INSTITUTIONAL ANALYSIS OF ENTERPRISE DEVELOPMENT AND COMPETITIVENESS

CHALLENGES AND OPPORTUNITIES FOR TANZANIA

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AfDB	African Development Bank
ASIP	Annual Survey of Industrial Production
BCI	Business Competitiveness Index
BOT	Bank of Tanzania
COSTECH	Tanzania Commission for Science and Technology
CPIA	Country Policy and Institutional Assessment
EAC	East Africa Community
EDC	Enterprise Development and Competitiveness
FCC	Fair Competition Commission
FDI	Foreign Direct Investment
FE	Fixed Effects
GCI	Growth Competitiveness Index
GDP	Gross Domestic Product
IAD	Institutional Analysis and Development
ILO	International Labour Organization
MITI	Ministry of Industry Trade and Investment
MSMEs	Micro Small and Medium sized Enterprises
NEEC	National Economic Empowerment Council
QoG	Quality of Governance
R&D	Research and Development
RDB	Rwanda Development Board
RE	Random Effects
SIDO	Small Industries Development Organization
SMEs	Small and Medium sized Enterprises
SOEs	State Owned Enterprises
TBS	Tanzania Bureau Standards
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TECC	Tanzania Entrepreneurship and Competitiveness Centre
TIC	Tanzania Investment Center
TPSF	Tanzania Private Sector Foundation
ULC	Unit Labour Cost
URT	United Republic of Tanzania
VAPW	Value Added Per Worker
WDI	World Development Indicators
WEF	World Economic Forum
WGI	World Governance Indicators

BACKGROUND AND INTRODUCTION

1.1   Background

The Terms of References (ToRs) for the research project provided a useful technical background to the Research outputs. Notably, Tanzania recorded impressive economic growth in the last two decades. Until 2015, the economy grew at an average of over 6% a year. This economic growth rate has generated some gains in poverty reduction, from the headcount of 38.6% recorded in the 1991 Household Budget Survey (HBS) to 28.4 % recorded in the 2012 HBS. Growth has been accompanied by modest changes to the structure of the economy as well as some improvements in productivity (see Diao et al, 2018). The share of agriculture in GDP declined over time in response to an increase in the share of industry and services. There has also been a marked shift in the share of traditional vs. non-traditional exports. The share of traditional exports in total goods exports declined from 40% in 2000 to 16.2% in 2018. The increase in non-traditional exports has been driven, in part, by increases in mineral/gold production and manufactured goods. For instance, the share of mineral exports in non-traditional exports declined from 40% in 2000 to 21% in 2018; while that of manufactured exports increased respectively from 9.8% to 33%.

The aforesaid economic growth and structural change are, however, not sufficient to propel inclusive development achieve the targets set in the Development Vision 2025 and the Sustainable Development Goals (SDGs). Furthermore, the recent reversal in economic growth rates, which reflects the effects of slow global growth, including the decline of China's economic growth is likely to affect the pattern of Tanzania's structural change, ability to attract FDI, and impact on poverty and inequality.However, Tanzania's ability to attract FDI is not necessarily based on her progress in global competitiveness indicators. Clearly, competitiveness directly concerns the quality of the economic environment for investment and production, which is ultimately determined by existence and quality of institutions that underpin economic and social transformation.

Furthermore, although Tanzania scores a relatively low position in the global competitiveness rankings (see WEO, 2019), the country has significantly improved its business environment in recent years. However, while much progress has been done on the hard infrastructure, the real constraints remain at institutional (overregulation, institutional instability and weak coordination) and regulatory side (disincentives created by cumbersome taxation and escalating tariff structure). Part of the problem is weak understanding and knowledge about the constraints and design of appropriate measures or lack of dialogue on them. Indeed, the EAC Scorecard identified lack of institutional coordination as one of the key barriers that stifle the country's competitiveness.

Nonetheless, Tanzania can reposition itself in both the regional and global FDI marketplace by leveraging its unique features to create competitive advantages. These include a geographically strategic location, an abundance of natural resources, political and social stability. Yet the major challenges remain on how to systematically foster competitiveness by harnessing these unique advantages, with reduced risk of exposures to global economic uncertainties. This is the intended focus of Tanzania's next (third) Five-Year Development Plan (2021/22-2025/26) themed: "Realizing Competitiveness-led Export Growth" (URT, 2016). It is against this background that REPOA commissioned this research project to closely look at the institutional environment that affects competitiveness in Tanzania. The research is intended to build on the earlier research projects, namely: assessing manufacturing competitiveness; and a review of progress in Tanzania's business environment. Section 1.2 provides an overview of the research project, including its objective, approach, deliverables, and limitations

1.2 About the Research Project

1.2.1 Objective

The overall objective of this research project is to identify institutional bottlenecks that limit competitiveness and enterprise development in the productive sectors– and the enabling policy framework to address them effectively. Specifically, the research project will seek to undertake three objectives, namely (i) Analysis of the institutional framework for enterprise development and competitiveness; (ii) Analysis of the key constraints, challenges and opportunities for Tanzania in improving enterprise performance and competitiveness at the national, regional and global levels; and (iii) Assessment of the implications of various policy developments at national, regional and global level to Tanzania's enterprise development and competitiveness. Such policies includes, for instance, the decision to promote industrialization as a central drive of the current government; agreements and protocols at the EAC regional levels; and on multilateral and bilateral trade negotiations such as EPAs and AGOA.

1.2.2 Approach and Structure

The overall recommended approach for the project is to comprehensively capture the objectives and deliverables, as well as combining quantitative and qualitative sources with the purpose of cross-checking findings from multiple sources. The methodology lays out a strong emphasis on the project objectives, with the aim of strategically supporting REPOA and line ministries to develop effective policy and advocacy tools for promoting enterprise development and competitiveness ("EDC") in Tanzania. The specific methodological approach is elaborated in the respective Research Reports. However, the ToRs required the Research team to work closely with REPOA to carry out consultations with enterprises in the selected sectors, and a sample of high-level key informantsto identify, collect, classify and examine the institutional and other bottlenecks limiting enterprise development, competitiveness and diversification. Nonetheless, this part of the research designed is not yet done due to the limitations outlined below.

1.2.4 Limitations and Mitigation plan

This study was originally planned to be undertaken within five months – including data collection, analyses and reporting, such that the deliverables will be completed by April 2020. However, the timeline proved to be too tight given its varied scope and the time needed for consultation and preparation of dissemination products. Understandably, the COVID-19 was a huge unanticipated risk which limited Researcher's plan to undertake consultations with Business Leaders and Industry Associations of the (would be) selected sectors. As a result, Research Reports were rather completed in July 2020. Therefore, the team suggests extending the project timeline to allow for the consultation phase (August 2020); and production of the dissemination products (September 2020).

1.2.3 Expected Outputs and current status

As per the ToRs, the project was planned to produce two Research Reports, which may be transformed into a number of dissemination products, including publishable papers, policy briefs, and presentations in workshop or policy dialogue. The first report (Institutional Analysis of Enterprise Development and Competitiveness in Tanzania: Challenges and Opportunities for Tanzania) focuses on identifying and assessing the institutions/institutional framework for promoting Enterprise Development and Competitiveness in Tanzania. The second report (The Impact of Recent Policy Developments on Enterprise Development and Competitiveness in Tanzania) focuses on assessing how and to what extent the recent policies or policy reforms undertaken at different national, regional, local and global levels have impacted on the efforts of promoting Enterprise Development and Competitiveness in Tanzania. This report deals with the first Report as described in section 1.3.

1.3   Objective and Structure of the Current Report

This report is the first (and main) output in the research project outlined above. As noted earlier, the report aims at identifying the role (both existence and quality) of institutions in promoting Enterprise Development and Competitiveness in Tanzania, with the objective of assessing the challenges and opportunities for improving the level of country's competitiveness and diversification in the enterprise sector. To achieve this goal, the study addresses the following research questions:

◆ What are the institutions and institutional framework for promoting EDC in Tanzania? The purpose is to map out the main institutions responsible for promoting EDC, including the regulatory or enterprise support MDAs. Efforts are made to identify these institutions in the report, defined both as organizations or agencies as well as formal policies and rules underpinning the functioning of those organizations.

◆ What is the role of institutions in enhancing EDC performance? The purpose is to assess whether and to what extent do institutions matter for promoting EDC. The empirical analysis will focus on identifying the role of institutions in enhancing EDC performance.

◆ What are the key constraints, challenges and opportunities for improving enterprise performance and competitiveness in Tanzania? Clearly, the study will enhance our understanding of the extent to which institutional factors affect enterprise performance, as well as examine the challenges and opportunities facing different institutions in the course of promoting EDC.

The report is organized into five sections as follows. Following the introduction, section 2 presents the situational analysis including extent at which firm are currently affected by institutional factors compared to other challenges, and the prevailing institutional framework (profile and performance of the various Agencies involved in promoting and supporting EDC). Section 3 presents the conceptual framework and review of the literature. Section 4 presents the empirical analysis outlining the analytical framework, methodology and presenting results and discussion. Finally, section 5 concludes and makes recommendations.

2.0 SITUATIONAL ANALYSIS

2.1   Policy Context

Over the years, Enterprise development has remained not only a good indicator for economy health (Holliday, 2019) but also a prerequisite for growth through increasing per capita income and consumption, creating jobs, and reducing poverty in developing and transition economies (Snodgrass and Winkler, 2004). Ball (2015) notes that, new business formation is a source of competition, innovation and choice dynamism and further adds that the difference in enterprise development status across countries is among major factors explaining differences in economic development. Apparently, the majority share of the enterprises are in the private sector, which is generally considered as an "engine of growth" due to its critical role in driving economic growth, job creation, and tax revenues, among others. In addition to wealth creation, the private sector of all sizes is also considered pertinent in achieving sustainable development and poverty reduction (Mac Sweeney, 2008). For instance, ILO (2017) estimates show that, SMEs sector accounts for more than one third of total Gross Domestic Product (GDP) in emerging and developing economies, while globally, employment by SMEs nearly doubled from 79 million jobs in 2003 to 156 million in 2016.

Through its prevailing development policy strategy as enshrined in the second five year development plan (FYDP-II), Tanzania is strongly pushing for Industrialization as a strategy that will help the country address the challenge of job creation and achieve sustainable development. Therefore, issues of enterprise development and competitiveness (EDC) become essential for determining success of the strategy. However, progress in leveraging enterprise economy to promote the country's economic transformation and industrialization is limited by the fact that the enterprises are often faced by a a number of challenges including access to finance, corruption, inefficient government bureaucracy, overly tax regulations, infrastructure gaps and inadequately skilled workforce, etc. (Adesina et al, 2017; Aikaeli, 2012). Consequently, there has been increased policy and research interest in the enterprise development and competitiveness. Indeed, in its Long term Development Plans, THE Government dedicated the forthcoming Third Five Year Development Plan (FYDP-III) to the theme of competitiveness, in which the policies and strategies will focus on supporting competitiveness of the economy by promoting EDC.

Clearly, since the policies and strategies for promoting EDC are identified and deployed through the institutional structure governing the relationship between the private and public sectors, the current study is timely in informing its nature and scope.

Thus, to support our empirical enquiry, we firstly delve into the crucial question of identifying the institutional challenges affecting enterprise performance by taking a deep dive on the various existing data sources. In particular, the analysis describes the prevailing picture on the extent to which the institutional challenges are critical for firms' performance, and examine performance of Tanzania on some global policy and institutional assessments.

2.2 Institutional Challenges affecting Enterprise Performance: What does the data tell?

The Annual Survey of Industrial Production (ASIP) asked firms to indicate the importance of various challenges that undermine their performance, among other questions. We explored this database to compare the extent to which firms identified institutional (or institutional-related) challenges relative to others, and assess how these have changed over time between 2008 and 2016 (the period the survey data is available). Given the terms of reference for this paper, our objective is on the institutional challenges, which although they are not directly defined in the data, we can use several proxies to demonstrate them. For instance, the challenges we selected to indicate institutional challenges includes: (i) complicated administrative procedures, (ii) unfair competition and, (iii) weak support to the private sector.

The data shows that, the identified institutional challenges are not the most critical challenges facing firms (Figure 1). The top most challenges facing firms include high cost of production, shortage of raw materials and inadequate infrastructure, technology and financial services. Nonetheless, a closer look at the institutional and enterprise development related factors show more firms (over 30% of the sample) are mainly affected by unfair competition, compared to weak support to private sector development (18%) and complicated administrative procedures (19.3%). Furthermore, while most indicators remain similar for the two comparative years (2008 and 2016), there has been marked increase in the share of firms reporting complicated administrative procedures as their key challenge – from 8.1% in 2008 to 19.3% in 2016. This dramatic change shows that the regulatory and institutional environment has become much more stringent over time, hindering firms' growth. This fact provides further motivation for carrying out this study.

Figure 1: Challenges facing firms in Industrial Sector in Tanzania for 2008 and 2016
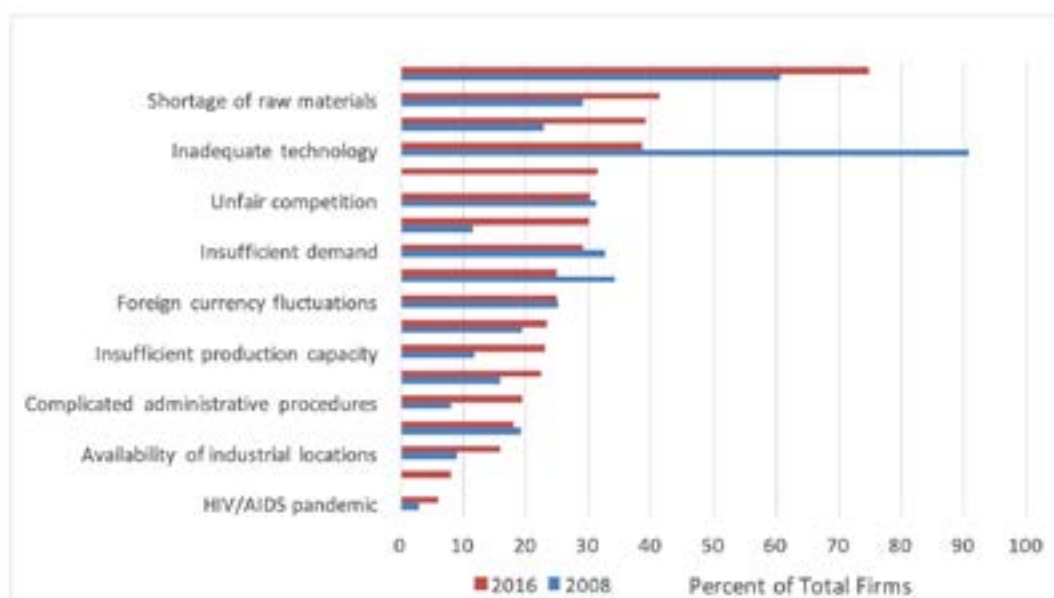
Source: Authors' analysis based on the ASIP Data (2008-2016).

Clearly, the literature on economic development has focused on domestic institutions as key determinants of cross country differences in GDP growth (Fiodendji, K. 2016). While the institutions (tasked with overseeing the activities in the enterprise sector) are challenged with inadequate finance for implementing projects to support enterprises, insights from the literature shows that challenge as a reflecting lack of prioritization and weak coordination in harnessing synergy among stakeholders (Argidius, 2017; Kweka, 2018). Despite, to our knowledge, there has been little if any research effort to examine the causes of such challenges and their impact on enterprise development and competitiveness. The only reliable and regular information that could contribute to such knowledge is the World Bank annual reports and a database on Country Policy and Institutional Assessment (CPIA) for selected countries around the world (including Tanzania). The report assesses country Institutions and Policy performance as measured through four clusters of indicators, namely: Economic Management, Structural Policies, Policies for Social Inclusion and Equity, and Public Sector Management and Institutions. Some of these indicators are certainly relevant to this study. In Figure 2, we compiled the trend of selected indicators for years 2008-2018 (the latest available so far).

Figure 2 shows that, except for trade and building human resources indicators that remained unchanged between 2008 and 2018, all other indicators have been on declining trend over time. In particular, transparency, accountability, and corruption in the public sector sub-cluster show the lowest score for Tanzania in all the three years (2008, 2013 and 2018) compared to the rest.

Figure 2: Selected CPIA Indicators for Tanzania: 2008-2018
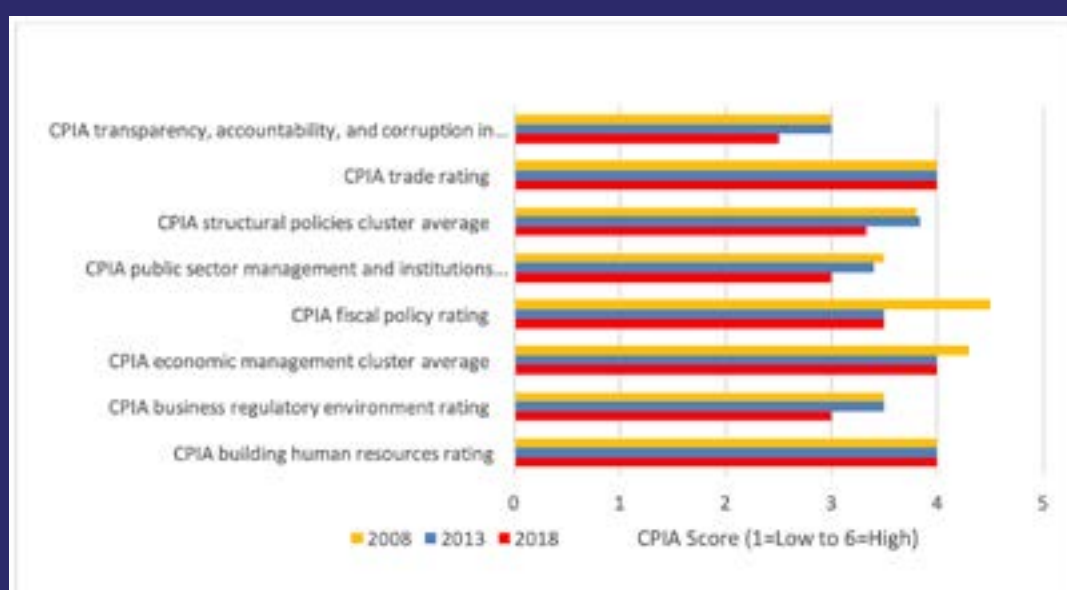
Source: World Bank CPIA Indicators, 2019

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[1]   *These indicators include the overall clusters (structural policies cluster average, economic management cluster average and public sector management and institutions cluster average) and other sub cluster indicators including transparency, accountability, and corruption in the public sector rating, trade rating, fiscal policy rating, business regulatory environment rating and building human resources rating (Also see the definitions of these indicators in Annex B).*

In addition to the annual CPIA data/reports, the World Bank also conducts Enterprise Surveys (hereinafter WBES) which focus on various factors that shape the business environment, and has useful information on the institutional and other obstacles faced by enterprise sector. The surveys cover small, medium and large firms in manufacturing, services, transport and construction sectors. The snag is, however, the fact that the WBES for Tanzania is a bit dated – the latest year for which data is available is 2013. Nonetheless, from the dataset, we identified the following institutional related obstacles as useful data/indicators for our study (percentage of firms identifying he obstacle as important challenge, and ranking for which 1st is the most critical, 10th is least critical): tax rates (8.3% of total firms, 3rd); access to land (5.1%, 5th); trade regulations (3.2%, 6th); business licensing (3.1%, 7th) and corruption (2.5%, 8th). Furthermore, Tanzanian firms appears to have had spent more time (24.2 days) compared to Sub Saharan Africa average (18.8 days) in dealing with Bureaucracy. The number of days to obtain construction related permits (41.3 days) and operating license (18.8 days) appears significant although lower than SSA average (56.1 days and 23.2 days respectively). As shown in Figure 3, Tanzania seems to be doing well in terms of regulatory burden (compared to the average for both SSA and Lower income countries) as it has lower time spent by Senior Management in dealing with requirements of Government Regulation, and fewer average number of visits or required meetings with Tax Officials.

Figure 3: Regulation Burden Indicators for Firms in Tanzania, SSA and Low Income countries
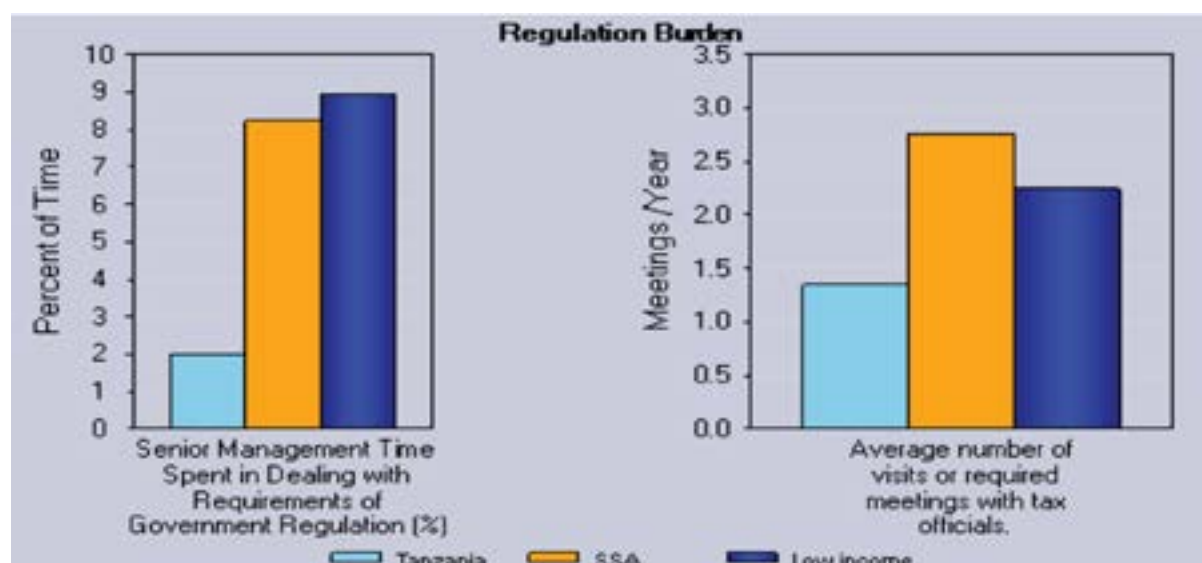
Source: Enterprise Surveys; Tanzania (2013)

With regards to corruption, Tanzania had lower percentage of firms expected to give gifts upon meeting with Tax Inspectors compared to SSA although, the percent of firms expected to give gifts in order to secure Government Contracts was very high (see Figure 4). More so, the percent of firms expected to give gifts to obtain an operating license (17%); construction permit (31.4%) and electrical connection (25.3%) was higher for Tanzania compared to SSA (13.5%, 24.7% and 22.4% respectively). Consequently, Tanzania had the highest percent of firms citing corruption as an obstacle (47.2%) compared to SSA and Low-income countries averages (41.3% and 32.8% respectively).

Figure 4: Bribe Tax Indicators for Tanzania, SSA and Low Income countries
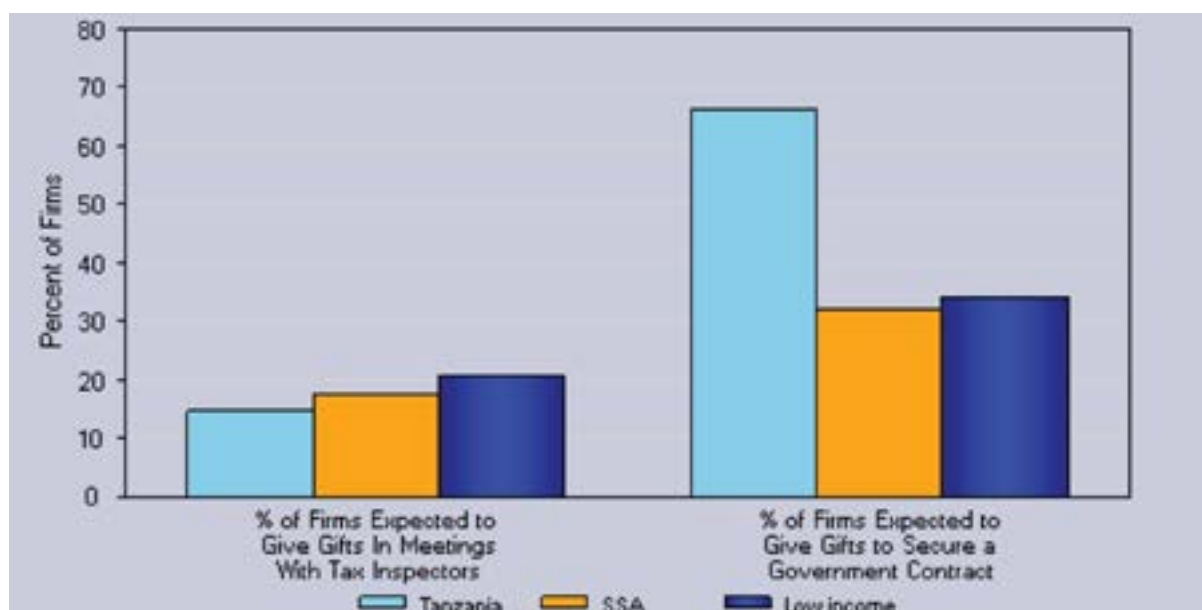
Source: Enterprise Surveys; Tanzania (2013)

The WBES also covers the dual challenge of providing strong infrastructure (for electricity, water supply and telephone connections) and the development of institutions that effectively provide and maintain public services. In terms of infrastructure service delays, Tanzania had the highest time delayed (52.6 days) compared to SSA and low-income countries averages (35.4 and 34.5 days respectively) while the number of electrical outages in a month was high for Tanzania (8.9 times) compared to SSA (8.3) - the latter problem led to high average losses (15.1% of annual sales) due to electrical outages compared to SSA average (7.8%). Indeed, the electricity obstacles are reflective of Tanzania's electricity supply problems during the 2011-2013 period and since then a lot has been done to address the challenge.

The survey also shows trade constraints including those related to customs efficiency and losses during exports. Compared to SSA average (10.7 and 16.5 days) Tanzania had higher number of days to clear direct export (12.4 days) and imports (31.5 days) through and from customs and had the highest losses during direct exports through theft (17% for Tanzania and 14% for SSA). Therefore, in addition to the use of CPIA indicators, this study will also use the Enterprise survey data provided by the World Bank in order to compare and supplement results.

We believe that some of the challenges faced by firms in the enterprise sector are the consequences of inefficient institutional framework in Tanzania. In fact, some of the challenges mentioned (from both data and studies) such as corruption, inefficient government bureaucracy, tax regulations, inadequate physical infrastructure such as roads, railways and power grids to mention a few, and inadequate technology seem to be the consequences of weak institutions. Furthermore, based on the ASIP dataset, Table 1 shows that, some of the institutional challenges are more prevalent to firms with certain firm (particularly size and ownership) characteristics.

Table 1: Prevalence of Institutional Challenges across different Firm Characteristics in 2016 (% of firms)

Firm Characteristics	Uncertain economic environment	Infant Private Sector with weak support	Complicated administrative procedures
Small	74.05	83.86	75.21
Medium	10.34	6.59	9.03
Large	15.61	9.55	15.76
Total	**100**	**100**	**100**
Public	6.35	4.55	6.72
Private	92.2	94.32	92.44
Mixed	1.45	1.14	0.84
Total	**100**	**100**	**100**

Source: Authors' analysis based on the ASIP Data (2008-2016).

Table 1 reports that majority of firms are mainly challenged with uncertainty in economic environment; Infant Private Sector and Complicated Administrative Procedures; and that these challenges appears to be significantly more severe for private vs. public sector firms. In addition, whilst achieving enterprise competitiveness and development is important, there is no single agreed definition of the term competitiveness due to measurement difficulties (Siudek and Zawojska, 2014; Damiyano et al., 2012). Nonetheless, some of the recent policy developments at the local, national, regional and international level are bound to have implications on enterprise development and competitiveness, a topic that is addressed in the separate (second) paper under this research project. Having described the type of institutions and the institutional challenges affecting firms performance, we proceed to examine the institutional framework as a critical factor of success for Tanzania in driving economic transformation and industrialization through supporting EDC.

2.3 Institutional Framework for Supporting EDC in Tanzania

Tanzania supports Enterprise Development and Competitiveness through various Government Ministries Departments and Agencies, independent Organizations and Private Sector Institutions (including industry associations). Table 2 lists these Institutions, including a description of their role and the act establishing them where applicable. Note, however, that the list is not exhaustive. Currently the government has more than 57 Sectoral policies governed under 18 different Ministries, and almost all policies (with exception of few) have provisions that impact directly on MSMEs development matters. To get a picture of how (and to what extent) are firms related to these institutions, we used the ASIP data for 2016 to find out responses of firms on their membership to industry associations and interaction with public institutions. The results show that, only 41% of firms (2,461 firms) were registered to various associations, and 34% of them had received technology or other production services from Public institutions (particularly Technology Intermediaries). While these associations and technology intermediaries are very important for EDC, the number of firms with membership or interaction with them is low. Figure 5 and 6 shows the number of firms with membership to industry associations, and Figure 6 shows the number of firms that had interacted or received services from them.

Table 2: Institutions responsible for EDC in Tanzania

S/N	Institution Name	Role of the institution	Act of Establishment
1	The Ministry of Industry and Trade (MIT)	The ministry has the overall responsibility of supporting the country's enterprise sector. This is through forming policies and laws which not only guide the activities of the enterprise sector but also helps the sector to develop and become competitive.	N/A
2	National Economic Empowerment Council (NEEC)	NEEC is the Government's apex body responsible for supervising, monitoring and coordinating all economic empowerment activities in Tanzania. It is also responsible for mobilizing resources and managing special funds for economic empowerment activities. Further NEEC implements the National Economic Empowerment Policy which among other things aims at providing favorable business environment for investment and economic growth, easing the availability of capital and enabling more Tanzanians to borrow, and reviewing laws, rules and regulations from time to time to ensure that they meet the requirements of a market-oriented economy.	National Economic Empowerment Act of 2004: Section 4(1)
3	Tanzania Investment Centre (TIC)	The Tanzania Investment Centre (TIC) was established to be the primary agency of the Government to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the Government on investment policy and related matters. Through attracting foreign investment, TIC provides opportunities for local firms to learn from new innovations and increased competition.	Tanzania Investment Act, No. 26 of 1997: Section 4(1)
4	The Tanzania Entrepreneurship and Competitiveness Centre (TECC).	TECC is a public private partnership aimed at creating a knowledge economy with skilled manpower and entrepreneurs, and supporting local economic development through public-private partnerships. TECC was jointly formed in 2013 by the National Economic Empowerment Council (NEEC), the Tanzania Private Sector Foundation (TPSF) and the Commission for Science and Technology (COSTECH). TECC is intended to be a focal point for entrepreneurs and MSMEs in a facilitation and coordination role. It is also meant to be involved in the development of economic clusters, as well as supporting skills development, economic development and business intelligence services	

S/N	Institution Name	Role of the institution	Act of Establishment
5	The Fair Competition Commission (FCC)	As a Public Institution FCC's main objective is to promote and protect effective competition in trade and commerce and to protect consumers from unfair and misleading market conduct. More so, the body ultimately serves to increase efficiency in the production, distribution and supply of goods and services. Establishment of FCC is a significant step in Tanzania's effort to establish a market economy	Fair Competition Act, No.8 of 2003: Section 62(1) of the. Its
6	Tanzania Commission for Science and Technology (COSTECH)	COSTECH was established as a parastatal organization with the responsibility of coordinating and promoting research and technology development activities in the country. It is the principal advisor to the Government on all matters relating to science and technology and their application to the socio-economic development of the country. Among its core functions, COSTECH is responsible for driving large scale innovation and entrepreneurship.	The Tanzania Commission for Science and Technology Act, No. 7 of 1986: Section 4(1)
7	Export Processing Zone Authority (EPZA)	EPZA is the principal Government agency for promoting investments in Tanzania's Special Economic Zones (SEZs). The Authority operates as an autonomous agency under the Ministry of Industry, Trade and Investment of Tanzania. EPZA is mandated to promote, register and facilitate investments in SEZs in mainland Tanzania. The EPZA functions include the development of EPZ and SEZ infrastructure, provision of business services to EPZ and SEZ investors and issuing of EPZ and SEZ licenses.	EPZA (Amendment) Act (2006)
8	Tanzania National Business Council (TNBC)	Created as agent of change, the TNBC was established as an institution providing forum for public and private sector dialogue for change. The purpose of the dialogue is to reach consensus and mutual understanding on strategic issues relating to the efficient management of resources in the promotion of social economic development in Tanzania. Among others, TNBC mainly focuses on improving business and investment environment and promoting investment and business environment.	Presidential Circular No. 1 of 2001 with reference number SHC/C1180/1. The Presidential Circular provides for objectives, functions, structure, and procedural Guidelines stated herein below.

S/N	Institution Name	Role of the institution	Act of Establishment
9	Tanzania Private Sector Foundation (TPSF)	TPSF was established for the purpose of promoting Private sector-led social and economic development in Tanzania. The Foundation opens potential markets for its members (business associations, corporate companies, multinationals, SMES and startups) through business forums and participation in local and international trade fairs, as well as offering programs to build the capacity of members to become competitive.	Formally established under the Companies Act (Cap 212) as a company limited by guarantee on 4th November, 1998
10	The Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA)	TCCIA is a private sector association which works closely with international organizations and the government to strengthen the private sector. The autonomous TCCIA Chambers in 21 regions of the country links the private sector to the Government with a view toward promoting the development of private enterprise. By linking issues central to business, the Chamber serves an arena where dialogue with the government serves to promote sustained growth and development of the private sector	N/A
11	The CEO Roundtable of Tanzania (CEOrt)	CEOrt was founded in 2000 by a small group of CEOs. Its main objective is to create a forum through which industry leaders within the Tanzanian private sector can constructively engage with government, its development partners and other stakeholders with a view toward creating a more conducive environment for business to prosper and for the country to develop.	N/A
12	Confederation of Tanzania Industries (CTI)	The CTI Industries is a Business Membership Organisation that was launched in July 1991. It is an independent, self-financed, legally constituted organisation that serves its members by speaking out on their behalf and generally representing their interests. The main aim of CTI is to ensure that there is a conducive legal, financial and economic environment within which industry can operate effectively, prosper and contribute to national wealth and development. CTI has been very active in advocating for a conducive business environment for its members so that they can become competitive.	No Act

S/N	Institution Name	Role of the institution	Act of Establishment
13	Other	These include Sector Ministries (Agriculture, Industry and Tourism to mention a few), International Supporting Institutions (The World Bank, The African Development Bank, Danish Development Cooperation, Department for International Development-United Kingdom, United States Agency for International Development and others). These institutions play various roles which directly or indirectly influence enterprise development and competitiveness in Tanzania.	Respective Ministry law applicable

Figure 5: Firms with membership to industry Associations
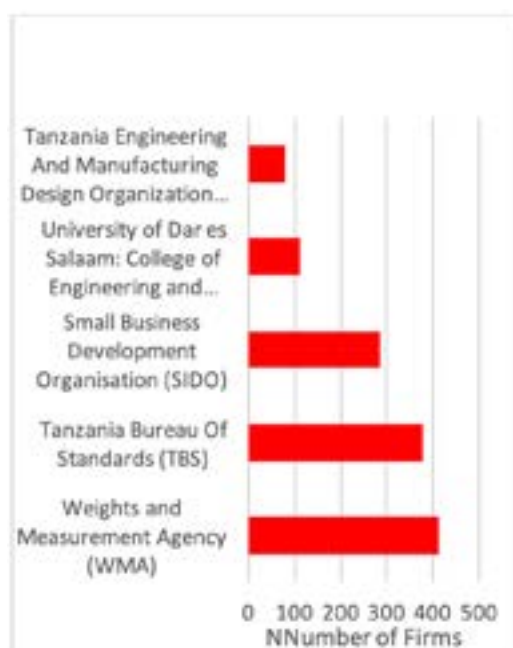
Source: ASIP Data, 2016

Figure 6: Firms that cooperated with Public Intermediaries
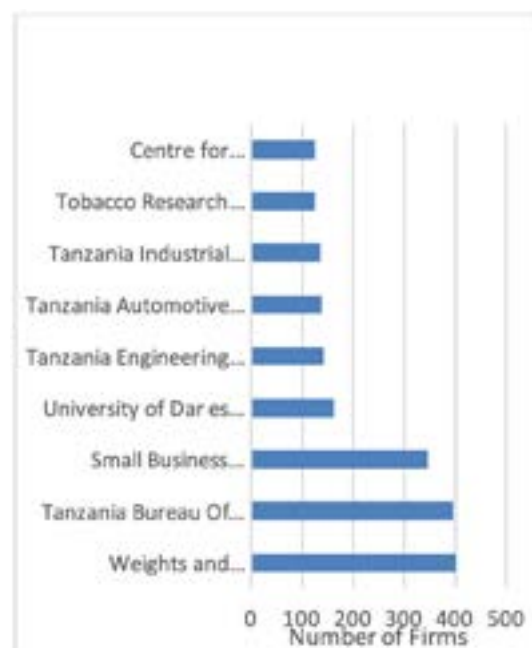
Source: ASIP Data, 2016

Further, according to the ASIP data, 41% of establishments were not aware of the various functions or services offered by associations which could be among the reasons why there are few firms registered to associations.

Indeed, over two thirds of firms which did not co-operate or receive technology or production services from Public Technology Intermediaries cited lack of awareness of the institutions or services offered as a reason to why they did not cooperate with them. This implies that, despite the existence of institutions that support development of firms, there is a general lack of awareness of their existence of functions among firms. Nonetheless, firms that have cooperated with Public Intermediaries (PI) have received different services. The type of services received include, mainly: process and operational improvements; product quality improvement (testing, quality assessment, etc.); and Training for employees (see Figure 7). Clearly, these services are fundamental for EDC.

Figure 7: Firms that received different Services from Public Intermediaries

Source: ASIP Data, 2016

REVIEW OF CONCEPTS AND LITERATURE

3.1   Institutions: What are they?

Institutions have been studied across different disciplines including economics, sociology, political science and organizational theory. Therefore, there are many different definitions of Institutions and while the term is widely used in social sciences, there is no consensus on its meaning (Hollingsworth, 2002). According to Scott (2001) and Carlson (2002), institution refers to social structures while Parto (2005) saw institutions as a form of collective actions and rules. Hodgson (2006) labelled institutions as organizations. Notwithstanding the wealth of definitions and theories on Institutions available, this study is limited to the New Institutional School of thought as it has been extensively used in Enterprise studies and its ideas are more relevant to the dynamics of enterprise economy.

3.1.1 New Institutional Theory

This school of thought was developed from the writings of Coase (1960), Williamson (1979, 1981), and more recently by North (1990) whose contribution in the field of economics was recognized (with a Nobel Prize) in 1993. The analytical scope of this school of thought is on the roots, incidence and consequences of transaction costs (Coase, 1960; Williamson, 1979) where in, Institutions are perceived as mechanisms or ways that help in reducing transaction costs or those costs associated to initiating, managing, and completing various types of economic exchanges (Rao, 2003). According to North (1992), economic uncertainty creates transaction costs in the shape of information accessibility costs as well as the cost of enforcing proprietary rights.

Therefore, Institutions are formed to regulate this uncertainty by setting the rules of the game in the form of formal rules, informal norms, and their enforcement characteristics (North, 1992, 2005). Likewise, the same rules of the game can constrain and provide incentives that encourage entrepreneurs to switch from unproductive to productive activity, and ultimately improve the general economic well-being of a society (North, 1990).More so, these incentives (or punishments) help increase the information level of the players about available strategies for their counterparts and about their related costs. Scott (2001) observed that, while many institutions may be intangible in nature, institutions evolve and are transported by carriers such as culture and its artefacts, structures, and technologies. He contended that these institutional channels could be manifestations of the enforcement mechanisms referred to by North.

3.1.2 Institutional Analysis

Institutional analysis refers to the analytical method used to examine institutions in various units or levels of analysis. Institutional analysis is a field in social sciences which studies how institutions behave and operate according to both empirical rules (informal rules-in-use and norms) and also theoretical rules (formal rules and law). It deals with how individuals and groups create institutions, how institutions function in practice, and the effects of institutions on each other, on individuals, societies and the community at large (CIPEC- Center for the Study of Institutions, Population and Environmental Change, 2005).

Institutional analysis is used by several academic fields and has several meanings and implications. In economics, Institutional analysis is used to clarify why economic behavior does not conform to the theory of supply and demand. This is a relatively old school of thought that has its roots in the work of early 20th century economists like Pareto (Pareto, 1935). Sociology has also used institutional analysis to study how social institutions such as the laws or family evolve over time. The founding author of this approach (also founder of sociology discipline) is Émile Durkheim (Durkheim, 1995). In the biomedical sciences, institutional analysis often refers to analyzing data coming from real institutions such as health authorities and hospitals networks to mention a few (see an example in: Christian et al, 2006). Likewise, in the fields of education and public administration and governance studies, the term usually refers to how school boards and governmental agencies implement policies (Trent et al, 2003).

Indeed, there have been cross-pollinations between the sociological and economic traditions in institutional analysis since 1980's. A new emphasis is to explain how organizations and their individuals make economic and managerial decisions, particularly by examining the non-rational, non-economic, and non-psychological variables. This led to the beginning of New Institutional Analysis (Aranson, 1998). This approach has several variants- one of them uses the theory of public choice to improve economic models and one of its applications is known as the institutional analysis and development (IAD) framework developed by Elinor Ostrom (Ostrum, 1990). Another variant originates from organizational sociology and seeks to integrate Max Weber's study on bureaucratic mentality (Weber, 1978).

While these tools seem useful for analysis of institutions, they (particularly those available in economics field such as Institutional Analysis and Development Theory) seem very complex in their practical application (see Ostrom et al, 2002 and Wasike et al, 2011). Notwithstanding, available empirical studies linking Institutions to growth and competitiveness of enterprise sector have not conducted an institutional analysis of the existing Institutional framework let alone deploying the related tools. Following, we use Institutional analysis to examine enterprise development and competitiveness in Tanzania, whose measurement is described in the following section.

3.2   Approaches for Measuring Enterprise Development and Competitiveness

There is no single agreed definition of competitiveness which implies there are multiple measures applied to the term and this creates confusion (Siudek and Zawojska, 2014). Nonetheless, the literature provides different approaches to measuring competitiveness including Macroeconomic Approach, Business Strategist Approach and Technology and Innovation Approach.

3.2.1 Measuring Enterprise Competitiveness

Macroeconomic perspective is based on the fact that exchange rate is a necessary instrument for achieving international competitiveness (proxied by relative price of non-tradable goods to tradable goods, real exchange rate, relative labour costs and consumer prices). It defines international competitiveness "as the level of the real exchange rate which in combination with the requisite domestic economic policies achieve internal and external balance". An appreciation of the real exchange rate is associated with a loss in a country's international competitiveness, while a depreciation of the real exchange rate implies an improvement.

(i) Macroeconomic perspective

According to Vignes and Smith (2005), the most popular and widely used of these measures is the real effective exchange rate given the easy availability of the data. Other measures include the relative price of non-tradeable to tradeable, real effective exchange rates, relative consumer prices, relative wholesale prices and relative unit labour costs. Estimates of these measures were applied by Damiyano et al. (2012) in examining manufacturing competitiveness in Zimbabwe. The major criticism of the macroeconomic perspective is using only relative prices factors and ignoring non-price factors such as technological capabilities, role of infrastructure and skills which are paramount in the context of developing world.

(ii) Business Strategist Approach

Unlike the first approach which is based on economic grounds, the Business Strategy approach hinges on a business studies perspective, mainly advocated by Porter (1990) in addressing the issues of rivalries between firms and the strategies adopted by firms as they compete with each other locally and internationally. According to Porter, competitiveness and productivity are the same, since in his opinion the "only meaningful concept of competitiveness at the national level is national productivity", due to the fact that productivity is primarily associated with improving a nation's prosperity and standard of living over time. He developed a "Diamond Model" in which he identified four interrelated factors necessary for sustaining competitiveness, these are: firm strategy, structure and rivalry, demand conditions, related supporting industries and factor conditions (key factors that are created e.g. skilled labour, capital and infrastructure). The government acts as facilitator in this model encouraging firms to become competitive and creating the environment that enables firms to increase productivity and become more competitive by improving the infrastructure and investing in education and engineering etc.

They defined competitiveness as "that collection of factors, policies and institutions which determine the level of productivity of a country and that therefore determine the level of prosperity that can be attained by an economy. However, productivity is also the key driver of the rates of return on investment, which in turn determine the aggregate growth rates of the economy. Thus, a more competitive economy is one that is likely to grow faster over the medium to long term". Given its broad nature, many countries use this definition to compile composite indices on competitiveness that shows microeconomic aspects of benchmarking their competitiveness against each other. Such indicators include the business competitiveness index (BCI) and the growth competitiveness index (GCI). The main criticism of the business strategy perspective (advocated Krugman) is its notion that nations compete like corporations on the world markets, since "international trade is not a zero sum game but one in which specialization and trade according to comparative advantage results in gains to all nations". Secondly, the definition of productivity is unclear since it does not specify if total factor productivity or partial productivity indicators should be used. Finally, the role of government is too limited since the presence of market failures constrains the development of competitiveness.

(iii) Technology and Innovation Approach

This approached is rooted in industrial competitiveness in that it emphasizes role of FDI, learning, R&D in fostering competitiveness. It accentuates the role that enterprises must play in importing technology and the ability to learn it. The innovation and learning process necessitate interactions among different institutions (firms, government, support institutions and other actors) within the National innovative system (NIS).

This theory defines competitiveness as "the capacity of firms to compete, to increase their profits and to grow. It is based on costs and prices, but more vitally on the capacity of firms to use technology and the quality and performance of products. At the macroeconomic level it is the ability to make products that meet the test of international competitiveness while expanding domestic real income." (OECD, 1992). Examples of measures under this perspective include the market share indicators (e.g. country's exports to the World export, or region) and the Manufacturing Export Competitiveness Index (see Vignes and Smith, 2005).

(iv) Composite Indices

While the above indicators can be used in their own merit, some studies advocate use of composite indicators to allow for a much broader measurement of national competitiveness (Vignes and Smith, 2005). The choice of indicators used depends on the focus of the study or other considerations such as data availability and analytical techniques in place. For instance, one of the most popular and widely used composite indices of competitiveness include those constructed by the World Economic Forum (WEF) and published in the Global Competitiveness Report.

The WEF compiles two complementary composite indices which capture the understanding of national competitiveness, namely, the growth competitiveness index (GCI) and the microeconomic competitiveness index (MICI) or the current competitiveness index (CCI) or business competitive index (BCI). Despite their usefulness for identifying weaknesses in different sectors of the economy and formulating relevant policies to address them, the formulation of these indices have been criticized on lack of theoretical foundation, inconsistent methodology or simply too broad a measure of competitiveness. In this study, we will use Unit Labour Cost (the ratio of wages per worker to output per worker) under the macro-economics approach as a measure of enterprise competitiveness. We have chosen this measure based on simplicity to obtain their data.

3.2.2   Measuring Enterprise Develoment

The literature categorizes methods of measuring enterprise growth into subjective methods and objective methods. The former evaluates individual's (probably the owner) satisfaction on business outcome while the latter is based on financial and non-financial indicators (Hassan and Hart, 2016). Many authors use the financial indicators such as profit, sales and market share to measure firm growth- nonfinancial indicator such as employment size were recommended and are commonly used such as employment growth for the ease of collection and reliability (Blackburn et al., 2009). This study will use employment and sales growth figures to estimate enterprise growth.

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3.3   Empirical Studies ◆

Upon reviewing the empirical literature on enterprise performance and competitiveness, we find that the general literature is extensive, providing insights on the various challenges that limit enterprise development and competitiveness. Some studies are country based while others have focused on specific sectors such as manufacturing, others have focused on SMEs and others on large firms. Here we present some of those studies in order to highlight the key findings.

Raj and Sen (2017) examined the effect of various measures of institutional quality (including time spent on government regulations, percentage of contract value paid as gift to secure contacts, number of meetings with the tax officials and whether informal payment was expected during these inspections among others) on firm productivity using a rich micro level data on manufacturing enterprises in India obtained from the Enterprise Surveys of the World Bank.

Using Fixed Effects regression, the study found that firms that participate in bureaucratic corruption (through sales gifts and license bribes) had lower level of labour productivity and in fact the detrimental effect was more pronounced on labour productivity compared to firm output. This reflects the impact of bribes on firm employment (Kochanova, 2012). According to the paper, firms are likely to employ a non-optimal (higher) number of workers in the presence of bribe taxes, due to misallocation of talent; and once government officials have established a cordial relationship with firms, the former would likely keep the latter from laying down workers in order to keep employment figures high.

Goedhuys and Sleuwaegen (1998) used data set on entrepreneurial firms in Ivory Coast to assess the factors which makes an individual more likely to start his or her own business and the determinants for firm growth using two stage least square estimation techniques. They found that an individual who has already acquired experience in the same sector, and has participated in formal education and apprenticeships, is relatively more likely to start a business. In addition, firms with formal operation had higher levels of growth compared to those in informal sector. Younger firms grew faster than old ones as the former has relatively more learning opportunities than the latter. Underdeveloped financial market was an important constraint not only upon firm entry to business but also on firm's post entry growth in Ivory Coast.

Bülow (2015) used data on institutional quality from the Quality of Government Expert Survey coordinated at the University of Gothenburg, and the Enterprise Survey collected by the World Bank to study the impact of institutional quality on performance of firms in Emerging and Transition economies. Using OLS regression, the study found that public authorities exercising its power impartially (i.e. led by personal considerations, preferences or relationships rather than laws and policies) has a positive impact on firm productivity and growth.

Chauvet and Ferry (2016) investigated the relationship between taxation and firm performance in developing countries using firm-level data from the World Bank Enterprise Surveys (WBES) and tax data from the Government Revenue Dataset (ICTD/UNU-WIDER). The finding obtained using Ordinary Least Square regression analysis are as follows: where tax revenue is not raised from corporate profits or general public income the positive effect of tax on firm performance disappears. More so, when corruption is too pervasive, the positive effect of domestic resource mobilization on firm performance becomes lower as high corruption diverts tax revenues to other unproductive use so that public infrastructure suffers and ultimately firm activity deteriorates. In addition, tax revenue was found to have positive impact on firm performance particularly those which are highly dependent on public infrastructure.

Bevan et al (1999) conducted a comparative study on enterprise performance in developed and transitional economies. The study found a weak evidence of a relationship between enterprise performance and competition in both transitional and developed economies; and noted that, while influence of ownership has been well documented in Western countries, in Transitional Economies, the evidence is scanty. More so, the study finds strong influence of finance upon enterprise performance and restructuring. Bevan et al (2001) analysed enterprise performance in Russia using large enterprise-level panel. The study reports that private ownership and improved performance are not correlated, though restructuring is positively associated with the competitiveness of the market environment. More importantly, the study finds strong complementarities between the factors influencing enterprise performance (enterprise ownership; corporate governance; market structures and competition) suggesting these factors need to be considered jointly.

Tesfayohannes (2005) explored the elements of SMEs policy implementation is sub- Saharan Africa and acknowledged that the countries in the region recognise the essential role of SMEs in their sustainable development. Nonetheless, the study observed that, SME performance is widely weak in many countries due to poor policy designs and implementation. In line with the conclusions, Tsfayohannes suggested proper schemes, action programmes and regulatory frameworks supportive to SMEs development. Erastus et al (2014) examined the Institutional Framework for Promoting Small and Medium Scale Enterprises in Ghana using views collected from 157 SMEs. The study obtained information collected through questionnaires distributed to staffs employed in key management positions of respective SMEs and found that there appears to be lack of national strategy on the SME sector, and poor coordination of government incentive support institutions as a result of lack of a central agency to coordinate all government incentive support institutions in Ghana. This might explain why respondents did not recognize government policies and incentive support institutions as significant in enterprise development in Ghana. This study recommended for among others the development of National Strategy on SMEs and empowering the National Board for Small Scale Industries to play to central role of coordinating all government support services to the SMEs in Ghana.

Using data collected from 32 firms in Ghana over ten years (1986-1995), Bavon (1998) compared the performance of private and public firms. The study found that, not only private firms perform better than public firms but also competition matters for improved firm performance. In addition, the study findings support Ghana government's divestiture program to sell Public Enterprises to the Private sector. Fouad (2013) investigated the factors that affect the performance of Small and Medium Enterprises (SMEs) in the manufacturing sector of Cairo, Egypt. Using descriptive statistics applied to data collected through questionnaire from 50 employees of different SMEs, the study identified the following to be obstacles for enterprise growth; shortage of skilled labour, inadequate finance, high interest rates and weak currency.

Generally, the literature confirms that among the main factors limiting competitiveness in the globalized economy is the country cost (Nelson, 1995; Selber, 1983; Erzan and Yeats, 1992). This is a set of inhibitors which eliminates competitive advantages of the country's production. Typical examples are archaic tax systems, high domestic interest rates, poor transport and communication infrastructures. Another factor behind high competitiveness in the recently industrialised countries is education. That means availability of well qualified labour at lower costs than in the western countries attract investments both domestic and foreign.

In the specific case of Tanzania, several studies arise. For instance, Diao and McMillan (2018) compares productivity growth in the Manufacturing sector in Ethiopia and Tanzania. Owing to the fact that a larger share of manufacturing sector in Tanzania is dominated by informal activities, the sector will not be a driver of economy-wide productivity growth. On the contrary, the study shows that all the productivity growth comes from the formal manufacturing sector. More importantly, in both countries, employment growth increased much more rapidly than output growth in the informal manufacturing sectors, a factor which holds the potential for manufacturing sector to contribute more dramatically to economy-wide productivity growth. Furthermore, the findings indicate growth of exports to regional markets as having greater potential to impact on domestic manufacturing firms than those producing for global markets.

Recently, Bourguignon and Wangwe (2018) under the Economic Development and Institutions (EDI) research programme have conducted a Tanzania Institutional Diagnostic study although the study links the state of Tanzania Institutions and the overall country development rather than EDC. Their evaluation of Institutional challenges was based on expert views obtained through survey (questionnaire and interviews) and the analysis of various governance indicators as obtained from Worldwide Governance Indicators (WGI); Quality of Governance (QoG); and World Bank's Investment Climate Surveys databases. When comparing Tanzania performance with other neighboring countries (for the year 2012) in East Africa Community (using the WGI indicators) the study found that Tanzania performed better than Burundi but less than Rwanda and that the country (Tanzania) was always near the best performer (see Figure 8). However, what was notable in both countries (Tanzania and neighbors in EAC) was the low performance in the control of corruption and government effectiveness dimensions. Similarly, when Tanzania was compared with better performing developing countries, the former by far outperformed Bangladesh, Cambodia, and Laos as it ranks higher in each of the six dimensions. Nonetheless, Tanzania performed below only Vietnam in government effectiveness, the control of corruption, and political stability (see Figure 9).

Figure 8: WGI Tanzania vs. Neighboring Countries　　　　　**Figure 9: Tanzania vs. Better Performing DC**
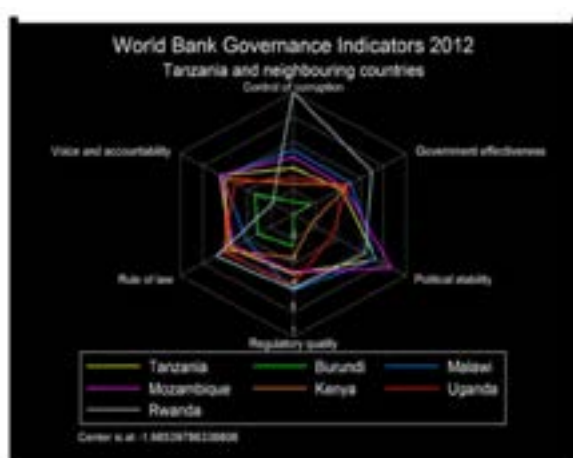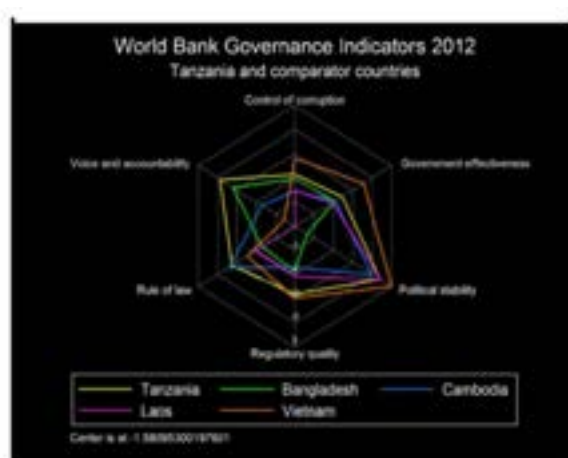

Source: Bourguignon and Wangwe (2018)

2. 　　　*These include Regulatory quality, Political stability, Government effectiveness, Rule of law, Voice and accountability, and Control of Corruption.*

More so, the study identified five basic institutional weaknesses namely, ill-defined structure of public decision making (overlapping responsibilities, centralization gap and law implementation gaps); selective distrust of market mechanisms; under-performing civil service; rent seeking and corruption; and patronage and weak business regulation. According to the authors, ways to remedy institutional weaknesses in Tanzania generally fall into two principles including; allowing for more competition and competitive market mechanisms to play their role as much as possible but under adequate supervision and regulation; and the systematic regular and rigorous evaluation of the functioning of the public sector, policy outcomes, and socioeconomic progress achieved.

Mboya and Kazungu (2016) explored the determinants of firm's competitiveness in Tanzania's textile and apparel sector. Their study used cross sectional data covering 204 respondents originating from Dar-es-Salaam, Mwanza and Arusha. The study found that core competencies, availability of alternative products, barriers to entry and value chain management are significant constructs in explaining competitiveness of firms operating in textile and apparel sector. Goedhuys et al (2008) studied determinants of productivity of manufacturing firms in Tanzania by using cross sectional data. Findings show that, some of the institutional variables are highly significant and robust to different specifications of the model. As such, formal credit constraints, administrative burdens related to regulations and a lack of business support services were found to lower productivity, while membership of a business association produces the opposite effect.

Okangi (2019) analysed the relationship between various dimensions of entrepreneurial orientation (proactiveness, risk taking and innovativeness) on profitability growth of firms in the construction sector using data collected from 132 firms. The study finds significant evidence of a relationship between both entrepreneurial orientation dimensions (risk taking-positive; innovativeness-positive; proactiveness-negative) and firm profitability growth. The negative coefficient of proactiveness is an indication that the construction market environment of Tanzania does not enable future demand to be forecasted. According to Okangi, weak institutional framework and a lack of sustainable relationship between the Tanzania's construction firms with other key stakeholders in the industry such as clients and suppliers can also prevent such firms from realizing the advantages of being proactive.

Generally empirical studies have put forward different challenges that hinder EDC including access to credit, shortage of skilled labour and administrative burdens related to regulations, etc. (see Annex A). More importantly, some of these challenges are directly institutional while others have indirect correlation with institutional factors such that they could be the effects of institutional constraints. However, none of these empirical studies have analysed the institutional framework for EDC. They have instead formulated a single or several variables to capture either general institutional quality or existing constraints while they have not explained the causes of resulting institutional quality or constraints. This study fills the gap by identifying the institutional challenges for EDC and their causes among other traditional constraints.

EMPIRICAL ANALYSIS

4.1 Analytical Approach

Our literature review identified tools for institutional analysis including Institutional Analysis Development (IAD) framework and various approaches advanced by the Sociology and French schools of thoughts. However, these tools are complex in their application and have remained useful for theoretical purposes with limited if any empirical application. Generally, the empirical studies on Institutional Analysis have used either ready-made data on Institutions such as the World Bank database, among others (Bourguignon and Wangwe, 2018; Bülow, 2015) or have conducted surveys to collect data on Institution performance (Raj and Sen, 2017 and Erastus and Stephen, 2014). Other studies have compared Institutions located in different countries on various aspects including operations such as organization structure (Allaire et al, 2009).

Before explaining each analytical step that will be conducted in this study, we provide a general snapshot of what our analysis will accomplish. Overall the analytical framework identifies the challenges for EDC in Tanzania. As seen from the literature, there are many constraints to EDC-some are specific to SMEs and most others apply to the entire universe of the enterprise sector. In particular, since the challenges constraining EDC are many and varied in nature, our analysis focuses on the challenges related to institutions and institutional framework, and how the recent policy developments have impacted on EDC.

First, we argue that, if all or most businesses in a country are able to develop and become more competitive, then the overall outcome is private sector development. Therefore, we use proxies of private sector development as a way to capture EDC. More specifically, this study uses Domestic Credit to Private Sector and the Index of Economic Freedom data as a proxy for EDC. Domestic credit to private sector refers to financial resources provided to the private sector by financial corporations, such as through loans, purchases of non-equity securities, and trade credits and other accounts receivable, that establish a claim for repayment (World Bank, 2019).
It is calculated as

$$Domestic\ Credit\ to\ Private\ sector\ (\%\ OF\ GDP) = \frac{Domestic\ credit\ to\ private\ sector}{Gross\ Domestic\ Product} * 100 \ldots (1)$$

We analyse the resulting trends from the data, and make comparison with other countries in the region (in this case, the EAC). The Index of Economic Freedom measures the degree of economic freedom in a country on a scale from 0 to 100, based on four complex sets of indicators. The sets of indicators are: Rule of Law (property rights, freedom from corruption); Limited Government (fiscal freedom, government spending); Regulatory Efficiency (business freedom, labor freedom, monetary freedom); Open Markets (trade freedom, investment freedom, financial freedom). Economic freedom is defined by the Heritage Foundation as the fundamental right of every human to control his or her own labor and property. In an economically free society, individuals are free to work, produce, consume, and invest in any way they please, with that freedom both protected by the state and unconstrained by the state. In economically free societies, governments allow labor, capital and goods to move freely, and refrain from coercion or constraint of liberty beyond the extent necessary to protect and maintain liberty itself.

Second, using desk review and key informant interviews, we identify the Institutional Framework for EDC, including description of the organizations that support EDC, their roles and responsibilities in promoting EDC, and their actual performance. Fortunately, through desk review we have already identified the institutions, how they promote EDC and the law for their establishment (see Table 2).

Third, we identify and analyse various institutional challenges which hinder EDC. In order to accomplish this, we explore various databases to obtain information on the institutional performance related to EDC. In particular, we use the World Bank's Country Policy and Institutional Assessment (CPIA) indicators which provide indices on the quality of a country's institutions. The various indices we can obtain through this data include indices on transparency, accountability, and corruption in the public sector, fiscal policy rating, business regulatory environment rating and building human resources rating. Table 3 provides a list of these indicators and how they are related to EDC. Through these indicators we construct and analyse resulting trends and where possible make country comparison . Unfortunately, these indicators are broad only give us areas (accountability, trade, regulatory etc) of institutional quality where Tanzania is lagging and not the specific institutional challenges (corruption, poor tax administration, labour regulations etc) nor how institutional challenges hinder EDC. To fill this gap, we opted to use available firm level survey data (ASIP and Enterprise Survey data) to identify specific institutional challenges and assess how institutional factor affect EDC.

Table 3: World Bank CPIA indicators and how they affect EDC

Indicator/Criteria	Description	How the indicator is linked to EDC
Fiscal Policy	This criterion assesses the quality of the fiscal policy in its stabilization and allocation functions. These include achieving macroeconomic policy objectives in conjunction with coherent monetary and exchange rate policies and appropriate provision of public goods.	A good fiscal policy will ensure a growing and competitive private sector as part of the macro-economic objective.
Trade Policy	Measures the extent to which the policy framework fosters regional and global integration in goods and services, focusing on the trade policy regime (tariffs, nontariff barriers, and barriers to trade in services) and trade facilitation.	This helps expand the market for goods produced locally. More importantly it helps firms acquire inputs at a relatively lower cost in a country where the resource is abundant and produced at a lower cost.
Financial Sector Policy	The index reflects quality of policies and regulations that affect financial sector development on three dimensions: (a) financial stability; (b) the sector's efficiency, depth, and resource mobilization strength; and (c) access to financial services.	It is generally acceptable that a well-developed financial sector is important for private sector development. Without it firms find it difficult to obtain funds for investment while the available funds will be inefficiently allocated to businesses without the potential to grow.
Business Regulatory Environment	This measures the extent to which the legal, regulatory, and policy environment helps or hinders private business in investing, creating jobs, and becoming more productive.	A good business environment attracts more investments which are critical for firm growth. Furthermore, it helps reduce costs of doing business which enhances firm productivity.
Transparency, Accountability, and Corruption in the Public Sector	It measures the extent to which the executive, legislators, and other high-level officials can be held accountable for their use of funds, administrative decisions, and results obtained.	This helps enhancing the performance of institutions. If institutions are able to perform their obligations then they can help promote EDC in the economy.
Property Rights and Rule-Based Governance	The extent to which economic activity is facilitated by an effective legal system and rule-based governance structure in which property and contract rights are reliably respected and enforced.	A well enforced property rights provide incentives for individuals to participate in economic activities, such as investment, innovation and trade, which lead to a more efficient market.

Source: World Bank (2018), Kambou (2019)

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3.   *The other countries used here are those of the East African community including Kenya, Uganda, Rwanda, Burundi and South Sudan. These countries have been chosen based on their similar aspirations of developing their industrial sector in order to bring about development.*

Thus, our fourth activity focuses on empirical analysis by conducting comparative analyses between two sets of firms: those which face institutional challenges against those that do not. In addition, we distinguish growth and competitiveness of firms with association membership (or those which have cooperated or received services with/from Public Technology Intermediaries) against those without association membership or those which have not cooperated or received services with/from Public Technology Intermediaries. The empirical model is specified below.

4.2   Empirical Model

Our empirical model aims to estimate the determinants of EDC to see how institutional factors perform relative to other factors. We follow Raj and Sen (2017) model as specified in eq. (2):

$$EDC_i = \emptyset + \sum_{i=1}^{n} \alpha Z_i + \sum_{i=1}^{n} \beta N_{it} + \varepsilon_i \quad \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \text{(2)}$$

Where: EDC_i is Enterprise Development and Competitiveness, ø is a constant, α and β are coefficients, Z_i is a set of institutional variables and N_{it} is a set of firm characteristics variables including firm experience (lage), and a number of dummy variables including; exporting (export), foreign ownership (foreignown), private owned firm (private), operating in Special Economic Zones (SEZ) and firm size (0 for MSME and 1 for large firm) . Note that EDC is measured by Sales growth, Employment growth (proxies for enterprise development), Unit Labour Cost (ULC) and Value Added per Worker (VAPW) (proxies for enterprise competitiveness).Unit Labour Cost (ULC) is an index which measures the ratio of labour compensation to labour productivity. It measures the labour costs incurred for each unit of output. We calculate ULC as follows

$$ULC = \frac{W_n}{Q_i/H_i} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \text{(3)}$$

Where W_n is the Nominal Wage per worker
    Q_i is the Gross Value Added in industry i and
    H_i is the number of hours worked or number of workers in industry i
Sales growth is the percent growth of sales of a business from one period to another. Similarly, employment growth is the percent growth of number of employees of a business from one period to another. These can be calculated as follows:

$$Growth = \frac{y_t - y_{t-1}}{y_{t-1}} * 100 \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots \text{(4)}$$

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4.   The dummy variables have values 0 for negative outcome (No) and 1 for positive outcome (Yes)

Where y_t is the value of sales or number of employees in period t and

$y_{(t-1)}$ is the value of sales or number of employees period t-1

Value Added per Worker is calculated as the ratio of gross value addition to number of employees. Value Added is the difference between value of total output and intermediate costs.

$$VAPW = \frac{q_i - c_i}{e_i} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (5)$$

Where q_i is the value of total output of firm i

c_i is the intermediate cost for firm I and

e_i is the number of employees of firm i

In terms of estimation, we use Random Effects (RE) and Fixed Effect (FE) models to estimate the determinants of EDC (VAPW, ULC, Sales growth and employment growth). Indeed, Fixed Effects modeling looks for factors causing within subject variability so that when there is very little or no within subject variability, then there would be nothing to examine while RE looks at factors causing across observations differences (Williams, 2018).

Suppose, we fit models such as Equation 6

$$y_{it} = \alpha + x_{it}\beta + v_i + \epsilon_{it} \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (6)$$

Where y_{it} and x_{it} are the dependent and independent variables respectively

α and β are parameters and

$v_i + \epsilon_{it}$ is the error term

$$\bar{y}_i = \alpha + \bar{x}_i\beta + v_i + \bar{\epsilon}_i \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (7)$$

$$(y_{it} - \bar{y}_i) = (x_{it} - \bar{x}_i)\beta + (\epsilon_{it} - \bar{\epsilon}_i) \dots\dots\dots\dots\dots\dots\dots\dots\dots\dots\dots (8)$$

$$(y_{it} - \delta\bar{y}_i) = (1 - \delta)\alpha + (x_{it} - \delta\bar{x}_i)\beta + \{(1 - \delta)v_i + (\epsilon_{it} - \bar{\epsilon}_i)\} \dots\dots\dots\dots (9)$$

Note that we use three alternative proxies of institutional variables, namely:

(i) association, which captures firms membership to industry associations; (ii) tech1 which captures firms that received services from any Public Technology Intermediary organization; and (iii) institutional which captures firms that identified "institutional challenges" as one of their main challenges.

However, it is important to note that, our analytical framework is limited in scope. We focus on institutional challenges in a broad sense, and the analysis is applicable only to the ASIP data that covers only the Industrial sector to assess the role of institutional factors on EDC. In particular, ASIP data has only two questions (out of 10) on the role of institutions. The first one is a question on institutional linkages which asks two sub-questions: whether a firm has association membership; and, whether a firm has cooperated or received services from any Public Technology Intermediary. The second is a question on challenges a firm faces when doing business (some of the options provided were institutional challenges such as uncertain economic environment, complicated administrative procedures and inadequate financial services to mention a few). In addition, both ASIP and Enterprise Survey data are outdated such that they may not pick the prevailing conditions of firm that might have changed between then and now.

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5.   *The bar signs on top (Equations 6 and 7) mean the variable is averaged over time (timed mean of a variable)*

Thus, our fifth step is to conduct a brief survey where we conduct key informants interviews with officials from selected institutions and CEOs of selected companies regarding the main institutional challenges that hinder EDC including their causes and the recommendations to address them. More so, the survey serves as a way to confirm and complement the results obtained from secondary data analysis. Finally, guided by the literature review, we examine the implications of various policy developments at National, Regional and Global level on Tanzania's EDC. This part of the research study will be organized into a separate standalone paper.

4.3 Data

The study uses both primary and secondary data. As noted in section 3.1 above, the secondary data includes World Bank's Country Policy and Institutional Assessment (CPIA) indicators, World Development Indicators (WDI), World Bank Enterprise Surveys (WBES) and the Annual Survey of Industrial Production data (ASIP). The CPIA data rates countries against a set of 16 criteria grouped in four clusters: (i) economic management; (ii) structural policies; (iii) policies for social inclusion and equity; and (iv) public sector management and institutions. CPIA measures the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance. The outcome of the exercise yields an overall score and scores for all of the 16 criteria that compose the CPIA. In this data all clusters except policies for social inclusion and equity cluster are used for analysis. We do not use the latter because it is not related to EDC.

The World Development Indicators (WDI) is the World Bank's primary collection of development indicators, compiled from officially-recognized international sources. It presents the most current and accurate global development data available, and includes national, regional and global estimates. In this study we use this database to obtain data that will proxy private sector development that is Domestic credit to private sector as a percent to GDP. The Annual Survey of Industrial Production (ASIP) data is the most recent available firm level survey data, covering establishments with 10 or more employees. It provides firm level information including production, sales, value addition and information on role of institutions and the institutional challenges faced by firms. This data is available for the years 2008-2016. The Enterprise Surveys data cover a broad range of business environment topics including access to finance, gender, corruption, infrastructure, innovation, competition, informality, and performance measures. Firm-level surveys have been conducted since 2002 by different units within the World Bank. They constitute firms from Manufacturing and Service sectors and for the specific case of Tanzania they are available for only 2006 and 2013.

We present our results in three parts. First, in section 5.1 we present estimates of EDC to describe Tanzania's position compared to other countries in the region. Second, we provide our assessment of institutional quality in section 5.2. Finally, our empirical results are presented and discussed in section 5.3 to describe extent of the specific institutional challenges using the firm level survey (ASIP and WBES) data; and measure the relationship between institutional factors and EDC.

5.1   Indicators of Enterprise Development and Competitiveness

As noted in the methodology, we use various proxies to illustrate EDC, including growth of employment, sales and value added. However, such measures are less comprehensive in capturing the overall impact of EDC, that is, the extent of the private sector development. This is because private sector development is the outcome of successful EDC. We resorted to the global practice of using credit to the private sector as an-all inclusive measure of the private sector development. Figure 10 shows trends in domestic credit to private sector as % of GDP for Tanzania compared to other countries in the region. Clearly, although the domestic credit to private sector for Tanzania has generally improved from 11.7% in 2009 to 13.1% in 2017, it is still far one of the lowest in the region, surpassing only South Sudan; compared to other countries with as high rate as around 30% for Kenya or 20% for Rwanda. Overall this shows that pace for EDC (hence the growth of the private sector) has been slow in comparative terms.

Figure 10: Credit to Private sector (% of GDP)
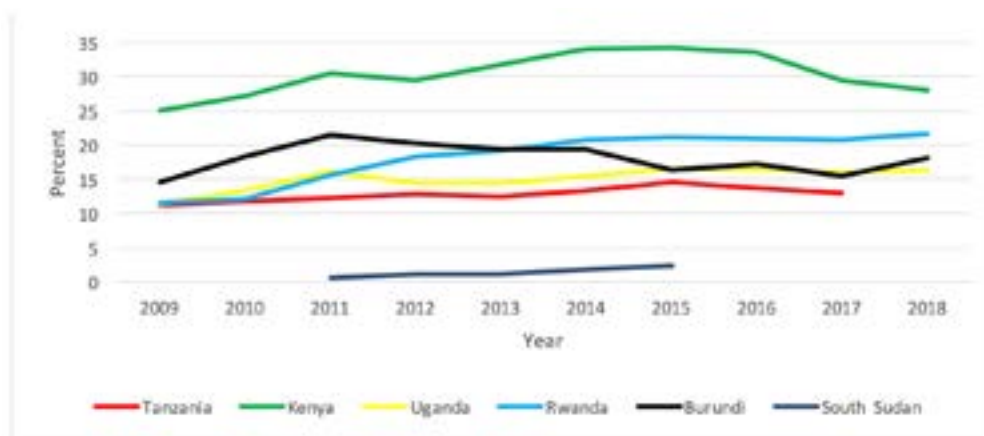
Source: Authors' analysis based on the World Development Indicators (WDI).

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6.   *South Sudan is missing in Figure 11 because data were not available.*

Furthermore, we used Heritage Foundation's Index of Economic Freedom on a scale from 0 to 100, based on four complex sets of indicators; namely: Rule of Law, Limited Government, Regulatory Efficiency, and Open Markets. Figure 11 shows the trend of the index score for Tanzania compared to her EAC neighbors . The results show that, Tanzania's score in the Index of Economic Freedom has been improving between 2011 and 2019; and is above that of Kenya and Burundi. The areas that have seen improvement in the index include open market and government size. Much of the improvement in the area of Open Market indicator is attributed for by Tanzania's successful experience in its evolving financial sector. Credit is allocated largely at market rates, and various commercial credit instruments are available to the private sector. However, Rule of law, Regulatory Efficiency and Financial freedom remain areas of concern (Heritage Foundation, 2018). Indeed, Rwanda is observed to be the best performer compared to the rest of EAC members since 2011. Consequently, it is not surprising that Rwanda is considered the most business-friendly country in EAC (Heritage Foundation, 2020). Rwanda's performance is mainly driven by significant improvements in government integrity, judicial effectiveness, and property rights outpacing declines for the tax burden, business freedom, and monetary freedom indicators.

Overall, the two variables (domestic credit to private sector and index of economic freedom) show that, although potential for improvement exists, Tanzania's performance in supporting growth of the private sector has been relatively poor compared to her EAC neighbours. In this case, Rwanda appears to be the best performance as the country has made significant improvement in private sector development as a result of a strong government commitment.

Figure 11: Annual Index of Economic Freedom for selected Countries
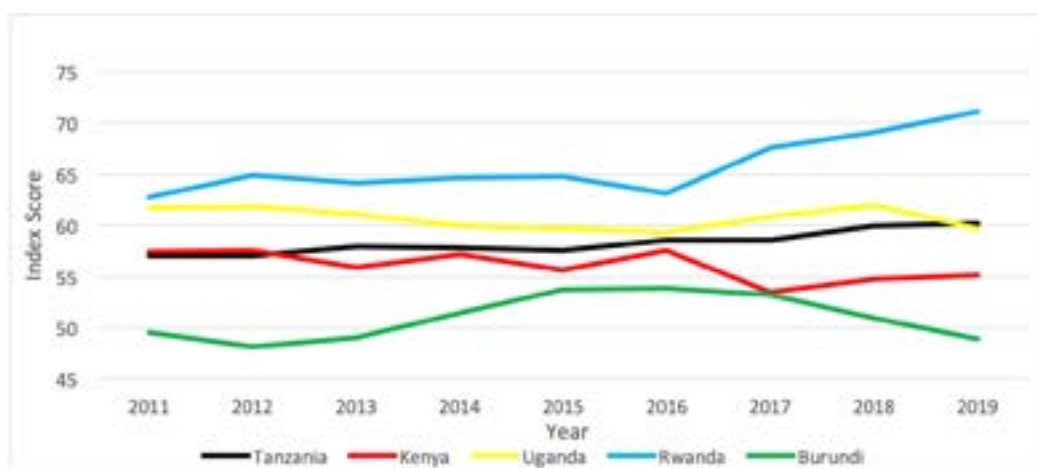
Source: Authors' analysis based on Heritage Foundation's Index of Economic Freedom data.

5.2 Performance of Institutional Quality

Our literature review provided a general view that institutions do matter for EDC. Therefore, it was imperative that we assess institutions and institutional framework for EDC in Tanzania. Using selected CPIA indicators, we assess trend of Tanzania's performance in the quality of institutions over the 2009-2018 period in Figure 12, and compare it with other EAC countries in Figure 13. Results show that, none of the indicators showed significant improvement in Tanzania's performance in that period. Indeed, only trade rating indicator had the same score in all ten years (a score of 4), while the remaining indicators declined over time. Overall, the selected CPIA indicators show that institutional quality in Tanzania has been gradually declining.

Analysis of individual indicators shows that, during the 10 years period, Trade rating indicator had the highest average score (4) while Transparency, accountability, and corruption in the public sector indicator had the lowest average (2.9). More so, recent report on State Owned Enterprises (SOEs) in Tanzania (World Bank, 2019) highlighted that the current management of SOEs lacks transparency including poor financial reporting and auditing, while political interference has led to lack of accountability, hence persistent financial losses. The business regulatory environment rating (3.4) is clearly low, underscoring the business environment challenges in the country; and which limit Tanzania's ability to harness the massive market opportunities arising from the preferential market access and a growing middle class.

The subject business environment challenges include limited access to affordable finance, shortages of appropriate skills, inadequate infrastructure and difficulties associated with paying taxes. Indeed, most firms especially the SMEs find it burdensome to comply with multiple charges and taxes by various agencies (World Bank, 2019). This implies that the existing legal, regulatory, and policy environment is falling short in fostering a growing private sector. Nonetheless, the recent Government's blueprint and roadmap initiatives appear to be promising policy boost to addressing these challenges (see URT, 2018).

Analysis of cross country comparison in Figure 13 shows that, Rwanda has performed better than her EAC neighbours for the past five years (2014 to 2018), while South Sudan has the lowest score. Indeed, Rwanda has been well recognised for her good functioning institutions. For instance, Rwanda had the highest score in Institutional quality pillar of Global Competitive Index among countries in Africa in 2018 (Schwab, 2018). The country has become a beacon of good governance in Africa, especially with respect to good institutions, ethics, and a good business environment (Walabyeki, 2017). CPIA annual average for Tanzania, Kenya and Uganda do not differ much although since 2016, Uganda has had better average CPIA score than Tanzania and Kenya. More importantly, between 2014 and 2018, the score has declined in both Tanzania and Kenya while remaining the same for Uganda. Relative to her EAC compatriots, Tanzania's institutional quality is reasonably moderate

The comparative analysis of the EAC countries shows that, institutional quality matters and differs across countries underlying the different outcomes of their efforts to promote EDC. To demonstrate this fact, we further computed the average score for each indicator for the ten-year period (2009-2018) for each country, and rank the countries based on the resulting estimated average. Results are shown in Table 4. The results indicate that, Tanzania's Institutional quality is lagging in fiscal policy, trade and business and regulatory environment rating. In each of these indicators Tanzania is ranked 4th (out of 6 countries).

The areas where Tanzania has performed well, albeit not being the best, include property rights, transparency and accountability and financial sector ratings. Rwanda and Uganda have occupied top ranking in five out of six indicators (Fiscal policy, property rights and trade indicators for Uganda and transparency and accountability for Rwanda) while Kenya is the best performer in financial sector indicator. Burundi and South Sudan have ranked 5th and 6th respectively in all indicators. The poor performance in these countries reflects ongoing problems of state failure characterized by violence, policies and decisions that promote personal power and wealth rather than country development, inadequate public sector capacity, corruption and state rent extraction (Nkuruzinza, 2018; AfDB, 2018).

Figure 12: Annual score of selected CPIA indicators 2009-2018

Source: Authors' analysis based on the CPIA Data (2009-2018).

Figure 13: Annual average score of selected CPIA indicators for EAC
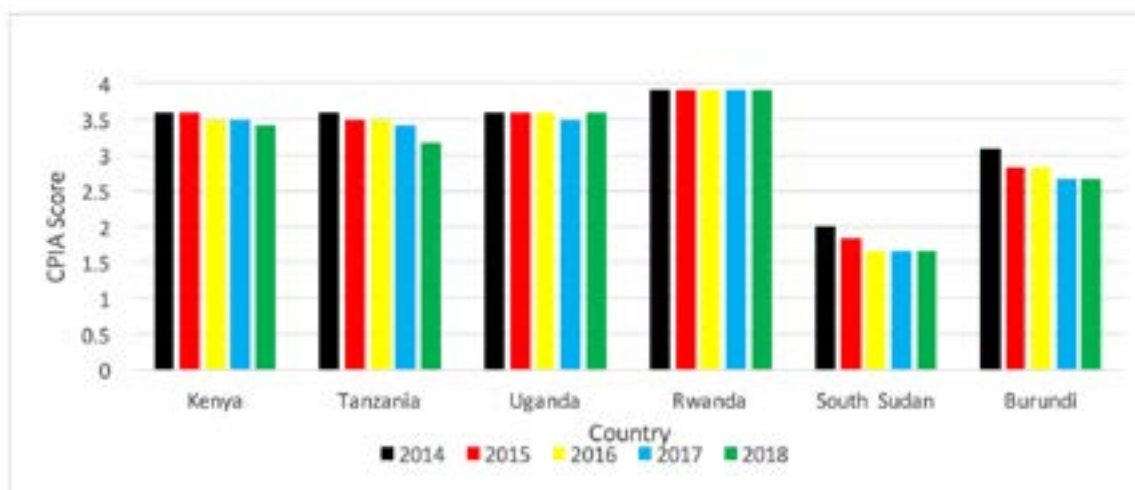
Source: Authors' analysis based on the CPIA Data (2009-2018).

Table 4:Country ranking by average score: 2009-2018

Rank	Fiscal policy	Property rights rating	Trade rating	Transparency and accountability	Business regulatory environment	Financial sector rating
1	Uganda	Uganda	Uganda	Rwanda	Rwanda	Kenya
2	Kenya	Tanzania	Rwanda	Kenya	Uganda	Tanzania
3	Rwanda	Rwanda	Kenya	Tanzania	Kenya	Uganda
4	Tanzania	Kenya	Tanzania	Uganda	Tanzania	Rwanda
5	Burundi	Burundi	Burundi	Burundi	Burundi	Burundi
6	South Sudan	South Sudan	South Sudan	South Sudan	South Sudan	South Sudan

Source: Authors' analysis based on the CPIA Data (2009-2018).

5.3   The Role of Institutional Factors in Promoting EDC

Thus far, we have looked at EDC and Institutional factors separately. Further, we have used macro level variables in their measurement which lumps a lot of information into one index, without identifying the specific institutional challenges faced by firms and how do firms facing such challenges perform compared to those that do not. This section presents results of our analysis of firm level survey data, in which we use the Annual Survey of Industrial Production (ASIP) available for eight years 2008-2016; and the World Bank Enterprise Survey (WBES) data available for 2006 and 2013. As noted earlier, WBES data has more information on institutional challenges compared to ASIP data. In any case, we use both dataset to optimize on the strength of each. We begin by identifying the institutional challenges as reported by firms in the WBES dataset in Figure 14.

The Institutional challenge faced by most firms is Electricity (29.3%), followed by Tax rates (10.1%), Access to land (3.9%), Customs and trade regulations (2.6%), Business licensing and permits (2%), Crime, theft and disorder (2%), Corruption (1.6), Tax administration (1.4%), Labour regulations (0.9%) and finally Political instability (0.8%). Indeed, the electricity challenge is reflective of the Tanzania electricity supply problems during the 2011-2013 period and since then a lot has been done to address the challenge with recent efforts being the construction of Stigler's Gorge Dam that is expected to massively double the country's electricity supply. In addition, we analysed the challenges based on firm characteristics including firm size, region and sector. In this study we combined Micro, Small and Medium size firms such that in overall, we have two groups of firm size; MSMEs (1-99 employees) and Large firms (100+ employees).

On average institutional challenges seem to be more pervasive for large firms than for MSMEs mainly because of the challenge of electricity that appears to be a concern (by then) to majority (46.6%) of all large firms followed by taxes (12.3%). Apparently, none of the large firms identified institutional challenge related to business licensing and permits, corruption, tax administration, political instability and labour regulations to be a significant challenge. The MSME sector also ranked electricity high among the most identified challenge (27.3% of all MSMEs) while labour regulations and political instability were the least identified challenge (both 0.8% of all MSMEs). In Table 5, we ranked the challenges by sector, where the results identified electricity, tax rates and access to land as the top challenges for most firms.

Figure 14: Percent of firms facing different Institutional Challenges
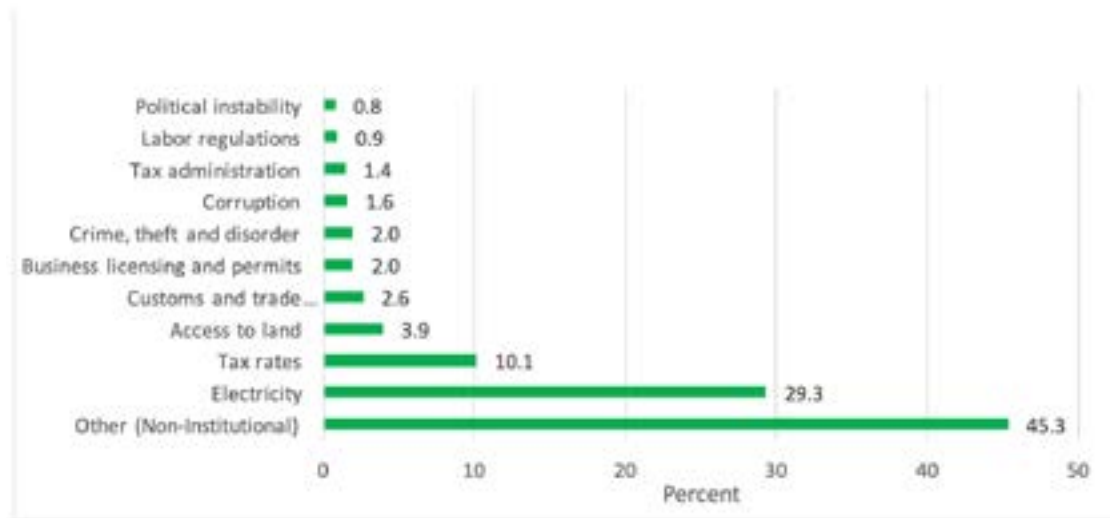
Source: Authors' analysis based on WBES Data (2013)

Figure 15: Proportion of firms facing Institutional Challenges in 2013 (by Size)
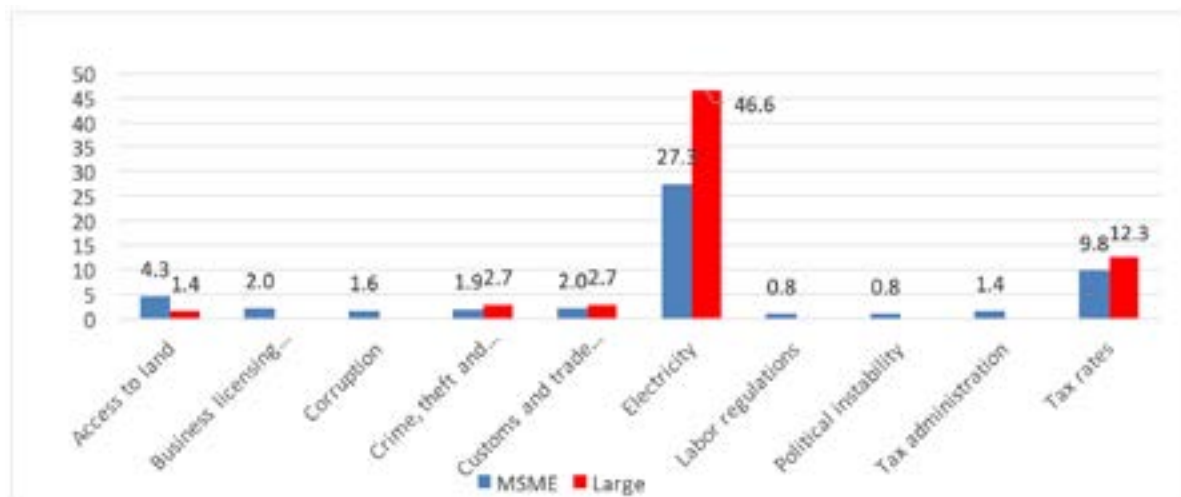
Source: Authors' analysis based on WBES Data (2013)

Table 5: Ranking of Institutional challenges across sectors

Rank	Textile and Garment	Wood and Furniture	Food
1	Electricity	Electricity	Electricity
2	Tax rates	Tax rates	Tax rates
3	Access to land	Business licensing and permits	Access to land
4	Crime, theft and disorder	Access to land	Crime, theft and disorder
5	Customs and trade regulations	Corruption	Tax administration

Rank	Retail and Wholesale	Services	Others
1	Electricity	Electricity	Electricity
2	Tax rates	Tax rates	Tax rates
3	Access to land	Customs and trade regulations	Access to land
4	Corruption	Access to land	Customs and trade regulations
5	Crime, theft and disorder	Business licensing and permits	Political instability

Source: Authors' analysis based on WBES Data (2013)
Note: Others sector includes Tobacco, Chemicals, Publishing, Printing and Recorded media, Refined Petroleum products, Plastics and Rubber, Non-metallic mineral products, Basic metal, Fabricated Metal products, Machinery and Equipments, Electronics, Transport Machines, Transport and Construction.

Table 6: Number of days used to obtain different services by size and region

Average Number of days taken	Size			Region					
	MSME	Large	Size Average	Arusha	DSM	Mbeya	Mwanza	Z'bar	Region Average
To obtain a construction related permit	39.9	36.9	38.4	18.6	44.5	45.5	15.6	82.3	41.3
To obtain water connection	47.1	7	27.1	60	19.1	.	46	68.4	48.4
To obtain import license	18	6.9	12.5	14.1	11.1	6	3.8	30.3	13
To obtain operating license	20.8	23	21.9	42.4	16.9	.	36.7	16.9	28.2
To obtain electrical connection	61.1	205	133.1	60	62.1	66.8	69.6	61.3	63.9
Average	37.4	55.8	46.6	39	30.7	39.4	34.3	51.8	39.1

Source: Authors' analysis based on WBES Data (2013)

Note: Cells with missing values those in Mbeya region column show that either no firm from that region responded to that question or that a firm responded "don't know the number of days taken". The Size Average and Region average should give the same figure, however they do not because in the firm size variable, there were firms that did not state their number of employees and therefore are not included in the average calculation based on firm size category

Sometimes firms pay gifts when dealing with or when they require services from government institutions. For example, firms may provide gifts when they meet tax officials or upon requesting to get connected to water or electricity services. We use such information from WBES to measure the extent of corruption during these interactions. We compare the proportion of firms who said gifts were expected or requested when they were getting services or interacting with officials from the Government institutions against those who did not. The result (Figure 16) shows that, the proportion of firms that were expected to provide gifts is small compared to those that were not. Gifts were more expected in obtaining Construction permit (14.3%), getting connected to Electricity (13.3%) and Water connection (9.6%). Furthermore, the results indicate that, corruption activities were more pervasive in such areas in 2013.

As noted earlier, the WBES data refers to the year 2013 and a lot may have changed between then and now. Further, WBES does not provide any measures for Enterprise competitiveness and therefore we cannot use it to analyse how institutional factor affect Enterprise competitiveness. Thus, we opted to use the ASIP data which covers the 2008-2016 period. In addition, the data gives us the benefit of observing how the challenges have changed overtime. Unlike WBES, the ASIP data has measures of EDC. Unfortunately, the ASIP data covers only establishments in the Industrial sector thus leaving out firms in other sectors (Agriculture, Services, etc.). We begin by showing the overall institutional challenges identified by firms as presented in Figure 17.

The results show that, in 2016 Inadequate physical infrastructure (roads, electricity, water etc.) was identified as the most binding constraint by the highest number of firms (39.2%), followed by Taxes (25%), Shortage of qualified labour (23.4%), and lastly Infant private sector with weak support (17.9%). Indeed, the World Economic Forum's Executive Opinion Survey results reported in Schwab (2016) identified Taxes and Inadequate physical infrastructure as the second and third most problematic factors for doing business in Tanzania. Moreover, only taxes and infant private sector with weak support challenges seem to have reduced between 2008 and 2016 as reflected by a decreasing percentage number of firms that have identified them as institutional challenges (from34.3% to 25% for taxes and from 19.1% to 17.9% for infant private sector with weak support). The rest of the challenges are observed to increase as reflected by increase in their respective percentage number of firms identifying them as a challenge.

Following the previous findings, we distinguish frequencies of the challenges by size of firms by categorizing MSMEs with Large firms. The results (Figure 18) show that, majority of both Large (45%) and MSMEs (38.3%) identified inadequate physical infrastructure as a major challenge to their businesses. Further as shown in Figure 19, the large firms appears to be more affected by infrastructure challenges compared to small firms, except for "Infant private sector with weak support" challenge. This implies that institutional challenges are generally more of a problem to large firms compared to MSMEs. This may be because MSMEs usually operate in informal sector such that you find majority of them identifying other challenges than institutional challenges. Given that large firms are found in the formal economy, issues such as taxes, complicated administrative procedures, etc. are relatively more prevalent to them.

Figure 16: Proportion of Firms requested to give gifts for various services
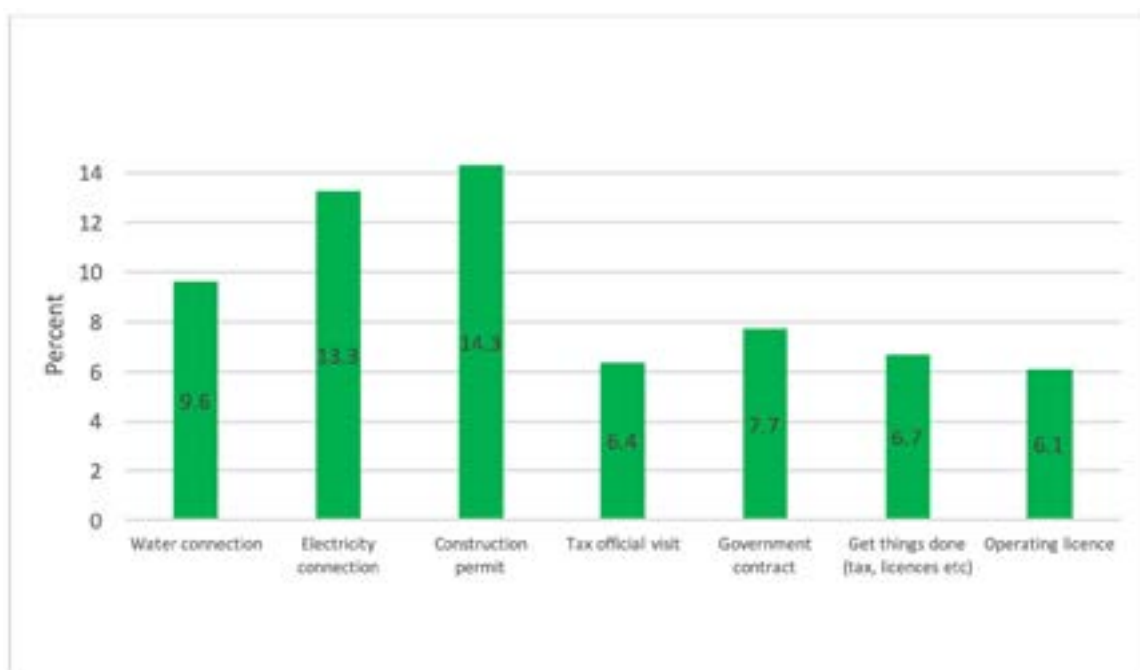
Source: Authors' analysis based on WBES Data (2013)

Figure 17: Proportion of firms identifying Institutional challenges in 2008 and 2016
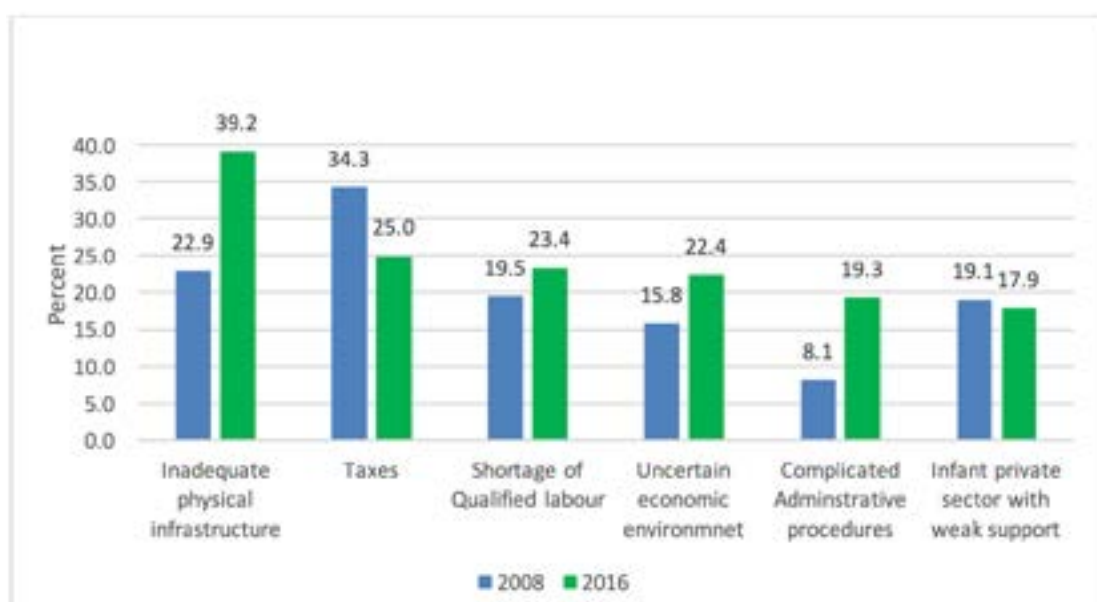
Source: Authors' analysis based on ASIP Data (2008 and 2016)

Figure 18: Proportion of firms identifying institutional challenges (2016)

Source: Authors' analysis based on ASIP Data (2016)

So far, ASIP data and WBES data has helped us understand the nature of Institutional challenges and in which firm characteristics are they more prevalent. We now turn to comparing EDC between firms identifying institutional challenges and those that did not. We constructed a dummy variable called institutional with values 0(if firm responded "not a challenge" to all institutional challenges simultaneously) and 1(if a firm responded "yes" to any of th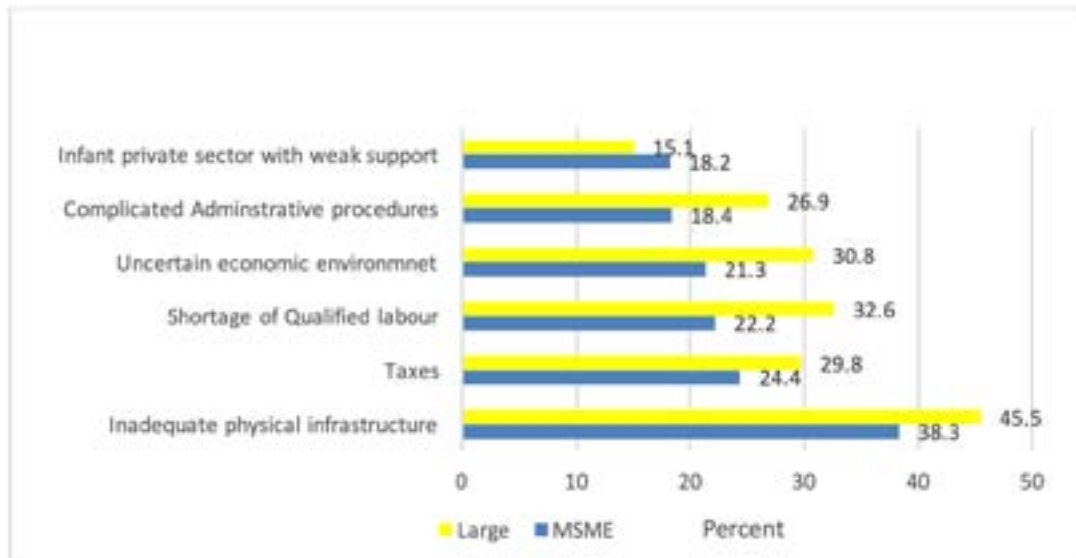e institutional challenge). Then, we estimated Unit Labour Cost (ULC), Value Added Per Worker (VAPW), Sales growth and Employment growth. Finally, we compared these estimates across the two groups (i.e. those facing institutional challenges and those that do not). As noted in the methodology chapter, ULC and VAPW are proxies for Enterprise Competitiveness while Sales growth and Employment growth are proxies for Enterprise Development. Table 7 shows the results of this comparison.

From Table 7, we can draw several observations. First, firms facing institutional challenges appear to have very low (mostly negative) estimates of ULC, suggesting that such firms are more competitive than those that do not face institutional challenges. However, this measure of EDC has potential challenges of interpretation if the estimate is negative. The negative values for ULC originate from the calculation of value added as total output minus intermediate costs. If the latter is in excess of the former, the value added becomes negative. As a result, using such value in the calculation of ULC leads to negative ULC – thus giving wrong conclusion that firms with such values are more competitive. Suffice it to say, therefore, firms experiencing institutional challenges are highly less competitive from the perspectives of ULC. Similar conclusion is clearly observable using VAPW indicator where, firms facing institutional challenges appears less competitive compared to those that do not. The only exception is in the case of water sector in which ULC is lower for firms facing institutional challenges, hence more competitive compared to those that do not. The estimates of these two measures of EDC are notably opposite of the remaining two measures (sales and employment growth). Both sales and employment growth shows that the firms facing institutional challenges are more likely to be significantly more competitive than those that do not. With exception of the water sector, the above results were consistent even when are disaggregated by size and sector.

Table 7: Estimates of Average EDC (by different firm characteristics)

Variable	Institutional	All firms	Size		Sector			
			MSME	Large	Mining	Manufa -cturing	Electricity	Water
ULC	1	-0.07	-0.15	0.37	0.31	-0.20	0.75	0.39
	0	0.60	0.64	0.33	0.27	0.62	0.50	0.76
VAPW (Tshs)	1	51,068	49,286	61,650	57,682	37,926	828,502	48,095
	0	730,452	828,530	60,409	110,387	56,673	19,300,000	34,230
Sales growth	1	7.90	7.77	8.57	7.00	8.05	48.95	0.42
	0	1.13	1.18	0.89	0.45	1.24	0.94	0.24
Employment growth	1	0.20	0.08	0.80	0.15	0.22	0.06	0.05
	0	0.12	0.03	0.61	0.19	0.12	0.23	-0.04

Source: Authors' analysis based on ASIP Data (2013-2016)

The above estimates while appear contradictory and inconsistent across the four different measures, we suspect that to arise from the fact that, there may be other factors driving EDC in addition to institutional factors. To address this challenge, we run firm level econometric estimates in which we include standard variables in addition to the institutional ones to find out their relative role in driving EDC. That is, we have used to simultaneously include multiple different factors and see how each marginally affect the dependent variable is regression. The three institutional related variables (association, tech1 and institutional) are added in the different model specifications. Also note that all dependent variables are in log form (lulc, lvapw, lsgrwth and lempgrth). Further, we have added control variables in our models including Year, Sector and Region. In the FE model we do not use Region as it is a time invariant variable and FE will automatically drop it. We use Hausman Test to select between Random Effects (RE) and Fixed Effects (FE). Where RE is selected such as with ULC model, we do not present FE results, however where FE is selected such as with VAPW we present both FE and RE. This is because our institutional variables (institutional, association and tech1) have very little within variability such that the use of FE estimates becomes problematic as FE estimation requires the variables to have within variability.

The results are reported in Table 8. Column 1 of Table 8 shows that association membership is the only institutional factor with significant role on ULC. In particular having association membership is associated with 32.2% lower ULC compared to not having association membership. However, the role of association membership varies between the FE and RE model. In particular according to RE (column 3), having association membership is associated with 56.5% higher VAPW while, once we shift to FE (column 2), association coefficient becomes insignificant. The same is observed with tech1 variable where, firms that cooperate with public technology intermediaries are associated with 16.6% higher VAPW (RE results in column 3) while once we shift to FE the effect disappears. These results reinforce the common perceptions that firms engaging in association membership and firms that cooperate with public technology intermediaries are more competitive. However, they also show that once we control for unobserved heterogeneity within firms (through FE), these characteristics become less important. Using the sales growth indicator, the RE model show that association membership is associated with 25.4% higher sales growth. None of the institutional variables were significant in employment growth models (column 5 and 6). Generally, based on results in Table 8, institutional challenge variable is insignificant in affecting EDC. However, institutional support through association membership and cooperation provided by public technology intermediaries is important for improving EDC.

Table 8: Determinates of Enterprise growth and Competitiveness in the Industrial sector

Variable	(1) RE lulc	(2) FE lvapw	(3) RE lvapw	(4) RE lsgrwth	(5) FE lempgrth	(6) RE lempgrth
lage	-0.0235	0.168**	0.133***	-0.00710	0.697*	-0.0229
	(0.0266)	(0.0646)	(0.0296)	(0.0605)	(0.342)	(0.0639)
export	-0.435***	0.164	0.773***	0.528*	-0.289	0.0670
	(0.130)	(0.314)	(0.143)	(0.257)	(0.605)	(0.260)
association	-0.322***	0.221	0.568***	0.254*	-0.540	0.220
	(0.0674)	(0.188)	(0.0758)	(0.145)	(0.499)	(0.130)
tech1	0.0165	0.0908	0.166*	0.0831	0.0873	0.0221
	(0.0608)	(0.140)	(0.0661)	(0.145)	(0.471)	(0.121)
private	-0.345**	0.823*	0.192	-0.113	Dropped	0.172
	(0.128)	(0.335)	(0.162)	(0.328)		(0.294)
foreign own	-0.347**	0.418	0.685***	0.0217	-0.214***	0.398
	(0.110)	(0.378)	(0.121)	(0.241)	(0.046)	(0.227)
institutional	-0.0211	-0.136	-0.00356	-0.178	-0.356	0.0123
	(0.0663)	(0.142)	(0.0743)	(0.142)	(0.365)	(0.127)
capacity2	0.0320	-0.0161	-0.221***	0.0722	0.0513	-0.0638
	(0.0560)	(0.103)	(0.0592)	(0.130)	(0.408)	(0.122)
sez	-0.198**	-0.120	0.247**	0.160	-1.047	-0.0469
	(0.0741)	(0.202)	(0.0825)	(0.196)	(0.645)	(0.189)
size	-0.144	-0.680*	-0.0646	0.357	Not Used	
	(0.106)	(0.326)	(0.119)	(0.196)		
Region	Added	Not Used	Added	Added	Not Used	Added
2016.year	-0.0167	0.00899	-0.000407	0.279*	-0.148	-0.0262
	(0.0282)	(0.0286)	(0.0269)	(0.117)	(0.175)	(0.108)
Manufacturing	0.152	-1.351	-0.249	0.0703	Dropped	-0.0180
	(0.124)	(0.706)	(0.138)	(0.296)		(0.233)
Electricity	0.303	0.622	0.273***	0.146*	Dropped	1.476**
	(0.311)	(2.063)	(0.542)	(0.063)		(0.542)
Water	0.0262	-0.305***	0.419	-0.0233	Dropped	-0.759
	(0.191)	(0.07)	(0.219)	(0.476)		(0.439)
_cons	-1.600***	8.972***	8.470***	-1.079	-1.744*	-1.923***
	(0.284)	(0.703)	(0.335)	(0.576)	(0.783)	(0.440)
N	4398	4505	4505	980	613	613
adj. R-sq	0.35	0.038	0.30	0.29	0.295	0.19

Standard errors in parentheses: * $p<0.1$; ** $p<0.05$; *** $p<0.001$
Source: Authors' analysis based on ASIP Data (2013-2016)

Owing to the large size of the manufacturing subsector in the Industrial sector (constituted 9255 out of 10892 observations in the panel - equivalent to 85%), we consider it important to analyse the relationship between institutional factors and EDC specifically for the Manufacturing sector. Note that, based on the sample distribution across manufacturing subsector, sectors with small sample were lumped together into "other sectors" as the reference group. We did this because such groups were causing errors during estimation. Therefore, our subsector variable has 6 groups (0-others ; 1-Food Products; 5- Articles of straw and plaiting materials; 12- other non-metallic mineral products; 14-Fabricated metal products; and 20-Furniture).

The results (in Table 9) show that, the relationship between institutional factors and EDC in the manufacturing sector do not differ significantly with that of the overall industrial sector. Association membership is significant only with the RE model. In particular, firms with association membership have 39.6% lower ULC compared to those which do not have association membership. In terms of VAPW, both association and tech1 are significant. According to the RE model, firms with association membership had 62.9% higher VAPW than those without association membership while those which cooperate with public technology intermediaries had 23.3% higher VAPW compared to those that did not. In terms of enterprise growth, only association membership was significant. Firms with association membership have 12.1% and 5% higher sales growth and employment growth compared to those without association membership.

In all the models, we find no evidence of a relationship between institutional challenges and EDC. However, this does not imply that institutions don't matter for EDC. We consider this to be a result of how institutional variables are designed and modeled since the rest of the variables that became significant are used as proxy for the role of institutions (membership to associations and cooperation with public intermediaries). Another simple explanation could also be the fact that the two explanatory variables are offsetting the effect of institutional challenges. For instance, while high tax rates may be a challenge, a firm may offset this by adopting a more efficient production technique through collaborating with public technology intermediary; or by being an association member. Indeed, a firm could easily access opportunities for linkage with large firms to gain more market and efficient production techniques. This is why in our descriptive analysis, the firms facing institutional challenges were associated with higher VA and lower ULC compared to those that do not.

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7.   *This includes Beverage, Tobacco, Printing and reproduction of recorded media and coke and refined petroleum products to mention a few.*

Table 9: Determinants of Enterprise growth and competitiveness in the Manufacturing sector

Variable	(1) RE lulc	(2) FE lulc	(3) RE lvapw	(4) FE lvapw	(5) RE lsgrow	(6) RE lempgrth
lage	-0.0536	-0.115	0.174***	0.198*	0.0809	-0.0552
	(0.0297)	(0.0688)	(0.0309)	(0.0606)	(0.0733)	(0.0605)
export	-0.519***	-0.314*	0.740***	0.216	0.093***	0.0185
	(0.141)	(0.121)	(0.154)	(0.397)	(0.0238)	(0.205)
association	-0.396***	-0.346	0.629***	0.437*	0.121*	0.0498*
	(0.0774)	(0.261)	(0.0763)	(0.187)	(0.087)	(0.002)
tech1	-0.0218	-0.0946	0.233**	0.116	0.203	0.0468
	(0.0717)	(0.193)	(0.0775)	(0.178)	(0.157)	(0.141)
private	-0.418**	-0.679	0.204	0.429	-0.252	0.196
	(0.148)	(0.359)	(0.147)	(0.266)	(0.450)	(0.235)
foreign own	-0.308**	-0.134	0.547***	0.139	0.235***	0.332
	(0.115)	(0.429)	(0.125)	(0.336)	(0.053)	(0.200)
institutional	-0.0385	-0.00966	-0.0868	-0.0870	0.0734	0.0165
	(0.0720)	(0.192)	(0.0754)	(0.164)	(0.159)	(0.137)
capacity2	0.0903	0.0795	-0.197**	-0.113	0.00728	-0.0883
	(0.0623)	(0.132)	(0.0625)	(0.105)	(0.146)	(0.124)
sez	-0.205*	0.0753	0.231**	0.0742	0.128	0.0328
	(0.0818)	(0.205)	(0.0853)	(0.185)	(0.205)	(0.168)
2016.year	-0.0130	-0.0159	0.00945	0.0253	0.418**	0.0685
	(0.0333)	(0.0362)	(0.0298)	(0.0310)	(0.135)	(0.120)
1.subse	-0.0768	0.236	-0.164	0.191	0.155	0.200
	(0.0849)	(0.365)	(0.0919)	(0.328)	(0.200)	(0.175)
5.subse	-0.0381	-0.505	-0.743***	-0.822	0.246	0.0925
	(0.147)	(0.830)	(0.160)	(0.603)	(0.344)	(0.279)
12.subse	-0.0602	0.699**	0.0994	-0.356*	-0.198	0.149
	(0.109)	(0.308)	(0.120)	(0.143)	(0.295)	(0.224)
14.subse	0.0357	0.741*	-0.0312	-0.524*	0.254	-0.0801
	(0.167)	(0.341)	(0.158)	(0.231)	(0.350)	(0.264)
20.subse	0.399***	-0.331	-0.643***	0.264	0.0773	0.0284
	(0.105)	(0.420)	(0.115)	(0.369)	(0.237)	(0.187)
Region	Added	Not Added	Added	Not Added	Added	Added
_cons	-1.310***	-0.678	5.138***	4.200***	-0.918	-2.177***
	(0.288)	(0.457)	(0.318)	(0.375)	(0.661)	(0.408)
N	3425	3425	3496	3496	797	475
adj. R-sq	0.312	0.020	0.351	0.023	0.228	0.151

Standard errors in parentheses: * $p<0.1$; ** $p<0.05$; *** $p<0.001$

6.0 CONCLUSIONS AND POLICY RECOMMENDATIONS

regional compatriots (notably Kenya, Rwanda and Uganda) in dramatically promoting her enterprise sector. One of the ways to bring about significant transformation in the EDC is to improve the institutional environment for supporting and promoting EDC. This paper assessed the role of institutions in promoting Enterprise Development and Competitiveness (EDC) in Tanzania. Specifically, the paper answers three key research questions, namely: (i) which institutions support EDC? That is, what is the institutional framework for supporting and promoting EDC? (ii) What are the institutional challenges facing enterprise sector and which could be limiting EDC in Tanzania? What has been the performance of institutional quality in Tanzania? And finally (iii), what is the role of institutional factors in influencing growth of EDC in Tanzania? Do institutions matter for promoting EDC?

From our analysis, several findings stand out. First, although several institutions are established for the purpose of promoting EDC, their roles are mainly macro in nature and often lack direct connection with enterprises on the ground. This arises mainly because of the supply-driven nature of most interventions. Likewise, the institutions in the private sector are mainly advocacy in nature. Several indicators were identified to examine the quality and performance of institutions in Tanzania, mainly from the World Bank CPIA database. Overall, the performance of institutional quality in Tanzania is rated as moderate, given areas where the country score high and other low relative to the other countries in the region.

Second, based on firm level surveys data, the analysis show that, the identified institutional challenges are not the most critical challenges facing firms. The top most challenges facing firms include high cost of production, shortage of raw materials and inadequate infrastructure, technology and financial services. Nonetheless, a closer look at the institutional and enterprise development related factors show more firms are mainly affected by unfair competition, compared to weak support to private sector development and complicated administrative procedures, paying taxes, and shortage of skilled labour. Furthermore, the data showed that, access to key services such as water connection, availability of building permit and paying taxes were pertinent challenges. In addition, a higher proportion of firms were expected to provide gifts in getting construction permit and getting electricity connection, implying that these activities had higher prevalence of corruption.

Third, using regression technique, the final part of the analysis examined the role of institutional factors in influencing EDC in Tanzania. The findings show that, institutional support is important for improving EDC. In particular, membership to industry association and collaborating with public technology intermediaries play significant role in enhancing EDC.

A number of policy implications and recommendations arise from the findings.

First, there is a clear need to continue supporting the institutions which promote EDC. One way is to assess their capacity and strategy for supporting/promoting EDC. The significance of industry association implies the need to strengthen them as a more effective platform for delivering government support to firms for promoting EDC. In addition, the findings give emphasis to the production oriented institutions particularly the public technology intermediaries in enhancing productivity and competitiveness.

Second, a strong government commitment is required if Tanzania is to enhance EDC. As we have observed, strong Government commitment to promoting EDC is the main factor for Rwanda's best performance in the region. Thirdly, while we acknowledge the ongoing Blueprint initiative to improve business environment, further reforms are needed to improve transparency and accountability of the institutions supporting EDC. These were areas which had low CPIA scores and contributed to poor institutional quality in Tanzania. This will help such institutions to improve their performance and delivery and provide more tangible support for the development of the enterprise sector. In addition, the actions, attitude and capacity of the civil servants are equally imperative in transforming the enterprise sector as the real engine for growth and job creation.

Fourth and finally, we recommend further research into the theme of institutional analysis to promote further understanding of factors that influence EDC. The techniques for Institutional Analysis available in the literature are very complex and difficult to operationalize, especially in the context of empirical study like the current one. The complexity is also exacerbated by lack of explicit data for directly measuring the role of institutions. The current analysis attempted to unfold various possible facets of institutional analyses that could be promoted in future, including availability of better datasets for better measurements.

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ANNEXES

Annex A: Summary of Institutional Challenges and Recommendations for addressing them

CHALLENGE FOR EDC	RECOMMENDATION	AUTHORS
Bureaucratic corruption	The government needs to address the corrupt practices at various levels rather than focusing just on the measures of doing business	Raj and Sen (2017)
Underdeveloped financial market and informality	No recommendation provided	Goedhuys and Sleuwaegen (1998)
Poor institutions as proxied on their effect on firm activity (Example, Paying bribes) have a negative effect on firm performance)	No recommendation provided	Bülow (2015)
Weak institutional framework and a lack of sustainable relationship between the Tanzania's construction firms with other key stakeholders in the industry such as clients and suppliers	No recommendation provided	Okangi (2019)
No challenge identified	Firms in the textile and apparel industry should study the underlying industry structure, and use it as an input to develop competitive strategies that should focus on enhancing core competencies and value management practices	Mboya and Kazungu (2016)
Corruption reduced the positive impact of domestic resource mobilization on firm performance	The study underlines the need for a healthy and accountable institutional environment to turn tax revenues into growth enhancing public goods	Chauvet and Ferry (2016)
Monopoly power, financial constraints and (to a limited extent) state ownership	State policy facilitating the development of competition in Industrial market is necessary	Bevan et al (2001)
No challenge identified	Improving access to credit is of fundamental importance in enabling enterprises to engage in restructuring activity	Bevan et al (1999)
Informal sector accounts for lower productivity growth in manufacturing sector	No recommendation provided	Diao and McMillan (2018)

CHALLENGE FOR EDC	RECOMMENDATION	AUTHORS
Formal credit constraints, administrative burdens related to regulations and a lack of business support services	No recommendation provided	Goedhuys et al (2008)
Institutional obstacles create bribes which lead to low firm productivity	No recommendation provided	Bülow (2015)
State Ownership of Firms	No recommendation provided	Bavon (1998)
Shortage of skilled labour, inadequate finance, high interest rates and weak currency	The government of Egypt must also establish an SME association which represents the sector in direct talks with the government; SMEs should be included in policy formulation exercise	Fouad (2013)
Poor policy designs and implementation	There is a need for proper schemes, action programmes and regulatory frameworks supportive to SMEs development	Tesfayohannes (2005)
There appears to be a lack of national strategy on the SME sector, and poor coordination of government incentive support institutions as a result of lack of a central agency to coordinate all government incentive support institutions in Ghana	The development of National Strategy on SMEs and empowering the National Board for Small Scale Industries to play to central role of coordinating all government support services to the SMEs in Ghana	Erastus et al (2014)
Country cost (archaic tax systems, high domestic interest rates, poor transport and communication infrastructures)	No recommendations provided	Nelson, 1995; Selber, 1983; Erzan and Yeats, 1992

Annex B: Definitions of various Indicators included in CPIA Database

INDICATOR NAME	LONG DEFINITION
CPIA building human resources rating (1=low to 6=high)	Building human resources assesses the national policies and public and private sector service delivery that affect the access to and quality of health and education services, including prevention and treatment of HIV/AIDS, tuberculosis, and malaria.
CPIA business regulatory environment rating (1=low to 6=high)	Business regulatory environment assesses the extent to which the legal, regulatory, and policy environments help or hinder private businesses in investing, creating jobs, and becoming more productive.
CPIA economic management cluster average (1=low to 6=high)	The economic management cluster includes macroeconomic management, fiscal policy, and debt policy.
CPIA fiscal policy rating (1=low to 6=high)	Fiscal policy assesses the short- and medium-term sustainability of fiscal policy (taking into account monetary and exchange rate policy and the sustainability of the public debt) and its impact on growth.
CPIA public sector management and institutions cluster average (1=low to 6=high)	The public sector management and institutions cluster includes property rights and rule-based governance, quality of budgetary and financial management, efficiency of revenue mobilization, quality of public administration, and transparency, accountability, and corruption in the public sector.
CPIA structural policies cluster average (1=low to 6=high)	The structural policies cluster includes trade, financial sector, and business regulatory environment.
CPIA trade rating (1=low to 6=high)	Trade assesses how the policy framework fosters trade in goods.
CPIA transparency, accountability, and corruption in the public sector rating (1=low to 6=high)	Transparency, accountability, and corruption in the public sector assess the extent to which the executive can be held accountable for its use of funds and for the results of its actions by the electorate and by the legislature and judiciary, and the extent to which public employees within the executive are required to account for administrative decisions, use of resources, and results obtained. The three main dimensions assessed here are the accountability of the executive to oversight institutions and of public employees for their performance, access of civil society to information on public affairs, and state capture by narrow vested interests.

Source: World Bank CPIA Indicators, 2019.