

Synthesis Report of Key Investment Climate and Business Environment assessments in Tanzania

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Executive summary

This report presents a synthesis of the major investment climate and business environment assessments conducted in Tanzania since 2005. Its purpose is to improve the understanding among the development partners in Tanzania of the key priorities for investment climate and business environment reform. It is hoped that this will provide a basis for dialogue between the development partners and the Government of Tanzania that is better informed and based on a solid, common platform of understanding. This will enhance the future assessment of government's proposed activities within this field in documents such as Mkukuta 2, Roadmap and BEST phase 2.

Numerous assessments of the Tanzanian investment climate and business environment have been conducted since 2005. This report provides a stock-take of these, describing the methodologies employed and their main findings. Where possible, some comments regarding the possible impact of proposed reforms have been made. However, the general purpose of this exercise has been to synthesise the key findings of the most recent and relevant assessments. Indeed, a major limitation of this document is its reliance on selected assessment reports.

When all the main findings and the reform priorities were synthesised, the following top reform priorities were identified:

HIGH PRIORITY INVESTMENT CLIMATE REFORMS

Improving national infrastructure: electricity, transport and port facilities

This is a major priority for reform in Tanzania. Within this domain, the issues associated with electricity, transport and the ports are the most significant binding constraints to enterprise competitiveness and growth. While, improving national infrastructure is a high-cost reform, it could lead to significant outcomes. While much of this could only be achieved in the long-term, there are some immediate technical assistance interventions that could be of use in the short-term. For more information go to page 27.

Improve access to finance by Tanzania enterprises

The lack of access Tanzanian enterprises have to finance is a major investment climate concern, which deserves priority attention. This is a field that would involve work with commercial banks as well as Tanzania's Savings and Credit Cooperative Societies. Depending on the approach taken, the costs involved would vary. Reforms in this field could produce benefits in the short-term and could be relatively cheap, depending on the strategy pursued. While this would be a national reform, it could also focus on specific sector and locations. For more information go to page 28.

MEDIUM PRIORITY INVESTMENT CLIMATE REFORMS

Reducing corruption and strengthening the rule of law

While there appear to be mixed opinions on the issue of corruption in Tanzania, it is clear that this is an issue that requires significant attention both in the short and long term. Specific risks for corruption appear to be found in government procurement,

regulatory and licensing procedures, privatisation processes, taxation administration, and customs clearance and the ports. For more information go to page 28.

HIGH PRIORITY BUSINESS ENVIRONMENT REFORMS

Improving business registration and licensing regulations and procedures

There are significant problems associated with business registration and licensing in Tanzania. Indeed, compared to its neighbours, Tanzania has performed badly in this field. These problems contribute to informality and undermine Tanzania's competitiveness in the region. Tanzania needs to reduce the number of steps and associated costs required to start a business. It should provide better information and public awareness on the process and benefits of business registration and licensing, and should delink the revenue and regulatory functions of licensing. Reform in this area of the business environment, along with taxation, has a direct impact on the informal economy. Benefits could be realised quickly and at a low cost. For more information go to page 29.

Strategically reviewing taxation

An overall strategy for taxation appears wanting and the dangers of cumulative central, district and local taxation are mounting. Increasing local taxes are a particular concern, as is the narrow tax base on which all tax revenues rely. While reform in this topic would occur at national and sub-national levels, technical assistance could realise benefits in this field relatively quickly. For more information go to page 29.

MEDIUM PRIORITY BUSINESS ENVIRONMENT REFORMS

Customs, export and import reform: maximising Tanzania's locational advantages by facilitating trade

While not a major priority on its own, reforming customs and export and import procedures will maximise the locational advantages Tanzania enjoys, but has not exploited. Tanzania needs to re-evaluate and refrain from the imposition of export taxes. Unlike the upgrading of port facilities, supporting this kind of regulatory reform is relatively cheap and results can be seen quickly. For more information go to page 30.

Modernising labour law and regulation and promoting compliance

The legal and regulatory framework for labour is a major concern for many formal enterprises and often a reason for remaining informal. While this is not a high priority for reform, it is one with links into the informal economy and to the possible improvement of firm-level productivity. For more information go to page 30.

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1 Introduction and definitions

Sida has commissioned Simon White, Managing Director of Southern African IDEAS (Pty.) Ltd., to review a range of assessment reports on the Tanzanian investment climate and business environment Since 2005 in order to inform relevant development partners in their forthcoming discussions with the government. This review aims to improve the general understanding development partners in Tanzania have of key problems and constraints in the investment climate and business environment and to improve the quality of their understanding of these issues and their discussions with government. It is envisaged that this will better inform the design of investment climate and business environment reform strategies that the Government of Tanzania will initiate. This includes the joint assessments of the Government of Tanzania's reform programmes, such as Mkukuta 2, Roadmap and BEST 2.

A major limitation of this document is its reliance on the selected assessment reports. There may be many investment climate and business environment issues that are critical to Tanzania, which have been under-researched and as a result these are not necessarily addressed in this report. This may include, for example, an assessment of the political economy of reform in Tanzania.

The terms “investment climate” and “business environment” are used to distinguish between two types and levels of reform activities that affect the mobilisation of private investment, economic growth, the creation of decent and productive employment, and poverty reduction. The “investment climate” is a term used to describe a broad range of issues affecting the development of the private sector. The World Bank (2005) has defined the investment climate as “the set of location-specific factors shaping the opportunities and incentives for firms to invest productively, create jobs, and expand”.¹ The investment climate contains what might be considered to be “macro-level” issues. This includes issues such as the rule of law, the presence of open financial markets, economic predictability, infrastructure, political stability, efficient labour markets, and skills and human resource development. See Figure 1, on the following page.

The Donor Committee for Enterprise Development (2008) defines the business environment as a sub-set of the investment climate, consisting of a complex of policy, legal, institutional, and regulatory conditions that govern business activities.² It includes the relationship between public, private and civil actors. Where the investment climate has an overall affect on private sector activities, the business environment is directly affected by government decisions at national, provincial and local levels.

Business environments can vary across sub-national jurisdictions (referred to as “local business environments”) as well as within specific industry sectors (referred to as “sectoral business environments”).

Figure 1: The investment climate and business environment

National Investment Climate Constitutional Rights and Freedoms • Rule of Law • Political and Macroeconomic Stability • Open Markets	
National Business Environment Policy, Legal and Regulatory Framework • Administrative Systems • National Organisational Arrangements	
Local Business Environments	Sectoral Business Environments

The three broad sub-components of the national business environment comprise the following:³

- 1 Policy, legal and regulatory framework: this refers to the range of policies, laws and regulations that affect business owners – men and women.
- 2 Administrative systems: this refers to the ways in which policies, laws and regulations are enforced, and includes issues such as governance (public and private, corruption, etc.).
- 3 National organisational arrangements: this refers to the ways in which government and business represent themselves and communicate with each other, and includes the issues of social dialogue and public-private dialogue.

A conducive business environment is one of the pre-requisites for economic growth and poverty reduction. While poverty reduction requires more than just economic growth, growth is an essential ingredient. However, in many developing economies, the business environment is hostile to market-led growth; private enterprises suffer excessive regulatory barriers and in most respects regulatory costs are higher than in developed economies. Poor business environments are also more likely to have a disproportional negative impact on women-owned businesses, which are more likely to remain informal.

Numerous assessments of the Tanzanian investment climate and business environment have been conducted since 2005—see Annex 1. Indeed, prior to 2005 there were also many assessments conducted, which have informed the design of reform programmes currently underway or entering a second phase. This overview is focused on recent assessments.

2 An overview of investment climate and business environment assessments in Tanzania 2005-2010

This chapter provides an overview of the assessments reviewed, methodologies employed and their main findings. The methods used to derive these findings provide a useful means of interpreting the recommendations and reform priorities. Details of the assessment findings are presented in Chapter 3.

2.1 Investment climate assessment (World Bank 2009a)

The World Bank's investment climate assessment (ICA) is based on results from the World Bank Enterprise Survey (WBES), a survey of 419 small, medium and large enterprises (i.e., enterprises with five or more employees) and 65 microenterprises (i.e., enterprises with up to four employees) conducted in late 2006. The survey collected detailed information on firm performance, what managers see as the main obstacles that they face, and objective data on the investment climate. Other sources of information are used to supplement the survey, such as a review of literature and assessments.⁴

MAIN FINDINGS

The 2009 ICA finds that Tanzania's investment climate often compares favourably with small, land-locked neighbours, but significantly less favourably with other countries in Sub-Saharan Africa that have similar, potentially favourable, locations such as Kenya and South Africa. However, Tanzania does not face the same geographical and physical constraints that its small, land-locked neighbours face. Thus, while Tanzania's opportunities as a location for investment appear to be substantially higher than the opportunities in these other countries, this is undermined by its comparatively poor investment climate.

Tanzanian enterprises do not appear to be highly competitive compared to enterprises in other favourable locations. Although enterprise productivity compares favourably with productivity in Tanzania's landlocked neighbours, Tanzanian enterprises are less likely to export than firms in many of these landlocked countries.

The ICA identifies several problems in the investment climate that discourage enterprises from become formal and limits growth of existing firms, spin offs and start-ups. Particular problems include the poor performance of power and transportation sectors, limited access to finance, and the challenge that a large and growing informal sector poses for formal firms that comply with regulations and pay taxes. The biggest problem cited by the 2009 ICA is the poor performance of the power sector.

2.2 Doing Business 2010: Tanzania (World Bank 2009b)

The World Bank produces the results of its international Doing Business Survey, which assesses certain elements of the business environment. This survey is based on the transaction costs that would be incurred by a fictitious firm, which is typically a medium-sized, formal company. Since 2004, the *Doing business* report has been produced annually. In 2004 it covered 133 economies, but by 2009 this had been expanded to 183 economies. *Doing business* focuses on business environment concerns more than the broader investment climate. It ranks economies based on ten

indicators of business regulation that record the time and cost to meet government requirements in starting and operating a business, trading across borders, paying taxes, and closing a business. The aggregate ranking of these ten indicators produces a ranking based on the “ease of doing business” in any one country, which attempts to quantify firm-level transaction costs and levels of unnecessary bureaucracy. In addition to the national *Doing Business* report, the World Bank also produces regional reports, such as the *Doing Business in the East African Community 2010*, report. In this report, Tanzania comes fourth out of the five countries in the East Africa Community. See Figure 3 on the following page.⁵

MAIN FINDINGS

In the *Doing Business 2010* Tanzania ranks low in the overall ease of doing business indicators, shown in Figure 2. It was 131 out of 183 economies in terms of its ease of doing business. The year before, in 2009, Tanzania was ranked 126 out of 181 economies. While Tanzania was cited by *Doing Business 2007* along with Ghana as one of the top reformers (mainly reforms in the field of starting a business, registering property, protecting investors, and trading across borders), it has since fallen behind. The top three countries in the world for 2010 were Singapore, New Zealand and Hong Kong, while the top three in the East Africa community are Rwanda, Kenya and Uganda—see Figure 3. No reforms or improvements in any of these indicators were recorded up to 2009. No reforms, or standing still, in these comparative rankings when other countries are initiating reform programmes is equivalent to moving backwards—as Tanzania’s slide from 126 to 131 demonstrates.

Figure 2: Ease of doing business in Tanzania

	Doing Business 2010 rank	Doing Business 2009 rank	Change in rank
Ease of Doing Business	131	126	-5
Starting a Business	120	111	-9
Dealing with Construction Permits	178	175	-3
Employing Workers	131	133	+2
Registering Property	145	145	0
Getting Credit	87	84	-3
Protecting Investors	93	88	-5
Paying Taxes	120	113	-7
Trading Across Borders	108	105	-3
Enforcing Contracts	31	31	0
Closing a Business	113	113	0

SOURCE: World Bank (2009) *Doing Business 2010*

Figure 3: Ease of doing business rankings in the East Africa Community

Economy	Global Rank 2010	East African Rank 2010
Rwanda	67	1
Kenya	95	2
Uganda	112	3
Tanzania	131	4
Burundi	176	5

SOURCE: World Bank (2009) *Doing Business in the East African Community 2010*

2.3 The global competitiveness report 2009-2010

The World Economic Forum (WEF) publishes the annual *Global Competitiveness Report* (GCR), with the first report being released in 1979. The 2009-2010 report covers 133 major and emerging economies. The report assesses the ability of countries to provide high levels of prosperity to their citizens and assesses country competitiveness, compared with the focus the Doing Business surveys have on firm-level transaction costs. Thus, the GCR is a more sophisticated index covering a broader range of indicators. It assesses national economies according to “12 pillars of economic competitiveness”:⁶ (1) institutions, (2) infrastructure, (3) macroeconomic stability, (4) health and primary education, (5) higher education and training, (6) goods market efficiency, (7) labour market efficiency, (8) financial market sophistication, (9) technological readiness, (10) market size, (11) business sophistication, and (12) innovation. Although the 12 pillars of competitiveness are described separately, they are not independent: not only they are related to each other, but they also tend to reinforce each other. The GCR assigns countries into three stages of development, based upon its assessment of the 12 pillars. The first stage is where the economy is factor-driven and countries compete based on their factor endowments (i.e., primarily unskilled labour and natural resources). The 2009-2010 GRC assigns Tanzania to this stage, along with Burundi and Kenya. Rwanda is not included in the assessment.⁷ In June 2009, the WEF published *The Africa Competitiveness Report*, which aggregates issues across the continent.

Research on Poverty Alleviation (REPOA) conducted an Executive Opinion Survey in 133 developed and emerging economies in 2009, as a major input to the GCR. The survey gathers wide-ranging information on the investment climate for which hard data sources are scarce or non-existent.⁸ It aims to provide unique benchmarking for: business in developing strategies and guiding investment decisions; governments in identifying obstacles to economic growth and assisting in the design of better economic policies; academia in analysing an economy’s current business environment compared against other economies; civil society organisations in learning more about their country’s competitiveness compared with other countries.

MAIN FINDINGS

The 2009-2010 GCR scores Tanzania at 3.6 in a scale from one to seven and ranks it 100 out of all 133 economies assessed. This is down from 113 in 2008-2009, and from 104 in 2007-2008. See Figure 4 on the following page. It indicates that the top five major problematic factors for economic growth in Tanzania are: (1) problems accessing finance, (2) corruption, (3) tax rates, (4) inadequate infrastructure, and (5) inefficient government bureaucracy.

The findings of the REPOA survey indicate that improvement in infrastructure is the biggest challenge facing Tanzania in its efforts to attract investors and stimulate economic growth. This includes electricity, the ports and the road networks.

While the 2009 *The Africa Competitiveness Report* generalises a number of constraints across the African continent, it is interesting to note that many of Africa's competitiveness problems also have a national character in Tanzania: access to finance, infrastructure and the need for good governance.

Figure 4: Global Competitiveness Index: Tanzania

	Rank (Out of 133)	Score (1-7)
Global Competitiveness Index 2009–2010	100	3.6
Global Competitiveness Index 2008–2009 (out of 134)	113	3.5
Global Competitiveness Index 2007-2008 (out of 131)	104	3.6
Basic requirements	103	3.7
First Pillar: Institutions	74	3.8
Second Pillar: Infrastructure	123	2.5
Third Pillar: Macro economic Stability	77	4.5
Four Pillar: Health and Primary Education	112	4.0
Efficiency Enhancers	104	3.4
Fifth Pillar: Higher Education and Training	128	2.6
Sixth Pillar: Goods Market Efficiency	104	3.8
Seventh Pillar: Labour Market Efficiency	82	4.2
Eighth Pillar: Financial Market Sophistication	74	4.1
Ninth Pillar: Technological Readiness	120	2.6
Tenth Pillar: Market Size	79	3.4
Innovation and Sophistication Factors	95	3.2
Eleventh Pillar: Business Sophistication	97	3.5
Twelfth Pillar: Innovation	93	2.9

SOURCE: World Economic Forum (2009)

2.4 MDG employment indicators: Tanzanian analysis (ILO 2010)

This report reviews the progress Tanzania has made toward the Millennium Development Goals (MDGs) in terms of employment gains.

MAIN FINDINGS

The MDG report finds that while some progress has been made toward meeting the MDGs, the magnitude of the increase in productive jobs has been insufficient and needs to be accelerated. The report claims that GDP growth in recent years was pulled by sectors which were not labour intensive and that the number of working poor has increased between 2000 and 2007. To reach the 2015 MDG poverty target, Tanzania will need to generate nearly 772,000 productive jobs per year from 2007 to 2015. Labour productivity will also need to increase in order to reduce the number of people working, but living in poverty by around 131,000 per year during this same period.

In urban areas, there has been an increase in the size of the youth labour force, accompanied by higher youth unemployment. At the same time, there was a clear decline in vulnerable employment. Rural areas, home to a large majority of the workforce, continued to face a lack of sufficient productive work opportunities in both agricultural and non-agricultural sectors. While an increasing share of the workforce has moved to non-agricultural sectors, this has not been matched by decent work opportunities. The non-agricultural vulnerable employment rate has increased, and many non-agricultural sectors (e.g., manufacturing and services) have experienced negative growth rates in productivity of workers. Women continue to be more vulnerable in the work force.

2.5 Access to electricity: prospects for productivity and jobs in Tanzania (Mwakapugi, A., Samji, W., & Smith, S., 2010)

This draft report (dated 25 March 2010) examines the link between expansion of the electricity grid and off-grid, renewable sources of electricity and the potential for job creation and productivity. REPOA and SkillsGap International jointly produced the study, which largely involved a review of literature on this topic. In addition, a series of interviews were conducted with national government officials, training institutions and the business community.

MAIN FINDINGS

The report presents an up to date account of the efforts to improve access to consistent electricity and identifies the technical and vocational skills development required to complement government and private sector efforts in this field. It highlights the improvements in productivity that will stem from improvements to electricity and identifies measures that can be taken to prepare the labour force for this development and the direct and indirect job creation benefits that will result.

2.6 Diagnostic trade integration study (2005)

The Tanzania Diagnostic Trade Integration Study (DTIS) was prepared under the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries (IF).⁹ The analysis and findings of the DTIS were used to inform the design of the Tanzania Trade Integration Strategy 2009-2013, which provides a single framework for strengthening ownership of trade sector development and all current or planned trade-related technical assistance interventions by the Government of Tanzania.

Tanzania went through the first IF process, for which a needs assessment was prepared and two donor roundtables were held in 1999 and 2000. The main result from the first IF for Tanzania was the multi-donor funded Business Environment Strengthening for Tanzania (BEST) programme of legal and regulatory reforms aimed at improving the enabling environment for private sector development. BEST began in December 2003.¹⁰ In order to continue and broaden its efforts in promoting trade integration, the Government of Tanzania participated in the second IF process in 2005. The DTIS was prepared under the second IF process, in close consultation with the Ministry of Industry and Trade.

MAIN FINDINGS

The DTIS identified major trade-related obstacles to stronger export performance in the areas of transport, taxes (particularly local taxes), the governance of crop boards, the lack of adequate skills in several sub-sectors (such as horticulture, floriculture and tourism), the lack of management capacity with respect to sanitary and phytosanitary standards, customs systems and procedures, and limited involvement of the private sector in policy reform processes. In addition, many sector-specific concerns, mainly dealing with supply-side issues, such as support for building the capacity of private sector organisations.

2.7 Commercial legal and institutional reform in Tanzania's agriculture sector (AgCLIR, USAID 2010)

USAID supports studies on Agriculture-Commercial Legal and Institutional Reform (AgCLIR) in a number of developing countries. This report focuses on the conditions and opportunities for doing business in Tanzania's agricultural sector, as well as key issues affecting the country's limitations in food security, particularly its infrastructure. Through close examination of the relevant laws, institutions, and social dynamics, the report aims to inform development assistance decisions by USAID and other donors in Tanzanian agriculture. The report is a sector-specific extension of a USAID-sponsored Business Climate Legal and Institutional Reform (BizCLIR) diagnostic in Tanzania (published in 2008), which takes the *Doing Business* assessment as a starting point and digs deeper into the cost of running an agri-business.¹¹

Recognizing that economic growth in Tanzania relies on its agricultural sector, the AgCLIR diagnostic focuses specifically on this sector. There were 13 subjects that the assessment reported on, including the position of women in Tanzanian society, the legal and regulatory provisions for starting an agriculture business, dealing with licenses, competition law, labour law, registering property, getting credit, protecting investors, tax administration, cross-border trade, and enforcing contracts. In addition,

special attention is given to coping with food security and the government's efforts to address climate change in the agriculture sector¹².

MAIN FINDINGS

The AgCLIR report's findings in the 13 components of a healthy and prosperous environment for agricultural enterprise are presented in the relevant sections in the following chapter. However, the report also describes the following four crosscutting themes:

- 1 Abundant opportunities in agriculture—while Tanzania's agricultural economy faces a plethora of challenges, it has certain resources that can serve as a foundation for progress (e.g., land and water resources, agricultural education and training facilities).
- 2 Failure to implement—a culturally, politically, and donor-enabled affliction: the report claims there is a pervasive sense in Tanzania that the development promised through the country's commitment to a free-market system and other economic reforms, which so greatly affect the agricultural sector, have not materialized. The reasons for this declining sense of possibility stem from certain cultural constraints, a lack of political commitment and an emerging sense that donor engagement is not as effective as it ought to be and that in fact it comes with some significant drawbacks.
- 3 Incomplete and inconsistent commitment to the free market—the perpetuation of a "socialist mind-set" or an incomplete commitment to free-market principles is still very much part of Tanzania's social dynamics
- 4 Information asymmetries that increase business risks and costs—market information is inadequate across almost all agricultural value chains; traders and potential buyers of agricultural products report that price information is hard to find, incomplete, and rarely timely enough to affect buying decisions.

2.8 FinScope Survey (2006, 2009)

In 2006 and 2009 the Financial Sector Deepening Trust (FSDT) funded a collaboration of FinMark Trust, Steadman Group and the National Bureau of Statistics to conduct the first ever, national survey of the demand for, and barriers to, accessing financial services. The first survey was conducted in 2006 and was repeated in 2009. The FinScope Survey 2006 provided useful insights into the demand for and use of financial services in Tanzania. The second FinScope sought to track changes and reflect innovations within the market, as well as to evaluate of the effects of public and private initiatives, drawing on solid empirical evidence. The full 2009 report was not available for this review. The 2009 survey covered 7,680 individuals, which was a large increase from the 4,950 individuals surveyed in 2006. The survey was national, covering 768 sampling points.

MAIN FINDINGS

The 2009 FinScope survey found that some 56 percent of adult respondents were excluded from financial services, an increase of 2.3 percent since 2006. The proportion of adults who participate in informal financial services had also decreased from 35.1 percent in 2006 to 27.3 percent in 2009. The survey also found that micro and small enterprises were substantially underserved by the banking sector, with only about 20 percent of those running their own business and 18 percent in informal employment having a bank account in 2009. Young people aged 16-24 were found more likely to be excluded than older people. While there was

a ten percent increase in the number of people who use commercial banks in the period 2006-2009, some 22 percent of bank customers had stopped using banks in the same period.

2.9 Study of the burden of local taxes on the agricultural sector (draft, World Bank Group, Investment Climate Advisory Services, 2009)

This draft assessment report presents the findings of a World Bank team investigation into the burden of taxation on businesses in the agriculture sector in Tanzania. The study updated the findings of a 2006 FIAS study and surveyed 80 farmers, agricultural traders and market participants covering 16 districts and five important crops grown in Tanzania: coffee, cashew, cotton, rice and maize.

MAIN FINDINGS

The assessment found that the main taxes collected from the agricultural sector are the cess (i.e., local taxes) and levies such as the development levy and education levy. Cess is collected at five percent of the farm gate price in most districts. However, some districts charge a lower rate and some do not charge at all on rice and maize. Overall, the direct tax burden on the agriculture sector was high for cashew, but not for the other crops.

The study also found significant problems with the administration of the produce cess and related local taxes. Because the enforcement of the produce tax involved its transportation, this was found to impose restrictions on the free movement of agricultural produce and associated indirect marketing costs.

2.10 Report on constraints affecting the formalisation and growth of small business in Tanzania (Madihi & Mushi, Vibindo Society, 2008)

This report presented findings on why the process of formalizing business in the informal economy in Tanzania is difficult. Under the Tanzania Property and Business Formalization Programme, Mkurabita, and the Business Environment Strengthening in Tanzania, Mkumbita (or BEST), government has sought to make the process of formalisation easier and more attractive. However, this report indicates that there are factors that constrain the intended process of formalization of business, which led to the need for the study. The study was based on a survey of 677 informal enterprises in the trade, food processing and woodwork sectors in the cities of Dar es Salaam, Mwanza, Mbeya and Morogoro Municipality. In this case, informality was defined as the lack of business registration. In addition, focus group discussions with informal enterprises were conducted.

MAIN FINDINGS

In general, the Vibindo Society study found there are two key constraints regarding business registration: lack of awareness regarding the process of formalisation and the high costs associated with registration. Many respondents indicated they were unwilling to register because of the high cost of registration and because they lacked formal business premises.

2.11 Mkurabita – Programme to Formalize the Assets of the Poor of Tanzania and Strengthen the Rule of Law: Final Diagnosis Report (Institute of Liberty and Democracy 2009)

The Property and Business Formalization Programme (otherwise known as “Mkurabita”) aims at facilitating the transformation of property and business entities in the informal sector into legally held and majority operated entities in the formal sector of the economy. The programme intends to develop capital formation initiatives that are tailored to the circumstances of the economically disadvantaged majority in the country.

In 2005, the Government of Tanzania, with financial assistance from Norway, commissioned the Peruvian Institute of Liberty and Democracy (ILD) to explore and assess the legal and economic systems prevailing in Tanzania in order to expose obstacles that impede the extralegal economy to address some challenges facing Tanzania.

MAIN FINDINGS

The ILD report claims that 97 percent of all businesses in Tanzania (871,000 units) are extralegal and that 86 percent of all urban property in Tanzania (1,435,000 units) are extralegal. The ILD estimates the replacement value of Tanzania’s extralegal assets is US\$29 billion. It highlighted the role of ineffective, burdensome and culturally inappropriate laws and regulations, which are responsible to making it “virtually impossible” for 90 percent of Tanzanians to enter the legal economy. It shows how Tanzanians in the extralegal economy have created a self-organized system of documented institutions that allows them to govern their actions.

Even though the poor of Tanzania lack legal professionalism, and have little or no appropriate infrastructure, they take care of their documented tools quite well.¹³ The extralegal efforts of informal firms demonstrate an engagement with the market economy and are becoming better organised to participate in an increasingly complex world. The extralegal evolution of the Tanzanian informal economy is, the researchers indicate, consistent with the historical transformation of developed economies. The report presents a series of reform proposals designed to take into account the prevailing local and customary arrangements that exist in Tanzania’s extralegal economy (bottom-up), as well as the institutional obstacles and deficiencies found in the nation’s legal framework (top-down).

A related *Baseline Study of Informal Properties and Businesses in Dar es Salaam and Zanzibar* (Property and Business Formalization Programme, University of Dar es Salaam & National Bureau of Statistics 2007) survey 3,686 informal businesses, of which 3,070 were in Dar es Salaam, and 616 are in Zanzibar. The report provides useful insight into the dynamics of informality in each location. However, only minor references are made to investment climate and business environment issues. These were mainly in the field of business registration and licensing, access to finance and property ownership.

2.12 Gender and economic growth in Tanzania (Ellis, et. al., 2007)

This 2007 assessment of how female-owned businesses in Tanzania experience the business environment examines the legal, regulatory, and administrative barriers to women's private sector participation. Building on intensive stakeholder consultations and the findings of numerous studies, the report examines gender-related barriers to growth and investment.

MAIN FINDINGS

The *Gender and Economic Growth* analysis highlights legal and administrative constraints that have a disproportionately negative effect on female-headed businesses, and recommends needed reforms. While the overall labour force participation rate, including the informal economy, of women is slightly higher than that of men (i.e., 80.7% compared with 79.6 %), the distribution of men and women across the sectors is uneven. Women are slightly in the majority in agriculture (i.e., 52% compared with 48%) and in trade (i.e., 55% compared with 45%), whereas men dominate in manufacturing, construction, transport, and finance. The distribution of economic activity by type of employment is uneven too, showing important gender differences. Only four percent of employed women are in paid jobs, in either the formal or informal sector, compared with 9.8 percent of men.

3 Key issues and reform priorities in the Tanzanian investment climate and business environment

This chapter focuses on the reform priorities identified in the assessment reports reviewed in Chapter 2. The issues and reform priorities identified in these reports are categorised as follows: (3.1) Investment climate issues and reform priorities; and (3.2) Business environment issues and reform priorities, including national, sub-national (local), sectoral and regional issues and reform priorities.

3.1 *Investment Climate Issues and Reform Priorities*

The major investment climate issues and reform priorities identified in the reviewed assessment reports are: macro economic conditions; infrastructure; energy (while this would normally be included in infrastructure, special attention is given to this priority because of its prominence in various assessment reports); access to finance; competition and open markets; and corruption and the rule of law. These are described in more detail below.

3.1.1 **Macro economic conditions**

Since the late 1990s, the Government of Tanzania has liberalised its markets and a number of public enterprises have been privatised with the participation of foreign investors, contributing to greater inflows of foreign-direct investment. Tax-free export processing zones have been established and the country's membership to the East African Community provides for low tariff trade of some products between member countries.

The 2010 USAID AgCLIR diagnostic reports that, formally, Tanzania welcomes all forms of investment. It does not discriminate against businesses conducted or owned by foreign investors and there are no barriers regarding total ownership of businesses by foreign investors in agriculture. Moreover, Tanzania enjoys high levels of both political and economic stability. On the other hand, the 2005 DTIS warns against high aid dependency contributing to higher domestic interest rates, which would discourage private investment, or a more appreciated real exchange rate, which could undermine export growth and long-term productivity performance. It recommends consideration be given to further liberalising the trade regime, providing greater access to export markets, and tackling “behind-the-border constraints” or supply-side constraints.

Overall, most assessment reports indicate that the macro economic conditions for investment and private sector development in Tanzania are relatively sound. While there have been reforms proposed in some assessment reports, this does not appear to be a major priority. However, this is not to say that macroeconomic issues should not be considered when supporting investment climate and business environment reforms. Such reforms require complementary government monetary, fiscal and exchange rate policies. It is important to ensure that investments toward economic growth are not undermined by public investment that crowds-out private investment in non-infrastructure sectors or by inadvertent impacts of monetary policy on the availability and orientation of credit.

3.1.2 Infrastructure

The WEF's 2009 *Africa competitiveness report*, identifies infrastructure as one of three major long term priorities for reform by African governments. This is reinforced by the 2009 REPOA Executive Opinion Survey, which indicates that improvement in infrastructure is the biggest challenge facing Tanzania in its efforts to attract investors and stimulate economic growth. While the country's strategic geographic position gives it a strong comparative advantage as a transport hub for neighbouring landlocked countries, the *Global Competitiveness Report* ranked Tanzania much lower than Kenya in the quality of port facilities, a core infrastructural component of inter-country trade. Improvements to key coastal port facilities (i.e., Dar es Salaam and Tanga) and the port on Lake Tanganyika (i.e., Kigoma), as well as connecting railway operations, says the REPOA report, are essential if Tanzania is to fully exploit its advantageous location. In addition, the REPOA report says the road network connecting Tanzania and neighbouring countries also needs to be expanded and maintained. Improved feeder roads will better connect rural areas with urban centres, thereby reducing the costs of transporting agricultural products to urban consumers and industrial goods to rural consumers.

The 2009 ICA indicates that while transportation did not rank among the very top concerns of firms participating in the 2007 enterprise survey, it is a problem, largely due to theft and breakage during domestic transportation, which are higher in Tanzania than in the comparator countries elsewhere in Sub-Saharan Africa.¹⁴ Transport is cited as a contributor to the poor export performance, which is very low compared with the comparator countries. Despite not being land-locked, Tanzania compares unfavourably with other countries in the region with respect to exporting.

Figure 5: Energy and water in Tanzania compared with region and all countries

Infrastructure	Tanzania	Region	All Countries
Number of Power Outages in a Typical Month	12	10.3	8.3
If there were outages, Duration of Power Outages (hours)	7.88	6.7	5.51
Value Lost Due to Power Outages (% of Sales)	9.62	5.84	4.78
If a generator is used, Electricity from Generator (%) *	36.81	26.74	19.51
Delay in Obtaining an Electrical Connection (days)	44.28	31.94	36.36
Average number of Incidents of Water Insufficiency in a Typical Month*	12.44	7.24	6.25
If there were shortages, Average Duration of the Water Shortage (hours)*	12.75	13.99	12.82
Delay in Obtaining a Water Connections (days)	27.17	28.6	34.5
Delay in Obtaining a Mainline Telephone Connection (days)	23.25	32.73	25.23

SOURCE: World Bank Enterprise Survey (2006)

The 2005 DTIS argues that while expediting the privatization of railways would help—since rail transport is cheaper than road transport—local roads also need to be improved along with the ongoing programme to improve trunk roads. The main problems of transport in Tanzania, including for transit trade, are inadequate rehabilitation and maintenance of both the road and rail networks, a lack of efficiently operating intermodal connections and high transport costs.¹⁵ It recommends that the main problems in the transport sector can be addressed by upgrading transport

infrastructure; training transport operators, providers of logistics services, forwarders and terminal operators; strengthening public-private dialogue in transport and trade facilitation, transit, and border crossings; and developing a transport reform program that includes, modernizing transport legislation and regulations to reflect the new socio-economic reality of free market competition and increasing private sector involvement; developing technical capacity of staff and setting up a transport information system.

3.1.3 Electricity

The 2009 ICA reports that electricity was by far the greatest concern to enterprise managers – as the table above indicates. Close to nine out of ten enterprise managers indicated this was a serious problem and close to three-quarters said it was the most serious obstacle to doing business in the country. While problems in the power sector are not unique to Tanzania compared with the region, the level of concern was far greater in Tanzania than in other low-income countries in Sub-Saharan Africa.¹⁶

The 2009 REPOA survey found that the reliability of Tanzania's electricity supply compares badly with other countries, which may jeopardise government efforts to attract investment. The relatively high costs associated with electricity may force Tanzanian firms to increase the price of their products to recoup these costs, thereby becoming less competitive against similar products produced by firms in other countries. Key recommendations contained in the report are the need to diversify sources of electricity and to bring down the cost of electricity.

In March 2010, Tanzania joined seven other countries in the Eastern Africa Power Pool (EAPP).¹⁷

The draft 2010 REPOA and SkillsGap International report on access to electricity (Mwakapugi, *et. al.*, 2010) highlights the improvements in productivity that will stem from better access to electricity and identifies measures that can be taken to prepare the labour force for this development and the direct and indirect job creation benefits that will result. They propose that a baseline study be produced to provide credible, quality and inclusive energy and electricity statistics. In addition, the authors recommend that further research be undertaken to better understand the linkage between electricity and energy development and job creation and productivity growth. However, the main focus of this report and its recommendations is on the role of vocational education and training agencies and the need to increase the number of people trained in technical and vocational skills along with the need to improve the quality of the training provided. This includes the revamping of electrician training curriculum, the training of trainers and the creation of partnerships between vocational training institutions and the private sector.

3.1.4 Access to finance

The WEF's 2009 *Africa competitiveness report* identifies increasing access to finance through market-enabling policies as one of two major short-term priorities for reform in Africa and Tanzania appears to reflect this.

Some 40 percent of small, medium and large enterprise respondents to the Tanzanian WBES and about 50 percent of microenterprises said that access to finance was a

serious constraint for their enterprises. Despite recent reforms, the financial sector remains small and underdeveloped by international standards. Credit to the private sector was equal to about 15 percent of GDP by mid-June 2008, slightly larger than Uganda and about the same size as in Rwanda, but smaller than in the other comparator countries.¹⁸ Other measures of financial sector development such as bank credit and money and quasi-money tell a similar story. The stock market is also relatively small and illiquid. Thus, Tanzanian enterprises remain heavily dependent on retained earnings to finance both new investment and working capital. Although small, medium and large enterprises in Tanzania use bank financing to similar degrees as small, medium and large enterprises in other countries in the region in terms of financing new investment and working capital, the difference between Tanzania and comparator countries outside of the region is considerably larger. Firms in Tanzania finance about eight percent of new investment with bank financing and about 85 percent with retained earnings. While there is some evidence that access to finance has improved since the 2003 WBES, access to long-term enterprise financing appears to be particularly difficult. Long-term loans are relatively rare.

Figure 6: Enterprise views on finance

	Tanzania	Region	All countries
% of Firms with Line of Credit or Loans from Financial Institutions	16.25	21.63	34.37
% of Firms Using Banks to Finance Investments	6.79	13.05	23.61
% of Firms Using Banks to Finance Expenses	17.33	19.22	27.59
Value of Collateral Needed for a Loan (% of the Loan Amount)	124.05	142.6	144.22
% of Firms Identifying Access to Finance as a Major Constraint	40.63	45.64	31.14

SOURCE: World Bank Enterprise Survey (2006)

The 2009 FinScope survey found that the number of adults who were excluded from access to financial services had increased by 2.3 percent from 2006 to 2009, with some 56 percent of adult respondents being excluded. Those who were particularly vulnerable to exclusion were micro and small enterprises, those in informal employment and young people aged 16-24.

The 2010 USAID AgCLIR diagnostic reports that lending to the agricultural sector is extremely risky. While increased competition in the financial sector is pushing banks to consider agricultural lending more seriously, the government has demonstrated an inclination to intervene in markets, whether through a trade ban, formalized price-setting arrangements, or direct interventions in the financial sector. A functioning credit information-sharing system cannot be found in Tanzania. While the Bank of Tanzania committed to creating a credit reference bureau and associated regulations in 2007 and the Tanzania Bankers Association announced plans to establish a credit reference bureau, these plans have not been implemented.

The Baseline Study on informal properties and businesses (University of Dar es Salaam & National Bureau of Statistics 2007) found that in Dar es Salaam, only 35 percent of informal business owners have properties, while in Zanzibar, this figure was substantially higher at 76 percent. However, in both cases, it was rare to find informal businesses that had borrowed against this collateral. The Zanzibar survey showed that the main source of finance for business in the informal sector is own sources and commercial banks. Microfinance is only used sparingly and Savings and Credit Co-

operative Societies (SACCOs) were not used by anyone in the sample. The proportion of informal businesses that apply for credit from commercial institutions is small. The proportion of those who succeeded was even smaller. Those who manage to get credit constitute even a rather small proportion of those who apply for it. Thus, the linkage between business finance in the informal sector and commercial credit is small. However, a substantial proportion of those who plan to expand indicated that they will turn to the commercial banks and other microfinance institutions for credit. In Dar es Salaam, the survey found that some 30 percent of informal firms obtained funds from commercial banks.

The 2007 World Bank gender assessment found that because women are not generally named on land titles or have their interests noted, it is difficult for them to access formal sources of credit, which are mostly tied to the provision of titled land as collateral. Only about five percent of Tanzanian women are estimated to be currently banked. The report recommended reforms that encourage existing commercial banks to establish gender-sensitive programmes or lines of credit for women entrepreneurs. Bankers should be trained to provide gender-sensitive customer care to female entrepreneurs.¹⁹

3.1.5 Competition and open markets

While the WEF's 2009 *Africa competitiveness report* identifies keeping markets open to trade as one of two major short-term priorities for reform, this appears to be less of a problem for Tanzania. From an investment climate perspective, this issue is not major. However, the issue of import and export, dealt in the following sub-section under 3.2.3 (i.e., customs), identifies this as a business environment concern related to regulation.

The 2010 USAID AgCLIR report says that while Tanzania has a well written and comprehensive competition law, the broader legal framework tends to undermine this law. For example, various crop-specific laws continue to allow for government-imposed minimum prices, which are inconsistent with the competition law's market-based pricing. Similarly, the role of crop boards, close auctions and numerous other laws and regulations designed to prevent consumer harm or correct perceived market imperfection impose secondary effects on competition, prices, and consumer welfare that are not fully understood. The report recommends that the competition agency receive adequate funding, staffing, and capacity-building support to fulfil its mandates under the law effectively.

3.1.6 Corruption and the rule of law

While the WEF's 2009 *Africa competitiveness report* identifies the need for good governance and strong and visionary leadership as one of three major long-term priorities for reform by African governments, there appear to be mixed opinions on the issue of corruption in Tanzania.

Despite Tanzania's efforts to establish regulations, laws and oversight institutions aimed at preventing, investigating and sanctioning corrupt practices, both petty and grand corruption are still considered common in political and administrative systems. Tanzania has slipped down in respect to the perceived level of public-sector corruption.

In 2006, Tanzania was ranked 93rd, in 2007 94th, in 2008 102nd and 2009 126th out of 180 countries in Transparency International Corruption Perceptions Index.²⁰

The 2010 USAID AgCLIR diagnostic on commercial legal and institutional reform in agriculture reports that while corruption is a problem, it is not high by regional standards.

The Business Anticorruption Portal, Tanzania country profile reports that Tanzania has a comprehensive body of laws, regulations and oversight agencies intended to prevent, investigate and sanction corrupt practices; the government has dismissed some corrupt civil servants and a few senior officials, and is strengthening some anti-corruption regulations and institutions; and positive step towards circumventing the regulatory burden faced by companies investing in Tanzania has been the establishment of the Tanzanian Investment Centre. However, the risks of corruption can still be found in government procurement, licensing, privatisation, taxation, ports, and customs clearance. The municipal police, the revenue authority and officials associated with labour regulations and social security are cited as being prone to corruption there have been a number of corruption scandals involving ministers and leading members of political parties. It is reported that companies with high growth rates and high profitability operating in the formal economy seem to attract the attention of corrupt government officials and are thus more vulnerable to corruption.²¹ However, there are also positive signs showing that the level of corruption is perceived to have declined in recent years. The recent grand corruption scandals that led to the resignation of the Prime Minister and other senior politicians have shown that the President is committed to the fight of corruption.²²

Figure 7: Enterprise perceptions on corruption in Tanzania

	Tanzania	Region	All countries
% of Firms Expected to Pay Informal Payment to Public Officials (to Get Things Done)	49.47	35.16	26.93
% of Firms Expected to Give Gifts to Get an Operating License	20.05	19.53	16.1
% of Firms Expected to Give Gifts In Meetings With Tax Officials	14.7	18.32	16.6
% of Firms Expected to Give Gifts to Secure a Government Contract**	42.69	38.35	28.49
% of Firms Identifying Corruption as a Major Constraint***	19.73	34.65	36.26

SOURCE: World Bank Enterprise Survey (2006)

The 2009 ICA indicates that corruption is often related to the issue of informality and can have many of the same causes. Informality can encourage corruption if informal firms have to bribe government officials over non-compliance with government rules and regulation. Moreover, they often have the same causes—burdensome regulation or high taxes, for example. About one-fifth of small, medium and large enterprise managers and one quarter of manufacturing small, medium and large enterprise managers said that corruption was a serious problem in Tanzania. Although this is relatively high, it does not place corruption among the very top concerns of Tanzanian firms. The 2009 ICA suggests that the above findings are consistent with objective data, suggesting that corruption is a serious problem, but no more so than in many of the comparator countries.

The 2007 World Bank gender assessment found that law enforcement institutions such as the police and the courts often reinforce male authority. In commercial instances, reliance on informal or traditional dispute resolution mechanisms was found to be problematic because of cultural prejudices and customary laws, yet access to higher courts is complicated and costly. The assessment team recommended reform of the Civil Procedure Code and the introduction of small claims divisions within magistrate's courts, which deal with commercial cases under a certain value and are presided over by specialized judges with training in commercial law.

The 2008 Afrobarometer survey in Tanzania (published 2009) found growing public support since 2001 for an independent legislative role for parliament.²³

3.2 Business environment issues and reform priorities

The major business environment issues and reform priorities identified in the reviewed assessment reports are: business registration and licensing; taxation rates; customs; labour law, regulation and costs; and standards. These are described in more detail below.

3.2.1 Business registration and licensing

The *Doing Business in 2010* report ranked Tanzania 120 out of 183 countries in the field of starting a business, which deals with the process of registering a business and obtaining the necessary licenses. See the figure below. This indicates a drop in ranking from the 2009 report of nine positions.

Figure 8: Starting a business in Tanzania

Starting a Business ²⁴	DB10 rank: 120	DB09 rank: 111	Change in rank: -9
Indicator	Tanzania	Sub-Saharan Africa	OECD Average
Procedures (number)	12	9.4	5.7
Time (days)	29	45.6	13.0
Cost (% of income per capita)	36.8	99.7	4.7
Min. capital (% of income per capita)	0.0	144.7	15.5

SOURCE: World Bank (2009) *Doing Business in 2010: Tanzania*

The report indicates there are 12 procedures associated with registration, which takes 29 days to complete, at a cost of 36.8 percent of per capita gross national income (GNI). This was an improvement since 2003, when it took 31 days and cost 200 percent of GNI.

It should be noted that these procedures and costs are associated with medium-sized company establishment and registration. Many enterprises in Tanzania, especially those at the smaller end of the size spectrum, would not be formed as limited liability companies. However, this is not to say that registration is any better for these enterprises. The 2008 report of the Vibindo Society indicates that lack of awareness of the procedures for business registration and the perceived high cost of registration were major contributors to the lack of registration (i.e., high informality) among the small and microenterprise community. In addition, the lack of permanent business

premises due to outdated and unresponsive town planning was identified as a further disincentive to business registration.

According to the *Global Competitiveness Report 2009-2010* companies operating in Tanzania rank inefficient government bureaucracy as a large business constraint.

The 2009 ICA found that unregistered microenterprises reported similar views about the barriers to becoming formal as microenterprises that reported that they were registered. One of the main benefits of remaining informal according to microenterprise managers is avoiding taxes. When asked about the biggest barriers to becoming formal microenterprise managers were most likely to say that taxes were a serious obstacle to becoming formal. Most microenterprise managers said that the high cost of registering was a barrier to becoming formal, which is borne out by the *Doing Business* findings. This is confirmed by objective data, which suggests that the cost of registration is high. The 2006 WBES found that senior management can expect to spend four percent of its time on average dealing with the requirements of government regulation.

The Baseline Study of Informal Properties and Businesses in Dar es Salaam and Zanzibar (University of Dar es Salaam & National Bureau of Statistics 2007) found that many informal business have not registered their businesses and business names and do not distinguish between personal names and their business entities.

The 2007 World Bank gender assessment found that barriers to establishing a business, particularly the lengthy and complex business registration, incorporation and licensing practices have a disproportionately negative effect on women, often making it impossible for them to get started.

The 2010 USAID AgCLIR report claims that, addition to the customary issues of registration and licensing, agricultural businesses in Tanzania confront many challenges during business start-up, the most pervasive being the availability of information. Tanzania currently lacks readily available information on the legal instruments that govern business operations, including, not only the initial business registration and licensing processes, but also land tenure, water rights, health and safety, employment, and marketing. In addition, the implementation of the licensing system as it applies to agribusinesses in Tanzania takes place within a climate of uncertainty that promotes rent-seeking activities by licensing agents.

3.2.2 Taxation

The 2009 ICA found that tax rates were a serious concern for many enterprise managers. Respondents were more likely to say that tax rates were a problem than any other areas of the investment climate other than power and access to finance. Even managers of microenterprises were more likely to say that tax rates were a problem than any area except power, access to finance, and competitors in the informal sector. Survey perceptions reported by the 2009 ICA are supported by objective data, which suggests that taxes are, indeed, relatively high in Tanzania. Although the corporate tax rate does not appear to be particularly high in Tanzania, other tax rates are higher. While taxes are not generally within or close to the levels observed in the comparator countries, they are at the upper end of the range. Value added tax is higher than in most of the comparator countries. Furthermore, the 2009 ICA reports that tax evasion

is higher compared to other countries in the region. The average firm manager said that firms like theirs reported about 54 percent of revenues to the authorities for tax purposes. Tax evasion appears to have increased since 2003.

The 2009 ICA reports that tax administration is a far less serious concern than tax rates. Survey respondents were far less likely to say that tax administration was a problem than they were to say that tax rates were a problem. Furthermore, favourable perceptions have improved since the 2003 WBES. The ICA suggests this is, at least in part, a result of recent reforms of the Tanzania Revenue Authority.

Figure 9: Enterprise perspective on regulations and tax

	Tanzania	Region	All countries
Senior Management Time Spent in Dealing with Requirements of Government Regulation (%)	4.01	6.76	8.56
Average number of visits or required meetings with tax officials.	2.74	2.77	2.15
If there were visits, Average number of visits or required meetings with tax officials.	3.25	3.65	3.19
% of Firms Identifying Tax Rates as Major Constraint	36.68	37.99	35.55
% of Firms Identifying Tax Administration as Major Constraint	19.08	26.2	23.52

SOURCE: World Bank Enterprise Survey (2006)

The *Doing Business 2010* report confirms the view that taxation is a concern to businesses in Tanzania. The number of payments to be made each year is far higher in Tanzania compared with the region and the OECD average, although the rates of taxes appear to vary.

Figure 10: Paying taxes in Tanzania

DB10 rank: 120; DB09 rank: 113; Change in rank: -7			
Paying Taxes			
Indicator	Tanzania	Sub-Saharan Africa	OECD Average
Payments (number per year)	48	37.7	12.8
Time (hours per year)	172	306.0	194.1
Profit tax (%)	19.9	23.9	16.8
Labour tax and contributions (%)	18.0	13.1	24.4
Other taxes (%)	7.3	30.5	3.3
Total tax rate (% profit)	45.2	67.5	44.5

SOURCE: World Bank (2009) *Doing Business in 2010: Tanzania*

The 2005 DTIS describes how taxes, particularly local taxes, for agricultural export crops and fish need to be rationalized, reduced and harmonized. The agreement to eliminate unnecessary taxes on cashews needs to be implemented, and similar arrangements extended to other agricultural export crops and fish. As a first step, a moratorium should be put on new taxes.

The 2010 USAID AgCLIR diagnostic reports that the tax base in Tanzania is so small that most of the government's income comes from a relative handful of taxpayers.²⁵ The government is mainly concerned with revenue collection rather than broader economic policy, social policy, environmental policy, or clearly focused investment-driven policies. Although tax incentives can encourage certain activities, these tend to

be applied in an ad hoc manner. The government seems to have no clear overall tax policy beyond “expand the tax base” and “increase domestic revenue collections at a rate faster than GDP growth”.

The World Bank (2009) draft report on the burden of local taxes on the agricultural sector found that the direct tax burden on the agriculture sector was high for cashew, but not for the other crops. The reason for this was that though the actual profits were low, they were a high percentage of the revenues and as a result the five percent cess did not on the whole cause a significant burden. However, in the case of cashew, the cess constituted 22 percent of the profits. The study also found significant problems with the administration of the produce cess and related local taxes. Because the enforcement of the produce tax involved its transportation, this was found to impose restrictions on the free movement of agricultural produce, and associated indirect marketing costs. The report suggests two options: changing the way the produce cess is calculated and collected in order to reduce cost of compliance for agricultural traders and in turn which would likely result in better prices for farmers; and abolishing the produce cess and changing it to a non-distortionary tax. In the transition to a new system, the limited implied loss in overall local government revenues could be covered though enhanced central government transfers.

3.2.3 Customs and exporting and importing regulations

The 2009 ICA indicates that the regulatory burden associated with exporting, the cost of exporting and inefficiencies at the ports discourage firms from exporting. Evidence from the WBES also suggests that port and custom procedures are burdensome. Manufacturing small, medium and large enterprises from Tanzania reported longer delays with exports clearing ports and customs than similar firms do in most of the comparator countries.²⁶ Despite this, the 2009 ICA reports that only about one in eight small, medium and large enterprise managers said that customs and trade regulation was a serious problem. Concern was even more modest for microenterprise managers, which is most likely because they are not directly engaged in trade and export-related activities.

Doing Business 2010 similarly shows that while there is room for improvement compared with the average of OECD countries, Tanzania does not stand out as having a major problem in this field. See the figure below.

Figure 11: Trading across borders: export and import

Trading Across Borders ²⁷			
DB10 rank: 108; DB09 rank: 105; Change in rank: -3			
Indicator	Tanzania	Sub-Saharan Africa	OECD Average
Documents to export (number)	5	7.8	4.3
Time to export (days)	24	33.6	10.5
Cost to export (US\$ per container)	1,262	1,941.8	1,089.7
Documents to import (number)	7	8.8	4.9
Time to import (days)	31	39.4	11.0
Cost to import (US\$ per container)	1,475	2,365.4	1,145.9

SOURCE: World Bank (2009) *Doing Business in 2010: Tanzania*

However, the 2005 DTIS claims that the customs systems and procedures need to be reformed to address the problems of excessive delays in the processing of import, export and transit cargo. Import and export procedures in Tanzania, it says, are complex and duplicative, and are characterized by excessive documentation, repeated checking of the same information, and a general distrust of the trading community. A control mentality focused on maximizing revenue collection permeates all customs activities. The current systems and procedures employed by the Customs and Excise Department contribute to excessive delays in the processing of import, export and transit cargo and present a significant barrier to business activity in Tanzania and neighbouring countries.²⁸ The 2005 DTIS recommends that the government re-evaluate and refrain from the imposition of export taxes.²⁹

The 2010 USAID AgCLIR diagnostic reports that district and local rules that artificially restrict markets contribute to keeping farmers' income low. These include the failure of government decision making to consider the secondary impacts of policies on trade; crop boards that, although intended to intermediate on behalf of farmers, create an unpredictable investment environment that discourages medium- to longer-term investments; and conflicting laws that authorized regulatory agencies interpret differently and implement independently.

The 2007 World Bank gender assessment found that trade agreements, policies and mechanisms can have different impacts on men and women. It recommended the implementation of a gender analysis in the formulation of trade and economic growth policies; workshops and practical training for women entrepreneurs on international buyer requirements and other relevant information, to facilitate their exports to international markets; and improved access by women to information about the rights and duties of exporters and importers, customs procedures, valuation processes for duty purposes, the limits of authority of customs officers, and appeals processes.

3.2.4 Labour law, regulation and costs

The 2009 ICA found that while firms in Tanzania do not appear to be highly competitive, the cost of labour does not appear to be a major drag on firm competitiveness. Only about one in twenty small, medium and large enterprise managers said labour regulation was a serious problem and concern was even more modest for microenterprise managers. However, the *Doing Business 2010* appears to contradict this. It shows a high degree of difficulty in employing workers compared with neighbouring countries and with the OECD average.³⁰ See the figure below.

Figure 12: Employing workers

Employing Workers ³¹ DB10 rank: 131; DB09 rank: 133; Change in rank: +2			
Indicator (0-100)	Tanzania	Sub-Saharan Africa	OECD Average
Difficulty of hiring index	100	37.3	26.5
Rigidity of hours index	13	29.3	30.1
Difficulty of redundancy index	50	39.8	22.6
Rigidity of employment index	54	35.5	26.4
Redundancy costs - weeks of salary	18	67.6	26.6

SOURCE: World Bank (2009) *Doing Business in 2010: Tanzania*

Tanzania has ratified all eight ILO core conventions, which are considered to cover the fundamental principles and rights at work³². However, regardless of the ratifications, labour rights are continuously being violated throughout the country. Trade union rights are difficult to exercise and are of concern for ILO's committee on the application of standards³³. Mainland and Zanzibar governments do not have the same labour laws and they enforce them separately. Child labour is common and it is estimated that tens of thousands of children are forced into work.

The 2010 USAID AgCLIR report suggests that Tanzania's new regime of labour laws and regulations is irrelevant to most agricultural workers. The key issues facing both workers and employers in the agricultural economy were: (1) the overwhelming unpreparedness of Tanzanians to meet the demands of modern, productive agriculture; (2) the paucity and inconsistency of the state's efforts to address these demands, including overt tolerance of conditions that perpetuate, rather than alleviate, widespread labour abuses and rural poverty; and (3) the cross-cutting conditions that limit investment, private sector growth, and job creation are crippling Tanzanian workers.

The 2007 World Bank gender assessment found that although recent labour law reforms offer promising new protection for women in employment, they have the potential to end up hurting those they intend to help if employers find that compliance with them is too costly or if they cannot be properly enforced.

3.2.5 Standards

While not cited by any other assessment report, the 2005 DTIS claims that the private and public sector need to work on building management capacity with respect to sanitary and phyto-sanitary standards. For some commodities, including groundnuts and honey, uncertainty about meeting particular food safety standards has led Tanzanian exporters to adopt a defensive posture, channelling these commodities only to markets where standards are less stringent or not rigorously enforced. The report also suggests that the tourism sector may be vulnerable to the risks associated with poor food hygiene and inadequate monitoring and inspection.

4 Implications for the design of donor-supported business environment reform programmes in Tanzania

Having provided an overview of the key investment climate and business environment assessment reports since 2005 and described the major reform priorities these reports identify, this chapter considers the implications of these findings for reform programmes. The figure below presents an overview of the proposed reform categories. These are described further in the text that follows.

Some comments on the categorisation contained in the following figure:

- **Priority:** a high priority implies that the problem presents itself as a major, binding constraint to investment growth and enterprise competitiveness.
- **Timeframe:** a “medium-to-long term” timeframe suggests that results in this field of reform would not start to be seen in less than, say, five years, while an “immediate short-term” timeframe implies that the reform could be completed in less than a year.
- **Cost implications:** “low or no costs” implies a comparatively low budget reform programme is possible. This includes reforms that rely largely on short-term technical assistance and changes in regulations and procedures that could be completed quite quickly. A “high cost” reform is one that requires comparatively more funds in order to cover more than simply technical assistance.
- **Levels of reform** can vary from national to sub-national. However, certain reform programmes may be required to combine national and sub-national interventions.

Figure 13: Overview of top reform priorities

INVESTMENT CLIMATE REFORM PRIORITIES	
INFRASTRUCTURE	
REFORM PRIORITY	HIGH
TIME FRAME	MEDIUM-TO-LONG TERM
COST IMPLICATIONS	HIGH COSTS
GENERIC OR SECTOR SPECIFIC	GENERAL REFORM
NATIONAL OR SUB-NATIONAL	NATIONAL REFORM
ACCESS TO FINANCE	
REFORM PRIORITY	HIGH
TIME FRAME	IMMEDIATE SHORT-TERM
COST IMPLICATIONS	HIGH COSTS
GENERIC OR SECTOR SPECIFIC	GENERAL REFORM
NATIONAL OR SUB-NATIONAL	NATIONAL REFORM

CORRUPTION AND THE RULE OF LAW	
REFORM PRIORITY	MEDIUM
TIME FRAME	IMMEDIATE SHORT-TERM
COST IMPLICATIONS	LOW OR NO-COST
GENERIC OR SECTOR SPECIFIC	GENERAL REFORM
NATIONAL OR SUB-NATIONAL	COMBINED NATIONAL AND SUB-NATIONAL REFORM
BUSINESS ENVIRONMENT REFORM PRIORITIES	
BUSINESS REGISTRATION AND LICENSING	
REFORM PRIORITY	HIGH
TIME FRAME	IMMEDIATE SHORT-TERM
COST IMPLICATIONS	LOW OR NO-COST
GENERIC OR SECTOR SPECIFIC	GENERAL REFORM
NATIONAL OR SUB-NATIONAL	COMBINED NATIONAL AND SUB-NATIONAL REFORM
TAXATION	
REFORM PRIORITY	HIGH
TIME FRAME	IMMEDIATE SHORT-TERM
COST IMPLICATIONS	LOW OR NO-COST
GENERIC OR SECTOR SPECIFIC	GENERAL AND SECTOR SPECIFIC (e.g., Agriculture)
NATIONAL OR SUB-NATIONAL	COMBINED NATIONAL AND SUB-NATIONAL REFORM
CUSTOMS	
REFORM PRIORITY	MEDIUM
TIME FRAME	IMMEDIATE SHORT-TERM
COST IMPLICATIONS	LOW OR NO-COST
GENERIC OR SECTOR SPECIFIC	GENERAL AND SECTOR SPECIFIC (e.g., Agriculture)
NATIONAL OR SUB-NATIONAL	COMBINED NATIONAL AND SUB-NATIONAL REFORM
LABOUR LAW	
REFORM PRIORITY	MEDIUM
TIME FRAME	IMMEDIATE SHORT-TERM
COST IMPLICATIONS	LOW OR NO-COST
GENERIC OR SECTOR SPECIFIC	GENERAL AND SECTOR SPECIFIC
NATIONAL OR SUB-NATIONAL	NATIONAL REFORM

4.1 Top Investment Climate Issues and Reform Priorities

4.1.1 Improving national infrastructure: electricity, transport and port facilities³⁴

Infrastructure appears to be a major priority for reform. Within this domain, the issues associated with electricity, transport and the ports appear to be the most significant binding constraints to enterprise competitiveness and growth.

Electricity: It is generally agreed that electricity is the number one investment climate constraint on business productivity and growth in Tanzania. An improvement in the access business has to a regular supply of electricity is essential. Most of the initiatives to address this constraint are framed in the medium-to-long-term—the implementation of the Power Sector Master Plan and Rural Electrification Master Plan currently endeavour to cover a population of 20 percent by 2015 and 50 percent by 2025. However, there are proposals that require more immediate attention. This includes the draft 2010 REPOA and SkillsGap International report in which it is proposed that a baseline study be produced to provide credible, quality and inclusive energy and electricity statistics. This report also proposes:

- Government should collaborate with the private sector in public private partnership arrangements for the development and implementation of the generation expansion projects identified in the Power Sector Master Plan;
- Much greater attention needs to be paid to the efficient use of energy and its conservation, with a sustained effort for conservation and efficient energy use embedded in strategy, guidelines and legislation;
- An effective monitoring and evaluation framework on electrification and energy development should be put in place;
- The Rural Energy Agency (REA) should quickly complete its Rural Electrification Master Plan and make the criteria for selection of areas for electrification publicly available;
- Dynamic power load promotional measures should be undertaken to encourage effective use of electricity for productive purposes which will sustain energy sector growth and facilitate economic growth and poverty reduction;
- Revamp the Vocational Education and Training Authority (VETA) electrical curriculum and extend it to those areas which are due to get electricity, and ensure that it is offered to Trade Test I level in those places;
- Review of VETA income sources is needed, with a move towards a financial sustainability plan that will allow for public subsidies to be directed to vocational training which is offered by the private sector and religious organisations;
- A cohesive programme of support would assist VETA electrical graduates to access micro credit and tools when they enter the workforce;
- The reintroduction of formalised, recognised apprenticeships for artisans would allow them to refine and adapt their skills to the workplace under mentoring.;

- Further research to be undertaken to better understand the linkage between electricity and energy development and job creation and productivity growth.

Transport: The following reforms have been proposed to improve transportation (DTIS 2005):

- Developing a transport reform program that includes, modernizing transport legislation and regulations to reflect the new socio-economic reality of free market competition and increasing private sector involvement; developing technical capacity of staff and setting up a transport information system;
- Expediting the privatization of railways;
- Training transport operators, providers of logistics services, forwarders and terminal operators;
- Strengthening public-private dialogue in transport and trade facilitation, transit, and border crossings;

The ports: Without going into the full details, there are a number of references to the need to upgrade Tanzania's ports.

In general, a donor-supported infrastructure reform programme would typically be expensive and long-term. However, as some of the recommendations listed above indicate, some of these reforms could be done immediately and at a relatively low cost.

4.1.2 Improve access to finance by Tanzania enterprises

The lack of access Tanzanian enterprises have to finance is a major investment climate concern, which deserves priority attention. This is a field that would involve work with commercial banks as well as Tanzania's Savings and Credit Cooperative Societies.

Depending on the approach taken, the costs involved would vary. A high cost scenario would involve an injection of funds to improve the supply of finance to firms. However, a lower cost and possibly more sustainable approach would be to provide technical assistance to improve the legal and regulatory framework.

In general, these reforms would be national and generic. However, there is scope for sectorally focused programmes working within specific sub-national areas.

4.1.3 Reducing corruption and strengthening the rule of law

There appear to be mixed opinions on the issue of corruption in Tanzania. However, it is clear that this is an issue that requires significant attention both in the short and long term. Specific risks for corruption appear to be found in:

- Government procurement;
- Regulatory and licensing procedures;
- Privatisation processes;
- Taxation administration;
- Customs clearance and the ports.

Given the range of views on this topic, it has been rated a medium reform priority. While reforms could be immediate, generic and national, this could also be treated as a crosscutting theme within other reform priorities.

4.2 Top Business Environment Issues and Reform Priorities

The top two business environment reforms that emerge from the synthesis of assessment findings concern the need for reform of business registration and licensing regulations and procedures and improvement of the tax regime.

4.2.1 Improving business registration and licensing regulations and procedures

The problems associated with business registration and licensing appear to be significant in Tanzania. These problems contribute to informality and undermine Tanzania's competitiveness in the region. As Rwanda has proved in 2009, addressing these problems is a short-term action that can lead to significant reputational advantages and can create a momentum for reform. Key actions that could be taken in this regard include:

- Reducing the number of steps required to start a business;
- Reducing the time and costs associated with starting a businesses;
- Providing better information and public awareness on the process and benefits of business registration and licensing;
- Introducing best practice models for company formation;
- Reforming the Business Names (Registration) Act to remove the blanket requirement for registration;
- Designing and implementing a policy on sector licensing that limits regulation strictly to areas where there is a clear necessity to preserve national security;
- Delinking the revenue and regulatory functions of licensing;
- Repealing the Industrial Licensing Act removing the requirement for firms licensed under sector laws, to also have a general business license; and
- Establishes a code of conduct on best practices to eliminate licensing bureaucracy.

A reform support programme would focus on technical assistance (i.e., comparatively low-cost) and would typically combine national and local (sub-national) interventions.

4.2.2 Strategically reviewing taxation

The assessment reports reviewed appear to confirm that improvements have been made in tax administration in recent years. However, the rates of tax and the application of local taxes appears to be a major contemporary concern. In general, it appears that a review of central, district and local taxes is necessary in order to harmonise these and to ensure the cumulative impact of these combined taxes does not quash productivity and competitiveness. Furthermore, a broad, coherent taxation and revenue strategy is required.

Thus, support in this field could be at national and sub-national levels.

4.2.3 Customs, export and import reform: maximising Tanzania's locational advantages by facilitating trade

While Tanzania does not stand apart from its neighbours in the need to reform customs, export and imports, it could significantly enhance its locational advantages by reform in this field. The 2005 DTIS recommends that the government re-evaluate and refrain from the imposition of export taxes and warns policy-makers of possibly emerging conflicts in integration and liberalization schedules between multiple regional trade agreements and suggests that efforts are made to ensure sufficient flexibility in their integration commitments to avoid contradictory requirements.

While this makes the reform a medium priority, the benefits that can result from better trade facilitation (and improved ports, see above) appear substantial. Unlike the upgrading of port facilities, supporting this kind of regulatory reform is relatively cheap and results can be seen quickly.

4.2.4 Modernising labour law and regulation and promoting compliance

While the cost of labour was not cited as a concern for many enterprises, the legal and regulatory framework was often mentioned. Compliance with the legal and regulatory framework is low in a country with such high levels of informality. Thus, improving the labour law and its application appears to be a medium priority for business environment reform.

The World Bank gender analysis recommended applying regulatory impact analysis to all new proposed labour policies and laws to ensure that they are effective and affordable for employers, and that distributional impacts are fair and even.

This involves national reforms that are supported with technical assistance.

4.3 Crosscutting reform themes

Having identified the major priority items for investment climate and business environment reform some attention should be given to reform themes that cut across these priorities. These deal with public private dialogue and the reform process, the significance of informality when considering reforms, the role of gender, the political economy of reform, and the need for complementary supply-side interventions.

4.3.1 The importance of public-private dialogue in the design and management of reform processes

The 2005 DTIS argues for much greater private sector involvement in providing feedback on issues and policies that affect them. The report also highlights the time required to develop a well-articulated export strategy around which consensus is built on a well-defined vision and strategy.

Other reports refer to the need to support private sector organisations and business membership organisations in their efforts to engage more effectively in reform processes (e.g., USAID 2010).

4.3.2 The informal economy and business environment reform

Many assessment reports focus on the significance of the informal economy in Tanzania and the way this can affect reform processes. While reports, such as the 2009 ICA, indicate it is difficult to define informality it is recognised that the extra-legal dimensions of business environment reform deserve special attention.³⁵ The 2009 ICA found that although competition with informal firms was a lesser concern than electricity or access to finance, it remains a serious concern for many firms. Informal firms were found to be less sophisticated than formal firms, which made it more difficult for informal firms to enter supply chains.

The Mkurabita diagnostic report (prepared by the Institute for Liberty and Democracy for the Ministry of Industry, Trade and Marketing, United Republic of Tanzania 2009) presents a series of reform proposals designed to take into account the prevailing local and customary arrangements that exist in Tanzania's extralegal economy (bottom-up), as well as the institutional obstacles and deficiencies found in the nation's legal framework (top-down).

Its major recommendations for top-down, legal reforms focused on reforms to improve public administration and to defend user rights; improve the property system by improving the existing formalization procedure, possibly with a simplified, standardized and low-cost formalization procedure that allows costly and time consuming official surveys to be conducted by private professionals; improve business organizational forms by allowing access to asset partitioning and risk reduction; facilitate expanded markets by establishing simplified and low cost procedures that allow small and medium sole traders and partnerships to contract with government and to comply with the legal and administrative requisites to export, import, advertise, etc.

Its major recommendations for bottom-up, empowerment reforms focused on reforms to improve property systems by classifying extralegal documents in a way that they can help create a widespread, inclusive legal property system; improve business organization by providing more easily accessible legal options for poor people to form business associations; improve access to markets by designing mechanisms that will help authorities monitor and simplify the use of redundancy to control mistakes and fraud; determining the constraints of extralegal arrangements for enabling effective representation and its enforcement; and determining how contract and company law can take advantage of the increasing clarity of extralegal contracts to provide norms and standards that will make it easier to monitor and interpret the duties and obligations of each contracting party.

4.3.3 The gender dimension to business environment reform

As indicated in section 2.12, women make up the majority of workers in the formal and informal labour force, and out-participate men in agriculture and trade. This implies a strategic opportunity for the Tanzania program to focus future development investments. By targeting private sector constraints faced by women in particular, donors could reach the majority of beneficiaries and address economic growth, food security and children and youth (and gender) at the same time.

4.3.4 The political economy of reform in Tanzania

While very few diagnostic reports reviewed have focused on this topic, it is clear it is a significant topic and deserves further attention. This topic covers a range of reform issues, from the identification of the major drivers and triggers of reform, to the effectiveness of public private dialogue and the social, cultural and political resistance to change.

The AgCLIR report refers to the cultural and political resistance to reform and a number of reports focusing on the informal economy refer to the social and economic dynamics that contribute to the high levels of informality. Tanzania's reform momentum identified in earlier *Doing Business* reports has slowed and there appear to be many reasons for this. However, these reasons have not been assessed in any detail.

4.3.5 The need for complementary supply-side responses

Investment climate and business environment reform interventions are typically considered demand-side responses to the problems created by poor investment levels, an under-developed private sector, low economic growth, and high levels of unemployment and poverty. However, demand-side responses are not necessarily sufficient on their own to address these problems. In its 2002 private sector development strategy, the World Bank, for example argues the need for interventions that support the whole private sector through investment climate reform, while recognising the need for supply-side responses.³⁶

To complement investment climate improvements and to help unleash supply response, direct support is sometimes appropriate for formal small and medium firms as well as entrepreneurs in informal settings, for example, in rural areas. Such support may comprise both finance and advice, for example, rural credit and extension services. Several decades of attempts to provide such support have shed light on the key success factors. First and foremost, successful direct support to firms requires a sound investment climate that provides incentives to use public support well. Second, both financial and advisory support needs to be aligned with market forces. Financial terms of loans and investments should not be subsidized.

This view is supported by the OECD's *Policy Framework for Investment*, which claims that in addition to investment climate and business environment reform strategies are also required to promote appropriate micro-level or supply-side responses to increase the capacity of local firms to take up the opportunities that arise from an improved investment climate and greater international linkages (OECD 2006, *Promoting private investment for development; the role of ODA*, DAC Guidelines and Reference Series, a DAC Reference Document, Paris, pp. 21-22).³⁷

A number of assessment reports reviewed in this document identify specific supply-side interventions that are necessary to complement and support investment climate and business environment reforms (e.g., the 2005 DTIS report, the 2010 AgCLIR report). Thus, consideration should be given to these issues when designing reform programmes in Tanzania.

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World Bank (2009c) *Tanzania – a study of the burden of local taxes on the agricultural sector*, November draft, Investment Climate Advisory Services, World Bank Group, Washington DC

World Economic Forum (2009) *The global competitiveness report 2009-2010*, WEF, Geneva

World Economic Forum (2009) *The Africa Competitiveness Report 2009*, WEF, Geneva

Endnotes

- 1 World Bank (2004) *World development report 2005*, a better investment climate for everyone, World Bank and Oxford University Press, Washington DC.
- 2 Donor Committee for Enterprise Development (2008) *Supporting business environment reforms: practical guidance for development agencies*, DCED, Cambridge.
- 3 One level of the business environment is not illustrated in the above figure: the regional business environment. While Tanzania's investment climate and business environment (at national, local and sectoral levels) are the main focus of this review, it is recognised that as a member of the East African Community, Tanzania's potential for greater private investment and economic growth is somewhat connected to the regional investment climate and business environment.
- 4 While published in 2009 in draft form, the survey was in fact conducted in 2006. In some cases, the results of the survey are compared with the results of an earlier survey conducted in 2003. The findings of this assessment deal with the productivity and competitiveness of respondent firms and compare these with the neighbouring countries (i.e., Burundi, Rwanda and Uganda) as well as countries in Sub-Saharan Africa that are more attractive for investment outside of the natural resource sector either due to their coastal location or because they have successfully diversified out of primary production into other sectors (i.e., Kenya, Mauritius, South Africa and Swaziland), and other comparative economies, such as several fast growing countries in East Asia that have also successfully diversified out of primary production into export-oriented manufacturing (i.e., China, Malaysia, and Thailand). The perceptions of enterprise managers regarding the investment climate are also analysed.
- 5 For East African countries, *Doing Business* has recorded a total of 46 reforms since 2004. In 2008/09 it recorded nine reforms for East Africa, 50 percent more than the six recorded the year before. Of the nine reforms, seven were carried out in Rwanda. Thanks to these reform efforts, Rwanda led the world in Doing Business reforms. The other two reforms in East Africa were carried out in Kenya and Uganda. Since 2004, the areas with the most *Doing Business* reforms in the region have been trading across borders and starting a business.
- 6 Sala-i-Martin, X., Blanke, J., Hanouz, M.D., Geiger, T., Mia, I. & Paua, F. (2008) 'The global competitiveness index: Prioritizing the economic policy agenda', in Schwab, K. & Porter, M.E. *The Global Competitiveness Report 2008-2009*, WEF, Geneva (pp. 4-6).
- 7 The second stage is an efficiency-driven stage of development, where countries begin to develop more efficient production processes and increase product quality. The third stage is the innovation-driven stage, where countries are able to sustain higher wages and the associated standard of living only if their businesses are able to compete with new and unique products. At this stage, companies must compete through innovation, producing new and different goods using the most sophisticated production processes.
- 8 All firms surveyed were listed with the relevant national authority for business registration and licensing; a minimum sample of 80 firms was required, comprising at least 40 large firms, businesses with 50 or more employees, and 40 small firms, those with fewer than 50 employees. The final random sample was selected to reflect the sectoral composition of the economy as well as the sizes of firms operating within the country. In Tanzania, 130 business firms were initially sampled. Of these, 99 firms completed the questionnaires.
- 9 The IF is a multi-agency, multi-donor program established by WTO trade ministers in 1996 to promote the integration of the least developed countries into the global

- economy. The participating agencies are the International Monetary Fund (IMF), the International Trade Center (ITC), United Nations Conference on Trade and Development (UNCTAD), United Nations Development Program (UNDP), the World Bank and the World Trade Organization (WTO).
- 10 The donors are the Netherlands (Royal Netherlands Embassy), U.K. (DFID), Denmark (Danida) and Sweden (Sida). And WB since 2007, which is currently the only funder.
 - 11 The BizCLIR report builds on the diagnostic provided by the World Bank's *Doing Business* reports. While *Doing Business* provides a snapshot of the "tip of the iceberg", BizCLIR attempts to provide a more comprehensive analysis and then reports on the "entire iceberg".
 - 12 USAID has a broad definition of food security, which includes income generating activities and informal enterprise development.
 - 13 They have people who create the documents (drafters), sign them (contracting parties), stamp them (elected authorities), fill them out (facilitators), revise them (elected elders), file them (Mwenyekitis), realize actions mandated by them (citizens), deliver them (village self-defense through Mgambo and Sungu-Sungu groups), and declare them active or inactive (adjudicators).
 - 14 On average, respondent enterprises in Tanzania reported losses equal to close to 1.5 percent of shipment value. This is higher than in most of the comparator countries with available data, where losses generally average between 0.5 and 1.5 percent of shipment values.
 - 15 The main reasons for high transport costs are imbalanced freight flows, long distances, long trip times due to deficient rolling stock in the case of railways, low capacity transport infrastructure (i.e., inadequate roads and low speed of trains), inefficient operation of service providers, and red tape and bureaucracy in part due to the lack of experience and capacity among the main stakeholders in transport infrastructure and transport services and operations (transport operators and forwarders).
 - 16 While the timing of the survey which occurred amidst a series of power-outages probably contributed to the extremely high level of concern, the poor performance of the power sector has been a problem for many years.
 - 17 Norway is supporting the development of power trade in East Africa with USD 2.2 million through technical assistance for the operationalisation of the EAPP Coordination Centre and Independent Regulatory Body. These bodies will contribute to increased access to reliable, affordable and environmentally friendly energy in rural areas in Eastern Africa through a competitive market.
 - 18 Credit to the private sector was equal to about 35 percent of GDP in Burundi, Kenya and Swaziland and between 80 and 120 percent of GDP in Mauritius, Thailand, South Africa, Malaysia and China.
 - 19 The report also identifies problems with land tenure that continues to discriminate against women because of traditional practices and customary laws. This was found to be particularly the case in relation to inheritance and in circumstances of the death of, or divorce from a spouse. The report recommended the strengthening enforcement of existing land laws and the dissemination of knowledge about women's property rights, and the amendment of s.60 Law of Marriage Act on the Mainland to provide that property acquired during the marriage in the name of either husband or wife belongs to both spouses, unless the contrary is established. Furthermore, it was recommended that Tanzania's (mainland) laws on inheritance be reviewed and repealed, as appropriate, to create a uniform law of inheritance
 - 20 Transparency International: <http://www.transparency.org/>

- 21 Business Anticorruption Portal, Tanzania country profile: <http://www.business-anti-corruption.com/country-profiles/sub-saharan-africa/tanzania/snapshot/>
- 22 Tanzania is a signatory to the UN Convention against Corruption: The United Nations Convention against Corruption
<http://www.unodc.org/unodc/en/treaties/CAC/signatories.html>
- 23 Afrobarometer (2009) Popular attitudes toward democracy in Tanzania: a summary of Afrobarometer indicators, 2001-2008, 13 August: http://www.afrobarometer.org/Democracy%20Indicators/tan_dem.indicators_13aug09_final.pdf
- 24 The challenges of launching a business are shown below. Included are: the number of steps entrepreneurs can expect to go through to launch, the time it takes on average, and the cost and minimum capital required as a percentage of gross national income (GNI) per capita.
- 25 The 2010 USAID AgCLIR report (p. 111) suggests that a small tax base is most definitely a problem in Tanzania, where the tax base is so small that most of the government's income is paid by a relative handful of taxpayers. The Tanzania Revenue Authority itself estimates that in a country with a population of nearly 40 million persons, there are only about 400,000 registered (business) taxpayers.
- 26 The average time for exports to complete procedures is 1.4 days in Thailand, 2.5 days in Malaysia, 4.0 days in Swaziland, 4.4 days in Mauritius and 4.6 days in South Africa compared with 5.7 days in Tanzania.
- 27 The costs and procedures involved in importing and exporting a standardized shipment of goods are detailed under this topic. Every official procedure involved is recorded - starting from the final contractual agreement between the two parties, and ending with the delivery of the goods.
- 28 Tanzania has introduced a Customs reform and modernization program for which there is significant leadership commitment. This programme has gained momentum with the adoption in 2004 of a comprehensive modernization plan that is well integrated into the corporate plan of the Tanzania Revenue Authority.
- 29 It also warns policy-makers of possibly emerging conflicts in integration and liberalization schedules between multiple regional trade agreements and suggests that efforts are made to ensure sufficient flexibility in their integration commitments to avoid contradictory requirements. Tanzania should anchor its regional integration efforts within a multilateral framework of liberalization, while leveraging cooperation at the regional level to tackle regulatory impediments to trade.
- 30 There are a number of conceptual problems in the indicators used by *Doing Business* to measure employment, including a simplistic "regulations are costs" perspective that negates many of the beneficial externalities associated with labour laws and which are, in effect, the *raison d'être* of labour law. The *Doing Business* employment index fails to consider that labour laws are often part of a package of complementary laws and policies aiming to achieve a particular policy objective. On the methodological side, the *Doing Business* index suffers from overly rigid assumptions – a worker with 20 years of tenure working in a firm with more than 200 employees – that is not representative of the world of work, particularly in developing countries. It is also not clear why the index focuses on the variables it has. The choice of questions is arbitrary and no economic analysis is provided to substantiate these decisions.
- 31 The difficulties that employers face in hiring and firing workers are shown below. Each index assigns values between zero and 100, with higher values representing more rigid regulations. The Rigidity of Employment Index is an average of the three indices.

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- 32 ICFTU: Internationally recognised core labour standards in Tanzania. Report for the WTO General Council Review of the Trade Policies of Tanzania: <http://www.icftu.org/www/pdf/corelabourstandards2006tanzania.pdf>
- 33 Annual survey of violation of trade union rights 2009: <http://survey09.ituc-csi.org/survey.php?IDContinent=1&IDCountry=TZA&Lang=EN>
- 34 This topic was identified as a core problems in the following reports, among others: Mwakapugi *et. al.*, (2010), United Republic of Tanzania (2009b), REPOA (2009), World Bank (2009a), WEF (2009)
- 35 Many formal firms exhibit some characteristics associated with informal firms (e.g., evading some taxes or failing to comply with some regulatory requirements) and many informal firms display some characteristics associated with formal firms (e.g., complying with some regulations, registering for a trading license with the municipality, or paying some municipal fees).
- 36 World Bank (2002) Private sector development strategy; directions for the World Bank Group, Washington DC, World Bank.
- 37 This view is also supported by the OECD (2006) *Promoting pro-poor growth: policy guidance for donors; key policy messages*, p. 45.

Annex 1: Additional assessment reports

While this review covered a sample of assessments from 2005, there have been many other reports that have been prepared on the need for investment climate and business environment reform. The following list illustrates this.

Association of Tanzanian Employers (ATE) *Skills Development Assessment*, Prepared by JE Austin Associates

Centre for Economic Prosperity (2010) *Roadblocks on Tanzania main truck routes*

Development Alternatives, Inc. (2004) *Tanzania investor roadmap: primers on regulations* (3rd Edition) Development Alternatives, Inc. (DAI) Private Enterprise Support Activities (PESA) Project Dar es Salaam

Ernst & Young (2009) *Tanzania Banking Sector performance review*

Fjeldstad, O, Kolstad, I. & Nygaard, K. (2006) *Bribes, taxes and regulations: business constraints for micro enterprises in Tanzania*, CMI Working Paper 2, Bergen

Iannone, M (2009), *Reform of the Tanzanian Cashew Nut Business Environment*, Tanzania Cashew Policy Study, BEST-AC and Technoserve

IMF (2006, 2009) *Financial Sector Assessment Programme (FSAP) – Tanzania*

Mchau, KW. Balakana, J. Laffa, J. Kilima, Dr. Kadigi, R. Banya, P. (2007) *Improving the Competitiveness of the Dairy Sector through rationalization of regulatory compliance and cost of doing business*, Report prepared for Tanzania Milk processors Association (TAMPA)

Mkurabita, 2006-2009: there are at least ten assessment reports produced under this programme

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