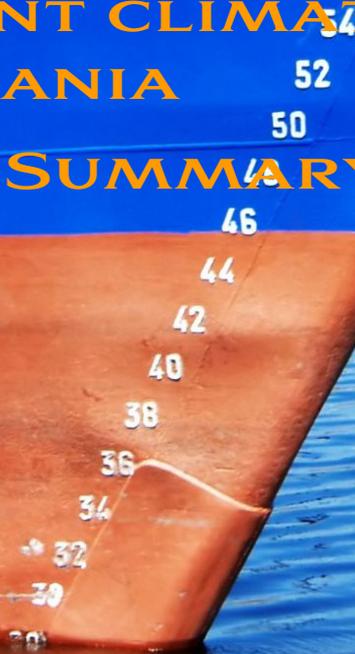




**BUSINESS LEADER PERCEPTIONS OF
THE INVESTMENT CLIMATE IN
TANZANIA**

EXECUTIVE SUMMARY



2008

BEST-AC supports private sector organisations to engage in private public dialogue and to advocate an improved business environment in Tanzania by providing grant aid, training and mentoring.

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BUSINESS LEADER PERCEPTIONS OF THE INVESTMENT CLIMATE IN TANZANIA

1. INTRODUCTION

This report has been prepared to highlight priorities for action to improve the business enabling environment in Tanzania. It has been commissioned by BEST-AC whose role is to support private sector organisations (PSOs) to engage in private public dialogue and to advocate change in public policy with an objective to improve the business environment in Tanzania.

The World Bank asserts that improvements in the enabling environment lead to greater levels of investment by the private sector, more wealth and job creation, and ultimately more poverty alleviation. The best way for government to understand how to improve the enabling environment is to involve the private sector through consultation and dialogue.

This report provides a snapshot of business leaders' views of the enabling environment and the government's role in making it easier to do business.

2. RATIONALE FOR THE STUDY

With organisations such as the World Bank and World Economic Forum undertaking research reviewing problems of doing business, it may seem that there is no need for further studies. This study is different, however:

- Perceptions influence the way that people act. Having an understanding of perceptions may not only convince policy makers that more needs to be done but also provide clues to the government about how to communicate messages about reality.
- It aims to isolate the factors important to specific sectors.
- It has analysed the results by sector and by factor.
- It has not only asked about the factors that are problematic but also asked business leaders to identify where the government is perceived to be making a positive effort to make a difference.
- It has asked about the factors that will deter future investment.
- It has attempted to quantify the costs to business of meeting the regulatory requirements imposed on them.

This first study has results that are revealing, identifying priority areas for action by the government if it wants to make a difference not only to the enabling environment but also to the way that it is perceived by business.

It is intended, funding permitting, to undertake this survey every 12 months enabling us to learn how perceptions are changing and to show trends over time. This will also provide regular feedback to the government.

3. PRIORITIES

Business leaders were asked about

- The enabling environment factors that are important to their business;
- The factors that make it difficult to do business;
- Their perception of whether and, if so, how, government is addressing each factor;
- Their view of whether each factor would be likely to deter future investment; and

- An assessment of the costs involved in meeting the requirement of regulation and red tape.

The factors seen by all sectors to be important to successful businesses are:

- Power
- Roads
- Ports and airports
- Availability of skilled labour

The factors that make it difficult for businesses to get on with running and growing their business, in order, are:

- Power
- Roads
- Corruption
- Availability of skilled labour

This shows a high degree of correlation with the factors that are important. Given that the World Bank views Tanzania as one of the worst places for licensing it was, perhaps, surprising that licensing didn't feature more strongly as a factor impeding business. It may be however that this is partly covered by the issue of corruption, since regulation and licensing often provide opportunities for corrupt practices, but may also be because established firms have learnt how to deal with it.

Our 'enabling environment priority index' takes into account both how the factor make business difficult and the perceived level of effort being made by the government to address the issue. This suggests that the issues to be addressed, in priority order, are:

- Power
- Corruption
- Availability of skilled labour
- Ports and airports
- Roads

These are the issues that the government should prioritise if it wishes not only to make a difference to the enabling environment but also to the perceptions held by business leaders. Ideally, it would also seek good quality media coverage for any changes to influence private sector perceptions.

It should be noted that the cost of complying with regulation takes a high proportion of businesses' expenditure. If it were possible to reduce this, then it would free up resources – both financial and managerial – which the businesses could then use for investment.

4. RESULTS

Respondents were asked which issues were important to the success of their business and then asked whether it made doing business very difficult, somewhat difficult, had room for improvement or was not a problem at all.

The results for whether issues were important are shown in figure 1. The main factor, identified by 63 per cent of respondents, is power. This is followed by roads, port and airports and skilled labour. Taxation is often raised as an issue, but it ranks only ninth in the level of importance to business. Businesses regularly complain about access to finance and, whilst not ranked amongst the biggest issues, comes 6th in order of importance, alongside licensing and regulation.

Figure 1: Importance of issues (all respondents)

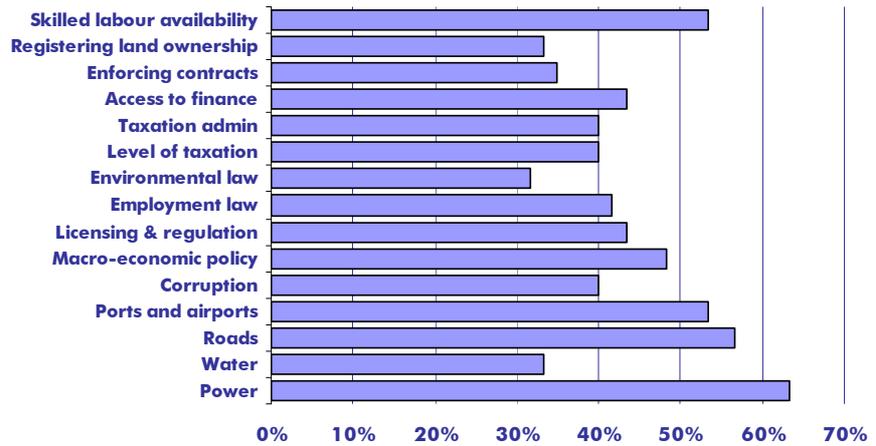
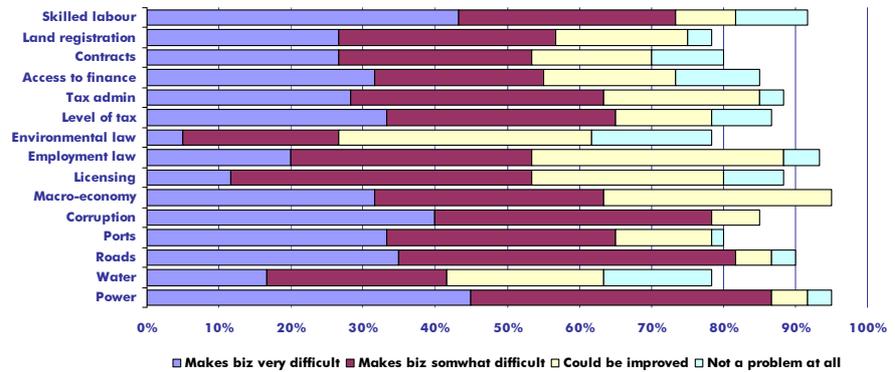


Figure 2 shows the factors that businesses perceive to make life difficult. The factors that 'make business very difficult' are, in order, power, access to skilled labour and corruption. When the factors that 'make business somewhat difficult' are added, then the factors that are most problematic are power, roads, corruption and then skilled labour.

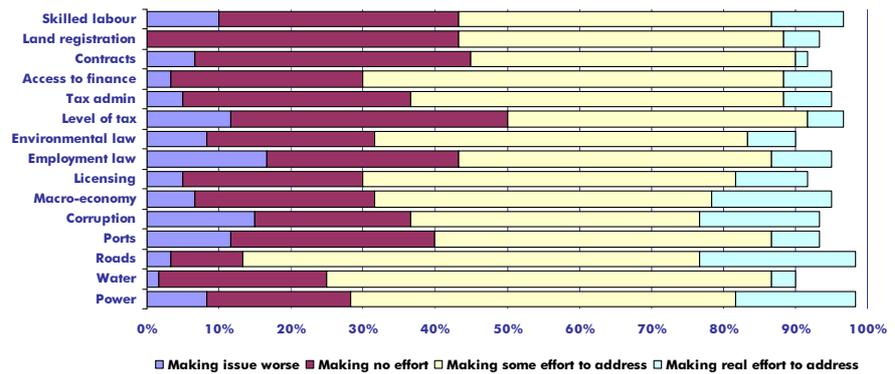
Figure 2: Factors which make business difficult



The second question asked respondents about their perception of what the government is doing to address these aspects of the enabling environment. Answers ranged from 'the government is making real efforts to address the issue', through 'some effort' and 'no effort', to 'government actions are making this issue worse'. Figure 3 shows the results. The government is not perceived by many businesses to be making the problems worse, though 17 per cent think that it is making employment law worse, 15 per cent think that it is making corruption worse and 12 per cent think that it is making the ports worse.

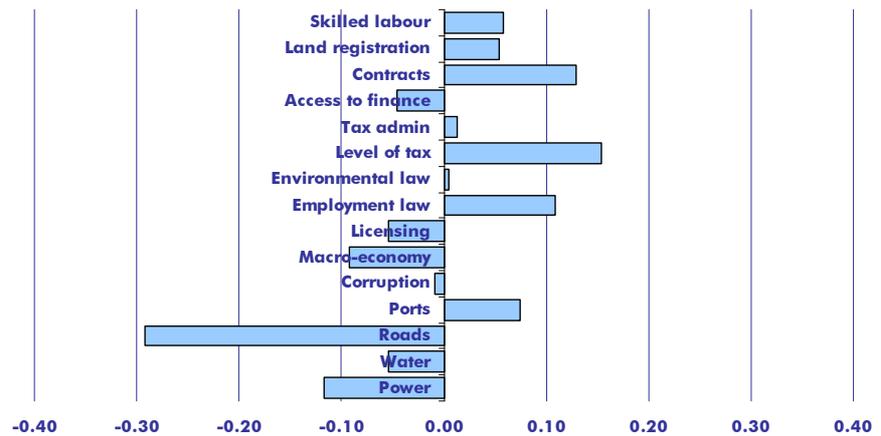
It is interesting to note that the government comes out well in relation to roads where 63 per cent think that it is making some effort and a further 22 per cent think that it is making a real effort to address the problem.

Figure 3: Government performance in addressing key factors



For most factors there was a perception that the government was making at least some effort. In an effort to seek more insight, an 'index of perceived government performance' has been prepared. The results are shown in figure 5. Note that the scale runs from -1 (every respondent thinks that the government is making a real effort) to +1 (every respondent thinks that the government is making the issue worse).

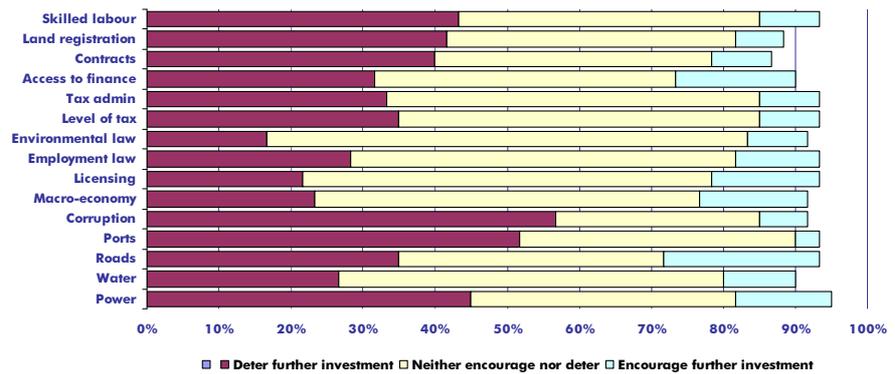
Figure 4: Index of perceived government performance



This suggests that the government should be commended for the effort that it is making to improve roads and power, but needs to make more effort on level of taxation, employment law enforcement of contracts and ports and airports.

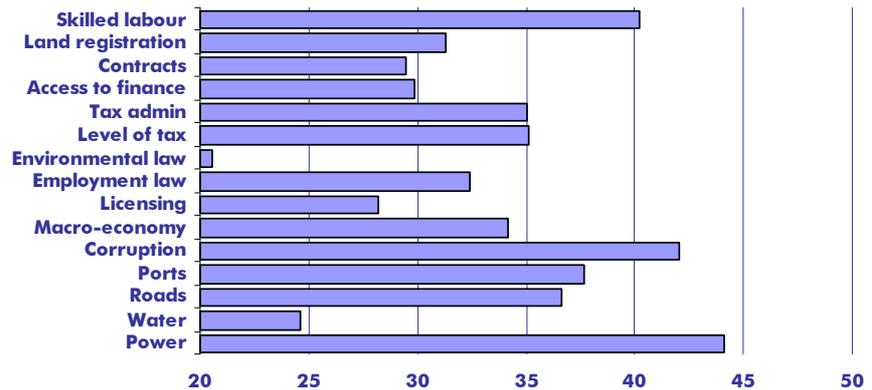
The third question asked respondents which factors were likely to influence investment decisions and how. Corruption is the biggest deterrent to investment, with 57 per cent of respondents saying that it would negatively affect their investment decision. Some 52 per cent said that the state of the ports and airports was a deterrent; 45 per cent said that power was a deterrent; and 43 per cent stated that access to skilled labour was a deterrent.

Figure 5: Factors which affect investment decisions



We have prepared an ‘enabling environment priority index’ based on how the factor makes doing business difficult and on perceptions of how the government is addressing the issue. The results are shown in the figure below. As can be seen, the top issue is power, closely followed by corruption, access to skilled labour, ports & airports and then roads.

Figure 6: Enabling environment priority index



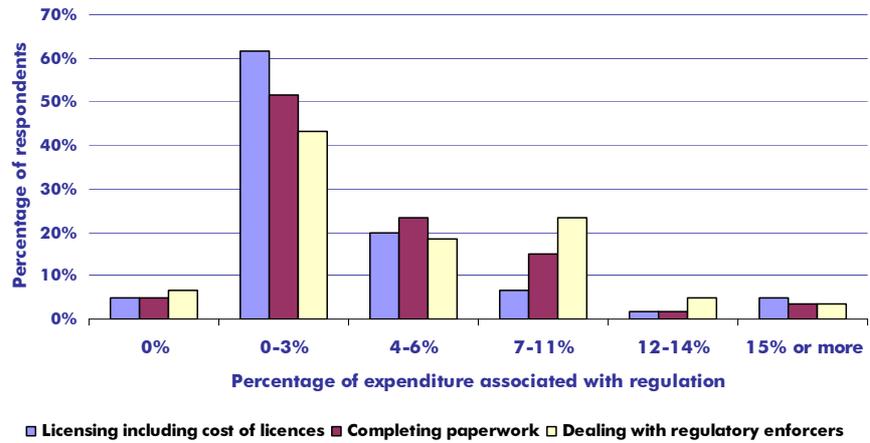
Note that the scale does not start at zero

5. COST OF RED TAPE

Respondents were asked about the costs of red tape and regulation – with costs split into three groups: the direct cost of licensing including the cost of the licences themselves, the effective cost through the staff time required to complete paperwork associated with regulation and the effective cost through staff time of dealing with the enforcers of regulation. Respondents were asked to say in which of a number of bands they believed that each of these categories of cost fell.

As can be seen from figure 7, most respondents thought that each required expenditure of less than three per cent. This is fairly modest, though when you add the three together they can quickly mount up – especially as few businesses were in the lower cost bracket for all categories – to about 12 per cent.

Figure 7: Cost of red tape and regulation



Reducing this would not only make businesses feel that the government was really trying to make a difference, but would free up a lot of resource that could be invested in business expansion. Regulation and licensing is also an area where it is relatively easy for the government to involve the private sector in dialogue and to make an effort to reduce the burden, which will have the added benefit of improving private sector perceptions of government and build confidence amongst the private sector that the government really does want to make a difference.