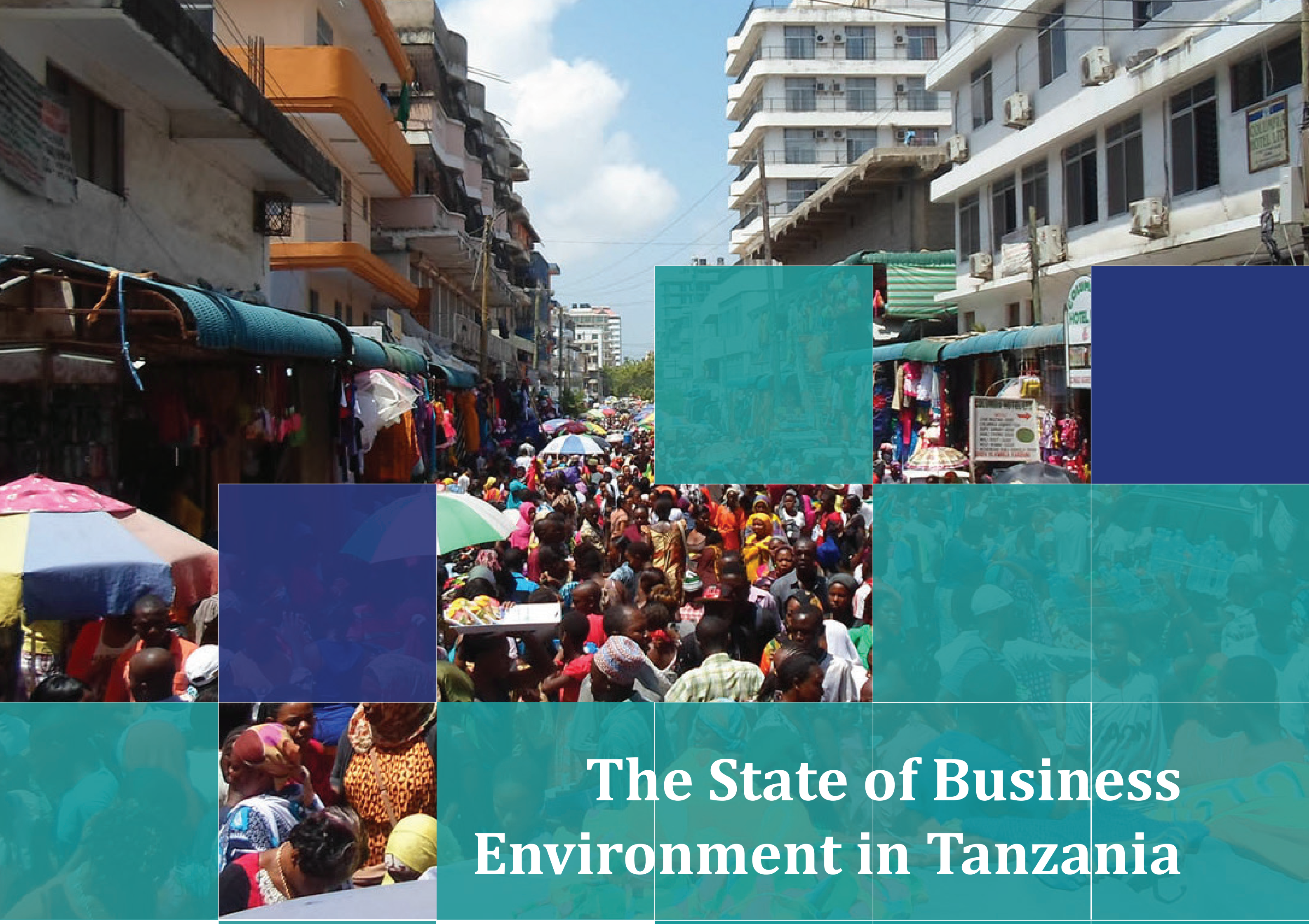

The State of Business Environment in Tanzania

A Literature Review

Emmanuel Maliti

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Abbreviations

AQRB	–	Architects and Quantity Surveyors Registration Board
ATE	–	Association of Tanzania Employers
BRELA	–	Business Registration and Licensing Agency
CAG	–	Controller and Audit General
CoST	–	Construction Sector Transparency Initiative
CRB	–	Contractors Registration Bureau
CTI	–	Confederation of Tanzania Industries
DB	–	Doing Business
DCED	–	Donors Committee on Enterprise Development
DRC	–	Democratic Republic of Congo
EAC	–	East African Cooperation
ELRA	–	Employment and Labour Relations Act
ERB	–	Engineers Registration Bureau
FCC	–	Fair Competition Commission
FDI	–	Foreign Direct Investment
GCI	–	Global Competitive Index
GDP	–	Gross Domestic Product
ICT	–	Information Communication and Technology
IDRAS	–	Integrated Domestic Revenue Administration System
IMF	–	International Monetary Fund
LIA	–	Labour Institutions Act
MDAs	–	Ministries Department and Agencies
MW	–	Megawatts
NCC	–	National Construction Council
NIDA	–	National Identification Authority
NSDS	–	National Skills Development Strategy
OECD	–	Organisation of Economic Cooperation and Development
OSBP	–	One-Stop Border Post
OSHA	–	Occupational Safety and Health Authority
PAYE	–	Pay-As You Earn
RIA	–	Regulatory Impact Assessment
RITA	–	Registration, Insolvency and Trusteeship Agency
SME	–	Small and Medium Enterprises
SSA	–	Sub-Saharan Africa
SUMATRA	–	Surface and Marine Transport Regulatory Authority
TADAT	–	Tax Administration Diagnostic Assessment Tool
TANCIS	–	Tanzania Customs Integrated System
TANESCO	–	Tanzania Electricity Supply Company
TBS	–	Tanzania Bureau of Standards

TPA	–	Tanzania Ports Authority
TRA	–	Tanzania Revenue Authority
TUCTA	–	Trade Union Congress of Tanzania
UNCTAD	–	United Nations Conference on Trade and Development
UNDP	–	United Nations Development Programme
URT	–	United Republic of Tanzania
USAID	–	United States Agency for International Development
VAT	–	Value Added Tax

1.0 Introduction and Background

Development practitioners are concerned with Business Environment (BE) as a development priority because of the influence it has on the development of the private sector and therefore "on economic growth and the generation of livelihoods and jobs" (DCED 2008). According to the World Bank's study 'voices of the poor', the poor people expect to escape poverty through "income from their own business or wages earned in employment". The prospects of the two depends on the striving private sector which in turn depends on a streamlined BE supporting sustainable private sector development.

Such conceptual understanding has strong support from empirical studies. For instance, simplified business registration, taxation and licensing procedures have been found to be positively associated with firm performance in the areas of profitability, value addition, investments, formalisation and growth (Boly 2015; Rand and Torm 2012; Fajnzylber, et.al., 2009; McKenzie and Sakho 2010; Warner 2012; Fajnzylber and Montes-Rojas 2011; Monteiro and Assunção 2012; Besley 1995; Burns 2004). For cross country studies that have compared tax rates and business environments, some have found that a better business environment is even more important for business than a lower tax rate (see for instance Van Parys and James 2010).

In wake of the above evidences, Tanzania, has over the years prioritised improved business environment in its development discourse. The second Five-Year Development Plan (2016/17–2020/21) for instance, acknowledges that unfriendly business environment stifles growth and competitiveness of domestic industry and frightens Foreign Direct Investment (FDI). The plan has therefore prioritised reforms for improved business environment along the same regulatory areas that the World Bank's Doing Business (DB) report has articulated as important for business environment. Such areas range from business registration, utility connections; registering property, getting credit, paying taxes, and cross-border trading. Of recent the Government has launched a 'blueprint for regulatory reforms to improve the business environment' (URT 2017). The blueprint has outlined specific areas to be addressed to overcome challenges and constraints affecting the growth of the private sector (URT 2017).

This report highlights the state of business environment in Tanzania by presenting both the trends and current status of key areas affecting DB. The next section set the analytical stage by outlining the conceptual framework followed by methodology (section 3) and review of policies (section 4). Section 5 as the core section of the report, presents the trends and the current status of business environment in Tanzania. Discussion on national competitiveness follows next in section 6. Section 7 concludes.

2.0 Conceptual Framework

Businesses do not operate in a vacuum; they operate in an environment. The business environment refers to external policy, legal, institutional, and regulatory factors that govern business activities and reduce the costs and risks of business activities and stimulate competition through new market entrants (DCED 2008; Hans 2018). However, the working definition adopted by this study excludes factors such as social[1] and technological factors which are also external and can have implications on the business performance. This report also excludes business environment that is associated with international rules (e.g. standards to access regional and/or international markets) and private sector development support (e.g. facilitating production, distribution and marketing of goods) and services that are delivered at the firm level (Development Initiative 2018).

This analysis therefore focuses on institutional factors directly associated with Government's activities (e.g. administration and enforcement mechanisms) that are necessary for entrepreneurs to operate and that they facilitate business into a country. Following DCED (2005) and the World Bank's DB, the report examines 9 'regulatory areas'. These regulatory areas are also well adopted in many similar studies (Loayza et al 2005; Ayyagari, Thorsten and Demirgüç-Kunt 2007; Thorsten and Demirgüç-Kunt 2004; Dyring and Goedhuys 2004). They include:

- Business registration
- Dealing with construction permits
- Getting electricity
- Registering property
- Getting credit
- Taxation
- Trading across borders
- Enforcing contracts
- Labour market

The functional area 'business registration' focuses on procedures, time, cost and paid-in minimum capital to start a limited liability company. Licensing is a commonly used and prescriptive type of regulation which affects businesses and occupations by regulating entry into markets and conduct within markets. 'Dealing with construction permits' points to procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system. The regulatory area 'getting electricity' looks at procedures to obtain an electricity connection, submission of documents and obtaining all necessary clearances and permits etc. Electricity is a necessity for any business to function properly -with research indicating that higher electricity costs tend to have an adverse impact on businesses. The regulatory area 'getting electricity' thus looks at the procedures, time and cost to get connected to the electrical grid, and the reliability of the electricity supply and the transparency of tariffs.

'Registering property' on the other hand focuses on procedures associated with transferring of title on immovable property, and pre-and post-registration procedures. An example for the latter is the process associated with the filling title with municipality. Others include availability of electronic database to check for encumbrances, and type of system for archiving information on land ownership. The regulatory area 'getting credit' measures the protection of rights of borrowers and lenders through collateral laws, protection of secured creditors' rights through bankruptcy laws, depth of credit information index, scope and accessibility of credit information distributed by credit bureaus and credit registries.

Whereas the regulatory area 'paying taxes' focused on payments, time, total tax and contribution rate for a firm to comply with all tax regulations as well as post-filing processes, 'trading across borders' covers aspects related to the time and cost associated with the logistical process of exporting and importing goods. 'Enforcing contracts' on the other hand looks at the time and cost for resolving a commercial dispute and the quality of judicial processes index. The regulatory area 'labour market; focuses on both the regulations governing the labour market as well as the availability of skills which are necessary for driving labour productivity.

3.0 Methodology

3.1 Search methods

Following Kugley et al. (2016) and Duvendack and Mader (2019), the study explored bibliographic databases and a wide range of institutional websites to identify published, public sector documents, newspapers and unpublished literature (grey literature). In addition, citation search was done in Google Scholar, Scopus and Web of Science to identify more literature not retrieved in the database searches. Thereafter, searches focused on a number of institutional websites (international and national websites) that were deemed to be relevant to the research question. The list of institutional websites is provided in annex 1.

Search phrases were based on the 9 regulatory areas identified in section 2. The search phrases included: 'business registration" and 'tanzania'; 'tax regimes" and 'tanzania'; 'reformed labour market" and 'tanzania'; 'trade regime' and 'tanzania'; 'commercial courts' and 'tanzania'. The search process gathered a total of numerous literature which were later on filtered and the ones which were assessed to be of sufficient quality were included in the final analysis. Inclusion criteria included:

- Literature with clear evidence-based information.
- Literature either in English or Swahili language.
- Literature from reputable entities in the field of business environment
- Literature from government regulatory entities
- Literature from reputable publishers.

Information from the downloaded literature were extracted at the publication-level – as the time allocated for this study did not cater for assessing primary data used by some of the downloaded studies. In any case most of the collected literature did not had information at the primary study level.

3.2 Data analysis

For the trend analysis the report presents Tanzania's score and ranking on the ease of DB. For the analysis of national competitiveness, Tanzania's scores and ranking on the Global Competitive Index (GCI) are presented relative to performance of comparable countries. In addition to quantitative assessment, this report presents qualitative information that accounts for different trends on either DB or national competitiveness.

4.0 Review of Policy Frameworks

Governments create rules and frameworks in which businesses operate, compete against each other, and meet their obligations to the Government (tax payments, social and environmental safeguarding etc.). The rules and frameworks are not static as they change from time to time in a manner that compel businesses to change the way they operate. Policies that affect business can be grouped into: 1) medium term development plans 2) sectorial and cross-sectorial policies and the accompanying instruments including Acts, regulations and guidelines 3) fiscal policy and the accompanying formal instruments; and, 4) monetary policy and its respective instruments. This section gives a snapshot of the prevailing policy frameworks with implication on the business environment in Tanzania.

The policy environment in Tanzania is mostly characterised by diversity of Acts, policy and instruments both between and within sectors. An example of the diversity of regulations is in the mining sector. In addition to the overarching mining policy, there prevail several Acts and accompanying regulations from the Mining Act of 2010; Miscellaneous Amendments no. 7 of 2017; the Mining Local Content Regulations 2018, to the Unconscionable Terms Act 2017; Natural Wealth and Resource Act 2017; and the Mining (Diamonds Trading) Regulations 2019 etc. (URT 2019). The number of Acts and regulations listed in the website of the Ministry of Minerals amounts to 25.[2] The Acts and regulations have established the boundaries to which a business can operate beyond the details provided in the sectorial policy. Leaving aside the diversity of regulations, by presenting all the regulations online provides evidence of some level of improved transparency (in terms of access to regulatory related information).

Similar to the mining sector, the energy sector is also characterised by a diverse number of instruments beyond the National Energy Policy 2015. It is however worthwhile to acknowledge that the diverse nature of the sub-sectors within the energy sector makes the business environment operating in the energy sector to be characterised by diverse instruments and regulatory bodies. They include, the Electricity Act 2008; Rural Energy Act 2005; and the Oil and Gas Revenue Act 2015 (URT 2019a). In addition to the Electricity Act 2008, the sub-sector electricity features a number of regulations and guidelines. They include model power purchasing agreements; EWURA Act Cap 414; the Electricity (General) Regulations, 2011; the Tanzania Extractive Industries (Transparency and Accountability) Act, 2015, and the Electricity (Market Re-Organization and Promotion of Competition) Regulations, 2016 (EWURA 2019).

For both the energy and mining sectors, in addition to their respective ministries, each sector is governed by respective regulatory bodies whose mandates (e.g. setting of tariff and charges) are derived from individual Acts some of which are separate from the sectorial Acts. An example is EWURA and Mining Commission. The former is mandated to carry out both technical and economic regulation of the electricity sub-sector, the mandate that is derived from EWURA Act, Cap. 414 and the Electricity Act, Cap.131. The latter was established under the Mining Act 2010 as amended by Written Laws (Miscellaneous Amendment) Act 2017. Among other roles, the commission is tasked to supervise and regulate the implementation of the Mining Act. The key message from this discussion is the complexity of interfaces that businesses in such sectors will encounter.

It is however worth cautioning the reader of this report that we are unaware of a study that has systematically compared the regulatory environment in the mining and energy sectors (no. of regulatory bodies, instruments etc.) that would justify giving a value judgement of weather Tanzania is relatively better or worse on regulatory frameworks in the two sectors.

Cross cutting policies such as fiscal and monetary policies and the social (e.g. labour laws etc.) and environmental related policies also have influence on the business environment. Tax policy is among the most important cross cutting instruments, because taxes inflict deadweight losses by distorting private behaviour, and these losses rise sharply, for instance, as the tax rate rises (Bevan 2012). The recent focus of the Tanzania's fiscal policy features three main objectives: 1) achieving fiscal stability by controlling budget deficit 2) channelling more fiscal resources to investment spending, and 3) cutting incidences of waste, tax evasion, and abuse in the public sector.

The annual budget speeches play an important role as important components of the 'fiscal policy' as the they (speeches) outline the new and revised corporate and individual taxes within the framework of the existing tax laws. The new taxes are normally consolidated into annual Finance Acts purposely to enforce their application. The annual Finance Acts are enforced together with the existing tax laws such as the Tax Administration Act 2015, Income Tax Act Cap. 332 Revised Edition 2008, Value Added Tax Act, 2014, Stamp Duty Act Cap. 189, East African Community Customs Management (Amendment) Act, 2011, Tax Revenue Appeals Act Cap. 408 etc. The regulations associated with the Acts authorize the authorities to amend the tax rates for better carrying into effect of the principles, purposes and provisions of the Acts. It is worth mentioning that some of the sectorial Acts have established fiscal regimes particularly fiscal incentives that businesses operation in such sectors are eligible to apply.

Other important policy related areas that have implications on the business environment in Tanzania including the Government articulation of its focus on reforms ranging from revenue-enhancing measures (crack down on tax evasion), rationalization of expenditures including expenditure cuts to create fiscal space to scale up infrastructure investment in the public arena; improving the management financial resources including avoiding future domestic spending arrears, and better governance, particularly with respect to taking strong action on corruption (IMF 2018). Some of these measures have had positive outcomes including improved benefits accruing to Tanzania from the private sector investments; reduced distortions where unethical businesses used to gain advantages over other businesses by engaging in corrupt activities that resulted into unfair competition. Moreover, inflation has been contained and current account deficit declined. The misuse of public funds is perceived to be under control coupled with better allocation of resources based on available priorities.

However, the private sector and some of the members of parliament have raised concerns on the mechanisms used to deliver the verbal and written policy objectives. Concerns have ranged from the deteriorated perceptions and investors' confidence regarding the business climate which risks to drag on economic activity; slowdown in the growth of private sector credit growth; tight liquidity conditions; and uncertainty about the Government's economic strategy ranging from the uncertainty of whether it is the private or the public sector being considered as drivers of economic growth.

Moreover, some provision of the Government procurement policy and the public administration reforms in general, have increased the risks to private sector growth. Over the years, the private sector in Tanzania has been heavily relying on Government demand for goods and services, and policies that limit this demand risk to decrease private sector activity (URT 2017).

5.0 Overall Trends of BE in Tanzania

General Trends

The business environment in Tanzania as monitored by the World Bank's DB scores and rankings remains challenging and has continued to lag behind in a number of areas. Overall, the country is ranked 144th out of 190 countries in the latest DB 2019 (Figure 1). That global ranking is lower than comp[arable countries of Kenya (61), Rwanda (29), Zambia (87) and Uganda (127).

Since 2006, Tanzania's overall global ranking has fluctuated resembling a 'V' shaped trend (Figure 1). The country global rankings improved from 2007 (142nd position) to 2012 (127th position). In other word, the country moved 15 places in the global ranking of DB, with the 127th global ranking as a historical high for Tanzania. However, from 2013 the country fell 17 spots in the global ranking from 127th position (2012) to 144th position (2019).

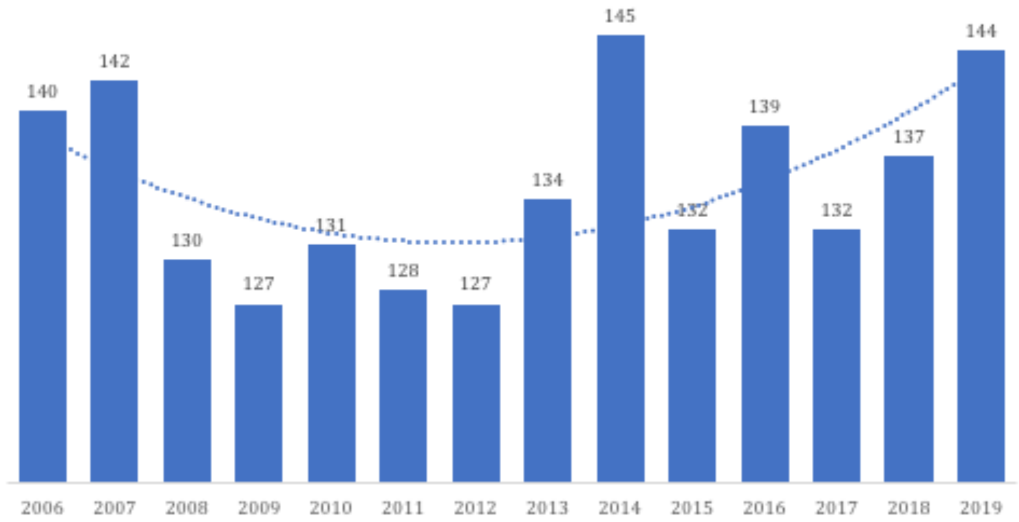
Irrespective of the shape of the Tanzania's trends in global ranking, the main issue is the fact that improvements in some regulatory areas were being offset by deterioration in other areas. This is reflected by significant variations on scores across the 9 DB criteria. While the country ranks 60th on 'getting credit' and 64th on 'enforcing contracts', it ranks 163rd on 'business registration' and 183rd on 'trading across borders'. Such huge variations are problematic for businesses. While it might be relatively easier to access credit, the same business will face constrained in business registration process. This will always discourage entrepreneurs from formal entry, with negative consequences for the economy including lower rates of formal employment and tax collection.[3]

Figure 2 shows that 'trading across borders' stands out as the most significant constraint to DB in Tanzania. It has the lowest score of 20 (out of a maximum of 100) among the other regulatory areas. In that area, Tanzania is ranked 183rd among 190 countries with only 7 countries in the world with less scores than Tanzania (Congo, Rep., Sudan, Cameroon, Venezuela, DRC, Yemen, and Eritrea). Figure 2 also shows that, in relative terms, 'getting electricity' and 'starting a business' are regulatory areas that are relatively easier than the rest of the other areas.

Studies conducted in Tanzania show significant potential to achieve productivity improvements through the development of a more conducive business climate. For instance, a benchmarking exercise reported by the World Bank (2016) shows that an increase in the proportion of firms with access to bank credit from 23 per cent (Tanzania's current level) to 60 per cent (corresponding to the median level in the enterprise survey) would increase the productivity of Tanzanian firms by 4.3 per cent (World bank 2016).

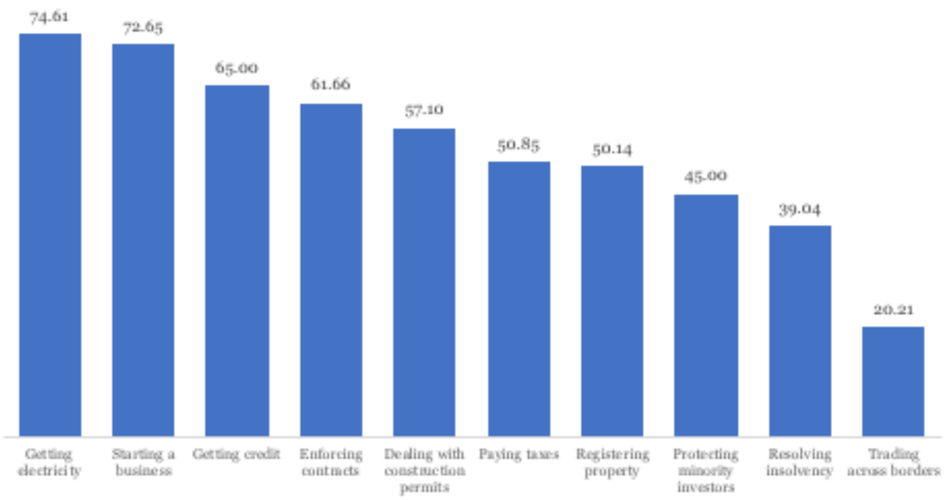
In section 5, this report highlights trends for each of the 9 regulatory areas; reforms that have been undertaken so far; key remaining challenges and way forward in terms of policy recommendations.

Figure 1: Tanzania DB ranking 2006-2019



Source: World Bank DB's dataset (2019)

Figure 2: Easier and difficult regulatory areas for DB



Source: World Bank DB's dataset (2019)

Figure 3 reveals the gaps (DB scores) between Tanzania and comparable regions across the different regulatory areas. Not surprisingly, large gaps (DB scores) exist between Tanzania and Organisation of Economic Cooperation and Development (OECD) high-income economies and East Asia and the Pacific. The gap between Tanzania and East African Cooperation (EAC) and Sub-Saharan African is small and varies between the different regulatory areas (Figure 3b). The gap between Tanzania and Sub-Saharan Africa (SSA) (in favour of SSA), for instance, is significantly wider in the regulatory areas of 'trading across borders' and 'starting a business' (Figure 3a). The average scores for the EAC region are also higher than Tanzania's (on the two regulatory areas). The area with the largest difference is trading across borders, where the gap between Tanzania and the SSA is 33 points (in favour of SSA). That implies, Tanzania has to catch up with the SSA when it comes to trading across borders and as well as starting a business. Although several initiatives have been launched to improve trading environment the sector is still characterized by multilevel state interventions that result in high transaction costs and segmented markets.

Tanzania is however performing better in the area of 'getting credit', 'enforcing contracts', 'resolving insolvency' and 'getting electricity'. For instance, the DB score for Tanzania in the area of 'getting electricity' stands at 75 against 49 for the SSA. In the same four criteria Tanzania performs better than the scores for the EAC region. Variations in DB scores between Tanzania and other regions present an opportunity for policy makers to learn from the experience of other countries – most of which share similar political and development experiences. Moreover, the observed variations indicate that improving the BE require a multi-pronged and multilevel state interventions approach, timely communication of government strategies as well as full involvement of all stakeholders, including importantly the private sector, in the design of policy reforms (IMF 2017).

Figure 3: The gap in DB score between Tanzania and the rest of the world

Fig. 3a: Gap between Tanzania and averages scores for SSA

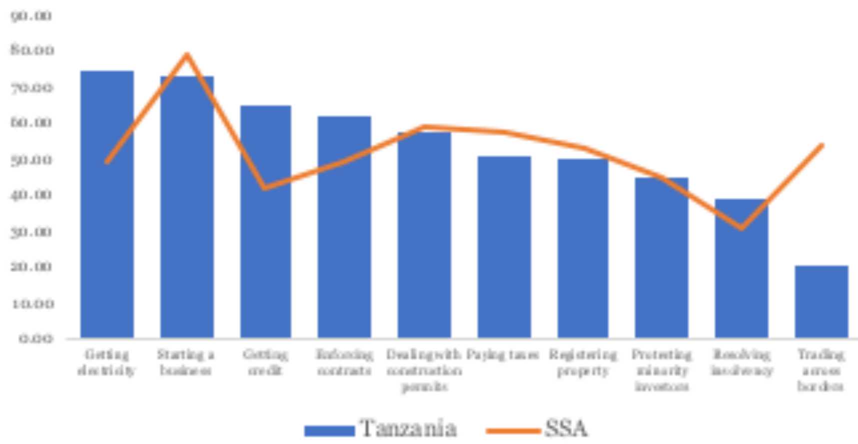
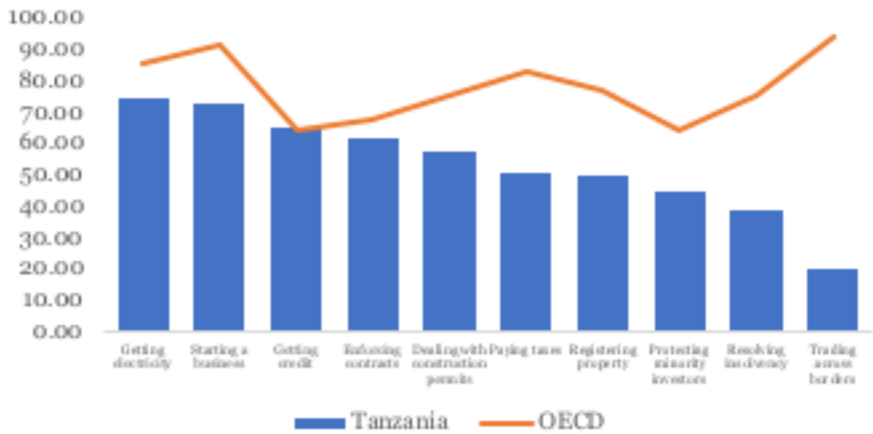


Fig. 3b: Gap between Tanzania and averages scores for EAC

Fig. 3c: Gap between Tanzania and East Asia and the Pacific

Fig. 3d: Gap between Tanzania and averages scores for OECD



Source: World Bank DB (2019)

5.1 Business Registration

5.1.1 Trends

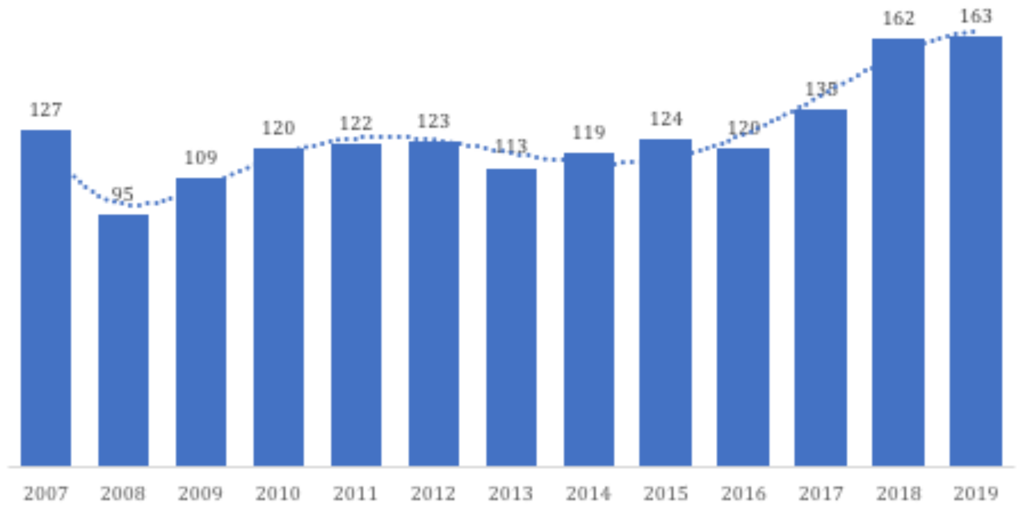
Good economic governance in business licensing is a fundamental pillar for the creation of a favourable BE. In the 'business registration' functional area, Tanzania slipped 68 places between DB 2007 and 2019, from its highest position in 2007 (ranked 95th globally), to 163 ranking in the DB 2019 (Figure 4). A business in Tanzania encounters more procedures (10) to register a business more than the SSA average of 7 days, and OECD high income countries average of 5 days. It only takes 1 procedure in New Zealand, the best regulatory performing country in the category of business registration.

A business in Tanzania also experiences more days and higher cost of registering a business than the regional averages. That cost is equivalent to 58 per cent of the income per capita (higher than 47 per cent in 2011) and much higher than the 44 per cent average for SSA, and the 3 per cent average for the OECD high income countries. The cost in New Zealand, the best regulatory performing country in the category of business registration is only 1 per cent of the income per capita.

Despite the landmark progress in introducing an online company registration system (World Bank 2014a), the online company registration procedures take about 0.5 day. The most time-consuming processes to register a business include: registering with the Occupational Safety and Health Authority (OSHA) (10 days); obtaining a social security registration number (7 days); applying for a business license (4 days). More efforts are needed to scale down the time costs of business registration a move that could incentivise informal businesses to formalise.

Relative to other regulatory areas, 'business registration' is easier than 'getting credit', 'dealing with construction permits', 'enforcing contracts', 'paying taxes', 'registering properties', and 'trading across borders' (see relative scores for each area in Figure 2). It is however a relatively challenging regulatory area for DB when compared to getting electricity (score of 73 versus a score of 75).

Figure 4: Trends in Tanzania's global ranking on 'business registration'



Source: World Bank DB's dataset (2019)

5.1.2 Recent Past and Current Reforms

In 2016, Tanzania made starting a business easier by launching an online company registration system including online name search (World Bank 2014a). The move was a follow up to the previous efforts where the company laws were updated following global good practices (World Bank 2011). Rather than modifying a few provisions, policy makers adopted entirely new company law – with comprehensive investor protection reforms.

The Business Licensing Act of 1972 which comprised 63 enactments administered by 54 institutions was also reviewed (URT and Danida 2009). The new Act had several advantages including reducing the number of licence categories. Starting a business in Tanzania was made further easier by eliminating the requirement for inspections by health, town and land officers as a prerequisite for a business license (World Bank 2012).

Fee schedules are also easily accessible through authorities' websites or through brochures or notice boards. The World Bank (2013) shows that Tanzania, a low-income economy, makes more information easily accessible than such high-income economies as Greece, Kuwait and the United Arab Emirates. The same report further reveals that low-income economies such as Burkina Faso and Tanzania show that a simple information outlet such as brochures can be an effective means of creating more transparency around regulatory information.

5.1.3 Key Challenges

Multiplicity of agencies and the unpredictable, uncertain and duplicative licenses fees and taxes is the key constraint and has been well elaborated in the literature. For example, in the tourism sector, the number of licenses, levies and fees can range from 10 for travel agencies, to 115 for air operators. This is inefficient and creates rent-seeking opportunities and reduces competition (World Bank 2015).

Some media reports show that to a large extent the public is aware of the processes of establishing companies and business names, but awareness on post registration activities is minimal particularly on timely filing of annual returns and proper filing of different changes undertaken by the companies in the lifetime of the companies. The same with creators, inventors and users of intellectual property assets (Kanyusi 2016).

Researches have shown that information of business licencing improve formality of business operations. Benhassine et al (2016), for instance, found that personalised visits to firms coupled with an explanation of benefits and assistance in filling out forms induced 9.6 per cent of informal firms to formalize. Another study by OECD (2017) also reveals that by adding supplementary services in the form of access to business training, bank accounts, and tax mediation services raises formality by 16.3 per cent (OECD 2017).

5.1.4 Forward Looking

Major distortions are created when new business development is largely informal. It is estimated that the informal sector accounts for some 70 per cent of employment and 58 per cent of gross national income while the MSME sector provides one third of GDP and employs 20 per cent of the labour force (URT and Danida 2009). To encourage "formality" and the formalization of the informal sector, efforts should be focused on tax reforms and other measures to facilitate business establishment, as well as training facilities and micro-credit access (UNCTAD 2002).

Recommendations emerging out of the URT (2017) include: 1) the need for carrying out detailed needs assessment in Ministries, Department and Agencies (MDAs) with regulatory roles to establish resources needed, skills and expertise gaps as a basis for building capacity initiatives 2) amend the existing laws to synchronize/allow interface between data systems of the agencies (e.g. Tanzania Revenue Authority (TRA), Business Registration and Licensing Agency (BRELA), Registration, Insolvency and Trusteeship Agency (RITA), National Identification Authority (NIDA), land administration, etc.) to reduce duplications in documentation requirements and multiple fees and also harmonize the procedure so that company registration is done by a single agency and other divisions (e.g. the labour division) are provided with relevant information for regulation purposes.

5.2 Dealing with Construction Permits

5.2.1 Trends

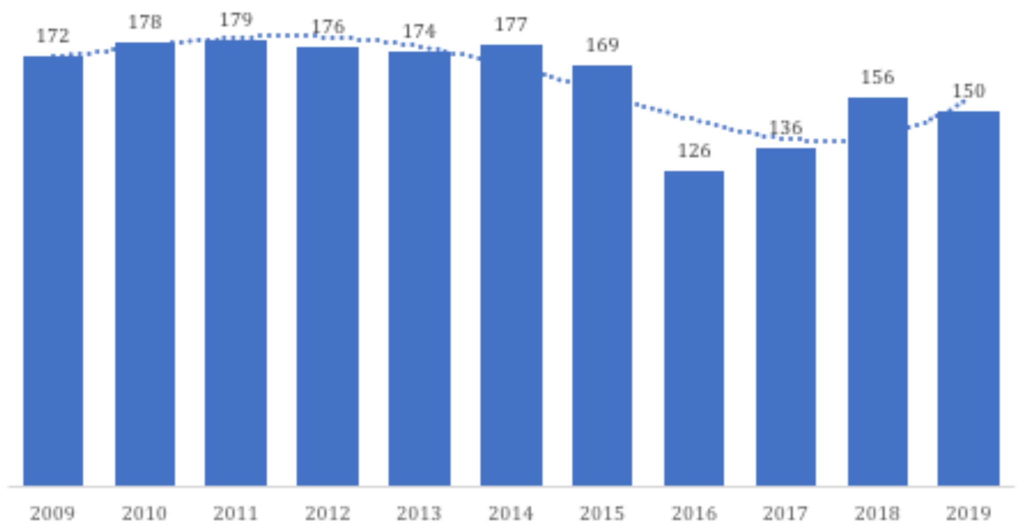
Since 2014, Tanzania's global ranking on 'dealing with construction permits' has been improving. The country was up 27 places, from 177 global ranking in 2014 to 150 rank by 2019 (Figure 5). The country's performance is largely driven by the declining number of days to process construction permits from 308 days (2011) to 184 days (2019) and improvements in the building quality control index (0-15) which stands at 12 in 2019, same as the average for the OECD high income countries.

Despite such attributes, Tanzania's performance is affected by increasing number of procedures to secure building permits from 21 (2011) to 24 (2019) and its weak performance against comparable regions. The 24 procedures a business must follow to legally build a warehouse in Tanzania is 9 procedures more than the SSA average of 25. It is close to twice the number of procedures instituted in the OECD high income countries (13 procedures). The cost of securing building permits in Tanzania which stands at 6 per cent of warehouse value is less than the averages for SSA (9 per cent) but far higher than that of the OECD high income countries (2 per cent). Authorities in Tanzania needs to understand that the in the context of construction permitting, simplicity and transparency are key in allowing businesses to expand and build new and safe infrastructure (World Bank 2019).

The most time-consuming processes associated with 'dealing with construction permits' include: requesting and obtaining building permit (38 days); submitting project brief and obtaining EIA certificate (30 days); obtaining project clearance from the fire department (11 days); and, obtaining location plan from city council - Ministry of Lands (7 days). It is worth noting that once the construction of the warehouse is completed, the entrepreneur will need to wait another 105 days and cash out 775 per cent of income per capita to obtain a connection to the electrical grid.

Dealing with construction permits is a relative easier regulatory area for DB than paying taxes, registering properties, resolving insolvency and trading across borders (see the scores in Figure 2). It is however a difficult regulatory area when compared to getting electricity, business registration, getting credit and enforcing contracts. The World Bank's DB reports presents several examples on where reforms on dealing with construction permits have worked. In Taiwan, for example, dealing with construction permits was made less time-consuming by improving the efficiency of the single window counter in the Taipei city construction management office. Another example, is Zimbabwe which made dealing with construction permits faster by adopting a one-stop shop for building plan approvals.

Figure 5: Trends in Tanzania's global ranking on 'dealing with construction permits'



Source: World Bank DB's dataset (2019)

5.2.2 Recent Past and Current Reforms

Tanzania has of recently streamlined its regulations related to dealing with construction permits by improving coordination among agencies and increasing the frequency of building permit council meetings to once a month (World Bank 2018). The recent Government directive for the municipalities to issue building permits on weekly basis further streamlined the country's construction permit approval processes.

The National Construction Council (NCC) continues to collaborate with the Tanzania Bureau of Standards (TBS) in developing standards associated with materials being used in the construction sector (URT 2017). According to the TBS, the mechanical engineering field alone has up to 280 standard specifications with others still being developed depending on the need arising in the construction industry (Daily News 2017).

Tanzania continued to be actively engaged with the Construction Sector Transparency Initiative (CoST) which works with governments, industry and local communities around the world to get better value from public infrastructure investment by increasing transparency and accountability. Through the CoST initiative, Tanzania participated in the assurance exercise in 2018 where three construction projects were evaluated. The initiative has also brought diverse actors together on a voluntary basis; and has implemented a national baseline study etc. (CoST undated; CoST 2018).

5.2.3 Key Challenges

According to the URT (2017), the BE in the construction sector is affected by multiple and uncoordinated regulatory agencies. Contractors have to interface with several sector regulatory agencies, including Contractors Registration Bureau (CRB), Engineers Registration Bureau (ERB), and Architects and Quantity Surveyors Registration Board (AQRB) which impose multiple charges for registration of individuals, businesses, and projects. The compliance process is costly to the private sector because the agencies have relatively weak Information Communication and Technology (ICT) system and there are few regional or district-based branches of such agencies (URT 2017). It is very costly for the individual professionals or firms (quantity surveyors and architects) in the sector to register.

Related challenge is the short validity of certificates, licenses and permits for engineers which causes unnecessary challenges (URT 2017). Moreover, the design of tax laws does not consider sector specific needs. An example, is the requirement to pay VAT at the point of issuing the invoice/certificate (before realizing the payment). Other constraints related to the tax regime are well detailed in the URT (2017).

In recent years, Tanzania made it mandatory for new projects to obtain a geological survey before construction. While the procedure is intended to enhance building safety, there are too few inspectors to match the demand (World Bank 2010). As a result, dealing with construction permits takes 20 days longer on average (World Bank 2010). Such constraints can be addressed through other sectors interventions, for instance, by investing in training expansion in the field of geological survey through the education system.

5.2.4 Forward Looking

Among the recommendations as outlined by URT (2017) are to introduce one regulatory body which can host CRB, ERB, and AQRB as departments in order to enhance coordination and improve efficiency. Other recommendations from the same literature include: revisiting the regulatory fees; enhancing the use of ICT and streamlining the requirement for physical appearance to agencies' branch offices or headquarter. The report also advocates for the amendment of the Architects and Quantity Surveyors (Registration) Act, 2010 and the Engineers Registration Act, No. 15 of 1997 (Cap 63) to address the concerns of the stakeholders.

With respect to the tax related issues, the URT (2017) advocates for: the harmonization of VAT administration including VAT credit clearance between the Mainland and Zanzibar; reviewing tax appeal requirements for which the appellant is required to deposit 1/3rd of the total tax in dispute; and reviewing the Income Tax Act, 2014 to repeal the penalties that are not in line with unpredictability of profits generated in the construction industry. Other specific recommendations necessary to advance BE for the construction industry are outlined in the same report.

5.3 Getting Electricity

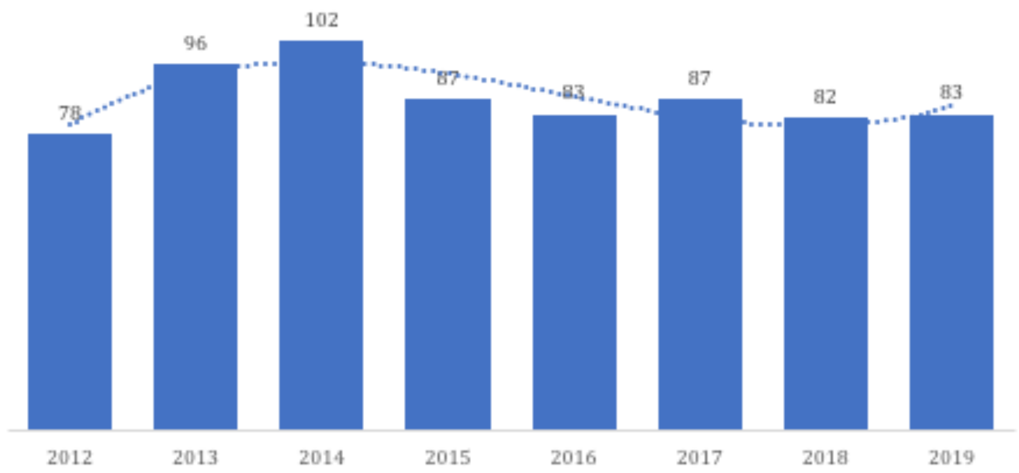
5.3.1 Trends

A reliable power supply is of particular importance for economic growth in industry and the service sector. Tanzania's global ranking on 'getting electricity' has been fluctuating over time. After deteriorating between 2012 and 2014, the country gained 19 places reaching 83th global ranking by 2019 from 102nd ranking in 2014. The number of procedures in Tanzania to obtain an electricity connection stands at 4 which is a relatively good performance against the average of 5 procedures for the SSA and OECD high income countries. The average number of procedures for best regulatory performing countries is 3.

Time required to complete each procedure in Tanzania is also less (105 days) than the SSA average of 113 days. The time is however far higher than the average of 77 days for the OECD high income countries and 18 days for the best regulatory performing countries. The cost required to complete each procedure (% of income per capita) is relatively lower (775 per cent) than the SSA average (3457 per cent). The most time-consuming factor is the purchase of transformer and carrying out external works which takes an average of 90 calendar days.

Getting electricity is the best performing indicator for Tanzania against the rest of the other regulatory areas of DB. with the score of 76 points (out of 100 points), getting electricity in Tanzania is relatively easier than business registration (score of 73 points), getting credit, dealing with construction permits, and enforcing contracts paying taxes, registering properties, resolving insolvency and trading across borders (score of 20 points). The World Bank's DB reports that, Tanzania together with Russia have been among the economies making the greatest progress toward the frontier in regulatory practice in getting electricity since 2009 by narrowing the gap with the regulatory systems of economies with the most efficient practices in connecting new customers.

Figure 6: Trends in Tanzania's global ranking on 'getting electricity'



Source: World Bank DB's dataset (2019)

5.3.2 Recent Past and Current Reforms

The Government continues to invest in rural electrification and erecting more power plants. The latter includes the Kinyerezi II which has of recently (April 2018) added Megawatts (MW) 168 to the national grid (URT 2018). The move will not only allow an expansion of electricity generation, but will also increase the share of gas-powered generation in Tanzania (about 40 per cent currently) and reduces costs to TANESCO as well (IMF 2017).

When it comes to processes, TANESCO has reduced the time to obtain an electricity connection to a maximum of 30 days through the tariff adjustment order 2016, which came in force on 1st April 2016 (IMF 2017). It is hopeful that the move will address the delays in connection which was estimated at 52 days against the averages of 34 days for SSA and 42 days for the low-income countries (World Bank 2014a). In addition, the Government has put in place guidelines titled 'The electricity (development of small power projects) rules, 2018, GN No. of 2018' for local and foreign investors intending to utilize the abundant renewable energy sources in Tanzania by investing in developing small power projects ranging from 100kW to 10 MW.

5.3.3 Key Challenges

As in many other sectors, development in the energy sector is constrained by multiple regulations and permits. The URT (2017) lists eight licenses that are issued under the Electricity Act, 2008. In most areas the applicants will be at the mercy of at least these two Acts (for urban area electrification), apart from a number of regulations. If it is rural electrification, EWURA Act and REA Act are involved. The Petroleum Act and EWURA Act will be involved if the issue is petroleum or gas. In addition to the multiplicity of regulations, stakeholders are also at the mercy of lengthy procedures when applying for electricity. The URT (2017) lists the procedures to include 1) submission of complete application for license 2) conducting site inspection 3) preparation of an evaluation report 4) completion of approval process by respective Boards 5) notification and collection of license.

Of recent years, as a result of increasing use of natural gas for power production and rehabilitation of power plants (Kidatu, Kihansi, Mtera and new Pangani and Ubungo II) electricity supply has become more reliable but remains insufficient compared to other countries. Tanzania has an installed generation capacity of only about 1,500 MW, or 0.033kW per capita. By comparison, South Africa and the United States have generation per capita of 0.85kW and 3.54 kW per capita, respectively (USAID undated).

Losses resulting from power cuts are on average higher in Tanzania. In 2012, firms in Tanzania lost on average 5.4 per cent of annual sales against a SSA average of 4.9 per cent and low income countries (World Bank 2014a). Furthermore, within Tanzania, there is a wide variation in the losses due to power outages by region with the higher percentage of losses in Mwanza and Dar es Salaam (World Bank 2014a). Businesses in Tanzania suffer high costs from an unreliable power supply due to the need to have their own back-up facilities and interruptions of production due to power outages (World Bank 2007).

5.3.4 Forward Looking

A number of recommendations emerged from the URT (2017). They include the need to put in place one-stop-centre, operated through an online system, where an entrepreneur can be attended by all the regulators and where permits can be processed and fees collected. Such efforts should be complemented by scaling down the number of permits by combining or removing some of them. The report also advocates for the charges to be stabilized for a longer period.

The ongoing financial assessment of TANESCO by Ernst & Young and the Controller and Audit General (CAG) needs to be accelerated to develop a comprehensive strategy to put TANESCO on a sustainable financial footing (IMF 2018). Such efforts will complement other efforts that include reducing TANESCO dependence on costly liquid fuel; detaching TANESCO from costly contracts that have resulted into large amount of arrears to the gas and electricity suppliers (reaching 0.8 per cent of GDP in early 2017). A financially sustainable TANESCO is critical and it will improve its credibility as an energy purchaser and facilitate the development of Tanzania's energy sector (IMF 2018). In addition to credibility, the ability to supply electricity at low tariffs will depend also on its operational efficiency and robust financial position.

5.4 Registering Property

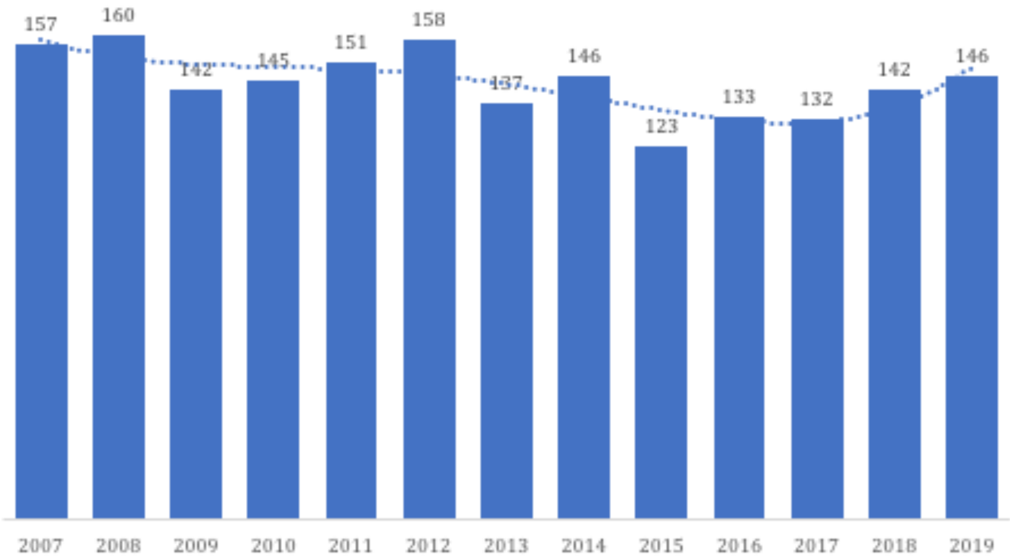
5.4.1 Trends

The ability to use assets including movable assets such as machinery or accounts receivable as security to generate capital for expansion is important for Small and Medium Enterprises (SMEs), which may not own land or buildings. Tanzania's global ranking on 'registering property' has been fluctuating but improving over time. After deteriorating between 2009 (142nd global ranking) and 2012 (158th ranking), the country gained 12 places thereafter reaching 146th position by 2019 (Figure 7). Rwanda, another low-income economy, ranks 2nd for registering property. In Tanzania the number of procedures to legally transfer title on immovable property stands at 8, a marginal decline from 9 procedures in 2011. Time required to complete each procedure has also declined from 73 calendar days (2019) to 67 calendar days (2019). However, the cost required to complete each procedure) has risen from 4.4 per cent of property value (2011) to 5.2 per cent (2019).

Against comparable regions, Tanzania is performing well in only one out of the four indicators. That one area is the cost required to complete each procedure which stands at 5.4 per cent of property value in Tanzania which is lower than the SSA average of 8 per cent. It is however higher than the 4 per cent average for the OECD higher income countries. The cost is zero for Saudi Arabia, the best regulatory performing country in that category. Tanzania needs to reduce the number of procedures to legally transfer title on immovable property. The current average of 8 procedures is higher than the average of 6 and 5 procedures for SSA and OECD higher income countries. Improvement is also necessary in the areas of time required to complete each procedure and the quality of land administration index (0-30). In the latter, Tanzania is below the averages for SSA and OECD countries.

Registering property is a relative easier regulatory area for DB than trading across borders. It is however a difficult regulatory endeavour when compared to getting electricity, business registration, getting credit, enforcing contracts, paying taxes, and registering properties (see Figure 2 for comparative scores for each of the regulatory areas for DB). A number of literatures reveals a strong association between property rights and investment, access to finance, productivity and economic growth (World Bank 2019).[4] Tanzania can learn from other countries which have significantly improved property registration regimes. Djibouti, for instance, has introduced strict deadlines for registering property sale agreements with the tax authority, digitizing its land registry, and adopted a new civil procedure code that regulates voluntary conciliation, mediation proceedings and case management techniques, including time standards for key court events.

Figure 7: Trends in Tanzania's global ranking on 'registering property'



Source: World Bank DB's dataset (2019)

5.4.2 Recent Past and Current Reforms

The Government has reduced the time to issue title deeds for investors within 30 days if he/she has fulfilled all the requirements. The ministry of land has also improved electronic systems of delivering land services where the time for the verification of title deeds and other registered documents has declined from 7 to 3 days (URT 2018a). Estimation for rental amount for titled land is now generated electronically with the option of payment through mobile phones. A customer services centre to facilitate land transactions was set up in 2014, providing complete and accurate information on property transfer procedures, services available, and the fee structure (IMF 2017). The IMF report further states that since July 2015, this is being done using a digital format to improve transparency.

As a result of such reforms, the World Bank DB 2007 reported that by 2006, three of the most difficult countries in the area of property registration in 2004, that is Côte d'Ivoire, Nigeria and Tanzania were among the top reformers.

Moreover, the government supported the implementation of the Land Act 1999 and the Village Land Act, 1999 through enactment of several legislations and building the institutional capacity for implementation, including: rehabilitation and modernization of district land registries and establishment of Village Land Registries etc. (GoT and Danida 2008).

5.4.3 Key Challenges

Only 1 in 10 properties is officially registered in Tanzania (World Bank 2006), with only 3 per cent of adult Tanzanians have a title deed (URT, BoT, NBS, OCGS and FSDT 2017). Research in Tanzania has evidenced that land ownership documents increase the market value of land substantially. One reason appears to be that well-documented private property rights facilitate the use of land as collateral for loans and therefore eases access to credit (Aikaeli and Markussen 2017).

With low proportion of titled land, another challenge is the process of acquiring land in urban areas which is a long one as it includes planning, surveying, compensation of the residents and application and issuance of title deeds (Mganga 2014). There are limited literature that cover regulatory regimes on property registration. The ones available, for example, the World Bank (2018) reports that Tanzania made registering property more expensive by increasing the land and property registration fee. We however, did not find a benchmark that would allow us to issue a value judgement on whether the increase was good or bad for BE.

5.4.4 Forward Looking

The Government needs to heavily invest in town planning including the titling of land and allocation of land for investments related to industries, business centres etc. There are indications that the Government has an ambition intention in this area – aiming at ensuring that every piece of land is properly planned, surveyed and titled. If achieved, the move will reduce land conflicts, substantiality raises Government revenue; increases the use of land as collateral which should in turn raise access to debt financing (URT 2018a).

5.5 Getting Credit

5.5.1 Trends

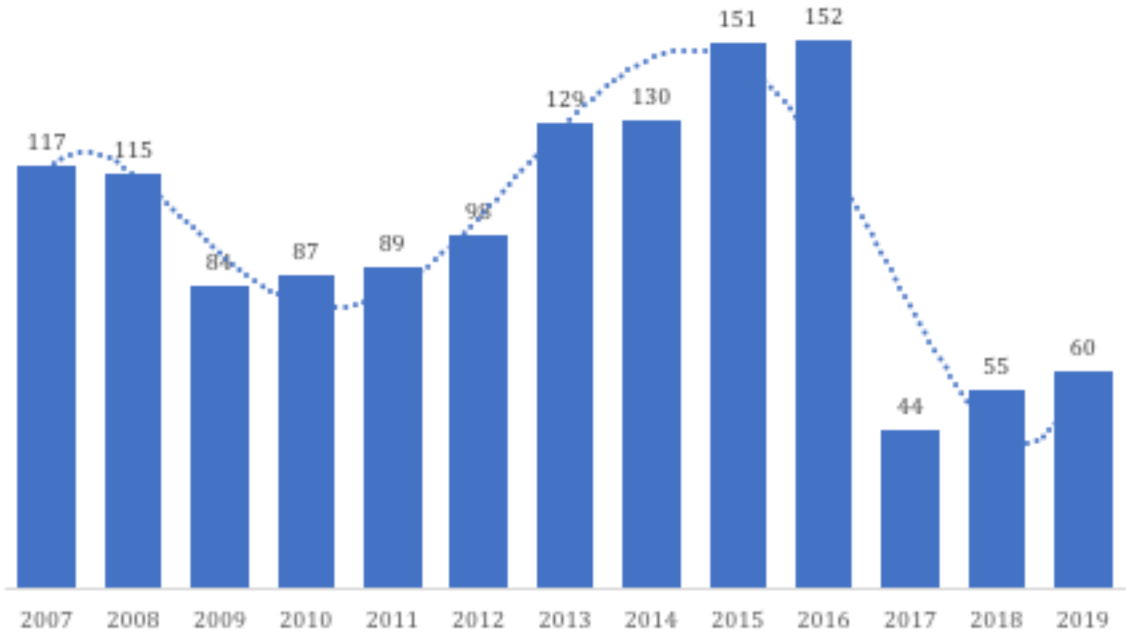
Tanzania has significantly jumped in its global ranking on getting credit indicator. The country which used to rank 152nd globally in 2016, moved up 94 places to 60th position in 2019 (Figure 8). This progress is mostly driven by the depth of credit information index where Tanzania attained the maximum score of 8 far above the SSA average scores of 3 and 7 for the OECD high income countries. Also, the score for Tanzania in the strength of legal rights index (0-12) which stands at 5 is the same as the average for SSA. The score is however marginally lower than the average score of 6 for OECD high income countries. It is far lower than the score of 12 for the best regulatory performing countries in the same category.

Credit bureau coverage (percentage of adults) in Tanzania remains a challenging aspect, as the credit bureau system is relatively new (the first credit bureau was issued with a license in 2012). Only 6 per cent of the adult population are covered by the bureaus, the proportion that is lower than the SSA average of 9 per cent and 65 per cent for the OECD high income countries. The absolute number of individuals and firms covered by the bureaus in Tanzania is 1,729,761 and 58,055 respectively. The coverage rate of 6 per cent in Tanzania is significantly lower than the 100 per cent coverage rate in the 25-best regulatory performing countries.

It is far easier to access credit in Tanzania than in many other regulatory areas of DB including trading across borders, enforcing contracts paying taxes, registering properties and registering property (see Figure 2 for the relative scores for each of the regulatory area). It is only the regulatory areas of 'getting electricity' and 'starting a business' (scores of 75 and 73 respectively) which had DB scores higher than scores for 'getting credit' (score of 65).

Reforms in other countries that improved their respective scores and rankings on 'getting credit' functional area include Turkey where banks are now sharing credit information with telecommunications companies. Others are Azerbaijan; Belgium, Djibouti; Egypt; Turkey; United Arab Emirates (UAE), Egypt that have introduced new laws to broaden the scope of assets which can be used as collateral to secure loans. Afghanistan has introduced a new law that grants secured creditors absolute priority over other claims within insolvency proceedings.

Figure 8: Trends in Tanzania's global ranking on 'getting credit'



Source: World Bank DB's dataset (2019)

5.5.2 Recent Past and Current Reforms

BoT has improved the guidelines for financial markets by issuance of new Social Security Investment Guidelines of 2015, the Banking and Financial Institutions (Mortgage Finance) Regulations, 2015, the Foreign Exchange (Bureau de Change) Regulations, 2015; and the Electronic Money Issuance Regulations 2015 (licensing of banks and non-banks and electronic money issuers). The new laws and regulations have closed some of the regulatory gaps and strengthened the legal and regulatory framework, while taking on board new developments in the sector (IMF 2016a). The pension fund investment guidelines are expected to facilitate the channelling of pension funds' resources into longer term lending through commercial banks.

Credit bureau regulations have been released and licenses issued to 2 credit bureaus at the end of 2012 (World Bank 2014). Credit bureaus are considered to have reduced information asymmetries between lenders and borrowers, thereby improving the ability of the banks to allocate risk efficiently. The Bureaus have increased their coverage from about 5 per cent of the adult population in 2015 to 6.9 per cent as of June 2016 mainly due to increased coverage of credit-providing entities other than banks such as the higher education students loan board (IMF 2017).

5.5.3 Key Challenges

Access to finance remains difficult. The use of bank financing by firms in Tanzania is still limited by international standards - mainly due to the high transaction costs involved in administering small loans (World Bank 2014). According to the 2013 World Bank Enterprise Survey (World Bank 2014), access to finance was considered the most significant constraint by more than 40 per cent of small businesses responding to the survey, followed at a distance by 25 per cent who identified access to electricity as the most significant constraint.

However, the proportion of firms that use banks to finance investment is higher in Tanzania than in other low-income countries but lower compared to the global average of 25 per cent. In 2012, around 17 per cent of firms had a loan or a line of credit from a bank compared to the averages of 20 per cent for low income economies and 34 per cent for all countries with World Bank's enterprise survey dataset. On the deposit side, fewer firms in Tanzania had a checking or saving account in 2012 (74 per cent) compared to 2006 (86 per cent) (World Bank 2014).

5.5.4 Forward Looking

Enhancing the access to finance requires 1) policies that foster saving 2) monetary and fiscal policies that support growth in credit to the private sector; and 3) policies that advance the financial sector. The Government needs to enhance complementary efforts that include: strengthening the legal and judicial framework supporting lending; deepen the regulatory, information and technology infrastructure for households and micro enterprises, and encouraging long-term pension and insurance funds to finance longer-term private investments (World Bank 2007).

5.6 Taxation

5.6.1 Trends

According to the DB 2019, a business in Tanzania is subjected to 60 different taxes and contributions a year. The number is nearly twice the SSA average of 37 taxes and contributions, and more than 4 times the average in OECD high income (11 taxes and contributions). Thea annual number of taxes and contributions is 20 times as high as in Hong Kong, the best regulatory performing country in the category of number of tax and contributions per year. The 60 different taxes and contributions is an increase from the 48 number of taxes and contributions reported in the DB 2011 and DB 2014.

The time cost of paying taxes is also relatively high. As reported in the DB 2019, a business in Tanzania spends 207 hours to comply with 3 major taxes. Reference is made to processes associated with collecting information, computing tax payable, completing tax return, filing with agencies and arranging payment or withholding. It is an increase from 176 and 172 hours reported in the DB 2014 and DB 2011 respectively. The time 'cost' of tax payments in Tanzania is 48 hours more than the experience in the OECD high income countries (159 hours) and 158 hours more than Singapore (49 hours). Singapore is the best regulatory performer in the area of time spent to comply with 3 major taxes. The 207 hours being spent on paying taxes in Tanzania is however lower than the SSA average of 281 hours.

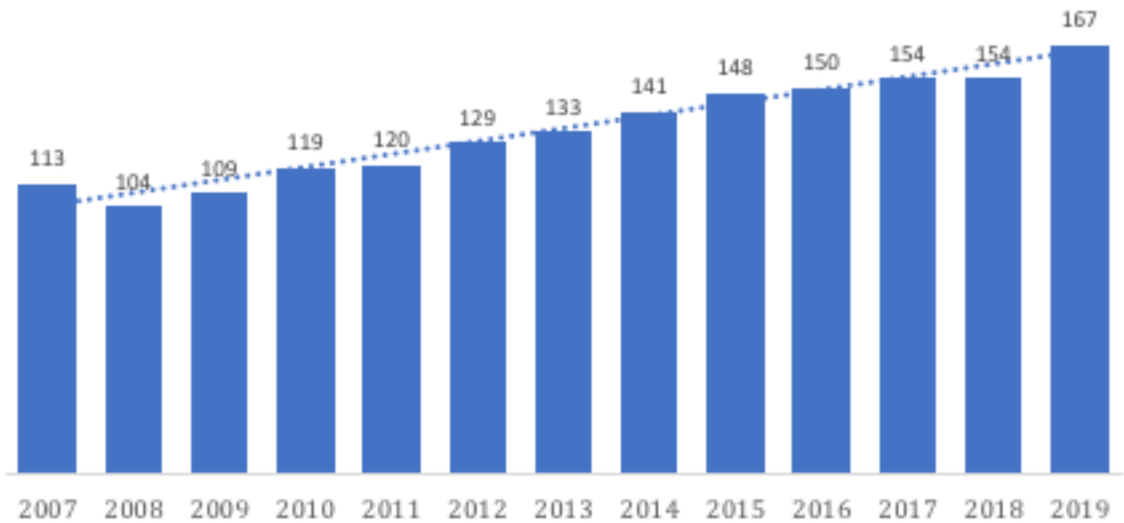
Best performing countries (such as Singapore) in the category of 'amount of time being spent on tax payments' have shown that it is possible to make paying taxes faster and easier for businesses. This includes measures to consolidate filings, reduce the frequency of payments, and offer electronic filing and payment (World Bank 2014). The same World Bank report indicates that evidences exist that some of the economies that have simplified tax payment and reducing rates have seen tax revenue rise.

The financial cost of obliging to tax payments is also relatively high in Tanzania. As reported by DB 2019, in Tanzania, the total amount of taxes and contributions that a business pay takes up 44 per cent of profit. Much has not changed over time, as the rate in DB 2019 is slightly less than 45 recorded in the DB 2011 and DB 2014. The rate is nearly twice the 26 per cent in the 32 best regulatory performance countries.

The financial cost of obliging to tax payment is also a regional challenge as the SSA average which stands at 46.8 per cent. The taxes and contributions referred to in this discussion include: profit or corporate income tax, social contributions (e.g. labour taxes paid by employer), property and property transfer taxes, dividend, capital gains, financial transactions taxes, and waste collection, vehicle, road and other taxes.

The relative high time and financial costs of paying taxes (and other indicators as well), Tanzania's overall ranking in the category of 'paying taxes' has been deteriorating since 2008. Whereas the country was ranked 104 out of 178 countries in 'paying taxes' category in 2008, it lost 63 places by ranking 167th out of 190 countries in the DB 2019 (Figure 9). The declining trend is also reflected by the easy of DB scores for the 'paying taxes' category – where the score for Tanzania fell from 59 in DB 2015 to 51 in the DB 2019.

Figure 9: Easy of DB score: Tanzania global ranking (paying tax category)



Source: World Bank DB's dataset (2019)

Figure 10: Easy of DB scores for Tanzania: paying tax category

Source: World Bank DB's dataset (2019)

5.6.2 Recent Past and Current Reforms

Reforming the tax system has been an ongoing process either through institutional reforms (e.g. the establishment of TRA, and review of tax laws) internal programmatic approach (e.g. the modernisation of tax administration) or through the national budget process (adjustment of tax rates). The income tax law 2004 has broadened the tax base, closed some of the loopholes and introduced taxpayer self-assessments (World Bank 2006). In Tanzania income taxes contributes to more than 40 per cent of total gross tax revenues which is above the average for low income countries, divided between corporate and individual taxation (World Bank 2015. Other refinements went to other tax laws, for example, for operational efficiency of the VAT system following the enactment of the New VAT Act in July 2014 (TRA 2015).

Some attempts have been made to revise individual tax rates as a response to sustained complaints and pleading by the national business associations. Efforts ranged from reduced rate of skill and development levy (World Bank 2015), indexation of the excise duty rate on non-petroleum products (cigarettes, beer, soft drinks and water) to the rate of inflation (Confederation of Tanzania Industries (CTI) 2018) (for the other revised tax rates see the CTI's publications in 2017, 2016; and 2015)). The indexation of the excise duty rate to the rate of inflation, for instance, has improved predictability of the yearly increase of the excise duty rate (CTI 2018). The business community are however frustrated that most of their tax proposals during pre-budget interactions with the Government are ignored (CTI 2013).

Internal programmatic reforms have involved rolling out the Integrated Domestic Revenue Administration System (IDRAS); enhanced electronic services (e-filling, e-payments, mobile payment); introduction of Tanzania Customs Integrated System (TANCIS) for customs operations (facilitating trade and reduce clearance time at ports); implementing One-Stop Border Post (OSBP) operations (TRA 2015; 2016; 2017). Other initiatives with implications to the BE included the streamlined audit and investigation process to improve efficiency through elimination of overlapping activities (TRA 2015).

5.6.3 Key Challenges

Complains on tax rates and processes in Tanzania are not uncommon. In 2006, three-quarters of businesses interviewed in Tanzania complained that taxes and their administration are a severe obstacle (World Bank 2006). The same complains re-emerged in the 2013 annual Tanzania business leaders' perception survey (BEST-AC and Irwin Grayson Associates 2013). BE constraints associated with the tax regime in Tanzania can be grouped into 5 main domains:

Fragmentation of the tax system: The taxes, levies and fee rates are several and differ from one institution to another resulting into high transaction costs of engaging with regulatory entities. The tourism operators for instance are subjected to more than 20 taxes and fees including VAT, income tax, municipal service levies, employers' contributions, and safety inspection fees (World Bank 2015). It is also reported that, the problem of numerous and nuisance taxes that were abolished some years back, are being re-imposed by both the central and local authorities (CTI 2013). The complexity of the system translates into numerous inspections and visits by tax inspectors and collectors, which are time consuming and provide opportunities for corruption and the underreporting of collected revenues (World Bank 2015).

Tax evasion: In the tourism sector, for example, only 5 hotels account for about one quarter of the estimated sector's overall fiscal revenue of US$185 million per year (World Bank DP 2006). This means that other tourism operators are either paying much less in taxes and fees, or the amount collected is not included in official records (World Bank DP 2006). The Government has taken robust actions to uncover substantial tax evasion. However, there are increased private sector concerns about heavy-handed and arbitrary enforcement of rules, increasing uncertainty, and negatively affecting private investment.

High level of the informal sector: The VAT is very difficult to apply fairly when almost 90 per cent of businesses operate in the informal sector (even though many of them remain below the VAT threshold, and so are subject to a presumptive tax on small businesses) (World Bank 2015). An example is the animal feed industry where the raw materials for animal feed production are subject to VAT while small scale domestic processors do not have input VAT because they buy from small-scale farmers, who do not charge VAT (URT 2017). Another commonly reported concern by the private sector is the delay or non-payment of the VAT refunds (IMF 2018).

Limited public and business knowledge on the tax regime: The 2013 Afro barometer found that 72 per cent of respondents in Tanzania find it difficult to know which taxes and fees they are supposed to pay (World Bank 2015). The income tax includes several rates, multiple deductions, and complicated rules that are not easy to understand for the standard Tanzanian taxpayer. The same complexity also exists in the application of import duties, as valuation methods leave room for interpretation and bargaining (World Bank 2015). The unclear and uncertain tax system also creates barriers to entry for new and small investors, who cannot survive in the current BE (World Bank 2015).

Frequent amendments of tax legislations: Views from stakeholders as reported by URT (2017) are that frequent amendments for different and at times conflicting motives (e.g. revenue enhancement against investment and growth motives, and at times by interest groups) have introduced substantial weaknesses in the tax laws and tax administration leading to inconsistency in policy application and interpretation, intent and applications. The challenge is mostly common during the reading of the Government annual budget and the subsequent Finance Acts.

5.6.4 Forward Looking

The private sector has always called for rationalisation and harmonisation of the several levies and fees by various central and local authorities (CTI 2018 website). Rationalisation should also involve the review of legal and operational status of regulatory agencies with the aim of creating robust entities capable of operationalization of the regulatory roles in order to eliminate the need multiplicity of agencies (URT 2017).

Tax administration reforms need to be accelerated and given the same level of prioritisation as the objective of meeting tax collection targets. IMF (2016a) reports that the Tax Administration Diagnostic Assessment Tool (TADAT) has identified a number of weaknesses, in particular around in voluntary tax compliance, the integrity of the taxpayer register, the IT system and its oversight, the assessment and management of institutional risks, the processing of taxpayer accounting transactions, audit case selection, the VAT refund process and its financing, and performance monitoring practices as among the key areas to be prioritised by the ongoing reforms. Others include: the need to build a comprehensive taxpayer communication strategy; as well as simplifying presumptive taxpayer scheme.

There is also a need for the reforms and any future reforms to institute credible and independent monitoring systems that focused on outcomes. Reforms need to translate not only into increased revenue to the Government but also into reduced transaction costs for businesses when dealing with local and central Government revenue authorities. If this balance is not attained, the reforms might be less relevant and will fail in contributing to the ultimate national high-level development goals of economic growth, poverty reduction for all Tanzanians.

5.7 Trading Across Borders

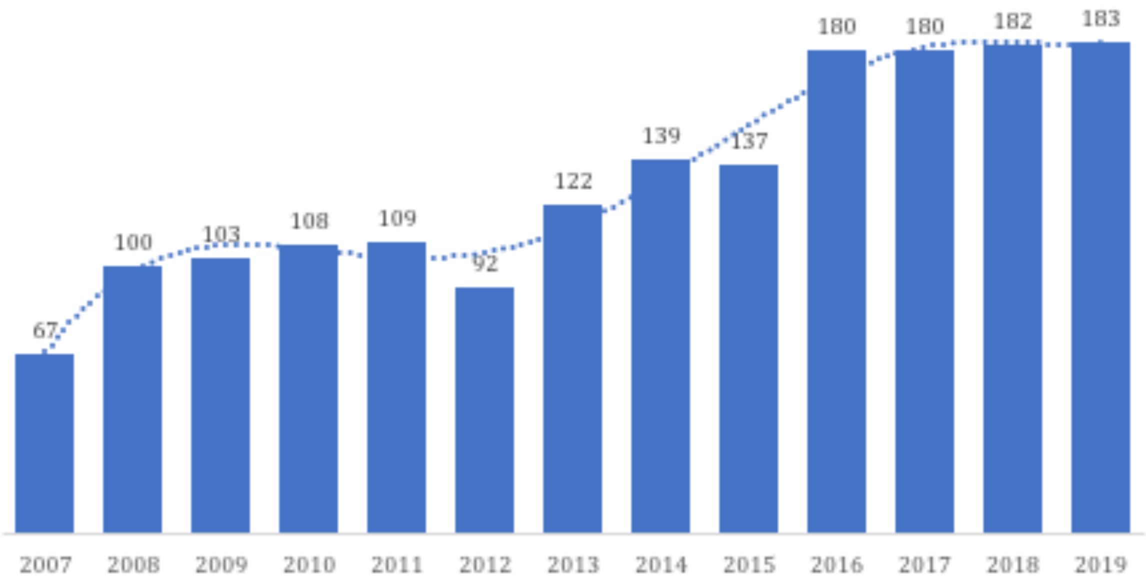
5.7.1 Trends

Tanzania benefits from its strategic maritime location. Across the world, coastal economies have been found to be likely to see faster economic growth than landlocked economies because for them accessing global markets is faster and transports cost lower, which in turn attracts investment (Gallup, Sachs, and Mellinger 1999 and Collier and O'Connell 2008).[5]

Tanzania ranking in the regulatory category of trading across borders is deteriorating - from ranking 67th globally in 2007 to 183rd in 2019. (Figure 11). The trends show serious threats to the marginal progress the private sector was making in accessing external markets. The proportion of firms exporting increased from 5 percent (2006) to 14 per cent (2012) (World Bank 2014). Nevertheless, higher share of firms in Tanzania are using inputs of foreign origin increasing from 48 per cent (2006) to 63 per cent (2012) (World Bank 2014).

Time to export: The DB 2019 'DB' shows that it takes 96 hours for an exporter to comply with 'border' rules. Whereas the time spent is similar to the SSA average of 97 hours, it is significantly higher than the average of 13 hours in the OECD high income countries and far higher than the time of 1 hour for the 19 best regulatory performers. It also takes 96 hours for 'documentary' compliance when exporting, the time that is more than 20 hours the average in SSA (73 hours) and around

Figure 11: Easy of DB score: Tanzania global ranking (trading across borders)



Source: World Bank DB's dataset (2019)

50 times higher than the average for the OECD high-income countries. It takes only 1 hour in the 26 best regulatory performing countries for exporters from such countries to comply with documentary requirements before exporting.

Cost of exporting: To export a single container, the border compliance costs US$ 1,160 in the DB 2019 as in the DB 2016. The cost is far higher than the SSA average of US$ 606 and US$ 139 in the OECD high income countries. It costs nothing (US$ O) in the best regulatory performing countries. In the DB 2019, documentary compliance to export a single container cost US$ 275 against the SSA average of US$ 169 and US$ 35 for the OECD high income countries.

Time to import: The DB 2019 shows that it takes 402 hours for an importer to comply with border rules (border compliance category). The time spent to import is more than 3 times higher than the SSA average of 126 hours, and more than 300 hours the experience in the OECD high income countries (9 hours). It is 0 hour for the 25 economies that were deemed best regulatory performers in that category. To comply with documentary requirement (documentary compliance category), an importer in Tanzania spend 240 hours, the time that is more than twice the the SSA average (98 hours) and close to 100 times the time in the OECD high-income countries (3 hours). It takes only 1 hour of an importer's time in the 30 best regulatory performing countries for importers in such countries to comply with documentary requirements.

Cost of importing: The DB 2019 'DB' shows the border compliance for importing costs a business in Tanzania US$ 1,350 for a single container twice the SSA average of US$ 684 and more than 10 times the US$ 100 that cost an importer in the OECD high income countries. Documentary compliance costs of an importer is US$ 375 in Tanzania against the average of US$ 284 for the SSA region. The same process costs only US$ 23 in the OECD high income countries. It is US$ 0 for the best performing countries.

Trading across borders is Tanzania's weakest regulatory area in the DB 2019, whether measured relative to other countries (183rd out of 190 countries) or relative to the SSA regional average (20/54) or relative to the best performer in Africa (20/87). These data indicate that Tanzania does not take advantage of its relatively good geographical location. Landlocked Rwanda have lower documentary compliance costs for exports than the case with Tanzania (DTIS 2017).

5.7.2 Recent Past and Current Reforms

As part of the customs modernization initiative and interagency cooperation at the ports, the Government introduced the electronic Single Window System (eSWS) for payments to regulatory agencies at the Dar es Salaam port (URT 2017). The port of Dar es Salaam handles an estimated 90 per cent of the Tanzania's cargo traffic. In addition, Tanzania made trading across borders easier by upgrading infrastructure at the port of Dar es Salaam. The World Bank (2015) reported that new cranes, a conveyor belt and anchorage tankers at the port of Dar es Salaam have helped reduce berthing, unloading time and congestion. The reduction in the time required for port and terminal handling activities benefits not only traders in Tanzania but also those in the landlocked economies of Burundi and Rwanda that use the port (World Bank 2015). Because of these reforms, in 2007 Tanzania together with Ghana rank among the top 10 reformers in World Bank DB.

Improved border cooperation, Pre-Arrival Declaration (PAD) system, risk-based inspections at customs and electronic submission of customs declaration have been among the landmark reforms on the trade facilitation component over the last few years. In addition to removing the VAT on transit goods (The Citizen 2018), Tanzania reduced border compliance time by having staff from the Rwanda Revenue Authority and the TRA at the Rusomo one-stop border post, as part of the implementation of the single customs territory initiative (World Bank 2019). All these reforms were in addition to the Government decision for the port of Dar es Salaam to continue operations for 24 hours daily.

5.7.3 Key Challenges

Despite the improvements, the private sector still complains on inefficient port and border/ customs clearance operations that are increasing the time and trade costs associated with international transactions. An example is the risk management approach where even compliant containers are being physically inspected causing delays in the port. TradeMark (2018) reports that the average dwell time at the Dar es Salaam port in 2013 was 9.94 days, 7.74 days in 2014, 3.58 days in 2015, 3.73 days in 2016 and 5.58 days in 2017 – with the last two years missing the target of 5 days dwelling time. Haulage trucks that use the Dar es Salaam port to ferry goods on transit to other countries in the regions have also raised complains on unnecessary logistical delays and bureaucracy with clearance services.

The behaviour of some of the unethical businesses negatively affects BE in Tanzania. The example is prevalent tendency of under declaration of value of imported goods. URT (2017) reports that such tendency makes it difficult for local industries to compete effectively on the market. The Tanzania Oil and Soap Manufacturers Association, for instance, noted that the dumping of under declared products has made it difficult for their members to compete in the market due to loss of revenue and loss of employees (URT 2017). Related issue is the growing trade in counterfeit and pirated goods resulting into increasing loss of market share and turnover for trade mark owners (CTI 2017a). Between 2010 and 2016 over 1,151 containers containing counterfeit products were seized by the Fair Competition Commission (FCC) (CTI 2017a).

Unpredictability of policy decisions on agricultural trade is another popular feature in the DB literature. Reference is made to the ban on exporting food crops and import permits which make the policy regime unpredictable to investors, ordinary farmers, small-scale agro-traders and large-scale agro-processors. The inability to sell in neighbouring markets suppresses the income of large number of smallholders who are prevented from obtaining higher price (DTIS 2017).

Another commonly reported challenge is the multiplicity of regulatory agencies and export taxes. The URT (2017) gives good examples in the Tanzania meat industry which faces several regulatory constraints by being subjected to onerous regimes of filling forms and processing permissions across multiple and often conflicting legal instruments of multiple ministries and other official bodies (URT 2017). The same with the licensing and registration of the clearing and forwarding agents by TRA and Surface and Marine Transport Regulatory Authority (SUMATRA). Other challenges include: unnecessary delays between lodging for and actual issuance of debit notes by the TBS from URT (2017)). These challenges make Tanzania's ports, especially the Dar es Salaam port less competitive compared to those in the neighbouring countries like Mombasa and Beira (URT 2017). See the DTIS (2017) and URT (2017) for the discussion of other constraints affecting the trading sector.

5.7.4 Forward Looking

Diversification in exports and in domestic production is conducive to economic growth, as well as associated with lower output volatility and greater macroeconomic stability (Agosin et al, 2012). Policies in Tanzania need to address domestic supply constraints associated with disproportionately higher transaction costs of trading being faced by businesses. The URT (2017), for example, calls for authorities to treat regulations as an integral part of trade policy, competitiveness, protection of consumers and safeguarding the public goods. In other words, the report calls for the regulatory framework to be engineered to serve as an instrument of trade policy.

The URT (2017) and World Bank (2017) identify specific reforms necessary to improve BE for import and export businesses. Reference is made to the need for harmonisation of roles and functions of regulatory agencies; standardize LGAs by laws governing the use of roads; formulate a one-stop-shop (preferably an online system) where the relevant businesses can "meet" all regulators, process the required permits and do the total payment at one place; remove both physical (e.g. infrastructure) and institutional barriers (nontariff barriers). For the one stop payment, the experience of Tanzania Ports Authority (TPA) can be used. Nevertheless, addressing challenges at the Dar es Salaam port should not only aim at supporting local importers and exporters but also attract regional transit flows, where Tanzania compete with other coastal neighbours (ports of Nacala - Mozambique), Beira - Mozambique), and Durban - South Africa, for Zambian and Democratic Republic of Congo (DRC) traffic and with Mombasa - Kenya for containers to Rwanda and Burundi. Unstable tax regimes for transit goods not only risks to divert transit cargo to competing ports, but also to affect businesses that supports transit cargo (e.g. trucks).

5.8 Enforcing Contracts

5.8.1 Trends

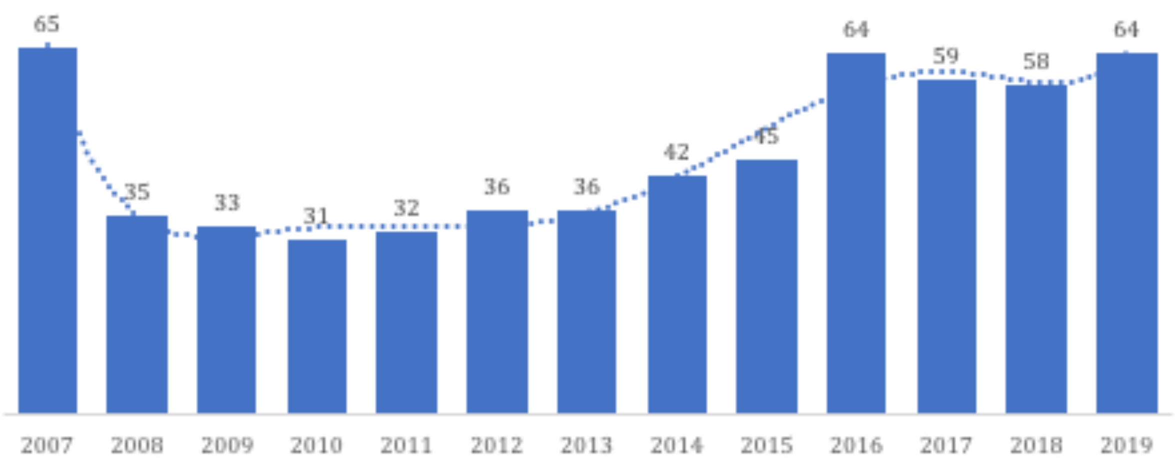
After improving 10 places between 2007 and 2015 (from 35th to 45th global ranking), the Tanzania's ranking has declined to 64th by 2019 (Figure 12). Tanzania needs to improve on the time required to enforce a contract through the courts and the quality of judicial processes if it wants to advance the efficiency of the contracts enforcement system. In 2019, a business spends 515 calendar days to enforce a contract through the courts, an increase from the 462 calendar days in DB 2011. In doing so the business will incur a financial cost equivalent to 14 per cent of the claim. The estimated cost has remained unchanged from the DB report of 2011. The quality of judicial processes index is also a concern with Tanzania scoring 6 out of the maximum score of 18.

When benchmarking Tanzania against comparable regions, the country performs better in the time required to enforce a contract through the courts where the 515 calendar days for Tanzania is lower than the SSA average of 655 calendar days. Also, the cost required to enforce a contract through the courts (14 per cent of the claim) is significantly lower than the SSA average of 42 per cent and the OECD high income countries average of 21 per cent. The difference with the OECD countries is mainly due to the lower attorney fees in Tanzania relatively to, for instance, in the OECD high income countries. In Tanzania, the attorney fee is estimated at 10 per cent of the claim value. It is 35 per cent in the United Kingdom, an OECD high income country. The score of 6 on the quality of judicial processes index (0-18) is close to the SSA average of 7 but far below the score of 11 for the OECD high income countries.

It is far easier to enforce contracts in Tanzania than in many other regulatory areas of DB including trading across borders, paying taxes, registering properties and registering property (Figure 2). It is only the regulatory areas of getting electricity, starting a business and getting credit which had DB scores (75, 73 and 65) higher than scores the score of 62 for enforcing contracts (Figure 2).

Several countries made it easier to enforce contracts by amending the civil procedure rules to introduce a pre-trial conference as part of the case management techniques used in court (Kyrgyz Republic, Slovenia, Sri Lanka and Ukraine). Other countries such as Denmark, Madagascar and Puerto Rico have introduced electronic case management systems. Saudi Arabia, Canada, Chile, Denmark, Puerto Rico (U.S.) and Saudi Arabia have introduced electronic filing systems for commercial cases, allowing attorneys to submit the initial summons online.

Figure 12: Easy of DB score: Tanzania global ranking (enforcing contracts)



Source: World Bank DB's dataset (2019)

5.8.2 Recent Past and Current Reforms

Landmark reform included the introduction of commercial division of the high court in 1999. The outreach of the court has been expanded to Arusha and now to Mwanza. The court also introduced an electronic case management system, and digitized court procedures to enhance the transparency and efficiency of the judiciary in 2014. Recent efforts also included fast-tracking land disputes, with the aim of settling disputes within 6 months of the first hearing (IMF 2017).

As recent as February 2019, the Government launched the mobile court services to operate in Dar es Salaam and Mwanza regions, the move that is expected to improve delivery of judicial services in primary courts. The primary courts in Tanzania received 177,614 criminal and civil cases in 2018, equivalent to 64 per cent of all cases filed in the country's judicial system (Kolumbia 2019). Computerization of courts including the establishment of electronic JSAS, the system that facilitates registration of cases has eliminated the need for concerned individuals to physically travel to open a case in the high court offices (Juma 2019). Computerization will have many other benefits, such as improving the quality of research by judges and coordination of judiciary activities. According to data collected for DB 2014, Rwanda and Tanzania are top performers in Sub-Saharan Africa in the ease of enforcing contracts ranking.

In 2017, Tanzania enacted the Legal Aid Act 2017 to guide effective access to justice for all, including the poor and vulnerable (Tanzania Network of Legal Aid Providers 2018). Tanzania has also made resolving insolvency easier through new rules clearly specifying the professional requirements and remuneration for insolvency practitioners, promoting reorganization proceedings and streamlining insolvency proceedings (World Bank 2014).

5.8.3 Key Challenges

Delays and unnecessary procedures tie up an estimated US$464 million a year in the court system in Tanzania (World Bank 2017c). The paper by Makaramba (2015) outlines other challenges associated with the judiciary system in Tanzania, ranging from use of English in the high and appeal courts with the majority of the laws available in the English language while majority of the litigants in our courts are not conversant in the language; to lack of adequate legal representation particularly for poor litigants. Other challenges include the system being largely urban based, which make access to justice for the majority of our people limited. In some areas, there are no court houses which make litigants travel long distances in search of justice, a problem which is compounded further with lack of adequate funds for judicial development activities particularly in the construction of new court houses and maintaining existing ones. A total of 12 regions out of 26 regions do not have high courts, implying that an estimated 25 million Tanzanians have no access to the high court (World Bank 2017c).

5.8.4 Forward Looking

There are many needs, from rolling out the commercial courts to regions coupled with capacity building and infrastructure development; introduction of alternative dispute resolutions training programs; to the introduction of an integrated ICT strategy and modernisation of the courts' registries (Russ undated). Nevertheless, a reforming Government undertaking legal and regulatory reforms must be supported by a well-resourced Ministry of Justice and Constitutional Affairs and by a cadre of well-trained and motivated Government lawyers to undertake and underwrite new laws and policies (Russ undated).

Resources for the Law Reform Commission needs improvements including timely release of funds to adequately expedite reforms. Such support will enhance the ability of the Commission to attract and retain qualified law research officers, and to undertake public campaign to improve the public awareness of the reform processes. Improved sectoral coordination in the reform process is also a priority area for the Government to look at if reforms are to be expedited (URT 2012).

5.9 Labour Market

5.9.1 Trends

The World Bank's DB reports no longer present rankings of economies on these indicators or include the topic in the aggregate ease of doing business score or ranking on the ease of doing business.

5.9.2 Recent Past and Current Reforms

Major and holistic reforms of the labour laws were carried out in early 2000 and today the labour market is liberalised from the state managed system to a labour market based on bi- and tri-partism. The employers are represented by the Association of Tanzania Employers (ATE) and the workers and trade union movement being represented by the Trade Union Congress of Tanzania (TUCTA). Both have a role in determining employment conditions and settling disputes (URT and Danida 2009). The public labour market institutions (for the example, the labour court and the commission for mediation and arbitration) that emerged out of the reforms have received capacity development support.

Tanzania is currently implementing the National Skills Development Strategy (NSDS) 2016-2027 with a vision of having skilled competitive Tanzanian workforce capable of affectively fostering inclusive and sustainable socio-economic growth. The NSDS is the first comprehensive skills development strategy for Tanzania that focuses on entrancement of skills development through targeted set of interventions at both system and service delivery levels, addressing both formal and informal sector skills need at all levels of education and training.

The strategy thus covers the entire chain of skills for employability, from informal and alternative approaches to formal skills development; including apprenticeships; entrepreneurship; preemployment vocational and technical education and training; university education; and postemployment upgrading of skills in the form of lifelong learning.

5.9.3 Key Challenges

The overarching challenge in the labour market in Tanzania is the underdeveloped skilled labour force. The World Bank (2014) reports that on average, Tanzanians complete only seven years of any formal education, with only 12 per cent of the population having completed secondary education. Furthermore, small business owners in Tanzania are generally younger and less educated than average, with most of these owners under the age of 35. They also possess limited property (80 per cent have no rental or property rights on the premises from which they operate) and few assets (only 1.2 per cent own motor vehicles; 0.5 per cent own computers; 0.3 per cent own machinery; and 17.3 per cent own any office equipment). The World Bank's report further shows that the low level of education among business owners is not compensated for through the hiring of skilled employees. Indeed, only ten percent of firms employ workers other than members of the owner's household.

Another World Bank report in 2016 separated the challenges at the system, and at the service provider level. Major system-level challenges include: 1) lack of coordination of skills policies and initiatives at national and sector levels 2) weak capacity for quality assurance 3) low public-private sector cooperation in the governance and delivery of training programs 4) lack of an information system on skills supply and demand to inform policy planning and training provision 5) low effectiveness and efficiency of skills development funding. At the service provider level, key challenges include: 1) few skills development opportunities with limited equity 2) low quality and relevance of skills development programs. These challenges result in inefficiencies, training mismatches, insufficiently skilled graduates, and poor labour market outcomes (World Bank 2016).

5.9.4 Forward Looking

Human resource issues are increasingly becoming a crucial element of BE as private sector including foreign investments expand. The private sector needs to be well integrated into the decision-making processes for human resource development policies and programs to capture their needs. Nevertheless, with the expansion of the informal sector (between 2006 and 2014, about 2.7 million of the 3.4 million jobs created were in the informal sector), focusing on the skills needs of the formal sector alone will not be sufficient to achieve Tanzania's development goals and provide pathways to sustainable livelihoods for youth (World Bank 2016).

Various reports have specified ideas to advance the knowledge and skills sub-sector. The World Bank report (2007), for instance, calls for reforming the teaching methods and curriculum at all levels to include skills and competencies (communication skills, problem-solving skills, creativity, and teamwork) to meet the new needs of the private sector led economy. The report further suggests the need to harmonize the technical education offered in secondary schools with that offered in technical colleges and then linking these schools with zonal and regional institutes and colleges. Nevertheless, these institutes and colleges should offer differentiated products to meet the differing needs of industries, such as mining, fisheries, major cash and food crops, external trade, and metal (World Bank 2007).

6.0 Competitiveness of the Tanzania Economy

This section uses data from the GCI[6] to assess Tanzania's competitiveness relative to benchmarking countries. Tanzania is benchmarked against 11 countries and the criteria used to identify these countries follows the approach by URT (2016). The first group of benchmarking countries are neighbouring countries that shares the same geographical advantages and have similar geographical structures; the second group of countries are immediate competitors that have similar factor endowments, and specialise in the same sectors as Tanzania. Future competitors are countries that are likely to pose a competitive threat in sectors of comparative and competitive advantages to Tanzania. The last group of benchmarking countries are role models (see Table 1)

The GCI combines 114 indicators that are grouped into 12 pillars of institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. The index gives scores on all indicators on a 1–7 scale and thereafter ranks countries across all the indicators and pillars.

Table 1: Benchmarking countries

Neighbouring countries	Malawi, Mozambique, Zambia
Immediate competitors	Kenya, Uganda and Rwanda
Future competitors	Ghana, Ethiopia, Mozambique
Role models	South Africa, Malaysia, Brazil

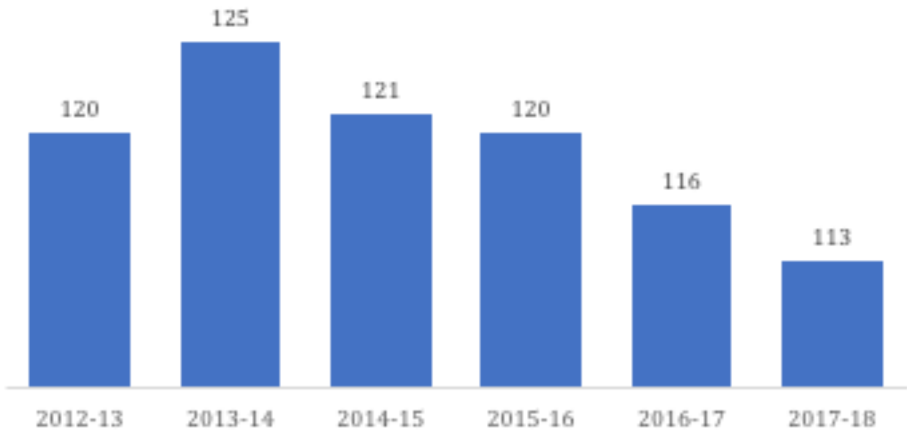
Source: URT (2016)

Tanzania's overall global ranking has been improved over time. The country was ranked 125th globally 2013-14 improved 12 places by 2017-18 to a 113th position (Figure 13). This trend was a reverse to a poor trend between 2007-08 and 2013-14 where the country fell 21 places from 104th to 125th globally. The improvement in the overall Tanzania's global ranking was helped by improvements from 9 out of the 12 criteria (Figure 14). Between 2013-14 and 2017-18, the largest improvement was on macroeconomic environment (up 57 places), institutions (up 27 places) and infrastructures (up 20 places). This was a period the country heavily invested in infrastructure development and of recent years on reducing inefficiencies and waste in service delivery by public institutions. It is however worth highlighting that, the macroeconomic environment though an important part of the enabling BE, it is no longer a competitive advantage as most countries have significantly improved management of their macroeconomic environment as well.

The improvement in the Tanzania's ranking under the criteria of 'institution' is notable through the areas of 'public trust in politicians' (up 32 places), 'corruption' (up 32 places) and 'transparency of Government policy making' (up 19 places).

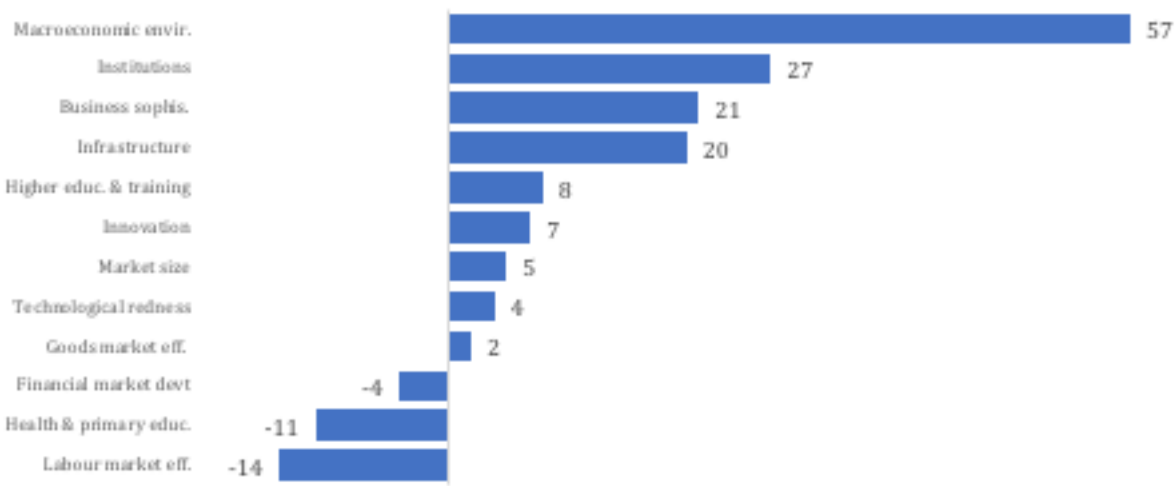
However, Tanzania's rankings deteriorated under the criteria of 'labour markets', 'financial markets' and 'technological readiness'. The latter, for instance, require urgent policy interventions for the economy to benefit from the pace and disruptiveness of technological change that are creating unprecedented opportunities. A key challenge of the disruptiveness of technological change is how to unlock its potential in a way that benefits society as a whole given that they can profoundly reshape the national distributions of income and opportunities and lead to significant structural transformations (Schwab 2018). In other words, policies are needed to ensure that technological revolution do not accelerate income inequalities as has been the case in the advanced economies.

Figure 13: Tanzania overall ranking in the GCI



Source: Schwab (2018)

Figure 14: Changes in rankings between 2013-14 and 2017-18



Source: World Economic Forum's dataset (2019)

Figure 15a-15l benchmark Tanzania's competitiveness with that of countries listed in Table 1. The first important finding is the uneven scores for Tanzania across the different competitiveness criteria. Whereas the country is currently performing relatively well on 'microeconomic environment' with a score of 4.6 (out of a maximum score of 7) it underperforms on infrastructure (score of 2.8). Scores for other criteria varies as well. GCI scores also show that that the state of the country's 'technological redness' and 'higher education and training' undermine its competitiveness. Both criteria have the lowest score of 2.6 among the 11 GCI criteria. The implementation of the recently launched NSDS is critical in enhancing Tanzania's competitiveness and preparing the country for the challenges of the fourth industrial revolution. Uneven performance is also reflected by the Tanzania's rankings across the different competitiveness criteria. The country ranks 74th globally out of 144 countries on macroeconomic environment. It is however 114th and 125th globally when it comes to infrastructure and health and primary education.

Figure 15a-15c compare the scores for Tanzania against its 'immediate' competitors (Kenya, Uganda and Rwanda). The country tops its immediate competitors in only the macroeconomic environment and has been outperformed by Kenya and Rwanda in most of the other criteria. Among the areas that have maintained Tanzania good macroeconomic environment is the declining headline inflation rate that, in recent years has reached below the 5 per cent (Bank of Tanzania 2019).

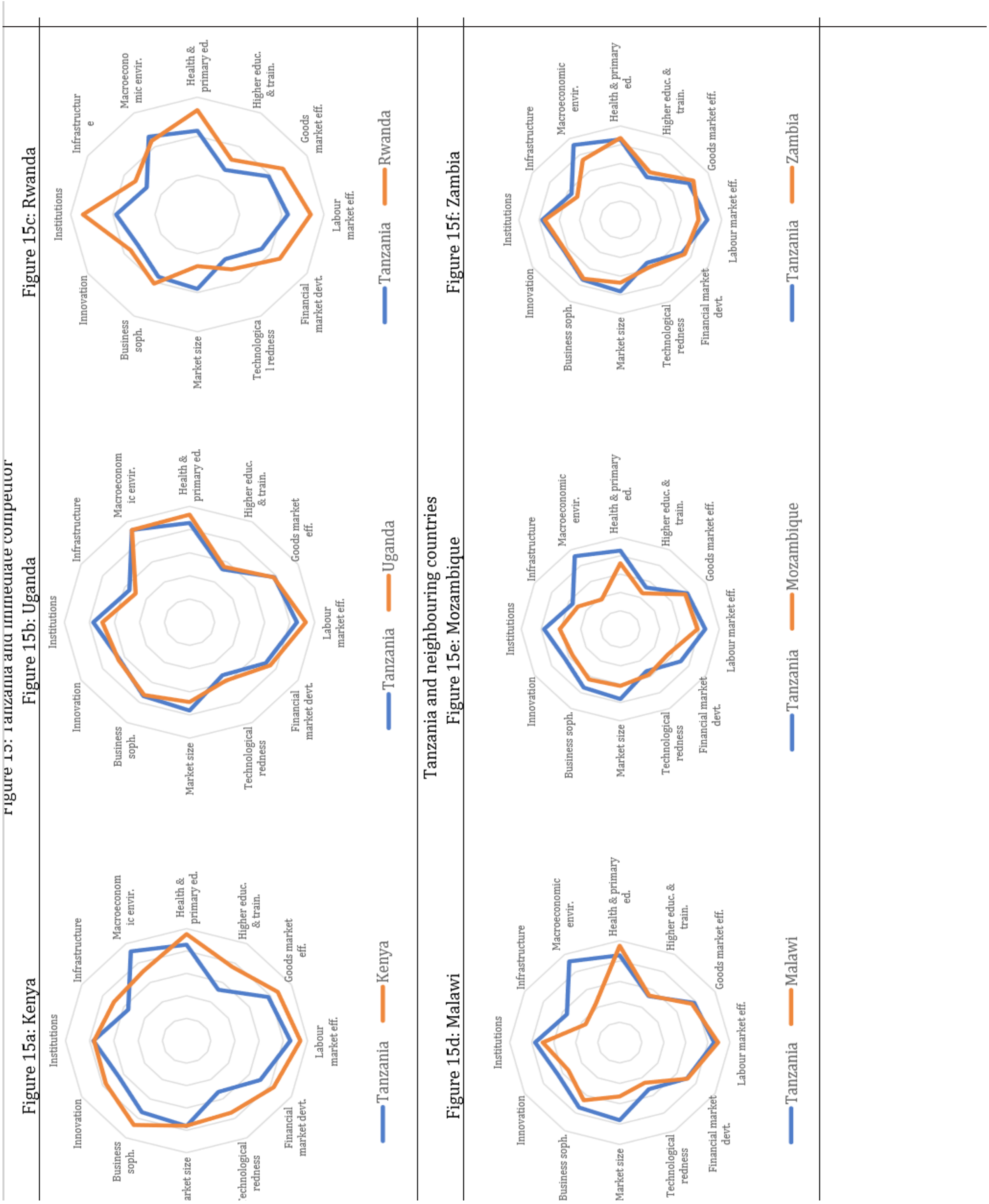
It is only Uganda that has similar scores to Tanzania across the GCI criteria. Tanzania remains behind Kenya in technological readiness, higher education and training, innovation, business sophistication, and financial market development. It is the case of labour market efficiency, health and primary education, technological readiness, innovation and institutions for the case of Rwanda. In fact, technological readiness is the most challenging domain for Tanzania, whether you compare Tanzania's competitiveness with its immediate competitors, and its neighbours such as Mozambique and Zambia.

Technological readiness includes availability of latest technologies, firm-level technology absorption, ICT use, internet users, mobile telephone subscriptions, etc. In 2015 the 2016 United Nations Development Programme's (UNDP) human development report shows that the percentage of Kenyan population using internet was 45.6 which is close to 10 times that of Tanzania (5.4 per cent). The internet penetration rate in Tanzania is also far below the 20 per cent average for Africa (World Economic Forum 2017).

Labour market efficiency is an area where Tanzania is on equal footing with all comparable countries whether immediate competitors, neighbours, role models and future competitors. Its score of 4.5 out of 7 is similar that of 4.7 for Kenya and Malaysia and higher than 4.3 and 3.9 scores for Ghana and Brazil. Gains in labour market efficiency are the outcome of major labour laws reforms in the early 2000 where important legislations were introduced including the Employment and Labour Relations Act (ELRA) of 2004 and Labour Institutions Act (LIA) of 2004. The former was further reformed in areas related to child labour prohibition, employment standards, and trade union matters. The LIA was also improved in 2017 in areas associated with appointment of members to the: i) labour, economic and social council, ii) the commission for mediation and arbitration, and iii) wage boards. The amended Act also improved processes associated with the wage board consultation and wage order review.

The overall competitiveness of Tanzania remains below the role model countries much more for the case of Malaysia and South Africa than Brazil. The country lags significantly behind South Africa, for instance, in infrastructure, higher education and training, good market efficiency, institution, technological readiness, market size, financial development, and the innovation ecosystem (Figure 15g). The quality of higher education and training is crucial for economies that want to move up the value chain beyond simple production processes and products (World Economic Forum 2018). Tanzania needs therefore to pay more attention to such areas if it has to achieve the level of competitiveness of its role models. Against future competitors, weak links continue to include the technological readiness (ranking 122nd against Ghana's 93rd), along with aspects of good market efficiency (116th against Ghana's 71st), judicial independence (86th against Ghana's 86th), and burden of government regulations (60th against Ghana's 49th). Some of these aspects remain the most problematic factors for DB.

Figure 15: Tanzania and immediate competitor



Tanzania and role models

Figure 15g: South Africa

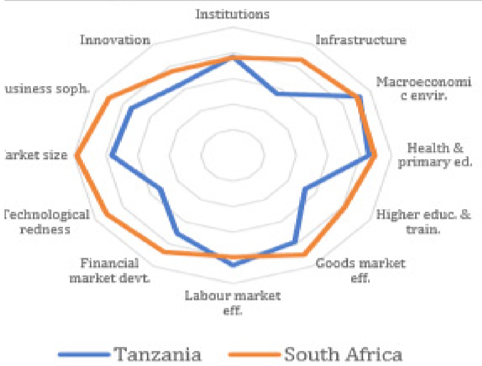


Figure 15h: Malaysia

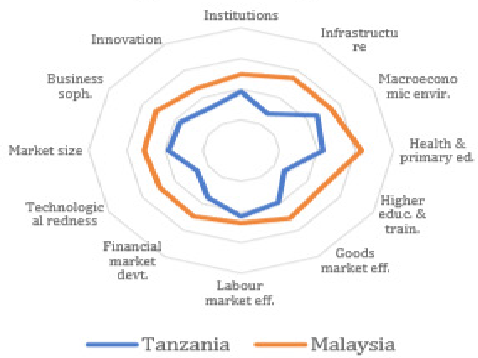
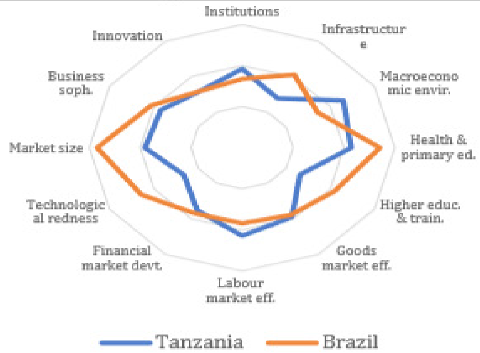


Figure 15i: Brazil



Tanzania and future competitors

Figure 15j: Ethiopia

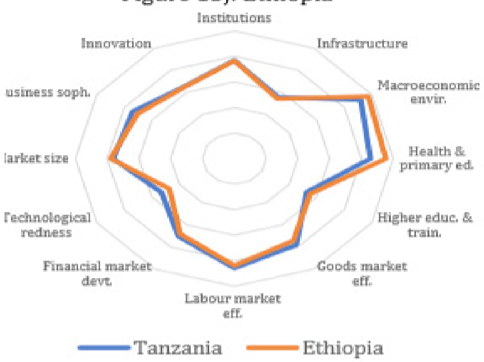


Figure 15k: Mozambique

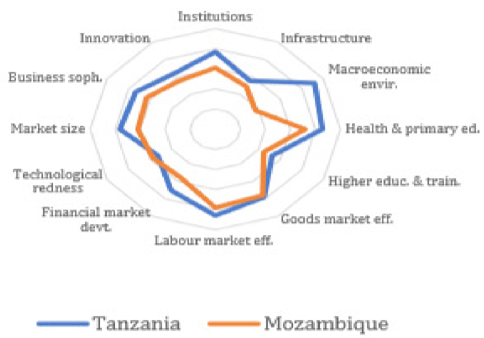
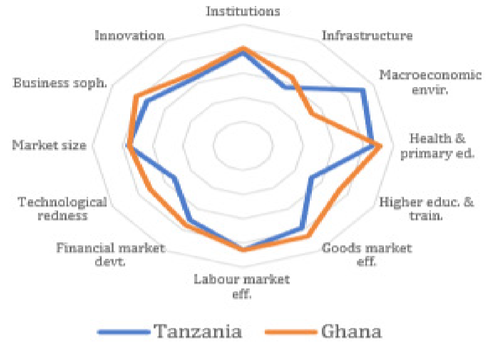


Figure 15l: Ghana



Source: World Economic Forum (2018)

7.0 Conclusion

Using data from the World Bank's DB, this report has highlighted the current status of BE in Tanzania. In addition, the report has also highlighted the recent past and some of the ongoing reforms that aim at improving the environment to which businesses operate in Tanzania. In addition, the report has highlighted key challenges and a way forward by identifying policy areas that require further attention.

What emerged from the discussion on key challenges and a way forward is that the main roadblock remains slow progress in the implementation of policy prescriptions some of which are well articulated in the Government's 'blueprint for regulatory reforms to improve the BE' (URT 2017). One of the main advantages of the blueprint is the acknowledgement that key constraints that businesses face varies according to the type of business, and sector of activity. As a result, the blueprint has therefore structured its recommendations as per the distinct needs of different businesses and/or sectors. In addition to making several references to the blueprint, our report reinforces the urgency of accelerating reform processes to ensure better prospects for both the current and the next generation. Equally important is the need for meaningful, inclusive and timely consultation with stakeholders as a fundamental element of any effective BE reform. Such consultations and other transparency measures can help build business confidence and goodwill, as well as constituencies for successful and sustainable reforms.

It is worth noting that among the best practices in undertaking local BE reforms is the needs to avoid reforms in isolated areas. The reason behind this argument is the interdependence nature of different areas of DB. For example, financial and trade related reforms have been found to be more effective in developing economies with sound property rights. This evidence suggests that sufficiently reformed property rights is a precondition for reaping the growth benefits of reforming financial and trade related regulations (citing studies by Aragón 2015; Christiansen, Schindler and Tressel 2013).[7]

In addition to the need for holistic approach to BE reform, the importance of testing how regulations emerging out of reforms performs is equally important. Therefore, tools such as the Regulatory Impact Assessment (RIA) needs to be well integrated as part of policy monitoring and reforms quality assurance. Its effectiveness will depend on how widely it is understood, accepted, institutionalized and enforced as a standard requirement. The tool will alert the Government on areas where it should pay more attention to, as well as potential unintended consequences of regulatory regime on the BE.

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Annex

Annex 1: Institutional websites

Business environment-specific institutions and web portals:

World Bank's doing business: www.doingbusiness.org

Donor Committee for Enterprise Development: www.enterprise-development.org

World Bank page on Tanzania: www.worldbank.org/en/country/tanzania

Umbrella national business organisations/associations:

Confederation of Tanzania Industries (CTI): www.cti.co.tz

Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA): www.tccia.com

The Tanzania Private Sector Foundation (TPSF): www.tpsftz.org

Research institutions and research networks:

REPOA: www.repoa.or.tz

Economic and Social Research Foundation (ESRF): www.esrftz.org

Government websites:

Ministry of Industry and Trade: www.mit.go.tz

Tanzania Investment Centre: www.tic.co.tz

End note

1 *These are basically sociological factors related to general society and social relations that affect your business. Social factors include social movements, such as environmental movements, as well as changes in fashion and consumer preferences. For example, clothing fashions change with the season, and there is a current trend towards green construction and organic foods (Hans 2018).*

2 *https://www.madini.go.tz/act-policy-and-useful-doc/*

3 *See such discussion in the World Bank DB reports.*

4 *Citing Berkowitz, Lin and Ma (2015); Mitton (2016).*

5 *Cited in World Bank (2017).*

6 *GCI defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of an economy, which in turn sets the level of prosperity that the economy can achieve.*

7 *Cited in the World Bank (2019).*

REPOA
157 Mgombani Street Regent Estate,
P.O. Box 33223, Dar es Salaam, Tanzania.
Tel: +255 (22) 270 0083 / +255 (22) 277 2556
Fax: +255 (22) 277 5738
Mobile: +255 (0)78 455 5655

repoa@repoa.or.tz | www.repoa.or.tz