



Tanzania Private Sector Foundation

*The Voice of the Private Sector in Tanzania*



## Business Leaders' Perceptions of the Investment Climate in Tanzania - 2015



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# ABBREVIATIONS

|        |                                                        |
|--------|--------------------------------------------------------|
| BEST-D | Business Environment Strengthening Tanzania - Dialogue |
| BLP    | Business Leaders' Perceptions                          |
| BRN    | Big Results Now                                        |
| CPI    | Corruption Perceptions Index                           |
| DB     | Doing Business                                         |
| DTF    | Distance to the Frontier                               |
| EAC    | East African Community                                 |
| GCI    | Global Competitiveness Index                           |
| HDI    | Human Development Index                                |
| PSO    | Private sector organisation                            |
| TECC   | Tanzania Entrepreneurship and Competitiveness Centre   |
| TPSF   | Tanzania Private Sector Foundation                     |
| UN     | United Nations                                         |
| WEF    | World Economic Forum                                   |

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TPSF has an important role to play in encouraging debate and dialogue about the investment climate and this report is intended to stimulate discussion. The opinions however are those of the author and are not necessarily shared by TPSF.

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Fieldwork for this survey was undertaken by Tanzania Entrepreneurship and Competitiveness Centre (TECC) during July and August 2015. The responses were analysed and the report was written by David Irwin, a consultant who specialises in regulatory reform and supporting business associations to advocate public policy reforms.

# BUSINESS LEADERS' PERCEPTIONS OF THE INVESTMENT CLIMATE IN TANZANIA – 2015

## 1. SUMMARY

This is the sixth survey of business leaders' perceptions in Tanzania. This is important since it is perceptions that drive investment decisions. Business leaders were asked about

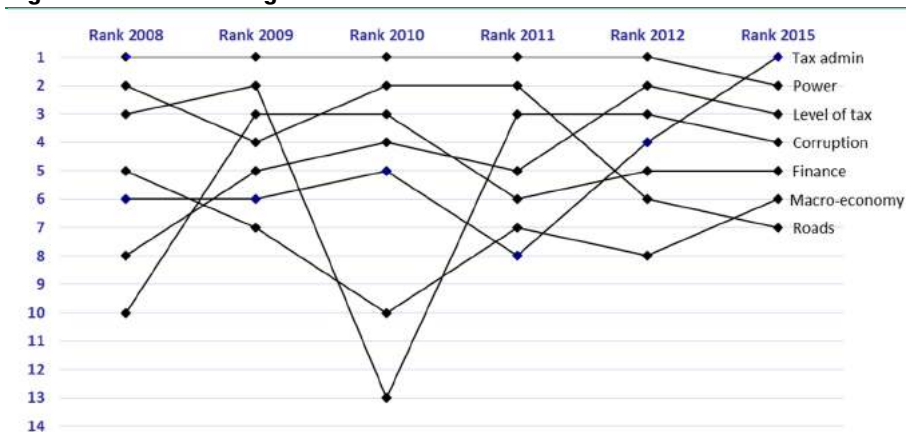
- The enabling environment factors that are important to their business;
- The factors that make it difficult to do business;
- Perceptions of whether and how government is addressing each factor;
- Their view of whether each factor would be likely to deter future investment;
- Their assessment of the costs involved in meeting the requirement of regulation and red tape; and
- The specific areas where they believe the government has made a difference over the last five years and the requests for action by the incoming administration.

The survey reveals that the factors that make it difficult for businesses to focus on running and growing their business, in order, are:

- Tax administration
- Power
- Level of taxation
- Corruption
- Access to finance

Until 2015, power has always been the biggest problem, but now, tax administration has risen to be the biggest problem, with level of taxation in third place high as well. Corruption, which fell markedly in 2010, is at four. Access to finance is at five.

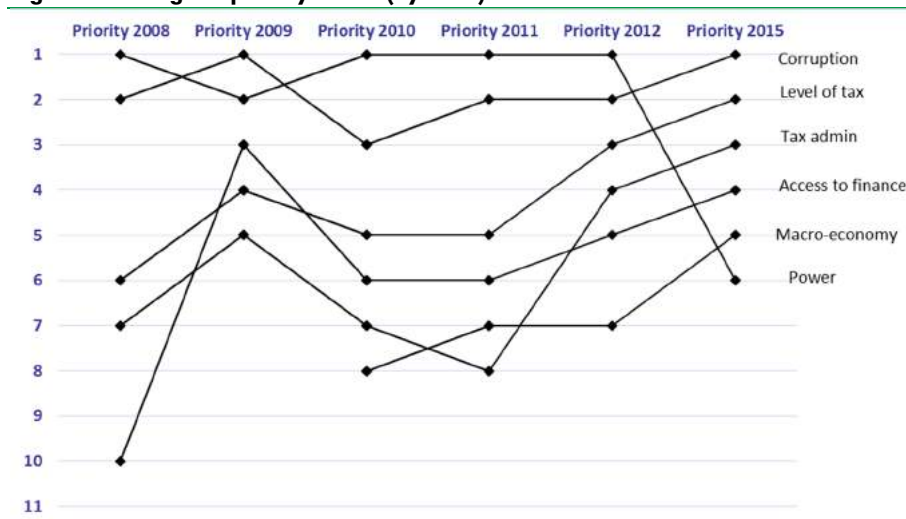
**Figure 1: Factors making business difficult in rank order**



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'.

The issues on which the government should focus, in rank order, are shown in the right hand column of Figure 2 which also shows how the rank has changed since 2008. Corruption heads the list; level of tax and administration of tax have risen to two and three respectively. Power has fallen to six.

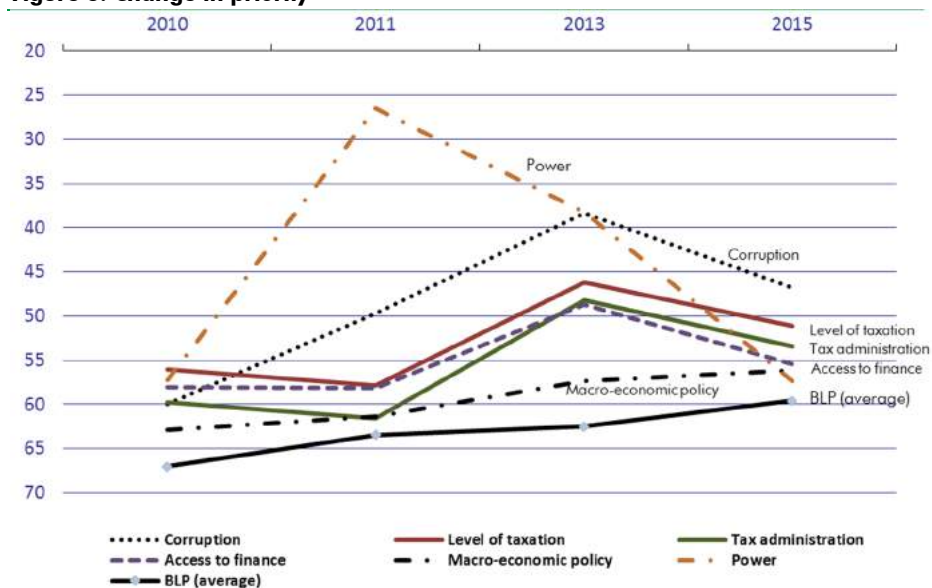
**Figure 2: Change in priority issues (by rank)**



It should also be noted that these are rankings, rather than absolute scores, so the differences between them may be quite small. It is therefore interesting to look also at how the index itself has changed for each of these six factors (see Figure 3).

Power deteriorated markedly in 2011 but has steadily improved since then. The other factors all deteriorated in 2013 but, with the exception of macro-economic policy, all started to improve in 2015. The absence of a factor in this list does not mean that Government can ignore it. And, overall, the average (of all the factors rather than just these six) shows one of continued deterioration. So whilst it is clear that the government has made considerable effort to address the issue of power, other factors have been allowed to slip.

**Figure 3: Change in priority**



NB: scale has been inverted so that higher priorities are higher on the chart

## 2. INTRODUCTION

This is the sixth annual Tanzania business leaders' perception report. It summarises business leaders' views of the enabling environment and of the government's efforts in making it easier to do business. It is intended to stimulate debate amongst the private sector and the government and to highlight the factors that should perhaps be prioritised if the enabling environment is to be significantly improved.

It was commissioned on behalf of Tanzania Private Sector Foundation by BEST-Dialogue 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.

Since 2003, when the World Bank published its first Doing Business report, it has been arguing 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 World Bank, other international finance institutions and bilateral donors believe that the most effective means 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. And TPSF aims to fulfil exactly that role, ensuring that the voice of the private sector is heard clearly by the Government and that it understands what has to be done to improve the enabling environment.

The results suggest that the perceptions of business leaders have not changed very much from 2009 to 2015, which reflects the assessment of the World Bank's Doing Business surveys and of other surveys such as the Global Competitiveness Index. All give the impression that it is slowly becoming harder to do business and that government is making insufficient effort to address any of the issues except power. This is unfortunate as the Government is actually making considerable efforts to make a difference, with an enabling environment 'road map', task forces in key Ministries, and now Big Results Now which has defined some detailed and specific targets.

## 3. ENABLING ENVIRONMENT ASSESSMENTS

The World Bank researches a number of indicators and publishes its "Doing Business" reports annually.<sup>1</sup> Many countries respond to the conclusions of the reports and aim to cut bureaucracy and make a difference. Indeed, many set ambitious targets to stimulate improvement. It is possible to focus on just two or three of the indicators – and make a big difference to the ranking but not make much difference to the overall ease of doing business (that is, to the rating) and so the perception of the private sector may be that not much has happened.

In Doing Business 2016, Tanzania is ranked at 139, suggesting a deterioration from DB2014. The World Bank has changed the way that some of the indicators are calculated, so they now regard the DB2015 rank as 140. So, in other words, Tanzania has improved by one place. However, given that Tanzania set a target in 2011 to reach the top 99, this is still rather disappointing.

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<sup>1</sup> World Bank, Doing Business: see [www.doingbusiness.org](http://www.doingbusiness.org)

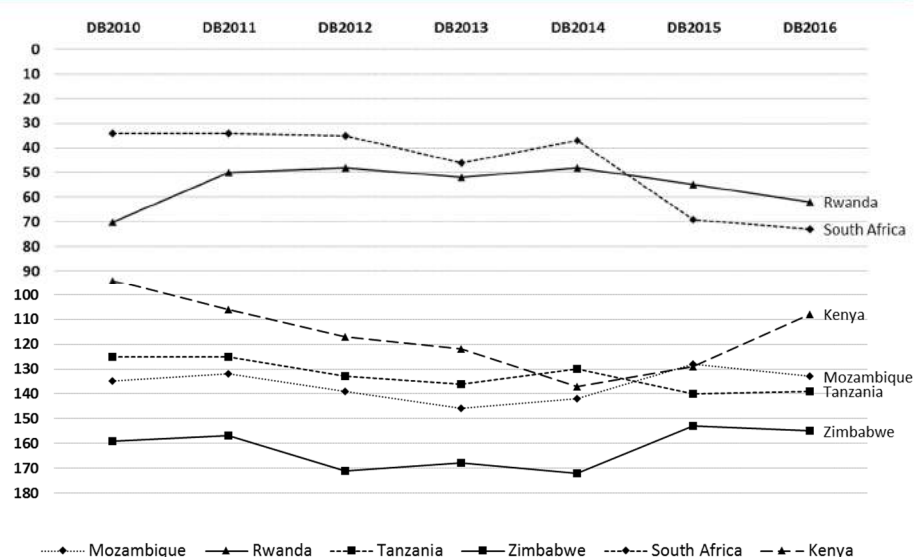
**Table 1: Doing Business rankings**

|                        | 2010<br>(DB 11) | 2011<br>(DB 12) | 2012<br>(DB 13) | 2013<br>(DB 14) | 2014<br>(DB 15) | 2015<br>(DB 16) |
|------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Ease of doing business | 128             | 127             | 134             | 145             | 131             | 139             |
| Starting a business    | 122             | 123             | ✓113            | 119             | 124             | 129             |
| Dealing with licences  | 179             | 176             | ✗174            | 177             | 169             | 126             |
| Getting electricity    |                 | 78              | 96              | 102             | 87              | 83              |
| Registering property   | 151             | 158             | 137             | 146             | 123             | 133             |
| Getting credit         | 89              | 98              | 129             | ✓130            | ✓151            | 152             |
| Paying taxes           | 120             | 129             | 133             | 141             | ✗148            | 150             |
| Enforcing contracts    | 32              | 36              | 36              | 42              | 45              | 64              |
| Trading across borders | 109             | 92              | ✗122            | 139             | ✓137            | ✓180            |

Sources: World Bank Doing Business reports 2011-2016 (The ticks and crosses in the table are reproduced from the Doing Business reports).

NB, the ranks in each year are from the report of that year whereas World Bank has a tendency to restate the previous year's rank following changes in methodology. DB2016 says that Tanzania ranked 140 in 2014 (ie, the year of DB15) for example. The revised ranking is used in figure 4.

It is perhaps worth comparing Tanzania's efforts with other countries in east and southern Africa. Whilst Tanzania's annual ranking has gone up and down a little, it has remained largely static over 10 years.

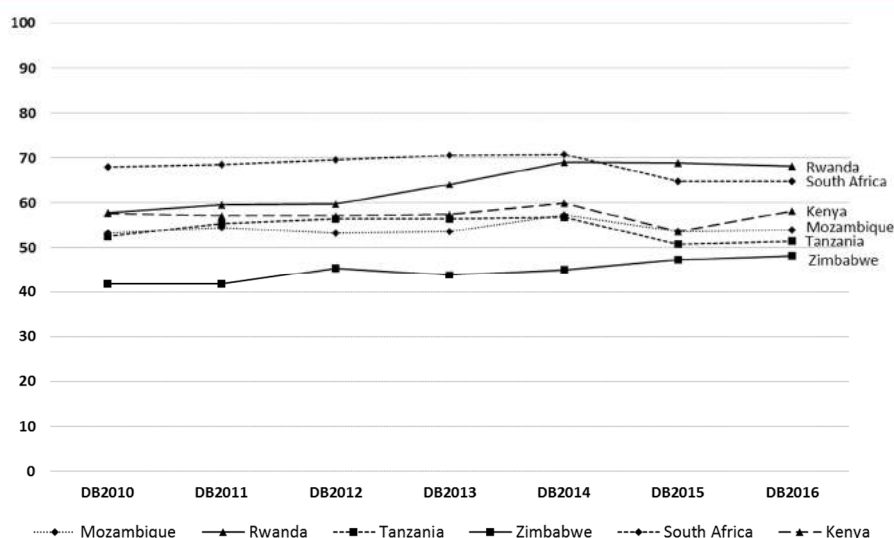
**Figure 4: Doing Business rankings over time**

Source: World Bank Doing Business reports 2010-2016

In DB2013 (World Bank 2012), reacting to criticism about the way in which the rankings were calculated and thus the results, the World Bank introduced the concept of the Distance to the Frontier (DTF). DB2013 explains that this shows "how much the regulatory environment [...] has changed over time in absolute terms" (World Bank 2012: 131). The DTF score, which ranges from 0 to 100, gives an indication of how close the country is to the 'frontier', that is the best score achieved by the top performing country, for that indicator set. Results for the same six countries are shown in Figure 5. It can now be seen that the performance of these six countries is rather closer, though it can also be seen that Tanzania's performance has barely changed over the period.



**Figure 5: Doing Business Distance to Frontier**



Source: World Bank Doing Business reports 2010-2016

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.

The World Economic Forum also researches and publishes performance measures, mainly looking at competitiveness. It publishes its Global Competitiveness Index annually. Tanzania has been slowly falling down the ranking. In 2009/10, it was ranked 100. By 2010/11 it had fallen to 113. In 2011/12 it fell again, to 120. In 2014/5, it was ranked at 121. In addition to ranking countries, WEF provides ratings for each of the 'pillars' that it measures. These are shown in figure 7. It can be seen that Tanzania has been pretty consistent in its performance since 2012. The maximum score for each pillar is seven. It is perhaps not surprising that Tanzania's worst score is on infrastructure where it achieves just 2.3 (and which has not improved in more than three years). It should perhaps be noted that there has been considerable investment in roads, though rather less in the ports and in rail, but it seems that the impact is yet to be felt.

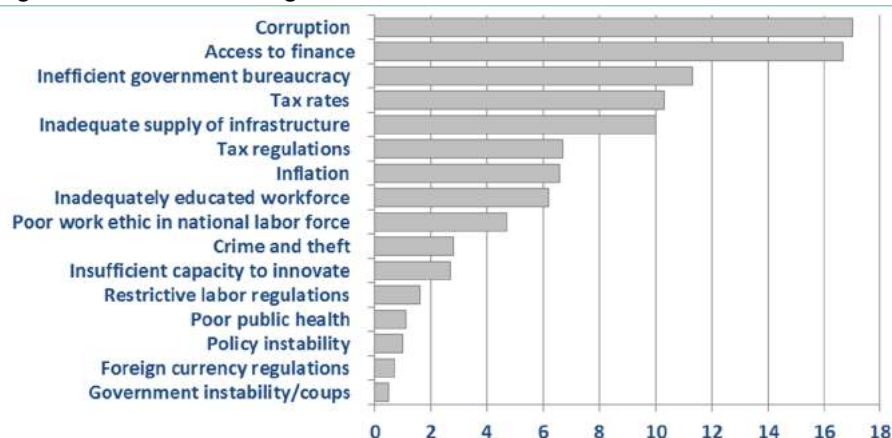
**Figure 6: Global competitiveness index**



Sources: Schwab (2012, 2014)

The Global Competitiveness Report also asks businesses specifically about the problems that they face in doing business. In asking the question, they present respondents with a list of factors (Figure 7) and ask them to select and rank the five most problematic for doing business. The bars in the chart show their weighted responses. This suggests that the biggest problems are corruption, access to finance and then inadequate infrastructure – broadly reflecting the results from this survey.

**Figure 7: Problems in doing business**

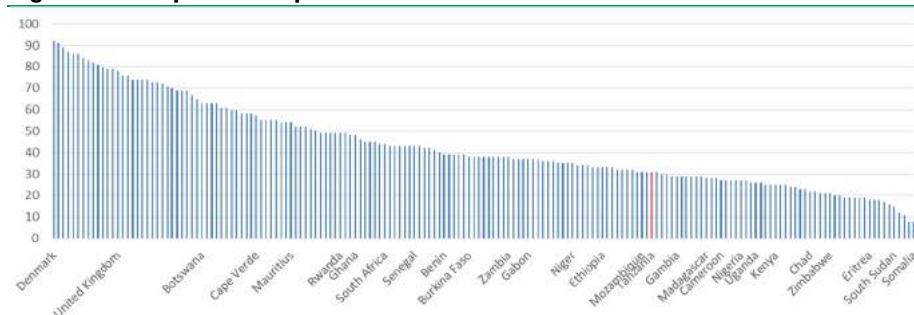


Sources: Schwab (2014)

Tanzania is slipping down the league table for corruption as well. Tanzania is ranked at 119 out of the 185 countries assessed by Transparency International in its annual index of perceived corruption and is now falling behind many countries in sub-Saharan Africa (Figure 8).



**Figure 8: Corruption Perceptions Index**



Source: Transparency International 2014

The Human Development Index (HDI), developed by the UN, measures countries' levels of social and economic development based on four criteria: life expectancy at birth, mean years of schooling, expected years of schooling and gross national income per capita. The latest figures are for 2013, but the trend is clear: Tanzania has barely improved.

#### 4. RATIONALE FOR THIS STUDY

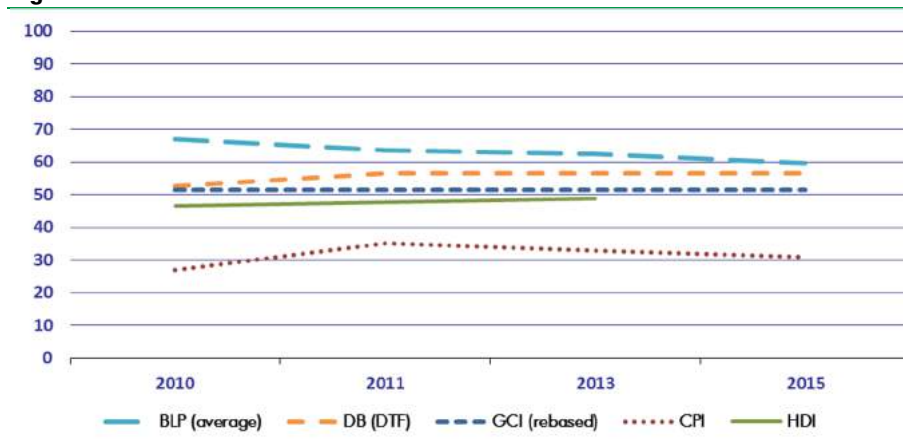
With organisations such as the World Bank and World Economic Forum undertaking research to assess the problems faced by business, it may seem that there is little need for further research or analysis. This study is different:

- Perception and reality are usually different – and people act on the basis of perceptions, even if they are not wholly accurate. So it is important for business associations and government to understand business leaders' perceptions. This will, in many cases, identify areas where action needs to be taken – but where action is already being taken it may suggest areas where the government needs to improve the way in which it communicates with the private sector about the efforts that it is making.
- 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 asked business leaders to identify the factors where the government is perceived to be making a positive effort.
- It 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 businesses are unlikely to invest unless they are confident about the future. Whilst domestic investors may have little choice, they may invest less. And foreign investors may go elsewhere. If they do invest, then giving more confidence may encourage them to invest more.
- It has attempted to quantify the costs to business of meeting the regulatory requirements imposed on them.

This sixth study, whilst indicating that the priority areas have changed a little, largely confirms the priorities identified previously. 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.

The chart in Figure 9 shows how each of the indices has changed since 2010. They tell a broadly similar picture: the BLP index shows a steady but small deterioration. The Doing Business Distance to the Frontier showed a small improvement in 2011 but has been static since. The Global Competitiveness Index has not changed at all. The perception of corruption improved in 2011 but has since deteriorated. HDI is almost static.

**Figure 9: Index trends**



## 5. METHODOLOGY

The fieldwork was undertaken during July and August 2015 by Tanzania Entrepreneurship and Competitiveness Centre (TECC), a Public Private Academia Partnership established in 2013 to create a knowledge economy with knowledgeable entrepreneurs and support local economic development. TECC's objectives are to promote a culture of entrepreneurship and to build competences for competitiveness of entrepreneurs and businesses.

The survey was conducted using an electronic spreadsheet based questionnaire. TECC transcribed the results for each respondent into the spreadsheet. The results were collated and analysed by David Irwin.

The sample population comprises 597 businesses covering a range of sectors, locations and business sizes. This is a much bigger sample than in previous years – the sample size in the 2013 report was just 139 – so the results should be more robust. It has also covered more locations. A note on the sampling frame is given in appendix 1.

**Table 2: Sample population**

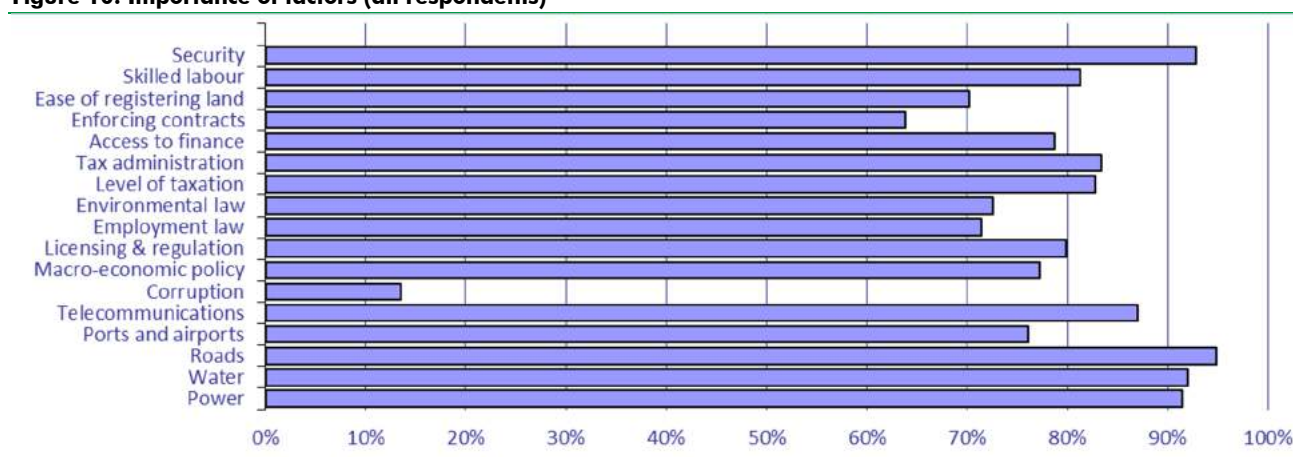
| Sector                       |     | Location      |     | Size (employees) |     |
|------------------------------|-----|---------------|-----|------------------|-----|
| Tourism                      | 117 | Dar es Salaam | 286 | 0-9              | 368 |
| Agriculture/ agri-processing | 203 | Zanzibar      | 98  | 10-24            | 144 |
| Manufacturing                | 99  | Arusha        | 81  | 25-49            | 41  |
| Trade                        | 68  | Iringa        | 48  | 50-99            | 22  |
| Services                     | 48  | Mbeya         | 46  | 100-250          | 16  |
| Construction                 | 47  | Mwanza        | 38  | >250             | 4   |
| Finance                      | 115 | BMO           |     | Did not say      | 2   |
|                              |     | Member        | 218 |                  |     |
| Total                        | 597 | Non-member    | 379 |                  |     |

## 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. It is 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 – for example corruption should score low on importance unless businesses rely on corruption for their success – but may interfere in the success of the business and thus make doing business more difficult.

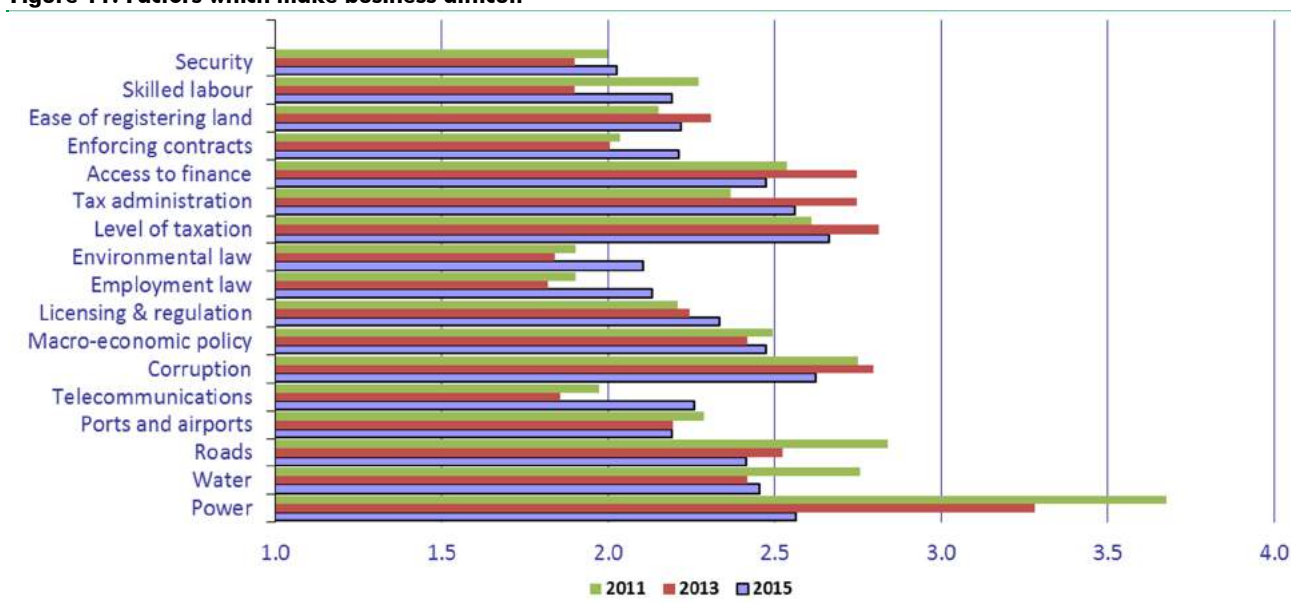
Most factors are seen as important. Indeed, except for corruption, all factors are seen as important by at least 60 per cent of respondents. Five factors – power, water, roads, telecoms and security – are seen as important by more than 90 per cent of respondents.

**Figure 10: Importance of factors (all respondents)**



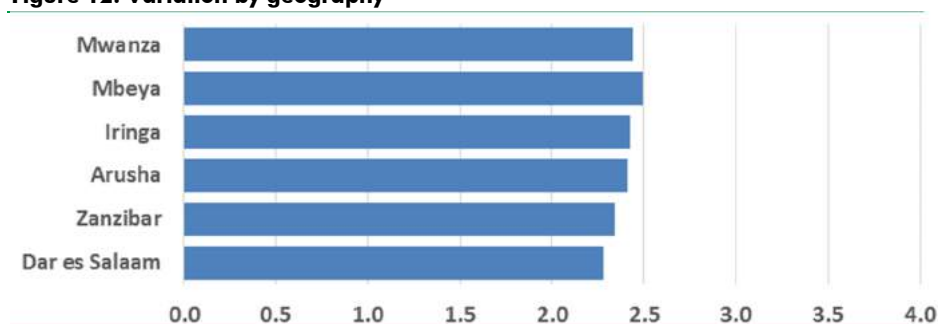
Business leaders were then asked to rate factors as 'making business very difficult', 'making business somewhat difficult', 'could be improved' or 'not a problem'. The responses have been coded (ranging from 1: not a problem to 4: makes doing business very difficult) and then averaged. This reveals the key issues to be power, corruption, tax rates, tax administration and access to finance, as indeed they were in the 2013 report.

**Figure 11: Factors which make business difficult**



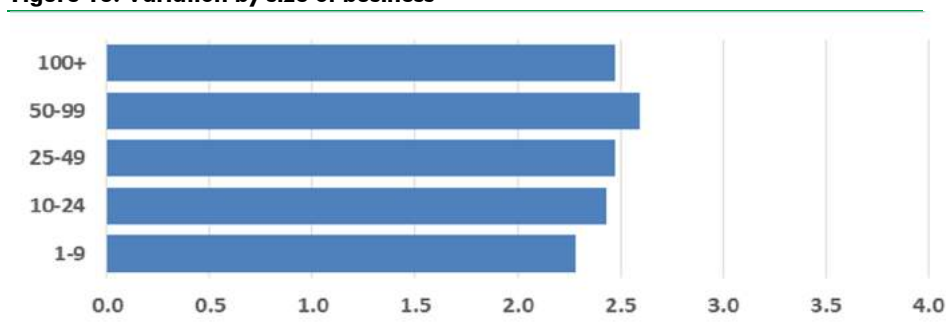
In general, businesses in Mbeya find it harder to do business and businesses in Dar find it easiest (it is worth noting that in 2013, businesses in Zanzibar found it hardest, but it is now second easiest behind Dar). There is, however, little to choose between them overall, though there is more variation when it comes to individual issues.

**Figure 12: Variation by geography**



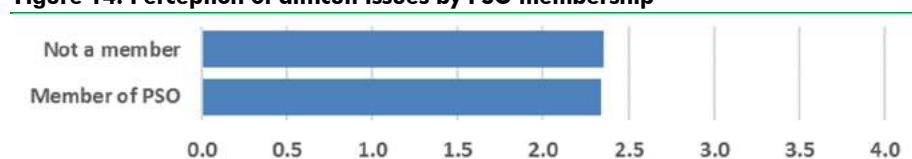
It seems that it gets harder to run a business as the business grows, at least up to 100 employees, though then begins to get easier again. The range is not great however.

**Figure 13: Variation by size of business**



Respondents were asked whether they were a member of a private sector organisation. Figure 14 shows the average result, which shows there is little difference between the perceptions of difficulty.

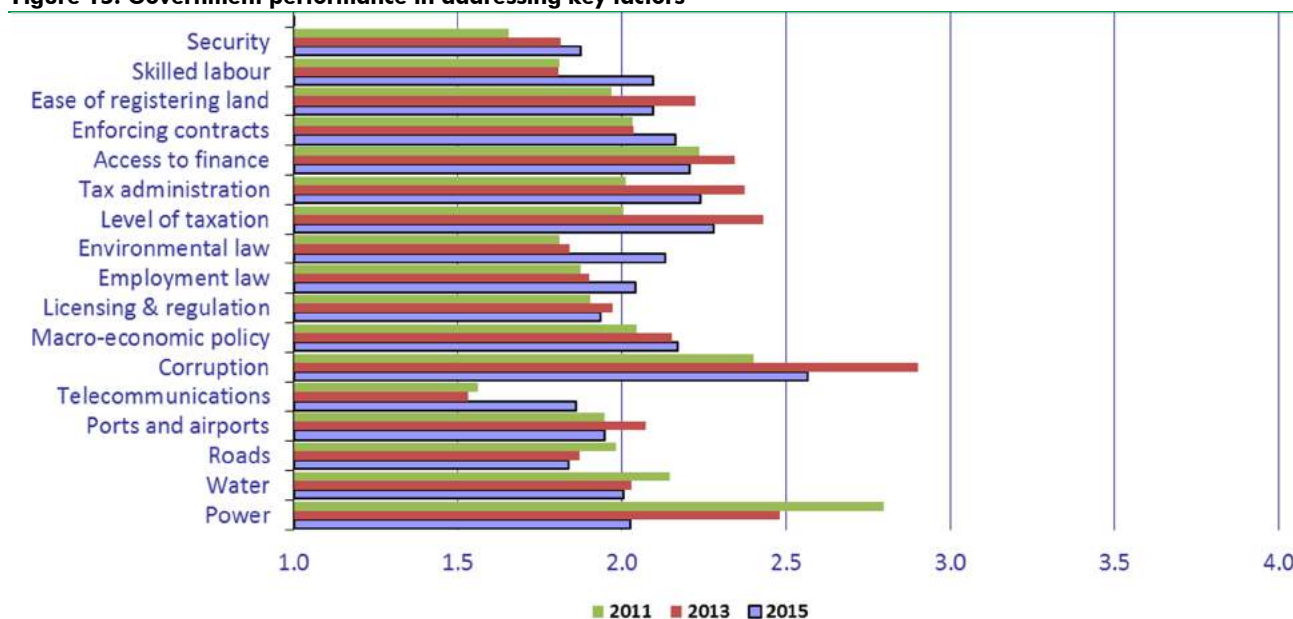
**Figure 14: Perception of difficult issues by PSO membership**



In the third question, 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 as in 2010 telecommunications was seen positively and, for most factors, there was a perception that the government was making at least some effort.

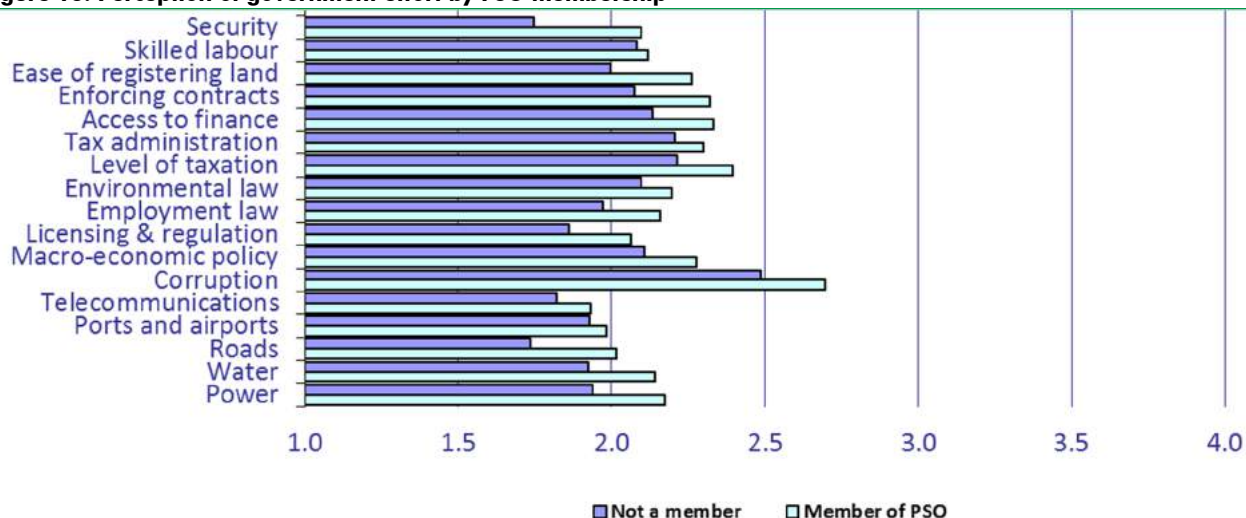
Power has improved considerably since 2011. Corruption is the issue which respondents feel is least addressed by government, even though it has improved a little since 2013. Positively, government is perceived to be trying harder in respect of all factors except environmental law, employment law skilled labour and security.

**Figure 15: Government performance in addressing key factors**



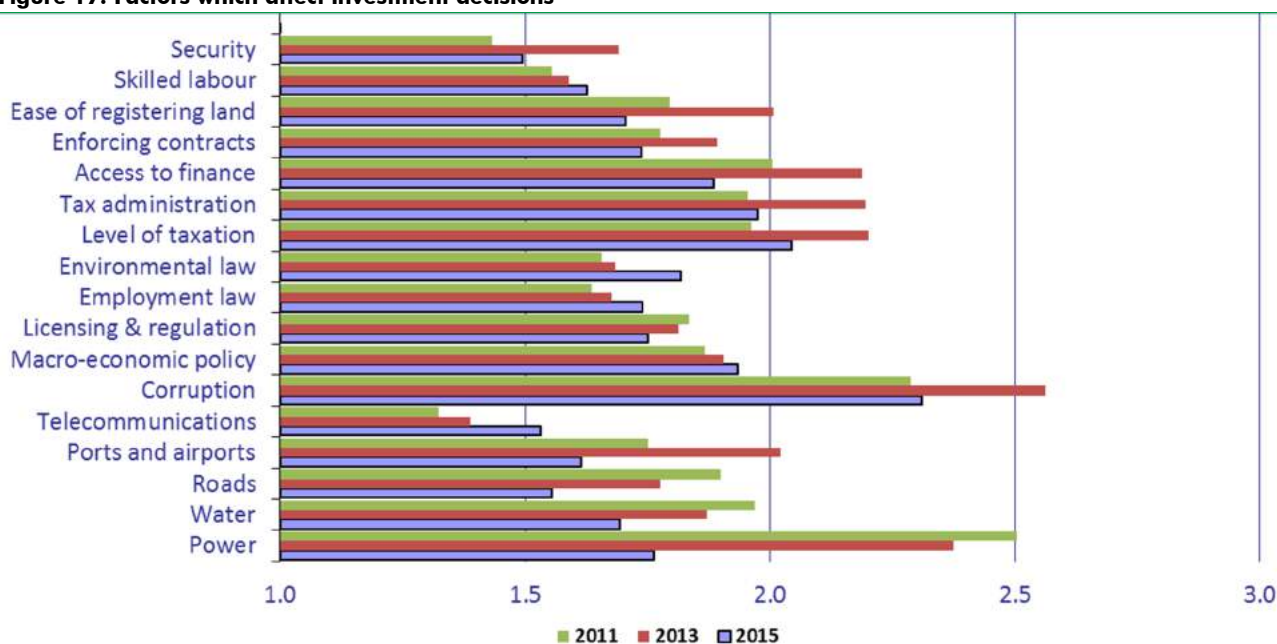
We might expect businesses that are members of a PSO to be more critical of the government and its efforts to make a difference since one of the reasons that businesses join a PSO is to advocate change in public policy. And indeed that is the case – for every factor.

**Figure 16: Perception of government effort by PSO membership**



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, followed by level of taxation, tax administration, macro-economic policy and access to finance. Power has improved greatly. Most factors are now better than in 2013, though not always better than in 2011.

**Figure 17: Factors which affect investment decisions**

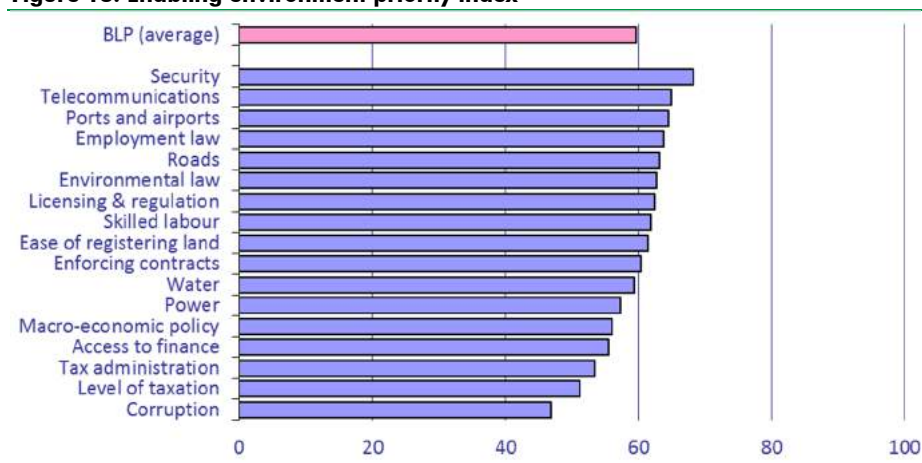


The enabling environment priority index combines the perceived level of difficulty imposed on a business with the perceived effort of government in addressing the issue. The chart below shows the combined views for all of our factors. Note that in this chart, the score has been inverted and rescaled 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 problematic is security, followed by telecommunications; the factor that is the biggest problem is corruption, followed by tax rates, then tax administration and access to finance. Power, which till the last survey was the biggest issue, has fallen to sixth place, which is encouraging. Note that this exactly reflects the list of factors which deter investment.

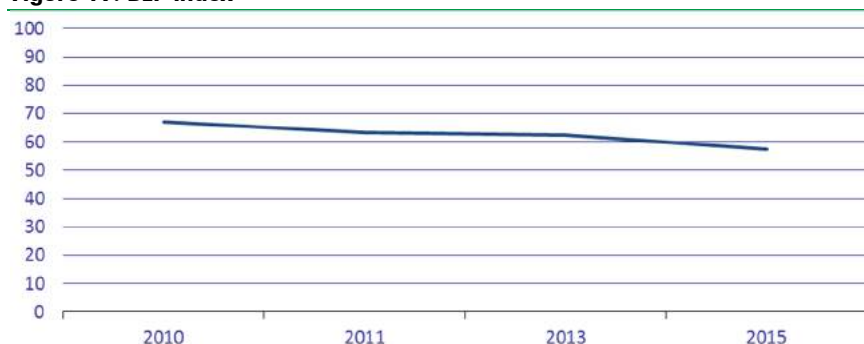
**Figure 18: Enabling environment priority index**



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 the position is deteriorating very slowly (actually down from 63.5 in 2010 to 57.3 in 2015).

**Figure 19: BLP index**



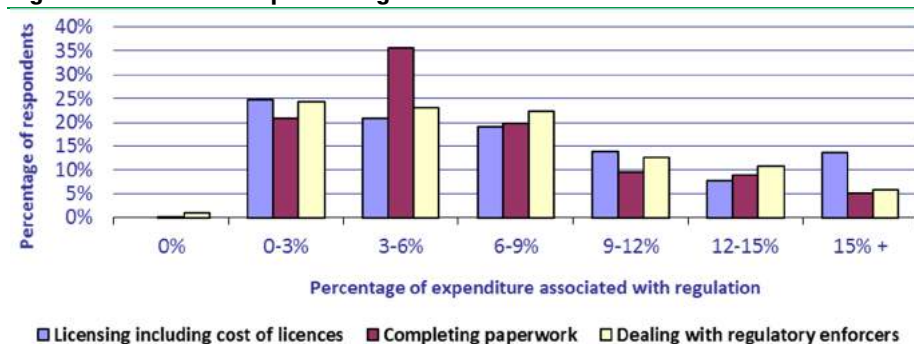
## 7. COST OF RED TAPE

All over the world, businesses complain about the cost of compliance, that is the cost of dealing with licences and paperwork.

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. Specifically, respondents were asked to say in which band they believed that each of these categories of cost fell.

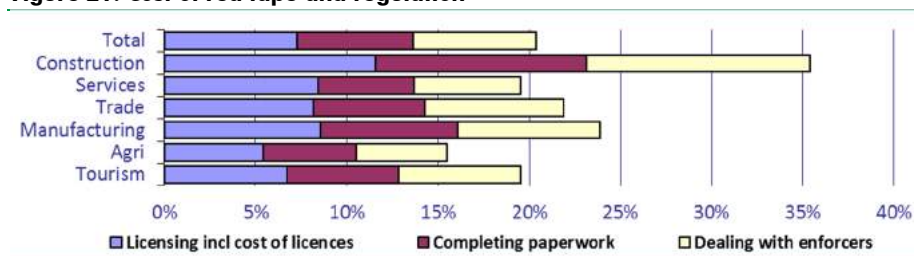
Almost no respondent says that there is no cost. The total cost of licensing is high.

**Figure 20: Cost of red tape and regulation**



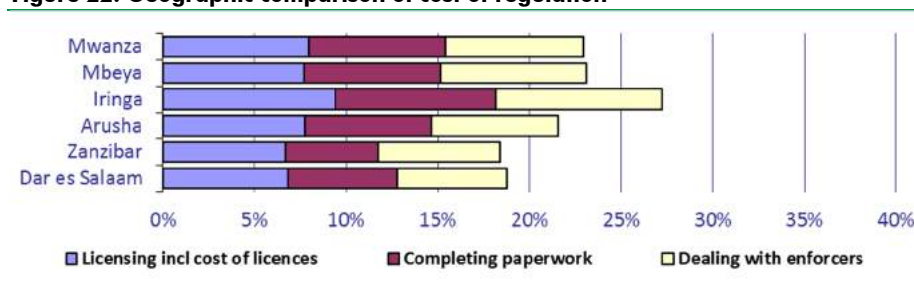
As in previous years, most respondents thought that licensing and dealing with regulatory enforcement required expenditure of less than three per cent, but completing the paperwork and dealing with the bureaucracy was perceived to be much higher. When you add the three together they can quickly mount up. The chart below shows average expenditure by sector for each of the three aspects of regulatory cost. The cost is particularly high in construction. There is a clear conclusion here: if government can reduce the costs associated with bureaucracy and inspection, then it could almost certainly continue to charge taxes and levies at the same level yet reduce substantially the costs to business.

**Figure 21: Cost of red tape and regulation**



Businesses say that the costs are highest in Iringa and lowest in Zanzibar.

**Figure 22: Geographic comparison of cost of regulation**

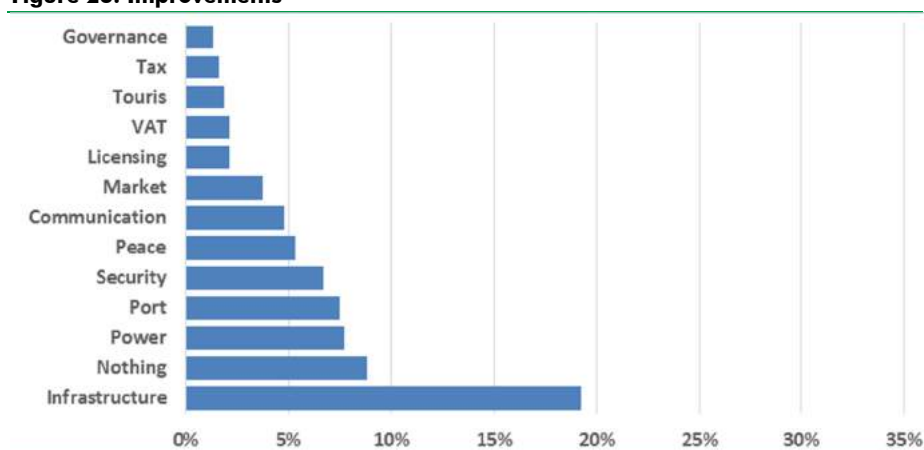


Making an effort to reduce the costs of regulation would free up valuable resources that businesses could use to reinvest in their business – creating more jobs and more economic activity, ultimately leading to more tax revenue for the government – so everybody would win.

## 8. THE BUSINESS AGENDA

This year the survey added two qualitative questions: the first asked about the most helpful reform of the last three to five years; the second asked what reform over the next two to three years would be most welcome. Despite the fact that respondents did not see much change in the difficulties imposed by infrastructure, it is clear that a plurality of businesses see this as the single biggest area of reform. This is positive – and should begin to make a difference to the competitiveness of businesses in Tanzania.

**Figure 23: Improvements**



The World Economic Forum, in its Africa Competitiveness Report (2015) notes that Africa has achieved an average growth rate of more than 5 per cent over 15 years. This is remarkable. However, quoting from the Global Competitiveness Report (WEF, 2014), it notes that most countries are not competitive and furthermore that most are seeing a shift from agriculture to services rather a shift to manufacturing which is necessary for that growth to be sustainable. They argue that this requires better infrastructure – energy, roads, ports and water – improved education, reduced barriers to trade and strengthened regulatory frameworks (intended to support businesses through, inter alia, better rules of origin, competition policy, protection for intellectual property and improved dispute resolution). They also argue for reductions in both tariff and non-tariff barriers. They note that “success of reform agendas will also depend on active dialogue among key stakeholders” (WEF 2015: 82). They are particularly referring to the need for countries to talk to each other, but there is a great need for governments and private sectors link within countries to talk – and an argument for business associations to link more effectively with counterparts across the region and further afield to lobby organisations such as EAC.

There is a tendency for associations to lobby for competitive advantage. Whilst this may be in the interests of the country, that is not always so case. An example is provided by the debate on whether there should be continued exemptions from VAT. The private sector argued successfully for a large number of exemptions to continue, largely based on ‘fairness’ and ‘equality’ with other countries in the region rather than on economic arguments.

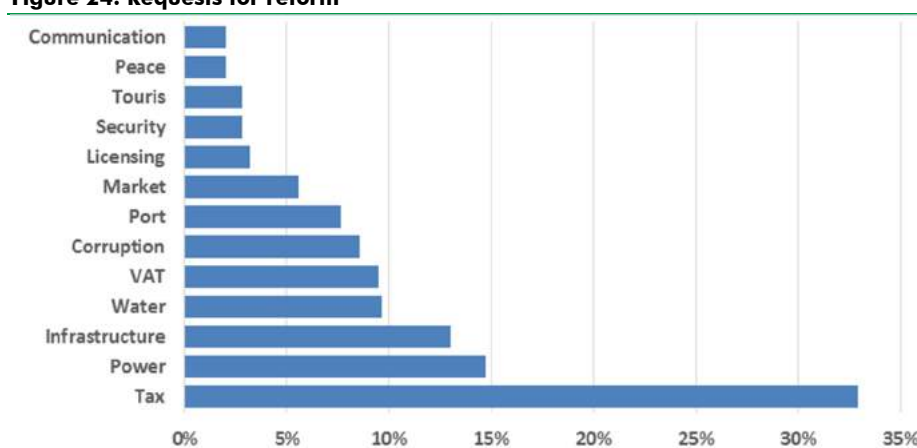
The World Bank, for example, noting the need for higher tax revenues (World Bank Tanzania Economic Update 2015) argues for the adoption of a comprehensive approach to deliver a tax system that is affordable, fair, simple, and transparent and in which the government is clearly accountable.

But it also needs to widen the tax net beyond Dar es Salaam, which accounts for 88 per cent of gross tax revenue (ibid: 31) and the sectors of telecommunications, beverages and cigarettes which contribute 40 per cent of VAT (p 28) though transport, telecoms and mining pay a lot in other taxes. There is also a myriad of other taxes and levies (ibid: 27), which may not generate much revenue but cost a great deal in paperwork and enforcement. The problem is then exacerbated further as the World Bank reports that Tanzania performs poorly in domestic revenue collection. They suggest that the Tanzanian tax system might be the worst of two worlds: taxes are theoretically quite high, which discourages taxpayers from paying but weak collection efforts result in a failure to collect (ibid: 26).

When this problem is allied with the challenge of corruption in government procurement, on one estimate almost equal to the aid provided by development partners, it is not hard to see why there is so much dissatisfaction with tax rates and tax administration. Certainly, there is a challenge here for the private sector to recognise that the government has to collect taxes – probably at a higher rate than now – but there is a challenge for government to spread the net more widely and to make the system as efficient as possible, not least because even with higher taxes this could reduce the overall cost to business.

Whilst corruption is arguably the biggest impediment and should be the priority for action, it comes sixth when businesses are asked about the areas where they would like reform. The area for which reform was most asked was tax. Many businesses mentioned VAT separately. If those mentioning VAT are added to those mentioning tax, then almost 50 per cent of respondents are calling for reform of taxation. Power is still seen by many businesses as an area that needs more work. Infrastructure was third, though many businesses mentioned water separately. If they are added together, then infrastructure improvements would be the second most requested area for reform.

**Figure 24: Requests for reform**



## 9. CONCLUSION & RECOMMENDATIONS

The Doing Business result may be disappointing, but Doing Business looks at a small number of indicators. Tanzania, through Big Results Now, is taking a much broader view of what needs to be done. The enabling environment has not changed much over the last seven years or so. Taking action now would demonstrate that a new government cares and wants to make a difference – to unleash the creative potential of the private sector on which it says the country depends. Everyone recognises that the government has to generate more revenue and that the only way to do this is through taxation. Businesses want taxation and expenditure to be transparent and equitable – and then generally are more willing to pay what they perceive to be their fair share. It is worth noting that a plurality of advocacy projects supported by BEST-Dialogue focus on taxation in one way or another, but generally they are calling for reduction or abolition of taxes and levies. It is true that there is a myriad of taxes in Tanzania and considerable scope for simplification. But that does not necessarily require reduction in tax revenue overall. Reducing the amount of paperwork and bureaucracy associated with taxation (including registration and licensing) would reduce the cost to business considerably and would, at the same time, eliminate many of the opportunities for corrupt practices. Simplification of the tax regime would address the three priorities identified by this survey – corruption, tax and the administration of tax – and would satisfy many of the objectives set out in BRN.

Focusing on these could make an enormous difference to the ease – and indeed the cost – of doing business. But getting it right could also result in higher revenue for the government. The challenge is for private and public sectors to recognise the legitimate needs of the other and for all to work towards that same end.

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## Appendix 1: Sample population

The objective in the sampling was to survey businesses in approximate proportion to the business population spread across geography and sector and to get a spread across business size as well. Whilst efforts were made to do this, there was some post-survey recategorisation of respondents. So the actual sample split as shown in Table 3.

Note that agriculture and agri-business is mostly agri-business.

**Table 3: Sample frame**

|               | Tourism | Agriculture &<br>Agri-processing | Manufacturing | Trade | Services | Construction | Finance |     |
|---------------|---------|----------------------------------|---------------|-------|----------|--------------|---------|-----|
| Dar es Salaam | 48      | 102                              | 50            | 35    | 22       | 22           | 7       | 286 |
| Zanzibar      | 19      | 33                               | 16            | 16    | 6        | 8            | 0       | 98  |
| Arusha        | 24      | 24                               | 11            | 7     | 6        | 6            | 3       | 81  |
| Iringa        | 9       | 16                               | 8             | 2     | 7        | 4            | 2       | 48  |
| Mbeya         | 8       | 16                               | 8             | 5     | 4        | 4            | 1       | 46  |
| Mwanza        | 9       | 12                               | 6             | 3     | 3        | 3            | 2       | 38  |
|               | 117     | 203                              | 99            | 68    | 48       | 47           | 15      | 597 |

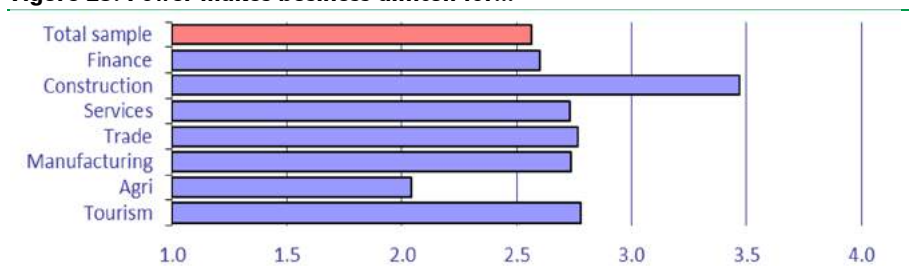


## Appendix 2: Detailed results

Some more detailed results are provided in this appendix. More detail may be available from BEST-Dialogue if required.

Power makes business particularly difficult for construction and least difficult for agriculture and agri-processing. It is perhaps surprising that the manufacturing sector does not find power making life more difficult, but there has been some success in improving the availability and reliability of power over the last couple of years and most manufacturers have alternative arrangements for when there is no grid power available.

**Figure 25: Power makes business difficult for...**



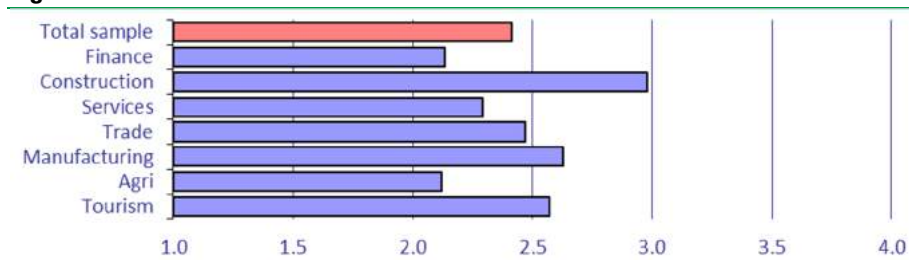
Water also makes business difficult for construction. The financial sector is least impacted by water.

**Figure 26: Water makes business difficult for...**



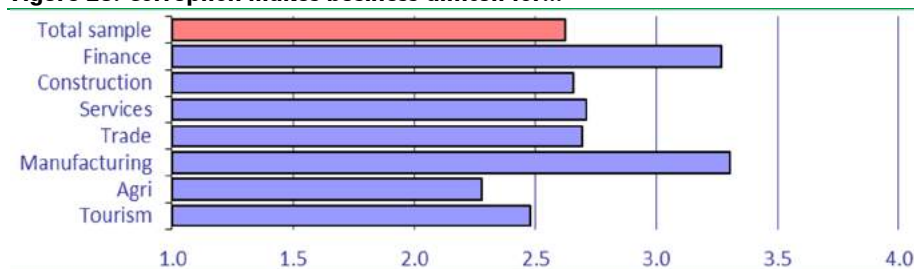
Roads are most difficult for construction. They are least difficult for agriculture and agri-processing, though one might have imagined them to be more critical for agriculture. It is quite likely that respondents conflate the state of the roads with the ease of moving around by road, which is increasingly difficult in Dar. And construction relies on large amounts of raw material arriving at about the right time since storage facilities are generally very limited.

**Figure 27: Roads makes business difficult for...**



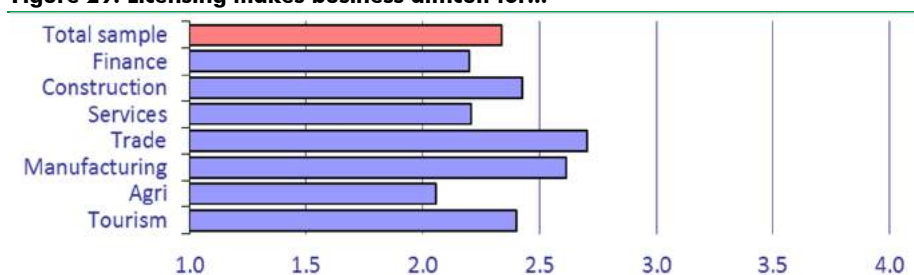
It will not be surprising that scores for corruption are quite high in all sectors but particularly high in finance and manufacturing.

**Figure 28: Corruption makes business difficult for...**



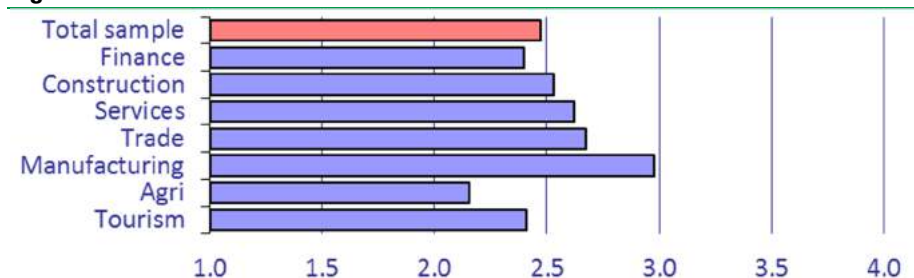
Licensing makes business most difficult in trade and manufacturing. Reforming licensing and registration should be relatively simple, and thus reduce the cost of doing business without reducing tax revenue, and reduce opportunities for corrupt practices.

**Figure 29: Licensing makes business difficult for...**



Manufacturing worries most about access to finance making business difficult.

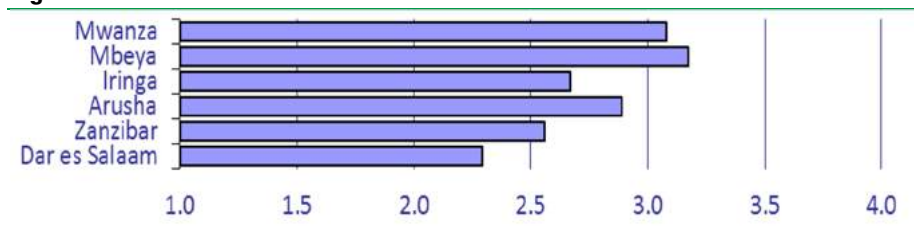
**Figure 30: Access to finance makes business difficult for...**



We can also look at the results geographically. Power, water and roads cause the most difficulty in Mbeya. Corruption cause the most difficulty in Arusha. Tax, both level and administration, and corruption cause the most difficulty in Dar. Security, power and access to finance are the issues which are most problematic in Zanzibar.

It seems that whilst power has undoubtedly improved, that improvement is not uniform across the country.

**Figure 31: Power makes business difficult in...**



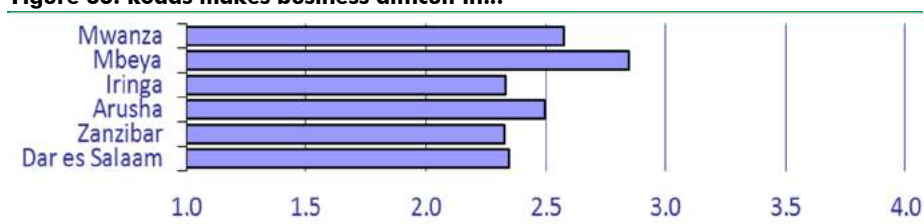
Water is an issue in most parts of the country. It is particularly problematic in Mbeya, but is much less of a problem in Zanzibar.

**Figure 32: Water makes business difficult in...**



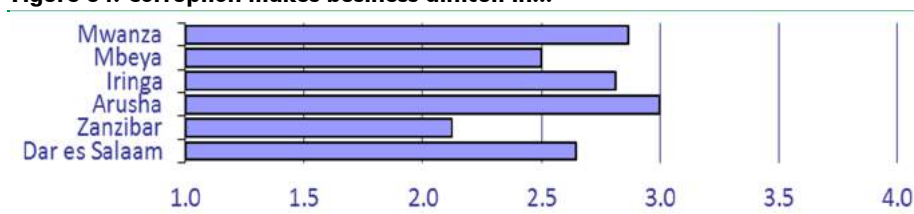
Mbeya is also the place where roads are the biggest problem.

**Figure 33: Roads makes business difficult in...**



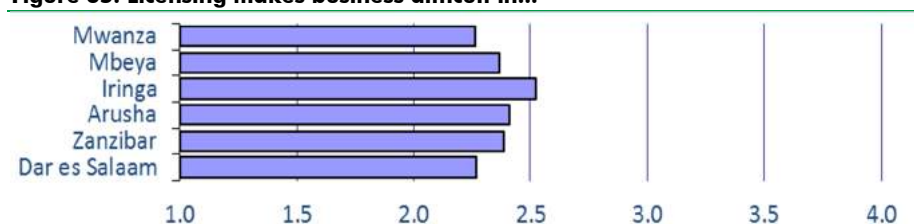
Zanzibar appears to be the place that worries least about corruption. Corruption in Arusha is seen to be a major problem, closely followed by Mwanza and Iringa.

**Figure 34: Corruption makes business difficult in...**



Whilst businesses regularly complain about licensing, there is little to pick between them on a geographic basis.

**Figure 35: Licensing makes business difficult in...**



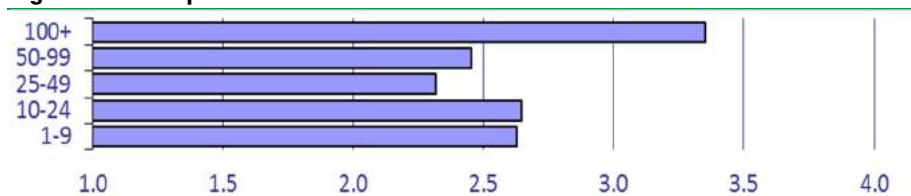
The same is true for access to finance.

**Figure 36: Access to finance makes business difficult in...**



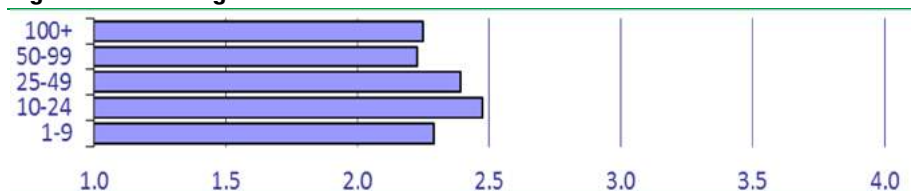
We can look at the results based on size of business, defined by number of employees. It is the largest businesses that seem to suffer the most problems with corruption, whereas one might have expected it to be the smallest businesses. This may be because as they grow bigger they also become a bigger target.

**Figure 37: Corruption makes business difficult for business...**



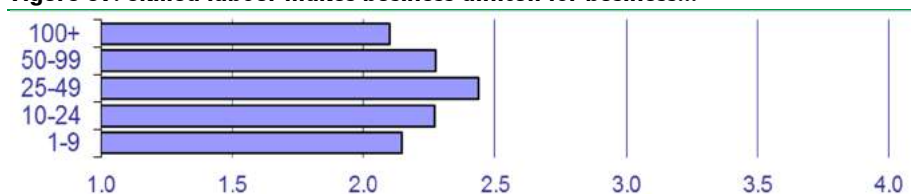
There is little to choose between businesses based on size when it comes to licensing.

**Figure 38: Licensing makes business difficult for business...**



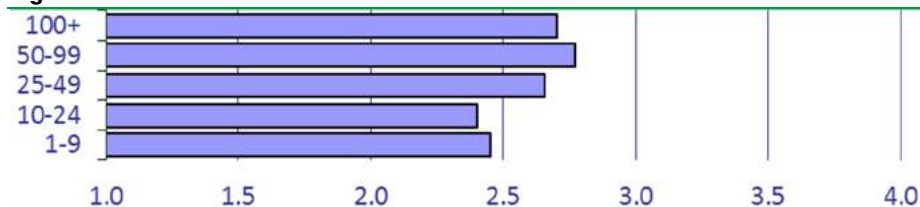
There is not a great difference for access to skilled labour either, though it does appear that it is the mid-sized businesses that find it most difficult. This is probably because the larger businesses make more effort to train staff to fill their vacancies whereas mid-sized firms are more likely to seek to recruit people who are already trained.

**Figure 39: Skilled labour makes business difficult for business...**



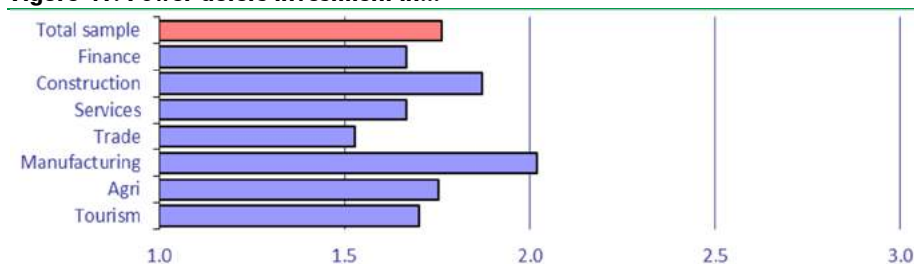
Perhaps surprisingly, the larger the business, the more difficult they find access to finance. This is a result that may be worthy of further investigation.

**Figure 40: Access to finance makes business difficult for business...**



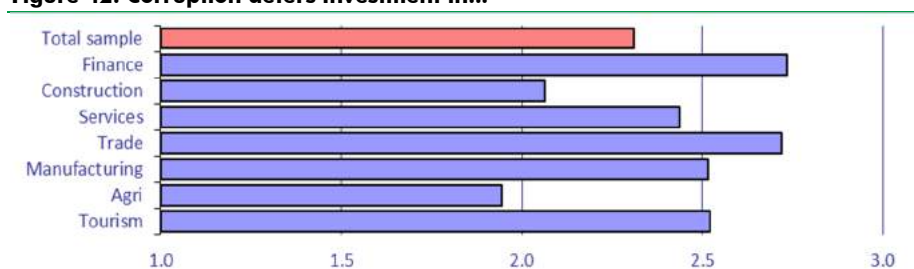
When asked about which factors are likely to deter investment, perhaps not surprisingly, it is manufacturing that is deterred most by power, followed by construction.

**Figure 41: Power deters investment in...**



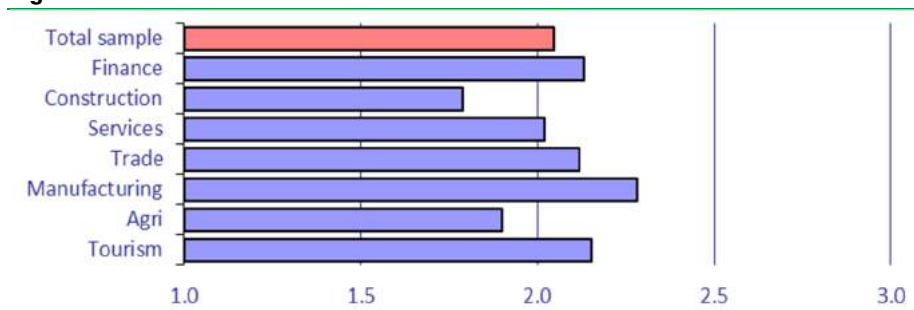
Corruption is a much bigger deterrent, for all sectors, though is curiously low for construction where corruption might be expected to rampant. Indeed, that might be the problem: it has become so much the norm that it no longer deters investment in construction. Corruption is least of a deterrent in agri-processing

**Figure 42: Corruption deters investment in...**



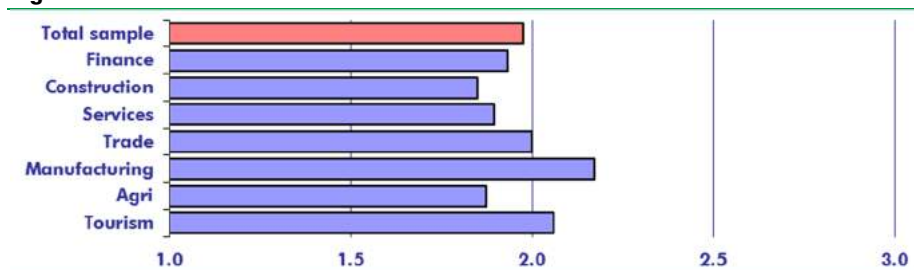
Level of taxation is also a deterrent in most sectors.

**Figure 43: Level of taxation deters investment in...**



Tax administration is seen as deterrent especially in manufacturing, tourism and trade.

**Figure 44: Tax administration deters investment in...**





## Tanzania Private Sector Foundation

The mission of TPSF is to function as an apex and focal private sector organization in Tanzania by promoting private sector development as well as effective engagement with Government of Tanzania and other stakeholders in matters of development policy and in the provision of services to members. It represents its members' common interests and engages the Government in effective advocacy and lobbying. Moreover, TPSF seeks targeted reform of public policy to promote a better business environment. TPSF works towards promoting the national, regional & global competitiveness of the private sector particularly in relation to trade and investment. TPSF has a vision that it can become "an effective apex private sector organization, providing the focal point for private sector- led approaches to Tanzania's economic and social transformation."

TPSF seeks to work in accordance with its seven core values:

- Commitment to best practice
- Value addition
- Unity in diversity
- Impeccable integrity
- Fair competition
- Service before self
- Commitment to lifelong learning







## BEST-Dialogue

BEST-Dialogue (formerly BEST-AC) supports sustainable private sector growth in Tanzania. The programme reaches out to a wide range of Tanzanian membership organizations representing businesses from agriculture, manufacturing, construction and infrastructure, the hospitality and tourism sectors, the large informal micro-business sector as well as the creative industries.

Beneficiaries of the BEST-Dialogue Fund receive support through training and mentoring, by expanding networking opportunities, in effective communication and media strategies, and notably through grants that enable the organizations to commission research that will help identify and detail solutions to barriers in doing business. By producing evidence-based policy proposals the private sector supports the government in improving the business environment and the investment climate for equitable economic growth, in the facilitation of entrepreneurship and the creation of employment opportunities.

BEST-Dialogue forms part of the Business Sector Programme Support (BSPS), agreement signed between the Government of Tanzania and key development partners. By engaging a growing network of higher learning institutions and media specialists, the BEST-Dialogue component strengthens the BSPS ambitions by way of a sustained and well-informed dialogue between the government and business associations at the national as well as the sub-national level.

The BEST-Dialogue component is currently supported by the Danish government.



*Supported by*

BEST-Dialogue 

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