To enhance capacity building in entrepreneurship, vocational, business and industrial development skills
- viii. To enhance gender equity, inclusiveness and environmentally friendly businesses for sustainable development.

4.4 Guiding Principles

To ensure speedy achievement of the mission and vision, the MSMEs Policy will be implemented using the following basic principles.

Principle 1: Reform

The Government will make efforts to improve the quality of the business and regulatory environment. Enabling regulations will be put in place through a transparent process with the participation of stakeholders in order to achieve its objectives throughout its implementation.

Principle 2: Integration

Policy coherence shall be adhered to at National, Regional and International levels to promote research, creativity and innovation through the use of ICT.

Principle 3: Participatory

The policy emphasizes on Public-Private Dialogue (PPD) initiatives and promoting MSMEs clustering.

Principle 4: Sustainability

Environmentally friendly and cleaner consumption and production technologies will be given more concern in making sure of the policy's sustainability.

The Government will implement a process of participative consultations with MSMEs stakeholders in reviewing and revising public policies that fall within the scope of revised MSMEs Policy and will make efforts to apply the principles above in issuing better regulations.

Policy making and implementation are dynamic process. Policies will need to evolve as circumstances change. Appropriate monitoring and review mechanisms will be built into the implementation of public policy actions considered within the scope of MSMEs development.

4.5 Strategic Areas of Policy Interventions

Small and Medium-sized Enterprises (MSMEs) play a key role in this quest given their ability to not only react quickly to rapidly changing market conditions, which have come to characterise much of the world economy, but also to disperse economic gains more widely throughout the domestic economy than their larger counterparts. The development of all sectors in the MSMEs has the potential to generate economic growth, raise incomes, and reduce poverty rates in countries. This chapter examines the critical sectors which MSMEs can engage, investigates the primary supply-side constraints which limit their increased participation in the economies and proposes a set of policy options which could boost SMEs participation, productivity, and competitiveness in the economic sectors of the most vulnerable economies.

4.5.1 Agriculture

Zanzibar still enjoys an international reputation as a major clove and spice producer and these products continue to play an important role in the overall economy in terms of employment and export earnings. However, Zanzibar lags far behind in modernizing its industry and addressing specific production gaps and marketing issues. It is recognised that there is considerable scope for increasing the range and output of these agricultural cash crops through focussing on encouragement and facilitation of the formation and strengthening of producer groups in key sectors, significantly having greater involvement of the producer groups in marketing and product development and identification and supplying to niche higher value markets.

4.5.2 Agricultural products marketing

Currently, the agricultural outputs and inputs marketing system is riddled with various inadequacies notably in the absence of a formal commodity value chain. The Ministry of Agriculture, Natural Resources, Livestock and Fisheries, developed an Agricultural Marketing Policy to guide the operation of various actors in the agricultural marketing system. One of the objectives of this policy is to improve market efficiency through expanding marketing infrastructure and appropriate regulations in order to encourage private sector involvement in production, processing and provision of market services.

Strategically, the policy focuses on improving the market infrastructure such as roads, transport, premises and communication systems to ensure smooth movement of agricultural products from production areas to the final markets, both internally and externally; creating and enforcing marketing regulations, procedures and guidelines for the operation of wholesale and retail markets to ensure improvement and fair competition, the promoting of private sector participation in the production of goods and provision of market services.

The Agricultural Strategic Plan (ASP) emphasizes on improving availability of agriculture marketing information and support services; advocate for implementation of a national export strategy; promote private sector participation in provision of agriculture marketing services; improve, create and enforce regulations, procedures and guidelines related to marketing of agricultural inputs and products, establish and promote quality standards for agricultural produce for various markets; and strengthen institutional capacity to address issues related to agricultural trade and marketing as well as identifying various market segments including niche markets for agricultural produce.

On other hand, the Government of Zanzibar, in its poverty reduction strategy, intends to boost the performance of agriculture in general and cloves in particular, which is also enshrined in the Presidential Clove Initiative. Several notable measures, such as Intellectual Property (IP) and branding strategy is underway to support the development of the clove sector. Success of this initiative will result in premium prices for Zanzibar cloves with consequent benefits to small holder farmers, exporters or any other licensed intermediary in the clove value chain as well as the Government and the society as a whole.

4.5.3 Fishing and seaweed farming

Fishing activities are mainly carried out by artisanal fishermen in fishing grounds within 12-miles of inshore territorial waters. No fishing currently takes place by Zanzibar-based vessels in the Exclusive Economic Zone (EEZ) i.e. beyond 12 nautical miles of Tanzania. The current active fishing areas include reefs, mangroves area, continental shelf, and continental slope which now face the challenge of overfishing. The size of the territorial waters fishery resources is modest with an estimated potential yield in the region of 31,000-ton p.a. which can hardly satisfy the local demand for fish, resulting in the recent trend of importing fish from China.

There are major constraints facing fishing and fish processing which include lack of investments in the fishing marketing chain in terms of fish handling, processing, packaging, storage and marketing of the final product.

Seaweed is grown for international markets and contributes to employment creation in a number of coastal rural areas of Zanzibar. However, it is recognised that the industry at present is at the most

primary and rudimentary level of organisation and susceptible to fluctuations in world prices with no value addition or processing undertaken within the country.

A key objective over the next 5 years is to encourage diversification in alternative use and local value addition of seaweed and fish, anchovies in particular, towards the ultimate goal of raising the personal income of those engaged in the sub sectors.

4.5.4 Tourism

Tourism has enjoyed considerable growth in recent years almost entirely benefitting from natural endowments of white sandy beaches, amiable climate, history and hospitality of the Zanzibar people. It is recognised that whilst the global tourism industry is subject to political and economic shocks and the management of all development must be undertaken in an environmentally sustainable manner, the industry offers considerable scope for employment creation in a wide range of goods and services supplied by small-scale local businesses. These include accommodation, restaurants and other catering outlets, shops, transport and sporting facilities. Potential opportunities exist in the supply of furniture and entertainment services to the tourism sector.

A key objective is to increase the range and value of goods and services provided by local MSMEs in order to optimise the local value-added contribution by the sector. The principle of support for the development of local partnership between public and private sector and between large and small-scale business organisations through enhanced training and business development support is the key factor.

4.5.5 Manufacturing

Leading manufacturing sectors in Zanzibar are woodworking and furniture, sugar production, dairy products, manufacture of bakery products, mineral water, wheat flour, lime and cement products, spiced beauty soaps and a small amount of traditional weaving. Most industrial establishments sell their products locally within Zanzibar. Exported manufactured products include essential oils, wheat bran, and wooden products exported primarily to Middle-East. Processed fish and other seafood products, which is one of the natural resources Zanzibar could exploit, have not yet been fully exploited due to absence of sufficient investments in commercial fishing and processing facilities in the country.

4.5.6 Business services

Business services, in both financial and information communication, are growing fast worldwide hence their importance in MSMEs development and the economy in general. Zanzibar has identified business services as a potential growth sector for industrial development and will take advantage of the country's unique location to tap into regional opportunities. One of the key policy objectives is to promote Zanzibar as a regional centre for the provision of business services.

An overriding consideration in all the above areas is to address the significant need to develop necessary capacities in both public and private sectors. In the public sector there is a considerable need to broaden understanding of the key competitive requirements of businesses to operate in a favorable legal and regulatory environment. The private sector organizations require public support to facilitate understanding and access to support mechanisms for technological and market development. The main strategic interventions will be based on issues seen during analyzing the situation of an MSMEs sector in Zanzibar. In summary a lot of things emerged in different MSMEs sectors that either hinder or support MSMEs development. The situation shows that for the MSMEs sector in Zanzibar to flourish

there is need to exploit the opportunity available in East African Community market (EAC) and ongoing EAC-COMESA-SADC tripartite negotiations, the availability of natural resource of arable land and fertile soil that support agro-based enterprises and the sea with various fish species, oil and gas potential and tourism. However, there are a lot of issues that hinder the development of the MSMEs sector to ensure it is profitability and sustainability. Among the issues that need interventions are: limited access to market and business information service, cost of acquiring product certification to ensure its quality, cost of acquiring proper packaging, lack of special incentive for MSMEs investment, lack of supportive infrastructure, existence of non-tariff barriers, limited support from financing institutions, limited access to appropriate technology and presence of a number of taxation and registration procedures for a single enterprise.

The new MSMEs Development Policy falls under five pillars as follow:

1. Skill development
2. Marketés
3. Infusion of appropriate technology (including R&D)
4. Infrastructure
5. Empowerment (including credits, grants, venture capital and loans)

Pillar 1: Skill Development

Skill development is crucial for the MSMEs development. For the MSMEs to flourish, initiatives are needed to ensure that local products can compete with other imported products. Universities, tertiary and vocational trainings institutions must prepare to impart appropriate knowledge and skills to MSMEs.

Issue 1.1: Inadequate capacity building for entrepreneurs.

Most MSMEs undertake their activities without having entrepreneurship and innovation skills needed to develop and sustain their establishments. Vocational education has a crucial role to play in the development of such skills, but most SMEs actors are not encouraged to join Vocational Training Centers to acquire proper entrepreneurship skills. This has been the case even for other industrial establishments when looking for local human resources with industrial specialties.

Policy Statement

The Government will strengthen and encourage integration between MSMEs and vocational and technical institutions to undertake training in entrepreneurship development in order to address the skill gaps in the country.

Policy Strategies

- i. Strengthen and expand entrepreneurship and small business management programs and their outreach, especially to the women, youth and people with disabilities (PWDs) from start-up to maturity.

- ii. Strengthen and encourage integration of training in entrepreneurship development in vocational and technical institutions.
- iii. Promote synergies between MSMEs and networks of business, vocational and technical institutions.
- iv. Provide opportunities to informal MSMEs sector to supplement their expertise through skills-upgrading and certification.
- v. Encourage and facilitate the development of private sector MSMEs business support providers through training, accreditation and cost sharing mechanisms.
- vi. Develop local capacities and capabilities to ensure that a cooperative delivery of Business Development Services (BDS) between the public and private sector interests is attained.
- vii. Encourage MSMEs to join capacity building program provided by VTE.

Pillar 2: Markets

Markets are foremost for the enterprise's sustainable development. It enhances the MSMEs capability to develop and access markets for local produce and expand business regionally and internationally to enable the MSMEs to capitalize and diversify. Market access becomes a challenge for all MSMEs owing to a number of challenges facing the enterprises internal capacity as well as external market conditions. Quality, safety and standard of the products also contribute to market access.

Issue 2.1: Inadequate promotion of product hygiene, safety and quality standards.

Inadequate quality assurance and traceability of products is another challenge facing Zanzibar entrepreneurs in accessing and maintaining markets. Although these services are available in Zanzibar, most MSMEs do not utilize them mainly due to high cost associated with these services and a low awareness among them.

Policy Statement

The Government will support the promotion of product and service standards for quality assurance to ensure hygiene, safety and quality products.

Policy Strategies

- i. Promote and encourage certification of MSMEs' products and services at affordable costs.
- ii. Enhance capacity building and awareness on product design, safety and quality conformity to standards.

Issue 2.2: Inadequate support access to markets

MSMEs are challenged with access to markets due to supply constraints, non-tariff barriers, quality issues, packaging, inadequate market information and unfair competition. It is vital that businesses have access to markets on a fair and equal basis. Wherever, businesses are protected from competition either by misuse of monopolistic powers or regulatory or tax avoidance, this translates directly into lower quality goods and services and higher prices to consumers and demise of potential MSMEs

Policy Statement

The Government shall take all necessary action to support access to market and fair competition.

Policy strategies

- i. Promote networking and business linkage approach amongst MSMEs and bigger firms to maximize intra-industry synergies and economies of scale.
- ii. Facilitate development of new/niche markets through MSMEs participation in local and international exhibitions and trade fairs.
- iii. Provide training on marketing, trading systems and market intelligence for most traded goods for export market.
- iv. Establish a National Business and Information database.
- v. Strengthen availability of proper packaging materials for MSMEs.
- vi. Strengthening fair competition in the market.
- vii. Enforce the local contents conditionality in public procurement to create avenues for MSMEs who utilize local materials.
- viii. Institutionalize reporting and monitoring of NTB and work with countries in the region and institutions to minimize NTB.

Pillar 3: Technology

MSMEs are considered to be the growth engines of developing countries. Globalization and technological transformations have changed the way of doing business. Automation and artificial intelligence are taking over and phase out the days of manual work. Adoption of technology has become a top priority for business success. To keep up with the changing business environment every company needs to be equipped with the latest technology. However, many MSMEs avoid investing in technology due to the fear of high investments and its complexity and therefore the Micro and Small businesses remain at risk of being left behind.

Issue 3.1: Inadequate promotion of research, product/process development and value addition.

Inadequate research and product development process skills reduce innovation and productivity that are necessary for growth and development of MSMEs.

Policy statement

The government will support undertaking different kinds of research for product/process development and value addition to ensure the growth of the MSMEs sector.

Policy Strategies

- i. Encourage the application of research and product development.
- ii. Support the cluster value chain development initiatives and networking between MSMEs, research and development institutions and academia.
- iii. Facilitate the operationalization of Empowerment Fund and SMIDF to foster research on product development and value addition.

- iv. Encourage MSMEs to search for appropriate and sustainable technology to expand in a given land size.
- v. Establish implementation of production zoning concept.
- vi. Encourage the use of Zanzibar products.

Issue 3.2: Insufficient technology and innovation in production

The MSMEs in Zanzibar have a low production capacity due to insufficient innovation and technology that contribute to limited MSMEs sector growth.

Policy Statement

The government will support MSMEs initiatives towards appropriate technology and use of ICT for better innovation and production capacity.

Policy Strategies

- i. Strengthen the use of ICT and upgrade the existing technology for production.
- ii. Encourage MSMEs to engage in the productivity technology of using small production area for large quantity products
- iii. Promote and facilitate MSMEs for technology transfer.

Pillar 4: Infrastructure

In a world in which ‘just-in-time’ delivery is the standard, and in which transit is rapid and storage is expensive, time is a crucial driver of competitiveness. The quality of physical infrastructure, such as roads, ports, and airports, as well as the efficiency of the procedures followed in the operation of these facilities, are important for businesses to enter foreign markets and participate in Global Value Chains (GVCs). In emerging economies, these are often the most important adverse factors signaled by MSMEs seeking to seize global opportunities. The development of an efficient Information and Communication Technology (ICT) infrastructure, as well as enhanced inter-operability and standards, are also increasingly important to access global markets, as they facilitate information exchange and communication as well as participation in the e-commerce platform. Zanzibar lags far behind in advancing the infrastructure necessary for local MSMEs to compete in all areas of demand and supply activities.

Issue 4.1: Insufficient legal framework to support MSMEs to flourish.

A legal framework and effective relevant supporting institutions provide weak and insufficient support to MSMEs. The MSMEs sector, including sole proprietorships and companies, face many complex procedures and regulations in their day to day operations such as registration, licensing, certification, importation and exportation, and delays in processing the applications. Compliance with rules creates a heavy burden in costs on the limited financial, management and personnel resources of MSMEs.

Policy Statement:

The government is committed to strengthen favorable conditions for the MSMEs sector to operate in a simplified and safer legal environment.

Policy Strategies

- i. Strengthen the BPRA for all registration and encourage formalization requirements.
- ii. Simplify licensing procedures and other applications for ease of doing business for MSMEs
- iii. Identify, protect, evaluate and exploit Intellectual Property assets as business tool and sensitize MSMEs on Intellectual Property Rights.
- iv. Review import and export guidelines to consolidate the requirements of all agencies at the entry points.
- v. Earmark and allocate land for MSMEs activities.

Issue 4.2: Inadequate physical infrastructure

Zanzibar has high potential in a number of MSMEs sectors. Nevertheless, harnessing of these potentials is besieged with inadequate physical and economic infrastructure bottlenecks such as roads and ports. Other hindrances to the MSMEs sector are instability of electric power, water supply, and storage facilities for agriculture products and other perishable goods.

Policy statement

The government shall improve physical and economical infrastructure for MSMEs to increase productivity, competitiveness and vibrancy.

Policy strategy:

- i. Provide infrastructural support for the development of MSMEs.
- ii. Earmark and allocate land for MSMEs activities for farmers, livestock and poultry keepers at district level.
- iii. Ensure stability of supplying of electricity at affordable tariffs.
- iv. Investing in large scale water projects to supply for various productive purposes including industrial and agricultural uses.

Pillar 5: Empowerment

Empowerment entails creating an environment that fosters growth. For small businesses, empowerment can take many forms, each with the potential to enhance an organization's efficiency and profitability, as well as ability to work with others toward common goals. Sharing power might be hard at first, but focus should be on the long-term benefits of improving the function of all the various aspects of the business. Most of MSMEs in Zanzibar either fail at initial stage or within few years after establishment due to a number of reasons both technical and financial. For the MSMEs to grow, they need to be empowered taking into account that a great percentage of the MSMEs are run by women.

The institutions responsible for MSMEs empowering need to realize the expected contribution of MSMEs to the economy.

Issue 5.1: Inadequate coordination for MSMEs development

The MSMEs sector has experienced inadequate coordination by various Ministries that are supposed to work together to realize its contribution to the growth of MSMEs and its potential and hence contribute to economic development. The current coordination mechanism is conducted haphazardly when resources are available and do not follow a systematic in a well-organized manner.

Policy statement

The Government and private sector will ensure better coordination between the institutions implementing MSMEs activities so as to avoid duplication of the effort and misuse of resources.

Policy Strategies

- i. Strengthen the MSMEs coordination committee which involves all stakeholders from government and private sectors.
- ii. Encourage the formation of Business Associations and clustering for better coordination.
- iii. Strengthen public-private dialogue in the design and implementation of measures to support the MSMEs sector.

Issue 5.2: Inadequate access to credit and financial services

Access to finance is a critical issue for Zanzibar MSMEs which affects their business development across its main priority sectors. Access to finance remains an issue to MSMEs which borrow primarily from commercial banks and other micro finance institutions. Commercial banks and other micro-finance remain costly (the current interest rate runs around 16-18%). Micro finance institutions primarily focus on short-term rather than long-term lending.

Policy Statement

The Government shall put more effort and measures to strengthen and broaden access to financial systems.

Policy Strategies

- i. Promote and strengthen linkages between MSMEs and financial institutions for extending flexible credit facilities.
- ii. Strengthen credit schemes provided by Microfinance Institutions (MFIs).
- iii. Strengthen MSMEs funds to cater for innovations, value addition and upgrading the start-ups and growth.
- iv. Promote financial literacy training to entrepreneurs and encourage responsive borrowing and lending and financial applications.
- v. Encourage establishment of MSMEs bank.

Issue 5.3: Gender equity and inclusiveness

Gender equality, environment and other cross-cutting issues are very instrumental in economic development. Taking these sensitive issues into consideration is very significant to MSMEs development. However, while some major activities are dominated by women, in particular seaweed and drying anchovies sub sectors, limited participation of men has slowed down the growth of these economic activities.

Policy Statement

The government will strengthen gender equity and inclusiveness in all MSMEs businesses.

Policy Strategies

- i. Promote gender equity and inclusiveness in business development.
- ii. Support investment and adaptation of technologies that respond to economic change for women entrepreneurs, youth and PWDs
- iii. Establish a reward system for women entrepreneurs and PWD innovators
- iv. Restrict any kind of gender discrimination and harassment

CHAPTER 5

5.0 IMPLEMENTATION, MONITORING AND EVALUATION

5.1 POLICY IMPLEMENTATION

The Government recognizes the importance of the private sector in championing the growth and development of MSMEs in Zanzibar. The Government will encourage and support the establishment of business associations or organizations to provide services for MSMEs and to spearhead initiatives towards the achievement of the ultimate goals of the MSMEs Policy. They shall advocate the necessary changes in a well-informed manner and guide the implementation and monitoring of policy actions. As private sector organizations, they shall be expected to strengthen the representation of MSMEs within their organizations, develop and promote MSMEs advocacy agendas and build up their capabilities as providers of relevant Business Development Services in line with their competencies and organizational objectives.

There are institutions with critical contributions towards successful implementation of the Policy. These include the Zanzibar National Chamber of Commerce (ZNCC) and Associations of Informal Sector, Zanzibar Exporters Association (ZEA), Zanzibar Manufacturers' Council (ZMC), Umoja wa Wazalishaji Wadogowadogo (UWAZI), Zanzibar Women Entrepreneurs Association, Umoja wa wakulima wa Mbogamboga Wilaya ya Magharibi (UWAMWIMA), Milele Foundation and other various MSMEs Associations and organizations. Equally the role played by academia including State University of Zanzibar (SUZA), Zanzibar University (ZU), Al Sumait Memorial University and

Karume Institute of Science and Technology (KIST), civil societies, cooperatives and the media in their daily interface between Government institutions and MSMEs cannot be under estimated.

In order to harness and encourage the participation of all stakeholders mentioned, the Government shall provide necessary support, appropriate incentives, guidelines and collaborative initiatives towards realization of a competitive and well developed MSMEs sector. The Government shall endeavor to build the capacity of the private sector and encourage the informal MSMEs to formalize their operations in order to enjoy legitimacy through Government protection. Business organizations are responsible for strongly advocating and promoting fair, transparent and good business practices by their members. As the providers of private goods, the service providers shall be free to develop their services according to the specific objectives of their enterprises.

The Ministry of Trade and Industry being the focal institution responsible for the coordination of the Policy implementation, shall collect, compile and analyze information in all matters related to MSME's Policy implementation. The monitoring and evaluation mechanism shall be a major Policy instrument with detailed activities and specific timeframes developed. The overall Policy objectives and strategies shall be Specific, Measurable, Attainable, Realistic and Timely bound (SMART), and the Policy shall be due for review within a period of 10 years.

5.1.1 Legal Framework

The Zanzibar Vision 2020 shall be the foundation under which this Policy derives its mandate and legitimacy due to the objectives of alleviating poverty among citizens. The Policy further takes cognizance of other sectoral policies and pieces of legislation which shall form the basis for strengthening its implementation. The Successor Strategy (MKUZA III) and the Zanzibar Industrial Policy as well as the over-arching objectives of the Vision shall all inform implementation of this Policy. This Policy shall also operate in accordance with other regional and international decisions, resolutions, agreements and recommendations entered into by the United Republic of Tanzania.

5.1.2 Institutional Framework

In pursuit of the guiding principles of this Policy, all stakeholders shall maintain a good working relationship with the aim of improving the performance and contribution of the MSMEs sector to the socio-economic development of Zanzibar. The implementation plan (Annex 1) suggests the main implementing entities as per policy issues and the proposed policy strategies.

5.1.3 Role of Development Partners

Development partners are expected to play a major role in the design and implementation of sustainable interventions and the Government will take all steps to facilitate maximum impact and implementation support for the MSMEs development program. Budgetary allocations to these organizations shall be tied to impact evaluation. Development partners of Zanzibar are involved in most key areas of interventions that are covered in the revised MSMEs Policy. They provide start-up capital for microfinance operations; finance physical infrastructure investments and provide assistance in building up capacities.

5.1.4 Agencies

The MSMEs sector makes a major contribution to the economy of Zanzibar and interfaces with various agencies from public sectors that streamline and facilitate their legitimacy and operations. All agencies shall be involved in the Policy implementation, notable among them are the Zanzibar Investment Promotion Authority (ZIPA), Zanzibar Bureau of Standards (ZBS), Tanzania Revenue Authority (TRA), Zanzibar Revenue Board (ZRB), The Office of Chief Government Statistician (OCGS), Business and Properties Registration Agency (BPRA), Zanzibar Environmental Management Authority (ZEMA), Zanzibar State Trading Corporation (ZSTC), Small Medium Industries Development Agency (SMIDA), Commission for Science and Technology (COSTECH), Tanzania Industrial Research Development Organization (TIRDO), Small Industries Development Organization (SIDO), Zanzibar Electricity Corporation (ZECO), Zanzibar Food and Drugs Agency (ZFDA), People's Bank of Zanzibar (PBZ), Tan Trade, and Youth Councils to mention a few.

5.1.5 Financing the Policy

The Policy will be financed in accordance with Government budget, resources by the Development Partners, Donations grants and Empowerment Funds. While the bulk of funding is expected to originate from Government and Development Partners, interventions from other stakeholders especially in the aspect of human resource development, technical support, innovations and value additions and researches for implementation of the Policy objectives shall be welcome.

5.2. MONITORING AND EVALUATION

A logical framework or log frame is a matrix which conceptualizes foundations upon which monitoring and evaluation system is created. The monitoring log frame indicates clear objectives of the policy or program and how achievement of these objectives should be judged using some specified measurable indicators.

A monitoring logical framework shall be prepared for all policy objectives and targets to facilitate monitoring and accountability of the responsible implementers, respectively. Logical framework includes Goals, inputs, outputs, outcomes, and expected impact. The content and layout of the public policy monitoring log frame can be directed by the guide shown in the table below.

Table 5: logical framework for monitoring

Indicator	Indicator definition	Baseline (2020)	Target (2030)	Data source	Frequency	Responsible Institution
GDP per capita at current price	Average value addition per person in terms of output of goods and services for a specified period (i.e. one year)			Economic Survey	Annually	OCGS
GDP growth rate	The rate of economic growth from one period to another, expressed as a percentage and adjusted for inflation (i.e. expressed in real as opposed to nominal terms)			Economic Survey	Annually	OCGS
Inflation rate	The rate at which the general level of prices for goods and services is rising over a period of time			Economic Survey	Annually	OCGS

Proportion of population below the basic needs' poverty line.	Proportion of people whose income or expenditure is below the basic needs' poverty line; the basic needs poverty line reflects the incidence of poverty in all basic needs, including shelter, clothing and food requirements.			HBS	5 years	OCGS
---	--	--	--	-----	---------	------

Target Issue 1:

Indicator	Indicator definition	Baseline (2020)	Target (2030)	Data source	Frequency	Responsible Institution
OUTCOME 1:						
OUTCOME 2:						

Source: MKUZA III