

**BUSINESS LEADER PERCEPTIONS
OF THE INVESTMENT CLIMATE IN
TANZANIA - 2010**



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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1. SUMMARY

Business leaders were asked about

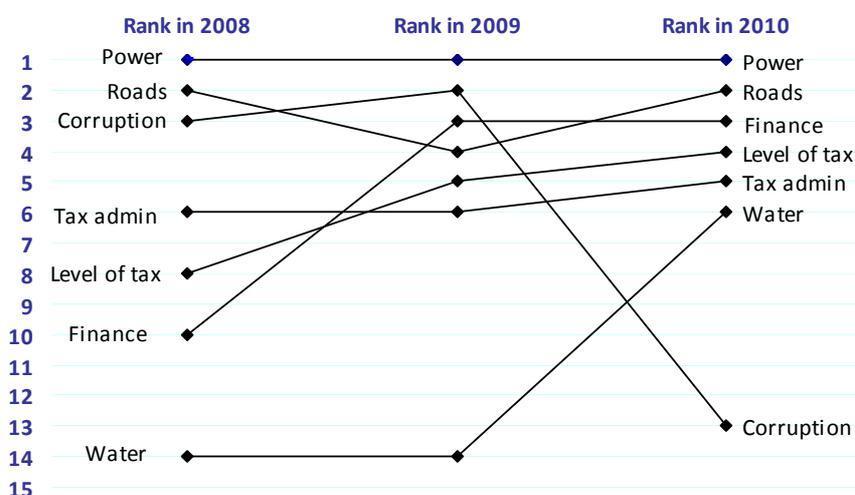
- The enabling environment factors that are important to their business;
- The factors that make it difficult to do business;
- The non-tariff barriers that are relevant to their business;
- The non-tariff barriers that cause problems for their business;
- Their perception of whether and, if so, how, 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 businesses are power, telecoms, roads, skilled labour, security and level of taxation. Being 'important' means that the business needs reliable power, good roads, access to skills, etc. These may not necessarily cause a problem. The survey reveals that the factors that make it difficult for businesses to get on with running and growing their business, in order, are:

- Power
- Roads
- Access to finance
- Level of taxation

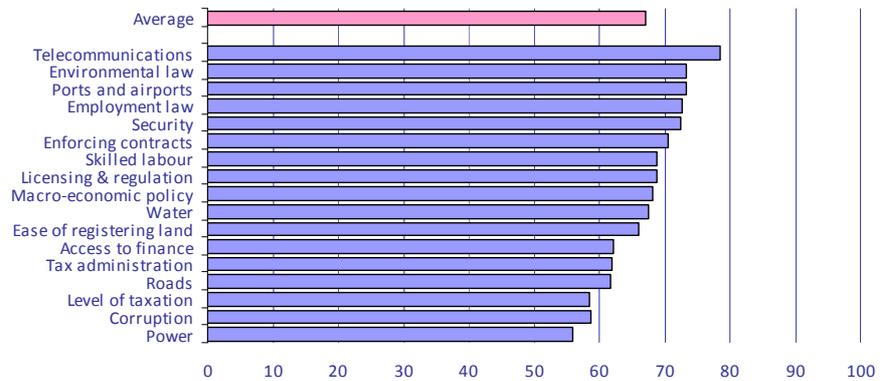
This shows some correlation with the factors that are important to business. It is worth noting that corruption which last year was second in the list of factors making it difficult to do business has fallen to 13th, possibly indicating that businesses are better able to cope with it. Access to finance rose as a problem in 2009 and has stayed high; in 2010, water has risen significantly.

Figure 1: Change in ranking of factors making business difficult



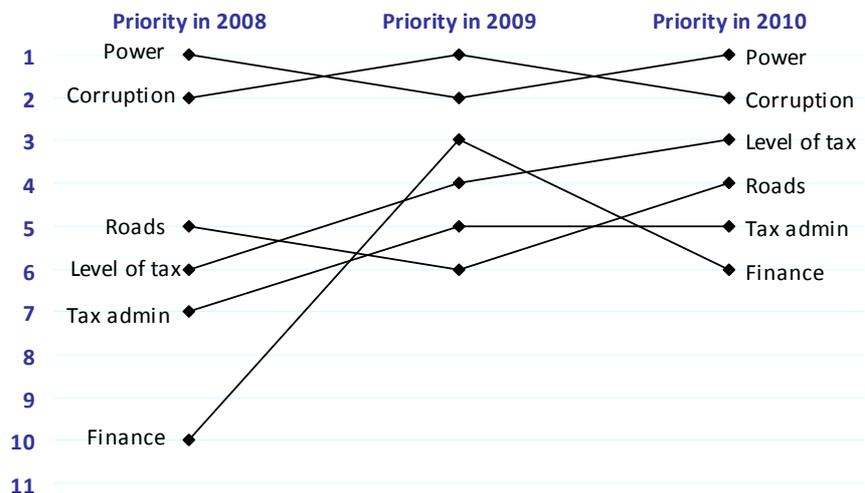
The survey seeks perceptions of whether the government is making efforts to address each of these issues. The difficulty in doing business caused by each factor and the perceived level of effort being made by the government to address the issue is then combined to give an 'enabling environment priority index'. Note that in the chart below, the lower the number, the greater the priority to address the factor.

Figure 2: Enabling environment priority index



The issues on which the government should focus, in priority order, are shown in the right hand column of figure 3 which also shows how the priorities have changed since 2008. Power and corruption continue to head the list. Tax is becoming a greater priority. Roads remain important. Access to finance, which was not a priority in 2008 but rose to third in 2009 remains quite high.

Figure 3: Change in priority issues



The absence of a factor at the top of this list does not mean that Government can ignore it; rather it means that government is making some effort to reduce the negative impact on business, such as the problem of water. That effort needs to continue or else it will become a priority in the future. It should also be noted that these are rankings, rather than absolute scores, so the differences between them may be quite small.

2. INTRODUCTION

This is the third annual report of a survey of business leaders in Tanzania. It summarises their views of the enabling environment and of the government's role in making it easier to do business. It has been prepared to highlight priorities for action to improve the business enabling environment in Tanzania. It was 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.

The results suggest that the perceptions of business leaders have not changed very much from 2009 to 2010, which reflects the assessment of the World Bank's Doing Business survey.

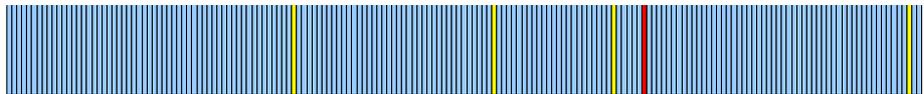
3. ENABLING ENVIRONMENT ASSESSMENTS

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 2011, Tanzania is ranked at 128, more or less the same position as last year. Indeed, its rankings for key areas of doing business are largely static as well.

Figure 4: Doing Business rankings

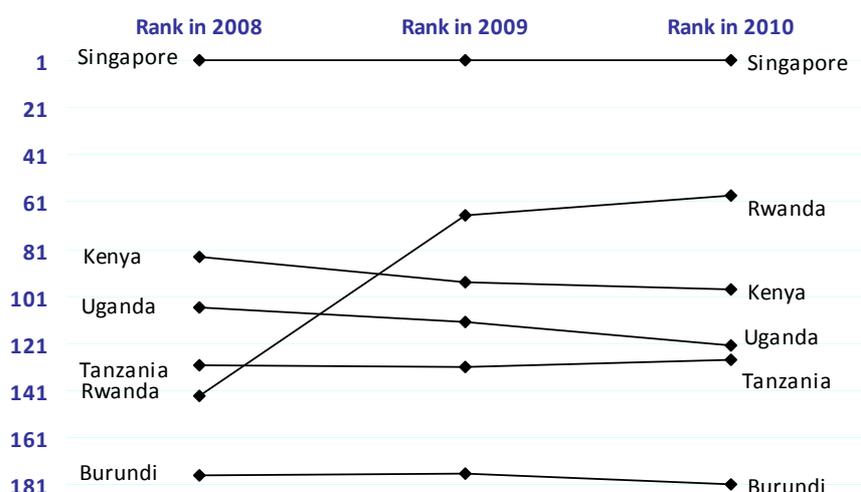


Sources: Adapted from World Bank: *Doing Business 2011: making a difference for entrepreneurs (2010)*. Note: Tanzania's position is shown in red; the other countries of East Africa are shown in yellow; all other countries are shown in blue

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 Business 2010, rising some 76 places; it was the second top reformer in 2010 rising a further 9 places. Tanzania has remained largely static, both in the overall rankings (figure 5) and in the disaggregated rankings (table 1).

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

Figure 5: Doing Business rankings over time



Source: Adapted from World Bank: *Doing Business 2009* (2008), *Doing Business 2010: reforming through difficult times* (2009) (NB the 2009 rank was adjusted in the 2010 report and the 2010 rank was adjusted in the 2011 report).

Table 1: Tanzania: Doing Business rankings

	2008 rank (2009 report)	2009 rank (2010 report)	2010 rank (2011 report)
Ease of doing business	126	125	128
Dealing with licences	172	179	179
Registering property	142	148	151
Paying taxes	109	116	120
Enforcing contracts	33	32	32

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 and the 2010 rank was adjusted in the 2011 report).

Whilst the World Bank's work is 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.

4. 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 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 third 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.

5. METHODOLOGY

The fieldwork was undertaken during July and August 2010 by Synovate, a multi-national market research firm.

The survey was conducted using an electronic spreadsheet based questionnaire designed by David Irwin. Synovate transcribed 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 2: Sample population

Sector	Location	Size (employees)
Services	39 Dar es Salaam	75 0-9 8
Agriculture & processing	23 Zanzibar	23 10-24 34
Manufacturing	17 Arusha	26 25-49 37
Hotels & tourism	18	50-99 27
Trade	11	100-250 7
ICT	5	>250 5
		Did not say 6

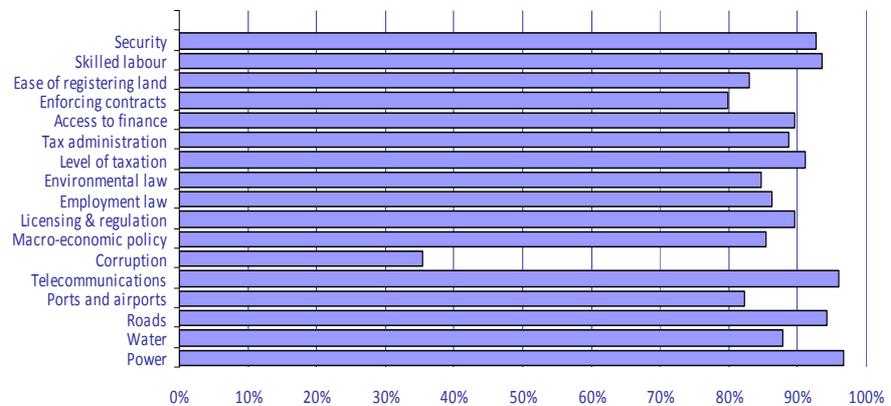
6. OVERVIEW

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.

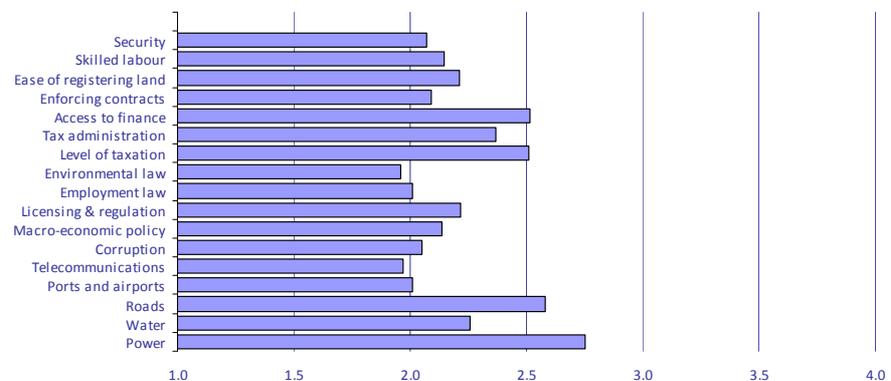
The results for whether issues were important are shown in figure 6. In 2009, the main factors, each identified by 68 per cent of respondents, were power and roads. In 2010, six factors were identified as important by over 90 per cent of respondents. Indeed, except for corruption, all factors were seen as important by more than 80 per cent of respondents. The key factors were power, telecommunications, roads, access to skilled labour and security.

Figure 6: Importance of factors (all respondents)



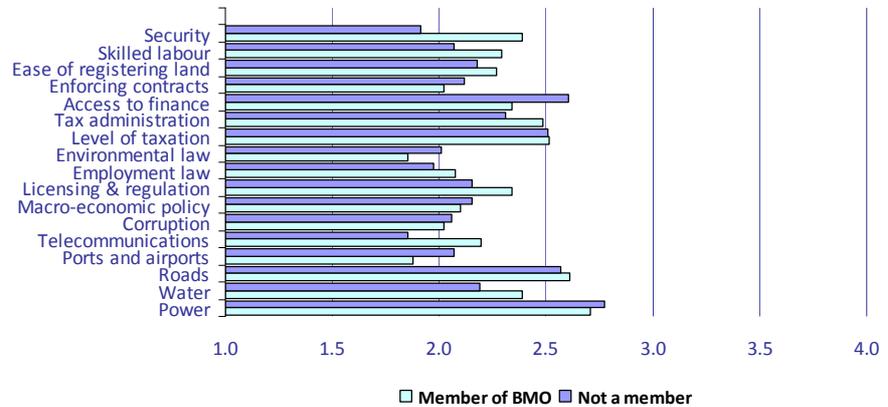
Business leaders were asked to rate factors as ‘making business very difficult’, ‘making business somewhat difficult’, ‘could be improved’ or ‘not a problem’. The factors that ‘make business very difficult’ are, in order, corruption, power, roads and level of taxation. To provide a better understanding, the responses have been coded by allocating a ‘score’ for each response (ranging from 1: not a problem to 4: makes doing business very difficult). This reveals the key issues to be power, roads, access to finance and level of taxation.

Figure 7: Factors which make business difficult



Respondents were asked whether they were a member of a business membership organisation. It seems that this has little bearing on the factors seen to make business difficult. BMO members think security is more of a problem than non-members; non-members think access to finance is more of a problem than members. But on the whole, the perceptions are very similar.

Figure 8: Perception of difficult issues by BMO membership



A question on non-tariff barriers (NTB) was added in 2009 and retained in 2010. Whilst all five barriers were regarded as relevant to respondents, they were generally seen as less important than most of the other issues. It is interesting to note however that they are all seen as more relevant in 2010 than they were in 2009.

Figure 9: Relevance of non-tariff barriers (all respondents) 2010

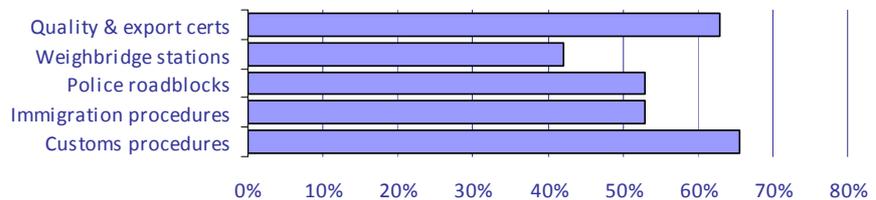
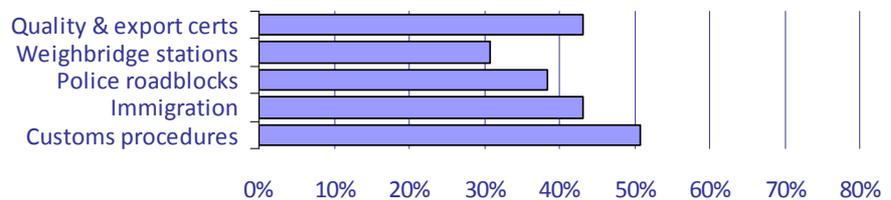


Figure 10: Relevance of non-tariff barriers (all respondents) 2009

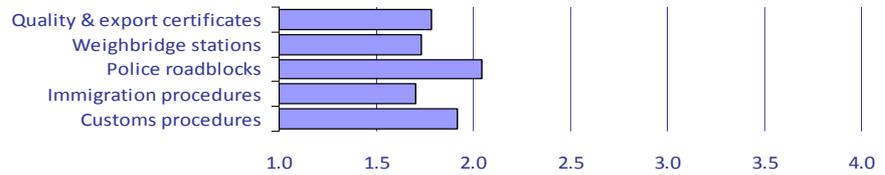


Source: BLP survey Tanzania, 2009

However, the proportion of respondents saying that they make business very difficult has fallen from more than 10 per cent to less than 5 per cent, so whilst they are seen by more businesses to be important they are becoming

less of an issue. The chart below shows the responses as a single 'score' for each NTB.

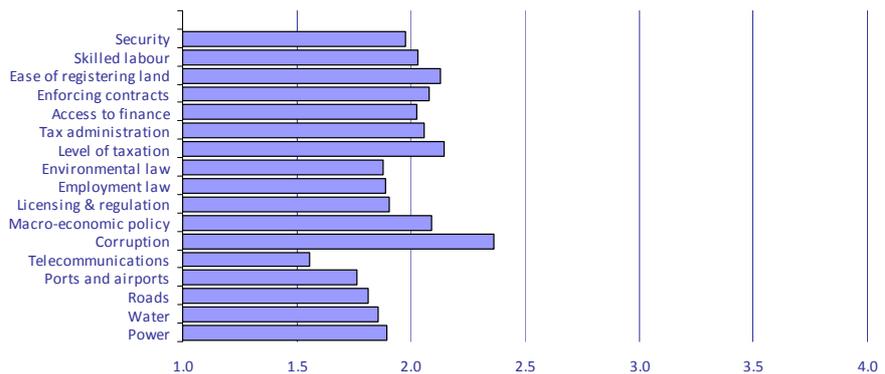
Figure 11: NTBs which make business difficult



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.

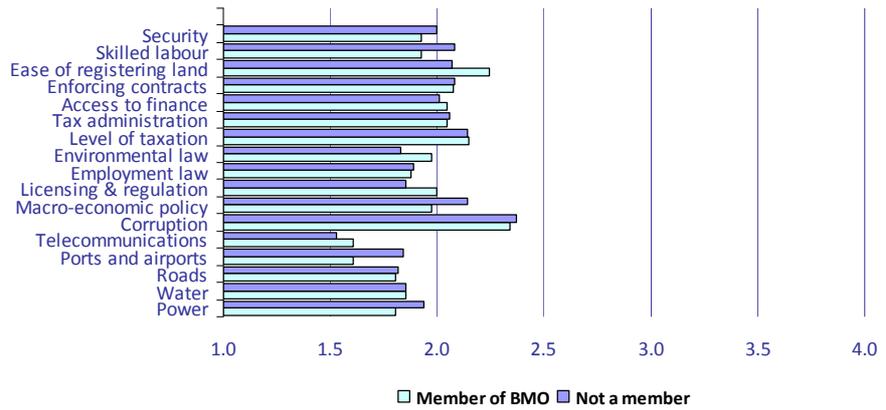
Respondents were asked about their perception of government efforts to address these aspects of the enabling environment. Answers ranged from 'the government is making real efforts to address the issue' (coded 1), through 'some effort' and 'no effort', to 'government actions are making this issue worse' (coded 4). 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 was seen positively and, for most factors, there was a perception that the government was making at least some effort. Some 20 per cent think that it is making corruption worse (though this is down from 25 per cent in 2009). Corruption has the least number of respondents who think that the government is making an effort to address the issue.

Figure 12: Government performance in addressing key factors



We might expect businesses that are members of a BMO to be more critical of the government and its efforts to make a difference since one of the reasons that businesses join a BMO is to advocate change in public policy. It is interesting to note therefore that there is almost no difference between the perceptions of businesses that are members of a BMO and businesses that are not members.

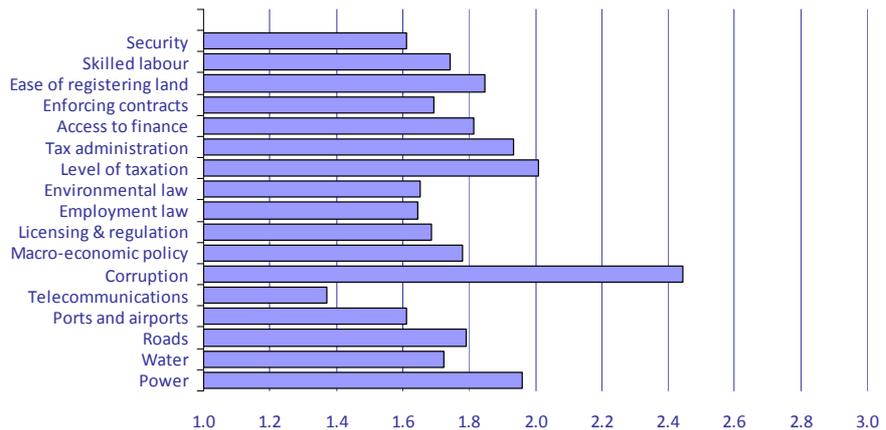
Figure 13: Perception of government effort by BMO membership



As in 2009, this suggests that the government should be commended for the effort that it is making, but it should not be complacent, especially in relation to corruption which still needs to be tackled effectively.

Respondents were asked 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 60 per cent of respondents saying that it would negatively affect their investment decision (up from 52 per cent in 2009). Some 36 per cent said that power was a deterrent (up from 32 per cent in 2009); 31 per cent (up from 27 per cent) said that the level of taxation was a deterrent. As in 2009, it should be noted that only corruption has a score greater than 2, so it is the only factor that would deter investment across the whole of the private sector. It should also be noted, however, that no factors specifically encourage investment.

Figure 14: Factors which affect investment decisions

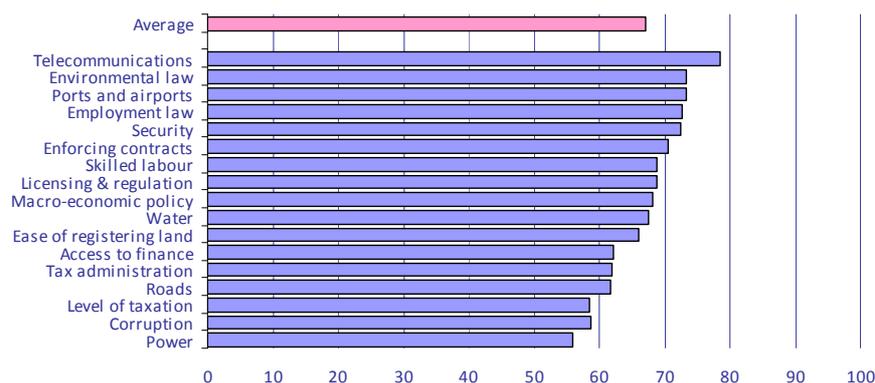


We have prepared an 'enabling environment priority index' based on the level of difficulty imposed on the business combined with the perception of how the government is addressing the issue.

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 ports & airports and then environmental law and employment law; the factor that is the biggest problem is power, followed by corruption (changing places from 2009, but back to their relevant positions in 2008), level of taxation and then roads, access to finance and tax administration.

Figure 15: Enabling environment priority index



It is difficult to combine all views into a single figure, but 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 a very modest improvement compared to 2009. However, the figures are so close that it implies a perception that little has changed overall.

Table 3: Enabling environment perception index

	2008	2009	2010
Tanzania	57	65	67
Burundi		71	
Kenya	52	56	
Rwanda		76	
Uganda	63	59	

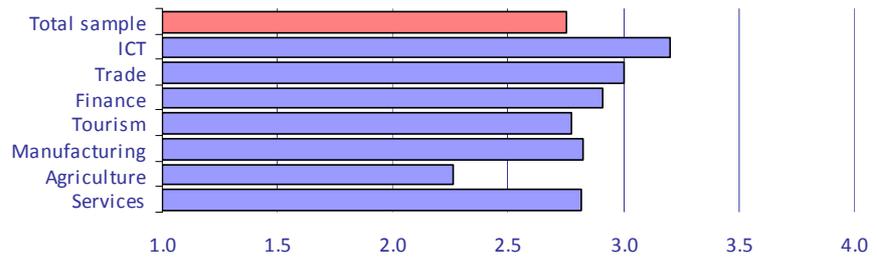
7. REVIEW BY ISSUE

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

7.1 POWER

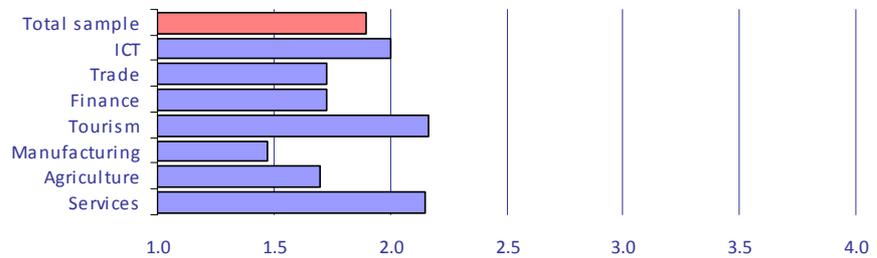
Power is the overwhelming issue that makes doing business difficult. One might have expected manufacturing to be the sector most concerned about power, but actually it turns out that ICT, trade and the financial services sector find it more of a problem, possibly because manufacturing is more geared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

Figure 16: Makes business difficult for...



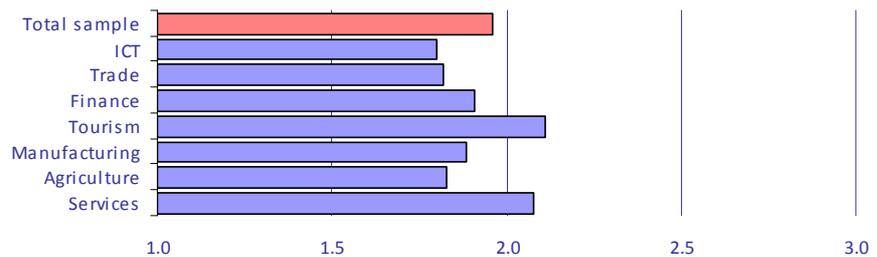
The overall perception is that the government is making some effort to improve the provision of power though that view is not shared by everyone.

Figure 17: 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 means that businesses in Tanzania continue to be somewhat less competitive.

Figure 18: Would deter further investment by...

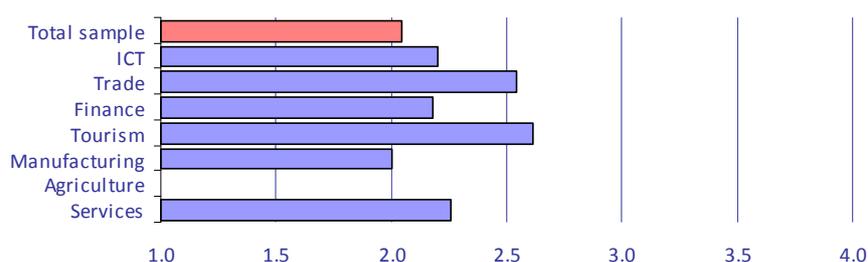


7.2 CORRUPTION

Corruption continues to be a problem and is, by a long way, the issue where business perceives that government is making the position worse.

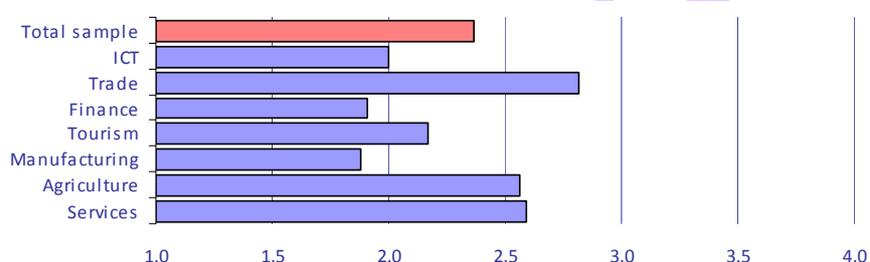
All sectors, except agriculture, say that corruption is a problem, though no sector says that it makes business very difficult, implying that they have learnt to live with it.

Figure 19: Makes business difficult for...



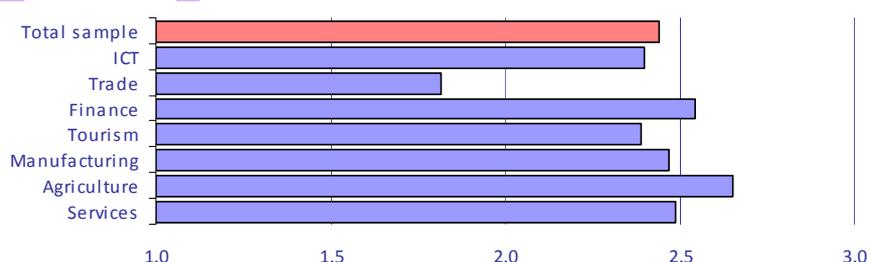
Manufacturing and financial services think government is making some effort to address this issue; the rest think government is making no effort.

Figure 20: Government perceived to be making the issue worse



Apart from the trade sector, all sectors say that corruption would deter them from further investment. This is perhaps slightly curious as the sector which thinks the least about government efforts to address corruption is also the trade sector.

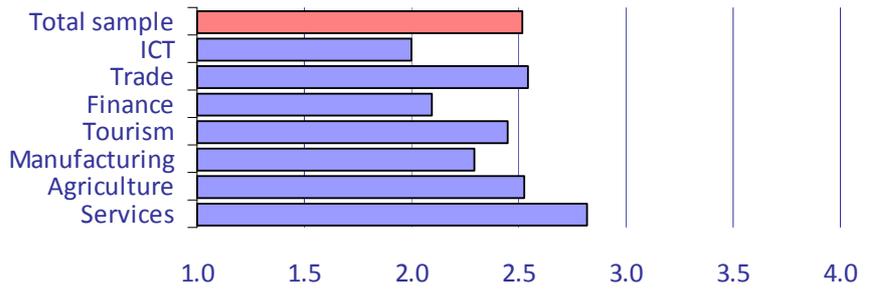
Figure 21: Would deter further investment by...



7.3 ACCESS TO FINANCE

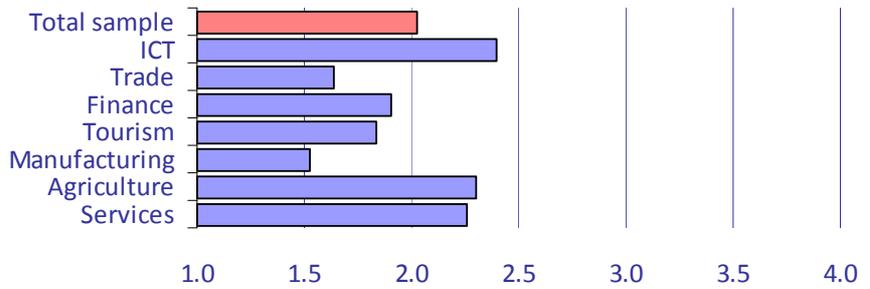
Access to finance continues to be seen as making business somewhat difficult.

Figure 22: Makes business difficult for...



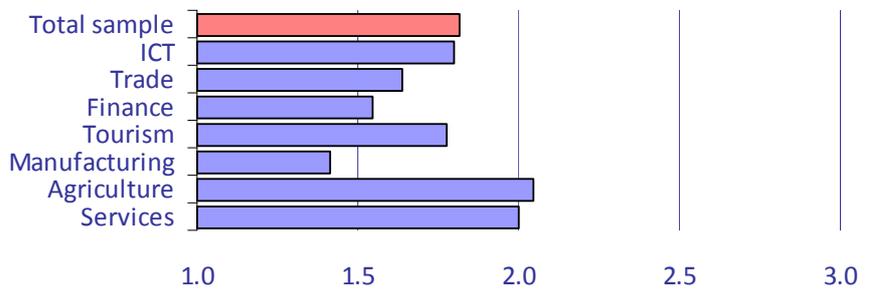
No sector thinks that the government is making the issue worse. ICT, agriculture and services think that it is making no effort, though trade, finance, tourism and manufacturing think that it is making some effort.

Figure 23: Government perceived to be making the issue worse



Agriculture says that access to finance would deter further investment and the financial services sector comes close to saying the same, but no other sector would be deterred from investment by insufficient access to finance.

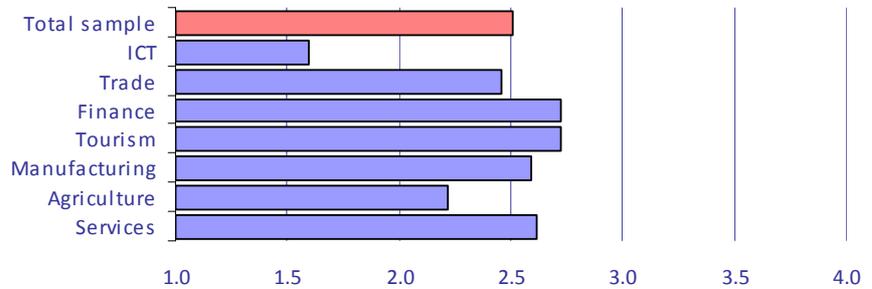
Figure 24: Would deter further investment by...



7.4 LEVEL OF TAXATION

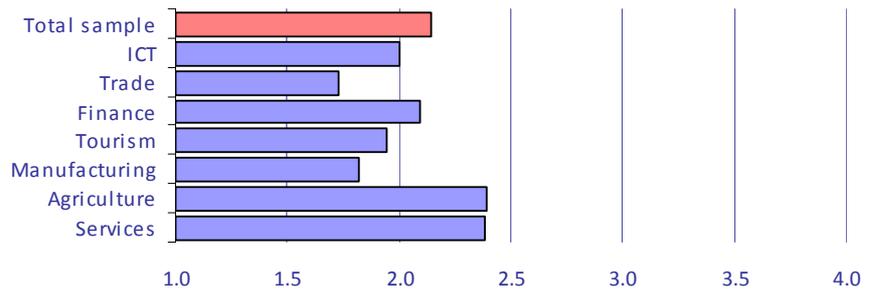
Level of taxation rose to be regarded in 2010 as equal to access to finance in third place for making business difficult, with every sector except ICT saying that it made business somewhat difficult.

Figure 25: Makes business difficult for...



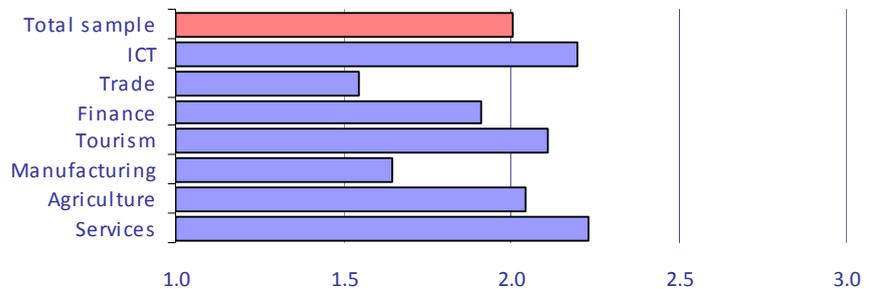
No sector thought that the government was making the position worse though agriculture and services thought that the government was making no effort.

Figure 26: Government perceived to be making the issue worse



Four sectors – ICT, tourism, agriculture and services – said that the level of taxation would deter them from further investment.

Figure 27: Would deter further investment by...



Source: BLP survey Tanzania, 2010

8. REVIEW BY LOCATION

As in 2009, we asked respondents to specify their location, so that we could compare responses on a geographic basis, though we only have sufficient responses from three locations. In general, businesses in Arusha find it hardest to do business.

Power is somewhat of a problem everywhere though it is worst in Arusha, where it is seen to make business very difficult, as it was in 2009; it seems that businesses in Dar are finding it less of a problem than in 2009.

Figure 28: Power makes business difficult in...

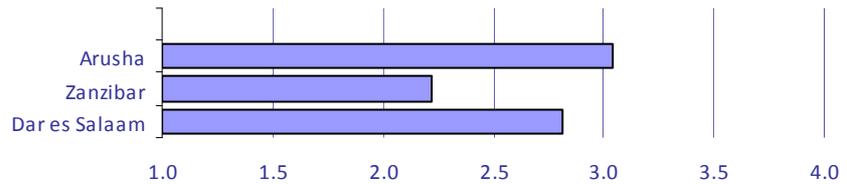
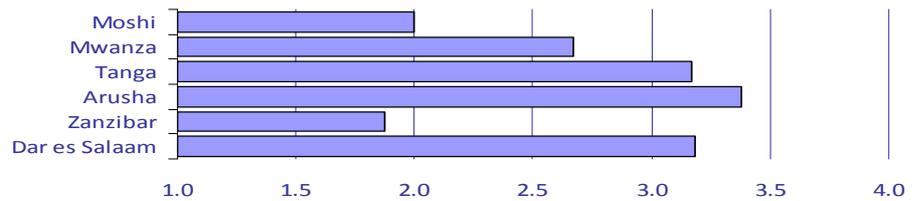


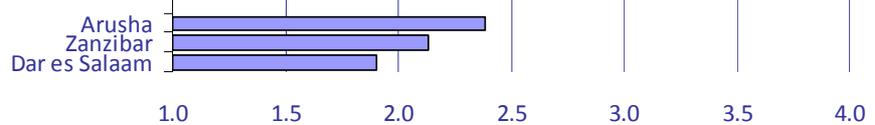
Figure 29: Power makes business difficult in...



Source: BLP survey Tanzania, 2009

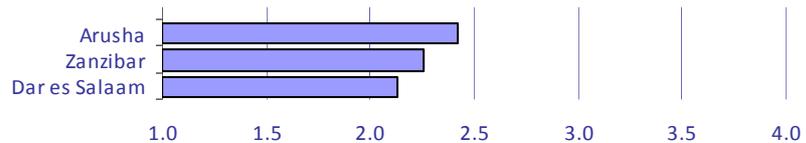
Corruption is a big problem in Arusha.

Figure 30: Corruption makes business difficult in...



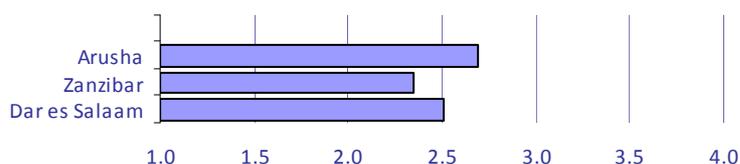
Licensing is seen to be a problem everywhere though worst in Arusha, perhaps explaining why corruption is also such an issue.

Figure 31: Licensing makes business difficult in...



Accessing finance is somewhat difficult in every location.

Figure 32: Accessing finance is difficult in...

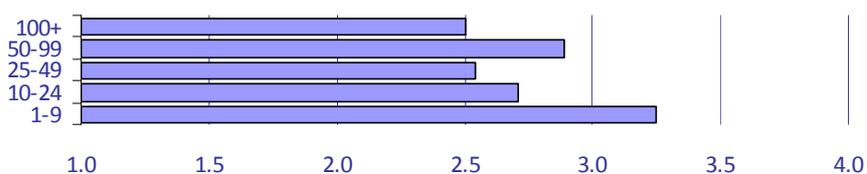


9. REVIEW BY BUSINESS SIZE

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

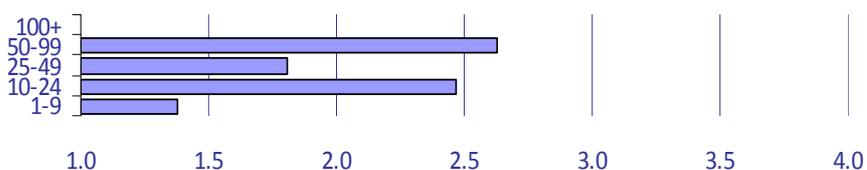
Power is a problem for businesses whatever their size, though it is businesses employing 1-9 people who regard it as the most difficult.

Figure 33: Power is difficult for...



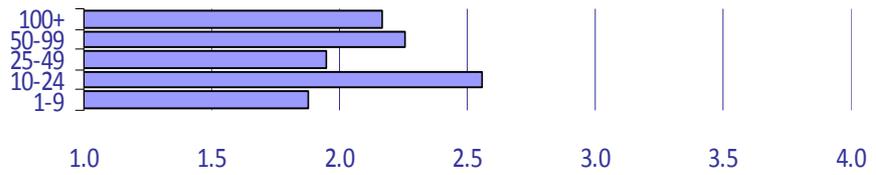
In 2009, it was businesses employing 1-9 people who complained the most about corruption. In 2010, it seems to be businesses employing 50-99, with businesses employing 1-9 complaining the least.

Figure 34: Corruption is difficult for...



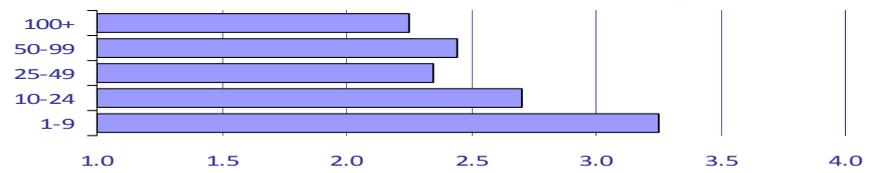
The picture for licensing and regulation is mixed with this being worst for businesses employing 10-24. We might have expected the smallest businesses to complain the most about this. This may be because as businesses grow, they find that they are required to abide by more regulation. Or it may be because the smallest businesses simply ignore the requirements.

Figure 35: Licensing is difficult for...



As in 2009, it is the smallest businesses who have the biggest difficulty with access finance and the largest businesses who have the least difficulty.

Figure 36: Access to finance is difficult for...

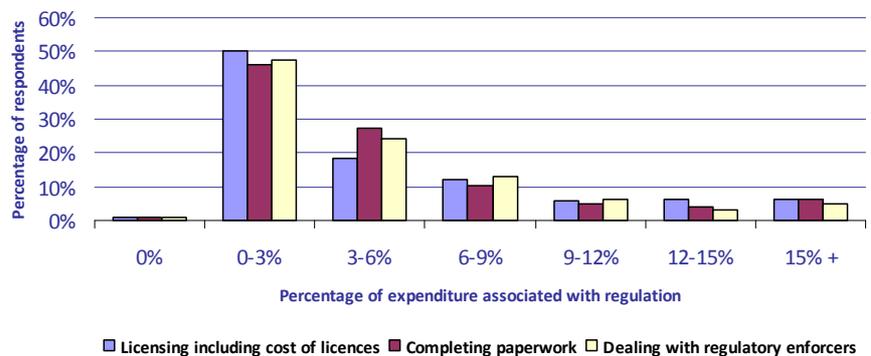


10. COST OF RED TAPE

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.

In 2009, some 20 per cent of respondents said that there was little or no cost in each of the categories. In 2010, almost no respondent says that there is no cost.

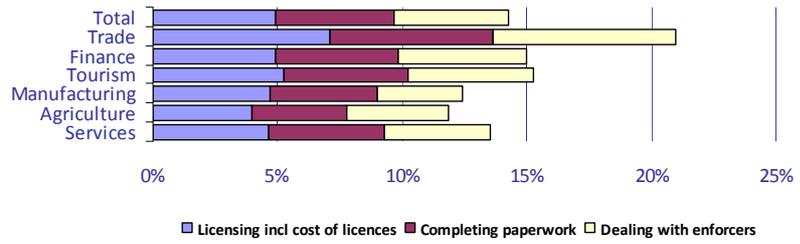
Figure 37: Cost of red tape and regulation



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 trade sector paying a large proportion of its total expenditure coping with the costs of regulation. 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. Reducing this significantly 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 38: Cost of red tape and regulation



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