

## Examining the Institutional Framework for Investment in Tanzania: A perspective from the Executive Opinion Survey, 2012-13

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### Key messages

- Tanzania is currently one of the least competitive economies in the world, however, ranking 120 out of 144 economies measured in the 2012/3 Global Competitiveness Report.
- Competitiveness is hampered by inadequate infrastructure, low use of technologies (such as the internet) and the poor health and education of its citizens.
- A number of weaknesses detract investors from the country including terrorist threats, unethical business behavior, weak auditing and reporting, and inadequate protection of land, property and intellectual property rights.
- The government and its partners should work to ensure that: institutional reforms to strengthen the institutional framework for service delivery should continue at a gradual pace; policymaking and dialogue is more transparent; property and intellectual property are better protected; the tax system is simplified; and alternative dispute settlement processes are established.
- Investment and growth are likely to decline in Tanzania unless the country's institutional systems become stronger, and the many administrative and legal obstacles facing the private sector are addressed.

### Overview

This policy brief looks at the country-level findings from the 2012/13 Global Competitiveness Report prepared for the World Economic Forum; highlights the current institutional set up in relation to investment; and identifies institutional and policy reforms that could stimulate growth and make Tanzania more competitive on the global market.

### Report Findings

According to the Global Competitiveness Report Tanzania is currently one of the least competitive economies in the world, ranking 120 out of 144 economies measured in 2012/3. Since slightly different indicators, economies and information sources are used in different years, annual reports cannot be directly compared. However,

the overall impression is that Tanzania is slipping – or at best plateauing – in terms of its global competitiveness. (The country ranked 100 out of 133 in 2009/10, 113 out of 139 in 2010/11, and 120 out of 142 in 2011/12).

As a ‘factor driven economy’ (see box 1), Tanzania’s competitiveness hinges upon well-functioning public and private institutions, appropriate infrastructure, a stable macroeconomic framework, good health and primary education. Reviewing these four key aspects (or pillars), the Global Competitiveness team reported a mixed picture.

On the positive side, the report found that the country is moderately good at setting up institutions to attract and facilitate investment (ranking 86/144). Regulations in Tanzania are not overly burdensome for investors (58<sup>th</sup>); the government deals “relative evenhandedly” with the private sector (56<sup>th</sup>); and some aspects of the labor market – such as the high number of female employees (5<sup>th</sup>) and reasonable redundancy costs – support efficiency.

On the less encouraging side, the report found competitiveness in Tanzania hampered by its underdeveloped infrastructure (132<sup>nd</sup>); poor quality education system; extremely low rates of enrollment rates at secondary and tertiary levels (137<sup>th</sup>); the very low use of information and communication technologies, such as the Internet (122<sup>nd</sup>); and the poor health of its workforce (113<sup>th</sup>).

Adding detail to this picture, the report identified a number of specific weaknesses that were detracting and discouraging investment. Negative aspects of doing business here include: the cost of defraying terrorist threats (120<sup>th</sup>)<sup>1</sup>, irregular payments and bribes (116<sup>th</sup>), weak auditing and reporting standards (114<sup>th</sup>), unethical behavior (109<sup>th</sup>), inadequate protection of property and land rights (106<sup>th</sup>), unreliable police services (102<sup>th</sup>), and inadequate safeguards for intellectual property rights (97<sup>th</sup>).<sup>2</sup>

Findings from the 2012/3 Global Competitiveness Report are mirrored in many key aspects by a recent report from the World Bank which rated Tanzania 134 out of 185 economies measured in terms of ease of doing business (see: *Doing Business 2013*). This report highlighted a number of legal and regulatory barriers to investment including delays in obtaining land, business licenses and permits; difficulties enforcing contracts; stringent labour regulations; and difficulties in clearing goods through the country’s main port.

The two reports – along with other publications<sup>3</sup> – indicate that there is a great deal to do to make Tanzania friendlier to investors. Together, these weaknesses reduce productivity, security, job creation, investment and will need to be addressed for sustainable growth and poverty alleviation.<sup>4</sup>

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1 Terrorism, and particularly the threat posed by Somalian piracy, is a concern for the oil and gas companies that have moved into Tanzania in recent years and are drilling in its offshore waters.

2 If large firms are to invest in innovations, they need to be able to safeguard a high return on their investment.

3 See also, the World Bank and Regional Program on Enterprise Development (2009) and the Transparency International Corruption Perception Index, 2012.

4 See, for example, Dollar et al (2003 & 2005); Kinda (2010); World Bank (2005 & 2010); Rodrik et al (2004); Knack and Keefer (1995); Ojah et al (2010), and Rutaihwa (2012).

## Box 1: About the 2012/3 Global Competitiveness Report and Index

Two sources of information were used to capture data for the 2012/13 Global Competitiveness Report: the Executive Opinion Survey (which gathered the views of 100 business executives in Tanzania), and internationally hard data sources (for example, reports published by the United Nations).

In 2012/3, the report was compiled based on 113 indicators or variables, which were organised into 12 pillars. Each pillar is considered an important driver of productivity or prosperity, and each is given different weight according to the economy assessed. Tanzania is considered a 'factor-driven' economy (as opposed to an 'efficiency-driven' or 'innovation-driven' economy). As such it is characterised by an unskilled labour force, the buying and selling of natural resources, low productivity and low wages.

The report uses the Global Competitiveness Index (GCI) to measure both the microeconomic and macroeconomic foundation of national competitiveness; it takes into account both static and dynamic components. Competitiveness is defined by the institutions, policies, and other factors that determine productivity. Productivity determines the ability of a country to sustain high-income levels, and is a key determinant of investment returns and economic growth.

## Recommendations

Tanzania has many competitive assets. It is a gateway to trade for numerous land locked countries, and has abundant natural resources. However, there are constraints to investment in Tanzania at the institutional, administrative, policy, and legal level. This brief specifically addresses those affecting the institutional set up in the country and recommends that the Government and its partners should work to ensure that:

- Institutional reforms to strengthen the institutional framework for service delivery should continue at a gradual pace;
- Policymaking and policy dialogue is more transparent, and inputs from the private sector are encouraged;
- Property rights are better protected (through improved land registries etc.);
- Intellectual property rights are better protected (through a new integrated policy);
- The tax system is simplified to encourage compliance and broaden the tax base;
- Alternative dispute settlement processes (arbitration, mediation etc.) are established and strengthened to address investment issues.

## Conclusions:

The implication from the Global Competitiveness Report is that investment and growth are likely to decline in Tanzania unless the country's institutional systems become stronger, and the many administrative and legal obstacles facing the private sector are addressed. The benefits of both foreign and domestic investment are many, and include increased employment, exports and economic growth. Overcoming the obstacles to investment will be critical if the country is to make the most of its competitive advantages.

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