

The Investment Climate in Tanzania: Views of Business Executives

By Lucas Katera

This brief presents findings from the Executive Opinion Survey 2009, a core input of the Global Competitiveness Report 2009-10 produced by the World Economic Forum. The findings indicate that general security for businesses in Tanzania is good, well ahead of other countries in the East African Community (EAC).¹ However, government administrative requirements and customs procedures are still viewed by firms as cumbersome and inefficient, and the low level of infrastructure development continues to be a major constraint to doing business.

Overall, the evidence points to the need for increased strategic efforts to enhance the investment climate for businesses in Tanzania. In particular, transport infrastructure, electricity supply and the efficiency of customs procedures need to be significantly improved to bring down business costs to attract investors and fully exploit Tanzania's comparative advantages to drive economic growth.

Introduction

Tanzania is a country with abundant natural resources, including agricultural land and outputs, mineral resources, biodiversity and unique landscapes, such as Mount Kilimanjaro, Ngorongoro Crater and Serengeti National Park which attract tourists from all over the world. In addition, its location on the east coast of Africa gives it a comparative advantage in providing trade and transport services to neighbouring, landlocked countries. However, Tanzania continues to lack the financial, human and technological resources to fully exploit its natural wealth and comparative advantages for economic development. A number of measures have been taken to create a conducive business environment to encourage local and foreign investment, which were highlighted by Tanzanian President Jikaya Kikwete in his message to investors in the *Tanzania Investment Guide 2008 and Beyond*:

So far we have created a stable and attractive macro- and micro-economic climate with single-digit inflation, ongoing reforms in fiscal and monetary policy, and improvements in the business climate through legal and regulatory reform aimed at streamlining procedures and freeing business from unnecessary bureaucracy.

¹ With the exception of Rwanda, the remaining countries forming the East African Community were part of this survey. The East African Community (EAC) is the regional intergovernmental organisation of the Republics of Kenya, Uganda, the United Republic of Tanzania, Republic of Rwanda and Republic of Burundi with its headquarters in Arusha, Tanzania.

Released in September 2009, the Global Competitiveness Report (GCR) 2009-2010 ranked Tanzania in 100th position out of the 133 countries on the Global Competitiveness Index (GCI)², up 13 places over the last year (World Economic Forum, 2009). Within the East African Community (EAC), Kenya was ranked in 98th position, Uganda in 108th position and Burundi, a new EAC member, was ranked last in 133rd position. The GCR is based on two information sources: international hard data and the Executive Opinion Survey, which captures the views of business executives on the environment in which their firms operate to gain insight into the competitiveness of national economies. This brief presents the main findings from the opinion survey, which was conducted in Tanzania in March and April 2009, and compares Tanzania's competitiveness on key indicators against the other EAC member countries surveyed.

The Survey

The Executive Opinion Survey, conducted in 133 developed and emerging economies in 2009, is a major input to the GCR. The survey gathers wide-ranging information on the investment climate for which hard data sources are scarce or non-existent. It aims to provide unique benchmarking for:

- Business in developing strategies and guiding investment decisions
- Governments in identifying obstacles to economic growth and assisting in the design of better economic policies
- Academia in analysing an economy's current business environment compared against other economies
- Civil society organisations in learning more about their country's competitiveness compared with other countries.

Standard protocols were observed by all participating countries to enable comparison of survey data across countries: i) All firms

surveyed had to be listed with the relevant national authority for business registration and licencing; and ii) A minimum sample of 80 firms was required, comprising at least 40 large firms (i.e., businesses with 50 or more employees) and 40 small firms (those with fewer than 50 employees). The final random sample was selected to reflect the sectoral composition of the economy as well as the sizes of firms operating within the country.

In Tanzania, a list of business firms was obtained from the Business Registration and Licensing Authority (BRELA). Based on the response rate from the previous survey, 130 business firms were initially sampled. Of these, 99 firms completed the questionnaires.

Characteristics of the Firms Surveyed

Location of headquarters: 91% of the surveyed firms were headquartered in Tanzania.

Staffing: 44% of the sample were small firms (less than 50 employees), and 56% were large firms (50 or more employees).

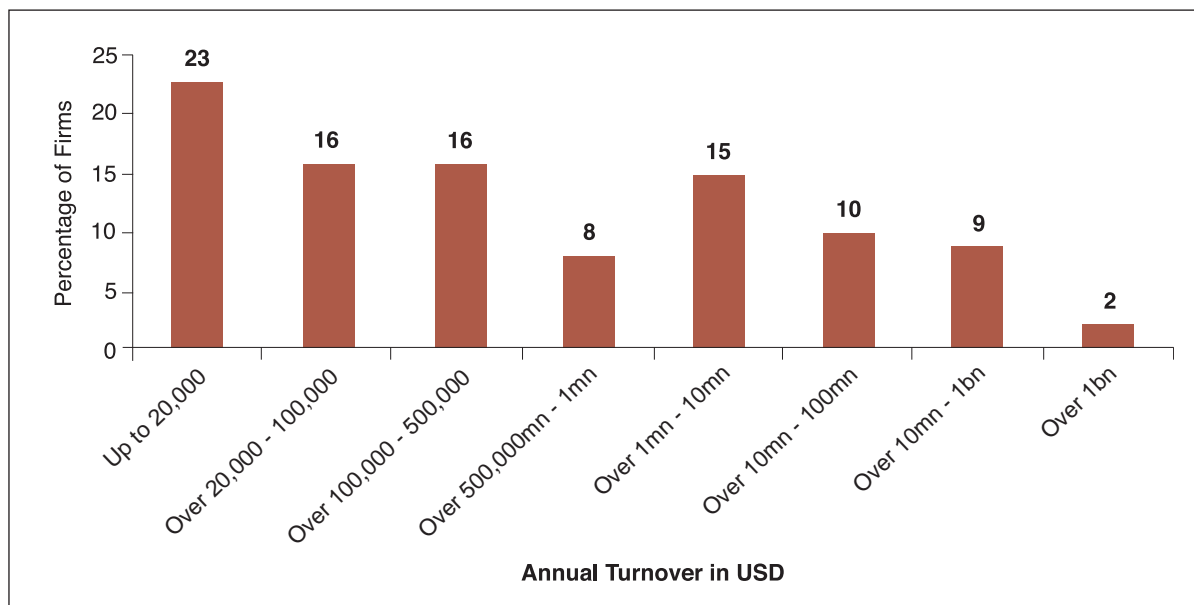
Ownership: Nearly three-quarters (71%) of the firms were wholly owned by the domestic private sector, 9% were foreign owned, and 20% were jointly owned. Of the jointly-owned firms, 25% were partially owned by the state, and only 10% had state ownership of around 50%.

Annual Turnover: The majority of surveyed firms (55%) had annual turnover (in 2008) of up to USD 500,000 (see Figure 1).

Markets for Products: Over two-thirds (69%) of the companies primarily served local markets, providing goods and services in sectors such as health, retailing and construction. The remaining firms traded across regions within Tanzania and/or with other countries.

Scope of Operations and Competition: 45% of the firms reported that they operated nationally and competed with other domestic companies, while 42% said that they operated

Figure 1: Estimated Turnover (in USD) of Firms Surveyed, 2008



Source: Tanzania Executive Opinion Survey 2009

nationally and faced both domestic and international competition. The remaining 13% of firms operated internationally.

Key Findings of the Survey

The findings of the survey have been grouped into three principal topics:

- Views on government procedures and processes
- Views on crime and violence
- Views on infrastructure development:

General Dissatisfaction with Government Procedures and Processes

Three main questions were asked to assess the views of business executives on government procedures and processes in Tanzania:

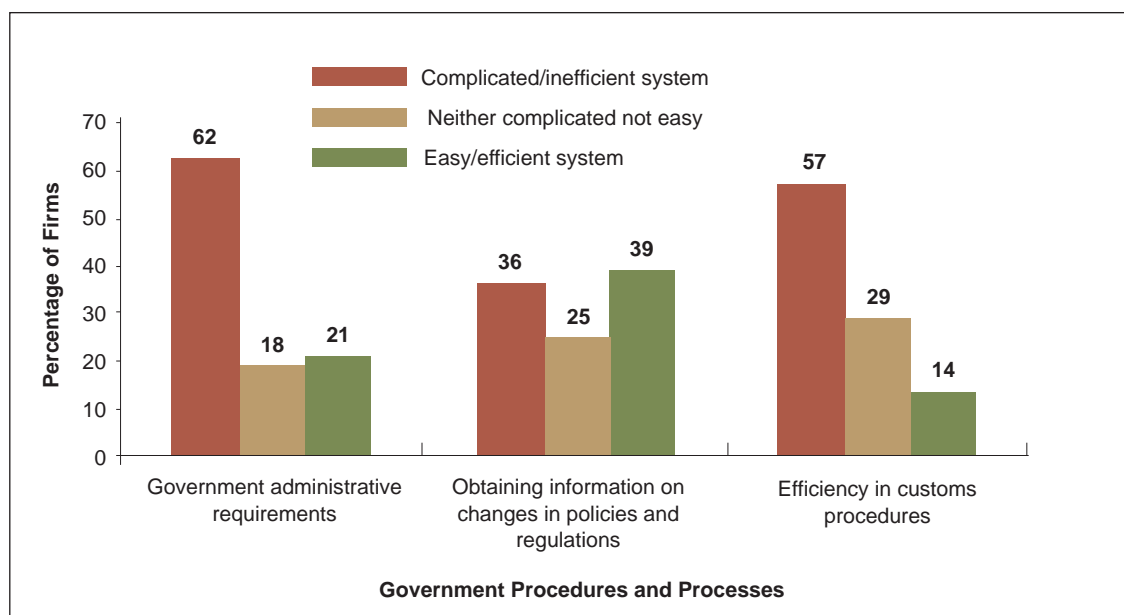
- *How burdensome is it for business in Tanzania to comply with governmental administrative requirements (e.g. permits, reporting)?*
- *How easy is it for business in Tanzania to obtain information about changes in government policies and regulations affecting your industry?*

- *How would you rate the level of efficiency of customs procedures (related to the entry and exit of merchandise) in Tanzania?*

Figure 2 summarises responses to these questions. Overall, the results indicate that business executives consider that bureaucratic systems do not provide an attractive business environment. Almost two-thirds of respondents (62%) felt that governmental administrative requirements were complicated and/or inefficient, compared with only 21% who considered that they were not burdensome. Over half of the executives surveyed (57%) also held the opinion that customs procedures were inefficient. However, slightly more business executives (39%) considered that it was easy for businesses to obtain information about government policies and regulations than the 36% who felt that it was difficult.

Disaggregated data by size of firm yielded interesting results. No significant differences between large and small firms were found on perceptions of government procedures and customs efficiency. However, almost twice the percentage of small firm executives (48%) perceived that it was difficult to obtain

Figure 2: Views of Business Executives on Government Procedures and Process



Source: Tanzania Executive Opinion Survey 2009

information on government policies and regulations, compared with large firms (28%). On the other hand, close to 50% of large firms felt that it was easy to obtain policy information compared with 31% of small firms. This may indicate that larger firms have more developed systems and greater capacity to monitor and respond to policy changes than smaller enterprises.

Among the EAC members surveyed for the Global Competitiveness Report 2009-10, Uganda ranked highest for all three aspects of government procedures and processes (see Table 1). Tanzania ranked second for ease of government administrative requirements as well as in transparency in government policy making, but the lowest for efficiency of customs procedures. Burundi, the newest EAC member state, ranked lowest on the other two dimensions.

These results are slightly different from the results of a World Bank investment climate survey in 2006, which found that Tanzania was doing better than Uganda, Rwanda and Burundi in ease of government regulations (World Bank, 2008). The Ibrahim Index of African Governance³ also indicates that, before 2005, Tanzania had a higher rank than Uganda in time taken to start up business. However, after 2005 the report showed that fewer days were required to start a business in Uganda than in Tanzania. These findings indicate that Uganda is improving at a slightly faster rate in controlling cumbersome procedures than Tanzania.

In addition, the survey also solicited executives' views on whether tax rates provide incentives for businesses to invest; and whether government tax subsidies enhance competition. With respect to the first issue, 55%

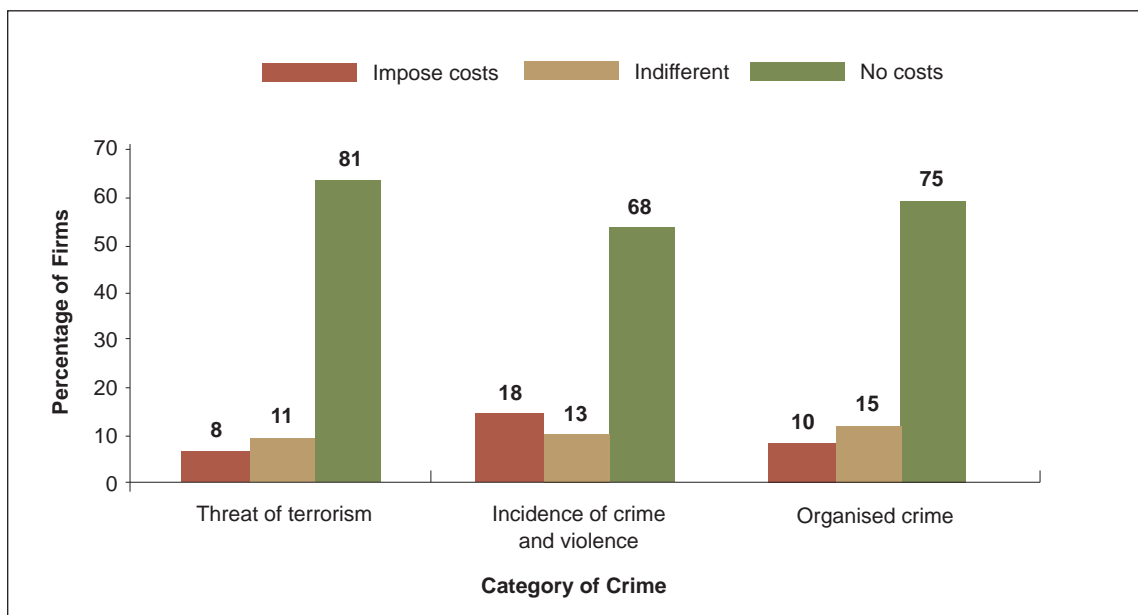
Table 1: Ranking of EAC members on Efficiency of Government Procedures and Processes, 2009-10 (out of 133 countries surveyed)

	Tanzania	Kenya	Uganda	Burundi
Ease of government administrative requirements	60	80	36	104
Transparency of government policy making	77	92	73	130
Efficiency of customs procedures	119	104	99	114

Source: The Global Competitiveness Report 2009-2010

³ For Ibrahim Index scores and rankings see <http://www.moibrahimfoundation.org/en/section/the-ibrahim-index/scores-and-ranking>

Figure 3: Views of Business Executives on the Cost of Crime and Violence to Firms



Source: Tanzania Executive Opinion Survey 2009

of respondents felt that the current level of taxes limits the incentive to work and invest, whereas only 25% had the opinion that tax rates provide positive incentives. Indeed, tax rates were perceived as the third most problematic factor for doing business in Tanzania, while respondents in other EAC member countries ranked taxes as a less serious problem. The comparatively higher tax rate in Tanzania was similarly reported in the World Bank survey to be a serious problem for investors and one of the primary obstacles for encouraging formalisation of informal enterprises (World Bank, 2008). Moreover, a larger percentage of executives (45%) perceived that government subsidies and tax breaks distort competition, compared with 26% of respondents who felt that subsidies and tax breaks do not distort competition. No significant differences were found between large and small business firms in their responses to the taxation questions.

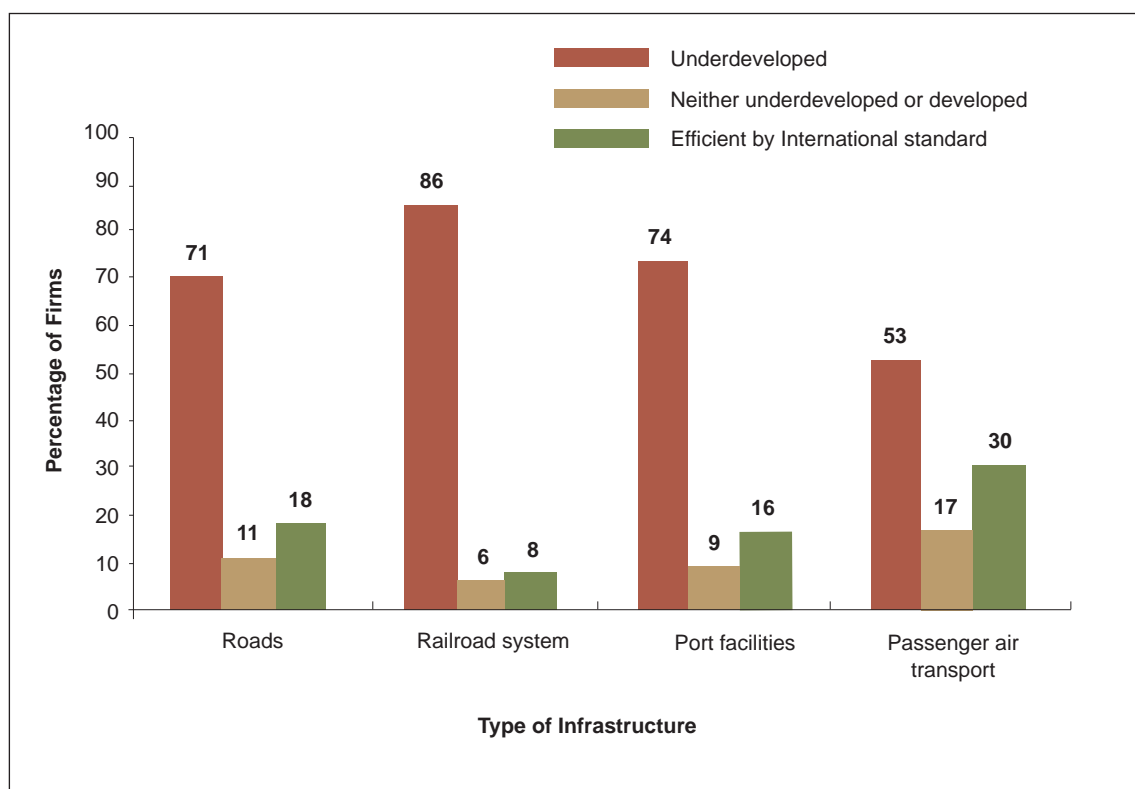
Positive Views on Control of Crime and Violence

Three questions were asked to assess the impact of crime and violence on business:

- *Does the threat of terrorism impose costs on business in Tanzania?*
- *Does the incidence of crime and violence impose costs on business in Tanzania?*
- *Does organized crime (mafia-oriented racketeering, extortion) impose costs on business in Tanzania?*

Figure 3 summarises responses. Overall, the data show that crime and violence do not impose significant costs on business. Over two-thirds of respondents for all three questions perceived that no costs were imposed on their businesses by crime in Tanzania. No significant differences were found between large and small firms in their views on this issue.

Figure 4: Views of Business Executives on Infrastructure Development



Source: Tanzania Executive Opinion Survey 2009

The 2008 Afrobarometer Survey similarly reported that, in the year prior to the survey, 63% of Tanzanians never feared crime in their own home, 74% had not experienced theft from their home, and more than 90% had never been physically attacked. As a result, the majority of citizens (67%) felt that the government had performed well in its efforts to reduce crime (Msami, 2009).

With respect to controlling crime, Tanzania ranked first among the other EAC countries surveyed in the Global Competitiveness Report (see Table 2). Since 2000, the Ibrahim Index

has also consistently ranked Tanzania highest in safety and security among other EAC members.

Underdeveloped Infrastructure: A Serious Constraint to Doing Business

The survey also sought the views of business executives on national infrastructure, focusing on land, marine and air transport as well as the quality and reliability of electricity. Results show that a large majority of executives (68%) felt that Tanzanian infrastructure was underdeveloped. Only 14% considered that infrastructure was extensive and efficient. With

Table 2: Ranking of East African Countries on Cost of Crime and Violence to Businesses, 2009-10 (out of 133 countries surveyed)

	Tanzania	Kenya	Uganda	Burundi
Costs of terrorism	63	127	120	129
Costs of crime and violence	67	122	105	116
Costs of organized crime	58	118	98	125

Source: The Global Competitiveness Report 2009-2010

Table 3: Rankings of East African Countries on Infrastructure Development, 2009-10 (out of 133 countries surveyed)

	Tanzania	Kenya	Uganda	Burundi
Quality of roads	108	91	115	121
Quality of railroad infrastructure	68	69	107	n/a
Quality of port infrastructure*	120	84	93	109
Quality of air transport infrastructure	114	69	108	110
Quality of electricity supply	122	91	118	117

Note: *Executives in Tanzania and Kenya were asked to assess the port facilities in their countries, while Uganda and Burundi (both landlocked countries) were asked about their access to port facilities.

Source: The Global Competitiveness Report 2009-2010

respect to the overall quality of national infrastructure, Tanzania ranked 120th out of 133 countries surveyed by the GCR. This compares unfavourably with Kenya (90th) and Uganda (109th), but slightly ahead of Burundi (123rd).

Respondents were also asked for their opinions about four components of transport infrastructure: roads, the railroad system, port facilities and passenger air transport. Results are summarised in Figure 4. Almost nine out of ten respondents (86%) considered that Tanzanian railways were underdeveloped, followed by port facilities (74%), roads (71%) and air passenger transport (53%).

Again, disaggregated data showed no significant differences between large and small firms, except for air passenger transport. A relatively larger proportion of executives from small firms (64%) perceived that air passenger transport in Tanzania was underdeveloped, compared with 43% of executives from large firms. Moreover, 55% of large firms held the opinion that the country's air transport network provides connections to overseas markets which offer the greatest potential for business, compared to only 23% of small firms. These results may be associated with recent trends in the use of air transport. The booming economies of South Asia, particularly China, have been a major destination for many small business people. But the current provision of air transport routes from Tanzania to these destinations may not have expanded at the

same pace as the increased demand from small business people.

An even bigger challenge to the government is improving the supply of electricity. Overall, 83% of respondents considered that the quality of the electricity supply in Tanzania (interruptions and voltage fluctuations) was worse than in other countries. Large and small firms held the same opinion. The lack of reliable power has remained unsolved for a long time now. The World Bank's investment climate assessments in 2003 and 2006 reported that many firms complained of power outages, averaging 9.1 outages per month on average and 22 outages during crisis months (World Bank, 2008). The same report showed that, on average, outages resulted in losses totalling 10% of sales in 2005. Evidence clearly shows that the power problem needs to be urgently addressed.

Table 3 compares results for infrastructure development across EAC countries surveyed in the GCR. As can be seen, rankings varied based on the type of infrastructure but, overall, Kenya's infrastructure is more developed. Tanzania is ranked lowest in port infrastructure, air transport infrastructure and electricity supply, but higher in roads and rail. The general perception among businesses of the poor quality of infrastructure and the country's low ranking among EAC members pose significant challenges to Tanzania in attracting investment.

Conclusions and Policy Implications

One of the major goals of Tanzania's economic reform is to create an attractive business environment for private investors, both local and foreign. However, findings from the Executive Opinion Survey 2009 indicate that increased efforts will be needed, especially when results are compared against business conditions in neighbouring countries that may be competing for the same investments.

Tanzanian executives showed a high level of confidence that crime and violence was not impacting their firms, which is a positive factor for encouraging greater investment in the country. The challenge ahead will be to ensure that crime continues to be controlled, especially given more serious crime problems in neighbouring countries. This is particularly relevant as the EAC moves towards a political federation and the ease of mobility of citizens between member countries is increased. As a consequence, the crime situation in one country may more heavily influence outcomes in other EAC countries.

Survey findings indicate that the improvement of infrastructure is the biggest challenge facing Tanzania in its efforts to attract investors and stimulate economic growth. The country's strategic geographic position gives it a strong comparative advantage as a transport hub for neighbouring landlocked countries. Transit trade is already the fourth largest foreign exchange earner (Bank of Tanzania, 2009). However, the GCR ranked Tanzania much lower than Kenya in the quality of port facilities, a core infrastructural component of inter-country trade. Improvements to key coastal port facilities (Dar es Salaam and Tanga) and the port on Lake Tanganyika (Kigoma), as well as connecting railway operations are essential if Tanzania is to fully exploit its advantageous location. The upgrading of port facilities will need to be complemented by improvements in the efficiency of customs procedures for the entry and exit of merchandise, an aspect of business operations for which Tanzania ranked the lowest among EAC members surveyed. The road network connecting Tanzania and neighbouring countries also needs to be expanded and maintained. Improved feeder roads will better connect rural areas with urban centres, thereby reducing the costs of transporting agricultural products to urban consumers and industrial goods to rural consumers.

The Executive Opinion Survey also found that the reliability of Tanzania's electricity supply compares badly with other countries, which may jeopardise government efforts to attract investment. The relatively high costs associated with electricity may force Tanzanian firms to increase the price of their products to recoup these costs, thereby becoming less competitive against similar products produced by firms in other countries. Concerted action is needed to diversify sources of electricity and to bring down their costs.

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