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TANZANIA'S AGENDA FOR ACTION

Executive Summary

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BIZCLIR

Business
Climate
Legal &
Institutional
Reform

TANZANIA'S AGENDA FOR ACTION

EXECUTIVE SUMMARY

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EXECUTIVE SUMMARY

Reform in Tanzania: Meeting the next generation of challenges

In just 15 years, Tanzania has emerged from the constraints of government control, centralization, and predominance of the state in all economic affairs, to a new emphasis on the free market and private sector-led growth. From the re-invention of agricultural cooperatives and other producer associations, to pro-investment law reform strategies, to proactive engagement of the private sector in updating its infrastructure, Tanzania has made a series of important choices that grant more freedoms and opportunities to actors throughout the economy. The results of this transformation amount, at least in part, to an East African success story: Tanzania's annual growth since 2000 has usually exceeded six percent, one of the strongest recent growth rates in the world.

Yet Tanzania remains one of the world's poorest countries. With the country's continuing dependence on agriculture – a sector that employs about 80 percent of the workforce and supplies nearly 45 percent of gross domestic product (GDP) – reforms have yet to make a broad-based impact because they do not adequately reach the rural areas. The process of building on the potential of Tanzania's agricultural resources, as well as strengthening other sectors, such as services, mining, and international trade, will take another generation of invested knowledge, diversification, and institutional reform.

This report examines the environment for doing business in Tanzania and identifies opportunities for targeted reform that can lead not only to continued growth, but also to reduced poverty.¹

¹The United Republic of Tanzania was formed by the union of Zanzibar and Tanganyika (mainland Tanzania) in 1964. While most laws and regulations in Tanzania apply to both Zanzibar and mainland Tanzania, certain "non-union" matters fall under the authority of the Revolutionary Government of Zanzibar. Such issues include investment, government procurement, privatization, competition, intellectual property, and sectoral strategies (e.g., agriculture or tourism). Based on the distinctiveness of Zanzibar's legal structure and business environment, this diagnostic focuses chiefly on

Tracking the 10 subject matter areas covered in the World Bank's annual Doing Business initiative (see accompanying box), along with two other critical areas, infrastructure and agriculture, this report reviews the legal framework, numerous public and private institutions, and social dynamics underlying conditions for reform. Based on the findings, a variety of recommendations are made.

| World Bank "Doing Business" categories | 2007 | 2006 | Change |
|---|------|------|--------|
| Doing Business overall (178 countries surveyed) | 130 | 129 | -1 |
| Starting a Business | 95 | 101 | +6 |
| Dealing with Licenses | 170 | 168 | -2 |
| Employing Workers | 151 | 150 | -1 |
| Registering Property | 160 | 156 | -4 |
| Getting Credit | 115 | 111 | -4 |
| Protecting Investors | 83 | 81 | -2 |
| Paying Taxes | 104 | 98 | -6 |
| Trading Across Borders | 100 | 90 | -10 |
| Enforcing Contracts | 35 | 34 | -1 |
| Closing a Business | 109 | 107 | -2 |
| Note: The World Bank's 2007 survey covered 175 countries. | | | |

The BizCLIR diagnostic and indicators

This report is grounded in a comprehensive methodology, established through USAID's Economic Growth Office, which has been used in nearly 30 countries since 1998.² Incorporating lessons learned from its first-generation legal,

the conditions in mainland Tanzania, unless noted otherwise.

²Detailed information about USAID's Seldon Project, which implemented the first generation of the methodology, can be found at www.bizlawreform.com.

institutional, and trade diagnostic tool, USAID recently sponsored the development of an updated and redesigned set of indicators through its Business Climate Legal and Institutional Reform (BizCLIR) project. The indicators now substantially align with the structure of the World Bank's enormously influential Doing Business country reports.³

Since 2002, Doing Business has assisted countries in targeting where their regulatory environments may favor or interfere with economic growth. For each of the topics it examines, the World Bank considers a few key indicia of whether and how the environment for doing business is "working," measured by such means as the number of procedures involved in achieving a goal, the number of days it takes, and its cost in relation to per capita income. The World Bank now gathers data from 178 countries and ranks each, thus demonstrating how their respective regulatory environments compare to others throughout the world. In the most recent Doing Business report, issued in late September 2007, Tanzania is 130th out of the 178 countries surveyed.

USAID's BizCLIR indicators take each subject covered by Doing Business and delve deeper into each one's respective legal framework, implementing and supporting institutions, and social dynamics. The BizCLIR indicators consider each subject from a variety of perspectives, illuminating, for example, how certain business processes apply to rural communities, micro-enterprises, and small and medium-sized enterprises (SMEs).

The in-country portion of this diagnostic took place from August 9 to 23, 2007, when a team of consultants traveled to Tanzania to study the country's business environment, including the opportunities to grow businesses in rural communities and the agricultural sector. The team conducted interviews across the business environment, including with state and local officials, SME owners, agricultural enterprises, business associations, representatives from the banking and lending sector, and many others. Interviews and observations took place in and near Dar es Salaam, Arusha, Moshi, and Morogoro. The team's objective was to obtain the "whole picture" of Tanzania's enabling

environment for business and trade. Questions elicited a variety of perspectives and viewpoints, and sought explanations for how a certain subject works in all pertinent communities, whether urban, suburban, or rural. The diagnostic culminated in a roundtable presentation and discussion on August 23, attended by representatives from throughout Tanzania's community of public and private sector reformers. At the roundtable, team members introduced their preliminary observations, which were then subject to feedback and elaboration from 50+ participants.

This report is compiled from individual chapters written thereafter by team members. Each chapter is structured the same way. Specifically, each has four sections:

| USAID/BizCLIR Diagnostic Team | |
|---------------------------------------|---|
| Jonathan Conly, Booz Allen Hamilton | Team Lead |
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| Andrew White, Independent Consultant | Registering Property, Paying Taxes |
| Jamie Bowman, Independent Consultant | Getting Credit |
| Tom Jersild, Independent Consultant | Protecting Investors, Closing a Business |
| Peter Baish, Independent Consultant | Trading Across Borders (trade facilitation) |
| Russell Brott, Booz Allen Hamilton | Trading Across Borders (trade policy) |
| Susan Pologruto, USAID | Enforcing Contracts |
| Mark Zannoni, Booz Allen Hamilton | Infrastructure |
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Legal Framework. The chapters first examine the laws and regulations that serve as the

³ See generally, www.DoingBusiness.org. BizCLIR indicators also cover infrastructure and agriculture.

structural basis for Tanzania's ability to achieve and sustain market-based development. They pose the following questions: How accessible is the law, not only to elite, well-informed groups, but also to less sophisticated actors, rural constituencies, or foreign investors? How clear are the laws, and how closely do existing laws reflect emerging global standards? How well do they respond to commercial realities that end-users face? What inconsistencies or gaps are present in the legal framework? Occasionally discovered through this review are opportunities to make relatively small changes that may result in significant openings for business development and expansion.

Implementing Institutions. Next, the chapters examine those institutions that hold primary responsibility for implementation and enforcement of the legal framework and subsidiary laws, regulations, and policies. These institutions include government ministries, authorities, and registries, or, in certain cases, private institutions such as banks and credit bureaus. In addition, courts are examined with respect to their effectiveness in addressing certain areas of the commercial law. Customs, immigration, and other border authorities are the chief implementing institutions of international trade policies. Again, the indicators seek to uncover how these implementing institutions function not only within Dar es Salaam, but also in rural communities and among less empowered constituencies.

Supporting Institutions. The indicators and chapters then look closely at the organizations, individuals, or activities without which the legal framework or policy agenda in Tanzania cannot be fully developed, implemented, or enforced. Examples include lawyers, banks, business support organizations and private services, professional associations, universities, and the media. Questions and analyses examine relative awareness of law and practice on the part of each institution, and the specific ways in which institutions increase public and professional awareness, work to improve the business environment, and otherwise serve their constituencies. In certain instances, weaknesses in one or more supporting institutions are identified as critical areas for reform.

Social Dynamics. Finally, the indicators look to relevant, critical social issues. These questions

attempt to uncover roadblocks to reform, including entities that may have an interest in subverting change. These indicators also seek to identify significant opportunities for bolstering the business environment—such as champions of reform or regional initiatives—as well as matters of access to opportunity and formal institutions. Often a full understanding of legal and institutional issues cannot be achieved without a nuanced consideration of a country's social dynamics.

With respect to each area of inquiry, the diagnostic used a process of reviewing and scoring key indicators to develop a thorough analysis. Once the team gathered as much relevant information as possible—from written sources, meetings and interviews, and consultation among colleagues—each of the **key indicators** was scored based on the assessor's best estimate of the issue at hand. To help an assessor determine a score, between five and 20 **supporting questions** accompanied each key indicator. These questions themselves were not scored, but were intended to guide the assessor toward a consistent, factually based judgment from which the key indicator score was then derived.

The score awarded key indicators aligns with the following conclusions:

- 1 = strong negative
- 2 = moderate negative
- 3 = neutral (or having some negative and some positive qualities)
- 4 = moderate positive
- 5 = strong positive

The scores are not intended to serve as a stand-alone, number-based pronouncement on the state of affairs in Tanzania. Rather, they should be read in conjunction with this report as a means of (1) understanding the status of certain key indicators of a healthy legal and institutional environment for business and trade, and (2) identifying priorities for reform.

Summary of Subject-Specific Findings

The findings of the 10 Doing Business-aligned subject-matter areas examined in this diagnostic, as well as the areas of infrastructure and agriculture, are summarized below.

Starting a Business. In recent years, Tanzania has streamlined its business formation process and improved its ability to meet the needs of investors. It similarly has made key reforms to the operation of cooperatives and producer associations, such that this collective approach to doing business can shake off its socialist history and, in the future, far more effectively serve the needs of farmers and agriculture-based industries. The country has further succeeded in privatizing much of its state-owned industry, thereby opening up opportunities for private sector growth. With the enactment of a new competition law in 2003, Tanzania's environment for free and fair competition among economic actors is slowly improving. Yet, notwithstanding these important steps forward, Tanzania's unduly burdensome licensing regime, particularly at the local level, continues to impose a debilitating effect on entrepreneurs. The regime drives up the costs of doing business and discourages enterprises from joining the formal economy. A vast portion of Tanzania's economy remains in the informal sector, and the country therefore is unable to elicit increased growth from its multitude of micro-enterprises.

Dealing with Licenses. Over the past five years, a number of sources have detailed the issue of Tanzania's exceptionally difficult licensing and regulatory environment. Recently, the government has taken steps to reform, most notably through the enactment of the Business Activities Licensing Act, which, when it is finally implemented, promises to significantly streamline the procedures businesses must follow to meet their legal obligations. Certain areas of Tanzania's business environment, such as foreign investment, have already simplified and streamlined regulations. Others, such as the registration of real and movable property for the purpose of accessing credit, remain mired in non-productive, unduly burdensome licensing and regulatory regimes. In some cases, such as the emergence of micro-enterprise lenders, there may not be enough regulation – that is, a lack of meaningful oversight over cooperative lending structures may be leading to a system wrought with poor or even abusive habits. In other instances – and perhaps most importantly – the central issue is of administrative capacity and competence. Public officials may have sound regulations to work with, worthy oversight objectives, or at least the will to do their best work, but they often simply lack the

skills and resources to fulfill these obligations as needed. This is particularly true at the local level.

Employing Workers. Legal and institutional labor reforms are underway with the aim, on one hand, of effectively protecting workers while, on the other, facilitating the greater labor force flexibility and skill levels needed to enable employers to compete successfully in the global economy. Tanzania's most recent labor and employment law reform – the Employment and Labour Relations Act – has a primary objective “to promote economic development through economic efficiency, productivity and social justice.” This law and its institutional reform counterpart, The Labour Institutions Act, are part of the government's long-term plan for economic liberalization. New laws on occupational health and safety, workers' compensation, social security, labor market policy and employment promotion, skills development, labor market information and statistics, and employment services are in the planning stage. The result is meant to be a rational labor and employment regulatory system that will advance economic development, bring more enterprises out of the unregulated and unprotected informal sector, and promote respectable work.

Registering Property.

Real property.⁴ Tanzania's debilitating problems in land use are attributable to the poor state of land registration in the country, particularly at the village level. The Village Land Act of 1999 sought to establish a self-contained system of registration and titling at the village level. Proper administration of this function, however, reportedly requires at least 50 different paper forms – an overwhelming amount, given the relatively primitive facilities to which the village councils have access. Moreover, district and national authorities can and do override village decisions, often with little transparency or accountability. Ultimately, administration of land is embedded in an overly complicated set of regulations that are perceived as secretive and non-accountable. Thus, while the Village Land Act sought to reform the previous system, which

⁴ As detailed in this report's chapter on Registering Property, examination of real property for this diagnostic took place only through review of the vast array of existing reports and diagnostic materials pertaining to the issue, rather than through the “360” degree interview process described earlier in this section.

maintained all control over lands at the national level, its implementation remains too complicated and fails to ensure full transparency in the administration of land.

Intellectual property. The legal framework governing the registration and use of intellectual property in Tanzania is sound. But expertise within the primary implementing institution for the administration of the law is weak, thus undermining the regulatory environment for intellectual property. The community of supporting institutions, including judges and lawyers, would benefit from strengthened opportunities to learn about trends in intellectual property that are relevant to Tanzania's long-term growth.

Getting Credit. Access to credit remains one of the greatest barriers to Tanzania's economic growth. Although the legal and regulatory framework governing commercial banks and financial institutions has improved with the implementation of the government's financial sector reforms, the huge demand for credit by Tanzania's businesses and households, particularly in rural communities, continues to go unmet. Semi-formal lending institutions, including Savings and Credit Cooperative Organizations (SACCOs) and Financial Non-Government Organizations, are not yet able to meet the demand. They are subject to minimal oversight by ministries that readily acknowledge their lack of capacity, both in staff and technology. Reform in the area of Getting Credit must be multi-faceted, and includes, among other initiatives, the need to provide substantially increased technical support to small borrowers; establish a unified and streamlined system of secured transactions; strengthen the court system's management of small commercial cases; bolster the burgeoning warehouse receipts program; and encourage increased formalization of enterprises, so that they can take advantage of credit opportunities that are available to them.

Protecting Investors. Tanzania's company law, which should be the bedrock upon which good investment conditions exist, lacks best-practice standards and is often unclear and cumbersome to use. The law suffers from having been drafted without extensive local consultation or comment. On the other hand, Tanzania's corporate governance code, enacted in 2002, sets forth many international best practices, and, while

applying directly to stock exchange-listed companies only, it is generally observed by other companies in Tanzania. The actual state of corporate governance "on the ground" is hard to measure, but a strengthened company law and expanded corporate governance code could clearly enhance it. Through the services of its Tanzania Investment Centre in particular, Tanzania exhibits a welcoming attitude to foreign investment. However, a major problem is that information on companies is harder to find in Tanzania than in comparable countries. This can only hurt potential investment, as investors may not be willing to invest in companies about which they cannot find information.

Paying Taxes. The legal framework for Tanzania's system of collecting taxes is relatively sound and reflects a commitment to fiscal reform on the part of the government. However, the Tanzanian Revenue Authority must cope with the country's very low rate of business formalization – when companies do not register, they do not pay taxes. The TRA also receives mixed reviews from stakeholders, who assert that it displays a strong bias against taxpayers' self-assessments and always insists on higher assessments when reviewing tax returns. Tax compliance is weak in Tanzania, particularly in rural areas. This likely reflects a feeling among rural Tanzanians that they are not a significant part of the government's overall program for economic growth.

Trading Across Borders.

Trade policy. Recently, Tanzania enhanced its trade potential by incorporating international and regional agreements into its legal and regulatory frameworks and by creating or strengthening a variety of institutions charged with implementing these agreements. The country is a founding member of the World Trade Organization (WTO), a member of the East African Community (EAC), and a member of the Southern African Development Community (SADC). In 2005, Tanzania took the significant step of establishing an EAC customs union with Kenya and Uganda. Notwithstanding these recent developments, a great number of reforms have yet to take place. With respect to trade in goods, a number of taxing schemes, bureaucratic delays, and other regulatory constraints continue to limit the competitiveness of Tanzanian exports. Similarly, trade in services is not reaching its potential, due in significant part to continuing restrictions on the free movement of labor.

Trade facilitation. Tanzania has also made important strides toward improving the facilitation of movement of goods at its borders. Initiatives are underway to ensure integrity, transparency, and consistency for the trade community, and the Customs and Excise Department (CED) in particular has been reform-oriented in recent years. However, the CED cannot solve by itself the profound issues of port congestion, transportation infrastructure weaknesses, and the disarray of antiquated processing methods, confusing and expensive fee structures, and conflicting jurisdictions. Top-level attention to these issues is needed at the Presidential level and by Parliament to coordinate actions that are necessary but may attract opposition. Not addressing these pressing issues will stunt the growth potential of the Tanzanian economy.

Enforcing Contracts. Tanzania ranks well with respect to Enforcing Contracts, placing 35th out of 178 countries the World Bank ranked in 2007. However, this ranking is unduly optimistic given the reality of commercial dispute resolution identified in this diagnostic – perhaps it reflects only the strides taken with respect to the commercial court, a resource for higher-value cases. In practice, small commercial actors in Tanzania rarely engage the formal mechanisms of the courts to resolve disputes. Reasons for avoiding the courts include high court fees, slow processes, and frequent delay tactics used by lawyers. It is rare for written contracts to be drafted and signed by the parties to a business transaction. Although informal dealings allow commerce to take place relatively unencumbered by the hassle and expenses of greater formality, it becomes much riskier when parties are strangers to one another. Strengthening Tanzania's system of dispute resolution for smaller enterprises – those that typically would not find themselves in the high-value Commercial Court – can diminish the risk of doing business with an unknown partner and promote more arms-length transactions. There is high demand for better legal education, more and better access to continuing legal education, and strengthened training for judges and magistrates.

Closing a Business. Tanzania has a new insolvency law, effective April 2006, which is not well known and which its few users have described as unclear and as not fulfilling best practice. Other factors also contribute to an

inefficient insolvency system in Tanzania: the laws and practices dealing with commercial credit are seen as inadequate by lenders, and the court system is perceived as slow, costly, and not conversant with business issues, especially complex financial and insolvency issues. Just as important, Tanzania has yet to develop an efficient registry for recording liens on collateral. There are also no specialized professional insolvency associations or other supporting institutions, such as workout and turnaround consultants experienced with the law's operation, or liquidating firms experienced in selling a business and monetizing its assets.

Infrastructure. While certain infrastructure sectors are healthier than others in Tanzania and are receiving investment – such as information and communications technology (ICT) with its booming cellular services – other sectors, such as water and wastewater, have yet to formulate modern laws. Still others are witnessing a resurgence of activity and interest, with notable improvements, but with much progress still needed, such as in the maritime, rail, and roadway sectors. One critical change in recent years is the engagement of the private sector to invest in infrastructure solutions, a practice that bodes well for the future. Improved infrastructure must be at the heart of Tanzania's economic growth considerations, as much of its agricultural production never reaches market, in great part due to poor infrastructure.

Agriculture. General macro-economic reform efforts to liberalize Tanzania's agriculture sector occurred predominantly between 1986 and 1997. However, in parallel with its withdrawal of control over the agriculture sector the government also withdrew much of its support. Thus, general agricultural know-how is weak in the country and services to the rural sector, particularly extension services, are poor. Additionally, there is a lack of communication between central government and local governments. The central government's passes down its extensive and growing policy regime for agriculture through the regional administration to the district level, but no clear process exists for districts to provide feedback on implementation issues. Moreover, despite liberalization and a slow increase in competition, cartels continue to dominate the input market to the detriment of the agriculture sector. Ultimately, the perennial issues of poor access to irrigation, inputs, credit,

and infrastructure, as well as poor taxation practices, impede farmers from entering and thriving within the formal market. Although many recent reforms have sought to address these problems, Tanzania must direct more attention to facilitating small farmer's entrance and active participation in the formal economy.

Crosscutting Themes

The instant diagnostic is organized so that 12 components of a healthy and prosperous economy are considered discretely and related to each other where appropriate. This format represents much of the Western construct about economics, civil society and the individual's relationship to the state and other institutions. However, certain issues and dynamics are so prevalent across this analytical framework that they warrant special mention. These can be thought of as crosscutting themes or topical "layers" falling over all areas of review. In this diagnostic, the layers include:

1. The need for all reforms to be conceived and applied with Tanzania's status as an agriculture-based economy in mind.

The importance of agriculture in Tanzania's economy cannot be understated. Agriculture is by far the dominant sector for employment and will necessarily continue to be Tanzania's major source of new jobs in the near and medium term. But subsistence farming continues to dominate the rural sector and is the primary source of livelihood for approximately 45% of the population. Both the government and donors must devise ways to make agriculture jobs ones that move far beyond subsistence and allow for growth from increased productivity, trade, and entrepreneurship.

Indeed, there is an emerging consensus that far more needs to be done by governments and donors to recognize the fundamental place of agriculture not only in Tanzania, but most African economies.⁵ In particular, laws and institutions relating not only to agricultural productivity, but also to the ability to seize opportunities in agriculture and access markets, need strengthening. Among other measures, agriculture-dependant African economies need

⁵ See World Bank Independent Evaluation Group, World Bank Assistance to Agriculture in Sub-Saharan Africa (October 11, 2007).

improved seeds, water, infrastructure, credit, and extension services.

Throughout nearly all of this report's chapters, the importance of agriculture and the special needs of rural communities in Tanzania are recurring themes. In addition to a chapter devoted to agriculture-specific issues – including access to seeds, fertilizer, pesticides, and know-how – the special interests of rural and agricultural communities are emphasized in discussions of Starting a Business (Cooperatives), Employing Workers, Registering Property, Getting Credit, Trading Across Borders, Infrastructure, and others.

2. The persistence of informality in the commercial environment.

According to one study, "approximately 98% of all businesses [in Tanzania] operate extra-legally because of the insurmountable regulatory and administrative obstacles they would have to overcome to register, incorporate and conduct their business activities legally."⁶ This number is somewhat speculative – in fact, this diagnostic identified insufficient understanding of the makeup of the informal sector.

Tanzanian enterprises that operate in the informal sector forego: (a) access to assistance programs normally only available to formal sector enterprises; (b) access to the mainstream credit system; (c) easier enforcement of contracts because the name, address, and other particulars of businesses are known; and (d) the ability to become part of the property-owner sector, which enables them to obtain collateral for loans. In addition, the state cannot collect taxes from informal enterprises and is unable to collect information that can be used as a basis for economic and other planning.

Thus, as Tanzania strengthens its legal regime in support of long-term economic growth, there is a particular need to increase the rate at which enterprises join the formal sector. As discussed in this report's chapters on Starting a Business and Dealing with Licenses, Tanzania has devoted considerable effort to streamlining certain registration and licensing requirements. But more action is needed. Additional steps include

⁶ Programme to Formalise the Assets of the Poor of Tanzania and Strengthen the Rule of Law: (MKURABITA) Final Diagnosis Report, VI, Institute for Liberty and Democracy (2005).

improving outreach and information provided to new and small entrepreneurs; reducing registration fees and costs; reducing and simplifying taxes; and generally abolishing all unnecessary or duplicative regulations, particularly at the local levels. Until the rate of formalization increases, Tanzania's "gray economy" will hold in check the increases in productivity that the country desperately needs.

3. The importance of strengthening the capacity of local and regional institutions.

Much of Tanzania's economic progress in recent years is attributable to the country's abandonment of socialism and reform of its heavy reliance on large national institutions to run the economy's affairs. Decentralization is a key part of this effort. Over the past generation, responsibility for administrative matters has devolved more and more to local and regional institutions.

But resources and knowledge have not kept up with this transformation. Throughout this report, there are examples of how local institutions are not functioning properly or are not being properly served. As a preliminary matter, access to Tanzania's quickly evolving regime of laws and regulations is poor. Possible sources of information – law libraries, book stores, electronic resources – do not yet meet the significant need for access to the new regimes, particularly outside of urban centers. Institutions that are charged with implementing the law are at a threshold disadvantage – they may not even know what the applicable authority is. In particular, local institutions that have little or not internet access suffer from a severe lack of access to information.

In addition, a great deal of authority is vested with village councils, but these councils often do not have the internal capacity or the resources they need to properly execute their functions. From adequate transportation to office supplies, village councils are lacking. They often are not in the position or habit of documenting their work, thus leading to a lack of transparency and guidance for the future. They are also vulnerable to arbitrary and non-transparent interference in their functions by nationally based institutions.

Moreover, with respect to agricultural development, knowledge that would greatly

benefit small farmers does not reach them through the nation's extension services. There are large national associations representing private sector interests, but they function far less effectively at the local level. Relatively strong universities and research institutions located in the nation's capital are unable to serve the interests of rural constituencies, and similar institutions at the local level are weak and lack resources.

There are numerous additional examples throughout this report of how key institutions at the local level are unable to meet their core missions. Future assistance initiatives must move substantially into rural environments to better understand and respond to local needs.

4. The demand for more accessible and more relevant information in all sectors.

In addition to the problem of access to laws and regulations, there is a dearth of reliable information sources in Tanzania. As discussed in this report's chapter on Getting Credit, access to credit information concerning potential borrowers is negligible, thus vastly increasing the risk of granting and the cost of receiving credit. Similarly, as discussed in the Enforcing Contracts chapter, court data is poorly maintained, another factor that heightens business risk. Investors also find a lack of company information when seeking to do business in Tanzania. Finally, as detailed in the Trading Across Borders chapter, collection of critical trade data also is weak, which makes it hard to document demand and promote the country as a destination for trade.

The absence of reliable information pertaining to both the private and public sectors undermines the entire economy and diminishes productivity and the potential for growth. Development and distribution of sound information sources should be an ongoing priority.

5. The growing significance of regionalism.

As evidenced by its membership in the EAC, including its participation in a regional customs union, Tanzania recognizes that its growth policies for the future implicate greater reliance on its neighbors. The country borders five landlocked countries and offers the port of choice for eastern Congo. Tanzania's neighbors depend on its roads, rails, ports, and other infrastructure. Tanzania's place in Eastern Africa also presents

enormous opportunities for trade in services – including professional services, franchised businesses, and trade facilitation services. Although harmonization of country practices and regionalism generally is beyond the scope of this report, they are important themes that should be taken into account as Tanzania plans for its future growth.

TANZANIA SWOT (STRENGTHS, WEAKNESSES, OPPORTUNITIES, THREATS) TABLE

| Strengths | Weaknesses | Opportunities | Threats |
|---|--|---|--|
| Overall | | | |
| Emergence as a country with new emphasis on the free market and private sector-led growth. Annual growth since 2000 usually in excess of 6%. | One of the world's poorest countries. Continued dependence on agriculture. Reforms do not reach rural areas. | Both the government and donors must devise ways to make agriculture jobs ones that move far beyond subsistence and allow for growth from increased productivity, trade, and entrepreneurship. Support programs to seize opportunities in agriculture and access markets. Future assistance initiatives must move substantially into rural environments to better understand and respond to local needs. | Many enterprises operate in the informal sector foregoing: (a) access to assistance programs; (b) access to the mainstream credit system; (c) easier enforcement of contracts, and (d) the ability to become part of the property-owner sector. The state cannot collect taxes from informal enterprises and is unable to collect information that can be used for economic and other planning. The absence of reliable information pertaining to both the private and public sectors undermines the entire economy. |
| Starting a Business | | | |
| Streamlined business formation processes. Improved ability to meet the needs of investors. Key reforms to the operation of cooperatives and producer associations. Privatization of state-owned industry. Enactment of the Competition Law. | Unduly burdensome licensing regime, particularly at the local level. High costs of procedures to start a business. Vast portion of the economy remains in the informal sector. | Many reforms have been initiated in this area, new programs need to support these ongoing efforts, to make sure initiatives are taken to completion. | Delays in the drafting of implementing regulations will stall the benefits of legislative and institutional reforms in this area. |
| Dealing with Licenses | | | |
| Enactment of the Business Activities Licensing Act. Simplified and streamlined regulations in the area of foreign investment. | Difficult and complex licensing and regulatory environment. Burdensome licensing and regulatory registration of real and movable property. Lack of meaningful oversight over cooperative lending structures. Poor administrative capacity and competence. | Potential for significantly streamlining the procedures businesses must follow to meet their legal obligations. | Public officials often lack skills and resources to fulfill obligations, particularly at the local level. |
| Employing Workers | | | |

| | | | |
|--|--|---|---|
| Legal and institutional labor reforms are underway to effectively protect workers. Enactment of the Employment and Labour Relations Act and The Labour Institutions Act. | Uneducated workforce cannot compete in the global economy. | New laws on occupational health and safety, workers' compensation, social security, labor market policy and employment promotion, skills development, labor market information and statistics, and employment services. | Lack of programs to provide workforce training and development of new skills will leave Tanzania behind, no matter the efforts to increase competitiveness. |
| Registering Property | | | |
| Real Property | | | |
| Enactment of the Village Land Act of 1999. | Deficient land registration, particularly at the village level. 50 different paper forms required for registering property and titling. Primitive facilities. District and national authorities override village decisions. Little transparency or accountability. | Interest in the government to address land titling and registration problems needs to be supported with directed programs to reform this sector. | Implementation of the Village Land Act remains too complicated and fails to ensure full transparency in the administration of land. |
| Intellectual Property | | | |
| Sound legal framework governing the registration and use of intellectual property. | Weak expertise within the primary implementing institution for the administration of the law. | The community of supporting institutions, including judges and lawyers, would benefit from strengthened opportunities to learn about trends in intellectual property. | A weak implementing institution annuls the positive effects of improved legislation. |
| Getting Credit | | | |
| Recent improvements in the legal and regulatory framework governing commercial banks and financial institutions. | Lack of a sound access to credit system. Lack of modern laws. Large informal sector without access to credit. | Reform must include: increased technical support to small borrowers; a unified and streamlined system of secured transactions; strengthened court system's management of small commercial cases. | Semi-formal lending institutions, are subject to minimal oversight by ministries that readily acknowledge their lack of capacity, both in staff and technology. Unmet demand for credit by Tanzania's businesses and households. |
| Protecting Investors | | | |
| The 2002 corporate governance code based on international best practices. Welcoming attitude to foreign investment through the Tanzania Investment Centre. | Tanzania's company law lacks best-practice standards and is unclear and cumbersome to use. The law was drafted without extensive local consultation or comment. Lack of information on companies. | A strengthened company law and expanded corporate governance code could enhance corporate governance. | Lack of information on companies could hurt potential investment, as investors may not be willing to invest in companies about which they cannot find information. |
| Paying Taxes | | | |
| The legal framework for Tanzania's system of collecting taxes is relatively sound and reflects a commitment to fiscal reform on the part of the government. | Tax compliance is weak, particularly in rural areas. Lack of a clearly defined tax-policy. Large informal sector, resulting in a narrow tax base. | Tax compliance would likely increase if Tanzanians could see a fair and tangible value in return –in the form of improved infrastructure and overall quality of life. | Narrow tax base could get even narrower without a clear tax policy. The lack of a clear and non-arbitrary policy, could shake investor confidence more than would be likely from any restructuring of |

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| | | | the overall VAT exemption and relief regime. |
| Trade Across Borders | | | |
| Trade Policy | | | |
| Enhanced trade potential with the incorporation of international and regional agreements. Establishment of an EAC customs union with Kenya and Uganda. | The system of standards and technical regulations is severely deficient. The media consistently misinform about facts related to international trade. Tariff bindings and modal tariff rate are arguably too high. EPZs with little knowledge. | As a member of various trade organizations, the country has access to laws and institutions that comply with international standards and could serve as model for reform in this area. | Limited exports due to numerous taxing schemes, bureaucratic delays, and other regulatory constraints. Continuing restrictions on the free movement of labor. |
| Facilitating Trade | | | |
| Tanzania has also made important strides toward improving the facilitation of movement of goods at its borders. | Port congestion, transportation infrastructure weaknesses, and antiquated processing methods, confusing and expensive fee structures, and conflicting jurisdictions. | Initiatives are underway to ensure integrity, transparency, and consistency for the trade community, and the Customs and Excise Department in particular has been reform-oriented in recent years. | Not addressing these pressing issues will stunt the growth potential of the Tanzanian economy. |
| Enforcing Contracts | | | |
| Tanzania ranks well with respect to Enforcing Contracts, placing 35th out of 178 countries the World Bank ranked in 2007. | High court fees, slow processes, and frequent delay tactics used by lawyers. Rare use of written contracts. | Strengthening the system of dispute resolution for smaller enterprises can diminish the risk of doing business and promote arms-length transactions. There is high demand for better legal education, and strengthened training for judges and magistrates. | Small commercial actors rarely engage the formal mechanisms of the courts to resolve disputes. |
| Closing a Business | | | |
| Tanzania has a new insolvency law. | The new insolvency law is not well known and unclear. Court system is slow, costly, and not conversant with business issues. Inefficient registry for recording liens. Lack of specialized professional insolvency associations. | The Ministry of Justice is still working on the current draft of the Regulations to the law. Support is needed to ensure consistency with international standards of both the law and regulations. | An unreliable system prevents the redistribution of income-producing assets and employees. Lenders will not extend credit freely unless their rights as creditors are respected when their borrowers cannot or do not pay. |
| Infrastructure | | | |
| Strong and booming information and communications technology. Engagement of the private sector to invest in infrastructure solutions. | Lack of modern laws in the water and wastewater, sectors. Support lacking for progress in the maritime, rail, and roadway sectors. | Support to formulate modern laws. Support for the ongoing efforts in the maritime, rail, and roadway sectors. | Improved infrastructure must be at the heart of Tanzania's economic growth considerations, as much of its agricultural production never reaches market, in great part due to poor infrastructure. |
| Agriculture | | | |
| General macro-economic reform efforts | Weak general agricultural know-how. | Although many recent reforms have sought | The perennial issues of poor access to |

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| <p>between 1986-1997 to liberalize the agriculture sector. Many ongoing donor funded programs to support agriculture sector.</p> | <p>Poor services to the rural sector, particularly extension services. Lack of communication between central government and local governments. Cartels continue to dominate the input market to the detriment of the agriculture sector.</p> | <p>to address these problems, Tanzania must direct more attention to facilitating small farmer's entrance and active participation in the formal economy.</p> | <p>irrigation, inputs, credit, and infrastructure, as well as poor taxation practices, impede farmers from entering and thriving within the formal market.</p> |
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