



Business Climate Survey of Nordic Companies in Tanzania

2022 - 2023

Research Report 2023/01



Norway in Tanzania
Royal Norwegian Embassy in Dar es Salaam

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ACRONYMS

AfDB	African Development Bank
BRELA	Business Registrations and Licensing Agency
EPZA	Export Processing Zone Area
IMF	International Monetary Fund
TIC	Tanzania Investment Centre
TRA	Tanzania Revenue Authority
TVET	Technical and Vocational Education and Training
URT	United Republic of Tanzania
VETA	Vocational Education and Training Authority

TABLE OF CONTENTS

EXECUTIVE SUMMARY	v
1. ABOUT THE SURVEY	01
About the Report	
2. SURVEY BACKGROUND	04
2.1 Characteristics of Nordic firms	
2.2 Small firms continue to dominate Nordic investments in Tanzania	
3. FIRM PERFORMANCE	11
3.1 Business profitability	
3.2 Tax performance of firms	
3.3 Effects of COVID-19 on firm performance	
3.4 Effects of current global economy on firm performance	
4. INVESTMENT CLIMATE AND BUSINESS ENVIRONMENT	17
4.1 An encouraging business environment offers prospects for Nordic investors	
4.2 Impactful changes to the business environment in Tanzania	
4.3 Extent of corruption	
5. FUTURE OUTLOOK	24
5.1 Future investment plans in Tanzania	
6. CONCLUSIONS AND POLICY RECOMMENDATIONS	26
Recommendations	

EXECUTIVE SUMMARY

The business environment remains a significant matter of concern to many economies all over the world given its crucial role in socio-economic transformation, enhanced revenue mobilization as well as enhancement of new and existing investors. In recent years, the world has suffered from multiple shocks including the impacts of Covid-19, the Russian invasion of Ukraine as well as effects of climate change which have posed huge implications for the slowing down of many economies. Tanzania has witnessed a change in the government regime which has brought significant changes in economic diplomacy, change in regulatory and policy reforms, and institutional reforms. All these have contributed to changes in the business and investment environment, as well as trade development in the country. Increasingly uncertain times pose huge challenges to policymaking and investment decisions. Against this context, this survey seeks to capture the perceptions of Nordic firms operating in Tanzania on the effects of the above changes on their business and investment decisions.

The 2022-23 Business Climate Survey for Nordic companies is a follow-up to the 2019 survey. This survey draws on evaluating the business environment of Nordic companies and businesses in Tanzania.

The impacts of Covid-19 pandemic and the current economic crisis were not exceptional for Nordic companies and businesses. Survey findings show that many of the Nordic firms surveyed report a decrease in their businesses and investments thus operating below their expectations. Further, the current global economic crisis has also severely affected their business and investment environment by constraining their operational cost, profits, supply chains and sales.

Despite accelerated reforms of the business environment in the last three years, opportunities, risks, and challenges have continued to define firms' operating environment in one form or another. This survey explores some of these features in their old, new, and reconstituted forms, and assesses their perceived consequences and effects on the wellbeing of Nordic firms in Tanzania. When compared to the previous survey in 2019, the latest survey finds positive progress on firms concerns on immigration, the facilitation of exports and imports, and the settlement of investment disputes. Conversely, the analysis observes adverse developments in the ease of accessing specialist competencies (including soft skills), tax regulation and infrastructure development. Overall, improving domestic fortunes by Nordic firms appear to fuel optimism about the business environment and future of their investment notwithstanding the increase in uncertainty about the global business environment.

1. **ABOUT THE SURVEY**

ABOUT THE SURVEY

The 2022-23 Nordic Business Climate survey is a follow-up survey from that conducted in 2019 aiming at understanding the opportunities and challenges faced by Nordic companies and businesses operating in Tanzania. The 2019 survey found that considerable optimism among firms despite reversals in the then business and investment climate that had affected trust between the Government and firms, profit, and led to uncertainty about future operations in the country.

The 2022 Nordic Business Climate Survey was conducted against a backdrop of multiple shocks including the Covid-19 pandemic, Russian invasion of Ukraine, heightened concerns about climate change, and a continued leadership transition following the demise of the fifth-phase president, John Magufuli in March 2021. The survey has also been able to broaden the inquiry by drawing on inputs from a 2021 counterpart assessment in Kenya which found optimism for further growth and expansion notwithstanding fortune reversals in 39% of companies. This survey is informed by Tanzania's demonstrated economic resilience to weather the cloudy storms which has led to economic growth forecasts of 5.1% and 6.1% in 2023 and 2024 respectively, having grown 4.9% and 4.6% in 2021 and 2022 respectively (AFDB, 2023).

About the Report

The Business Climate Survey for Nordic Companies in Tanzania is a joint initiative by the Embassies of Denmark, Finland, Norway, Sweden, and REPOA. Business Climate Surveys are published regularly in several markets across the world. This is a follow-up survey from that conducted in 2019 aiming to further our understanding of the performance of Nordic companies, their challenges, and opportunities as well as their outlook for the future of their investments and operations in Tanzania. The companies targeted by this survey were remarkably different in many aspects of their businesses, including size, areas of operations, profitability, and maturity, but all shared one common trait, having strong affiliations with the countries represented by their respective embassies.

The survey was conducted between November 2022 and February 2023 and featured quantitative and qualitative interviews with companies. The quantitative component of the survey comprised of an electronic questionnaire designed and administered in close collaboration with the respective embassies. The embassies facilitated contact with these companies and helped to explain why this independent survey is an important part of promoting dialogue that is informed by evidence. The qualitative assessment of companies provided for a more comprehensive in-depth assessment of selected features of the business climate.

Some 56 Nordic-affiliated companies out of 99 sampled companies responded to the quantitative survey, representing a response rate of 57%. The qualitative aspect of the survey had a slightly higher response rate of 69%, with 18 firms participating in the survey from a snowball sample of 26 firms that had initially responded to the quantitative assessment. For an in-depth analysis, the results are robust and can be considered representative of the targeted population of Nordic businesses in Tanzania. While there are many similarly themed surveys in Tanzania, such as the now phased out Doing Business or the Executive Opinion surveys, this targeted assessment has come at an opportune time for enterprise development in Tanzania that has on the one hand, seen dedicated Government efforts to improve the business environment, and on the other, developments in both the domestic and global political economy that have slowed down the rate of growth of investment in the country.

The focused and nuanced nature of this survey is important in formatively assessing and learning from ongoing reforms of the business environment especially considering the renewed impetus to attract and retain foreign direct investment. This survey analyses lived realities of the Tanzanian business environment from the perspective of businesses and entrepreneurs on the receiving end of the existing institutional framework. The latter is informed by both the regulative elements including policies, laws, strategies, and formal organizational configurations, as well as the agency of actors including private sector workers, and officials from key trade support institutions responsible for immigration, tax, business licensing etc. tasked with operationalizing formal compacts. The ensuing analysis captures how reforms are realized in practice, and experienced by those they are intended to govern.

In recent years, the Government of Tanzania has sought to strengthen reforms of the business environment in several ways. These have included periodic reviews (and in some instances, changes) to immigration, tax, employment, investment and local government laws and regulations, as well as the instituting of a dedicated department at the Ministry of Industries and Trade to coordinate and monitor the implementation of the blueprint for regulatory reforms to improve the business environment.

Therefore, far from gauging the experiences of Nordic affiliated companies, this survey is also a useful barometer of the extent to which reforms are responding to market needs. Findings presented in this report are based on first-hand accounts of the lived experiences of operating under the existing regulatory and institutional frameworks governing businesses in Tanzania. This report is organized into the following broad sections: Survey background, Performance, Climate, Outlook, and Conclusions.

2. SURVEY BACKGROUND

SURVEY BACKGROUND

This survey comprised of quantitative and qualitative assessments of perceptions among Nordic affiliated companies in Tanzania. The survey was conducted from November 2022 to January 2023. The quantitative component of the survey was administered electronically and featured a combination of close and open-ended questions on multiple features of the business environment. Its qualitative counterpart targeted respondents to the quantitative assessment with additional exploration of the lived realities of the business environment using open-ended questions. The survey assessed firm perceptions on taxation, immigration, employment policies, local governance as well as the impact of the COVID-19 pandemic and the evolving global economic environment.

The survey sampled 99 Nordic firms operating in Tanzania for the quantitative assessment of firms' perceptions which was administered via the internet. The qualitative component of the survey involved face to face interviews with key managers and administrators and involved a purposeful sample of some 26 firms of different sizes and operations that had already responded to the quantitative internet survey. Overall, some 56 and 18 firms responded to the quantitative and qualitative surveys for effective response rates of 57 and 69 percent respectively. Companies were selected based on ownership by either a Nordic juridical entity (branch, joint venture, representative office etc.) or natural person. For the sake of clarity, in the report, all the participating companies are referred to as "Nordic companies" irrespective of their Danish, Finnish, Norwegian, and Swedish affiliations.

Most companies that participated in the survey were small to medium scale in size. This report designates firm sizes based on Tanzania's Small and Medium Enterprise Development Policy which classifies entities through the number of employees and the capital investment in machinery.

Table 1: Firm size and number employees

Firm Size	Number of employees	Capital Investment in machinery (TZS)
Micro enterprise	1-4	Up to 5 million
Small enterprise	5-49	Between 5 and 200 million
Medium enterprise	50-99	Between 200 and 800 million
Large enterprise	100+	Above 800 million

Source: URT (2003) Small and Medium Enterprise Development Policy. Dar es Salaam: Ministry of Industry and Trade.

Three quarters of surveyed firms identified as micro and small enterprises, while the remaining quarter had employees and capital that exceeded 100 and 800 million Shillings respectively. The survey's sample included firms operating in over 20 different sectors, from publishing to food production and renewable energy. Considering the sufficiently saturated sample and the relatively even distribution of company size and sector, the survey sought to account for the general sentiment among Nordic firms in Tanzania accurately.

Given the relative sensitivity of information sought and possible reaction against views expressed, REPOA and the Nordic Embassies in Tanzania took concerted steps to safeguard the confidentiality and anonymity of field respondents and their social and organisational ties. The two are similar but distinct. On the one hand, confidentiality relates to deliberate manipulation of information to obscure the identification of its source. On the other hand, anonymity relates to the concealment of the identity of research subjects. The successful execution of this survey has relied on the extent to which REPOA, and the Nordic Embassies have been able to uphold the integrity of these two components. This was enabled by prior anticipation of subconscious fears on the part of surveyed firms of the consequences and repercussions over some of the revelations collected. Subsequently, considerable care and diligence were exercised in the handling of data, drafting and editing of research results to preserve the anonymity of respondents through their social or professional ties or viewpoints.

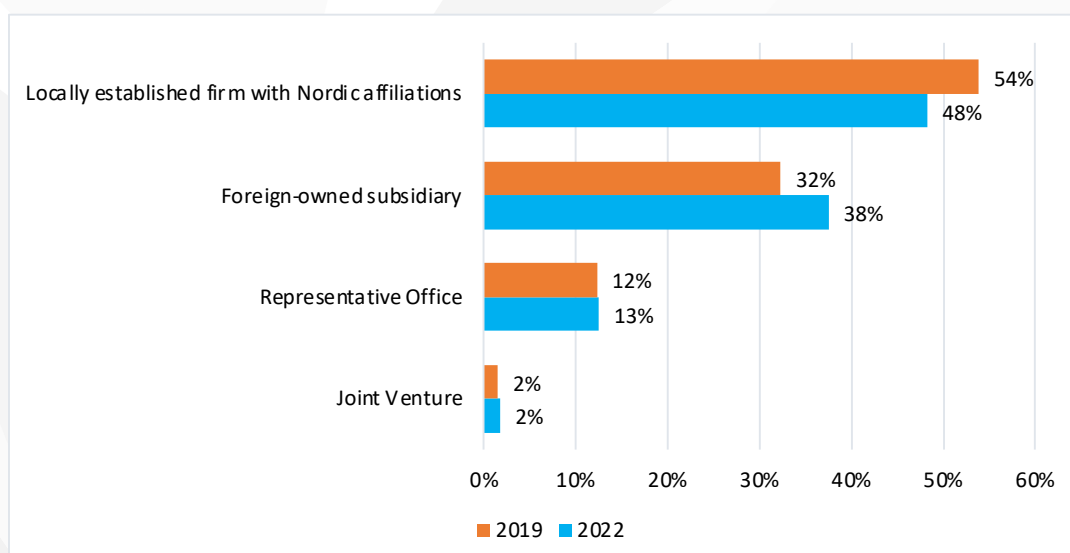
Among others, this included an extensive use of pseudonyms in transcripts and beyond, separation of interview transcripts and participants' identification details, and the backing up of data on encrypted external servers. The anonymity of surveyed firms is apparent in the subsequent analytical chapters, where the report refrains from the use of direct quotes, while avoiding subjective restatements of the voices of the respondents.

Additional qualitative interviews with the firms involved detailed communication of the distinction between informed consent and privacy. Firms were explicitly informed that their informed consents did not override their rights to privacy. Firms were allowed to voluntarily decide which questions to answer or not without having to justify their decisions. Similarly, care was exercised when and how the researcher probed for additional information to avoid unnecessary distress or conflict. Deception was avoided by non-manipulation, misrepresentation or concealment of the survey's components, its researcher or the social and organisational ties enjoyed by them.

2.1 Characteristics of Nordic firms

Nordic companies in Tanzania operate under different arrangements. Overall, close to half of all Nordic firms remain locally established while there has been an increase in the relative share of foreign-owned subsidiaries operating in the country to 38 percent from 32 percent between 2019 and 2022.

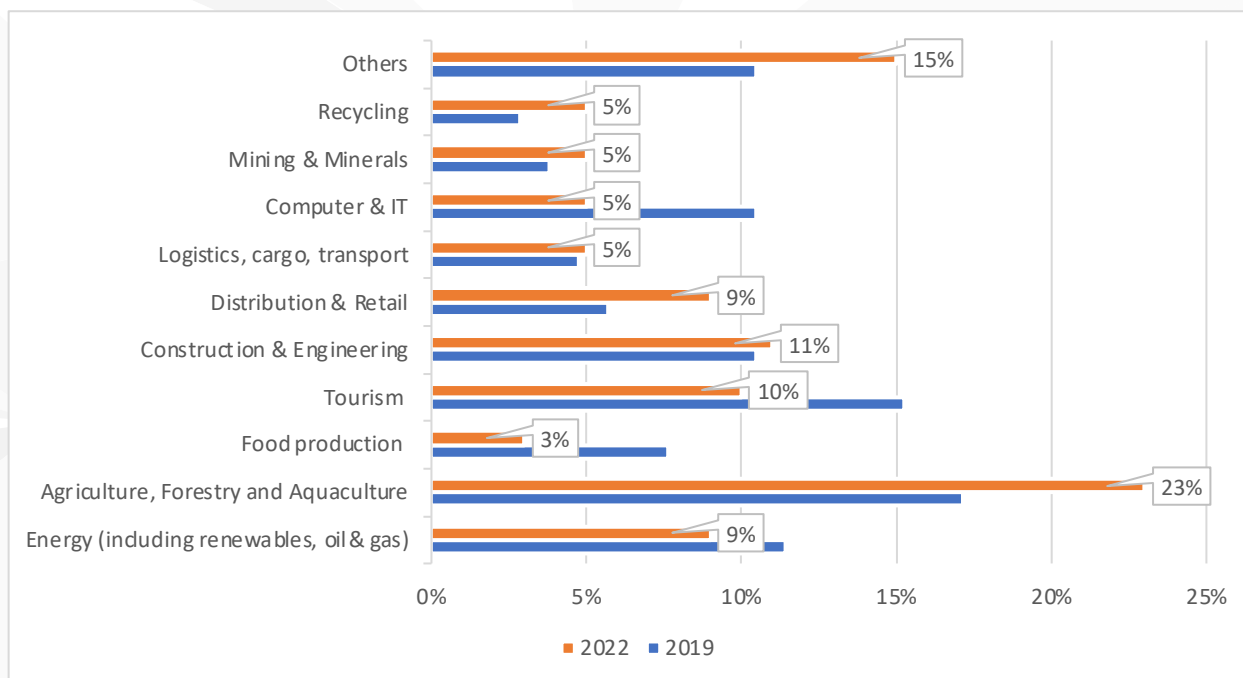
Figure 1: Type of establishments in Tanzania, 2019 and 2022



Sectors where core businesses operate.

The activities of surveyed Nordic firms in Tanzania span a wide spectrum of industries, ranging from traditional heavy industry like construction and telecommunications to retail and consumer goods. In total, the surveyed firms were found to operate in more than 20 sectors of the Tanzanian economy. The relative distribution of the sectors of focus of Nordic firms has remained the same with most firms (23 percent) engaged in agriculture, forestry and aquaculture. Other dominant investment destinations for Nordic firms include construction and engineering, energy, and tourism, with each accounting for a tenth of the surveyed firms.

Figure 2: Main sector where the core business is operational, 2019 and 2022



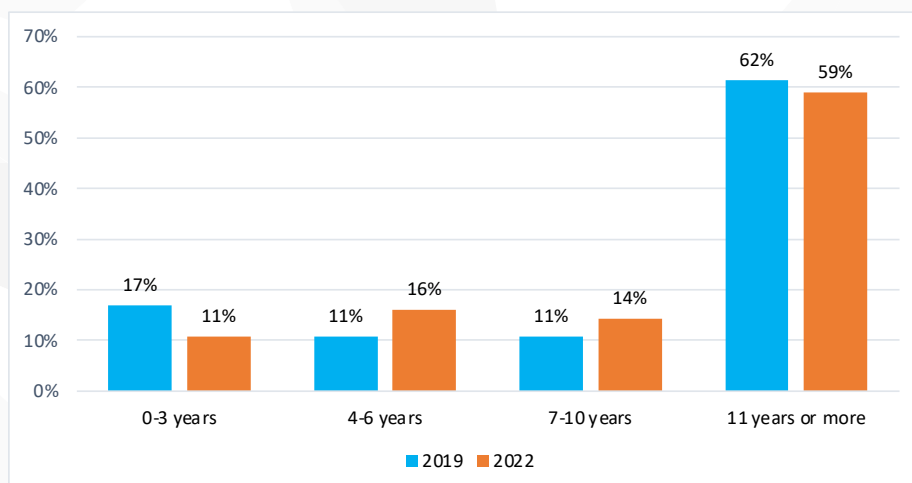
Length of operation

Almost 6 out of 10 Nordic firms (59%) have been operating in Tanzania for more than 11 years while only 11% have been operating in the country for less than three years. Further 16% and 14% of the firms have been operating for between 4 - 6 years and 7 -10 years respectively. While these figures show minor changes in the length of operation since 2019, they are also instructive of the decline in the number of new establishments (0-3 years category) which almost halved to 11 percent in 2022 from 17 percent in 2019.

Based on the qualitative interviews, the longevity of operations in Tanzania by many Nordic firms has been associated with beneficial returns imprinted by the country's past political and macroeconomic stability. Established firms observe that investing in Tanzania is significantly less risky than in other developing markets ostensibly because of a functioning government and society as well as a rule of law that enables firms to invest with confidence. Further, despite the turbulence of the last few years, the Government's continued preparedness to engage in dialogue with investors has been key in influencing investment decisions. These features of the local business climate have positively influenced firm performance and continue to provide optimism for the future.

The continued viability of Tanzania as an investment destination is further examined in subsequent sections of this report.

Figure 3: Length of operations in Tanzania, 2019 and 2022



2.2 Small firms continue to dominate Nordic investments in Tanzania

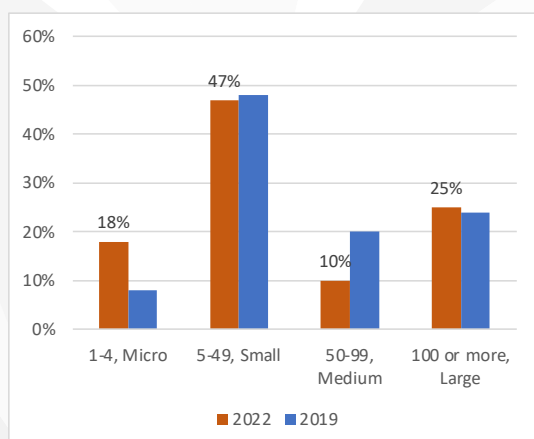
The size of a firm is an indicator of the health and aspirations of a firm. Firms grow or shrink in size in reflection of fortunes in the markets they operate. The size of a firm is also conditioned by the quality and cost of key inputs including labour and capital. Recipients of foreign direct investment also regard firm size as an indicator of sector activity including value addition. Similarly, the number of jobs created also acts as a signal for tax receipts, wages, and the general effectiveness of economic and business reforms.

The 56 surveyed Nordic firms directly employ some 3,152 people in Tanzania with local Tanzanians accounting for over 4 out of 5 employees (84%). Analysis (Figure 4) shows that the proportion of micro firms has increased to 18 percent from 10 percent in 2019. There has also been a corresponding decline in the proportion of medium-sized firms to 10 percent from 20 percent during the same period. Only 5 of the surveyed firms, largely small sized ones, do not have a single Tanzanian directly on their payroll. A closer interrogation of these outliers suggested that the relative infancy of their operations has affected their dependence on expatriate staff, who are often seen a short-term solution to the gap between skills demanded by the firm and those readily available in the market.

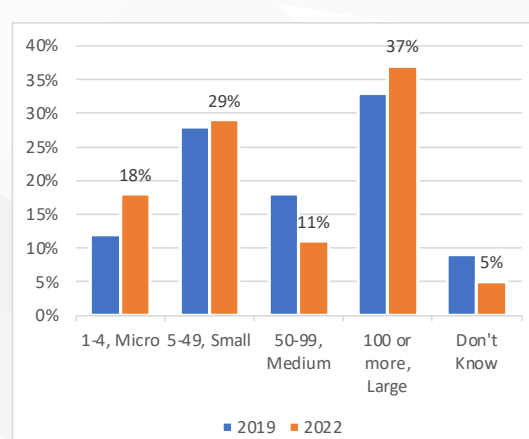
While the increasing share of micro firms is instructive of the relative buoyancy and resilience of such firms considering recent challenges in the business environment, the corresponding share decline of medium sized firms should alarm Tanzanian authorities of the challenges of retaining firms employing progressively larger numbers of people.

Figure 4: Number of people directly employed by Nordic firms, 2019 and 2022

Directly Employed



Indirectly Employed

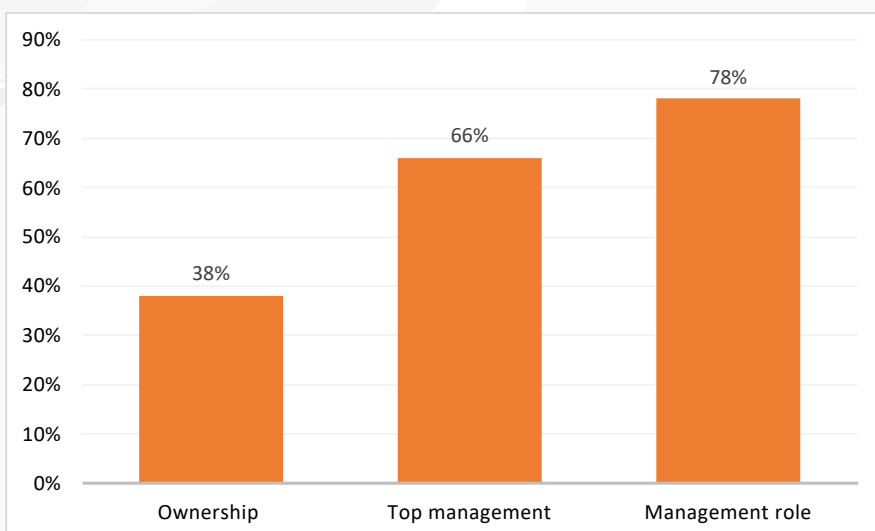


Positive externalities in the labour market are a good indicator of the competitiveness and uniqueness of a value chain actor. Competitive firms tend to be those with the greatest degree of interconnectedness with other value chain actors including suppliers, processors, marketers, retailers etc. Despite being responsible for relatively few directly employed individuals, almost 2 out of 5 (37%) of Nordic firms surveyed have created indirect employment for 100 or more Tanzanians. This is despite the proportion of firms indirectly employing 50 and more people declining to 50 percent from 51 percent in 2019. Firms with limited linkages to the domestic labour market are few at 18%, while some 5% of firms do not maintain count of their value chain networks.

Diversity in the workplace

Tanzania has one of the highest rates of women entrepreneurs in Africa with 54% ownership among its 3.1 million micro, small and medium scale enterprises. Nordic companies in Tanzania have continued to embody the broader inclusion of women in business with more than three-quarters of the Nordic firms interviewed (78%) reporting the presence of women in management roles while two-thirds (66%) and 38% report the presence of women in top management positions and ownership positions respectively.

Figure 5: Women's position in Nordic firms

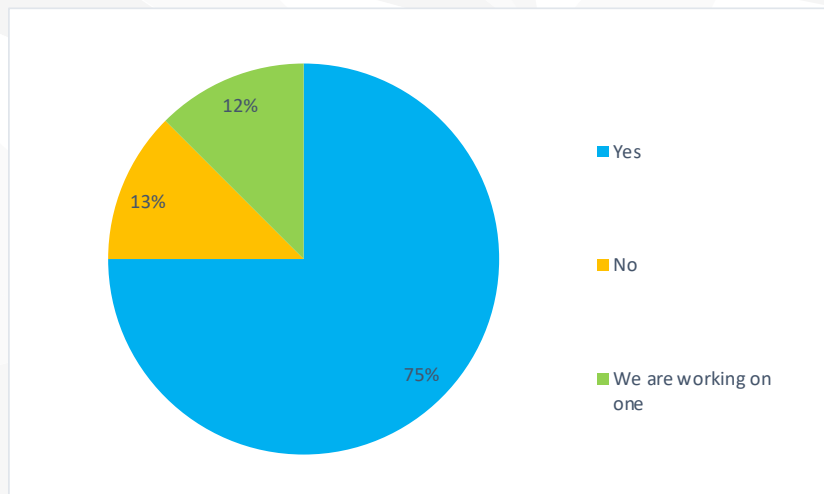


Environmental, social and governance (ESG)

Environmental, social and governance (ESG) represent a more stakeholder-centric approach to doing business that accounts for environmental, social, and corporate governance issues including risks and opportunities that affect the sustainability of a firm as well as the industry, market, and communities that they operate in. A recent global survey by the big Four Accounting firm, PricewaterhouseCoopers (PwC) shows that ESG factors are increasingly driving investment strategies and informing key business decisions (PWC, 2021). Companies that adhere to environmental, social and governance standards agree to conduct themselves ethically in those three areas and can draw on a range of strategies, tactics and ESG solutions. Environmental standards focus on the preservation of our natural world, and addresses concerns on climate change, carbon emission reduction, water pollution and water scarcity, air pollution, deforestation and greenhouse gas emissions. The second principle on Social standards is based on the consideration of humans and interdependencies including customer success, data hygiene and security, gender and diversity inclusion, community relations and mental health. The third principle of Governance concerns logistics and defined processes for running a business or organization, executive compensation guidelines, political contributions and lobbying, venture partner compensation and hiring and onboarding best practices.

Generally, a healthy business climate and a healthy environment go together. Sustainable development means achieving a quality of life that can be maintained for many generations because it is socially desirable, economically viable and environmentally sustainable. Indeed, three-quarters of the companies surveyed (75%) claimed to have a policy on environmental, social and governance, 12% were working on a policy with a further 13% lacking such a policy.

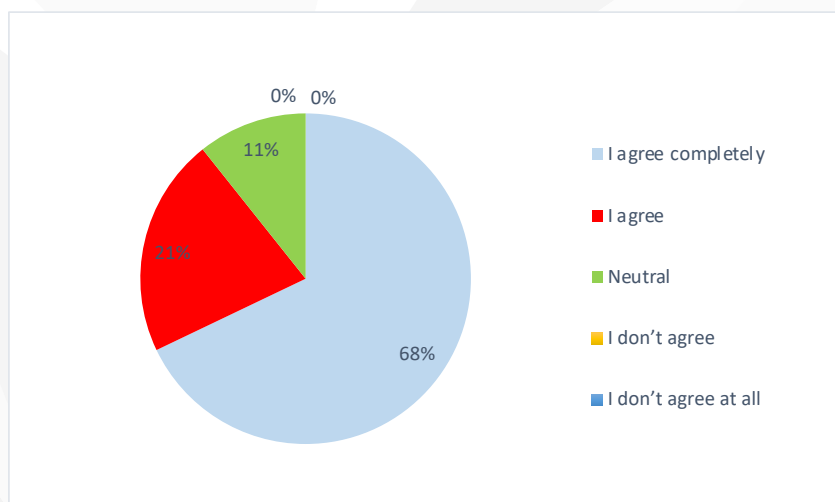
Figure 6: Does your company have a policy on environmental, social and governance (ESG) factors¹



Practical implementation of (ESG) by business firms/companies

The existence of a policy that guides and manages various activities is one thing, but the implementation of that policy is another thing, in addition to the fact that many firms in the survey said that they have an ESG policy, the survey inquired to know more, the respondents were asked that;- How much do you agree with this statement: Environmental, social, and governance practice (ESG) are integral features of my business/company? Most respondents (89%) agreed by saying that environmental, social, and governance practices are integral features of their business and among them, about 68% said they agree completely and 21% said they agree while no one said did not agree. These observations are consistent with results from the PWC’s 2021 Global Investor Survey which found 79% and 75% of investors conceding that ESG risks are an important factor in investment decision making, and that companies ought to address ESG issues even if doing so reduces short-term profitability (PWC, 2021).

Figure 7: How much do you agree with this statement: Environmental, social, and governance practice (ESG) are integral features of my business/company



¹ Includes climate mitigation and adaptation measures, mitigation of greenhouse gas emissions, encouragement of sustainable solutions and investment in “greener” equipment and infrastructures, green Corporate Social Responsibility

3. FIRM PERFORMANCE

FIRM PERFORMANCE

The business environment has weathered significant storms in recent years. Many economies including Tanzania's have been vulnerable to various shocks including effects of Covid 19 pandemic, a cooling of China's economic growth rising commodity prices, the Russian invasion of Ukraine, climate change as well as increased global financial sector vulnerability following tightening monetary policies in the world's leading economy. These developments have weakened the macroeconomic performance and outlook of many countries including Tanzania through disruptions of supply chains and recalibration of consumer demand. Private enterprises (both local and foreign) have followed suit, with sectors of interest such as tourism and transportation losing between 77% and 91 % of revenue, with many micro, small and medium enterprises (MSMEs) suffering annual sales' losses of as much as 85%².

The World Bank's 2022 COVID-19 Business Pulse Survey estimates upwards of 140,000 formal sector jobs were lost with firms across all sectors reporting a 36% decline in sales between 2020 and 2022. Further, a sluggish post-pandemic recovery has heightened Tanzania's vulnerability to slow economic recovery, with inflation and limited fiscal space handbraking the growth of private sector capital. These macro-level challenges are likely to affect firm level operations as well as investment decisions. This section examines the extent to which the operational fortunes of Nordic firms have fared since 2019.

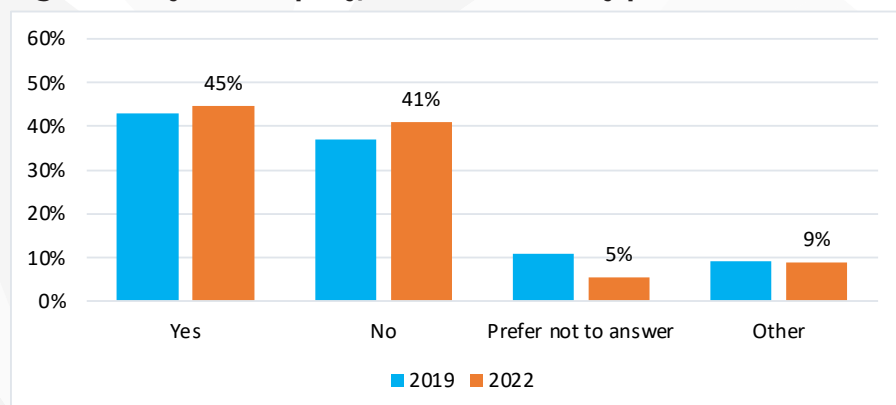
3.1 Business profitability

The business profitability of the Nordic firms and businesses is captured by assessing their performance, which comprises of several indicators. The 2022 Business Climate survey for Nordic companies in Tanzania captured the operational environment of firms and businesses by asking them; whether they are profitable (a measurement of their performance), further assessing how key specific features of the business environment in the country affect their operations. As one firm manager observed in the qualitative assessment:

“Many of the Nordic companies and businesses are enjoying operating in Tanzania. The country is blessed with its geographical location with proximity to the rest of the region and the port of Dar es salaam for easy export and import of our products. There is a stable government which makes the business and investment climate smooth.” (Manager at Firm 13)

Nearly half of the Nordic companies and businesses (45%) operating in Tanzania say they are profit-oriented while 41% say they are not (Figure 8). These observations do not significantly differ from those in 2019 indicating that generally adverse business environment even prior to the outbreak of the Covid-19 pandemic.

Figure 8: Is your company/business currently profitable?

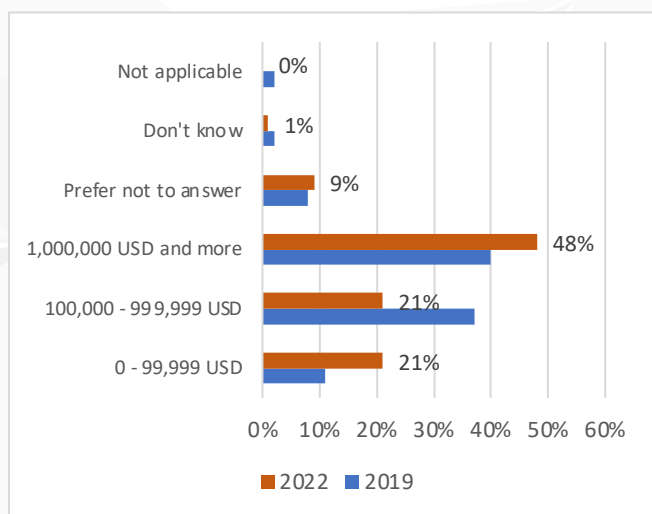


² World Bank (2021) Tanzania Economic Update: Raising the Bar - Achieving Tanzania's Development Vision (English). Tanzania Economic Update, no. 15 Washington, D.C.: World Bank Group. <http://documents.worldbank.org/curated/en/803171614697018449/Tanzania-Economic-Update-Raising-the-Bar-Achieving-Tanzania-s-Development-Vision>

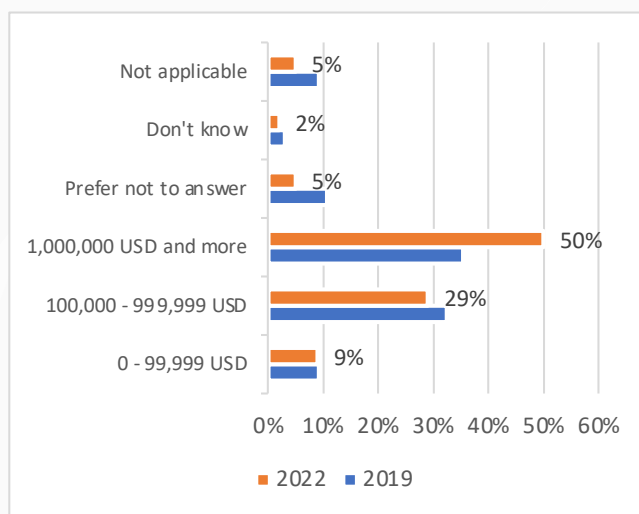
Further, the Nordic Business climate survey assessed the financial turnover and the net present value of investment of Nordic companies and businesses (a proxy for financial position, Figure 9). The results found that nearly half of the Nordic companies interviewed (48%) had a financial turnover exceeding 1 million US dollars while a fifth of the companies had a financial turnover ranging from 100,000 - 999,999 US dollars and others less than 99,999 US dollars respectively. This implies many of the Nordic firms operating in Tanzania were financially stable in the recent financial year (2022). When compared to 2019, turnover data further offers further propositions to the decrease in overall number of Nordic firms operating in Tanzania. Analysis suggests a significant increase and decrease in the proportion of firms with turnovers of above and below USD 1 million respectively. This is suggestive of the continued presence of larger and more profitable firms in Tanzania relative to 2019.

Figure 9: Financial turnover and value of investment in the most recent financial year, 2019 and 2022

Financial turnover



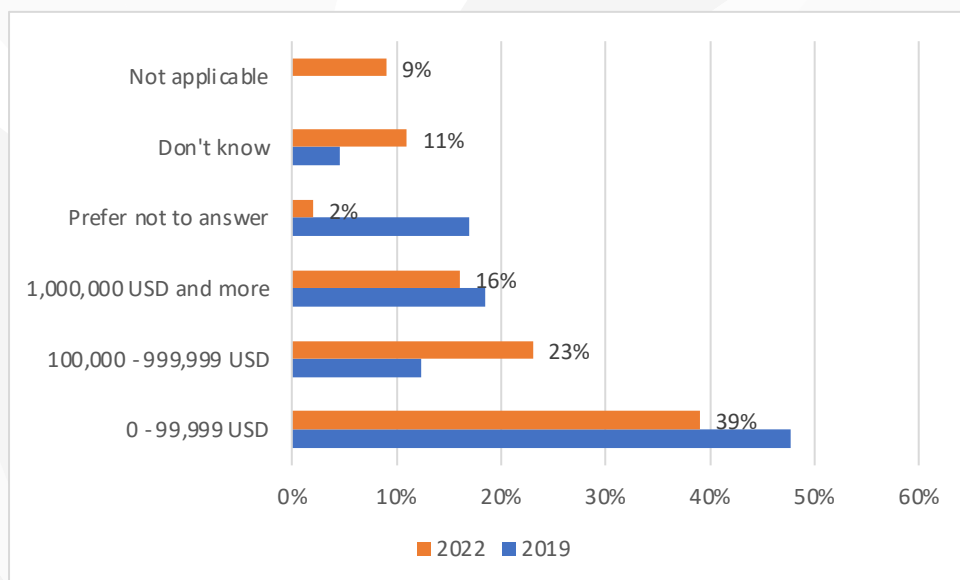
Current value of investment



3.2 Tax performance of firms

Perhaps in reflection of business fortunes, the proportion of Nordic firms paying more than USD 1 million and less than USD 100,000 in taxes declined in the period 2019-2022 (Figure 10). The decline was supplanted by a doubling of firms in the middle-income tax band.

Figure 10: Taxes paid the Tanzania Revenue Authority and Local Government(s) in the last financial year, 2019 and 2022



3.3 Effects of COVID–19 on firm performance

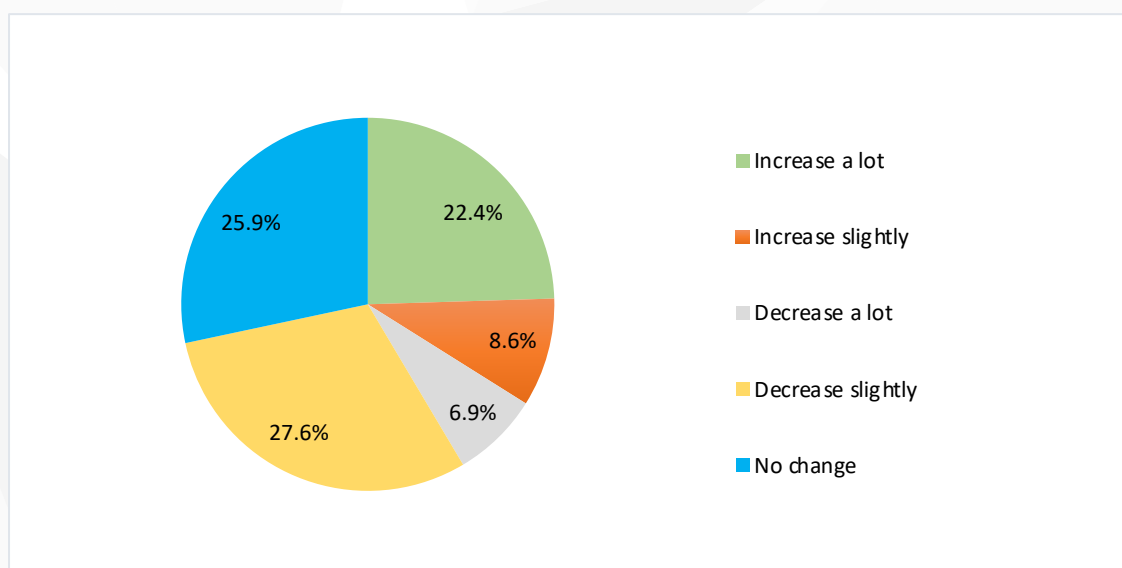
The impacts of covid 19 pandemic and its associated measures have been heterogenous across countries, sectors of the economy as well as individuals (Kwok et al., 2022). The pandemic resulted in business dynamism in a both positive and a negative way. As a result of the different forms of vulnerability experienced, the level of adjusting to the pandemic varied whereby high-tech firms were found to be less severely hit by the pandemic as compared to businesses that depend on physical contact with customers, especially during the lockdown.

The pandemic disrupted global supply chains affecting raw materials to final products hence hindering many business operations. The pandemic led to a decline in global demand thus affecting firms’ revenues and profit, exposing them to a huge financial crisis. This went further, sparking an effect on the productivity of the firms and employment. Despite the ongoing pandemic recovery, Covid 19 vaccination campaigns have brought back confidence in many economies in both medium and long run. As of December 2022, about 29.1 million people were vaccinated as compared to the targeted 30.7 million people (Ministry of Health, 2022).

While the impacts of Covid 19 were not exceptional to Tanzania, in this survey, we assessed the level of vulnerability to covid 19 pandemic among the Nordic firms operating in Tanzania and see how it affected their business environment. The survey findings report that 31% report their business and investment to have increased while 34% report a decrease. And only a quarter of the Nordic firms (26%) reported no change. Results show the impacts of covid 19 pandemic on business and investment were marginal due to their variation range.

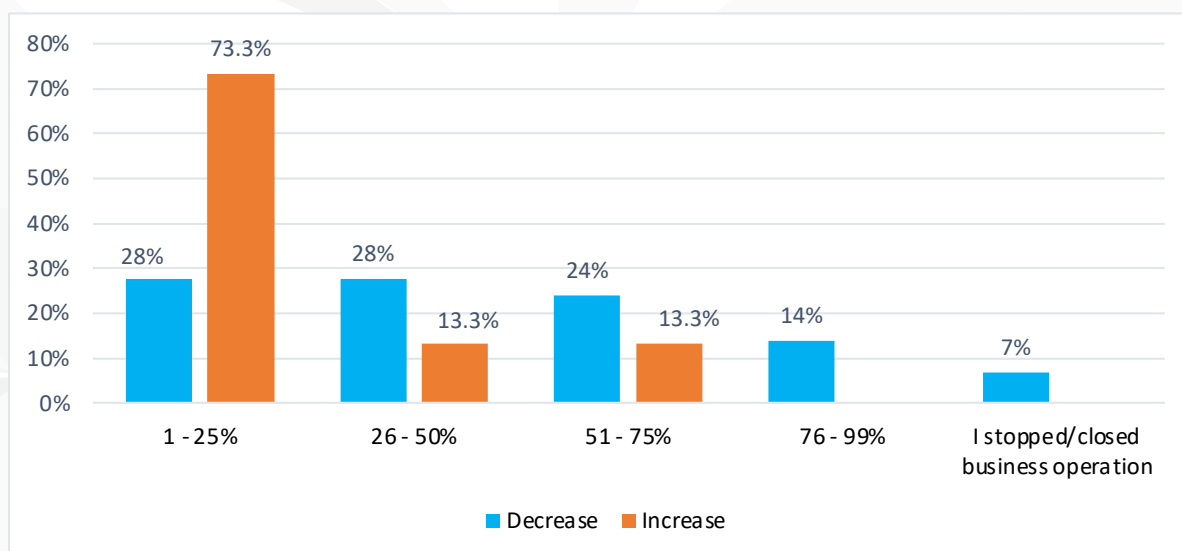
Nordic firms which reported either their business and investment to have either increased or remained the same was associated with the government’s response to dealing with the pandemic as there was neither lockdown nor curfews. Thus, business operations continued as usual. However, for the Nordic firms which reported a decrease, this was more likely associated with other external factors i.e., global responses to the pandemic which involved lockdown. This led to supply disruptions which created a shortage of products, especially from countries to which they were importing.

Figure 11: Impact of the COVID-19 pandemic on your company’s business and investment since March 2020



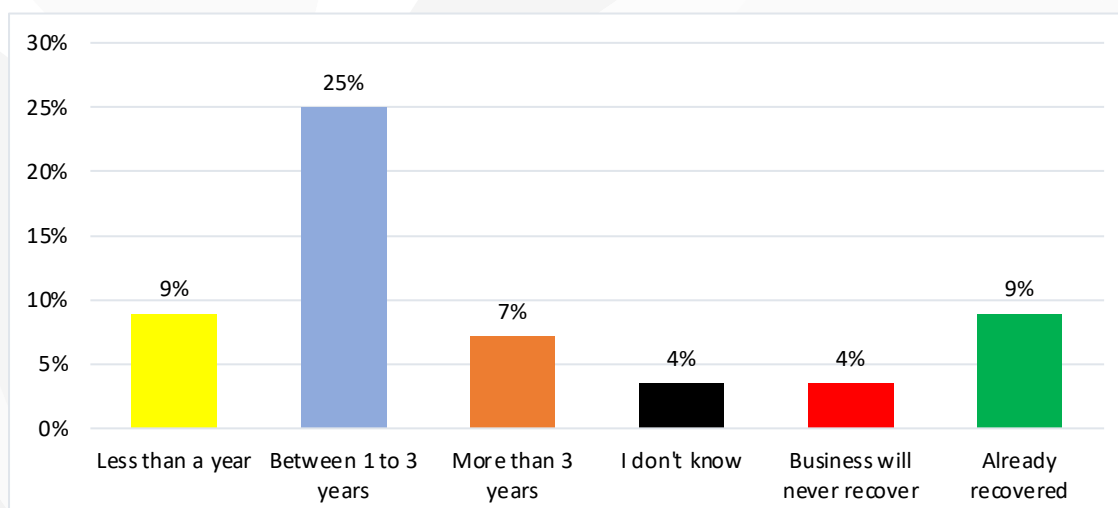
The effect of COVID-19 was severe to some of the firms where 7 percent of firms saw a decrease in business and investment had stopped/closed business operations, 14 percent reported that their business decreased by a range of 76-99% lower than expected, 24 percent reported a decrease of 51-75% lower than expected, 28 percent report a decrease with a range of 26-50% and 1-25% respectively lower than expected (Figure 12). However, COVID-19 pandemic was a blessing to some Nordic firms who affirmed an increase in their business and investment during the pandemic. Nearly three quarters (73 percent) report their business and investment to increase to a range of 1-25 percent beyond expectation and 13 percent of the Nordic firms report an increase between a range of 26-50 percent and 51-75 percent respectively.

Figure 13: Extent to which COVID-19 affected business sales



Recently, many economies have been recovering from the effects of the Covid 19 pandemic. The survey gauged perceptions on the time firms expect to recover from Covid 19 (Figure 14). Overall, firms expect a swift recovery from Covid-19. About 1 in 4 businesses (25 percent) anticipate the recovery to last between 1 and 3 years. Close to 1 in 10 firms (9 percent) reported that their businesses had already recovered. Some 9 percent of the Nordic firms expect their recovery to take less than a year, while 7 percent of firms expect recovery to take more than three years respectively to recover. On a sombre note, about 1 in 25 firms (4 percent) of business managers interviewed do not expect a recovery from the pandemic, with a similar proportion also being uncertain about when a recovery will take place.

Figure 14: Business recovery time from COVID-19



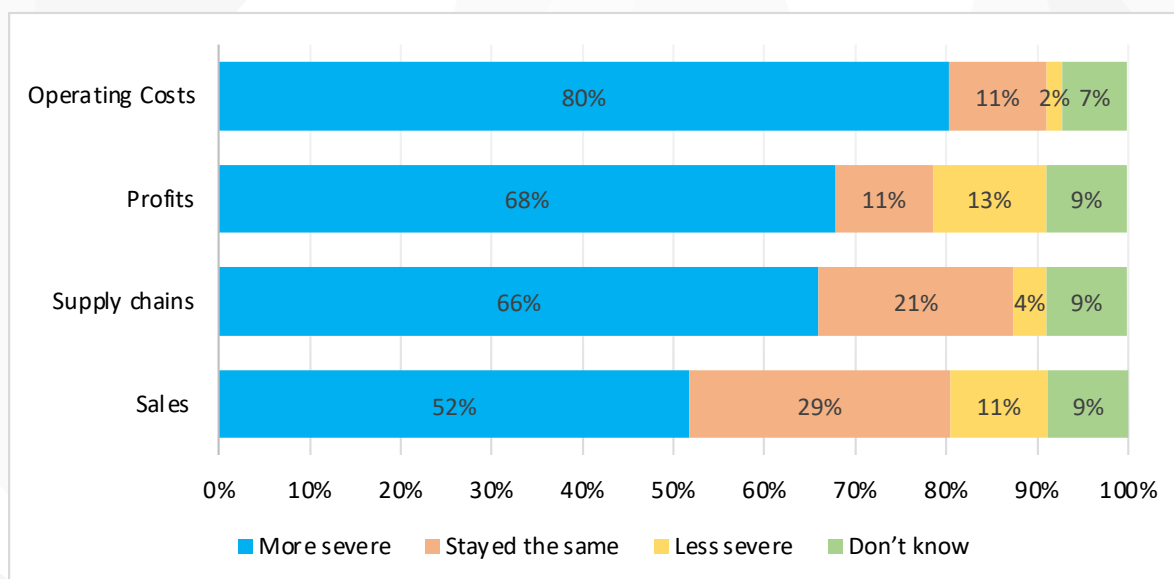
3.4 Effects of current global economy on firm performance

The world is currently going through an economic downturn following continued global trade tensions exacerbated by Russia’s invasion of Ukraine, partial reopening of the vast China market, and general stagflation in many of the world’s economy. These have created supply side constraints precipitating a rise in basic commodities particularly food and energy prices and attendant costs of living. Despite being on the periphery of the global economy, increased global interconnectedness has heightened Tanzania’s vulnerability to the ongoing situation, primarily because of diminished trade and policy responses to rising inflation.

Survey findings show that the current global economic crisis has affected the domestic business environment in various ways (Figure 15). The most significant effects of the current global business environment have been on operating costs with 8 out of 10 lamenting the severity of the effects. More than two-thirds of firms expect the global downturn to affect their profits (68 percent) and supply chains (66 percent). Further, half of all firms (52%) report sales to have been hit more severely. These findings are consistent with the effects experienced by businesses globally as reported in the World Bank’s COVID-19 Business Pulse Survey (2020).

These findings are not surprising as many Nordic firms affirm increases in the prices of their supplied commodities to customers. This is more likely due to disruptions in supply chains that have led to increased costs of operations including logistics costs.

Figure 15: Impact of the current external global economic crisis on the following aspects of your business from 2020; operational costs, profits, supply chains and sales



4.

INVESTMENT CLIMATE AND BUSINESS ENVIRONMENT

INVESTMENT CLIMATE AND BUSINESS ENVIRONMENT

The Government of Tanzania has invested considerable political efforts to stimulate private sector development and foreign direct investment have focused on improving the business environment or investment climate. Despite aging on, the 2018 Blueprint for regulatory reforms of the business environment has remained the cornerstone for many of the ongoing reforms in the country. Indeed, the Ministry of Industries and Trade (as well as the respective units responsible for Investment) have continued equate sector performances with the extent to which the Blueprint has been implemented.

A raft of organisational reforms have taken-off in the three years since the last survey, including the streamlining of business registration and immigration permit procedures, enactment of a ministerial department to oversee the implementation of the Blueprint, enhanced use of management of information systems including the national trade portal, operationalisation of the Tanzania Electronic Single Window System (TeSWS) as well as the Tanzania Electronic Investment Window (TeIW) which is due for launch in June 2023.

Further, a new investment policy and investment promotion legislation were enacted in 2022. Among others, the new investment Act repeals automatic immigration quota incentive aimed at encouraging investors to deal directly with the Ministry responsible for labour and immigration; removes time limitation to appeal in relation to an investor's rejected application for permit or approval. of time to appeal to the Minister of Investment, Industry and Trade (the Minister); and allows access to international arbitration.

All these measures have aimed at improving the positive association between firm performance in the areas of profitability, value addition, investments, formalisation and growth with simplified business registration, taxation and licensing procedures.

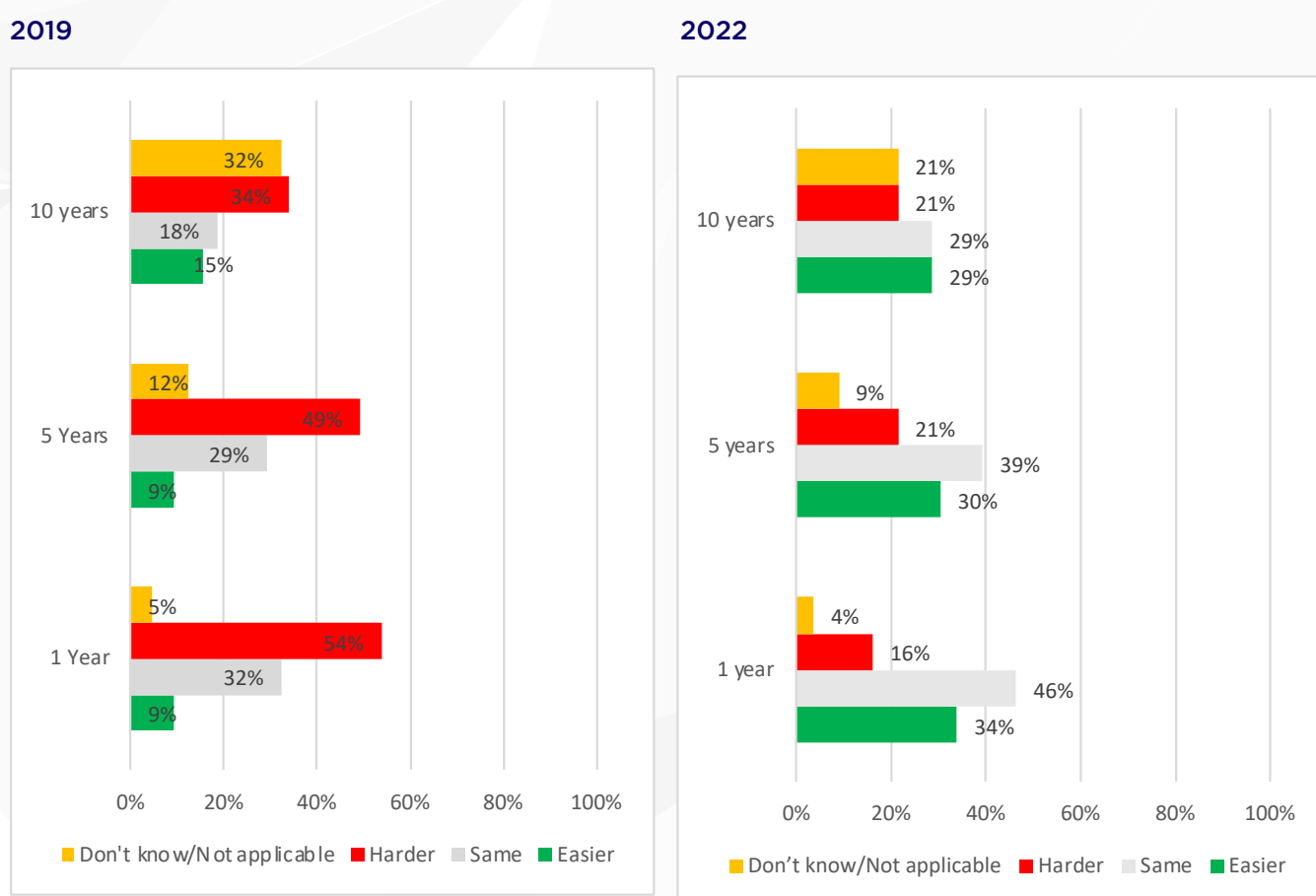
There have also been measures to mainstream reforms of the business environment in broader government policies. The current Five-Year Development Plan (FYDP III – 2021/22–2025/26) focuses, in principle, among others on shortening procedures and easing regulations for starting and operating businesses; reducing barriers for investors including work permits for specialized professionals; . The plan which acts as the blueprint for development policy, prioritises reforms for improving the business environment and climate faced by firms along key regulatory areas consistent with the now discontinued World Bank's Doing Business Report. These areas range from business registration, utility connections, and registration of property to getting credit, paying taxes and cross-border trading. Further, the Government has been actively utilising existing public-private engagement platforms including national, regional and district business councils in engaging with the private sector.

The 2022-23 Business Climate Survey examined perceptions about the lived experiences of Nordic firms operating in the current business climate, observations of which are summarized below.

4.1 An encouraging business environment offers prospects for Nordic investors

In a complete reversal to three years ago (Figure 16), a third of all firms (34 percent) find the current business environment to be more conducive than 12 months ago. This increased nearly four-fold increase over the 9 percent of firms in 2019. Further, there are now significantly fewer firms (16 percent as opposed to 54 percent) that find the current business environment to be harder than it was 12 months ago. It is apparent that increased policy stability and predictability as well as reversals to the Government's previous heavy-handed tactics (including disbandment of the tax collection task forces) have improved the reality of the business environment that firms inhabit. When asked about changes to the operating environment over the last five and ten years, firms express widescale optimism regarding the current business environment.

Figure 16: Perceptions about current changes to the business environment compared to 1, 5 or 10 years ago, 2019 and 2022



A qualitative examination of improving perceptions of the business climate reveals that recent policy and regulatory reforms have among others, improved the relative predictability of the taxation regime, reduced harassment by authorities, improved access to capital and engagement with authorities, and reduced the bureaucracy associated with obtaining work permits and renewals by firms. These developments have altered firms' perceptions of their relationship with the Government within a short period of time, with many expressing satisfaction with the rebuilding of trust between the Government and the Private Sector.

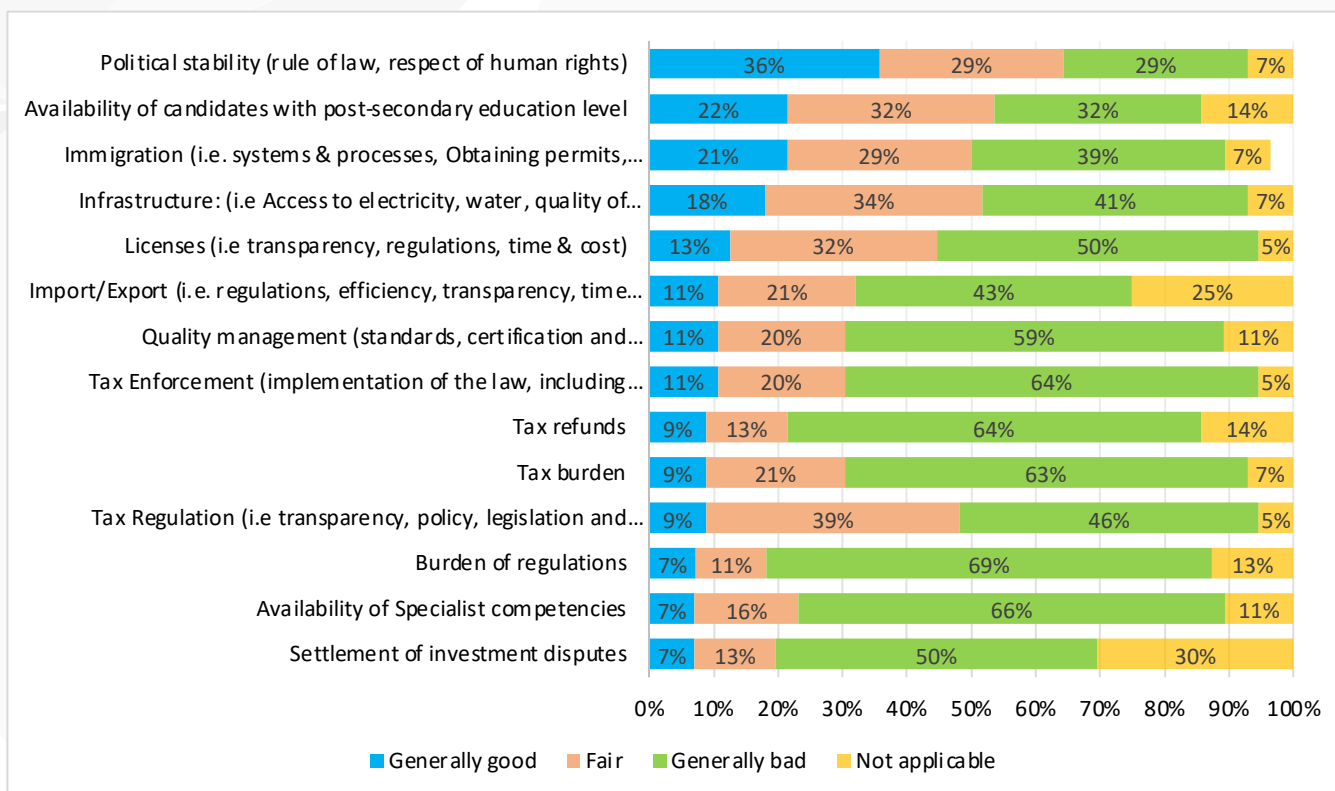
4.2 Impactful changes to the business environment in Tanzania

Political stability has been top ranked by many Nordic companies and businesses operating in Tanzania as one of the key features of a business environment. About 36% of the firms say Tanzania is doing generally well in maintaining political stability which plays a key role in smoothening the business environment (Figure 17).

Further, Nordic companies and businesses report generally positive perceptions about the role of immigration reforms in the business environment. This is evident as the sixth-phase government has made several regulatory and structural reforms. Other key features of the business environment perceived to be doing well include the availability of candidates with post-secondary education (22%), infrastructure availability (18%), and access to licenses (13%)

On the other hand, the burden of regulations (69%), availability of specialist competencies (66%), tax enforcement (64%), tax refunds (64%), and tax burden (63%) are among the key features of the business environment in Tanzania perceived by the Nordic companies and businesses to be adversely affecting the business environment.

Figure 17: Perceptions about the quality of key features of the business environment, 2022

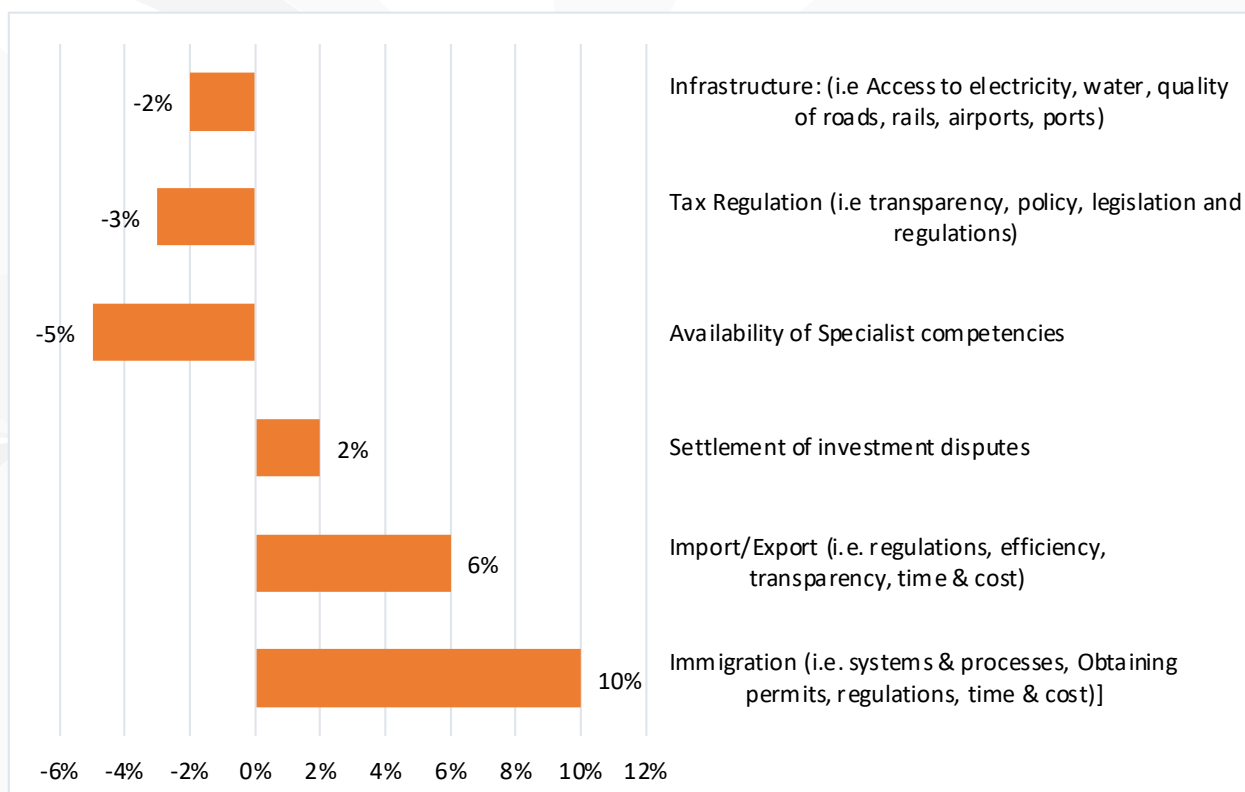


There are both positive and negative perceptions of the extent to which the business environment has changed in Tanzania since 2019. Large positive changes were reported in immigration (10%), import/export procedures (6%) and settlement of investment disputes (2%) while negative changes were noted in the availability of specialist competencies (-5%), tax regulation (-3%) and infrastructure (-2%). However, the reported positive changes have been a result of the efforts taken by the sixth-phase government in improving the business environment. These efforts include strengthening regional cooperation, strengthening trust between the government and its partners, strengthening economic diplomacy, laws, and regulatory reforms, as well as institutional reforms. Many of these undertaken reforms and changes were made possible by the implementation of the sixth-phase government 4 R approach to governance based on reconciliation, resilience, reforms, and rebuilding.

The immigration authority has made several amendments as a means of simplifying the work permit acquisition. This has been made possible through Non-Citizens (Employment Regulation) Act, (Cap. 436) and revisions to the accompanying regulations to include:

- Establishment of an electronic system known as Online Work Permit Application and Issuance System (OWAIS) for both application and issuance of work permits.
- Extension of time validity of work permits from initial period of 5 years to 8 years for foreign (non-citizens) employees.

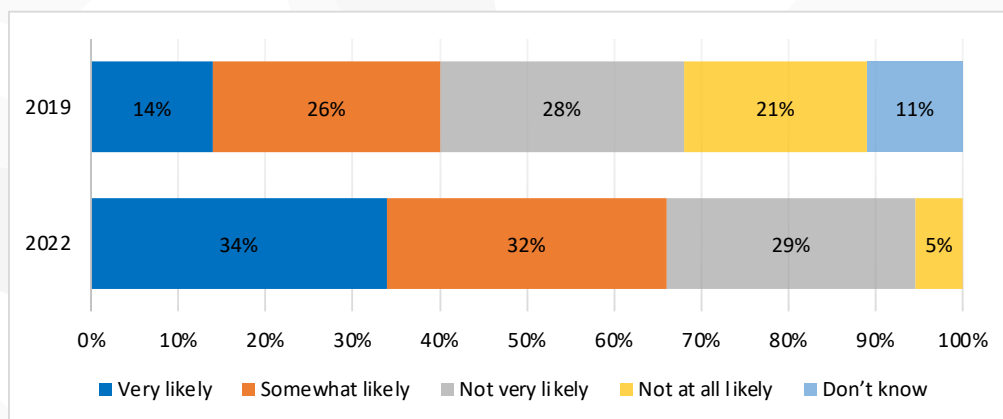
Figure 18: Changes in positive assessment about the quality of key features of the business environment between 2019 and 2022



Despite positive progress, the reported setbacks in the availability of specialist competencies, tax regulations and infrastructure have continued to burden the business environment. The survey reveals that while the Government has attempted to improve these three features, the root (and indeed the scale) of challenges remains inherently structural that call for sustained investment to further diversify and improve the reliability of electronic tax filing systems, skills, and competencies, as well as the key infrastructural services of electricity, roads and port efficiencies.

A third of the respondents (34%) argued that they were very likely to recommend Tanzania as an investment destination, this was an increase of 20 percentage points from that captured in the previous Nordic survey of 2019. Also, 32% of the investors said they were somewhat likely compared to 26% of the investors in the previous survey. These results show that many of the Nordic investors operating in Tanzania have gained confidence in the investment climate of the country and are thus willing to recommend well the country as a better investment destination.

Figure 19: Likelihood of recommending Tanzania as an investment destination



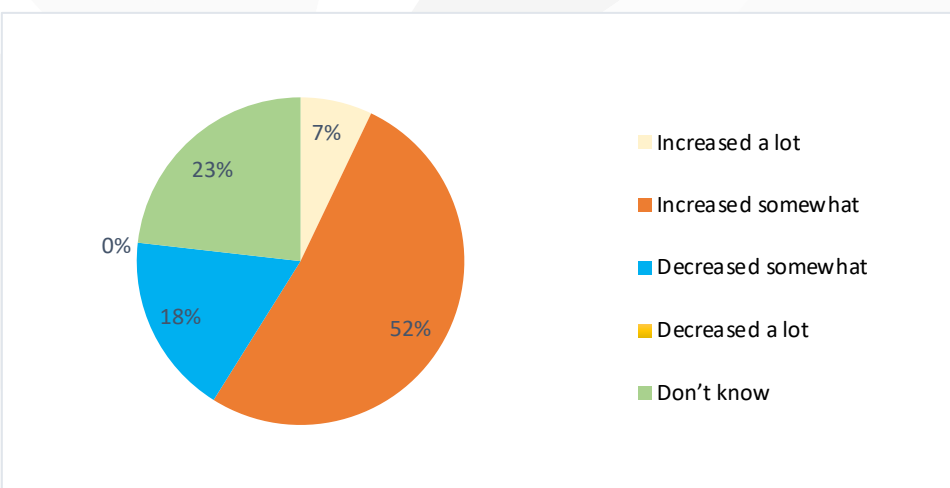
4.3 Extent of corruption

Perceptions and/or lived instances of corruption are a potent indicator of good governance that capture reflections about the robustness of the rule of law as well as the authorities tasked with governing the business environment of a country. Overall, perceptions on corruption in Tanzania have not shown huge changes in the last three years. The corruption perceptions index (CPI) reported Tanzania to have scored 38 points in 2022, down from 39 scores points in the previous year³ among the 124 countries that have remained stagnant since the last index in 2012. The report by Transparency International revealed that Tanzania neither improved nor deteriorated in the level of corruption between 2012 and 2021 but remains in the group of countries with high levels of corruption.

Results from the 2022 Nordic Business climate survey show that more than half of the Nordic firms (59%) perceived that generally (Figure 20), the level of corruption in the country has increased while 18% perceived that it has decreased and 23% say they don't know.

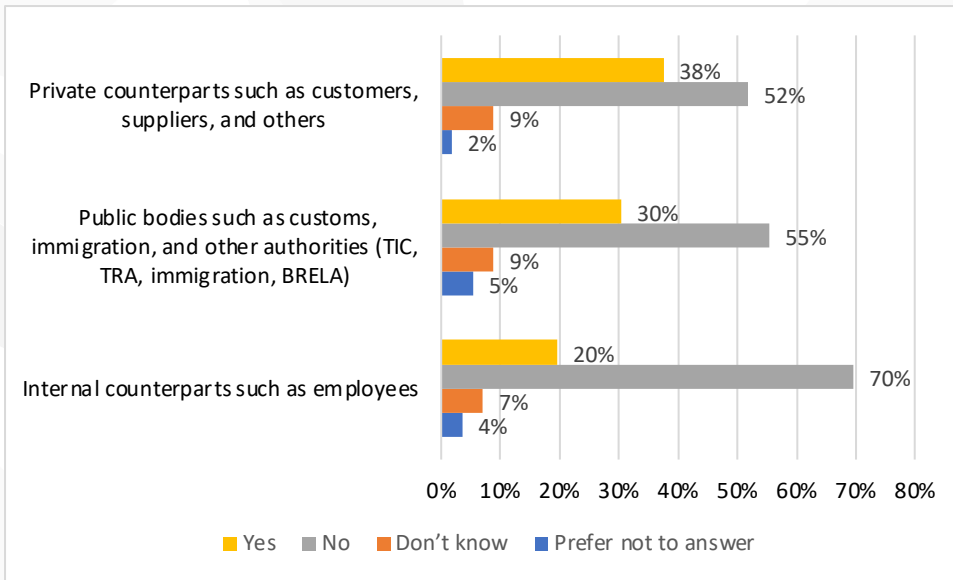
Further, Nordic firms were asked whether their companies were exposed to corruption in Tanzania while interacting with various counterparts (Figure 21). The survey results show that about 38% reported being exposed to corruption with private counterparts such as customers, suppliers, and others while about 30% were exposed to corruption in connection with public bodies such as customs, immigration, and other authorities (TIC, TRA, BRELA). And about 20% reported being exposed to corruption in connection with internal counterparts such as employees.

Figure 20: In your opinion, over the past year, has the level of corruption in this country increased, decreased, or stayed the same?



³ CPI Score relates to perceptions of the degree of corruption as seen by businesspeople and country analysts and ranges between 100 (highly clean) and 0 (highly corrupt). The CPI 2022 under Transparency International is a global movement with one vision: to create a world in which government, business, civil society, and the daily lives of people are free of corruption.

Figure 21: Exposure to corruption



5. FUTURE LOOKS

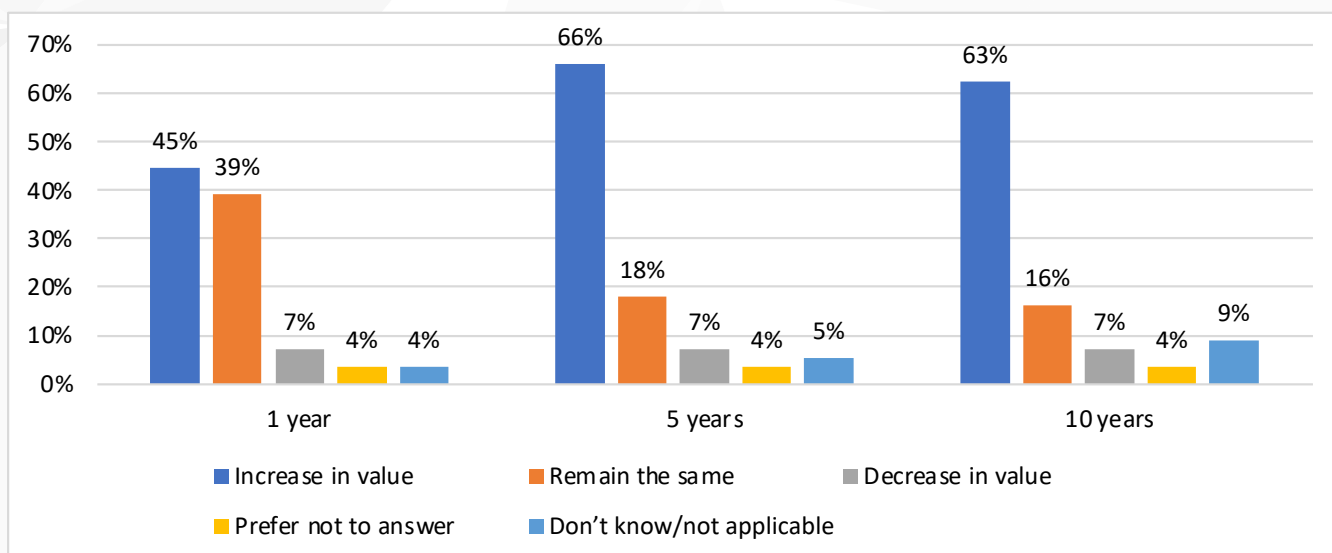
FUTURE OUTLOOK

5.1 Future investment plans in Tanzania

In both short-term and long-term future investments, many of the Nordic companies are optimistic about increasing the value of their investment in Tanzania. Some 45% of Nordic firms report being optimistic about increasing the value of their investment in the next year, with the figure rising to 66% of all firms in the next 5 years, before levelling to 63% of firms in the next 10 years. Only 7 percent of the companies and businesses argued to decrease the value of their investment in the future. However, 39% of firms think their status and planned investment will remain the same in the next 1 year; with 18% and 16% expressing no change in their investment value in the next 5 years and 10 years respectively.

However, many investors remain optimistic about Tanzania because of the continued efforts of the government to smoothen the investment environment. It is the expectation of many firms that the current strengthened economic diplomacy shall open various opportunities for diversification of their business and investment in Tanzania.

Figure 22: Scenario label that best describes the status and plan of your investment in the next 1,5 and 10 years.



6. CONCLUSIONS AND POLICY RECOMMENDATIONS

CONCLUSIONS AND POLICY RECOMMENDATIONS

This survey reveals an astonishing reversal of fortunes among Nordic firms in the last three years. Despite a withdrawal of some firms from the Tanzanian market⁴, a sluggish recovery to Covid-19 and an increasingly uncertain global business environment, differences in perceptions of the business environment between 2019 and 2022 have resembled night and day. Given the reception that the 2019 survey received, it is apparent that the Government has been constructively engaging with the firms to improve their operating environment. These efforts bode well for Tanzania's drive for sustained economic growth and demonstrated commitment to further business environment reforms aimed at making Tanzania a safe and profitable investment destination and trade gateway. Despite the overall positive outlook, results hint of the need for concerted efforts to bridge rhetoric with practice particularly with respect to providing firms with more support beyond investment promotions. Among others these include:

Targeted efforts to address continued gaps in specialized skills affecting Nordic firms and other high-end investors in the country. The skills and knowledge possessed by the graduates are irrelevant to the demands of the labor market. The intended objectives of the Education and Training Policy 2014 have not yet been met as curriculum delivery has continued to be rote rather than competence based. This has continued to produce graduates equipped with theory but limited practical skills. Most graduates are equipped with outdated skills and knowledge which don't add value to the operations of many companies.

Improving logistics. Despite improvements made to cargo handling at the port of Dar es salaam, business logistics continue to be affected by other non-tariff barriers including police and other administrative authority roadblocks which slowdown supply chain management, adding to the cost of doing business. Firms continue to find the costs of moving goods domestically and to Tanzania's immediate neighbours to be comparable and even higher than those of intercontinental shipping. Products take a long time to be cleared and this makes us lose our customer base from failure to deliver on time.

Streamlining taxes to lessen burden on firms and businesses as well as timely payment of outstanding of VAT rebates and income tax refunds. Despite efforts to improve the relationship between tax authorities and businesses, errors and omissions have continued to define corporate tax assessments in Tanzania. Some of these setbacks have been the result of discrepancies in record keeping by both tax authorities and the firms caused by technological difficulties that have faced the TRA's tax returns electronic filing system. The electronic system has been known to suffer from regular downtimes during peak use. Not only have these added to the cost of paying taxes (both through increases in time and use of human resources) but have also led to continued tax audits and tax disputes, further worsening the burden of taxation on businesses. Further, despite the introduction of electronic tax systems, their effectiveness has remained circumscribed by limited integration with other key payroll, social security, and health insurance systems.

There are concerns within the business community over the TRA's insistence to resolve tax disputes within a year while also discouraging tax offsets and the settlement of taxes in installments. In most cases, this ends up creating unnecessary tax disputes. Further, the Government needs to accelerate implementation of its 2022 revised strategy for management of arrears to improve firms' cashflows and planning.

⁴ A feature not aided by the impending closure of the Danish diplomatic mission in the country.

Recommendations

While the survey did not ask the firms what actions they recommend, evidence from the field allows the identification of specific areas of priority for the authorities to improve relations between the public and private sector. The recommendations, herein, are also informed by other studies on the business environment and investment climate in Tanzania also referenced in this report:

Strengthen alignment between education and training curriculum and the labour market. Despite the huge supply of graduates every year, approximately 1 million, the current education and training remains incapable of adequately supplying the market with competitive labour. The survey shows limited availability of specialized skills as well as other soft skills including problem solving, communication and teamworking. It is therefore recommended for the improvement in the curriculum to equip technical skills and knowledge to the locals. Recent reforms to strip regulatory responsibilities for technical and vocational education (TVET) from the Vocational and Education Training Authority (VETA) unburdens VETA, offering it an opportunity to specialize in TVET delivery. Further, there is a need for more streamlined implementation of the national internship and apprenticeship guidelines of 2017 to offer more incentives to employers to support learning by doing and bridge the skills gap.

Sustain improvements in infrastructure including adequate and reliable supply of electricity and extension of road networks especially to remote areas. Better and improved infrastructure including ensuring reliable supply and access of electricity, extension of transport networks especially to remote areas plays a key role in attracting business and investment thus need to be enhanced. In so doing, this shall smoothen the business and investment space for many of the investors in the country.

Expand use of automated systems to eliminate interactions and thus corruption. Despite digitalizing many of the services linking the government, businesses, and investors, it is still argued for more emphasis to remove contact between services, products, and the clients to avoid any bribery or corruption cases. Effective application of automated procedures pave way for transparent delivery of public services to the public thus reducing loopholes for any kind of corruption. The government should consider automated systems for all its operations that engage people to avoid interaction.

Reduce roadblocks to complement improvements in port logistics. An enhanced effort is needed to expedite domestic logistics. This can be implemented by reducing the number roadblocks and frequent police stops currently affecting heavy goods vehicles in the country.

Sustain regular dialogue between the government, investors, and the business community. This interaction shall enable the government to understand the opportunities, challenges, and policy options to adopt. In doing this, a significant linkage is built which shall smoothen the operational environment for business and investment growth in the country, hence stimulating foreign direct investment. A convenient environment will happen if and only if there is constant feedback from investors and the business community.

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