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Tanzania Investor Roadmap

Final Assessment Report

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Table of Contents

Executive Summary

Chapter 1	Employing	
1 1	Residence Permits	1
1 2	Labor Regulations and Conditions	10
1 3	Social Security and National Insurance	13
<hr/>		
Chapter 2	Locating	
2 1	Acquiring Land	17
2 2	Site Development	28
2 3	Utility Connections	31
2 4	Environmental Compliance	41
<hr/>		
Chapter 3	Reporting	
3 1	Registrar of Companies	44
3 2	Trade Licenses	50
3 3	Investment Certificate	52
3 4	Income Taxes	56
3 5	Local Business Licenses and Taxes	66
3 6	Specialized Licensing	69
3 7	Acquiring Incentives	96
<hr/>		
Chapter 4	Operating	
4 1	Foreign Exchange and Repatriating Profits	100
4 2	Import/Export Procedures	113
4 3	Bonded Warehouses, Agent Licensing, and Duty Drawbacks	116
<hr/>		
Chapter 5	Conclusions and Next Steps	
5 1	The Context for Further Change	118
5 2	Lessons Learned	118
5 3	Opportunities for Future Improvements	121

The Investor Roadmap of Tanzania: Assessment of Progress

Background

In consultation with the Tanzanian Investment Promotion Centre (IPC), in 1996 the United States Agency for International Development (USAID) commissioned The Services Group (TSG), an Arlington, Virginia-based consulting firm, to conduct an Investor Roadmap for Tanzania. The Investor Roadmap document is intended to identify and record problems in procedures and policies that deter new foreign investment, the formalization and growth of indigenous business, and the expansion of existing enterprises. The Roadmap project is a tool to foment positive change in a government's regulatory regime and interaction with the private sector.

In 1998, USAID/Tanzania determined that an assessment of the Roadmap's progress should be undertaken. The assessment was designed to determine what specific procedural changes had occurred as a result of the project, update the Roadmap document, and highlight opportunities for additional improvements. This assessment report outlines what changes have been made since the initial study was conducted two years ago and reflects current regulatory procedures governing the private sector.

The changes highlighted in this report should be seen in the context of Tanzania's other economic and structural reform efforts. In 1996 Tanzania was about ten years into liberalizing its economy and had enacted several key macroeconomic reforms. In its first decade of changing policy, the GoT started to let the market determine interest rates, lifted foreign exchange controls, allowed for private participation in industries, stabilized inflation, tightened the monetary supply, increased government revenue while lowering spending, and privatized state-owned enterprises. Today, it is clear that the Tanzanian government has scored several successes in these areas. Foreign exchange and interest rates are now market driven. The country's GDP has grown steadily after years of stagnation. Inflation dropped to approximately 13% in 1997 from nearly three times that a few years earlier. The Parastatal Sector Reform Commission states that as of June 1998, 201 of the 398 companies slated for privatization had been sold. The GoT has recently begun to grapple seriously with issues of public sector and civil service reform. For example, the Bank of Tanzania reports that government spending on wages and salaries fell from 37.4% of total expenditures in fiscal year 1995/96 to 35.7% in 1996/97, in previous years a much greater share of government resources was spent on wages for public employees.

While important, these macroeconomic changes did not address the many "second-tier" constraints to the growth of a market economy in Tanzania. Many regulatory problems stemming from the creation of a large command and control style bureaucracy during Tanzania's colonial and socialist eras remained untouched. Donors and others have concluded that Tanzania's economy was over-regulated, governed by confusing and contradictory laws, and administered by a large and inefficient public sector. As far back as 1992 it was observed that several inadequacies frustrated the development of business, including

- “cumbersome export and import licensing and other controls,
- complex procedures and institutional deficiencies that make the process of registering or incorporating a business extremely time-consuming and difficult,
- non-transparent nature of the tax regime,
- inadequate commercial, intellectual property, and bankruptcy law,
- high indirect taxes and other charges which raise ex-factory prices and promote tax evasion,
- complete lack of trust between the public and private sector, and
- complicated and time-consuming procedures to acquire land for industrial or commercial building development ”¹

The Roadmap came at a time when there was considerable fear that economic and policy instability would undermine recent progress. Investment applications had dropped from 365 in 1991 to 123 in 1995, and inquiries fell from an average of 150 per month to approximately 20 in 1996. Despite successes on the macroeconomic front, investment response had slumped and the GoT and some donors wanted to know why so that the situation could be reversed.

The 1996 Roadmap examined several key aspects of Tanzania’s investment climate and presented a not-too-flattering picture. The Investor Roadmap concluded

‘in all a firm in Dar es Salaam could expect to submit at least 89 separate filings per year. This compares to 21 in Ghana, 29 in Namibia, and 48 in Uganda. These figures do not include any import or export documentation, repatriation of funds utility payments, or sectoral forms. The situation can be even worse depending on the sector. A bank in Tanzania is expected to submit 285 returns through the course of a year while a hotel must submit more than 454 separate documents to various agencies within the GoT. The long list of operational requirements is evidence that the bureaucratic constraints hampering private sector development do not end once firms are legally established, in fact, red tape negatively impacts firms in Tanzania on an on-going basis.

There are more than 20 steps involved in the clearing of imported goods. Typically five to ten payoffs are required for each shipment.

It is difficult to generalize about the difficulties related to specialized approvals. Procedures, delays and levels of transparency vary widely from agency to agency. In general, obtaining specialized licenses is far more difficult than it needs to be. Indeed, the bureaucratic constraints encountered are largely the legacy of the control-oriented economic regime that dominated Tanzania for nearly three decades.”

The descriptions of Tanzania in 1996 serve as a yardstick with which to measure the change highlighted in this assessment.

Overview of Findings

The Tanzania Investor Roadmap was designed to analyze government interface with the private sector in four broadly chronological “process areas” – employing, locating, reporting, and operating. Some of the processes analyzed have experienced significant improvements since 1996, some have seen modest changes, and others have remained the same, some public servants have been energized and motivated to make their agencies more efficient, and others have been less proactive.

¹ Assessment of the Tanzanian Private Sector Policy Framework. Final Report’ prepared for U.S. AID Tanzania by The Services Group. 1992.

Many in the business community have expressed optimism about government's commitment to liberalization and increasing private sector participation in Tanzania's economy. Tanzania has made successful efforts in recent years to improve the investment environment and focus on increasing government efficiency for the sake of the public. This is particularly laudable in that Tanzania is transitioning from one of the most centralized of the formally socialist African states. Tanzania's natural assets – a relatively well educated population, vast untapped mineral resources, an abundance of underdeveloped land, extensive fishing resources, relative political stability, under-exploited agricultural potential, and great potential for tourism along its tropical coastline, lakes, and Africa's highest mountain – have blessed Tanzania with some unique opportunities.

Below is a summary of findings that reflects what the change and remaining challenges within the four process groups identified in the initial 1996 Tanzania Investors Roadmap.

Employing

Several problematic aspects of employing expatriate and local staff have been addressed in the past two years. While some processes are still not ideal, most investors would not be deterred by red tape related to employment issues. However, the country's labor laws remain woefully inadequate to support a modern private sector economy, and some provisions related to terminating employees are serious concerns for the private sector.

- Employers previously noted significant problems and time delays associated with bringing in expatriate staff. According to investors interviewed in 1998, while obtaining employment permits for expatriates can still be slower than desired, in most instances the length of time it takes to secure Class A and Class B Permits for expatriates has been reduced dramatically. What formerly took months is now accomplished in a matter of weeks or less. According to investors, transparency has also been improved. The Department of Immigration reports that its staff is now aware of the needs of investors and has improved communication with the TIC. Investors certified by the TIC are expedited through the permit approval process and required to submit less documentation than was required in 1996. Further the Department of Immigration has committed to placing a liaison officer in the Centre to help investors understand the process and solve misunderstandings. Finally, the new 1997 Investment Act has guaranteed that five expatriate employees are automatically allowed into Tanzania.
- The procedures for hiring a local workforce are not a problematic in Tanzania, particularly with respect to unskilled labor. But the country's labor laws are out of date and judged by many to be overly biased toward workers at the expense of private business. Terminating employees is complicated and difficult, and the threshold for proving that an employee should be fired for incompetence, negligence, or criminality is high by international standards. As a result, some businesspeople say that they can not make legitimate personnel decisions and are cautious about hiring new full-time workers. Recent changes in labor practices that allow employers to sign one and two-year contracts have begun to ameliorate some of these problems.
- The cost and number of workers' benefits in Tanzania tends to be high, especially when purchasing parastatal companies. The tax system and labor laws encourage employers to keep wages low while maintaining benefits and subsidies.

- Finding skilled Tanzanian managers familiar with modern business techniques and customer service standards remains problematic

Locating

The complex and inefficient process of acquiring and developing land has gained much attention since 1996. A multi-agency workshop was convened in 1997 to start the process of building consensus on existing problems, identifying needs, and plotting solutions. This group's work continues, although some momentum seems to have evaporated. New legislation, due to be enacted within a few months, should have significant implications for how land acquisition is administered. Yet to date many of the constraints associated with acquiring land continue to deter investment.

- Although Tanzania is blessed with abundant, undeveloped arable land, acquiring title tends to be time consuming and complex for new investors. Information sharing among the local authorities, District level officials, the three divisions of the Ministry of Lands, and the TIC has improved but is not yet free of problems. This lack of coordination results in excessive and slow approval requirements and confusion on the part of investors about the proper procedure for obtaining land. As a result, receiving title to land can take several months or a number of years. These problems are exacerbated by the fact that few plots are surveyed and customary tenants must be compensated and relocated before an investor can receive title. Further, there are limitations on a non-Tanzanian's ability to own land.
- Similarly, investors report that developing land, including getting the proper permits to construct facilities can be a cumbersome, uncertain, and expensive undertaking. The processes for surveying plots, building structures, and subdividing land involve seeking multiple approvals from overburdened local authorities and Ministry officials, and there are often conflicting indications about when a given activity in the process can legally proceed. The site development phase has also been identified as an area where rent-seeking opportunities are frequent.
- While there has been some improvement in recent years in the provision of infrastructure services, notably telephone service and power, the quality and price competitiveness of Tanzania's state-owned utilities remain below world standards. In many rural areas, some public services are simply unavailable. Establishing power and water connections is time-consuming and expensive compared to many other states.

Reporting

Since 1996 there has been significant change in several key areas related to reporting to government. Several agencies have recently completed organizational and procedural overhauls, and others are in the process of so doing. Some agencies have made modest steps to simplify procedures, improve processing times, or eliminate regulatory requirements.

- As noted previously, the most dramatic change relating to the reporting process area centers on the ascendance of the TIC and the enactment of the 1997 Investment Act. After 1996, the old Investment Promotion Centre was abolished and the previous Investment Act was repealed. In a departure from its predecessor, the TIC has changed its emphasis from approving and regulating investment to registering and facilitating it. Receiving a Certificate

of Incentives now takes a matter of weeks where it once took months. The TIC has expanded its services and developed stronger relationships with key agencies, including the Department of Immigration, the Registrar of Companies, the Department of Customs, and the Ministry of Lands. Although it has not yet achieved its goal of becoming a one-stop shop for investors, the TIC's ability to help investors has improved over the previous investment organization. The new Investment Act has expanded the list of incentives offered to investors and secured a minimum of five expatriate employees. Tax incentives related to the importation of capital equipment are now automatic, saving investors from a cumbersome process of proving their status as qualified investors.

- The number and rates of Tanzania's taxes continue to concern investors. While some rates have fallen in recent years, a few others have increased. Although the sales tax and stamp duty have been repealed in favor of a Value Added Tax (VAT), withholding taxes remain numerous and, in some cases, high by international standards. Collecting taxes in advance, assuming that companies earn a profit upon commencement, and requiring that companies always pay the same or an increased amount of tax even if a firm shows a loss, constrains new and existing investors. These administrative practices also deter local informal sector businesses from coming into the formal sector.
- Although some agencies can point to tangible improvements in their licensing of the private sector, the sheer number of licenses and overlapping regulatory mandates remains a serious constraint on investors. There are altogether too many Tanzanian agencies that lack the capacity to regulate effectively but extract licensing fees or taxes nonetheless. Further, the Tanzanian government remains fairly fractured, with numerous agencies, departments, and parastatal entities regulating companies without sufficient coordination. Tanzania's licensing procedures need to be comprehensively analyzed for opportunities for improvement within specific agencies and increased intra-agency coordination should eliminate areas of procedural and administrative overlap.

Operating

The profitability and competitiveness of Tanzanian business is important not only for the good of the economy directly but also influences the flow of foreign direct investment into the country. Despite several major improvements, some of the government's regulations and procedures continue to create significant costs for existing investors, thereby negatively affecting Tanzania's competitiveness. In the area of import/export procedures Tanzania is still burdened by a cumbersome process administered by too many actors. Recent improvements, resulting in part from a multi-agency "Implementation Team" asked to improve the situation, have encouraged investors that meaningful change can occur in Tanzania through public-private dialogue and cooperation.

- Customs has taken several steps that are expected to ultimately improve the administration of importing and exporting. Tanzania has recently adopted the ASYCUDA system, begun to computerize operations, moved to a Single Bill of Entry, instituted a random inspection regime, and simplified the conduct of pre-shipment inspections. As a result, Customs clearance times have fallen from an excess of two weeks to four to seven days. Nonetheless, investors state that the import/export process remains overly time-consuming and complicated.

- While performance levels have improved among some of the parastatals involved in Tanzania's import/export procedures, their continued monopoly status hinders efforts to improve the process and limits the choice of business
- Liberalization of the foreign exchange and financial markets in Tanzania has largely eliminated previous investor problems associated with acquiring foreign exchange and repatriating profits

Overarching Issues

The Tanzania Investor Roadmap and, consequently, this assessment report, purposefully adopt a narrow focus on the procedural barriers to increased local and foreign investment. A number of other serious issues that affect investment, such as education and health problems, currency fluctuations, and slumping commodity prices, are addressed in other donor and government projects and do not figure prominently in this study. A few non-procedural issues are discussed, however, because they have been repeatedly raised in interviews with businesspeople and compound the problems resulting from inefficient government bureaucracy and malfeasance. In addition to addressing the specific issues noted throughout this assessment report, some broader concerns need to be resolved to make Tanzania a top tier investment destination.

Legal System

Investors and other stakeholders suggest that considerable legal reform needs to be undertaken to secure individual liberty, private property, and contractual agreements. Many laws are outdated and several acts contradict with one another, creating considerable confusion and risk for investors. Further, the integrity of the Tanzanian justice system has been widely questioned and few legal reform efforts have borne fruit. Some suggest that graft and influence matter more than legal norms or principles of fairness. In general, the courts are seen to be slow, inefficient, and, especially at the lower levels, easily corruptible. Companies are loath to settle contractual and labor disputes in the Tanzanian court system for fear of being embroiled in lengthy and often corruptible court cases. Further, many suggest that using the national court system is risky because a final judgement will be enforced, regardless of the efficacy of the legal process and trial. Similarly, some investors note that few businesspeople use official dispute resolution mechanisms within government agencies for fear of retribution or tarnishing valuable personal relationships with public officials. The inadequacies of the commercial court system and lack of a functioning small claims court or binding arbitration mechanism makes some companies feel vulnerable while doing business in Tanzania. As reported by the United Nations and non-governmental organizations, corruption is not as seriously punished in Tanzania, further tarnishing the country's reputation among investors.

Infrastructure

Tanzania remains a physically underdeveloped country. The quality of the country's infrastructure is a primary consideration for investors, and high transportation and communication costs detrimentally affect the competitiveness of Tanzanian businesses. Tanzania's state-owned utilities do not serve many areas of the country reliably, and even in major cities like Dar es Salaam, Mwanza, and Arusha power, water, and telephone services are below world standards. High transportation costs, especially when relying on road transport into the heart of the country, erode the profitability of business ventures. Bureaucratic impositions

on business such as slow and cumbersome import/export procedures and high utility access charges are exacerbated by Tanzania's infrastructure deficiencies

Sustaining Momentum for Change

In the last few years, Tanzania has embarked upon an ambitious, and at times painful, political, economic, and social transformation processes. As noted previously, Tanzania should be credited with many successes at both the macroeconomic and administrative level. But to achieve Tanzania's full potential, develop a vibrant economy, and create skilled, well-paying jobs the GoT should continue along its present course of change. Regulatory procedures should be streamlined to raise public-sector efficiency and lower the cost of doing business. The government should reaffirm its commitment to the role of the private sector and complete the transition by rationalizing regulation and making the public sector truly customer-service oriented. To successfully transform the government's philosophy from an inefficient command and control mindset to one of facilitation and partnership will take considerable leadership and political will. Workers will need to be retrained, incentives revamped, agencies eliminated, and procedures revised.

This draft assessment report is intended to invite responses from concerned agencies and other stakeholders about Tanzania's progress and the challenges that remain since the publication of the 1996 Tanzania Investor Roadmap. By revisiting the constraints on the private sector noted in 1996, the analysis included in this assessment report is meant to highlight instances of successful change as well as reemphasize the need to complete reforms. The recommendations made are not intended to be definitive, but suggestive, and to encourage those involved to work together to devise concrete means of addressing the current problems and constraints.

Methodology

It is worth reviewing the methodology of the Tanzania Investor Roadmap and the assessment report. While the Investor Roadmap of Tanzania presents an exhaustive review of many of the critical issues related to the government interface with the private sector, it is meant to be more than a detailed report. Ultimately, we hope this assessment is a tool for generating positive change within the Government of Tanzania. The Investor Roadmap's focus on procedural and regulatory barriers to investment and trade illustrates how various government policies and actions affect the international competitiveness of both local and foreign investors. Procedural barriers that cause delays in a project's completion or require excessive amounts of staff time increase the cost of doing business, whether Tanzanian or foreign-owned, and make the Tanzanian economy less efficient overall. Investment procedures that lack transparency increase the risks associated with committing one's time and money to a project and a country. This type of risk is of particular concern to new investors or those that are planning major expansion projects. For Tanzanian companies considering formalizing their businesses, overly complicated procedures create a significant deterrent to joining the licensed, legal business community, and keep major portions of the economy beyond the reach of the Tanzania Revenue Authority.

The Roadmap is presented largely from the perspective of a foreign investor because non-Tanzanians face additional barriers to starting up a business in the country. Because foreign investors are required to undertake some steps not required of Tanzanian investors (obtaining immigration permits, repatriating profits, etc.), the Tanzania Investor Roadmap is more

comprehensive than if it were just to focus on the local investment perspective. Nonetheless, the Roadmap is still relevant to local investors, who are subject to the vast majority of steps outlined. Presenting the investor's perspective is also useful because it allows the public sector to see how an individual agency's policies and practices affect a broader, multi-agency process.

The research methodology used for this assessment report mirrored that originally utilized in 1996. The in-county research for this assessment was conducted in September and October of 1998. The information that informs this assessment was gleaned from interviews with Tanzanian government officials, representatives of the business community, and other stakeholders, including staff from international donor agencies and diplomatic missions. Government legislation, policy statements, and economic data was also collected and analyzed, as was other material related to Tanzania. The findings of this assessment report were validated by a private sector focus group, gathering of public sector management, and a roundtable discussion of senior level representatives of the government, business community, and other stakeholders in December, 1998. These gatherings served to validate and fine-tune the findings and collect additional data that has been integrated into this final version of the assessment report.

In a departure from the 1996 Investor Roadmap, the information in this assessment document is divided into chapters relating to

Employing, including investor and expatriate entry, hiring and firing local labor, and labor laws,
Locating, including such issues as acquiring title, developing a site, obtaining utility connections, and complying with environmental laws,
Reporting, including such issues as registering a business, obtaining, specialized licenses, acquiring incentives, and registering and paying taxes, and
Operating, including issues related to importing and exporting, acquiring foreign exchange, and repatriating profits

Each chapter is divided into subsections, and each of which includes a part devoted to analysis of issues and recommendations. These analysis sections discuss the changes that have occurred since the Investor Roadmap was written in 1996 and detail outstanding or new challenges yet to be addressed. Additionally, specific recommendations are offered to stimulate the process of crafting solutions and spur momentum for change.

Note: At the time of writing, one U.S. dollar equaled 675 Tanzanian Shillings (Tsh). Tanzanian inflation in 1998 has been estimated at approximately 13%.

Figure 1 illustrates the 13 Core Processes examined by the Tanzania Investor Roadmap.

Figure 1 Investor Roadmap – 13 Core Processes

	Process	Stage	Description	Notes From Previous Roadmap Experience
Employing	1 Investor permit	Start up	Applying for permit	In many cases the most time consuming and frustrating part of foreign investment
		Functioning	Renewing permit	Usually does not fall on critical path However the need for renewal creates risk for the investor
	2 Expatriate work permit	Start up	Applying for permit	In many cases this may be critical to the success or failure of the investment Also very bureaucratic
		Functioning	Renewing permit	Becoming a problem as many countries are clamping down on repeated renewals
	3 Local labor	Start up	Hiring workforce	Usually not very bureaucratic if any government involvement at all
		Functioning	Managing workforce	Many facets including collective bargaining dispute resolution PAYE collection etc
Locating	4 Acquiring land	Start-up	Purchasing land	Can be the most difficult and confusing Can make or break investment
		Functioning	Expansion	Not usually a critical factor in investment decision making
	5 Transferring ownership	Start up	Transferring deeds	Can be a problem in some countries lacking sophisticated systems
		Functioning	none	
	6 Developing land	Start up	Planning and construction	Problems can occur especially with utility connections Usually high variability between town planning offices
		Functioning	Expanding facilities	See above
	7 Environmental compliance	Start up	Environmental design	In many cases this is not a major cause for concern in developing countries
Functioning		Monitoring	Inspections sometimes lack transparency	
Reporting	8 Registering and licensing	Start up	Applications	Can be complicated and potentially a source of corruption but usually timely in most countries
		Functioning	Renewals	Usually not an issue
	9 Registering and paying taxes	Start up	Registering as taxpayer	Usually not an issue
		Functioning	Paying taxes	Can be overly complex inconsistent from year to year in some countries
	10 Acquiring Incentives	Start up	Applying for incentives	Can be very complicated lengthy Causes frustration for investors
		Functioning	Claiming incentives	Must be timely to avoid bad reputation in investment community
Operating	11 Importing/exporting goods	Start up	Importing machinery and raw materials	Can be very complicated especially with valuation issues It is critical that goods get cleared quickly this can have a negative impact on the business
		Functioning	Importing and Exporting goods	See above
	12 Repatriating profits	Start up	Registering with bank	Not usually a problem in liberalized economies
		Functioning	Repatriating profits	Can be very problematic in certain countries and potentially a deterrent to investment
	13 Getting foreign exchange	Start-up	Registering with bank	Not usually a problem in liberalized economies

Figure 2 illustrates some of the major changes that have occurred in the four process areas since 1996

Employing Activity	Agency Involved	Practice in 1996	Practice in 1998
Obtaining Class A Permit	Department of Immigration	Takes 2 to 6 months Submissions 5 photos, curriculum vitae, Memorandum of Association, Articles of Association, IPC Certificate, Birth certificate, Educational degrees, Business plan/feasibility study, Sector approvals	Takes 2 days to 2 weeks Submissions 5 photos, curriculum vitae, Memorandum of Association, Articles of Association, TIC Certificate
Obtaining Class B Permit		Takes 2 to 6 months	Takes 4 days to 4 weeks

Executive Summary – The Investor Roadmap of Tanzania Assessment of Progress

Locating Activity	Agency Involved	Practice in 1996	Practice in 1998
Obtaining Letter of Offer	Commissioner of Lands, Ministry of Lands	Takes 1 week	Takes 3 to 4 days
Obtaining phone connection	TTCL	Takes 5 to 6 months	Takes 1 month
Calling abroad, Africa – COMESA Africa – Non-COMESA Europe, North America, & Middle East Asia Latin America, Caribbean	TTCL	full/economy rate US \$2 5/\$2 0 US \$3 0/\$2 4 US \$4 0/\$3 2 US \$4 8/\$3 8 US \$4 5/\$3 6	full/economy rate US \$1 8/\$1 4 US \$2 4/\$1 9 US \$3 2/\$2 6 US \$3 2/\$2 6 US \$3 2/\$2 6

Executive Summary – The Investor Roadmap of Tanzania Assessment of Progress

Reporting Activity	Agency Involved	Practice in 1996	Practice in 1998
Names clearance and registering firm	Registrar of Companies, Ministry of Industries and Trade	Two processes, takes 3 to 6 days	One process, takes 2 to 5 days
Getting Trades License	Internal Trade Section, Ministry of Industries and Trade	Forms in Kiswahili only Procedures not publicly available	Forms in Kiswahili and English Procedures posted for public review
Obtaining Certificate of Incentives	Investment Promotion Agency/Tanzania Investment Centre	Takes 3 to 4 months from IPC	Takes 3 to 5 days from TIC
Qualify for Certificate of Incentives	Investment Promotion Agency/Tanzania Investment Centre	Must have US \$500,000 if foreign investor	Must have US \$300,000 if foreign investor
Qualify for reduction of duty on capital imports		<ol style="list-style-type: none"> 1 Prepare import schedule, 2 submit schedule to IPC for verification based on business plan, 3 submit IPC verified schedule to Ministry of Finance for Remission Order, 4 Ministry of Finance submits Remission Order to Customs, 5 Customs matches approved times to capital goods when imported 	Register with TIC for blanket capital goods duty reduction

Executive Summary – The Investor Roadmap of Tanzania Assessment of Progress

Reporting Activity	Agency Involved	Practice in 1996	Practice in 1998
Receive Local Trades License	Dar es Salaam City Commission	<ol style="list-style-type: none"> 1 Applicant hosts health inspection, 2 Health inspector completes report, 3 Applicant picks up health certificate, 4 Applicant takes certificate to trades officer, 5 Applicant pays fee and receives receipt, and 6 Trades officer recommends yes/no on license 	<ol style="list-style-type: none"> 1 Applicant hosts health inspection, 2 Health inspector collects fee, issues receipt, completes report, 3 Health officer forwards health certificate and receipt information to trades officer, and 4 Trades officer recommends yes/no on license
Obtain Industrial License	Industrial Licensing Board, Ministry of Industries and Trade	Manufacturers with turnover of Tsh 10 million must register	Manufacturers with turnover of Tsh 100 million must register
Obtaining commercial fishing license	Fisheries Division, Ministry of Tourism, Natural Resources & Environment	License fees based on US \$80 per gross registered ton	License fee is now a flat US \$16,000 per annum

Operating Activity	Agency Involved	Practice in 1996	Practice in 1998
Clearing imports/exports	Bank of Tanzania, Customs, NASACO, TCFB, THA	<p>Goods clearance takes 15 days on average</p> <p>Eight forms used</p> <p>No random inspection scheme, over 80% of cargo physically inspected</p> <p>Goods over US \$2,000 need PSI</p> <p>TRA Income Tax Department, Customs, and Bank of Tanzania officials check documents in the Long Room</p> <p>Traditional products subject to export taxes</p>	<p>Goods clearance takes 2 to 10 days on average</p> <p>Single Bill of Entry Used</p> <p>Random inspection scheme in place, 35% of cargo physically inspected</p> <p>Goods over US \$5,000 need PSI</p> <p>Only Customs officials check documents in the Long Room</p> <p>Traditional products exempt from export taxes</p>

Employing

This chapter focuses on issues related to employment and highlights the major procedural and qualitative changes in the system since the Tanzania Investor Roadmap was completed in 1996. Specifically, this chapter will address obtaining self-employment and employment permits, hiring and firing local labor, and registering for national insurance and pensions schemes.

1.1 Residence Permits

The Department of Immigration reports making several changes since 1996. In addition to improving communication with the TIC and significantly speeding up average response times, the Department has also eliminated four of the submissions (birth certificate, educational degrees, feasibility study, and proof of sectoral approval by a line ministry or licensing agency) required for Class A Residence Permits. The Department has assigned an officer to oversee the applications of investors. Immigration has stopped requiring that investors have a sectoral approval of their project by a line ministry or licensing agency in hand prior to issuing a Class A permit. Immigration officials note that obtaining these sectoral or business licenses can be rather time-consuming and used to add an unnecessary delay in the process of obtaining a residence permit.

Immigration officials suggest that these changes have shortened the process by an average of more than three weeks for Class A Permits. The fees for permits have also increased at a rate of 8% for Class A Permits and 20% for Class B Permits since 1996.

Officials from the Department stated that they are in the process of reviewing the application forms in order to simplify them, and a new form might be ready for production during 1999.

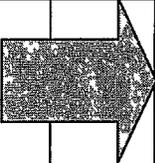
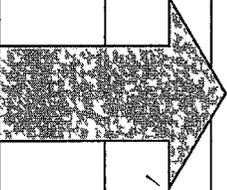
Investor Entry Procedures

Visitors to Tanzania are required to obtain a visa. Visas can be obtained in advance through some Tanzanian embassies abroad or at the airport for US \$50. Multiple entry visas can be obtained at the Department of Immigration in Dar es Salaam.

Residence Permits confer the right to work as a foreigner in Tanzania. There are three types of Residence Permits available in Tanzania: Class A for self-employed foreigners, Class B for non-Tanzanian employees, and Class C for other categories of residents, such as students and missionaries. Applications for Class A and C Permits should be forwarded directly to the Director of Immigration Services and Class B Permits pass through the Labour Commission prior to reaching the Immigration Department. Residence Permits can only be obtained in Dar es Salaam. For the purpose of this report, the procedure for obtaining a Class C Permit is omitted.

Figure 1.1 summarizes the steps, timeframe, and fees involved with acquiring Class A and B permits.

FIGURE 1 1 EMPLOYING

ACTIVITY	DURATION								FEES	
	1 Month				1 Month					
Obtaining Visa									1 day	US\$50 single entry (good for 3 months), available at the airport
Company Registration									2-3 days	Tsh 9,600 (US\$14 2) for processing fees plus variable fee based on the amount of capital
Acquiring Investment Certificate									4 days	Tsh 75,000 (US \$111 1) for the application form and Tsh 400,000 (US \$592 6) for the Certificate of Incentives
Obtaining Self-employment Residence (Class A) Permit									7 days, reported average processing times range from 2 days to 2 weeks	US \$1,620 for two year permit, renewal costs US \$810
Obtaining Employee Residence (Class B) Permit									14 days, reported average processing times range from 4 days to one month	US \$600 for two years, renewal costs US \$300

Class A Permit Application Process Application Form TIF 1 can be obtained at the Department of Immigration Services. There is no charge for the form and no processing fee. Along with a completed application form, the following items must be attached:

- five photographs,
- curriculum vitae,
- Memorandum and Articles of Association, and
- TIC Certificate

There is a fee of US \$1,620 for a Class A Permit, which is generally valid for two years. Permits can be renewed for an additional two years for US \$810. Immigration officials state that processing a Class A Permit now takes an average of two days, down from about a month in 1996. Some in the private sector dispute the assertion that Class A Permits are regularly processed in as little as two days, but most agree that average delays have been cut down from as much as six months to a week or two.

In a departure from past practice, if an investor has a valid TIC Certificate he or she can be granted a two year Residence Permit and is required to submit business licenses as they are issued. If an investor does not meet TIC conditions, he or she can apply for a one year Residence Permit and submit the TIC certificate once the investment has met the Centre's criteria. Without an Investment Certificate, the Department of Immigration may physically inspect the investment each three to six months.

Employee Entrance Procedures

The same visa restrictions apply to non-Tanzanian employees and self-employed entrepreneurs alike. Foreign employees must obtain a Class B Permit to work in Tanzania. Applications for Class B Permits should be forwarded to the Director of Immigration Services through the Labour Commissioner, the Labour Commission is only involved in the issuance of Class B Permits. These Residence Permits can only be obtained in Dar es Salaam.

Class B Permit Application Process To hire a foreign employee, a Class B Permit must be sought by the employer. Immigration officials suggest that the first five expatriates requested by a TIC certified investor granted automatically. Additional applications receive greater scrutiny and are decided on a case by case basis. As provided in the new Investment Act, there are no immigration quotas for certified investors in the mining or petroleum industries. The application form (Form TIF 1) is available from the Department of Immigration at no cost and there is no processing fee. The application form should be accompanied with the following:

- five photographs,
- curriculum vitae,
- proposed contract,
- birth certificate,
- academic qualifications (preferably copies of diplomas),
- proof of experience (testimonials or certificates of service),

- organizational chart, and
- offer of employment

In a departure from past practice, Immigration officials state that they place less emphasis on the last five submissions. Employers of Class B applicants must sign a "General Security Covenant" for each foreign employee. This covenant acts as a guarantee that the firm will assume any expenses incurred by the government "in connection with the detention, maintenance medical treatment or conveyance to any place outside Tanganyika of each such employee, his wife, children or other dependents, but in no case exceeding four thousand shillings." Form TIF 13 must be prepared as part of this process and the Covenant must be arranged with the National Bank of Commerce.

Required documents in languages other than English must be translated.

If hiring an expatriate worker the firm must prove that it has tried to fill the position with a Tanzanian. Consequently, the firm should supply copies of advertisements announcing the vacancy as well as the curriculum vitas of the alternative Tanzanian candidates. The Labour Commission will also examine a firm's training program, which is meant to enable Tanzanians to eventually replace the foreign employees.

Class B Permit applications are reviewed by the Labour Commission, which makes a recommendation to the Department of Immigration to either issue or withhold a permit. The Department of Immigration then implements this recommendation. Each agency's processing takes approximately three days, officials assert, although the Immigration Department has stated that it has set a goal to complete the entire review process within four days.

Class B Residence Permits incur a fee of US \$600 for two years. There is a renewal fee of US \$300. These fees are payable to the Department of Immigration.

Form TIF 20 -- "Return on Employment of Non-Citizens" must be submitted annually between January 1st and March 31st. There is no processing fee associated with the submission.

Analysis

Issues

Immigration officials have noted that they have made several improvements in administering Residence Permits since 1996. While acknowledging the progress in the area of administering immigration procedures, some issues related to immigration bear special attention.

- Immigration officials assert that they have improved their issuance times since 1996 for Class A and Class B permits. Officially, the GoT states that typical processing times for Class A and Class B permits are two and four days respectively. Private sector interviewees stated that although delays have fallen from an average of one month for Class A permits and up to six months for Class B permits, the process usually takes more than a week for

Class A permits and two weeks for Class B permits. The amount of time required seems to be variable, as both shorter and longer delays have been reported.

Renewals of Class A and Class B Permits are widely reported to be much easier to obtain than the initial permits.

- The major remaining setback in Immigration's processing procedures is that an investor or worker is not allowed to conduct any business until his application is approved. This represents several days or weeks when a foreign company must pay a salary and expenses to maintain an idle employee in Tanzania. This delay and the resulting extra expense particularly hamper companies that hire expatriates for short-term contracts or quick emergency jobs, such as engineers flown in to conduct repairs on machinery or equipment. One businessman estimated that the processing delays for Class B permits add approximately US \$500 per week to the cost of hiring short-term and emergency skilled workers.
- In 1996 investors widely criticized the permit allocation process for its difficulty and lack of transparency. Today, investors state that Immigration's administration of the process is transparent and most Immigration officials can adequately explain what needs to be submitted to get a Residence Permit. As well, guidelines in both English and Kiswahi are posted in the processing area of the Department. Some in the private sector allege that the ease and transparency of the permit allocation process is related to the size and ownership of the company. Some of these same businesspeople allege that Immigration officials occasionally seek bribes in return for expediting a permit application. Although still a problem, this type of corruption is generally perceived to be declining.
- Most investors do not credit the Labour Commission for making its procedural guidelines any clearer since 1996. While the Labour Commission notes that it has internal guidelines to determine whether Class B Permit applicants should be approved, these guidelines are not available to the public. Investors state that the Department of Immigration and the Labour Commission readily approve the five expatriate workers automatically as authorized by the 1997 Investment Act, the experience of securing Class B Permits for additional workers varies. Some businesspeople allege that they face stiff resistance to being allowed additional employees and most say that they are not certain how the applications are assessed by either the Labour Commission or the Department of Immigration. Further, Tanzania does not use a positive or negative list that indicates which occupations are in short supply or surplus. Such lists would speed the process and make it more transparent, as some candidates could be easily accepted or rejected based on labor availability.
- Immigration officials note that some investors face problems when they rely on unscrupulous or incompetent middlemen who do not follow the rules, do not submit documents on time or in a proper manner, or do nothing whatsoever. Immigration officials cite several cases where an agent defrauded a company trying to secure Class A or B transparent Permits. In one instance an investor paid US \$4,000 to an agent to arrange for work Class B Permits and the agent disappeared with the fee and did nothing to help obtain the permits. In another case an agent collected the required fees from a client and then paid off previous debts instead of paying the required fees for Class B permits. GoT officials state that the Immigration Department and TIC staff should be consulted when questions or problems arise, and middlemen should be avoided.
- Automatically granting Class B Permits for five expatriate employees has expedited the inflow of needed employees. Nonetheless, this quota system is arbitrary. Fixing a rigid number is a blunt mechanism for enabling companies to hire the workers that they need, and a more fluid system would further rationalize Tanzania's labor market. The GoT recognizes that a mining company might require more than five skilled expatriates but does

not extend this flexibility to any other type of business. By legislating an employee quota the government is ignoring the economic reality that it is in an investor's own self-interest, based on comparative wage rates if nothing else, to find a qualified Tanzanian whenever possible instead of importing a much more expensive foreign worker. Given the fact that most investors are guided by economic rationality, it is doubtful that the government needs to compel the private sector to hire qualified Tanzanians when available.

- Investors note that permit application forms are out of date and have proscribed fees on them that are below current rates. This is confusing to investors and gives the impression that the Department is badly out of date or clerks are demanding higher fees than they should. Immigration officials note that they are working on revising their application forms and hope to have new ones produced sometime in 1999.
- Investors used to complain that the documentary requirements were duplicative of those collected by other agencies like the former IPC. According to investor feedback, the Department of Immigration has successfully eliminated some submission requirements and is less duplicative of the TIC and others. Immigration officials note that they are de-emphasizing certain submissions if an applicant has a valid TIC certificate.
- Another issue which deserves mention is that Tanzania requires travel visas from foreign business and holiday travelers. Several other countries, such as Uganda, Namibia, and Ghana, have eased entry requirements to facilitate tourism and international business. Tanzania is competing both with countries that are more widely known as tourist destinations and less expensive to visit, so its visa fee acts as an additional deterrent to attracting visitors. Most countries charge less for business entry and many will waive visa fees for tourists to encourage visitors.

Recommendations

- Although making significant progress, the Department of Immigration should strengthen its internal guidelines relating to how long it takes to issue a permit. Having demonstrated that Class A and B Permits can be issued in a matter of days, the Department should systematize its improvements. Currently, investors report that simple errors or misunderstandings can significantly delay the permit approval process and often require the direct attention of the Department's top officers. Lower level officials should be sufficiently

trained and empowered so that they can make routine decisions, thereby speeding up the processing times of applications.

- The Department should allow Class A and B Permit applicants to conduct business while waiting for final approval. As other agencies do, the Department of Immigration may consider issuing a temporary permit. This added flexibility would eliminate a significant dependency and lower costs for Tanzanian businesses that hire expatriate workers.
- In the past few years the Department of Immigration has made significant progress in eliminating the vagueness surrounding the permit application process. Now the Department should ensure that its procedures are followed uniformly and applied equally and fairly to all investors. A transparent process, strong leadership, and serious sanctions for wrong doers can go far in reducing corruption or processing aberrations.

- The Labour Commission should publish some basic guidelines on what the requirements are for securing additional expatriate work permits. The TIC should also make this information available as well as the Immigration Department's published guidelines and fees. It is also suggested that the Labour Commission establish and publish accurate and up-to-date positive and negative lists of occupational skills. For example, medical doctors, engineers, auditors, and production managers could be included in a positive list signifying that these types of professionals are automatically welcome to work in the country. A negative list of occupations that are readily available among Tanzanians should also be established, thereby keeping foreign immigrants from taking jobs from qualified Tanzanians. This system would achieve several goals. First, it would eliminate the need to process applications that are doomed to rejection because the type of worker involved is obviously in abundance in Tanzania. Second, workers that are in high demand in Tanzania could be granted permits more automatically. Third, it would bring consistency and speed to the process as some applicants are quickly rejected or accepted based on clear and publicly available criteria. Finally, the Commission's criteria for rejecting or accepting a would-be immigrant worker would be clearer and more widely understood by the public.
- Immigration should identify and facilitate the prosecution of unscrupulous middlemen. As well, the Department should continue its efforts to educate firms about the potential risks of relying on middlemen.
- Although the current system for processing Class B Permits represents an improvement over previous years' schemes, it is recommended that the GoT consider lifting its quota on expatriate workers. The approval of five workers is arbitrary and defies the logic of comparative wage rates. Based on the self-interest of most businesses, it is unnecessary for the government to limit the number of expatriates hired by companies operating in Tanzania.
- It is recommended that the TIF 1 Form be updated. Further, if fees are expected to rise on a regular basis a dated fee schedule should be produced and made publicly available. The new form should be simplified to include only the information that is required. This simplification would ease the workload of both the investor and Immigration officials and eliminate extraneous information that can cause confusion. The new form should also be produced in such a manner that it could be posted on and downloaded from the internet, thereby increasing investor access to the document and shifting the cost burden of reproducing forms to the private sector.
- The Department of Immigration's documentary requirements can be further simplified, especially for Class B Permits. For example, if Department of Immigration officials are already de-emphasizing the importance of birth certificates, academic qualifications (preferably copies of diplomas), proof of experience (testimonials or certificates of service), a company's organizational chart, and the offer of employment, they should consider dropping them as requirements altogether. Requiring such documents as copies of diplomas and testimonials or certificates of service suggests that the Department of Immigration and Labour Commission is second-guessing the personnel decisions of the investor whose capital and business are at stake. Requiring a company's organizational chart is similarly intrusive. Finally, the "offer of employment" seems to be redundant of the "proposed contract," which is also a required submission. The Department of Immigration should

continue to request items that relate to its core security functions but eliminate submissions that relate to the management of a business

- It is recommended that the GoT terminate the visa requirement for visitors from countries that pose little risk for illegal immigration and with which Tanzania is trying to develop closer commercial and tourism ties. If the government is serious about encouraging tourism, the Immigration Department should lower its fee to undercut the amount charged by its neighbors. The Department of Immigration should also improve its capacity to issue visas through its embassies abroad.

Figure 1.2 shows Tanzania's performance in issuing work permits to expatriate employees compared to a sample of other countries.

Figure 1 2
Foreign Investor Entry
Country Comparisons

Process	Country	DURATION				Total Time
		1 Month	1 Month	1 Month	1 Month	
<i>Acquisition of Work Permits for Expatriate Employees</i>	Morocco					1-2 weeks
	Jordan					1 week to 2 months
	Malaysia					1-3 months
	Hungary					1 5 3 months
	South Africa					6-8 weeks
	Tanzania					4 days to 1 month

9

1 2 Labor Regulations and Conditions

Since 1996, there have been few changes to Tanzania's labor laws. An increase in the minimum wage has been proposed and may come into effect within the next six months. The key provisions concerning labor are as follows:

Minimum Wage The minimum wage for the private sector is Tsh 17,500 (US \$25.9) per month for those above 18 years of age, the minimum wage for those aged 15 to 17 is Tsh 14,000 (US \$20.1) per month.

Overtime The standard workweek is 45 hours. Overtime pay is 1.5 times more than the employee's standard pay.

Work Restrictions The minimum working age is 15 years, although 14-year-olds can be employed with parental permission.

Annual Leave Employees are entitled to 28 annual leave days regardless of the level of seniority. At the end of every second year, a leave allowance of Tsh 6,000 (US \$8.9) per employee is to be paid. There are also 14 public holidays.

Other Statutory Benefits Employers are required to provide the following fringe benefits:

Rent Allowance	Tsh 2,000-15,000 (US \$1.8-\$22.2)/month
Transport Allowance	Tsh 4,000 (US \$5.9)/month in Dar es Salaam Tsh 2,600 (US \$3.9)/month in regional capitals Tsh 2,000 (US \$3.0)/month in district capitals
Payroll Levy	4% of the gross wage bill (collected by TRA)
Vocational/Educational Training Authority Levy	2% of gross wage bill (collected by NSSF)
National Social Security Fund Contribution	10% of gross wage bill (collected by NSSF)

Employers are required to obtain Workmen's Compensation insurance from the National Insurance Corporation. Rates vary depending on the nature of the activity and the level of coverage desired.

Local governments charge a Development Levy, which is typically, payroll based. This amount varies but can be as high as Tsh 6,000 (US \$8.9) per employee annually.

Although not required by law, it is standard practice for employers to provide medical care for employees. In the private sector, this cost equals approximately 9% of the total wage bill.

Sick Leave Employees are entitled to three months continuous sick leave at full pay. For the subsequent three months, the employer is required to pay half the employee's usual wages.

Maternity Leave Employers are required to allow a paid maternity leave of 84 days. There is no paternity leave policy in effect.

Dismissal Procedures Workers must be given a series of warnings before they can be dismissed, and employers must complete and submit Form 1A to a Labour officer when a breach

occurs. The first time a problem occurs the worker is to be given a warning. The second time the employer gives a severe warning. After a third incident the employer can issue a reprimand. After a fourth breach the employer can deduct a day's pay. Only after a fifth incident can the employer dismiss the worker, however, dismissal can only occur if the five incidents have occurred within a six-month period. At that time, the worker will typically take the case to the Conciliation Board, chaired by a Labour officer and staffed by representative from both the Employers Association and the Trade Union.

Retrenchment Because most workers in Tanzania are unionized, most firms considering retrenchment will meet with union leaders first. Once an agreement has been reached, it must be registered with the Industrial Court (located in Dar es Salaam and Arusha).

Severance Pay Severance pay is determined by the following formula:

$$\frac{\text{annual wages} \times 0.05 \times \text{number of years service}}{100}$$

Analysis

Issues

There are several overarching issues related to Tanzanian labor that add useful context to a discussion of procedural constraints to business growth and competitiveness. While these issues do not imply a procedural recommendation, they add to the difficulties faced by local and foreign-owned business in Tanzania and therefore deserve consideration in this document.

- Public officials and businesspeople alike suggest that the Tanzanian workforce remains devoid of enough people who adequately understand management and business concepts. While most businesspeople profess to prefer finding a local Tanzanian for skilled management and technical positions, many state that they often must look abroad to find a candidate with sufficient skill and experience.
- The legal infrastructure governing labor is out of date and inadequate to regulate a modern, market-oriented economy. Many of Tanzania's key labor laws were promulgated in the 1960s. Relatedly, the court system does not efficiently handle labor disputes and alternative dispute resolution mechanisms are generally absent.
- There is a perception that wages are too low to motivate the average worker to be more productive or trustworthy. Similarly, some businesspeople suggest that public officials would be less likely to seek bribes if their salaries were higher and their work more rewarding. As a result, some feel that the government should raise the minimum wage, which determines the salaries that many private sector employers pay. Some businesspeople noted that they pay higher than average salaries as a matter of course to attract the best of Tanzanian workers.
- Customer service is widely criticized in Tanzania, and some suggest that poor service is a factor in making Tanzanian tourism less attractive than competing industries in the region.
- Despite the progress Tanzania has made in its economic reforms there is a strong constituency opposed to further economic liberalization and privatization in the country.

Many workers in parastatals and government agencies are resistant to increased private participation in the economy for fear of being terminated or having to work under new rules and norms

There has not been much change in recent years to address these problems. Thus, the concerns and recommendations rendered below draw on some of the unresolved labor issues first cited by the Tanzanian Investor Roadmap in 1996

- The law severely restricts employers' ability to discipline or dismiss bad workers. Several investors vociferously stated that the high threshold of incompetence and the warning system required of employers make it extremely difficult and time-consuming for a firm to rid itself of incompetent workers, thereby lowering the productivity of Tanzanian business. In particular, the requirement that five offenses must occur within a six-month period is considered grossly unfair to the investor and a serious problem for managing a staff. As a result, it is almost impossible to dismiss bad workers, even if they steal, display negligence, or show up to work drunk.

This rigidity in the labor market is an important factor in preventing Tanzania from raising low productivity levels and makes it difficult for Tanzanian businesses to compete against overseas companies. Further, the difficulty and time involved in dismissing unproductive employees encourages businesses to hire workers on a casual or contract basis. One manager of a construction firm noted in 1996 "that only 10% of all construction workers are full-time employees. Contract and casual workers are viewed as much more productive than full-time workers, productivity is said to drop precipitously when casual or contract workers are hired on a full-time basis."

It should be noted, however, that many investors report that the ability to negotiate one or two year contracts with workers has significantly improved business flexibility in managing new employees.

- As noted above, private sector sources suggest that the existing Tanzanian labor laws are old and heavily biased toward workers. This is compounded by the fact that there is a weak framework for dispute resolution. The Industrial Court is not working well and cases can drag on for as long as five years. Business sources suggest that the decisions made by the Court do not take the financial position of the firm into consideration and some of its judgements have unnecessarily bankrupted companies.
- The cost of employee benefits and retrenchment packages negatively affects the Tanzanian labor market. As observed in 1996, "while wages are low the fringe benefit levels are high. The standard fringe benefit ratio in Tanzania is approximately 45% which compares to the

25-35% figure typical in most developing countries. The provision of rent and transport allowances is becoming less common globally and is being substituted for higher wages. In many developing countries, the number of annual leave days is limited to 5-15 days compared to the 28 days in Tanzania. The number of public holidays is also high at 14 days as compared to 12 in Namibia and Uganda, eleven in Ghana, and ten in the United States." These various benefits raise the cost of hiring and retaining workers and thus restrict the creation of full-time employment opportunities in Tanzania. Especially for large privatized companies, retrenchment negotiations can lead to expensive buy-outs of unproductive workers.

Recommendations

With so little change in the labor situation in the last two years, it is worth quoting some of the analysis offered in 1996 "Given the liberalization of the economy, press, and politics in recent years" it is recommended that the GoT further liberalize the labor market, including unions When workers rights are violated, unions and the court system should effectively ensure just redress under the law "Employers need a greater level of flexibility in dismissing unproductive workers The current mechanisms make it difficult for employers to increase productivity levels and discourage the creation of full-time jobs Similarly, the high fringe benefit ratio encourages businesses to employ casual workers rather than create more permanent positions Global experience demonstrates that more flexible labor policies lead to lower unemployment levels " More specific recommendations follow

- Current policies and procedures that prevent firms from eliminating unproductive or untrustworthy employees should be eliminated Specifically, the labor laws should be amended to allow for a more reasonable threshold for firing unproductive workers The number of offenses allowing for dismissal should be lowered, the timeframe within which these offenses must be recorded should be expanded, and the standard of proof for an employer should be eased Given Tanzania's transition from a command and control economy, the Ministry of Labour should adopt policies and regulations that encourage employment growth, confer incentives for productivity, and discourage inefficiency
- The labor laws are in need of revision to reflect Tanzania's recent private sector orientation and changes in the global economy Current labor laws do not address certain types of jobs and workers Additionally, current laws discourage the creation of jobs by private companies by restricting the ability of companies to easily hire and fire workers based on their productivity Relatedly, the Industrial Court should improve its ability to process cases Other dispute resolution mechanisms, including binding arbitration, should be introduced to lessen the burden on an ineffective court system and speed the process of coming to a resolution in labor disputes
- As suggested in 1996, "the low level of pay and high level of fringe benefits reflect two aspects of Tanzania's past economic orientation High tax rates encourage higher fringe benefits and lower pay scales Moreover, in a socialist economy, there is a tendency to differentiate workers less in terms of salary and more in terms of hidden perks To begin to address this issue, it is recommended that the statutory rent and transportation allowances

be terminated and monetized directly to salaries This will ease bookkeeping procedures on companies and bring about more straightforward pay scales for employees "

1 3 Social Security and National Insurance

The National Provident Fund (NPF) has recently been reorganized into the National Social Security Fund (NSSF) based on the National Social Security Act, which came into effect on January 30, 1998 The NSSF has 52 offices in all regions of the country and its headquarters are in Dar es Salaam Unlike the old provident fund scheme where payments were directly tied to past contributions plus interest, payments made to the NSSF are now pooled Additionally, upon retirement a worker receives a regular payment under NSSF versus a lump sum as under the previous scheme

The NSSF offers the following benefit plans

- 1 Old age pension,
- 2 Invalidity pension
- 3 Survivors pension,
- 4 Funeral grants,
- 5 Maternity benefits,
- 6 Employment injury, and
- 7 Health insurance

Registration Process As soon as a firm employs one or more person and becomes operational it must register with the NSSF. To register with the Fund a firm is required to fill out Form NSSF/R 1 and return it to the nearest NSSF office. After this, an employer should collect one NSSF 3 Form and one NSSF Form 4 (this form acts as a membership card) per employee. There is no fee for the form and no other attachments are required. There is typically a delay of less than a week to obtain a registration number. In addition, any individual employees who have not already done so must register with the NSSF.

The NSSF scheme is designed for private sector employees and non-pensioned civil servants, others may have their own pension scheme. Private sector employees and non-pensioned civil servants of Tanzanian nationality cannot be exempted from the NSSF scheme even if they have established alternative pension or investment plans. Foreign employees can be exempted from the NSSF if they can prove that they are covered by another pension program. Exempting foreign employees is typically done by writing a letter explaining the situation to the NSSF. In addition, a letter from employee's embassy noting his or her participation in another social security program can be helpful.

Operational Requirements The employer is required to submit 20% of an employee's monthly wages to the NSSF, of which 10% is paid by the employer and 10% is paid by the worker. Once a firm is operational it is expected to complete payment tracking forms NSSF/CON 5 and 16(A) on a monthly basis. Payment can be made to the nearest NSSF office. There is a grace period of one month, after which a penalty of 5% will be assessed on all late payments.

Payments can be made in cash, check, or bank draft in Dar es Salaam, elsewhere payments are accepted only by check or bank draft.

Employers are also required to make payments on casual workers to the NSSF. The employer is required to remit the equivalent of 10% of the wages paid. Unlike full-time employees, casual workers do not have 10% of their wages deducted for the NSSF. For casual workers, employers must fill out a different form -- NSSF Form 16.

Insurance

Under the Workmen's Compensation Ordinance, employers are required to purchase workmen's compensation for employees. The insurance is only available from the National Insurance Corporation (NIC), which holds the monopoly over insurance in Tanzania. As in other countries, workmen's compensation insurance is payable in the event of death, permanent total or partial incapacity, or temporary incapacity.

Registration Process Employers are required to fill out the “Workmen’s Compensation Tariff Proposal Form” This form should be completed once the firm begins hiring employees and just before the firm becomes operational Employers can choose between Schedules A and B Schedule A provides the minimum coverage with a medical coverage limit of Tsh 108,000 (US \$160 0), Schedule B has a medical coverage limit of Tsh 250,000 (US \$370 4)

The premium is based on the number of employees, the nature of the job, and salary levels Payment of the premium must be paid annually

Analysis

Issues

Because of the recent transformation of the National Provident Fund into the NSSF, it is difficult to analyze potential progress or problems with certitude Nonetheless, a few observations are warranted

- According to some employers, the main shortcoming of the NSSF program is that private sector Tanzanians cannot be exempted from the scheme even if they have alternative pension plans While the NSSF considers other plans as supplemental, the 20% payment required by the Fund makes it difficult, particularly for poorer workers, to utilize more profitable investment vehicles Further, the NSSF’s power to compel firms to pay for their workers’ retirement discourages employers from seeking more effective means of investing on behalf of their employees and inhibits the liberalization of the social insurance market in Tanzania
- In 1996, concerns were raised about the proposed shift from the NPF to the NSSF As it is too early to tell if these concerns have been ameliorated, some are quoted “The shift to a revolving social security scheme where all resources are pooled is troubling given the difficulties that similar plans are now experiencing Social security schemes are easily

politicized and there is a strong tendency to inflate payments to beneficiaries beyond what is sustainable for the program’s long-term health In the United States, this has led to ever increasing social security taxes without any strengthening of the program’s long-term financial soundness” The Fund’s investment opportunities are limited, and given Tanzania’s inflation rate it is questionable if the NSSF can keep the purchasing power of payments from eroding over time without relying on additional sources of income

- According to the private sector, the services offered by the NIC are poor in quality Without competition from other insurance companies there is little incentive for the NIC to make significant changes in its systems or improve the quality of services

Recommendations

It is too early to tell if the shift from the NPF to the NSSF will benefit Tanzania’s workers and employers Nonetheless, three recommendations are offered

- The GoT should allow for Tanzanians to be exempt from the NSSF if they are enrolled in a more competitive and equally secure retirement plan This would encourage competition in

the Tanzanian market, likely lead to improved performance for social security recipients, and give workers and employers more choice in how to plan for their financial futures. Further, if the NSSF is confident in the services it provides, it should not fear competition from other funds. Both civil servants and businesspeople contacted during this assessment stated that the GoT should further liberalize the pension market and allow for increased private participation.

- Turning to the worries about the NSSF plan noted two years ago, a recommendation from 1996 is offered for consideration. "A new development in many countries is the privatization of social security. In 1981, workers in the Latin American country of Chile were given the option to make their retirement investment with either the national social security fund or an approved private sector alternative of their choice. The results have been dramatic. Pensions are now 50 to 100% higher than under the state system and the national savings rate has increased to 27% of GNP. Owing to the success achieved by Chile, Argentina, Peru, and Colombia have now undertaken similar reforms. The GoT should strongly consider this option before implementing a public sector run social security scheme."
- It is recommended that the GoT terminate the NIC's monopoly on insurance and accelerate the liberalization of the industry. Increased competition will bring about improved service, lower premiums paid by the employer, and higher disability payments to injured employees.

Locating

This chapter focuses on the various aspects of locating a business in Tanzania, including land acquisition, site development, and utility hook-ups. It is generally recognized that the most serious start-up delay faced by investors in Tanzania occurs within the land acquisition and site development stage.

2.1 Acquiring Land

Since 1996, there have been some modest procedural and administrative changes in the land acquisition and development processes. Changes reported by Ministry officials include the start of computerization in the Division of Surveys and Mapping, a significant elimination of disputes related to overlapping titles, and improved communication with the TIC and local City Councils. Part of the Division of Surveys and Mapping's computerization scheme involves digitizing existing surveys and storing them in computer memory banks. Currently, in Dar es Salaam Ministry officials estimate that 5% of the land is surveyed and digitally stored in government computers. Since 1996, the Ministry has also surveyed more plots of land, including 14 large government farms scheduled for privatization, the country's road network, and the area around Tanzania's dams.

As a result of the Tanzania Investor Roadmap, several officials from the Ministry of Lands participated in an intensive process improvement effort that included a workshop and strategic planning exercises.¹ Ministry officials have stated that the workshop served as a catalyst for developing an action plan to address several internal management deficiencies and streamline several of the Ministry's procedures. While several of the workshop's recommendations have been implemented, it is too early to conclusively assess how these reforms will affect the experience of investors in acquiring land in Tanzania.

Figure 2.1 compares several aspects of land acquisition and site development in Tanzania to a sample of other countries.

¹ Details about this workshop are found in a separate document prepared for USAID/Tanzania entitled *Report On the Process Improvement and Capacity Building Workshop for the Division of Surveys and Mapping and Human Settlements Development, Ministry of Lands*, by Barry Camson, The Services Group, 1998.

Figure 2 1
Land Acquisition and Site Development
Country Comparisons

Process	Country	DURATION							Total Time	
		3 Months	3 Months	3 Months	3 Months	3 Months	3 Months	3 Months		
Land Acquisition	Morocco	[Bar chart showing duration]							8 months to 2 years	depending on geographic area non adjudicated land for state owned land including the transfer of title
	Jordan	[Bar chart showing duration]							about 2 to 6 months	
	Malaysia	[Bar chart showing duration]							3 months average	
	Chile	[Bar chart showing duration]							2 months to 2 years	
	South Africa	[Bar chart showing duration]							6 12 months	
	Tanzania	[Bar chart showing duration]							3 months to 6 years	
Approval for Site Development	Morocco	[Bar chart showing duration]							3-6 months	not including environmental compliance procedures
	Jordan	[Bar chart showing duration]							3 4 5 months	
	Malaysia	[Bar chart showing duration]							3 6 weeks	
	Chile	[Bar chart showing duration]							2 months	
	South Africa	[Bar chart showing duration]							1 month	
	Tanzania	[Bar chart showing duration]							8 months***	
		1 Week	1 Week	1 Week	1 Week	1 Week	1 Week			
Water Connection	Morocco	[Bar chart showing duration]							2 days	
	Jordan	[Bar chart showing duration]							2 5 weeks	
	Malaysia	[Bar chart showing duration]							1 2 weeks	
	Chile	[Bar chart showing duration]							1 2 weeks	
	South Africa	[Bar chart showing duration]							1 day to 2 week	
	Tanzania	[Bar chart showing duration]							1 2 weeks	
Electricity Connection	Morocco	[Bar chart showing duration]							7 days to several years	-depending on infrastructure
	Jordan	[Bar chart showing duration]							about 7 weeks~	
	Malaysia	[Bar chart showing duration]							about 3 weeks	
	South Africa	[Bar chart showing duration]							3 days to one year	
	Tanzania	[Bar chart showing duration]							6 weeks	
		1 Month	1 Month	1 Month	1 Month	1 Month	1 Month			
Telephone Connection	Morocco	[Bar chart showing duration]							1 day	
	Jordan	[Bar chart showing duration]							3 months to 1 year	
	Hungary	[Bar chart showing duration]							1 3 weeks	
	Chile	[Bar chart showing duration]							Less than 24 hours	
	South Africa	[Bar chart showing duration]							1 7 days	
	Tanzania	[Bar chart showing duration]							1 3 months	

The New Land Policy and Act The GoT has recently introduced a new national land policy to replace the existing land tenure system created largely under the 1923 Land Ordinance. A new Lands Act, awaiting ratification by parliament, is expected to come into effect within a few months. The new law should change several aspects of the way land is administered and acquired in Tanzania. Two changes anticipated under the new law are the formalizing and strengthening of an eminent domain mechanism and eliminating the Regional Land Officers and transferring their power to District officials. Officials at the Ministry and the TIC are optimistic that further positive change will result from the new law. Due to the complexity of the lands allocation system and some fundamentally political issues related to land tenure, it is not expected that reforms in the land allocation system will occur quickly, however.

Under the proposed national land policy, "Non-citizens shall not be granted land unless it is for investment purposes under the Investment Act and any foreign companies or individuals must be registered with the TIC to have legal title to land. Moreover "Non-citizens and foreign companies will not be allowed to acquire land through transfer or purchase of customary land [and] transfer of customary land rights by citizens to non-citizens will be prohibited." Further, the current Lands Act states that non-citizens can not own more than 500 acres without consent of the Minister responsible for land.

Under the new land policy, four central tenets of the current policy will remain. These are as follow:

- land is publicly owned and vested in the President as a trustee on behalf of citizens,
- speculation in land will be controlled,
- rights of occupancy -- whether statutory or customary -- are and will continue to be the only recognized types of land tenure, and
- title to land will continue to be based mainly on use and occupation.

The System Today Tanzania operates under a leasehold system whereby most land can be utilized under the terms of a long-term lease but not "owned" outright. Under the current legal framework, all land in Tanzania belongs to the government. Land can be held only through government leases, customary tenure, or sub-leases from the private sector. The value of real estate is theoretically tied only to the development that exists on the property, as existing GoT policy is to regard land as having no value.

The private real estate market in Tanzania remains in its infancy. For investors, there is no serviced industrial estate that offers ready to occupy buildings. As a result, most investors have to go through the lengthy process of identifying land, obtaining title, undertaking construction, and connecting utilities before they can begin operations.

The best way for investors to circumvent the long delays associated with a typical land search is to rent existing but underutilized space. One source of ready to occupy property is parastatal companies that have contracted since economic liberalization began. A second way to accelerate the site development process is to buy or lease sites already held by the private sector rather than obtaining undeveloped land from the GoT. Privately owned standard factory buildings are usually leased for two to eight years, with six months rent payable in advance. Private rental terms can be negotiated freely.

Local investors have three primary sources of land: state, customary, and privately held land, foreign investors are prohibited from acquiring title to customary land. Most land in Tanzania is un-surveyed, customary land under the direct control of local authorities and villages. When seeking a lease on customary land, a local investor must have the property surveyed and may also have to pay resettlement compensation to any customary tenants occupying the site. Government controlled land includes plots owned by parastatals, game parks, national parks, and forests. While land controlled by the government is usually priced at below market rates, the process for obtaining this land is reportedly more difficult and time-consuming. Government officials estimate that if land is acquired directly from the state, the process can take as long as six months, private sector estimates suggest that the process can take years.

Ministry officials recommend that rather than rely on the national government investors, in consultation with the TIC, should identify and acquire land through a real estate agent or direct negotiations with local officials. There are approximately 18 private real estate agents and land valuers in Tanzania. Officials also note that government estimates of land value are often lower than market estimates, and as a result sellers generally prefer to negotiate directly with a buyer.

Acquisition Process. Because new procedures have not been established to support the pending legislation, the description below focuses on the current process. Additionally, as rendered the process reflects the experience of acquiring land in the Dar es Salaam area.

The process for acquiring land varies depending on the plot's location and state of its development. For example, if an investor wishes to lease land within Dar es Salaam, an application is first sent to the City Commission's urban planning office. If an investor is interested in leasing land in a rural area, the District Land officer is the first point of contact. If the land being sought is less than 10 acres, the District Land officer can render a decision. If the plot of land is between 10 and 500 acres the District Council must approve the application. The Regional Land Advisory Board must approve leasing plots between 100 and 500 acres. The Minister of Lands must approve the allocation of plots over 500 acres. Ministry officials note that in regard to land, District officials have not yet taken over the responsibilities of Regional officials in all areas.

Municipalities have their own procedures for obtaining title to land, and investors must begin at the city council if interested in acquiring urban land. The right of local officials to control land allocation is delegated by the Ministry of Lands. For example, the Dar es Salaam City Commission has the power to allocate land, issue a letter of offer, prepare title documents, issue building permits, and inspect and monitor construction. Typically, local authorities have designated certain areas for commercial use, but investors suggest that these plans are often incomplete. For example, Dar es Salaam Commission officials report that approximately 70% of the municipal area is not zoned or planned and is occupied by squatters. When acquiring urban land, the City Commission will seek consent of the national Commissioner of Lands (a process described as "a formality" by Ministry officials) and register the allocated plot with the Survey Department of the Ministry of Lands.

Technically, foreign investors should obtain a letter from the TIC endorsing a request for land after the Centre approves the investment. Then this letter should be presented to the Commissioner of Lands. This is not standard practice, however. In reality, investors in Dar es Salaam typically follow one of two options. One, they write a letter directly to the Commissioner of Lands to reserve a specific piece of land before receiving TIC approval. In these cases, the

Certificate of Occupancy will be issued only after TIC approval has been received by the Ministry of Lands. Alternatively, the investor can begin the process by contacting the Dar es Salaam City Commission. Both processes are virtually identical. A standard application form is no longer commonly used by either organization and investors should make their request by letter. In the letter, the investor can request that multiple potential sites be identified.

Once the initial request letter has been received, the Commissioner of Lands (or local authority) will begin the search for appropriate plots. Because there is no databank of available properties, the identification process is difficult and slow. Ministry officials estimate that it typically takes one month to identify a suitable, available plot of land, private sector interviewees suggest that this process can take several months. Once a plot has been identified, Ministry officials will physically inspect the site to see if there are any encumbrances or customary tenants on it. Although they typically lack an actual title document, customary tenants are granted rights to land associated with the village or town they occupy. If customary tenants are on the desired plot, the investor must negotiate a settlement and pay compensation based on guidelines published by the GoT. Compensation must be made for both structures and crops. This process is generally concluded within six months.

Surveying Process. The next step is for the investor, at his or her own cost, to have the site surveyed by either a private or government surveyor. If using a government surveyor, after a request has been filed the Ministry of Lands issues a Survey Instruction allowing the surveying to proceed. In this case, the investor must pay the Ministry a Tsh 18,000 (US \$26.7) survey fee, which covers the production of six copies of the plot's deed plan. Upon completion, the surveyor submits the survey plan to the Ministry's Division of Surveys and Mapping, the sketch plan is checked against existing records, and then the change of title is registered. The Director of Surveys at the Ministry must then approve this survey work. There is a Tsh 2,000 (US \$3.0) search fee for this process. Officials state that after surveying is complete the searching and registration process can take up to one month, although four days is the average duration.

If using a private surveyor, payment and deliverables are negotiated directly between the client and surveyor. There are 18 licensed surveyors in Tanzania, but Ministry officials state that all of them are using antiquated equipment compared to the government's surveyors. The Ministry of Lands now has GPS equipment and this has saved a significant amount of time in the survey process, say officials. Further, at present government survey rates are lower than those charged by private surveyors, the government plans to gradually increase its fees until they reach market rates.

Allocation Process. Once surveying, records checking, and registration is complete, the Ministry issues a Letter of Offer. After receiving the letter of offer, an investor would pay the associated fees. The fees vary based on the size of the plot and its location, intended use, and accessibility, which in turn determines the ground rent. The fees, which are indicated in the Letter of Offer, are as follows:

- 1 Survey fees – paid once only, based size, location, intended use, and accessibility
- 2 Stamp duty – paid once only, based on the amount of land rent
- 3 Plot registration fee – paid once only, based on the amount of land rent
- 4 Ground rent – paid for the current period, rents can be raised every three to five years
- 5 Deed plan fee – paid once only, adjusted periodically (Tsh 6,000, or US \$8.9, at present)
- 6 Preparation fee for certificate of title – paid once only, adjusted periodically

The Ministry calculates land rent based on the amount “obtainable” in an average transaction in a given area. Factors that the government considers when assessing land rent include a plot’s size, what neighborhood it is in, and the degree of access to services. Land rent should be paid on an annual basis from July 1st to the Ministry.

Transferring Title After paying the required fees consent is granted by Commissioner of Lands through the Letter of Offer. Typically, consent is granted in two days, say Ministry officials. Then a Letter of Consent is issued by the Lands Commissioner and sent along with the sales agreement to the Lands Registry for issuance of a title. In total, officials report that this phase of the process takes an average of five and a half weeks.

The last step is for the Commissioner of Lands to submit the Certificate of Occupancy to the Lands Registry so that it can serve as title to the property. This title is legally required to obtain a building permit. According to Lands officials, delays at the Registry can be more than one year in length although the average is four to six months. Private sector sources report delays ranging from one week to six years. Officials state that delays are due in part to poor records keeping and the Ministry’s reliance on a manual rather than a computerized system.

Once a Letter of Offer is granted, the property must normally be developed within three years, the purpose of this requirement is to prevent property speculation. However, extensions may be given for just cause.

Lands officials state that if there are no problems in the application process, an investor can receive title in one or two months. However, Lands officials concede that there are cases where investors have waited for three to six years to receive title.

Lease Terms Leases are generally for periods of 33, 66, or 99 years. Residential plots typically have a lease of 33 years while commercial and industrial properties usually have 99 year leases. The 33-year leases are generally granted for sites with semi-permanent structures on them, more permanently developed sites are typically given longer lease periods. The short-term leases allow for a local authority to reclaim land periodically and designate its use for other purposes.

Property Taxes The power for local authorities to tax land is codified in the Urban Authorities Rating Act of 1983. Property taxes are payable to the local government and the rates vary. In Dar es Salaam, industrial and commercial property holders pay 0.15% on the assessed value of the property. Assessments were last done in 1994/95 and can only be increased every five years. The Dar es Salaam City Commission is considering raising property taxes substantially in the near future. The current proposal is to raise the rate to 1% for commercial enterprises and 2.5% for industrial operations. Residential property rates would remain the same.

Analysis

Issues

Of all the delays faced by new businesses in Tanzania, perhaps the lengthiest is securing access to land. Ministry officials note that they have established a target of one to two months to process a land allocation request, but despite their renewed efforts to tackle the problem of issuing titles in a timely fashion this bottleneck has not lessened substantially since 1996.

There has been some positive change within the Ministry of Lands, however. According to the Ministry, Lands officials have reached a new level of consensus on the problems that inhibit the timely allocation of land, started examining ways to change the system, and attained a new level of awareness of the investor as a “customer” in the lands acquisition process.

Nonetheless, many of the initial concerns about the land allocation process are still valid. Both old and new concerns are noted below. Because the procedures for the proposed national land policy have not yet been established, this analysis focuses on the current process for acquiring and transferring title.

- Delays in obtaining land from the government are excessive and reflect the fact that land in Tanzania historically has had no or very little market value. The current reality mirrors a private land tenure system in some ways but includes more procedural complexities, less transparent processes, and many more restrictions on land usage. Businesses are wary of making certain investments on land that they do not own, and Tanzanian firms can not collateralize land to obtain credit based and invest. The consequences of land not having value are felt most keenly in the rural and agricultural sectors. As in many other countries, farmers tend to lack credit and without being able to use their land – usually their most valuable asset – as collateral they can not borrow and are likely to remain cash poor. Without credit, these farmers are usually unable to make long-term, productive investments and remain at a lower than optimal level of productivity. Given that the majority of Tanzanians are employed in the agricultural sector, addressing the ability of farmers, much less investors, to formally obtain title to their land is a key concern.

The lack of a freely traded land system has other negative consequences as well, including unproductive land speculation. The use of bribery and influence peddling to obtain land are also reported. As noted in 1996, “because of the difficulty of the process and the assumption that land has no value, those who are willing to pay bribes or have personal connections are often best able to obtain prime land. These lessors typically will make minor developments on the land to satisfy the requirements of the Certificate of Occupancy and then re-sell the property. The new landholders then promptly tear down the minor developments to construct a more permanent structure. This needless construction and demolition process has occurred to satisfy the provision that land has no value.”

- There is a dearth of serviced land appropriate for industrial use, thereby adding to the cost and time involved in starting an enterprise in Tanzania. Ministry of Lands officials suggest that there is zoned land readily available for investors in Tanzania, but they concede that they have no information on what type of land investors need and where.
- There is still a lack of transparency in the land acquisition process, and this lends itself to rent seeking and delays. This lack of transparency is a major reason why the length of time and ease with which one receives title varies so widely. While some investors suggest that it takes months or even years to go through the process, others state that with the right monetary inducement or connections, land can be found, surveyed, and legally registered within a week. Disputes between Dar es Salaam City Commission and Ministry officials, while decreasing, add to this air of uncertainty. Businesspeople also note that the country’s real estate agents and other facilitators tend to be incompetent or completely dishonest. Further, some investors have criticized the TIC for not accurately representing the steps involved in acquiring land. Some suggest that the TIC does not itself know the process and

others believe that the TIC is misleadingly optimistic in its conversations with would-be investors

- Very little information is available on public land holdings and planned usage. Generally, only land that has been applied for, some urban plots, and property belonging to parastatal companies has been surveyed in Tanzania. This lack of information about what is available in the country makes it difficult to obtain land and plan for investment projects. Further, although improving, the Ministry of Lands' surveys and records and officials do not always provide a definitive, timely answer to whether or not a piece of land is claimed.
- In essence, Tanzania has a parallel system for allocating and titling land. Indigenous people have the right to claim customary land, which is usually linked to a village, but they rarely have a written title document. In the formal land market, all lessors are supposed to be issued title documents. To acquire land from a customary tenant, an investor must negotiate compensation and resettlement for the tenant, only Tanzanian nationals can acquire land from a customary tenant. Under this system, assessing which parcels of land are claimed and by whom is often complicated, time-consuming, and fraught with uncertainty. Ministry officials concede that conflicts over customary tenants occur nationwide, often paralyzing a leasing transaction. Further, several businesspeople and public officials suggest that rights accorded to customary tenants are too broad and allow for squatters to exploit an investor's interest in acquiring a property. Investors insist that once a customary tenant asserts his or her right to occupy a piece of land, investigating and disproving or validating the tenant's claim is complicated and time-consuming. To save valuable time, in most cases investors choose to pay the tenant to vacate the land instead of waiting to find out if the claim is valid or not.

Land tenure is a complex and sensitive issue in Tanzania but the current situation where vast tracts of un-surveyed land remain underutilized, inaccessible to investment, or embroiled in conflicting claims offers few benefits. While the government wants to secure the rights of lower income people to land, it has not encouraged them to obtain a formal title to a specific parcel of land. Some suggest that this is so because the government fears that customary tenants would unwisely sell their land to foreigners or unsavory speculators. This paradox continues to create an undesirable stasis in the Tanzanian land market and frustrate investors.

The observations on this issue in 1996 remain valid "serviced, industrial zoned land is in particularly short supply in the Dar es Salaam area. Most of the land that is available in the Dar es Salaam area is 'customary' meaning that it has not yet been formally planned and must therefore be surveyed before a title can be issued. To obtain this land, it is necessary to negotiate with the leaseholder, the squatters, or village chairman. According to both Ministry of Lands and City officials, this negotiation process takes anywhere from one to six months. While the compensation guidelines are relatively clear, dealing with customary tenants is a step that most foreign investors are reluctant to take. Some investors suggest that it is better to negotiate a price directly and informally with the customary tenants to accelerate the process," but this option is legally risky.

- Lands officials concede that the investor must follow-up with public officials lest an application sit unattended for a very long time. This lack of initiative on the part of public servants is troubling, especially when related to a complex and lengthy process such as

land allocation. Ministry officials are widely viewed by the private sector as unresponsive, slow, inefficient, and without regard to the importance of the land allocation process for an investor. Some Ministry officials suggest that they lack the resources to motivate and properly train employees.

- In 1996, a major area of concern was the lack of coordination between the Lands Commissioner and the Dar es Salaam City Commission. Two years ago, both organizations claimed that investors should come to their organization first to obtain land. Through a workshop sponsored by USAID/Tanzania and in preparing for the implementation of the new national land policy, this situation seems to have been clarified to some extent, and Commission and Ministry officials agree that communication has improved in recent years. Nonetheless, the problem of simultaneous allocation of plots by both city and Ministry officials has not been completely eliminated. At the same time, Ministry officials state that they have successfully clarified most of the backlog of conflicting claims to title and new administrative systems and better communication are reducing the instances of new title disputes.
- The Ministry of Lands has not successfully completed the transition from Regional Land officers to District Land officers, and there are many vacancies throughout the country. Communication with local land officers has been poor all along, Ministry officials concede, and the current transition has made matters worse. Ministry officials suggest that not all districts have a Lands officer yet and resource constraints and personnel problems at the local level are often blamed for problems and delays. The cost and difficulty of communication and travel between the six zonal land registration centers and the Ministry in Dar es Salaam is also cited as a reason for poor coordination with local officials. Some Ministry officials also insist that regional officers often make errors in the preparation of documents, thereby requiring that forms and plans be sent back to the local offices for revision. As a result of these problems and a general lack of capacity at the local level, Lands officials estimate that there is a current backlog of 20,000 to 30,000 applications for title pending across the country.
- Ministry officials and investors are both critical of the laborious, manual processes involved in the land acquisition process. Because record keeping systems are antiquated, retrieving files, old titles, and maps can be a time-consuming and inexact process. For example, Ministry officials concede that if a title dispute arises the steps required to resolve the issue are cumbersome and the process of acquiring land is bogged down for quite some time.
- The end result of all of these problems in Tanzania's land allocation process is that acquiring land typically takes an inordinate amount of time by world standards. Investors' assessment of how long it took to obtain land has not changed substantially in recent years. In 1996, "reports of delays in obtaining land from the government varied widely and ranged anywhere from three months to three years, a few Tanzanians noted that they had waited five to six years without success in receiving title." These same delays were reaffirmed by investors in 1998.

Relatedly, the fact that every Certificate of Occupancy in Tanzania is signed by the Lands Commissioner seems to increase delays and adds to the hassle faced by Tanzanians living in outlying regions of the country. Ministry of Lands officials dispute this assertion, noting

that Ministry staff expedite the process and because the Certificate of Occupancy is a legal document it must have a valid and unique signature

Recommendations

Ministry of Lands officials and other observers believe that the new land policy and its supporting Act will address several of the problems identified in the Tanzania Investor Roadmap. Nonetheless, the policy is not in effect, its ratification is not guaranteed, and the procedures that will result from new legislation are not yet developed. Thus, it is appropriate to offer some recommendations about the current system

- The government needs to recognize that land has value and further encourage the development of a freely traded land market. The current system of allocating and pricing land is economically and administratively inefficient for both interested investors and executing agencies. Instituting market-oriented pricing and sales mechanisms, such as public auctions for land, can rectify this problem. Some investors feel that a truly liberalized land market that allowed for outright ownership of land by the private sector is necessary for Tanzania to attract local and foreign investment

The problem of land speculation can be tackled in several ways. A completely liberalized land market would eliminate most of the distortions that encourage rent seeking in land allocation. Failing that, the government can safeguard against predatory land speculation by strengthening the legal and institutional framework related to obtaining title. The problem of land speculation and bribery can be addressed in part by introducing model contracts and protective penalties into the relevant land laws. The definition of what is developed land should be changed to screen out disingenuous developers, and the timeframe established should reflect the size and complexity of a project. The government might also consider introducing fiscal instruments, such as “best possible use” property taxes to discourage land speculation while increasing local tax revenue. As noted elsewhere, bribery should be combated with transparent, streamlined land acquisition procedures, firm political will, and meaningful punishments for officials or businessmen proved to be corrupt. Because offering and receiving a bribe are already illegal in Tanzania, combating illicit payoffs is a matter of better enforcement of existing laws

- Given that Tanzania's land policy is likely to be in transition over the next few years, the demand for serviced, industrial land could be addressed through the establishment of an industrial estate. As noted in 1996, “many countries have dealt with difficult land problems by encouraging the development of industrial estates, regionally, Kenya has had success with privately developed estates. Ghana and Namibia, meanwhile, are both pursuing a joint public/private sector approach to industrial estate development. The development of a serviced industrial estate could be done in conjunction with the Urban Development Plan established by the Dar City Commission.” The government has set aside zoned land in Dar es Salaam for industrial use but has yet to attract significant interest within the business community. It is recommended that the TIC look into the deficiencies of the GoT's existing land set aside and formulate a strategy to sufficiently develop it to suit investors' needs
- To address the lack of transparency in the title acquisition process, in conjunction with the TIC the Ministry should publicly issue a detailed step-by-step guide to acquiring title. The guide should specify the order of the steps involved, the agencies that one must interact

with, the approximate length of time involved for each step, and the criteria used by officials to make each decision. Private sector interviewees also called for the creation of some form of ombudsman or watchdog to ensure that procedural aberrations in the allocation of land are discouraged and punished if they are identified.

- It is recommended that the Ministry of Lands create a database of zoned commercial and industrial plots to facilitate identifying and purchasing land. As the land cataloguing exercise makes progress, a centralized database of government land should be made available to investment promotion specialists, including the TIC. A procedural guide to obtaining land should be published for investors wishing to purchase government land. If the service is of sufficient value, the Ministry of Lands could charge processing and search fees that accurately reflect their costs. For example, the Uganda Investment Authority has eased land access by developing a land databank of privately held properties. The Zambia Investment Centre is also working with the Ministry of Land to accomplish a similar task.
- Customary tenants should be encouraged to formally register for title to the land they occupy and lease their land as they see fit. The GoT should make every attempt to merge the formal and customary land tenure system so that investors, villagers, and farmers have equal and transferable rights to land and access to credit. Customary tenants should be registered across the country and associated to a specific plot or area, thereby eliminating the potential for defrauding would-be investors. Registering the population might be made easier if linked to existing mechanisms for registering voters. An alternative is for tribal councils or village authorities to formally apply for title to the land under their jurisdiction and in turn lease plots as they deem appropriate, with revenue going to whatever local governance structure exists.
- The Ministry of Lands needs to more effectively motivate and train its staff to efficiently and quickly process title applications. Issuing clear and realistic internal performance guidelines that include the duration of time allowed for each activity, developing a customer focused mentality, and rewarding initiative within the Ministry would lessen the need for investors to constantly follow-up on title applications. Relatedly, better communication among all of the agencies involved in the land allocation process would improve performance and change the less than flattering image of public officials.
- The GoT needs to address communication problems among several different actors in the land allocation process. Communication problems between the local councils and the Ministry could be eliminated by jointly drafting and disseminating an internal step-by-step guide to land acquisition. This guide should reflect who is responsible for taking an action, how information is communicated between departments and agencies, and how long each action should take. The Ministry of Lands and the TIC need to communicate better about investor needs, what's involved in acquiring title, and where developed land is accessible. Further, the Ministry should work to improve coordination and communication across its three divisions, perhaps through additional team building and multi-department process improvement workshops, to address the current lack of communication.
- The Ministry should quickly complete its staffing reorganization at the regional/district level. Further, better communication between local Lands officers and officials in the Ministry in Dar es Salaam should be established. The local Lands officials should be issued the same clear procedural guidelines with time limits for each activity that their counterparts receive in

the Ministry. As well, increased training, contact, and dialogue are recommended to narrow differences between the Ministry and District and other local officials.

- The Ministry's on-going computerization should improve record keeping and efficiency. However, steps should be taken immediately to better organize, store, and label files so that records searches are not excessively time consuming endeavors. A suggestion from 1996 is also worth revisiting "it is recommended that attention be paid to improve the workings of the Lands Commission and Registry. There is a need to computerize the operations, provide training, and simplify procedures. As such, the GoT should consider the option of privatizing the Lands Registry."
- The delays in obtaining title remain lengthy, with some estimates ranging from two to six years. The GoT needs to renew its commitment to removing the many impediments to acquiring title that deter investment. Much of this work involves process improvement initiatives, upgrading the skills and resources of officials, clarifying and streamlining the roles and responsibilities of the departments and public entities involved, and resolving overlapping issues of jurisdiction.

2.2 Site Development

The process of securing permission to develop a site varies from one local authority to another, but similar procedures and issues apply countrywide. The process outlined below represents site development in the Dar es Salaam area, where approximately 60% of all investments have taken place in recent years.

After land has been acquired, the investor should apply for a "hoarding or scaffolding permit" from the Dar es Salaam City Commission Works Department. This permit allows the builder to set up fencing on the site. An investor should have a Certificate of Occupancy before requesting the hoarding permit but waivers of this requirement are apparently made to those with Letters of Offer. Fees vary depending on the length of fence frontage. Delays are typically less than one day to recommend approval.

Once the hoarding permit is obtained, the applicant should complete and submit a "Notice of Intention to Erect or Alter a Building" as well as an "Application for Planning Consent." Fees vary based on the size of the building. Three copies of the building plans should also be submitted. Commission officials advise that plans should be drawn in ink "and colored in a clear and intelligible manner on suitable and durable material." Once the application has been submitted, various departments within the City Commission will examine it. The Town Planning Department will ensure that the proposed activity is in line with zoning and plot coverage restrictions and check the validity of the title. City Health officials will examine the plans in terms of water, drainage, sewerage and other health issues. The City's architects and engineers will check the plans to ensure that the proposed design is structurally sound.

By law, the time allowed to approve building permits is a maximum of two months. City officials state that most applicants receive word about their building permit application in one or two months, with three months being the lengthiest delay. Commission officials suggest that delays have been reduced in recent years in part because approvals are now granted by the City Commissioners, who meet every Friday to decide such issues.

Construction can begin only after the building permit is received. Construction must begin within six months of receiving the permit, although one can apply for extensions. Construction must be completed within three years of receiving the building permit.

As construction takes place, the Commission must be notified at nine different stages. Because of a shortage of vehicles within the Commission, the applicant may have to transport the City official to the site. "Notices of Work" must be made at least one day in advance and should occur at the following times:

- 1 commencement of construction,
- 2 before covering up excavation for foundations,
- 3 before covering up foundations,
- 4 before covering up concrete over site,
- 5 before covering up any damp-proof course,
- 6 before covering up any drains,
- 7 before covering up any timber scantlings,
- 8 before laying slabs, beams, and floors, and
- 9 final notice of completion

Once the building has been completed, final approval must be obtained before the building can be occupied. At this juncture the building will be inspected by City health, fire, and electrical specialists. This final series of inspections is not typically coordinate and the separate visits add three to four days to the process. Reportedly, most buildings are required to have some adjustments at this late stage. For factories, a letter of approval from the Factories Inspectorate is required as an attachment.

When the building is completed, the owner is required to fill out a reporting form that will be forwarded to the Statistics Office. The owner should submit the document to the local Town Clerk and is available from the Commission for Works at no cost.

Analysis

Issues

The character and capacity of a local authority largely determines how easily and quickly an investor can develop his or her land in Tanzania. This analysis largely reflects the experience in the Dar es Salaam area where the majority of Tanzania's recent investments are located.

A lack of transparency and consistency characterizes the entire site development process in Tanzania. Investor experience varies widely, some suggest that local regulations don't matter and others suggest that defying the local authorities is extremely risky.

According to Dar es Salaam City Commission officials, the Commission is working to make the process for approving the development of sites quicker and uniform. The weekly Commissioners meetings have been an important step in reducing a backlog of applications from previous years, say Commission officials. Despite this improvement, the existing process is still flawed by the multiplicity of steps and approvals required. The City Commission's policies seem to be aimed at controlling construction rather than effectively regulating and facilitating economic development, and investors and the builders that they hire are particularly vulnerable.

to costly delays and rent seeking during construction. As a result, the process of developing a site in the Dar es Salaam area is unduly time-consuming and fraught with uncertainty.

- According to investors, receiving permission to build is not a clear-cut process. The Dar es Salaam City Commission will send mixed signals, investors report, sometimes issuing a letter granting approval when they should be issuing a permit. Later, inspectors will come and demand that construction be halted because the investor is lacking the proper authorization. Businesspeople interpret this behavior as an attempt to extort a bribe. The fact that many investors are required to revise their building plans after a building is approved is at least partly indicative of the City Commission's failure to provide good guidelines on the minimum standards that must be met.
- It is widely reported that local officials do not show up for planned inspections, thereby interfering with the tight schedules involved in constructing a building. Investors suggest that local officials often say that they are too busy to carry out the inspections as agreed, but some assert that officials delay the process in order to receive bribes. Builders note that there are several particularly time sensitive phases of construction, such as pouring a concrete foundation, where delays caused by tardy approvals or inspections can cost great sums of money. In 1996 private sector sources reported delays of as long as four years without obtaining the final inspection clearance, interviews in 1998 supported this inconsistency.

The quality and coordination of inspections is also a concern to the private sector. Investors suggest that the thoroughness and professionalism of inspectors varies. As well, investors perceive that the City Commission makes no attempt to coordinate its inspections, and as a result an investor must spend more time and money transporting Commission officials and hosting inspections than is necessary.

- Of the 20 or so nations where Roadmap studies were done, Tanzania is the only one to require a hoarding permit. As first observed in 1996, "this permission to erect a fence to start construction adds an unnecessary step to the process. Tanzania's nine notices of inspections compares to the seven required by the Kampala City Council, five required by the Windhoek municipality in Namibia, and fewer elsewhere."
- Most local governments in Tanzania require that a Certificate of Occupancy be in hand before a building permit can be issued. This dependency affects other aspects of site development and adds to an already lengthy process.
- The one to six month delay for granting building permits compares unfavorably to standard practice elsewhere. For example, building permits in Namibia are routinely given in two to three weeks. It is unclear why competent local officials would need as long as six months to process such a permit.

Recommendations

There are several recommendations that can be made to improve Tanzanian regulation of the site development process.

- It is recommended that the Dar es Salaam City Commission address the lack of transparency in the site development process. The dependencies of the process need to be clarified and written guidelines should be produced and disseminated to the private sector at the start of the process. The process should clearly indicate what documents signify an official and irrevocable approval and officials that deliberately delay a project should be terminated. The Commission should also convene a meeting with area builders to discuss the problems currently experienced and jointly plan to find ways to avoid forcing builders to make corrections late in the process.
- The inspections regime should be simplified and better standards should be established. Inspections should be coordinated to minimize the amount of effort and money required of the private sector to comply with them. Given the need for timely inspections and approvals, the City Commission must ensure that inspectors perform their work at the time agreed to. After an inspection is complete, approvals should be issued according to a specific timeframe that is publicly known.

Through training and increased public-private collaboration local authorities should improve the technical quality and professionalism of their inspectors. For example, if local officials are not capable of conducting a meaningful inspection the GoT should consider licensing a Tanzanian association of architects or engineers to perform the task.

- The notice of inspections should be reduced to four or five steps from the current nine steps. The hoarding permit should be eliminated, thereby simplifying and shortening the process.
- Local governments should try to assist investors develop projects and cease requiring that the Certificate of Occupancy be in hand before the building permit is issued.
- A target of approving building permit applications within two weeks should be established.

2.3 Utility Connections

TIC officials and investors alike have noted recent improvements in the quality of public services, especially in regard to telecommunications and power. Nonetheless, a lack of competition, high connection fees, sporadic supply (especially in non-urban areas), and poor levels of service characterize infrastructure services in Tanzania. Further, the region's meteorological extremes can frustrate the attempts of utilities to provide consistent service. Heavy rains can sever phone connections and droughts can undercut the supply of water and power, 95% of which in Tanzania is provided by hydro-electricity.

A state-owned company in Tanzania supplies each type of infrastructure service. The rates and procedures for accessing these utilities are detailed below. Where a municipality provides services, this assessment report focuses on Dar es Salaam.

Water

Despite its name, the National Urban Water Authority (NUWA) is responsible for water supply only in Dar es Salaam. In Arusha, Tanga, and Moshi, investors should contact the local Urban and Water Sewerage Boards.

Application Procedure Once land is secured, investors should submit an "Application for Water Connection" form to the closest NUWA office to request a water connection. There are five offices in the Dar es Salaam area. A fee of Tsh 1,000 (US \$1.5) must be paid upon submission of the form, and a postal address for the business must already exist.

Once NUWA receives the application it undertakes a site visit to check the quantity of water available in the area, determine the nearest water line, sketch a drawing of the site, and identify hook-up details. After the site visit, NUWA provides an estimate of the installation cost. According to NUWA officials, an average installation cost for businesses near a main water line is approximately Tsh 1 million (US \$1,481.5).

Installation Once the applicant pays the estimated connection cost in full, NUWA buys the necessary materials to build a connection and installs a tie-in to its system of water pipes. NUWA officials state that a simple connection will take about one week whereas a larger, more complex installation will take about two weeks. Industrial installations requiring use of 8" PVC or larger piping, which is not always available on the local market, will often incur longer delays.

Tariff Rates In Dar es Salaam, rates are established by the Water Board, which serves as NUWA's regulatory body. Small business customers - those usually engaged in service industries that require less water - are assessed a flat monthly rate based on the flow of water in the area and the number of people working in the building. Larger businesses will have meters and pay at the metered rates. The deposit charge for a meter ranges from Tsh 50,000 (US \$74.1) for the smaller models to Tsh 150,000 (US \$222.2) for the larger models. Water tariffs are as follows:

	Metered Rates (Per 1000 Gallons)	Un-metered Rates (Per Month)
Domestic	Tsh 700 (US \$1.0)	Tsh 1,076 (US \$1.6)
Institutions	Tsh 805 (US \$1.2)	N/A
Commercial	Tsh 980 (US \$1.5)	Tsh 10,058 (US \$14.9)
Industrial	Tsh 1,156 (US \$1.7)	N/A
Brick makers	Tsh 1,156	Tsh 58,328 (US \$86.4)
Irrigation	Tsh 1,156	Tsh 58,328
Expatriates (domestic dwellings)	US\$ 23	N/A
Water by the Tank (900 liters)	N/A	Tsh 20,000 (US \$29.6)

Payment Procedures Bills are mailed once a month and are payable 21 days after the closing period. Payment is made through the five offices in the Dar es Salaam area. Payment is accepted in either check or cash. After the grace period, service may be disconnected. Bills to large water consumers, such as beverage manufacturers, are delivered by hand rather than through the mail.

Supply Capacity The Dar es Salaam region is served by three plants that are inadequate to meet the city's demand for water. The availability and regularity of the water supply varies.

depending on the neighborhood and the water plant that serves it. Most industrial sites are located in the southern part of Dar es Salaam where water pressure is low and water service is inconsistent. Many users install cisterns, pumps, and wells at their own expense, permission of NUWA, however, is required. In other areas, the city center and northern coast, for example, service tends to be more regular but pressure remains low. Throughout the system, the main lines usually run at only half capacity. Water pressure ranges from zero PSI (pounds per square inch) to 30 PSI. Theft and leakage from the water system is estimated at around 30% of the supply.

Boreholes are the principal source of water around the outskirts of Dar es Salaam. The Ministry of Water has to approve the installation of all wells.

Sewerage

As the public sewerage system is considered city property in Tanzania, municipalities manage sewerage connection. Within Dar es Salaam, fewer than 50% of businesses have sewage hook-ups, most use septic tanks. The Department of Sewerage and Sanitation in Dar es Salaam is in the midst of a reorganization and plans to initiate joint billing with the National Urban Water Authority. The primary purpose of the reorganization is to facilitate sewerage fee collection, which appears to be a problem under the current bifurcated water and sewerage system.

Sewerage Connection For residential and commercial sewerage connection, an investor should fill out a survey form. There is no fee for the form. A technician from the Department visits the site to assess the scope of services required. After completing the site visit, the technician enters the information into a computer database that generates a cost estimate for installation. The investor is required to pay immediately.

The fee for residential sewerage connection is variable and depends on the distance from a public sewerage line. For commercial installation, the fee varies depending on the distance from the public sewer. The fees range from Tsh 50,000 (US \$74.1) to Tsh 1 million (US \$1,481.5).

Citizens must pay a monthly sewerage charge to the Department.

Electric Power

The Tanzania Electric Supply Company (TANESCO) is the sole supplier of electricity in Tanzania. TANESCO is regulated by the Ministry of Energy. While the Government of Tanzania permits the private sector to generate power and sell it through TANESCO's distribution channels, to date no private companies are taking advantage of this opportunity.

Little has changed in regard to power supply or TANESCO's management procedures in the past two years. Some rates have increased as has the volume of power supply.

Application Procedure Investors need to apply by completing a "Preliminary Application Form for Power Supply," of which there are two versions. Form A must be completed for power requirements below 30 KW and Form B must be completed for power requirements above 30 KW. Each form costs Tsh 1,000 (US \$1.5). The investor is also required to collect an

installation card, inspection certificate, and "Agreement Card/Form" at a cost of Tsh 1,000 each. The applicant is required to attach to the form a copy of the building plan. Within Dar es Salaam, an investor can present himself to one of seven zonal directors who will direct him or her to the appropriate regional manager.

There is no additional fee for processing the application. Upon receipt of the application form, TANESCO will make a site visit to determine the nearest source of supply and to assess the cost of connection.

Installation The applicant must pay the cost of installation of the service line in full before work can begin. TANESCO installs the electrical line up to the meter point. The investor must then contract with a licensed electrical contractor to undertake the electrical installations from the meter point throughout the remainder of the business site.

Inspection Upon completion of this work the private contractor fills out and signs the "Installation Completion Card." The drawing of the electrical installations should be attached to the card. TANESCO inspects the on-site work done by the private licensed contractor and issues its inspection certificate if the work is adequate.

To obtain a meter, the investor must complete a meter card and lodge a deposit. The investor must finally sign the "Agreement Card/Form" which details the main features of the services and commits the investor to pay for these services. After that, TANESCO installs the meter and connects the electricity to the enterprise.

Proximity to the main line and electrical load determine the cost of hook-ups. Today, an average residential service line connection costs approximately Tsh 90,000 (US \$133.3) for a single phase installation (up from Tsh 15,000, or US \$22.2, in 1996), three phase installation costs Tsh 180,000 (US \$266.7). For businesses, one kilometer of line for a 33 kV load is approximately Tsh 12,825,000 (US \$19,000.0), up from approximately Tsh 8 million (US \$13,000.0) in 1996. One kilometer connection of an 11kV service is now around Tsh 11,475,000 (US \$17,000.0), up from Tsh 5 million (US \$7,407.4) in 1996. The cost of 1km of LV connection is approximately Tsh 10,175 (US \$15.1).

For transformer installations above 500kV (most manufacturers would require this capacity), the investor is required to buy a transformer and place it on his or her property. For transformers under 500kV, TANESCO installs one transformer on location to service a number of consumers who share the cost on a pro-rata basis. The cost of transformers range from Tsh 1.2 million (US \$1777.8) for a 50kVA, 11/0.25kV to Tsh 30 million (US \$44,444.4) for a 2500VA, 33/11kV unit. Investors can import their own transformer or buy a locally assembled one. The meter deposit for installations greater than 500 KVA is Tsh 200,000 (US \$296.3), while the meter deposit for service under 500 KVA is Tsh 100,000 (US \$148.2).

The average time required to complete electrical hook-ups is six weeks, but further delays may occur due to the non-availability of materials (meters, transformers, conductors, etc.) Investors are advised to apply for electrical connection about the same time as they request a building permit. Businesses usually get installations on a priority basis once all installation costs have been paid.

Tariff Rates the Ministry of Energy approves Rates The current rates are as follows

<u>Tariff No 1</u> Residential, small commercial and industrial use, average monthly consumption less than 7,500 unit (KWH)	<u>Consumption range</u>	<u>Rates (Tsh)</u>
	0 - 100 KWH	24 00 per KWH
	101 - 500 KWH	38 75 per KWH
	502 - 2500 KWH	88 50 per KWH
	over 2500 KWH	165 50 per KWH
	<u>Service Charge</u>	<u>Per meter reading</u>
	0 - 100 KWH	200 00
	101 - 500 KWH	750 00
	over 500 KWH	2,000 00
<u>Tariff No 2 -- Low Voltage Supply</u> 400 Volts, average monthly consumption more than 7,500 kilowatt hours	Demand Charge	7,660 00/KVA
	Units Charge	70 35/KWH
	Service Charge	4,000 00/Month
<u>Tariff No 3 -- High Voltage Supply</u> Metered at 11 kV and above	Maximum Demand	5,950 00/ KVA
	Units Charge	67 50/KWH
	Service Charge	4,000 00/Month
<u>Tariff No 4 -- Public Lighting</u>	All units	27 80/ KWH
<u>Tariff No 5 -- Zanzibar Supply</u>	Maximum Demand	1,780 00/ KVA
	Energy Charge	13 70/KWH
	Service Charge	4,000 00/Month

TANESCO's rates have increased since 1996 Increases vary, as follows 23%-44% for Tariff No 1 services, 23% for Tariff No 2, 32% for Tariff No 3, 31% for Tariff No 4, and 19% for Tariff No 5

Payment Procedures Electricity bills must be paid monthly in cash or by check at the nearest TANESCO office Appeal of billing mistakes and service problems is made to the regional managers

Supply Capacity Despite recent improvements in service, electricity supply is still sometimes insufficient to meet existing demand "Load shedding" has declined over the last two years from two days per week to a few hours a week Most investors have on-site generators, and capacity banks (un-interruptable power supplies) are often installed at consumption sites to protect against blackouts, brownouts, and spikes in supply Voltage fluctuation is high at +/- 10%

The quality of service supply is not uniform throughout the country For example, in the Arusha area, a low voltage problem hopefully will be resolved when this area is joined to the national grid by the installation of the 220kV connection currently under construction

Telecommunications

The Tanzania Telecommunications Company Limited (TTCL) long had a legal monopoly over telephone services in Tanzania. In recent years however, private cellular phone companies have been allowed to operate and these services are becoming increasingly competitive. Despite this liberalization, use of international call-back services in Tanzania is illegal. The TTCL is regulated by the Tanzania Communication Commission (TCC). This commission controls the allocation of the radio spectrum and defines which equipment is approved for use in Tanzania.

With loan assistance and grants from the World Bank, African Development Bank, the European Union, SIDA, and DANIDA, Japan, and Kuwait, Tanzania has recently been undergoing a rehabilitation of its telecommunications infrastructure. In addition, a new telephone directory, contracted through a private company, was issued in 1997 and TTCL representatives suggest that it will be published annually for the foreseeable future.

Application Procedure Investors should complete an "Application for Provision of New or Additional Telecommunication Services" obtainable at the nearest TTCL office. Whereas in 1996 there were only three commercial service centers in Dar es Salaam, there are now 14 located in the city's three different telecommunication zones (North, Center, and South). One application is required for each telephone line requested. A sketch diagram of the locations where phones will be placed and photographs of the applicant should be attached to the application.

Following receipt of the application for service, the TTCL conducts a site inspection, makes a written cost estimate, and provides a standard draft contract between the TTCL and the customer.

Installation In Dar es Salaam, average total cost for a business phone installation is Tsh 95,895 (US \$142.1). This includes a connection fee of Tsh 36,000 (US \$53.3), a deposit of Tsh 50,000 (US \$74.1), and an internal wiring cost of Tsh 8,000 (US \$11.9). The cost is lower in district and rural areas where the connection fee is Tsh 23,870 (US \$35.4) and the deposit is Tsh 20,000 (US \$29.6). Today it takes approximately one month to have new phone line connected, down from an average of five or six months in 1996.

Telephone deposit charges are as follows:

Line Category	Automatic	Manual Magneto
Business with ISD	Tsh 50,000	N/A
Business w/out ISD	Tsh 25,000	Tsh 20,000
Residential with ISD	Tsh 30,000	N/A
Residential w/out ISD	Tsh 15,000	Tsh 15,000
Telex	Tsh 50,000	N/A

TTCL gives first priority to installing business telephones. TTCL officials claim that when network and exchange capacity is free and materials are available, connection can be done in as little as two weeks. TTCL can procure the materials needed to build a phone connection or the customer can import or buy the equipment locally.

There is currently a backlog of approximately 12,000 phone service applicants within the Dar es Salaam metropolitan area, down from 50,000 in 1996. Some of these applicants have been waiting for service for more than two months. The TTCL hopes to reduce the hook-up time to one week once the rehabilitation program is completed.

Tariff Rates Domestic telephone charges, which since 1996 have increased in price between 86% and 204%, are as follows:

Radial Distance (in KM)	Charge Letter	Charge per Minute (Tsh)	
		Full Rate	Economy Rate (18 00 to 06 00)
51-500	A	164 00	82 00
Over 500	B	297 00	148 50
To Mobile	C	448 00	224 00

The charge for a local call is Tsh 21 (US \$ 03) per minute, an increase of 31% since 1996.

Tariffs for international service have decreased in price from 20% to 33% since 1996. Current rates are as follows:

Zones	Int'l Direct Dial (US\$ per minute)	
	Full rate	Economy Rate (18 00 to 06 00)
A Africa (COMESA)	1 8	1 4
B Africa (Non-COMESA)	2 4	1 9
C All Other Countries	3 2	2 6

Monthly rental rates for TTCL phones are Tsh 3,070 (US \$4 5) per line.

A dedicated 64 kbs line is available for US \$7,000 per month.

Payment Procedures Itemized bills for international calls, indicating time of call, cost and destination are produced. Payment is made at a customer telephone counter on a monthly basis. Disagreements with billing or phone problems can be addressed at a TTCL customer service counter.

Service Capacity Reliability of service varies tremendously depending on location. TTCL representatives suggest that call completion rates have improved dramatically since 1996. TTCL staff state that call completion rates in Dar es Salaam range from a high of over 95%.

within the Oyster Bay area to a low of 90% in the north of the city. The call completion rate is officially cited as 95.6% in Dar es Salaam. Because of outdated equipment, call completion rates are particularly low between Dar es Salaam and some portions of the country. Currently, TTCL representatives state that only 85% of calls from Dar es Salaam to Mwanza or Dodoma are completed successfully. TTCL expects the call completion rate to improve to 90% once the rehabilitation program is completed.

Reportedly international calls from Dar es Salaam are successful more than 90% of the time.

Private Service Mobile cellular phone services are available through private companies such as Mobitel and TriTel. The total time required to obtain both local and international services, from entering the store to walking out with a mobile cellular phone, is around 30 minutes. Average cost for the handset and connection is US \$1,200, but competition is pushing down connection costs. The call service area includes a 510 kilometer radius area from Dar es Salaam. The call completion rate from one cellular phone to another within the service area is nearly 100%. Both mobile cellular phone companies use a prepayment system. For example, one company demands an initial payment of US \$100 in prepaid phone calls. Once the balance declines to US \$50, international calling capability is interrupted, a decline in the account to US \$30 results in suspension of local call service. Monthly bills for these services usually itemize date and time of the call, the number phoned, duration of call, and the applicable rate.

Postal Service

The state-owned Tanzania Telecommunications and Post Corporation was split up in the past few years, and postal service is now handled by the Tanzania Post Corporation (TPC). TPC has recently introduced a 24-hour delivery option along its main routes and TPC representatives suggest that service levels have improved since 1996.

Application Process To obtain a post office box, an investor must submit an "Application for a Private Post Office Box" to the TPC. There are no processing fees and no required attachments. Post office boxes have only one size and it reportedly takes only a few minutes to obtain them.

Payment Procedures Fee payments to the TPC are required in the month of January and a grace period of one month is provided after which the applicant loses the post office box. Large companies, which are characterized as having over 200 employees, operating nationwide, and sending a large volume of mail, must pay an annual fee of Tsh 50,000 (US \$74.1) and an additional Tsh 3,000 (US \$4.4) deposit for keys and Tsh 1,000 (US \$1.5) for a Rental Authority Card. Small companies pay Tsh 20,000 (US \$29.6) per year for a post box, individuals in urban areas are charged Tsh 5,000 (US \$7.4) annually, and individuals in rural areas are charged Tsh 1,000.

Capacity of Service Efficient mail service in Tanzania is hampered by a lack of vehicles in the TPC. In general, according to the TPC, it takes one day to deliver mail from Dar es Salaam to Mwanza. From Dar es Salaam to London, officials assert, it takes a few days since there are three flights per week between the cities. There are a few private mail delivery services in the country, including Federal Express and DHL. Within the major cities, many businesses choose to courier important or time-sensitive items rather than mail them.

Analysis

Issues

Despite some improvements in the quality of service and capacity within some of Tanzania's state-owned infrastructure service providers, many problems remain. A lack of managerial, and in some cases, technical expertise, poor service levels, limited capital to invest in improvements and expansion, monopoly status, and a lack of a customer oriented focus continue to characterize Tanzania's public utilities. Most of the utilities are also criticized for inaccurate and untimely billing and records keeping procedures. Thus, much of the 1996 Tanzania Investor Roadmap analysis remains valid.

- In 1996 it was noted that "the current demand for water in Dar es Salaam is outstrips capacity. Given Dar es Salaam's fast growth rate, this problem can only expect to worsen in the near future." Rural areas do not generally have public water connections at all. Many citizens have to drill their own boreholes to get access to water, and some report that their private water lines are frequently tapped illegally. Investors continue to complain about the quality and stability of water supply in Tanzania.

Apart from the poor reliability of service and dubious quality, the main constraint faced by water users is the slow and expensive installation procedures encountered.

- As initially observed in the 1996 Tanzania Investor Roadmap, "Due to the Department of Sewerage and Sanitation's limited finances, many investors must assume the costs of raw materials that are used in sewerage connection. It is unclear as to how the monthly sewerage fees are being used by the Department." Investors state that the quality of municipal sewerage services remains poor and most residences rely on some form of sewer tanks attached directly to their houses.
- Despite some improvements in service, TANESCO's inability to provide steady power at competitive rates continues to frustrate investors. Problems with reliability of the power supply have hurt many businesses and frequent power outages have forced many to install backup generators. High purchase and operating costs of backup generators make them well beyond the means of most small businesses. Voltage fluctuations have damaged sensitive machinery and equipment and interfered with production processes at critical junctures. These supply issues add to the cost of doing business in Tanzania, as most companies will have to buy backup generators and power regulators.

Financing new connections remains a constraint for new and expanding businesses. As stated in 1996, "presently, the main constraint in terms of electricity is the slow and expensive installation procedures. There are nine steps to undertake for an electricity hook-up and this compares unfavorably to the two to four steps necessary in other countries. The four-month installation delay commonly experienced by new companies is a deterrent to new investment and compares poorly to the two-week delays in Namibia. In addition, the requirement that investors pay 100% of the installation costs up-front imposes a significant working capital cost on firms when they can least afford it."

It should be noted, however, that the business community credits TANESCO for being better than in the past about giving advance warnings of power blackouts.

- TTCL has been cited for improving several aspects of its service. Whereas in the past hookup delays could last for five months or more, with preference given to those who offered the biggest illicit monetary inducement, now many people report being able to get service within a month. Thanks in large part to a large amount of donor assistance, there are also more phone lines available and new switching equipment at TTCL.

Phone service reliability, though improving, is still poor by international standards, particularly within certain regions and neighborhoods. Poor service levels are evidenced by the large number of complaints about mistakes in billing. While TTCL has recently produced a phone book, many of the phone numbers listed are rendered incorrect within a period of months, thereby limiting the usefulness of the endeavor. Typically, operators can not explain why a given listed phone number does not work, nor can they provide an alternative number when it has been changed. Most business people suggest that cellular phone service is the only truly reliable service over the long term, but this limitation makes communicating by facsimile difficult and unreliable.

- The introduction of cellular phone service represents a significant improvement in Tanzanian phone service in terms of improving eligibility and the elimination of installation delays. Nevertheless, there are a number of problems that continue to make Tanzania's telecommunications capacity below world standards. As noted in 1996, "the cost of cellular phones, though reduced dramatically, remains outside the reach of most small businesses. This means that businesses continue to face delays in obtaining regular phone service," and lines frequently do not function properly.
- According to the TPC, availability of post office boxes is no longer a problem in Dar es Salaam. TPC officials say that the organization has upgraded its fleet of delivery vehicles and improved delivery times, especially along major mail routes. Yet, many in both the government and the private sector do not consider the Tanzanian postal system to be reliable in terms of timely and secure delivery, especially in rural routes. Many firms use international postal carriers such as DHL and Federal Express for routine business mail.

Recommendations

One overarching recommendation is generic in the sense that it applies to all of Tanzania's infrastructure service providers. Experience in other countries has demonstrated that private participation in infrastructure services provides needed capital, increased efficiency, new management expertise, better service levels, and modern technology. There are numerous options for ending state-owned monopolies, including outright privatization, private management contracts, use of build-operate-transfer or build-own-operate mechanisms, and the creation of public utility commissions to serve as public watchdogs. The GoT should investigate these options to improve service levels and reduce the high cost of its utilities. The recommendations that follow are supplemental to the general suggestion that Tanzania actively and quickly seek private participation in its infrastructure services sector.

- Water provision should be improved and gradually expanded to un-serviced areas of the country. Pricing should be gradually adapted to reflect the real cost of producing clean water, and collection mechanisms should ensure that water provision can be self-financing. A 1996 recommendation still stands: "Creation of the autonomous Urban Water and Sewerage Boards in Tanga, Arusha, and Moshi have improved service significantly in those

areas. Equally impressive, revenue collection has increased by as much as five times in recent years. Key to the Boards' success has been sufficient autonomy to set tariffs and purchase needed equipment and materials."

- The Department of Sewerage and Sanitation should integrate its administrative procedures with NUWA. As noted in 1996, "it is far more practical for water and sewerage services to operate under the same organizational entity as is the case in most countries." Private participation in both services would also help reinvigorate these sectors. Specifically, experience has shown that significant private participation in water services often solves most bill collection problems, strengthens the financial position of cash-strapped utilities so that service can be expanded and upgraded, and infuses new management expertise and technology.
- The reliability and variance of current provided by TANESCO are quality control issues that are also likely to be better addressed with the help of well-capitalized private companies.

On the issue of installation charges, several power companies around the world encourage power consumption by reducing or even eliminating installation charges. TANESCO should consider instituting standard options, which allow firms to defer some installation costs (with interest or higher tariff rates). Additionally, the number of steps to obtain an electricity hook-up should be reduced to bring it in line with other countries.

- Participation of private companies in telecommunications services has been proven worldwide to be an effective way to reduce costs and improve service levels. It is recommended that the GoT consider increasing private sector involvement in the telecommunications sector. The recent infusion of capital and upgrading of equipment should be highlighted in order to woo private investors interested in purchasing or investing. TTCL.

It is also recommended that callback services be legalized as it reduces costs to consumers and is an important check on maintaining internationally competitive prices.

TTCL is still in need of management improvements and customer service training. Additionally, TTCL needs to address the problem of phone numbers changing and being "temporarily" out of service.

- The TPC should focus on increasing reliability and speed of delivery.

2.4 Environmental Compliance

The National Environment Management Council (NEMC) and the Department of the Environment in the Vice President's Office are responsible for reviewing the environmental impact of investment projects in Tanzania. The NEMC is a statutory body that coordinates GoT actions related to the environment and advises the Office of the Vice President on environmental policy issues. According to NEMC official, the agency has attempted to sensitize government agencies to the importance of environmental issues and officials characterize their agency as a "government watchdog" for the environment. The Department of the Environment is responsible for formulating policy and acting as a custodian of the country's resources. There is an NEMC Board on which the Director of the Environment sits. The NEMC Director-General

reports on day-to-day activities to the Board, the Minister of Natural Resources and Tourism makes environmental policy decisions. Both the NEMC and the Department operate only in Dar es Salaam, there are no regional environmental offices but some functions of the Department can be handled by other government agencies in regional offices. In the next year or two, the GoT is hoping to establish local environmental committees that will work with the central government to set guidelines and enforce environmental laws.

Currently, Tanzania's environmental regulatory regime is in flux as a new law is being drafted and the NEMC continues to work on developing procedural guidelines for its operations. There are likely to be several changes to how the GoT handles environmental issues, but a description of the current system follows.

Environmental Impact Assessment (EIA) Process The EIA measures the social, economic and cultural impact of a given project and it is essentially a three-step process. The investor must first visit the NEMC to determine the environmental classification of the investment project. There are three classifications or criteria that determine the scope of environmental review needed for a particular investment project. The second step is for the investor to hire a firm to conduct the environmental assessment. As a third step, the EIA is submitted to the NEMC and a Technical Committee consisting of various representatives of government agencies reviews the EIA and makes a recommendation. This recommendation is then forwarded to the Department of the Environment in the Vice President's Office. The Principal Secretary gives final approval. Although the NEMC cannot conduct environmental assessments itself, it assists investors in identifying consultants to perform the EIA.

Although an environmental impact assessment is required for investors, the NEMC has not yet issued public guidelines for conducting such assessments. In the interim, the NEMC uses the environmental guidelines prepared by the World Bank. The NEMC has finished drafting its guidelines and procedures governing EIAs and anticipates that they will be enacted by a vote of Parliament after they have been approved by the Department of the Environment and the cabinet. NEMC officials declined to predict when their new guidelines would enter into force, but a representative of the Department of the Environment said that the new environmental law and procedures should be in effect by the end of 2000. The NEMC is still working on creating various forms and designing criteria to establish which projects will require an EIA. As proposed, an investor would pay for an EIA, NEMC would review it and make a recommendation to the Department of the Environment, and the Department would act as a judge when disputes arise. The NEMC is also attempting to formalize a system for public hearings.

Because the NEMC is currently reviewing projects on an *ad hoc* basis, officials could not furnish a timeframe within which an EIA is reviewed or say what project characteristics would necessitate obtaining an EIA. The size of a project is a key factor, and NEMC officials also noted that almost all projects with foreign funding are required to get an EIA. NEMC officials said that most investors speak with the TIC and the relevant line ministry prior to being referred to their agency.

Analysis

Issues

Environmental regulation is a major area of uncertainty for investors in Tanzania and creates additional risk, especially for large and complex projects

- The process for reviewing environmental projects is not fully developed by either the NEMC or the Department of the Environment. However, it appears as if their efforts are duplicative and unnecessarily time-consuming for a potential investor
- It is unclear how effectively the GoT will calibrate its environmental requirements to meet the needs of a specific business activity, project, or ecosystem. The best environmental regimes ensure that small and simple projects are not required to undertake the same thorough EIAs as projects that involve sensitive production processes, are in environmentally fragile areas, or are of sufficient scale as to impact the environment through routine operations

Recommendations

Finalizing, systematizing, and publicly issuing Tanzania's guidelines for EIAs and environmental regulation should be accelerated. In the meantime, the TIC and NEMC should closely coordinate to advise investors in the project planning phase on what to expect in regard to environmental regulation in Tanzania. Other recommendations follow

- It is recommended that the government integrate the functions of the NEMC and the Department of the Environment into a single environmental review process. Since guidelines in this area have not been finalized, it is an opportune time to consider alternative organizational arrangements

Further, it is recommended that the EIA process be de-linked to most of the preliminary steps required of an investor for starting up a business in Tanzania. Investors should be able to begin the many other processes required to start a business without having to wait on the results of what is often a lengthy environmental review process. Toward this end, the TIC and the NEMC should work to inform investors as quickly as possible if an EIA is required for their business

- Given that EIAs tend to be time-consuming, it is recommended that the NEMC develop a system of environmental impact review that distinguishes among various types of projects so that small, simple investments do not undergo an inappropriately lengthy, costly, and rigorous review process. Clear and publicly available criteria should identify which projects should have which level of assessment done. Foreign ownership should not be related to whether or not a project requires an EIA

Reporting

This chapter focuses on acquiring the general and sectoral approvals, permits, and licenses required of most businesses in Tanzania, including registering a business and paying taxes. Required steps for each major process are detailed below.

3.1 Registering a Company

The Registrar of Companies reports a few procedural changes since 1996, and it is expected to become an executive agency in the future. The process for requesting a names search has been merged to be part of the company registration process. The Registrar has begun the process of computerizing its files, and officials anticipate that this will greatly reduce instances of misplaced files and speed up response times.

The TIC states that the Registrar is the first point of official contact when an investor is attempting to start a company in Tanzania. The principal forms of business organization recognized in Tanzania are as follows:

- sole proprietor,
- partnership,
- joint venture,
- incorporated company, and
- registered branch of an overseas company.

Private companies must have between 2 to 50 shareholders while public companies must have at least seven shareholders. There are no regional Registrar offices and all companies must be registered in Dar es Salaam.

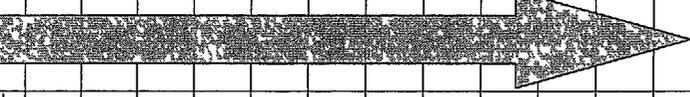
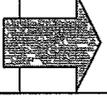
According to registry officials, the Advocates Ordinance states that preparing the documents for registering a company must be completed by a lawyer, but if an individual can prepare the documents accurately the Registrar will accept them. Registry officials note that presently there is no fee for the forms, but the Registrar is planning to charge for them in the future.

Private companies can commence business after registering with the Registry and obtaining a business license. Business licenses are given out by the Ministry of Commerce, a Regional Trade Officer, or a local authority such as the Dar es Salaam City Commission.

Application Process. The application process varies depending on the type of entity being registered. Most companies begin the process by acquiring a business name.

Figure 3.1 summarizes some of the major steps, durations, and fees involved with registering and operating a business in Tanzania.

FIGURE 3 1 REPORTING/OPERATING

ACTIVITY	DURATION												FEES	
	2 Months						2 Months							
Company Registration													2 3 days	Tsh 9 600 (US\$14 2) for processing fees plus variable fee based on the amount of capital
Business License													1 month	fees vary based on type and size of company
Acquiring Investment Certificate													4 days	Tsh 75 000 (US \$111 1) for the applications form and Tsh 400 000 (US \$592 6) for the Certificate of Incentives
Mining License													3 months	fees vary based on size of concession and type of license
Factories Inspection													3 weeks	fees currently unavailable
Banking License													3 months	fees vary based on size of investment
Transport License													2 days	Annual fees for local carriers range from Tsh 10 000 (US \$14 8) to Tsh 45 000 (US \$66 7) Annual fees for foreign carriers range from US\$ 52 to \$660 Other fees vary based on type of vehicle and business
Importing Goods													10 days	fees vary

Business Names

To reserve a business name a company should apply by letter to the Registrar. Registry Officials state that it generally takes less than 30 minutes to check the files to determine if the name is available, certificates are usually issued within two days. If the name is available, the applicant should fill out one of two forms "Statement of Particulars by an Individual" or "Statement of Particulars in the Case of a Firm."

Most small businesses are sole proprietorships or partnerships and do not go beyond business name registration. A business must pay a Registration Fee of Tsh 5,000 (US \$7.4) upon receipt of confirmation of a trade name and a Maintenance Fee of Tsh 1,000 (US \$1.5) every year. No annual returns are required. If a business uses a business name it must register within 28 days of establishing operations.

Private Companies

Once the business name has been reserved, the applicant should prepare the firm's Memorandum and Articles of Association. A lawyer is not required for preparing these documents but using a lawyer is the standard practice. In addition, the investor needs to submit several forms, which are available at the Registrar's

Form 1 -- Application for Registration of a Company,
Form 6 -- Details of the Nominal Share Capital,
Form 14 -- Particulars of Directors or Managers,
Form 13 -- Declaration of Compliance, and
Form 15 -- Notice of Situation of Registered Office

Once the Registrar is satisfied that the statutory requirements have been met, a "Certificate of Incorporation" is issued. This Certificate entitles the business to begin operations. All companies must display their name outside every place of business. Stationery must include the company's name, place of registration, registration number, and address of the registered office. Each firm must have its own company seal.

Once an applicant receives the Certificate of Incorporation, there is a one to two day wait to obtain the "Certificate of Commencement." The registration fees are dependent on the amount of share capital in accordance with the following scale:

<u>Amount of Capital (in Tsh/US \$)</u>	<u>Registration Fee (in Tsh/US \$)</u>
20,000 or less (US \$29.6)	2,400 (US \$3.6)
20,000 – 100,000 (US \$29.6-148.2)	4,800 (US \$7.1)
100,000 – 500,000 (US \$148.2-740.7)	7,200 (US \$10.7)
500,000 – 1 million (US \$740.7-1,481.5)	9,600 (US \$14.2)
1 – 2 million (US \$1,481.5-2,963.0)	12,000 (US \$17.8)
2 – 3 million (US \$2,963-4444.4)	14,400 (US \$21.3)
3 – 5 million (US \$4444.4-7,470.4)	18,000 (US \$26.7)
5 – 10 million (US \$7,470.4-14,814.8)	24,000 (US \$35.6)
10 million or more (US \$14,814.8)	120,000 (US \$177.8)

Filing fees are Tsh 2,400 (US \$3 6) per original document (copies of original documents do not incur this fee) for a total of Tsh 9,600 (US \$14 2) per application. A stamp duty of Tsh 1,200 (US \$1 8) is also charged for each original document.

Each year private companies must submit Form C9, an annual return form that describes what changes have occurred in share capital or among the company directors, along with audited balance sheets and a statement of loss or profit. Private companies must submit Tsh 2,500 (US \$3 7) at the time of filing.

Public Companies

To establish a public company an applicant must submit the same forms as a private company, plus a prospectus and Form 3, the "List of the Persons who Have Consented to Be Directors." Once the firm receives the Certificate of Incorporation, which takes one to three days, it will need additional time to receive the "Certificate of Commencement of Business." After registering, most public companies need additional time to verifiably meet various conditions related to share capital and the consent of the directors. Fees are based on a graduated scale.

Foreign Branch Company

To register a Foreign Branch Company, the applicant must provide the following in English:

- certified copy of the company charter,
- certified copy of the Memorandum and Articles of Association from the country of origin (these can be certified by Tanzanian foreign service officers in the country of origin, embassy officials in Tanzania, or registry officials in the home country),
- full address of the company's headquarters,
- particulars of directors, and
- names and addresses of Tanzanians working for the company.

Additionally, to register a foreign branch an investor must submit four forms:

- Form 1F -- Application for Registration of a Company,
- Form 2F -- Full Address of the Registered Office,
- Form 3F -- List and Particulars of the Directors, and
- Form 4F -- List of the Names and Addresses of Persons in Tanzania Authorized to Accept Service.

There is a fee of US \$800 to obtain a "Certificate of Compliance." This Certificate is generally obtained within one to three working days once all the documents have been submitted.

Operational Requirements All private and public companies are required to hold an annual meeting within 15 months of the last meeting. Form C9 -- "A Form of Annual Return of a Company Having Share Capital," is available only in Dar es Salaam. This form must be submitted annually along with audited accounts within 12 months of the end of the accounting period. There is a filing fee of Tsh 1,000 (US \$1 5). The auditor must hold a professional qualification recognized for this purpose by the National Board of Accountants and Auditors.

Trade/Service Marks

There is a Tsh 50,000 (US \$74.1) processing fee to obtain a Trade/Service Mark. An advertisement must be placed in the *Official Gazette* giving a 60 day period to raise opposition. If there is no opposition, there is a Tsh 60,000 (US \$88.9) fee for the preparation of the Certificate. The process from start to finish typically takes approximately three months. The Mark is good for 14 years, the renewal fee is Tsh 50,000 (US \$74.1).

Analysis

Issues

Despite the fact that the Registrar's office is not computerized, processing times are reasonable and most businesses are registered in less than a week. Most investors also credit the Registrar for maintaining a clear and transparent process. Nonetheless, opportunities for improvement in the business registration process remain.

- Business names and companies can only be registered in Dar es Salaam. This requirement imposes considerable cost in time and money on entrepreneurs who are not from Dar es Salaam. The original Investor Roadmap research found that "in Mwanza, it is estimated that the cost of registering a business partnership increases by a factor of five to ten times once the cost of the trip and accommodations are included." The extra expense and effort that is required to register in Dar es Salaam is a contributing factor to why so many Tanzanian businesses are not registered. Even within Dar es Salaam, the Registrar states that there are numerous businesses that remain unregistered.

Recommendations

- The Registrar should take action to increase registration in outlying parts of the country. Several options are available to do this, including accepting registration applications via fax, mail, or internet, having Registrar's office staff periodically visit major urban areas, or extending the Registrar's functions to district officials. At the very least, registration materials should be made available at the district level.

Figure 3.2 compares Tanzania's company registration performance with a sampling of other countries.

Figure 3 2
Registration
Country Comparisons

Process	Country	DURATION					Total Time
		1 Month					
<i>Company Incorporation and Registration*</i>	Morocco						Up to 2 5 months
	Jordan						1 3 months
	Malaysia						6-8 weeks
	Hungary						1 2 months
	Chile						about 1 month
	South Africa						3-8 days
	Tanzania						2 3 days
		3 Months					
<i>Trademark Registration</i>	Morocco						Up to 9 months
	Jordan						3 months
	Kenya						12 months**
	Zambia						3 5 months
	South Africa						12 months average
	Tanzania						3 months

Including local and national level compliance

recent changes in Kenyan legislation have created a backlog of applicants

67

3.2 Business Licenses

Several changes have been made in the Ministry of Industries and Trade's Internal Trade Section's licensing procedures since 1996. Among these is translating all forms into both English and Kiswahili, raising some fees, and making its licensing criteria and procedures publicly available.

All businesses are required to obtain a Business or Trade License from the Ministry within 21 days of commencing business. There are three categories of business licenses, the source of these licenses depends on the nature of the activity. They are segmented as follows:

For **First Schedule Activities**, which include 28 different types of activities, an applicant obtains the business license directly from the Ministry. Prominent activities on this list include manufacturers representative, real estate agent, broker, travel agent, shipping agent, shipper, clearing and forwarding agent, insurance agent, tourist hotels, banker, transportation by sea or air, harbors and cargo handling, telecommunications, electricity distribution, broadcasting and television, oil refineries, urban water supply, and casinos.

Businesses falling under **Second Schedule Activities** must submit applications to the nearest Regional Trade Officer. It is important to note, however, that in line with general government policy of eliminating the Regional level of government, Second Schedule Activities are to be transferred to the District level. There are 11 activities under this schedule including exporters and importers, cooperatives, regional trading companies, wholesalers, building contractors, manufacturers, printers and publishers, spare parts dealers, and hunting related companies.

Companies falling under **Third Schedule Activities** are required to submit applications to the appropriate District Trade Office, which is typically found in the Town or Municipal Council. These activities, which tend to be small-scale operations, include insurance agents, restaurants and "ordinary" hotels, auctioneers, small restaurants, and itinerant traders.

Business licenses should be obtained after the investor has registered with the Registrar's and the TIC. The Director of the Internal Trade Section notes that ITS is the coordinating agency for government business licenses and grants the final GoT approval to operate.

Application Process. New applicants must complete and submit Form TFN 211. There is no cost for the form and no processing fee. First and Second Schedule Activities should submit the form in duplicate. Attachments should include the following:

- Certificate of Incorporation or Registration,
- proof of having a business premises (lease agreement or rent receipt),
- Sectoral approvals if necessary, and
- Class A Residence Permit for non-citizens

For First Schedule Activities, a file is opened for each application. A committee of up to seven people reviews applications. The committee is chaired by the Director of Internal Trade and has representatives from the Registrar's office, Foreign Trade Department, Customs, Immigration, and the local Planning Commission. The committee meets on a monthly basis and therefore receiving a license can take more than one month. An investor can request a temporary license of up to 60 days while the committee meets. Investor's must pay 10% of the fee amount for a

temporary license, and the remainder of the fee is paid when the permanent license is granted
Only 1% to 2% of all applications are rejected

Second and Third Schedule Activities require three signatures including the land or town planning officer, health officer, and trade officer. The town planning officer and health officer will inspect the premises. Due to a lack of vehicles owned by the Dar es Salaam City Commission, the business owner must generally provide transport to allow the inspection to occur. On-going plans to place Commission officials in ward offices may alleviate this problem. Typically, it takes one week to obtain the three signatures. A Licensing Board Committee meets to review new business licenses. In Dar es Salaam, this Committee meets weekly, Commissions officials assert that this Committee is largely responsible for eliminate a backlog of 2,000 applications that existed in 1996

Delays for most business licenses should be a maximum of two weeks to one month, depending on which quarter a firm starts operating. New businesses are expected to pay two-thirds of the annual fee up-front with the final third due after eight months

Operational Requirements Licensing fees are determined by the Ministry of Finance and vary based on the specific activity being regulated. The licensing fees are adjusted annually, usually during June when Tanzania's annual budget legislation is passed. The highest annual fee is for a casino license, which is US \$75,000 while a village business would pay as little as Tsh 10,000 (US \$14.8). In general, ITS officials state, the fees are adjusted to encourage local and rural businesses. Selected annual fees, which are reviewed on an annual basis, include the following

local banks	Tsh 800,000 (US \$1,185.2)
foreign banks	US \$5,000 (up 20% since 1996)
bureau de change	Tsh 600,000 (US \$888.9)
clearing and forwarding	Tsh 300,000 (US \$444.4)
tourist hotels	Tsh 100,000 plus Tsh 2,000/room (US \$163.0/\$3.0)
large-scale manufacturing	Tsh 600,000 (US \$888.9)
medium-scale manufacturing	Tsh 400,000 (US \$592.6)
small-scale manufacturing	Tsh 20,000 (US \$29.6, up 300% since 1996)
importers/exporters -- raw materials	Tsh 300,000 (US \$444.4)
manufacturer's representative	Tsh 200,000 (US \$296.3)
distributor	Tsh 300,000 (US \$444.4)

Renewals The licensing year is divided into three periods beginning on May 1, fees are prorated to adapt to this schedule. For example, if a business applies for a license any time in the first trimester (May 1 to August 31) the full year's licensing fee is required. If an investor applies in the last trimester (January 1 to April 30) he or she will pay 1/3 of the annual licensing fee. All licenses expire on April 30 and there is a grace period of 21 days to pay before a penalty of 25% of the license amount is imposed. During this period, businesses may obtain a temporary permit to operate. The fees for first and second schedule activities are paid directly to the TRA, third schedule activity fees are paid directly to the local council

Firms must fill out a reporting form annually, but committee approval is only required for an initial application. Businesses are required to attach proof that they have paid the TRA, as well as a valid residence permit and other clearances, if applicable relevant

Analysis

Issues

- The Tanzanian private sector remains over-regulated and numerous agencies issue licenses and permits. The ITS' licensing regime divides business into so many different categories that it represents a complex system to administer. Further, given the fact that the ITS does not meaningfully monitor or shut down businesses that are in violation of the law or a menace to the public good, it is unclear what legitimate regulatory function is served by its licensing regime. Line ministries, the TIC, and other agencies also issue licenses, so the ITS represents a redundant layer of business regulation for an unclear purpose.
- The annual renewal period is considered to be an unnecessary bottleneck by investors.

Recommendations

- The GoT should review the ITS' licensing function in the context of an overall assessment of business licensing in Tanzania. The ITS and other agencies need to evaluate what regulatory purpose they serve and whether they are the best and only agency to perform their regulatory function. Agencies that are redundant or serve a negligible regulatory purpose should be eliminated.
- It is also recommended that the ITS cease making businesses renew their licenses at the same time each year. Renewals should be granted on a continuous basis with no single annual expiration date.

3.3 Investment Certificate

In the area of investment promotion, there has been considerable change since 1996. The Investment Promotion Centre (IPC), created under the National Investment (Promotion and Protection) Act of 1990, has been abolished and the Tanzania Investment Centre (TIC), created under the Tanzania Investment Act of 1997, has taken over its mandate. The 1990 Investment Act has also been repealed, although investors certified under the old scheme continue to enjoy the incentives they were granted. Eventually, investors registered under the IPC are to be re-registered under the TIC once their certificates expire. The new Act applies to all foreign and local investment except for some companies involved in mining, petroleum, and chemicals, explosives, and arms.

According to TIC officials, the Centre has changed its emphasis from regulating private sector activity to promoting Tanzania as an investment destination, registering investments, and facilitating the establishment of businesses. After its publication in 1996, the Tanzania Investor Roadmap was adapted and reproduced as a promotional guide for investors, it is anticipated that TIC staff will track changes in the Tanzanian investment climate and reissue this guide on an annual basis. The Centre has begun to offer pre- and post-investment services, and also helps unregistered businesses negotiate the Tanzanian government bureaucracy.

Whereas receiving an Investment Certificate used to take several weeks, now the TIC reports that Certificates are issued within three to five days. Few, if any, applications are rejected. Rather, an investor deemed unsuitable by the Centre is asked to change certain aspects of his

or her project to fit the stipulations of the Act. The new Act states that other government agencies must, within 14 working days receipt of a written request by the TIC for information about an investor's licensing application, "issue the required license or approval or serve a written objection to the Centre. When the Centre does not receive a written objection from the relevant authority within the specified time, the necessary license or approval shall be deemed to have been granted."

Officials at the TIC suggest that the new law has had a positive impact on investment flows into Tanzania. From a nadir of 85 project applications in 1995, the TIC had processed 120 applications through June 30, 1998, and officials at the Centre expected the trend to continue. Data from the Centre suggests that foreign investment comprises a significant portion of investment in key sectors. Since 1990, project approvals have been concentrated in manufacturing, with tourism and agriculture coming next. Investments have been primarily located in Dar es Salaam and such secondary cities as Arusha and Mwanza, investment in rural areas remains disappointing. For example, of the total number of investment projects approved by the IPC and the TIC up to June 1998, 59% were located in the Dar es Salaam area, 10% were in Arusha, and 7% were in Mwanza, with the other 17 areas dividing the remaining 24% of investment. The total value of projects approved from 1990 to June of 1998 is US \$3.446 billion. In most areas, local investment projects and joint ventures outnumbered foreign investments.

As a result of the new Act and the new organization, most of the old IPC's procedures have been abolished. Indeed, many of the criticisms of the IPC included in the Tanzania Investor Roadmap have been addressed. The Centre is still in a transition phase in terms of staffing, facilities, and working out its procedures. The organization is not fully staffed and is due to move to a new office. One new initiative is to have officials from the Ministry of Lands, Department of Immigration, Registrar of Companies, and Customs Department working in residence in the TIC to advise investors on procedures and trouble-shoot if problems arise. To date, only the Ministry of Lands' liaison officer is actually working at the Centre.

Application Process. New foreign investments (including joint ventures) are required to invest a minimum of US \$300,000, down from US \$500,000 in 1996, while local investors face a threshold of US \$100,000. To receive incentives for an existing operation, new investment of at least 90% of the appraised value must occur. The TIC requires that investment in rehabilitations exceed US\$ 250,000 for foreign investors (and joint ventures) and US \$50,000 for local investors.

The process for acquiring a Certificate of Incentives varies depending on the type of investment. The TIC's basic application form, Form P A 1, is a comprehensive questionnaire that asks for a range of identification information about the investors and their bankers, project details, and various financial, sales, and employment projections for five years into the future. Investors are required to complete Form P A 1, which is available from the TIC for Tsh 75,000 (US \$111.1), in triplicate. New investors should submit the form with

- Memorandum of Association (Tanzanian or foreign),
- Articles of Association (Tanzanian or foreign),
- latest audited financial statements,
- evidence of sufficient capital, and
- three copies of the business plan/feasibility study

If the applicant is foreign, a brief profile is also required on relevant experience and qualifications

If rehabilitating or expanding an existing investment, the investor submits Form P A 1 plus a statement of audited accounts for the past three years. If the investment is an equity investment, the applicant is required to furnish the Centre with information about the number of shares owned, the currency in which the investment was made, and the nature of the enterprise's ownership structure

Once the TIC receives the application it opens a file and the registration process begins. Final registration for a Certificate of Incentives done by the TIC Management Committee. According to TIC officials, its decisions are reached within two weeks. The TIC then informs an investor of its decisions via letter. An investor must pay Tsh 400,000 (US \$592.6) once the Certificate is issued. A registered investor is then required to submit an implementation schedule, "proof of evidence of funds," and information detailing the location of the enterprise

Operational Requirements. All TIC registered projects are required to complete and forward a "Progress Report" to the Centre after the initial six months

Analysis

Issues

The TIC is in a state of transition, so the implications of its shift from regulator to facilitator, while welcome, can not be thoroughly analyzed at this point. Several initial successes have been acknowledged by the investment community, however, including the passage of a new and more attractive Investment Act, securing officers from key agencies at the Centre, speeding up the Certificate approval process, increasing its range of services, and producing a practical investors guide to Tanzania. TIC officials also cite statistics to suggest that the new act, less investment uncertainty, and a streamlined regulatory regime have led to increased numbers of applications for Investment Certificates since 1996

Several of the constraints and recommendations formulated in 1996 have been explicitly addressed with the promulgation of the new Investment Act and the reorganization of Tanzania's investment agency. These issues include the following

- As urged in 1996, the TIC has shifted its focus to investment facilitation and promotion versus screening and regulating
- In 1996, the now defunct IPC was criticized for maintaining a non-transparent Investment Certification process and incentives were not always accorded equally. This issue seems to have been resolved with the ascendancy of the TIC and the passage of the new Investment Act, which clearly states what criteria are used to classify an "investor" who qualifies for incentives
- In reference to receiving Certificate of Incentives approvals, "delays of several months are reportedly not uncommon," the Roadmap stated. Although the TIC is also not fully staffed, the IPC's backlog of applications has been all but eliminated and the new review system is less likely to cause major delays

- As recommended in 1996, the TIC now provides pre- and post-investment services. Due to the newness of this service provision, however, a thorough assessment of the TIC's efforts can not be offered at this time.

Nonetheless, several issues remain that continue to constrain the efforts of the TIC

- The on-going tension between the TIC and the TRA is a cause of concern for many investors, and it is not clear which agency will prevail or if their conflicts will cause an enduring and confusing situation. The TRA suggests that the TIC is granting incentives without duly considering statutes other than the Investment Act, while the TIC suggests that many old laws need to be changed. TRA officials also suggest that the TIC does not demonstrate an understanding of the need to raise revenue, but TIC officials counter that revenue will increase if Tanzania's business community increases.
- The TIC is not yet a one-stop shop despite the recent reorganization out of the old IPC, the mandate expressed by the new Investment Act, and increased levels of cooperation from some other government agencies. Tanzania's government is still littered with regulatory bodies and quasi-government boards that complicate the smooth running of business, and the TIC has not been able to help smooth the way for investors in every case. Further, many in the private sector suggest that many bureaucrats don't fully understand the need to create a vibrant and unfettered private sector and, as a result, are unmotivated to facilitate the growth of private enterprise. Some note that Tanzania can not point to any major success stories in attracting major industries or "flagship" privatization transactions or investments. At the same time, many businesspeople feel that the TIC promises more than it can deliver and underestimates the difficulties of starting up and operating a business in Tanzania.
- The minimum investment levels discriminate against small investors. Although the minimum threshold has been lowered for foreign investors, the US \$100,000 minimum requirement for local businesspeople is likely to exclude a large segment of the population. The incentive levels encourage capital-intensive activities which run against the GoT's stated objective of maximizing employment opportunities. At the same time, some major investors and venture capital firms state that they are disinclined to use the services of the TIC, in part because the Centre is perceived as ineffective.
- When the IPC was operational there were concerns that its staff was not as pro-active and effective as was necessary to confront the country's bureaucratic intransigence in regard to facilitating private business. The Investment Act states that IPC staff will "be transferred to and be employed by the [new TIC] Centre." There were also concerns that because the TIC staff was governed by civil service rules they lack the proper incentives to aggressively champion the advancement of private enterprise in Tanzania.

Many of these concerns were echoed by the assessment report research in 1998, and the TIC is not regarded as an aggressive, effective agency that can accomplish its mandate. Thus, some question whether the Investment Certificate is worth the time and money required to obtain it. Because the TIC has not addressed these personnel issues the same analysis from 1996 should be noted: "The IPC staff is under the rules of the civil service and as such is subject to low pay, low morale, and a low level of efficiency. The low salaries - mid-level professionals earn approximately Tsh 25,000 (US \$37.0) per month - have made it

difficult to attract competent and motivated staff. Only half of the slotted professional positions are filled. The institution remains bottom heavy with only eight professionals out of a staff of 42. Generally, this is not a sign of a lean organization."

Recommendations

- The legal conflicts among various acts and statutory legislation that relate to investment should be identified and harmonized. Further, better communication between the TRA and the TIC should be established to clarify disputes and ensure that GoT policy toward investors is consistent.
- For the TIC to be effective, it needs to secure greater cooperation from other GoT entities and ensure that its Investment Certificate offers real value. The TIC should move quickly to place the liaison officers from the Registrar, Customs, and Immigration in its offices as soon as possible. Further, the TIC needs to do its part to transform the attitudes of the agencies that regulate investment.

The TIC should secure permission from other agencies to hand out and collect all forms and procedural guidelines. The TIC should use its unique position to help centralize all information useful to and all applications required of an investor. If the TIC takes responsibility for collecting all forms, can guide investors in how to complete them, and advises investors on what criteria are applied to applications, it will clarify many uncertainties and resolve many of the conflicts that currently exist among different government agencies. Eventually, the TIC should put all of these application forms, procedural guidelines, and investment promotion information on a website so that a centralized databank of investment information can be accessed from anywhere in the world.

- The TIC should consider what type of investor it is targeting and ways to encourage local investment under the existing Investment Act. If the TIC is seeking to attract multi-million dollar investments, it needs to revise its strategy and secure political will at the highest levels of the government to ensure that liberalization policies are implemented appropriately. The TIC should explore what type and size business the US \$300,000 (and \$100,000 for Tanzanians) minimum capital threshold is excluding and consider eliminating or lowering that threshold.
- As noted in 1996, the TIC should try to exempt itself from the rules of the civil service and become a more autonomous body. As well, it should increase its ability to attract and retain highly qualified personnel and fulfill its staffing needs.

3.4 Income Taxes

The major piece of legislation governing taxes in Tanzania is the Income Tax Act of 1973, as amended in 1994. Tanzania's tax agency, the Tanzania Revenue Authority (TRA), is a relatively new agency and still undergoing some change related to its establishment. The government has tasked the TRA with several objectives related to increasing revenue. These include broadening the tax base, encouraging tax compliance, reviewing Tanzania's tax exemption policy, improving oversight of bonded warehouses, and harmonizing the tax rates between Zanzibar and the mainland.

According to the Bank of Tanzania, in fiscal year 1996/97 the TRA collected roughly an equal amount of revenue from sales and excise tax as it did income taxes, with import taxes accounting for a larger share of GoT funds. In fiscal year 1996/97 sales and excise taxes contributed Tsh 129 billion (US \$191 million), import taxes amounted to Tsh 163.1 billion (US \$242 million), and income taxes equaled Tsh 125.7 billion (US \$186 million).

With the introduction of a Value Added Tax (VAT) and the repeal of sales tax and stamp duties in June of 1998, the TRA entered a new transition phase. The TRA is now divided into three divisions that handle Income Taxes, Customs and Excise Taxes, and VAT. The Department of Income Taxes is responsible for administering income taxes, corporate taxes, employment taxes, withholding taxes, and a housing levy. VAT tax administration is addressed in the following section of this chapter and Customs is discussed in Chapter 4.

Registration Process Once the Registrar of Companies has processed a business, it needs to register with the nearest TRA office. The law states that a business should register with the TRA within 30 days of becoming liable to pay corporate income tax. All businesses are required to fill out and submit the following:

- Business Enquiry form,
- Certificate of Incorporation,
- Memorandum of Association, and
- Articles of Association

Foreign branch companies should provide a Certificate of Compliance from the Tanzanian Registrar of Companies.

Partnerships are required to submit a copy of their partnership agreement and their business partnership registration issued by the Registrar of Companies. The individual partners would themselves each submit a Preliminary Enquiry form. Other individuals are also required to complete and submit a Preliminary Enquiry form.

Sole traders are required to submit a Preliminary Enquiry form.

There is no fee for the forms or for processing. Once these forms and attachments are submitted, a file number is established. According to TRA staff the typical processing time is 15 to 30 minutes, including time for a TRA officer to guide the taxpayer on his or her rights and obligations.

Sole traders, defined as individual business people or individuals in a partnership, who earn more than Tsh 1.5 million (US \$2,222.2) annually are required to have their accounts audited by a professional accounting firm. The corporate entity of a partnership does not pay taxes in Tanzania, rather the individual partners do. Sole traders who earn less than Tsh 1.5 million annually will pay a flat tax based on the type of activity and the location of the business. For example, sole traders working within the center of Dar es Salaam will pay a higher rate of tax than those working in a suburban area.

Because most sole traders and small businesses in Tanzania do not keep accounting records, the GoT has established a system of flat taxes based on the nature of the activity and the location. For tax purposes, small businesses are defined as those that earn less than Tsh 1.5 million.

million (US \$2,222.2) annually. This is known as the Minimum Standards Tax. Within Dar es Salaam, there are 41 different activities listed and three area categories. The highest rates are found in the City Centre, the second level of rates are associated with businesses located in Kariakoo, and businesses in other areas pay lower taxes. For example, a retail shop would pay Tsh 200,000 (US \$296.3) per year in City Centre, Tsh 150,000 (US \$222.2) in Kariakoo, and Tsh 100,000 (US \$148.2) elsewhere in Dar es Salaam. Rates run as high as Tsh 500,000 (US \$740.7) for jewelers, car dealers, car hire companies, and daladalas located in City Centre to as low as Tsh 100,000 (US \$148.2) for kiosks, hair salons, photo studios, and dry cleaners in Buguruni and Ilala. Small businesses can prepare accounting books if they wish.

Personal Income Taxes. Tanzania uses a progressive personal income tax for monthly income over Tsh 20,000 (US \$29.6). Marginal tax rates peak at Tsh 149,000 (US \$220.1) plus 35%, which is assessed on monthly income above Tsh 700,000 (US \$1,037.0).

All businesses that earn more than Tsh 20,000 (US \$29.6) per month are required to collect income tax from employees for the government through payroll deductions in a program known as "Pay as You Earn" (PAYE). Payments are based on gross emoluments and payment is required regardless of the number of employees.

The employer and employee are required to submit jointly Form P 1, "Claim for Family Relief," where the employee indicates the number of dependents (Note: marriage and birth certificates are no longer required as additional submissions). Payments should be made monthly through any registered bank; the payment must be accompanied by a completed Form P 11. At the end of the year, employers should complete Form P 10, which serves as the "Employer's End of Year Certificate." This form should be submitted on or before January 31st of the following year. Form P 9, "Tax Deduction Card," must be completed by the employer for each employee. In a departure from previous practice, this form can be produced by a business on its own computer so long as the information required is present.

Housing Levy. A Housing Levy (some Tanzanians refer to this tax as the payroll tax) of 4% of gross emoluments is collected by the TRA on businesses that employ more than four workers. Employers are required to pay the Housing Levy on a monthly basis within seven days of the previous month. Payment should be accompanied by a completed Form HL 9, "Housing Levy Monthly Return Form."

Corporate Income Tax. Once a file number has been established, a business is expected to complete Form IT 21, the "Provisional Tax Return." Sole proprietors are required to fill out Form IT 20. The provisional tax return must be submitted within three months of the beginning of the starting accounting date; the estimate of the tax is payable quarterly. The TRA expects all businesses - even new ones - to record a profit and pay taxes on this profit; businesses that report an expected loss on their provisional tax return must satisfy the TRA that this is true through the provision of forecasted income statements. If the provisional tax paid is not accurate, companies are expected to make adjustments in the next quarter.

A "Final Tax Return," Form IT 2, must be submitted "within a period not exceeding nine months from the date to which you make up the accounts of your business." For individuals, Form IT 1 must be completed. If profits were higher than expected, the balance of tax owed must be paid at the time of submission. If the business has overpaid taxes, the TRA will issue a credit for

previous or future tax liabilities. The TRA prefers to keep a running credit balance with companies, but refunds can be requested.

The corporate income tax rate is 30% for both resident and non-resident companies, save those operating in the tourism sector. This tax rate was reduced from the previous rate of 35% as of July 1, 1997.

Exemptions from the income tax are stated in the Income Tax Act of 1973 (as amended). If a business is applying for an exemption, the Minister of Finance is charged with reviewing the request to see if it is allowable under the Act, the Commissioner of Income Taxes plays an advisory role in this process.

Wear and Tear Deductions. There are three rates of wear and tear deductions allowed depending on the type of equipment. Class I, for tractors, combine harvesters, and heavy, self-propelled equipment, is allowed a 37.5% annual deduction. Class II covering light, self-propelled equipment including aircraft, is allowed a 25% annual deduction. Class III for all other machinery including ships, furniture and fittings, is allowed a 12.5% annual deduction.

Unlike in previous years, computer expenses are now fully deductible. Public relations and advertising costs are deductible although not necessarily fully deductible. The deductibility of these expenses is determined on a case-by-case basis.

Withholding Taxes. Withholding taxes are levied on several kinds of transactions. A partial accounting is listed below. Some rates for residents are lower than for expatriates.

	<u>Non-Residents</u>	<u>Residents</u>
Interest	15%	15%
Dividends (not on stock market listed COYS)	20%	15%
Dividends (on stock market listed COYS)	5%	5%
Branch dividends	20% of after tax profits	N/A
Management/Professional Fees	20%	N/A
Royalty Fees	20%	N/A
Rent	20%	15%*
Goods and services	15%	2%
Pension or retirement annuity	15%	N/A
Transport	N/A	4%
Income from leased aircraft	10%	N/A

* There is a 15% withholding tax on rental payments from residents on rents above Tsh 500,000 (US \$740.7) per year.

Several changes in Tanzania's withholding tax scheme have occurred since 1996. The Insurance Commission tax has been repealed and the Insurance Claim tax has been lowered to 0%. Management/Professional Fees and the Royalty Fees tax have been lowered by 10%, tax on rent has been lowered by 20%. Tax on goods and services (on transactions over Tsh 100,000 – US \$148.2) charged to non-residents has been raised by 13%.

Withholding taxes should be paid to the TRA on a monthly basis. There is a different form for each type of withholding tax. At minimum, all businesses will be required to submit Form WT-

506-GS-2, the "Monthly Remittance Summary" of withholding on goods and services sold Form W/T-506-GS 10, which summarizes the withholding payments on annual basis, must be submitted at the end of the year

Double Taxation Treaties Double taxation treaties have been signed with Canada, Denmark, Finland, India, Italy, Norway, Sweden, and Zambia Tanzania is also in the process of negotiating treaties with Belgium, Burundi, Iran, Lebanon, Malaysia, Mauritius, Pakistan, Rwanda, Uganda, and the United Kingdom

Analysis

Issues

Although income taxes have been simplified and lowered in recent years, the Tanzanian tax system is a major concern for investors and many argue that the overall tax burden remains one of the highest in the region Some specific concerns are noted below

- Under the provisional tax system, it is assumed that businesses become profitable as soon as they begin operations As noted in 1996, "while this assumption may be correct for trading companies, it is unrealistic for longer-term investments such as manufacturing operations and hotels " This cost pressure at the early phase of a company's operations discourages new business creation and may also contribute to the keeping many Tanzanian businesses in the informal sector The provisional tax system also assumes that businesses constantly increase profits, even if a business takes in less revenue in a subsequent year, it can not pay less tax From the business standpoint, these assumptions are unrealistic and represent a risk and constraint to new investors and operating businesses alike Further, businesses are required to pay estimated corporate taxes in advance, which is particularly hard on the cash flow of new firms
- Another problem with the provisional tax system is that if a business overpays its taxes it does not receive a refund Rather, businesses are issued a credit toward future tax liabilities, which is much less attractive While the TRA says that a company can request a tax refund if it has overpaid its taxes, many in the business community say that in actuality companies never receive their refunds
- According to officials in the Income Tax department, the new Investment Act contravenes some of the provisions of the Tax Act, Companies Act, and Customs Act, especially in regard to carrying forward losses, capital and other allowances, and how certain duties are to be assessed and collected on imports and exports As a result, investors receive contradictory information from the Investment Centre and the Revenue Authority The resulting administrative disagreements and legislative conflicts add to investor uncertainty about investing in Tanzania
- Investors complain that TRA officials are often officious in demeanor and unsympathetic in their interaction with businesspeople Several investors noted that the TRA seems to assume that companies are naturally inclined to evade taxes and must therefore be dealt with accordingly Some note that the TRA is quick to freeze a company's assets during an investigation At the same time, investors suggest that larger companies can not evade taxes while smaller ones often do, thereby shifting the burden of tax compliance to large and

often foreign-owned companies. TRA officials state that they have a clear mandate to maximize government revenue in a society that is resistant to complying with the law and paying one's fair share of taxes.

- Despite some adjustments, the 1996 observation that "withholding taxes are numerous and high by international standards and continue to constrain investment" remains valid. Investors complain that the number of tax filings, in addition to extracting much revenue, also require a great amount of time to complete. Relatedly, there are numerous forms issued by the TRA to record withholding taxes.
- The National Tax Appeals Court is not completely staffed and has not been fully operational for more than three years.
- Both the TRA and the Registrar require a business to submit its Articles and Memorandum of Association, yet the TRA also collects a firm's Certificate of Incorporation from the Registrar. The TRA's collection of the Articles and Memorandum of Association is unnecessarily duplicative of the submissions of the Registrar.

Recommendations

- The TRA should administer its tax policies to realistically reflect the nature of business start-ups and operations. If the GoT wants to broaden the tax base, it should encourage local and foreign business development and show more leniency in the way that taxes are collected. The TRA should cease assuming that all businesses are profitable immediately. Further, tax policy should reflect the cyclical nature of business, especially given Tanzania's consistent inflation and serious investment risk factors, and allow for businesses to pay lowered estimated taxes when profits slump. Finally, the TRA should allow companies to pay taxes on an annual basis, and at the very least stop requiring that taxes be paid in advance.
- As suggested in 1996, "it is recommended that firms that overpay their income taxes be given a refund rather than a future tax credit." Refunds can be invested productively, increase a company's cash flow and options, and should have the same long-term revenue effects of issuing tax credits. Unlike tax credits, tax refunds will show up on a company's books as an asset.
- The conflicts among Tanzania's Acts and statutory legislation must be eliminated to create a predictable and rational investment climate. It is recommended that the TRA and the TIC also work to improve their communication and work toward common goals of developing the Tanzanian economy.
- The TRA should train its staff to work together with tax compliant companies and adopt a less confrontational attitude. Increased dialogue, customer service training, and building awareness of the demands of running a business should address some of the concerns related to TRA officers' manner in dealing with the private sector.
- Tanzania's system of collecting withholding taxes creates an administrative encumbrance on the TRA and a significant reporting burden for companies. Therefore, the system should

be simplified. The TRA should consider eliminating or combining several of its withholding taxes, especially in the light of the new VAT tax. At the very least, withholding tax rates should be reviewed to bring them into line with those in other countries. Additionally, the TRA should combine its withholding tax forms into a single multi-purpose document.

- The National Tax Appeals Court should be revived to allow businesses some formal recourse for disputes over taxation.
- The TRA should cease collecting a company's Articles and Memorandum of Association.

Figure 3.3 compares the number of Tanzania's tax filings with other countries.

Figure 3 3
Taxation
Country Comparisons

Process	Country	Number of National Taxes																									Total
		2	4	6	8	10	12	14	16	18	20	22	24	26	28	30	32	34	36	38	40	42	44	46	48	50	
Tax Registration	Morocco	[Bar representing 25 taxes]																							25		
	South Africa	[Bar representing 4 taxes]			4																						
	Malaysia	[Bar representing 6 taxes]					6																				
	Chile	[Bar representing 4 taxes]			4																						
	Zambia	[Bar representing 7 taxes]					7																				
	Tanzania	[Bar representing 55 taxes]																									55

3.4 Value Added Tax

With the introduction of Value Added Tax (VAT) in July 1, 1997, the Sales and Excise Tax Department has been abolished and its personnel have been reassigned. Excise Duties are now handled by Customs and VAT has superseded sales tax, the stamp duty formerly charged on receipts, and the detrainments tax. TRA officials state that they switched to a VAT tax, which is levied on the sale of all taxable goods and services, because they consider the VAT to be more efficient and produce more revenue. VAT in Tanzania is assessed at a rate of 20%.

The VAT department has only recently implemented its new procedures. The VAT department has produced eight publicly available documents that explain various aspects of the VAT system, including registration, record keeping, and payment instructions. Each document is in both Kiswahili and English.

Registration Process Any business with a taxable turnover of Tsh 20 million (US \$29,629.6) per year or Tsh 5 million (US \$7,407.4) in three consecutive months must register for VAT. To register, an investor must collect form VAT-101 from the nearest VAT office and return it when completed. When the form is turned in, a VAT officer will tell the investor when to return to collect a VAT Registration Certificate. Once issued the VAT Registration Certificate, a business can charge VAT on its goods and services.

If they have no questions about an applicant, VAT officials say that the registration process takes one week. VAT officials state that if there are questions about an application, the VAT Department will telephone the applicant.

Companies that are below the mandatory income threshold may register voluntarily in the same manner.

Operational Issues The TRA collects VAT every month. A business will collect VAT from its customers (output tax) and pay VAT on its supplies (input tax). If the output tax is greater than the input tax, the difference is remitted monthly with form VAT-201. The VAT payment is due at the TRA on the last working day of the month after the month for which the VAT is being remitted.

When importing, VAT is assessed on top of excise duties and other fees.

Compliance audits are based on a risk analysis and a computerized system that checks for errors in payments. Companies are classified according to their risk profile and this classification determines how often VAT officials will conduct a physical audit of the business. The classes are as follows:

- Class A – inspection once every three years
- Class B – inspection once every two years
- Class C – inspection once each year

There are three types of exemptions from VAT:

- Goods or services are assessed a VAT rate of 0% when exported. The Single Bill of Entry has been adapted to include this zero rating information.

- Certain foodstuffs are exempt from VAT if they are designated for sale or distribution to low income Tanzanians
- Some goods and services purchased by religious organizations, government agencies, and donor organizations are exempt if they are to be used in an official capacity

For the second and third type of exemption, an applicant must fill in either form VAT-220 or VAT-220A and have it approved by the Minister directly involved in the project in question. After the Minister signs the form, one copy is sent to the appropriate TRA Regional Revenue Officer, the supplier of the goods or services, and the applicant. Form VAT-220 is for goods and services produced in Tanzania and form VAT-220A is for imported goods and services.

Analysis

Issues

The newness of the VAT system in Tanzania defies easy analysis at this time. However, a few salient issues were raised by interviewees during the assessment research.

- The way VAT is administered creates a significant cash flow burden on companies. Companies must pay VAT on their sales monthly, regardless of whether or not they themselves have been paid by their clients. For companies that have established long-term sales relationships, accept delayed payments, or issue credit, the requirement that they pay VAT to the TRA in advance represents a serious cash flow pressure. Because some companies may not be able to afford paying VAT on large sales, this system can constrain business activity or induce cheating.
- At present, the VAT is a blunt instrument of revenue generation and does not grant incentives for any particular type of economic activity. There is no provision for VAT exemptions or rebates to encourage tourism, and the provision to boost exports through VAT exemptions has yet to be widely used.
- Some in the private sector suggest that smaller companies can easily keep two sets of books and underreport the amount of VAT charged. If this is the case, prices will have effectively risen by 20% on some items and the TRA will have lost a large portion of its VAT revenue. At the same time, it has been reported that some vendors still charge sales tax.
- Private sector experience with VAT staff has been mixed. Some businesspeople credit VAT staff with being well versed in the system and helpful in explaining how it works. Indeed, the Department has published a series of pamphlets, in both English and Kiswahili, explaining the new system. Others suggest that the VAT Department has been less than proactive in alerting the private sector to opportunities for VAT rebates or exemptions. Some also say that the VAT Department's material is confusing and does not cover issues related to VAT exemptions. Some in the business community assert that VAT staff have been rather aggressive and officious in administering the system and collecting VAT payments, generally unsympathetic to legitimate confusion about how the system works.
- Given that business must register with the Income Tax Division of the TRA, the VAT registration process is an additional step for investors.

Recommendations

Pending further experience with the VAT system, this report will forego detailed recommendations at this time. A few general recommendations may be appropriate, however:

- The TRA should link its collection of VAT to when businesses are actually paid for a good or service. This would not reduce government revenue while allowing business more control over its capital. In the long-term, by letting business better control its own funds the TRA would give companies more flexibility to grow.
- The GoT should consider ways to adjust the VAT system to induce investment in key areas, such as agriculture, tourism, and exporting manufacturing. VAT rebates have been used in other countries, including neighbors such as Zambia, to encourage tourism and spending on locally made goods and services.
- The TRA should stiffen its policing of non-tax compliant businesses. If small companies are evading paying VAT by keeping two sets of books, the GoT should fairly and thoroughly investigate.
- As with other TRA officials, VAT officers may be in need of awareness building and customer service training to create a better working relationship with tax compliant businesses.
- Because the TRA has a great deal of information pertaining to existing businesses, the VAT registration process should be merged with the general tax registration process. At the very least, new enterprises should be able to register for VAT and Direct Taxes in the same process and using a common form.

3.5 Local Business Licenses and Taxes

Local governments have the authority to regulate and tax businesses in Tanzania, and the types of levies imposed vary from place to place. For the purpose of this document, the practices of the Dar es Salaam City Commission will be cited as an example.

As noted previously, the Dar es Salaam City Commission regulates businesses that are classified as Third Schedule Activities. In total, the Commission issues 56 different licenses corresponding to a different type of business activity. Licenses cost between Tsh 10,000 (US \$14.8) and Tsh 150,000 (US \$222.2). Third Schedule Activities in Dar es Salaam apply to businesses that report an annual turnover of Tsh 300,000 (US \$444.4) per year or more. The Commission charges a flat licensing fee of Tsh 26,000 (US \$38.5) for informal sector vendors operating under this income threshold.

The Commission reports that it has simplified some of its procedures since the publication of the Tanzania Investor Roadmap in 1996. The Commission has eliminated a step in process of issuing licenses for those enterprises that require health and hygiene inspections. The Commission has also created a Licensing Committee to review applications in a more transparent fashion than was previously the case. The Committee is comprised of 6 District Trade Officers, 12 Commissioners, and 4 representatives from the police. The Commission is also considering decentralizing its operations to the ward level so that inspections can be more

effectively carried out without charging the business for the transportation costs incurred, as is the current practice. Additionally, the Commission has increased the number of wards by 20 from 52 in 1996.

Application Procedure The current procedure for a business to apply for a first time license is as follows:

- 1 the investor fills in a trades licensing application form and, if necessary, schedules an inspection with a Commission health officer,
- 2 the health officer comes to inspect the premises, collects the licensing fee, and issues a receipt,
- 3 the health officer prepares a brief report and, if all is satisfactory, issues a health certificate,
- 4 the health officer brings the certificate and a copy of the receipt to one of the Commission's trade officers,
- 5 the trade officer consults with a town planning officer and they recommend to approve or reject the license application. The town planning officer is consulted to assess if the enterprise in question is located in an area designated for commercial use,
- 6 the application then goes before the Licensing Committee, which will consider the recommendations of the health, planning, and trade officers,
- 7 if the Committee approves the application, the license is prepared and recorded, and
- 8 the applicant comes to the trade officer to collect his or her license.

Each official involved in approving an application fills in a different part of a single application form. Commission officials state that their goal is to complete this process within 21 days, but concede that to date it often takes longer for a license to be issued. Renewals of liquor licenses also go through the Licensing Committee.

The Dar es Salaam City Commission also imposes a number of taxes and fees on business. Foremost among these is the Development Levy to which all private individual business owners are subject. This levy is 3% of annual sales revenue or 30% of a business' licensing fee, whichever is higher. A 3% City Service Levy is applied to the annual turnover of corporate bodies. Hotels must pay Tsh 8,000 (US \$11.9) per year for two inspections. Businesses that hire food handlers must pay Tsh 5,000 (US \$7.4) per year for inspections. All new businesses must pay Tsh 10,000 (US \$14.8) for inspection. There are also duties imposed on manufactured products such as beer, soft drinks, hard liquor, wine, tiles, cement and aluminum sheets. Duties also exist for several types of forest products including charcoal, firewood, logs, poles, and timber. The Dar es Salaam City Commission collects ground rent and property tax on properties in its jurisdiction on behalf of the Ministry, the revenue is split between the local and national governments.

Analysis

Issues

- Investors complain of several instances of local authorities attempting to impose new levies on successful businesses. One investor cited a local authority's attempt to arbitrarily charge an established bottling company a per bottle fee, another investor spoke of a case where a local authority tried to charge an agricultural enterprise a fee based on the tonnage of its production. Some of these cases have reportedly ended up in the court system, which is a

time-consuming and, investors believe, risky proposition. This troubling phenomenon underscores not only the wide gulf between many Tanzanian public officials and the business community, but also points to serious problems of local capacity and unclear laws governing the right to tax. The business community is becoming increasingly aware that investment risk analysis should extend to the powers of local authorities.

- The City Commission complains that it lacks the resources to effectively regulate the private sector. At the same time, officials insist that all traders should be licensed and monitored. Some investors suggest that fulfilling the bureaucratic and reporting requirements of the local and national licensing regimes discourage the formalization of informal sector enterprises, thereby constraining business growth and reducing the tax base. Plans to decentralize Dar es Salaam City Commission staff to the Ward level may help improve the ability of city officials to monitor the private sector, but it may also further stretch the resources of an already capacity-poor organization.
- According to Dar es Salaam City Commission officials, their licensing forms are difficult to obtain because the number printed by the Ministry of Trade and Industries is insufficient. Commission officials also expressed concern that because the Ministry's licensing forms are somewhat plain they can be easily counterfeited and sold to unsuspecting citizens. However, given that the forms are free at present, it is not clear why a trader would buy them from someone in the street. City authorities propose creating their own licensing forms with their own city seal on it and charging for them.
- Like other Tanzanian government agencies, the local commissions apply a great number of classifications to business, making for a complicated regulatory system.
- An observation first noted in 1996 was echoed during the assessment research in 1998: "A final constraint is that all licenses expire April 30th, which means that delays can be excessive at that time of year."

Recommendations

There are a number of recommendations that could improve private sector interface with local authorities:

- In addition to being sensitized to the rights and needs of the business community, the taxing authority and limitations of local authorities needs to be clarified. If legal changes need to be made to protect private citizens from arbitrary taxation, the relevant Acts should be amended. Further, the TIC should increase its communication with local authorities to resolve disputes. The TIC should also advise investors about local officials' involvement in the investment process and the potential complications that sometimes arise at that level. Finally, a dispute resolution mechanism should be established so that companies need not sue and counter sue local governments in Tanzania's overtaxed and inefficient court system.
- The necessity of licensing certain types of business activity is unclear. Licensing should be linked to a necessary regulatory function and not a barrier to formalization of businesses. Additionally, using licenses as a source of revenue generation should be avoided, as it adds to the cost and hassle of doing business while representing an indirect and inefficient way to

cover the cost of city services. The local authorities should consider their resources and examine what type and size of business they need to monitor to protect the public good.

- More copies of the business licensing forms should be printed and distributed to the local commissions that need them. Allowing city officials to make their own forms and charge for them is not in the best interest of standardizing the regulatory regime and making investment easy, and it is recommended that the local authorities find other ways to generate revenue. As a general principle, it is not recommended that government agencies use licensing and regulation solely to generate revenue.
- As with other Tanzanian public agencies, the Dar es Salaam City Commission should review the purpose for classifying businesses to the extent that it does. A much simpler licensing system should be developed.
- As noted in 1996, "business licenses should be granted on a revolving basis year-round to reduce the delays now faced every March. This would not only reduce business delays, but make the flow of work more rational for GoT employees."

3.6 Sectoral Licensing

Sectoral approvals are those that are necessary only for certain types of investments. It is difficult to generalize about the difficulties related to specialized approvals. Procedures, delays, and levels of transparency vary widely from agency to agency but in general, obtaining specialized licenses is far more difficult than it needs to be. Indeed, the bureaucratic constraints encountered are largely the legacy of the control-oriented economic regime that dominated Tanzania for nearly three decades. On the positive side, it is worth noting that some agencies have already streamlined procedures. The Central Transport Licensing Authority, for example, has reduced the amount of time it takes to obtain a license from two weeks to two to three days. The steps required for the various agencies are outlined below.

Mining

Mining and petroleum exploration have been identified as important growth areas by the GoT. Mineral rights are vested in the state, however, the Mining Act recognizes ancestral rights to some minerals. Between 1990 and 1996, some 450 mineral rights licenses were granted, and officials expect this number to rise sharply in the next few years. Currently, the sector accounts for approximately 5% Tanzania's GDP.

Significant revisions to the Tanzanian Mining Act of 1979 were approved by parliament in October of 1997. As such, administrative procedures are in flux as the Ministry works to adapt existing regulatory practices to fit the new act and reflect an internal emphasis on increasing private participation in the mining sector. Some aspects of mining are also addressed by the new Investment Act.

Ministry officials cite several administrative changes since 1996. Whereas in the past, the Minister had a great deal of discretion of granting licenses, now the system has been designed to increase transparency, lessen the discretionary nature of approvals, and decentralize decision making. Unlike in previous years, the fiscal terms are equal for all applicants while the "stability" of the package remains negotiable. Additionally, the internal financial arrangements

have changed such that the Ministry can keep a portion of its license revenue to fund staff training programs, computerization, and the purchase of cars and GPS equipment used in inspections

Ministry officials also state that their personnel have become more efficient in processing applications, noting that the backlog of unprocessed applications noted in the 1996 Tanzania Investor Roadmap has disappeared except for some small-scale licenses in rural areas. The Ministry reports that currently it responds to most applications within two months, with one month being an average length of time. Unlike in previous years, applications are processed on a first come, first served basis thereby alleviating questions about why some applicants get rights to certain concessions and others do not. Additionally, the Ministry suggests that it has largely eliminated the problem of overlapping claims to a mining area. Other changes include the creation of a Retention License and allowing small-scale miners to transfer their claims to large-scale concerns.

Some general rules will remain from the old mining scheme. The licensing system is still organized into two different tiers based on the scale of mining operations. Small-scale mining operations are designed for individual prospectors and small indigenous companies and large-scale mining is reserved for bigger claims and foreign-owned companies.

Types of Mining Licenses There are three classifications of mining rights in Tanzania - Class A, B, and D

Class A Class A permits include a Prospecting Permit and a Retention Permit. Class A permits are available for anyone, but often issued to large-scale mining concerns. The Prospecting Permit is good for three years and twice renewable for two years each time. Each time this permit is renewed, the prospector must relinquish 50% of the area in his or her claim. The Retention Permit is valid for five years and renewable once for five years.

To receive a Class A permit, an applicant must have an environmental impact assessment produced and submit a management plan. The EIA is reviewed by the National Environmental Management Council, which will advise the Ministry of its findings. Ministry officials state that the amount of time involved in producing and reviewing an EIA varies, but estimate that it usually takes three to six months.

Class A fees are tied to the number of square kilometers assigned. An additional fee is charged for preparation of a permit.

Class B Class B permits include Special Mining, Mining, and Gemstone Mining Licenses. Special Mining licenses are designed for large-scale mining operations that have completed prospecting and require special assurances related to the stability of their financial package. These licenses are valid for 25 years and renewable over and over again. Mining Licenses and Gemstone Mining Licenses, the latter of which must represent at least 25% Tanzanian ownership, are valid for 10 years and can be renewed repeatedly.

Class D Class D permits are designated for artisanal miners, Tanzanians, and companies owned by Tanzanians.

Currently, the fees for the licenses are being revised but officials state that they will be similar to the existing fees

Application Process Unlike in previous years, when the Minister personally approved mining licenses, the current procedure for obtaining a license involves submitting an application to the newly created seven member Mineral Advisory Board. This Board is comprised of two members appointed by the Minister of Energy and Minerals, one member appointed by the Minister of the Environment, one by the Minister of Lands, one by the Attorney General, one by the Minister of Finance, and a chair appointed by the President. The Board meets three times per year "or as necessary."

Acquiring a large-scale mining license involves a three-step process. As noted earlier, the Ministry is working on changing its administration of mining rights applications. Presently, submissions include

- letter of application including the full name of the would-be miner, nationality, and address,
- sketch plan or map of the area of interest,
- name of the mineral(s) sought,
- statement of financial and technical resources (Note: The Ministry no longer requires applicants to submit a detailed business plan and budget), and
- work program

The first step is to obtain a Reconnaissance License, it is necessary to apply by letter to the Minister. There are no restrictions on the size of the area to be surveyed. An aerial survey is then conducted. The application is then forwarded to the Geological Survey in Dodoma to determine if there are pre-existing licenses in the area. There is a rental fee of US\$ 20 per square kilometer. The approval process has been reduced from six to eight months to three months. Reconnaissance Licenses are valid for one year and are renewable up to a maximum of two additional years.

To obtain a large-scale Prospecting License, the prospective miner writes a letter to the Minister. The investor should already have filed forms with the Registrar of Companies before applying for this license. The mining area is restricted to a maximum of 150 square kilometers. The applicant submits information such as work program, planned expenditures, proposals for employment and training of Tanzanian citizens, and a map of the area. When transferring from a Reconnaissance License status to a Prospecting License status, the licensee must relinquish one-half of the area reserved under the Reconnaissance License. There is a US\$ 200 preparation fee and a rental fee of US\$ 20 per square kilometer per year. Prospecting Licenses are valid for two to three years. They may be renewed twice (for two years each time) and it is possible to obtain multiple prospecting licenses. Prospecting Licenses can be transferred with the approval of the Minister.

A Prospecting License permits a mining investor to import equipment duty free. The investor needs to apply to the Treasury Department of the Ministry of Finance for import duty exemptions. An investor must now submit a list of equipment for which duty exemptions are being requested. The Ministry then submits a recommendation to Treasury. It can take up to three months for Treasury to approve the exemption.

After the Prospecting License, the next step is to obtain a Mining License. An investor must submit a letter and a feasibility study to the Minister that will determine whether the land is to be mined or relinquished. The area to be mined under a Mining License should be smaller than that for a Prospecting License, however, there is no designated limit. The duration of the license is 25 years. Licenses can be sold but the government must be informed of the transaction and the Minister must approve any sale.

For small-scale mining operations, Prospecting Rights are granted for a period of six months. If the prospecting is successful, the claim can be registered. There is no preparation fee for registering a claim and it is valid for one year, however, there are efforts underway to extend the length to three years. Presently, there are about 5,000 registered claims in the country. To apply for a small-scale Prospecting Right, a form is filled out. A topographic map of the proposed prospecting area should be attached. There is a preparation fee of Tsh 10,000 (US \$14.8) and the delay is typically three months. Annual rent for the prospecting area ranges from Tsh 20,000 (US \$29.6) - 40,000 (US \$59.3) depending on the type of mineral being sought. Prospecting for small-scale miners is restricted to an area of 1,600 feet by 1,000 feet. Only Tanzanians are eligible for these Prospecting Rights and they are granted by the Assistant Commissioner for Mines in Dodoma. Smaller companies do not have to apply for a Reconnaissance License.

There are eight zonal offices of the Ministry of Energy and Minerals throughout Tanzania, but all applications must be submitted in Dar es Salaam.

Transferring a Small-Scale Claim. Under the new system, small-scale claims can be acquired by larger and foreign-owned mining concerns. The Ministry sought to allow Class D and B licenses can be transferred to Class A licenses so that significant finds to be developed by major companies with greater capacity than local, small-scale miners. The process for transferring such a claim requires that the small-scale claimant file a request with the Mineral Advisory Committee, which will render a decision and advise the Minister of Energy and Minerals. Then, the small- and large-scale mining concerns must negotiate and establish a joint venture. Previously, the Minister had to personally approve all such transactions on an *ad hoc* basis.

Operational Requirements. The rates for royalty payments are as follows:

- Uncut diamonds 5% of FOB value,
- Gold and Gemstones 3% of FOB value,
- Silver, Platinum, Base Metals 3% of FOB value,
- Coal, Salt, Building Materials 2% of FOB value,
- Cut/Polished Gemstones and Diamonds 1%

For large producers, diamonds must be sorted in London, where the Minerals Division has an office. In an effort to encourage processing, the royalty fee for cut/polished diamonds has been lowered. After gold and silver is refined overseas, the results are sent to the Commissioner of Mines in Tanzania who is advised of the amount of gold or silver per consignment. Royalty payments are made after every consignment or on a quarterly basis.

For small producers, the burden of obtaining export permits has shifted from the producer to the dealer. The dealer must visit the Minerals Commission to apply for an export permit. The

processing delay is 30 minutes to one hour and the royalty is paid after processing is completed

Analysis

The new Mining Act and policy direction formulated by the Ministry of Energy and Minerals bodes well for increasing private participation in Tanzania's mining and petroleum industry. Ministry officials have acknowledged several of the problems identified in the 1996 Investor Roadmap, including a lack of transparency in the system of granting mineral rights, the backlog of applications, and duration of some licenses, and have stated their intention to address them. Given that the Ministry's new procedures are still being developed, this analysis can not meaningfully comment on the implementation of the new regulatory regime in the mining sector.

Tourism

The GoT's efforts to promote investment in tourism in recent years have met with some success. Due in part to its many years of underdevelopment, new investments in the sector represent a growth rate of approximately 8% per annum in recent years and tourism has recently overtaken coffee as the largest foreign currency earner in Tanzania. Since 1992, the number of tourists coming to Tanzania has increased by 12% to 14% annually, with the latest figures suggesting that almost 650,000 visitors came to the country in 1997. Zanzibar and Tanzania's "Northern Safari Circuit," which includes the Ngorongoro Crater, the Serengeti Plains, and Lake Manyara, are fairly developed while other regions of the country are underdeveloped.

Tourism licensing in Tanzania is regulated by two major laws: the Hotels Act of 1963 and the Tourist Agency Licensing Act of 1969. There has been virtually no change in Tanzania's regulation of tourism since the first Tanzania Investor Roadmap was completed in 1996.

The National Hotels Board has not been active for several years and, as a result, the Directorate of Tourism has been handling hotel licensing. Thus, the description below outlines the actual regulatory situation rather than the process as it exists on paper. The Directorate handles travel, tour operator, and hotel licensing. The Division of Wildlife within the Ministry of Tourism handles hunting licenses.

Hotel Licensing. A prospective hotel developer must provide technical designs of the proposed project to the Directorate. There is a form to be filled out which is available at no cost. Attached to the form should be company registration forms, name of the developer and citizenship, and company Memorandum and Articles of Association. A developer must then finance an environmental impact assessment which must be reviewed by both the National Environmental Management Council and the Directorate of the Environment. Directorate officials state that it takes one or two weeks to receive hotel license approval from the Directorate of Tourism. Once approval is given, construction can begin.

Once hotel operators receive approval to begin construction, they must obtain the following licenses: restaurant, hotel and liquor licenses, common lodging house license, lodging housekeeping license, entertainment license, and television and radio license.

Prior to a hotel's opening, an additional form regarding a hotel's proposed room capacity needs to be filled out. As in 1996, the Directorate of Tourism is in the process of developing procedures for licensing hotel managers. There is no fee arrangement for these procedures.

According to Directorate officials, hotels are inspected routinely.

The tax regime with respect to hotels is higher than for other types of businesses in Tanzania. There is a 20% hotel levy that is applied to all room and board expenses and tourist enterprises pay 5% more in corporate taxes than any other type of business in Tanzania. In addition, tourism is assessed VAT tax and withholding taxes, plus fees for a bar license, restaurant license, common lodging house license, lodging housekeeping license, entertainment license, television and radio license. Altogether, there are more than twenty taxes that hotels must pay or collect from customers.

Travel Agent Licensing. Only Tanzanian nationals are permitted to operate travel agencies. A prospective travel agent must fill out a form and pay a fee of Tsh 5,000 (US \$7.4). The agency must have at least two employees with diplomas approved by the International Association of Travel Agents (IATA) and the office facilities must be sanctioned. In addition, the prospective travel agent must have a letter from an airline indicating that it is an approved travel agency. Licenses are valid for one year from January 1 to December 31. The Tourism Agency Licensing Authority meets four times a year to approve new licenses and renewals, thus, the delay can be up to three months. There is a licensing fee of US \$2,000 per year.

Tour Operator Licensing. There are separate licensing procedures for local and foreign tour operators. Local tour operators must own five new four-wheel drive vehicles and have comprehensive insurance coverage. There is a form to be filled out and a vehicle inspection report and proof of a tour operator's incorporation must be attached. Forms should be submitted to the Directorate of Tourism.

Foreign tour operators must own a minimum of ten new vehicles valued in total at US \$300,000. All vehicles must be registered under the company's name. The other requirements and procedures are the same as for local tour operators.

Licensing Fee Structure for Travel Agents and Tour Operators. The licensing fees for travel agents and tour operators are organized into four classes: Class A, Class B, Class C and Class D. Class A license fees are applied to tour operators, travel agencies, hunting safaris, mountain climbing, air charters, marine activities, lodges and tented camps, and rental cars. When the applicant is a Tanzanian and the company is incorporated in Tanzania, or if it is a joint venture with majority Tanzanian participation, the fee is US \$2,000 or the Tanzanian shilling equivalent. If ownership is more than 50% foreign, the fee is US \$5,000 or the Tanzanian shilling equivalent.

Class B licensing fees are applied to professional hunters and tour guides. When the applicant is Tanzanian or the company is a joint venture with majority Tanzanian participation, the fee is US \$200 or the Tanzanian shilling equivalent. In all other cases, the fee is US \$1,000 or the Tanzanian shilling equivalent.

Class C licensing fees are applied to tourist hotels, exclusive clubs, and "unclassified" hotels. The fees are US \$1,000, US \$2,500 and US \$200 respectively.

Class D licensing fees apply to curio shops. The fee is US \$200.

Hunting Licenses. The applicant must fill out a form and the application fee is Tsh 5,000 (US \$74). The vehicle requirements depend on whether the applicant is local or foreign. A separate application procedure is required to obtain a hunting block or concession. This procedure is conducted through the Wildlife Division of the Ministry of Natural Resources. A letter from the Wildlife Division attesting to the possession of a hunting concession is necessary and must be attached to the application. The Directorate of Tourism submits the application to the Tourism Board for approval. Assuming that the information is complete, the processing time is three months. Fees for Tanzanian applicants are US \$2,000 and US \$5,000 for foreign applicants.

The fee for a hunting block is US \$7,500, most hunting operators use five blocks. Hunting operators are also required to participate in community-building projects in their particular hunting areas. These activities are financed by a 10% levy which hunting operators charge on their clients' game fees. For a 21-day safari, these fees are approximately US \$10,000 per client. Clients must also pay US \$100 per firearm, a trophy shipment fee of US \$300, a hunting license of US \$600, and a US \$100 per day conservation fee. Hunting operators are required to oversee anti-poaching activities in their particular hunting areas.

Operational Requirements. Monthly and daily reporting forms are required for hotels. Travel agents need to submit statements indicating monthly revenues (in US dollars or Tanzanian Shillings) as well as the number of clients. Tour operators must submit monthly revenue reports to the Directorate and a US \$2,000 annual licensing fee.

Hunting operators pay an annual fee of Tsh 15,000 (US \$222) for a trophy dealers license.

Analysis

Issues

Little has changed in the way tourism is regulated, and several of the 1996 concerns and recommendations still resonate. In 1995 and 1996 there were fewer than ten hotel projects begun each year in Tanzania, although 80 to 100 projects are approved each year. Currently, Directorate officials estimate that within the past 12 months there were 20 to 30 projects approved with 4 or 5 reaching fruition. According to these estimates, while the ratio of approved to actual projects seems to have risen from around 10% to 18%, the total number of project approvals and completions has fallen significantly. This decrease in interest in Tanzanian tourism and the low realization rate suggest that the industry still faces significant constraints.

In 1996, private sector sources reported that receiving a license for a hotel takes about three weeks. No change in this length of time was reported in 1998. Other observations follow below.

- It is contradictory for the GoT to promote investment in tourism while simultaneously charging the industry 5% more in corporate tax than all other businesses. Because this tax regime for hotels is high and contributes to expensive room rates, Tanzania is less price competitive compared to Kenya and several countries in Southern Africa. The TRA's tax policies also include not issuing tax refunds, assuming that all businesses are profitable.

immediately, and never allowing a business to report less profit than reported in previous year. Large-scale tourism projects, which tend to have high start-up costs, face a lengthy and complicated land acquisition process, and need a long operating period before reaching a level of post-debt profitability, are particularly susceptible to the discouraging tax policies of the TRA.

- The purpose for all of the licenses required of hotel operators is unclear. While some licenses are common and serve a clear regulatory purpose, including the hotel and liquor licenses, the common lodging house license, lodging housekeeping license, and television and radio license do not seem necessary to properly regulate a hotel's operation.
- The tourist visa requirement and its high cost relative to some neighboring states also hinder government plans to develop tourism.
- Tanzania's two-tiered fee structure for tourism licensing discriminates against non-Tanzanians and suggests that the Directorate's fees may not be calculated to reflect the cost of regulating the industry.
- As observed in 1996, "the guidelines for travel agents and tour operators are overly restrictive. Indeed, the need for at least two travel agents in a travel company to have IATA-approved diplomas is unclear."
- In addition, the need for tour operators to own a certain number of new, four-wheel drive vehicles as a precondition of licensing is overly restrictive and assumes that the GoT knows more about what is required to run a tourism business than the investor. The requirement that foreign investors in tourism need to purchase US \$300,000 in automobiles alone discourages small- to medium-scale investment in the sector. As well, this requirement ties up a significant amount of capital for large-scale investors. One businessman alleged that these requirements are the result of an illicit kickback scheme, in any case, the purpose of this requirement is unclear.
- A conclusion reached in 1996 remains valid. "The proposed licensing of hotel managers is unnecessary and would simply add to delays in the overall hotel licensing process. Hotel owners are unlikely to hire unqualified managers who will risk their capital, and it is doubtful that the Ministry's licensing criteria would help an investor screen out an unqualified manager."
- The National Hotel Board does not yet function effectively, its resumption will likely slow approvals and add another layer of bureaucracy.
- Because of the registration efforts of the TIC and the Tanzanian Registrar of Companies, it is unclear why the Directorate of Tourism should require investors to submit their company Memorandum and Articles of Association.

Recommendations

- Several investors suggested that the GoT lower the corporate tax on tourism to 30%. As well, the GoT should consider tax incentives to increase investment in the industry as well.

as lure tourists. Given that many large-scale tourism ventures will need to negotiate the lengthy and complicated land acquisition process, tourism projects should be given additional incentives and be exempt from paying corporate tax immediately when declaring a loss for the initial years of operation. Other countries have used VAT rebate schemes and other fiscal incentives to lure tourists. Because tourism contributes to a large amount of spillover spending in a country, an increase in tourist visitations is likely to filter significant revenue throughout the economy.

- The Directorate should review its hotel licenses with an eye toward simplifying its regulatory regime. Specifically, the Directorate should consider abolishing its common lodging house license, lodging housekeeping license, and television and radio license.
- The tourist visa requirement should be abolished since it adds an additional obstacle for foreign tourists who wish to visit Tanzania. At the very least, the visa fee should be lowered to compete with other tourist destinations in Southern Africa.
- Tanzania's two-tiered fee structure for tourism licensing should be adjusted to reflect the real cost of regulating the sector. Further, to encourage an inflow of needed capital and investment, the GoT should cease imposing higher fees on foreign investors.
- As suggested in the original Tanzania Investor Roadmap, "it is recommended that the approval process for tour operators and travel agents be terminated. At minimum, the requirements for tour operators and travel agents should be revised and simplified. Indeed, the government should consider reviewing and possibly terminating the requirement for IATA-approved diplomas for travel agents."
- In addition, the curious requirement that licensed tour operators purchase five or ten four-wheel drive vehicles should be abolished.
- The proposed licensing of hotel managers should be abolished as an unnecessary burden on the private sector.
- As noted in 1996, "the tourism licensing approval process should be restructured to enable the Directorate of Tourism - instead of the Tourism Board - to become the last approval required." Given the existence of other regulatory bodies, the purpose of the Tourism Board is unclear.
- Because the TIC and Registrar of Companies already do so, the Directorate should stop requiring investors to submit their company Memorandum and Articles of Association.

Fishing

The Fisheries Division of the Ministry of Tourism, Natural Resources and Environment has made some modest changes in its administration of fishing resources in Tanzania. First, in reaction to complaints from commercial fishing concerns, the Division has changed its licensing fee from US \$80 per gross registered ton (GRT) of the vessel to an annual flat fee of US \$16,000. Second, in accordance with the GoT's on-going effort to eliminate the regional level of government, District level authorities now issue small-scale fishing licenses.

The fishing industry in Tanzania is governed by the Fisheries Act of 1970. Fishing represents a significant source of revenue for the Tanzanian economy. According to fisheries officials, fishing accounts for approximately 10% of Tanzania's GDP and in 1997 the catch from Lake Victoria alone earned Tsh 28 billion (US \$4.1 million) in exports. Officials in the Fisheries Division note that exports are increasing from year to year.

Under the terms of the International Convention of the Law of the Sea, Tanzania has a twelve-mile territorial water boundary along its 800 km coastline as well as a 200-mile Exclusive Economic Zone (EEZ). Due to overexploitation of fisheries resources, fishing within the 12-mile territorial limit is restricted to Tanzanians. Foreign investment in fishing is restricted to the Exclusive Economic Zone. With regard to inland fisheries, Tanzania owns 50% of Lake Victoria, 45% of Lake Tanganyika, 20% of Lake Nyasa, and several smaller lakes and rivers. Only Tanzanian fishermen and vessels are permitted to operate along these waterways, however, foreign investors are permitted to operate inland fish processing plants and aquaculture projects. Foreign investors may hire Tanzanian vessels to engage in inland fishing. All fishing vessels must be registered and licensed. In addition, licensing is required for activity in the Exclusive Economic Zone, shore-based fish processing, artisanal freshwater fishing, and aquaculture. There are Regional and District Fisheries offices throughout the country.

Currently, due to concerns about over-fishing the GoT is "not encouraging" the growth of commercial fishing in its waters. Sixteen large-scale commercial fishing boats are now licensed to ply Tanzania's EEZ and officials state that they would be unlikely to license more than 20 commercial ships in total. There are some 20,000 small scale fishing boats nationwide.

Fishing Licenses Within the EEZ, fishing licenses are granted on an annual basis. A prospective investor must fill out a form and submit it to the Fisheries Division. There is no fee for the form. There is no specific timeframe in which applicants are notified of the Division's decision. After being approved, the investor signs a fisheries agreement with the Fisheries Division and pays the licensing fee.

For coastal and inland artisanal fishing, an investor must submit an application form to the District Fisheries Office. There is no fee for the form. An application for a fishing license must first be approved by a local authority, if applicable. Subsequently, recommendations are made by both the District Fisheries Officer and the Fisheries Officer, some districts have a licensing committee that decides on granting fishing rights. Finally, the Director of Fisheries must approve the license. It reportedly takes one to three days for the Director of Fisheries to issue a license once all the other signatures have been obtained. The licensing fee is approximately Tsh 3,000 (US \$4.4). Licenses are renewed on an annual basis.

Except for prawn trawling licenses, which are only issued at the beginning of March, fishing licenses are now issued year round. During December and January, the Research Department of the Fisheries Division conducts a stock assessment of inland and coastal waters primarily to assess the capacity for prawn fishing. Based on this analysis, the Fisheries Division determines the number of vessels and fishermen to be registered and licensed. Applications for new licenses and renewals need to be submitted between the beginning of December and the end of February. Although licenses for artisanal fishermen can be issued in one day, delays of as long as three months have been reported. Moreover, if the Research Department decides to restrict the number of licenses issued in a given fishing season, delays can last up to one year.

Fish Processing Licenses For shore-based fish processing licenses, a prospective investor must submit a letter of intent and a feasibility study to the TIC. The TIC then issues a Certificate of Approval in two to four months after consultation with the Fisheries Division. Since the majority of Tanzania's fish is exported to Europe, a European Community (EC) team visits the processing facility to determine if it meets the stringent requirements for exporting to EC countries. The Tanzania Bureau of Standards and the Factories Inspectorate also conduct inspections of processing facilities.

Currently, there are nine fish processing plants on Lake Victoria and four on the Tanzanian coast. Since 1996, four additional processors have begun to be constructed.

Registration and Licensing of Vessels All fishing vessels in Tanzania must be both registered and licensed. To acquire a fishing license, an investor submits an "Application for Registration of a Fishing Vessel" to the Fisheries Division. A Fisheries Officer inspects the vessel to determine seaworthiness prior to the issuance of a license. If a vessel intends to process fish on-board there are more rigorous inspections akin to those required of land-based fish processors. It takes one day to register a vessel and it is a one-time registration only.

Once the vessel is registered, an investor submits an "Application for Fishing Vessel License" to the Fisheries Division. If the vessel is less than eleven meters in length, the District Fisheries Office issues the license. If the vessel exceeds eleven meters in length, the Regional Fisheries Office issues the license. Licenses are valid for five years for Tanzanian citizens only, however, there is an annual signature requirement from a licensing authority within the Fisheries Division.

The registration fees vary according to the nationality of the ownership of the fishing operation and the level of investment with respect to shore-based fish processing facilities. The fees are reviewed annually to assess competitiveness and to keep up with inflation. For Tanzanian-owned prawn trawlers between 20 and 150 GRT with approved shore-based processing facilities, the registration fee is US \$56.80. If the same company does not have approved processing facilities, the fee is US \$84. For foreign-owned prawn trawlers of the same size, the fees are US \$20,000 and US \$40,000 respectively. For Tanzanian-owned fin fishing vessels, the registration fee is US \$200 if they have approved shore processing facilities and US\$ 250 if they do not. For foreign-owned fin fishing vessels, the fees are US \$4,000 and US \$18,000 respectively.

Aquaculture Permit Aquaculture is an underdeveloped industry in Tanzania and foreign investment is encouraged in this sector. To invest, an application must be submitted to the TIC for "intensive" projects. Intensity is measured by the production volume, density, and size of a project, the Division also uses "semi-intensive" and "ordinary" as classifications. Once the TIC issues the Certificate of Registration, the investor must apply to the Ministry of Lands in order to obtain a lease for the land on which the aquaculture project will be established. The Fisheries Division then provides a letter of introduction to the District Fisheries Office for the area in which the project is being planned. The aquaculture permit is issued shortly thereafter. Since the aquaculture industry is fairly young and the level of investment small, the Fisheries Division could not provide comprehensive data on the timeframe for the registration and start-up process. Aquaculture products are not subject to export taxes if exported.

Operational Requirements In order to export fisheries products, a prospective exporter must submit the "Application for an Export License for Fish and Fish Products" to a District Office of

the Fisheries Division. The approval of a District Committee is the first step in the process. Once approved by the District Committee, the license application must be approved by a District Fisheries Officer. Finally, the Director of Fisheries approves the application. Fish processing facilities must be inspected by the Fisheries Division and, in the case of exports to the European Community, EC monitors. In addition, each consignment to be exported must be inspected by the Fisheries Division and accompanied by a Certificate of Health. Foreigners pay a consignment-based export licensing fee of US \$504 per year and Tanzanian exporters pay a licensing fee of US \$31-32 per shipment. It takes approximately one week to obtain an export license, although the Fisheries Division notes that delays occur at times when information is sent from the District Offices.

Analysis

Issues

Given the over exploitation of Tanzania's fisheries resources in both its inland and coastal waters, recent government efforts to discourage investment in the sector are understandable. The Fisheries Division has made modest strides to simplify its licensing regime, but the multiplicity of registration and licensing fees remains somewhat ambiguous and discriminatory to foreign investors. Some of the issues raised in 1996 remain un-addressed, as noted below.

- The Fisheries Act, No. 6, of 1970 states that fishing boats be both registered and licensed, and Division officials suggest that this dual regulation helps in record keeping. Nonetheless, the requirement for both fishing vessel registration and licensing represents a duplication of effort and oversight, and there is no reason why the two procedures cannot be merged into a single licensing activity.
- The government's policy for licensing fishing enterprises relies on the assumption that only foreign-owned businesses can afford the fees charged. Further, only the coastal regions are open to foreign investment. While banning outside competition in fishing may, by default, encourage local fishing activity, by discriminating against foreign investors the GoT's policy runs the risk of keeping the Tanzanian fishing industry a small-scale, inefficient industry.

Recommendations

- The licensing and inspection regime can be further simplified. It is recommended that the government require one-time registration for fishing vessels as additional fishing vessel licensing requirements are unnecessarily burdensome. Vessel registration and licensing should be merged.
- The Fisheries Division should examine the impact of the broad gap between local and foreign fishing fees on investment in the industry. Depending on the long-term priorities of the GoT regarding developing and managing its fisheries resources, the two-tiered system may be impeding the growth of the industry. Further, if the GoT wants to encourage the local fishing industry, it should identify positive incentives for Tanzanians that will help the local industry grow and become more efficient instead of closing its market to foreign investment. Encouraging joint ventures, as is done in mining, may help the local fishing industry become internationally competitive.

Timber

Forestry management is governed by the Forestry Ordinance of 1957 and the Forestry Division manages utilization of forest resources in Tanzania. Pursuant to Tanzania's land policy, all land and the trees that grow on it are the property of the government. The Forestry Division is required to replant trees since all trees are owned by the GoT. The export of logs is prohibited except for two species - *Swartzia Madagascarencis* and *Tectona Grandis*. The export of processed wood, with the exception of charcoal, is encouraged, moreover, there is no licensing requirement for wood processing activities. There is considerable formal under-utilization of forestry resources in Tanzania, but Forestry Division staff suggests that there is extensive illegal cutting.

There are regional offices of the Forestry Division throughout the country.

Application Process The application process to obtain a "License to Fell, Collect and Remove Forest Produce" begins by writing a letter to the nearest Forestry Division office. The prospective investor should attach a copy of a business license to the letter.

The Forestry Division determines who has title to the land on which the investor proposes to operate and a Certificate of Occupancy constitutes proof of such title. If the land has already been surveyed, it takes only a few days to process the application. If the land has not been surveyed, the process takes longer.

There is no limit in terms of maximum acreage or maximum number of trees when applying for a license to fell trees. The duration of a license to fell varies from one month to one year. Most licenses are issued for two to three months. Provisions exist to grant forestry concession licenses for two to three years, however, in practice, these are not issued.

When applying for a license to fell trees, a royalty must be paid to the government. The general procedure is to pay all royalties in one installment in order to avoid delays. However, payment can be made in two installments. If an advance payment is made, the second installment is paid once the land is cleared. Payment amounts are at the discretion of the licensing officer and they can be as high as Tsh 100,000 (US \$148.2). The payment of this fee is a prerequisite to obtaining a license.

Operational Requirements A "Permit for Export of Graded Timber" is required for each exported timber consignment. Fees for an export permit vary on the basis of wood type and its value. The delay in obtaining a permit is reportedly only a few minutes once the application is submitted to the Forestry Division.

Royalties for withes (poles under five centimeters in diameter at butt end) are Tsh 150 (US \$ 2) per load of 30 withes. Licenses for firewood are issued by quantity or time. Quantity licenses are Tsh 1,000 (US \$1.5) per stacked cubic meter. Time licenses (to enter the forest and remove 28 kgs of dead fallen wood daily) are Tsh 600 (US \$ 8) for a calendar month or part thereof. Fees for charcoal are Tsh 300 (US \$ 4) per 28 kg bag.

Royalties on non-plantation forest products (when the produce is cut and removed by the licensee) are as follows:

Classes Set Out in Second Schedule (Classes of Tree Species)	Fees Per Cubic Meter (True Measure Overbark)
Class IA	Tsh 50,000 (US \$74 1)
Class IB	Tsh 20,000 (US \$29 6)
Class IIA	Tsh 15,000 (US \$22 2)
Class IIB	Tsh 10,000 (US \$14 8)
Class III	Tsh 8,000 (US \$11 9)
Class IV	Tsh 5,000 (US \$7 4)
Class V	Tsh 3,000 (US \$4 44)

Royalties on plantation forest products (where the produce is felled and removed by the licensee) are as follows

Juniperus Procera	Tsh 8,000 (US \$11 9) per cubic meter
Softwoods	Tsh 1,500 - 4,000 (US \$2 22 - \$5 9) per cubic meter
Hardwoods Clearfellings	Tsh 2,000 - 25,000 (US \$3 0 – \$37 0) per cubic meter

Fees to establish and operate a sawmill or any other commercial business in forest plantations and forest reserves are as follows

Capacity to 5,000 cubic meters per year	Tsh 100,000 (US \$148 2) per sawmill unit
Above 10,000 cubic meters per year	Tsh 200,000 (US \$296 3) per sawmill unit

The certification fees for grading timber for export are Tsh 20,000 (US \$29 6) per consignment. The Forest Products Export Certificate fee is also Tsh 20,000 per consignment.

Submission of an application to the Forestry Division is also required to move timber from one region to another. There is no application fee and it takes only a few minutes to obtain approval for a "Permit to Move Timber."

Analysis

Issues

The analysis of forestry administration is virtually the same as was developed in 1996

- As noted two years ago, "The Forestry Department issues its 'License to Fell Trees' for only one to three months while most countries provide such concessions for periods of two to three years. There are provisions in Tanzanian forestry law which permit concessions for more extended periods but in practice they have not been issued." The short-term concessions are likely to discourage large investments and eliminate the incentive for private companies to make major, sustainable investments in the forestry sector. In 1996 it was observed that "this situation creates a highly bureaucratic environment for investors which compels them to make numerous 'unofficial' payments to various authorities." In addition, illegal cutting in Tanzania is attributable to this bureaucratic environment and poor stewardship of the country's forester resources.

- As quoted from the 1996 Roadmap, “since all trees are owned by the government, there is no incentive for the private sector to undertake tree replanting which hinders the long-term sustainability of the industry ”
- The royalty and licensing fee structures are relatively complex compared to such countries as Uganda, where there are only three classes of wood for which royalty payments are required

Recommendations

- It is recommended that the Forestry Department grant concessions for a minimum of two to three years and encourage investment sustainable forestry
- As recommended in 1996, “in order to manage its limited financial and technical resources, the GoT should consider privatizing some forest resources and ending the current nationalization policy for all trees This will encourage the private sector to become more actively involved in tree planting ”
- Finally, the Ministry should streamline the royalty and licensing fee structures Tanzania's seven classes of royalty fees should be condensed into two or three

Industrial Licensing

Industry, which in Tanzania includes the production of cement, soft drinks, corrugated iron sheeting, processed foods, leather goods, chemicals, and textiles, accounts for approximately 8% of GDP

Industrial licensing in Tanzania is governed by the National Industries Act of 1967, as amended in 1982 Since 1996, there have been a few changes in the way the Industrial Licensing Board (ILB) administers its licenses

Currently, all manufacturing firms whose investment levels exceed Tsh 100 million (US \$148,148 0) must register with the Industrial Licensing Board This threshold was raised from Tsh 10 million (US \$14,814 8) in 1996 For investments below Tsh 100 million but with a minimum of 100 employees (formerly 10 employees), investors must apply for a Certificate of Registration The Industrial License costs US \$500 (or its equivalent in Tanzanian shillings, approximately Tsh 337,500) and a Certificate of Registration costs US \$400 (or its equivalent in Tanzanian shillings, approximately Tsh 270,000)

Application Process Presently, an investor must submit an “Application for Industrial License/Certificate of Registration” and a project description to the ILB A working committee will review the application and “when necessary” refer it to the Industrial Licensing Board Some projects do not need the Board to ratify them Board members include such organizations as the National Environment Management Council, President’s Planning Commission, Small Industrial Projects Organization, and the Zanzibar government There is no application fee As part of the application review process, the ILB examines raw material availability for the manufacturing operation, utilities, environmental impact, and the economic feasibility of the project The ILB meets on a quarterly basis and it reviews an average of more than 50 applications per year Very few projects are rejected According to ILB officials, once the Board

has met a license is usually issued within two weeks, although officials hasten to note that sub-committees meet regularly to quickly approve applications. ILB officials state that obtaining a Certificate of Registration takes one day if the application is in order. The ILB currently requires a one-time registration only.

ILB officials state that the organization is planning to change its decision making structure from the current board system to a secretariat.

Analysis

Issues

- While the ILB is a relatively efficient entity, the purpose of its license is unclear. Given that the ILB only handles one type of license and some of its functions overlap with such agencies as the NEMC, ITS, TIC. Depending on the type of manufacturing, this additional license represents yet another step in the process of starting up a business in Tanzania, another public agency to interact with, and another fee to pay.
- Since investors are in the best position to determine the economic feasibility of their projects, the need for the ILB to examine the economic aspects of a project is unnecessary. ILB officials state that they need to assess if an investor is creating jobs, determine how much money is brought into the country, and evaluate environmental issues. Nonetheless, in a liberalized economy it is unnecessary for a government agency to screen an investment to determine its potential to create jobs. Further, it is unclear if the ILB would refuse to license an investment if it did not create the number of jobs that the board expected. The ILB's investigation of the amount of capital an investor brings in seems duplicative of other agencies, including the TIC and the Bank of Zambia, and out of sync with the Investment Act's definition of a "investor" as someone with US \$300,000 if foreign and US \$100,000 if local. Finally, the ILB's role in evaluating a project on environmental criteria seems duplicative of NEMC.

Recommendations

- The purpose of the ILB should be assessed in the context of the GoT's many other licensing authorities. Its elimination should be seriously considered.
- The ILB should cease requiring that certified investors submit feasibility projects.

Factories Inspections

Under the Factories Ordinance of 1950, the Factories Inspectorate is responsible for ensuring the safety and health of all employees. A factory is defined as a workplace that is operating for profit with a minimum of one employee. Because the Inspectorate has only 40 inspectors for more than 20,000 registered factories, it gives most attention to larger and more dangerous activities.

Factories Inspectorate officials recommend that investors present building plans to them for review before construction begins. This review can prevent costly delays and modifications required later in the process, this initial review is not a required step.

Application Process There is a two-step application process for investors who are building their own factories. First, a “Notice of Building Operations or Works of Engineering Construction” must be submitted not later than seven days after the beginning of any construction. This form is available from the Inspectorate at no cost. While the law requires that this inspection be conducted for industrial, commercial, and public buildings as well as any dwelling over three stories, in reality this requirement is followed only for the construction of industrial buildings.

Once the factory is constructed and ready to begin operations, investors are required to complete Form LDF 103. There is a small fee for the form. Upon receiving the application, the Factories Inspectorate will physically inspect the facility. While the Inspectorate has some regional offices, certification can only be done in Dar es Salaam. Approval can be granted on the basis of a regional officer’s recommendation, however. Delays are reportedly less than one month and sometimes as quick as one week, by comparison, the average delay in Namibia is three days. The Inspectorate was not able to provide the list of statutory inspection fees but noted that they are “not more than US\$ 500.”

Technically, the local authority cannot issue a business license until the Factories Inspectorate has given its approval of the facility. Inspectorate comments are also required to obtain a license from the Industrial Licensing Board.

Separate inspections are required for boilers, lifts, and air compressors and these inspections must occur before the equipment can be used. These inspections require specialized expertise, but the qualified inspectors are only based in Dar es Salaam. As the Inspectorate has very little budgeted for travel and no vehicles, it is the responsibility of the company to provide transportation for inspectors. To have a boiler or air compressor in Mwanza inspected, for example, the company would be required to send an air ticket.

Operational Requirements It is the company’s responsibility to have equipment inspected regularly by Factories Inspectorate officials. Boilers are to be inspected every 18 months, lifting appliances every six months, and air compressors every 24 months. The company should initiate the process by writing to the Inspectorate and requesting the inspection.

There are several other requirements that must be met by businesses. For example, all factories are to be whitewashed annually. When accidents occur, it must be reported to the regional office within 24 hours.

Analysis

Issues

Little has changed in regard to the role of the Factories Inspectorate since 1996 and it remains on the list of agencies that do not seem to provide a necessary and efficiently implemented regulatory purpose.

- During the initial Roadmap research the Factories Inspectorate was not judged to be a significant intrusion on business, and no investors indicated that this had changed. This is mostly because the Inspectorate has extremely limited resources and is not able to function intrusively. Rather, it is seen as yet another nuisance to attend to when operating a business in Tanzania. As noted in 1996, “its functions frequently overlap with those of the

local health inspectors, who also review plans and inspect buildings for similar purposes. In particular, the inspection of the construction process of factory buildings is duplicative of that undertaken by local government officials. Moreover, it is not understood why this approval is still needed for factory buildings but not for commercial or public dwellings."

- Another problem with the Factories Inspectorate's inspection regime is that there is a considerable delay in receiving approval. In 1996 it was noted that in Tanzania "delays can be as much as ten times longer than in Namibia."
- Finally, the fact that the FI does not publicly disseminate a list of fees, general guidelines, or inspection criteria is troubling. This lack of transparency opens up opportunities for misunderstandings and corruption, and raises suspicion among new investors.

Recommendations

- The GoT should consider disbanding the Factories Inspectorate and changing the law to free factories from many of the outdated and peculiar requirements relating to factories. At the very least, because of the duplication with local government officials it is recommended that the requirement of the "Notice of Building Operations or Works of Engineering Construction" be rescinded. Additionally, coordinating its inspections with local officials would enable FI and local officials to clearly see where their work is duplicative, present opportunities to share information and resources, and ease the burden of hosting inspectors imposed on manufacturers.
- As noted in 1996, "to reduce delays and ease the process on investors it is recommended that the Factories Inspectorate work to better coordinate inspections so that the factories, boilers, and lifts can be examined at the same time." The Inspectorate should also establish and follow internal guidelines related to completing its work.
- It is recommended that the Factories Inspectorate publish general guidelines for investors to follow as well as a list of inspection criteria and statutory fees.

Agriculture

Agriculture remains an important sector of the Tanzanian economy, accounting for an estimated 54% of GDP and 70% of the country's employment in 1997. The sector has grown below the national average in recent years, at an estimated 3% in 1998. Nonetheless, Tanzanian agriculture accounts for a large amount of the country's export earnings, with such crops as coffee, cotton, sisal, cashew nuts, cloves, tea, and tobacco figuring prominently among exports.

As of January, 1997, a new agricultural policy came into effect in Tanzania. Decisions about what change is needed at the administrative level have not yet been finalized, although officials estimate that there will be some modification of licensing fees.

Agricultural licensing in Tanzania is confined primarily to agricultural processing activities. The Ministry of Agriculture once regulated cotton ginneries, however, this mandate was transferred to the Cotton Marketing Board. There are no licensing requirements for fruit juice processing or tanneries. Specialized licensing procedures apply to meat and dairy inspection and processing,

livestock export, and phytosanitary certification for plant products. Only large-scale processing facilities are licensed.

Application Process In order to obtain a license for meat and dairy processing, an investor must first submit a letter to the TIC. Building plans and certification of sanitary procedures should be attached. The TIC then reviews the project information and sends it to the Ministry for its review.

Each slaughterhouse and dairy processing plant is assigned an inspection officer from both the Ministries of Agriculture and Health. There are nominal inspection fees. Only meat inspectors are active, dairy inspectors have not been active recently as the dairy plants employ their own quality control inspectors.

Operational Requirements An export permit is required for livestock export and it can be obtained from the Ministry of Agriculture, there is no fee and the delay is minimal.

Analysis

Issues

Given the state of flux that Ministry's licensing procedures are in presently, this study can not offer a detailed analysis of regulatory processes. A few observations are warranted, however.

- Agricultural licensing for health and export quality tend to be duplicative of local and other licenses. As the Ministry develops new administrative procedures, it should assess if it is the best agency to conduct a given inspection or issue a certain license. It is possible that the Ministry's licenses could replace other agencies' licenses.

Recommendations

- It is recommended that in its new procedures the GoT require only one set of inspections for agricultural processing facilities. Keeping in mind the time-sensitive nature of agricultural exports, the new licensing procedures should reflect the need of exporters to quickly ship their goods to purchasers.

Commercial Banks

Tanzania has made several key steps toward liberalizing its financial markets during the 1990s. Foreign exchange is now freely traded at numerous bureaux de change, exchange rates float, interest rates are market driven, and private sector banks can now operate in the country. Several foreign owned banks operate in Tanzania today, including Citibank, Stanbic Bank, Standard Charter Bank, EuroAfrican Bank, and Exim Bank.

Commercial banking is regulated by the Banking and Financial Institutions Act of 1991. All banks that operate in Tanzania must be locally registered. Within the past four years, there have been a number of changes in Tanzanian banking law. In July of 1992, the statutory minimum reserve requirement of 31% was reduced to 12% while the minimum liquid asset ratio of 20% was abolished in July 1995. As of 1992, interest rates have been liberalized, in 1993, the allowable ownership level of an individual in a bank has been increased from 5% to 20%.

Application Process To operate a bank an applicant must submit two copies of the “Application for a License to Carry on Banking Business” to the Bank of Tanzania (BoT) The application fee is Tsh 1 million (US \$1481 5) or the US dollar equivalent Applicants are required to attach “five authenticated copies of the law or statutory instrument by or under which the applicant is established or proposed to be established” and two copies of each of the following documents

- proposed Memorandum and Articles of Association,
- bank certification,
- list, information sheet, proof of citizenship and audited balance sheet and profit and loss accounts of each incorporator/subscriber and proposed officers and directors,
- certified copies of annual returns along with accompanying schedules and financial statements filed during the last five years with the Income Tax Office,
- statements from two persons (non-relatives) vouching for the good moral character and financial responsibility of the incorporator/subscriber and the proposed directors and officers,
- business plans for the first five years of operations including the growth strategy, branch expansion plans (presented semi-annually) and career development programs for the staff,
- projected semi-annual balance sheets for the first five years of operations showing end-of-semester balances and average daily balance of each account,
- projected semi-annual profit and loss accounts for the first five years of operations,
- projected semi-annual statement of sources and uses of funds for the first five years of operations, and
- discussion of economic benefits to be derived by the country and the community from the proposed bank/financial institution

The BoT reviews the application and responds within 90 days A Certificate of Approval is issued, this document permits a bank to begin organizing All prospective banks must maintain a minimum core capital of Tsh 1 billion (US \$1,481,482) For foreign-owned banks, the US dollar or other foreign exchange equivalent of their capital must be remitted to the BoT for conversion into Tanzanian currency for deposit into the new institution's demand deposit account with the BoT

For non-bank financial institutions, the application process is generally the same The main difference is that the minimum core capital requirement is Tsh 500 million (US \$740,741) In addition, the institutions must submit to the BoT foreign exchange operation manuals, lending manuals, and a list of internal control procedures The premises on which the institution operates is also inspected for security It takes the BoT approximately one week to review a non-bank financial institution's application and to issue a letter to permit the beginning of operations

For bureaux de change, applicants must apply in person to the Bank Supervision Department of BoT They must also submit a business license and a Certificate of Registration The registration fee is Tsh 25,000 (US \$37 0) It takes approximately one day to obtain the bureau de change license There are over 80 registered bureaux de change in Tanzania

For banks seeking to open up a regional office, they must submit a letter of application to the BoT The minimum reserve requirement is Tsh 200 million (US \$296 3) A business plan must

be attached along with a list of consolidated accounts and projected balance sheets. There are no application or processing fees required. An inspection of the premises is conducted by BoT. It takes approximately one month to obtain a letter of approval to operate a regional branch of a registered bank.

Operational Requirements In addition to the minimum reserve requirements for bank and non-bank financial institutions, there are seven forms that must be submitted on a monthly or quarterly basis. BoT Form 16-1 has 12 schedules. The comprehensive list is as follows:

Form	Reporting Date
<i>BoT Form 16-1</i> (Balance Sheet)	Fifteenth day after the end of month
Schedule 1 (Liquid Assets)	Fifteenth day after the end of month
Schedule 2 (Schedule of Past Due and Non-performing Assets)	Fifteenth day after the end of month
Schedule 3 (Sectoral Classification of Investments)	Fifteenth day after the end of month
Schedule 4 (Analysis of Allowance for Probable Losses)	Quarterly
Schedule 5 (Concentration Analysis)	Quarterly
Schedule 6 (Related Entity Analysis)	Quarterly
Schedule 7 (Bank Premises, Furniture and Equipment)	Fifteenth day after the end of month
Schedule 8 (Deposits, Other Liabilities and Borrowings)	Fifteenth day after the end of month
Schedule 9 (Interest Rates on Deposits and Loans)	Bi-annually
Schedule 10 (Analysis of Capital Accounts)	Quarterly
Schedule 11 (Analysis of Shareholdings)	Bi-annually
Schedule 12 (Import Letters of Credit and Guarantees)	Quarterly
<i>BoT Form 16-2</i> (Statement of Income and Expenses)	Monthly
<i>BoT Form 16-3</i> (Report on Required and Available Reserves against Deposits and Borrowings)	Weekly
<i>BoT Form 16-4(b)</i> Report on Foreign Exchange Purchases, Sales and Balances)	2nd Monday after a reference week
<i>BoT Form 16-5</i> Computation of Capital Position	Fifteenth day after end of month
<i>BoT Form 16-5 (a)</i> Computation of Risk-Weighted Assets	Fifteenth day after end of month
<i>BoT Form 16-5 (b)</i> Computation of Risk-Weighted Off Balance Sheet Exposures	Fifteenth day after end of month

Analysis

Issues

The implications of the Banking and Financial Institutions Regulations revision are not entirely clear, but industry sources suggest that operating a bank in Tanzania has gotten easier in recent years. Further, bankers note that the top Bank of Tanzania staff are generally easy to work with on matters pertaining to regulation of the sector. A public-private working group has been meeting to hammer out differences on regulatory and policy matters, and industry sources suggest that progress has been made to address the concerns of the industry. A few enduring concerns are noted below:

- The requirement that would-be bankers discuss the economic benefits of their investment in Tanzania is an ambiguous precondition for a license. The financial structure, growth

strategy and other attachments to the application are sufficient for a regulator to make a decision about a financial institution's worthiness

- The law contains some poorly worded and ambiguous statements and requirements that may be confusing to potential investors. For example, the following passage rather nebulously inveighs bankers to support rural activities: "The Bank shall take into consideration applicants wishing to conduct banking business in Tanzania must recognize that the nation's economy is primarily rural and agricultural in nature and licensed institutions shall be expected to support rural based activities for the countries economic growth and development."
- The operational requirements are cumbersome and banks in Tanzania must submit over 200 filings per year to the BoT. It has been suggested that despite these formal submission requirements, the Bank was not as effective a regulator as it should be. "These requirements did not prevent financial difficulties of the Meridian Bank," it was observed in 1996.
- Many in the government and the business community state that there is a lack of long- and medium-term finance in Tanzania. As noted in 1996, "existing law states that banks cannot take control of collateralized property in case of default. This legal provision has been upheld by Tanzanian courts. Until this law is changed, there is little hope for banks in Tanzania to expand beyond their short-term international trade financing."

Recommendations

- The BoT should consider terminating the requirement for prospective bank licensees to demonstrate the economic benefits of their bank to Tanzania.
- Similarly, the Bank should revise the law to eliminate vague statements and requirements that can not be effectively enforced.
- The Bank should reduce the number of forms that it requires of bankers. Additionally, the Bank should continue its efforts to handle communication with local banks electronically.
- Finally, as suggested in 1996 "Tanzanian law must be changed to allow banks to take control of collateralized property in cases of default."

Transport

Licensing for commercial and passenger vehicles is governed under the Transport Licensing Act of 1973 and the Road Traffic Act of 1973. The types of vehicles licensed are one ton and above freight transport vehicles and seven-passenger and above passenger vehicles.

Application Process There are two types of application forms. Form A is an "Application for Road Service License" that is used for passenger vehicles. Form B is an "Application for Public Carrier's License" and it is used for licensing of vehicles that transport goods. The application fees for both forms are Tsh 1,000 (US \$15). Both applications must have the following attachments:

- Registration Fee,
- Vehicle Registration Card, which is obtained from the Central Registry of Motor Vehicles,
- Vehicle Inspection Reports from the Traffic Police which attest to the roadworthiness of vehicles The delay in obtaining these reports is one day,
- Previous license in the case of a renewal and a "Conditions of License" card This card outlines the basic conditions that all vehicles must meet in order to be licensed, and
- Valid Insurance Certificate from the National Insurance Corporation or a Preferential Trade Area (PTA) Yellow Card The PTA Yellow Card provides regional insurance coverage

It reportedly takes one or two days to obtain a license The Conditions card is issued at the same time as the license by the CTLA The CTLA must also approve routes and timetables for "Road Service License" applicants Fares have been liberalized since 1996, and the CTLA is considering allowing operators to determine their own timetables as well Each passenger vehicle has one route on which it is required to operate License applications are rejected when there are already too many operators on an existing passenger route There are no route restrictions for freight transporters

After obtaining the license and the Conditions card, license plates must be made The first step is to visit the Tanzania Bureau of Standards, which will provide a certification sticker This step takes one to two hours The carrier must then visit a local license plate manufacturer to have the license plate made After the license is made, the carrier must display the Conditions Card prominently within the vehicle For urban bus routes, operators must apply for a sticker from the Route Board The fee for the sticker is Tsh 3,000 (US \$4.4) It costs an additional Tsh 2,000 (US \$3.0) to obtain the metal route plate that is affixed on the bus

Inter-regional transport carriers involved in transit activity must apply for a license from the Customs Department The fee is approximately US \$6 per entry There is also a transit charge of US \$16 per 100 kilometers Both fees are payable to the Department of Customs

Operational Requirements License renewal is required on an annual basis Fees can be paid on a quarterly or annual basis In the case of freight transport, the fees vary on the basis of the nationality of the freight transport carrier (local versus foreign) and vehicle type - single unit vehicle, vehicle with drawbar trailer (two units), and tractor with semi-trailer (two units) Annual fees for foreign carriers are listed in US dollars and they range from US \$52 to US \$660 For local carriers, the annual fees range from Tsh 10,000 (US \$14.8) to Tsh 310,000 (US \$459.3)

For passenger transport, the fees vary on the basis of the number of passengers carried, the nationality of the passenger carrier, and vehicle weight - two axles up to five tons and not exceeding 15 passengers, two axles up to ten tons not exceeding 16-25 passengers, two axles up to eleven tons not exceeding 26-65 persons, and two axles over eleven tons not exceeding 70 persons Fees are also paid on a quarterly or annual basis For foreign carriers, the annual fees range from US\$ 52 to US\$ 332 For local carriers, the fees range from Tsh 10,000 (US \$14.8) to Tsh 45,000 (US \$66.7)

Analysis

Issues

In 1996, there were few major concerns related to transport licensing. The Authority has been effective and proactive in its efforts to increase efficiency. In recent years, the CTLA has been successful in reducing the length of time it takes to obtain a license from two weeks to two or three days. No new concerns emerged during the assessment in 1998.

- As noted in 1996, “the process as a whole, however, remains complex. There are six other agencies involved and the level of coordination among them is low. As a result, transport businesses face an unnecessary run-around to obtain all the required licenses and approvals.”
- The necessity of annual license renewals is excessive by the standards of other countries.

Recommendations

- The Ministry of Transportation and Communication should work to increase coordination among all the agencies. This can be done by creating a single office with representatives from all agencies or jointly drafting procedures with an indication of how long each activity should take place. Conversely, agencies like the TBS should cede their transport regulatory functions to the CTLA.
- The CTLA should assess if annual licensing for all vehicles is necessary to ensure safety on Tanzania’s roadways.

Aviation

There have been no significant changes in Tanzania’s aviation policies and regulatory procedures in the past two years. Some fees have been increased since 1996.

The aviation industry in Tanzania is governed by the Tanzania Civil Aviation Act. An “Air Services License” verifies the commercial viability of a particular airline operation. An “Air Operators Certificate” is required to verify the technical competency of an air services operator. Licensing is also required for aircraft maintenance engineers and aerodromes.

Application Process To operate an air service company, an applicant must submit an “Application for a License to Operate an Air Service Into, Within and Out of the United Republic of Tanzania.” A copy of a company’s Tanzanian certificate of incorporation, Memorandum and Articles of Association, and feasibility study should be attached to the application. The feasibility study should indicate which routes a company plans to serve and demonstrate the commercial viability of the business. The application fee is Tsh 48,000 (US \$71.1). All applications are tabled before the Civil Aviation Board (CAB) at a quarterly public meeting and, according to Directorate officials, all applicants are notified of CAB decisions in a matter of days. However, approval of an Air Services License is conditional on meeting the technical requirements for the issuance of an Air Operators Certificate. The fee for an Air Operator Certificate is currently Tsh 250,000 (US \$370.4) per year for aircraft weighing less than 10,500

kg maximum take-off weight (MTOW) and Tsh 400,000 (US \$592 6) for aircraft weighing 10,500 kg MTOW or more. These licenses are renewed annually.

In order to obtain an Air Operators Certificate, the applicant must hold a valid Air Services License from the Civil Aviation Board. The applicant must also own a duly registered aircraft and pilots should possess a Tanzanian license at the commercial pilot level. Applicants must also establish a contracting arrangement with an approved maintenance organization. The aircraft operator should file its service with the Directorate of Civil Aviation (DCA). Afterwards, an operations and training manual should be prepared and submitted to the Directorate for approval. Aircraft insurance coverage should then be filed with the Directorate. Office facilities must be available at the air operator's headquarters where all maps, technical literature, notices to airmen and aircraft and pilot information should be exhibited prominently. This office will be inspected on an annual basis for a fee of Tsh 100,000 (US \$148 2). The applicant must also regularly record and maintain data on crew flight times, base routes, recurrency checks, flight operational controls and crew rosters. According to DCA officials, assuming that all the requirements are met by the application and all paperwork is in order, the time taken to obtain the Air Operators' Certificate from the time of submission is approximately two weeks, industry sources suggest that this process can take longer.

Air operators must also have an approved maintenance hangar. In order to obtain land to construct such a facility, an applicant must apply with the Directorate of Aerodromes in the Ministry of Communications and Transport. The air operator must submit by letter an application describing the organization and the scope of its activities. The following information should be included: terms of reference of senior technical personnel in terms of the areas applied for, an organizational management chart, and details on the quality control system. The fees for inspection and approval vary depending on the type of maintenance facility being developed and the nationality of the owner. The fees are as follows: maintenance facility to support aircraft below 10,500 kg MTOW is US \$3,500 for foreign based businesses and Tsh 116,000 (US \$171 9) for Tanzanian based companies, maintenance facility to support aircraft above 10,500 MTOW is US \$6,000 for foreign based firms and Tsh 200,000 (US \$296 3) for locally based operators. The delay for approval of a maintenance facility is approximately six weeks. This inspection and approval procedure is conducted on an annual basis.

Operational Requirements In addition to annual inspection fees for an air operator's offices and maintenance facilities, there are several renewal fees required by the DCA. Renewal fees ranging from Tsh 7,000 (US \$10 4) to Tsh 25,000 (US \$37 0) are required for student pilots, private pilots, flight operations officers, flight engineers, professional pilots, inclusion of aircraft, flying instructor and instrument ratings. Licensing renewals for flight radio telephony operators and cabin crew members are required every 24 months and the fees are Tsh 10,000 (US \$14 8) and Tsh 12,000 (US \$17 8) respectively. Annual fees ranging from Tsh 12,000 to Tsh 40,000 (US \$59 3) are required for a wide range of technical examinations. In addition, the fees for re-registration of aircraft, aerodrome licensing renewals and aircraft maintenance engineer licensing renewals range from Tsh 12,000 (US \$17 8) to Tsh 1,300,000 (US \$1,925 9) for aircraft companies based outside of the country. For Tanzanian companies, maintenance fees are Tsh 116,000 (US \$171 9) for aircraft below 10,500 kg and Tsh 200,000 (US \$296 3) for larger aircraft. The aircraft re-registration fees also vary on the basis of an aircraft's weight.

Analysis

Issues

The importance of airline safety is of paramount importance and the Directorate of Civil Aviation has a vital role in safeguarding the citizens of Tanzania. However, some of its administrative requirements do not advance this goal and represent extra steps and hassle for private airline companies.

- The need for an aircraft operator that is registered with the Registrar of Companies to submit its Memorandum and Articles of Association and a feasibility study is redundant. Further, it is questionable if DCA officials can more effectively evaluate a business plan or feasibility study than the investor who is risking his or her own capital.
- As noted in 1996, “the Air Operators Certificate issued by the Directorate of Civil Aviation is intended to ensure that basic safety standards are maintained. The need for an Air Services License, which is issued for perceived commercial viability, is questionable. Indeed, it is far more practical for the DCA to focus its resources on safety and security of airline operations in Tanzania instead of screening the commercial viability of projects.” Experience in other countries has illustrated that technical agencies like the DCA are traditionally poor judges of commercial viability. Indeed, data from other countries suggests the approval rates for commercially nonviable projects are approximately the same as those for commercially viable projects.
- The fee structure and licensing system are complex and somewhat ambiguous.

Recommendations

- The DCA should limit its licensing submission requirements to the information that it absolutely needs. If there are elements of a feasibility study that relate to safety and air traffic issues, then that information only should be required. The DCA should cease requiring investors to submit their company’s memorandum and articles of association and feasibility study.
- As stated in the Roadmap document prepared two years ago, “it is recommended that the DCA restrict the scope of its activities to safety issues and end its review of the commercial viability of enterprises.” As such, it should cease issuing the Air Services License.
- The 1996 suggestions for streamlining the DCA’s regulatory regime remain valid. “It is also recommended that the DCA revise and simplify its fee structure and licensing system. For example, the airworthiness charges for gliders and other aircraft are ambiguous. The fee structure should be simplified by consolidating all categories into one or two instead of the seven categories that currently exist. The same consolidation could apply to aircraft registration, base inspection and certification for flight crews, cabin crews and flight operation officers.”

Product Standards

The Tanzania Bureau of Standards (TBS) was established by Act No 3 of 1975 and subsequently amended by Act No 1 of 1977. It is a unit of the Ministry of Industries and Trade and is responsible for formulating Tanzanian standards in all sectors of the economy, with particular emphasis on products that affect health, safety, and the environment.

There have been a few changes in the way the TBS operates since 1996. Chief among these is the publication of a new "buyers guide" that lists which companies have registered certified products. The TBS has also increased its product testing fees, the TBS plans to publish and make readily available its fee structure within a few months.

The TBS has published 546 standards and it takes 18 months on average to develop a national standard. Manufacturers who adopt Tanzanian standards are issued licenses to use the TBS mark on their products. TBS has issued more than 210 licenses to over 300 manufacturers. Compulsory standards apply to products that may affect public health, safety, or the environment, including such diverse products as food items, plastic bags, certain electrical products, building materials, and wires. Voluntary standards apply to all other industries. However, some Tanzanian government agencies have adopted TBS voluntary standards as compulsory standards for government procurement and TBS standards are reflected in the governing legislation of other regulatory agencies. For instance, the Traffic Department has made TBS voluntary vehicle standards mandatory.

Application Process In order to obtain a TBS Standards Mark symbol, an applicant must submit an "Application for License to Use the Standards Mark." The application fee is Tsh 10,000 (US \$14.8), an increase of Tsh 9,000 (US \$13.3) from 1996 rates. A pre-license inspection is conducted by a TBS Inspector. The Inspector brings samples of a manufacturer's product to the TBS laboratory to test them. The testing fees range from Tsh 1,000 (US \$1.5) to Tsh 50,000 (US \$74.1). The fees vary based on the number of product samples that need to be tested, the type of product, the chemicals required for testing, and similar factors. If the samples conform to national standards, TBS issues a TBS Standards Marks license. The processing fee for the license is Tsh 2,000 (US \$3.0). The delay is three weeks to six months, depending on the results of the inspection and the type of material tested. Officials from TBS state that they are attempting to shorten the length of time it takes to receive a certificate to a maximum of two months.

Operational Requirements The license is a contract between TBS and the manufacturer, stipulating that the manufacturer will make its product in conformity with Tanzanian standards. Inspectors conduct quarterly inspections of manufacturing facilities to ensure that TBS standards are being maintained and take random samples to the TBS laboratory for testing. If two consecutive inspections reveal problems, the TBS suspends the license and the manufacturer must reapply. The TBS encourages manufacturers to use its training facilities and consultants when standards are not met.

Tanzania issues a "Tested Product Certificate" for those products that have a non-Tanzanian standard. The fee for this certificate varies based on the size of the applicant company and ranges from Tsh 500,000 (US \$740.7) to Tsh 1.2 million (US \$1,777.8) per year. This fee covers the cost of collecting routine samples, ensuring compliance with non-Tanzanian standards, and the recognition that a product meets TBS approval. Products that have foreign

certification but are not certified by TBS cannot use the TBS Standards Mark. It takes two to three months to obtain the "Tested Product Certificate."

All Standards Mark licensees are required to submit an annual Certificate of Compliance (Schedule C) to the TBS. This certificate should include data on a manufacturer's level of production, a description of the goods that have received the Standards Mark, amounts shipped, and trade value.

TBS requires batch certification for all importers covered by compulsory standards related to health, safety, and the environment. TBS has introduced a Batch Certification Scheme to certify imports when they arrive in Tanzania. It takes one week to obtain this certification and it is valid for one year. The fee varies depending on the value of the product and it can be as high as Tsh 1 million (US \$1,481.5). An importer must also obtain a certificate from the Ministry of Health when importing food products. Procedures for inspection of exported products are not formalized.

In January of 1999, the TBS intends to set up a national technical inquiry information center on its standards.

Analysis

Issues

The TBS has made strides in reducing the length of time it takes to receive a Standards Mark Certificate and the new target of issuing licenses within two months is laudable. Contracting out some of its testing may help further reduce the time to test a product sample and issue a license, the TBS is also calling for the establishment of a nationally accredited facility for testing. Nonetheless, some of the concerns raised in 1996 remain to be addressed.

- The requirement for a certificate from the Ministry of Health for imported food products is duplicative.
- In many cases, the need to certify imports that have already been tested overseas is unnecessary and wastes TBS's scarce personnel and financial resources.

Recommendations

- It is recommended that the duplication between TBS and the Ministry of Health on food imports be eliminated to conserve the GoT's scarce financial resources.
- The TBS should end the need for a Tested Products Certificate for imports that are already certified by a reputable international standards organization. It is recommended that procedures be streamlined to reduce delays through mechanisms such as contracting out testing.

3.7 Acquiring Incentives

The process of acquiring incentives in Tanzania involves registering with the TIC and, in some cases, a line ministry such as the Ministry of Energy and Minerals. The ratification of the 1997

Investment Act and the repeal of the previous Act relating to investment have made qualifying for incentives more transparent. The new Investment Act clearly indicates what investment levels and activities shall merit a TIC Certificate of Incentives, and once a firm receives its Certificate it should be free to access all Tanzanian incentives.

The Investment Act applies to all investors except those engaged in mining (as defined by the Mining Act of 1979), petroleum exploration, production, or pipeline construction, or the "manufacture, marketing, or distribution of hazardous chemicals, armaments, or any type of explosives." The qualifying threshold for foreign investors has been lowered from US \$500,000 under the previous Act to US \$300,000.

Some of Tanzania's key incentives available to TIC registered companies are highlighted below.

Employment

Each investor is entitled to employ five expatriate employees automatically. There are no skill requirements attached to these five employee applications. Additional requests for expatriate labor are assessed on a case by case basis. Investors in the petroleum and mining sectors are entitled to as many expatriate employees as needed "provided the investor submits a justification for the foreign experts required." Investors can obtain a multiple entry visa from the Department of Immigration. Investors from most countries can obtain a single entry visa at the airport for US \$50.

Repatriating Profits

According to the 1997 Investment Act, "a business to which the Act applies shall be guaranteed unconditional transferability through any authorized dealer bank in freely convertible currency of

- net profits or dividends,
- payments in respect to loan servicing where a foreign loan has been obtained,
- royalties, fees, and charges related to a technology transfer agreement,
- the remittance of proceeds if a business is liquidated, and
- emoluments and other benefits paid to foreign personnel in Tanzania employed by the firm."

Tax Incentives

Customs duty on the importation of capital goods for mining, infrastructure, and export processing zone projects is rated at 0%. Customs duty on the importation of capital goods for agriculture (including livestock), aviation, commercial buildings, banks, export projects, projects in special development areas, human resource development schemes, manufacturing, natural resources (including fishing), transport, tourism, radio and television broadcasting, and rehabilitated or expanded projects is rated at 5%.

Businesses in any of the sectors listed above enjoy 100% capital allowance during years in which income is reported and 0% withholding tax on interest. Except for agriculture and broadcasting, these industries also pay a 10% withholding tax on dividends.

Except for tourism enterprises, which pay at a rate of 35%, all businesses over a certain size pay a corporate tax of 30%.

There are three types of wear and tear deductions allowed by the GoT. Tractors, combines, and self-propelled heavy equipment qualify as Class 1 deductions and earn a 37.5% annual deduction. Light self-propelled equipment is entitled to a Class 2 deduction of 25% annually. Class 3 deductions amount to 12.5% annually on office furniture.

Holders of TIC Certificates of Incentives are exempt from ten different withholding taxes, including those charged on interest, rent, dividends, and goods and services.

Sectoral Incentives

Agricultural Incentives Capital deductions of 20% are granted for clearing land, installing power or water, building farmhouses or buildings for processing, storage, or livestock accommodation, and constructing labor quarters, drains, fences, windbreaks, or other works necessary for proper operation of a farm.

Mining Incentives The new Mining Act, ratified in October of 1998, has changed the incentives offered to investors in Tanzania's mining industry. At present, the GoT allows for capital deductions of 100% for companies seeking specified minerals, including copper, coal, gold, lime, magnesian, bentonite, magnesite, meerschau, mica, tin, tungsten, vermiculite, nickel, cobalt, platinum, kaolin, and zinc. Companies prospecting for other minerals receive a 40% capital deduction in the first year with a 10% deduction for the following six years. Qualifying activity includes prospecting and testing deposits, purchasing the rights to deposits, acquiring machinery and buildings that would have little or no value on cessation of mining, and general administration and management prior to production.

Tourism Incentives A capital deduction of 20% is allowed on hotels and installed machinery while a 6% deduction is allowed for buildings used as hotels.

Analysis

Issues

The GoT has generalized its incentive in recent years, thereby making the granting of tax exemptions and special privileges more transparent. This shift toward general incentives has also helped improve the GoT's administration of investment incentives. Nonetheless, a few issues should be noted:

- GoT tax administration includes several provisions that discourage new business growth. These include assuming that all businesses are profitable immediately and never allowing a business to report less profit than reported in previous year. Large-scale projects that have high start-up costs, face a lengthy and complicated land acquisition process, and need a long operating period before reaching a level of post-debt profitability are particularly vulnerable to aggressive tax collection policies of the TRA.
- The TRA's decision to issue tax credits instead of refunds is widely bemoaned by investors. A rebate represents an actual transfer of funds that a business could use for investment and borrowing purposes. Businesspeople note that a company can not borrow on a Tanzanian tax credit but can with a tax refund.

- The GoT has not fully adapted its tax policies to promote investment in key sectors. As noted in the section related to specialized licensing, despite its stated goal to promote tourism, the government taxes tourist enterprises at a higher rate than all other businesses, maintains a high visa fee, and offers few specific incentives for the industry.
- Tanzania's policies to promote exports are not as strong as they could be, and such programs as the duty drawback scheme and issuance of rebates of tax on exports are often regarded as too poorly administered to be truly effective.

Recommendations

- They should encourage business start-ups and growth. As such, the GoT should eliminate its provision for collecting corporate tax in advance of a business' operation. Further, the TRA should not assume that businesses are profitable immediately and never lose money.
- When requested, the TRA should issue tax refunds in a timely fashion. While the short-term implications of doing so may adversely affect the government cash-flow situation, policies that encourage the long-term profitability of Tanzania's business community and create jobs should be supported.
- The GoT should adopt specific measures to encourage the growth of key industries. For example, the GoT should lower the corporate tax on tourism to 30% and consider tax incentives to increase investment in the industry as well as lure tourists.
- The GoT should strengthen its export promotion regime, including issuing refunds related to its duty drawback scheme in a timely fashion and expanding its tax incentives for exporters.

Operating

Once a firm begins operations, a number of other steps must be undertaken. The most important of these are related to import/export procedures, acquiring foreign exchange, and repatriating profits.

4.1 Import/Export Procedures

Import procedures are particularly important in Tanzania where most firms rely heavily on imported equipment and raw materials. As such, import procedures can affect the cost of doing business and ultimately the competitiveness and success of Tanzania's private sector. It is also important to note that since the lifting of trade sanctions against South Africa, several southern African ports, including Dar es Salaam, are facing new competition from Durban and other South African ports.

The Customs Department of the Tanzania Revenue Authority has recently undergone internal restructuring and is continuing the process of revamping its clearance procedures. Several changes have occurred since 1996, and the department is still working to fully implement new procedures and train its staff appropriately. For example, Customs has adopted the ASYCUDA system, is starting to computerize, and is trying to improve upon a recently instituted random inspection scheme. In 1996 Customs was in the initial phases of computerizing its procedures and establishing a target of clearing goods within five hours, neither goal has yet been achieved.

An "Implementation Team" that includes representatives from the TRA, the Tanzania Harbours Authority (THA), National Shipping Agencies Company (NASACO), Bank of Tanzania, Tanzania Central Freight Bureau (TCFB), and Swiss pre-shipment inspection (PSI) company Societe Generale de Surveillance (SGS), continues to meet and examine ways to improve import/export clearance procedures.¹ To date, this team is responsible for spearheading the adoption of the ASYCUDA system, moving to a Single Bill of Entry (SBE), changing the GoT's PSI contract to ensure that cargo comes to the port with SGS seals on it, and resolving problems between SGS and TCFB. The working group also acknowledged several problems cited in the Investor Roadmap and is in the process of crafting some solutions.

Customs Officials State that average clearance times have fallen from 15 days in 1996 to between two to five days at present. Private sector sources agree that clearance delays have decreased in many cases, but suggest that seven to ten days is a more realistic average.

Another change stemming from the revision of the Tanzanian Investment Act is that capital goods imports are taxed at a uniform amount for investors registered with the TIC. Additionally, the TIC hopes to expand the current list of qualified capital goods. The TIC's new procedures under the act save time in the import process by eliminating several steps, formerly an investor would prepare a schedule of goods, have it approved by the IPC, then forward it for approval to the Ministry of Finance who would then forward it to Customs.

¹ According to the group's interim progress report, this team was formed to put into effect the recommendations on improvement of import clearance [procedures] put forward during the workshop conducted by The Services Group under the auspices of the Tanzania Investor Roadmap.

It is required that importers use freight forwarders licensed by the Commissioner of Customs. There are numerous internationally known and local freight forwarders active in Tanzania. All Tanzanian imports must be purchased on Free on Board (FOB) terms except where exemption has been granted, all Tanzania exports, as far as possible, should be sold on cost, insurance, and freight (CIF) terms.

Import Process The import and export processes described below have attempted to include all of the steps required, many of these steps would be handled by the freight forwarder rather than the importer directly. These procedures describe importing through the port in Dar es Salaam, through which an estimated 75% of all Tanzanian imports travel.

There are several steps involved in importing goods and equipment into Tanzania. Because most goods require a pre-shipment inspection the steps detailed below assume that a PSI is involved.

- 1 The importer obtains and fills out an "Import Declaration Form" (IDF) from a commercial bank. The cost of the form is US \$10. A pro-forma invoice should be attached to the completed form. At that time, the importer is obliged to pay 1.2% of the FOB value for a PSI by SGS. Pre-shipment inspection is required for any shipments with a value above US \$5,000. Exceptions are made for certain categories of goods which include objects of art, military equipment, gold, precious stones and metals, live animals, fresh foods, and household and personal effects.

(Note: After the Investor Roadmap of Tanzania was completed in 1996, Customs signed an exclusive PSI contract with SGS. This contract is presently up for its annual review. Also, the required value of goods requiring a PSI has been raised from US \$2,000 to US \$5,000.)

- 2 Next, the importer and SGS notify the supplier of the need for a pre-shipment inspection. Some freight forwarders suggest that the PSI process should begin 30 days in advance of the goods being shipped. SGS notes that approximately 70% of all PSIs in Dar es Salaam are processed in the same day, 95% are completed within 24 hours. When the goods are ready for shipment, the supplier should contact the local SGS pre-shipment inspection office.
- 3 At this point, an importer would get and prepare the Single Bill of Entry form from Customs. This form costs Tsh 500 (US \$ 7) and has a serial number on it. The SBE will indicate the amount of taxes payable based on the value and type of goods being imported.

(Note: The Single Bill of Entry form was introduced to Tanzania in early 1997, replacing eight forms.)

- 4 SGS undertakes a pre-shipment inspection in the country from which the goods are to be shipped and a "Clean Report of Findings" (CRF) is issued and transmitted to the SGS office in Dar es Salaam. The CRF details the transaction and represents SGS' opinion on the goods' value and tariff classification and is used to determine the dutiable value.
- 5 The CRF is then collected by the importer or clearing agent at the SGS office in Dar es Salaam. The CRF and Single Bill of Entry are typically issued within 24 hours.

- 6 The next step is for the importer to arrange shipping. Booking of all imports must be arranged through the Tanzania Central Freight Bureau or one of its overseas agents. Importers fill out the "Import Cargo Booking Application," Form CBO/002, to arrange for passage to Dar es Salaam on a freighter. Attachments should include the pro forma invoice and instructions for the supplier. This step is generally only taken once the letter of credit, if needed, has been confirmed.
- 7 The supplier will contact the overseas TCFB agent who will negotiate freight shipment and confirm a booking. Then TCFB issues a "Certificate for Ocean Freight," copies of which go to the supplier and importer, to signify that the shipment has been arranged.
- 8 At this phase an importer would obtain any special import permits that may be relevant. For example, the import of firearms requires approval from the Ministry of Home Affairs, pharmaceuticals from the Pharmaceuticals Board, plants and animals from the Ministry of Agriculture, explosives from the Ministry of Energy and Minerals, food products from the Ministry of Health, communications equipment from the Tanzania Communications Commission, and agricultural chemicals from the Tanzania Research Institute. The issuance times for these permits vary.
- 9 Next, an importer would apply to the Bank of Tanzania for an importation clearance, which is required for all goods valued above US \$5,000.
- 10 Next, the importer would complete a "Pay in Slip" and pay the SBE fees at any commercial bank. Most importers pay at the National Bank of Commerce, however, because Customs uses this bank. The bank then certifies the SBE and Pay in Slip as paid.
- 11 Next an importer would present his or her manifest to NASACO, usually this is done once the shipment has landed. NASACO will emboss the bill of lading, which is issued by the shipping agent at the port of origin, or issue a delivery order that signifies release.
- 12 The importer now obtains a Declaration and Disposal Order (D&DO) from the Tanzania Harbours Authority, this form can be obtained for Tsh 300 (US \$ 4).
- 13 Next, Customs communicates an acknowledgement that all of the necessary documents have been lodged.
- 14 The importer next goes to the Customs "Long Room" to have the documentation checked by Customs officers. If there is a difference between the CRF and the amount paid, the difference in duties will be paid in the long room.

(Note: In the past two years, THA and other officials are no longer required to participate in this document checking process at the Long Room.)

The following documents should be presented:

- Import Declaration Form (from Customs),
- the bill of lading (embossed by NASACO),
- commercial invoice,
- Clean Report of Findings (from SGS),

- Pay in Slip (from a commercial bank),
 - Ocean Freight Certificate (from TCFB),
 - Single Bill of Entry (from Customs),
 - a packing list (required only if there is an importation of multiple items by the importer),
 - specialized import permits required, if any, and
 - the Disposal & Declaration Order (from THA)
- 15 The importer next proceeds to the THA wharf where port charges are assessed and documents such as the bill of lading and ship's manifest will be re-examined. The port charges should be paid at this time. These charges include wharfage, storage, and handling fees. The THA will notify the importer when the cargo can be moved.
- 16 At this juncture, the importer checks with THA to see if port-handling equipment is available.
- 17 Next, an importer will accompany a Customs agent to the shed or the yard to identify the cargo. Customs will then either physically inspect the cargo and compare it with the SBE already issued or let it pass. Once satisfied, Customs will print a release order. At this time, a THA clerk, THA security agent, and a state security agent will normally be present. However, only the Customs agent has the responsibility to discharge the shipment.
- (Note: Since 1996 Customs has introduced a random inspection system, and customs officials suggest that presently 65% of goods pass through the port without being physically inspected. The Department of Customs' target is to inspect only 5% of imports. While it is not meeting its target of letting 95% of goods pass through without inspection, Customs officials report that the number of containers physically examined has decreased dramatically since 1996.)
- 18 The Release issued by Customs should then be taken to the THA along with the truck registration, truck driver's license, and the D&DO. THA security will check to ensure that the truck and loading list numbers match. If the numbers match, a gate pass will be issued. Once a gate pass is obtained, a loading list is prepared to determine which cargo can leave the port.
- 19 At this juncture the truck may enter the port area to be loaded.
- 20 Upon loading, the truck passes to a checkpoint. At the checkpoint, a Customs guard examines the D&DO and the numbers on the truck and containers, and ensures that the duty has been paid. The THA then examines the loading list, the driver's license, and checks to ensure that the truck and container numbers match those listed on the gate pass. Finally, THA security checks the gate pass and then collects it.
- 21 Now the cargo can leave the port area and be delivered to the importer.

Figure 4.1 compares Tanzanian import speed to that of several other countries.

Figure 4 1
Importing Times

Process	Country	DURATION					Total Time
		12 Hours	24 Hours	24 Hours	24 Hours	24 Hours	
<i>Importing</i>	Chile	[Bar chart showing duration across 12, 24, 24, 24, 24 hour bins]					2 48 hours
	Hungary	[Bar chart showing duration across 12, 24, 24, 24, 24 hour bins]					1 hour (with facilitator)
	Malaysia	[Bar chart showing duration across 12, 24, 24, 24, 24 hour bins]					2-3 hours
	Zambia	[Bar chart showing duration across 12, 24, 24, 24, 24 hour bins]					1-4 days
	Mauritius	[Bar chart showing duration across 12, 24, 24, 24, 24 hour bins]					2-4 days
	Tanzania	[Bar chart showing duration across 12, 24, 24, 24, 24 hour bins]					4-14 Days

Export Process The clearing of exports is more streamlined than the process that exists for imports. The following steps are necessary for most transactions:

- 1 The exporter will open a letter of credit at a commercial bank
- 2 The exporter obtains any specialized export permits required such as phytosanitary certificate for plant exports, veterinary certificate for animals, European Union certificate for fresh seafood, and sectoral permits for coffee, cotton, tea, timber, tobacco, minerals, and cashews. Depending on the country to which the good is being exported, pre-shipment inspections and certificates of origin may also be required. The length of time it takes to acquire these certificates varies from agency to agency.
- 3 Next, the exporter obtains a blank "Standard Shipping Order" from NASACO and completes it.
- 4 This Order is then submitted to TCFB. TCFB's role is to nominate a ship to use for transporting the export goods and establish the rate charged for shipment. The exporter books space for the shipment with TCFB by filling out Form CBO/001.
- 5 The next step is to have the TCFB stamp the Standard Shipping Order and obtain an "Export Cargo Confirmed Booking Note" from the TCFB. The TCFB charges a fee of 0.5% of the freight costs for this Note.
- 6 At a later time, the exporter should then return to NASACO to determine if space is available on the ship. At this juncture, an exporter will have NASACO sign the Confirmed Booking Note, which shows that NASACO accepts the booking.
- 7 Next the exporter prepares the SBE form, there is a fee of Tsh 500 (US \$ 7) for the form.
- 8 Now the exporter goes to the Export Section of the Long Room where the documents will be examined and any relevant export taxes must be paid.

(Note: Since 1996 "traditional products," such as handicrafts and certain textiles, are no longer taxed for export.)
- 9 Now the exporter proceeds to the port where the THA will assess port charges. The port charges should then be paid.
- 10 Next the exporter loads the cargo at the port under the supervision of Customs and the THA. Most exporters pack the containers at the port since all exports are inspected and cargo loaded at a factory will be opened and inspected anyway. However, cargo can be inspected at an exporter or shipper's facility and sealed with a Customs or shipping line seal. Cargo must be in the port area two days prior to the date of a ship's departure.
- 11 After this, the captain or chief officer of the ship must endorse the shipping order and issue a signed receipt for the shipment.
- 12 This certified shipping order, referred to as the "Mate's Receipt," is then submitted to NASACO where a bill of lading will be prepared.

13 Then the goods are loaded for transport and the ship departs

In general, freight forwarders suggest that export documents be prepared at least one week before the ship arrives and cargo should be loaded two to three days before the ship is scheduled to depart

Excise Taxes Excise taxes are assessed on cigarettes, soft drinks, alcohol, cosmetics and a few other items that are considered luxuries. There are both *ad valorem* and specific rates depending on the product

Wharfage Fees There are several fees assessed by the THA for wharfage and handling. The major fees are as follows

Local wharfage

1.5% of CIF for imports

1% of FOB for exports

Local handling

Loose cargo imports = US \$4 per harbor ton (H/T)

Loose cargo exports = US \$3.5 per H/T

1'X20' containers (import and export) = US \$180 per unit

1'X40' containers (import and export) = US \$360 per unit

Removal = US \$1 per H/T

Local storage

First seven days free

Next 30 days - loose cargo = US \$1 per H/T

- 1'X20' = US \$20 per day per unit

- 1'X40' = US \$40 per day per unit

Thereafter - loose cargo = US \$1.5 per H/T

- 1'X20' = US \$27 per day per unit

- 1'X40' = US \$54 per day per unit

Transit wharfage

1.25% of CIF for loose imports

1% of FOB for loose exports

1'X20' containers (import and export) = US \$240 per unit

1'X40' containers (import and export) = US \$420 per unit

Transit handling

Loose cargo imports = US \$3.5 per H/T

Loose cargo exports = US \$3 per H/T

Transit storage

First 15 days free

Next 30 days - loose cargo = US \$1 per H/T

- 1'X20' = US \$20 per day per unit

- 1'X40' = US \$40 per day per unit

Thereafter - loose cargo = US \$1 5 per H/T
- 1'X20' = US \$ 27 per day per unit
- 1'X40' = US \$ 54 per day per unit

Transshipment
Loose cargo = 0 8% of CIF

Transshipment handling
Loose cargo = US \$4 per H/T

Transshipment storage
First 35 days free
Thereafter - 1'X20' = US \$15 per day per unit
- 1'X40' = US \$ 30 per day per unit

Analysis

Issues

Tanzania's import/export procedures have improved to some extent in recent years. Major improvements noted by Customs include

- adopting the ASYCUDA system,
- introducing a Single Bill of Entry,
- moving to a random inspection system,
- using only one PSI company, which has lessened the number of conflicts over valuations,
- having PSI containers come to the port with an SGS seal,
- beginning to computerize Customs operations,
- improving Customs clearance times,
- increasing coordination among some of the agencies involved, and
- Customs accepting computerized shipping manifests (as of December 14, 1998)

Yet more work remains. Altogether there are more than 20 steps and eight organizations involved in clearing imported goods. The level of coordination between the various agencies has improved since 1996, but it is not efficient. The Implementation Team examined problems in the system and developed solutions, but they suggest that their efforts to change some problems are "hindered by the institutional policy, structural, or administration framework of the institution involved"². Also, officials involved in the clearance process note that previous reform efforts were stifled by a "lack of coordination and seriousness by the stakeholder institutions"³. During the second assessment mission in December 1998, the work of this team had all but stopped. Further, some of the recommendations included in the 1996 Roadmap and this assessment report relate directly to the highly sensitive issue of privatizing or abolishing some of the state-owned companies that retain their monopoly over certain import/export functions. To date, the government has made no attempts to end its support of the state-owned monopolies involved in the import/export process.

² *Progress Report on Implementation of Import Clearance Process Improvement*, 1998, pg 2

³ *Ibid*, pg 7

Some enduring shortcomings in the Tanzanian import/export clearance process are outlined below

- The length of time it takes the average shipment to clear through Customs procedures in Tanzania is a matter of debate. Currently, freight forwarders report that it usually takes about two or three days to gather all of the forms and information that are required before starting at the Long Room. Once at the Long Room there is an average delay of one to three days while documents are checked and duties are paid. After finishing with the Long Room, freight forwarders report average delays of two days to physically get goods out of the port. Clearing agents and freight forwarders note that the average shipment incurs three days of demurrage charges. Given that there is a seven-day grace period for storage at the wharf in Dar es Salaam, this is a good indication that most shipments face more than a week to be processed once they have arrived in port. Altogether, the typical delay, if no unusual problems are experienced is seven to ten days, say importers. Cases of goods held up for as long as six to eight months were reported, as were examples of rather quick clearances.

Tanzania's average of seven to ten days is still not competitive by world standards, and pales in comparison to the international benchmark of Singapore where the import clearance process is 15 minutes. Several other countries in the region, such as Mauritius, Namibia, and South Africa, clear cargo in one to two days. Further, some critics note that the volume of trade coming into Dar es Salaam has decreased in recent years, thereby making it easier for Customs to quickly process a reduced amount of cargo.

- The involvement of four major government agencies greatly adds to the complexity and slowness of clearing imports and exports in Tanzania. Part of why clearing imports in Tanzania is time-consuming is because of the need for an importer to collect numerous documents and have them examined by several government entities. Documents can not be downloaded from the Internet, and importers must collect and deliver them in person. Giving exclusive responsibility for transport and harbor operations to government owned-agencies limits the choice of companies. Tanzania's parastatal companies are widely perceived to be less efficient, technologically disadvantaged, and more poorly capitalized than their private sector counterparts. It is unclear why the GoT still finds it necessary for government agencies to retain a monopoly over what are commercial operations in much of the rest of the world. THA, Customs, NASACO, and TCFB all have powers to regulate and control, based on their monopoly rights and their status as government agencies, and this power adds layers of duplicative and binding checks on the import and export process.

The TCFB has the exclusive right to reserve cargo space and the TCFB or its overseas agents must arrange the shipment of all Tanzanian imports. Importers that do not book cargo with the TCFB are subject to a penalty of 15% of the FOB value of the goods. Because TCFB has retained its monopoly status, the following observation, written in 1996, remains relevant. "TCFB represents an additional step in the process. This must be balanced by TCFB internal reports which indicate that through its pooling of shipments and negotiations with shipping lines, the TCFB has managed to reduce shipping rates for Tanzania. The TCFB reports savings of more than 50% on shipments from the UAE and Germany, for example. Despite these reported savings, many business people argue that the TCFB's monopoly is no longer necessary and that the organization unnecessarily adds to delays in the current process."

NASACO, which is the sole agent for all foreign flagged ships which service Tanzania, received similar criticism. NASACO also enjoys monopoly status, as the agency must be used for all export shipments, and there has been no change in this situation since 1996. As such, the responsibilities of NASACO and the TCFB are still “similar and partially duplicative.”

- The number of steps remain high for an efficient customs process. Eliminating some of the actors in the process would result in a greatly simplified process. Assuming that the same actors remain, however, the following steps and duplicative checks can still be eliminated
 - requiring importer to obtain an Importation Certificate,
 - filling in the Pay in Slip, as the SBE can be stamped to signify payment of fees,
 - requiring NASACO to stamp the bill of lading,
 - using the D&DO,
 - paying port charges directly to THA instead of Customs,
 - requiring a THA clerk and security guard to oversee the identification of cargo along with a Customs agent, and
 - requiring THA guards to double check Customs Releases when a truck arrives to transport goods
- The Tanzanian import/export clearance process involves the movement of many documents through many different offices, and it is difficult to pinpoint where the most significant delays occur. Different actors involved blame one another for delays, and officials from Customs and TCFB have noted that at present THA has been quite slow to embrace new changes in the system. Some mid-level officials and businesspeople have suggested that the top officials in the agencies involved have not communicated effectively and thus have all but stopped the progress of the Implementation Team. Others say that the Team has failed to take advantage of its mandate to implement its proposed recommendations. Several public officials suggest that inefficient or incompetent freight forwarders and clearing agents also cause delays. At the same time, these agents are licensed by the Customs Department, which could suspend the licenses of the poor operators. Customs also notes that revenue evasion by importers persists and requires vigilant inspection of documents and, in some cases, consignments. Freight forwarders and clearing agents state that simple delays are not easily resolved and frequently necessitate the intervention of overburdened senior Customs, THA, NASACO, or TCFB officials.

Businesspeople suggest that simple misunderstandings related to import procedures or paperwork are quite difficult to clear up in a straightforward and timely manner. Importers often need to follow-up with the movement of a consignment through Customs and problems are often raised in a piecemeal fashion, thereby causing delays. Further, when problems arise, some in the private sector suggest, government agencies are bad at working with each other to solve a disagreement.

- In 1996 it was reported that five to ten bribes were required for the processing of each shipment. While recent interviews indicate that the incidence of bribery has lessened, the phenomenon has not disappeared altogether and corruption remains a concern. Some of the 1996 Roadmap analysis on this issue is still salient. “As in any complex and lengthy process, there is incentive to try and beat the system to reduce delays as much as possible. Due to the high demand for faster services, priority is often given to the highest bidder. This

is particularly true for the movement of containers by the THA, and is exacerbated by the lack of adequate port equipment. Payoffs are typically not required for officials at the TCFB or NASACO.”

- According to Customs only 35% of shipments are physically inspected today, down from 90% in 1996. Private sector sources suggest that although the percentage of shipments physically inspected has declined it may be higher than the 35% quoted by Customs. These changes have been the result of signing a PSI contract with only one firm, and moving to a random inspection regime. Customs has stated that it currently re-assesses valuations on only 1% to 5% of all shipments. In the past, the percentage was much higher.
- Importers assert that Customs still inspects more often than need be and too often ignores an SGS valuation in favor of assigning a higher tariff rate to a shipment. Within the PSI contracts, there is a provision that allows for the establishment of an Appeals Board to resolve disputes over valuations. This Board is not operational, however.
- Clearing exports is a simpler and faster process. Exporters said that clearing exports could vary between one to four days, although some reported that a one-week delay is not uncommon. As noted in 1996, “while obviously better than the import process, these delays are still not competitive by international benchmarks. The export clearance process is slowed by the fact that all exports are examined, which is unusual by international standards. In addition, six of the [then] 14 steps involve the TCFB and NASACO -- in other countries with open competition in shipping, these six steps would normally be consolidated into one.”
- There are a number of specific procedural issues that impact negatively on the speed and efficiency of the clearance process in Tanzania. Some of these observations were noted in the 1996 Roadmap, including the following:
 - Customs refusal to accept faxed documents,
 - periodic shortages of Customs forms,
 - Customs refusal to accept checks from even reputable companies. This creates a system of cash-based payments which encourages corruption,
 - Customs refusal to accept entries before the ship’s manifest is received,
 - triple examination of the gate pass to leave the port, and
 - the THA operates on a 24-hour basis but Customs does not.

Recommendations

The number of agencies and steps need to be minimized to streamline the import/export clearance process. At the very least, a higher level of coordination should be established. The recommendations proposed reflect a conclusion that NASACO, THA, and TCFB be privatized altogether or at least and be made to compete with private companies to encourage greater efficiency in the import/export process. The following specific recommendations are proposed.

- Both the public and private sectors agree that clearance times have improved over previous years, but clearly there is a lack of consistency in the administration of the process. Customs should be supported and held accountable for its efforts to meet its targets of clearing goods within a matter of days, and additional training and streamlining should be undertaken to make these goals a reality. The heads of the agencies involved should set a

clear timetable for achieving the Implementation Team's goals and demonstrate some ownership over the process. Further, frontline staff should be trained, empowered, and made responsible to the point where simple discrepancies can be quickly resolved without the direct involvement of senior officials.

- Private sector participation would introduce greater incentives for goods to be shipped more quickly and easily for less money. Further, open competition would give the Tanzanian private sector a range of choices, thereby increasing its flexibility and boosting its competitiveness internationally. Finally, increased private participation in the import/export clearance process would ease the regulatory burden on the government and encourage the inflow of needed capital and technology.

As noted in 1996, "if the savings being realized through the TCFB are true it is likely to retain a strong and loyal market. Opinion from the private sector on the real savings being brought about by the TCFB, however, is mixed. Therefore, it is recommended that the use of the TCFB be voluntary and that competition be allowed."

Similarly, it is recommended that the NASACO monopoly be abolished. If its services are as valuable as NASACO officials have stated, the shipping organization should be able to compete on the open market.

As observed in 1996, "the problems experienced with port handling have been rapidly solved in many countries by the privatization of port handling operations. This would allow for more efficient and less expensive services, as well as encourage investment in new equipment. At minimum, the GoT should consider contracting out some portion of the port operations."

- The GoT should shift regulatory authority to Customs alone, thereby streamlining the import/export process and reducing the number of checks and counter checks on import procedures. By tasking only one regulatory agency with checking the validity of documents, approving the movement of goods, and collecting government fees and revenue, the number of steps currently required could be lessened.
- The Implementation Team's efforts to increase coordination among the government actors involved in clearing goods should be supported and advanced. The top managers from the agencies involved should become more intimately involved in the Team's work, and its mandate should be clarified. If the team is not fully exercising its mandate, leadership changes or outside support should be considered. Other steps should be taken to restart the process and move more deliberately and quickly toward implementing meaningful changes. Clear, simple, and comprehensive guidelines for the procedures should be issued to all involved, and additional training of Customs, THA, NASACO, and TCFB officials is recommended so that disputes among them can be minimized. Further, when a problem with a transaction arises, Customs officials should explore the case in its entirety so that the importer can fix all of the problems at once, thereby minimizing delays and frustration.

Relatedly, if incompetent freight forwarders and clearing agents are a source of confusion and delay in the import/export process, the Commissioner of Customs, who licenses freight forwarders and agents, should suspend the licenses of the most grievous offenders. If clear licensing requirements and tests of procedural aptitude are not currently available, the

Customs Department should develop them to support the effective licensing of the agents which the government requires that importers use

- To eliminate rent-seeking opportunities and revenue evasion, the number of actors and the complexity of the system should be addressed. The Department of Customs should issue clear and binding guidelines to the private sector explaining the process and clarifying the dependencies that may cause delays. Because importing and exporting are highly time-sensitive activities, the incentive for importers to offer bribes to circumvent a time-consuming and cumbersome process should be seriously addressed at the highest levels of government. Bribing a government official and receiving a bribe are both illegal in Tanzania already, so effective enforcement should be pursued. The government should introduce a serious and effective mechanism for identifying and prosecuting corrupt officials and importers.
- Given that most imports undergo pre-shipment inspection it is recommended that Customs continue to refine its random inspection system. As noted in 1996, "Imports that have undergone pre-shipment inspection should be allowed to pass through an accelerated 'green channel'." This would allow Customs to focus its physical inspections on products, countries, and importers that are considered most likely to try evading taxes or import dangerous or illegal items."
- It is recommended that a functional appeals board on valuation issues, as spelled out in the PSI contract, be made operational.
- To help speed the flow of exports, it is recommended that the TCFB and NASACO monopolies be ended and that competition be allowed. It is also recommended that the random inspection system be improved upon to reduce delays, damage, and pilferage of export products.
- Several of the specific 1996 procedural recommendations remain valid for consideration
 - One basic 1996 recommendation still holds: "Customs should accept faxed documents. In Namibia, the acceptance of faxed documents has eased the process without causing any increase in illegitimate activities."
 - Customs should address the periodic shortage of Customs forms by expanding production runs and allowing licensed freight forwarders to reproduce the forms. When possible, Customs should also post its forms on the Internet. If importers and their agents could have easy access to the forms, this would speed up processing time and shift the monetary and time cost reproducing the forms to the private sector.
 - Given the liberalization of the Tanzanian banking sector and common practice elsewhere, Customs should accept checks from reputable companies and cashiers or bank checks from unknown companies. A reliance on cash increases the opportunities for corruption or theft.
 - To streamline the process and conform to world standards, Customs should accept documents prior to the ship's manifest being received.

- As suggested in 1996, “the triple gate examination of imports by THA and Customs should be ended as it is excessive and provides further opportunity for petty corruption ”
- While the THA operates on a 24-hour basis, Customs officials only work during the day Many other countries have instituted two or three shift, round-the-clock Customs operations that have significantly lessened delays

4.2 Bonded Warehouses, Agent Licensing, and Duty Drawbacks

Three other issues affect the import/export process in Tanzania These are bonded warehouse schemes, import/export licensing, and duty drawbacks programs

Bonded Warehouses

There are 100 bonded warehouses currently in operation in Tanzania down from some 300 in previous years Most of Tanzania’s bonded warehouses were closed down early in 1996 for illegal activities

Application Process In order to operate a bonded warehouse, an applicant must fill out a form and submit it to the Commissioner of Customs Drawings that illustrate the building designated as the bonded warehouse should be attached The Commissioner appoints an inspector to ensure the security of the facility There must be only one door with two locks - a customs lock and an operator’s lock Getting permission to run such a warehouse takes about three weeks

Bonds can be obtained from a commercial bank or the National Insurance Corporation The amount of the bond varies depending on the amount of goods that can be stored in the bonded warehouse at any given time There are several types of bonds that are required For the security of goods in the warehouse, Form CB6, “General Bond for the Security of Warehoused Goods,” is filled out For the removal of goods from the port to the bonded warehouse, Form CB3 “Bond for the Warehousing of Goods or Removal of Warehoused Goods” is filled out For exportation of goods from the warehouse, Form CB4 is filled out Forms CB8 and CB4 are used for goods being transshipped to another bonded warehouse

Operational Requirements Every bonded warehouse is issued a number The operator of the warehouse is required to display this number in large numerals outside the warehouse The warehouse should also have a small office furnished with a table and chair for Customs officials The Customs Department provides a lock and the operator must contact a Customs officer each time the bonded warehouse is visited When an operator closes a bonded warehouse, an inventory of goods in the warehouse must be prepared The annual fee for a bonded warehouse is Tsh 500,000 (US \$740 7)

Customs Agent Licensing

Application Process A prospective customs agent must submit an “Application for New Customs Agent License” to the Commissioner of Customs There is no fee for the form but there is a registration fee of Tsh 1,000 (US \$1 5) A panel consisting of representatives from the Ministry of Industries and Trade, Customs, THA, NASACO, TCFB and the Tanzania Freight Forwarders Association conducts interviews with all applicants Prospective customs agents must be familiar with customs polices and must demonstrate proof of a business premises, a

business license, and a tax clearance certificate. The panel meets annually usually in November and December to conduct its interviews of applicants.

Once the applicant completes the interview, he or she must deposit Tsh 3 million (US \$4,444.4) in a commercial bank to cover a security bond. In December of 1994, this deposit requirement was Tsh 10,000 (US \$14.8). In January 1995, it was raised to Tsh 10 million (US \$14,814.8). After an outcry from the Tanzania Freight Forwarders Association, it was reduced to Tsh 3 million. A license fee of Tsh 110,000 (US \$163.0) is also required. Because the panel only meets two months each year, delays for becoming a licensed clearing agent can be up to one year.

There are 500 customs agents in Tanzania, however, only 132 are formally licensed since most refuse to post the bond amount required.

Duty Drawbacks

Tanzania has a duty drawback system, which is available to exporters of 56 various products.

Application Process Exporters should fill out and submit an application form to the Commissioner of Customs. This form is available at no cost. Attachments should include foreign input composition of the exported product as well as the taxes and duties payable on the imported inputs. The input/output coefficient for each product is determined. Customs officials state that the registration process generally takes approximately three to four days.

Operational Requirements To obtain refunds, exporters must submit a form entitled "Claim for Duty Drawback." Exporters must also include the following documents:

- Customs import entry form,
- Customs sales tax entry,
- bill of lading,
- commercial invoice, and
- copy of "Pay in Slip" from the National Bank of Commerce demonstrating the export proceeds realized.

The Department of Customs will then submit these documents to the Ministry of Finance to request that funds be released.

Analysis

Issues

- The administration and monitoring of the bonded warehouse program relies on physical controls, including the double-key lock and on-site presence of Customs agents when goods are transferred. The utilization of the double-key system means that the Customs officer must be present to search inventories, if the officer is absent, importers are delayed in unloading goods.

- As noted in 1996, “the requirement for a Tsh 3 million (US \$4,444 4) cash deposit for licensing customs agents is still considered too high by the Freight Forwarders Association. The delay in obtaining a customs agent license can be lengthy, depending on when the application is submitted, since the panel only meets at the end of the year.” At the same time, Customs officials suggest that most delays are caused by clearing agents, some of whom operate without a license, who do not properly process the paperwork involved.
- Tanzania’s duty drawback scheme does not seem to be working as anticipated. Customs officials state that not as many companies take advantage of the program as expected. A 1996 Roadmap critique suggested that “the main constraint with the duty drawback system is that the funds allocated for the program are insufficient. Delays of more than one year are typical. Few companies are making use of the system. Several other companies are eligible for drawbacks but have opted out of the program because of the extreme delays.”

Recommendations

There has been little change in the administration of bonded warehouses, clearing agent licensing, and the duty drawback scheme since 1996. Thus, many of the specific 1996 recommendations, quoted below, remain valid.

- “In the long-term, it is recommended that the GoT move away from the physical controls to a more sophisticated paper control system in bonded warehousing. In the short-term, it is recommended that the GoT require only one annual bond as is typical in many bonded programs globally.”
- “The Customs Department should streamline the application process for freight forwarding licenses by having the interview panel meet more than once per year. Given the high percentage of freight forwarders who are refusing to raise the performance bond, a new approach may be necessary. It is therefore recommended that the GoT consider a smaller performance bond but a more stringent set of penalties for freight forwarders who engage in illegal activities.”

Further, Customs should increase the effectiveness of its enforcement mechanisms and do a better job of controlling fraudulent or incompetent freight forwarders and clearing agents. It is recommended that the Customs improve its regulation of clearing agents and suspend the licenses of those who are not capable of competently performing their job.

- As reported in 1996, “the slow payments in the duty drawback program played a critical part in the downsizing at Sunflag and the closure of Morogoro Canvass. Both companies had strong overseas demand but were uncompetitive in part due to the unreliability of drawback refunds. For the system to be effective, payments need to be prompt.”

Considering that the development of export industries is an important aspect of Tanzania’s economic growth strategy, the duty drawback program deserves greater attention from GoT policy makers. Export industries face competitive markets and have a high level of flexibility in determining their country of operation.

Some specific suggestions for improving the duty drawback system were first offered in 1996.

- “Increase the duty drawback budget level. This approach would require no change in the current procedures but would likely be the most difficult financially for the GoT
- Modify the Remission Certificate program to allow exporting firms to be exempted not only from [VAT] but also import duties. While this approach would be the most complex to implement, it has a number of advantages. First, because the TRA is already monitoring the Remission Certificate program on an audited basis, the program could be extended to exempt and monitor [VAT] and import duties simultaneously. Second, because most firms utilizing the drawback program also hold Remission Certificates, the number of agencies and paperwork faced by exporters would be decreased
- Given the GoT shortage of funds, a third option is to allow exporters to use duty drawback refunds owed as credit toward tax liabilities. For firms, which are in net tax loss situations, these tax credits could be sold to other businesses. Similar programs have been successful in India and Uganda.”

4.3 Acquiring Foreign Exchange and Repatriating Profits

Controls over foreign exchange transactions in Tanzania have been considerably liberalized in recent years. There are no controls or ceilings on interest rates. Investors no longer have to register their investments with the BoT and a Certificate of Registration of Exporters is no longer required.

Application Process The BoT approves all overseas loans that exceed 365 days in length, approval is not required for short-term loans. In order to apply for an overseas loan, an applicant must approach the BoT via a commercial bank. The loan proposal is submitted by the commercial bank to the BoT. Foreign companies must present a tax clearance certificate, which they obtain through their commercial bank. The BoT then reviews the terms of the loan. As part of the review, the investor must submit a business plan and an estimate of future foreign exchange earnings. A copy of the loan agreement is submitted to the bank and it should include a proposed repayment schedule. The delay in obtaining loan approval is approximately one month. The BoT's internal process is two weeks. In general, two additional weeks are needed to obtain the requisite supporting documentation such as the tax clearance certificate. The BoT rarely rejects applications outright but it may require negotiation of a lower interest rate.

There are no restrictions on repatriating profits in Tanzania. According to the 1997 Investment Act, “a business to which the Act applies shall be guaranteed unconditional transferability through any authorized dealer bank in freely convertible currency of

- net profits or dividends,
- payments in respect to loan servicing where a foreign loan has been obtained,
- royalties, fees, and charges related to a technology transfer agreement,
- the remittance of proceeds if a business is liquidated, and
- emoluments and other benefits paid to foreigner personnel in Tanzania employed by the firm.”

Analysis

Issues

The Government of Tanzania has taken impressive steps in recent years to liberalize its banking regime

- As noted in 1996, “The need for BoT to review the terms of an overseas loan application is questionable given that, according to BoT officials, the review is conducted primarily for statistical purposes and to protect businesses from agreeing to high interest rates ”

Recommendations

It is recommended that the BoT terminate its review of loan applications as it delays the overall process. The BoT should recognize that it is the responsibility of the investor to arrange a competitive loan package and not the central bank. If the BoT divines a real need for this type of review on behalf of Tanzanian companies, it should offer its assessment of overseas loan terms only to interested businesses and charge a fee.

Conclusion and Next Steps

5.1 The Context for Further Change

Tanzania has made significant strides since the early 1990s in implementing wide-ranging macroeconomic reforms. It has liberalized its foreign exchange market, tightened monetary policy, cut government spending, privatized some inefficient state-owned enterprises, brought its trade regime largely in line with world standards, and improved service delivery within some public agencies. After years of negative economic growth, Tanzania's GDP has grown at between 2% to 5% per year since 1991.

But the transition from a highly controlled market is far from complete. While the overall regulatory and administrative environment for new business in Tanzania has improved in recent years, it still falls short of what many investors have come to expect, and of what will facilitate high levels of foreign and local private investment. While Tanzania has made major strides in crafting legislation to attract investment and increasing transparency, it has not completed the transformation that so many governments are now addressing: the transformation from regulator to service provider. Projects like the Tanzania Investor Roadmap have made significant specific and indirect contributions, but more work needs to be done to rationalize the country's regulatory regime and ultimately grow indigenous business and attract needed inflows of capital, expertise, and new technology.

Tanzania's procedural barriers are still enough to make some investors look elsewhere, especially when comparisons are made to other countries. Many regulations and procedures significantly increase the cost of conducting business in Tanzania and thereby make the Tanzanian business community less competitive than its global rivals. Enduring problems with corruption, conflicting and confusing regulations, and high production costs negatively affect investors' assessment of Tanzania as an investment destination. Given Tanzania's problems with inadequate infrastructure, key skill deficits in the labor pool, inflation, limited domestic credit, and instances of corruption, these regulatory shortcomings must be addressed to make the Tanzanian economy competitive. Tanzania is in direct competition for a shrinking amount of international and regional investment capital with other African states, and indeed countries worldwide, many of which are fast improving their investment climates. Given the many factors that influence investment flows beyond its control, the Government of Tanzania should do as much as it can to reform its regulatory environment and thereby make Tanzania a safer, more lucrative, and attractive home for local and foreign investment.

5.2 Lessons Learned

USAID's Investor Roadmap for Tanzania has been an unqualified success in several areas. The project is very well known and understood in both the public and private sectors. Many in the private sector reference the project when talking with government officials and use it as a yardstick to measure government progress in meeting targets for implementing improvements. Despite the technical nature of the Roadmap report, many in both the public and private sectors expressed a desire to have a copy of the document two years after it was first issued. The need for change within the government and the validity of the investor as a "customer," or user of

public services, have been accepted among many civil servants. Through the Roadmap project, the major problems within the Tanzanian regulatory

regime have been clearly and succinctly identified, and both the business community and the public sector have validated these issues. Further, many public servants have used the Tanzania Investor Roadmap as a blueprint for understanding the concerns of the citizenry and implementing changes.

The Roadmap also launched some intensive process improvement efforts, described in other documents, related to four key problem areas, including processing self-employment and work permits, clearing imports and exports, acquiring and surveying land, and processing site development and other requests at the municipal level.

From this foundation for regulatory reform, a number of concrete, positive changes have resulted. As noted, the major changes include the following:

- A new and more attractive Investment Act has been enacted. Capital goods tariff rates have been lowered and the system for qualifying for the lower rates is more automatic. The Bank of Tanzania notes that since this change was implemented the importation of capital goods has increased by 9% to a total value of US \$502.6 million, "signaling that the process of capital formation is on the increase."
- Law guarantees the right to fire expatriate employees without extensive scrutiny.
- The less than effective Investment Promotion Centre (IPC) has been replaced by a new agency, the Tanzania Investment Centre (TIC). The TIC departs from its predecessor in its emphasis on facilitating and registering rather than screening and regulating investment. As a result, the Centre is closer to becoming a one-stop shop for investors and it issues Certificates of Incentives much more quickly. Through the commitment of liaison officers, communication between the TIC and the Department of Immigration, Registrar of Companies, Ministry of Lands, and Department of Customs has improved. These changes have successfully addressed many of the Roadmap recommendations formulated in 1996. Project approval rates have increased since a low ebb in 1995/96.
- The Department of Immigration has made significant progress in improving its issuance of Permits for investors and expatriate employees. Changes include creating a "green channel" for TIC certified investors, making the application procedures more transparent, and eliminating some submission requirements. As a result, a process that used to take months now takes weeks or even days.
- Import/export procedures, one of the most complicated process areas in Tanzania, have improved. Through the establishment of a multi-agency working group, Tanzania has introduced a Single Bill of Entry, reduced the number of goods required to get a Pre-shipment Inspection, instituted a random inspection system, adopted the ASYCUDA system, and computerized some Customs operations. As a result, average Customs processing times, while still lengthier than desired, have fallen by several days.
- Some agencies have recently completed, or are in the process of so doing, major legislative and administrative overhauls, and as such new procedures are still evolving. Several of these agencies credit the Tanzania Investor Roadmap with being an impetus and guide for

some of the changes now being wrought. These agencies include the Ministry of Energy and Minerals, the National Environmental Management Council, Ministry of Agriculture, Bank of Tanzania, the Department of Immigration, National Social Security Fund, the Ministry of Lands, the VAT Department of the Tanzania Revenue Authority (TRA), and the Customs Department of the TRA. For those agencies currently in the process of revising their administrative procedures, this assessment comes at an opportune time if it can refocus the attention of policy makers on the importance of meaningful regulatory reform and revisit some of the issues raised by the Tanzania Investor Roadmap.

- A few agencies, including the Registrar of Companies, Internal Trade Section, Industrial Licensing Board, Fisheries Division, and Dar es Salaam and Mwanza City governments have made procedural changes that simplify the regulatory system for investors. These changes, often modest in scope, include merging regulatory processes, simplifying application submissions, and improving response times.

Based on the successes and disappointments related to the Roadmap project, some key lessons for future intervention in Tanzania are noted:

- Public-private dialogue and cooperation works and is strongly desired. When the private sector has been consulted and involved in policy making and implementation, specific problems are solved and concrete results are achieved. To varying degrees, experiences in financial sector, mining, and import/export reform have borne out that the government can work effectively and efficiently with the business community to the betterment of Tanzania people as a whole.
- While Tanzanian civil servants are refreshingly candid about acknowledging shortcomings in a process of administrative system, successful, self-motivated change is rare, especially when more than one agency is involved. The most significant changes generally occurred in areas where the consultants had in-depth interaction with the government agencies involved, either through process improvement workshops or longer-term consulting. These areas include the employment permit process, the import/export process, and various aspects of land acquisition and site development. In the absence of sustained and specific pressure for reform from the top echelons of government, outside guidance and support seems needed to keep implementing changes.
- The Tanzanian private sector is cautiously optimistic about the future. The business community can cite examples of improvements in governance in recent years and many perceive that there is sincere government will to move forward. If past successes can be solidified, momentum renewed, and the country's remaining problems taken seriously, Tanzania can look forward to a bright future.
- While some agencies in the GoT demonstrate a proactive attitude toward institutional and administrative change, this is not a widespread phenomenon. As a whole, the Tanzanian bureaucracy can be criticized for moving slowly to implement certain changes, and public officials are widely regarded as being unresponsive to the needs of citizens and residents. To this day, there is a pervasive sense within the public sector that business must be tightly controlled and monitored rather than facilitated and supported. Much more training and public-private dialogue is needed to address this issue.

- Corruption, while decreasing to some extent due to the implementation of more transparent procedures, continues to plague commercial activity in Tanzania. The GoT should redouble its efforts to make many of its interactions with private citizens more transparent, thereby accomplishing the double objective of lessening corruption and boosting administrative efficiency.

5.3 Opportunities for Future Improvement

Some broad areas where next steps should be considered are outlined below.

- Over-regulation. Despite some modest gains in reducing and liberalizing the licensing requirements placed on businesses, as a whole the Tanzanian economy remains over-regulated, in part because some key tasks related to civil service reform have not yet been completed. The Tanzanian landscape is littered with public agencies that no longer serve a meaningful purpose, vestiges of the repudiated command and control mentality that characterized the early years of governance in Tanzania. For example, commodity boards, although inefficient and unable to thwart the rational, direct interaction between buyers and sellers, still exist and extract fees from producers. Today, many of these public agencies not only waste valuable and scarce public resources, they also add layers of bureaucracy and confusion that hinder the development of an efficient and modern private sector. Tanzania needs to seriously address the structural problems that plague the government and eliminate scores of purposeless public agencies. As old structures are torn down, regulatory responsibilities will need to be reassigned and streamlined.
- Legal inadequacies. Tanzania's legal infrastructure remains inadequate to completely safeguard and facilitate business activity. Various laws should be harmonized, provisions for arbitration and securing contracts need to be drafted, dispute resolution institutions should be staffed appropriately, and issues of corruption and capacity in the local court system require attention. Labor laws, which currently make terminating employees virtually impossible, need to be quickly and comprehensively updated. The commercial court system is also dysfunctional, further adding to the insecurity of investors. Tanzania would be well served by a comprehensive review of its legal system with a focus on creating the legal infrastructure necessary to support a modern market economy.
- Insufficient Investment Promotion. Investment incentives are not as secure as the business community would like, and the government's efforts to channel investment in key areas have not worked as well as expected. Attracting and targeting investment requires that fiscal and regulatory policies be adjusted and synchronized. Incentives for investment in manufacturing, tourism, and agriculture – from which over 70% of Tanzanians derive their income – are modest, and in many cases bureaucratic obstacles to investment outweigh investment policy. Further, many in the private sector are not convinced that the TIC is as efficient and effective as it needs to be to successfully champion and guide investors through the unpredictable Tanzanian investment climate. The TIC is also criticized for not adequately knowing all the intricacies of how to navigate Tanzanian bureaucracy, promising too much, and failing to ensure that other agencies do their part to help investors become operational. Additionally, increased communication between the TIC and the TRA are needed to clarify how the 1997 Investment Act should be interpreted. Tanzania's investment strategy and organizational capacity should be addressed with the bureaucratic constraints identified in the Roadmap in view. Relatedly, Tanzania should review and

strengthen its investment promotion efforts and regulation regime with particular attention on sectors of the economy that the GoT is attempting to promote

- Too much state ownership Major portions of the economy, notably significant parts of the Tanzanian infrastructure services and shipping sectors, remain in public hands. Further, some investors suggest that Tanzania has yet to privatize any major assets. This level of public control over the economy persists in raising concerns among investors and international donors about the government's commitment to liberalization. Additionally, reliance on relatively inefficient, cash-strapped, and technologically inadequate state-owned enterprises adds to the expense of production and ultimately raises the cost of doing business in Tanzania. To make significant progress, the GoT should accelerate private participation in its economy and rid itself of the remaining publicly held companies.
- Land reform process to be quickened The implications of a new Lands Act coming into effect are not entirely clear, but the process of reform in acquiring land should be monitored. The inability of investors to get land in a timely and transparent manner remains one of the most significant barriers to local and foreign investment in Tanzania. Tanzania faces some serious problems in the way land acquisition is administered, and current efforts to improve procedures should be encouraged to come to fruition.
- Lack of public sector understanding Finally, the government's will to effectively promote the growth of a healthy and vibrant private sector is not evenly spread throughout the public sector. Momentum for meaningful change has been slowed by complacency, fears of government downsizing and economic re-colonialization, and heretofore disappointing levels of investment and job creation. More work needs to be done to educate public officials about the critical role the private sector must play in developing the Tanzanian state. Most agencies are in need of customer service training programs that can shift attitudes from the confrontational and controlling stance that typifies them today. Particularly in such agencies as the TRA, officious behavior combined with an intrusive mandate can be highly frustrating for private business. Further, public officials need to understand their role in either facilitating or frustrating private sector activity and economic growth.

Ultimately, each investor will make a decision to invest based on the ease of doing business, the cost of interacting with the government, security of the investment, input costs, and expected profit margins of a particular location. It was the goal of the Investor Roadmap to help Tanzania identify problems and institute the changes necessary to boost investment and increase its regional and global competitive position.