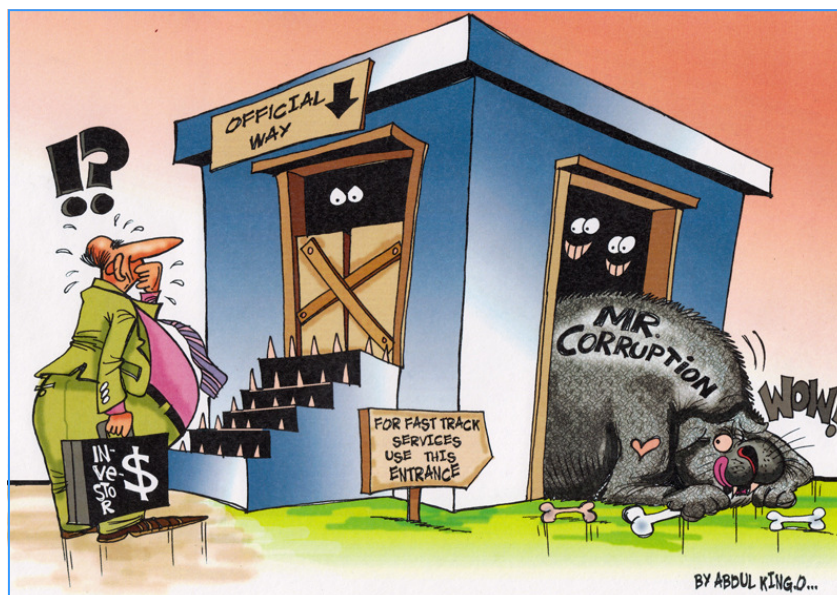


Business Leader Perceptions of the Investment Climate in Tanzania - 2011



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ABOUT THIS REPORT

This is the fourth 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.

Fieldwork for this survey was undertaken by Synovate during June and July 2011. The responses were analysed and the report was written by David Irwin.

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Cartoon on the front cover by Abdul Kingo

Business Leader Perceptions of the Investment Climate in Tanzania - 2011

1. EXECUTIVE SUMMARY

Business leaders were asked about:

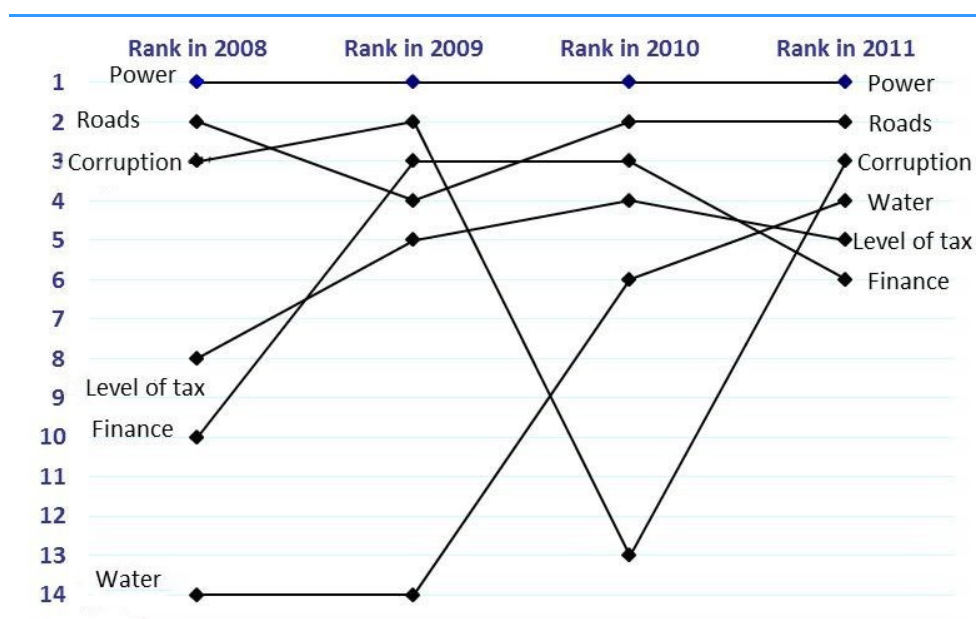
- The enabling environment factors that are important to their business;
- The factors that make it difficult to do business;
- The non-tariff barriers that are relevant to their business;
- The non-tariff barriers that cause problems for their business;
- Their perception of whether and, if so, how, 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 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
- Corruption
- Water

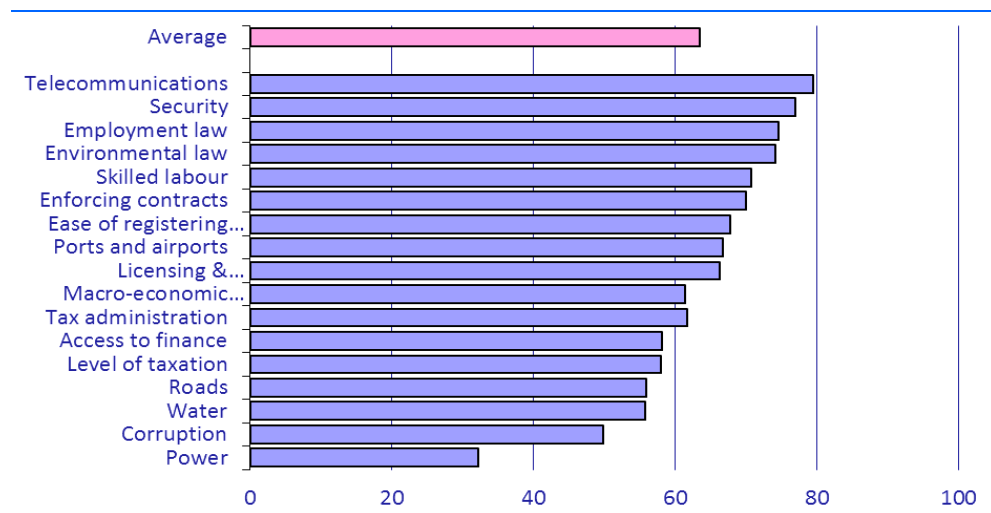
Power is consistently the biggest problem with roads regularly second. Corruption, which had fallen in 2010, is back to being a major issue. Water, which was not cited as a particular problem until 2010 is now seemingly worse. Access to finance has dropped a bit, though policy makers should not be complacent as it is still an issue.

Figure 1: Factors making business difficult in rank order



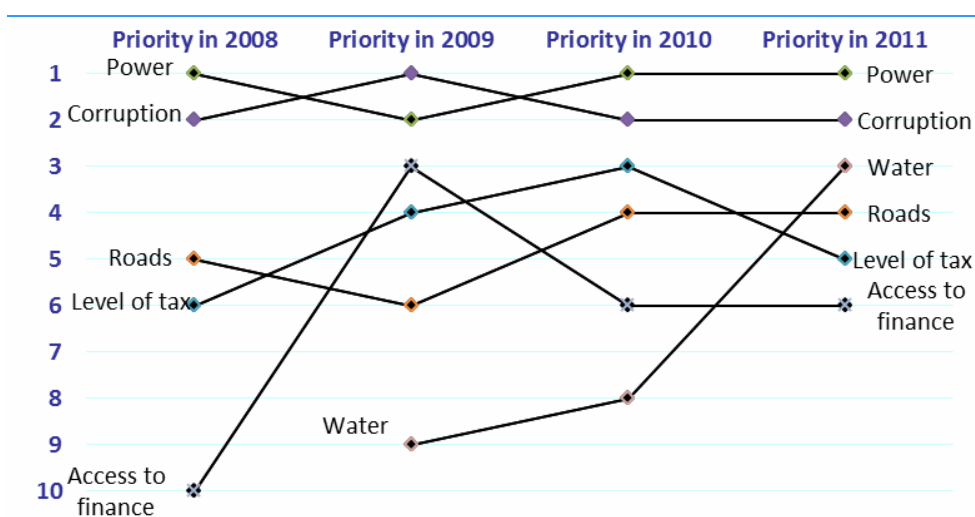
The survey seeks perceptions of whether the government is making efforts to address each of these issues. The difficulty in doing business caused by each factor and the perceived level of effort being made by the government to address the issue is then combined to give an 'enabling environment priority index'. 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. Water is becoming a greater priority. Roads remain important.

Figure 3: Change in priority issues



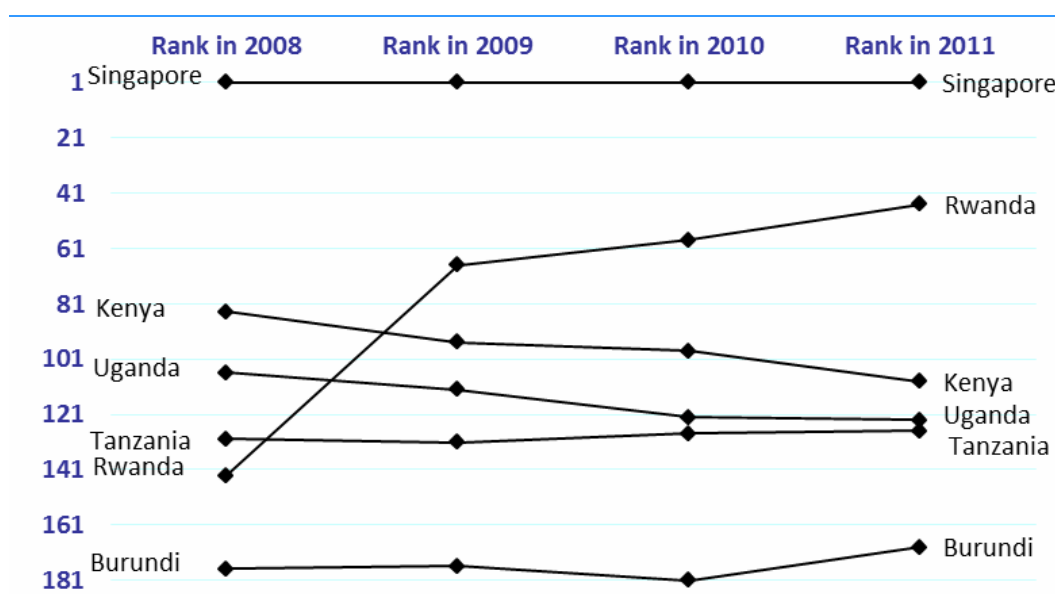
The absence of a factor in this list does not mean that Government can ignore it; rather it means that government is already making some effort to reduce the negative impact on business. That effort needs to continue or else it will become a priority in the future. It should also be noted that these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

2. ENABLING ENVIRONMENTAL ASSESSMENTS

The World Bank researches a number of indicators and publishes its “Doing Business” reports annually¹.

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.

Figure 4: Doing Business Rankings over Time



Source: Adapted from World Bank: *Doing Business 2009* (2008), *Doing Business 2010: reforming through difficult times* (2009), *Doing Business 2011: Making a difference for entrepreneurs* (2010), *Doing Business 2012: Doing business in a transparent world* (2011)

In *Doing Business 2012*, Tanzania is ranked at 127, more or less the same position as last year. Indeed, its rankings for key areas of doing business are largely static as well.

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 4) and in the disaggregated rankings (table 1 on next page).

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*.

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

Table 1: Doing Business rankings for Tanzania

	2008 (DB 2009)	2009 (DB 2010)	2010 (DB 2011)	2011 (DB 2012)
Ease of doing business	126	131	128	127
Starting a business	109	120	122	123
Dealing with licences	172	178	179	176
Registering property	142	145	151	158
Paying taxes	109	119	120	129
Enforcing contracts	33	31	32	36
Trading across borders	103	108	109	92

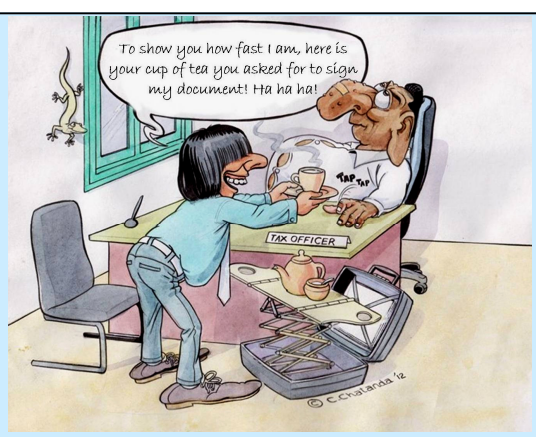
Sources: World Bank (2008), *Doing Business 2009*; World Bank (2009) *Doing Business 2010: reforming through difficult times* (NB the 2009 rank was adjusted in the 2010 report); World Bank (2010), *Doing Business 2011: making a difference for entrepreneurs* (NB the 2010 rank for 'ease of doing business' was adjusted in the 2011 report to 125 to reflect slight differences in topics and data corrections); World Bank (2011), *Doing Business 2012: doing business in a more transparent world* (NB the 2011 rank was adjusted in DB2012, so Tanzania actually fell to 127 from 125)

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 factor that is important to a business may not necessarily make doing business difficult, though we might expect to see some correlation.

Cartoon by
Cloud Chatanda



- 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 fourth 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.

Tanzania is currently making a special effort to improve its Doing Business ranking and is seeking more, and more effective, input from the private sector. Government and private sector seem to be coming together, increasing the level of dialogue, forming policy coalitions and agreeing on some change in public policy which will, hopefully, lead to an improving enabling environment and ultimately to more investment, more jobs and more tax revenue. The culture in Ministries is beginning to change, though there is no room for complacency. The private sector needs to respond positively to this new openness.

4. METHODOLOGY

The fieldwork was undertaken during June and July 2011 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 population comprises 157 businesses covering a range of sectors, locations and business sizes.

Table 2: Sample population

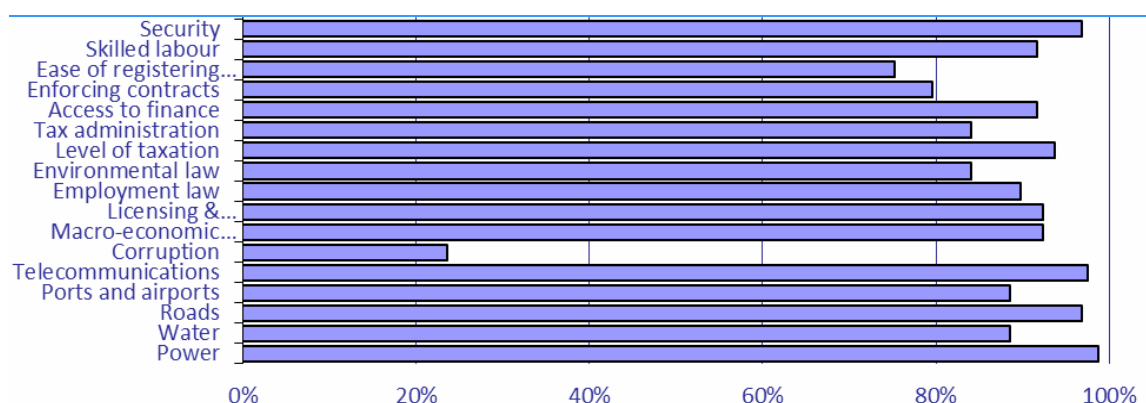
Sector	Location		Size (employees)		
Services	27	Dar es Salaam	127	0-9	58
Agriculture & processing	29	Arusha	30	10-24	51
Manufacturing	25			25-49	17
Hotels & tourism	28	BMO		50-99	17
Finance	25	Member	77	100-250	8
Communications	23	Non-member	80	>250	5
				Did not say	1

5. 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.

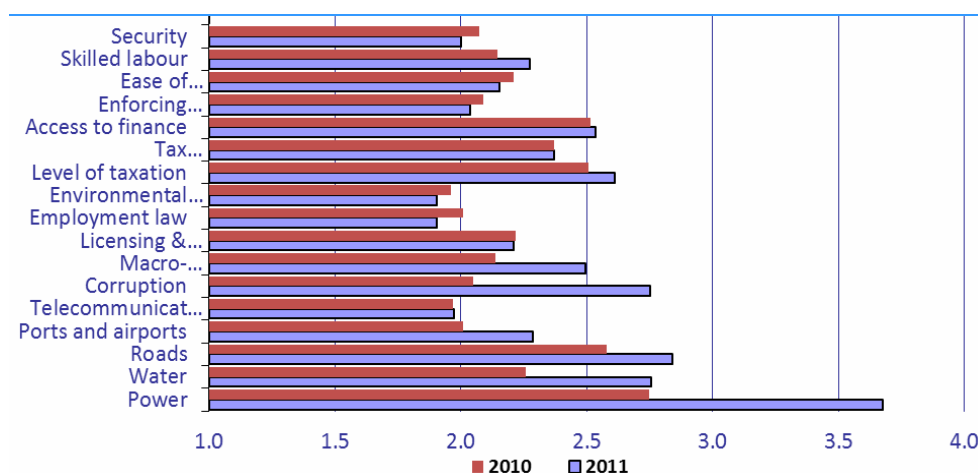
Most factors are seen as important. Indeed, except for corruption, all factors are seen as important by at least 75 per cent of respondents. Four factors – power, roads, telecoms and security – are seen as important by more than 95 per cent of respondents.

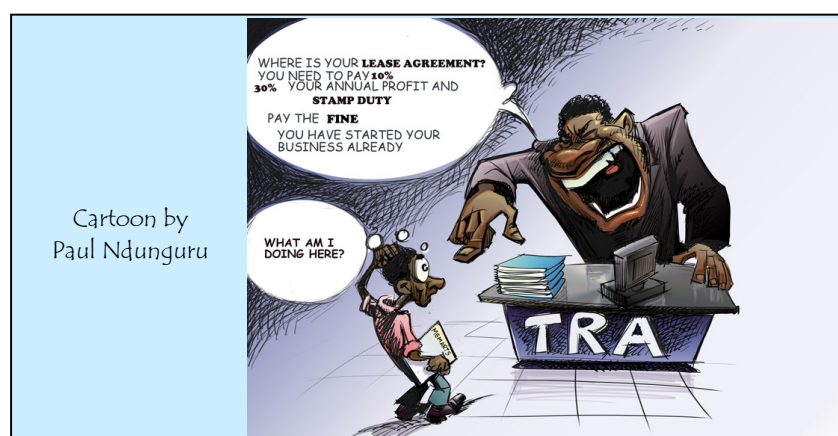
Figure 5: Importance of factors (all respondents)



Business leaders were asked to rate factors as 'making business very difficult', 'making business somewhat difficult', 'could be improved' or 'not a problem'. The responses have been coded by allocating a 'score' for each response (ranging from 1: not a problem to 4: makes doing business very difficult) and then averaged. This reveals the key issues to be power, roads, corruption and water.

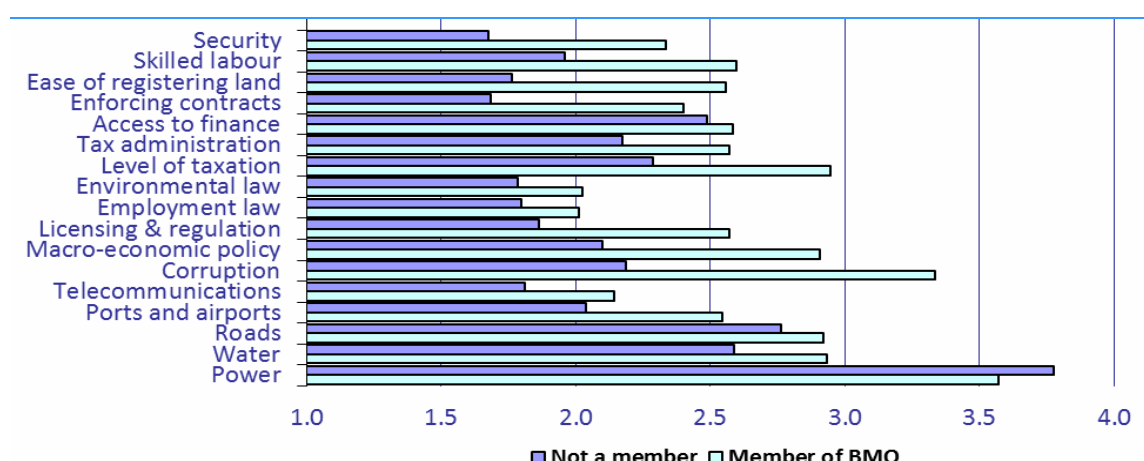
Figure 6: Factors which make business difficult





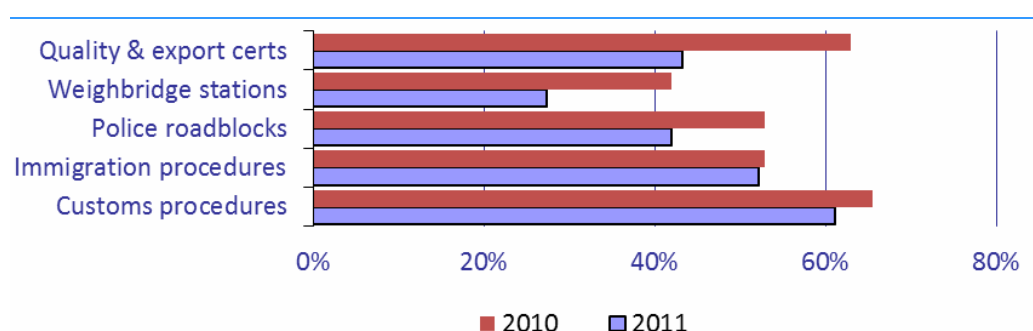
Respondents were asked whether they were a member of a business membership organisation (BMO). In previous years, there has been little difference in perception by members and non-members. In 2011, however, it seems that, except for power, most factors are seen as more difficult by members. It is not clear why this should be – are more businesses joining because they are concerned about these issues and want to add their voice, or are the members of BMOs more sensitive to the issues because they are discussed by the BMO? This could be an interesting topic for further research.

Figure 7: Perception of difficult issues by BMO membership



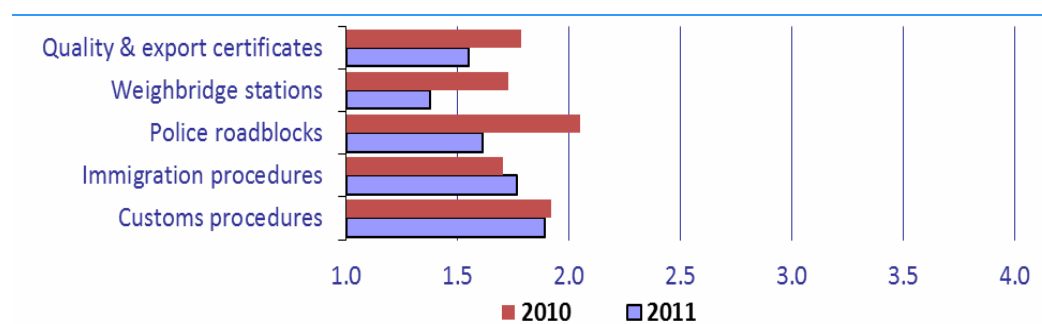
One question asked about the impact of non-tariff barriers. The importance of non-tariff barriers has, apparently, diminished since 2010.

Figure 8: Importance of non-tariff barriers (all respondents)



Whilst all five barriers were regarded by a few businesses as making business difficult, for most respondents they are not a problem at all.

Figure 9: NTBs which make business difficult

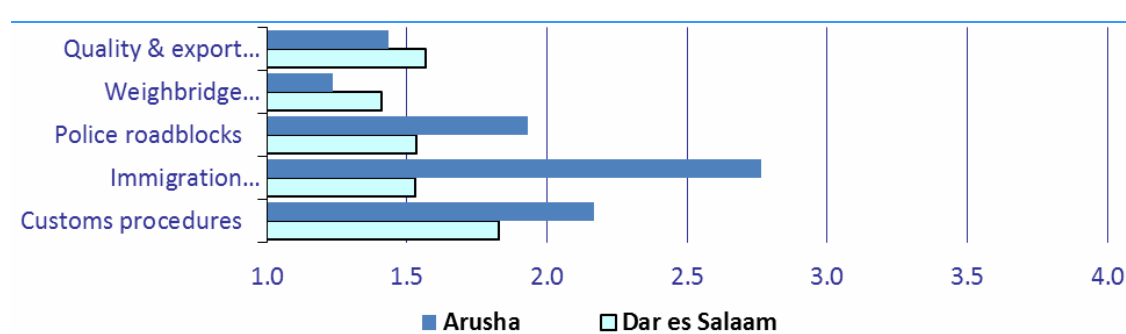


When responses are coded and aggregated, one sees that respondents think all could be improved, though weighbridge stations are not much of a problem. Except for immigration procedures, all barriers are seen to make business less difficult than in 2010.

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 or add to the bureaucracy of exporting 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 are some interesting differences between respondents in Arusha and in Dar es Salaam. Generally businesses in Dar perceive most of the general business environment factors as more problematic than businesses in Arusha. For non-tariff barriers, however, it is businesses in Arusha that have more of a problem. Immigration procedures are seen as making business somewhat difficult. And Arusha respondents are much clearer that customs procedures and police roadblocks could be improved.

Figure 10: NTBs which make business difficult

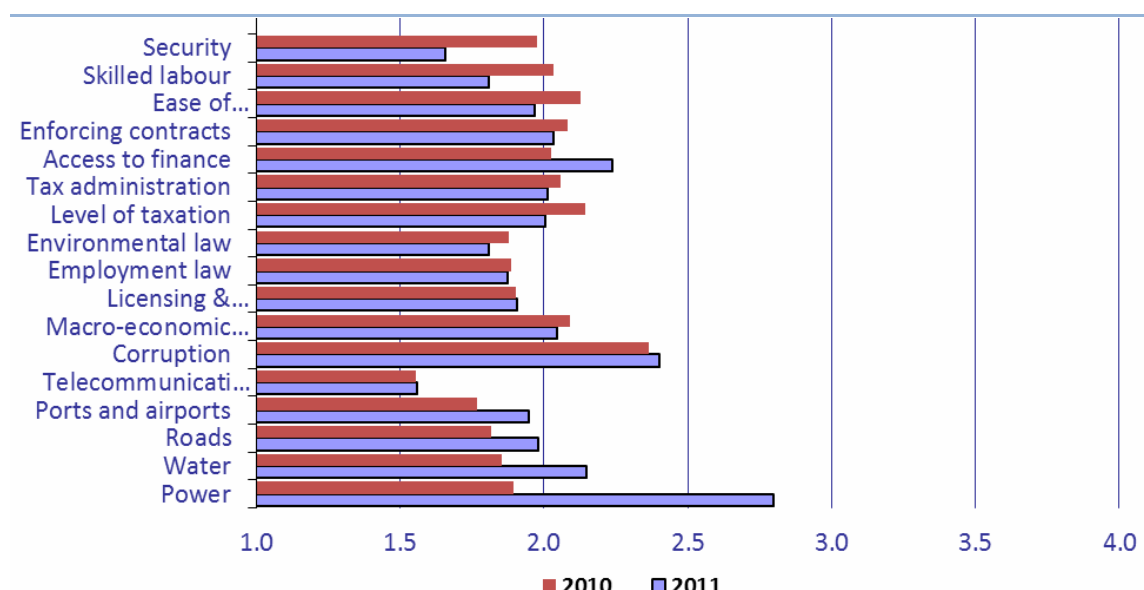


Respondents were asked about their perception of government efforts to address these aspects of the enabling environment. Answers ranged from 'the government is making real efforts to address the issue' (coded 1), through 'some effort' and 'no effort', to 'government actions are making this issue worse' (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.

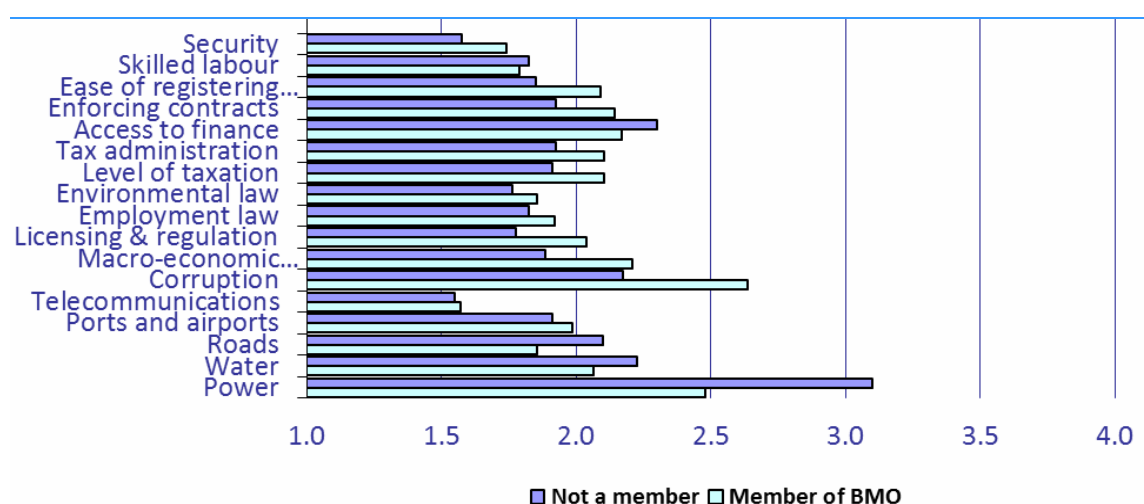
It should perhaps be noted that this is not the case with power, where there is a clear belief that the government is making no effort. Whilst there has been little change in perception related to corruption, there is also a perception that government is making little effort there either.

Figure 11: Government Performance in Addressing Key Factors



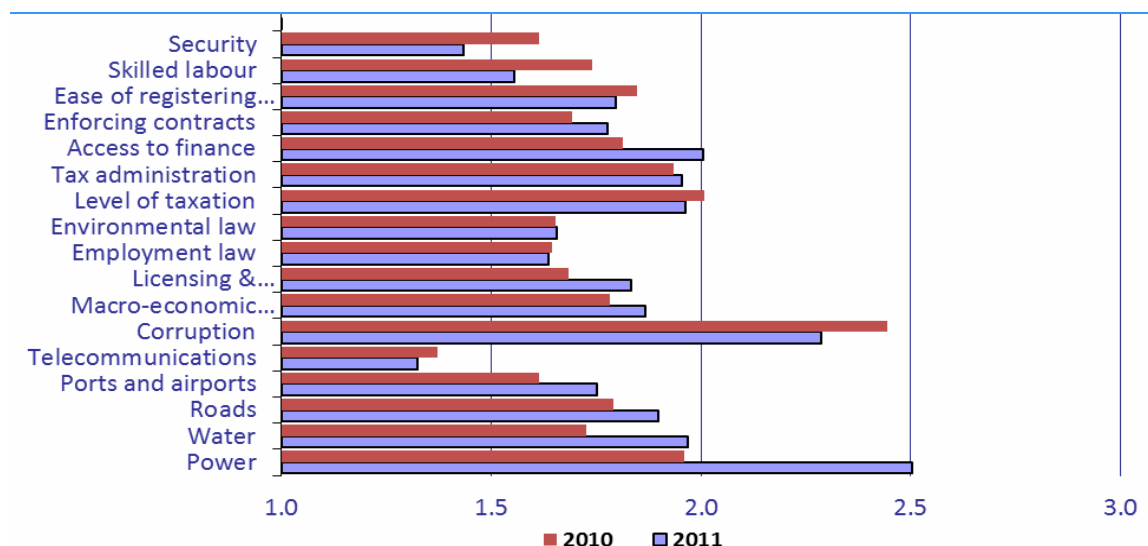
We might expect businesses that are members of a BMO to be more critical of the government and its efforts to make a difference since one of the reasons that businesses join a BMO is to advocate change in public policy. It is interesting to note therefore that there is little difference in perception for most factors. The factors that stand out are power – where non-members are much more critical of government – and corruption – where members are much more critical of government.

Figure 12: Perception of government effort by BMO 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). For the last few years, corruption has been the biggest deterrent to investment, but is has now been overtaken by power. Both power and corruption have a score greater than 2, so they are the factors that would deter investment across the whole of the private sector.

Figure 13: 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 on the next page 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 security and employment law; the factor that is the biggest problem is power, followed by corruption, then water and then roads.

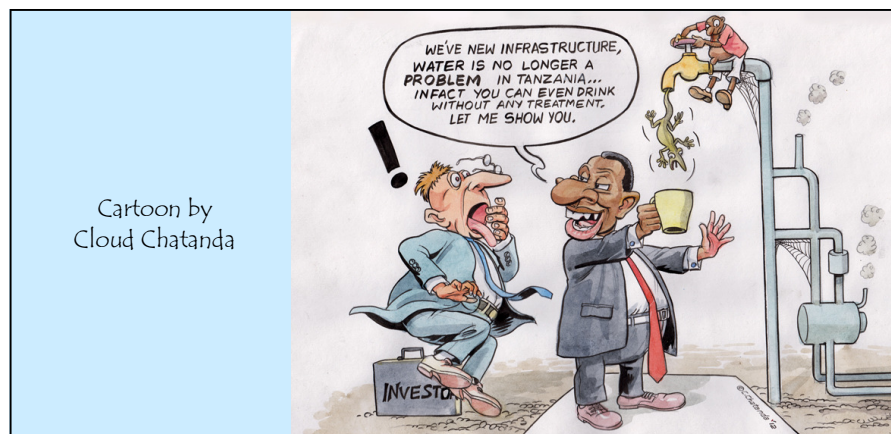
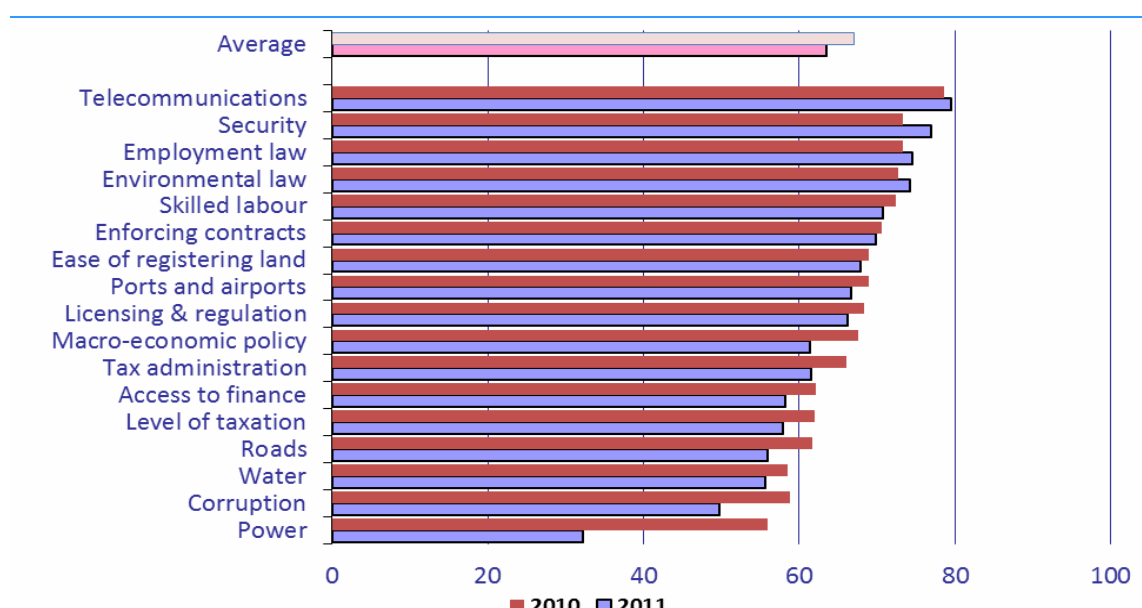


Figure 14: Enabling environment priority index

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 deterioration compared to 2010. However, the figures are so close that it implies a perception that little has changed overall.

Table 3: Enabling environment perception index

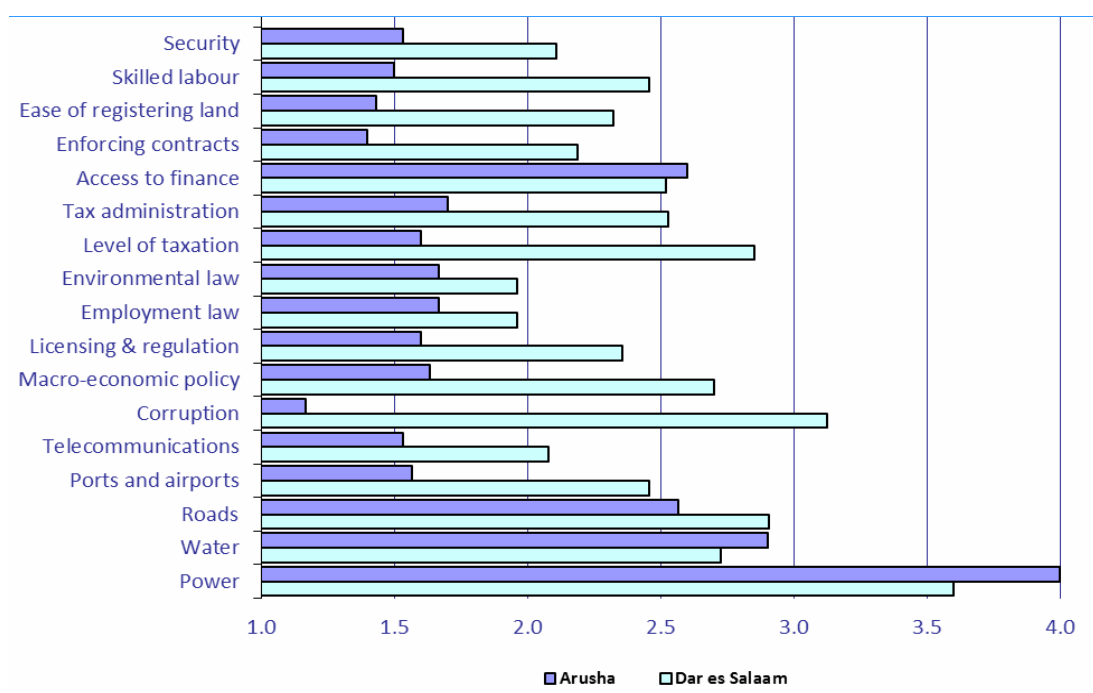
	2008	2009	2010	2011
Tanzania	57	65	67	63
Burundi		71		
Kenya	52	56		
Rwanda		76		
Uganda	63	59		

For readers who are interested in greater detail, BEST-AC can provide data on individual issues. It can also provide data disaggregated by firm size.

6. REVIEW BY LOCATION

We asked respondents to specify their location, so that we could compare responses on a geographic basis, though we only have sufficient responses from two locations. In general, businesses in Dar find it harder to do business, though this is the reverse of the result in 2010.

Power is a bigger problem in Arusha, though, with every respondent saying that it makes business very difficult. Water and access to finance are also perceived to be marginally worse in Arusha.

Figure 15: Issues by location

7. COST OF RED TAPE

The OECD (2001, Businesses' views on red tape: administrative and regulatory burdens on small and medium sized enterprises) notes that the smallest businesses face administrative costs per employee that are five times those faced by larger businesses. They say that, amongst OECD countries, on average, small and medium enterprises spend \$27,000 on compliance equivalent to \$4,100 per employee or four per cent of annual turnover. They have analysed the figures further to suggest that businesses employing 1-19 staff spend annually \$4,600 per employee, businesses employing 20-49 people spend \$1,500 per employee and businesses employing 50-500 people spend \$900 per employee.

Respondents to the survey 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.

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 said that there was no cost and that view was repeated in 2011.

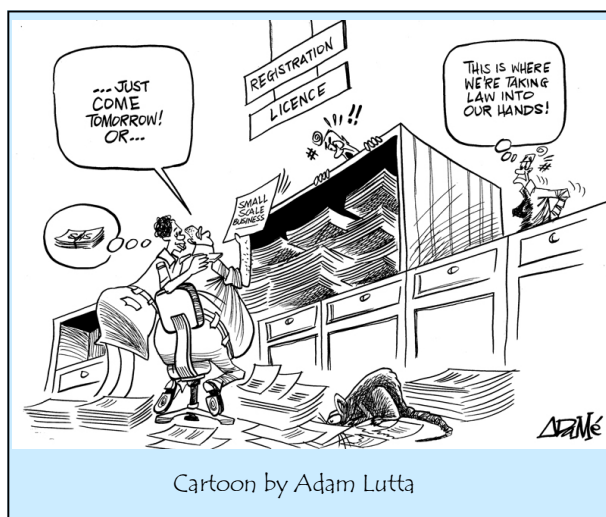
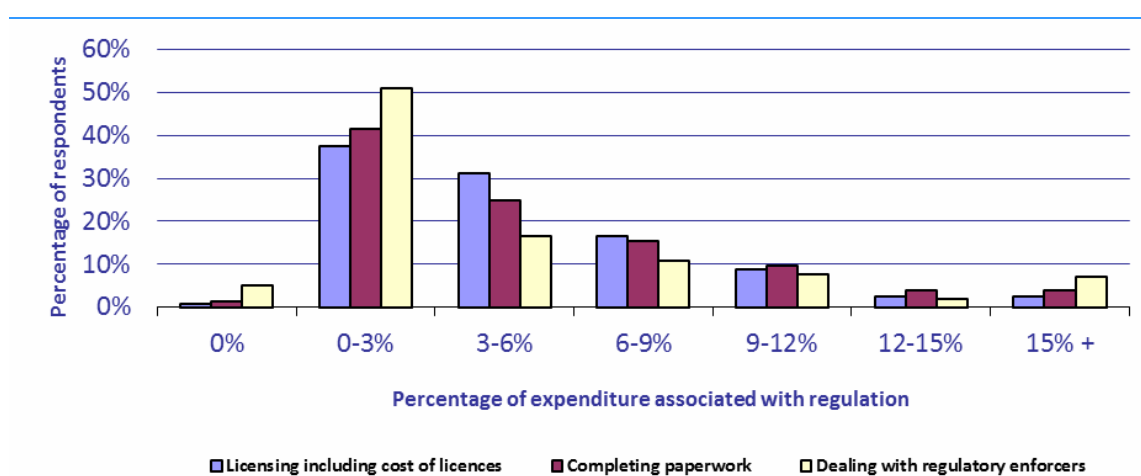
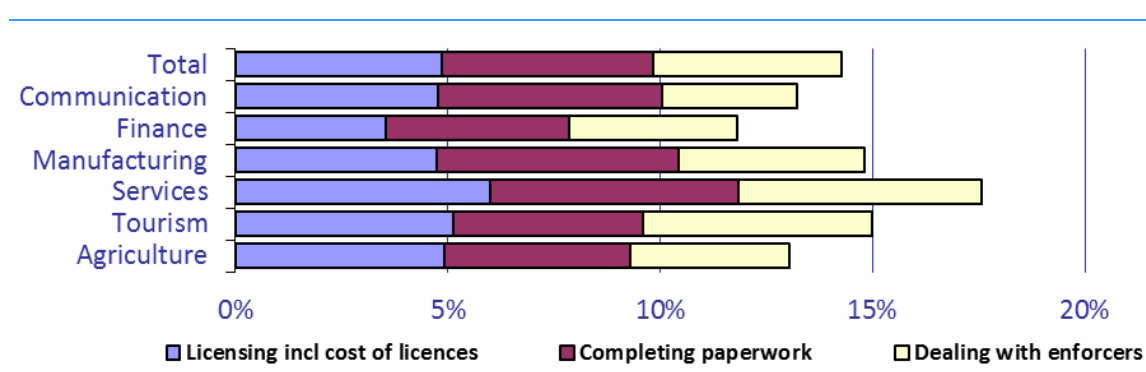
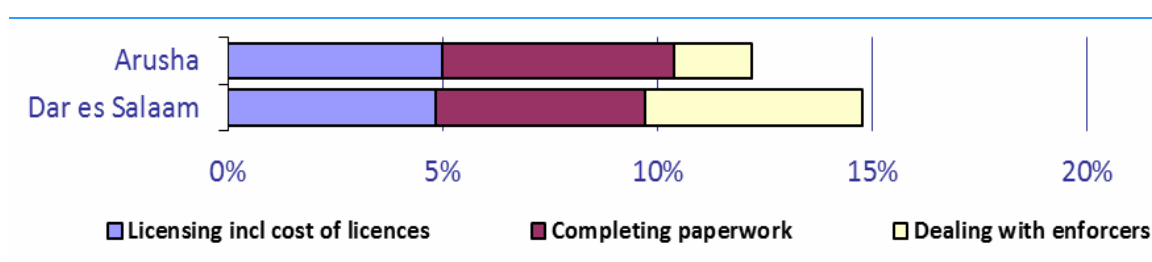


Figure 16: Cost of red tape and regulation

As in previous years, 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. The chart below shows average expenditure by sector for each of the three aspects of regulatory cost.

Figure 17: Cost of red tape and regulation

Not only do businesses in Dar feel that, on the whole, the enabling environment factors make it more difficult to do business than in Arusha, they also perceive that regulation costs them more.

Figure 18: Geographic comparison of cost of regulation

8. COMPLEMENTARY FINDINGS FROM SECTORS

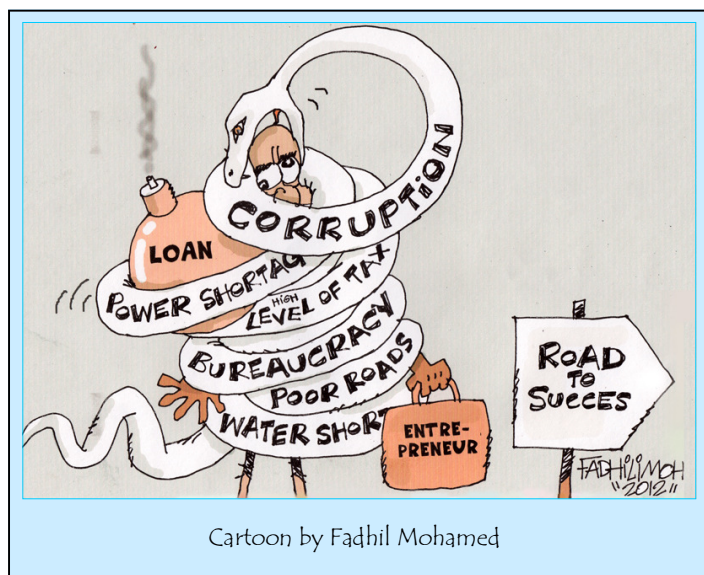
In the excellent report ‘Competitiveness impacts of business environment reform: regulatory constraints to the competitiveness of the tourism sector in Tanzania’² prepared for Tourism Confederation of Tanzania, the authors note that

- A Tanzanian tour operator spends an average of 745 hours per year (more than four months) on regulatory procedures, costing TZS 2.9 m.
- A Tanzanian hotel spends 1,042 hours a year (nearly six months) on regulatory procedures, costing TZS 3.4 m.
- The administrative costs of doing business for the Tanzanian tourism sector exceed TZS 1.1 bn per year.

The authors explain that this high cost hurts the sector and so, in turn, hurts the Government:

The general consensus among Tanzanian tourism businesses regarding regulatory constraints is that the number and complexity of regulations hurt the sector by shrinking profit margins and discouraging formalisation, which in turn hurts the government’s efforts to generate revenue from this sector. ...this overregulation has been the cause of many small-business bankruptcies. In addition, difficulty obtaining documentation of updated regulations and little support in interpreting new license, registration and tax issues have tended to encourage some small locally owned businesses to stay below the radar, preferring not to join the formal tourism sector.

There [is] a need to create a more amicable and understanding relationship between the private sector and the government. The government has a mandate to regulate businesses, ensure the safety and well-being of employees and tourists and generate revenue.



However, there must be an understanding that a pro-business enabling environment for tourism – one in which the cost of doing business is lowered, the administrative burdens of complying with regulations are lessened, and the tourist has a positive experience – must be ensured so that businesses can maximise their earnings, which will in turn allow the government to maximise its potential revenue.

(Continued on page 17)

² Raheem, Z & Mkindi, A (2010), “Competitiveness impacts of business environment reform: regulatory constraints to the competitiveness of the tourism sector in Tanzania: platform for advocacy”, DAI for TCT

They go on to describe the burden placed on business through heavy handed and largely unnecessary bureaucratic requirements, whilst stressing that businesses recognise the need for the government to generate revenue. The authors suggest that business would be much happier to pay levies and taxes if the administrative burden could be significantly reduced and if government expenditure was much more transparent.

A tremendous administrative burden is placed on [all] businesses to complete all license and levy documentation on a monthly, quarterly and annual basis. Besides the actual amount that businesses pay, these administrative burdens translate into real costs due to the many hours that [staff] must allocate for these processes – understanding the regulations, downloading forms, filling in paperwork, photocopying, getting copies of other support documents, duplicating documentation efforts for different government agencies, delivering documents to a variety of local and national government offices, verifying delivery and continuing to follow up with appropriate government agencies. A more streamlined process would still earn the government appropriate revenue from this sector while creating a more efficient system that would ease the cost of doing business and free up staff time to engage in core activities such as marketing, training, and customer relations.

Businesses would be more willing to pay levies if the levies were more streamlined and more transparent in terms of how the money is spent: Tourism businesses recognise that there is always a need to pay levies; however, the general sentiment among participants in this study is that a clearer and less burdensome process would serve the sector well.

A report prepared for Confederation of Tanzanian Industry makes similar points. It observes that the regulatory cost (document preparation, customs clearance, port and technical handling, inland transport but not duty) associated with exporting a 20 foot container with goods to the value of \$20,000 is \$1,262 whilst importing a similar container costs \$1,475. The author also cites costs in the dairy industry, noting that the initial compliance cost burden for a dairy with a capacity of 60,000 litres per day is some TZS12m with a further annual cost of TZS48m.

For the dairy sector, Urassa³ and Mchau calculate that the indirect cost associated with preparing and submitting applications, essentially through taking time that could have been used more productively, averages around TZS18m per business per year.

Recommendation: “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.”

³Urassa, G (2011), “Simplifying compliance of multiple regulatory authorities to enhance the ease of doing business: situational analysis”, IMED for CTI.



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

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