BUSINESS CLIMATE SURVEY OF NORDIC COMPANIES IN TANZANIA, 2019

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REPOA

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EXECUTIVE SUMMARY

The global economy has encountered a slowdown in growth and capital flows in the last few years. The global downturn has in part been a product of lower than expected growth from some of the leading economies, mainly China and the European Union, geopolitical friction, trade disputes, disruptive weather patterns and a declining demand for commodities. Within the region, the last four years have also witnessed a change of Government in Tanzania followed by many policy reforms, and other developments in Eastern and Southern Africa regional cooperation that have affected trade, investment and the conduct of business in the country. The Business Climate Survey for Nordic Companies in Tanzania 2019 captures the business sentiment among Nordic firms during this period to reflect the effect that these are having on their investment and business decisions.

Survey findings reveal that Nordic companies in Tanzania have not been spared from the global and domestic downturn. The attractiveness of Tanzania as a destination of choice for foreign capital is less assured as almost as many Nordic firms report losses as they do profits. Few firms experienced growth in profitability, with many faulting the country's trade and investment regulatory frameworks. Few firms report confidence in the prevailing business climate despite recent Government efforts to address bottlenecks in this area, including the blueprint for regulatory reforms.

Despite current challenges, most investors continue to maintain a positive outlook for the future, driven mainly by long term historical ties to the country, and renewed Government rapprochement with the private sector, demonstrated in part by ongoing dialogues between the two sides. Reported data offers insights into specific components of the business environment in need of prioritized reforms by the Government. These include labour, immigration and taxation procedures. The latter occupies the concerns of an overwhelming majority of Nordic businesses with pervasive harassment, bureaucracy and rent seeking behaviours affecting operations, profitability and souring general experiences of investing the country.

These results are relevant given their consistency with much of the recent growth and investment literature on Tanzania, including the World Bank's Doing Business 2020 assessment and the World Economic Forum (WEF)'s Competitiveness Report 2019. At the end of the report, some recommendations for policy consideration are outlined based on the authors' interpretation of the findings from this survey as well as these other studies on Tanzania.

1.0 ABOUT THE REPORT

The Business Climate Survey for Nordic Companies in Tanzania 2019 is a joint initiative by the Embassies of Sweden, Denmark, Norway, Finland, and REPOA. Business Climate Surveys are published regularly in several markets across the world. This is the first time this survey is being carried out in Tanzania for the purpose of furthering our understanding of the performance of Nordic companies, challenges and opportunities that these companies are facing 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, of having strong affiliations with the countries represented by their respective embassies. This survey was conducted in October and November 2019 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 contacts 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 65 Nordic affiliated companies out of 105 sampled companies responded to the quantitative survey, representing a response rate of 62%. The qualitative aspect of the survey had a slightly lower response rate of 60%, from a snowball sample size of 30 firms that had responded to the quantitative assessment. For the purposes of 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 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. Implementation of Tanzania's Long-Term Perspective Plan (LTTP, 2011/12 – 2025/26) has created opportunities for both domestic and international capital in the creation of incomes, employment, investment and structural transformation of the economy. These have led to positive spill-overs to improvements in the enabling environment, including the resolution of various inhibitive institutional bottlenecks. Yet, these developments have also been circumscribed by incoherent coordination of private capital and utilisation; weak sustainability of private sector operations; an unfavourable and at times unstable legal and regulatory framework that is necessary for attracting and retaining international capital; weak governance mechanisms; and unequal access to opportunities. Further, the growth of the domestic private sector, and the dynamics in the national and global economies that have seen overall declines in returns to investments could threaten to undermine the desirability of Tanzania as an investment destination.

According to the IMF's World Economic Outlook of July 2019, global growth rates have contracted from 4.2% in 2011 to 3.2% in 2019 with global growth projected to grow modestly to 3.5% in 2020, respectively. These developments have had a knock-on effect on flow of foreign direct investment (FDI) to Tanzania that have seen a decline since 2014. In 2016, the country's FDI stocks declined by 44% to US$864 million from US$ 1561 million in the previous year. Despite a two-year recovery (to US$ 1105 million in 2018) since then, the number of greenfield investments has continued to shrink to 705 in 2018 from 2097 in 2016[i].

The focused and nuanced nature of this survey responds to the challenge of what is happening and why, on attracting and retaining FDI to Tanzania. 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 organised into the following broad sections: Survey background, Performance, Climate, Outlook and Conclusions.

2.0 SURVEY BACKGROUND

This survey comprised of quantitative and qualitative assessments of perceptions among Nordic affiliated companies in October and November 2019. 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 through the use of open-ended questions. A total of 105 firms were sampled for the quantitative survey, with 30 firms also requested to participate in the qualitative survey once their initial quantitative responses had been lodged. The quantitative sample space comprised of all Nordic affiliated businesses registered with their respective embassies. Snowball techniques were used to derive the qualitative sample based on referrals from participants of the quantitative assessment. Overall, some 65 firms responded to the quantitative survey, yielding a response rate of 62 percent. A snowball sample of 30 of these responding firms saw 18 firms acceding to requests for face-to-face qualitative interviews, equivalent to some 60 percent of sampled firms, giving robust data for the purpose of this survey. Companies were selected on the basis of 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 of the participating companies are referred to as "Nordic companies" irrespective of their Danish, Norwegian, Finnish or Swedish affiliations.

Many of the 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.

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 with the SME sector, 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. In light of 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 fairly accurately.

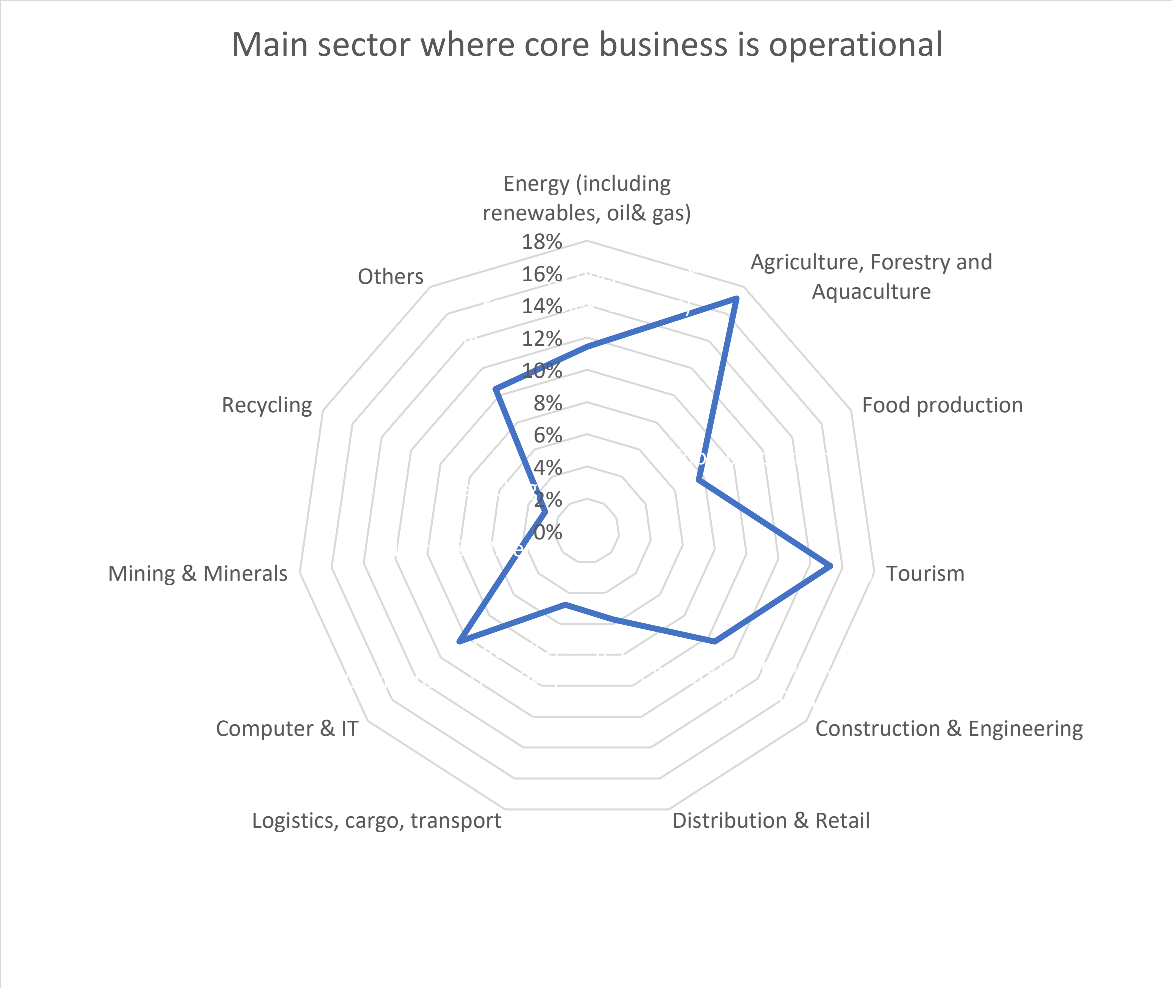
Given the relative sensitivity of information sought and possible reaction against views expressed, REPOA and the Nordic Embassies in Tanzania took concerted steps to safeguard the confidentiality and anonymity of field respondents and their social and organisational ties. The two are similar but distinct. 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 attention to detail 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.

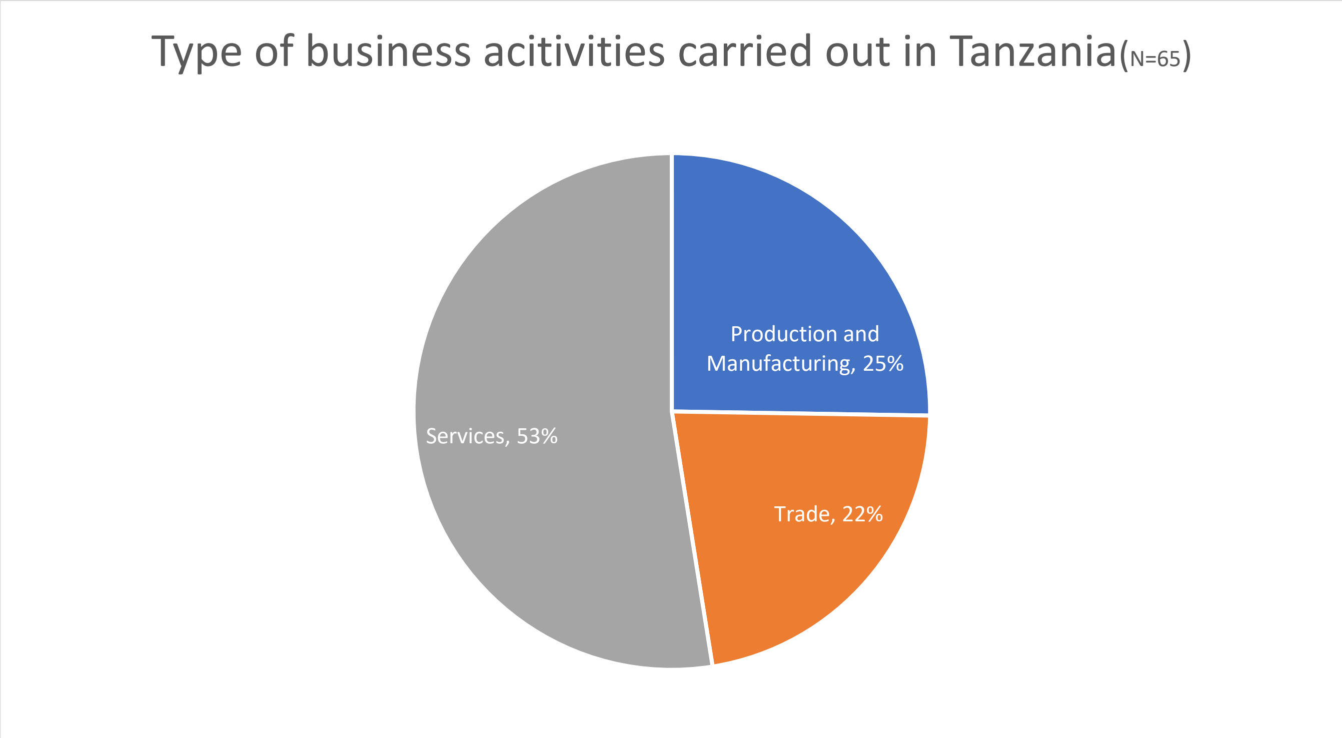
Additional qualitative interviews with the firms involved detailed communication of the distinction between informed consent and privacy. Firms were explicitly informed that their informed consents did not override their rights to privacy. Firms were allowed to voluntarily decide which questions to answer 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 NORDIC FIRMS SPAN A RANGE OF INDUSTRY SECTORS

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.

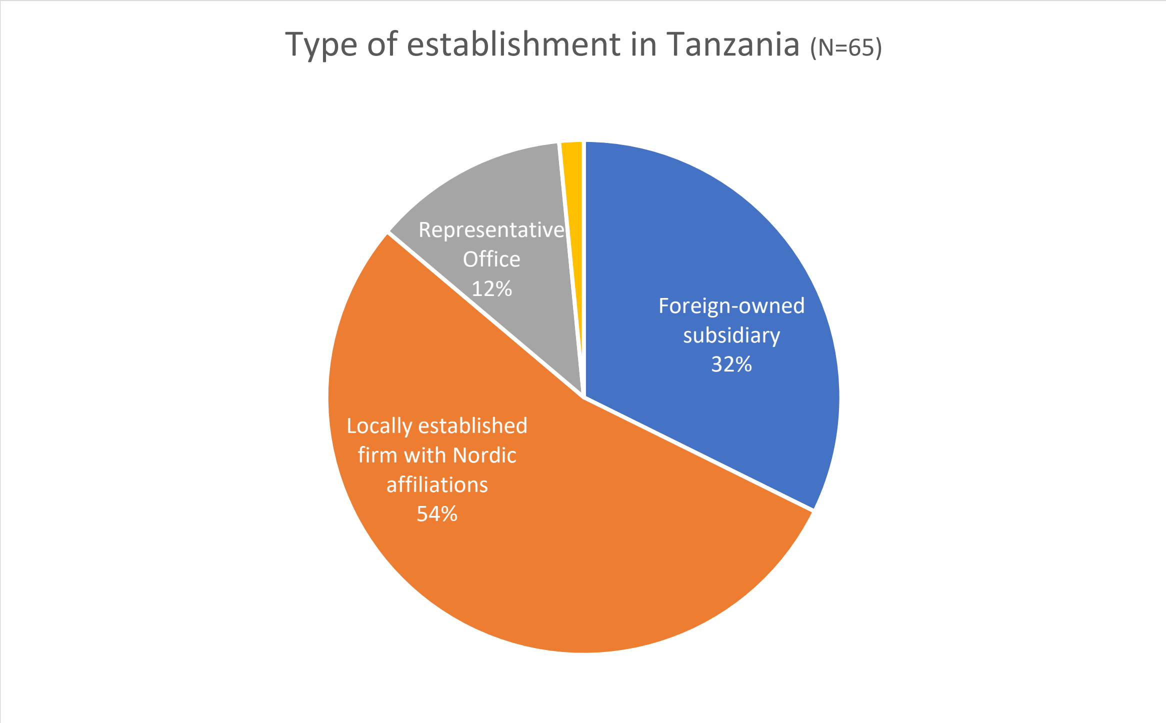


Specifically, more than half of Nordic firms in Tanzania maintain commercial interests in the service sector which includes professional advisory services, logistics, agricultural, financial and telecommunications. Professional production and manufacturing of both consumer and industrial goods is the second most dominant area of engagement for Nordic firms, with a quarter of all surveyed firms engaged in it. Despite domestic and foreign trade accounting to close to a third of Tanzania's economy, the sector attracts the fewest number of firms as reported by 22% of those surveyed.



2.2 LOCALLY INCORPORATED FIRMS ARE THE MOST COMMON FORM OF NORDIC ESTABLISHMENTS IN TANZANIA

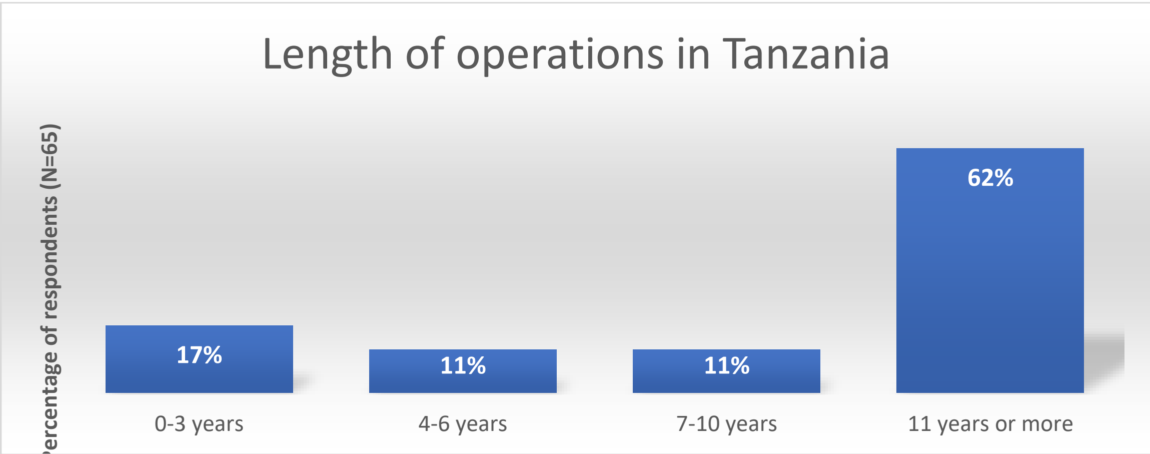
Locally incorporated firms are the most common type form of establishment for Nordic firms in Tanzania (54%) which suggests that their preferred modus operandi is one with high degree of commitment and attachment to Tanzania. The increasingly globalization of trade and investment is also evident among Nordic firms in Tanzania, with subsidiaries of multinational companies domiciled in the former accounting for a third (32%) of Nordic businesses in Tanzania. A lesser number of companies have chosen to set up representative offices (12%) while only 1 company operates as a joint venture.


Type of establishment in Tanzania (N=65)
Representative Office 12%
Foreign-owned subsidiary 32%
Locally established firm with Nordic affiliations 54%

3.0 THE DEMOGRAPHY OF NORDIC COMPANIES IN TANZANIA

3.1 NORDIC FIRMS BOAST DEEP ROOTS IN TANZANIA

A large number of Nordic firms currently in Tanzania have been operating in the country for over ten years (62%). A majority of these firms associate their longevity with the promise of beneficial returns imprinted by the country's past political and macroeconomic stability. On average over three-quarters of surveyed firms have been operating in Tanzania for a period of at least 5 years. At the other end of the scale, 17% of surveyed firms reported to have operated in the country for less than four years.

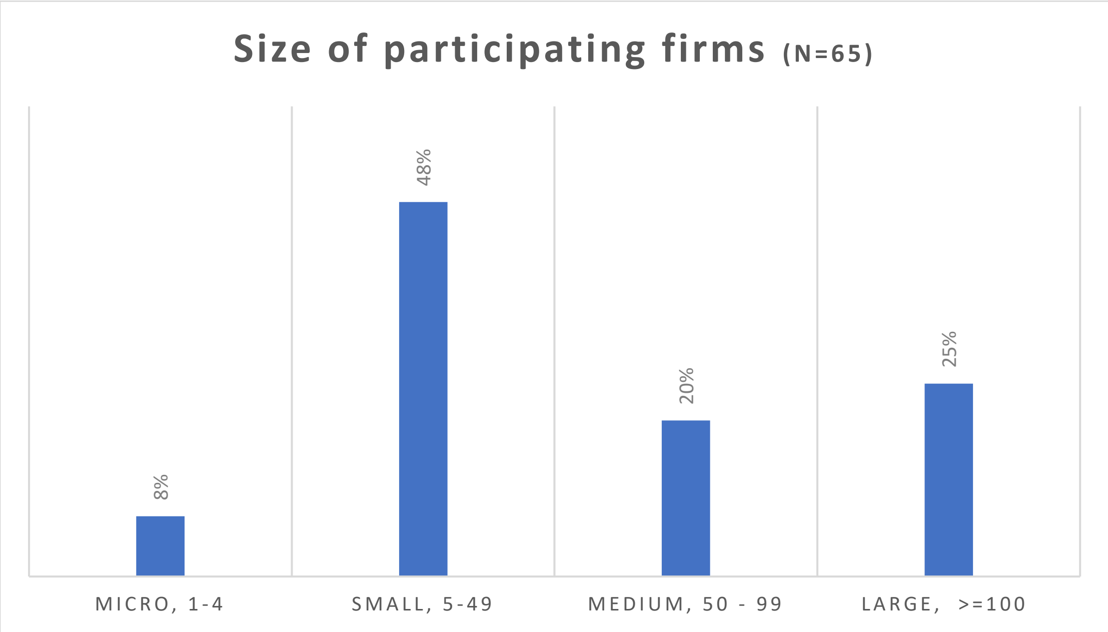


Established firms in Tanzania observe that investing in Tanzania is significantly less risky than in other developing markets ostensibly because of a functioning government and society as well as a rule of law that enables firms to plan ahead. These features of the local business climate have positively influenced past investment behaviour, 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.

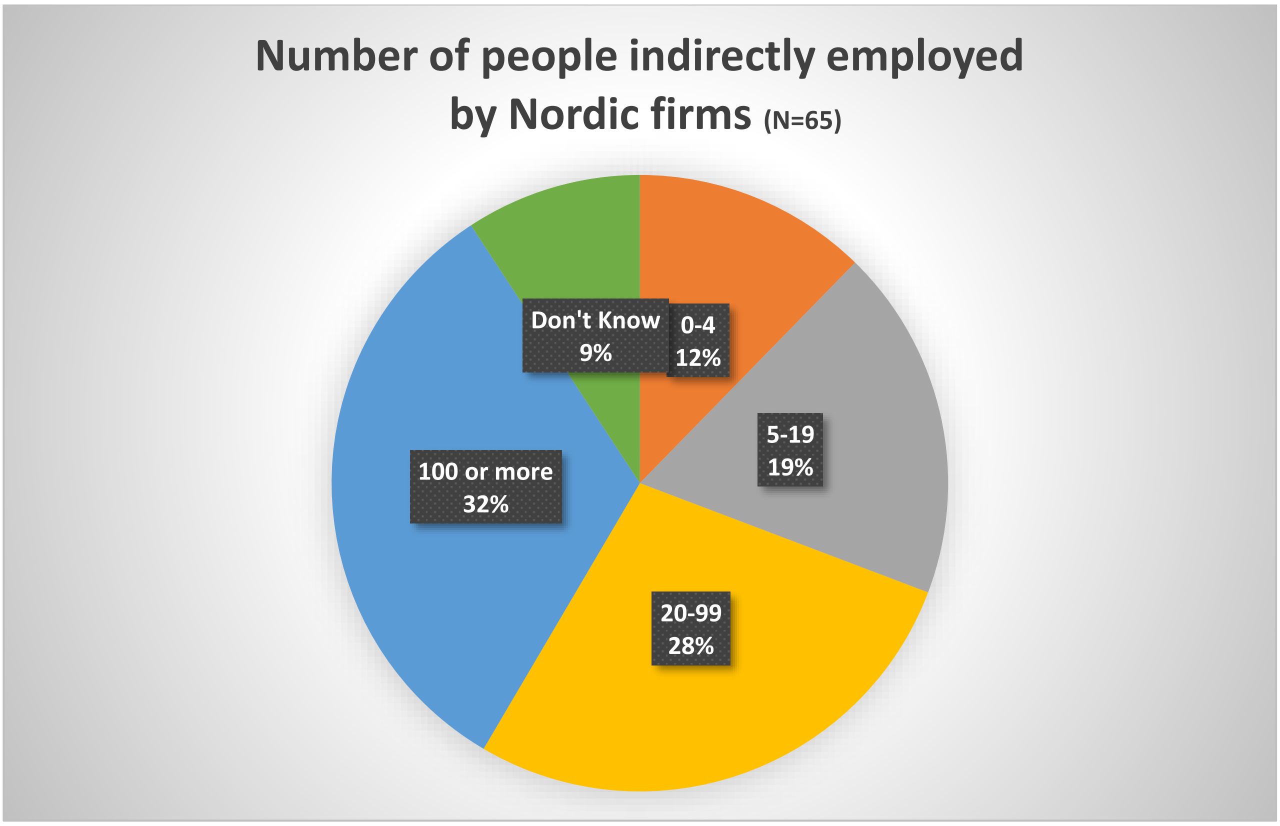
3.2 SMALL FIRMS DOMINATE NORDIC INVESTMENT

The size of a firm is an indicator of the market it operates, accessibility of capital, nature of operations, as well as the quality of labour it can readily access. Despite the considerable lengthy period of operation in Tanzania, nearly half of Nordic businesses remain small (48%) employing between 5 and 49 people, with few having progressively transitioned beyond the micro scale. This suggests that despite the allure of Tanzania's macroeconomic and political stability, the actual business environment offers limited practical scope for the growth of businesses.



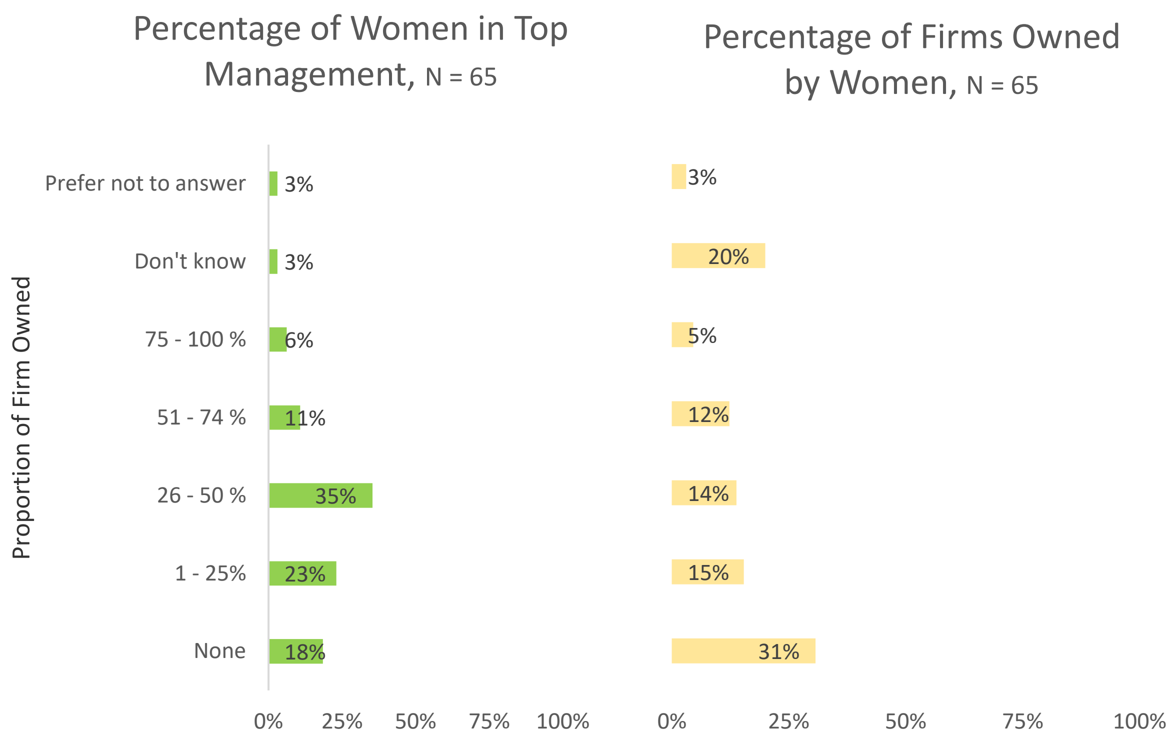
The 65 surveyed Nordic firms directly employ some 3,800 people in Tanzania with local Tanzanians accounting for over 4 out 5 employees (82%). Only 9 of the surveyed firms, largely small sized ones, do not have a single Tanzanian directly on their payroll. A closer interrogation of these outliers suggested 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.

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, a third (32%) of Nordic firms surveyed have created indirect employment for 100 or more Tanzanians. Firms with limited linkages to the domestic labour market are few at 12%, while some 9% of firms do not maintain count of their value chain networks.



3.3 NORDIC FIRMS ARE MORE DIVERSE THAN AVERAGE

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[ii]. Nordic companies in Tanzania embody the broader inclusion of women in business by having a degree of female ownership in half of all firms (46%), and female composition in top level management in 3 of out 4 firms (75%).



Percentage of Women in Top Management, N = 65
Percentage of Firms Owned by Women, N = 65
Proportion of Firm Owned
Prefer not to answer
Don't know
75 - 100 %
51 - 74 %
26 - 50 %
1 - 25%
None
3%
3%
6%
11%
35%
23%
18%
3%
20%
5%
12%
14%
15%
31%
0%
25%
50%
75%
100%

4.0 PERFORMANCE

4.1 BUSINESS PROFITABILITY

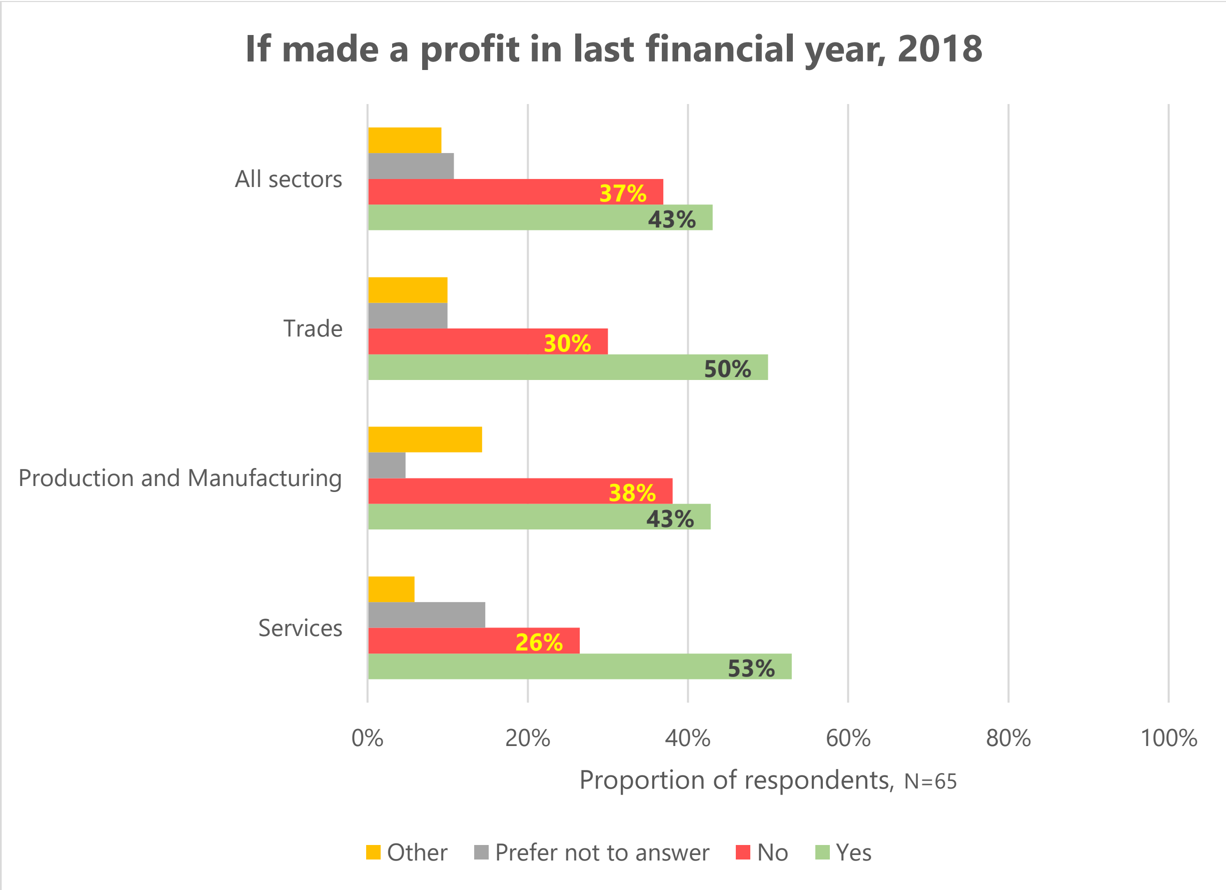
The operational performance of a firm is informed by factors both internal and external to the firm. Its internal factors include those directly under the control of the firm, including its workforce, production methods, marketing strategies, capital etc. Its external factors relate to rules, resources and actors that govern business activities and reduce the costs and risks of business activities and stimulate competition through new market entrants. These include territorial business and taxation laws and regulations, supporting value chains, consumer confidence, the macro economy, etc.

The 2019 Business Climate Survey for Nordic Companies in Tanzania examined the operational environment of firms by: first, enquiring about the respective profitability of firms (as a direct proxy of firm performance), and second, examining perceptions about the influence of specific features of the business environment. This section presents results of the enquiry on firms' profitability.

For the purposes of this enquiry, a firm's profits relate to a residual sum of earnings accounting for the explicit costs of doing business, such as operating expenses, labour, depreciation, interest and taxes. The profitability of firms is understood to be an indicator of a firm's performance given ability to reflect on the balance between a firm's revenues and expenditures, and thus acting as a metric for a firm's likely market behavior (entry or exit) in the future.

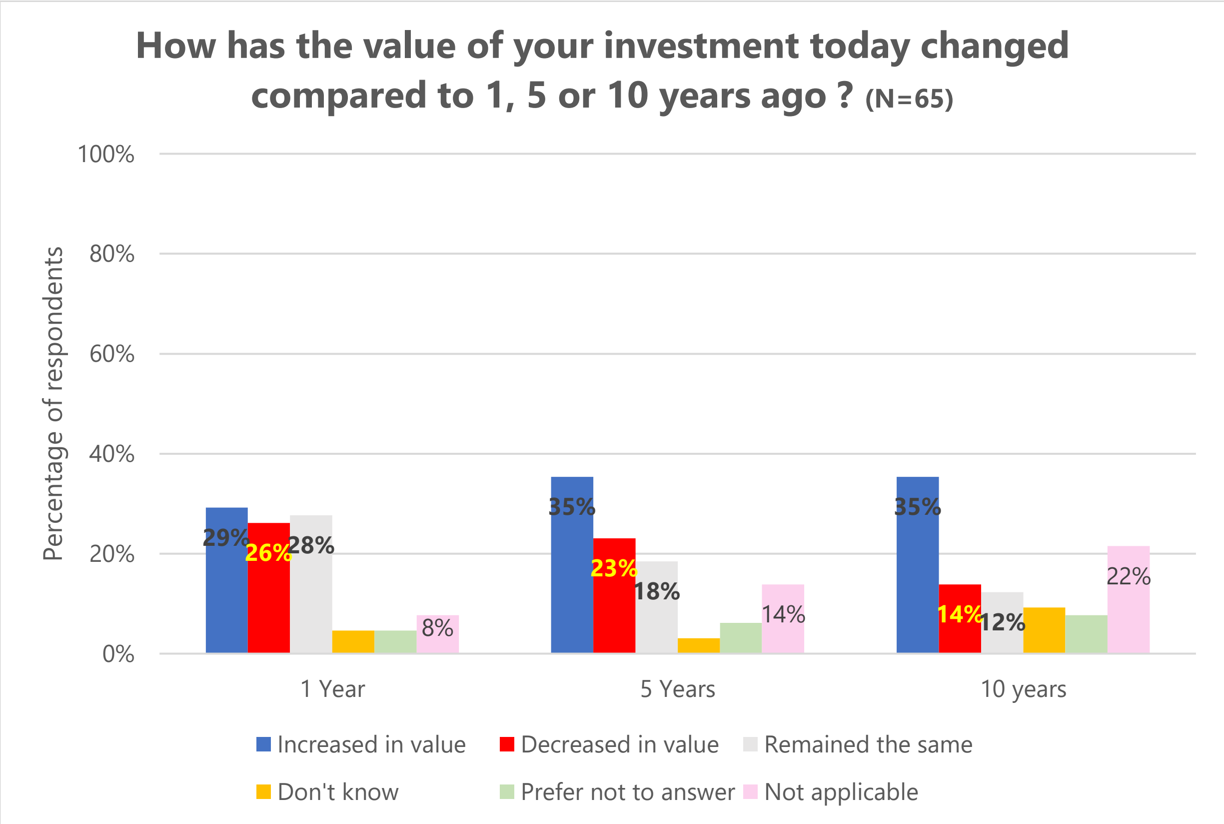
Less than half of companies (43%) made a profit in 2018. Nearly as many companies reported losses (37%) in their operations in 2018 as those that profited from their investment in Tanzania. These observations are consistent with acknowledged reversals in the business cycle which overall saw closures of 16,252 firms between July 2018 and April 2019[iii]. As a segment, firms operating in the services sector outperformed their counterparts elsewhere with slightly more than half (53%) recording profits in 2018. There were twice as many profitable firms in this sector as those making losses (26%). Overall, the chances of making a profit vis-à-vis a loss were equally likely for firms in production and manufacturing in 2018. There were more firms in trade recording profits (50%) than losses (30%).

Many companies associate their mixed fortunes in operations with the current prevailing business climate, a subject of which is explored in the subsequent section.


If made a profit in last financial year, 2018
All sectors
Trade
Production and Manufacturing
Services
37%
43%
30%
50%
38%
43%
26%
53%
0%
20%
40%
60%
80%
100%
Proportion of respondents, N=65
Other
Prefer not to answer
No
Yes

4.2 LONG TERM POSITIVE RETURNS TO INVESTMENT

Despite a slightly less positive feedback in 2018, historically Nordic firms have witnessed more increases in value of initial investment (35%) in the last 5 and 10 years relative to stagnancy in their investment. This affirmative observation provides some context for the incidence of profitability recorded last year, which is further explored below:



5.0 INVESTMENT CLIMATE AND BUSINESS ENVIRONMENT

In recent years measures to stimulate private sector development and foreign direct investment have focused on improving the business environment or investment climate. Such efforts are complemented by the regular ranking of countries, based on their respective scores on multiple features of the business environment. A country's score on the World Bank's Annual Doing Business Report or the World Economic Forum's Global Competitiveness Report has provided a telling barometer of the ease, effectiveness and efficiency of operating a business, and a useful metric against which investment decisions are made. The rationale behind such rankings has been simple, informed by the existence of a wide body of pro-market literature that has found positive association between firm performance in the areas of profitability, value addition, investments, formalisation and growth with simplified business registration, taxation and licensing procedures[iv]. Consistent with other developing economies, Tanzania has prioritised the improvement of its business environment and investment climate in its development discourse. Tanzania has also worked with Nordic development partners to identify and respond to common areas of concern over the business environment. Examples include the 2008-2013 Business Sector Programme Support jointly implemented with the Danish International Development Agency (DANIDA).

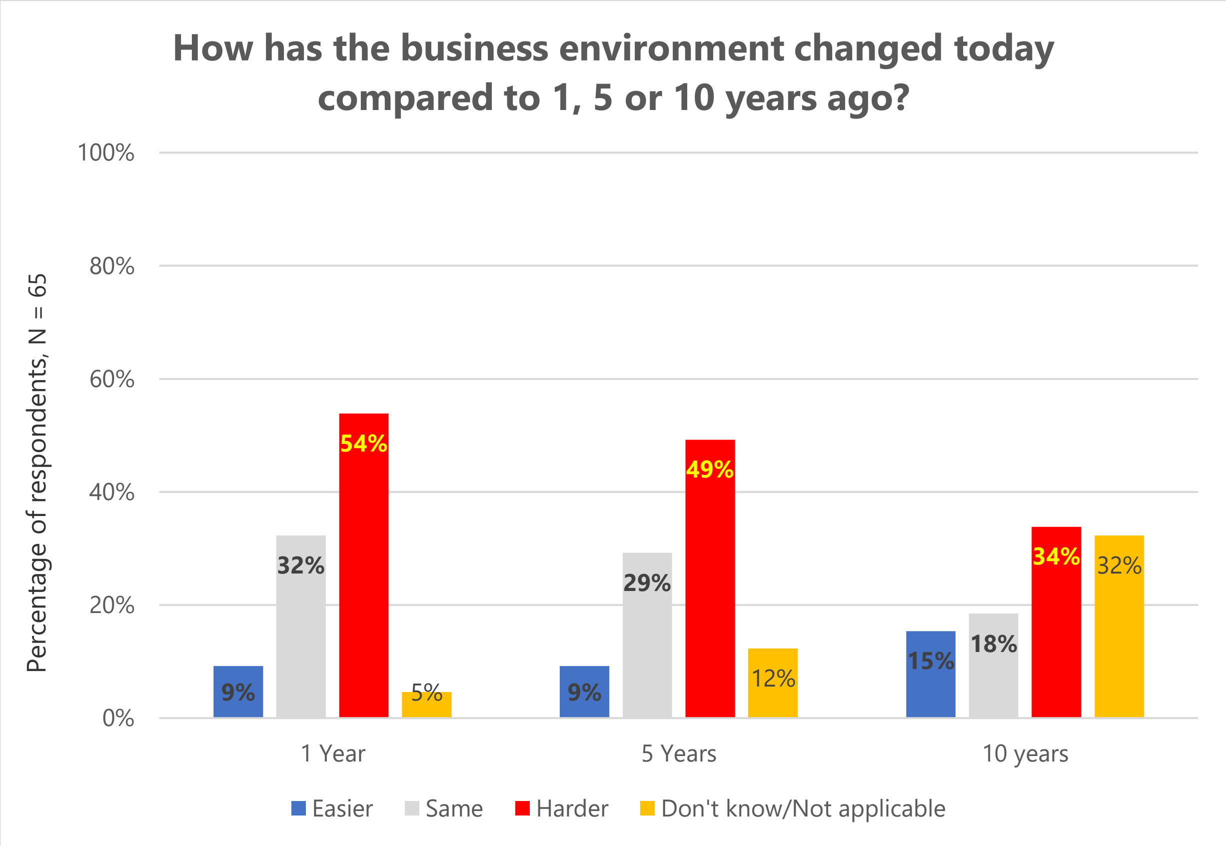
There have also been measures to mainstream reforms of the business environment in wider government policy. The current Five-Year Development Plan (FYDP II - 2016/17–2020/21) for instance, acknowledges that an unfriendly business climate stifles growth and competitiveness of domestic industry and frightens foreign direct investment (FDI)[v]. The plan which acts as the blueprint for development policy, prioritises reforms for improving the business environment and climate faced by firms along regulatory areas often assessed by the 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. The Government recently launched a dedicated blueprint for regulatory reforms to improve the business environment to complement ongoing reforms. The blueprint outlines specific areas that the Government seeks to address to overcome challenges and constraints affecting the growth of the private sector. Further, the Government has also pledged to utilise existing public-private engagement platforms including national, regional and district business councils to respond to remaining bottlenecks in the business environment.

Yet, despite its reform efforts, Tanzania has not fared well on international assessments of its business environment. The country's global rankings have continued to lag behind its neighbours and potential competitors for foreign capital. Despite improving its global rankings by three places, the country currently ranks at 141 out of 190 countries in the latest World Bank's Doing Business report for 2020. This is below its East African Community (EAC) and Southern African Development Community (SADC) neighbours[vi]. Of the 21 countries making up the EAC and SADC, only Angola, Burundi, the Democratic Republic of Congo (DRC), and South Sudan fare worse on the World Bank's Doing Business Report than Tanzania.

The 2019 Business Climate Survey examined perceptions about the lived experiences of Nordic firms operating in the current business climate, observations of which are summarized below.

5.1 BUSINESS CLIMATE VIEWED IN LARGELY UNFAVOURABLE TERMS

Recent policy and regulatory changes as well as geopolitical developments elsewhere have impacted the business environment that firms inhabit. When asked about changes to the operating environment over the last ten years, firms lamented a generally progressive worsening of the business environment in the period 2008-2018. The number of firms with a positive view of the business environment remained steady at 9% compared to 5 years ago. Nearly half as many firms had a positive perception of the 2018 business environment relative to 2008 (15%). Despite the Government of Tanzania implementing a blueprint for regulatory reforms to improve the business environment since 2018, a third of firms (32%) believe there were no changes, while more than half (54%) expressed fears about a worsening of the business environment in 2018. Reconciliation of these observations with those on current profitability, suggests an adverse effect that business environment could have exerted on those firms.



A qualitative examination of worsening perception of the business climate reveals that recent policy and regulatory reforms have among others, affected the relative stability of the taxation regime, changed standards and certification arrangements, reduced access to capital, and dampened consumer demand for goods and services offered by firms. A further enquiry of these perceived effects found that authorities, particularly the Tanzania Revenue Authority (TRA), are seen to have found it difficult to balance between own operational targets (mainly revenue targets) on one hand, and providing space for businesses to operate within the confines of the law on the other. Some firms suggest that, while the country's effort to gravitate towards a rules-based economic and business environment is a positive one, the enforcement of the rules, particularly on taxation matters need to be handled with more care. When probed further, firms report challenges with respect to the levels and types of tax payments, which are perceived to be excessive. These add to the difficulties of operating small foreign-owned businesses in Tanzania, as authorities assume that foreign firms are often rich and successful, against the fact that a small business in a developing sector/area can be struggling and loss-making at the beginning, whether foreign or locally owned. Thus, high taxes, fees, charges and licenses, most of which are flat, disproportionally affect small businesses.

Many companies feel that the authorities' pursuit of ambitious revenue targets have been counter-productive to the attraction and retention of private capital. There are beliefs within the Nordic investment community that the drive to boost public coffers has encouraged the adoption of measures and application powers that contradict the spirit of the very laws governing investment and revenues. They observe that payment of taxes should be procedural, rather than through harassment and threats of seizures of accounts and assets that results from small errors such one missed return that might have been caused by factors beyond the control of the firm.

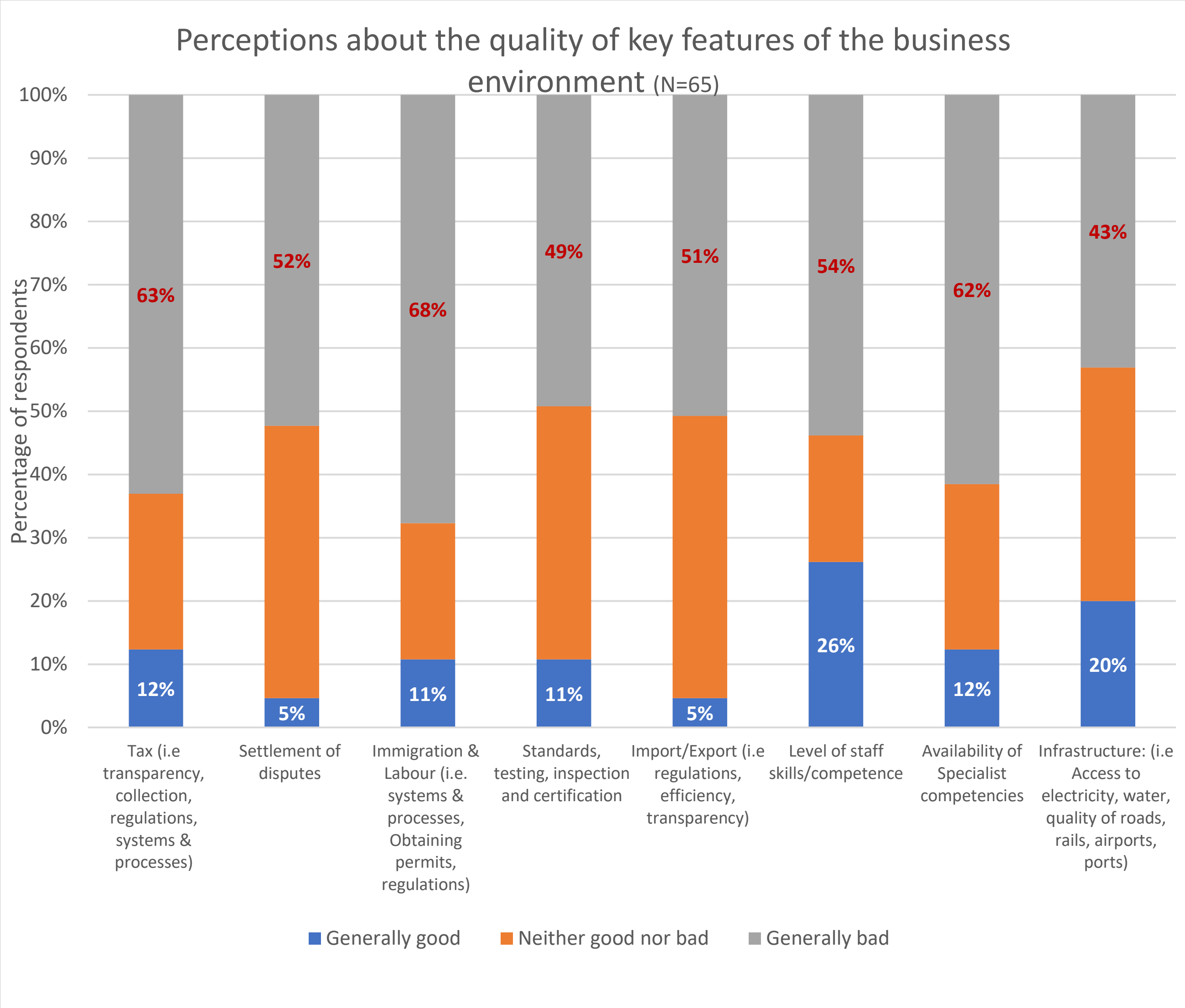
These dynamics have been all the more perplexing to some of the longest established firms in the country especially as the Government has itself been partly responsible for some constraints to the business environment. A particular case in point raised by some firms includes the Government not paying for the services rendered on time, sometimes with outstanding payments over many years; delayed issuance of VAT relief certificates on VAT exempted projects leading to material VAT liability for donor funded projects; and pension funds not keeping correct records on contributions.

These developments have altered firms' perceptions of their relationship with the Government, with many reluctantly conceding that there is an increasing distrust of the private sector by the public sector, an observation also shared by private sector's umbrella organization in Tanzania[vii].

5.2 LABOUR AND TAXATION REGULATIONS TOP CONCERNS OF FIRMS ABOUT CURRENT BUSINESS ENVIRONMENT

Identifying problematic components of the business environment is an important part of efforts to improve the investment landscape. When pressed about the relative quality of the business environment, an overwhelming majority of firms expressed general dissatisfaction with immigration and labour systems (68%), tax administration (63%), and the availability of specialist competencies (62%). These findings are consistent with the above reported disaffection with tax administration in Tanzania.

When inquired further, firms observed that challenges in labour regulations stemmed from the multiplicity of authorities with competing and occasionally overlapping mandates. This scenario created conditions for rent seeking even in instances in which advice and/or light reprimands would better suit the gravity of violations or oversights. Some firms observed that there are too many regulatory bodies such as OSHA, Fire, etc. which keep charging without the corresponding improvement in services they are expected to render. Such regulatory overload contributes to the cost of doing business because of the associated multiple taxes, fees and levies such as SDL, workers compensation, and pension contribution in relation to the output or productivity of labour.



Most firms perceive that the government's drive to improve revenue collection is not helped by the inadequate skilling and appreciation of the private sector among tax and other regulatory authorities. A widely shared opinion on this matter revolves around the observation that on the one hand, the mentality of the authorities does not put success of private firms as part of the objectives, and on the other hand, the same authorities do not share information among themselves based on their respective mandates on private sector development, and this is could be made worse by what appears to be lack of understanding on their part on the functioning of private enterprises.

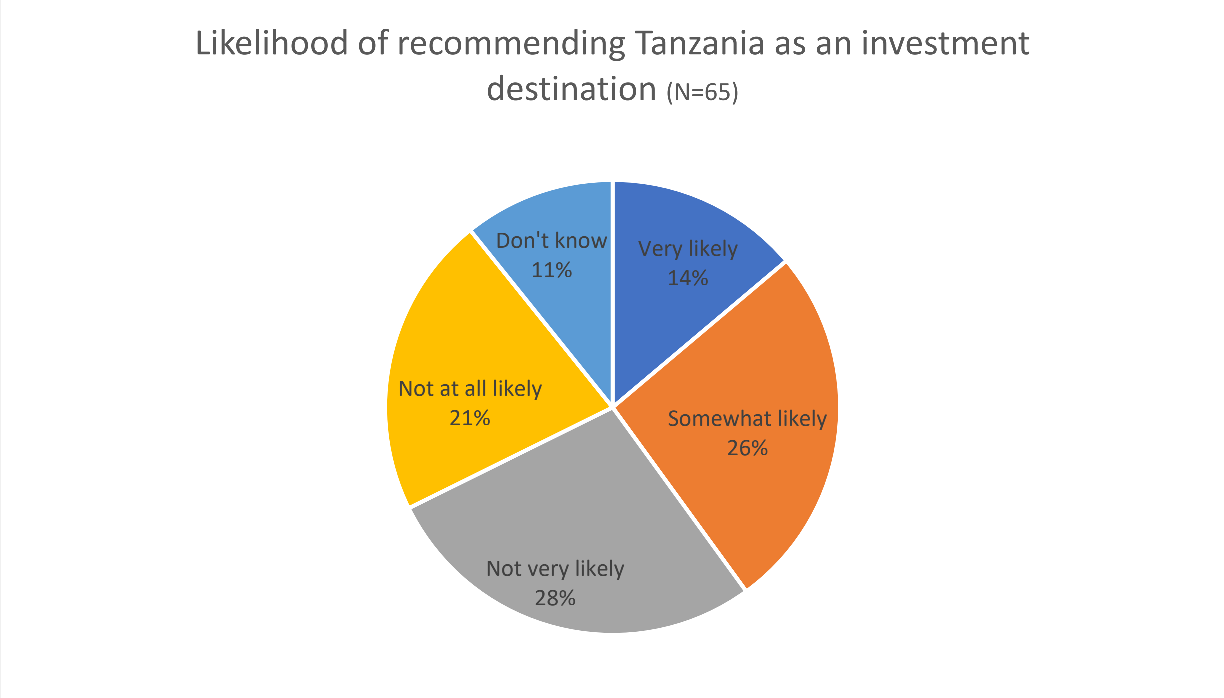
In addition to increasing the cost of compliance, the failure of the various regulatory agencies to coordinate their engagement with investors has also become a feature of perceived harassment by the firms, citing examples of unending cycles of tax audits associated with threats of huge fines or other legal actions.

5.3 BUSINESS ENVIRONMENT NEEDS A FAIRER APPLICATION OF RULES

Poor perceptions of the investment climate are also not helped by investors' concerns over the presence of different sets of rules applicable for them and those applicable for local entrepreneurs. Some surveyed firms believe that negative experiences at the hands of authorities could be linked to their nationalities. They perceive that foreign owned businesses tend to be disproportionately targeted by authorities that do not subject local competitors to the same levels of scrutiny. This has given investors the impression of being under a constant spotlight, with some authorities more interested in clamping down on missteps rather than habitualizing self-compliance. One operational area that has regrettably been a bête noire has been the investors and their workforce's immigration status. Investors often encounter a disproportionate amount of scrutiny over their immigration statuses, with the number of impromptu checks and sanctions forcing many to invest heavily on compliance at the expense of capital development and other competitiveness enhancing measures.

5.4 SOME INVESTORS UNLIKELY TO RECOMMEND TANZANIA TO OTHERS

The number of investors unwilling to recommend Tanzania as an investment destination exceeds those that do. Almost half (49%) of surveyed firms observed that they were unlikely to recommend Tanzania as an investment destination to other foreign investors.



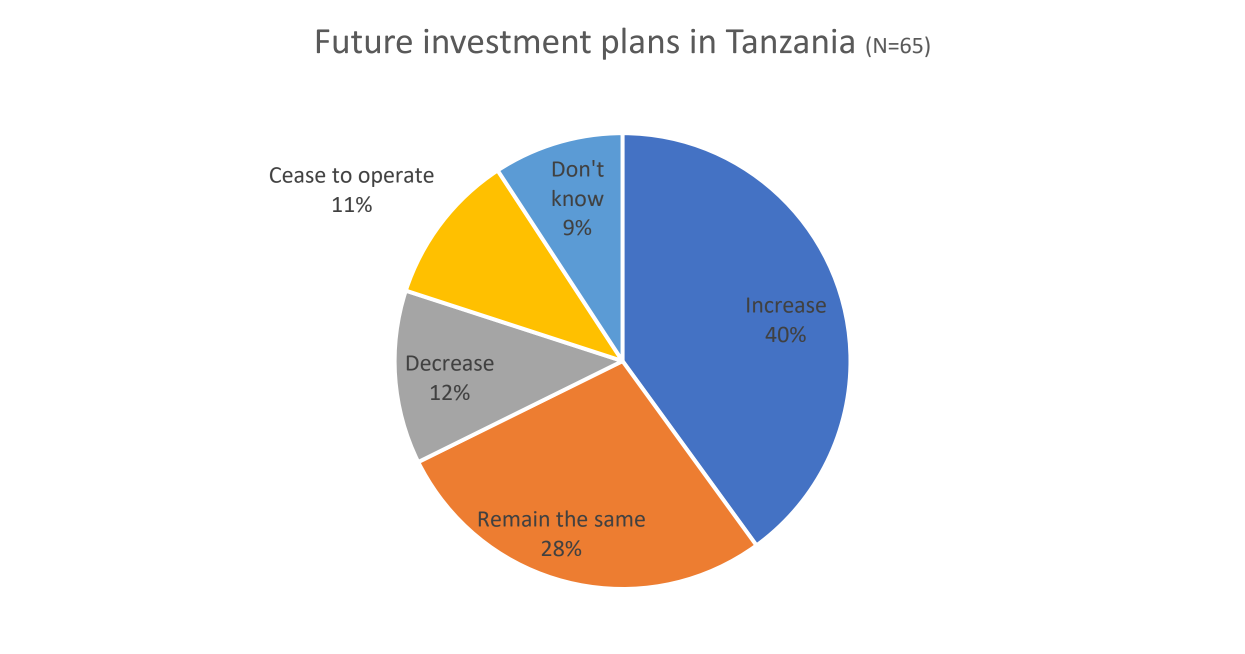
At the extreme end, investors unwilling to market Tanzania lament continued bureaucracy and corruption as detrimental to the country's attractiveness to foreign capital. They cite hostilities and at times coercion for small investors unable or unwilling to bribe, and the bureaucracy that works against instead of supporting investors. Others point to difficulties in the use of imported labour and unmet promises by the authorities with respect to work permits, citing for example the continued need to renew their resident permits annually, and other restrictions such as ownership of land.

At the other end, more upbeat investors view recent legislative reforms as catalytical in extending opportunities and returns for foreign capital. These views are reinforced by observed increase in compliance drive, investments in infrastructure and other fundamentals of the economy. Optimistic investors see the sustenance of the reform momentum as key to rebuilding the private sector's confidence in the prospects offered by the national economy. An optimistic and confident private sector remains essential to the realization of Tanzania's medium- and long-term development visions of building a broad, inclusive, competitive and sustainable economy.

6.0 FUTURE OUTLOOK

POSITIVE OUTLOOK FOR THE FUTURE

Despite challenges to the business environment, a slightly more than one third of the surveyed firms (40%) remain optimistic about their future prospects in Tanzania and intend to increase their investment in the country.



Slightly more than a quarter of firms (28%) indicated a desire to consolidate with expanding their investment in the domestic market. Nonetheless, a combined third of all firms indicate a desire to either scale back their investment (12%), cease operations (11%) or uncertain about their returns in Tanzania (9%). Firms intending to upscale their business in Tanzania cited the need to “enhance efficiency” and realize “economies of scale” for their positive outlook. Similarly, those seeking to consolidate operations expressed confidence following recent reforms by the Government, particularly the unveiling of the blueprint which they consider as having potential to weed out bureaucracy, improve response times and cultivate mutual trust between the public and private sectors. Those that have scaled back, for example by reducing production capacity and workforce lamented successive deterioration of the business environment and seeing limited opportunities for a remedy. Ironically, some firms see the planned departures by others as opportunities to consolidate their own market shares and presence.

7.0 CONCLUSIONS AND RECOMMENDATIONS

7.1 CONCLUSIONS

This survey reveals increasing willingness of Nordic firms to constructively engage with public authorities to resolve the highlighted bottlenecks. Firms acknowledge the need to rebuild trust with authorities in light of some high-profile unethical practices by elements of the private sector in the past. Sustained economic growth and demonstrated commitment to further business environment reforms continue to provide assurances about the prospect of Tanzania as an investment destination and trade gateway, buoyed by its favourable geography and positive internationalism. Despite the overall positive outlook, there are constraints that present setbacks to Tanzania in its reputation as an investment haven. These includes bureaucracy, a complex tax regime and administration, corruption and labour market inefficiencies. As a result, a significant number of firms continue to report downturns in profit, uncertainty about future operations, and an environment that is unfriendly for enterprise development. A stepwise rapprochement between the interests of the public and private sector remains key to unlocking mutual benefits.

7.2 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 consider in stemming the tide of resentment, disappointment and potential future outward flight of capital from the country, while sustaining those with positive future outlook. The recommendations, outlined below, are also informed by other studies on the business environment and investment climate in Tanzania also referenced in this report:

Expedited implementation of existing policies and strategies is critical: Various policies and strategies to transform the business environment have been adopted yet implementation remains slow and set targets have been missed. Accordingly, the starting point should be effective implementation of the various policies and strategies so far adopted. Successful transformation of the business and investment climate requires effective and expedited implementation of targeted industry specific reforms. Clear activities, targets, timeframes and outcomes and should be set and regular monitoring and evaluation undertaken to ensure set targets are met within prescribed time. As Tanzania is making frantic efforts to overcome handicaps undermining its competitiveness, leapfrog from the bottom of international competitiveness benchmarks and participate more significantly in the global supply chain, clear measurable milestones should be set.

Improving factor productivity: Weak production base and low factor productivity is a major challenge affecting business operations in the country. Accordingly, there is urgent need to adopt policies to increase the availability of skilled and trustworthy labour in the productive sectors of, agriculture, manufacturing and key logistic services, especially for small and medium scale enterprises. This requires better alignment of the curricula and delivery of higher education as well as technical and vocational training, taking into account the contemporary needs of firms. Access to other non-personnel inputs and finance need to be improved. Adoption of productivity-enhancing technology, research and extension coverage, strengthened research-extension linkages, effective extension models, expanded and inclusive private sector role are all important to incentivize expanded marketed production.

Streamlining tax administration: *Tax administration issues* appears to be at the heart of Tanzania's weak business and investment competitiveness and diversification. While several reforms have improved the functioning of TRA, the national revenue infrastructure remains problematic, including the multiplicity of taxation which hinder value chain upgrading, thus undermining its capability to support a competitive business ecosystem. Consolidated (but itemized) tax bills outlining taxes, fees and other charges should be established to provide predictable, efficient and flexible payment of taxes as well as an expedited system of rebates.

Private sector drive: To sustain a competitive business environment it is important to integrate and promote expanded and inclusive private sector-driven value chain development, facilitate viable public-private partnerships in developing production bases in agriculture, manufacturing and service sectors. This would contribute to much needed expansion in employment opportunities. Realisation of enterprise competitiveness, diversification and value chain upgrading will continue to remain an uphill task for Tanzania, unless there is a smart industrial policy, and public and private investments to catalyse it.

Policy and regulatory reforms: Regulatory overload is affecting business competitiveness hence there is need to accelerate the already initiated blueprint for regulatory and policy reforms to rationalise and stream line the existing regulatory framework for enterprise and investments. To unleash the potential for existing enterprises, public sector reforms are required to rationalise and reduce the number and cost of business and licenses, and streamlining of procedures for attraction and retention of high-end skilled foreign labour. Unnecessary rigidity in technical regulations which result in time consuming and expensive procedures for approving residence permits should be addressed by allowing for increased use of equivalent qualifications from other countries, akin to that used by the Tanzania Commission for Universities (TCU).

Active promotion of increased domestic integration of foreign enterprises: There is a need to identify and adopt the champion approach to advance increased integration of foreign enterprises in domestic value chains. Increased integration will allow domestic partners of foreign enterprises to leverage on their reputation and achievements to intervene between small scale producers, processors, traders, retailers, exporters and the formal banking sector to provide sufficient credit and technical support to their members (especially women) towards enhancing their competitiveness to scale up, increase retail outlets and access both regional and international (i.e., European, Asian, and American) export markets.

Coordinating the national and international multi-stakeholder approach in the provision, implementation and enforcement of the appropriate regulations and legislations: Businesses in Tanzania encounter challenges regarding the unavailability as well as poor quality of inputs, insufficient trust with authorities, and other regulatory bureaucracy which hinders their operations and sour future prospects. These are peculiar challenges that require multi-stakeholder involvement at both national and international levels. It is also imperative that regulations are practical and well understood by all value-chain actors, while ensuring that implementation and enforcement costs are not unduly placed on select groups of entrepreneurs.

(Re)Building Mutual Trust between investors and authorities: Underpinning most of the operational challenges facing firms in Tanzania are concerns over the levels of trust between them and the authorities. Complaints of threats, intimidation, coercion and unnecessary bureaucracy when dealing with authorities at the local and national levels remain widespread among the business community. Treating all businesses with suspicions following the actions of a few unscrupulous ones undermines the attractiveness of the country as an investment destination. Firms acknowledge the need to rebuild trust with authorities in light of some high-profile unethical practices by elements of the private sector in the past. Stepwise rapprochement remains key to unlocking mutual benefits for both parties.

Promote Good Self-Governance by the Private Sector: International best practices suggest that good self-governance is key to the development and sustenance of private sector participation in the economy. Self-governance by the private sector entails the definition, promotion and adherence to norms and values of good conduct by the private sector itself. Self-governance helps the private sector interface with the Government by mobilising common understanding and support of what the private sector needs to effectively co-exist with the Government.

Self-governance involves self-evaluation, corporate social responsibilities, standards, disclosure requirements and codes of conduct. Collectively, these are common tools that enhance the transparency of private enterprises. Client surveys and employee reviews are two highly efficient measures to collect vital feedback on the conduct and performance of the private sector. Similarly, accounting standards and audit requirements encourage the private sector to maintain timely and accurate accounts of their finances, stocks, assets and liabilities.

In the area of corporate governance empirical research shows that the private sector in Tanzania remains vulnerable to limited awareness and lack of utilisation of acceptable standards; good corporate governance; adequate record-keeping; good accounting or bookkeeping practices as well as lack of market information. Continued absence of sound corporate governance increases management risks, mutual distrust, and undermines coordination of engagement platforms with the Government.

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