

Barriers to Business Launch

ECONOMY/Tax exemptions

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Unfavourable business climate

hampers private sector-led economy

THE fourth annual report of a survey of business leaders in Tanzania entitled 'Business Leader Perceptions of the investment Climate in Tanzania'- 2011 to be released today has outlined power as the biggest challenge hampering investment development in Tanzania.

The report commissioned by BEST-AC, says power has been consistently the biggest problem followed by roads, while corruption, which had fallen in 2010, is back to being a major issue.

According to the well-detailed report, water, which was not cited as a particular problem until 2010 is now seemingly worse and access to finance cited as a headache for many businesses.

The report says the government is making real efforts to make a difference in some sectors, while others surveyed business leaders were not impressed.

Regarding power problems, there was a clear belief that the government is not making enough efforts, to solve power interruptions. Whilst there has been little change in perception related to corruption, surveyed business leaders noted the government was making only a little effort.

According to the World Bank, improvements in the enabling environment lead to greater levels of investment by the private sector, more wealth and job creation, and ultimately more poverty alleviation.

It notes that the best way for government to understand how to improve the enabling environment is to involve the private sector through consultation and dialogue and, in particular, to understand and address the private sector's needs and priorities.

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

Rwanda was the world's top reformer in 2009 according to Doing Business 2010, rising some 76 places; it was the second top reformer in 2010 rising a further 9 places. Tanzania has remained

largely static, both in the overall rankings and in the disaggregated rankings.

Some scholars and business analysts say the government's move of attracting Foreign Direct Investments (FDI) by providing a wide-range of tax incentives to various businesses in the country is a recommendable thing, but more has to be done.

Analysts and experts argue that giving tax incentive alone was not enough, but rather to ensure that business environment is improved.

Economist-cum-lecturer at the Mzumbe University (Dar es Salaam College Campus) Dr. Honest Prosper Ngowi says for many years, large and small-scale Tanzanian businesses are facing a number of challenges, which need to be solved, if the country really want to move forward.

"These include issues related to legal and regulatory framework, issues related to such utilities as adequate quantity and quality of electricity and water; infrastructural issues such as roads and business premises as well as bureaucracy and corruption-related issues," Dr. Ngowi says.

"Different 'Doing Business' surveys have shown these problems. It would be better for those concerned (the government, development partners and indeed the private sector) to solve these constraints."

The economic analyst urged the government to play an important role in creating a better business working environment for the country's private sector, which is currently in its infancy.

Ngowi is optimistic that by having a very powerful private sector, the country can step up into the next level as a private sector-led economy is the engine of the economy of any country.

"Here, something needs to be done if we want go forward," he said, "I call upon the government to devote more funds (than the current 30 percent only) in its development budget and invest a good portion of it in business-supporting development projects, especially electricity."

Since the government cannot deliver all the needs in the short term, there was a need for people and

Member of Parliament Ezekiel Wenje sees poor business environment as the main factor behind boom in tax exemptions

businesses to also look for their own solutions as the government may not be coming to their rescue soon, he said.

"I have seen companies/businesses generating their own power/electricity and water and even improving their own roads. The point is, where possible, let us do what can be done instead of waiting until when the government gets "enough" money. That day

may not come soon," he said.

However, he said, "this does not mean that the government responsibility to deliver these public goods and services should be forgotten. Among other things, the Public Private Partnership (PPP) policy of 2010 and the 2011 PPP Act are opportunities for solving the challenges.

"There is a need for having strict action plans (including monitoring and

evaluation) on implementing all the existing good strategies, plans, policies among others."

Kigoma South MP, David Kafulila admits that unreliable power, roads, corruption were barriers to investment in the country.

The young lawmaker quotes the International Monetary Fund (IMF) report, which says that tax exemptions were not the only way to attract foreign

investment in the country, there should be other factors such as railways, good roads, reliable power among others.

The opposition legislator says transporting goods through railways was ten times cheaper than roads, thus reducing the cost of production as well as prices of goods.

On power woes, MP Kafulila says that if the power is generated by using fuel automatically it will be

expensive thus increasing the cost of production hence the prices of commodities also increase.

"To me I see corruption as one of the challenges thwarting investments in the country as there are people who don't want the government to invest in power so that they can continue to reap from the fuel, others don't wish to see roads being improved so that they continue to benefit through transporting goods via roads," he observes.

The outspoken MP notes that people find it difficult to do business in the country due to bureaucracy in various processes such as registration of cargoes at the port.

"It is high time for the government to make use of experts' advice in addressing these problems...various researches has been conducted and the government should make use of them."

Citing the 2007 report carried-out by the Research and Poverty Alleviation (REPOA), Kafulila suggests the need for the government to invest in the transport sector to boost the country's socio-economic development.

"If the government will invest in the transport sector, including ports, railways and aviation it will not only improve the business environment but also increase foreign currency," he said.

Kafulila says currently the country was not benefiting from the tourism sector due to 60 per cent of the revenue from this sector going towards aircraft transport costs.

"Until now, the country has no planes, thus all the revenue goes to private-owned airlines," he said.

Special Seats MP, Esther Bulaya said the government should work on the barriers to improving the business environment, especially for local investors.

She says the barriers have been an outcry of the business community in the country for a long time, thus affecting the end users of the goods.

"If these barriers will persist they will result in the high cost of production and since the investors will not make any profit, they will increase the prices of goods.

Corruption can be a big problem in the country but the solution is the government to continue working on the

problems," Bulaya said.

Energy and Minerals Deputy Minister Stephen Masele says the government has been taking measures to ensure that the power problem in the country is addressed.

"It's true the country has been facing power shortages in the past two to three years but it is committed to ensuring that the problem is contained. Currently the government is constructing a gas pipe from Mtwara to Dar es Salaam to increase gas supply in power generating plants," Masele said.

The government has already signed an agreement with Exim Bank of China to secure funds for the implementation of the project.

He says the country has power plants with the capacity of generating electricity to meet the country demand. The plants have the capacity to generate 1300 megawatts while the maximum demand in the country was 900 megawatts, thus generating extra 400 megawatts.

Masele says upon completion of the project the country will have more dependable power supply as it will not be depending on hydro as the only source of power.

He says reliable power will help to boost the country's economy thus achieving one of the goals outlined in 2025 Vision of turning the country to a middle economy.

On corruption he says the government was determined to fight this evil since it has been taking legal action to all those involved in the malpractice, including taking them to court.

Recently Nyamagana MP Ezekia Wenje blamed the poor business environment as the main contributor to the increasing tax exemptions, which reached over 1.0 trn/- for the year 2011/12, in a bid to attract foreign investors.

He says if the government improves the business environment such as roads, reliable power, and railways there will be no need for it to provide such a wide range of tax incentives.

"If the service industry in Tanzania is improved there will be no need to provide a wide range of tax incentives. Sometimes the government decides to provide incentives to businesses due to the poor environment," Wenje said.