



## Business environment and enterprise competitiveness, diversification and value chain

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### Key Messages

- Despite the allure of Tanzania's macroeconomic and political stability, some aspects of the business environment are perceived to have deteriorated and could limit the competitive business ecosystem's scope.
- Regardless of, the quality of the migration and labour systems in the country, investors are frustrated by cumbersomeness prolonged work permit application processes and annually requirement for a renewal of resident permits.
- The uncertainty of policies, over-regulation, multiple taxations, labour, and immigration constraints are among investors' main business environment concerns to increase the investment base in Tanzania.
- In the face of challenges to the business environment in the country, investors remain optimistic about their prospects in Tanzania as potential investment heaven in Africa.

### Introduction

Different development policies and strategies have informed and shaped the direction of Tanzania's investment policy. Key among them is the Tanzania Development Vision 2025, developed in the late 1990s. The vision aims to achieve a strong competitive middle-income economy by creating sound macroeconomic policies, adequate and reliable infrastructure, quality education, effective utilisation of domestic resources, higher productivity, and strengthening the capacity to anticipate and respond to external changes effectively. The vision has been accompanied by several other initiatives including the formation of Tanzania Investment Centre (TIC) 1997, Business Sector Programme Support (2008-2013), First Five-Year Development Plan (2011/2012-2015/2016), Second Five-Year Development Plan (2016/17-2020/21), Blueprint for Regulatory Reforms 2018, and the utilisation of the existing public-private

engagement platforms (national, regional and district business councils). Indeed, Tanzania has remained an attractive destination for foreign direct investments (FDIs); it counts among the ten most prominent FDI recipients in Africa (UNCTAD, 2020). The country's commitment to implementing sound macroeconomic policies, abundant natural resources, and efforts to improve the country's business environment accounts for FDI receipts.

Despite its efforts and various reforms, Tanzania has not fared very 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. While its global rankings have been increasing from 120 in 2015 to the current 117 out of 141 countries in the latest 2019 Global Competitiveness Report, only Burundi fare worse than Tanzania among its East African Community.

In spite of FDI inflows in Tanzania reaching USD 1,1 billion in 2019 (UNCTAD, 2020), private capital developments have been circumscribed by incoherent coordination of private capital and utilisation; unsustainable operations of the private sector, particularly small enterprises; an unfavourable and at times unstable legal and regulatory framework that is necessary for attracting and retaining international capital; incoherent governance mechanisms; and unequal access to opportunities.

Further, the sluggish growth of the domestic private sector and adverse dynamics in the national and global economies that have seen overall declines in returns to investments pose considerable challenges to Tanzania's general desirability as an investment destination in the short and medium-term.

This policy brief outlines some key findings from a survey of Nordic firms operating in Tanzania conducted in October and November 2019.

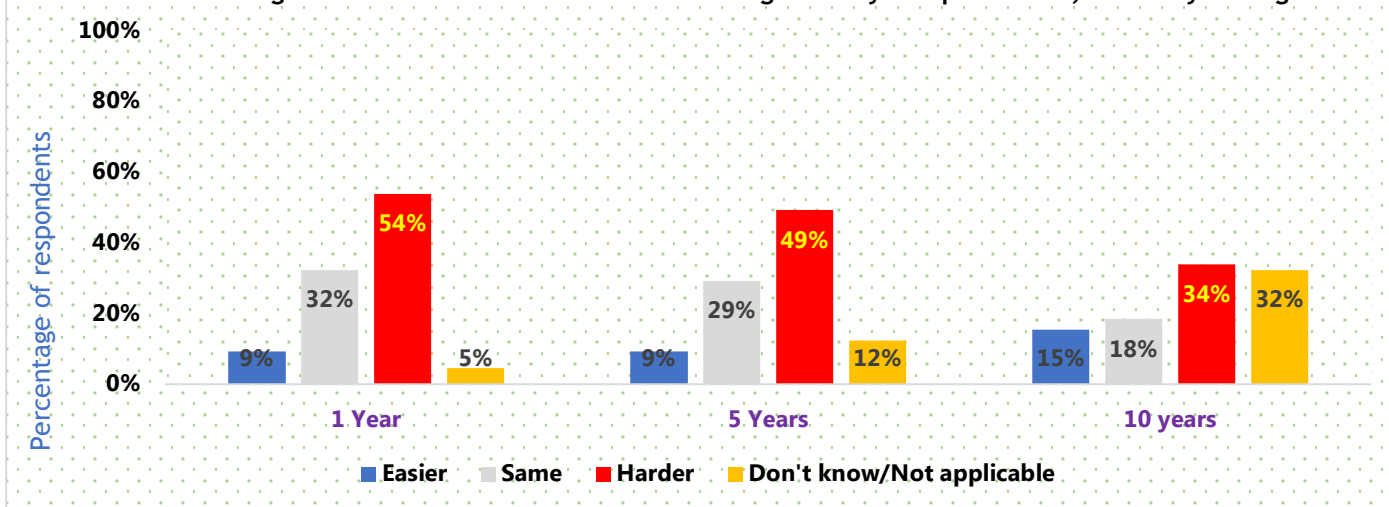
The survey comprised of quantitative and qualitative assessments of perceptions of 105 sampled firms on the business environment. 65 firms responded to the quantitative survey, and a snowball sample of 30 firms yielded 60 per cent response to a qualitative survey.

## Findings

### Limited improvement in overall Business Environment

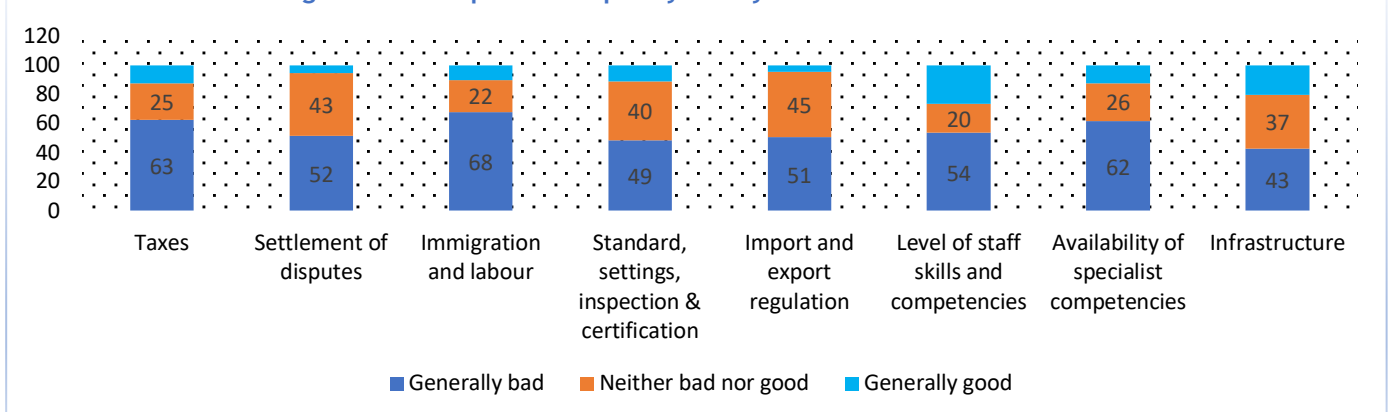
While the Government of Tanzania began to implement a blueprint for regulatory reforms to improve the business environment since 2018, the firm's perceptions on the business environment did not appear to signal improvements. More than half (54%) of respondents expressed fears about a worsening business environment in the last 12 months (Figure 1, below). A further third of firms (32%) believed there have been no changes, while less than 1 in 10 firms (9%) held a positive view of the business environment.

Figure 1: Has business environment changed today compared to 1, 5 or 10 years ago?



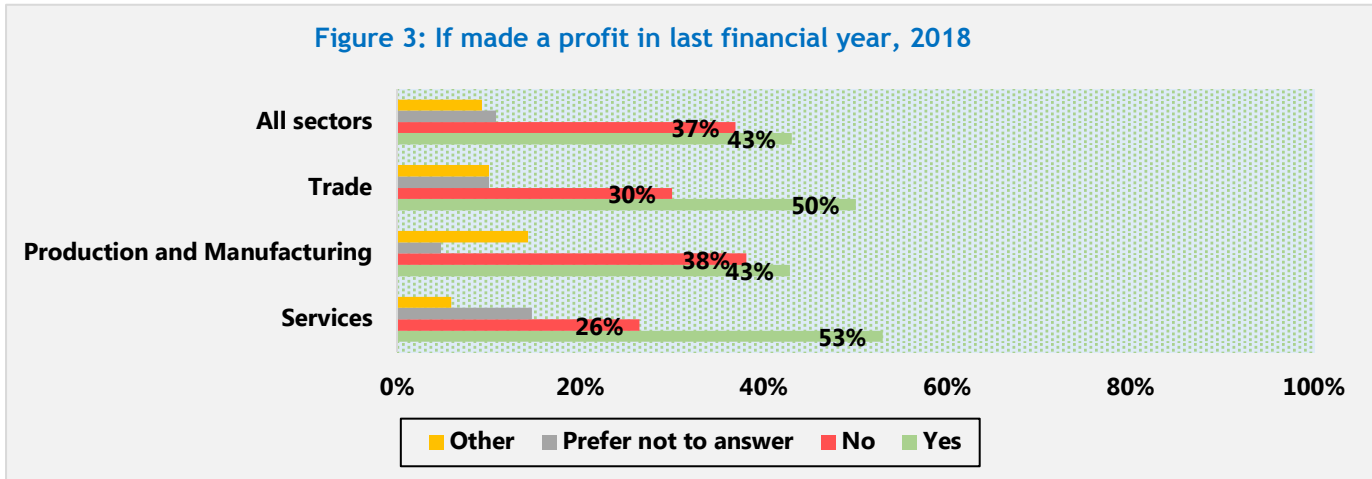
When asked to qualify their responses, firms drew on their experiences from various business environment features. An overwhelming majority of firms expressed general dissatisfaction with immigration and labour systems (68%), tax administration (63%), and the availability of specialist competencies (62%). Adverse perceptions about the quality of the migration and labour systems are associated with frustrations over perceived cumbersomeness of work permit application processes, while tax administration is associated with the seemingly opaque and sometimes poorly coordinated engagement that TRA has with investors. Furthermore, the firms observed challenges emanating from the presence of multiple revenue levying and regulating authorities—for example, TRA, LGAs and standards agencies—with occasionally overlapping mandates. Such regulatory overload is considered detrimental to the cost of doing business because of the multiple associated taxes, fees, levies, and expenses associated with compliance.

Figure 2: Perceptions on quality of key features of the business environment



## Effects of the Business Environment on Firm Performance

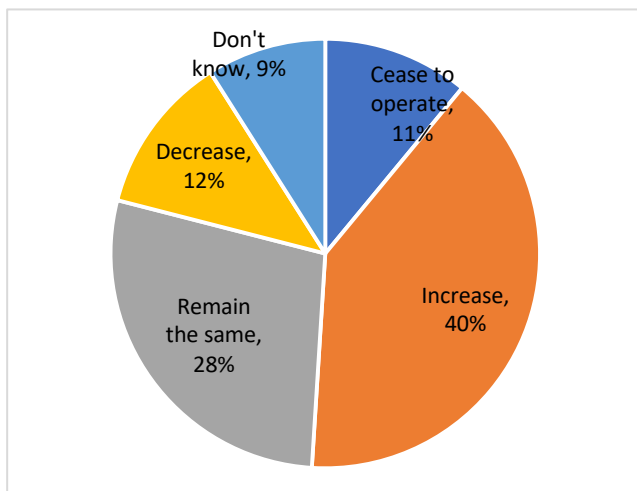
Less than half of companies (43%) made a profit in 2018. Nearly as many companies reported losses (37%) in their operations in 2018 as those that profited from their investment in Tanzania. These perceptions appear to be consistent with acknowledged reversals in the business cycle which saw closures of over 10,000 firms between July 2018 and April 2019<sup>1</sup>. 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%).



## Effects of the Business Environment on Firm Prospects

A slightly more than one-third of the surveyed firms (40%) remain optimistic towards future business prospects and intend to increase their investment base in the country. Of these firms with positive prospects, about 27% have operated for more than 7 years in the country compared to 16% who operated for less than 7 years.

**Figure 4: Future investment plans in Tanzania**



Nonetheless, a combined third of all firms indicate a desire to either scale down their investment (12%), cease operations (11%) or uncertain about their returns in Tanzania (9%). However, firms that are anticipating to upscale their business desired to enhance efficiency and realise economies of scale; similarly, those seeking to consolidate operations have confidence over the recent policy reforms and investment in infrastructure while those intending to scale-down lamented on the successive deterioration of the business environment.

## Conclusions and Policy Recommendations

Tanzania's vision to be a dynamic and competitive economy is feasible, but this requires further efforts to attract both domestic private investment and FDIs, which will, in turn, create employment and generate income for further economic growth. Sustained economic growth and demonstrated commitment to further business environment reforms continue to provide assurances about Tanzania's prospect as an investment destination and trade gateway provided by its favourable geography and relative peace and political stability. Despite the overall positive outlook, there remain constraints in the business environment that present setbacks to Tanzania in its reputation as an investment haven, including bureaucratic procedures, complex tax regime and administration, corruption, and labour market inefficiencies. Thus, the government's attention to monitoring and enforcing the already initiated reforms and efforts to alleviate such constraints is warranted to ensure that the business regulatory regime supports the contemporary competitive global economic and business domain.

The following recommendations are made from these findings: First, the continued dialogue between the government, regulatory agencies, and the private sector is necessary given their mutual interdependence. These dialogues will help to inform the review and harmonisation of the legal and regulatory environment for the business environment to avoid unforeseen ambiguities and frequent policy adjustments that may have unintended consequences for business performance, competitiveness, and investment attraction.

Second, the government should consider a further review of tax policy and administration for possible

consolidation of taxes, further simplification, and transparency in tax procedures for assessment and collection of taxes, fees and other charges in ways that provide predictable, efficient and flexible payment of taxes as well as an expedited system of rebates to enable business expansion, value chain upgrading and competitive business ecosystem in the country.

Third, to sustain a competitive business environment, it is important to promote expanded and inclusive private sector-driven value chain development strategy that will facilitate viable public-private partnerships in agriculture, industry, and service sectors which will contribute to much-needed employment opportunities.

Fourth, it may be worthwhile to initiate a policy impact evaluation barometer and monitoring systems to regularly assess the effectiveness and impact of investment policies and regulations on the country's business environment in the context of the evolving global

and investment trends.

Fifth, the upgrading of skills and professionalism in the workforce should be prioritised through well-organised curricula in the provision of a dual-track system of higher education and vocational and technical training that address contemporary and future global needs to avoid relying on external expatriates or specialists in the key productive sectors of the economy.

### Bibliography

UNCTAD. (2020). The World Investment Report, International Production Beyond the Pandemic :United Nations Conference on Trade and Development (UNCTAD). Washington, D.C: United Nation.

<sup>i</sup> See the Guardian on Sunday (2019) 'Economy healthy even as over 10,000 businesses close down', *The Guardian*, 16 May. Available at: <https://www.ipmedia.com/en/news/economy-healthy-even-over-10000-businesses-close-down> (Accessed: 1 November 2019), and Materu, B. (2018) 'Tough year for Tanzania businesses', *The East African*. Online, 31 December. Available at: <https://www.theeastafrican.co.ke/business/Tough-year-for-Tanzania-businesses/2560-4916460-bnq185/index.html> (Accessed: 11 January 2019).



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