

The background of the entire page is a low-angle, black and white photograph of a high-voltage power line tower. The tower is a complex lattice structure that tapers towards the top. It is silhouetted against a sky filled with soft, white clouds. Several power lines extend from the tower towards the corners of the frame.

**BUSINESS LEADER PERCEPTIONS OF
THE INVESTMENT CLIMATE IN
TANZANIA**

2009

BEST-AC supports private sector organisations to engage in private public dialogue and to advocate an improved business environment in Tanzania by providing grant aid, training and mentoring.

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BEST-AC | TPSF Building | 1288 Mwaya Road | Masaki | Dar es Salaam | Tanzania

P.O. Box: 23059 | Dar es Salaam | Tanzania

☎ + 255 22 260 2751 or 260 2382 ✉ info@best-ac.org 🌐 www.best-ac.org

Fieldwork for this survey was undertaken by Business Care Services during July and August 2009. The responses were analysed and the report was written by David Irwin.

BUSINESS LEADER PERCEPTIONS OF THE INVESTMENT CLIMATE IN TANZANIA

1. INTRODUCTION

This report has been prepared to highlight priorities for action to improve the business enabling environment in Tanzania. It has been commissioned by BEST-AC whose role is to support private sector organisations (PSOs) to engage in private public dialogue and to advocate change in public policy with the objective to improve the business environment in Tanzania.

The World Bank asserts that improvements in the enabling environment lead to greater levels of investment by the private sector, more wealth and job creation, and ultimately more poverty alleviation. The best way for government to understand how to improve the enabling environment is to involve the private sector through consultation and dialogue and, in particular, to understand and address the private sector's needs and priorities.

This is the second year that BEST-AC has assessed and reported on Tanzanian business leaders' views of the enabling environment and the government's role in making it easier to do business.

The results suggest that business leaders are more positive about the enabling environment this year than they were last year.

2. ENABLING ENVIRONMENT ASSESSMENTS

The World Bank researches a number of indicators and publishes its "Doing Business" reports annually.¹

The Doing Business reports highlight a small number of indicators. Many countries are responding to the conclusions of the reports and aiming to cut bureaucracy and make a difference. However, it is possible to focus on just two or three of the indicators used by the World Bank – and make a big difference to their ranking but not make much difference to the overall ease of doing business (that is, to their rating) and so the perception of the private sector may be that not much has happened.

In Doing Business 2010, Tanzania is ranked at 131, more or less the same position as last year. Indeed, its rankings for key areas of doing business are largely static as well.

Table 1: Tanzania: Doing Business rankings

	2009 rank	2010 rank
Ease of doing business	126	131
Dealing with licences	172	178
Employing workers	140	131
Registering property	142	145
Paying taxes	109	119
Enforcing contracts	33	31

Sources: World Bank: *Doing Business 2009* (2008), *Doing Business 2010: reforming through difficult times* (2009) (NB the 2009 rank was adjusted in the 2010 report).

It is perhaps worth comparing Tanzania's efforts with other countries in the region. Rwanda was the world's top reformer in 2009 according to Doing

¹ World Bank, Doing Business: see www.doingbusiness.org

Business 2010, rising some 76 places. Tanzania and Burundi remained static. Kenya and Uganda both slipped.

Table 2: East Africa: Doing Business rankings

	2009 rank	2010 rank
Burundi	177	176
Kenya	84	95
Rwanda	143	67
Tanzania	130	131
Uganda	106	112

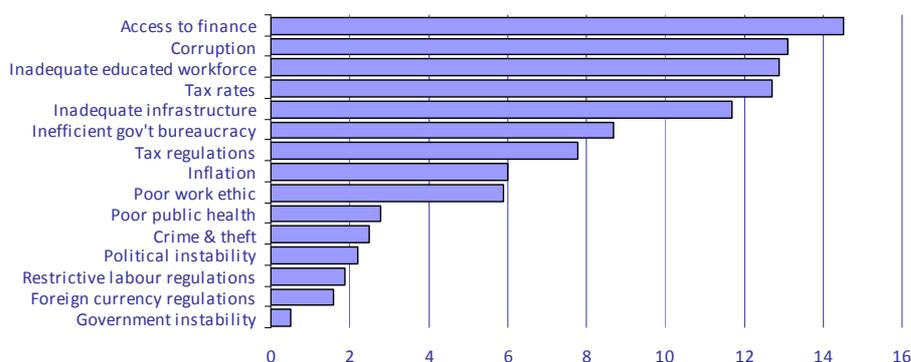
Sources: World Bank: *Doing Business 2009* (2008), *Doing Business 2010: reforming through difficult times* (2009)

Whilst the World Bank's work is incredibly valuable to policy makers in highlighting areas worthy of reform and promoting debate, it does not offer a holistic view. Furthermore, encouraging more people to start in business or encouraging more people to join the formal economy or encouraging more investment will be far more dependent on a broader perception of the ease of doing business rather than on the narrower score reported in Doing Business.

The World Economic Forum also researches and publishes assessments of competitiveness, of which the enabling environment is part.² Their 2009/10 report suggests that Tanzania has risen marginally, ranking 100 out of 133, up from 113 in 2008. The index comprises 12 'pillars' which cover a wide range of factors including education, innovation and business sophistication. No pillar covers, exclusively, the enabling environment, though one does cover infrastructure, where Tanzania scored just 2.5 out of a maximum of 7 and ranks 123.

The World Economic Forum does ask businesses to indicate which issues are most problematic. Infrastructure was the most problematic in 2008 but in 2009 it was access to finance, then corruption, and then inadequate education of the workforce. It should be noted, however, that respondents are asked to rank factors from a list rather than scoring each individually, meaning that all factors will always be seen as 'problems'.

Figure 1: WEF: Most problematic factors for doing business



Source: World Economic Forum (www.gcr.weforum.org) 2009/10

² World Economic Forum – see www.gcr.weforum.org

3. RATIONALE FOR THIS STUDY

With organisations such as the World Bank and World Economic Forum undertaking research to assess the problems faced by business, it may seem that there is no need for further studies. This study is different, however:

- Perception and reality may well be different, but people act on the basis of what they perceive to be the case, even if that is not wholly accurate. Having an understanding of perceptions may not only convince policy makers that more needs to be done but also, particularly where there is a big gap between perception and reality, provide clues to the government about how to communicate messages about reality.
- This research isolates the factors that are important to specific sectors. There are a wide range of factors which together comprise the enabling environment, though not all are important to every business, and not all make business more difficult. A self-employed consultant, for example, will not be concerned about employment law or the availability of skilled labour, but may be very concerned about taxation and the ease of enforcing contracts. A factor that is important to a business may not necessarily make doing business difficult, though we might expect to see some correlation.
- The survey not only asked about the factors that are problematic but also, unlike other surveys, asked business leaders to identify the factors where the government is perceived to be making a positive effort.
- It also asked about the factors that may deter future investment. There is a danger that governments just assume that businesses will carry on investing irrespective of the enabling environment, but the results in this survey suggest that may not be the case.
- It has attempted to quantify the costs to business of meeting the regulatory requirements imposed on them.

This second study, whilst suggesting that priority areas have changed a little, largely confirms the priorities identified last year. These should be the priority areas for action by the government if it wants to make a difference not only to the enabling environment but also to the way that it is perceived by business.

4. PRIORITIES

Business leaders were asked about

- The enabling environment factors that are important to their business;
- The factors that make it difficult to do business;
- The non-tariff barriers that are relevant to their business;
- The non-tariff barriers that cause problems for their business;
- Their perception of whether and, if so, how, government is addressing each factor;
- Their view of whether each factor would be likely to deter future investment; and
- An assessment of the costs involved in meeting the requirement of regulation and red tape.

The factors seen by all sectors to be important to successful businesses are:

- Power
- Roads
- Water (not in last year's top four, but perhaps reflecting the lack of rain)
- Licensing and regulation (not in last year's top four)

The factors that make it difficult for businesses to get on with running and growing their business, in order, are:

- Power (top last year)
- Corruption (third last year)
- Access to finance
- Roads (second last year)

This shows a degree of correlation with the factors that are important to business. Given that licensing and regulation is seen as important to business it was, perhaps, surprising that licensing didn't feature more strongly as a factor impeding business (coming 10th in the list). It may be however that this is partly covered by the issue of corruption, since regulation and licensing often provide opportunities for corrupt practices, but may also be because established firms have learnt how to deal with it.

Our 'enabling environment priority index' takes into account both how the factor make business difficult and the perceived level of effort being made by the government to address the issue. This suggests that the issues to be addressed, in priority order, are:

- 1 Corruption (up from second last year)
- 2 Power (down from first last year)
- 3 Access to finance
- 4 Level of taxation
- 5 Administration of taxation
- 6= Roads
- 6= Licensing & regulation
- 6= Ease of land registration

It is interesting to compare this list with the WEF assessment. There is a high degree of correlation though WEF combines all infrastructure into a single factor and does not ask about licensing & regulation or land registration. Availability of skilled labour was third in this list last year; this year it has dropped out of our top 8 but is still high in the WEF assessment.

These are the issues that the government should prioritise if it wishes not only to make a difference to the enabling environment but also to the perceptions held by business leaders. Ideally, it would also seek good quality media coverage for any changes to influence private sector perceptions.

It should be noted that the cost of complying with regulation takes a high proportion of businesses' expenditure. If it were possible to reduce this, then it would free up resources – both financial and managerial – which the businesses could then use for investment.

5. METHODOLOGY

The fieldwork was undertaken during July and August 2009 by Business Care Services, a Tanzanian business, management and development consulting firm.

The survey was conducted using an electronic spreadsheet based questionnaire designed by David Irwin. The questionnaire was delivered to most respondents by email. However, few responses were returned by email. In most cases, BCS followed up respondents and administered the questionnaire face to face, transcribing the results for each respondent into the spreadsheet. The results were analysed by David Irwin.

The sample mainly consisted of members of leading companies drawn mainly from Private Sector Organisations with which BEST-AC worked during the year, though some were drawn from outside this set. The sample population comprises 130 businesses covering a range of sectors, locations and business sizes. ('Other' included two in transport, one in construction, one in communication and one in mining.)

Table 3: Sample population

Sector	Location	Size (employees)
Manufacturing	59 Dar es Salaam	49 0-9 19
Service	29 Zanzibar	8 10-24 20
Agriculture & processing	10 Arusha	8 25-49 21
Hotels & tourism	5 Tanga	6 50-99 16
Other	7 Other	59 100-250 18
		>250 12
		Did not say 24

6. OVERVIEW

In the first question, respondents were asked to indicate which of a range of factors were important to the success of their business and were then asked to indicate whether that factor made doing business very difficult, somewhat difficult, had room for improvement or was not a problem at all. The reason for splitting the results is that it is quite possible for a factor to be important – a manufacturer might need a reliable source of electric power for example or a service business might rely on effective telecommunications – but for that factor not to cause problems – power or telecommunications might be reliably available. Similarly some factors may not be important – we might anticipate for example corruption should score low on importance unless businesses rely on corruption for their success – but may interfere in the effective management and success of the business.

This year's survey covered all the factors that were considered last year, but two additional factors, telecommunications and security, were inserted this year, giving a total of 17 factors.

The results for whether issues were important are shown in figure 2. The main factors, each identified by 68 per cent of respondents, were power and roads. These were followed by water, and then licensing & regulation, then ports and airports and skilled labour.

Business registration is an issue for many businesses in Tanzania. For this survey, registration was considered to be part of broader licensing and regulation so was not asked about separately and, in any event, it tends to be something that businesses only do once whereas many licensing requirements are annual.

Figure 2: Importance of factors (all respondents)

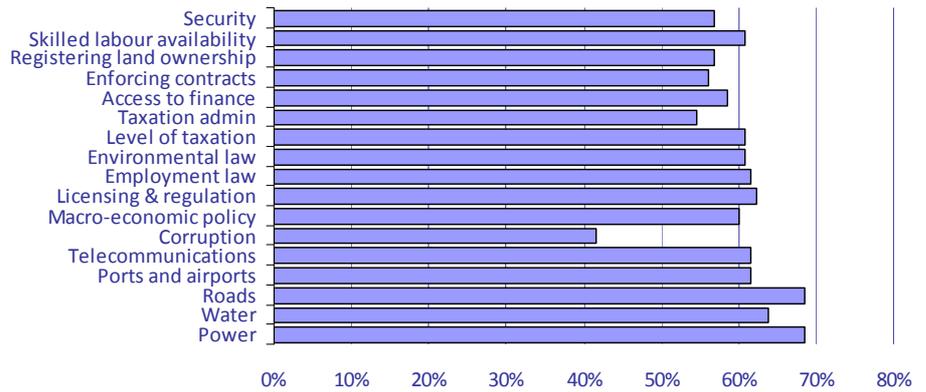
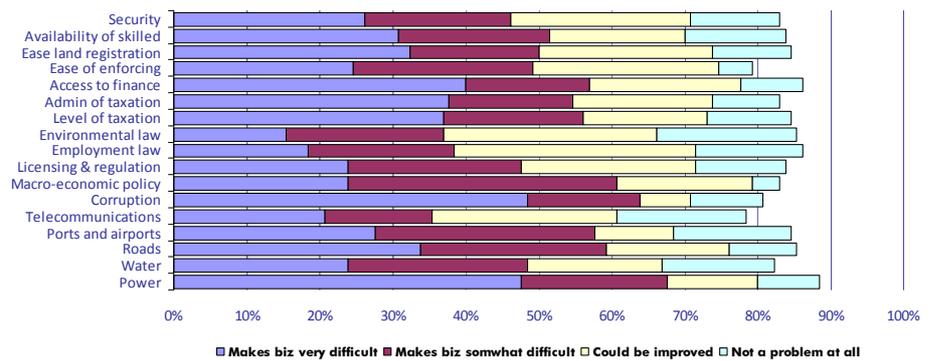


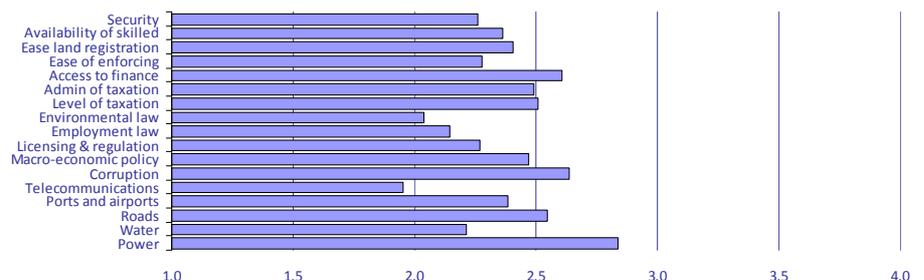
Figure 3 shows the factors that businesses perceive to make life difficult. The factors that 'make business very difficult' are, in order, power, corruption and access to finance. When the factors that 'make business somewhat difficult' are added, then the factors that are most problematic are power, corruption, macro-economic policy and roads.

Figure 3: Factors which make business difficult



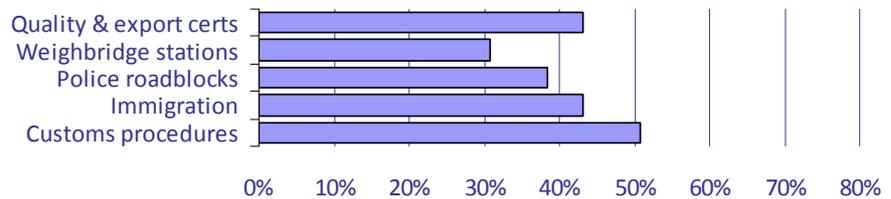
It is not always easy to assimilate the data when responses are summarised in this way, so the chart below shows the results by allocating a 'score' for each responses (ranging from 1: not a problem to 4: makes doing business very difficult). This reveals the key issues power, corruption and access to finance.

Figure 4: Factors which make business difficult



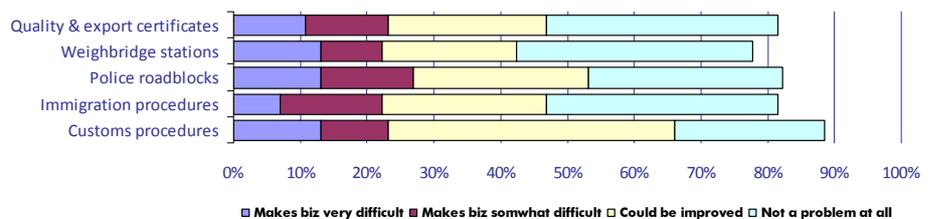
An additional question, on non-tariff barriers (NTB), was inserted this year at the request of the East African Business Council. Whilst all five barriers were regarded as relevant to respondents, they were generally seen as less important than most of the other issues.

Figure 5: Relevance of non-tariff barriers (all respondents)



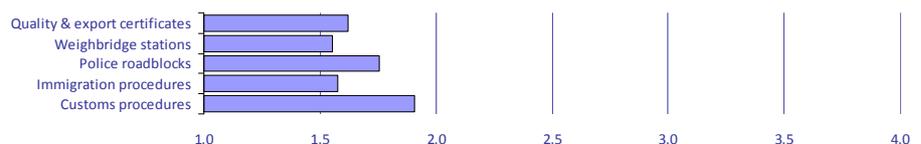
The number of respondents who thought that NTBs made doing business difficult was no higher than 13 per cent, though most thought that there was still room for improvement.

Figure 6: Non-tariff barriers which make business difficult



The chart below shows the same data as a single 'score' for each NTB.

Figure 7: NTBs which make business difficult

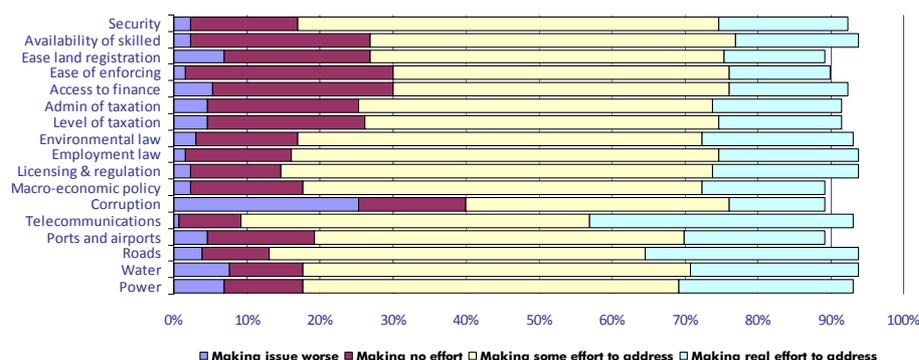


It is important to remember, however, that whilst NTBs may only be a problem for a small number of businesses, they can prove to be a real headache for those businesses and there can also be a knock-on effect – for example barriers which impede road distribution may cause delays for manufacturers or processors but they may not pick this up in their own assessment of the environment. They will also tend to have a disproportionate impact on businesses that are trading internationally. There is a challenge here for policy makers however in that some large companies can use non-tariff barriers as a competitive advantage and some companies and individuals have vested interests in maintaining these barriers. It is incumbent on the wider private sector therefore to identify areas where reform is needed.

The third question asked respondents about their perception of government efforts to address these aspects of the enabling environment. Answers ranged

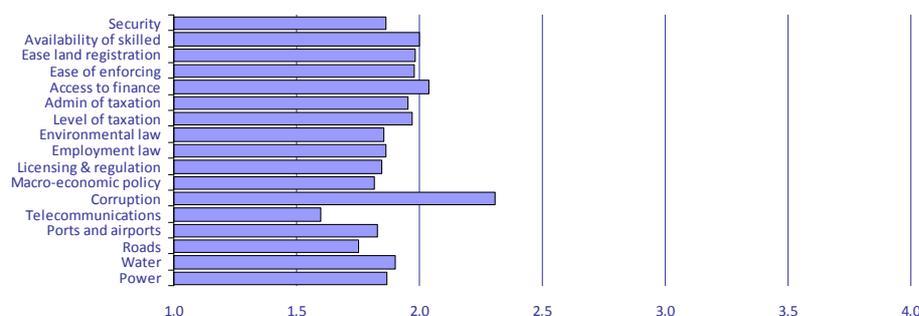
from 'the government is making real efforts to address the issue' (coded 1), through 'some effort' and 'no effort', to 'government actions are making this issue worse' (coded 4). Figure 8 shows the results. On the whole, the government does pretty well in the sense that it is not perceived by many businesses to be making the problems worse – though 25 per cent think that it is making corruption worse (up from 15 per cent last year). It is also worth noting that corruption has the least number of respondents who think that the government is making an effort to address the issue.

Figure 8: Government performance in addressing key factors



Combining the results into a single score shows that there are few factors where a significant number of respondents thought that the government was making a real effort to make a difference, though telecommunications and roads were seen positively. For most factors, however, there was a perception that the government was making at least some effort.

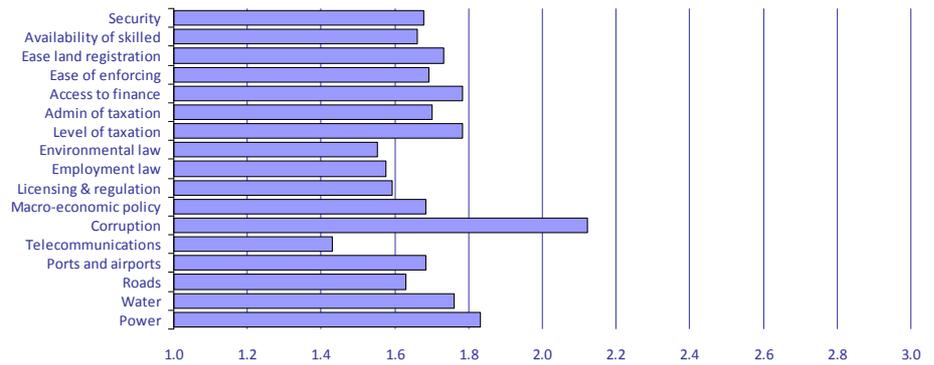
Figure 9: Government performance in addressing key factors



This suggests that the government should be commended for the effort that it is making, but should not be complacent, especially in relation to corruption.

The fourth question asked respondents which factors were likely to influence investment decisions and how (scored 1: encourage further investment; 2: neither encourage nor deter; 3: deter further investment). Corruption is the biggest deterrent to investment, with 52 per cent of respondents saying that it would negatively affect their investment decision. Some 32 per cent said that power was a deterrent; 27 per cent said that the level of taxation was a deterrent. It should be noted that only corruption has a score greater than 2, so it is the only factor that would specifically deter investment. It should also be noted, however, that no factors specifically encourage investment.

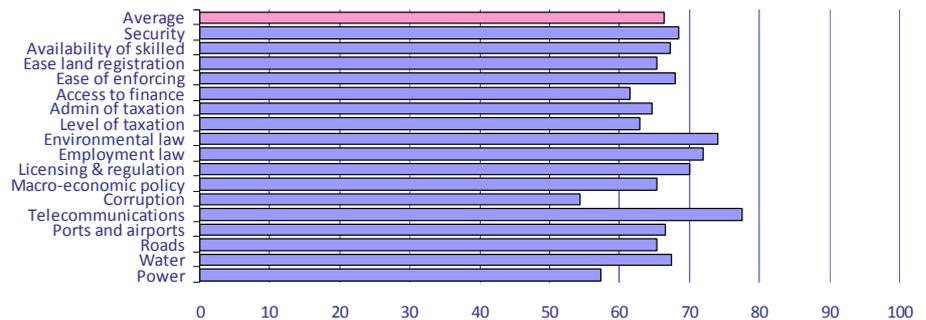
Figure 10: Factors which affect investment decisions



We have prepared an ‘enabling environment priority index’ based on the level of difficulty imposed on the business combined with the perception of how the government is addressing the issue.

The chart below shows the combined views for all of our factors. Note that in this chart, the scale has been inverted and rebased so that a factor that causes the most difficulty for business and in which the government is making the problem worse will be shown as zero and a factor that causes the least difficulty for business and in which the government is making a real effort to improve the position is shown as 100. The factor that is the least overall problem, then, is telecommunications, followed by environmental law and then employment law; the factor that is the biggest problem is corruption, followed by power (changing places from last year), access to finance and then level of taxation. At first glance, it may seem curious that licensing scores relatively well, but this is probably due to businesses in the sample population simply being more established and therefore better able to deal with regulation and licensing requirements though this has a cost.

Figure 11: Enabling environment priority index



Whilst it is difficult to combine all views into a single figure, we recognise that having a single figure makes it easy to see at a glance whether the private sector perceives that the enabling environment has improved or deteriorated.

We have therefore calculated a single figure – and find that there has been an improvement compared to last year. The sectoral and geographic composition of the samples are not identical, so it is not possible to say categorically that the perception is of an improvement of 9 percentage points, but this does provide strong evidence that the private sector perceives that the

enabling environment is more conducive to the private sector this year compared to last year. The two additional factors make a small difference to the average though removing them only reduces the average by one point.

Table 4: Enabling environment perception index

	2008	2009
Tanzania	57	66
Kenya	52	
Uganda	63	

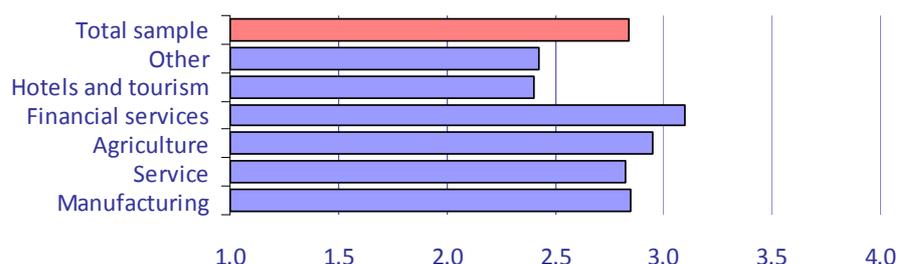
7. REVIEW BY ISSUE

In this section we review the three priority issues, looking at the relative importance to each of the sectors.

7.1 POWER

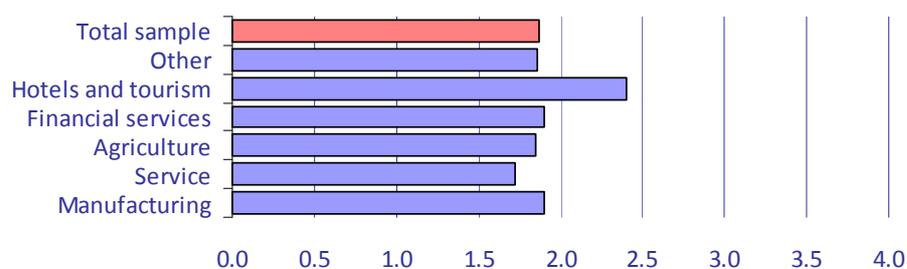
Power is the overwhelming issue that makes doing business difficult. One might have expected manufacturing to be the sector most concerned about power, but actually it turns out to be the financial services sector, possibly because manufacturing is more geared to alternatives.

Figure 12: Makes business difficult for...



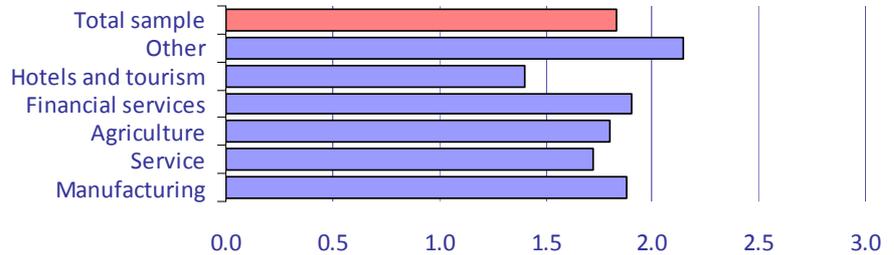
The overall perception is that the government is making some effort to improve the provision of power though that view is not shared by everyone. The hotels and tourism sector, whilst complaining the least that power makes it difficult to do business, complains the most that government is not making sufficient effort.

Figure 13: Government perceived to be making the issue worse



All sectors say that power is unlikely to encourage or deter future investment, though it should be noted that using off-grid sources of power make businesses in Tanzania somewhat less competitive.

Figure 14: Would deter further investment by...

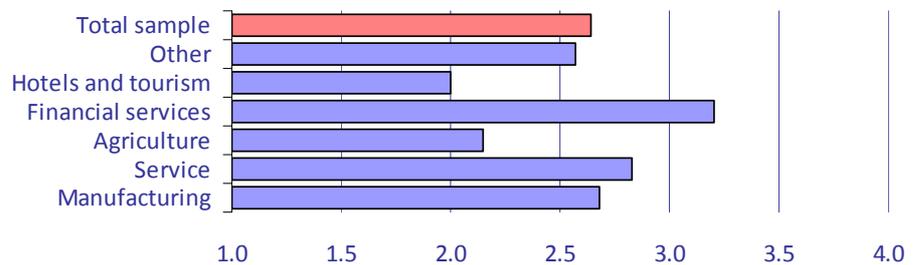


7.2 CORRUPTION

Corruption is the second biggest factor making it difficult to do business (and second in the WEF list also) and, by a long way, is the issue where business perceives that government is making the position worse.

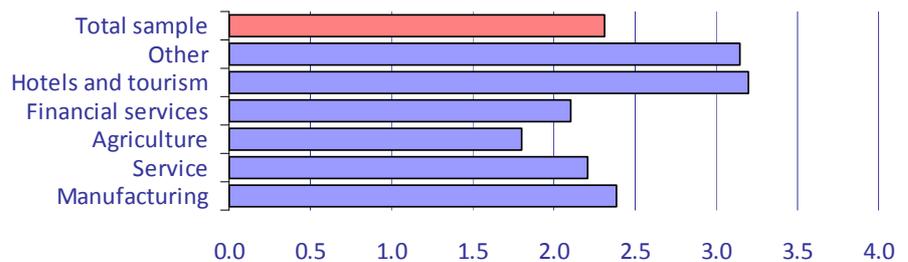
All sectors, except hotels and tourism, say that corruption is a problem; the financial services sector is close to saying that it makes business very difficult.

Figure 15: Makes business difficult for...



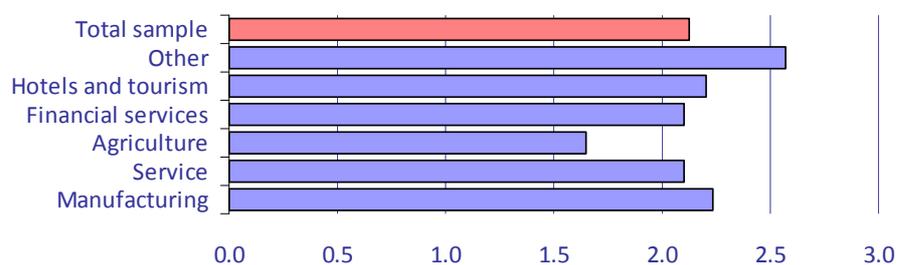
Agriculture thinks government is making some effort to address this issue; services, financial services and manufacturing think government is making no effort; hotels and tourism and other think it is making the position worse.

Figure 16: Government perceived to be making the issue worse



Apart from the agricultural sector, all sectors say that corruption would deter them from further investment.

Figure 17: Would deter further investment by...



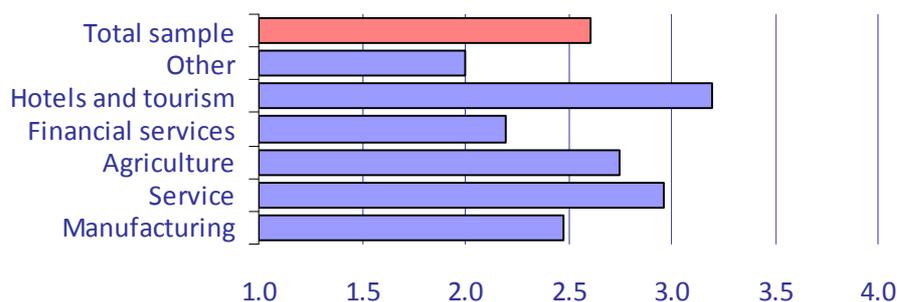
It is not entirely clear why corruption should be more of a problem in some sectors than others. It could be because corruption in some sectors tends to keep out competitors so is perceived to be less of a problem by businesses in the sector. Or it could be because corruption is a bigger problem in some sectors because there are more opportunities, perhaps because of greater licensing requirements. This is an area that would be worthy of further investigation.

7.3 ACCESS TO FINANCE

Access to finance is one of the few enabling environment factors that is not wholly in the control of the government, though clearly public policy can make an enormous difference to the ability of firms to access finance – for example through setting base interest rates or by offering to borrow monies from the banking sector in a way that gives financial institutions better returns.

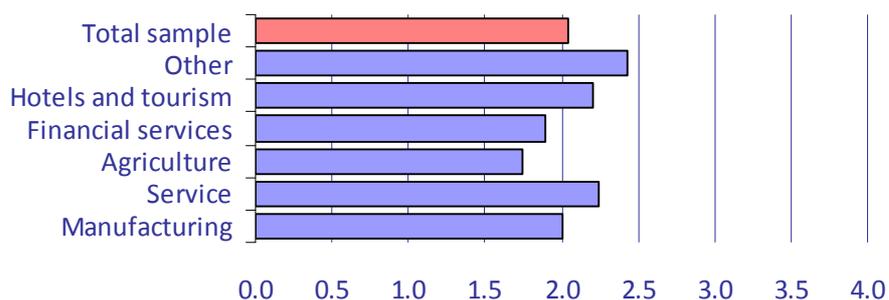
Access to finance is the third biggest factor making business difficult (and was top of the WEF list). Except for the 'others', all see this as an issue that needs to be improved. Hotels and tourism see it as making business very difficult.

Figure 18: Makes business difficult for...



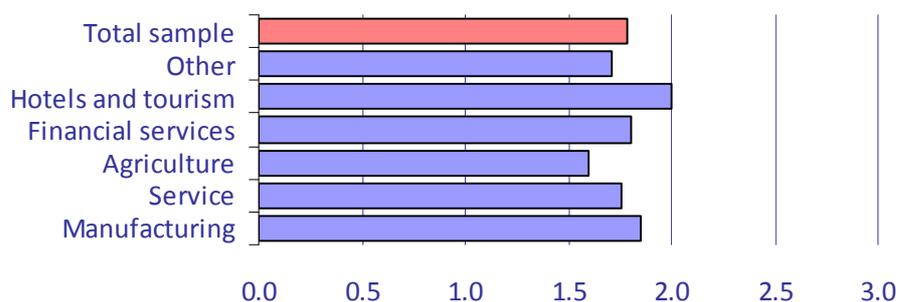
There is a high degree of agreement in relation to government intervention which is seen as making some effort.

Figure 19: Government perceived to be making the issue worse



No sector says that access to finance would deter investment though the highest score comes from hotels and tourism, perhaps reflecting their apparent difficulty in raising finance. It is possible that respondents have access to finance through other routes such as foreign investment. The intention in selecting the sample population was that respondents should be businesses registered in Tanzania. It is not believed that any were subsidiaries of foreign companies, though some may benefit from limited levels of foreign investment. It is worth noting also that no sector says that access to finance would encourage investment either.

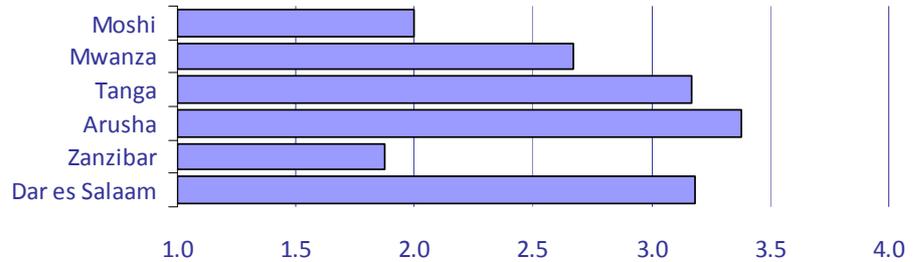
Figure 20: Would deter further investment by...



8. REVIEW BY LOCATION

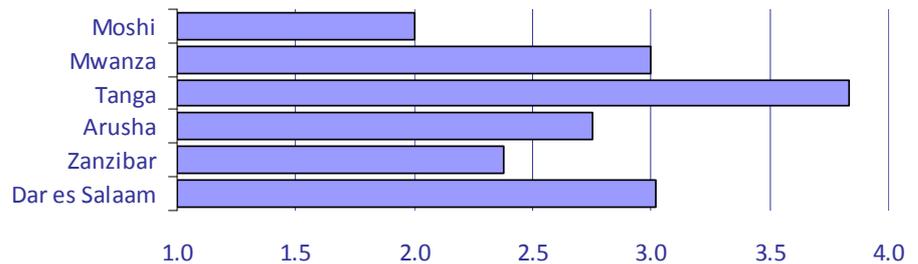
This year, we asked respondents to specify their location, so that we could compare responses on a geographic basis. The sectoral mix of responses from each location does not reflect sufficiently the overall mix, so care is needed in drawing conclusions.

Figure 21: Power makes business difficult in...



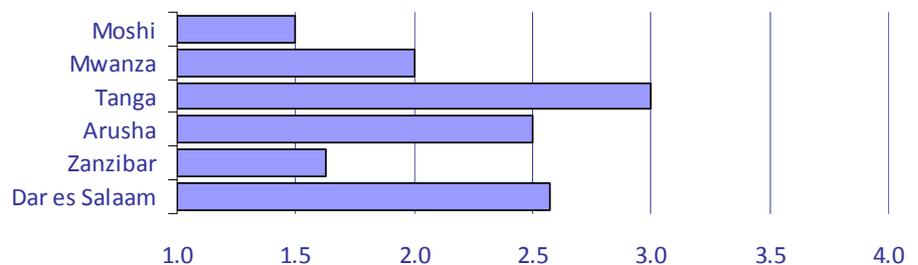
Power is a particular problem in Dar, Arusha and Tanga, but seemingly not a big problem in Zanzibar. Corruption is seen to be a major problem in Tanga, making doing business very difficult, but is also difficult in Dar and Mwanza.

Figure 22: Corruption makes business difficult in...



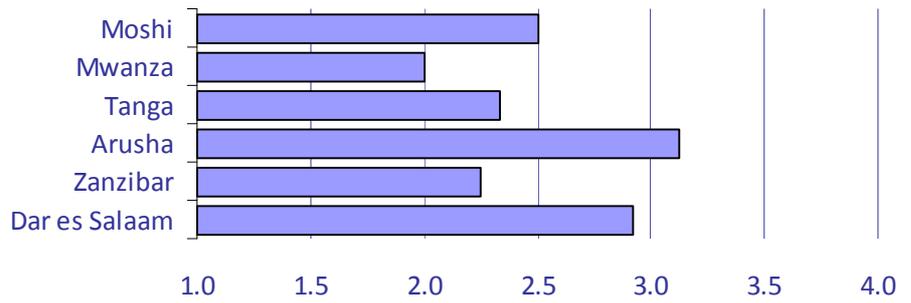
Licensing is seen to be a big problem in Tanga, perhaps explaining why corruption is also such an issue.

Figure 23: Licensing makes business difficult in...



Accessing finance is difficult in Arusha and Dar and is less of a problem in Mwanza, though nowhere sees it as easy

Figure 24: Accessing finance is difficult in...

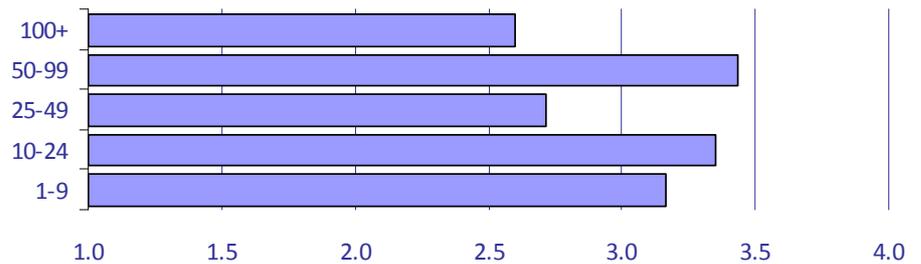


9. REVIEW BY BUSINESS SIZE

This year, respondents were also asked to state how many staff they employed. Not every respondent answered that question, but most did.

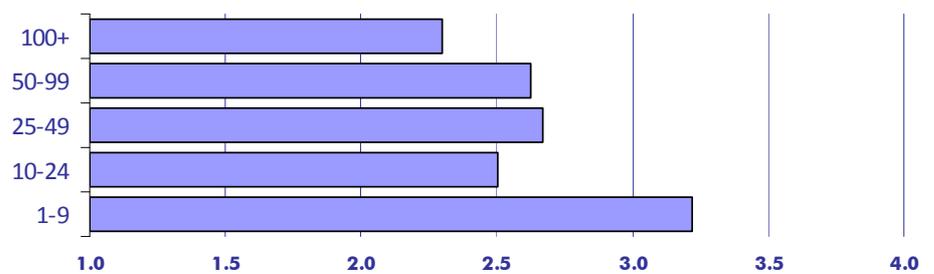
Power is a problem for businesses whatever their size, though it is businesses employing 50-99 people who regard it as the most difficult.

Figure 25: Power is difficult for...



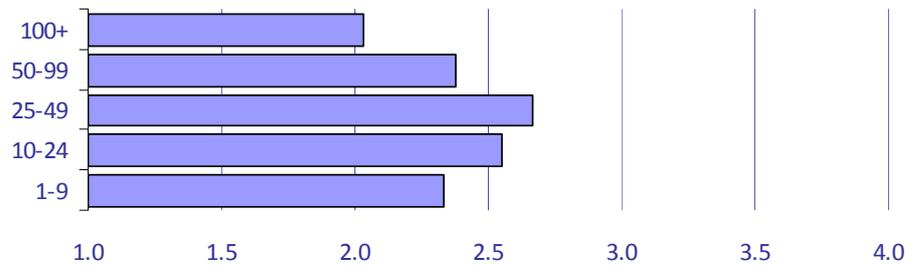
Perhaps not surprisingly, it is the smallest businesses who see corruption as the biggest problem and the largest businesses who are bothered the least. This reflects the expectation that larger firms can resist more easily requests for corrupt payments more easily (or, the cynics might suggest, are part of the problem but have streamlined it).

Figure 26: Corruption is difficult for...



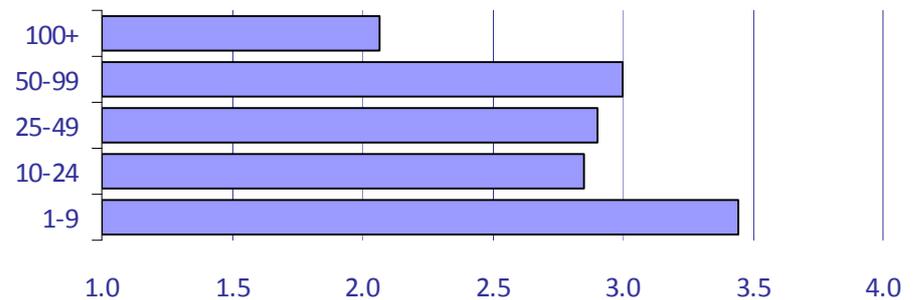
Licensing and regulation seems to be difficult for all businesses, though it is businesses employing 25-49 who regard this as the biggest problem. This is curious, as we might have expected the smallest businesses to see this as the biggest problem. This may be because as businesses grow, they find that they are required to abide by more regulation. Or it may be because the smallest businesses simply ignore the requirements. This may be worthy of further investigation.

Figure 27: Licensing is difficult for...



Not surprisingly, it is the smallest businesses who have the biggest difficulty with access finance and the largest businesses who have the least difficulty.

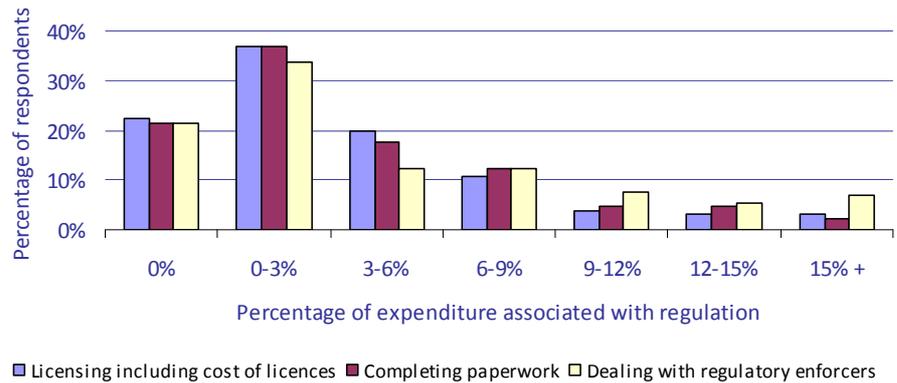
Figure 28: Access to finance is difficult for...



10.COST OF RED TAPE

Respondents were asked about the costs of regulation – split into three groups: the direct cost of licensing including the cost of the licences themselves, the effective cost through the staff time required to complete paperwork associated with regulation and the effective cost through staff time of dealing with the enforcers of regulation. Respondents were asked to say in which band they believed that each of these categories of cost fell.

Figure 29: Cost of red tape and regulation



As can be seen from figure 12, most respondents thought that each required expenditure of less than three per cent. This is fairly modest, though when you add the three together they can quickly mount up.

If one looks at each sector individually, the picture is rather different, with the agricultural sector paying a large proportion of its total expenditure coping with the costs of regulation (though last year, this was the least). As can be seen from the figure below, the average across the entire sample is around 10 per cent which, if respondents have answered accurately, is a high proportion of costs to be spending on red tape and regulation. Getting this down would not only make businesses feel that the government was really trying to make a difference, but would free up a lot of resource that could be invested in business expansion.

Figure 30: Cost of red tape and regulation

