The background of the entire page is a dynamic, high-angle shot of numerous US dollar bills falling through the air. The bills are in various stages of descent, some fully visible and others partially obscured, creating a sense of movement and abundance. The bills are primarily 100-dollar bills, with some 20-dollar bills also visible. The lighting is bright, highlighting the texture and details of the currency.

**TANZANIA BUSINESS LEADER
PERCEPTIONS: 2013**

**THE INVESTMENT CLIMATE IN
TANZANIA**

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Fieldwork for this survey was undertaken by Synovate during June and July 2012. The responses were analysed and the report was written by David Irwin.

BUSINESS LEADER PERCEPTIONS OF THE INVESTMENT CLIMATE IN TANZANIA – 2012

1. SUMMARY

This is the fifth survey of business leader perceptions in Tanzania. Business leaders were asked about

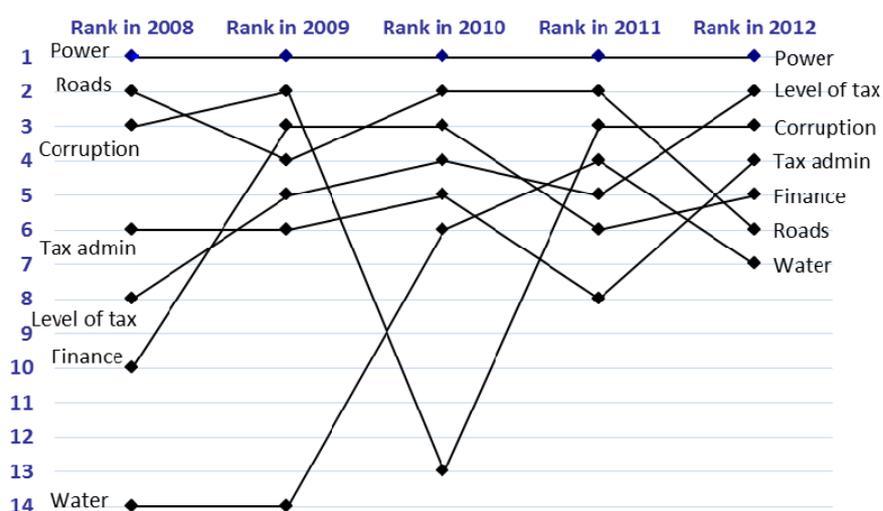
- The enabling environment factors that are important to their business;
- The factors that make it difficult to do business;
- The non-tariff barriers that are relevant to their business;
- The non-tariff barriers that cause problems for their business;
- Perceptions of whether and how government is addressing each factor;
- Their view of whether each factor would be likely to deter future investment; and
- An assessment of the costs involved in meeting the requirement of regulation and red tape.

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

- Power
- Level of taxation
- Corruption
- Tax administration

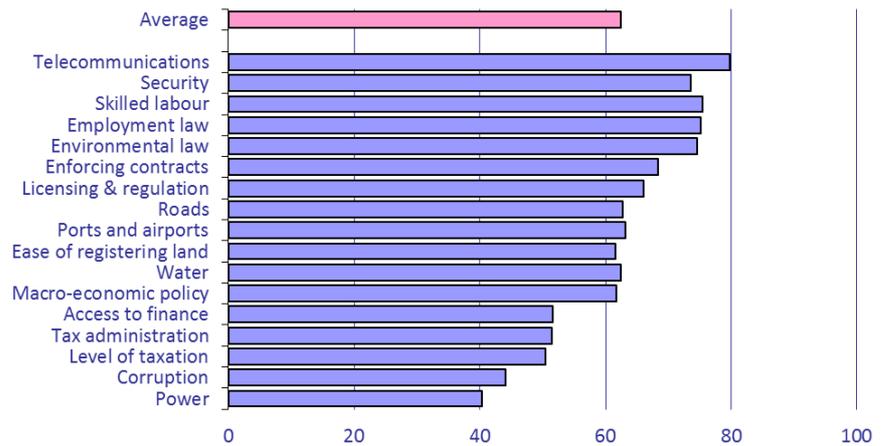
Power is consistently the biggest problem with roads regularly second, though in 2012 roads has fallen to sixth. Water, which was not cited as a particular problem until 2010, is once again perceived to be less important. Access to finance, which had been perceived to have deteriorated in 2009 and 2010 improved in 2011 but deteriorated again in 2012.

Figure 1: Factors making business difficult in rank order



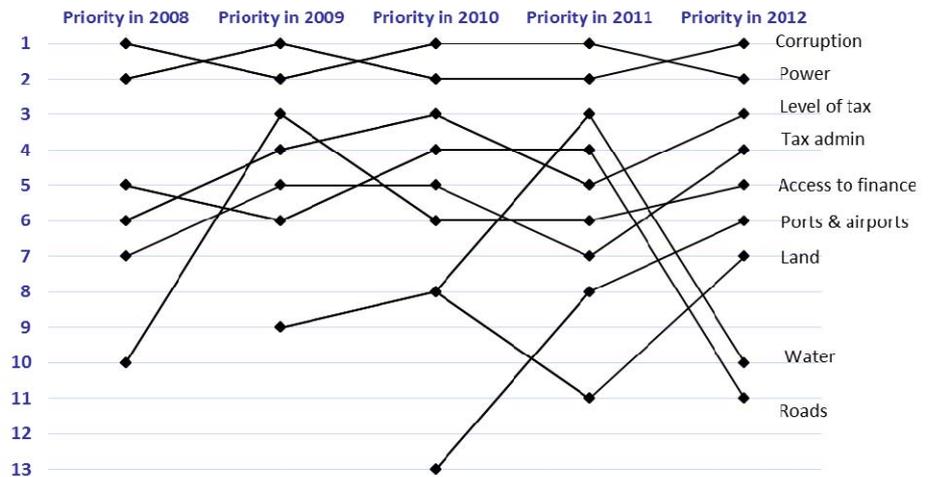
The survey seeks perceptions of whether the government is making efforts to address each of these issues. The difficulty in doing business caused by each factor and the perceived level of effort being made by the government to address the issue is then combined to give an 'enabling environment priority index'. Note in figure 2 that the lower the number, the greater the priority.

Figure 2: Enabling environment priority index



The issues on which the government should focus, in priority order, are shown in the right hand column of figure 3 which also shows how the priorities have changed since 2008. Power and corruption continue to head the list. Taxation has become more of an issue, with both the level of tax and its administration high up the list.

Figure 3: Change in priority issues



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

2. INTRODUCTION

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

It was commissioned by BEST-AC whose role is to support private sector organisations (PSOs) to engage in private public dialogue and to advocate change in public policy with the objective to improve the business environment in Tanzania.

Since 2003, when the World Bank published its first Doing Business report, it has been arguing that improvements in the enabling environment lead to greater levels of investment by the private sector, more wealth and job creation, and ultimately more poverty alleviation. The World Bank and bilateral donors believe that the most effective means for government to understand how to improve the enabling environment is to involve the private sector through consultation and dialogue and, in particular, to understand and address the private sector's needs and priorities. Indeed, that the argument for supporting BEST-AC which, in turn, supports private sector organisations in Tanzania.

The results suggest that the perceptions of business leaders have not changed very much from 2009 to 2012, which reflects the assessment of the World Bank's Doing Business surveys and of other surveys such as the Global Competitiveness Index. The overall impression is one of drift. This is unfortunate as the Government is actually making considerable efforts to make a difference, with an enabling environment 'road map' and task forces in key Ministries, all with specific targets.

3. ENABLING ENVIRONMENT ASSESSMENTS

The World Bank researches a number of indicators and publishes its "Doing Business" reports annually.¹

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

In Doing Business 2013, Tanzania is ranked at 134, suggesting a fall from last year. Given that Tanzania set a target in 2011 to reach the top 99, this is rather embarrassing. The ticks and crosses in the table are reproduced from Doing Business 2013 which notes that Tanzania has made positive efforts in reducing the requirements to start a business. Although the World Bank does not comment, it seems to have improved on registering property as well.

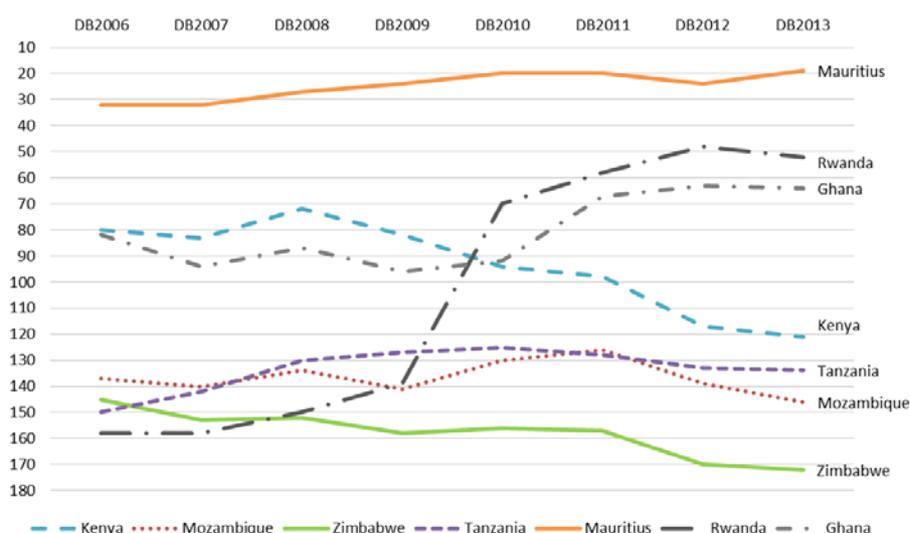
¹ World Bank, Doing Business: see www.doingbusiness.org

Table 1: Doing Business rankings for Tanzania

	2008 (DB 2009)	2009 (DB 2010)	2010 (DB 2011)	2011 (DB 2012)	2012 (DB2013)
Ease of doing business	126	131	128	127	134
Starting a business	109	120	122	123	✓113
Dealing with licences	172	178	179	176	✗174
Registering property	142	145	151	158	137
Paying taxes	109	119	120	129	133
Enforcing contracts	33	31	32	36	36
Trading across borders	103	108	109	92	✗122

Sources: World Bank Doing Business reports 2008-2012

It is perhaps worth comparing Tanzania's efforts with other countries in the region. Rwanda was the world's top reformer in 2009 according to Doing Business 2010, rising some 76 places; it was the second top reformer in 2010 rising a further 9 places. It has not been able to keep up the momentum, or maybe has spurred others to do better, and has fallen in 2012. When one looks at the chart, it would appear that Tanzania's rank has remained largely static.

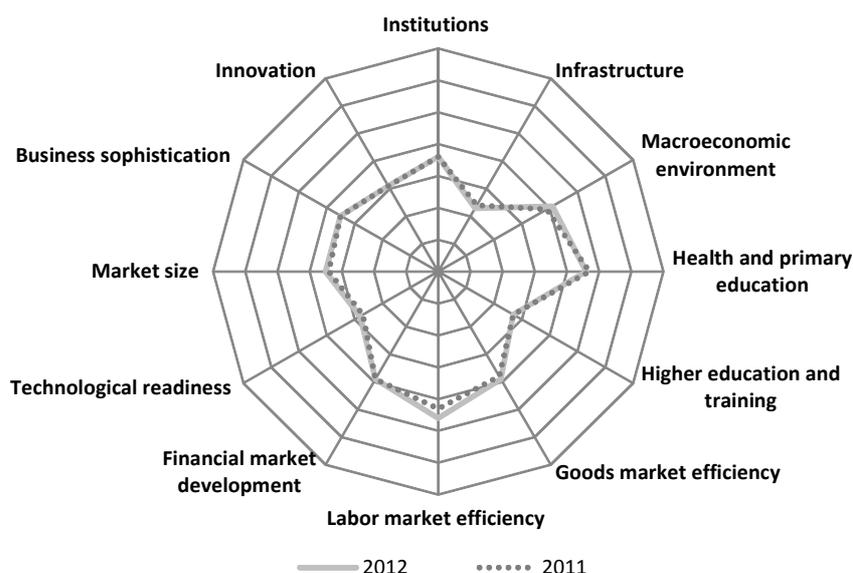
Figure 4: Doing Business rankings over time

Source: World Bank Doing Business reports 2006-2013

Whilst the World Bank's work is valuable to policy makers in highlighting areas worthy of reform and promoting debate, it does not offer a holistic view. Furthermore, encouraging more people to start in business or encouraging more people to join the formal economy or encouraging more investment will be far more dependent on a broader perception of the ease of doing business rather than on the narrower score reported in Doing Business.

The World Economic Forum also researches and publishes performance measures, mainly looking at competitiveness. It publishes its Global Competitiveness Index annually.

Figure 5: Global competitiveness index



Sources: Schwab,K, (2011, 2012)

Tanzania has been slowly falling down the ranking. In 2009/10, it was ranked 100. By 2010/11 it had fallen to 113. In 2011/12 it fell again, to 120 and has remained at 120 in 2012/13. In addition to ranking countries, WEF provides ratings for each of the pillars that it measures. These are shown in figure 5. It can be seen that Tanzania has been pretty consistent in its performance over the last two years. The maximum score for each pillar is seven. It is perhaps not surprising that Tanzania’s worst score is on infrastructure where it achieves just 2.3.

Tanzania is in the middle of the countries of the EAC – but has a long way to go to catch up with Rwanda.

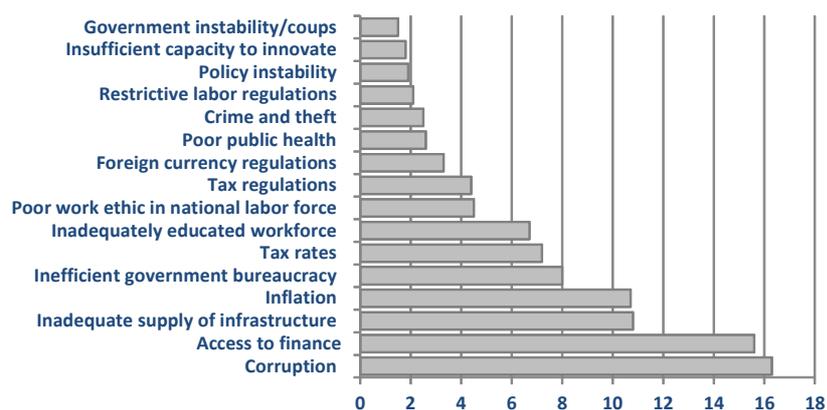
Table 2: Global Competitiveness Index: EAC

	Rank	Score
Rwanda	63	4.2
Kenya	106	3.7
Tanzania	120	3.6
Uganda	123	3.5
Burundi	144	2.8

Source: Schwab,K, (2012)

The Global Competitiveness Report also asks businesses specifically about the problems that they face in doing business. In asking the question, they present respondents with a list of factors (as shown in the chart) and ask them to select and rank the five most problematic for doing business. The bars in the chart (figure 6) show their weighted responses. This suggests that the biggest problems are corruption, access to finance and then inadequate infrastructure – broadly reflecting the results from this survey.

Figure 6: Problems in doing business



Sources: Schwab,K, (2012)

Transparency International publishes annually its index of perceived corruption. Whilst Tanzania does not score well it does at least come second only to Rwanda in the EAC. There are 174 countries included in the review; scores are out of 100.

Table 3: Corruption Perception Index: EAC

	Rwanda	Tanzania	Uganda	Kenya	Burundi
Rank	50	102	130	139	165
Score	53	35	29	27	19

Source: Transparency International

4. RATIONALE FOR THIS STUDY

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

- Perception and reality are usually different – and people act on the basis of their perceptions, even if they are not wholly accurate. It is important, therefore, for associations and government to understand business leaders' perceptions. This will, in many cases, identify areas where action needs to be taken – but where action is already being taken it may suggest areas where the government needs to improve the way in which it communicates with the private sector about the efforts that it is making.
- This research isolates the factors that are important to specific sectors. There are a wide range of factors which together comprise the enabling environment, though not all are important to every business, and not all make business more difficult. A factor that is important to a business may not necessarily make doing business difficult, though we might expect to see some correlation.
- The survey not only asked about the factors that are problematic but also asked business leaders to identify the factors where the government is perceived to be making a positive effort.
- It asked about the factors that may deter future investment. There is a danger that governments just assume that businesses will carry on investing irrespective of the enabling environment, but businesses are unlikely to invest unless they are confident about the future. If they do invest, then giving more confidence may encourage them to invest more.
- It has attempted to quantify the costs to business of meeting the regulatory requirements imposed on them.

This fifth study, whilst indicating that the priority areas have changed a little, largely confirms the priorities identified last year. These should be the priority areas for action by the government if it wants to make a difference not only to the enabling environment but also to the way that it is perceived by business.

5. METHODOLOGY

The fieldwork was undertaken during June and July 2012 by Synovate, a multi-national market research firm.

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

The sample population comprises 139 businesses covering a range of sectors, locations and business sizes.

Table 4: Sample population

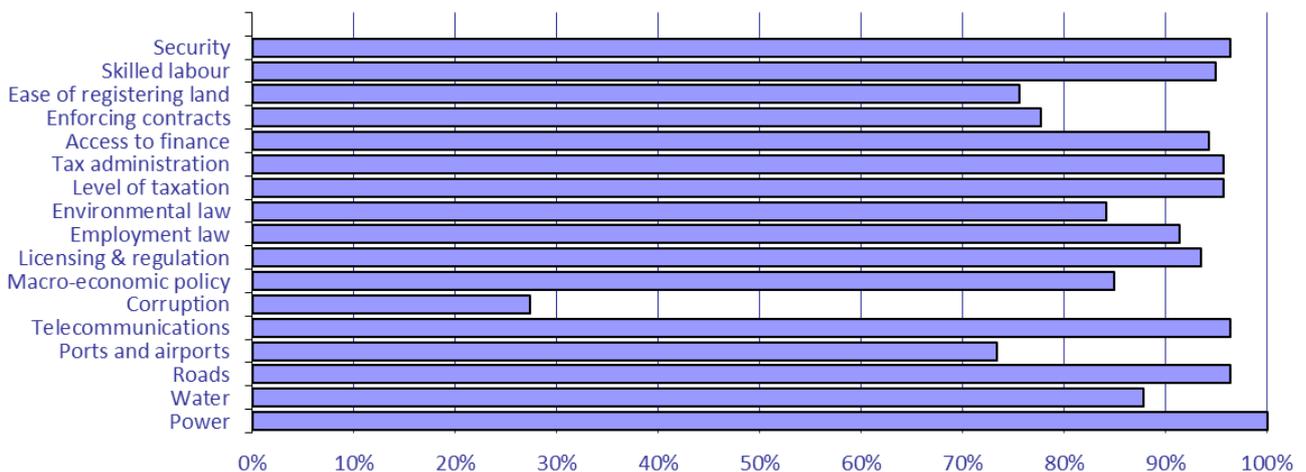
Sector		Location		Size (employees)	
Services	26	Dar es Salaam	59	0-9	69
Agriculture & processing	21	Zanzibar	23	10-24	52
Manufacturing	23	Arusha	19	25-49	13
Hotels & tourism	26	Other	38	50-99	2
Finance	23	BMO		100-250	1
Communications	20	Member	34	>250	2
		Non-member	105		

6. OVERVIEW

In the first question, respondents were asked to indicate which of a range of factors were important to the success of their business and were then asked to indicate whether that factor made doing business very difficult, somewhat difficult, had room for improvement or was not a problem at all. It is possible for a factor to be important – a manufacturer might need a reliable source of electric power for example or a service business might rely on effective telecommunications – but for that factor not to cause problems – power or telecommunications might be reliably available. Similarly some factors may not be important – for example corruption should score low on importance unless businesses rely on corruption for their success – but may interfere in the success of the business.

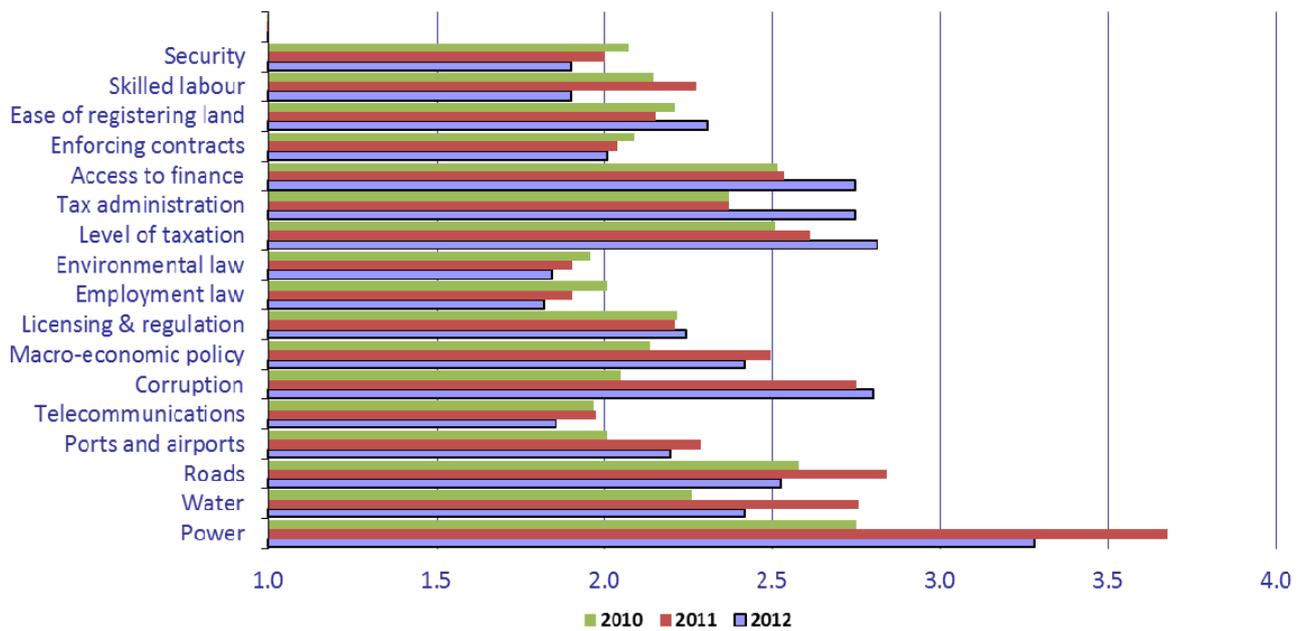
Most factors are seen as important. Indeed, except for corruption, all factors are seen as important by at least 70 per cent of respondents. Six factors – power, roads, telecoms, security, tax rates and tax administration – are seen as important by more than 95 per cent of respondents.

Figure 7: Importance of factors (all respondents)



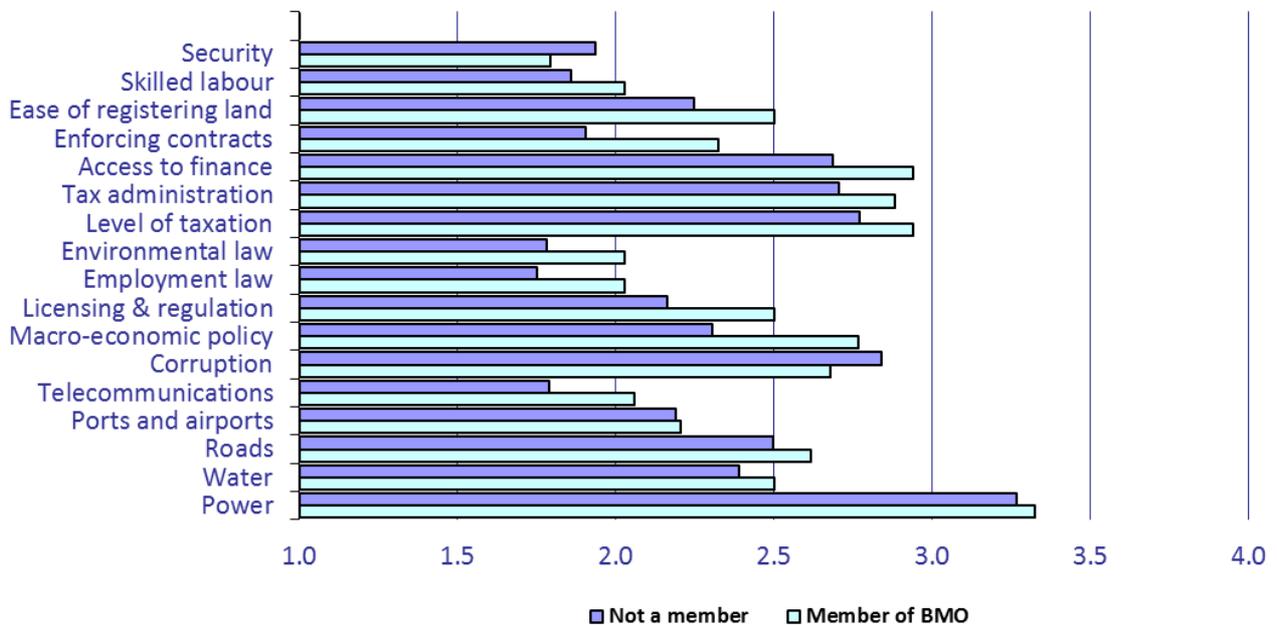
Business leaders were asked to rate factors as 'making business very difficult', 'making business somewhat difficult', 'could be improved' or 'not a problem'. The responses have been coded (ranging from 1: not a problem to 4: makes doing business very difficult) and then averaged. This reveals the key issues to be power, corruption, tax rates, tax administration and access to finance. Roads and water both scored badly in 2011 but have done better in 2012. This does not exactly reflect the problems as identified by the World Economic Forum, though they are not far apart – both have corruption, infrastructure and access to finance as key problem areas.

Figure 8: Factors which make business difficult



Respondents were asked whether they were a member of a business membership organisation (BMO). In 2012, as in 2011, it seems that most factors are seen as more difficult by members though, in most cases, there is little difference.

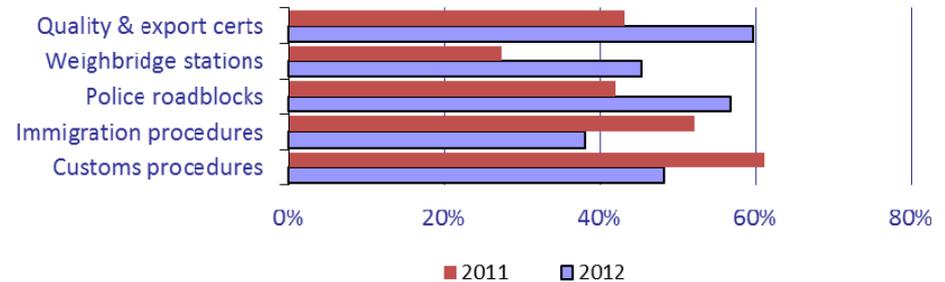
Figure 9: Perception of difficult issues by BMO membership



One question asked about the impact of non-tariff barriers. The importance of non-tariff barriers has diminished in 2011 but has increased again in three areas: export certification, weighbridges and police road blocks. It is not only Tanzanian businesses that complain about weighbridges and road blocks.

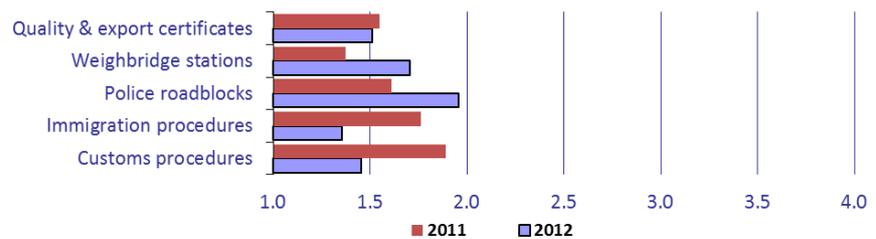
Businesses in Burundi and Rwanda also complain about them – along with the extra problems of paperwork at border crossings all of which add to the cost of doing business. Immigration and customs procedures are seen to be less important.

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



For most respondents, non-tariff barriers are not a big problem. It should be noted, however, that the difficulties imposed by weighbridges and road blocks are increasing.

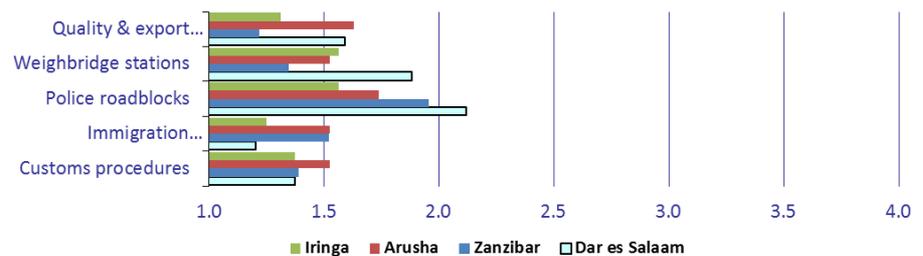
Figure 11: NTBs which make business difficult



Whilst NTBs may only be a problem for a small number of businesses, they can prove to be a real headache for those businesses and there can also be a knock-on effect – for example barriers which impede road distribution or add to the bureaucracy of exporting may cause delays for manufacturers or processors but they may not pick this up in their own assessment of the environment. They will also tend to have a disproportionate impact on businesses that are trading internationally.

Location makes little difference to the level of difficulty – except for export certification which is more of a problem in Arusha and weighbridges which are mostly seen as a problem by Dar based businesses.

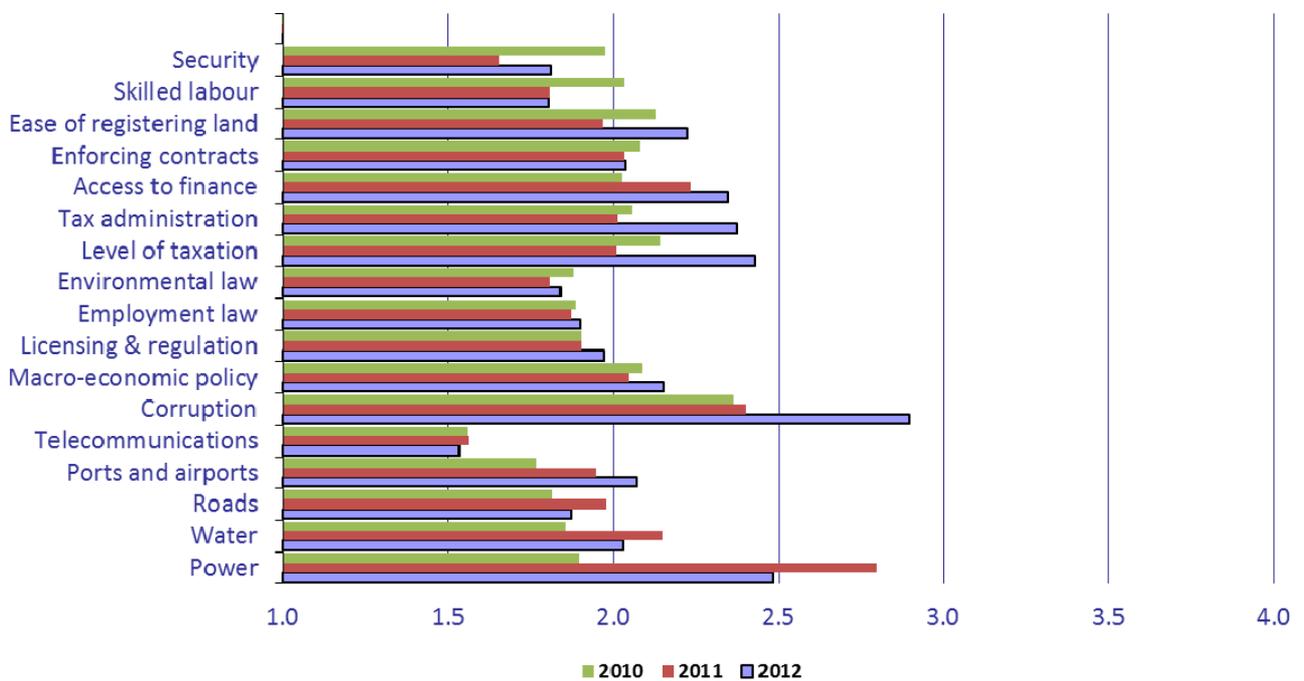
Figure 12: NTBs which make business difficult



Respondents were asked about their perception of government efforts to address these aspects of the enabling environment. Answers ranged from 'the government is making real efforts to address the issue' (coded 1), through 'some effort' and 'no effort', to 'government actions are making this issue worse' (coded 4). Combining the results into a single score shows that there are few factors where a significant number of respondents thought that the government was making a real effort to make a difference, though as in 2010 telecommunications was seen positively and, for most factors, there was a perception that the government was making at least some effort.

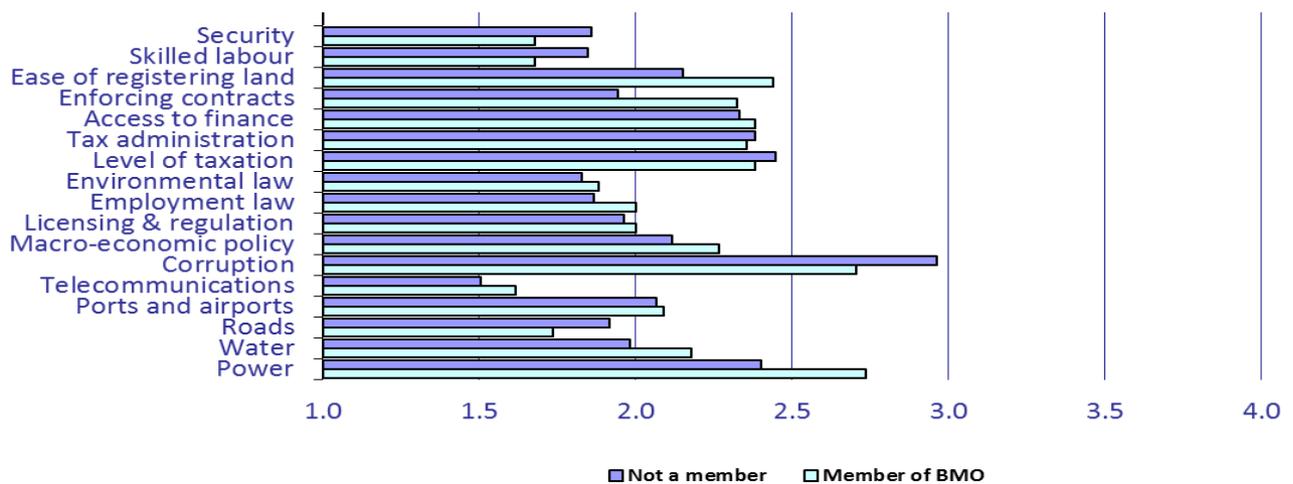
Power is still a problem, but it has improved since 2011. It would seem that the problem of corruption has deteriorated and is much worse in 2012. There are three other areas where government performance is perceived to have deteriorated, in two cases by quite a lot and these are level of taxation and tax administration. The other is access to finance.

Figure 13: Government performance in addressing key factors



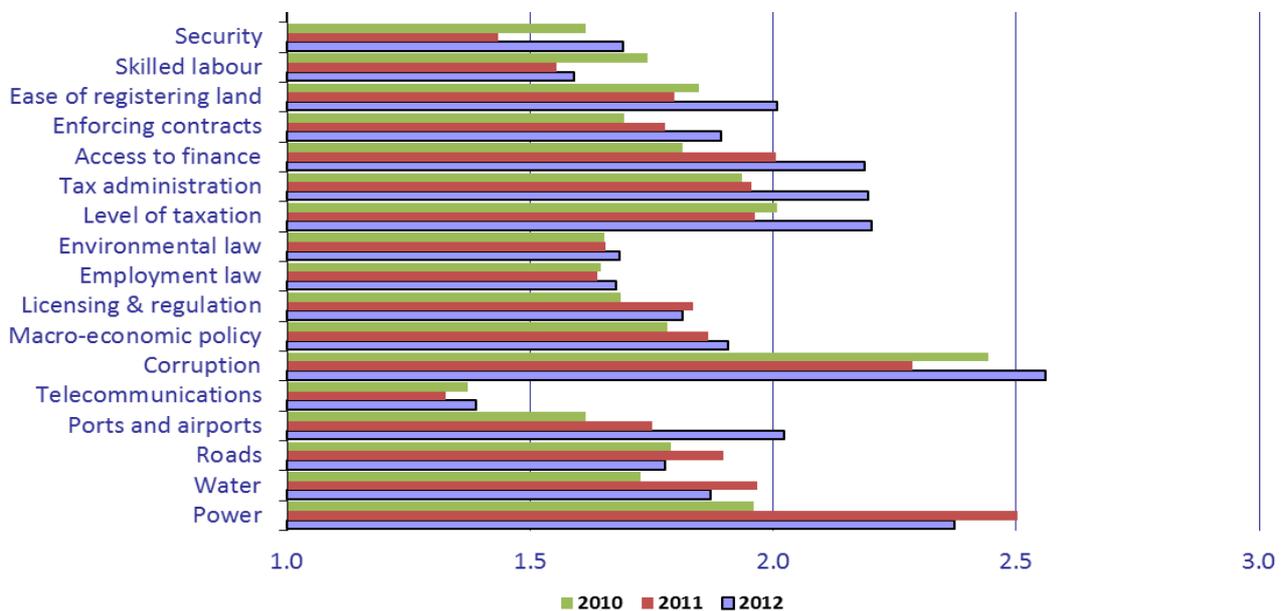
We might expect businesses that are members of a BMO to be more critical of the government and its efforts to make a difference since one of the reasons that businesses join a BMO is to advocate change in public policy. There is little difference in perception for most factors. For power, BMO members are more critical; for corruption it is non-members that are more critical. The proportion of members in each business sector is relatively small, however, so not too much can be read into these results.

Figure 14: Perception of government effort by BMO membership



Respondents were asked which factors were likely to influence investment decisions and how (scored 1: encourage further investment; 2: neither encourage nor deter; 3: deter further investment). Corruption is the biggest deterrent to investment, followed by power. Whilst power has improved, tax rates, tax administration and access to finance have all deteriorated – giving five factors a score greater than 2. These are the main factors that would deter investment.

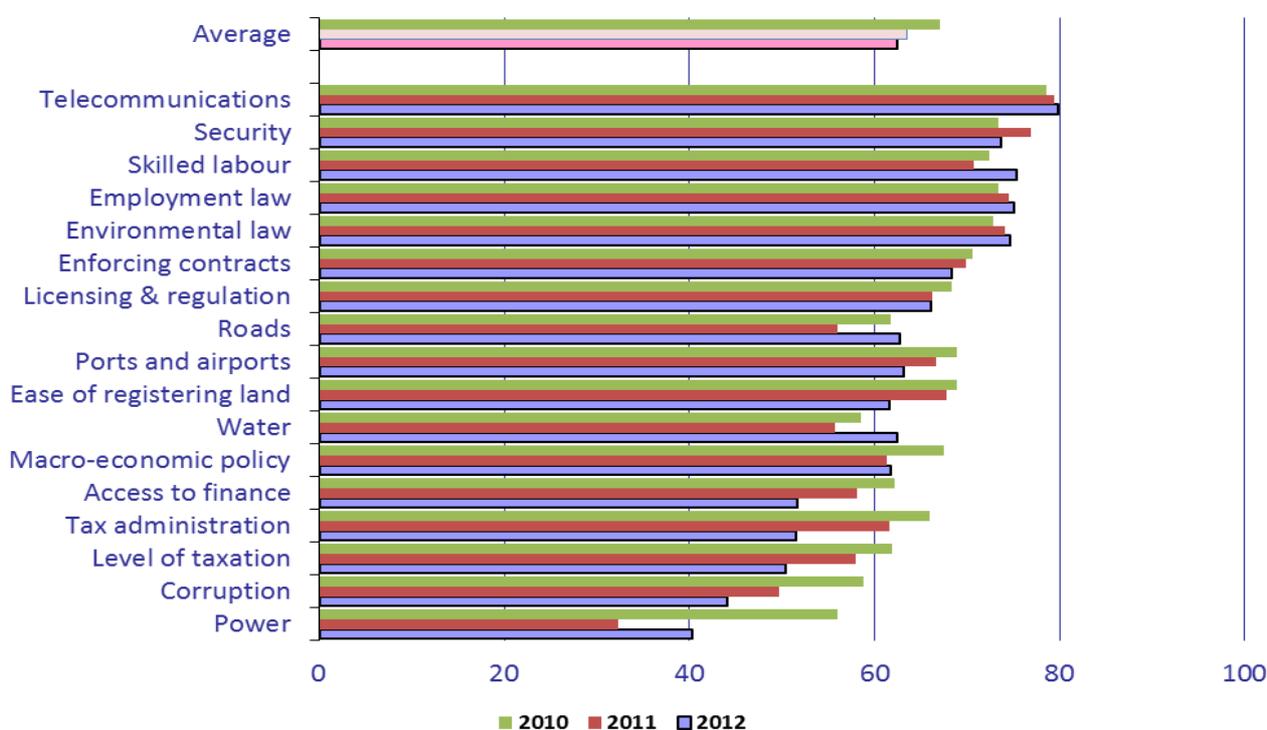
Figure 15: Factors which affect investment decisions



The ‘enabling environment priority index’ combines the perceived level of difficulty imposed on a business with the perceived effort of government in addressing the issue. The chart below shows the combined views for all of our factors. Note that in this chart, the score has been inverted and rescaled so that a factor that causes the most difficulty for business and in which the government is making the problem worse will be shown as zero and a factor that causes the least difficulty for business and in which the government is making a real effort to improve the position is shown as 100. The factor that is the least overall problem, then, is telecommunications, followed by security

and access to skilled labour; the factor that is the biggest problem is power, followed by corruption, then tax rates and then tax administration.

Figure 16: Enabling environment priority index



It is difficult to combine all views into a single figure, but we recognise that having a single figure makes it easy to see at a glance whether the private sector perceives that the enabling environment has improved or deteriorated.

We have therefore calculated a single figure – and find that the position is effectively static (actually down from 63.5 in 2011 to 62.5 in 2012). The figures are so close that it implies a perception that little has changed overall.

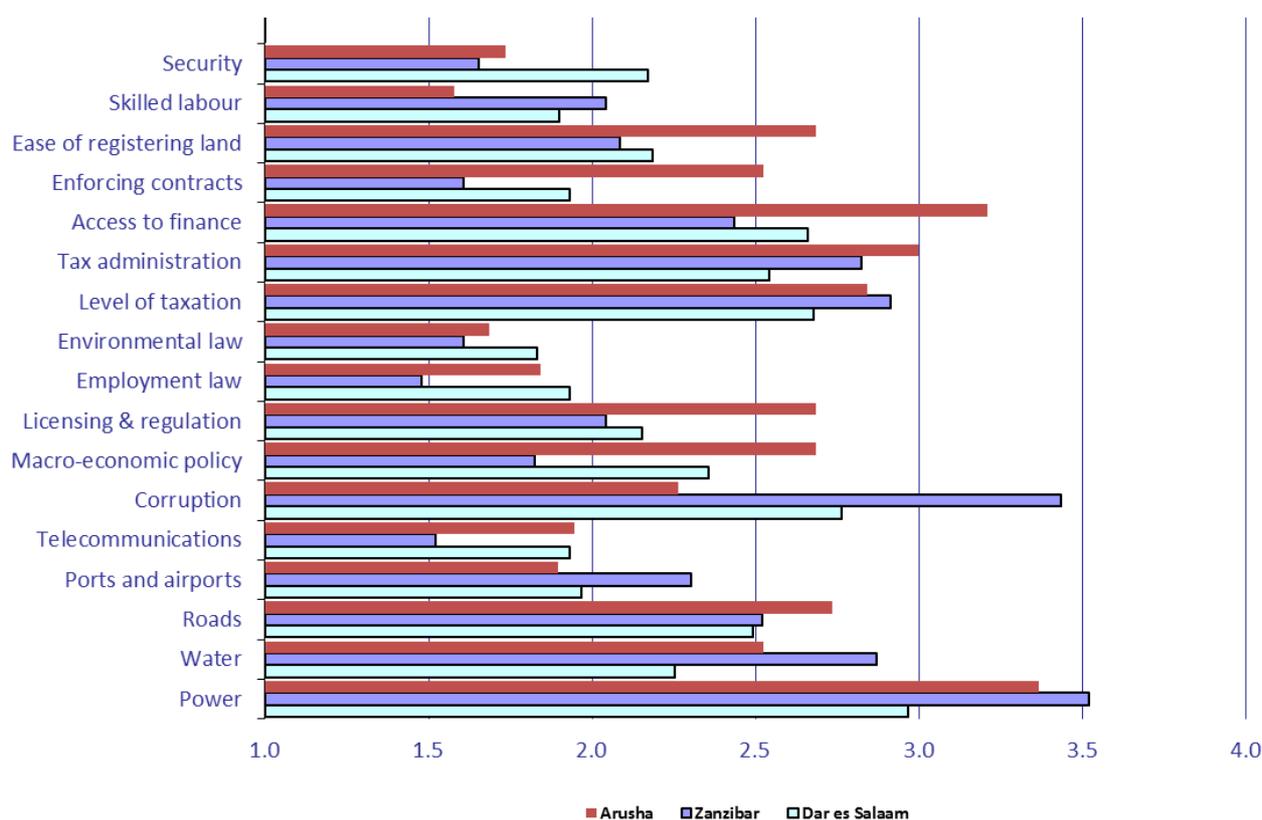
	2008	2009	2010	2011	2012
Tanzania	57	65	67	63	63
Burundi		71			
Kenya	52	56			
Rwanda		76			
Uganda	63	59			

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

7. REVIEW BY LOCATION

In general, businesses in Zanzibar find it harder to do business and businesses in Dar find it easiest. Power and corruption cause the most difficulty in Zanzibar. Access to finance and registering land is hardest in Arusha. Arusha also complains about roads, licensing and macro-economic policy.

Figure 17: Issues by location



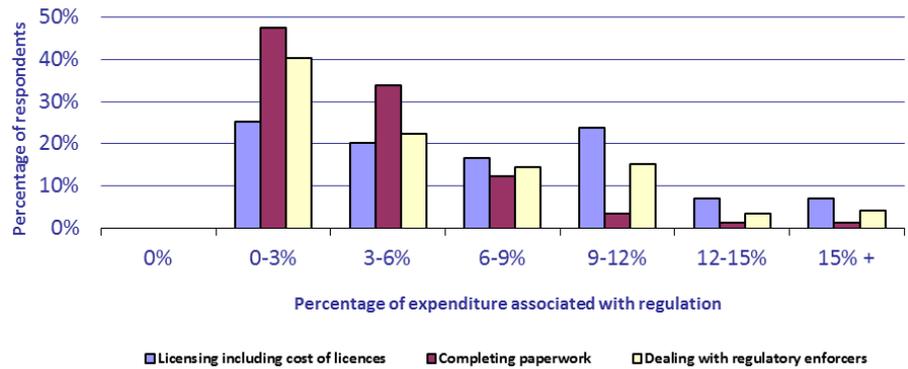
8. COST OF RED TAPE

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

Respondents were asked about the costs of regulation – split into three groups: the direct cost of licensing including the cost of the licences themselves, the effective cost through the staff time required to complete paperwork associated with regulation and the effective cost through staff time of dealing with the enforcers of regulation. Specifically, respondents were asked to say in which band they believed that each of these categories of cost fell.

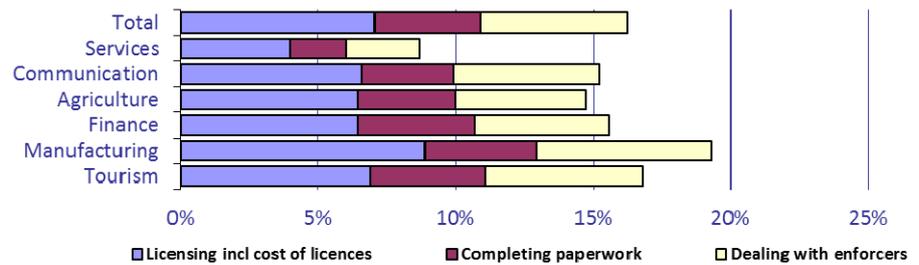
In 2009, some 20 per cent of respondents said that there was little or no cost in each of the categories. By 2012, there was not a single respondent saying that there was no cost.

Figure 18: Cost of red tape and regulation



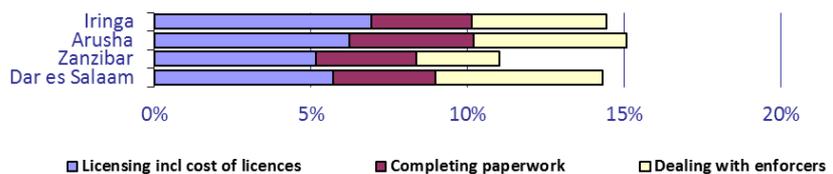
As in previous years, most respondents thought that each required expenditure of less than three per cent. This is fairly modest, though when you add the three together they can quickly mount up. The chart below shows average expenditure by sector for each of the three aspects of regulatory cost.

Figure 19: Cost of red tape and regulation



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

Figure 20: Geographic comparison of cost of regulation



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

9. TAXATION

A review published in 2012 looked at taxation in Tanzania, reviewing the government's tax policies and exploring the level of tax revenue lost from evasion, capital flight and tax incentives (Curtis 2012). Given the apparent level of dissatisfaction with tax, it is perhaps not surprising that the review estimates that firms report just 69 per cent of their sales and that as many as 40 per cent of informal firms pay no tax, though arguably some are too small to pay anything. In total, the review estimates that the government collects up to \$1.3bn per annum less than it should. That is equivalent to one sixth of the government's total budget. The review makes a number of recommendations to the government to reform tax policy in an effort to ensure that it gathers all that it should.

There will always be some businesses and some individuals who will do everything possible to evade tax – but most businesses recognise that they need to pay tax so that the government can afford to cover its expenditure. However, they want to see tangible results from that expenditure.

This report therefore echoes recommendations to simplify the tax regime (not least because that also reduces opportunities for corrupt practices), to be totally transparent about collection and expenditure, to ensure, as far as it possible, that the tax regime is fair to all businesses and, if tax is being collected more efficiently, to reduce tax levels for all businesses.

Power is recognised as the major challenge but the government is already looking at how it can address that challenge. The government needs to do what it can to discourage corruption but it is recognised that the best way to eliminate corruption is to eliminate the opportunities for corruption. The next two challenges, identified by the most recent business leaders' survey, are tax levels and tax administration. These should be relatively simple to address and could make a big difference not only to business perceptions of government but also to the government's own revenue.

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