

## **Improving the Investment Climate in the United Republic of Tanzania**

### **The Case of [WEZESHA] PSDP and TCCIA Kilimanjaro Partnerships.**

**By**

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## **APPROVAL PAGE**

This is to certify that this Research Project was carried out under our strict supervision and has been approved for submission to the University in partial fulfilment of the requirements for the award of the Doctor of Philosophy in Management - St. Clements University.

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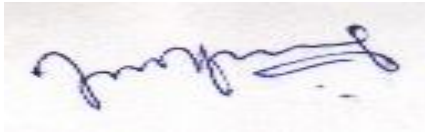
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## DECLARATION

I, Felician John Ifunya do declare that I am the sole author of this dissertation, and that where other peoples' work has been used, this has been acknowledged, and I further declare that to the best of my knowledge this has not previously been presented for any academic award.



Signed:

Felician John Ifunya

## **DEDICATION**

I dedicate this work to my loving wife Mrs Angela Daniel Ifunya for the support and advice and to my children; Eric, Allen, Daniel and Frank who encouraged me that I can do it. I also dedicate this work to my only late daughter Miss Joy who passes away at a very tender age. I believe that through her prayers, I harnessed the energy, zeal and vigour to accomplish this task.

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Finally I would like to recognise the contributions I received from the respondents who in one way or another filled in the perception questionnaire or attended the trainings and interventions that are cited.

## **ABSTRACT**

Improving the Investment Climate in the United Republic of Tanzania: the Case of [WEZESHA] Private Sector Development Programme for Lake Zone and TCCIA Kilimanjaro Partnerships, assessed the factors that inhibit the growth and the employment potential of the private sector. In the United Republic of Tanzania the Private sector is recognised as an engine of economic growth.

Through an enterprise survey that measured the perceptions of entrepreneurs, and cases developed while the author was conducting various assignments, obstacles and factors inhibiting the investment climate of firms and farms were identified. The findings corroborate the immense literature such as the World Bank Doing business database, Heritage International Economic Freedom Index and the Commonwealth Business Survey.

The five problem statement propositions i.e. i) the high cost of doing business in Tanzania, ii) high and multiple taxes, iii) inadequate hard and soft infrastructure, iv) legislation of local authority by-laws targeting business siphoning and v) a weak and nascent private sector organisation unable to constructively advocate were corroborated by the findings and through the review of literature.

For example the doing business database 2007 rank Tanzania the worst in dealing with licence (172 out of the 172 countries surveyed). The perception study on the other hand, reveals that entrepreneurs are not consulted while drafting business laws and policies. There is lack of property protection and SMEs face difficulties to access credit.

To create a conducive environment, the study suggests that a consultative mechanism through Public Private Dialogue is essential. The study proposes that the dialogue focuses on issues that Tanzania is lagging behind as benchmarked by the World Bank Doing business.

To facilitate this, Central and Local Governments may concentrate to reduce the burdens to business with regards to reducing the licensing burdens, ease the burden of registering properties, ease access to credit and improve tax paying compliance. Conversely, it is suggested that Private sector organisations be strengthened in the areas of membership, leadership, governance, resources and service delivery. Strengthening PSOs will enable them to constructively dialogue with the governments.

As it takes two to tango (dance), development partners are encouraged to facilitate the dialogue by building the capacity of both the public and private sector to engage in sustainable dialogue. The study concludes that this may be achieved through development partners building the capacity of PSOs in i) advocacy, ii) development and management of services and iii) project management.

## ABBREVIATIONS

AC,	Advocacy Component
ACP	African Caribbean and Pacific
ADB	Asian Development Bank
AGOA	African Growth Activity Act
AIDS	Acute Immune Deficiency Syndrome
AKIBOA	Association of Kilimanjaro and Arusha Bus Owners).
ATI	African Trade Insurance
BDS	Business Development Services
BEST	Business Environment Strengthening Tanzania
BIAC	Business and Industry Advisory Committee
Boos	Business Member Organisations
BRU	Better Regulation Unit
BUSA	Business Unity Association
CBC	Commonwealth Business Council
CCM	Chama Cha Mapinduzi- Tanzania Political and Ruling Party
CEFE	Competence based Economies through the Formation of Entrepreneurs
CG	Consultative Group
CHAWABIMO	Organization of the Moshi Central Market Traders) are associates of TCCIA-KILI
CIA	Central Intelligent Agency-USA
CIPE	Centre for International Private Enterprises
COC	Chambers of Commerce
CPI	Corruption Perceptions Index
CTI	Confederation of Tanzania Industries
DAC	District Advisory Committee
DAIPESA	Private Enterprise Support Activities
DANIDA	Danish International Development Agency
DFID	Department for International Development (UK)
ERP	Economic Recovery programmes
ESRF	Economic and Social Research Foundation Tanzania
FDI	Foreign Direct Investment
FFA	Force Field Analysis
FIAS	Foreign Investment Services
GDP	Gross Domestic Product
GNI	Gross National Income
GOT	Government of Tanzania
GTZ	German Development Cooperation
HI	Heartland International
HIV	Humane immune deficiency virus
ICAs	Investment Climate Assessments
ICF	Investment Climate Facility
IFC	International Finance Corporation
IHK	Chamber of Industries Germany
ILO	International Labour Organisation
IMF	International Monetary Fund
Jiendeleze	Acronymy meaning Facilitate –a private sector development project supported by the Netherlands
LGRP	Local Government Reform Programme
MAYAWA	Association of Vanilla Growers in Bukoba District
MIT	Ministry of Industries and Trade
MSA	Membership Satisfaction Analysis
NEDLAC	National Economic Development and Labour Council of South Africa
NGO	Non Governmental Organisation and not-for-profit



NGRSP-	National Strategy for Growth and Reduction of Poverty- Mkakati wa Kuondoa Umaskini Tanzania
MKUKUTA	
NSSF	National Social Security Fund
OECD	Organisation for Economic cooperation and Development
PAMOJA	Kilimanjaro Joint Action Project
PFI	Policy Framework for Investment
PICS	Productivity and the Investment Climate Survey
PPD	Public Private Dialogue
PPP	Public Private Partnership
PRSP	Poverty Reduction Strategy Papers
PSD	Private Sector Development
PSDP	Private Sector Development Programme
PSOs	Private Sector Organisations
PSRP	Public Services Reform Programme
RIAs	Regulatory Impact Assessments
RNE	Royal Netherlands Embassy
SAP	Structural Adjustment Programme
SBP	Strategic Business Partnerships for growth in Africa
SDPS	Same District Planning Support
SEQUA	Foundation for Economic Development and Vocational Training
SIDA	Swedish International Development Agency
SME	Micro, Small and Medium Enterprises
SNV	Netherlands Development Agency
SSA	Sub-Saharan Africa
TAFOPA	Tanzania Food Processors Association
TANU	Tanganyika African National Union
Tawe	Tanzania Association of Women Entrepreneurs
TCCIA	Tanzania Chamber of Commerce Industry and Agriculture
TCCIA-KILI	Tanzania Chamber of Commerce Industry and Agriculture –Kilimanjaro Region
TI	Transparency International
TIC	Tanzania Investment Centre
TLB	Transport Licensing Board
TNBC	Tanzania National Business Council
TOT	Training of Trainers
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
TTCL	Tanzania Telecommunication Company Limited
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
URT	United Republic of Tanzania
USAID	United States of America Development Agency
VAT	Value Added Tax
VBA	Virtual Business Association
WDR	World Development Report
WEZESHA]	Acronym used for the Private Sector Development Programme for the Lake zone
WTO	World Trade Organisation

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## **CHAPTER ONE**

### **BACKGROUND AND INTRODUCTION**

#### **1.1. Study Background**

##### **1.1.1. The Geography and History of Tanzania**

Tanzania is located in Eastern Africa, bordering the Indian Ocean, between Kenya and Mozambique. Its geographical coordinates are 6° 00' south and 35° 00' east. Tanzania according to the National census of 2002 had a population of 34,443,594 inhabitants with an area of 945,087 square Kilometres. The country has a 3,861 km of land boundaries and 1,424 km of coastline with border countries of Burundi, Democratic Republic of Congo, Kenya, Mozambique, Rwanda, Uganda and Zambia.

The land is rich, in both agricultural potential and minerals. Tanzania land use of 4.2% of arable land with only 1.02% with permanent crops means that much land is unoccupied, and there is great scope for investment in agriculture and agro-related businesses. The country's natural resources include hydropower, tin, phosphates, iron ore, coal, diamonds, gemstones, gold, natural gas and nickel. Mining has attracted international interest with large amounts invested in the exploration of gold, base metals and diamonds. The other minerals and energy resources remain unexploited. Tourism continues to expand with potential for further expansion.

Tanzania is a land of Kilimanjaro. With an altitude of 5,845m above sea level, Kilimanjaro is the highest mountain in Africa. Tanzania is also a domicile, and is surrounded by three of the largest lakes on the continent ; Lake Victoria (the world's largest second fresh water lake) in the north, Lake Tanganyika (the world's second deepest lake) in the West, and Lake Nyasa in the South West. The Olduvai Gorge located in Northern Tanzania, has rich pre-historical evidence, including fossils remains of some humanity's earliest

ancestors. Discoveries from Olduvai Gorge suggest that East Africa may have been the site of human origin.

The history of Tanganyika to the world is tracked from the Christian era. It is believed that the area was inhabited originally by ethnic groups using a click-tongue language similar to that of Southern Africa's Bushmen and Hottentots. These tribes were mostly replaced by Bantu farmers (although remnants are still traceable – Sandawis) migrating from west and south and Nilotes and related northern peoples. The coastal area of Tanzania (Zanzibar and Dar es Salaam) felt foreign impact in the 8<sup>th</sup> century with the Arab traders and immigrants coming as far as Persia (now Iran) and India. Vasco da Gama the Portuguese navigator explored the East African coast in 1498.

Tanzania was a colony and part of Germany from the 1880 to 1919. Karl Peters is said in 1884 to have concluded a series of treaties with tribal chiefs in the interior who accepted the German protection. Whilst the German colonial administration brought cash crops, railroads, and roads, they were confronted with resistance from the local community signalling nationalism. For example, the Maji Maji rebellion of 1905-07 that was organised by Kinjekitile Ngwale wa Ngalembe involved about 20 tribes. Causes of this war include land alienation, taxation, forced labour, cultural interference, and loss of freedom that was caused by the German rulers but was countered by locals. The German rule domination of Tanzania ended after World War One when German was defeated by the allied forces. Tanganyika was handed over to the United Kingdom under the League of Nations mandate. After World War Two, Tanganyika became a United Nations Trust Territory under the United Kingdom.

In 1954, the father of the nation Julius Kambarage Nyerere organised a Tanganyika African National Union (TANU) that claimed the independence of Tanganyika. Tanganyika became autonomous in May 1961, independent in December 1961 and a republic in December 1962. Shortly after independence (Tanganyika

9<sup>th</sup> December 1991 and Zanzibar 19<sup>th</sup> December 1963), a Union Government of Tanzania was formed in 1964.

### **1.1.2. The Political and Economical Milieu of Tanzania**

Tanzania under Nyerere in 1961 followed a British Parliamentary form of government. In 1962 it was replaced by a presidential form of government. In 1964 a unified state was formed that led to the adoption of the interim constitution of the United Republic of Tanzania. A three year development plan was initiated and primarily focused on import substitution. Tanzania established in 1963 an Investment Promotion Act with an objective of promoting incentives that would attract investments.

The period of 1964-1969 the Government of Tanzania witnessed the launching of the First Five Year Plan. The plan sustained the import substitution strategy that was introduced in the three year plan. The plan anticipated that benefits accruing from private international capital inflow will trickle down into the emerging African business community through technological transfer, capital availability and provision of skills, management, design and marketing facilities. During this period, the relationship of Tanzania with western donors was hostile. The trickle down that was expected was not forthcoming as planned. The import substitution strategy favoured production of consumer goods which could generate profits quickly on the detriment of the development of capital goods.

In February 1967 the Arusha Declaration was mooted and ushered a turnaround of the country's development philosophy. Tanzania became a socialist state. Socialism, self reliance and rural development were manifested. Exploitation of man by man was eradicated, democracy was consolidated, and the ownership of the major means of production and exchange by peasants and workers were the guiding principles. Major industries were nationalised and state planning including investment was introduced. Codes restricting private and foreign investment, foreign exchange were instituted, while prices, interest

rates and wages were controlled by the state. Purchase and distribution of basic goods was confined to specific parastatal. The leadership code restricting leaders to own rental properties and private entrepreneurship inhibited entrepreneurship.

In 1976 the Ujamaa Village Act was introduced. The act abolished the formation of individual proprietorships activities in villages. Entrepreneurship activities in the form of sole or company registration were abolished and these were placed under the domain of village communal ownership or cooperatives.

President Nyerere stepped down from office in 1985 and was succeeded by President Ali Hassan Mwinyi. The reign of Ali Hassan Mwinyi regressed from the socialist policies, started to implement political reform and economic reforms introduced by the International Monetary Fund and the World Bank that President Nyerere resisted to implement. One of such a political reform is the 1992 constitution amendment and the introduction of multi parties. The above notwithstanding, the majority of Tanzanian through a referendum voted to maintain a one party rule, the Mwinyi government in spite of this, favoured the minority view of going multi party.

The Economic Recovery programmes (ERP) and Structural Adjustment Programme (SAP) were also introduced during President Mwinyi's era. ERP emphasised on macro economic measures. The belief was that once the macroeconomic measures had happened, market forces would increase the prices, provide incentives to producers, increase efficiency and raise productivity. Critics of ERP allege that ERP focused on market efficiency, it favoured trading rather than industrial development, provided support in a non-transparent manner, and it failed to promote indigenous entrepreneurship as well as to develop the capacity of local firms.

The 1990s witnesses Tanzania, through the influence of the World Bank and IMF liberalizing the markets, opening up itself to international competition and trade. The era represents liberalised exchange rates, import restrictions removal, public sector Corporation prepared for privatisation, the down sized public sector, the banking and financial services reforms.

In 1995- Benjamin William Mkapa was elected president. His party Chama Cha Mapinduzi (CCM) that had ruled the country since independence, won multi party elections, ending a one party rule that reigned Tanzania for 34 years. Mr. Mkapa continued the reforms started by his predecessor Ali Hassan Mwinyi. It is said President Mkapa presided a relatively stable political environment and that he promoted a culture of human rights and non-racial policies. Tanzania economy is a reflection of its relatively political situation. The economy has progressed steadily since the implementation of macroeconomic stabilisation and structural reforms (Mbendi, 2004<sup>1</sup>).

In 2005, Jakaya Mrisho Kikwete was elected president of the fourth phase government again through CCM. He is implementing his CCM political manifesto and campaign motto of "New Pace, New Vigour and New Strength" (Kasi Mpya, Ari Mpya na Nguvu Mpya). The Motto implies that Tanzania system of change of leadership after the maximum two term period of ten years is like an athletic (4x100m or 4x400m relay); having taken over from his predecessor president Benjamin Mkapa his new government has a fresh motivation that can enable them complete the race victoriously through the visions and objectives of the party manifesto.

Despite the above reforms, Tanzania is one of the poorest countries in the world. CIA the world fact book (2004)<sup>2</sup> asserts that the economy of Tanzania is poor as it depends heavily on agriculture. The Agriculture

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<sup>1</sup> <http://www.mbendi.co.za/land/af/ta/p0005.htm>

<sup>2</sup> <http://www.odci.gov/cia/publications/factbook/geos/tz.html>

sector accounts for about half of the GDP, provides 85% of the exports, and employs 80% of the work force.

### **1.1.3. The Relationship of Poverty, Economic Growth and Private Sector Development**

The Government of Tanzania (GOT) recognises that poverty is multidimensional and needs collective approaches to combat poverty dimensions (Narayan et.al<sup>3</sup>, World Bank 2001<sup>4</sup>). From this context, the government of Tanzania has developed a National Strategy for Growth and Reduction of Poverty (NGRSP)-MKUKUTA (see Box 1).

#### **Box 1: National Strategy for Growth and Reduction of Poverty (NSGRP) or MKUKUTA**

Tanzania has now developed the successor to its first Poverty Reduction Strategy Paper. This Strategy is very different and is named the National Strategy for Growth and Reduction of Poverty and is better known by its Kiswahili acronym of MKUKUTA (Mkakati wa Kukuza Uchumi na Kuondoa Umaskini Taifa). It is strongly outcome focused and has deliberately set out to mainstream cross-cutting issues as integral to the strategy and not as "an add on". A very important feature of the development of the review leading to MKUKUTA has been national ownership and the implementation of extensive consultation with a wide range of stakeholders on the content and focus of the strategy with the aim to make it a national strategy. The MKUKUTA is based on the achievement of three major clusters of broad outcomes for poverty reduction, namely: (i) growth and reduction of income poverty; (ii) improved quality of life and social well being; and, (iii) good governance and accountability  
Source: Tanzania Website

The Government through cluster 1 of the strategy (growth and reduction of income poverty) distinguishes the relevance of Private Sector Development (PSD) in poverty alleviation and economic development. The government now acknowledges that the private sector is the engine of increased productivity, jobs creation, and income generation. This view is divergent to the socialistic manifesto that regarded the private sector exploitative to the efforts of workers and peasants.

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<sup>3</sup> Narayan (2000) *Voices of the Poor: Can anyone Hear Us?* Oxford University Press

<sup>4</sup> World Bank (2000) *Can Africa Claim the 21<sup>st</sup> Century?* The World Bank, Washington.

The Government of Tanzania in addition of recognising the private sector contribution to poverty alleviation, has also realised that private initiatives are essential in providing basic services. These services for example, improved infrastructure, water, health and education empower the poor and are conditions for sustainable improvement of livelihood.

This recognition is in line with other initiatives undertaken by other development actors. The Asian Development Bank for example recognises the contribution of the private sector to poverty reduction and basic needs provision:

“As articulated in the PSD Strategy, development of the private sector is crucial to sustained, rapid economic growth, a necessary condition for achieving ADB’s overarching objective of poverty reduction. The Asian development experience has shown that growth, complemented with direct intervention, is one of the most powerful weapons in the fight against poverty.

Growth creates jobs that use labour, the main asset of the poor, and represents the primary path out of poverty for those at the bottom of the economic ladder. As growth proceeds, private sector employment becomes the major source of economic support for the majority of workers and their families. Growth also increases the tax base enabling governments, acting on good governance principles, to finance labour market programs and provide basic social services such as health and education that are also a necessary part of any direct poverty reduction programs.”(Asian Development Bank)<sup>5</sup>

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<sup>5</sup> <http://www.adb.org/Documents/Policies/PSO/strategic301.asp?p=policies>

Private Sector Development contributes towards the social-economical development of any nation as it takes advantage of private initiatives for social useful purpose. The World Bank Report,<sup>6</sup>(2001) states that Private Sector Development (PSD) is about tapping private sector initiatives for socially useful purposes. It is a way of doing things across sectors. Private sector initiatives, especially when unleashed in competitive markets, have tremendous potential to contribute to economic growth and poverty reduction, in parallel with public sector efforts.

There is a relationship between economic growth and poverty reduction and employment creation. Banerje, Laithy and Lokshim, (2003)<sup>7</sup> collaborate the above view. By using the rich set of unit level data from the household surveys (1995/1996 and 1999/2000) in Egypt to assess changes in poverty, the relationship between economic growth and poverty was established. The results demonstrated that the average household expenditure rose in the second half of the 1990s, while the poverty rate fell from 20% to 17%.

Exploring why high economic growth has succeeded in reducing the incidences of poverty in some countries and specifically for pro-poor growth, Torm (2003)<sup>8</sup> demonstrates the relationship between economic growth, poverty and employment. It is argued that economic growth must be employment intensive, which leads to higher productivity and rising income and thereby reducing the level of poverty.

Continuous growth in private sector investment is part of the driving force behind the steady growth of developing countries economies. Forecasts of the International Monetary Fund (2000)<sup>9</sup> establish that the

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<sup>6</sup> World Bank " Private Sector Development Strategy- Direction for the World Bank group 2001

<sup>7</sup> Banerji, Laithy and Lokshim, Poverty and Economic Growth in Egypt 1995-2000; *World Bank Research Paper 3068*: 2003

<sup>8</sup> Nina Torm (2003); The Nexus of Economic Growth, Employment and Poverty during Economic Transition: An analysis of Armenia, Kazakhstan, Kyrgyzstan, Moldova, Tajikistan and Uzbekistan, *Issues in Employment and Poverty: ILO Discussion Paper 13*

<sup>9</sup> <http://www.imf.org/external/pubs/ft/weo/2000/01/pdf/chapter4.pdf>



60-70 per cent of per capita growth in developing countries reflects increase in physical capital, while 10-20% is due to increase in education and human capital.

Batts, Croake and Fox,(2003)<sup>10</sup> review on the participation of private sector participation in poverty reduction strategy papers (PRSPs) found out in general, PRSPs appropriately take the private sector into account in their development, implementation and strategic conception. In countries with deficient treatment of the private sector, two types of problems emerged. First, some PRSPs saw the private sector as an adjunct of government policy, with governmental directives guiding the development of the private sector. Second, some PRSPs saw subsidisation of the private sector, or particular industries within it, as a key tool for poverty reduction. The review identifies ten criteria by which PRSPs might be judged with regard to their private-sector content. See Box 2.

#### **Box 2: Criteria to judge PRSP with regard to Private Sector Content**

- i) economic growth is critical to poverty reduction
- ii) market forces, not government subsidies, are needed for the private sector to play its poverty-alleviating role
- iii) private-sector dynamism is essential for sustainable poverty reduction
- iv) open trade policies promote growth and reduce poverty
- v) a good legal, regulatory and judicial system is key to the private sector's capacity to reduce poverty
- vi) concrete benchmarks and time-bound progress indicators are needed to demonstrate serious governmental commitment
- vii) private sector provision of infrastructure offers important efficiency opportunities, and should be considered
- viii) opportunities for private-sector provision of social services also offer potential efficiency, and should be examined
- ix) government must avoid "crowding out" the private sector
- x) in most developing countries, governments must step back from controls on economic activity

Source Batts , Croakeand Fox.

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<sup>10</sup> Fox, J.W.; Batts, K.A.; Croake, K. / USAID Development Experience Clearinghouse (DEC) / Development Experience System (DEXS) , 2003

It is arguable that sound government policies that provide room for private sector initiatives and that set a regulatory framework, which channels private initiatives in socially useful direction, are required for private sector development. There is evidence that freedom <sup>11</sup>equals prosperity. A study by Scott<sup>12</sup> (1997) found out that the freer a country is, the wealthier its citizens are. No doubt that the country that in 2003 was voted to have greater freedom, Hong Kong also had a greater per capita income (Us \$ 24,506) as compared to Tanzania that is placed at 104 with a per capita income of (Us \$ 280).

The Centre for International Private Sector (CIPE) (2001)<sup>13</sup> argues that the income gap between the developed world and the poorest countries is growing. They assert that the correlation is clear and simple. Democratic societies attract capital and investment required for economic growth and progress. The business environment in less democratic countries scares off potential investors, thereby stifling opportunities for economic growth due to unfriendly business legislation and administration, corruption and political instability.

The Economic Freedom of the World: 2004 Annual Report<sup>14</sup> augments the argument of Scott and CIPE. It has established a relationship between economic freedom, investment, growth and the poor. The report finds that economic freedom benefits the lives of all people but mostly important, the poor. It has found out that nations in the top fifth of the economic freedom, the average income of the poorest 10% of the population was Us \$ 6,877, compared to just \$ 823 in the least free nations.

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<sup>11</sup> . Freedom in this contexts includes freedom from excess taxation, government regulations, and restrictions on trade

<sup>12</sup> Bruce R. Scott, "How do business Grow?" Harvard Business review, 1997

<sup>13</sup> Centre for International Private Enterprise 2001 Annual Report

<sup>14</sup> <http://www.cato.org/cgi-bin/script/printtech.cgi/new/07-04/07-15-04r.html>

The Economic Freedom of the World: 2004 Annual report finds that free nations attract nearly \$ 11,000 of investment per worker, 12 times more than \$ 845 investment per worker in restricted economies. The productivity of investment is 70 per cent greater in economically free nations than in un-free nations.

The Bangladesh Development Institute (2003)<sup>15</sup> foresees a productive investment climate, as an environment in which good governance and government and private institutions support entrepreneurship and well functioning markets in order to generate growth and Development. In the same context, Stern, (2002)<sup>16</sup> describes an investment environment to include, among other things, good policy, institutional and behavioural environments both in the present form and in the expected future form. These influences returns on investment but also contain risks relating to that investment.

Quoting Michael Klein, vice-president of private-sector development for the World Bank and the International Finance Corporation (IFC), Shadrack Mashabala (2006)<sup>17</sup> argues that progress in macro-economic policy governance and prudent fiscal management will drive sub-Saharan African economies closer to double-digit economic growth rates. Klein identifies that the next challenge for the region in terms of dealing with conflict issues, maintaining macro-economic stability, improving the regulatory environment for business and developing infrastructure, to enable growth rates to show further, sustainable, improvement.

Entrepreneurs are looking for high returns on investments including the investment of their time. For the businesses to prosper there is a need of the business community and other development change agents to work closely with the government to minimize obstacles for doing business and maximize economic

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<sup>15</sup> Bangladesh Training Institute and The World Bank, Investment Climate Bangladesh, Washington, D.C. World Bank

<sup>16</sup> Stern Nichlous, A Strategy for Development. Washington D.C. World Bank

<sup>17</sup> Shadrack Mashabala, City Press, *World Bank Confident in Africa Growth Potential* in <http://www.sbp.org.za/doc/SMENEWSMay2006.doc> visited on June, 9, 2006

freedom. For faster economical growth and poverty reduction, international organisations such as The IMF, World Bank, OECD and ACP have prescribed reforms for economic freedom.

Through reforms, Tanzania has redefined the role of the state to that of policy maker, maintenance of law and order, provider of basic social and economic infrastructure and facilitator of economic growth. It has adopted a private sector facilitative role; through favourable policies, provision of an environment attracting both local and foreign investments. Other enabling factors include; the promotion of institutional changes towards the development of the private sector, transparent, effective and efficient administrative processes stimulating investor's confidence. It has also put in place an appropriate legal and regulatory framework.

The Tanzania National website cites the following statement:

"In recognition of this important role towards creating an enabling environment for private sector development, the Government has been implementing wide ranging institutional and policy reforms. It has liberalised its economy; amended and enacted a number of investment related laws and policies, undertaken financial reforms, liberalised its trading regime; put in place an attractive investment package; and undertook a number of initiatives to promote and develop the private sector. Tanzania now has one of the most liberal investment regimes in Africa". (Tanzania National Website)<sup>18</sup>

One of the focuses of the Private Sector Development Strategy – Directions for the World Bank Group proposes a systematic appraisal of the investment climate through surveys. To focus these efforts and achieve better results, investment climate issues are part of systematic and regular analysis in preparation

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<sup>18</sup> <http://www.tanzania.go.tz/privatesector.html>

of country strategies and routinely considered in the Bank Group's assistance strategies<sup>19</sup>. They represent an initiative that systematically analyses conditions for private investment and enterprise growth in countries throughout the world<sup>20</sup>.

The Government of Tanzania is in a process of institutionalising the consultative process with the private sector in evolving appropriate and effective macro and sector policies. For example, the government is involving various stakeholders in the Government Tax Task force and the Public Expenditure Review working groups. Similarly, the private sector itself has evolved institutional mechanisms of interactions and consultations with the Government through umbrella organisation such as the Tanzania Chamber of Commerce Industry and Agriculture (TCCIA), Confederation of Tanzania Industries (CTI), the Tanzania Private Sector Foundation (TPSF) and the National Business Council (TNBC). TNBC provides the main forum for public/private sector consultations on strategic issues of economic growth and economic development.

On the other hand, development practitioners and the donor community in Tanzania are supporting the capacity of Private Sector Organisations to influence reforms at the District level. Such interventions include the cases the dissertation covered- the Private Sector Development Programme (PSDP) for the Lake Zone and the partnership project of IHK/TCCIA Kilimanjaro.

## **1.2. Statement of the Problem**

There is a universally agreed view that a vibrant private sector is *sine qua non* to rapid and sustainable economic growth. Private sector in addition of accelerating economical growth is pivotal and a provider

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<sup>19</sup> "Investment climate issues are to be part of systematic and regular analysis in preparation of country strategies and will be considered routinely in the Bank Group's assistance strategies. ...To focus these efforts and achieve better results it is proposed to conduct systematic investment climate surveys and assessments...." Private Sector Development Strategy – Directions for the World Bank Group, 2002.

<sup>20</sup> Poor (IDA-eligible) countries are a special priority for the ICA initiative

(forward and backward linkages) to the other sectors of the economy. The sector however in Tanzania is sidelined or disillusioned. Studies conducted in Tanzania sum the prevailing situation, *“the costs of doing business in Tanzania seem inordinately high”*. The above view holds when one compares indices that measure the attraction of investment in comparable countries. Most of the indices characterise the business environment prevalent in Tanzania as antagonistic.

The hostile environment as the subsequent paragraphs will depict, include high and multiple taxes imposed by numerous authorities, poor or inadequate infrastructure, a poor and outdated legal and regulatory framework. Others include, the socialist mindset of the bureaucracy mistuned to enabling the private sector, rampant corruption, prejudice to foreign investments and an apathetic attitude to indigenous, small, medium and micro enterprises.

Table 1 depicts the indices of economic freedom of Tanzania - 2004 by the Heritage International.

**Table 1: Index of Economic Freedom 2004-Tanzania**

Variable	Score	Category	Remarks
1. Trade Policy	5.0	Repressed	<ul style="list-style-type: none"> <li>The figures of 2000 for World Bank put the Tanzania Weighted average as 14.5%</li> <li>US Department of State saw the Customs department corrupt in a process causing unpredictable delays in the importation of goods.</li> </ul>
2. Fiscal Burden of Government	3.9	Most Un-free	Tanzania's top income tax rate is 30 percent. The top corporate tax rate is 30 percent. Government expenditures as a share of GDP increased 2.2 percentage points to 20.6 percent in 2001, compared to a 1.9 percentage point decrease in 2000. As a result, Tanzania's fiscal burden of government score is 0.5 point worse this year.
2.1. Income Taxation	3.0	Most Un-free	
2.2. Corporate Taxation	4.0	Repressed	
2.3. Change in Government Expenditure	4.5	Repressed	
3. Government Intervention in the Economy	2.0	Mostly Free	Based on newly available data for revenues from state-owned enterprises and the use of a new methodology to grade this factor, Tanzania's government intervention score is 1 point

			better this year.
4. Monetary Policies	2.0	Mostly Free	Inflation has dropped to an acceptable level the score is 1 point better this year.
5. Capital flow and Foreign Investment	3.0	Mostly Un-free	The U.S. Department of State and IMF find limitations by the Central Bank for holding foreign exchange accounts, and informal barriers to foreign investment.
6. Banking and Finance	2.0	Mostly Free	Reforms and government divesting from the sector has improved the score 1 point better this year
7. Wages and Prices	3.0	Mostly Un-free	The Government is still regulating gasoline, diesel fuel and kerosene. It is also controlling main export crops through the marketing boards and sets a minimum wage.
8. Property Rights	4.0	Repressed	The Judiciary is corrupt, inefficient and subject to executive influence as per US Department of State.
9. Regulation	4.0	Repressed	Colonial and post-independent socialist policies still apply
10. Informal market	4.0	Repressed	This score is based on the Transparency International score of 2002 that has given Tanzania 2.7.

Source: Heritage International

The index characterises Tanzania as a mostly un-freely economy<sup>21</sup>. The World Bank Doing business database<sup>22</sup> portrays Tanzania as a country with cumbersome regulations constraining business investment, productivity, and growth. Corruption in high places is rampant and the Corruption Perception Index (CPI)<sup>23</sup> of Tanzania was 2.2 in 2001, 2.7 in 2002 and 2.5 in 2003.

The overall score of Tanzania on the Heritage Index of Economic Freedom ranks is 3.26<sup>24</sup> out of the 10 points allotted to the freest economy. It ranks 98 among the 160 countries surveyed. Tanzania has repressed trade policy, property rights, regulations and the informal market.

<sup>21</sup> <http://www.heritage.org/search/index/tanzania.htm>

<sup>22</sup> <http://rru.worldbank.org/doingbusiness/AboutDoingBusiness/>

<sup>23</sup> Corruption Perception Index indicates how a system is open with a higher score of 10 allotted to an open system and 0 to the most corrupt.

<sup>24</sup> <http://cf.heritage.org/index2004test/country2.cfm?id=Tanzania>

Tanzania is outstanding as a country with high cost of doing business. This problem is more significant and highly constrains for micro, small and medium enterprises. The data maintained by the World Bank's 2006 *Doing Business* report, Tanzania ranked 140 out of 155 countries in terms of the ease of doing business.

In comparison, Tanzania lags behind her East African counterparts Kenya ranked 68 and Uganda ranked 72. This translates that investors will prefer to invest either in Kenya or Uganda as these countries have ease for doing business and therefore attracting investors. This highlights the urgent need for the Government of Tanzania to fast track the implementation of essential reforms aimed at reducing the cost of doing business.

It is cumbersome to register a business in Tanzania. To register a firm in Tanzania, a local investor has to pass through 13 procedures that take 37 days. See Table 2 below.

**Table 2: Entry Regulations in Tanzania**

Nature of Procedure (Proc)	Proc #	Duration (days)	US\$ Cost
Reserve a name	1	3	0.00
Get a company seal	2	1	100.00
Certificate of incorporation	3	7	273.84
Signature of town inspector	4	1	0.00
Signature of health inspector	5	1	0.00
Business license	6	7	228.20
Register for taxes	7	1	0.00
Inspection by tax officials	8	1	0.00
Obtain tax number	9	1	0.00
Sales tax inspection	10	3	0.00
Stamp duty inspection	11	3	0.00
Workmen's compensation insurance	12	1	0.00
National provident fund	13	7	0.00
<b>Totals:</b>	<b>13</b>	<b>37</b>	<b>\$602.04</b>

Source: *Rapid Response Unit World Bank Group*



By the year 2003 the cost of registering a business in Tanzania, were United States \$ 602 that equals to 199 % of the Gross Net Income per capita. See table 1. The Tanzania index of (199) is high, if you compare it to that of Canada (0.6), Australia (2), and OECD (10.2). It is cumbersome to hire and fire workers in Tanzania as the country has repressive labour laws. The Tanzania Employment Laws Index<sup>25</sup> is 61 when compared to Singapore (20), USA (22) and Zimbabwe (27).

A Tanzania Heritage International rank **(2.5)** - that is *Better (moderate tax rate)* on Income and Corporate Taxation is contentious. The ranking is a surprise as most entrepreneurs see the tax regime hostile. The SME policy statement<sup>26</sup> for example, is at variance with the moderate tax rate findings and contends that the tax regime in Tanzania is unfavourable for Small and Medium Enterprises (SMES) development. Taxes are many, rather high and collected by various authorities including the Tanzania revenue Authority and the Local Government. Furthermore, entrepreneurs are ignorant of tax matters and the cost of complying with tax is considered high.

The Tanzania economy is dominated by the informal sector that accounts for 70% of the employment and 58% of the Gross National Income. De Soto (2005) <sup>27</sup> diagnostic survey carried for informal sector found that the informal sector in Tanzania has assets worth 29.3 billion, dollars, equivalent to 10 times all foreign direct investment (FDI) accumulated since independence and four times net financial flows from multilateral institutions in the same period. The findings of this study demonstrate that economic activities by the majority of Tanzanians, takes place in what is known as the second economy. Operators do so, as laws and regulations governing business and real estate inhibit businesses with the necessary mechanisms to generate capital, which in turn makes it very difficult for firms to formalise.

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<sup>25</sup> The Employment Laws Index covers three areas: flexibility of hiring, conditions of employment, and flexibility of firing. Each index takes values between 0 and 100, with higher values implying more regulation. The Employment Laws Index, an average of the three indices, takes values between 0 and 100, where higher values mean more regulation.

<sup>26</sup> URT Small and Medium Development Policy – Final Draft 2002

<sup>27</sup> Hernando De Soto, *Empowering the Disadvantaged towards Expanded Market Economy* September 2005

Tanzania has received praise for its stability, a sound macro-economic framework and for growth in recent years. However, gaps between the rich and the poor seem to be widening. The Consultative Group (CG) formal discussion nevertheless, (2002)<sup>28</sup> asserts that growth is not benefiting the poor. There is contention that the macro successes can improve the lives of the poor only if small and medium size enterprises (including farmers) are able to play their part in the economy. CG further argues that "it is at the Local government level, where to decision-making in the Tanzania context anchors further exacerbates the investment environment. There is an assumption that doing business at the local level is complex and there exist an in-transparent tax collection system. The revenue system acts embedded in the Local Government Authority by-laws are depressant to economic growth, hitting the micro and small business (SME) levels particularly hard. SMES are further demeaned as the process of drafting and passing by-laws is skewed and obscure".

Private Sector Organisations in Tanzania are nascent and weak. A study conducted in Kilimanjaro found out that the Tanzania Chamber of Commerce Industries and Agriculture formation had more of a regional outlook and thus finding difficulties extending it at lower levels<sup>29</sup>. This weakness dispossesses the Private sector organization bargaining position. The absence of information about barriers to business development and economic growth has incapacitated business associations to address issues of corruption, the informal sector, and over regulation.

It is an undeniable fact that the Tanzania government has shown interest in creating an enabling environment for investment. The formulation of the SME policy, the establishment of the Tanzania

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<sup>28</sup> [www.tzdzc.or.tz/cg2002/private/sector.doc](http://www.tzdzc.or.tz/cg2002/private/sector.doc): Consultative group formal discussions session, December 2002: joint statement by development partners on private development.

<sup>29</sup> Donge L. Et al , *District Advisory Committee Establishment and its Experience in Kilimanjaro Region Pamoja Joint Action Project* 2001

Investment Centre, the Government commitment to implement the Business Environment Strengthening Tanzania (BEST) programme and the establishment of the National Business Council are cases in point. These efforts look promising and plausible but have to concretise into genuine and political commitment as to pave the route to Public-private sector consultation.

The most likely initiative to facilitate the Government expressed concept of smart partnership may include emulating the good practices that have worked elsewhere. Good practices in partnership assume a certain minimum equality in power levels between partners. In such scenarios, negotiations and consultations take place between the Public-Private before contentious issues are approved as policies/regulations or laws. Having an institutional structure such as the National Economic Development and Labour Council (NEDLAC) of South Africa<sup>30</sup> and the existence of a political will as is the case for the Social Economic Council of The Netherlands<sup>31</sup> that mandates the private sector to influence policies affecting the sector is a clear manifestation to an effective Public-Private consultation/dialogue.

The Mozambique Public –Private sector dialogue, institutionalising the process recommends:

“Public, private sector, donors, and academics all agree: sustainable public-private consultative (PPC) mechanisms are critical to competitiveness and attracting foreign investment. The real challenge is to define and institutionalise specific recommendations”- UNIDO (2001)<sup>32</sup>

The local Government reform program has created opportunities for incorporating participatory policy formulation. These opportunities persevere but remain unexploited. Yet, as proposed, institutionalising and political commitment that is missing has to be nurtured and cultivated by all actors. In addition, the

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<sup>30</sup> NEDLAC of South Africa is created by the act of Parliament

<sup>31</sup> (no policy decision will be taken without the involvement and advice of the Council

<sup>32</sup> <http://www.unido.org/doc/391490.html>

documentation and dissemination of experiences gained by private sector development programmes such as The Private Sector Development Programme for The Lake Zone [WEZESHA], SNV, Partnership of IHK Wiesbaden and TCCIA-Kilimanjaro, USAID is essential. These efforts will enhance best practices in private sector advocacy benchmarked as a means of strengthening private sector organizations.

Tanzania can also learn from what was behind the success of the South East Asian tigers. The Tigers have achieved faster economic growth through consultation and private –public partnership. A broad based scientific education, consultations with the private sector including labour; mutual understanding between the government and business on the national vision and coordinated direction of their development efforts; promotion of export-oriented industries; deregulating the process of acquiring technology, etc enabled the tigers to achieve this economic prowess.

The World Bank pioneers studies on investment climate of the countries it plans to support. These studies though comprehensive have based on collecting information at the regional level i.e. Sub Sahara Africa. These studies have failed to capture the District level environment and the research sample ignores small and micro enterprises.

This study intends to focus on the local (district level) and the sample intends to include a good number of small and Micro enterprises.

### **1.3. Research Objectives**

The objectives of the research have both programmatic and heuristic values. In Tanzania, several donors have developed private sector interventions that correspond to the programic objective of the research. The pioneers of Private Sector Development are the United State of America through USAID, United Kingdom

through DFID, Denmark through DANIDA and the Royal Netherlands through The Royal Netherlands Embassy (RNE).

For example, The Private Sector development portfolio of RNE<sup>33</sup> in Tanzania focuses on i) Private Sector/Small Business Development ii) Financial sector Development iii) Trade development and iv) Applied Economic research. Additionally, the second phase of the Danish financed Business Sector Programme Support (BSPS II), covering the period 2003 – 2008, aims at improving business environment in Tanzania in order to promote economic growth, generation of employment and public revenue. This programme encapsulates i) Business Environment Strengthening in Tanzania (BEST), ii) Improved Access to Markets, iii) Improved Labour Market, and iv) Viable Banking and Financing.

The study anticipates contributing to the mosaic attention for recent developments in private sector investments/ business opportunities opened up by the public sector.

On completion and when disseminated, the research shall contribute knowledge on:

- (a) Improved awareness among local authorities and private sector organisation that cooperation between private and public sectors will lead to mutual benefits, and
- (b) Local authorities and Private Sector Organisation will appreciate the advantages of a pragmatic investment climate reform

These are constituents of the Private Sector Development Programme for the Lake Zone, The Tanzania Chamber Of Commerce and Industries Kilimanjaro region and other programmes that focus on private sector development and Public-Private sector dialogue/advocacy.

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<sup>33</sup> Royal Netherlands Embassy Dar es salaam, Mid Term Review Private Sector Development Tanzania Rotterdam 2001

The heuristic value of the study envisages realization of one of Amfe-Microserve<sup>34</sup> developmental milestone, which is to build the capacity of its staff and in the process acquire competencies that will enable the company to participate in International tendering. Assessing the Enterprise Environment that comprises policies and legislation, regulatory procedures and the administration and implementation of these is one of Microserve market niche.

The specific objectives of the research are to:

- a. Determine regulatory factors affecting enterprise performance in the selected areas;
- b. Identify regulatory reforms interventions that have been successfully implemented, and in the process document best practices;
- c. Establish a set of benchmarks that will enable reformers to compare one regulatory environment of business to another;
- d. Recommend to Business Associations, Government Institutions and other Private Sector Promoters the best ways of promoting consultative mechanisms that will sustain business regulations leading to improved economic social outcomes;
- e. Develop policy recommendations and appropriate strategies for effective, and sustainable public - private consultative mechanism;

#### **1.4. Significance of the Research**

A sound investment climate has significance for business growth and job creation. It is one of the conditionality for bilateral support. For example, The European Union subscribes this to its African Caribbean Pacific collaborators. Aside from its importance, there is lack of empirical data, evidence, proven methods and techniques and concrete information on the actual causes and effects to a hostile environment. On the above basis, the importance of doing this research is as below:

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<sup>34</sup> Felician Ifunya the author is the Chief Executive Officer of Amfe Microserve Company Limited

- i) It will establish a data bank for Private Sector Organisation to articulate trends in the policy formulation of regulations affecting the entry and growth of the private sector;
- ii) With this information, Private Sector Organisation will be equipped with data to argue and justify their position for policy reform;
- iii) Promoters of the Private Sector Development will acquire information on how their target groups perceive a sound investment as a priority and a felt need;
- iv) Policy makers and the Public Sector will appreciate the extent deterrent policies effect business growth and economic growth. This will enable them to redefine policies and develop indicators that safeguard both sectors.

### **1.5. How is this Study Organised**

The dissertation is divided in five Chapters. While I have introduced the background of the study in chapter one that includes the statement of the problem, research objective and the significance of the study, I plan to deal with the theoretical framework and review the literature in chapter two.

In chapter two, I introduce the essence of reviewing the literature, define the terms I use in the study as to develop a common understanding, develop a theoretical framework where I theorise on the variables that are guiding the study. The chapter also conceptualise the relationship between Society (Government) and Businesses. Models especially the variances between Adam Smith (capitalism) and Max (communism) and what is in the middle are reviewed. A review on the indices and rating factors that empirically measure the investment environment of a country is made. Through this process the Tanzania's economic freedom in Sub –Sahara Africa and worldwide is positioned. The chapter reviews the literature and studies on the capacity and institutional setting of private sector association as active advocates for the businesses. It also reviews literature on reforms and how it relates to providing a conducive environment for businesses. I plan in this second chapter to review the experience of consultative mechanism on the global, regional,

National, Tanzania and the local level. I will summarise the lessons that I have garnered in the review of literature and introduce what we expect in chapter three.

In chapter three I present the Research Methodology where I plan to introduce and present the merits and shortcoming of various research methods, present the selected survey methods and what merited the selection. I will thereafter describe the study areas, respondents' scope, and the period that the survey covered. I will explain the theory behind sampling, state how the sample was selected and sample design. I will state and enumerate study limitations and summarise what chapter three covered and give a snapshot to chapter four.

In chapter four I present and analyse the data. I plan to introduce the rationale of this chapter from the theoretical context. In presenting and analysing the data, I plan to break the presentation in two sub section a) The results of the questionnaire that I will present thematically and b) I will describe the case projects WEZESHA and IHK and present the nature of work I was assigned to do with these projects. The results of the assignment conducted by the researcher with i) WEZESHA and ii) IHK/TCCIA Kilimanjaro will also be presented.

In chapter five the data presented will be discussed and the stated problem statement will be compared to see whether they confirm with the findings. I will make conclusions and develop recommendations.



## CHAPTER TWO

### THEORETICAL FRAMEWORK AND LITERATURE REVIEW

#### 2.1. Introduction

Central Queensland University defines literature review as an evaluative report of information found in the literature related to the researcher-selected area of study. It asserts that literature review is beyond being a descriptive annotated bibliography:

“In writing literature review, the purpose is to convey to the reader what knowledge and ideas have been established on a topic, and what their strengths and weaknesses are. The literature review must be defined by a guiding concept (e.g. your research objective, the problem or issues you are discussing or your argumentative thesis). It not just a descriptive list of the material available, or a set of summaries” Central Queensland University<sup>35</sup>

This chapter positions the literature by first defining the terms commonly used in the study as to establish a common understanding. It proceeds by presenting literature on the variables for an investment environment, i.e. it presents the theoretical framework that a firm's objectives of economic growth and job creation has various dependable variables. It then, focuses the study on the economical variable.

Another model of review presented, is the business-government-society. The literature presents the two extremes of the business- government –society relationship. One extreme end illustrate the perception of Adam Smith- an advocate for the capitalist/market economy model, while the other furthestmost opposite

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<sup>35</sup> <http://www.utoronto.ca/writing/litrev.htm>

presents Karl- Max mitigating protection of the proletariats through regulation from the dominance of the bourgeoisies.

The chapter reviews also the theory of competitiveness as articulated by Porter and the concept of Public Private Dialogue charter developed recently by more than 100 practitioners. The literature on best reform practices achieved through the assessment of the investment climate is also reviewed. It presents and documents five out of the twenty –two compilations of indices and rating factors that empirically measure the investment environment of a country. Throughout the analogy, the position Tanzania's economic freedom in Sub –Sahara Africa or worldwide is stated.

The chapter reviews the literature and studies on the capacity and institutional setting of private sector association as active advocates for the businesses. It also explores what makes them legitimate to advocate for an enabling business investment environment.

To achieve a balanced and equitable economic growth, consultative mechanism through dialogue is to be positioned for a conducive investment climate is to be in place. The chapter reviews literature on reforms and how reform supports the creation of an investment environment. It presents the experience of Tanzania in improving the investment climate and the role of consultative mechanism that is in play to create a viable investment. In conclusion, the chapter plans to summarise the lessons that developed while reviewing the literature and it plans to introduce what we expect in chapter three.

## **2.2. Definition of Terms**

To have a common understanding a definition of some of the terms used in the study are defined. *Private Sector* – is a broad term that is synonymous to business. The term when used in this study shall encompass a range of action and institutions. Included are activities of informal, micro, small, medium and

large enterprises. The term covers manufacturing, finance, trade, services and other economic activities of business firms including agriculture.

*Public*- is identical to Government. This study uses the definition of Steiner <sup>36</sup>(1997) that defines Government as the structures and process through which public policies, programs, rules are authoritatively made for the society. In the study, our interest is in the economical and regulatory powers of government especially the Central and the Local government (macro and the meso level). Distinguished are three types of Public-private cooperation having different objectives:

- *Public-Private Partnering* – Hart (1998) in Eleazu (2001)<sup>37</sup> defines Public-Private partnering as involving collaboration between the public and private sector in which both sides assume co-ownership and co- responsibility of solutions. Partnership ensures that resources of the public sector (such as, social responsibility, social accountability, national knowledge, legal framework, oversight and environment) are merged with the resources of the private sector (such as, market orientation, access to finance, business experience, technical expertise and entrepreneurial skills).
- *Tri-sector partnering* is defined as an extension of Public-Partnering when the Civil Society joins the partnership. Rather than imposing a rigid definition; Business Partners for Development offered a tri-sector partnering framework definition;  
  
"Tri-Sector is a partnership involving business, government, and civil society that may present a successful new approach for the development of communities around the world". These partners

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<sup>36</sup> Steiner G.A and Steiner.J.F. "Business, Government and Society- A management Perspective. Text and Cases. 8<sup>Th</sup> Edition McGraw-Hill, New York, 1997

<sup>37</sup> Eleazu. U. Public-Private partnership for the Design, Development, Implementation and Monitoring of Policies and strategies, and for Effective Industrial Governance, Economic Management and Development- a paper for UNDP National Seminar In Maputo- Implication and Benefits of Sustainable Public-Public Consultative Mechanisms

were intended to put communities at the centre of their own sustainable development. Business Partners for Development <sup>38</sup>(2002)

- *Public-private Consultation* is used to describe a situation, when the public sector consults with the private sector on policy issues, but where the Public sector ultimately makes a decision.

In the study, *Public-Private sector consultative mechanism* is defined as a process designed to improve the efficacy and efficiency of public policies, whereby the private sector contributes and makes positive differences in terms of design, support, and governance of public policies and public institutions. *Public-Private Dialogue* is synonymous to public-private consultative mechanism and will be used interchangeably.

### 2.3. Theoretical Framework.

The study is initiated by McHugh et al (1999)<sup>39</sup> who argues that the business environment has tremendous effect to the success (or failure) of entrepreneurs. They identify four business environmental factors that are key to business growth and job creation. These include the i) *economic environment* represented by freedom of ownership, contract laws, elimination of corruption, tradable currency and minimum taxes and regulations, ii) the *technological environment*, represented by information technology, databanks and bar codes. Combined these two represent the global environment. The other factors are iii) the *competitive environment* (customer services, stakeholders recognition, employee services and concern for the environment) and iv) the *social environment* (diversity, demographic and family changes). Factors (iii) and iv) constitutes global competition, free trade and the quality imperative. See figure one.

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<sup>38</sup> Business Partners for Development (BPD) was a project-based initiatives set up to study support and promote strategic examples of partnerships involving business, the civil society and government working together for the development of the community around the world. It was created, believing that the tri-sector partnerships could provide long term benefits for the business sector and at the same time meet the social objectives of the civil society and the state by helping to create stable social and financial environments

<sup>39</sup> McHugh, J.M. McHugh, S.M., Nickels.W.G. *Understanding Business*, Irwin McGraw- Hill, London. 1999

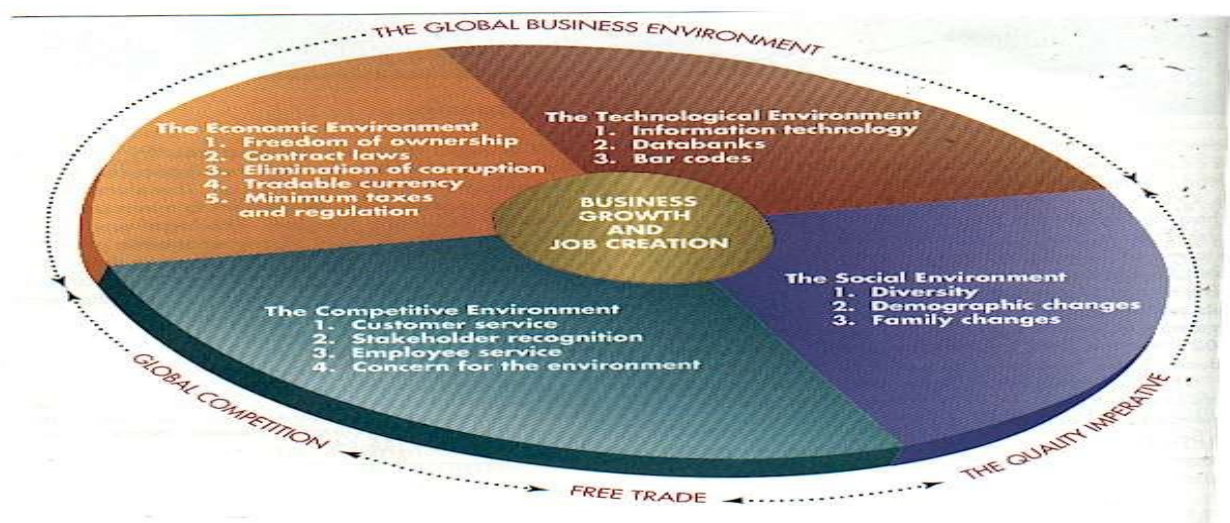


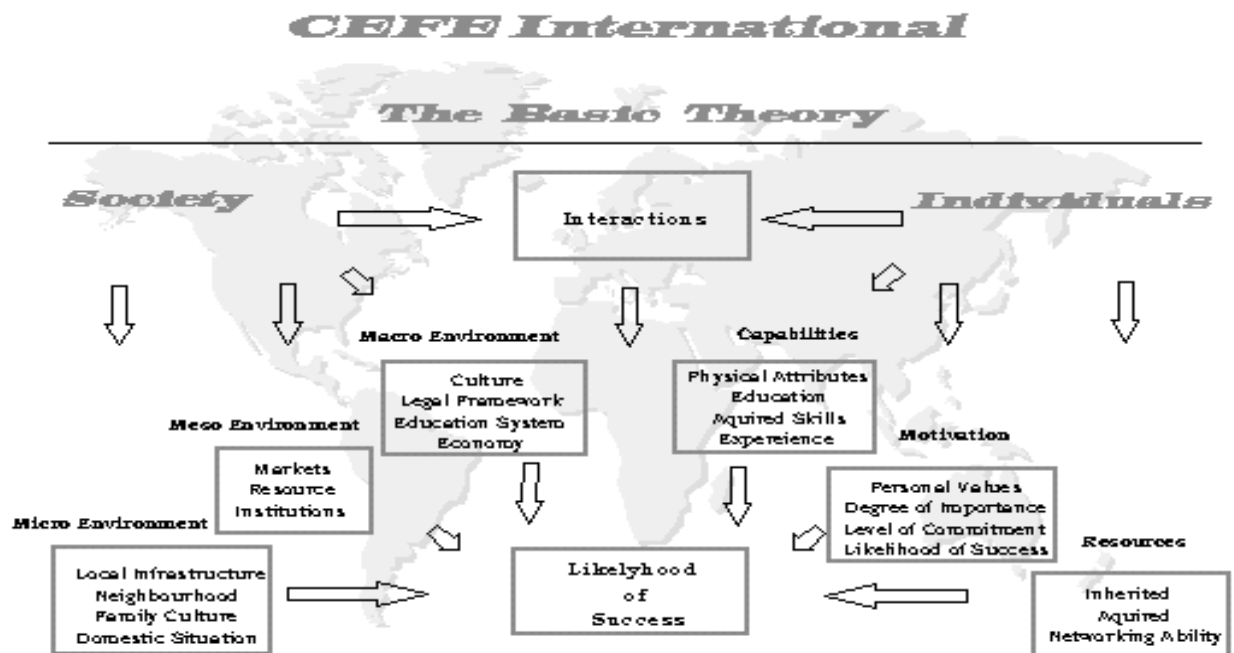
Figure 1: The Private Sector/Business Association Environment  
 Source: *Understanding Business 5<sup>th</sup> Edition* Irwin/McGraw Hill 1999

The above argument corresponds to the Competence based Economies through the Formation of Entrepreneurs (CEFE International) <sup>40</sup> basic theory. The theory states:

"the quality, nature and frequency of the interaction of people in the society is a result of capability, motivation and personal resources of the individual on one side and the prevailing condition in the society at the macro, meso and micro level " .

Figure 2 illustrates the six components that represent the Society on one part and the individuals on the other part. These components include the *Macro environment* comprising of the culture, the legal framework, the education system and the economy. The *Meso environment* on the other hand include the markets, resources and the institutions, while the Societal *Micro environment* is its local infrastructure, neighbourhood, culture and the domestic situation.

<sup>40</sup> CEFE denotes a series of entrepreneurship development tools and instruments that have been designed and tested by GTZ.



**Figure 2: The CEFE Basic Theory**

Source: CEFE International

Conversely, the Individuals in this case the private sector entrepreneurs comprise of *capabilities* including the physical attribute, education, acquired skills, experience. The other aspect is *motivation* that composes of personal values, degree of importance, and level of commitment and likelihood of success. Individual *resources* refer to the inherited resources, acquired resources and networking capabilities.

The theory argues that combined, these factors stimulate situations that may have positive, negative or neutral outcomes for the individual or society. It also postulates that those involved in the decision-making process have to resolve and answer the following questions:

- What are the most critical factors preventing more productive outcomes? and
- What are the most cost-effective instruments to turn these factors to generate more productivity/economic growth?

Enright (1996, 2000) drivers' approach as in Eleazu (2001)<sup>41</sup> supports both the CEFE Model and McHugh. Enright asserts that the competitiveness in industries is driven by three sets of forces macro, micro and firm level drivers. *The macro level drivers* (such as, macro-economic conditions, institutions and policies, social structures and agendas, impact of foreign government and multilateral organisations) set the overall economic environment within a nation. Without a favourable or, at least, stable situation in the macro level drivers, it is very unlikely that nations' industries or firms could develop.

*Micro-level drivers* include the availability of critical inputs, access to demand, and competitions that fosters empowerment and the existence of clusters of firms and industries. *Firm level drivers* (such as, internal organisation and strategy of the firm and corporate governance) focus on the need for the nations' firms to meet the challenges and exploit location advantages and overcome location disadvantages.

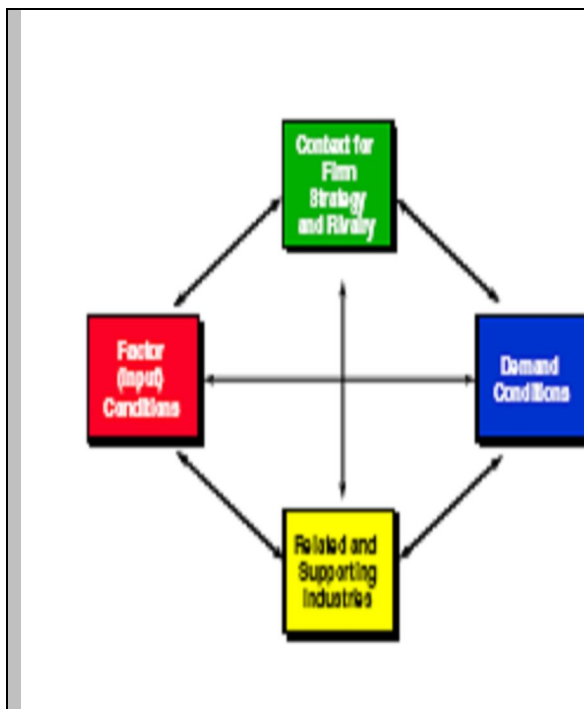
The Bangladesh Development Institute (2003)<sup>42</sup> contends and looks at the business environment to comprise of three main features; the macro-economic conditions, governance, and infrastructure. The *macro or country conditions* cover (fiscal, monetary, exchange rate) policies and political stability. *Governance* relates to the government interaction with business on regulation and corruption, both that affect the costs of starting and running a business. *Infrastructure* refers to the quality and quantity of physical infrastructure (such as power, transport, and telecommunication). More broadly it also refer to financial infrastructure (such as banking) - or access to finance. In addition, of these factors, it includes *human development and integration*

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<sup>41</sup> Eleazu.U. Public-Private partnership for the Design, Development, Implementation and Monitoring of Policies and strategies, and for Effective Industrial Governance, Economic Management and Development- a paper for UNDP National Seminar In Maputo- Implication and Benefits of Sustainable Public-Public Consultative Mechanisms

<sup>42</sup> Bangladesh Training Institute and The World Bank, Investment Climate Bangladesh, Washington, D.C. World Bank

According to Porter (2002)<sup>43</sup>, the key determinants of region's competitiveness are: i) the sophistication and productivity of its firms; ii) the quality of the business environment in which they operate; and iii) the vitality of its clusters. Porter developed a diamond model on competitiveness as in figure 4 below; while box 3 elaborates the elements.



**Figure 3: Factors of cluster Competitiveness**

#### **Box 3: Elements of Competitiveness**

- **Factor inputs**- include human resources, physical infrastructure, capital resources, resources, scientific and technological inputs, information and natural resources
- **Context of firm strategy and rivalry**- firms efficiency, investments, upgrading and vigorous competition
- **Demand conditions**- Sophisticated and demand of local customers that can stimulate anticipated global demand
- **Related Supporting Industries**- presence of clusters, capable locally based suppliers and firms
- **Vigorous interactions**- denoted by the arrows and the middle stimulating constant pressure for innovation and improvement of capabilities

Source: Microeconomics of Development

## **2.4. Basic Conceptual Models of Business Government Society Relationship**

The importance of understanding the relationship between the Public and the private sector is long history.

People' perceptions have different perspectives. Steiner <sup>44</sup>(1997) sees these perspectives as frames of reference or models, through which they evaluate the interplay of economic, political, and cultural forces.

They frame the perception of how people view the model in terms of scope, business's power in society, the key criteria for making business decisions, the extent of corporate social responsibilities, the ethical

<sup>43</sup> Porter, Michael.E. "Microeconomics of Development," Power point Presentation prepared for USAID, Feb 2002

<sup>44</sup> Steiner G.A and Steiner.J.F. "Business, Government and Society- A management Perspective. Text and Cases. 8<sup>Th</sup> Edition McGraw-Hill, New York, 1997



dimensions of management decision and the need for regulation of business. Steiner <sup>45</sup>(1997) mentions four models; the market/capitalism, dynamic forces, stakeholders and the dominance.

One prominent proponent of the capitalism model is Adam Smith. The assumptions of Adam Smith is that the government is an interference in economical life, inappropriate; but also unnecessary. Adam Smith theory of an invisible hand –expresses entrepreneurs (private sector) working to improve their lives would provide goods and services, as well as jobs, for others:

“An individual neither intends to promote the public interest, nor knows he is promoting it....He intends only his own gain, and the invisible hand to promote an end which was not part of his intention.....It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their self interest. We address ourselves not to their humanity, but from their regard their self-interest. We address ourselves not to their humanity, but to their self –love, and never talk top to them of our necessities, but of their advantage”

Adam Smith 1776<sup>46</sup>

The underlying assumption with the dominance model is that business and government dominate the masses. According to Karl Max<sup>47</sup>, an elite ruling class dominates the economy and other institutions including the government. This philosophy dominated Tanzania from 1967. The era has witnessed creation of equality but economic growth and entrepreneurship initiatives were passive.

Two alternative models; the public interest supporting regulation and Karl max and public choice models supporting Adam Smith need a mention. Pigou (1938)<sup>48</sup> public interest theory on regulation holds that

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<sup>45</sup> ibid

<sup>46</sup> Adam Smith *The Wealth of Nations* (1776)

<sup>47</sup> Michael Parenti, *Democracy for the Few*, 9<sup>th</sup> Ed. New York : St Martin’s Press, 1995

<sup>48</sup> Pigou, Arthur, *The economies of Welfare*, 4<sup>th</sup> Edition, London: Macmillan and Company, 1938

unregulated markets exhibit frequent failures, such as monopoly, externalities, etc. The public choice, MacChseney (1987)<sup>49</sup>, De Sotro (1990)<sup>50</sup>, hold that regulations is pursued for the benefits of politicians and bureaucrats. There is an observation that permits and regulations exist to give officials the power to deny them and collect bribes in return for providing the permits. On the same token, politicians use regulations both to create rent and to extract them through campaign contribution, votes and bribes.

Understanding the interaction of business and the public is essential to organisations as organisation live within the environment. To be successful in meeting the company/organisation objectives, it is necessary for business managers to understand both economic and its non-economic environment. Peter Drucker emphasises the point:

“What is most important is that management realise that it must consider the impact of every business policy and business action upon society. It has to consider whether the action is likely to promote the public good, to increase\the basic beliefs of our society, to contribute to the stability, strength, and harmony”. Peter Drucker (1955)<sup>51</sup>

There are three alternative theories on economical growth; the neoclassical theory, geographical and location theory, and the institutional approach. The neoclassical theory based on Solow<sup>52</sup> (1956) ascribes that growth results from the expansion in the supply of productive inputs and improvements in technology. The theory sees that economic growth originates from physical and human capital.

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<sup>49</sup> McChesney, Fred S, Rent Extraction and Rent Creation in the Economic Theory of Regulations, Journal of Legal Studies, 16 (1987)

<sup>50</sup> De Soto, Hernando, The Other Path, New York, Ny, Harper and Row, 1990

<sup>51</sup> Peter Drucker: *The Practice of Management*, New York &Flow , 1955

<sup>52</sup> Solow, Robert M. (1956) “A contribution to the Theory of Economic Growth.” *Quarterly Journal of Economics* 70,

Conversely, Sachs<sup>53</sup> who propagates the geographical and location theory, see climatic conditions and access to major markets as major determinants of economic growth. It is argued that a hot climate erodes the productivity of workers and increases the risk of disabling and life threatening diseases such as Malaria. The situation makes business activities slumping and investments unattractive. Locations near major markets and an attractive weather on the other hand, are more attractive for business investment.

Based on the foundation of North (1990)<sup>54</sup> and others, Landes (1998)<sup>55</sup>, Knack (1996 and 2003)<sup>56</sup> the institutional theory stresses the importance of creating an institutional and policy environment conducive for the smooth operations of markets and the realisation of gains from trade and entrepreneurial activities. Trade in this context implies open markets. Free entry into occupations and business are an integral part of economic freedom.

The above views augment the marketing notion that if businesses do not cater to the views of customers, through quality goods and products, the possibility of closing is much higher. As entrepreneurs invest expecting a return on the risks they have foregone, entrepreneurial activities have to be carefully assessed. Entrepreneurial activities in this context include entrepreneurship development and investment. On the other hand, freer economies provide greater opportunities for entrepreneurs to discover and innovate. The introduction of modern products has to a greater extent been facilitated by entrepreneurs discovering these talents. The freer the economy is, enables a wide range of people to try out their innovations and test themselves to the market.

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<sup>53</sup> Sachs, Jeffery D. (2001) "Tropical underdevelopment. NBER Working Paper No. W8119 (February). New York: National Bureau of Economic Research.

<sup>54</sup> North Douglas, C. (1990). *Institutions, Institutional Change, and Economic Performance*. Cambridge. Cambridge University Press

<sup>55</sup> Landes, David, S, (1998) *The Wealth and Poverty of Nations: Why Some Are Rich and Some So Poor*. New York: W.W. Norton

<sup>56</sup> Knack Stephen (1996). Institutions and the Convergence Hypothesis: The Cross – National Evidence. *Public Choice* : 87

Investing is a choice and economic theory indicates that private investment will tend to flow towards economic environments that are more attractive for productive activities. Economies with high taxes, stringent regulations, and unfair enforcements of contracts, lack of legal recourse, insecure property rights, and monetary instability deter investments.

## **2.5. Factors Affecting Private Investments:**

Myriads of studies associate various issues with private investment/private Sector Development. The USAID policy Paper (1982)<sup>57</sup>, ILO/UNDP<sup>58</sup> (1999) clusters these issues into those caused by Government policies, commercial and governance (transparency and accountability). The World Bank (2001) asserts that successive Private Sector Development is integrated and is critical for poverty reduction<sup>59</sup> in two major ways. Firstly, private markets are the engine of productivity growth and thus creating more productive jobs and higher incomes. Secondly, complements Government roles in regulation, funding, and provision of basic services. It is argued that private initiatives can help provide basic services that empower the poor by improving infrastructure, health, and education- the condition for sustainable improvement of livelihood.

The Norwegian Development Cooperation<sup>60</sup> asserts that intervention at the Micro level must be participatory. The ILO (2000) Donor Committee for Small Enterprises Development pioneers sustainable delivery of Non-financial services accents the importance of developing private sector markets for BDS rather than subsidize government or NGO service providers<sup>61</sup>.

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<sup>57</sup> AID. Policy Paper – Private Enterprise Development –USAID Washington May 1982

<sup>58</sup> ILO/UNDP creating an enabling environment for Micro and Small enterprises in Thailand (1999)

<sup>59</sup> World Bank (2001), In “*Private sector Development Strategies- Direction for the Word Bank Group*”

<sup>60</sup>UD- Strategy for Norwegian support of private sector development in developing countries

<sup>61</sup> ILO Business Development Services for Small enterprise: Guiding Principles for donor interventions: 2000

Proponents of a *sound investment especially the Word Bank* <sup>62</sup> argue that critical features of a sound investment climate include:

- i) A sensible governance system that allows firms and farms to pursue their productive activities without harassments
- ii) Contracts and property rights that are respected
- iii) Reduced corruption

A survey of local entrepreneurs Brunneti, Kisunko and Wader (1997) in 69<sup>63</sup> , countries by the Bank found that many states were not performing their core functions adequately. Protection of property rights, law, and order could not be guaranteed, and rules and policies were not being applied predictably. In the most poorly governed countries, which were characterized by endemic corruption, poor control of public funds, lack of accountability, human rights abuses and excessive military influence, foreign aid was often squandered and the situation in those countries did little to attract private investment.

International evidence demonstrates that better regulations enhance economic growth, while poor regulations hamper economic growth. For example, the assessments from Kenya establish that the benefits of the Better Regulation<sup>64</sup> environment have increased the country GDP by 1%. This has resulted from the adoption of a single business license. In the same vein in Uganda, the "Red Tape Analysis" <sup>65</sup> that brought to light a jumble of regulations that potential investors face established the cost to the Uganda economy caused by the failure of the commercial justice at 3% of GDP<sup>66</sup>.

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<sup>62</sup> Ibid footnote 59

<sup>63</sup> Brunneti, Kisunko and Wader, Institutional Obstacles for Doing Business: Data and Methodology of a World wide Private Sector Survey conducted for the World Development Report 1997

<sup>64</sup> is a DFID funded programme, that is currently in phase III

<sup>65</sup> Foreign Investment and Advisory Analysis (1997), Uganda- Administrative Barriers to Investment: The Red Tape Analysis.

<sup>66</sup> Hooper, Manuel and Odoki (1997): Uganda Commercial Sector Study.

SBP (2005)<sup>67</sup> pioneered a study that identified that the regulatory costs for compliance – red tape – cost South African businesses Rand <sup>68</sup>79 billion in 2004, an amount equivalent to 6,5 per cent of GDP. The genesis of the study is based on SBP November 2004, published headline report on the costs of regulation to the South African private sector. Business people asked for more detail about how regulatory costs affected firms in their sectors and firms of a similar size to theirs. Policy-makers were particularly interested in which regulations were most expensive and troublesome to comply with. Both business people and public servants wanted to know more about how to control regulatory costs.

The report uses the survey results to look closely at which regulations are most costly to and troublesome for firms across a range of turnover and employment size bands. It estimates the impact of regulations on firms' plans to grow and to expand

employment. It makes systematic comparisons between the pattern of regulatory costs faced by the representative sample of South African businesses and businesses in six selected sectors of particular interest: the automotive industry, agri-processing, clothing and textiles, information and communications technology, the pharmaceutical industry, and tourism.

**Box 4: Context and Scale of Costs of Compliance in South Africa**

The study estimated the total recurring costs for the formal sector accounted for nearly R79 billion (Us\$ 1.3billion) in 2004. This interprets to a cost of 105,174 Rands (Us \$ 17,529) per year on average for a firm to comply<sup>69</sup> with regulations.

To help to put the estimate in context the figure of R79 billion is equivalent to:

- 6.5 per cent of GDP in 2003,
- 2.8 per cent of aggregate turnover in 2003,
- 16.5 per cent the total wage bill in 2003
- 28 per cent of all Taxes revenue of South Africa for 2002-3, and
- the market capitalisation one of the largest South African corporation

Source: SBP Cutting Red Tape Study

The report puts the survey results in a context necessary to assist business people, government, and other stakeholders in understanding and controlling regulatory costs (see Box 4). It outlines the theory of

<sup>67</sup> SBP Cutting Red Tape Study

<sup>68</sup> At the time of writing June 2006 1 Us \$ was 6.89 South African Rands

<sup>69</sup> Compliance costs are defined as red-tapes cost- the cost that are accumulated because forms have to be understood, filled in and submitted

regulation, describes South Africa's specific regulatory challenges and opportunities, and compares the results of SBP's South African surveys with relevant international findings on regulatory costs and the regulatory environment. It concludes that achieving a better balance between the costs and benefits of the regulatory environment is highly important not just for South African firms, but for all South Africans. It makes references to a 2004 World Bank study that found many developing countries could improve their annual growth rates dramatically if they created a more enabling regulatory environment for business.

Bannock (2002)<sup>70</sup> concludes that regulation and institutions matter. Or to be more precise, an appropriate regulatory and institutional environment is the single most important element in any economic growth strategy. This is the key finding of a 10-country study co-ordinated by Bannock Consulting. The study reviewed the machinery and policies used in seven countries in sub-Saharan Africa (South Africa, Zambia, Tanzania, Kenya, Uganda, Ghana and Malawi) and three in Central Europe (Poland, Hungary and Latvia). The objective of the study was to see whether or not there are connections between the approaches taken to improving the regulatory environment for indigenous private sector development and actual economic outcomes, and to draw out implications for better practice.

The study findings propose that to one degree or another, all 10 countries have attempted to reform their regulatory and institutional environments since the mid-1990s. In all of them, some (admittedly variable) progress had been made during this period. Although some of the countries have further to go than others, the notable insight of the Bannock study was that macro-reform is a necessary but very far from sufficient precondition for sustained growth.

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<sup>70</sup> Bannock (2002) *Improving the Enabling Environment for Indigenous Enterprise Development and Investment: Lessons of Experience* – A 10 – Country Study – Small Business Project, Johannesburg.

The study indicates that policies designed to promote the local private sector - especially small, medium and micro enterprises - are highly unlikely to be effective unless various regulatory and institutional problems are addressed. It is argued that few countries in Africa have explicitly stated a policy rationale for removing the legislative obstacles to private sector development. Most focus instead on promoting support services rather than removing the barriers that would render much of this support unnecessary.

It is also notable that, in Africa, the private sector is hardly consulted in policy formulation process. It is almost never brought in as a partner through effective consultation. The policy formulation and implementation process itself is also excessively centralised in government, and strong lead ministries - covering all aspects of private sector development - are generally absent. Monitoring of policy is inadequate and the necessary statistical base is weak. Central European Countries have managed better in all these areas.

The study also found that only one other factor - a country's level of available skills, especially technical skills - was anywhere near as strongly correlated with per capita economic growth in the 10 countries studied. But interventions to improve the national regulatory and institutional environment within which business operates offer prospects for far more rapid impacts than do the inherently longer-term education and skills strategies.

The Bangladesh Development Institute (2003)<sup>71</sup> has identified infrastructure posing a severe obstacles and that Bangladesh less generating capacity per capita compared to her neighbours. Firm experienced electricity outage or surge daily, resorting to own generation that is expensive. Corruption was pervasive and firms viewed regulations governing business start up fairly difficult and once running firms receive visits from government officials seventeen times a year on average. Finance appears as a looming problem as

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<sup>71</sup> Bangladesh Training Institute and The World Bank, Investment Climate Bangladesh, Washington, D.C. World Bank



many firms have exhausted their lines of credit, while the large share of non-performing loans portends potential difficulties.

There is contention that in this game small and medium-sized are disproportionately affected. The smaller the firm the more it devotes its resources to bribes and dealing with government visits and inspection and the less likely it is to have access to formal finance.

URT (2003)<sup>72</sup> argues that in Tanzania there are currently many laws, ordinances, by-laws, regulations and administrative procedures that create an unfavourable business environment. It also contends that poor regulations significantly hamper economic growth. Proposing the formation of the Better Environment Strengthening Tanzania (BEST) the study advances following advantages of such programs/benefits:

- Facilitating the growth of the missing middle (medium enterprises)
- Enhancing the Public Sector Reform Programme
- Assist in the anti corruption drive

When businesses complain about “too much regulations’ they are usually inferring to several issues that may include the following:

- There is too much new regulations arriving so fast so that businesses cannot cope
- Businesses are not aware of new regulations (as they
- Business do not know what they need to do to comply and
- The compliance burden is just too much, especially for small businesses that do not have the benefit of dedicated staff to monitor new requirements and manage compliance

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<sup>72</sup> URT (2003) Business Environment Strengthening for Tanzania (BEST) draft programme report  
41

To counter this, the BEST Programme- Better Regulation Unit (BRU), Ministry of Economy, Planning, and Empowerment is purporting that *“Simplicity is the key. If it is not absolutely necessary to make a law, it is absolutely necessary not to”*. The BRU motto equates to the principle of BRE UK<sup>73</sup>stating that before new regulations are adopted and when existing regulations are reviewed, we expect them to pass the Five Principles of Good Regulation of;

#### Box 5: BEST Principles of Good Regulations

- Regulate when absolutely necessary
- Keep the law short, simple and clear so that everyone can understand it
- Try not to interfere with trade and market forces
- Think small first. Do not place unnecessary burden on business; especially small firms
- Balance risks, cost and practical benefit the benefits must outweigh the costs, and be proportion to the risks being addressed
- Provide flexibility for the future- focus on setting the objective to be achieved, not the process
- Make sure you can enforce the regulation at a reasonable cost
- Monitor whether the regulation is working
- Allow enough time for full consultation, notification and phasing in
- Integrate with previous regulation

Source: BEST Brochure

proportionality, *accountability, consistency, transparency and targeting*.

On the same vein, our neighbours Uganda<sup>74</sup> are applying a Regulatory Best Practice consistently to transform Uganda into a thriving, competitive and prosperous nation. The five core themes include; i) Simplicity and transparency; ii) Don't place unnecessary burdens on business (in terms of time and money) iii) Use goal-based regulations wherever possible; iv) Accountability; Balance risk, cost and practical benefit.

## 2.6. The Assessment of the Investment Climate

The Foreign Investment Services (FIAS)<sup>75</sup> that helps developing countries governments improve the

Foreign Direct Investment of their countries mentions about twenty-two compilation of indices and ratings of

<sup>73</sup> [www.cabinet-office.gov.uk/regulation/2000/riaguide](http://www.cabinet-office.gov.uk/regulation/2000/riaguide)

<sup>74</sup> Regulatory BEST Practice Unit Ministry of Finance, Planning and Economic Development, Kampala, Uganda. Thinking About Regulating? A Guideline to Good Regulation, March, 2004.

Ann Arbour (2003) *Democracy, Governance, and Growth*, MI: University of Michigan Press

different factors that measure the investment climate. Explained in the following sections are some of the instruments that measure the investment climate. Traced also are relevant information that measure and rank the indices of the United Republic of Tanzania.

### **2.6.1. The Doing Business**

This is a database providing objective measures of business regulations and their enforcement. For year 2005 The Doing Business indicators are comparable across more than 150 economies. They indicate the regulatory costs of business and can be used to analyze specific regulations that enhance or constrain investment, productivity and growth.

Maintained by the Rapid Response Unit of the World Bank, doing business has so far benchmarks on ten themes i.e. starting a business, hiring and firing, enforcing contracts, getting credit, closing a business, dealing with licenses, protecting investors, paying taxes, trading across borders and registering property.

Ifunya (2006)<sup>76</sup> argues that despite the government of the third phase engaging the private sector in dialogue, Tanzania still ranks 140<sup>th</sup> among 150 countries ranked by the World Bank doing business data base and is worst in dealing with licences<sup>77</sup>, see box 4.

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<sup>75</sup> [www.fias.net/investment\\_climate.html](http://www.fias.net/investment_climate.html)

<sup>76</sup> [www.publicprivatedialogue.org](http://www.publicprivatedialogue.org)- Ifunya F.J. Promoting Public-Private Sector for Self-Motivated Reforms in the Municipality of Moshi- *A Case study presented to International Workshop on Public-Private Dialogue- February 1&2 2006 –The World Bank Paris Conference Centre*

<sup>77</sup> [www.doingbusiness.org/ExploreEconomies/Default.asp?economiesid=185](http://www.doingbusiness.org/ExploreEconomies/Default.asp?economiesid=185) Searched November 2005

The World Bank (2005)<sup>78</sup> also views Tanzania as currently devoid of the efficient institutional framework necessary for implementing its market based reform approach. In many areas of regulation, including business entry and exit, property rights and contract enforcement Tanzania performs poorly- not withstanding the fact that in some areas Tanzania performs better than some countries in Sub-Saharan Africa.

For example, registering a business costs US\$532 in Tanzania, compared with US\$222 in Kenya. Closing a

business takes longer and costs more in Tanzania than in many countries in the Region. Tanzania also performs poorly in the areas of property rights and contract enforcement.

Although better than the average of other Sub-Saharan African countries in other areas, costs are much higher than in the best performing countries in the region and than in OECD countries. In particular, regulations and institutions providing services related to land registration and titling need to be reformed and the administration of justice in commercial areas needs to be improved so that business disputes can be resolved more rapidly.

This section explains some of the benchmarks that the doing business data base uses to compare the economies of countries. A reflection on Tanzania (positioning and reviewing current literature on reform) will be made.

**Box 6: *Doing Business in Tanzania 2005***

Ranking of Tanzania as rated by the WB Doing Business Data Bank out of the 150 Countries surveyed.

Ease of.....	Economy Rank
Doing Business	140
Enforcing Contracts	48
Closing a Business	83
Trading Across Borders	102
Starting Business	113
Paying Taxes	114
Getting Credit	125
Hiring and firing	136
Registering property	143
Protecting Investors	144
Dealing with licenses	150

**Source: Compiled from Doing Business Data Base**

<sup>78</sup> World Bank (2005) Private Sector Competitiveness Project of the United Republic of Tanzania

### **2.6.1.1. Starting a Business**

The data base for starting a business tracks the hurdles a starting entrepreneurs encounters with the bureaucratic and legal procedures to incorporate and register the new firm. The survey examines commercial or industrial firms with up to 50 employees and start-up capital of 10 times the economy's per-capita GNI (Gross National Income).

The data base demonstrates that economies differ significantly in the way in which they regulate the entry of new businesses. Tanzania is performing poorly in this area as it among the worst 10 performers in the world. Compared to other countries, the cost of starting up the business in Tanzania is so burdensome that entrepreneurs have to bribe officials to speed up the process or they would rather run their business informally.

The database counted all procedures (defined as a legal requirement that involves a separate interaction between the firm and an outside entity -- officials, notaries, etc) required to register a firm. Data also include screening procedures by a set of overseeing government entities, tax- and labour-related registration procedures, health and safety procedures, and environment-related procedures. It also covers the number of procedures, average time spent during each procedure (in calendar days), official cost of each procedure (in local currency and US dollars), minimum capital required and overall ranks

Though magnificent, the Starting business data bases on official cost that excludes bribes, of which De Soto (1990)<sup>79</sup> found to be significant.

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<sup>79</sup> ibid footnote 59.

### 2.6.1.2. Hiring and Firing Workers

An Employment Laws Index covers three areas: flexibility of hiring, conditions of employment, and flexibility of firing. Flexibility of hiring covers the availability of part-time, fixed-term, and family members' contracts. Conditions of employment cover working time requirements, including mandatory minimum daily rest, maximum number of hours in a normal workweek, premium for overtime work, and restrictions on weekly holiday; mandatory payment for non-working days, which includes days of annual leave with pay and paid time off for holidays; and minimum wage legislation. Flexibility of firing covers workers' legal protections against dismissal, including the grounds for dismissal, procedures for dismissal (individual and collective), notice period, and severance payment. Each index assigns values between 0 and 100, with higher values representing more rigid regulations. The overall Employment Laws Index is an average of the three indices.

While the efficiency theory asserts that regulation adjust to efficiently address the problem of the market failure, the political theory argues that regulations are used by political leaders to benefit themselves and their allies. The Legal theory holds that the pattern by each country's legal tradition is to a significant extent determined by transplantation of a few legal systems.

The World Bank (2003)<sup>80</sup> asserts that the benchmarking data system deals with four bodies of law: employment laws, industrial relations laws, occupational health and safety laws, and social security laws. This database examines government regulation in the areas of employment laws.

Botero, et al (2004)<sup>81</sup> contends that every economy has established a complex system of laws and institutions intended to protect the interests of workers and to guarantee a minimum standard of living for its population. Through their research that covered 85 countries, they found out that the political power of the

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<sup>80</sup> <http://rru.worldbank.org/DoingBusiness/ExploreTopics/HiringFiringWorkers/>

<sup>81</sup> <http://rru.worldbank.org/Documents/DoingBusiness/Methodology/HiringFiringWorkers/Labor.pdf>

left is associated with more stringent labour regulations and more generous social security, and that socialist, French and Scandinavian legal origin countries have sharply higher levels of labour regulation than common law countries. They concluded that there are three broad theories of labour; *efficiency*, *political* and *legal*.

Tanzania had a socialist alienation, that is no wonder that it has stringent labour laws ranking the 146th worldwide and for example, the Tanzania Investors roadmap in this context contends:

"... the country's labour laws remain woefully inadequate to support a modern private sector economy, and some provisions related to terminating employment are a serious concern for the private sector". Tanzania investors Roadmap, Final Assessment Report, 1999

The DANIDA Business Sector Support Programme, 1998-2002 is supporting the Ministry of Labour based on the overarching principle that the rights of employees be adequately and appropriately balanced by the rights of employers. The implementation of labour laws reform is being undertaken in two phases with phase one covering; the Employment Ordinance; Trade Union Act; Industrial Court Act; Regulation of Wages and Terms of Employment Ordinance; Labour Market Institution; and Security of Employment Act.<sup>82</sup> While the report proposing the BEST programme advised the Business Regulatory Unit (BRU) to reform labour laws in four areas as in Box.7

**Box 7: Proposed Labour Laws Reforms**

- Simplify the laws and regulations dealing with dismissal
- Fundamentally review the role of the industrial court
- Simplify the laws relating to terms and conditions of employment, and
- Free up the system of work permits of expatriate workers, in review of the current low skill base amongst the population in Tanzania

**Source: URT BEST Draft Programme Report.**

<sup>82</sup> ibid footnote 76

### 2.6.1.3 Enforcing Contracts

Enforcing contract is a critical issue for businesses to engage new borrowers or customers. The institutions responsible for enforcing contracts, mainly courts, have to be credible enough to assure businesses that in case of a borrowers' default, the lenders are protected and that the procedure and cost of recovering the loan through a law suit are favourable (faster, efficient, and the court is honest) to the claimant.

The enforcing contract database comprises of three indicators; the first being number of procedures mandated by law or court regulation that demands interaction between the parties or between them and the judge or court officer. The second indicator of efficiency is an estimate - in calendar days - of the duration of the dispute resolution. Time is measured as the number of days from the moment the plaintiff files the lawsuit in court, until the moment of actual payment. The third is costs, including court costs, attorney fees, and payments to other professionals like accountants and bailiffs.

Substantive, and procedural statutory intervention<sup>83</sup> are also measured and comprise of; use of professionals, nature of action, legal justification, statutory regulation of evidence, control of superior review, and other statutory interventions including formalities required to engage someone into the procedure or to hold him/her accountable for the judgement. The Procedural Complexity Index varies from 0 to 100, with higher values indicating more procedural complexity in enforcing a contract.

Tanzania is ranked as the 48<sup>th</sup> worldwide. Despite this impressive performance it is argued that for the private sector to develop, formal disputes resolutions mechanisms must be strengthened. Five key reasons are advanced for the provision of an effective and efficient commercial resolution in Tanzania. These

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<sup>83</sup> <http://rru.worldbank.org/DoingBusiness/Methodology/EnforcingContracts.aspx>



include ; the restricted nature of contracting networks; the missing middle<sup>84</sup>; restricted access to finance; the bad debt nature; the inefficient employment of assets; and the disproportionate cost of these problems borne by small businesses.

Justifying the restricted nature of contracting networks, ESRF (1998)<sup>85</sup> for example concludes that micro and small enterprises in Tanzania rely on informal agreements and that the preferred method of payment is cash on delivery. This constraints business expansion and limits a number of transaction and inventory a business can engage in.

#### **2.6.1.4. Getting Credit**Error! Bookmark not defined.

Most of the firms especially in the developing countries report credit as one of the barriers that inhibit enterprise growth. There are barriers that inhibit small and micro enterprise to access to credit. Lack of information on the credit performance is among the problems that force financial institutions to shun extending credit to this vital sector. One of the most important institutional elements supporting a well-functioning credit market are credit or consumer reporting firms and other types of public and private credit information registries which provide rapid access to accurate and reliable standardized information on potential borrowers, be they individuals or firms.

Theory predicts that information sharing among lenders satisfies adverse selection and moral hazard and can therefore increase lending and reduce default rates, Jappelli and Pillano (1999)<sup>86</sup>. Information sharing is viewed also, as a crucial precondition for the development of a thriving credit market. This may be

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<sup>84</sup> The missing middle implies that few small and micro enterprises in Tanzania have failed to grow to medium enterprises. It is urged that the poorly functioning commercial justice has limited this transition.

<sup>85</sup> Economic and Social Research Foundation, Study on Business Contracting Practices in Tanzania. Preliminary Draft, November 1998

<sup>86</sup> Jappelli Tullio and Pagano Marco, Working Paper No 22, Information Sharing, Lending and Defaults: Cross-Country Evidence, CSEF, University of Salerno, 1999. [http:// www.disc.unisq.it/wp/wp22.pdf](http://www.disc.unisq.it/wp/wp22.pdf)

achieved by facilitating information distribution that positively influences access to credit, Jentzch (2003<sup>87</sup>), improves the banks knowledge of applicants' characteristics, and reduces the information rents that banks could otherwise extract from their customers, Jappelli and Pillano (2003)<sup>88</sup>. Miller (2003<sup>89</sup>) asserts that credit reporting is a critical part of the financial system in developing economies but is often weak in developing countries. Credit reporting, contributes significantly to predicting default risk of potential borrowers, which promotes increased lending activities.

Doing Business provides an indicator of creditor rights, which also measures the powers of secured lenders in bankruptcy. Effective regulations on secured lending - or collateral - are yet another institutional solution to credit constraints. With collateral, a lender can seize and sell the borrower's secured assets upon default of a loan, which limits the potential losses of a lender and acts as a screening device of borrowers. Therefore with effective collateral law, systems and enforcement, one may expect increased access to credit and better allocation of credit. Other indicators of how well collateral systems facilitate access to credit are under development.

The indicators for doing business in Tanzania are as in Table 3. Two sets of measures on getting credit in Tanzania are constructed: indicators on credit information sharing and an indicator of the legal protection of creditor rights.

**Table 3: Getting Credit in Tanzania 2003**

Indicator	Tanzania	Regional	OECD
		Average	Average
Has Public Credit Registry?	No		

<sup>87</sup> Jentzch Nicola, Working Paper, The Regulatory Environment For Business Information Sharing, Freie Universitet of Berlin

<sup>88</sup> Jappelli Tullio and Pagano Marco, Working Paper No 36, Information Sharing in Credit markets: A Survey, CSEF, University of Salerno, 1999. [http: www.disc.unisq.it/wp/wp36.pdf](http://www.disc.unisq.it/wp/wp36.pdf)

<sup>89</sup> <http://mitpress.mit.edu/>

Public Credit Registry (year est.)	..		
Public Credit Registry coverage (borrowers per 1000 capita)	0	0.8	43.2
Public Credit Registry Index	0	39	58
Has Private Credit Bureau?	No		
Private Bureau coverage (borrowers per 1000 capita)	0	36.3	443.5
Creditor Rights Index	2	1	1

Source Doing Business World Bank 2003

Tanzania has done less on credit information and rating. Some private companies have tried to establish credit reference systems but they have been delayed by lack of a legal and regulatory framework that the BOT is in the process of establishing.

Tanzania financial depth and efficiency is less developed as depicted in Table 4 below:

Country	Domestic Credit provided by the Banking Sector (% of GDP)		Liquid Liabilities (% of GDP)		Quasi liquid liabilities (% of GDP)		Ratio of bank Liquid Reserve as to Bank Assets %		Interest Rate spread (Lending minus deposit rate)- Percentage points	
	1990	2003	1990	2003	1990	2003	1990	2003	1990	2003
Tanzania	34.6	8.4	19.9	22.7	6.3	12.2	5.3	12.4	0	11.4
Uganda	17.8	12.5	7.6	20.5	1.4	10.1	15.2	8.1	7.4	9.1
World	139	162.1	83.2	85.4		55.1	10.3	11.3	5.5	6.3
Low income	44.3	45.3	36.2	51.9	20.6	34.1	12.8	15.6	8.2	12.4
Middle income	64.3	85.3	42.2	81.4	24.7	51.5	13.5	10.8	5.0	6.3
High income	153.1	181.9	92.8	104.3	74.8	2.0	1.2	4.5	3.9	2.4

Source: World Bank Indicators 2005

Tanzania has a weak financial depth as the percentage of domestic credit is 8.4% while that of a middle income where Tanzania is heading is 85.6% more than 10 times.

#### **2.6.1.5 Closing a Business**

The closing a business survey covers the step-by-step procedures on filing for bankruptcy proceedings, initiation of bankruptcy, the petition hearing, the court's decision, the appointment of an insolvency practitioner, the assessment of claims and their ordering by priority, and the sale of assets. The answers to these questions are used to construct indicators on the efficiency of the bankruptcy process, as well as on the powers of the court.

Most often, the bottlenecks in bankruptcy are associated with the inefficient judicial process, and hence the unwillingness of banks and other lenders to push for a formal insolvency resolution. In such a scenario unprofitable firms hang around for years, not allowing assets and human capital to be allocated to more productive uses. In many developing countries, bankruptcy is so inefficient that creditors hardly ever use it. In such countries, policy reform would best focus on improving contract enforcement outside of bankruptcy.

The World Bank Doing Business (2003)<sup>90</sup> argues that economic crises in emerging markets have raised concerns about the design of bankruptcy systems and the ability of such systems to help reorganize viable companies and close down unviable ones. This anomaly is a result of bankruptcy inefficient systems.

#### **2.6.2. The Heritage Foundation's Index of Economic Freedom**

The Heritage Foundation/Wall Street Journal Index of Economic Freedom is a practical reference guide to the economies of 161 countries, with detailed information about foreign investment codes, fiscal burden of

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<sup>90</sup> <http://rru.worldbank.org/DoingBusiness/ExploreTopics/ClosingBusiness/>

## Box 8: The Economic Freedom of Tanzania

Overall	Repressed	Mostly Un free	Mostly Free
Rank: 98 Score: 3.29 Category: Mostly Un free	Trade Policy 5.0 Property Rights 4.0 Regulation 4.0 Informal Market 4.0	Wages and Prices 3.0 Foreign Investment 3.0 Fiscal Burden 3.9	Government Intervention 2.0 Monetary Policy 2.0 Banking and Finance 2.0

Tanzania may be one of Africa's most stable countries, but it also remains one of the poorest. The World Bank estimates a per capita income of about \$277 per year; the issue of poverty is therefore likely to find its way into the 2005 election, which could result in the displacement of the ruling Chama Cha Mapinuzi. The recent terrorist strikes in Mombasa, Kenya, have revived memories of the Dar es Salaam attack in August of 1998; increasing religious tensions and an ongoing political conflict in Zanzibar have citizens worried that a similar strike may occur in the future. The Economist Intelligence Unit estimates that the economy will grow by 5 percent this year, partly because of progress in stabilizing the macroeconomic environment, which has also had a positive effect in reducing poverty. Agriculture continues to be the most important market, accounting for nearly 85 percent of exports and 45 percent of GDP. In recent years, a flood of foreign investment in the mining sector has enabled Tanzania to become one of the world's largest producers of gold. Despite these efforts, however, there has been little improvement in the average Tanzanian's standard of living. Whether this will change will depend on the government's ability to follow through with its reforms. Tanzania's fiscal burden of government score is 0.5 point worse this year; however, its government intervention, monetary policy, and banking and finance scores are 1 point better. As a result, Tanzania's overall score is 0.25 point better this year.

### TRADE POLICY

Score: 5.0

The World Bank reports that Tanzania's weighted average tariff rate in 2000 (the most recent year for which World Bank data are available) was 14.5 percent. According to the U.S. Department of State, "the customs department and the port authorities are the greatest hindrance to importers throughout Tanzania.... Corruption is a serious problem.... These hindrances can also cause unpredictable delays when importing goods into the country."

### PROPERTY RIGHTS

Score: 4.0

"The Constitution provides for an independent judiciary," reports the U.S. Department of State; "however, the judiciary is corrupt, inefficient and subject to executive influence." In addition, "Clerks took bribes to decide whether or not to open cases and to hide or misdirect the files of those accused of crimes." The same source reports that "the Government...established a Commercial Court (CC) in September 1999. The Commercial Court...in principle, provides a place for speedy, efficient and commercially aware litigation of commercial disputes."

### REGULATION

Score: 4.0

Tanzania's bureaucracy is still burdensome, and corruption reportedly is rampant. According to the U.S. Department of State, "Tanzania has an antiquated and burdensome [system of] regulations on trade, commerce, employment, and resource utilization. Many of these regulations date from the colonial era, or the post-independence socialist period and have yet to be adjusted to serve the needs of a liberal market-based economy."

### INFORMAL MARKET

Score: 4.0

Transparency International's 2002 score for Tanzania is 2.7. Therefore, Tanzania's informal market score is 4 this year.

Score—Corporate Taxation: 4.0 Score—Change in Government Expenditures: 4.5

**Source: Heritage International 2004**

government, tariffs, banking regulations, monetary policy, black markets, and more. Established in the late 80s, the goal then, and as it is today was to develop a systematic, empirical measurement of economic freedom in countries throughout the world. Tanzania is ranked 98 in 2004 as in box 9.

Economic freedom is defined by Beach and Miles (2004) <sup>91</sup> as the absence of government coercion or constraint on the production, distribution, or consumption of goods and services beyond the extent necessary for citizens to protect and maintain liberty itself. In other words, people are free to work, produce, consume, and invest in the ways they feel are most productive.

Each country receives its overall economic freedom score based on the simple average of the 10 individual factor scores. Each factor is graded according to a unique scale. The scales run from 1 to 5: A score of 1 signifies an economic environment or set of policies that are most conducive to economic freedom, while a score of 5 signifies a set of policies that are least conducive to economic freedom.

To measure economic freedom and rate each country, the authors of the Index study 50 independent economic variables. These variables fall into 10 broad categories, or factors, of economic freedom: Trade policy, Fiscal burden of government, Government intervention in the economy, monetary policy, Capital flows and foreign investment, Banking and finance, Wages and prices, Property rights, Regulation, and Informal market activity.

The four broad categories of economic freedom in the Index are:

- Free—countries with an average overall score of 1.99 or less;
- Mostly Free—countries with an average overall score of 2.00 to 2.99;

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<sup>91</sup> Beach w.w. and Miles. A.M in <http://www.heritage.org/research/feature/index/ChapterPDFs/ExecSummary.HTML>

- Mostly Un free—countries with an average overall score of 3.00 to 3.99; and
- Repressed—countries with an average overall score of 4.00 or higher

The 2004 Index of Economic Freedom<sup>92</sup> has made the following observations:

- i) The ten years of the Index of Economic of freedom have been turbulent with the former Eastern bloc countries moving to the economically free, while former leaders of the industrialized world have slipped in the standings
- ii) Achieving economic freedom is like building a car. As the key components (powerful engine, the transmission, brakes, etc.) of the car are all essential to enable the car reach its desired destination. The 10 factors of the index provide a roadmap, and only by sticking to the highlighted route can a country achieve economic freedom, prosperity, and self-sufficiency.
- iii) Countries moving down the road map towards economic freedom have higher growth rates. The more economic free a country adopts, the faster they grow or the longer they have superior growth.
- iv) Tax harmonization among countries has been equated to price –fixing agreement between gas selling stations. Policy makers are advised to avoid tax harmonization and adopt tax competition, which facilitates economic growth by encouraging policy makers to adopt sensible tax policies.

### **2.6.3. The Fraser Institute's Index of Economic Freedom**

The Canada-based institute's Economic Freedom Network Index<sup>93</sup>, which ranks 123 countries, is a joint venture involving fifty-five research institutes in fifty-five countries around the world. The core ingredients of economic freedom are defined by personal choice, protection of private property, and freedom of exchange.

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<sup>92</sup> Ibid footnote 44

<sup>93</sup> <http://www.freetheworld.com/download.html>

It argues that individuals have economic freedom when the following conditions exist:

(a) their property acquired without the use of force, fraud, or theft is protected from physical invasions by others and

(b) they are free to use, exchange, or give their property to another as long as their actions do not violate the identical rights of others. The components of the index are as box 9.

**Box 9: Components Fraser Index of Economic Freedom**

- Size of Government: Consumption, Transfers, and subsidies [11.0%]
- Structure of the Economy and Use of Markets (Production and allocation via governmental [14.2%]
- Monetary Policy and Price Stability (Protection of money as a store of value and medium of exchange)[9.2%]
- Freedom to Use Alternative Currencies (Freedom of access to alternative currencies)[14.6%]
- Legal Structure and Property Rights (Security of property rights and viability of contracts)[16.6%]
- International Exchange: Freedom to Trade with Foreigners [17.1%]
- Freedom of Exchange in Capital and Financial Markets [17.2%]

Tanzania level of economic freedom (out of 10 points) has climbed from 4.6 in 1970 to 6.2 in 2003. It ranked 50 out of the 54 countries that were surveyed in 1970 and 69 out of the 123 countries that were surveyed. Table 9 shows the trend of Tanzania in the level of economic freedom and economic freedom ranking.

**Table 4: Level of Economic Freedom Ranking –Tanzania**

Year	1985	1990	1995	2000	2002
Level of Economic freedom (out of 10)	4.0	4.0	4.9	5.8	6.2
Economic Freedom Ranking	96	101	92	81	69
Out Of	111	113	123	123	123

Source: Economic Freedom of the World: 2003 Annual Report

#### **2.6.4. Investment Climate Assessments.**

Investment Climate Assessments (ICAs) are part of the World Bank Group's PSD strategy and they represent an initiative to systematically analyze conditions for private investment and enterprise growth in countries throughout the world. ICAs provide the tools and analytical framework to identify reform priorities



in a country's investment climate, by linking constraints to firm-level costs and productivity. It highlights the microeconomic and institutional conditions inhibiting productive investment, and identifies conditions whose improvement would yield the greatest or easiest gains.

These assessments will ultimately feed into operations and technical assistance. The operational orientation places the regions at the centre of the process, assuring the relevance of the ICAs to the policy and institutional priorities of each country studied.

Nicholas Stern, Chief Economist of the World Bank states:

" The central challenge in reaping greater benefits from globalisation lies in improving the investment climate--that is, in providing sound regulation of industry, including the promotion of competition; in overcoming bureaucratic delay and inefficiency; in fighting corruption; and in improving the quality of infrastructure. While the investment climate is clearly important for large, formal sector firms, it is just as important -- if not more so -- for small and medium enterprises (SMES), the informal sector, agricultural productivity, and the generation of off-farm employment. For these reasons, the investment climate itself is a key issue for poverty reduction." Steiner, <sup>94</sup>

Through the Investment Climate Assessments the bank provide a standardized way of measuring and comparing investment climate conditions in a country, replacing a number of varying methodologies of the past. ICAs are a systematic means to "allow:

- better identification of the features of the investment climate that matter most for productivity and hence income growth, especially for poor men and women,
- tracking of changes in the investment climate within a country, and
- comparison of countries or regions within countries."

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<sup>94</sup>Private Sector Development Strategy – Directions for the World Bank Group, April 9, 2002.

The main focus of Investment Climate Assessments is to look in detail at factors constraining the functioning of product markets, financial and non-financial factor markets, and infrastructure services including, in particular, weaknesses in an economy's legal, regulatory and institutional.

#### **2.6.5. Transparency International Corruption Perception Index**

The Transparency International (TI) Corruption Perceptions Index (CPI) ranks several countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on 14 different polls and surveys from seven independent institutions carried out among business people and country analysts, including surveys of residents, both local and expatriate. TI focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The surveys used in compiling the CPI tend to ask questions in line with the misuse of public power for private benefits, with a focus, for example, on bribe-taking by public officials in public procurement.

The global corruption report 2004<sup>95</sup> unveiled the following:

- The private sector was a supply side of the money that is funding political corruption.
- Sanctioned secrecy and lack of price transparency for example help to perpetuate corruption in the arms trade.
- New methodologies and lines of research have strengthened the understanding of corruption and improved ways to measure it.
- The perception index for 2003 shows that 70% of the countries score less than 5 out of a clean score of 10.
- Surveys of personal experience of corruption reflect that victims lack trust in public institutions.
- Corruption leads to lower capital inflows and productivity
- Corruption deters foreign investment because it is often associated with a lack of secure property rights as well as bureaucratic red tape and mismanagement.

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<sup>95</sup> Transparency International Global Corruption Report 2004  
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The survey from West Africa, South Asia and Peru suggest that corruption affects the poor disproportionately. The poor spend more money on bribes as a share of their income and their access to public services is severely curtailed by corruption.

Tanzania position on CPI is 2.8 in 2004, 2.7 in 2002 and 2.5 in 2000 indicating that Tanzania incidence of corruption is high.

#### **2.6.6. Commonwealth Business Council- Business Environment Surveys<sup>96</sup>**

The Business Council's Business Environment Survey is designed to ascertain and presents the private sector views on the environment for business in commonwealth countries. For example for the 2005 survey, private sector businesses were asked for their opinion on seventeen (17) parameters and this data was compared to the 2003 survey. The respondents gauge the parameters on a scale of 1-4: disincentive; inadequate; adequate; or incentive.

The parameters are clustered around three factors; openness and accountability; business enablers and outlook; and policy framework. The parameters and their respective cluster are as in Box 10 below.

#### **Box 10: Commonwealth Business Council- Business Environment Surveys Clusters**

Cluster	Parameters	Explanation
<b>Openness and Accountability</b>	Governance-Business Relations	Effective working of Chambers of Commerce and Industry Association in providing private sector views to government, formal mechanism in government for consultation with private sector before announcing economic policies and budget,
	Free Media	Commercial media permitted to work freely; absence of direct government control; a commitment to plural media and impartial broadcasting
	Reliable Justice	Independent, competent and honest judiciary; enforceable legislation for financial issues; freedom of business, consumer, trade organisations.
	Efficient Administration	Simplified licensing procedure, simple investment process, clear and objective criteria for issuing licences, right to appeal/ reviewed by independent referee,

<sup>96</sup> Commonwealth Business Council- Business Environment Survey 2005- Private Sector Views

	Effective Government	government departments and agencies have a charter . Mechanism to transfer power at regular intervals, a responsible opposition, and absence of corruption at the political level, responsive to public complains.
<b>Business Enablers and Outlook</b>	Future outlook	Outlook for the economy in the near term, expectation of growth, confidence in future of business in this country; local business sentiment.
	Corporate Governance	Accepted framework for corporate governance which includes prompt payment of taxes and liabilities to the State. Adoption of CG culture.
	Industrial Relations	Stable and consistent industrial relations policy which is conducive to cooperative dialogue between employer and labour representatives.
	Human Resources	Availability of a pool of educated and trained personnel, professional and industry association, involvement of private sector in skill development, incentives that support entrepreneurship, health care facilities available..
	Infrastructure	Adequate transport facilities, fast and reliable telecommunication, involvement of the private and competitive provision of infrastructure..
	Financial Framework	Stable exchange policy, high standard of accounting and audit in public and private sector, sound budgetary management with price storability, availability of credit for small business, effective security legislation..
	Business Regulation	Effective regulatory legislation and policies, reasonable compliance costs, simple and efficient tax system, prompt refund of VAT and trade related taxes, effective business licensing regime, reasonable business registration costs, effective work permit policies, efficient commercial courts.
<b>Policy Framework</b>	Environmental Protection	Clear environmental regulations with no discrimination against the private sector, regular consultation with private sector bodies on environmental policy formulation
	Corruption Reduction	High personal integrity of government and business leaders, assets disclosure and audit of officials in sensitive position, effective national legislation against bribing of public officials...
	Tax Policy	Clear and understood by the public and readily accessible information, double taxation agreements, competitive level of taxation, no unpredictable change of taxes, helpful and responsive staff...
	Competition Policy	Legal and regulatory framework for an effective competition policy, no major unregulated monopolies, trade policies facilitating trade and investment and e-commerce, tariffs that support competition in international trade...
	Consistent Policies	Government decision taken within the framework of stated economic policies, consistent and transparent policies, no arbitrary change in policies; regular consultation with private sector bodies on economic policy formulation.

The survey has identified the main impediments to better business environment, especially across the range developing commonwealth countries surveyed are: i) the lack of more responsive state; ii) the low level of physical and institutional infrastructure; iii) the drain of skilled labour (brain drain) iv) the inability to take advantage of trade; and v) ingrained corruption with a weak rule of law.

From the above the study postulates that countries have tried to attract and retain foreign and domestic investments but they have fallen into the following dilemmas:

- Investment incentives are often a preferred strategy by the host country to attract FDI and bolster domestic investments, but in the absence of other complementary policy actions and structural reforms they do not automatically work;
- Sound and stable macroeconomic policies are essential for development, but not sufficient in themselves to encourage business growth. Adequate policy is needed at the microeconomic level to improve the function markets;
- Business and investment flows are more likely to increase where the government-business relations are positive and the policy framework takes account of the private sector views;
- Several countries have sought to increase their efforts to create appropriate conditions for both foreign and domestic investment.

In the 2005 CBC survey, Tanzania received a weighted score of 54 out of 100 and is the 11<sup>th</sup> among the 15 countries that were surveyed in Africa. The survey indicates that respondents reported that the government of Tanzania had an open door and is genuinely interested in maintaining good relations with business.

Future outlook, effective government outlook, and government-business relation were the areas that received the highest ratings. Compared to the evaluation of 2003 however, the government –business relation has dropped from 3.25 (2003) to 2.9(2005), while it has dropped from 3.125(2003) to 3.06 (2005) in effective government.

The analysis further contend that problems were noted by respondents in government effectiveness in tackling corruption, poor infrastructure, expensive utilities (contributing to high business costs), an inadequate tax regime, and difficulties in getting permission in expatriate labour. There were discontent from the survey and decline in the areas of industrial relation, human resources, environmental protection and mitigating corruption.

Box 11 summarises the key action points and the Best Practices identified during the CBC 2005 survey.

**Box 11: Key Action Points and Best Practices for the United Republic of Tanzania**

**Key Action Points**

Action points to attract investment and to provide a favourable Business environment include:

- Increasing spending on infrastructure to reduce costs and boost competitiveness;
- Developing financial markets to facilitate the availability of long term credit to companies;
- Investing more in health and education; and
- Improving institutional efficiency, including the reduction of corruption and red tape.

**Best Practices**

Tanzania has developed several policy initiatives to guide the development agenda and poverty reduction efforts. Chief among these is the vision 2025, with its three main objectives; having good quality of life for all citizens, good governance and the rule of law and building a strong economy that can withstand global competition. In order to attain the desired results, the government has developed the five-year National Strategy for Growth and Reduction of Poverty (NSGRP). Importantly, NSGRP is based on the outcomes, which seek the implementation of the necessary measures to achieve vision 2005's objectives.

**Source: Commonwealth Business Council- Business Environment Survey, 2005**

### **2.6.7. Regulatory Impact Assessment**

In its article the *SME Alert (2003)*<sup>97</sup> explores the mechanism of Regulatory Impact Assessments (RIAs) as a tool for assessing the likely impact of regulations. It contends that RIAs can be an instrument for decreasing the barriers to small and medium enterprise (SME) development.

Essentially, a RIA is about measurement; about quantifying and calculating the transaction costs of doing business and testing the costs, benefits and risks of each potential course of action. It is documented that the basic questions that are asked when embarking on the exercise include, such as: 'Are government staff

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<sup>97</sup> Small Business Project – *Understanding Regulatory Impact Assessments: Key issues from the international experience* based on an article from *SME Alert* January 2003

trained to implement the law? Is it enforceable? Is it good for business growth and the creation of more jobs? Does business agree with it and is the government capable of implementing it on due date?’

It is further argued that business interests should be the sole determinant of policy, but rather that policy should take full account of the practical realities for business, particularly SMEs. Regulation burden imposed on SMEs need special consideration taking in view of their size. Usually, SMEs lack the administrative capacity to absorb the extra burden imposed on them by regulations. This is also the area where the greatest degree of non-compliance happens.

RIA is important for all regulation, not only regulations that affect business, or small business. The overall focus of RIAs is on appropriate or better regulation. In the case of business, the objective must be to enhance private sector growth, enable markets to function more effectively and facilitate investor certainty.

RIAs are a key element in improving regulation. South Africa’s Department of Trade and Industry towards the end of 2002 announced the intention to commission a study to investigate regulations that impose disproportionately high costs on small, medium and micro-enterprises. This is a welcome development; but matters should not be left there. Political will and commitment to the broader concept of regulatory best practice, and specifically the use of RIAs as a standard element in the policy process, are critically important. In addition to being a clear sign of good policy making, the consistent use of RIAs would send a positive signal to investors that South Africa is ‘a good place to do businesses.

#### **2.6.7. The OECD Initiative on Investment for Development: Policy Framework for Investment (PFI)<sup>98</sup>**

In May 2006 the OECD Council adopted and declassified the Policy Framework for Development while the Ministerial Council welcomed the framework. The PFI aims to assist governments in their efforts to create a healthy policy

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<sup>98</sup> [www.oecd.org/dataoecd/1/31/36671400.pdf](http://www.oecd.org/dataoecd/1/31/36671400.pdf)

environment for domestic and foreign investments, taking into account the broader interests of the communities in which investors operate. A Task Force of OECD and non-OECD country representatives established in 2004 developed the Framework. This was achieved through extensive regional consultations in Africa, Asia and Latin America, and in meetings at the OECD. Tanzania was among non-OECD members who participated to draft the policy framework.

The *Policy Framework for Investment* aims to advance the implementation of the United Nations Monterrey Consensus. The consensus emphasizes the vital role of private investment in effective development, UN Millennium Declaration. It accentuates the recent multilateral efforts to strengthen the international and national environments in which business is conducted, including the Doha Development Agenda and the Johannesburg Declaration on Sustainable Development.

The objective of the PFI is to mobilize private investment that supports steady economic growth and sustainable development, contribute to the prosperity of countries and their citizens and support efforts towards to alleviate poverty.

The framework bases on the line of reasoning that the economic and social benefits of private investment, both domestic and international, in its many forms, from physical assets to intellectual capital expands an economy's productive capacity, drives job creation and income growth. In the case of international investment, the assumption is that they act as conduits for the local diffusion of technological and enterprise expertise and spurs domestic investment, including the creation of local supplier linkages. These results act stimulate development and poverty alleviation.

Designed in the form of questions the *Framework* clusters these questions covering ten main policy domains selected by the task force and similarly identified in the Monterrey Consensus as having the



strongest impact on the investment environment. The ten areas cover the i) Investment policy, ii) Investment promotion and facilitation, iii) Trade policy, iv) Competition policy, v) Tax policy, vi) Corporate governance. Other areas covered are; vii) Policies for promoting responsible business conduct, viii) Human resource development, ix) Infrastructure and financial sector development and x) Public governance.

In Box 12 an example of a set of questions on investment policy is demonstrated. These questions intend to stimulate a self-assessment, prioritize setting by governments in accordance with their own circumstances, development agendas and institutional arrangements. The questions also help to define the respective responsibilities of government, business and other stakeholders, and to pinpoint areas where international co-operation can most effectively redress weaknesses in the investment environment.

The *Framework* applies three principles namely i) policy coherence, ii) the importance of a transparent approach to policy formulation and implementation, with government agencies and iii) regular evaluation of the impact of existing and proposed policies on the investment environment.

On coherence the first questions in the box for example, questions whether the laws and regulation are clear in particular for small businesses, is not deterred by unnecessary barriers to entry. It gauges the presence of dissuasive taxation, and poor legal compliance; and open trade policies contribute to realizing the benefits of an open investment policy.

Transparency conversely, reduces uncertainty and risk for investors and the transaction costs associated with making an investment, and facilitates public-private dialogue. The third principle attaches a particular emphasis to the adaptability of the institutional framework and the role of periodic evaluations to identify as early as possible new challenges and to respond quickly to them.

## **Box 12: OECD Policy Framework for Investment**

### **1. Investment policy**

The quality of investment policies directly influences the decisions of all investors, be they small or large, domestic or foreign. Transparency, property protection and non-discrimination are investment policy principles that underpin efforts to create a sound investment environment for all

#### **Questions**

- 1.1 What steps has the government taken to ensure that the laws and regulations dealing with investments and investors, including small and medium sized enterprises, and their implementation and enforcement are clear, transparent, readily accessible and do not impose unnecessary burdens?
- 1.2 What steps has the government taken towards the progressive establishment of timely, secure and effective methods of ownership registration for land and other forms of property?
- 1.3 Has the government implemented laws and regulations for the protection of intellectual property rights and effective enforcement mechanisms? Does the level of protection encourage innovation and investment by domestic and foreign firms? What steps has the government taken to develop strategies, policies and programs to meet the intellectual property needs of SMEs?
- 1.4 Is the system of contract enforcement effective and widely accessible to all investors? What alternative systems of dispute settlement has the government established to ensure the widest possible scope of protection at a reasonable cost?
- 1.5 Does the government maintain a policy of timely, adequate, and effective compensation for expropriation also consistent with its obligations under international law? What explicit and well-defined limits on the ability to expropriate has the government established? What independent channels exist for reviewing the exercise of this power or for contesting it?
- 1.6 Has the government taken steps to establish non-discrimination as a general principle underpinning laws and regulations governing investment? In the exercise of its right to regulate and to deliver public services, does the government have mechanisms in place to ensure transparency of remaining discriminatory restrictions on international investment and to periodically review their costs against their intended public purpose? Has the government reviewed restrictions affecting the free transfer of capital and profits and their effect on attracting international investment?
- 1.7 Are investment policy authorities working with their counterparts in other economies to expand international treaties on the promotion and protection of investment? Has the government reviewed existing international treaties and commitments periodically to determine whether their provisions create a more attractive environment for investment? What measures exist to ensure effective compliance with the country's commitments under its international investment agreements?
- 1.8 Has the government ratified and implemented binding international arbitration instruments for the settlement of investment disputes?

Source: OECD Policy Framework for Investment (2006)

In Part 2 of the framework, the questions are clarified further in the form of annotations and best practices referred to. In Box 13 we expand further question I.1 of the investment policy.

### **Box 13: OECD Annotations to the Policy Framework for Investment**

#### **1. Investment policy**

*1.1 What steps has the government taken to ensure that the laws and regulations dealing with investments and investors, including small and medium sized enterprises, and their implementation and enforcement are clear, transparent, readily accessible and do not impose unnecessary burdens?*

Transparent information on how governments implement and change rules and regulations dealing with investment is a critical determinant in the investment decision. Transparency and predictability are especially important for small and medium sized enterprises that tend to face particular challenges to entering the formal economy. It is also important for foreign investors who may have to function with very different regulatory systems, cultures and administrative frameworks from their own. A transparent and predictable regulatory framework dealing with investments helps businesses to assess potential investment opportunities on a more informed and timely basis, shortening the period before investment becomes productive. The importance of transparency and predictability has thus motivated a number of initiatives, such as the OECD Framework for Investment Policy Transparency that aims to help governments to achieve greater transparency. Transparency provisions have also been enshrined in virtually all modern international investment agreements, including the agreements of the WTO, regional agreements such as the NAFTA and most bilateral investment treaties of recent vintage. More generally, governments can promote investment, by: consulting with interested parties; simplifying and codifying legislation; using plain language drafting; developing registers of existing and proposed regulation; expanding the use of electronic dissemination of regulatory material; and by publishing and reviewing administrative decisions.

*1.2 What steps has the government taken towards the progressive establishment of timely, secure and effective methods of ownership registration for land and other forms of property?*

Secure, transferable rights to agricultural and other types of land and other forms of property are an important pre-requisite for a healthy investment environment and an important incentive for investors and entrepreneurs to shift into the formal economy. They are also a fundamental element in building a credible corporate governance framework (for further details, see the chapter on corporate governance). They entitle the investor to participate in the eventual profits that derive from an investment and reduce the risk of fraud in transactions. These rights carry an intrinsic economic value and investors need to be confident that their entitlement to these rights are properly recognized and protected. Well-defined and secure ownership, including effective register of what constitute public properties, encourages new investment and the upkeep of existing investments. Land titles, for example, give an incentive to owners to promote productivity enhancing investments. Reliable land titling and property registrars also help individuals and businesses to seek legal redress in case of violation of property rights and offers a form of collateral that investors can use to improve access to credit. Improved access to credit lowers one of the main obstacles to new investment, especially among small and medium-sized enterprises.

Source: OECD Policy Framework for Investment (2006)

## 2.7. Private Sector Associations

Commonly known as Chambers of Commerce or Business Member Organisations (BMOs), Private Sector Associations play a multitude of functions and are of different typology. Sequa and World bank (2003) <sup>99</sup> defines BMOs as non-profit and democratic guided membership organisations that finance themselves by a mix of membership dues, service fees, and subsidies from government and donors. The study establishes the characteristics (Business Association vis-a-vis Chambers), functions as depicted in table 5 and compares the two models-the Continental and Anglo-Saxon:

**Table 5: Characteristics, Types and Functions of Business Member Associations**

BMO Type	Defining Factor	Typical Functions or Services
<b>Business Associations</b>		
• Trade and Industry	Occupation/Industry	Arbitration, quota allocation, Industry setting, Lobbying, Quality Upgrading
• SME Associations	Size of firm	Entrepreneurship training and consultancy, finance schemes, group services
• Women Associations	Gender	Entrepreneurship training, micro finance, gender specific advocacy
• Employers Associations	Labour relation	Interest representation vis-vis Unions, professional information , research, coordination of member association
• Confederation	Apex Bodies	High-level advocacy, general business information, research, coordination of member association
• Bi-national Associations	Trans national	Trade promotion, trade fairs, Match making
• Chambers	Geographical Region	Delegated government functions, arbitration courts, basic information services, match making, Local economic development

**Source: SEQUA/World Bank- Building the Capacity of BMOs: Guiding Principles for Project**

### Managers

<sup>99</sup> Sequa and World Bank Group (2003)- Building the Capacity of Business Membership Organisation: Guiding Principals For Project Managers.

**Table 6: The Continental and Anglo-Saxon Models of Chamber Development**

<b>Continental Model</b>		
<b>Features</b>	<b>Strengths</b>	<b>Weaknesses</b>
1. Special Chamber Law (Public Law Status)	<ul style="list-style-type: none"> <li>Chamber designation is legally protected</li> </ul>	<ul style="list-style-type: none"> <li>Limited range of activities</li> </ul>
2. Mandatory Membership	<ul style="list-style-type: none"> <li>Fully representative</li> <li>No Free rider behaviour</li> <li>Broader and stable Membership</li> </ul>	<ul style="list-style-type: none"> <li>Incentive problem to work efficiently and be demand initiated</li> </ul>
3. Formal Consultative status vis-a vis government	<ul style="list-style-type: none"> <li>Formal access to Public administration</li> </ul>	<ul style="list-style-type: none"> <li>Difficult to present clear cut, position owing to an obligation to present balanced view</li> </ul>
4. Regulated Regional Coverage	<ul style="list-style-type: none"> <li>Only One Chamber per location</li> </ul>	<ul style="list-style-type: none"> <li>Incentive problem owing to monopoly</li> </ul>
5. Delegation of Public Tasks	<ul style="list-style-type: none"> <li>Chambers are closer to the private sector</li> </ul>	<ul style="list-style-type: none"> <li>Identity conflict- public or private sector entity</li> </ul>
6. Special Public Supervision	<ul style="list-style-type: none"> <li>Protection</li> </ul>	<ul style="list-style-type: none"> <li>Public interference</li> </ul>
<b>Anglo-Saxon Model</b>		
<b>Features</b>	<b>Strengths</b>	<b>Weaknesses</b>
1. No Chamber Legislation	<ul style="list-style-type: none"> <li>Independence</li> <li>Freedom of individual business to join or establish a Chamber</li> </ul>	<ul style="list-style-type: none"> <li>Overlapping Chambers in different geographical locations</li> </ul>
2. Voluntary Membership	<ul style="list-style-type: none"> <li>Strong incentives to work efficiently and remain demand oriented</li> </ul>	<ul style="list-style-type: none"> <li>Free rider behaviour</li> <li>Limited influence because of low membership</li> <li>Low financial income from membership dues</li> </ul>
. No delegation of Public tasks	<ul style="list-style-type: none"> <li>Free decision of Chamber or range of activities</li> </ul>	<ul style="list-style-type: none"> <li>Low financial income from fees for delegated services</li> </ul>

**Source: SEQUA/World Bank- Building the Capacity of BMOs: Guiding Principles for Project**

The SEQUA /World Bank Group guideline argues that lobbying and advocacy for a more conducive environment for SMEs is a core activity of the Private Sector Organisations (PSOs) to be conducted in parallel to direct member services (trade and market development, training advice and consultancy, information and networking, office facilitating services and delegated government functions). It identifies that when PSOs engage themselves in advocacy their profiles are raised both among policy makers and the business community.

Inhibiting the progress of PSOs however, is related to the interference and mistrust of the PSO by government bodies. Some of the hindrances on the other hand, are within the PSOs. PSOs fail to lobby due to the political ambitions of the PSO leaders, missing know-how and contact, the fragmentation of private sector interests and a prevalent informal and ad-hoc style of lobbying. Use of dialogue platforms, direct advocacy, grassroots campaigns, public relation through the effective use of the media are some of the advocacy instruments the study propounds to use.

Contributing on the importance of strengthening Private Sector Representation in Africa, the Business and Industry Advisory Committee (BIAC) submit:

“To be more attractive to foreign investors, Africa needs private sector institutions capable of providing services to members and dialogue with governments” OECD(2003)<sup>100</sup>.

BIAC reveals that the weakness of African Business Associations was obvious in Cancun. Business Associations failed to articulate well the advantage of multilateral negotiations to increase market access for African entrepreneurs. The importance of strengthening the capacity of Private Sector Organisation is emphasised. The most important duties of business associations are:

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<sup>100</sup> OECD(2003) Private Sector Representation in Africa a paper presented to the OECD-Africa Investment Round Table Johannesburg 1<sup>st</sup> November 2003

- to represent the entrepreneur-members and be the voice of the private sector in dialogues with government, administrations, International Institutions, and other business associations;
- to inform the members, as early as possible of any regulatory evolution, government project, negotiations- that could influence their present or future business (particularly different but important time of globalisation)

Weak business associations amidst a poor enabling environment have also been identified as one of the factors inhibiting private sector development in Tanzania (Kilewo 1997)<sup>101</sup>. Kilewo identified that associations in Tanzania are weak because of membership base, inadequate products and services to attract members and financial and human resources.

The Tanzania Advocacy Partnership Program<sup>102</sup> through CIPE conducted diagnostics of 32 business associations (28 district/regional associations and 4 national associations in 5 regions of the country and in the Capital, Dar es Salaam and collaborates the views by Kilewo. The diagnostics revealed that:

- Most of the associations and chambers are young; and
- Had a very small membership with limited financial resources;
- Most at the regional and district level have not been active in advocacy.

The Virtual Business Association (VBA)<sup>103</sup> an affiliate of the Centre for International Private Enterprise (CIPE)<sup>104</sup> has designed and developed for people employed by Business Associations and Chambers of

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<sup>101</sup> Public-Private Sector Dialogue and Partnership Tanzania <http://odin.dep.no/filarkiv/127395/kilewo.ppt>

<sup>102</sup> <http://www.cipe.org/regional/africa/tanzania/pdf>

<sup>103</sup> <http://www.cipe.org/vba/main/selfanalysis.php>

<sup>104</sup> CIPE is an affiliate of the U.S. Chamber of Commerce that works to build democracy and market economies throughout the world. It works in four principle areas: a grant program supporting more than 90 indigenous

Commerce a self diagnostic survey tool, which is designed to help associations to identify their strengths and weaknesses and benchmark them to developed worldwide Business Association. The Self Diagnostic tool has questions directed to measure ten criteria of a Business Association i.e. Vision, Mission and objectives, Public Policy Advocacy, Industry Standards Setting, Association employees and the Association Activities. The other criteria measured include; the Association Infrastructure, Governance, Finances, Membership Recruitment and Public relations. In Box 14, factors for benchmarking the advocacy programs are illustrated.

#### Box 14: CRITERION TWO: PUBLIC POLICY ADVOCACY

<b><i>Purpose: To assess the competence and sophistication of the association's public policy advocacy program.</i></b>										
	1	2	3	4	5	6	7	8	9	10
Agenda of public policy issues	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Public policy positions adopted	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Issue briefs produced by the organization	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Research reports produced or authorized	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Lobbying reports of public policy advocacy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Total Possible Points = 50										
<b>Source: Virtual Business Association</b>										

## 2.8. Regulatory Reforms towards an Enabling Business Environment

OECD (1994)<sup>105</sup> defines regulation/regulatory system as a full range of legal instruments and decisions ... constitutions, parliamentary laws, subordinate legislations, decrees, norms, licences, plans, codes,

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organisations in developing countries, an award winning strategy, training programs and a technical assistance through field offices. It is supported by the National Endowment Fund for Democracy and USAID

<sup>105</sup> Jacobs S.H.(1994) Building Regulatory Institutions in Central Europe: [http://www.oecd.org/daf/clp/non-member\\_activities/BDPT108.HTM](http://www.oecd.org/daf/clp/non-member_activities/BDPT108.HTM)



contracts and often "grey " regulations such as guidance and instructions ...through which governments establish condition and behaviour of citizens and enterprises.

While regulating there are reasons and challenges that have to be considered. OECD(1994)<sup>106</sup> for example, challenges that regulating agencies must seek to represent multiple interests i.e. ensure that private monopoly is able to win an adequate profit, that investors have incentives to invest in capital improvements, that potential competitors are able to gain entry and that consumers receive services of adequate quality.

Steiner <sup>107</sup>(1997) as an alternative divides the reasons for governments to regulate businesses as consequences in; flaws in the market and broad social reasons. Those falling under the flaw of the market compelling governments to regulate include:

- *Natural monopoly*- when a firm can supply the entire market for a good or service more cheaply than any combination of smaller firms- typical examples include local public utilities;
- *Natural resources regulation*- exploitation of natural resources leads to monopolistic practices needing regulation;
- *Destructive competition*- appears when companies dominate an industry, for example they may cut prices enough to force competitors out of the market;
- *Externalities* are cost of production that are not borne directly by the enterprise for example an enterprise dumping pollutants into a river transfers the burden to the community;
- *Inadequate information* implies that competitive markets operate more efficiently when everyone has enough information to make informed choices.

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<sup>106</sup> ibid footnote 105

<sup>107</sup> ibid footnote 36

It is argued for example that structural and value changes that have taken place in the USA society have brought about social, political and other reasons for regulations. These changes include the quality of life demands (clean air, clear water, etc), protection of individual rights (equal employment, investors' protection from misinformation and fraud), regulation to benefit special groups and conservation of resources.

Tanzania as a means of implementing its transformation from the socialist to a market regime is implementing reforms. The TIC website<sup>108</sup> assert that Tanzania has since 1986 embarked on economic reforms that have resulted in the liberalisation of agricultural marketing, lifting of foreign currency controls, price deregulation, enhanced private sector in the economy through privatisation and a new investment code offering competitive incentives. It also argues that these reforms have resulted in improved competitiveness, lower tariffs, increased levels of foreign investments and trade, improved key economic indicators and rapid integration in world markets.

Conventionally, The Tanzania National Website<sup>109</sup> sites that financial sector reforms in Tanzania have been taking place since 1992. It sites that these reforms have an intention of enabling banks and financial institutions at the micro level to make independent decisions based on commercial principles, offering depositors the opportunity to invest in risk-and interest earning assets and effectively mobilizing domestic resources for efficient deployment in productive uses at reasonable costs.

There is contention that financial reforms have deployed the following measures:

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<sup>108</sup> Tanzania Investment Centre Investors Guide to Tanzania-Economic Reforms; [http://www.tic-tz/IPA\\_Information.asp](http://www.tic-tz/IPA_Information.asp)

<sup>109</sup> <http://www.tanzania.go.tz/financef.html>

- Positioned in place an appropriate legal, regulatory and supervisory framework providing a conducive environment in which financial institutions can operate;
- Limited the government involvement in the financial sector;
- Promoted a stable macroeconomic environment (low inflation, appropriate deposits and lending rates, stable exchange rate and regime);
- Reformed the real sector to provide a strong client base for the financial sector.

Concurrently with the financial reforms, Tanzania is implementing the Public Services Reform Programme (PSRP), the Local Government Reform and Sector reforms. Kavura (2002)<sup>110</sup> advances that the Public Services Reform Programme (PSRP) aims at improving the efficiency, competence and general performance of the Public Services in Tanzania. It aims at putting the public or the Citizenry at the focus of every function and activity of Public Services.

The Programme has six components; performance management, restructuring and private sector participation, executive agencies programmes, management information systems leadership, management development, and governance, and Programme coordination, monitoring and evaluation.

The public sector reform programme aims at; raising the level of public service delivery, reinstating ethical conduct and values of public servants; and developing leadership, management and technical skills of public servants. It is envisaged that through reform public servants culture will change and adopt to the Public Reform Programme vision "*The Public Service of Tanzania as a national institution of excellence*

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<sup>110</sup> Kavura Richard M. (2002): Challenges of DMIs/PAIs in the Public Services Reform Process: The Case of an Emerging College; <http://www.unpan1.un.org/intradoc/groups/>

*that plays a pivotal role in achieving sustained economic growth and eradication of poverty in the 21<sup>st</sup> Century*<sup>111</sup>

Through this vision it is envisaged<sup>112</sup> that an improvement in the regulatory environment in Tanzania may necessarily involve a shift in orientation from the current focus of investor screening to a role which emphasises monitoring, oversight, and realistic enforcement of laws and regulations. As part of this, government agencies need to become service-oriented institutions, treating investors and tax payers more like customers, and less like criminals.

Since 2002 the government of Tanzania started to implement the Local Government Reform Programme (LGRP) where 38 councils of mainland Tanzania entered the first phase of implementation<sup>113</sup>. To date, all councils of mainland Tanzania are implementing the programme at different stages. The main purpose of the reform at the National level is to create an enabling and conducive environment for the reforming local government authorities to improve the standard of services being offered to their stakeholders. Specifically at the Council level, the reform is supposed to register changes in terms of quality, quantity and the manner in which the council offers services to the people within its jurisdiction.

Chale<sup>114</sup> sees the main strategy of local government reform as decentralisation where the local councils will make policies without interferences and will facilitate the participation of people in deciding on the matters affecting their lives. It also envisages planning and executing their development programmes; and fosters partnership with civic groups.

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<sup>111</sup> URT; Public Sector Reform Programme Strategy 2001-2011, Civil Service Department, 1999

<sup>112</sup> The Investors Roadmap of Tanzania, 1997.

<sup>113</sup> Zonal Reform Team Arusha (2004) Training Report for Civil Manpower Management Officers

<sup>114</sup> <http://www.tanzania.fes-international.de/doc/local-government-in-tanzania.pdf>

Concurrently, Baker (2002)<sup>115</sup> argues that the reform in Tanzania has decentralised five areas that have been administered by the central government; health, education, agriculture, water and infrastructure. Those important outcomes will come out of the reforms since different actors -Civil society and the private sector are now stakeholders and are supposed to play different roles in the process along with the local government.

Binagwa (2005)<sup>116</sup> study sheds light on the quality of working relationship between LGA and NGOs. Assessing the coordination mechanism, presence of partnership elements such as trust, transparency and accountability; and understanding the partnership building process, the study found out that there were no clear guidelines and policies on how to promote partnership or if they existed they were not operational yet. Partnership understanding was weak and was blamed to lack of seriousness and willingness by leaders to form partnership. Stakeholders were generally not aware of the presence of policies to guide the partnership building process.

The Doing Business 2004<sup>117</sup> has developed a set of principles regarding understanding regulations as below:

- Cumbersome regulations is associated with lower productivity;
- Heavier regulations is associated with informality and corruption;
- Poor countries regulate business the most;
- More regulations is associated to higher costs and delays;
- More rigid employment regulation is associated with higher female unemployment;

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<sup>115</sup> Baker, et.el. (2002) The Local Government Reform Process in Tanzania: Towards a greater interdependency between Local Government and Civil Society at the Local Level ;  
<http://www.agderforskning.no/rapporter/82001110.pdf>

<sup>116</sup> Binagwa(2005) Partnership between the Local Government Authorities (public) and Non Governmental Organizations (private) in Tanzania mainland St. Clements University Website

<sup>117</sup> World Bank- Doing Business 2004- Understanding Regulations.

- One size can fit all in the manner of business regulation;
- Courts and notaries are bottleneck to business start up;
- Credit bureaus are associated with more access to credit.

Subsequent to the above experience a set of best practices to reform are proposed as in Box 16.

#### **Box 15 : Principles of Regulation Some Examples**

##### **Starting a Business**

- Registration is an administrative, not judicial, process • China, United States
- Use of single business identification number • Denmark, Turkey
- Electronic application made possible • Latvia, Sweden, Singapore
- Statistical and tax registration sufficient to start operations • Australia, Canada, New Zealand
- No minimum capital requirement • Chile, Ireland, Jamaica

##### **Hiring and Firing Workers**

- Contracts “at will” between employers and employees • Denmark, Ireland, Singapore
- No limits on fixed-term contracts • Australia, Denmark, Israel
- Apprentice wages for young workers • Chile, Colombia, Poland
- Shift work between slow and peak periods • Hungary, Poland

##### **Enforcing a Contract**

- Judiciary has a system for tracking cases • Slovak Republic, Singapore
- Summary procedure in the general court • Botswana, New Zealand, Netherlands
- Simplified procedure in commercial courts • Australia, Ireland, Papua New Guinea
- Attorney representation not mandatory • Lebanon, Tunisia

##### **Getting Credit**

- Strong creditor protection in collateral and bankruptcy laws • New Zealand, United Kingdom
- No restrictions on assets that may be used as collateral • Slovak Republic, Hong Kong (China)
- Out of court or summary judgments for enforcing collateral • Germany, Malaysia, Moldova
- Regulations provide incentives for sharing and proper use of credit information • Belgium, Singapore, USA

##### **Closing a Business**

- Limited court powers • Australia, Finland, United Kingdom
- Bankruptcy administrator files report with creditors • Botswana, Germany, Hungary
- Continued education for bankruptcy administrators • Argentina, France, Netherlands

**Source Doing Business 2004 About Regulations**

The disadvantages of over regulating need no emphasis. Steiner <sup>118</sup>(1997 quoting the *Washington Post weekly editorial* illustrates the disadvantages of regulating and puts emphasis on reform as below:

“The United States has become an over regulated society. It is just the volume or even the cost of regulation that is the problem, but the haphazard pattern- a lack of proportion. The government too often seems to be battling major and minor risks, widespread and narrow, real and negligible, with equal zeal. The underlying statutes are not a coherent body of law but a kind of archaeological pile, each layer reflection of the headlines and political impulses of its day. The excessive regulations discredit the essential. Too little attention is paid to the cost to benefit” (Washington Post)<sup>119</sup>

Various studies conducted in Tanzania agree with the Washington Post. They include the Investors roadmap of Tanzania (1997 and 1999)<sup>120</sup>, Chamber of Industries Tanzania (CTI) and The Economical and Social Research Foundation Trust (ESRF) (1999)<sup>121</sup>, and the Tanzania Investment laws and Regulations (2000<sup>122</sup>) among others.

Based on the disadvantages of over regulating, Tanzania is currently implementing various reform programmes for sustainable business geared to growing sustainable business for poverty reduction. These related initiatives are geared towards reform and creation of a conducive business environment in Tanzania. The following section presents the reform initiatives.

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<sup>118</sup> ibid footnote 36

<sup>119</sup> *The Washington Post*, Weekly editorial of April 3- 9, 1995

<sup>120</sup> Investors Roadmap of Tanzania, 1997 and Tanzania Investors Roadmap, Final Assessment Report, 1999

<sup>121</sup> CTI Review of the Legal, Regulatory and Judicial Framework Regarding Manufacturing and Business Sector in Tanzania, Draft Final Report, 1999.

<sup>122</sup> Mwanaidi Sinare : Maajar, Rwechungura, Kameja & Nguluma (Advocates). Presented at the National Workshop on Investment Regulations: May 11-12, 2000, Dar es salaam

### **2.8.1 The BEST Programme<sup>123</sup> – Business Environment Strengthening for Tanzania.**

The BEST Programme recognizes that the private sector's inability or unwillingness to respond to business opportunities is due to a number of constraints, including unduly high costs of investing. The Programme highlights the key constraints in the Tanzanian legal and regulatory environment for business and outlines the most effective measures to address them. The BEST Programme identifies 5 priority areas: Regulation, Commercial Dispute Resolution, Tanzania Investment Centre, Government Culture, and Private Sector Advocacy.

The Business Environmental Strengthening Tanzania programme is sponsored through the Basket funding of four countries/institutions, i.e. Sweden (SIDA), Holland (RNE); Great Britain (DFID) and Denmark (DANIDA). The programme is implemented by the government of the United Republic of Tanzania through the Ministry of Planning, Economy and Empowerment.

The Programmes' main aim is to see entrepreneurs in Tanzania investing in an environment that is conducive for investment and hence boost the county's economy and improve the standard of living and eliminate poverty. This support emanates from the government realization that the private sector is the engine of economic development and growth.

The Business Environmental strengthening programme has five components. They include the Better Regulation and reduction of bureaucracy, Resolving Commercial disputes, supporting inward and domestic investment via TIC, changing the culture of Government and Private Sector Advocacy. The implementation of the five programme components will enable the Government to improve the legal and regulatory framework and administrative practices, which unnecessarily increase the cost of doing business in Tanzania. The programme is designed to ensure that Government realises "quick wins" by prioritising

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<sup>123</sup> Summary of the final programme design report, Ministry of Industry and Trade, Dar es Salaam, 2002



areas where even minimal changes will facilitate high returns in terms of lowering businesses transaction costs.

The first four components are implemented by the Government. The fifth component, the BEST-Advocacy Component (AC), is particularly focused on providing advocacy support to the private sector. The support is provided through direct funding and a range of support services.

### **2.8.1.1The BEST- Advocacy Component (AC)**

The purpose of BEST-AC's (2005)<sup>124</sup> states “ *We exist to create and maintain a direct positive impact on policy, legislation, regulations and the external business environment in favour of the Tanzania Private Sector*”.

To support this purpose BEST-AC has developed two key objectives:

- To participate fully to reduce bureaucracy facing the private sector, and
- Improve government services provided to the private sector.

The expectations in the three-year programme are:

- Fund and support over 80 national and regional private sector organizations
- Fund and support over 140 emergent private sector organisations.
- Create and sustain over 50 expert business advisors/facilitator groups

After the trial phase BEST-AC has revised the above objective and targets. The changed objectives and targets are summarised in Box 17.

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<sup>124</sup> BEST-AC First Business Development Service Providers Accreditation Workshop Manual August, 2005

#### Box 16: BEST-AC Specific Targets

The following are the eight specific objectives or "targets" which relate to the period from 1st July 2006 to 30th June 2007.

- By 30th June 2007, to have established 15 new national and / or regional advocacy project development and implementation initiatives which will lead to a change in policies and regulations in favour of a competitive Tanzanian private sector?
- By 30th June 2007, to have established 15 new national, regional and district level projects which are directly strengthening the organisational capacity and skill base of private sector organisations in order that these organisations can develop and implement future strategies to change policies and regulations in favour of a competitive Tanzanian private sector.
- By 30th June 2007, to have completed seven national and three regional level projects which will have led to, or be leading towards, a change in policies and regulations in favour of a competitive Tanzanian private sector?
- By 30th June 2007, to have created a group of 20 individual business service development advisers who will have the appropriate competencies to design, develop and deliver advocacy programmes and projects on behalf of the Tanzanian private sector.
- By 30th June 2007, to have designed, developed and delivered advocacy planning and delivery courses of five days each to representatives from all PSA Fund recipients (40) plus representatives from 60 other private sector organisations to enable them to assimilate knowledge and tools which will directly contribute to their ability to design and deliver advocacy programmes and projects on behalf of their constituents.
- By 30th June 2007, to have increased awareness of the context and importance of private sector advocacy via the national media through a number of well publicised events and activities.
- By 30th June 2007, to have provided the Tanzania Private Sector Foundation (TPSF) and the Zanzibar Chamber of Commerce, Industry and Agriculture (ZNCCIA) with direct and indirect strategy, management, capacity strengthening and service development support which will have improved the quality of services and the ability of these organisations to effectively address the needs of their membership.
- By 30th June 2007, to ensure that the monitoring and evaluation system, project outcomes and the reporting framework for BEST-AC and the PSA fund are properly and regularly communicated to the BEST Better Regulation Unit which will create synergies and contribute to effective programme management and implementation at a policy level.

Source: [www.best-ac.org](http://www.best-ac.org)

### 2.8.2. Private Enterprise Support Activities (DAIPESA) <sup>125</sup> -

In 2002, CIPE through USAID began working with local business groups in Tanzania to strengthen the governance process and improve private sector participation in policymaking. CIPE aimed *to invigorate business associations to conduct advocacy programs and to initiate the passage of laws that would address private sector issues*. On a broader scale, CIPE aimed to institutionalize public policy advocacy within the private sector by facilitating a structural change within government institutions.

The purpose of the project was geared in improving income and employment opportunities for micro-small enterprises (MSEs), including farms, through market links and information, policy change, strengthened associations, and business skills training. The objectives were to improve the policy and regulatory environments for MSEs, to broaden MSE access to markets, and to strengthen the business capacity of MSEs. The project collaborated with partners in alliances; principally by supplying advisory support and services, in a wide range of activities that will produce such outcomes as:

- The promotion of public-private policy dialogue and capacity building of selected Government agencies and departments to effect policy and regulatory reform favourable to MSEs;
- The strengthening of producer and business associations and the member services offered;
- The improvement and dissemination of business and market information via radio, Internet, newspapers and posting;
- The adding of value and the establishment of market linkages between MSEs/producer groups and private sector services and buyers;
- The improvement of MSE business skills;
- The improvement of MSE access to credit.

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<sup>125</sup> Center for International Private Enterprise Economic Reform Case study No 0504: Improving Governance in Tanzania: The Role of Business Advocacy Coalitions curled from [www.cipe.org](http://www.cipe.org) on 25<sup>th</sup> May, 2006.

At the project's end, CIPE and its partner organizations accomplished the initial goals of institutionalizing the advocacy process and reforming the structure of government; the foundation has been laid for sustained private sector participation. However, the future of this participation and its effectiveness will depend on the ability of Tanzanian business associations to capitalize on the momentum that has been created. The advocacy process must be continued at the grassroots level.

Reflecting on its success, DAI initiatives<sup>126</sup> contend that Tanzanians now take ownership of their economic future and that Strength is in numbers. That is the lesson the rice farmers of Tanzania's southwestern Mbarali district have learned. Long at the mercy of local moneylenders who supplied much-needed capital but demanded up to half their crop as repayment, the region's poor farmers saw little room for economic advancement. As one village elder put it, "We are in a deep hole and don't know how to climb out." In Mbarali, DAI has reached 17 producer associations and farmer networks representing 7,500 households.

To reduce their reliance on moneylenders, association members formed 11 savings and credit cooperative societies. Members contribute small amounts—usually \$3 to \$5 a month—and after six months or so are allowed to take out loans up to three times their deposits (with guarantees from two other coop members). They use the money to buy seeds and invest in their farms. The groups are also uniting to improve their bargaining power. Eight associations representing 129 producers have agreed to combine their crop yields and seek a long-term, reliable contract. These farmers have also applied new production techniques that have boosted yields and incomes. The associations also serve as vehicles for DAI-led training in marketing, bargaining, and financial management skills. With agriculture accounting for 50 percent of gross domestic product and 80 percent of the workforce in Tanzania, what is good for farmers is good for the country.

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<sup>126</sup> DAI Success Stories, [www.dai.com](http://www.dai.com) Building a Market Economy from the Ground Up

Aside from the impressive success with donor support DAI realized that the way forward will not be easy, but it can ultimately be successful if the cooperation that has been created is sustained. Some of the challenges adduced are firstly, the funding for the initial project which was provided by USAID ended at a time when sustainability of the regional advocacy coalition was not yet ensured. The second challenge concern the sustained political will of the government to enter into a sustained dialogue with the private sector and continue the changed Meta rule. It is submitted that transitional countries tend to loose interest over time and return to the former self while the government is willing to listen while not taking any action (talking shop) and in the process the private sector looses interest.

The third challenge hinges on the adversary between the Tanzania Chamber of Commerce Industries and Agriculture (TCCIA) and the Confederation of Tanzania Industries (CTI). It is argued that the two provide “lip service” to cooperation, while in reality they remain highly competitive and in most cases are concerned about credit instead of private sector needs.

### **2.8.3. Small and Medium Enterprise Development Policy (SME Policy) and the Trade Policy<sup>127</sup>.**

#### **2.8.3.1 The SME Policy**

Based on the importance and potential of the SME sector, the SME Development Policy has been designed to revitalise the sector to enable it to contribute to the objective of the National Development Vision 2025. The policy aims at revolutionising the SME sector to make it a vibrant and sustainable agent to stimulate economical growth.

The vision of the policy is *to have a vibrant and dynamic SME sector that ensures effective utilisation of available resources to attain accelerated and sustainable growth*. The mission is *to stimulate development*

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<sup>127</sup> SME Development Policy, Ministry of Industry and Trade, Dar es Salaam, April 2003.

*and growth of SME activities through improved infrastructure, enhanced service provision and creation of a conducive legal and institutional framework so as to achieve competitiveness.*

The overall objective of the Small and Medium Enterprise Development Policy<sup>128</sup> is to see: *"A Tanzanian SME sector that contributes increasingly to equitable economic growth, income and employment generation through promoting the creation of SMEs and improving the performance and competitiveness of existing ones."*

A strategy for SME development was formulated in the form of priority programmes and projects for a period of 5 years commencing in 2003. The strategy has prioritised 7 key objectives.

The prioritised objectives envisages the following; i) enabling legal and regulatory framework; ii) improved access to physical infrastructure and workplaces; iii) strengthened entrepreneurial culture and markets for sustainable business development services (BDS) (entrepreneurship development, business training, information services, technology and environment, SME markets access), iv) Improved SME access to finance; v) strengthened stakeholders capacities to achieve effective implementation of SME assistance programmes and interventions; vi) enhanced rural industrialisation and vii) cross cutting issues (environmental consideration, gender and disadvantaged groups, HIV/AIDS).

The SME policy defines the SME nomenclature to mean Micro, Small and Medium enterprises and that SME cover non-farm economic activities mainly manufacturing, mining, commerce and services.

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<sup>128</sup> Ministry of Industries and Trade ,URT April, 2003 *Small and Medium Enterprise Development Policy for a Competitive Economy and Export-Led Growth*, Business Printers Ltd, Dar as salaam

It categorise enterprise as micro, as those of 1-4 labour or below 5mil capital investment, small as 5-49 labour or above 5-200mil, .Medium as 50-99 labour or an investment above 200-800mil and above, while large enterprises as those with 100 and above labour or a capital investment exceeding 800mil.

**Box 17: Categories of SMEs in Tanzania**

Category	Employees	Capital Investment in Machinery (Tshs)
Micro Enterprises	1-4	Up to 5 Mil
Small Enterprises	5-49	< 5 Mil to 200 mil
Medium Enterprises	50-99	<200 mil to 800 mil
Large Enterprises	100+	<800mil

Source: SME Policy

### 2.8.3.2. The Trade Policy

The trade policy <sup>129</sup>envisages transforming the

economy, increasing productivity and stimulating international competitiveness.

The specific objectives of the policy include: i) building a diversified competitive economy to enhance the generation of foreign exchange; ii) encouragement of higher value-added on primary exports; iii) stimulating investment in export –oriented areas in which Tanzania has comparative advantage; iv) promoting domestic production and technological change consistence with the required productivity increase; v) encouraging of efficiency of imports utilisation; vi) achieving and maintaining long- term balance in current account.

The situation analysis while developing the policy, indicates a growth in the world trade in nominal Us dollar terms to have expanded by 55% i.e. from Us \$ 4,300 billion to Us \$ 6,700 billion in the 1990s an equivalent of 6.7% per annum. It is reported that the share of Sub-Sahara Africa (SSA) in global trade excluding South Africa to have declined in the twenty years from 5% to 2%. The fundamental cause in decline is that SSA

<sup>129</sup> Ministry of Industries and Trade ,URT February, 2003 *National Trade Policy Background Papers*, Dar as salaam University Press Ltd, Dar as salaam

continues to trade in primary commodities and minerals instead of manufactured goods. Tanzania economic performance in world trade has been on the decline also.

Six essential issues are included in the trade strategy. They include; i) establishing and sustaining an enabling environment (good governance, macro economic policy and legal and regulatory framework, competition policy and law) ii) building supply capacity and influencing change in the world trade system (private sector development, human skills development, institutional capacity building, and transformation of production capacity), iii) infrastructure development (*hard* –telecommunication, transportation, power, water and sanitation, and *soft* – financial and information service network), iv) Other pertinent trade issues (the demographic transition and incidence of HIV/AIDS; labour and environmental ; and trade and gender), v) Regional and International Trade dimension.

Five measures to be taken by the government to influence the direction and pattern of trade development have been identified and prioritised. Key sectors in the Tanzania trade strategy are grouped in *productive sectors* (agriculture, industry, mining, tourism and service) and *social sector* (education and health).

Policy orientation entails i) modernisation of physical infrastructure ii) revitalise financial markets and implement ICT policy; iii) transform agriculture (modern technology-husbandry, market linkages and access); iv) rapid development of an industrial sector (value adding agriculture and natural resources) v) enhance the lead sector approach (tourism and mining), vi) formulation and implementation of the Private Sector Development Strategy (PSDS).

In all the two policies an implementation framework, roles and an action plan are in place. The private sector is expected to assume a leading and an implementer's role. For example the implementation of the (SME policy), envisages the private sector role in carrying out direct investment in industries, mobilise



resources, manage operations and in so doing ensure that the policy is put into effective implementation has been formulated.

Conversely, the trade policy recognises the private sector as an engine of economic growth, and the public sector's partner in the formulation and implementation of the trade policy.

The trade policy has also identified the specific roles Private Sector Organisations (PSOs) are required to play to implement the strategy. Particularly, the roles and functions of TTCIA are to: i) deliver membership services including awareness on market opportunities; ii) advocacy function with government; iii) trade promotion and facilitation including trade fairs, information dissemination, etc.

#### **2.8.4. Tanzania Private Sector Foundation (TPSF)**

The Tanzania Private Sector Foundation (TPSF) was established in 2000 to host seminars and workshops helping companies build consensus on complex trade issues. The TPSF has five private sector and five government officials on its Executive Committee. It now operates as a formal private sector advocacy arm that engages dialogue among government policy makers on market access issues.

TPSF is spearheading the formulation of a National AGOA Strategy as a leading member of the National AGOA Committee chaired by MIT

#### **2.8.5 Tanzania National Business Council (TNBC) –**

The TNBC is the formal forum for consultation between the public and private sectors established by the Government and the private sector and is chaired by His Excellency the President of Tanzania. The council is made up of 40 representatives, 20 from the private sector and 20 from the Government and includes representatives of organized labour and academia. The main objectives of the Council are:

- To promote the goals of economic growth with social equity and development;
- To review regularly developments in the external and domestic business environment and propose a course of action;
- To exchange views on the prevailing operating and regulatory environment, and propose ways to facilitate the public service, to improve on service delivery and make the civil service business friendly;
- To review and propose changes in the policy environment, to enhance the attractiveness of Tanzania for both local and foreign direct investments (FDI), and improve on competitiveness of Tanzanian products in the world market;
- To encourage and promote the formulation of coordinated policies and social and economical development initiatives.

The National Business Council consists of three subcommittees including: (1) local investor's roundtable, (2) international investor's roundtable, and (3) smart partnerships among Heads of State from SADC countries plus Kenya and Uganda. These working groups address cross-cutting issues facing business, government, labour and industry associations, engaging NBC constituents: TCCIA, Confederation of Tanzanian Industry (CTI), and local, regional Chambers including Cabinet level Ministry officials.

TPSF and NBC receive strong donor support. In particular the World Bank helps NBC organize investor roundtables so Tanzania government and business leaders can present viable business opportunities to companies from within and outside the region.

Gotecha in Herzberg and Wright (2005)<sup>130</sup> comments that the Tanzania Investors Round Table was initiated by the World Bank to bring the private sector voices face to face with government decision-makers. Intended to be divided in equal thirds between local firms, multinationals represented in the country, and multinationals not represented in the Country, with around 30 members. Designed to fit existing business advocacy groups and initially concentrated on five action areas.

TBNC is criticised to have not created a significant impact due to the problems with preparation and composition. For example, Gotecha<sup>131</sup> asserts that since its inception and launch in September 2001 TBNC has only met twice. TBNC is supposed to meet 4 times a year. TBNC is also alleged to represent big companies shunning the ideas of small and micro enterprises.

## **2.9. Consultative Mechanisms**

The preceding sections demonstrate that the private sector cannot grow and flourish without an adequate framework of economic policies. It is also factual that SMEs lack the power to influence government policies and though policies tend to favour SMEs programmes so designed lack scope and in some cases lead to policy biases.

Given the above context, SMEs require strong advocates and approaches. The World Bank and IFC (2005)<sup>132</sup> introduce different advocacy instruments and processes. These include i) dialogue platforms; ii) direct advocacy; iii) grassroots campaigns; public relations, and iv) lawsuits. These instruments have different purposes and advantages. For example direct advocacy is an informal way of interest representation, grassroots campaigns mobilize members and public relations through media transport key

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<sup>130</sup> Herzberg and Wright World Bank-Investment Climate Unit Competitive Partnerships –Building and maintaining Public-Private Partnership to Improve the Investment Climate, *Policy Research Working paper no 3683*

<sup>131</sup> *ibid*

<sup>132</sup> IFC and World Bank, *Building the Capacity of BMOs: Guiding Principles for Project Managers*: 2<sup>nd</sup> Edition, WB Publications

PSO messages. It is advised that law suits be used in exceptional cases. Dialogue platforms are common forms of public-private consultations. They can be institutionalised or voluntary.

In the following sections, the experience of consultation mechanism is reviewed. We have divided that presentation in the global and national perspectives.

### **2.9.1. The Global Perspective**

ILO/UNDP (1999)<sup>133</sup> advocates the need of simplifying the public administrative systems and distinguishes the importance of a strengthened Private Sector Organisation (PSO). Huybrechts (1999)<sup>134</sup> contends that in most African Caribbean and Pacific (ACP) states, public-private dialogue is weak and capacity building for effective dialogue/ policy influencing and performing traditional functions in the public domains are essential.

Sako argues:

“The public and private sectors need capacity for effective performance of their roles in the development process. Equally important are strategies and instruments for effective interface between the two sectors. The lack of capacity, the situation that constitute a “missing link” in the development process in sub-Sahara Africa has significant impact on the effectiveness of the roles of both public and private sectors, given the peculiarities and specificities of the needs within each sector. While the addressing of these sector-specific needs is important, it is also strategically prudent to address the capacity dimension of the strategies for forging the links between the two sectors”. Sako (2001)<sup>135</sup>:

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<sup>133</sup> Ibid footnote 58

<sup>134</sup> Huybrechts -ACP – Business Forum (1999) –Towards Structural Dialogue with Economical and Social partners in the EU-ACP Partnership.

<sup>135</sup> Sako (2001)- Public-Private sector interface in capacity building and development management in sub-Sahara Africa- a perspective

In the Government-Business Consultative mechanism and economic governance mechanism and economic governance: A three-Country comparison, the World Bank (2000) <sup>136</sup>has researched through country studies the effectiveness of the consultative mechanisms in Ghana, Malaysia, and Mexico. The research has found out that Ghana used three approaches to stimulate economic reforms and that in all cases policy dialogue took place but failed to be enduring due to mistrust. It prompted to improve communication. The process worked only as long as it enjoyed endorsement and sustained support of the President. It was also found out in the Ghana case, if donors push too hard, they discredit the mechanism, but without donor encouragement and support, these organizations might never have formed or acted.

Mexican consultative bodies benefited from the historical legacy of well-organised labour and business communities and from the government's commitment to the process, signalled by having top-level officials including ministers and the president participating. The success was also a result of discouraging end runs around the dialogues by business or labour participating seeking special favours. The mandate was kept narrow, enabling participants to focus their efforts. Moreover, the decision to seek initially short-term agreements allowed quick delivery of results, keeping sceptical business and labour leaders (and their constituents) engaged. Compliance with agreements was emphasised.

The rich Malaysian experience with institutionalised public-private dialogues on economic policy illustrates both promising practices and possible pitfalls. Consultative dialogues enhanced the quality of economic policy in a variety of issues, as economic stakeholders began sharing information and coordinating actions. Both business and government participants learned from the ongoing dialogues, making it easier for them to move from narrow policy position to longer-term, more publicly oriented positions. These successes

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<sup>136</sup> <http://econ.worldbank.org/view.php>

were linked to high-level government participation, reputation from the interface over time, and the working committees formed to focus on narrow issues.

However, lack of monitoring and follow-up mechanisms for some consultative dialogues diminished their credibility, as participants were unable to determine whether and how the consultative agreements translated into policy reform. A second pitfall was “the institutional capture”- the tendency for a small number of stakeholders to benefit disproportionately.

Analysing the experience of competitiveness partnership in 40 countries Herzberg and Wright (2005)<sup>137</sup> subscribe that i) the political and economic context of the country determines the kind of partnership that is feasible and likely to succeed, ii) there is no one size that fits all approach, however, it is possible to distil ideas and techniques from best practices as many public-private mechanisms face similar challenges, iii) reforms designed through public-private dialogue are better conceived and more effectively implemented because they arise from increased mutual understanding between government and the business community.

It is further contended that P-P dialogue can achieve a) policy reforms b) policy implementation c) macro-impact and d) good governance i.e. setting an example, shedding light on institutions, improving private sector inputs into the policy design and improving trust, understanding and cohesion between the two sectors- private and public.

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<sup>137</sup> Benjamin Herzberg and Andrew Wright. Competitive Partnership- Building and Maintaining Public-Private Dialogue to Improve the Investment Climate –Research Working Paper 3683 –the World Bank Investment Climate Unit, August 2005.

In the study conducted for DFID Policy Division's Investment, Competition and enabling environment (ICEE) team, Bannock Consulting Limited<sup>138</sup> examined how public-private sector dialogue (PPD) can support investment climate improvement. The above study has resulted in a draft "How to do note to promote Public-Private Dialogue for Business enabling environment reform". The principle success factors quoted from this note is as in Box 18.

The study also unveils that PPD is a force to counter policy making by shouting, or by back-room deals involving a selected few. It is argued that neither the loudest voices rarely speak in the best interest of the private sector growth as a whole, or of poverty reduction, nor individual deal-making as anticipated, leads to bad, inconsistent policy and regulation. By contrast, PPD promotes good public and corporate governance. It sets example of

**Box 18: What are the principle success factors for PPD?**

- *Effective champions* drive successful PPD
- *Buy-in* by both public and private sector is essential
  - There should be significant local resources commitment (time and money)
  - Avoid donor dependency
- Maintain a *balance* between public and private interest and contribution sustain PPD
- *Results* drive PPD over a long term
- *Respect* keeps participation at the table
- *Planning* is vital, including:
  - Agendas in advance, minutes and accountability ex-post
  - Supporting empirical research (local situation+ International good practice)
  - Timetable with milestones for specific outcomes (and specific responsibilities)
- *Measurement* is critical to focusing PPD
- *Public relations/communications* builds wider support
- *Capable private sector associations* are needed for sustained PPD
  - Representative of wider business community
  - Able to produce evidence –based analysis and recommendations.

**Source: Bannock Consulting – How to promote Public Private Dialogue for Business Enabling Environment**

transparency and dynamism. It sheds light on the working and performance of government institutions. It also improves the quality of the advice of government receives from the private sector by diversifying sources and promoting more evidence-based advocacy.

<sup>138</sup> Bannock Consulting Limited. Reforming the Business Enabling Environment-Mechanisms and Processes for Private –Public Sector Dialogue. Research done for DFID February 2005

Presenting the results of the OECD Development Center's research, Pinaud (2006)<sup>139</sup> argues that an organized private sector with strong representative business associations which have analytical capacity is important, as are credible champions for the process as well as competent and "embedded" bureaucrats. Pinaud argues that when the private sector is fragmented and disorganized, it is especially necessary to tackle the risk of "dialogue" being a cloak for rent-seeking activities." If it sets an example of transparency, PPD can counter policy-making by shouting or backroom deals." He contends that both bottom-up and top-down approaches are necessary. High-level meetings combined with permanent working groups at technical levels are a good approach. PPD is inherently unstable and faces the risk of rent-seeking and capture. As a result, dialogue works best when it is ad hoc, flexible and inclusive, having a limited, concrete agenda, with time-bound discussions addressing specific issues.

To enable practitioners to engage effectively in constructive public-private dialogue, DFID, The World Bank, IFC, and OECD Development Centre initiative organised an international workshop that developed a charter of good practice to use public-private dialogue for Private Sector Development<sup>140</sup>. The charter incorporates 11 principles as in Box 19.

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<sup>139</sup> **Nicolas Pinaud** –OECD Development Centre Privé dans les pays en développement: Opportunities, Risques et Prealables"Public –Private Dialogue in Developing Countries: Opportunities, Risks and Prerequisites a paper presented to the International Workshop on Public -Private Dialogue-February 1&2 2006The World Bank Paris Conference

<sup>140</sup> [www.publicprivatedialogue.org](http://www.publicprivatedialogue.org). International Workshop on Public Private Dialogue-Improving the investment climate, Strengthening Advocacy, Fostering Governance and Building Capacity



### Box 19: Short Version of the Public-Private Charter

**PRINCIPLE I: MANDATE AND INSTITUTIONAL ALIGNMENT:** *A statement of objective is helpful for clarity. A formal or legal mandate can be an important help in some political and economic contexts, but mandates are never sufficient to establish good PPD. Wherever hosted and whenever possible, PPD should be aligned with existing institutions to maximize the institutional potential and minimize friction.*

**PRINCIPLE II: STRUCTURE AND PARTICIPATION:** *PPD's structure should be manageable while flexible, enable participation to be both balanced and effective, and reflect the local private sector context.*

**PRINCIPLE III: CHAMPIONS:** *It is difficult to sustain dialogue without champions from both the public and private sectors, who invest in the process and drive it forward.*

**PRINCIPLE IV: FACILITATOR:** *A facilitator who commands the respect of stakeholders can greatly improve the prospects of PPD.*

**PRINCIPLE V: OUTPUTS:** *Outputs can take the shape of structure and process outputs, analytical outputs or recommendations. All should contribute to agreed private sector development outcomes.*

**PRINCIPLE VI: OUTREACH AND COMMUNICATIONS:** *Enabling communication of a shared vision and understanding through the development of a common language is essential for building trust among stakeholders.*

**PRINCIPLE VII: MONITORING & EVALUATION:** *Monitoring and evaluation is an effective tool to manage the public private dialogue process and to demonstrate its purpose and performance.*

**PRINCIPLE VIII: SUB-NATIONAL:** *Public-private dialogue is desirable at all levels of decision-making down to the most local possible level, especially as this is likely to be more practically capable of involving microentrepreneurs, SMEs and other local stakeholders.*

**PRINCIPLE IX: SECTOR-SPECIFIC:** *Sector-specific or issue-specific public-private dialogues should be encouraged because they provide more focus, greater incentive to collaborate, and more opportunity for action.*

**PRINCIPLE X: INTERNATIONAL ROLE:** *Broad and inclusive public-private dialogue can effectively represent and promote national and regional interests of both public and private actors in international negotiations and international dialogue processes.*

**PRINCIPLE XI: POST-CONFLICT / CRISIS-RECOVERY / RECONCILIATION:** *Public-private dialogue is particularly valuable in post-conflict and crisis environments—including post-natural disaster—to consolidate peace and rebuild the economy through private sector development.*

Source: [www.publicprivatedialogue.org/charter](http://www.publicprivatedialogue.org/charter)

### 2.9.2. Experiences of the Consultative Mechanisms in Tanzania

The pioneer of the consultative mechanism in Tanzania is PAMOJA project. PAMOJA is a Swahili word connoting togetherness or collaboration. PAMOJA/ Kilimanjaro Joint Action Project<sup>141</sup> formally established in June 2000 are an outcome of an experimental project in Same District, Same District Planning Support (SDPS). Managed by SNV-Tanzania and funded by Cordaid, the focus of the project was the interaction between local Government, civil society, and private sector at the district level. The main goal of the project was: "building local organisation to enhance good governance with a gender- perspective. One of the project objectives related to consultative mechanism was to create and support interface institutions at district and sub-district level

Nyaulawa and Mandara (2000)<sup>142</sup> assessed the public sector representatives (District Commissioners and District Development Directors) and the private sector what they perceived as their developmental roles in the district and they yielded the following results:

"The public sector had a clear perception of their roles as leaders and managers of the development process in the District, that development trends were considered to be positive, with condition of peace and stability characterising the district, a steadily growing awareness and participation of all stakeholders in the development process; and improvements in terms of infrastructure and services. Nyaulawa and Mandara (2000)

On the other hand, the private sector group had a less clear perception of their identity and role in the district, a less positive perception of development trends, agreed that the economic and social development of a district was a result of a healthy private sector. It perceived that the local private sector was essentially just struggling to survive. The burden of too many taxes, excessive bureaucracy, demands for

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<sup>141</sup> PAMOJA (2001) Pamoja Operational Plan 2002

<sup>142</sup> Nyaulawa, R, and Mandara G. R, Report of a planning Workshop on District Consultation Structure and Private Sector Development

contributions, and a general lack of user friendly technical and financial support services for district authorities make an already difficult situation an already difficult situation ever worse”

Their other findings subscribe that the District Advisory Committee (DAC) concept as a consultative structure fits within the current policy climate, additionally, meets the present needs and aspirations of the Districts represented. However, it was recognised that the facilitation for the emergency of the DAC is a slow process, and may require patience and adjustments to suit specific conditions

The workshop held at Impala Hotel six years ago failed to walk the talk. Six years has now past, but the Districts that attended the workshop Monduli, Same, Karagwe, Hai, Musoma, Songea and Moshi have not lived the talk.

Tracing the demise of the private sector from the 1967, and the cause-effect relationship; Kilewo (1997)<sup>143</sup> contends that the demise of the private sector may be linked when Tanzania opted for state controlled nationalization> single party political system>collapse of indigenous private sector>state welfare without strong economic base and >poverty. With the dawn of the market economy, he argues that that dialogue is *cine qua non*-for viable partnership. He sees the main players are the Public-responsible for regulatory (Public accountability, conducive economic environment, sound legal and regulatory framework and the private sector on the other hand is responsible for capital, entrepreneurship, and management (spearheading market orientation, entrepreneurship development, technical and financial resources and flow).

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<sup>143</sup> <http://odin.dep.no./archive/udbilder/01/04/kilewo026.ppt>

The workshop on sharing experiences with District Public –Private dialogue, Jiendeleze (2002)<sup>144</sup> identified the factors that make the dialogue work (enabling factors), factors that hamper dialogue (restrictive factors), and identified lessons learned. The findings are clustered in Table 7.

**Table 7: Enabling, Restrictive Factors and Lessons Learned on Public- Private Dialogue**

Enabling Factors	Restricting Factors	Lessons Learned
<ul style="list-style-type: none"> <li>• National policies favouring dialogue</li> <li>• An organised Private Sector</li> <li>• Awareness and understanding with the main actors</li> <li>• A recognised and structured Public-Private dialogue platform</li> <li>• Transparency and trust</li> </ul>	<ul style="list-style-type: none"> <li>• Corruption</li> <li>• Rigidity of government staff</li> <li>• Lack of accountability</li> </ul> <p>Lack of efforts to develop the private sector</p>	<ul style="list-style-type: none"> <li>• How to start makes a big difference/impact in the future</li> <li>• Monitoring and evaluation is essential</li> <li>• The mere the geographical coverage the more the legitimacy, trust, mandate</li> <li>• At the district level Local Authorities are the main actors</li> <li>• A narrow sensitisation of local Government staff (limited to the District Executive Director only) limits the dialogue process</li> <li>• Seminars organised to sensitise the government authorities on the contribution of the economical Private Sector to economical growth and employment creation concretises dialogue</li> <li>• The organisation of informal private sector to an organised private sector organisation is a prerequisite to meaningful dialogue</li> <li>• Proactively handling issues counts a lot</li> <li>• Identifying a private sector champion from governance steers dialogue</li> <li>• Institutionalising the dialogue process gives assurance to sustainability</li> </ul> <p>Participatory approaches have strengthened District Advisory Committees</p>

**Source Jiendeleze (2002), Workshop on Sharing Experiences with District Public- Private Dialogue**

<sup>144</sup> Jiendeleze(2002), Report of the workshop on sharing of experiences with District Public-Private Dialogue

Sambua<sup>145</sup> (2003) identifies challenges to develop the private sector in Tanzania to dialogue. The challenges are summarised as below:

“In the Tanzanian context, the Private Sector has been stigmatised and given various names in ridicule of those who were in private business, private practice/activities or even those seemed to prosper on private business. With business in State monopoly for nearly 20 years, the Private Sector became very weak. Tanzania adopted liberalisation and a market economy policy with a very weak disorganised and low entrepreneurial Private Sector. Also the mindsets of the technocrats, the procedures and systems for a state monopoly economy were left intact. Within these circumstances, the Private Sector cannot develop to realise its full potential or thrive as it should and therefore, make its mark of engine for economic growth.

## **2.10. Summary**

The study anchors on the context that vibrant business growth and job creation that alleviate poverty rely on the economical environment that the study focuses on. It notes that the society perceive the influence of business differently. Two divergent models the market/capitalism, and the dominance models are the far opposites. While the market model assumes equilibrium is created by market forces (controlled by the consumer), the dominance model view the elite (businesses) exploiting the masses.

These divergent perceptions prompt governments to regulate. Regulation plays an important role in extenuating market failures (such as environmental pollution), protecting consumers against firms that can exercise market power, and ensuring safe working conditions.

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<sup>145</sup> Sambua, S. *Experience of PSDP* [WEZESHA] 2003

The review of literature has demonstrated that developing and poor countries tend to be more complex, bureaucratic than necessary, are associated with corruption. Poor countries seldom focus to correct market failure, neither do they regulate to protect consumer nor for positive societal outcomes.

There is empirical evidence that measures of corruption significantly related to the negative inflow of foreign direct investment. There is also a significant correlation between measures of regulation and the size of the unofficial economy. There is proof that informal actors stay informal due to a myriad of regulatory obstacles of being formal.

There is contention of weak business associations amidst a poor enabling environment. This weakness originates from a weak membership base, poor products and services delivery that are unattractive to members, financial paucity, and lack of competent human resources.

It is emphasised that the dialogue focusing on a single mutual objective is prosperity for all key players. Tanzania has set in place the foundation for a public consultative mechanism. What is required is capacity building and support from the international community in its development agenda. It is equally true that lack of democratic accountability contributes to a frail consultative mechanism/collaborating and it signifies the bankruptcy of the much vaunted 'sound government policies'. Institutionalising and having a political will is the cornerstone of a constructive consultative mechanism.

The review of literature chapter has tried to demonstrate some basic purposes of reviewing the literature<sup>146</sup> that among others, provided a context for the research, justified that the research fits into the existing body

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<sup>146</sup> <http://www.library.cqu.edu.au/litreviewpages/why.htm>

of knowledge. It is through the review of literature, that previous theories on the subject matter may be illustrated and it shows evidence that the subject has been studied previously.

The chapter emphasises that previous researches conducted concentrate on large, foreign direct investment while those who are overly affected by over regulations are the small and micro entrepreneurs.

In the next chapter, Research Methodology is presented. The chapter introduces and reviews various research methodologies. Reviewed also, are the methods this study used. The chapter will present the merits of action research, case studies, surveys, and investment climate surveys, the methods that basically the research used. The chapter will also discuss the proposed study scope, sampling and the limitation of the study. It summarises the chapter and introduces what chapter four will discuss.

## CHAPTER THREE

### RESEARCH METHODOLOGY

#### 3.0. Introduction

Chapter one stated the central objective of this research project, which is to understand the constraints imposed by government that hinder the development of the private sector. The other objective of the study is to contribute to the understanding of how different organizational practices and institutional structures influence the effectiveness of business-government consultative mechanisms. This interprets into questions:

- i) *“What are the private sector's constraints imposed by the government? and*
- ii) *What types of effective consultative mechanisms may influence institutional structures?*

To answer these questions, appropriate research methodologies need to be selected. Researchers are advised to analyse the strengths and weaknesses of research methods and evaluate critically the nature of the evidence obtained. This chapter tries to do that and position the research methodology used in the study.

Kothari (1990)<sup>147</sup> defines research methods as a way to systematically solve the research problem. It may be understood as a science of studying how research is done scientifically. It involves the various steps that are generally adopted by the researcher in studying the research problem along with the logic behind those steps.

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<sup>147</sup> Kothari G.R. (1990) *Research Methodology : Methods and Techniques* 2<sup>nd</sup> Ed. Wiley Eastern Limited-Bombay



While the importance and definition of research methods was introduced in the introduction section the following paragraph summarises the contents and context of the second chapter. Following the introduction the following section reviews the various methods and techniques available in the context of justifying why certain methods and techniques were selected. The section plans to present all the important information on data, research area, field plans, and the instruments used to collect and analysed the data .The purpose of section two is to explain subsequently the merits and shortcoming of various methods.

Section three will then give further details about the selected survey methods and what reasons merited their selection. In section four the study scope as proposed. This will involve explaining the study areas, respondents' scope, and the period the sequential scope covered.

Section five deals with sampling and describes the theory behind sampling. It states how the sample was selected and designed. It will also describe the methods used to analyse the collected data and state the limitations and the problems encountered. The section summarises the chapter and introduces what is expected in chapter four.

### **3.1 A Review of Various Methods Used in Research**

Kothari (1990)<sup>148</sup> distinguishes research techniques and research methods. According to him, research techniques refer to the behaviour and instruments used in performing research operations such as observing, recording data, techniques of processing data and the like. Research methods refer to the behaviour and instruments used in selecting and constructing research techniques. See table 8.

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<sup>148</sup> Ibid

**Table 8: Distinction between Research Methods and Research Techniques**

<b>Type</b>	<b>Method</b>	<b>Technique</b>
<i>1. Library Research</i>	i) Analysis of historical records	Recording of notes, Content analysis. Tape and Film listening and analysis
	ii) Analysis of Documents	Statistical compilation and manipulations, reference and abstract guides, content analysis
<i>2. Field Research</i>	i) Non participant direct observation	Observational behavioural scales, use of score cards
	ii) Participant observation	Interact ional recording. Possible use of tape recorders, photo graphic techniques
	iii) Mass Observation	Recording mass behaviour, interview using independent observers or in public places
	iv) Mail questionnaire	Identification of social and economic background of respondents
	v) Opinionaire	Use of attitude scales, projective techniques, use as socio-metric scales
	vi) Personal interviews	Interviewer uses a detailed schedule with open and closed questions
	vii) Focused interview	Interviewer focuses attention upon a given experience and its effects
	viii) Group interview	Small groups of respondents are interviewed simultaneously
	ix) Telephone survey	Used as a survey technique for information and for discerning opinion, may also be used as a follow up of questionnaire
	x) Case study and life history	Cross sectional collection of data for intensive analysis, longitudinal collection of data of intensive character
<i>Laboratory Research</i>	Small group study of random behaviour, play and role analysis	Use of audio visual recording devices, use of observers, etc.

*Source: Research Methodology: Methods and Techniques*

The point of view raised by Kothari is supported by Bryman who sees research methods as the techniques or tools used to collect data. It is the next step within the study - from the initial philosophical position, through the research strategy - which allows the actual empirical data to be collected. It is summarised as:

"A research method is simply a technique for collecting data. It can involve a specific instrument, such as a self-completion questionnaire or structured interview schedule, or participant observation whereby the researcher listens to and watches others." Bryman 2001) <sup>149</sup>

Debating on the purpose of data gathering, Casley and Kumar (1988)<sup>150</sup> present that data gathering has three purposes: description, explanation, and prediction. They argue that the descriptive phenomenon or process is the first step towards explaining its nature, underlying causes, relationships, and contexts. An explanation requires an extrapolation of a cause and effect relationship; the investigator tries to understand the phenomenon, process or event that occurred or did not occur. Predictions are based on an understanding of the causes of events.

There is an understanding that there are two types of method of collection of data; quantitative and qualitative. Casley and Kumar (1988)<sup>151</sup> assert that quantitative data methods produce numerical data while qualitative methods results in information which can be best described in words (quotes).

Anderson and Poole<sup>152</sup> (1998) agree with Caley and Kumar as they contend that one subdivision is according to whether the approach is predominantly quantitative or qualitative. They explain that quantitative research may be typified by experimental studies in science based disciplines where findings are usually in numerical form. Qualitative research conversely, is characterised by ethnographic and historical studies where findings are commonly expressed in words than numbers.

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<sup>149</sup> Bryman A., (2001), *Social Science Research Methods*, Oxford University Press, Oxford

<sup>150</sup> Casley D.J and Kumar K. (1988); *the Collection, Analysis and Use of Monitoring and Evaluation Data*; A World Bank Publication, the John Hopkins University Press- London.

<sup>151</sup> ibid above

<sup>152</sup> Anderson J. and Poole.M. (1998); *Assignment and Thesis Writing 3<sup>rd</sup>* Ed. John Wiley & Sons, Ltd - Singapore

The social sciences field favours qualitative research methods and some of the argument supporting their choice is that qualitative research is characterised by open procedure, trying to determine 'what exists' rather than 'how much of it is there' (Patton, 1990)<sup>153</sup>, Greenbaum (1998)<sup>154</sup> and Manson, (1996)<sup>155</sup> assert that qualitative research methods has enabled researchers to unearth participants opinions and perspectives, which often do not emerge through quantitative research methodology. The method allows respondents to define and voice social reality from their own experiences, opinions, perception and meaning rather than from that of the researcher alone.

Flowers and Moore (2003) affirms that,

"The primary objective of qualitative research is to obtain information by exploring, identifying, and examining an issue by questioning, engaging ...those individuals who are involved with, affected by, and/or familiar with the issue under study."

Flowers and Moore<sup>156</sup> (2003)

Airasian and Gay <sup>157</sup> (2003) argue that qualitative research seeks to probe deeply in to the research settings to obtain in-depth understandings about the way things are, why they are that way, and how the participants in the context perceive them. Alternately, Kothari <sup>158</sup>(1990) argues that qualitative approach to research is concerned with subjective assessment of attitudes, opinions and behaviour. Research in such

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<sup>153</sup> Patton, M. Q. (2<sup>nd</sup> ed.) (1990). *Qualitative Evaluation and Research Methods*. Newbury, CA: Sage Publications Inc.

<sup>154</sup> Greenbaum, T. L.(2<sup>nd</sup> ed.)(1998). *The Handbook for Focus Group Research*. Thousand Oaks. CA: Sage

<sup>155</sup> Mason, J. (1996). *Qualitative Researching*. London. Sage Publication

<sup>156</sup> Flowers, L. A., & Moore, J.L. (2003, Winter). Conducting Qualitative Research on Line in Student affairs. Retrieved February 27, 2004, from <http://jtc.colstate.edu/vol3-1/Moore.htm>.

<sup>157</sup> Airasian , P &Gay, L.R.. (7th ed.) (2003). *Educational Research: Competencies for Analysis and Applications*. Upper Saddler. River, NJ. Memll Prentice Hall.

<sup>158</sup> ibid footnote 147

situations is a function of researcher's insights and impressions generating either in non-quantifiable form which are not subjected to rigorous quantitative analysis.

The psychologist side represented by Shaughnessy and Zechmeister (2000)<sup>159</sup> distinguish between a scientific and non scientific (everyday) approaches to knowledge by characterizing the approaches as in Table 9.

**Table 9: Characteristics of Scientific and Non-scientific (everyday) approaches to Knowledge**

	Non scientific (everyday)	Scientific
General approach	Intuitive	Empirical
Observation	Casual, uncontrolled	Systematic, controlled
Reporting	Ambiguous, with surplus meanings	Clear definitions, operational specificity
Instruments	Inaccurate, imprecise	Accurate, precise
Measurements	Not valid or reliable	Valid and reliable
Hypotheses	Un-testable	Testable
Attitude	Uncritical, accepting	Critical, sceptical

*Source: Research Methods in Psychology*

It is argued that psychologists use the scientific method to gain knowledge about human and animal behaviour, affirming that scientific method is abstract and differs from *non-scientific* ("everyday") approaches to gaining knowledge

Judith Bell (1999)<sup>160</sup> associate action research, case studies, the ethnographic style, surveys, the experimental style, and narrative inquiry as common research methods used in education and social

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<sup>159</sup> Shaughnessy, J.J. Zechmeister, E.B. Zeichmeister, J.S (2000); *Research Methods in Psychology* 5<sup>th</sup> Ed; MacGrawHill, London

science. She contends that once a researcher has selected an approach, is not limited to that approach. Nevertheless, understanding the major advantages and disadvantages of each approach is likely to help to select the most appropriate methodology for the task. Anderson and Poole<sup>161</sup> propose the combination of qualitative with quantitative research as a way of maximising the theoretical implication of the research findings.

Validity i.e. the ability of an instrument to measure what it set out to measure (Social class, attitudes to .... or quality of General Post services) and reliability are fundamental elements in research. Babbie<sup>162</sup> (1995) defines validity as to refer to the extent to which a specific measurement provide data that relate to commonly accepted meanings of a particular concept. Reliability on the other hand, is the ability of an instrument to measure 'something' consistently. May (1997) <sup>163</sup>pinpoints that research is valid when the conclusions are true, when the findings are repeatable and that reliability and validity are the essential requirements for both the design and the measurement of research.

I presented in table 8 various methods and a technique, the following section compares various methodologies.

### **3.1.1. Action Research.**

Action research consists of a family of research methodologies, which pursue actions and research outcomes in the same process/time. It plays a double role, aims of action for change in an organisation or community, with research to increase knowledge and understanding. Hult and Lennung describe it as below:

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<sup>160</sup> Judith Bell (1999) *Doing Your Research Project* 3<sup>rd</sup> Ed. Open University Press- Buckingham

<sup>161</sup> ibid footnote 152.

<sup>162</sup> Babbie, E (1995). *The Practice of Social Research*. Belmont. Wadsworth Publishing Company.

<sup>163</sup> May, T. (1997). *Social Research: Issues , Methods and Process*. London.

Action research simultaneously assists in problem solving and expands scientific knowledge, as well as enhancing the competencies of the respective actors, being performed collaboratively in an immediate situation using data feedback in a cyclical process, aimed at an increased understanding of a given social situation, primarily applicable for the understanding of change processes in social systems and undertaken within a mutually acceptable framework. (Hult and Lennung, 1980)<sup>164</sup>

Zuber Skerrit<sup>165</sup> (1996) differentiates between *emancipatory* action research and *practical* action research. It is argued that 'emancipatory' action research occurs when there is an explicitly political angle to the research process and respect for practitioner knowledge. *Technical* action research on the other hand, is where practitioners depend greatly on a researcher as a facilitator and the main aim is to improve effectiveness.

Winter<sup>166</sup> (1989) argues that the development of the work must remain visible and open to suggestions from others, permission should be obtained from others before observing or examining documents, description of other's work and points of view must be negotiated and before publication, the researcher must maintain confidentiality.

Costello P.J.M. (2003)<sup>167</sup> summarises action research as encompassing the following constituents:

- Referred to variously as a term, process, enquiry, approach flexible spiral process and cyclic.
- It has practical, problem -solving emphasis
- It is carried out by individuals, professionals and educators

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<sup>164</sup> Hult, M. and Lennung, S. (1980) Towards a definition of action research: a note and bibliography. *Journal of Management Studies*, **17**, 241-250

<sup>165</sup> Zuber-Skerritt, O. (Ed., 1996) *New Directions in Action Research*. London, Falmer

<sup>166</sup> Winter, R. (1989); *Learning from Experience: Principles and Practice in Action Research*. London, Falmer.

<sup>167</sup> Costello P.J.M. (2003) *Continuum Research Methods : Action Research*, Continuum, London

- It involves research, systematic, critical reflection and action
- It aims to improve education practice
- Action is undertaken to understand, evaluate and change.

Ashworth P.D<sup>168</sup>. (2004) pinpoints out the advantages and disadvantages of action research in table 10.

**Table 10: Advantages and disadvantages of Action Research**

<b><i>Advantages</i></b>	<b><i>Disadvantages</i></b>
<ul style="list-style-type: none"> <li>• Direct links between research and problem solving</li> <li>• Possible personal benefits for practitioner/professional self development,</li> <li>• Entail a continuous cycle of change and development - organisational benefits,</li> <li>• If it involves practitioner participation - may be more democratic</li> <li>• An accumulation of action research may lead to policy and practice changes</li> </ul>	<ul style="list-style-type: none"> <li>• The necessary involvement of the practitioner limits research scope and scale</li> <li>• 'Work-site' approach limits generalisation</li> <li>• The integration of research and practice limits exercising controls</li> <li>• Nature of research constrained by what is permissible and ethical in workplace setting</li> <li>• Ownership of research contestable, researcher and practitioners may disagree over analysis of research, publication and its implications</li> <li>• May involve an extra burden of work for the practitioner</li> <li>• Can be accused of being a theoretical and thus its contribution to the understanding of, for example, the processes of education is questionable</li> <li>• The funding body/researchers may have a specific agenda</li> <li>• The day-today problems identified by professionals may or may not be the most important</li> </ul>

<sup>168</sup> Ashworth P.d. (2004) *Research Designs in Social Science*- Sheffield Hallam University



### 3.1.2. Case Studies

Adelman *et al* in Judith Bell (1999)<sup>169</sup> define case as “an umbrella term for a family of research methods having in common the decision to focus on inquiry around an instance.” The author contends that the case study is much more than a story about or a description of an event or state. She sees the approach, particularly appropriate for individual researchers because it gives an opportunity for one aspect of a problem to be studied in-depth within a limited time.

Biha <sup>170</sup> sees the case representing a comprehensive description and explanation of the many components of a given situation. The author bases his argument on Yin (1984) who gave three situations in which one can choose the case study method:

- “If one’s research is following a specific theory and it is likely that an organisation has those factors or circumstances for critical test of a theory”
- In order to identify the distinguishing characteristics of the extreme or rare situation in which an organisation is in; and
- If it is believed that the circumstances are sufficiently interesting and that something important will be learnt from the study.

Critics of the case study see the difficulty in cross checking the information as the researcher selects the area of study and decides on the material to present. The issue of interference of the research design by the researched organisation is also contentious.

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<sup>169</sup> *ibid* footnote 160

<sup>170</sup> <http://www.stclemants.edu/grabiha.htm>

### 3.1.3. Surveys.

Survey research is one of the most important areas of measurement in applied social research. The broad area of survey research encompasses any measurement procedures that involve asking questions to respondents. A "survey" can be anything from a short paper-and-pencil feedback form to an intensive one-on-one in-depth interview. Survey research illustrates the principle of correlation research and provides an accurate means and efficient means of describing people's thoughts, opinions, and feelings. Surveys involve sampling and the results from a selected sample are used to describe the entire population interest.

Trochim (2002)<sup>171</sup> divides surveys into two broad categories: the questionnaire and the interview.

Questionnaires are usually paper-and-pencil instruments that the respondent completes. Interviews are completed by the interviewer based on what the respondent says. Sometimes, it's hard to tell the difference between a questionnaire and an interview.

For instance, some critics think that questionnaires always ask short closed-ended questions while interviews always ask broad open-ended ones. Critics of survey research see them as involving reactive measurements because individuals are aware that their responses are being recorded. Shaughnessy *et, el* (2000)<sup>172</sup> asserts that from the social desirability point of view, some respondents feel that they should respond as they "should" rather than how they actually believe they should.

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<sup>171</sup> <http://www.trochim.human.cornell.edu/kb/typeresearch.htm>

<sup>172</sup> Shaughnessy, J.J., Zechmeister, E.B., Zechmeister, J.S. (2000) *Research Methods in Psychology* Fifth Edition, McGraw-Hill Higher Education, New York.

### 3.1.4. Investment Climate Surveys

The World Bank Group has developed Investment climate Surveys<sup>173</sup> or “Productivity and the Investment Climate Survey” (PICS) which, evaluates conditions in quantitative terms of dollars and days. The final report of the survey has eleven sections covering the following topics:

1. General information about the firm: ownership, activities, location
2. Sales and supplies: imports and exports, supply and demand conditions, competition.
3. Investment climate constraints: evaluation of general obstacles.
4. Infrastructure and services: power, water, transport, computers, and business services.
5. Finance: sources of finance, terms of finance, financial services, auditing, land ownership.
6. Labour relations: worker skills, status and training; skill availability; over-employment; unionization and strikes.
7. Business-government relations: quality of public services, consistency of policy and administration, customs processing, regulatory compliance costs (management time, delays, bribes), informality, capture.
8. Conflict resolution/legal environment: confidence in legal system, resolution of credit disputes.
9. Crime: security costs, cost of crimes, use and performance of police services.
10. Capacity, innovation, and learning: utilization, new products, planning horizon, sources of technology, worker and management education, experience.
11. Productivity information: employment level, balance sheet information (including income, main costs and assets).

Proponents of this method claim that the method is consistent and its quantitative nature merits it to simplify benchmarking. On the contrary, the method needs careful attention to sample design as most

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<sup>173</sup> World Bank (2003) Ica Brochure- Investment Climate Assessments A Global Initiative

surveys over sample large firms. It is also associates high resource demands, as it demands highly trained enumerators.

### **3.2. Methods Used in Data Collection**

A syndication of methods and approaches was used in data collection. Technically, this methodology is called "triangulation" where you combine several methods to suit your study. These methods are categorised in Primary and Secondary as below:

#### **3.2.1. Primary Sources**

##### **3.2.1.1. Action Research**

Basing on the argument of Hult and Lennung, 1980<sup>174</sup> that action research is when a research is being performed collaboratively in an immediate situation using data feedback in a cyclical process, aimed at an increased understanding of a given social situation, I argue that the study applied action research. In the case of the partnership IHK and TCCIA Kilimanjaro the researcher was commissioned to work as a technical advisor and one of the activities was to document and share the experiences gained during the use of the tools designed by the other experts.

The above view corresponds with the argument by Cohen and Manion<sup>175</sup> (1994) who ascribe that action research as essentially an on-spot procedure designed to deal with a concrete problem located in an immediate situation.

Box 20 contains some excerpts of the terms of reference of the on of the case I will present in the findings

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<sup>174</sup> ibid footnote 163

<sup>175</sup> Cohen,L and Manion,L (1994); Research methods in Education, 4<sup>th</sup> Ed. London: Routledge.

## Box 20: Terms of Reference for Technical Support

### Terms of Reference for the assignment on *improving* and consolidating internal working procedures at TCCIA Kilimanjaro Region within the frame of the main phase of the Partnership Project between TCCIA KR and IHK Wiesbaden

#### Introduction

TCCIA Kilimanjaro Region (TCCIA KILI) founded in Moshi in 1995, is one of twenty Regional Chambers in Tanzania. The number of affiliated companies has grown from 50 in 1995 to over 200 in 2003. Nevertheless, the number of paid up members is too low and fluctuates constantly and the payment of membership fees is rather sporadic and too low.

#### Tasks

You will provide technical support to all staff members of TCCIA KILI and in particular to the Executive Officer and Information Officer in the planning, co-ordination and achievement of daily tasks.

You will define working procedures, staff responsibilities and schedules orientating yourself on those guidelines given in existing manuals, reports and papers exclusively developed for TCCIA Kilimanjaro by other consultants in previous assignments.

You will aim to ensure the operational functioning of the Chamber in the following fields:

Membership Development, 2. Advocacy work, 3. Chamber Management 4. Chamber Services, 5. Staff, 6. District

Chambers

Source: TCCI Kilimanjaro Partnership Project IHK Wiesbaden

### 3.2.1.2. Case Study

The researcher compiled experiences and developed benchmarks through successful practices developed by [WEZESHA] PSDP and while working with TCCIA Kilimanjaro the Partnership IHK Wiesbaden and TCCIA Kilimanjaro Region that was extended to the support from BEST-AC. These experiences will act as guidelines for District Chambers to continue to review, evaluate, and improve good Chamber Management practices. Section Two of the research finding documents these case studies.

### 3.2.1.3. Survey Guided with Questionnaires

The questionnaire I used is an adaptation of the Questionnaire prepared for a survey of local entrepreneurs Brunneti et al. (1997)<sup>176</sup> in 69, countries for the World Bank 1997 Development report. It reflects the perceptions of entrepreneurs about doing business in Tanzania. The questionnaire collected the following data:

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<sup>176</sup> Brunneti, Kisunko and Wader conducted this survey for the World Development Report 1997

- (a) *General Information*- District, Company size, Industry type, Location of management, foreign participation, exports;
- (b) *Predictability of laws and policies*- these questions wanted to evaluate the uncertainties created by the law making process;
- (c) *Political instability and security of property*- Questions asked whether firms had confidence in the ability of the state authorities to protect property rights and guarantee a predictable judiciary process;
- (d) *Government –business interface*- Evaluated whether the government (laws, practices and policies) are a “helping hand” or “an opponent”;
- (e) *Law enforcement and bureaucratic red tape*- The questions focused on the degree of corruption and whether corruption was a predictable transaction cost or a source of uncertainty;
- (f) *Uncertainty created by the state action and the efficiency of government in providing services*- The questions explored on the efficiency of government to provide the necessary infrastructure.

The Questionnaire is attached as annex 1.

In the case study we document the results of a The Road Block Submission Form that was submitted to entrepreneurs in Moshi. Aside from the details of the firm, entrepreneurs were asked 4 simple questions: 1- What is the issue at stake? 2- Why is it a business roadblock? 3- What is your proposed solution to remove the roadblock?, and 4- What are the specific actions item? (What specific articles of the by-law you need to be amended, whether there is a need of drafting a new by-law. If the roadblock is not a jurisdiction of the Municipality, what solutions are you proposing?)

### **3.2.2. Secondary Sources.**

Secondary sources encompass materials, reports and studies conducted by others written on the subject that is being studied. For this research, an extensive literature survey covering the theories behind the

variables guiding the study , models of business society relationship and their diversity (capitalism) and communism) were studied and compiled in the previous chapter (chapter 2). The literature also reviewed the assessment of the investment Climate, Private Sector Associations, government reforms and how these are related in providing a conducive environment for businesses investment. Reviewed also, are the experiences of consultative mechanism at the global, regional, National and the local government level.

### **3.3. Study Scope**

#### **3.3.1. Study Areas**

The study areas where a survey questionnaire was administered included the Moshi Municipality, the township of Bukoba<sup>177</sup> and Biharamulo District.

#### **3.3.2. Respondent Scope**

The study survey was administered to managers of sampled companies in the selected sampled study areas. The case study and action research documented experiences and other studies that were conducted on selected Private Sector Organisations and interventions by IHK Wiesbaden/BEST-AC Project on TCCIA Kilimanjaro and [WEZESHA] Private Sector Development Programme for the Lake Zone.

#### **3.3.3. Sequential Scope and Research Schedule**

The study covered the period between of October 2003 to September 2006 for the IHK Wiesbaden and Kilimanjaro Region -Tanzania Chamber of Commerce Industries and Agriculture partnership project and the Phase II of the [WEZESHA] PSDP i.e. January 2003 to December 2004.

### **3.4. Sample Design and Population**

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<sup>177</sup> The Township of Bukoba was alleviated into a Municipal and Biharamulo District was later split into two Districts during the study term but after collecting the data.

Survey research involves selecting a sample and using predetermined questionnaires. Sampling is the process of selecting a number of units for study. Population, sample frame, sample and elements are the terms commonly used in sampling techniques. A careful selection of a survey sample allows researchers to generalise findings from the sample to the population.

Campbell summarises the importance and the efficiency of sampling as:

“The method of choice for portraying all the variety of a large heterogeneous population is clearly that of a sample survey. Ever since statisticians and social scientists learned how to draw a sample from a large universe in such a way that every member of the universe has an equal chance of being chosen, it has been possible to describe the national population accurately by obtaining information from a few thousand carefully selected individuals” Campbell (1981)<sup>178</sup>

The Investment climate Assessment surveys<sup>179</sup> emphasizes that sample design is a key element in deriving consistent measures of the investment climate. It argues that the representation of the broad economy is highly desirable, given the productivity orientation of the country, a small number of large sector sub samples must be included to provide measures of productivity that can be compared to parallel sectors in other countries. At a minimum, sectors from manufacturing and from services should be included. In addition, because the distribution of firms in most countries is overwhelmingly populated by small and medium enterprises, the population of this sector has to be considered.

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<sup>178</sup> Campbell, A. (1981). The sense of well-being. Newyork:MacGraw-Hill

<sup>179</sup> ibid footnote 173



Biha<sup>180</sup> asserts that when conducting research the ideal is going for a random sampling with a relatively large sample. In reality, one is faced with financial, administrative, and time constraints. He refers the rules of thumb that suggest the following:

- “The minimum sample is 30. This is to insure that there is sufficient sample for analysis.
- “There should be at least 5 cases in each cell of the analytical table.

A random sampling method was used to select firms to be interviewed using a survey guided by a questionnaire, while convenience sampling was used in case of the action research and case studies. The survey depended on how I was able to secure the contracts, so in this respect; convenience sampling was used due to ease of access.

Through this process a population of 389 participated as below:

1. Survey guided by a questionnaire	116 Respondents
2. Action Research	2 projects/programmes
3. Case studies	160 Training Participants
4. Roadblock Forms	111 Respondents
Total	389

The ICA survey methodology that insists the sample to include a proportionate number of small and micro enterprises was also adhered to.

### 3.5. Data Analysis

Shaunessy *et, el* (2000)<sup>181</sup> argues that data analysis is grouped in three distinct stages of i) getting to know the data ii) summarising the data iii) confirming what the data is telling us. In the first stage data is

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<sup>180</sup> ibid footnote 170

inspected carefully, get a feel with the data, check the errors and make that the data is making sense. In the second stage data is summarised in a meaningful way through descriptive statistics and creating graphic displays. At this juncture, one has to decide how the data is to be organised, the way it can be summarised and described to be more informative. The third stage determines whether the data confirms our tentative research objectives made at the beginning of the study.

Anderson and Poole (1998)<sup>182</sup> argues that the process of interpreting data involves summarizing the data to temporally manageable length to categorise, identify themes, analyse and assess. From here, the researcher must look for meanings within the data and often relate findings to previous studies to see whether these support existing research.

While analysing the data, the above theoretical guidelines have been taken into consideration and along these lines, I have established the categories of raw data through coding and tabulation. In case of the survey method, I have grouped the information into themes of i) General Information ii) Predictability of laws and policies iii) Political instability and security of property iv) Government –business v) Law enforcement and bureaucratic red tape vi) Uncertainty created by the state action and the efficiency of government in providing services. The assembled data was then tabulated and analysed based on percentages. In the process of analysis, relationship of differences supporting or conflicting with the original objectives is presented. Generalisation is done by using a descriptive approach.

While collecting and analysing action research data, I was aware of the views and the reservations of critics of action research. Critics of action research perceive action research as a method lacking rigour. Hopkins

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<sup>181</sup> Shaughnessy, J.J., Zechmeister, E.B., Zechmeister, J.S. (2000) Research Methods in Psychology Fifth Edition, McGraw-Hill Higher Education, New York.

<sup>182</sup> Anderson, Jonathan and Poole Millicent (1998). Assignment and Thesis Writing, 3<sup>rd</sup> Edition Singapore: John Wiley and Sons:

(2002)<sup>183</sup> for example, argues that overuse of words like problem, improve, needs assessment, etc, may give an impression that something is wrong so action research is a do this to improve that!. Having this awareness in mind, I used a prolonged involvement in the study (35 months), triangulation and audit trail as advised by Robson (2002).<sup>184</sup>

### **3.6. Limitations**

Efforts were devoted during the design to devise limitation to the research and documenting of the research findings, however some unforeseen restraining factors surfaced in the course of conducting the study.

The limited timeframe caused by combining the study and working, may be sighted as one of the limitation that has constrained me to concentrate and develop a comprehensive study. Nevertheless, this was balanced by devoting to late working hours and I capitalised on working seriously on the study when the workload slackened.

Taking into consideration that the researcher is living in the Municipality of Moshi with a small library it was difficult to access to books with the relevant secondary data on the research topic. In access to adequate books that would have adequately covered the topic is a common problem in developing economies. To compensate this, I resorted to internet sources and on-line libraries.

I also faced financial resources constraints. The assumption when I embarked on the research was that there were chances that financial support will be available to support the study. On the contrary, there was a drastic change of focus of donors supporting the PSDP for Lake Zone and most of the funding shifted to

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<sup>183</sup> Hopkins, D (2002) A Teacher Guide to Classroom Research, 3rd Ed , Buckingham: Open University

<sup>184</sup> Robson, C. (2002) Real World Research, 2<sup>nd</sup> Ed, Oxford: Blackwell

the basket funding that is being handled by the Government. As it was not viable to wait, other approaches were resorted to. The alternative approaches limited the diversity and the magnitude of the sample and geographical coverage. It was difficult to get data from the city of Mwanza that was earlier planned. This problem is however insignificant to the results, compared to quantity and quality of the data that was collected and analysed.

### 3.7. Summary

This chapter reviews various methods used in research, their strengths and weaknesses for research application. Specifically reviewed are action research, case studies, surveys and investment climate surveys. Selected is a syndication of approaches combining library review, action research and case study. Other methods triangulated include a surveys guided by a questionnaire and that is an adoption of the World development report and the Worlbank (2004)<sup>185</sup> Bulldozer Initiative in Bosnia and Herzegovina, and formal discussions, in the form of unstructured interviews guided by a *checklist*. The guided questionnaire extracted the perception of entrepreneurs on various issues; the case study collects quantitative data on effects, while discussions focused on the causalities.

The survey scope explains the areas that were studied and the representative constituents are Moshi a Municipality, Bukoba a town ship and Biharamulo a District Council headquarter town. A simple random sampling technique was used. The sample population was 389. I deal also on how I analysed the data and state the study limitations.

In chapter four I present the research findings in four sections. In section one I start the chapter by introducing the rationale of this chapter from the theoretical context and what the reader is expecting in chapter four. I n section two I present and analyse the data . I plan to break the presentation in two sub

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<sup>185</sup> Benjamin Herzberg , Investment Climate Reform- Going the Last Mile- Policy Research Working Paper 3390 – The World Bank

section a) The results of the field survey guided by the questionnaire and b) Results of the assignment conducted by the researcher with i) WEZESHA and ii) IHK/BEST-AC /TCCIA Kilimanjaro. The results of the questionnaire will be presented thematically.

## **CHAPTER FOUR**

### **RESEARCH FINDINGS AND DISCUSSIONS**

#### **4. Introduction**

In chapter four, Research Findings and Discussions presents the research findings into two sections.

Section one presents the results of the questionnaire that presents the perception of entrepreneurs on the various questions that they were asked to respond to. In part two the chapter gauges the perception of enterprises in the lawmaking process. Part three is an evaluation of political instability and security. In part four an overall government business interface is gauged. In part five respondents express their opinion on how they perceive law enforcement and bureaucratic red tape. The last part, questions the efficiency of government in providing services and ranks them.

Section two documents the cases while the author was working with WEZESHA and TCCIA Kilimanjaro.

The section intends to analyse one of the issues raised in the statement i.e. the weak and nascent stage of private sector organisation to advocate for a conducive environment. The cases presented will try to demonstrate some of the efforts taken by the organisation cased (WEZESHA and TCCIA Kilimanjaro) to strengthen the capacity of Private sector organisation.

Two cases are presented for WEZESHA and they include developing a participatory strategic planning exercise and the case of eight (8) leadership training that had an objective of creating effective and efficient private sector organisation. In the latter case, a process for imparting tools and instruments for strengthening PSOs through (refreezing, Reflection, application of PSOs strengthening tools, back home action planning and mentoring) are presented.

For TCCIA Kilimanjaro the use of mentoring through hand and the experience gained in twinning and implementing of an advocacy project will be presented.

## **SECTION ONE**

### **4.1. Research Findings from the Perception of Entrepreneurs Field Survey Guided by the Questionnaire.**

#### **4.1.1. Number and Characteristics of the Surveyed Firms**

This section describes the number and characteristics of firms that were covered during the survey. 110 enterprises completed and returned the survey questionnaires.

The characteristics focuses on the size, type, whether the firm is internationalised (has foreign participation), and whether it exports.

##### **4.1.1.1 Enterprise Size**

We define the size of the firm as prescribed by the Tanzania SME policy that subscribes sizes of enterprise according to the number and investments

- Micro enterprise includes firms employing 1-4 and a capital investment in machinery of up to 5 Million Tanzania Shillings
- Small Enterprises includes firms employing 5-49 employees with a capital investment in machinery of more than 5 Million to 200 Million Tanzania Shillings
- Medium enterprise are firms employing 50-99 with a capital investment in machinery more than 200 but less than 800 Million Tanzania Shillings
- Large enterprise are firms employing 100+ and a capital investment in machinery exceeding 800 Million Tanzania Shillings

Figure four presents the distribution of surveyed firms by size. Micro enterprises represents more than half (52%) of the surveyed enterprises while Medium and small enterprises are almost similar 22% and 22% respectively, while large enterprises are 4%. This sample is a good representation of the areas surveyed showing few large enterprises surveyed.

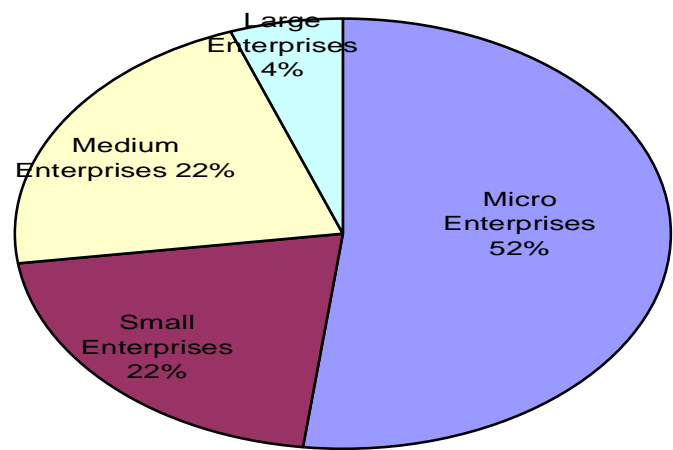


Figure 4: Distribution of Respondents by Firm Size

Figure five shows that the distribution of large industries was 23% in Bukoba and Biharamulo shows a higher concentration of micro enterprises surveyed at 74%.

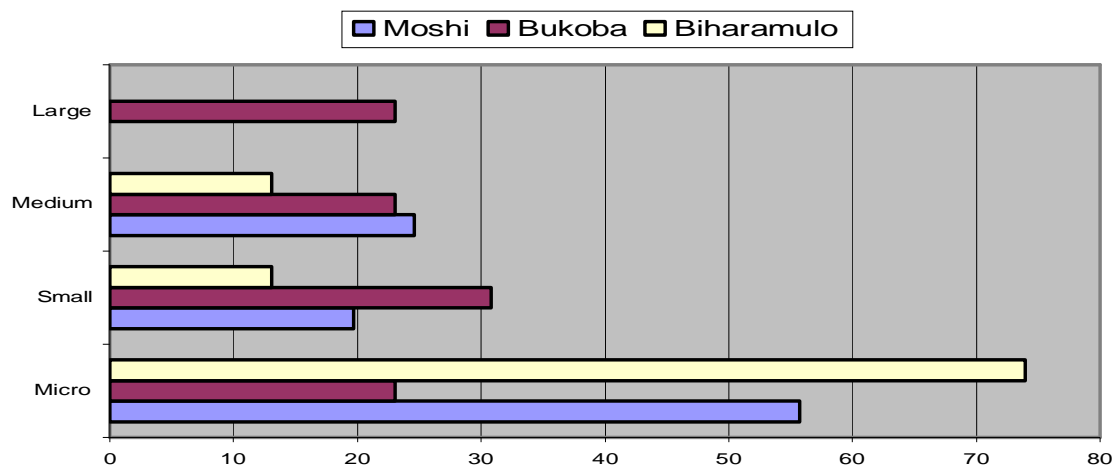


Figure 5: Distribution of respondents firms by location



#### 4.1.1.2 Enterprise Type

Figure six is portrays surveyed firms by type, i.e. Industry/manufacturing, trading, services, and agriculture. If trading is considered as services, the service sector takes a lion share of 75%, while industries and agriculture are represented at 15% and 10 respectively. Recently, the Municipality of Moshi in the most recent years has failed to attract industrial opportunities. In addition, most of the industries located in this area have stagnated. Agriculture/farms are misrepresented in Bukoba township and Moshi and the as the surveyed area covered the Municipality of Moshi and Bukoba Township that is predominantly non-agriculture. The 10% of agriculture firms is represented by Biharamulo which is a District town that is represented by 24% of agricultural based firms. Being a district based setting it is also misrepresented by industries 0%.

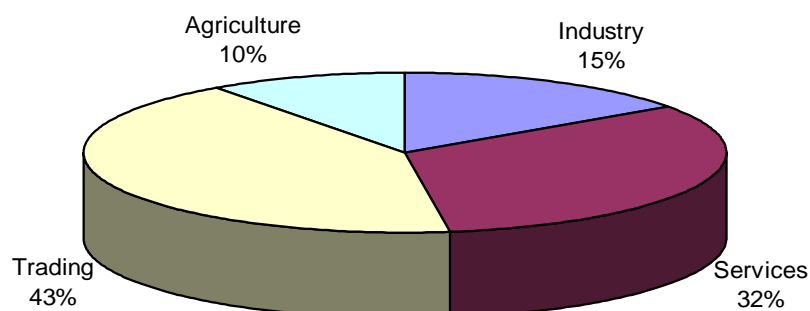
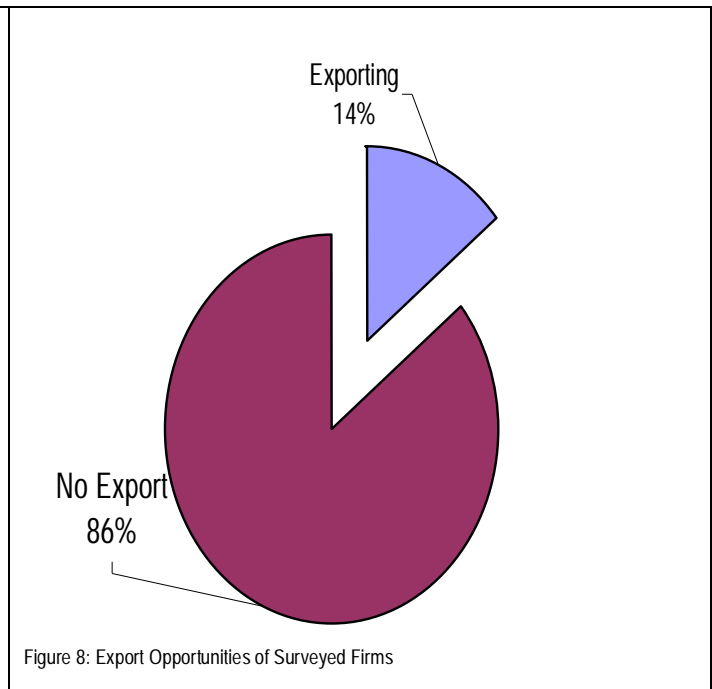
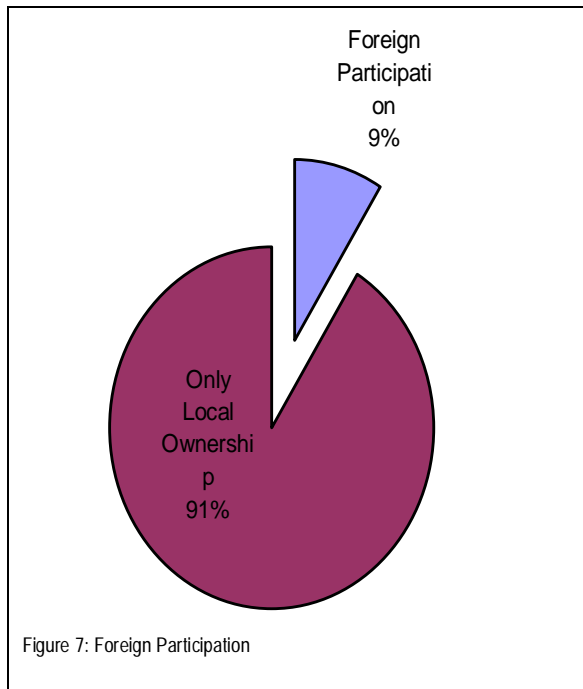


Figure 6: Breakdown of Surveyed Firms by Type

#### 4.1.1.3 Internationalisation and Export Potentiality

The survey also analysed whether firms have foreign participation and those that are exporting. Figure seven shows that 8% of the surveyed firms exporting, while Figure eight depicts 14% of the surveyed firms are involved in export activities. The survey departs from most of the surveys that seek investment climate opinions from multinational corporations or bigger export firms.



#### 4.1.2. Predictability of Laws and Policies

The set of questions in this section were designed to capture the perceptions of respondents to the lawmaking process. The purpose of these enquiries was to gauge effects of policy surprises in doing business cost effectively. It was also an assessment on to what extent entrepreneurs or associations participated in the law making progress. We also intended to simulate firms to offer proposals on how these surprises can be eliminated. The exploration was to culminate into proposals that will enable us gain an insight on how entrepreneurs from their own perspective can avoid surprises by obtaining information early, either directly or through their business associations.

##### 4.1.2.1 Policy Surprises

Respondents were asked whether they regularly encounter unexpected changes in rules, laws, or policies, by-laws, which materially affect their businesses. Figure nine below depicts their responses.

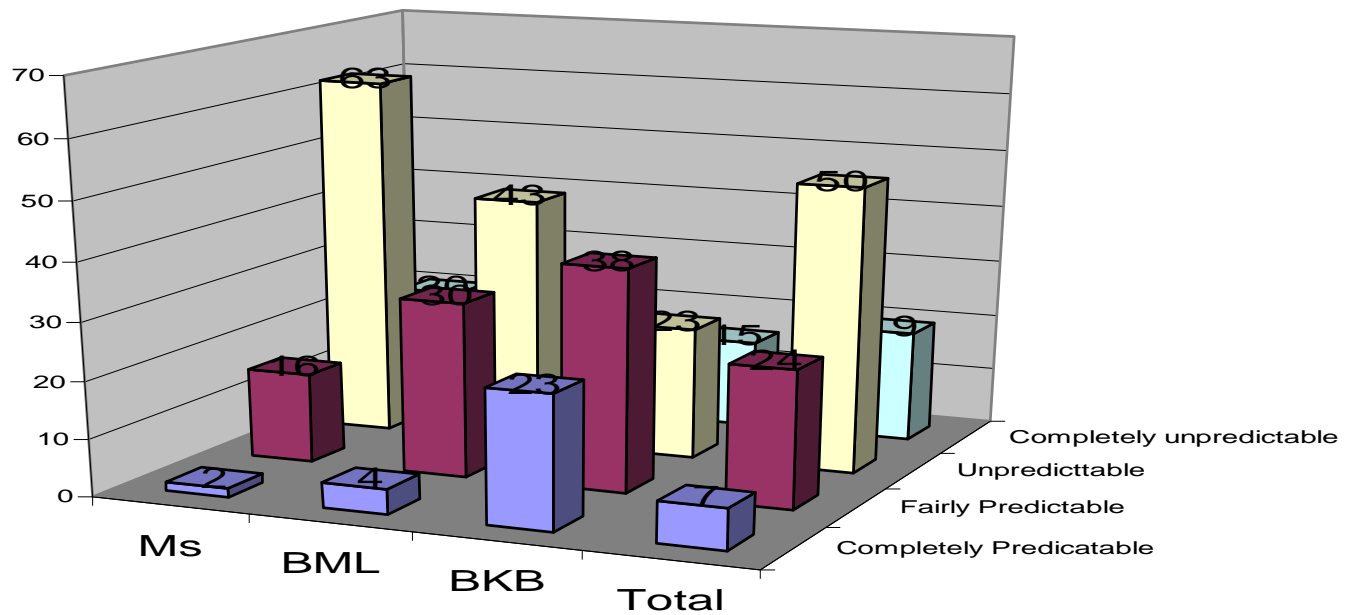


Figure 9: Percentage of Participants and their Worries on Policy Surprises

The results show that 82% of the respondents entrepreneurs in Moshi fear policy surprises originating from change in rules, compared to an average of 69% of the entrepreneurs in Biharamulo. Bukoba is exceptional with 61% of the respondents indicating that regulations and by laws are fairly predictable (38%) and predictable (23%). Respondents felt that policy surprise affected their businesses negatively.

#### 4.1.2.2 Follow up of Regulations by the Local Government

Respondents were asked to state whether they expect their Local Government to stick to announced policies. The purpose of the investigation was to test the credibility of the Government to stick to its announced rules. This also tested how entrepreneurs have trust in the local governance mechanisms.

Figure ten shows how entrepreneurs rate the credibility of their local government to stand by its announced policy changes.

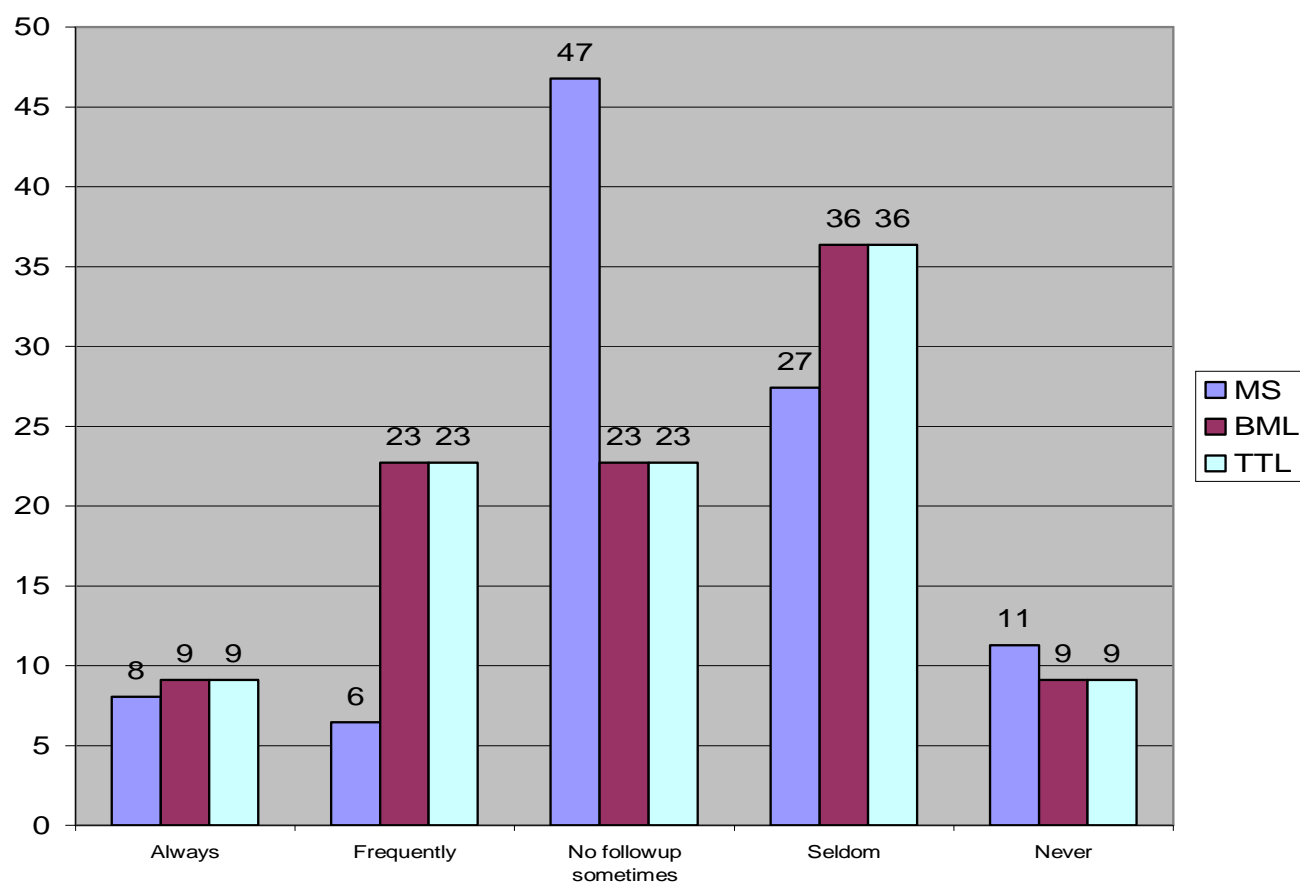


Figure 10: Percentage of Firms on Local Government Credibility

From the results when always and frequently is an indication that local governments are credible enough to follow up the regulations they make, few entrepreneurs 14% of the respondents in Moshi perceive the local government credible enough to follow-up the rules and regulations legislated. 32% of respondents in Biharamulo on the other hand, thought the government is credible enough to stick to announced major policies. In Bukoba 24% of the respondents thought their local government is credible. This indicates that local government despite making the regulation lax to make effective follow up.

#### 4.1.2.3. Informing those Affected of Change in Regulations

Conveyance of information to those affected by the proposed regulations affecting businesses is essential as it gives those affected by the change in regulation to prepare for the effects. This was measured by

asking entrepreneurs whether the process of developing new rules or policies is usually that affected businesses are informed. On average, 74% of the respondents indicated that they never or hardly ever receive information on regulations affecting their businesses. The township of Bukoba received very little information from the authorities on policy changes that affect their businesses at 87%.

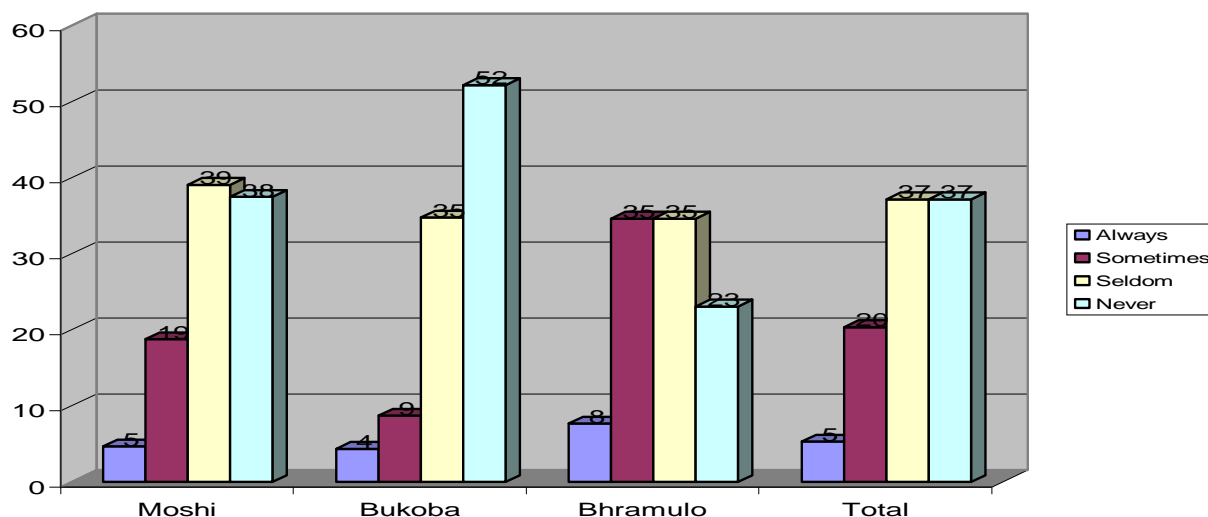


Figure 11: Perception of Firms on Local Government Communication

#### 4.1.2.4 Participation of Target Group in the Lawmaking Process

To determine participation, respondents were asked whether in case of important changes in laws and policies affecting their business operation the government takes into account concerns voiced either by entrepreneurs or by their business association. Figure twelve demonstrates the percentage of respondents participating in the process of law making.

The results show that most of the entrepreneurs or their associations are not involved in the law making process. The response representation of 84% validates that popular concern of those affected are not consulted by relevant authorities when by-laws are formulated. Again here, the Bukoba Municipal was more repressed as only 8% of the respondents participated in the law making process as compared to the others.

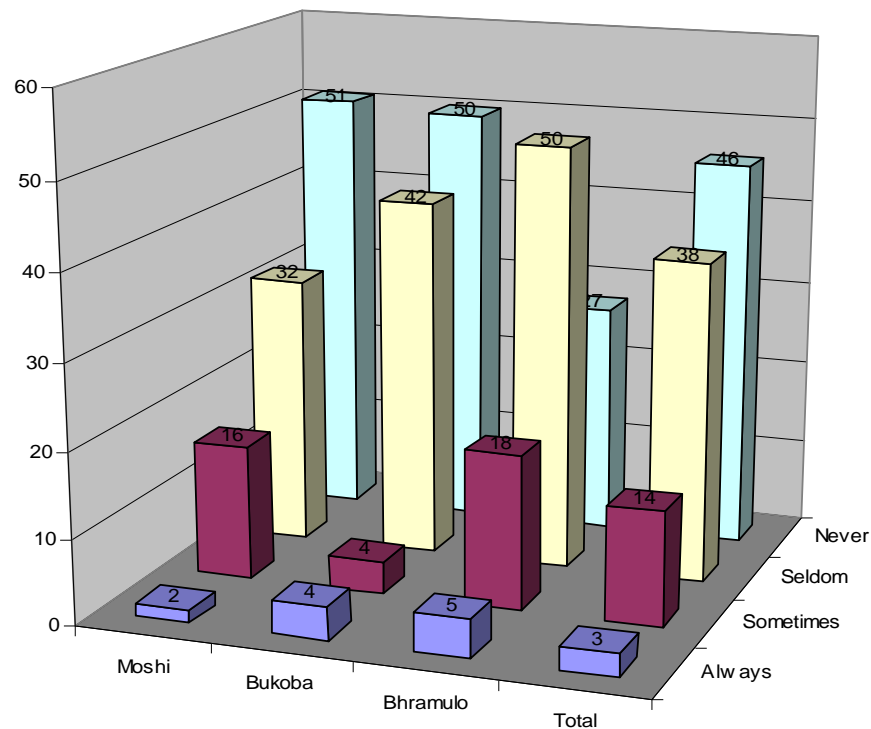


Figure 12: Percentage of Respondents on Participation in the Lawmaking Process

#### 4.1.2.5. Fear of Retroactive Changes of Regulations

One major concern for entrepreneurs while planning and running business operations is retroactive<sup>186</sup> changes in rules and regulations. When caught unaware it becomes difficult for entrepreneurs to respond to these fast changes and in the process, they face difficulties in compliance. To get a feeling on how entrepreneurs react, we questioned the entrepreneurs to express their opinions on whether they feel retroactive changes of regulations affect their businesses. Figure 13 below summarises their reactions.

<sup>186</sup> Retroactive is synonymous to retrospective. In Law making and payments, retrospective//retrospectively implies applying to the past. The service levy for the Municipality of Moshi and Mwanza city is a case in point for retroactive changes.

More than three Quarters of the entrepreneurs feel uncomfortable with retroactive changes that are made and they feel these retroactive changes affective their business adversely.

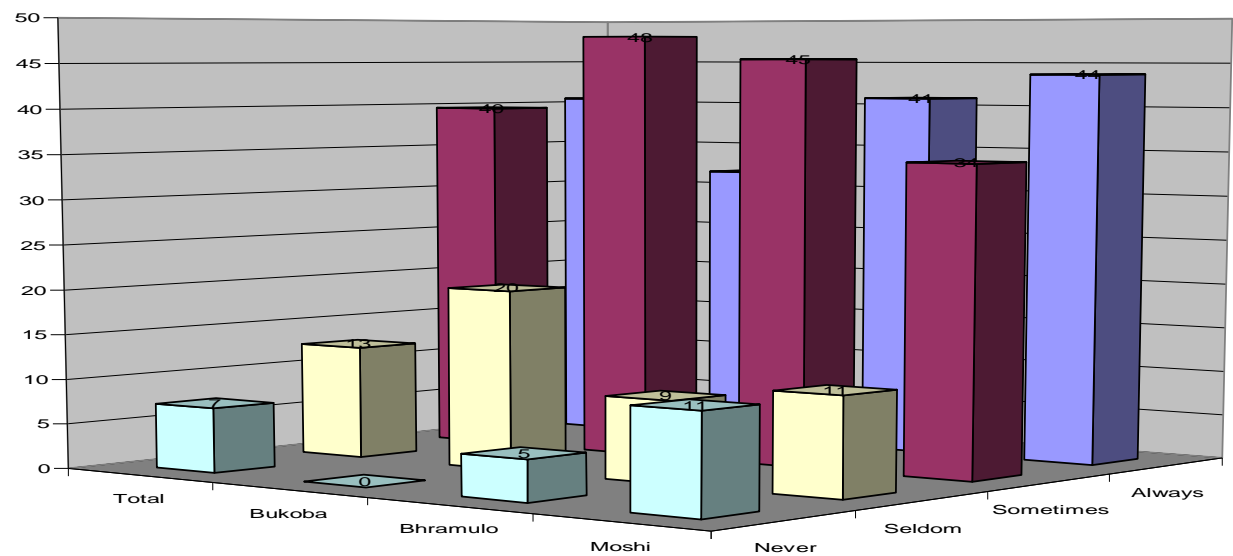


Figure 13: Percentage of Firms Affected by Retroactive Changes

#### 4.1.2.6. Changes in Predictability

We tracked changes in the predictability of laws and policies for the local government in the last ten years. On average 23% saw improved predictability. 40% of the respondents in Biharamulo saw improved predictability of laws compared as it was 10 years back.

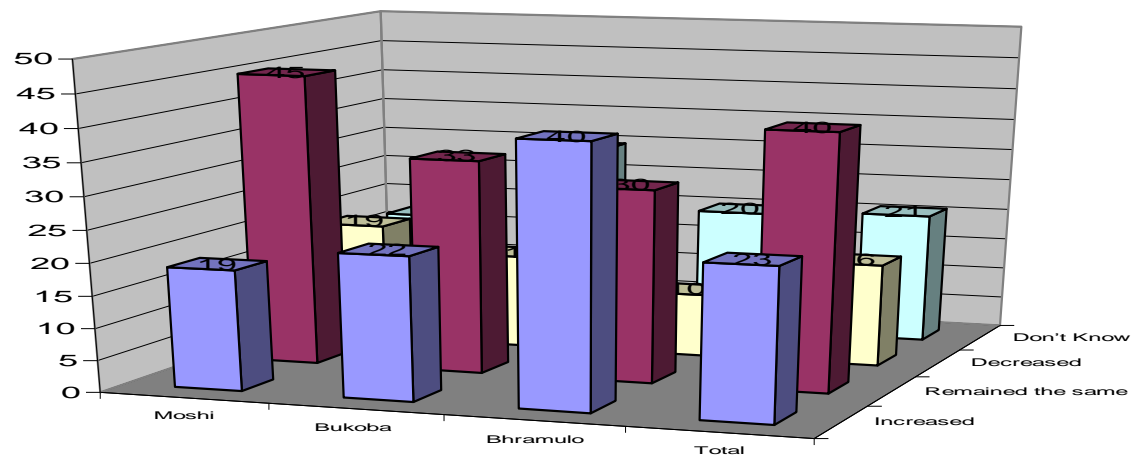


Figure 14: Percentage of Improvement in the Predictability of Policies

### 4.1.3. Political Instability and Security of Property

In this section, we draw together the perception of entrepreneurs about their uncertainties that may arise in the lawmaking process because of shift in the ruling regime whether through constitutional changes or through a *coup d'etat*'. The other questions try to gather how entrepreneurs perceive law enforcement. We garner the confidence entrepreneurs have to the state authorities to protect their property rights and whether the judiciary system is predictable

#### 4.1.3.1. Changes in Policies due to Constitutional Government Changes.

We asked respondents whether they agreed to a statement:

*"Institutional changes of government (as a result of election) are usually accompanied by large changes in rules and regulations that have impact on my business"*

Figure 11 show that most entrepreneurs, 60% feel that constitutional changes of governmental results in changes in rules and regulation that may affect businesses.

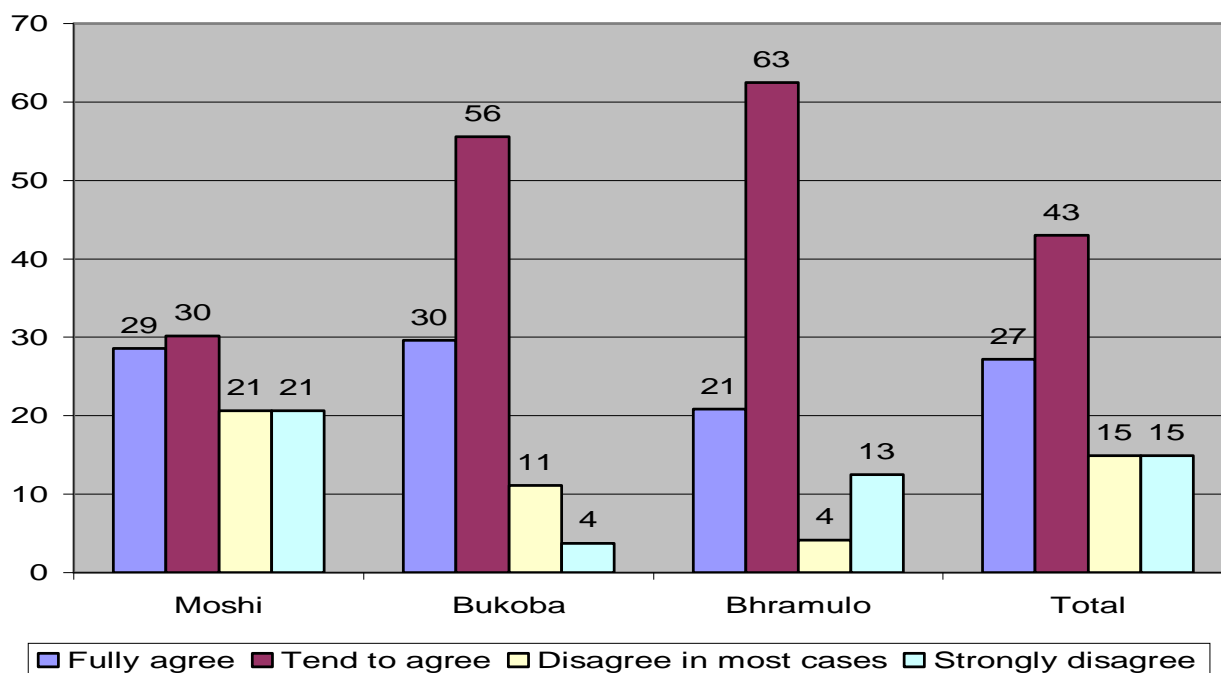


Figure 15: Percentage of Respondents Fearing Constitutional Changes



#### 4.1.3.2 Changes in Policies due to Coups.

Respondents were asked to give their opinion whether they fear unconstitutional government changes (coups), and whether these are accompanied by far reaching policy surprises, that create significant impact.

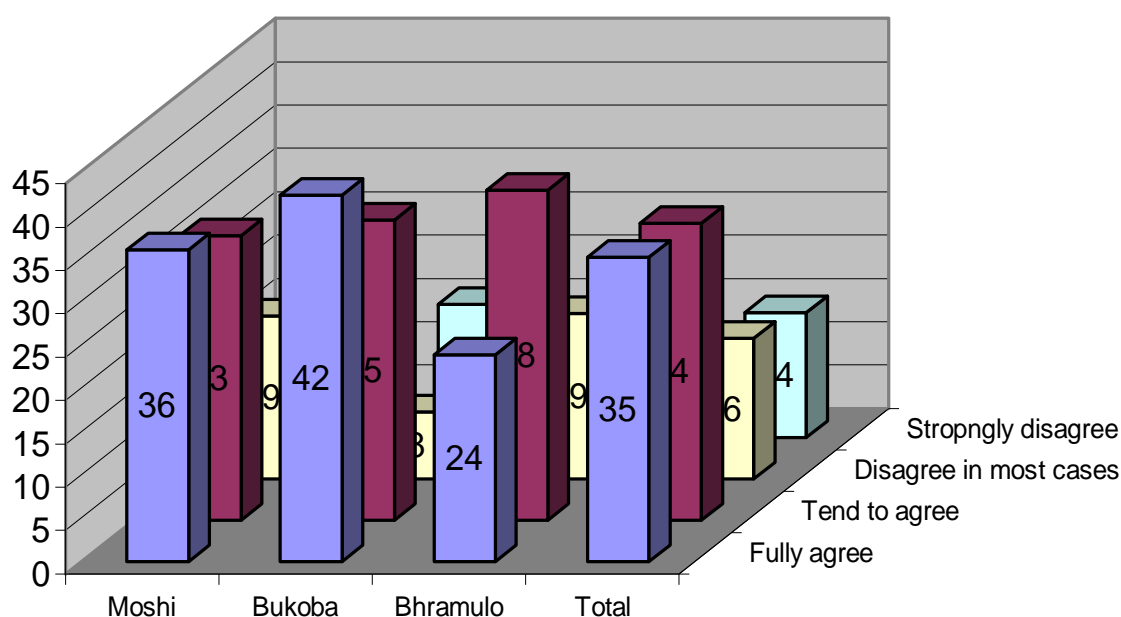


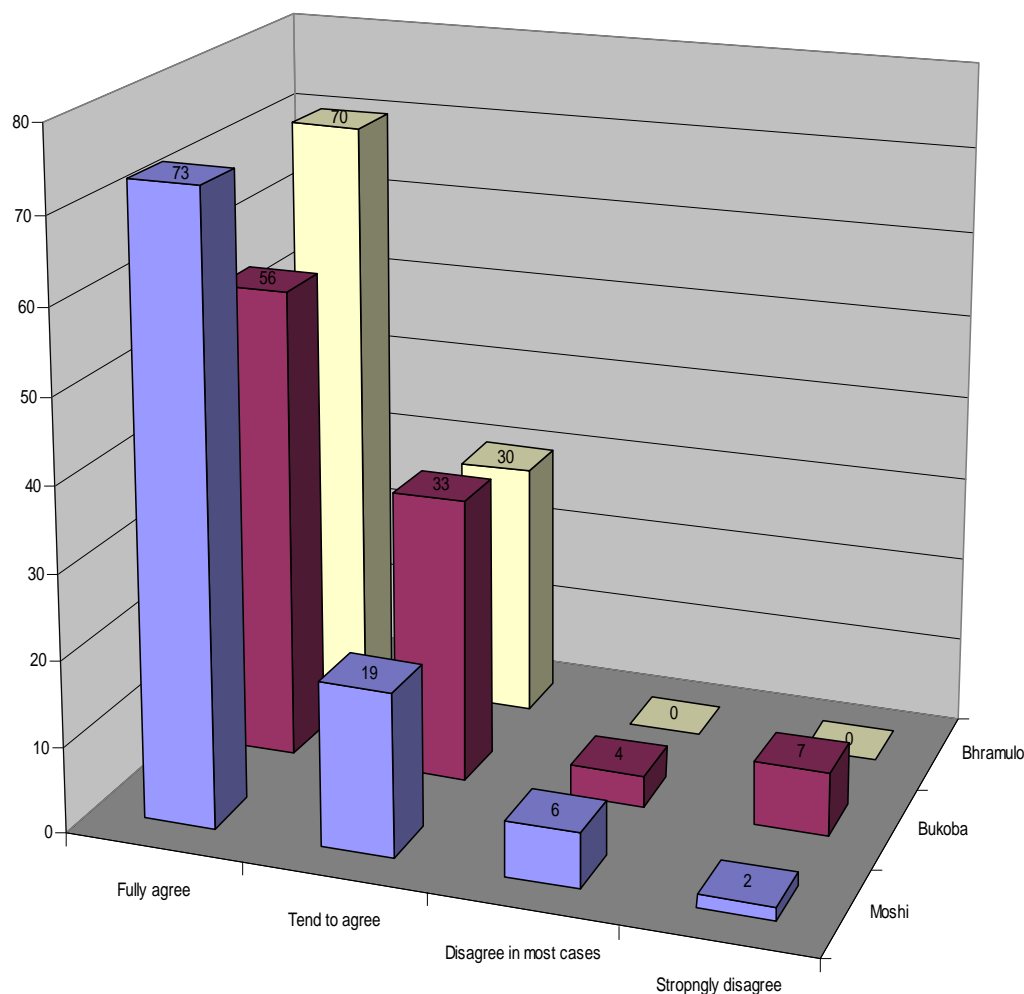
Figure 16: Percentage of Respondents Agreeing that Coup Affect Businesses

Figure 13 above shows that entrepreneurs' fear on policy changes as results of a coup. On average 79% of the respondents perceive their businesses are more indeterminate to policies caused by unplanned changes.

#### 4.1.3.3. Effects of Crime and Theft in Doing Business

We measured from entrepreneurs whether they perceived crime and theft as serious problems affecting substantially the costs of doing business given the given protection from government. We asked to what

extent they agreed with the statement that: " Theft and crime are serious problems that substantially can increase the cost of doing business" Respondents were also requested to track changes in theft and crime today and the last 10 years.



**Figure 17: Percentage Effect of Theft of Crime to Business to date**

Figure 17 shows that most of the respondents fully agreed (73% in Moshi and 70% in Bukoba) that theft and crime are serious problems that substantially affect business. At the same time, in figure 18 shows that the situation of crime effecting business has increased (from fully agree (41% ten years ago to 68 % today) in Moshi. The picture in Bukoba shows a slight increase on the effect of crime to business by 3%. In

Biharamulo there is an improvement as the situation has declined from 53% fully agree ten years ago to 29% today.

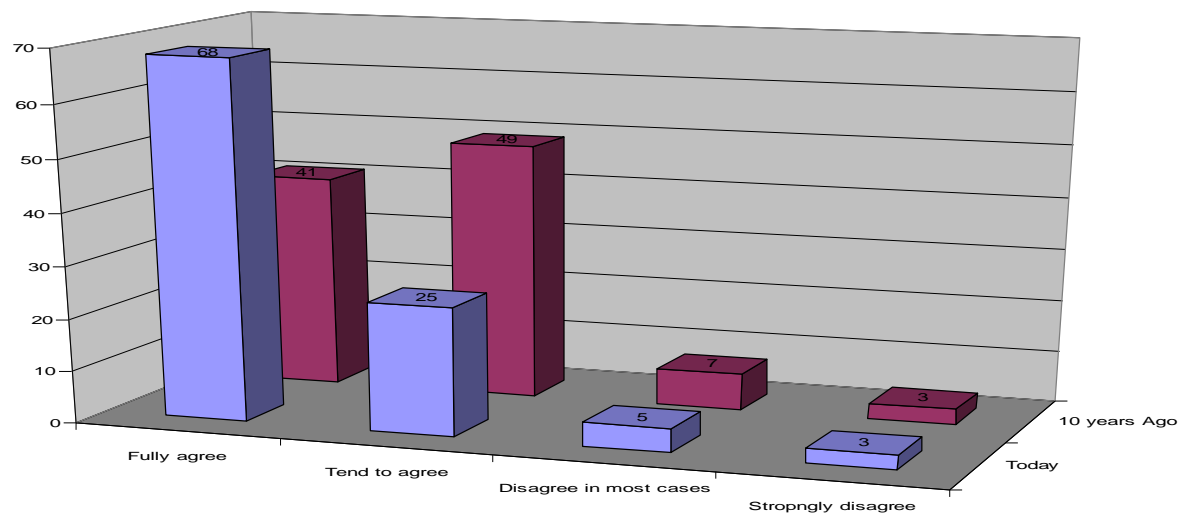


Figure 18: Perception of Entrepreneurs on Theft and Crime a Comparison over Time in Moshi

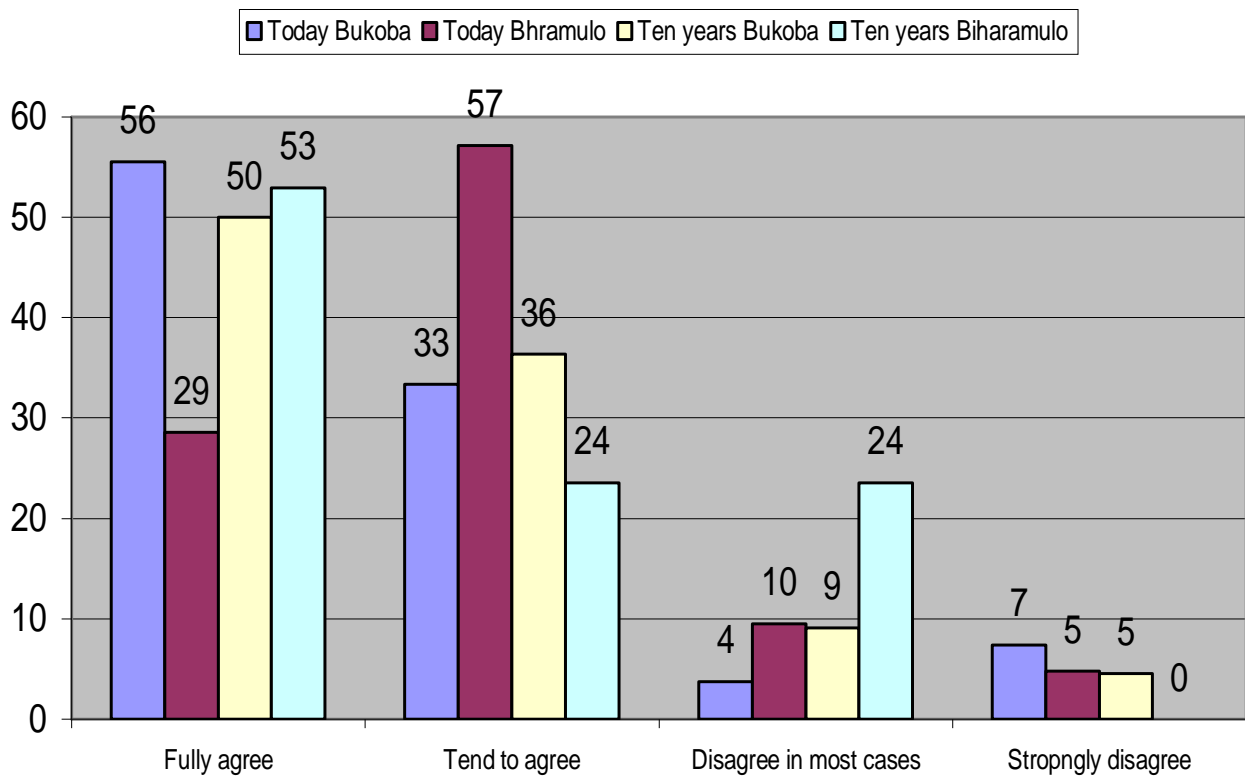


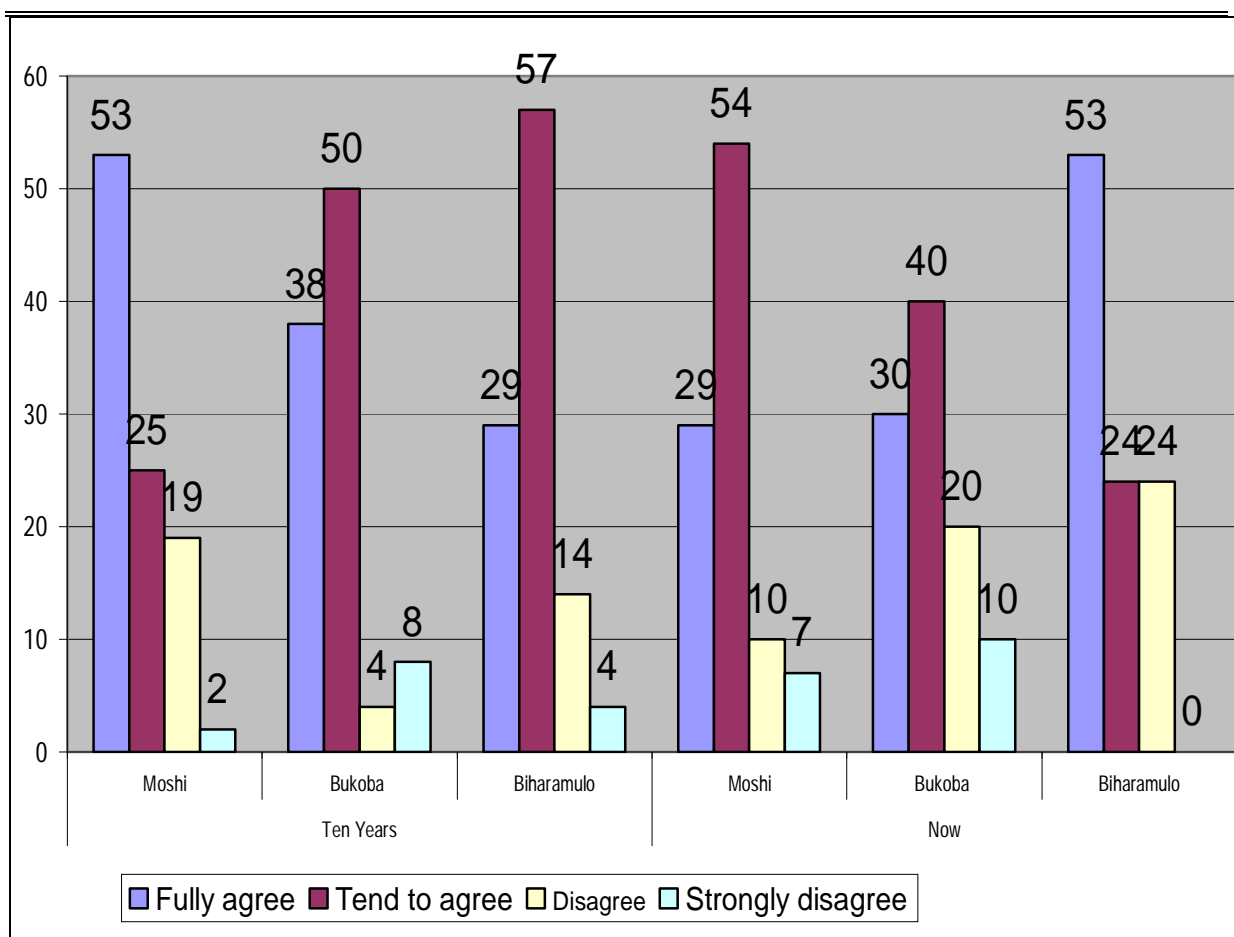
Figure 19: Perception of Entrepreneurs on Theft and Crime a Comparison over Time in Bukoba and Biharamulo

#### 4.1.3.4. Government Protection of Persons and Property

The confidence of entrepreneurs from the state in protecting their properties and their personal safety was investigated. Respondents were asked to what extent they agreed with the following statement:

*"I am not confident that the State authorities protect my persons my property from criminal actions"*

They were also requested to compare how the position is now as compared to the past ten years.



**Figure 20: Government Protection of Persons and Property as Perceived by Respondents**

Figure 20 depicts the feeling of entrepreneurs on person and property protection. Using the fully agree as a measure Biharamulo feels not adequately protected (53% now as it was 29% ten years ago). Conversely

Moshi feels government efforts to protect property have improved (from 53% compared to 29%) now).

Bukoba reports a slight improvement of 8%.

Respondents were also asked to what extent they agreed on a statement: "My Local government gives little priority to property protection infrastructure such as fire fighting equipments now and 10 year ago"

Figure 21 show how dissatisfied entrepreneurs are currently while figure 22 show the dissatisfaction 10

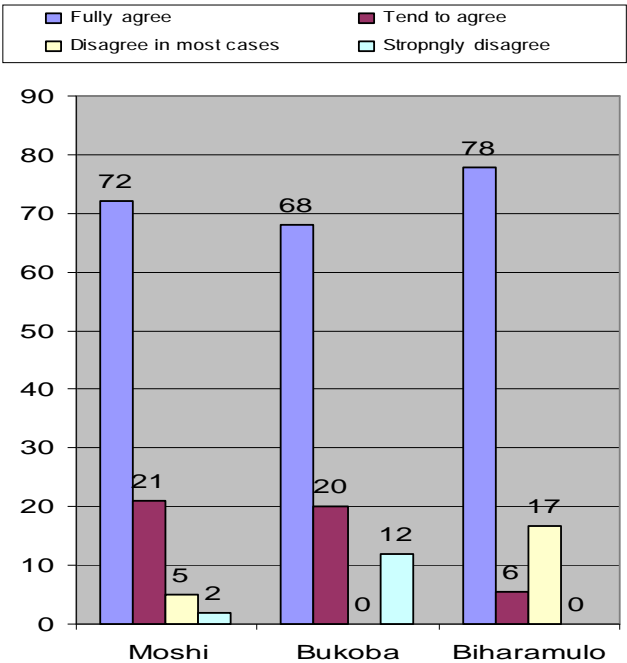


Figure 21: Perception of Entrepreneurs on Fire fighting Equipments now

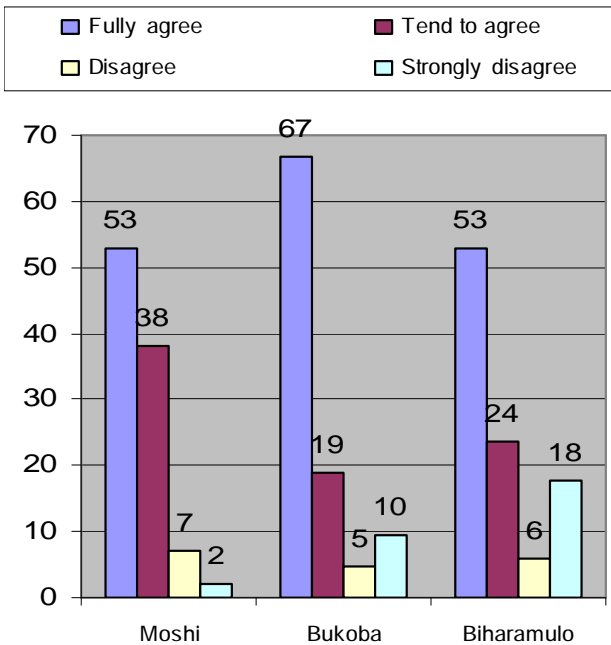


Figure 22 :Perception of Entrepreneurs on Fire Fighting Equipments 10 years ago

years ago. Almost three quarters of the respondents in Moshi fully agree that the supply of property protection basing on fire service is inadequate and has declined by 20% as the case was 10 years ago.

There is a slight change in dissatisfaction of 1% for Bukoba. While 68% fully agree currently they assert that the status quo on fire services was 67% dissatisfying 10 years ago. Biharamulo shows the highest dissatisfaction and decline of the services by 25%. 78% are dissatisfied with fire protection services as compared to 53% ten years ago.

### 4.1.3.5 Predictability of the Judiciary

When the state has an unreliable judiciary system, the rights of individuals are denied. The judicial system that is also unreliable offers no fair recourse against unfair behaviour before its citizens. To get an insight on how entrepreneurs perceive their judiciary system, respondents were requested to tick to what extent

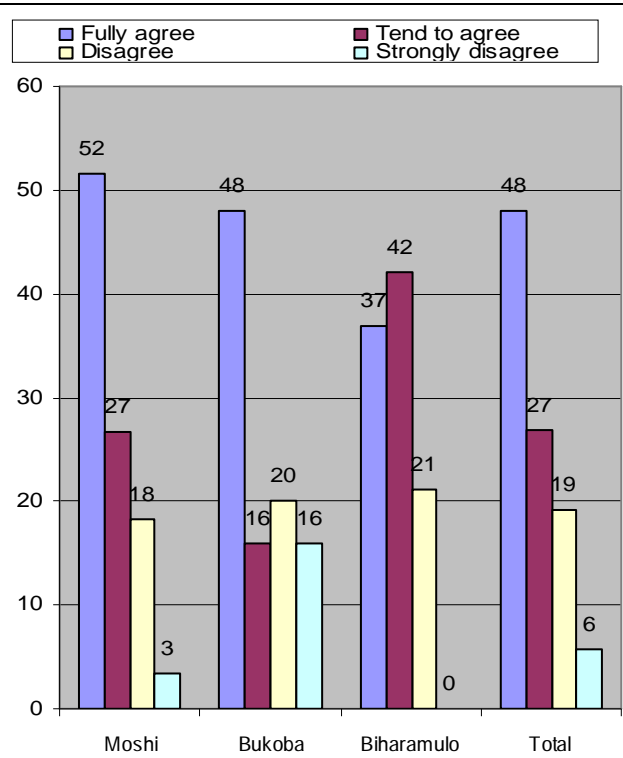


Figure 23: Perception of entrepreneurs on Judicial system now

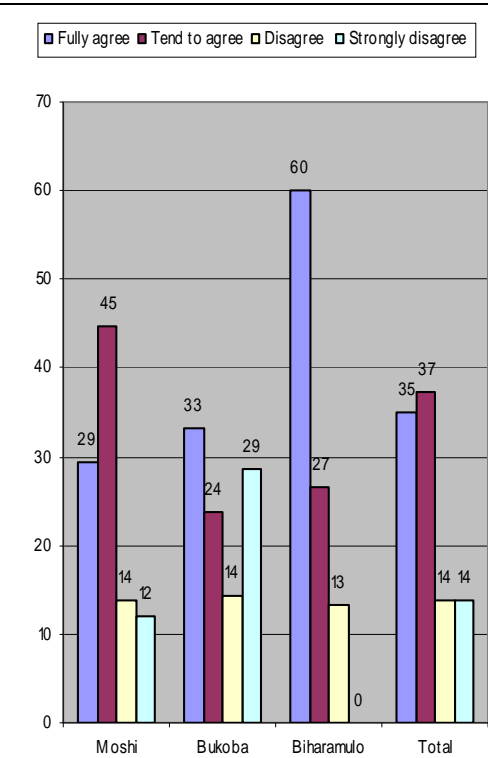


Figure 24 :Perception of entrepreneurs on judicial system 10 years ago

they agreed to the statement: “Unpredictability of the Judiciary presents a major problem for my business operations”.

Figure 23 and 24 indicates that most of the entrepreneurs agree that the precariousness of the judicial system presents a major problem to their business operations. The figures of strongly agree are 52% in Moshi and 48% in Biharamulo and Bukoba currently justifies the argument. Biharamulo find that the situation has drastically improved as compared to 10 years ago, while Moshi and Bukoba views the situation to have declined.

#### **4.1.4. Overall Government Business Interface**

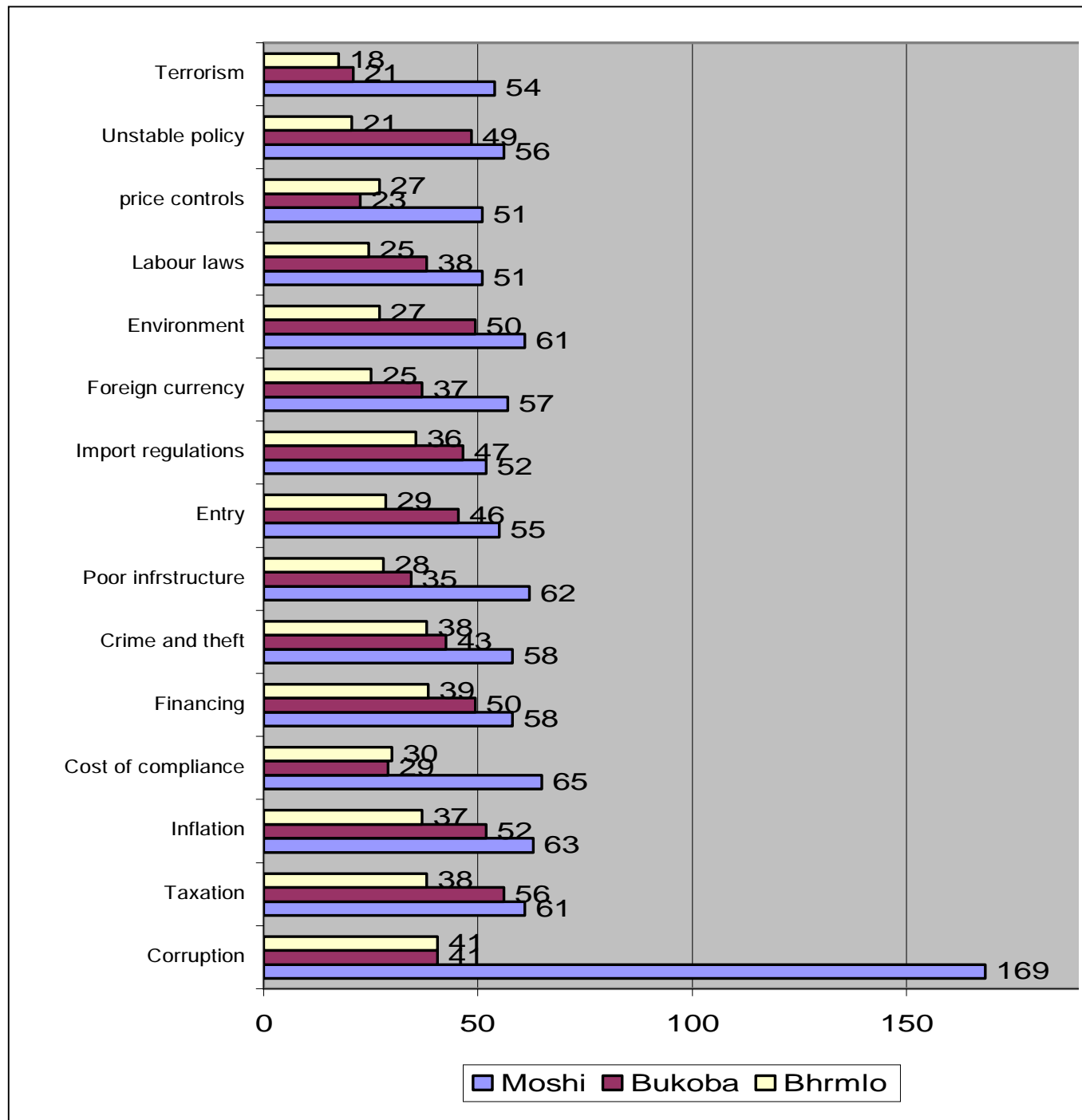
Governments can be an enabler or an obstacle to businesses. It is an obstacle when policies and regulation are restrictive for entrepreneurs to find no sense to invest. In this section, we evaluate different areas on how the business interacts with government with a foresight of identifying areas creating obstacles to business. The identification and prioritising these issues, intended to guide focus the advocacy committee on areas of focus and to select advocacy issues it will address. Identified issues will also enable the local government to improve its quality of service delivery. Respondents were also asked to gauge whether their Local Government was a business enabler an impediment.

##### **4.1.4.1 Ranking the Obstacles for Doing Business**

Entrepreneurs were requested to rank Fifteen (15) items they considered as obstacles for doing business. They were requested to rank an obstacle from 1 to 6. Interpreted, ranking an obstacle 1 meant the majority of entrepreneurs felt the obstacle insignificant to the cost of doing business. On the other hand, ranking an item 6 implied that it is a de-motivator to entrepreneurship and it significantly increases the cost of doing business.

The bar chart (figure 25) portrays the weighted total of the perceptions of entrepreneurs. Entrepreneurs at different locations have different perceptions on what they regard as a most pressing barrier to doing

business. The most pressing problem for the entrepreneurs surveyed in the Municipality of Moshi is corruption followed by tax regulation and/high taxes, inflation, cost of compliance and financing.



**Figure 25: Obstacles of Doing Business as Prioritised by Respondents**



While the Moshi entrepreneurs have ranked corruption high, those in the Municipality of Bukoba have ranked tax regulation and/high taxes as the most pressing obstacle followed by inflation, lack access to financing, environmental laws and regulations, and unstable policies. On the other hand, the perceptions of entrepreneurs of Biharamulo District Council correlate to that of the Municipality of Moshi as they saw corruption as a main inhibitor. It is followed by financing, taxation, crime and theft, inflation, and the procedure for starting up business.

The least obstacles bothering entrepreneurs of Moshi are unstable policy, price controls and import regulations. In Bukoba seen least effective are terrorism, price controls and cost of compliance. The entrepreneurs in Biharamulo correspond well with those of Bukoba by ranking terrorism as the least pervasive followed by unstable policies and labour laws.

#### **4.1.4.2 Interface Government and Entrepreneurs**

This question requested respondents to rate how they perceived the relations between government and the private firms. Respondents for this occasion were to select whether to them the government was a helping hand, a neutral agent, or an opponent.

Figure 26 below depicts that in Moshi 33 % perceive government as an opponent to business while 42 % see the government as neutral agent. 25 % see the government as a helping hand. Looking at the trend 10 years ago, most of the entrepreneurs feel the change in status quo has remained constant as the case was 10 years ago.

In Bukoba 38% see the government as a helping hand. Here there is a drastic increase from the status the government had 10 years ago from 7%. Nobody thought the government was an opponent. This area also shows an improvement of 33%. Despite the improvement, 62.5% see the government as neutral agent.

In Biharamulo, the government has dropped from the 67% opponent mark to business to 6% that is a remarkable process. Entrepreneurs in Biharamulo see the government to have also improved as a helping from 13% ten years ago to 31%.

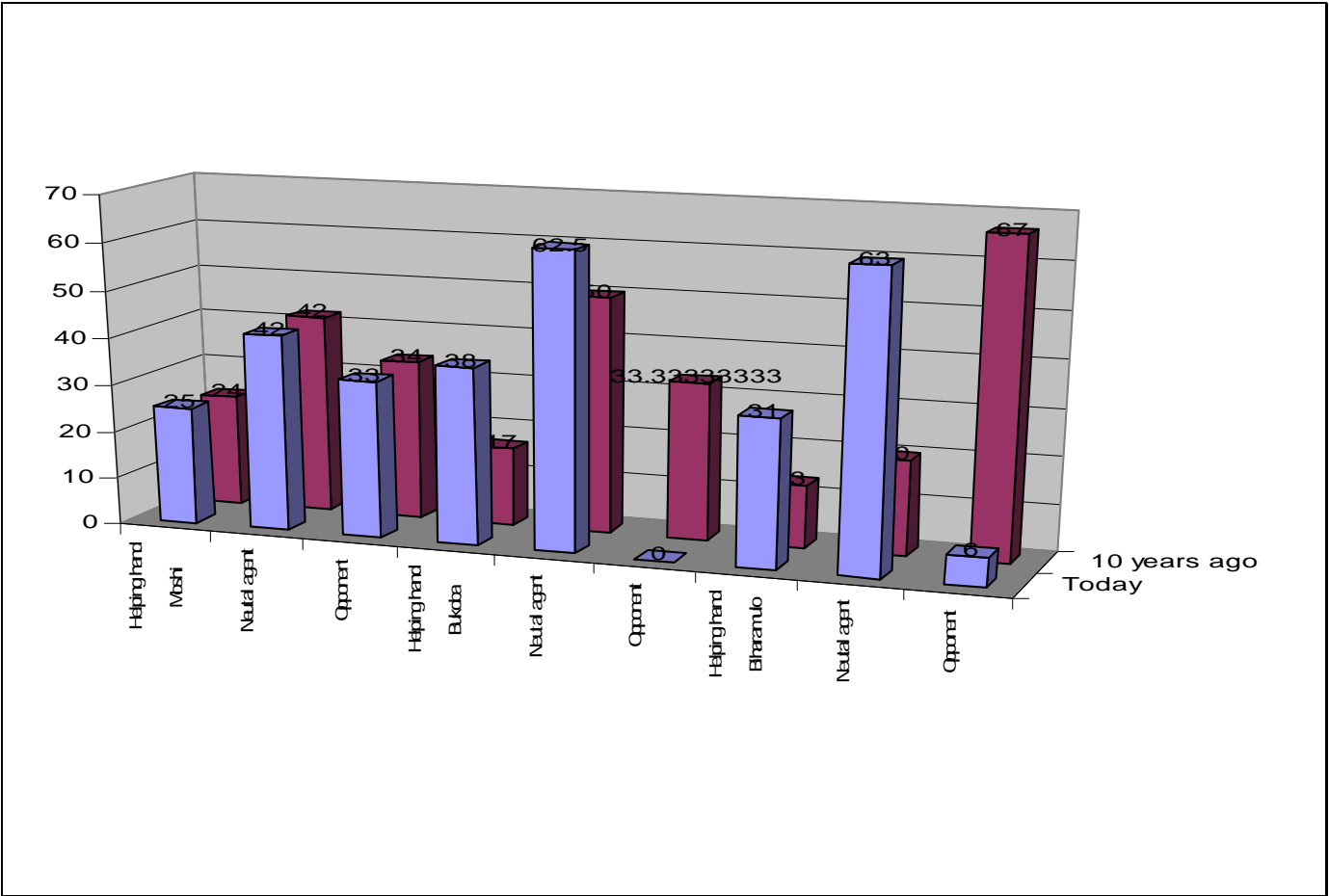


Figure 26: Percentage of Entrepreneurs Perceiving Government as an Opponent to Business

4.1.5. Law Enforcement and Bureaucratic Red Tape

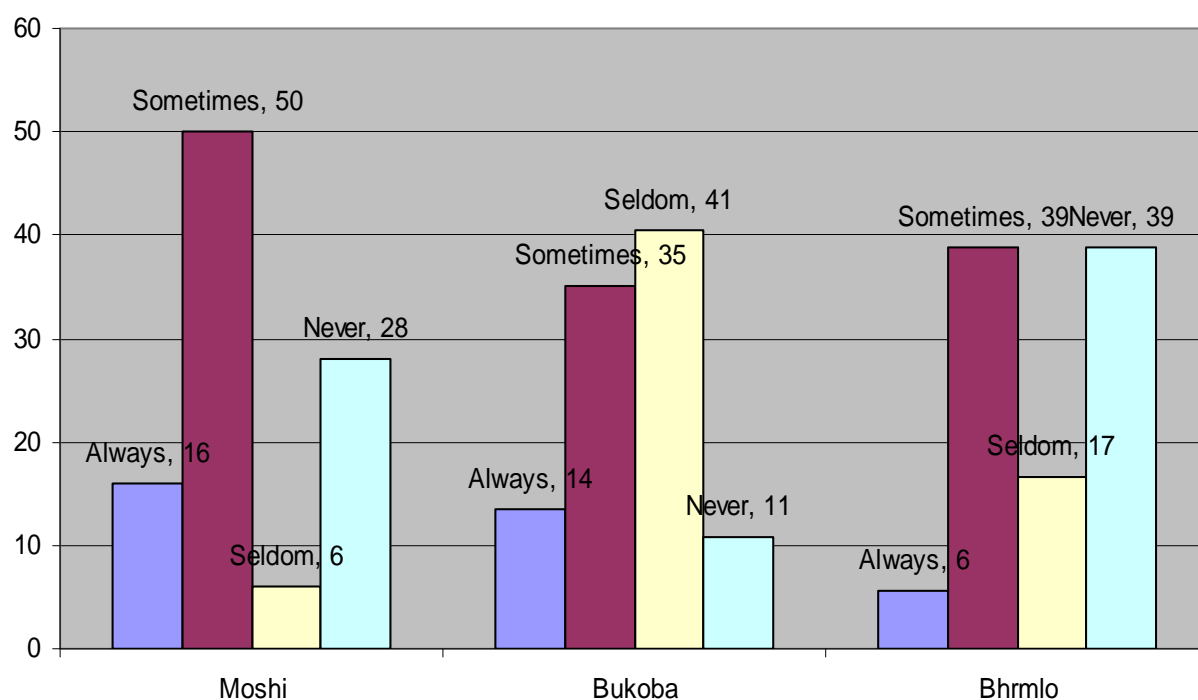
In this section our focus is to measure the degree of corruption and in the process, determine whether corruption incidences are predictable and are known before hand.

Seen on the face value corruption is a crime and in this case it was handled with due diligence. Questions were therefore asked indirectly referring to the business area instead of targeting a respondent or the firm.

Through this tactic, respondents were able to answer the questions, as they do not directly and imply that a firm in question pays bribes. Respondents were also asked whether they abandoned planned investments due to bureaucratic red tapes. Through this section we predict the time spent by entrepreneurs and thus to determine the cost incurred in the process of dealing with the bureaucracy.

#### 4.1.5.1 Incidences of Corruption

This question refers to bribes as irregular “additional payments”. We asked responds to agree or to disagree whether it is common in their line of business to pay some irregular “additional payments” to get things done “

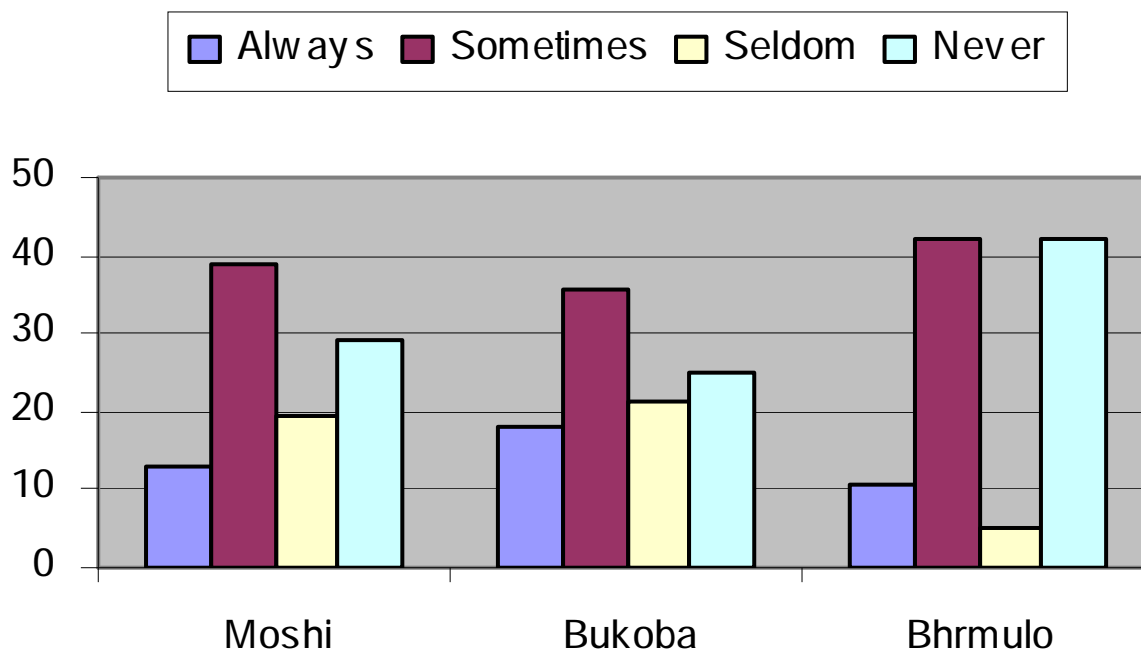


**Figure 27: Incidences of Corruption**

Most of the entrepreneurs sometimes pay an additional payment that interprets to bribe. If we take sometimes and always as a proxy, the payments are frequent in Moshi (66%), followed by Bukoba (49 %). Biharamulo exhibits less incidences of rent seeking 39% never and seldom 17%.

#### 4.1.5.2 Predictability of the Amount of Bribe

We asked entrepreneurs whether firms in their line of business usually know in advance, about how much this “additional pay” is. Figure 28 shows that it is not easy to predict in advance and thus difficult to plan rent seeking as a transaction cost

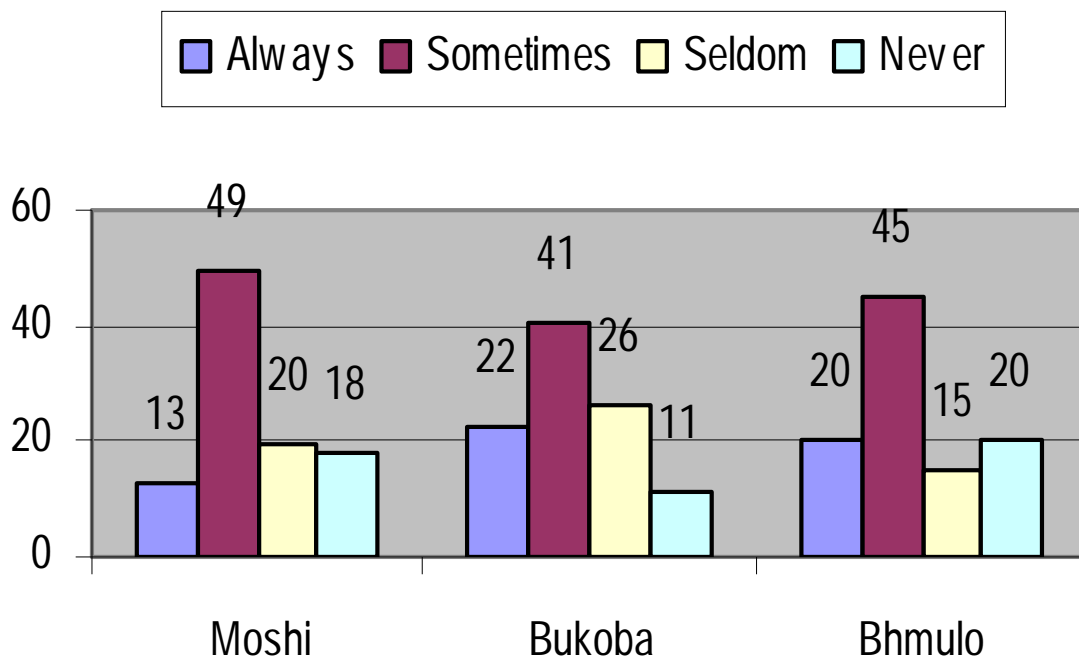


**Figure 28: Percentage of the Predictability of the Amount of Bribe Payable**

#### 4.1.5.3. Request of Other Bribes by Other Officials

When an entrepreneur pays a bribe and he is continuously asked additional bribes by other officials, this is called blackmailing. We asked entrepreneurs whether it was true for a firm that has to make an “additional payment” it always has a fear that it will be asked for more e.g. by another official”.

From figure 31, taking always and sometimes as a measure of blackmail, 62% of the entrepreneurs in Moshi, 63% in Bukoba and 65% in Biharamulo are asked for other bribes an indication of blackmailing.

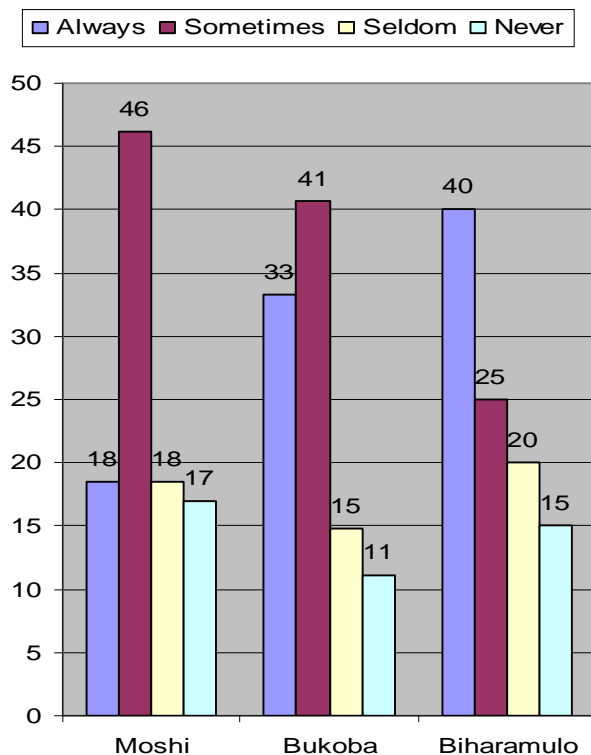


**Figure 29: Corruption and Blackmailing**

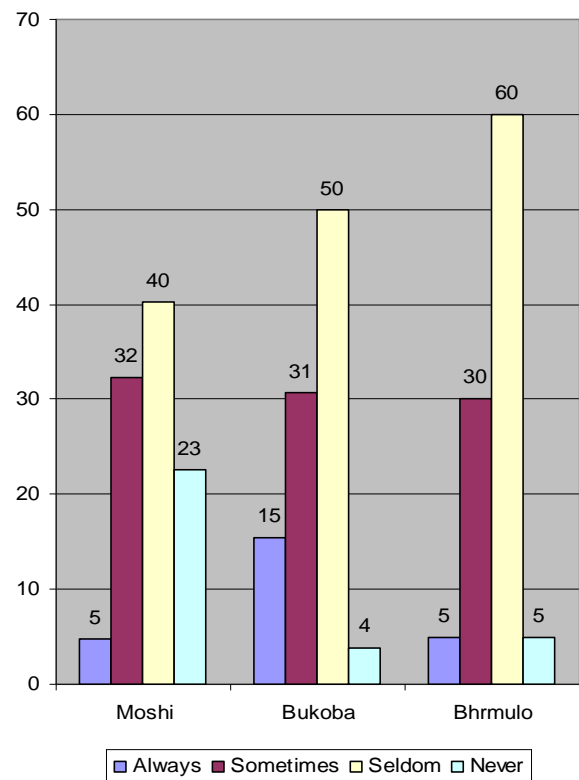
#### 4.1.5.4. Uncertainty of Receiving the Services and Appeal when Aggrieved

Respondents were asked to show course whether, when the payment is made there is an assurance of receiving the service as agreed. Also, they were asked to comment if a government agent aggrieves an individual with the rules, if one can usually go to another higher level official , a superior and get a correct treatment. The results are as in Figures 30 and 31.

Figure 30 shows that there is uncertainty of receiving the service after paying a bribe. The extent however varies from one place to another. In Biharamulo the probability of always getting a service after bribing is 40% and in Bukoba 33% while the extent of getting what you paid for is 18% in the Municipality of Moshi.



**Figure 30: Uncertainty of Receiving Service After Paying the Bribe**

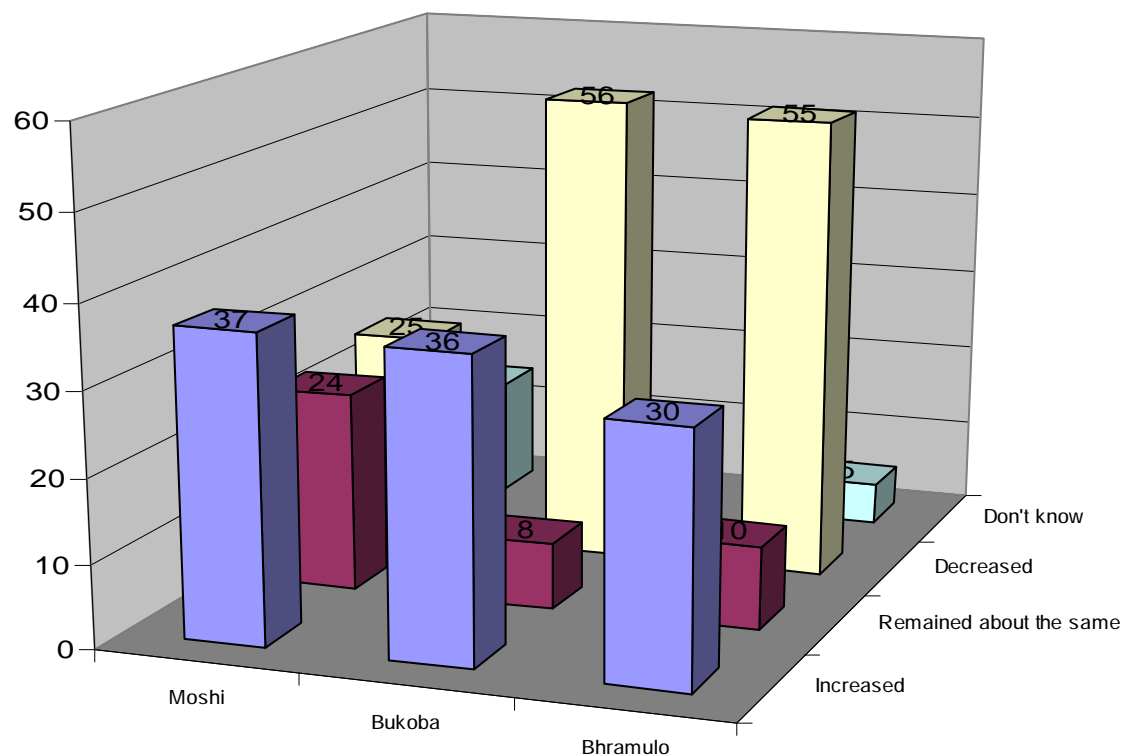


**Figure 31: Limits on Discretionary Power of Bureaucrats**

On the other hand, the possibility of being heard by another senior official when you have been aggrieved by a junior officer is on a very low side. Figure 31 indicates the possibility of being heard is 15% in Bukoba and 5% in Biharamulo and Moshi. This indicates that the checks and balances within the public services are missing. Entrepreneurs feel that junior officials are cooperating with senior officials in such a situation the mechanism of fair appeal is repressed.

#### 4.1.5.5. Change in Governmental Red Tape Over Time

The perception of entrepreneurs on whether with time the government red tape has become more or less open was assessed. We questioned entrepreneurs whether for the last ten years, difficulties in dealing with government officials have increased, remained about the same, decreased or they did not know. Figure 32 below depicts the results.

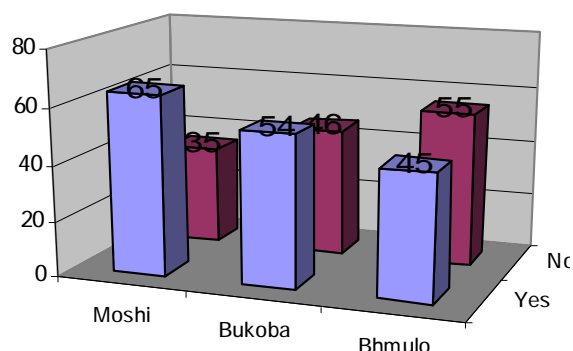


**Figure 32: Change of Red tape Over Time**

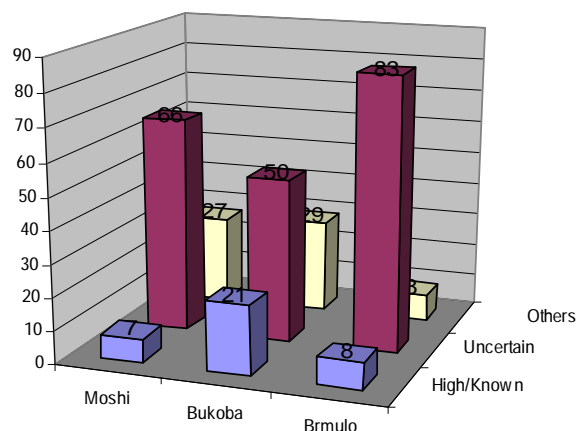
Only 56% and 55% of the entrepreneurs in Bukoba and Biharamulo think that the government bureaucracy and red tape has decreased. In Moshi however, 25% of the entrepreneurs thought it is easier to deal with government officials, as it was 10 years ago.

#### **4.1.5.6. Postponement of a Major Investment due to Stringent Government Regulations**

To an investor, an outcome of an investment decision is crucial. We asked entrepreneurs whether they have ever decided to abandon a major investment because of problems relating to complying with government regulations/local government byelaws. They were also requested to choose factors that inhibited them to do so.



**Figure 33: Percentage who Postponed Investment due to Stringent Bye Laws**



**Figure 34: Reason for Postponing Investment Decisions**

Most of the respondents in Moshi 65% and 54% postponed investment due to stringent regulations as compared to 45% who postponed investments in Biharamulo. The costs of compliances that is too uncertain for investment is purported by the majority of entrepreneurs ( i.e. 83% in Biharamulo, 66% in Moshi and 50% in Biharamulo) who postponed major investment decisions. Other reasons given by 29 % in Bukoba, 27% in Moshi and 6% in Biharamulo include the following factors:

- Corruption;
- Favouritism in plot allocation;
- Government loans not reaching the target group<sup>187</sup>;
- Taxes are known after you have entered in business;
- Intermittent increase in levy with no reasons;
- Local government still charging abolished tax as per 2003 Financing act;
- Opaque tendering system;
- Frequent fire outbreaks;
- Municipal bureaucracy;
- Municipality revenue without providing services;
- Set high levy rates by the Municipality without researching the revenue of levy payers;
- Municipal plans are unclear;
- Insuring of types of businesses denied;

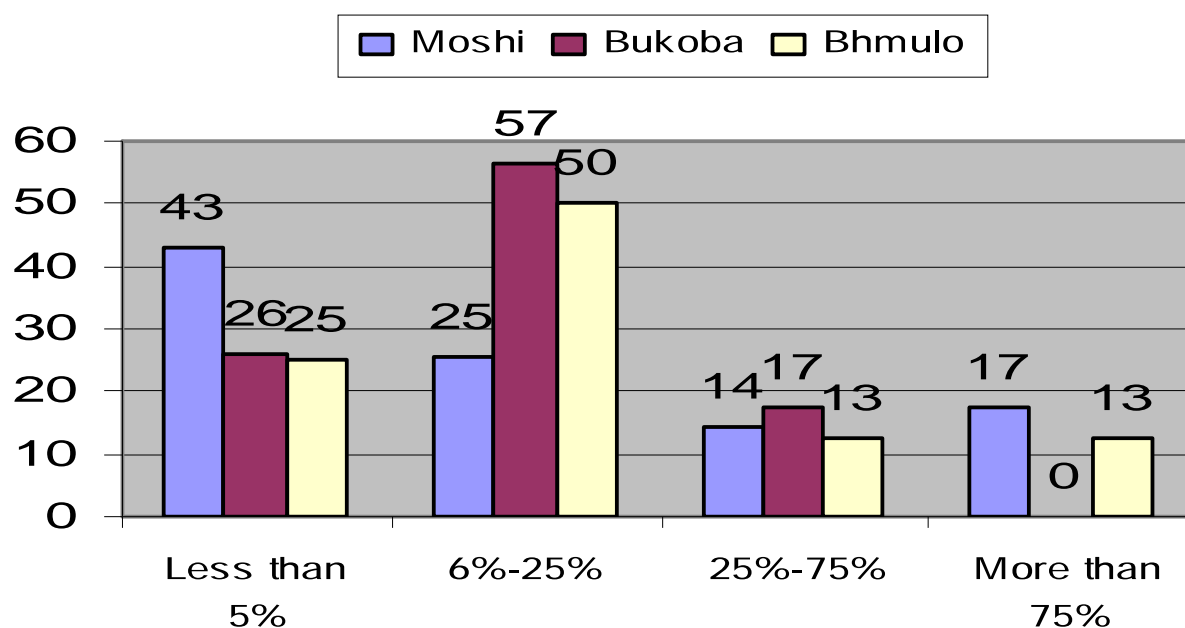
<sup>187</sup> According to the Government directive Local Government Authorities are supposed to set aside 15% of their revenues to support youths and women entrepreneurs with loans. The Central Government on the other hand allocates funds from its annual budget for the same purpose.



- Constant harassment by the Municipality;
- Lack to access finance;
- Poor service delivery;
- Lack of a business idea;

#### 4.1.5.7). Time Spent while Negotiating with Government Officials

This question was asked to understand how much of productive time is spent by managers to negotiate with Government officials as a process of complying to certain rules and regulations or seeking for legal or regulation compliance explanations. To enable respondents answer this question, they were requested to estimate the percentage of senior management's time is spent on negotiations with officials about changes and interpretations of laws and regulations.



**Figure 35: Time of Management Productive Time Spent Negotiating with the Government**

From figure 35 above more than 75% of management time is spent by 17 per cent of the firms in Moshi and 13% of the firms in Biharamulo negotiating with government on compliance.

#### 4.1.6. Efficiency of Government in Providing Services

This section enumerates the efficiency of government in providing the services. It measures how efficient various government institutions are in infrastructure provision and services delivery such as customs, Value

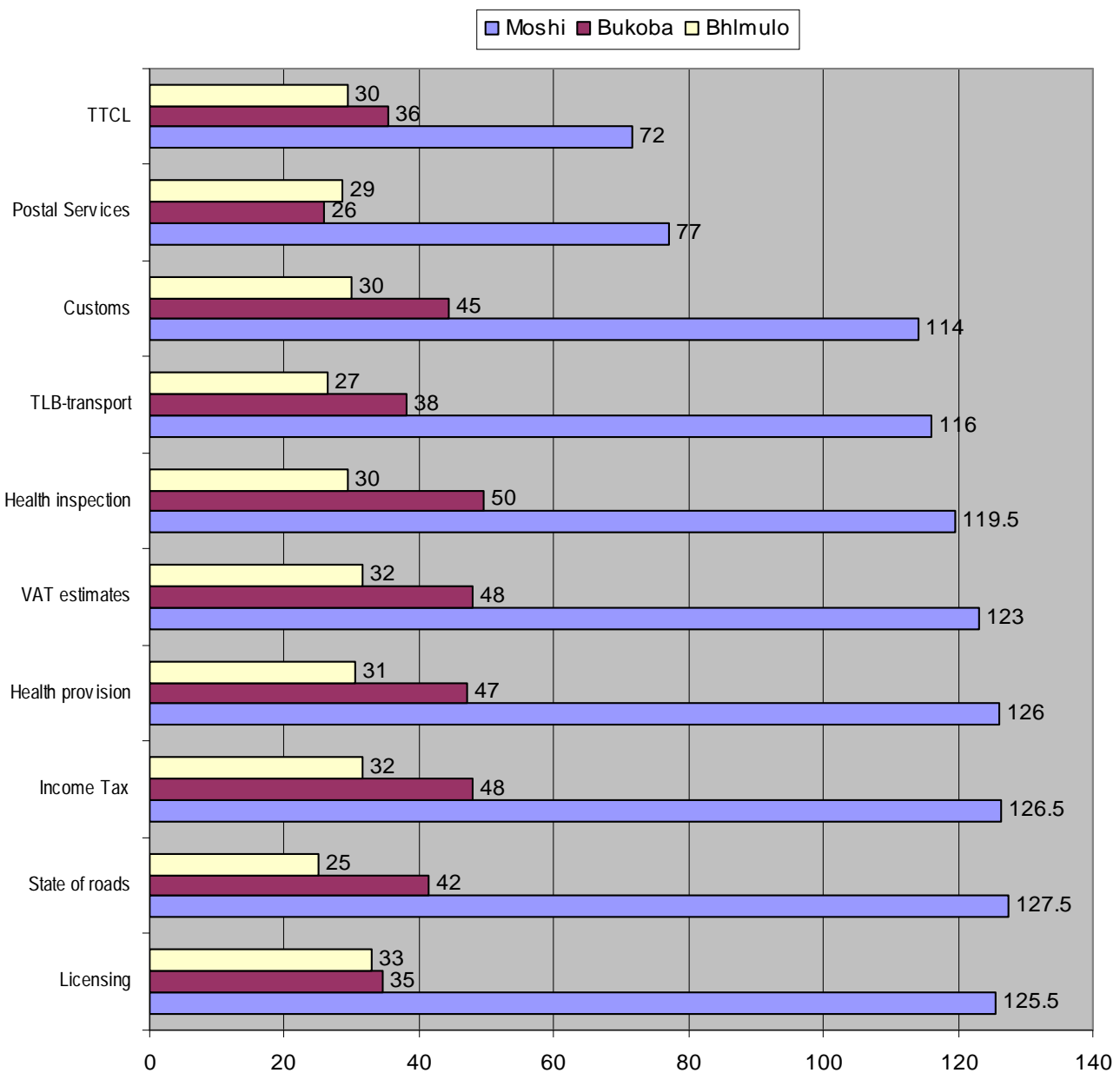
Added tax, and determination of firms' income tax and the transparency of the licensing authorities. The incidences of power outage are also documented.

#### **4.1.6.1 Ranking Government Service delivery**

As in the case of obstacles in doing business, entrepreneurs were given 10 services that are delivered by the government and government institutions and they were requested to rank from one to six. Marking items with one was to concede that government or the selected institution was delivering the services very efficiently while marking a service with six indicated that the government is inefficient in delivering the said service or as very strong obstacle.

The bar chart are displaying a weighted total i.e. the number 1 to 3 was taken as weight and multiplied by the number of respondents and then the total sum calculated. Figure 36 shows the results as ranked by entrepreneurs. For the Municipality of Moshi the state of roads is ranked as the worst service performed by government followed by services of the income tax and health provision. The services of TTCL, Postal services and the services of Customs department are ranked as efficient.

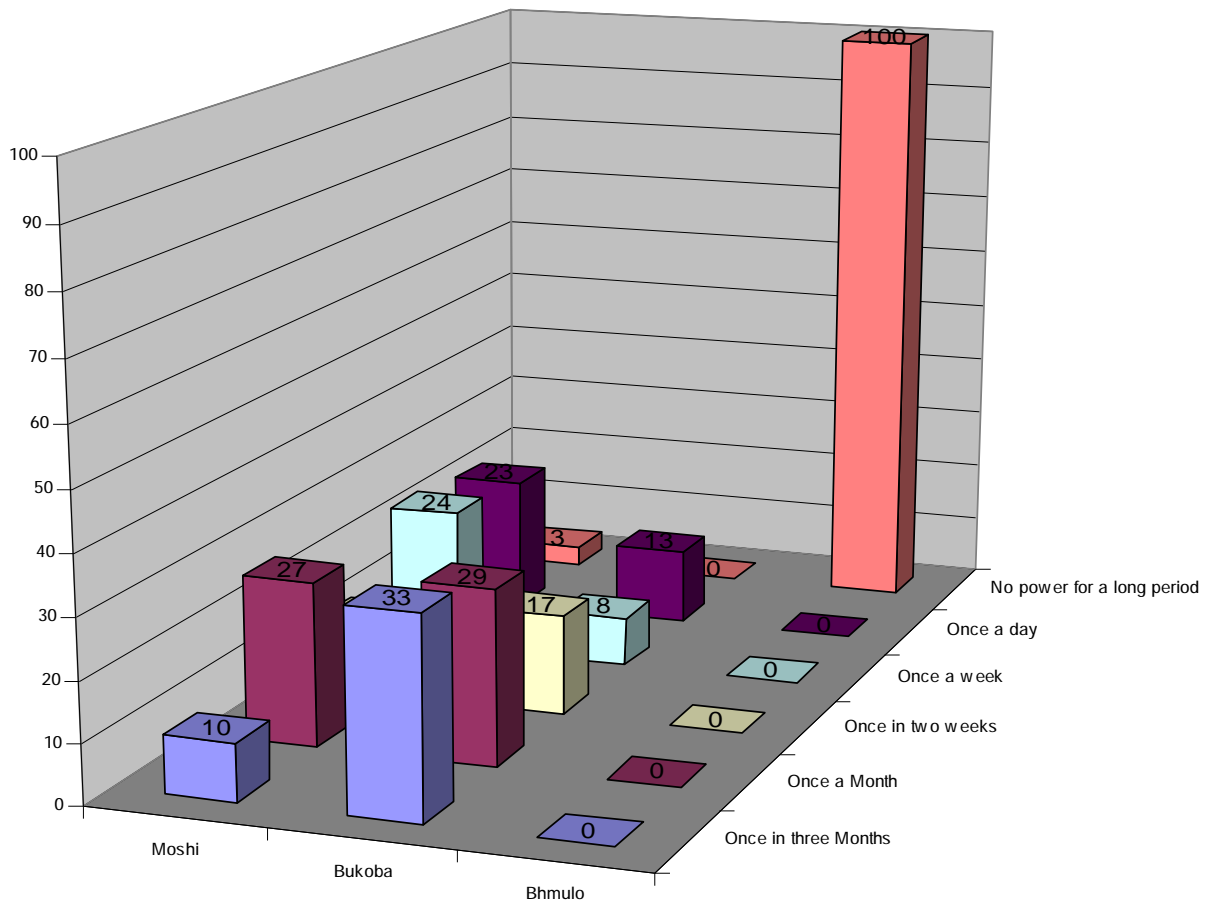
In Bukoba, Health inspection, Income tax and VAT estimates are ranked as inefficiently provided services, while the Post, Business Licensing and the Tanzania Telecommunication Company Limited are ranked as efficiently performed by the government and parastatal. Licensing, Income tax and VAT estimates lead are ranked as inefficiency in Biharamulo District. The state of roads, obtaining a road transport licence and postal services are ranked as efficiently government provided services.



**Figure 36: Ranking the inefficiency of Government Service Delivery**

#### 4.1.6.2. Frequency of Power Outage

Interrupted supply of power contributes to low productivity. To test the experience of entrepreneurs, respondents were requested to indicate occurrences of power cuts. The results are as in Figure 37.



**Figure 37: Frequencies of Power Outage**

Considering that power outage experienced once a week is serious, 50% of entrepreneurs in Moshi and 21% in Bukoba are having power outage problem. In Biharamulo<sup>188</sup> 100% of the entrepreneurs said there was no power for a long time.

## SECTION TWO

### 4.2. Results of the Assignment Conducted by the Researcher with WEZESHA

#### 4.2.1. Introduction of the Private Sector Programme for the Lake Zone [WEZESHA]

Private Sector Development (PSD) Programme for the Lake Zone was a private sector development concept that was funded by The Netherlands Government in 2000 to 2004. The overall objective of the

<sup>188</sup> At the time of conducting the survey in Biharamulo the District was not yet connected with Electricity. However, currently Biharamulo is connected with electricity.

programme was to stimulate generation of more incomes, creation of more jobs and bring about a sustained economic growth for the lake Zone. To achieve this, the WEZESHA concept was established.

WEZESHA believed that the Private Sector in many cases was not organised (around a common interest) and wherever it was, it was weakly organised. It was reckoned that to have a strong bargaining position, the Private Sector, had to; be organised first and accepted as a legitimate representative organ/unit by both the private sector operators and the government; have the necessary attitude for dialogue, and acquire the necessary skills for bargaining. To engage in effective dialogue between the private and public sectors, a process was defined.

To achieve the objectives (having a strong bargaining position for the Private Sector), a set of possible activities were also implemented by WEZESHA and included; promotion of dialogue platforms/advocacy forums; facilitating availability/access to Business Development Services; facilitating linkages, (market, technology, finance). Other services included; contributing to the creation of an enabling environment; playing an intermediary role between service providers and beneficiaries; providing leveraged interventions (support activities with possibilities for multiplier effects); facilitating capacity building for Private Sector organisations and members; facilitating the provision of economic or business information and data collection.

The focal point for the activities was the establishment of Private - Public Sector dialogue and dialogue platforms. In the platforms, issues that will lead to the creation of enabling economic environment emerged, were discussed and solutions were proposed, debated on and a compromising consensus adopted.

WEZESHA operated a pilot project in its first phase 2000-2002. After gaining experience, WEZESHA in implementing the second phase 2003-2004 realised that it was apparent to sequence its interventions. It

identified leadership training<sup>189</sup> as a first step in building the capacities of private sector organisations (PSOs). The rationale was that access to leadership skills enhances private sector organisations to become more persuasive, provide leadership, and propose solutions while dialoguing with the public sector.

By strengthening the Private-Public dialogue, the enabling environment set by the government (e.g. taxation, public service provision, regulatory burden, district development planning) improved. WEZESHA saw the importance of facilitating also the public- sector to appreciate the contribution of the private sector to the economy of the country. Consequently, seminars targeting District Councillors were organized.

WEZESHA as a programme wound up end of 2004. The donors- the Royal Netherlands Embassy (RNE) teamed with DANIDA, DFID and SIDA under the basket funding and supported the Business Environment Strengthening Tanzania- the Advocacy Component (BEST-AC). BEST-AC continued to support the concept developed by WEZESHA PSD but under another arrangement of a challenge fund.

In the sections that follow, two cases are presented. Section 4.2.2 presents a strategic planning intervention to TAWA that was implemented by the author in PSDP during the pilot phase. Section 4.2.3 presents a leadership training intervention done in the second phase of PSDP.

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<sup>189</sup> Most of the Researcher intervention focused on strengthening the capacity of business association leadership competencies.

## **4.2.2. Strategic Planning for the Tanzania Association of Women Entrepreneur (TAWÉ)**

### **4.2.2.1. Recipient Background**

The TAWÉ- Mwanza chapter is a women managed, non-governmental organisation of women entrepreneurs focusing on creating a strong network, providing information on business trends, business skills training and financial and legal advice for its members. TAWÉ also promotes members' businesses and seeks to influence policy changes. The organisation was registered on 25th June 2000.

TAWÉ was motivated to use modern ways and approaches of strategic management and with that perspective it approached PSDP to co-finance the intervention. PSDP (WEZESHA for Lake Zone) invited consultants to tender for appropriate interventions that will answer to TAWÉ prospects.

Based on competitive bidding, our consulting company Amfe Microserve responded to this challenge and presented a strategic planning intervention that won the bid. The implementation of the strategic planning workshop for TAWÉ was conducted at the Institute of Adult Education in Mwanza city from the 22nd -28th July, 2002. A total of 17 women of TAWÉ Mwanza participated in the training. 9 were leaders while 8 were normal members. These women entrepreneurs had diverse business and are clustered in services (2), trading (11), animal husbandry (2) and others (2).

### **4.2.2.2. Facilitation Objectives and Contents**

The training was carried out in order to scan the internal and external environment of the TAWÉ (Situation Analysis) and to develop a 3 year strategic plan. The specific objectives of the training included the following (i) to conduct a member satisfaction analysis; (ii) to conduct a problem analysis; (iii) to conduct a stake holder's analysis; (iv) to analyse the financial position of TAWÉ through a Rapid Financial Analysis; (v) to synthesise the findings, and (vi) to develop a 3 year strategic plan for TAWÉ. To achieve the above objective a facilitation ladder as in figure 38 was used.

<b>FOLLOW UP</b>	<b>Providing Follow-Up services</b>	Facilitation
		Evaluation
		Monitoring
<b>FACILITATION</b>	<b>Strategic plan Packaging &amp; Presentation</b>	Editing and disseminating to members and Financiers
		Moot presentation
		Writing
	<b>Planning</b>	Developing Goals/Objectives
		Introduction to the planning framework
	<b>Situational Analysis</b>	Chambers financial records
		Rapid Financial Analysis
		Problem Analysis
		Membership Satisfaction Analysis
	<b>Ice Breaking</b>	Levelling of Expectations
		De-freezing
	<b>PRE</b> <i>Launching</i>	Selection
		Recruitment
		Promotion
		Environmental Assessment

**Figure 38 : Strategic Planning Facilitation Ladder**

Due to limited resources we were only commissioned to conduct the training component of the facilitation ladder although our proposal insisted on follow up.



#### 4.2.2.3 The Facilitation Tools and Instruments Used

##### A. Ice Breaking

Ice breaking was used to de-freeze the participants and to create networking among each other. This was done through a walk around and introduction through a partner game.

Participants while introducing each other were also requested to state what motivated them to join Tawe and their expectations from the strategic planning exercise. The ice breaking exercise in this case generated the expectations and the motives of joining Tawe as in Box 17

Box 21: Ice Breaking Expectations and Motives	
Expectations	Motives
Know Tawe clearly	Unity is strength
Members rights and responsibilities of leaders	Business assistance
Advantageous of joining Tawe	Advocate to authorities.
Characteristics of a sustainable chamber of commerce	Fight for our business rights
build up a sustainable Association	To know my business rights
Business management skills	
Chambers' management Skills	

##### B The Membership Satisfaction Analysis

The Membership Satisfaction Analysis (MSA) enable members to: identify strengths and weaknesses among their members; take steps to rectify any weaknesses identified and develop group cohesion on the basis of mutual understanding. During the analysis, participants list and discuss the traits and responsibilities of a right member and leaders of the association. Through the use of pocket charts, members: identify how members feel about their organisation; in terms of how members prioritise the services and how satisfied they are about the services offered by the association.

The analysis is used as a guide to further actions and building a positive working atmosphere. It also helps to build an understanding on how and why members and leaders behave with regard to organisational matters. It brings out the attitudes of members themselves to the organisation, including hidden tensions

and conflicts. It identifies the services to be provided by the organisation and the members attitudes towards them. For Tawe the analysis resulted to construct Table 11.

**Table 11: Pocket Chart Member Satisfaction Services, Leadership and Members Qualities Perceived**

<b>Member Satisfaction on Services</b>						
Importance	Training and Consultation	Savings and Credit	Market search	Advocacy	Joint investments	Internal and external Network
1	12	4	0	1	1	0
2	2	7	2	1	3	2
3	2	2	8	2	1	2
4	1	3	3	6	2	2
5	0	0	3	5	5	2
6	0	2	1	2	4	9
V Satisfactory	2	0	0	0	0	1
Satisfactory	13	10	3	1	2	7
Unsatisfactory	2	7	14	16	14	9
<b>Member Satisfaction Leadership Qualities Perceived</b>						
Importance	Respect to constitution	They perceive and use Tawe assets careful	Involve members in decisions	They implement and follow decisions	They Build Unanimity	They are creative and have a network
1	16	0	0	1	0	0
2	0	6	5	4	2	1
3	0	6	4	3	2	1
4	0	2	4	2	6	3
5	0	1	5	3	3	4
6	1	2	1	4	2	8
Very Satisfactory	8	7	4	5	7	1
Satisfactory	6	9	13	9	9	10
Unsatisfactory	3	1	0	3	1	6
<b>Pocket Chart Member Satisfaction Membership Qualities Perceived</b>						
importance	Paying members fees and contributions on Time	Participating in the meetings and implementing decisions	They attend Training	They are volunteering on TAWES activities	They suggests innovative ways	They contribute and give opinions
1	12	5	0	1	1	0
2	3	9	1	2	2	3
3	1	2	7	3	1	2
4	0	0	6	5	4	0
5	0	1	1	3	6	5
6	1	1	2	3	3	6
Very Satisfactory	0	1	0	0	0	2
Satisfactory	7	4	6	6	8	13
Unsatisfactory	10	12	11	11	9	2

Source : Amfe Microserve Training Report

### C. Force Field and Participation Analysis

The force field analysis (FFA) serves the following objectives: identifies and analyzes the resources and strengths within and around the Organisation and how they can be utilised and maximised; Identifies and analyses the weaknesses and threats within and around the organisation and how these weaknesses can be removed or minimised and utilises the information gained to make logical planning decisions concerning the organisations.

For example in the Force Field Analysis of TAWÉ, various parties with interest in the TAWÉ Mwanza Chapter were analysed and expectations and force field areas were identified. PSDP, The Embassy of Sweden, Heartland International, TAWÉ National, TCCIA, City Councils, Members, other TAWÉ chapters were identified as key stakeholders. Their fears, expectations, from TAWÉ were identified, while threats and opportunities they can cause to TAWÉ were analysed.

### D Rapid Financial Assessment

The Rapid financial assessment positions the accountability and transparency practice of the association. It is both a legal and fiduciary obligation for an association to explain the resourceful use of each dollar that the association receives.

The appraisal tool checked whether TAWÉ as an association is meeting its operational expenses, and if their financial statements are prepared according to the generally accepted accounting principles. The tool also

Box 22: Rapid Financial Appraisal Factors	
1. Possibilities of identifying Assets and Liabilities	5. Payment of entrance fees and annual subscriptions in time
2. Dependence on donor funding	6. An approved budget by the Annual general Meeting (AGM)
3. Presence of financial policies and regulations	7. Member competencies to receive and interpret financial statements
4. Possibility of comparing actual to budget	8. Preparation of financial statement is in accordance to accounting principles

analysed whether members have the capability of translating the statements and hence use them for policy decisions and control. The analysis used eight (8) elements that are as in Box 22.

#### 4.2.2.4. Synthesis and Planning

Synthesising attempts to interpret and to summarise the lessons learned from all the four steps of the situational analysis. The planning step on the other hand, enables members to prepare realistic plans and identify their own participation. The rationale behind this step is that it uses all the information that was gathered and analysed. Through the strategic planning process TAWA was able to synthesise and develop a three year strategic plan. The synthesis is as table 12 and a logical framework is as appendix 2.

**Table 12: A Synthesis of some of the planning factors Analysed**

Factor of Analysis	<u>Lessons Learned</u>	<u>Proposed Action</u>
<b>a) Services to be offered by TAWA in order of priority</b>		
1. Training and Consultation	<ul style="list-style-type: none"> <li>Given priorities</li> <li>It is satisfactory but is not enough</li> </ul>	<ul style="list-style-type: none"> <li>More training is needed</li> <li>Writing Training proposals</li> </ul>
2. Saving and Credit	<ul style="list-style-type: none"> <li>Saving and credit efforts are there but we lack training on loan management</li> </ul>	<ul style="list-style-type: none"> <li>Join credible Savings and Credit Association</li> </ul>
3. Marketing Services	<ul style="list-style-type: none"> <li>These services are unsatisfactory</li> </ul>	<ul style="list-style-type: none"> <li>Attend trade fairs</li> </ul>
<b>b) Leadership Traits for a transparent, democratic and accountable Association as perceived by Members in order of priority</b>		
1. They Respect the constitution	<ul style="list-style-type: none"> <li>Members are not yet satisfied</li> </ul>	<ul style="list-style-type: none"> <li>Translate the constitution in Swahili</li> </ul>
2. Involve members in decisions	<ul style="list-style-type: none"> <li>It seems members are not yet Involved</li> </ul>	<ul style="list-style-type: none"> <li>Involve member</li> </ul>
3. They implement and follow-up decisions	<ul style="list-style-type: none"> <li>Unsatisfactory</li> </ul>	<ul style="list-style-type: none"> <li>Leaders should volunteer them self</li> <li>Leaders should be motivated</li> </ul>
<b>c) Members Qualities Perceived</b>		
1. Paying members fees and contributions on Time	<ul style="list-style-type: none"> <li>Give priority</li> <li>Payment is not satisfactory</li> </ul>	<ul style="list-style-type: none"> <li>To follow constitution</li> <li>To be reminded time after time</li> </ul>
2. They attend Training	<ul style="list-style-type: none"> <li>Unsatisfactory</li> </ul>	<ul style="list-style-type: none"> <li>Search their felt needs</li> </ul>
3. Participating in the meetings and implementing decisions	<ul style="list-style-type: none"> <li>Unsatisfactory</li> </ul>	<ul style="list-style-type: none"> <li>Time should be kept</li> <li>Members should be involved in activities</li> </ul>
<b>E) Financial Analysis</b>		
1. Possibilities of identifying Assets and Liabilities	<ul style="list-style-type: none"> <li>The balance sheet is not provided</li> </ul>	<ul style="list-style-type: none"> <li>Include and prepare a balance sheet</li> </ul>
<b>F) Stakeholders</b>		
1. Members and Women entrepreneurs (non-Members)	<ul style="list-style-type: none"> <li>Members wish to see their businesses improved</li> </ul>	<ul style="list-style-type: none"> <li>Members to be developed through Business development services (BDS)</li> </ul>

Source: Compiled from Amfe Microserve Training Report

#### 4.2.2.5. Evaluation of the Facilitation

Participants and the client positively evaluated the training. The expectations of the intervention were well met and the result of this evaluation is as in the table 13.

**Table 13: Final TAWE Facilitation Evaluation**

Factor	😊 Yes	😐 so-so	😞 indifferent
1. Can you conduct Chamber activities as a member or leader better after this facilitation?	14	0	0
2. Can you apply all lessons delivered	7	7	0
3. Do you think you can transfer what you learned to other TAWE members?	11	3	0
4. Where all your questions answered by moderators?	12	2	0
5. Was the time allocated for each session adequate?	1	10	2
6. Where you given an opportunity to participate and network?	12	2	0
7. Where the facilitation methods appropriate?	14	0	0
8. Are you satisfied with the facilitation?	13	1	0

#### Box 23: Suggested Areas to Improve TAWE

In addition of the positive evaluation, we proposed to the client that implementation, follow up and evaluation of the strategic plan are crucial elements for effecting change in TAWE. We submitted that implementation means building leaders who will motivate members to work towards the mission and vision through team building.

- Introduce the Association constitution to members. (Most members are ignorant of about the constitution that is written in English)
- TAWE has to renegotiate its co-operation with Heartland International (HI) as the motive of members join the association expecting to be trained in Chicago is far-reaching.
- TAWE can attract (HI) and PSDP to develop Business Development Services sustainability.
- Members' recruitment be developed through TAWE providing demand-led services
- TAWE has also to target full time entrepreneurs as the case is to-date (employees cum entrepreneurs)

The other crucial element of the strategic plan is to conduct fund raising activities especially for the investment and development budget. We appealed to the PSDP programme to consider assisting TAWE in areas of team building and funding proposal writing, the competencies that were missing in TAWE. We proposed other areas of improvement as in Box 23.

### **4.2.3. Private Sector Organisation Leadership Training**

#### **4.2.3.1 Intervention Background and Rationale**

Private Sector Development Programme for Lake Zone (WEZESHA) contracted a consortium of Amfe-Microserve of Moshi and Faida BDS Co. of Arusha to conduct two leadership training programmes for Private Sector Organisations (PSOs) for TCCIA-Karagwe branch and Muwasama-Mwanza. To spread this training to other PSOs the Consortium spread this knowledge by mentoring other Business Service Development Providers through a practical Training of Trainers (TOT); watch briefed, shared responsibilities and did a training quality Assurance for the other service provider trainers'.

The training programs were conducted based on the demand from PSOs. From the experience gained by PSDP in its first phase of the implementation, PSDP and her stakeholders realised the importance of sequencing programs. Leadership training for PSOs was seen as an appropriate start for successful programme intervention. This realisation combined with the demand, mitigated PSDP to commission this training to the consortium.

The overall objective of the PSO Leadership training was to enhance the organisational effectiveness and efficiency of PSOs. To realise this, topics comprising of an overview of Private Sector Organisation, Instruments for developing better PSOs, Organisational governance, Strategic Planning, Strategies to recruit and retain members were covered. Participants developed a back home action plan to implement lessons learned.

The training reached eight (8) Private Sector Associations and 206 participants as in table 14. Outreach to as many women and ordinary members was the main target of the intervention. In this respect, 71 women

participants representing 34% and 109 ordinary members representing 53% was a positive achievement towards democratisation and empowering women participation in decision making.

**Table 14: Private Sector Training Outreach**

Name of PSO	Training Dates	No of participants	Division By Gender		Leaders/Members	
			Female	Male	Leaders	Members
1.TCCIA-Karagwe Branch	July 21-25, 2003	24	7	17	6	18
2. Muwasama-Mwanza	July 28 - August 1, 2003	20	14	6	11	9
3. TCCIA-Tarime Branch	August 25-29 <sup>th</sup> , 2003	24	9	15	18	6
4. TCCIA-Bariadi Branch	September 8-12, 2003	23	2	21	12	11
4. MAYAWA	– November 10-14, 2003	25	4	21	3	5
5. TCCIA- Bukombe Branch	December 15-19 2003	23	8	15	4	19
6.TCCIA Mwanza	March 1 - 5 2004	17	5	12	10	7
7. TCCIA-Biharamolo	April 19 - 23 2004	30	7	23	10	20
8. TCCIA-Kagera	May 17 – 21, 2004	20	15	5	6	14
Total		206	71	135	80	109

#### 4.2.3.2. Training Objectives and Contents

Specifically, the training was to:

- i. Present to participants an overview of Members-based Business Organisations;
- ii. Create awareness to participants of the tools and instruments that build stronger and sustainable Member-based Business Associations;
- iii. Equip executives and members managerial skills to run their organisation more effectively and efficiently;
- iv. Improve the capacity of Executives and Members to formulate long-term objectives;
- v. Stimulate democratic leadership and a closer relationship between members and their representatives;
- vi. Help participants to attain Policy Advocacy skills, and
- vii. Improve MBOs to develop member development and retention strategies.

To achieve the above objective a facilitation ladder as in figure 39 was used.

Follow up by PSDP	<b>Follow up</b>
Marketing Strategies development	<b>Back Home Action Planning and Mentoring</b>
Planning	
Policy Advocacy	
Governance	
Strategic Planning for PSOs	<b>Application of the PSO Strengthening Tools</b>
Management Information Services and control of resources	
Membership Development and Retention	
Developing PSO Policy Advocacy/Business Agendas	
Understanding Private-Public Partnership	
Conflict Resolution	
PSO Governance -Management	
PSO Governance Board	
Gauge Your PSO	
Tool for PSO Strengthening	
Overview of Private Business Association	<b>Reflection on the PSOs</b>
Levelling of Expectations	<b>Refreezing</b>
Participants Expectations	
Problem Identification	
<i>Self Introduction</i>	

**Figure 39: The PSO Leadership Training Ladder**



### 4.2.3.3 The Facilitation Process and Tools and Instruments Used

In this section the facilitation process is described briefly.

The facilitation process involved passing through four main steps/modules of refreezing, a reflection on the participants' Private Sector Organisation, applying PSO strengthening tools and preparation of a back home planning and mentoring.

#### A. Refreezing

The refreezing session constitutes self-introduction that establishes participants' names, type of businesses undertaken by the participants. Through group-work, participants may establish the problems that their organizations confront. A Meta plan card method generates the expectations of participants.

Box 24: PSO Problems and Expectations Generated	
PSO Problems	Expectations
<ul style="list-style-type: none"> <li>• Business owners are reluctant to join the chamber</li> <li>• Business have not yet realize the importance of the chamber to them</li> <li>• Inadequate market for members commodities</li> <li>• Lack of skills to start and manage business</li> <li>• Members do not pay their subscription fees in time</li> <li>• Members do not follow-up the activities of the chamber's</li> <li>• Leaders and members lack education to manage associations</li> </ul>	<b>Acquire PSO management Skills</b>
	<ol style="list-style-type: none"> <li>1. To understand the importance of the chamber</li> <li>2. To acquire skills to run the savings and credits group effectively</li> <li>3. To be able to understand how to motivate members</li> <li>4. To be able to run its activities more efficiently and effectively</li> </ol>
	<b>Acquire Business management Skills</b>
	<ol style="list-style-type: none"> <li>1. To acquire business management skills</li> <li>2. To acquire marketing skill so that I can expand my business</li> <li>3. To be able to generate more profit</li> <li>4. To understand on way to improve the revenue of the business</li> </ol>

Facilitators then through the introduction of a training timetable or the facilitation ladder explain how and to what extent the training will level the participants' problems and expectations. The problems and expectations of participants identified in one of the training are as in Box 24.

## **B Reflection on Private Sector Organisations**

The “*overview of business association*,” session establishes the purpose and the structure of private sector organisations/business associations. Through group work, participants present what they interpret as services of the PSOs. They are also to construct an organogram of a PSO and to position the member in the organogram and to state the functions of members.

Participants then gauge their associations using the e Private Sector Organisation (PSO) analysis tool . The tool checks whether a PSO has, a strong organisational framework; strategic planning; sharpened advocacy skills; aggressive fund raising and control, diverse membership drive, and effective communication.

## **C Application of PSO Strengthening Tools**

The application of the PSO strengthening tools module comprises of topics on governance, conflict resolution, advocacy, membership development and retention, managing resources and strategic planning. The topic on *organisational Governance* enables participants to : i) Investigate elements that contribute to the poor performance of Boards ii) Identify the leadership characteristics of the board iii) consider the board-employees/volunteer relationship.

Participants are facilitated to identify the principles of good governance that culminate into transparency, accountability, participation, sustainability and the rule through law (Constitution). Through the use of a board rating tool participants benchmark the performance of their boards. The tool uses the sixteen elements of a good Board. Table 15 indicates the weak elements which the organizations participating in one of the training conducted in Biharamulo identified.

**Table 15: Identified Weaknesses of TCCIA- Biharamulo and Affiliate Groups Boards**

	<b>Executive Committee Responsibilities</b>	<b>TCCIA</b>	<b>FAIDERS</b>	<b>BOSEDA</b>	<b>BISAP</b>
1	Executive Committee is operating its businesses in a transparent manner and is guided by modern by-laws that are understood by all members	✓	✓	✓	✓
2	The Executive Committee is meeting according to a planned schedule and is presenting decisions reached in the Annual General Meeting	✓	✓		✓
3	The Executive Committee Responsibilities are clearly defined (policy) and those responsibilities are different from those of management (direction and operations)	✓			
4	Executive Committee has a management committee that meets and reports regularly	✓	✓		
5	75% of the members are attending meetings	✓		✓	✓
6	Every Executive Committee member is serving as a member of a certain committee	✓	✓		✓
7	Executive Committee has diverse members according to experience, skills, gender, and differentiated age.	✓			
8	Appointment of Executive Committee Member is clear and the competencies needed by the Executive Committee are already pre-determined.		✓		
9	Executive Committee has prepared a long term plan for the Association	✓	✓		
10	Executive Committee members are receiving meeting agendas well in advance for proper scrutiny	✓			✓
11	Executive Committee is constantly reviewing and improving its performance	✓	✓		✓
12	Executive Committee has an appropriate method of reviewing its performance	✓	✓		✓
13	Board is reviewing, following up the budget and has empowered ordinary members to interpret financial statements.	✓	✓	✓	✓
14	Members are receiving adequate information to make policy decisions	✓		✓	
15	Executive Committee members are not involved in day to day management of the association affairs				✓
16	Executive Committee has an adequate number of members (limited members limit representation while many members limit decision making)			✓	

Source: Amfe Microserve Training Report-Biharamulo PSO Training

Participants are also facilitated to differentiate the core functions of leadership and management. They usually identify that the tasks of good leaders are policy and vision formulation and persuasion of members to align to the vision and for the managers planning, organising, and controlling are their core tasks.

The second topic "*Conflict resolution*" enables participants to realise that conflicts are expected incidences and when handled well, conflicts strengthens the organisation's maturity.

The advocacy topics may be split into two parts. The theoretical part "*Understanding Private-Public Partnership*" enables participants to:

- ✚ Define the terms partnership, dialogue, memorandum of understanding, advocacy and Private- Public Dialogue;
- ✚ To understand the key characteristics of the partnership and skills needed for making a partnership lasting;
- ✚ To understand the process of preparing the memorandum of understanding and how to establish the P-P Dialogue;

A case study, "Hidden licensing rate" introduces "*preparation of the policy advocacy agenda* topic.

Participants, after reading a case of local entrepreneurs who faces a host of repressive condition from a licensing officer approaches the local PSO to rescue her/him from the rent seeking tactics of the official through increased cost of compliance. The importance and benefit of preparing and presenting policy advocacy agenda are emphasised. In addition, the business agenda format shown as Box 25 is introduced to guide the participants to prepare policy advocacy position papers.

The "*Member recruitment/retention* topics enables the participants to appreciated the market concept "***The Customer is King and is Always Right***". PSO marketing strategies that will satisfy the PSO's Customers, in this case members are, identified.

**Box 25: Business Agenda Presentation Format**

.....

Name of Association

National/District Business Policy Advocacy Agenda

Title of Agenda.....

Objectives:

The Problem:

Background:

Proposed Changes

Position of The Business Association	Position of the Opposing Side

Expected Results

✓

✓

We also facilitate participants to understand the needs of the members (market research) and satisfying the customer/member through the 4Ps of marketing (Product, Promotion, Place, and Price) and to adopt these as key strategies.

The *financial management and control* session enables the participants after the session are able:

- i) to explain important financial information which the chamber needs to prepare
- ii) to discuss and suggest strategies to control financial mismanagement
- iii) to gauge the understanding of members in interpreting different financial information

The topic is presents using the case of Kajanja who uses fraudulent tricks and tactics to disguise his fund mismanagement.

.After going through the Kajanja case, participants realise that the Institution cased has an inadequate Management Information System and poor financial control. It ends up losing when control measures are neglected. Participants in one case highlighted the following as the reasons for organizations to lose money:

- Lack of education among members on financial analysis;
- Lack of transparency within the organization;
- Bad record keeping within the organization, and
- In Annual general meeting agenda are arranged such that financial matters are discussed at last minute while members are tired

They proposed the following as solutions:

- Members should be educated on skills needed to analyse financial information;
- Ample time need to be given to member to analyse the information;
- Financial information should be displayed where members can access them easily;
- Establish Financial committees for checks and balance;
- In institutions dealing in micro-finance a supervision and audit committee should act as a members' eye, and
- Financial procedure for PSO should be followed in record keeping and reporting.

Participants are then taken through the process of developing a strategic plan. During the process, participants realise that to have a shared vision and mission a participatory strategic plan is essential.

We encourage the participants to use the steps of the strategic plan to draft an action plan of implementing the lessons learned. This step enables the participants to remember the key lessons they learned and to reflect on how they can put these lessons in practical use when they go back at their PSOs.

#### **4.3. Results of the Assignment Conducted by the Researcher with TCCIA-Kilimanjaro**

The researcher worked with TCCIA Kilimanjaro as a Technical advisor for 9 months implementing a contract with the partnership project IHK Wiesbaden and TCCIA Kilimanjaro. The other occasion involved the researcher working as Business Service Provider implementing the TCCIA advocacy project that was funded by BEST-AC. The following two sections document the respective cases.

##### **4.3.1 The Partnership Project IHK Wiesbaden and TCCIA Kilimanjaro.**

The partnership project between the Tanzania Chamber of Commerce Industry and Agriculture (TCCIA) Kilimanjaro and the German Chamber of Commerce and Industries – Wiesbaden (Industrie- und Handelskammer (Weisbaden)) (IHK) was established in September 2001.

The project objectives and activities of the partnership focused on an overall objective of *seeing TCCIA Kilimanjaro establishing itself as a key player in local economic development in Kilimanjaro region*. The project objective was to see TCCIA Kilimanjaro is able to respond to the mandates and demands of its clients and stakeholders. These were translated into following intended results/outcomes:

- i) The role and function of the chamber is well understood, communicated and supported by members and stakeholders in the entire region;
- ii) The mandating process, advocacy and networking capabilities of TCCIA Kilimanjaro are

strengthened;

- iii) TCCIA Kilimanjaro provides services in a demand driven, business like fashion to members and clients, and
- iv) TCCIA Kilimanjaro has the capacity and capability to implement its strategic plan.

The project agreement was valid until June 30, 2004. There was an understanding that before the expiration of the first phase, both partners will come with an understanding, whether a prolongation of the project is desired that will require an explicit written agreement.

There was an agreement on who is to contribute what. In particular, the German project organization was to provide:

- Assistance for membership development, and retention
- Advice and develop systems for effective lobby and advocacy
- Assist in the identification of business services to members and clients
- Complete the drafting of the strategic plan and contribute to its implementation through the project's action plan
- Organise training of TCCIA staff in Germany, Tanzania and South Africa
- Support TCCIA in elaboration of the project and chamber publications
- Support TCCIA in organizing of events , e.g. seminars, fairs , workshops
- Subsidize staff salaries and office running costs

TCCIA on its part was responsible for the following inputs:

- Provision of organizational infrastructure and staff for project activities
- Local travel costs for participants and staff in training and seminars as well as interpreters



- Organisational support and infrastructure for long and short term experts
- Monitoring and reporting on project activities
- Expenses for import and duties for equipment imported into Tanzania

Equipments were to be the property of TCCIA after the expiration of the contract. The framework of the partnership was to co-operate on mutual trust and agreement. They were to support each other in carrying out their respective tasks and fully inform each other in time about the activities and concerns regarding the project. In order to plan the project details, both partners were meeting once a year to elaborate jointly the plans in a workshop including the budget thereof.

The TCCIA/IHK partnership is based on the twinning arrangement. The twinning arrangement is an arrangement between a more developed chamber, in this case the German Chamber of Weisbaden, and a less developed chamber TCCIA-Kilimanjaro. In a twinning arrangement, the donor (in this case the German Federal Ministry for Economic Development and Cooperation through SEQUA) delegated the implementation and the intervention to IHK – Weisbaden which is similar to TCCIA Kilimanjaro but is more developed.

**Box 26: Advantages of Twinning**

- Direct cooperation of equal partners that helps to create mutual understanding and acceptance
- First –hand knowledge of developed chamber on problems effecting SMES and Chamber management leads to faster transfer of know-how
- Successful strategies based on experiences are applied
- Specialists are supplied
- Direct business to business contact between developing and developed country is established
- Awareness on impact of development project is raised in developed country
- Scepticism on the importance of spending scarce public resources on development cooperation is minimized.

Source Sequa and the World Bank Group

Sequa and the World Bank Group (2004)<sup>190</sup> contend that although staff of a developing chamber may

<sup>190</sup> Sequa and World bank Group (2004) Building the capacity of Business Member Organisations: Guiding Principles for Project Managers

be lacking specific competencies to international development projects, that professional consultants have e.g. , project management, language, pedagogical or intercultural skills, twinning arrangement offer several advantages see Box 26.

#### **4.3.1. Improving and Consolidating the Performance of Procedures at TCCIA Kilimanjaro**

I was assigned to work part time (2 days a week) by the Partnership Project between TCCIA KR and IHK Wiesbaden to improve and consolidate the internal working procedures at TCCIA Kilimanjaro Region within the frame of the main phase of the project.

The rationale behind the assignment was that Kilimanjaro Region (TCCIA KILI) founded in Moshi in 1995, and whose members had grown from 50 in 1995 to over 200 in 2003 was experiencing a decline in the number of paid up members. "The number of paid up member is too low and fluctuates constantly and the payment of membership fees is rather sporadic and too low" asserted the partnership.

Based on the above *raison d'être*, I was assigned to provide technical support to all staff members of TCCIA KILI and in particular to the Executive Officer and the Information Officer in the planning, co-ordination and achievement of daily tasks.

Specifically I was to define the working procedures, staff responsibilities and schedules basing on the guidelines given in existing manuals, reports and papers exclusively developed for TCCIA Kilimanjaro by other consultants in previous assignments. I was to ensure the operational functioning of the Chamber in the fields of Membership Development; Advocacy work; Chamber Management; Chamber Services; Staff, and District Chambers are improving.

I plan in this case, to present a business plan that was crafted to incorporate the terms of references of the assignment.

#### 4.3.1.1. The Business Plan 2004

Based on a three year strategic plan I supported the management committee to develop the business plan.

The table of contents of the business plan is as in Box28. The following paragraphs summarises the 2004 TCCIA Kilimanjaro business plan.

#### A. Introduction

The Tanzania Chamber of Commerce, Industries, and Agriculture –Kilimanjaro Region Branch is one of the Twenty Regional Chambers in Tanzania that form TCCIA a Company Limited by Guarantee. TCCIA Kilimanjaro Branch (TCCIA-KILI) works to enhance and improve the business climate in Kilimanjaro Region

by establishing itself as a key player in local economic development in the region. This endeavour is planned to materialize when TCCIA-KILI is able to respond to the mandates and demands of its clients and stakeholders through the promotion of entrepreneurship initiatives to the public, protecting the rights of businesses, and assisting businesses to improve their sales and profits.

**Box 27: Table of Contents Business Plan 2004-TCCIA -KILI**

Content	No	Content	No
1. Executive Summary	3	3.5. Technology	11
1.1. Introduction	3	3.6. Future Services	11
1.2. Objectives and Indicators	5	4. Market Analysis	12
1.3. Mission	5	4.0. Market Analysis Summary	12
1.4. Critical Success Factors	6	4..1.Market Segmentation	12
2. Organisation Summary and the review of cost performance	6	4.1.1. Market needs	13
2.1.Establishment	6	5. Business Plan 2004	14
2.2. Membership	6	5.1. The Challenges Ahead	14
2.3.Number of Employees	6	5.2.Defining our Future	14
2.4. Facilities	6	5.3. The Organisation Structure	16
2.5. Services Provided	6	5.4.The Planning Matrix	18
2.6. Review of 2003 performance	7	6. Financial Plan	17
2.7. A three year performance	8	6.0. Financial Plan	17
3.0. Services	9	6.1 Important Assumptions	17
3.1. Service Description	9	6.2. Surplus or Deficit	17
3.2. Alternative Providers	10	List of Annexes	19
3.3. Printed Collaterals	10	1. Proposed Organogram	20
3.4. Fulfilment	10	2. Planning matrix	21

## **B. The Organization**

TCCIA-KILI was founded in Moshi in 1995, and since then, is supported by the Swedish International Development Agency (SIDA). The support is geared to provision of hardware and the employment of the Executive Officer.

TCCIA-KILI is also cooperating with IHK Wiesbaden through a partnership project. The Partnership Project, which is funded by the German Ministry for Economic Co-operation and Development via the Foundation for Economic development and Vocational Training (SEQUA), started in July 2001. With the support of an Expert who facilitated the development of the Chamber Strategy Paper and a three-year Strategy Plan (2002-2004) defining goals and strategies. In further assignments, TCCIA-KILI was supported in the development of other chamber management instruments such as an Advocacy Concept Paper and a new system for membership recruitment and retention based on a benefit and profit cards system (Summit and Kibo Cards)

Our management team consists of the Executive Council, the Management Committee, and the Executive Officer. Since the elections at the last AGM in May 2003, TCCIA- KILI counts on a very committed and active Board. Nevertheless, they lack the support of a solid operational body with established systematic working methods. The current Executive Officer, employed at TCCIA Kilimanjaro since May 2003, needs to gain experience in chamber management and leading skills.

The chamber staffs needs orientation in the achievement of daily tasks. The present situation is slowing down the development process and impeding the achievement of settled goals. Not foreseen, is the employment of additional staff due to lack of funds. Despite the number of affiliated companies to grow from 50 in 1995 to over 200 in 2003, the number of paid up members is too low and fluctuates constantly,

while the payment of membership fees is rather sporadic and too low. Bearing this in mind, the work, ultimately, will be divided among the committees and the executive director may need to add volunteering staff (from among members) to the Association management team.

### **c. Services**

TCCIA -KILI provides a variety of services to the businesses community in Kilimanjaro including Lobbying and advocacy, Business advice /counselling, business information collating and disseminating, international business, marketing linkages, organization of trade fairs and exhibitions, training in business management skills, business promotion events, ATI (African Trade Insurance) and as guarantor, mediator to business transactions.

Member recruitment and retention depends heavily on the quality of the services that are offered by the Chamber. The business plan is proposing concerted efforts that will improve service delivery to members.

Among the services planned for the future are intensify issuance of certificates of origin, training in business skills, institutionalising the advocacy and lobbying platform, developing members onto the Internet for consumer sales, increasing Kibo card sales and inter-member product distribution. Training and organizing district chambers members into rural micro-finance institutions, and mobilizing fund and sponsors to make the Mountain Kilimanjaro Trade Fair an annual event are other services that will be emphasised.

### **C. The Market**

Research shows that the Business Development Services (BDS), in which TCCIA-KILI is in, is undergoing a pragmatic shift from a focus on the supply of subsidized services to a limited population, to focus on the development of a vibrant BDS market for large numbers.

The TCCIA Manual identifies that business three segments micro (30%), small and medium (45%) and large (15%) and advises concentration in the small and medium segment. The plan is proposing go downstream (micro) for outreach and access and upstream (large) for their propensity to pay higher fees and donations.

The untapped market of members who can join the chamber is still grey as only 200 members represents only 5% of potential businesses that are eligible to join. Since TCCIA-KILI goal is to bring together all interested parties in the three sectors of the business sectors, the company plans an aggressive membership recruitment, retention and administrative drive. To realise this, a Members services, recruitment and communication committee will work hand in hand with the Information officer to market the services of the Chamber. The marketing function of the information officer will be given prominence. IHK Weisbaden is also supporting the marketing of Kibo cards, by supporting the recruitment of a marketer for a period of six months.

#### **D.Financial Considerations**

Our main strategy is the growth of membership. A large membership base provides revenue from dues and positions TCCIA-KILI as the true representative of the Moshi Municipality private sector. We want to finance growth solely through cash flow. We recognize that this means we will have to grow more slowly than we might like.

Revenues from membership subscription and other services are expected to increase and at least sustain our current operational sustainability of 30% to 50% for this planned year. Surpluses, from operations are planned to be applied to legislative and marketing activities, or held for contingencies

#### **E. Objectives and Indicators**

The following are objectives and key indicators for the year 2004:

## Objectives

1. The role and function of the Chamber is well understood communicated and supported by members and stakeholders in the entire Region

2. The mandatory processes, advocacy and networking capabilities are strengthened

3. Demand driven Services are provided in a businesslike fashion to members and clients

4. The capacity and capability to implement the strategic plan is enhanced

## Indicators

1. 1. All six districts of the Kilimanjaro region are organised into chamber nucleus as branches or affiliates and participate in executive committee meetings of the TCCIA-KILI.

1.2. Membership and income from subscription has increased and an operational sustainability of 50% from core chamber services and fees is achieved

1.3. up-to-date information materials about the region and the chamber is available

2.1. All constitutional and staff meetings are taking place as mandated and outcomes are documented

2.2. Three advocacy issues that concern the business community are prioritised and effectively addressed

3.1. Six concrete services have been developed and are made use by clients

3.2. Income from Services has increased

4.1. Permanency, reliability and accountability within voluntary leadership and office operations is achieved

4.2. Set indicators are achieved by 70%

4.3. Technical advisory services are translated into action.

## **F Mission**

TCCIA-KILI represents and serves its members and collaborates with partner organisations to make existing businesses do better and assist with the creation of new ones. We achieve this through advocating, promoting, and stimulating private sector growth, employment creation, attraction, and retention of investments, both domestic and international.

## **G Critical Factors for the Success of the Chamber**

For the Chamber to succeed, we aim to concentrate on the following:

1. Membership development and retention by intensifying marketing efforts
2. Sharpened advocacy skills-research, development of position papers, and steering the institutionalisation process
3. Effective chamber management
4. Development of Chamber services as a means of retaining members
5. Staff development
6. Supporting to District Chambers

### **4.3.1.2. Tools and Instruments Developed to Implement the Business Plan**

To implement the business plan we developed job descriptions for the Executive Officer and the information officer. We realised that the issue of membership services was key to member development and retention. We also realised that the function of members' recruitment and retention was not assigned to any particular officer. Bearing the above in mind we included the function as a core function for the information officer and the function of advocacy was assigned to the executive officer. We set target and measure performance each month. The performance results for the executive officer and the information offices are as in Table 16.



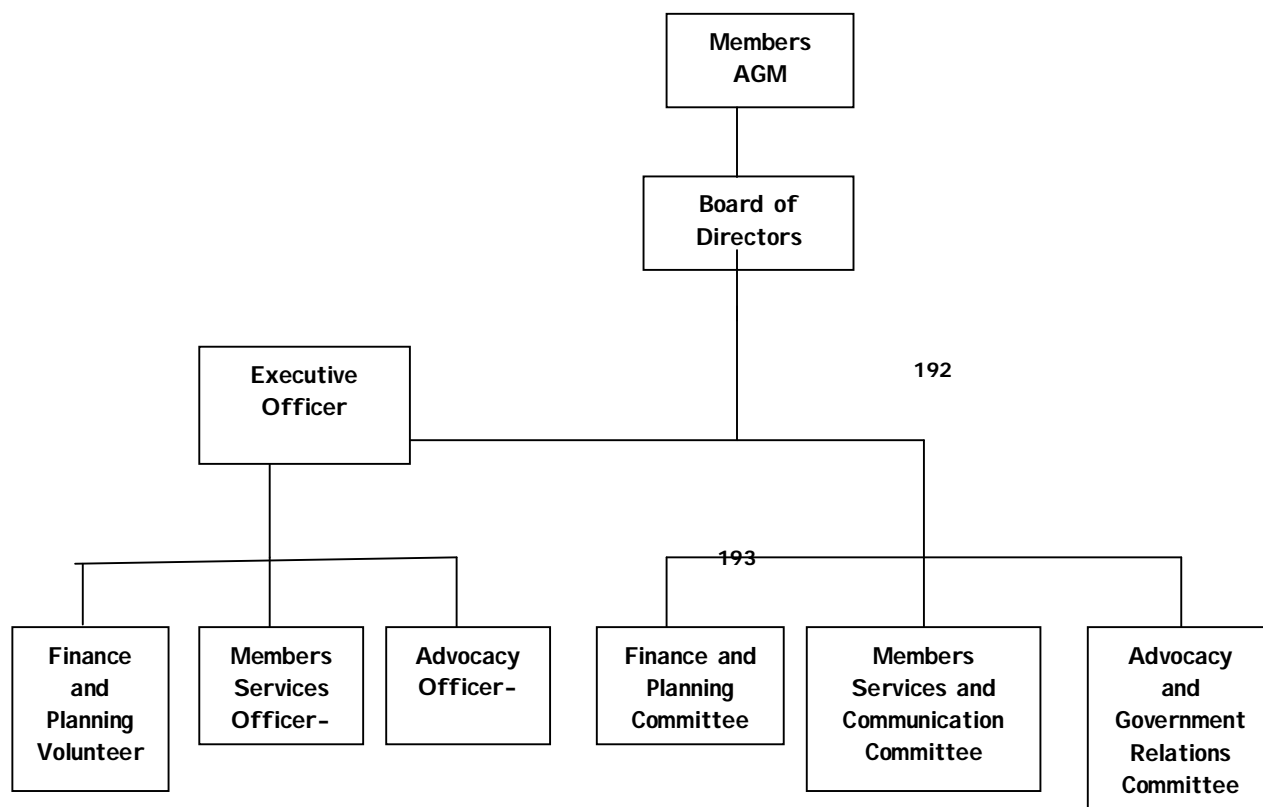
**Table 16: Progress Staff Attainment of Targets as End of May 2004**

Cost Centres	Target 2004	Cumm.Feb	Cumm.Mar	Cumm.Apr	Cumm.May	Actual	Variance	Efficiency %ge
<b>Marketing and Information Officer</b>								
Certificates of Origin	720,000	65,455	130,909	196,364	261,818	3,000	-258,818	1
Annual subscription	7,000,000	636,364	1,272,727	1,909,091	2,545,455	1,140,000	-1,405,455	45
Constitution selling	152,000	13,818	27,636	41,455	55,273	11,000	-44,273	20
Business Cocktail	1,200,000	109,091	218,182	327,273	436,364	270,000	-166,364	62
Business Support Services	3,000,000	272,727	338,182	403,636	512,727	200,000	-312,727	39
Advertisement	515,000	46,818	93,636	140,455	187,273	0	-187,273	0
<b>Total IO</b>	<b>12,587,000</b>	<b>1,144,273</b>	<b>2,081,273</b>	<b>3,018,273</b>	<b>3,998,909</b>	<b>1,624,000</b>	<b>-2,374,909</b>	
<b>Overall Performance %ge</b>						<b>41</b>		
<b>Executive Officer</b>								
IHK Grants	12,000,000	2,400,000	4,800,000	7,200,000	9,600,000	16,418,505	6,818,505	171
TCCIA HQ	1,320,000	120,000	240,000	360,000	425,455	781,660	356,205	184
Special Contributions	1,000,000	90,909	156,364	221,818	341,818	178,720	-163,098	52
Branch Contributions	300,000	27,273	54,545	81,818	109,091	0	-109,091	0
Kibo Cards	6,000,000	545,455	1,090,909	1,636,364	2,181,818	0	-2,181,818	0
<b>Total EO</b>	<b>20,620,000</b>	<b>3,183,636</b>	<b>6,341,818</b>	<b>9,500,000</b>	<b>12,658,182</b>	<b>17,378,885</b>	<b>4,720,703</b>	
<b>Overall Performance %ge</b>						<b>137</b>		

From the performance areas of mentoring were identified. For example, it was identified that there are some weaknesses in most of the areas that are handled by the Information Officer. Through careful appreciative inquiry we realised that members and possible members are not informed of the services that TCCIA was offering. The office waited members and prospective members to visit the office. The situation, prompted us to propose to the TCCIA-KILI Chair to appoint a Member Services Committee and that was proposed in the business plan and is as figure 40.

We drafted the Terms of reference for the Member Service committee. While proposing the committee and its terms of references we were guided by the Principles of an effective committee as proposed in CIPE(1999)<sup>191</sup>. CIPE argues that an effective committee:

<sup>191</sup> The Centre for International Private Enterprises (CIPE); Business Associations for the 21<sup>st</sup> Century-Blueprint for the Future; 2<sup>nd</sup> Edition; CIPE, Washington DC



**Figure 40: TCCIA Kilimanjaro Organisation Structure**

- Has a written statement of purpose that all members have reviewed
- Is chaired by an individual who guides the committee process
- Consists of carefully selected members who are interested, qualified, and compatible
- Is assisted by a staff person who works as advisor and administrator
- Carefully plans its agenda
- Approaches assignments one step at a time as a sense of priorities and timing
- Keeps thorough minutes and records
- Is periodically infused of new members
- Regularly evaluates its activities against its statement of purpose

<sup>192</sup> Includes all elected members (Executive Governing Council)

<sup>193</sup> All Committees are headed by elected TCCIA officials, VCs Industries, Trade, Agriculture, and the Treasurer. They involve members from all the sectors

To improve the services of members we prepared a funding proposal that was distributed to local and international donors related to organising a Kilimanjaro Trade Fair. TCCIA Kilimanjaro is organising a mountain Kilimanjaro Trade Fair every month of October. Box 28 is an excerpt from the funding proposal for the fair presented to Heidel Seidel Foundation.

Box 28: Excerpts of Trade Fair Funding Proposal

**5. Project Brief:** The overall Goal of the Project is "Improved Business Growth and Job Creation of Micro, Small and Medium Enterprises in the Kilimanjaro Region," while the project purpose or the immediate development purpose is "An enhanced Competitive Environment of Micro, Small and Medium Enterprises in the Kilimanjaro Region is created".

The expected outputs of the project include; increased business contacts leading to increased sales and increased profits, increased awareness on the benefits of marketing, improved Customer relationship, new ideas for products. Other outputs are new means of distributing products, the potential of subcontracting, improved management skills, technology transfer, and acquisition.

The benefits to the sponsor include; publicity and public awareness, favourable public perception because of being in the frontline in support of poverty eradication efforts, fostering increase in the MSME market share. Other benefits are the sponsors will be increasing the purchasing power of potential consumers of their own goods and services

There was expectation that with these impressive achievements, the sponsor that was BMZ will extend the project. Unfortunately the project ended in September, 2004 with only an extension of three months. The final evaluation proposed BMZ to end the project as the project inputs did not correspond to the planned increase of the membership. It was however, acknowledged that most of the outputs that were planned during the project design were achieved.

TTCIA and the researcher were left in the middle of uncompleted project , one of which was the establishment of a business forum in the Municipality of Moshi. The next case narrates how the BEST-AC intervention supported the efforts established by the partnership of IHK Wiesbaden and TCCIA-KILI to continue to be picking up where IHK left off.

#### **4.3.2 The Advocacy Process Project BEST-AC and TCCIA Kilimanjaro.**

##### **4.3.2.1 Context and Particularities of the Partnership**

Tanzania is located in Sub-Sahara Africa, with a population of 35.9 million with a per capita income of Us \$ 330 (2005). Categorised by the World Bank as a low-income economy, Tanzania has a socialist

background pioneered by the father of the Nation President Nyerere. The third government under the aegis of Benjamin Mkapa engaged the private sector in dialogue. Private sector stakeholders are members in the Government Tax Task force and the Public Expenditure Review working groups and the National Business Council (TNBC). Conversely, development practitioners and the donor community in Tanzania are supporting the capacity of Private Sector Organisations to influence reforms at the District level.

The case intends to cover an attempt to engage in private-public dialogue to reform by-laws, administrative procedures and regulations at the Local Government level in the Municipality of Moshi. The motivation of engaging in P-P Dialogue at the District level (Local level), is the credence that doing business at the local level is complex. The SME policy statement<sup>194</sup> for example sees the cost of complying with tax high; taxes are many and collected by various authorities.

The dialogue presented in the case, involved the Tanzania Chamber of Commerce Industries and Agriculture Kilimanjaro (TCCIA-KILI) representing the private sector on one part, and the Municipality of Moshi is representing the public sector. The German Chamber of Commerce and Industries – Wiesbaden (IHK), sponsored the dialogue through a chamber project twinning agreement in September 2001. One of the outputs of the IHK was to see the advocacy process and networking capabilities of TCCIA-KILI strengthened. Through the partnership, IHK developed the necessary advocacy tools. TCCIA –KILI on the other hand, conducted a business survey, established a strike force and presented the investment situation to the first dialogue meeting on 26<sup>th</sup> July 2002. The dialogue yielded no results, as the Municipality lacked a political will, while the private sector lacked the skills of presenting the issues.

The second attempt to dialogue was initiated in 2004. The partnership considered the possibilities of using local consultants as advisors to the project. To that effect, the author was engaged to train members of TCCIA –KILI in advocacy skills, facilitate the advocacy committee to engage in dialogue with the

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<sup>194</sup> URT Small and Medium Development Policy – Final Draft 2002

Municipality and to conduct a private sector appreciation workshop for the Municipal Management team. Lack of seed funds, the short time allocated to the project and political will on the part of the Municipality and councillors deterred the continuation of dialogue.

Despite the foregoing, the management of TCCIA- KILI and the author continued to search for other possibilities of pursuing dialogue and on 24<sup>th</sup> October 2005, another opportunity opened. The Private Sector Advocacy Fund- Business Environment Strengthening Tanzania (BEST-AC) the Advocacy Component accepted a proposal for *"Promoting Public-Private Dialogue for Self-Motivated Reforms in the Municipality of Moshi"*.

The third attempt therefore constitutes the implementation of an advocacy project for a period of 12 months. The project continues from earlier efforts and incorporates in the design, the lessons learned in the previous attempts, and experiences from other best practices. Key provisions include; creating an awareness of Councillors, and engaging entrepreneurs to propose roadblocks and suggest reforms. This approach intends to engage Councillors in the process and persuade them to be responsive to their voters' needs. The exclusion of these elements in the second dialogue attempt derailed effective dialogue.

#### **4.3.2.2 Objectives**

The overall objective of the project is *"Public-Private Dialogue for Self-Motivated Reforms in the Municipality of Moshi Promoted"*. The specific objectives are:

- Issues blocking businesses and farms in start up and growth in the Municipality of Moshi identified
- A P-P Dialogue platform is established and sustained

#### **4.3.2.3 Structure and Participation**

There are two tier structures, the *Private Sector Advocacy Committee* and the *Moshi Business Council*.

i) *Private sector advocacy committee*

This is a coalition committee organized on sectors and comprises of independent private sector organizations that are located in the Municipality of Moshi. Two of the sector organizations, the Association of Kilimanjaro and Arusha Bus Owners (AKIBOA) and Organization of the Moshi Central Market Traders (CHAWABIMO) are associates of TCCIA-KILI. TCCIA-KILI has invited the Moshi Chamber of Commerce (comprising of commercial operators and of Asian origin) and TAFOPA (Fruit processors, and mainly women) to join the coalition. Other participants include informal sector operators and the Association of Tour Operators. These are managed in the form of sector working committees (Manufacturing, Informal business and markets, Trade and Services and Tourism).

ii) *The Moshi Business Council*

The platform has 10 members 5 from the Municipal Council of which comprise of 3 Councillors and 5 from the private sector selected from the members of the advocacy committee. The chair of the Council is the Municipal Director, while the Vice-chair is the chair of TCCIA KILI. The secretariat comprises of two members, the Executive Officer of TCCIA as Head and the Municipal Economist as Deputy. The Council meets at least quarterly and agreements are by consensus. The vision of the Moshi Business Council is *"to see the P-P-Dialogue Platform is legally registered (through a Municipal Council By-Law/Decree and published in the Government Gazette), and the investment environment in the Municipality of Moshi improved"*.

#### **4.3.2.4 Process and Milestones**

The process of engaging in advocacy is briefly explained. Sector chairs/ conveners identify sector roadblocks. The identification is through conversation in sector group meetings. Conveners support entrepreneurs to fill in a simplified questionnaire. The questionnaire requires entrepreneurs to identify roadblocks or issues impeding their competitiveness and what they suggest what to reform. Filled

questionnaires are processed by the advisory secretariat (TCCIA executive officer, the Municipal Solicitor and the Business service Provider -author). A simplified cost/benefit analysis on the entrepreneurs' proposals is used. Processes advocacy issues are presented to the Advocacy committee of the Moshi Business Council and communicated to the media and grassroots advocacy committees. The Municipal Director and the Council Management team processes the issues and presents the proposed reform in respective committees (economical affairs) and finally in the Full Council for adoption.

We envisaged six

**Box 29: Some Key Performance Indicators**

important milestones:

- a) Lawyer presents findings on the RIA study on the Moshi Municipal by-laws and codify them
- b) Members of the Moshi Business Council exposed to Best P-P- Dialogue practices
- c) Private sector appreciative workshop to councillors conducted
- d) A Memorandum of understanding between the Moshi Municipal Council and TCCIA-KILI signed
- e) Private sector actors mobilized to give opinion
- f) A by-law of establishing and sustaining the Moshi Business Council legislated.

#### **4.3.2.5 Outreach Strategies**

We interpret outreach as the provision of information or services to groups in society who might otherwise be neglected. In this respect, our strategy focuses on involving the private sector and especially the micro-enterprise and the informal sectors (it is estimated that the informal economy in Tanzania is 58.3% GNP) in identifying impediments to doing business and lobbying the legislators. Through this grassroots advocacy, legitimacy of the advocacy project will be created. We plan to use the media extensively. We have also

developed a slogan that motivates the private sector to believe that this is a serious and result oriented project.

#### 4.2.3.6 Monitoring and Evaluation

A set of indicators on different project level hierarchy- impact, project purpose and results have been set. We plan to monitor the results internally and to compare them to the indicators from time to time. BEST-AC will conduct an external evaluation.

**Box 30: The Logical framework TCCIA KILI-BEST-AC**

Level	Intervention Logic	Indicators
Impact	The Cost of doing business in the Municipality of Moshi has decreased.	By 2010 the number of procedures to start and operate business has decreased by 20% compared to the baseline
Project Purpose	Public-Private Dialogue for self-motivated reforms in the Municipality of Moshi promoted	X By-laws and Regulations changed in reliance to TCCIA Policy issue papers/advocacy
Results	1. Issues blocking businesses identified  2. A P-P Dialogue Platform established and sustained	At least 40% policy briefs for identified issues in the Regulatory Impact Assessment study are drafted and presented to policy making bodies A Memorandum of understanding signed between the Moshi Municipal Council/TCCIA

#### 4.2.3.7 Achievements to date

In the paragraph below using the six planned important milestones I review what the project has so far achieved. I will also present the obstacles and challenges that the project is encountering.

a) *Lawyer presents findings on the RIA study on the Moshi Municipal by-laws and codify them*

The lawyer completed the assessment of the by laws that are affecting businesses in the Municipality of Moshi and recommended policy issues that needs rectifications. They were found that they increase the



costs of doing business for firm. TCCIA is in the process of linking these issues and screening them through the sector grassroots advocacy committee. Issues identified by the RIA study are in table

**Table 17: Regulatory Impact Study**

Sn	Area of recommendation	The issue
1	General regulatory environment	Absence of collated by-laws applicable in the Municipal of Moshi. <sup>195</sup>
2		Some of the by laws were only available in English
3		Micro & Small Enterprises not aware/sure of the bylaws affecting their businesses
4	Better regulating Practices	There is a very limited consultation of the all citizens and none to special interested groups affected by the bylaws been drafted/amended
5	<i>Bylaw on signboards.....(Uwekaji wa vibao vya matangazo(2003))</i>	Burden some and increases cost to entrepreneurs
6	Registration of Commercial vehicles-2003	Multiple Taxation with TRA and other authorities
7	Fees and charges (2003)	Unclear and contradicting with the service levy of 0.3% on sales
8	By law on the bus stand –“(2003)	Difficulties in compliance
9	Sanitation and Environment law of 2005	Increases cost of doing business

Source: TCCIA-Kilimanjaro RIA study

*b) Members of the Moshi Business Forum exposed to Best P-P- Dialogue practices*

A delegation of three members visited South Africa in July 2006 to study how institutions in South Africa dialogue. The team visited, SBP, NEDLAC, and the Business Unity Association (BUSA).

<sup>195</sup> In absence of this even by laws like Development levy, 2001 were presented to us.

Before departing to South Africa a comprehensive Aide Memoir was developed and sent to the organising party. Box 31 is part of the Aide Memoir to SBP.

### **Box 31: AIDE MEMOIR**

**Purpose:** The aide memoir intends to give a brief description of the Tanzania Chamber of Commerce Industries and Agriculture-TCCIA Kilimanjaro and the purpose of the exposure visit to SBP

**Specifically at SBP:** The main theme is to learn how TCCIA can identify problems affecting entrepreneurs, research and plan advocacy. The visiting team can greatly benefit from the SBP management team and Directors as follows: The visiting team can greatly benefit from the SBP management team and Directors as follows:

#### **Chris Daroll – Share experiences on:**

- **The process they used to** promoting private sector growth and SME development in sub-Saharan Africa- Best practices
- How to replicate regulatory best practice and private sector led development in the countries she has worked with
- Brainstorm on the opportunities that TCCIA Kilimanjaro can access to through the Investment Climate Facility (ICF).

#### **Simon Dagut:**

- Share the approach of research as a process of advocacy
- Discuss the methodological approach and the results of the Counting the cost of red tape for business in South Africa
- Gain experience on how the report has been used as a tool for guiding and developing advocacy issues.
- Discuss on the process of preparing and introducing RIAs.

#### **Michelle Preiss**

- Discuss the progress and prospects of the Business Bridge programme especially the tools that maximise information exchange and networking opportunities within the Business Bridge programme

#### *c) Private sector appreciative workshop to councillors conducted*

This activity was conducted on 12th September 2006. 17 Councillors out of 25 attended. The workshop was also attended by the Municipal Executive Director and was officially opened by the District Commissioner of Moshi.

The table below summarises the training objectives of the workshop.

**Table 18: Training Objective Councillors' Appreciation Workshop**

Session	Learning Objectives
1. Business Barriers	<ul style="list-style-type: none"> <li>i) To identify regulatory and administrative barriers to business in developing countries</li> <li>ii) To relate barriers in the Tanzania Context</li> <li>iii) To appreciate the best practices reforms</li> </ul>
2. Understanding doing business/private sector	<ul style="list-style-type: none"> <li>iv) To appreciate that the private sector is the engine of economic development and growth</li> <li>v) To understand how the market economy works</li> </ul>
3. To understand partnership	<ul style="list-style-type: none"> <li>vi) To describe the characteristics, typology and diversity of public private partnership</li> <li>vii) To apply the above on the design of the Moshi Business forum</li> </ul>

Source: TCCIA Kilimanjaro Training Report

The workshop was positively evaluated by the participants. They appreciated that the establishment of the Moshi Business Forum will stimulate the Municipality economic growth, attract local and foreign investments, and stimulate increased employment and business growth that will culminate in alleviation of poverty.

*d) A Memorandum of understanding between the Moshi Municipal Council and TCCIA-KILI signed*

A memorandum of understanding has already been signed. However, active participation in the dialogue is

expected to commence after the councillors have been oriented in what it takes to create and maintain a smart public-private partnership.

*e) Private sector actors mobilized to give opinion*

Views have been collected from more than 300 entrepreneurs. The results are being compiled. The sectors that were covered include market vendors from the 4 markets in the municipality, informal sector operators and transport operators.

*f) A by-law of establishing and sustaining the Moshi Business Council legislated.*

This is a long term milestone. It is foreseen that this milestone will be reached after both parties have realised the benefits of engaging in dialogue.

#### **4.3.2.7 Challenges**

The challenges we anticipate to face have been formulated in the form of questions and are as below:

- How do we cultivate the political will of councillors and the civil servants with a socialistic mind-set?
- How do we convince the entrepreneurs to advocate (some are used to pay their way through)?
- We have a project time of 10 months! How do we convince donors (they are interested in quick-wins) that P-P dialogue is a process that takes time?

The project does not have ready answers, but as it is in the process of learning and it will one step after the other experience and consequently explore what are the possible approaches and solutions.

#### **4.4. Summary**

In chapter four I have presented the research findings into two sections. Section one presented the results of the questionnaire. The questionnaire sought the perception of entrepreneurs on the various questions that they were asked to respond to. The results have revealed that micro enterprise is a dominant sector and most of the respondents in all the three areas surveyed are dominated by trading. Few firms were exporting 14% and they have a local ownership 91%.

In part two we gauged the perception of enterprises in the lawmaking process. Items covered include; policy surprises, the extent their local governments stick to announced policies. Respondents were also asked whether they timely receive information on changes in regulations, and whether they participate in the law making process. The other areas covered included; fear of retroactive changes of regulations, and if they note changes in predictability of laws and policies over a ten year span.

Most of the respondents feel that the law making process excludes the participation of the private sector and their associations.

Part three evaluated political instability and security. Here entrepreneurs were asked to gauge the effect of changes in policies due to constitutional government changes, coups, effect of crime and theft in doing business. They were also asked whether the government is effectively protecting persons and property, and the predictability of the judicial system. Respondents saw crime and theft as the item adversely affecting the cost of doing business.

In part four an overall government business interface was measured. Respondents ranked the obstacles of doing business, whether to business the government was a helping, passive or an opponent.

In part five respondents expressed their opinion on how they perceive law enforcement and bureaucratic red tape. Issues considered here included incidences of rent seeking, whether bribes can be easily predicted and therefore, though a crime entrepreneurs can easily predict them as transaction costs. Respondents also gauged whether rent seeking ends into another degree of blackmailing, an act when an investor is asked further bribes by other officials in the hierarchy. The part also probed when a bribe is paid is it an assurance of receiving service and when someone appeals, if a fair treatment is given or there is favour to a junior as rent seeking is embedded into the system. Respondents were also asked to state whether they postponed any major investment due to stringent regulations and to estimate the time they spend while negotiating with government officials for compliance.

Few respondents saw corruption as a frequent recurrence. They saw however admit that it sometimes happens. They affirmed blackmailing and major investments were postponed due to bureaucratic red tape.

The last part of the perception questionnaire ranked the efficiency of government in providing services. Here respondents ranked the government service delivery to firms and the frequency of power outage. The state of roads, Income Tax and VAT services were ranked as ineffectually provided.

In section two, presented are cases while the author was working with WEZESHA and TCCIA Kilimanjaro. The cases presents strategic planning, business planning, leadership facilitation and an implementation of an advocacy process. They intended to improve services to members, advocate and to efficiently manage the PSO affairs.

Chapter five interprets the findings, summarises and concludes the research and gives recommendations.

## **CHAPTER FIVE**

### **CONCLUSIONS, IMPLICATIONS AND RECOMMENDATIONS**

#### **5.1. Introduction**

The specific objectives of the research were to : i) determine regulatory factors affecting enterprise performance in the selected areas, ii) identify regulatory reforms interventions that have been successfully implemented, and in the process document best practices, iii) establish a set of benchmarks that will enable reformers to compare one regulatory environment of business to another iv) recommend to Business Associations, Government Institutions and other Private Sector Promoters the best ways of promoting consultative mechanisms that will sustain business regulations leading to improved economic social outcomes and v) develop policy recommendations and appropriate strategies for effective, and sustainable public - private consultative mechanism.

The study has so far covered four chapters. Chapter 1 an introduction described Tanzania, a country where the study is positioned. Its political and economical environment was presented. The chapter illustrates that so far Tanzania has developed through six phases. Tanganyika as a colony of the Germans. Tanganyika as the League of Nations where the United Kingdom managed Tanganyika through the Mandate of the United Nations. Tanganyika claimed its independence and finally was a republic in 1962 and a Union with Zanzibar, and then Tanzania. Socialism was introduced under the first phase government in 1967. The second phase government implemented reforms proposed by the World Bank and the International Monetary Fund and introduced multi parties. The third phase government is said to have stabilised the economy, while the fourth

government that took power recently is implementing a party manifesto of “new zeal, new vigour and new pace”.

The chapter established that poverty, economic growth and private sector development are related. This realisation has prompted the government of Tanzania to acknowledge that the private sector is the engine of economical development. Despite the foregoing government approval, and the universal recognition that a vibrant economy is sine qua non to rapid economic growth, a problem is stated. ‘Why is the private sector in Tanzania sidelined or disillusioned? Evidences as appendages to the question are presented.

Aside from the evidence to support the problem, there is recognition that the problem needs further research. Two objectives, programic and heuristic are presented. The programic objectives argue that the findings will benefit private sector development programs being implemented by various development actors while the heuristic object argues that the market of the firm the author is representing will expand.

Chapter 2 reviewed the literature. The common terms used in the study, *private sector* being synonymous to business, *public*-identical to government (in Tanzania Local and Central governance). *Public-private partnering* used the definition of Hart <sup>196</sup> as collaboration when both parties listen to each other and co-own responsibility to the solutions. This is the opposite of *public-private consultation* were the government only listens and makes decision.

Four theoretical frameworks Muchugh (1999<sup>197</sup>), the CEFE international theory, Enright (1996, 2000)<sup>198</sup> drivers’ model and Porter (2002)<sup>199</sup> Competitive Model guided the study. In the chapter the four factors

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<sup>196</sup> ibid footnote 37.

<sup>197</sup> ibid footnote 39

<sup>198</sup> ibid footnote 40

<sup>199</sup> ibid footnote 41



correlate. For example, McHugh sees the economical environment that consists of freedom of ownership, contract law, elimination of corruption, tradable currency, minimum taxes and regulation as affecting business growth and job creation. CEFE argues that the livelihood of the firm/entrepreneur to succeed is dependent on the society on one part and the individual entrepreneur. The elements of the society for CEFE are the Macro (culture, legal framework, education system, and economy), Meso (Markets, resources, institutions) and Micro level (local infrastructure, neighbourhood,) and that of an Individual include capability, motivation and resources.

Two contradicting models that govern government's regulations were identified. The invisible hand of Adam Smith representing the capitalist model argues that the market forces regulates and sees no sense of government regulations. On the contrary, the dominance model as advanced by Karl Max (communism) sees the elite dominating the economy and institution including the government. It is argued that Tanzania has lived through the three decade of a socialism legacy and that her regulatory system has its origin from the dominance system.

The literature has reviewed and tracked the indices and rating factors that empirically measure the investment environment of a country and in the process Tanzania's economic freedom in Sub-Saharan Africa and worldwide is positioned. Most of the indices show Tanzania lagging behind but improving. For example the Worldbank Doing Business Data of 2005 shows Tanzania as the 140<sup>th</sup> among the 150 countries and is the last in dealing with licenses.

The literature chapter also reviews studies on the capacity and institutional setting of private sector associations. The literature portrays associations as active advocates for the business actors. In Tanzania however, there is evidence that the capacity to advocate and provide services to their members is nascent and weak as exemplified by Kilewo and Sambua. The chapter has also reviewed whether reforms have

positively contributed to the creation of a conducive environment for businesses. While various studies speculate that decentralisation will devolve decision making to the people including businesses, Chale, Baker and Binagwa found the partnership qualities weak.

The chapter has shed light on the presence of successful practices, tools and mechanism for designing and implementing Public – Private dialogue and consultative mechanism at the global, regional, National, Tanzania and the local level. Some of the guidelines that may guide Tanzania to succeed in dialogue include: Box 12: Commonwealth Business Council- Business Environment Surveys Clusters, Box 13: Key Action Points and Best Practices for the United Republic of Tanzania, Box 14: OECD Annotations to the Policy Framework for Investment, Box 15: OECD Policy Framework for Investment, Bbox 16: Criterion two: Public Policy Advocacy and Box 17 ;Principles of Regulation Some Examples.

Chapter three presents the research methodology that were used in the study and the rationale that led to select action research, case study, and a survey guided by a questionnaire for collecting primary data. It presents that the questionnaire used in the study is an adoption of the 1997World development report of the World Bank. The questionnaire extracted the perception of entrepreneurs on various issues; the case studies collected quantitative data on effects, while discussions focused on the causalities. The study areas included Bukoba and Biharamulo District and the Municipality of Moshi. The study was conducted in October 2003 to September 2006. A simple random survey was used and the survey covered a population of 389.

In chapter four the finding are presented, analysed and discussed. Section 4.1.1 presents the characters of the 110 firms that filled and returned the questionnaires. More than half 52% were micro enterprise, few enterprises were exporting and many were in trade and commerce, while 92% had a local ownership. The findings are presented in questionnaire themes and as per conducted cases.

Chapter 5 is organised in five (5) sections. While section one summarises the foregoing four chapters, in section two a reflection of the results will be made and conclusions drawn. The section is presented according to the themes developed by a questionnaire and the case studies. The themes include the predictability of laws and policies; political instability and security of property; overall government business interface; law enforcement and bureaucratic red tape, the efficiency of government in providing services and the cased studies.

Section three will present conclusion about the research problem. In this section the relationship between propositions raised in support of the research problems are corroborated by giving inference to primary and secondary data. Four out of the five propositions were proved. The fourth proposition that local government taxes are geared to siphon the meagre resources of SMEs was difficult to elucidate.

In section four the implications for policy and practice that will be presented in 3 sub-themes; Central and Local Government; Private Sector Organisations; and Development Actors are presented. The section makes recommendation that the central government improves dealing with licences, registering property, getting credit and paying taxes. These are the areas where Tanzania is ranked worse in most indices. In section 5.4.2 it is recommended that the PSO sector acquire ideal characteristics of good PSOs. These characteristics include; i) a high number and extensive coverage of dedicated members mostly from the SME community, ii) a committed visionary leadership, iii) a democratic and efficient governance structure, iv) sufficient financial, personnel and physical resources; and v) high-quality services and advocacy. It is also recommended in 5.4.3. that development actors support both the public to increase their political will to serve the private sector and the private sector to pro-actively and constructively advocate. Section five summarises the chapter.

## **5.2. Conclusion of the Research Findings**

The following sub-sections summarise the findings. From the respondents the section concludes that laws and policies at the local government level do not involve business people and that neither entrepreneurs nor their associations take trouble to influence policies through dialogue or information searching. The subsection concludes that Political instability and security of property adversely affects firms and it is a surprise that entrepreneurs have less fears on changes cause by "coups detat".

The Judicial system in Tanzania greatly affects firms and the establishment as the Commercial Court system has yet to percolate to micro and small enterprises and to the local government level. Tanzania is highly ranked by the WB doing business data bank in dealing with licenses, registering property (despite De Soto Initiatives through MKURABITA), and employing workers, starting business, and paying taxes. These have been collaborated by the study findings. This situation adversely affects Tanzania competitiveness and investment attraction compared to Kenya and Uganda that have better rankings. The conclusions find Tanzania law enforcement corrupt and the bureaucracy provides no means of checks and balances. It is also concluded that there is a need of local governments to improve its licensing regimes and health inspection, while the state government has to improve infrastructure provision and its Revenue Authorities to undertake fair estimates.

#### **5.2.1. Unpredictable Laws and Policies**

The questions under this theme sought to evaluate the uncertainties created by the law making process. Five questions were asked based on various angles and include policy surprises, credibility of announcements, information, participation and retroactive changes. The sixth question was a summary question that addressed the change in overall predictability. Through these questions, we were able to evaluate the uncertainties caused by constant surprises in registration. We also wanted to learn from entrepreneurs viable strategies entrepreneurs themselves or their associations can moot to avoid policy surprises.

The results of the respondents on changes in the predictability of policies in the period of ten years average to 23%. This translates that the law making process in Tanzania, rarely consults those affected by the law. On the other hand, few efforts have been tried by the entrepreneurs themselves and their association to collect and collate laws and policies being drafted so as to improve predictability. These results correlate the results of the World Development Report (1997)<sup>200</sup> where 22 countries out of 69 countries surveyed (32%) reported an improvement in the predictability of laws as it was 10 years back.

### **5.2.2. Political Instability and Security of Property Adversely Affect Firms**

Under this theme entrepreneurs responded to a set of five Questions. The first question asked entrepreneurs whether constitutional changes of government (as results of constitutional changes) adversely affect their costs of doing business. The second question on the other hand, collected the uncertainties of doing business as a result of unpredicted changes in government policies through coups. The remaining three questions wanted to know whether firms have confidence in the ability of state authorities to protect their property rights and guaranteed predictable judicial processes.

The questions asked the following:-

1." Constitutional changes of government (as a result of election) are usually accompanied by large changes in rules and regulations that have impact on my business" To what degree do you agree with this statement?

2. "I constantly fear unconstitutional government changes (coups) that are accompanied by far reaching policy surprises with significant impact on my business "To what degree do you agree with this statement?

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<sup>200</sup> Brunnetti, Kisunko and Weder Institutional Obstacles for Doing Business, World wide Private Sector Survey.

3. "Theft and crime are serious problems that can substantially increase the cost of doing business" To what extent do you agree with this statement?

4. "I am not confident that the state authorities protect my persons and my property from criminal actions". To what extent do you agree with this statement?

5. Unpredictability of the Judiciary presents a major problem for my business operations". To what extent do you agree with this statement?

Table 8 above summarise the response of firms and compares the responses to the WDR study report.

**Table 19: Comparison of Firms on predictability of policies with WDR**

Issue	WDR		
	World	SSA	Study
1. Changes in rules due to regular government change	63	65	70
2. Policy surprise due to irregular government changes	49	68	69
3. Theft and crime (% increase in confidence)	-25	-30	-6
4. Security of propety and personal safety(%ge increase in unpredictability)	-15	-20	-1
5. Reliability of the Judiciary- Now	67	70	85

Source: Compiled from WDR and Study Findings

Business communities in Tanzania feel that both constitutional and coups affect their business. The perception of Tanzania entrepreneurs on changes in rules due to regular government change through election correlates well with that of the WDR study. Changes due to coups differ significantly with the average world, but matches well with that of the Southern of Sahara Africa (SSA). It is surprising for Tanzania and the SSA that there are fewer fears on the change of policies due to irregular government changes through coups.

Entrepreneurs feel that theft and crime are serious problems that can substantially increase the cost of doing business. The situation of 100% of the entrepreneur in Biharamulo District considering theft and crime as a very serious problem while the study average is 94% is alarming and needs immediate steps taken. This figure is high compared to the World figure of 75% and that of SSA at 76%. The feeling of the entrepreneurs

from the study reflects that the issue of crime and theft has kept unabated for a decade. It is however questionable to consider theft and crime as a cost increasing the cost of doing business as the government to some extent liberalised security services. As such, firms now can hire their own security services to curb crime including theft. However, looking at the micro and small enterprise nature of businesses studied, the cost of hiring security services by these firms are considered insurmountable. However, the other challenge here is that theft and crime is taking place within the community where entrepreneurs live. What has been the participation of entrepreneurs and their association to furnish supporting information to crime busters to curb crime and what has been the credibility of the enforcers to receive and not to divert information to the detriment of the informers?

Although entrepreneurs feel that their personal safety and their property are inadequately protected there are incidences for example in Bukoba that have shown improved protection on property. Entrepreneurs are also dissatisfied with fire fighting. Progressive cities like Dar es Salaam, the fire fighting activity is commercialised (i.e. Private providers are working hand in hand/complimenting the public fire fighting system).

The judicial system in Tanzania is unreliable. This conclusion auger well with the conclusion of the world report that found in less developed countries, 70% of the entrepreneurs feel that judicial unpredictability presenting a major problem to their business operations. In Tanzania the perception is 15% higher to the SSA average. Despite the establishment of the commercial courts in Tanzania, entrepreneurs think the problems caused to business by the judiciary system has increased by 12% as it was a decade ago.

### **5.2.3. Tanzania has Opportunities to Learn from her East African Counterparts**

Under this theme, firms were asked to judge which problems, different policy areas were hindering them in doing business. The questions will be compared to other ranking as those of the World Bank doing business.

We also include under this theme the efficiency of government in providing major services as they are related.

In Table 19 Tanzania ranks the 142 country in the ease of doing business. It has moved from the position of 150 it held in 2005 and has climbed up by 8 points. This climb has been facilitated by its remarkable performance in protecting investors' (+42) mainly foreign investors and trading across borders (+37). The figures of protecting investors however contradict with the local perception where for example crime and theft is ranked the third worst in Biharamulo.

**Table 20: Factor Policies Affecting Doing Business in Tanzania**

Issue	Wb Doing Business Bmlo Bukoba Moshi			Issue		
			Change			
Easeof...	2006 rank	2005 rank	in rank	Perception study In the order of worst Issue		
<i>Doing Business</i>	142	150	8	AVG		
Dealing with Licenses	172	172	0	3	1	5 3.00 Dealing with Licences
Registering Property	157	161	4	5	2	3 3.33 Cost of Compliance
Employing Workers	143	145	2	1	8	1 3.33 Poor Infrastructure
Starting a Business	127	124	-3	2	3	7 4.00 Paying Taxes
Getting Credit	117	117	0	9	4	5 6.00 Starting Business/entry
Paying Taxes	113	108	-5	6	5	8 6.33 Inflation
Closing a Business	105	95	-10	3	7	9 6.33 Getting Credit
Protecting Investors	99	141	42	8	11	4 7.67 Environmental laws
Trading Across Borders	67	104	37	11	10	2 7.67 Labour Laws/
Enforcing Contracts	65	63	-2	7	6	11 8.00 Crime and theft
				10	9	10 9.67 Trading across Borders

Source: Compiled from Doing Business and study findings

Tanzania is poorly ranked by the World Bank ease of doing business in six areas. These include dealing with licences, registering property, employing workers, starting business the order of uneasiness. These areas also appear in the list of the perception of entrepreneurs as dealing with license (except Bukoba), Cost of compliance, poor infrastructure, paying taxes, starting a business. Employing workers is ranked as easy by



entrepreneurs in the study. This is so, as most of the respondents were micro and small business employing few people and mostly, their employees are family members.

The position of Tanzania at 142 in the doing business ranking diminishes its competitiveness and as a destination of Foreign and Local Direct Investment compared to its East African Counterparts. The 2006 World Bank ease of doing business ranks Kenya as a leader of its East African Counterparts. With its overall ease of doing at 83, Kenya is in front of Tanzania by 59 countries while Uganda is also in front of Tanzania at 107. The data indicates that Kenya fell by 3 points from the 2005 ranking while Uganda fell by 4 points. Uganda ranks 8<sup>th</sup> in employing workers and 43 and 44 in dealing with credit and closing business respectively. Kenya is a good performer in dealing with licences and is ranked 24<sup>th</sup> in dealing with licences, while it is the 33<sup>rd</sup> ranked for getting credit. Tanzania can learn from these countries in the areas where they excel and Tanzania is a worse performer. See Table 21.

**Table 21: Ease of Doing Business Kenya and Uganda**

Issue	Kenya			Uganda		
Ease of...	2006 rank	2005 rank	Change in rank	2006 rank	2005 rank	Change in rank
Doing Business	83	80	-3	107	103	-4
Starting a Business	111	103	-8	107	107	0
Dealing with Licenses	24	23	-1	110	109	-1
Employing Workers	68	67	-1	8	7	-1
Registering Property	115	114	-1	166	164	-2
Getting Credit	33	33	0	159	160	+1
Protecting Investors	60	58	-2	60	58	-2
Paying Taxes	127	120	-7	43	46	+3
Trading Across Borders	145	154	+9	160	159	-1
Enforcing Contracts	67	64	-3	71	67	-4
Closing a Business	128	120	-8	44	44	0

Source: World Bank Doing Business

#### 5.2.4 Collaborative Partnership Improves Government Service Provision.

The questions under this theme wanted to assess the degree of corruption and whether corruption was a predictable transaction cost or a source of uncertainty. The theme explored whether suspicions in dealing

with the local government restrained planned investments project and what percentage of time was spent on dealing with legal requirement and therefore the issue of compliance costs. The questions also explored the efficiency of government to provide the necessary services /infrastructure as needed by firms.

The incidences of corruption in the areas surveyed average 50%. Compared to the world average of 42% the incidences of corruption are higher and at par with SSA of 50%. The type of corruption recurring in Tanzania may be categorised as “blocking corruption”. Blocking corruption is highly unpredictable causing large uncertainties. Conversely, corruption is said to be “greasing” when it is easily predictable and though a crime, it can be predicted and therefore calculated as a transaction cost.

Incidents of other officials asking for additional payments and corruption taking another facet of blackmailing have been identified. Service provision after paying a bribe is uncertain and when aggrieved the high ranking officer usually favours his counterpart indicating that local governments official have discretionary powers an indication that the necessary “checks and balances are missing.

A positive change of government is demonstrated in Bukoba and Biharamulo but it has been declining in Moshi compared to 10 years ago.

There are difficulties for entrepreneurs to comply with government regulations as depicted by the response of the majority of the responses to postpone investment. The cost of compliance as traced in factors blocking investment is high in Moshi. The majority of the respondents indicated that investment postponements were made as the costs of compliance were too uncertain.

The question that asked entrepreneurs to rate the efficiency of government in various areas of service provision aimed at an implicit evaluation of government services in the surveyed areas. The findings indicate

that most of the services that are under parastatal organisation such as posts, telecommunications are efficiently delivered. Laxity in infrastructure and health services was noted.

### **5.3. Conclusion on the Research Problem**

Presenting the research problem it was argued that there is a universal recognition that a vibrant economic growth is enhanced when businesses growth is stimulated to create employment. This situation is achieved when firms and farms have incentives to reap what they have invested. It was also argued that despite the above recognition and that despite the fact that the government of Tanzania has recognised the private sector as an engine of economical development and growth, the private sector in Tanzania sidelined or demotivated.

The first argument proposing the problem statement contends that the cost of doing business in Tanzania is high. Various indices that measure the attraction of investment in comparable countries are discussed and corroborated the proposition and for Tanzania, they inhibit investments.

The business environment in Tanzania was categorised-antagonising. This proposition is also true. For example, the indices of economic freedom of 2004 by the Heritage International, depicted Tanzania repressive in its trade policy, change in government expenditure (Government expenditures as a share of GDP increased 2.2 percentage points to 20.6 percent in 2001). The corporate rate of 30% was seen as repressive, so were property rights, regulations and the informal markets. The doing business database of the World Bank that ranked Tanzania as a poor performer were referred to, to support the problem statement.

Most of above issues in the problem statement are corroborated through the review of literature and research findings. For example, Tanzania is ranked last (172) in the world as per Table 20 in dealing with licenses in the doing business 2006. It is also ranked among the 100 world bad performers in registering property (157),

employing workers (143), starting a business (127), getting credit (117), paying taxes (113) and closing a business (105).

This secondary data is corroborated by the research findings that mention dealing with licences, cost of compliance/entry and paying taxes in order of deprived delivery of services by the respondents.

The second proposition saw high and multiple taxes imposed by numerous authorities. It is argued that businesses are inordinately taxed by the Tanzania Revenue Authority and by the Local government authorities. This proposition is also corroborated as paying taxes is among the worst items in the paying business data base but is a top ranked by the perception study.

The third proposition in the problem statement is that the government provision of hard and soft infrastructure is deficient. It is argued that the private sector is operating in an environment of poor or inadequate infrastructure, poor and outdated legal and regulatory framework stifling the business environment. The Socialist mindset has contributed to bureaucracy mistuned to enabling the private sector, rampant corruption, prejudice to foreign investments and an apathetic attitude to indigenous, small, medium and micro enterprises were also identified as business growth distracters.

Poor infrastructure especially roads are seen as inadequate in Moshi and is overall ranked as a 3<sup>rd</sup> business roadblock by the perception study. Power outage was noted inadequate in Moshi at 50%, while in Biharamulo power outage was at 100%<sup>201</sup>. The Tanzania reliability on hydro power is questionable. The incidence of an average of 68% of the respondents agreeing that the government is either neutral or an opponent to business endorses the statement of the socialist mindset, bureaucracy mistuned to enabling the private sector.

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<sup>201</sup> during the research Biharamulo town was not supplied with electricity although it now has electricity

The fourth proposition postulates that Local Government Authority by-laws see only businesses as the only source of tax base and in the process economic growth is depressed. In the same vain, micro and small business (SME) are detracted to formalise their business and therefore positively limiting the sector to contribute to the economy. The study was not able to draw conclusions on this.

The fifth and last proposition see that neither SMES entrepreneurs nor their Associations participate in the process of drafting, passing and reforming by-laws. The situation was seen aggravated with the presence of nascent and weak of Private Sector Organisations. The statement argues that PSO in Tanzania lack the necessary advocacy skills to engage the government in constructive dialogue.

Both the literature review and the research findings indicate the absence of participation of entrepreneurs and their association within the local governance. For example the conclusions developed in section 5.1.1 above, indicate that entrepreneurs or their associations are not consulted while developing and reforming laws.

Kilewo, Sambua and the cases have demonstrated that before engaging in leadership training, most of the PSO lacked advocacy skills.

#### **5.4. Implication for Policy and Practice**

The objectives of the research planned to achieve programmatic and heuristic values. For programmatic values the research proposed to contribute knowledge on: i) Improved awareness among local authorities and private sector organisation that cooperation between private and public sector will lead to mutual benefits and ii) Local authorities and Private Sector Organisation will appreciate the advantages of a pragmatic investment climate reform.

This section plans to present the contribution of the study to the specific objectives and its implication on policies. The implication and recommendations will be clustered in a) Central and Local Governments b) Private Sector Organisations, and c) Development Actors

#### **5.4.1. Central and Local Governments**

The first set of recommendation is based on reforms. They are presented under the government as this is the place that is responsible for law makin. The recommendation however, cater across all stakeholders i.e. private sector organisation and development actors who have to have a deeper understanding on their effects to business to enable constructive dialogue. They will generally dwell on dealing with licenses, registering property, starting a business, getting credit, and paying taxes the areas were Tanzania is underperforming. These areas advesely affect Small and Micro Enterprises.

##### **5.4.1.1. Dealing with Licenses:**

The dealing with licenses data base that ranked Tanzania as the world overall worst for the doing business 2006 measures procedures, time, cost of business inspections and licensing in this case in a construction industry. For example figures for 2005 the data of Tanzania and the best performer are compared as in table 22 below:

**Table 22: Dealing with Licences -comparative figures January 2005**

Country	Number of Procedures	Time Days	Costs as % of income per capita
Tanzania	26	313	4110.2
New Zealand	7	65	29.3
Finland	17	56	76.2
Denmark	7	70	71.3

Source: Compiled from World Bank Doing Business in 2006

From the above table the licensing regime in Tanzania as exemplified by the construction examples clearly shows that the number of procedure are many, time spent is long and the cost are high mitigating the poor to resort to informality. It is recommended that:

- i) Licensing be only limited to safety objectives, why should for example a hair dresser need a license?
- ii) If it is necessary to licence provide an expiry provision i.e. after a certain period the licensing regulation will expire unless renewed by Parliament/Local Authority legislator, or
- iii) Use the guillotine approach licensing reform that has worked well in Sweden. In this approach, hundred of obsolete licenses are cancelled after which, the government periodically requires regulators to register only essential ones.

#### **5.4.1.2. Registering Property**

Entrepreneurs focus more on businesses when the process of registering business is cheap, simple and fast. Registering property enables also entrepreneurs to access to formal titles that they can pledge as collateral for getting credit. Difficulties in registering property, encourages informality.

By January 2005 it required 12 procedures, took 61 days and it costs 12.2% of property value to register a property in Tanzania. This made Tanzania to be ranked among the 10 most difficult countries to register property in the world. In contrast, in Sweden property is registered by 1 procedure, it takes 2 days and it costs 3% the value of the property. Tanzania has to emulate Sweden that has one procedure, Norway where registering of property takes a day, or the Netherlands where it is done online and Saudi Arabia where registering costs nothing or Slovenia where the cost is 0.1% of the property value.

Based on the above narration it is recommended to:

- i) Make registration an administrative process by unifying cadastre with registry. The process will remove judicial process and requirements that cost money and time.

- ii) Simplify taxes and fees- this may include reducing registration fees, reducing or removing all together transfer fees,
- iii) Make the involvement of notaries optional- successful practices have found notaries where registration is efficient unnecessary. Uses of standardised documents have also reduced the costs considerably.

#### **5.4.1.3. Getting Credit**

While studying the performance of the microfinance industry in Tanzania, Callardo and Randhawa (2003)<sup>202</sup> found out that despite the financial sector reforms set in motion a decade ago progress in the financial reforms, access by large segments of the rural and urban population to financial services has remained stunted. Tanzania has a tiered but relatively new and shallow financial sector, consisting of 20 licensed banks and 11 non-bank financial institutions, and a 17.5% degree of monetization. Most bank branches are concentrated in Dar es Salaam, and only a few have a countrywide network that could be linked to the provision of microfinance services.

The Tanzania legal rights strength index that measures the legal rights of borrowers and lenders is 5. This interprets that collateral and bankruptcy laws need to be re-designed to expand access to credit. By January 2005 Tanzania had neither public credit registry coverage nor private credit bureau coverage in that case; the depth of credit information was 0.

The issue of getting credit may be viewed from two perspectives. The views of the suppliers of credit and the demand side that fail to access credit. While the doing business and other data bases have concentrated to solve problems of the supply side, little has been done to facilitate the competencies of the entrepreneurs to

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<sup>202</sup> Gallardo and Randhawa (2003). Microfinance Regulation in Tanzania: Implication for Development and Performance of the Industry.; *African Region Working Paper Series No.51*.



satisfy the competencies of the entrepreneurs to well manage the business cycle of an enterprise (i.e. start up, rehabilitation or growth).

Based on the above, the following is recommended:

- i) Improve credit information systems by encouraging the establishment of private credit bureau and provide incentives for sharing and proper use of credit information;
- ii) Increase the legal rights index; this may be through reforming the collateral and bankruptcy laws by increasing creditor protection; unrestricting collaterals assets; encouraging out of court summary judgement for enforcing collateral; etc. and
- iii) Improve the provision of business development services to borrowers including entrepreneurship development training (i.e. entrepreneurial competencies and business planning).

#### 5.4.1.4. Paying Taxes

Tanzania has dropped three places in the doing business database from the position of 124 it held in 2005 to 127 in 2006 ranking. A medium company in Tanzania has to pay 48 number of payments per year, that 248 hours or an equivalent of 31 working days and taking 45% of the company's' gross profit.

**Table 23: Paying taxes Data Tanzania**

Tax	Payments (number)	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% profit)
Value added tax (VAT)	12	96	20%	value added	60.6
Corporate income tax	5	56	30%	taxable income	20.5
Social security (NSSF)	12	96	10%	gross salaries	11.6
Skill and development tax	12	-	6%	gross salaries	7.0
City service levy	4	-	0.3%	turnover	5.5

Interest tax	1	-	10%	interest income	0.2
Property tax	1	-	0.15%	property value	0.1
Vehicle tax	1	-	fixed fee (TZS 20,000)		0.1
Totals:	48	248			45.0

Source: World Bank Doing Business 2007

Compared to Zambia, a same size company in Zambia pays 36 number of payments per year, that takes 131 hours and taking 22.2 % of the company's' gross profit, almost half of the profit paid by a Tanzanian company. See table 13. This is no wondering why paying taxes was ranked as a worst issue by the perception study. It is ranked as a number 1 worst issue in Bukoba, 3<sup>rd</sup> worse in Biharamulo and the 5<sup>th</sup> worst issue in the Municipality of Moshi.

**Table 24: Paying Taxes in Zambia**

Tax	Payments (number)	Time (hours)	Statutory tax rate	Tax base	Total tax rate (% profit)
Value added tax (VAT)	12	60	17.5%	value added	53.0
Corporate income tax	4	48	35%	taxable income	7.4
Workers compensation	1	-	5.63%	gross salaries	6.5
Pension contributions	12	24	5%	gross salaries	5.8
Property transfer tax	1	-	3%	sale price	1.9
Interest tax	0	-	15%	interest income	0.4
Road tax (traffic commission)	4	-	K61,000 per quarter		0.2
Medical tax	1	-	1%	interest income	0.0
Fuel tax	1	-	15%	fuel cost	
Totals:	36	131			22.2

Source: World Bank Doing Business 2007

Businesses in developing countries want lower tax rates that are not complicated to pay. Higher tax rates calculated as a percentage of the profit attract evasion as developing countries are not in a position to demonstrate and justify reason for higher taxation through better delivery of social services and infrastructure.

When taxes are lowered and paying process simplified, informal business will be attracted to pay.

It is proposed that:

- i) Encourage tax compliance by keeping the tax rates moderate (as a percentage of gross profit say 25%). This percentage will greatly improve compliance;
- ii) Consolidate the number of taxes, for example Senegal greatly increased the compliance of micro and small enterprises when it only charged one tax that had a lower rate;
- iii) Abolish tax exemptions, this increases the tax base and removes competing political pressure, and
- iv) Simplifying filing requirements- use of electronic filing is encouraged.

#### **5.4.2. Private Sector Organisation**

Both the literature review and findings in section 4.2 have demonstrated those private sector organisations are weak and budding. The cases also presented tools and instruments that were used by the researcher to strengthen PSOs. This was geared to improve services to members, advocate and to efficiently manage their affairs.

Tanzania being a developing economy, Micro and Small Enterprises constitute the majority of the private sector. This being the case, every strategy for the development of a dynamic and viable private sector has to take into account the capabilities, existing local resources and the policy environment under which these

small enterprises operate. To implement the proposals advanced in 5.5.1 above the efforts of governments (Central and local) needs to be supplemented by private sector organisation and private service providers.

To become an ideal partner with government, business organisation need to develop their capacities and have the following ideal characteristics i) a high number and extensive coverage of dedicated members mostly from the SME community, ii) a committed visionary leadership, iii) a democratic and efficient governance structure, iv) sufficient financial, personnel and physical resources; and v) high-quality services and advocacy.

The following section put into context and recommends ways PSOs can use to acquire the desired characteristics:

- i) *Membership*- A committed membership base may be viewed in terms of size, coverage ratio, diversity (sub sector, large, small, micro), relevance (financial status and political influence of members), and growth. Updating and computerised data of members is essential. Membership retention and development strategies enable a PSO to attain member commitments.
- ii) *Leadership*- The structure of the PSO determines the leadership. Associations have to see a member as a highest level of the structure and have to be cherished. Good leadership has to have a vision developed through a participatory strategic plan. Members elect a Board of Directors to lead the association. Committed leaders are to be selected from respected people in the business community who are able to communicate, compromise and cooperate for the good of members
- iii) *Governance*- a democratically organised, autonomous from government and open constitute an ideal PSO. It should also be transparent, owned and controlled by members and is

accountable. The relationship of the Board and the Chief executive officer should be of a partnership arrangement.

- iv) *Resources*-PSOs have to be innovative to attain a sound financial base. An ideal financial base constitutes of a mixture of finance sources including membership fees, service fees, sponsorship, subsidies and product sales. Accurate and transparent accounting procedures guarantee the financial sustainability of a PSO.
- v) *Advocacy and Services*- Members expect benefits when they join the association. This may be directly through valuable service provision or indirect through the change of economical policies. It is argued that PSOs that specialise demonstrate good results as compared to multipurpose PSOs.

Policy advocacy is seen as a core business of PSOs. It however requires established contacts with the government bodies. PSOs need some organisational competencies in tracking legislative process, and presenting evidence based position paper on policy issues.

Enterprise services such as training benefit members more directly. The selection of services will depend on the members' wishes, the capacity and the resources of the association.

Members' satisfaction is an invaluable tool to measure impact. Outreach, diversity and cost effectiveness are some of the measurable verifiable indicators.

#### **5.4.3. Development Actors**

Practice has established that Development actors have a big role to play in structuring public private dialogue and to build the capacity of private and the public sector to engage in effective dialogue.

This section recommends how development actors can support the process of dialogue. It responds to objectives d) recommend to Business Associations, Government Institutions and other Private Sector Promoters the best ways of promoting consultative mechanisms that will sustain business regulations leading to improved economic social outcomes. It also responds to objective e) that intended to develop policy recommendations and appropriate strategies for effective, and sustainable public - private consultative mechanism.

The section recommends that development actors are well placed to support Private sector organisation through building their capacities in i) advocacy, ii) development and management of services and iii) project management. The following paragraphs explain the details of the recommended interventions:

#### 5.4.3.1. Advocacy:

The literatures and the case study presented in section 4.2 illuminates that the private sector cannot grow and flourish with the absence of an adequate framework of economic policies. It was argued that an unfavourable environment for SMEs requires strong advocates. At the same time the capacity is lacking. Development partners can help PSOs achieve more effective advocacy activities. However this has to be aligned to the objectives of the private sector organisation. Box 32 illustrates the activities where private partners are to emphasise while building the capacity of PSOs in Public Private Dialogue.

#### **Box 32: Principle Xii: Development Partners**

**Public-private dialogue initiatives can benefit from the input and support of donors (development partners) when their role is determined by the local context, demand driven, and based on partnership, coordination and additionality.**

- Development partners can encourage conditions for dialogue, and initiate, promote, support, fund and facilitate dialogue.
- Capacity building and disseminating international best practice are two areas where development partners can play a particular role.
- The role should be as neutral as possible, maximizing the local ownership and capacity, the development of trust and the maintenance of a conducive and transparent environment.
- Development partners should consider social, economic and political context, exit strategies and sustainability issues.
- They should coordinate among themselves to avoid duplicating their efforts and maximize the availability of funds when partnership is found to be worth supporting.

Source: World bank Public Private Dialogue Handbook-Charter

Development partners can also support i) manuals, ii) planning workshops, ii) brainstorming, iv) planning workshops, v) Media training, vi) coalitions, vii) support public-private partnership, vii) information dissemination and studies. This eight step strategy and areas where development partners can support is illustrated in Figure 41 below.

**Figure 41: An Advocacy Strategy for PSO and Development Partners interventions**

Step	1	2	3	4
	Formation of Advocacy Committee	Selection of Issues to Advocate	Membership Survey	Focus Group Discussions
Important Factors	<ul style="list-style-type: none"> <li>• 5-7 Members</li> <li>• Suitable Chairperson</li> <li>• Assigned Budget and Staff</li> <li>• Regular Meetings</li> </ul>	<ul style="list-style-type: none"> <li>• Present most important issues</li> <li>• Criteria: Relevancy to members, ease of formulation, chance of success, potential opposition</li> </ul>	<ul style="list-style-type: none"> <li>• Develop questionnaire</li> <li>• Distribute it</li> <li>• Complete it by Certain date</li> </ul>	<ul style="list-style-type: none"> <li>• Hold workshop with selected members</li> <li>• Discuss relevant policies</li> <li>• Identify concerns</li> </ul>
Possible Donor Instruments	<ul style="list-style-type: none"> <li>• Manual</li> </ul>	<ul style="list-style-type: none"> <li>• Planning Workshop</li> <li>• Brainstorming</li> </ul>	<ul style="list-style-type: none"> <li>• Short term Expert</li> <li>• Manuals</li> <li>• Joint Financing</li> </ul>	<ul style="list-style-type: none"> <li>• Moderate the workshop</li> <li>• Prepare advocacy materials</li> </ul>

Step	5	6	7	8
	Establishment of priorities	Implementation of Strategy	Identifying of Key Leverage Points	Customisation
Important Factors	<ul style="list-style-type: none"> <li>• compilation of Concerns</li> <li>• Budget available</li> <li>• Ranking of issues and solutions</li> <li>• Selection</li> </ul>	<ul style="list-style-type: none"> <li>• Define tools</li> <li>• Time frame for implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Key issues and policy makers</li> <li>• Proponents</li> <li>• Opponents</li> <li>• Understanding motivation</li> </ul>	<ul style="list-style-type: none"> <li>• Tailor message</li> <li>• Appeal to self interest</li> <li>• Be convincing and concise</li> <li>• Work out agenda</li> <li>• Include answers</li> </ul>
Possible Donor Instruments	<ul style="list-style-type: none"> <li>• Only minor intervention necessary</li> <li>• Planning Workshop</li> </ul>	<ul style="list-style-type: none"> <li>• Media training</li> <li>• Coalitions</li> <li>• Manuals</li> <li>• Support for public private partnership</li> </ul>	<ul style="list-style-type: none"> <li>• Spread contact information</li> <li>• Background studies</li> </ul>	<ul style="list-style-type: none"> <li>• short term experts</li> <li>• Manuals</li> </ul>

Source: Adopted from CIPE (unpublished)

#### **5.4.3.2. Development and Management of Services**

SMES lack the financial and human resources compared to their competitors the large enterprises. SMES need to resort to external service providers to operate their businesses effectively and efficiently. However developing countries including Tanzania experience an underdeveloped service market for SMEs. One reason for the market targeting SMEs is low effective demand by enterprises and their hesitation to pay for the services.

Considering the underdeveloped market and that the provision cost for business services providers is considerable, it is difficult for private business service providers to work profitably in these markets. The intervention to this regard for development partners should be of facilitation. The issue of crowding out private business service providers should be balanced. To this regard, development partners should strive to develop the Complementarity of PSO and Business Development Service providers.

#### **5.4.3.3 Private Sector Organisation Management**

In the previous chapters the management weaknesses of PSOs was presented. Bad management of PSO was characterised as low membership, poor leadership (lack of a mission and strategic planning), and lack of administrative skills, duplication of tasks between the honorary representative and executive staff, negligible influence on government policies, weak communication and public relations, unattractive services to retain and entice new members, inadequate fund and income generation techniques.

We have however explored that PSOs have an important voices coordinate, aggregate and represent the interest of SMEs, their capacity to effectively and efficiently manage to ensure their long term existence is important as few alternatives are available. It is therefore viable for development partners to build the capacity of PSOs. The following paragraphs puts in contexts and recommends the areas that development partners may support.



- i) **Finance-** Few PSO employ professional accountants and despite some using computerised accounting packages, by and large, their accounts fail to meet acceptable professional standards. As most of the board members and members belong to the SMEs, the skill to interpret financial statements is also lacking. Despite the above, members and other contributors are keen to know what the association is doing with their money.

In such conditions, development partners have to support PSOs to reform their financial practices so that they can be transparent and accountable. The other areas where PSOs may reform includes diverse source of funds, the provision of steady cash flows and to enable PSOs to build reserves that will make PSOs sustainable.

It is recommended that donor support PSOs in:

- a. *Income generating* – Development partners may support PSOs to twin with advanced PSOs on how they develop income generating services without crowding out commercial providers and member businesses.
- b. *Accounting practice*-Support the training of staff members to deliver basic financial statements (balance sheets, income statement and cash flow) in an accurate, understandable and timely manner. Through this intervention, Board members and members are supported to interpret financial statements. Financial support may also be advanced to PSOs to higher professional Audit and Accounting firms;
- c. *Membership tracking and fee administration*- Development partners can support PSOs through staff exchange or organising workshops to computerise the membership tracking and fee administration system.

- ii) **Membership Development-** A solid membership base and having many committed and willing to volunteer members justifies the association as genuine representatives of the private sector. Membership development and retention are of great importance to the sustainability of the PSO. The penetration of PSOs to possible members however in Tanzania is low (about 5%). This low outreach is more than often (a) leaders are satisfied with the way things are, (b) PSO wants to act as an exclusive club, and c) a small group is politicizing a PSO.

Membership development represents a marketing activity of a firm. Mastering of the marketing strategies is a lacking skills. It is recommended recommended that this is an area that development partners can support and develop. Support areas proposed include:

- a) *Member recruitment-* Technical assistance to PSO to hire short term marketing experts to conduct awareness campaigns and to mentor chamber marketing officers and member services committees in new marketing techniques, branding and new marketing techniques such as member-to member blitz, etc
- b) *Member retention-* Member satisfaction is key to keeping a member. Development partners may support PSOs with technical assistance in conducting membership satisfaction survey on the services that are offered to members. Non-members can also be surveyed to garner whether there are aware of the services offered by the PSOs and if they are aware what are the barriers to use the services of the chambers.

- iii) **Strategic Planning-** PSOs surveyed realised the importance of planning. The problem was that they lacked skills and resources to facilitate the exercise. It was also noted that both leaders and staff fail to use strategic planning as a guide to their day to day guide to their decisions.

Strategic planning is a most important tool for newly formed PSOs. Its short term objective is to coordinate efficiently the resources of the PSOs, while the long term objective to build consensus and to keep the PSO focused through its vision and mission statements. In particular, donors may support PSOs in the following strategic planning areas:

- a) *Supporting a strategic planning workshop*- The strategic workshop will use the results of the membership survey to develop a strategy of the PSO. The strategic plan should involve Board members, PSO staff, ordinary members and other PSO stakeholders including the local government and Development partners as advisors. Technical support may be used to recruit a facilitator, and other workshop logistics.
- b) *Preparation of a business plan*- a business plan outlines future activities, a time frame and a budget and training requirements. Development partners may support short term experts that will draft the business plan with the PSO planning committee.

- iv) **PSO Management**- To effectively implement the strategic plan, membership services, advocacy and financial management PSO needs to have an effective and efficient internal organisation and communication strategies. A strengthened organisation also needs to monitor and evaluate its performance. It has to measure through impact assessment what it has achieved as results of offering its member services and advocacy.

Development partners in this area are encouraged to support the following:

- a. *Internal organisation certification*- PSOs surveyed had incomprehensive job descriptions mitigating Boards to perform day to day duties instead of dwelling on policies. Development partners may support PSOs through experts or twinning arrangement to introduce and certify the internal organisation (e.g. ISO 9000) in the areas of job description and work plan development.

Development partners can also support PSO to de-bottleneck administrative systems through provision of experts, recruitment of professional experts and co-financing modern equipments and software (workstations, internet, business information centres, etc)

- b. *Strategic Alliances*- Due to the limitation of resources especially human resources and to keep the services of PSOs focused, it is logical for PSOs to form strategic partnership with other organisations. These may include commercial service providers, universities, other PSOs and NGOs.

Development partners can enhance networking, act as a donor by providing bridging finance to service delivery and guide strategic partners to best practices of strategic alliance and partnering.

- c. *Impact assessment*-To measure whether the activities are being done efficiently and effectively, PSOs have to constantly monitor their activities and measure the impact or if they are creating change and adding value to the businesses of their members. PSOs lack the resources and skills to design appropriate indicators and simple tools of conducting participatory impact assessment.

Development partners' technical assistance in project management workshop and supporting in terms of short term monitoring and evaluation expert is called for. Development partners can also support PSOs to disseminate information through supporting PSOs newsletter and the preparation of annual reports.

## **5.5.Summary.**

Chapter five wraps up the whole study into a coherent of how the research objectives were met. While section one has summarised the preceding four chapters, section two reflects and concludes the findings of the questionnaire. The section concludes that laws and policies are unpredictable as entrepreneurs and their association are excluded in the law making process. Political instability through elections or coups and security of property adversely affect firms. Tanzania is ranked as an obstacle to doing business by the World Bank doing business database but can learn from her East African counterparts (dealing with licence and

getting credit from Kenya and employing workers and closing business). It is concluded that improved and collaborative partnership when deployed will considerably promote law enforcement, reduce bureaucratic government red tape and improve government service delivery to the private sector.

Four out five propositions of the research problem i.e. i) the cost of doing business in Tanzania are high, ii) existence of high and multiple taxes, iii) absence of reliable hard and soft provision of infrastructure, iv) neither SMEs nor their private sector organisation are consulted and the associations are weak and nascent were verified by the study findings and the literature review. It was difficult to prove the propositions: i.e. iv) local authority by-laws are drafted to siphon businesses leading to informality.

The section makes the following recommends to the three sector clusters as follows:

*i) Central and Local Governments :*

a) Reduce the licensing burden by (licensing be limited to safety reasons, provide expiry provision, use a guillotine approach); b) Ease the burden that limit the registration of properties c) Ease access to credit (improve credit information system, reform collateral and bankruptcy laws to increase the legal rights index, improve BDS provision), and d) Improve tax paying compliance (reduce tax rates, consolidate number of taxes, abolish tax exemptions, simplify filing requirements)

*ii) Private sector organisations*

a) Strengthen PSO in areas of membership, leadership, governance, resources, advocacy and services; b) Advocate through Public Private Dialogue to achieve proposals advanced in i) above.

*iii) Development Partners (Donors*

a) Build the capacity of the public and private sector to engage in constructive dialogue: b) Strengthen PSOs to advocate and lobby for conducive business policies

## Appendix 1: Questionnaire for Private Sector Survey English version

The purpose of this survey is to better understand constraints imposed by the government action that hinder the development of the private sector. This study is conducted by your local Tanzania Chamber of Commerce Industries and Agriculture. The ultimate goal of this research is to advise the governments local and central on ways to change policies that impose a burden on private firm and to develop new projects and programmes that strengthen support for enterprise growth. Your answers reflect your perception of doing business in the environment you leave in.

We wish to assure you that the information obtained will be treated strictly anonymously and confidentially.

### General Information

District: -----

Business size as measured by employment	0-4 Employees	<input type="checkbox"/>
	5-10 Employees	<input type="checkbox"/>
	11-50 Employees	<input type="checkbox"/>
	More than 50 Employees	<input type="checkbox"/>
Business Type	Industry	<input type="checkbox"/>
	Service	<input type="checkbox"/>
	Trading	<input type="checkbox"/>
	Agriculture	<input type="checkbox"/>
Foreign Participation	Yes	<input type="checkbox"/>
	No	<input type="checkbox"/>
Exports	Yes	<input type="checkbox"/>
	No	<input type="checkbox"/>

This questionnaire always presents multiple choice options on a range from 1 (Best) and 4 or 5 (Worst). Please mark the answer you think best reflects your option.

<p><b>I. PREDICABILITY OF LAWS AND POLICIES</b></p> <p>1. Do you regularly have to cope with unexpected changes in rules, laws or policies, by laws which materially affect your business?</p> <p>Changes in laws and policies are:</p> <p>Completely predictable <input type="checkbox"/></p> <p>Fairly predictable <input type="checkbox"/></p> <p>Unpredictable <input type="checkbox"/></p> <p>Complete <input type="checkbox"/></p> <p>2. Do you expect your local government to stick to announced major policies?</p> <p>Always <input type="checkbox"/></p> <p>Frequently <input type="checkbox"/></p> <p>Sometimes <input type="checkbox"/></p> <p>Seldom <input type="checkbox"/></p> <p>Never <input type="checkbox"/></p> <p>3. "The process of developing new rules or policies is usually such that affected businesses are informed"</p> <p>This is true</p> <p>Always <input type="checkbox"/></p> <p>Sometimes <input type="checkbox"/></p> <p>Seldom <input type="checkbox"/></p> <p>Never <input type="checkbox"/></p> <p>4. " In case of important changes in laws and policies affecting my business operation the government takes into account concerns voiced either by me or my business association"</p> <p>This is true</p> <p>Always <input type="checkbox"/></p> <p>Sometimes <input type="checkbox"/></p> <p>Seldom <input type="checkbox"/></p> <p>Never <input type="checkbox"/></p>	<p>5. Do you fear retroactive changes of regulations that are important for your business?</p> <p>Always <input type="checkbox"/></p> <p>Sometimes <input type="checkbox"/></p> <p>Seldom <input type="checkbox"/></p> <p>Never <input type="checkbox"/></p> <p>6. In the last 10 years the predictability of laws and policies for your local government has:</p> <p>Increased <input type="checkbox"/></p> <p>Remained about the same <input type="checkbox"/></p> <p>Decreased <input type="checkbox"/></p> <p>Don't know <input type="checkbox"/></p> <p><b>II.POLITICAL INSTABILITY AND SECURITY OF PROPERTY</b></p> <p>7." Constitutional changes of government (as a result of election) are usually accompanied by large changes in rules and regulations that have impact on my business"</p> <p>To what degree do you agree with this statement?</p> <p>Fully agree <input type="checkbox"/></p> <p>Tend to agree <input type="checkbox"/></p> <p>Disagree in most cases <input type="checkbox"/></p> <p>Strongly disagree <input type="checkbox"/></p>
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8. "I constantly fear unconstitutional government changes (coups) that are accompanied by far reaching policy surprises with significant impact on my business "

To what degree do you agree with this statement?

Fully agree ☐  
Tend to agree ☐  
Disagree in most cases ☐  
Strongly disagree ☐

9. "Theft and crime are serious problems that can substantially increase the cost of doing business"

To what extent do you agree with this statement?

	Now	10 years ago
Fully agree	<input type="checkbox"/>	<input type="checkbox"/>
Tend to agree	<input type="checkbox"/>	<input type="checkbox"/>
tend to disagree	<input type="checkbox"/>	<input type="checkbox"/>
Strongly disagree	<input type="checkbox"/>	<input type="checkbox"/>

10. "I am not confident that the state authorities protect my persons and my property from criminal actions"

To what extent do you agree with this statement?

	Now	10 years ago
Fully agree	<input type="checkbox"/>	<input type="checkbox"/>
Tend to agree	<input type="checkbox"/>	<input type="checkbox"/>
tend to disagree	<input type="checkbox"/>	<input type="checkbox"/>
Strongly disagree	<input type="checkbox"/>	<input type="checkbox"/>

11. "Unpredictability of the Judiciary presents a major problem for my business operations"

To what extent do you agree with this statement?

	Now	10 years ago
Fully agree	<input type="checkbox"/>	<input type="checkbox"/>
Tend to agree	<input type="checkbox"/>	<input type="checkbox"/>
tend to disagree	<input type="checkbox"/>	<input type="checkbox"/>
Strongly disagree	<input type="checkbox"/>	<input type="checkbox"/>

12. " My local government gives little priority to property protection infrastructure such s fire fighting equipments"

To what extent do you agree with this statement?

	Now	10 years ago
Fully agree	<input type="checkbox"/>	<input type="checkbox"/>
Tend to agree	<input type="checkbox"/>	<input type="checkbox"/>
tend to disagree	<input type="checkbox"/>	<input type="checkbox"/>
Strongly disagree	<input type="checkbox"/>	<input type="checkbox"/>



### III OVERALL GOVERNMENT BUSINESS INTERFACE

13. Please judge on a six point scale how problematic these different policy areas are for doing business ( Please do not select more than 5 obstacles as very strong (6)

Issue	Obstacle					
	No		Average		Very strong	
	1	2	3	4	5	6
a) Regulation for starting business/new operations						
b) Price controls						
c) Regulations on foreign trade (export, imports)						
d) Financing						
e) Labour laws						
f) Foreign currency regulations						
g) Tax regulations/high taxes						
h) Inadequate supply of infrastructure (Roads, electricity, telephone)						
i) Policy instability						
j) Safety or environmental regulations						
k) Inflation						
l. General uncertainty on cost of regulations						
m. Crime and theft						
n. Corruption						
o. Terrorism						
p. Others						

14. Please rate your overall perception of the relation between government and /or the bureaucracy and private firms on the following scale. "All in all , for doing business I perceive the local government as a:

	Helping hand		Neutral agent		Opponent	
	1	2	3	4	5	6
Today						
10 years ago						

### IV. BUREAUCRATIC RED TAPE

15. "It is common in my line of business to pay some irregular "additional payments" to get things done "

This is true  
 Always ☐  
 Sometimes ☐  
 Seldom ☐  
 Never ☐

16. "Firms in my line of business usually know in advance about how much this " additional pay" is"

This is true  
 Always ☐  
 Sometimes ☐  
 Seldom ☐  
 Never ☐

17. "Even if a firm has to make an "additional payment" it always has a fear that it will be asked for more e.g. by another official"

This is true  
 Always ☐  
 Sometimes ☐  
 Seldom ☐  
 Never ☐

18. " If a firm pays the required " additional payment" the service is usually also delivered as agreed

This is true  
 Always ☐  
 Sometimes ☐  
 Seldom ☐  
 Never ☐

<p>19. " If a government agent acts against the rules I can usually go to another official or to his superior a get a correct treatment"</p> <p>This is true Always Sometimes Seldom Never</p> <p>20, In the last ten years, difficulties in dealing with government officials have Increased remained about the same decreased don't know</p> <p>21. Have you ever decided not to make a major investment because of problems relating to complying with government regulations/local government bye-laws?</p> <p>Yes No</p> <p>If your answer was "yes", could you please specify which of the two following two options describes the nature of these problems:</p> <p>The cost of compliance are too high , but clearly known</p> <p>Costs of compliance are too uncertain for investment planning</p> <p>Other</p> <p>Mention them----- ----- -----</p>	<p>22. What percentage of senior management's time is spent on negotiations with officials about changes and interpretations of laws and regulations?</p> <p>Less than 5% 5%-25% 25%-75% more than 75%</p> <p>V. EFFICIENCY OF GOVERNMENT IN PROVIDING SERVICES</p> <p>23. Please rate your overall perception of :</p> <table border="1"> <thead> <tr> <th rowspan="3">Service</th> <th colspan="6">Efficiency of service delivery to firms</th> </tr> <tr> <th colspan="2">Very good</th> <th colspan="2">average</th> <th colspan="2">Very poor</th> </tr> <tr> <th>1</th> <th>2</th> <th>3</th> <th>4</th> <th>5</th> <th>6</th> </tr> </thead> <tbody> <tr> <td>a) The efficiency of customs</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>b) The efficiency of VAT estimates</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>c) The efficiency of Income tax</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>d) Obtaining a business licence</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>e) Health inspection efficiency</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>f) State of roads</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>g) Efficiency of obtaining a TLB-transport</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>h) Mail delivery from TPS</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>i) The quality of public health provision</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>l) The efficiency of TTCL</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </tbody> </table> <p>24. How frequent are power outage?</p> <p>Once in a period of 3 months Once a Month Once in two weeks Once a week Once a day No power for a long period</p>	Service	Efficiency of service delivery to firms						Very good		average		Very poor		1	2	3	4	5	6	a) The efficiency of customs							b) The efficiency of VAT estimates							c) The efficiency of Income tax							d) Obtaining a business licence							e) Health inspection efficiency							f) State of roads							g) Efficiency of obtaining a TLB-transport							h) Mail delivery from TPS							i) The quality of public health provision							l) The efficiency of TTCL						
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Thank you very much for having taken time to complete the questionnaire. The information on your perception is very important input for the evaluation of the private sector-government relation and for the formulation of policy advice.

We would appreciate any thoughts you might have on the relationship between private sector and government, or comment on the questionnaire in general.

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**Appendix 2: Logical Framework July 2002 – June 2005**

Goal	Objectives	Activities	Who	When	Indicators
1. Tawe members Access easily to financial services	1.1.Tawe Saving and Credit Association (SACA) is developed into an Amalgamated Savings and Credit Association (ASCA)	1.1.1.Conduct a Need Assessment of Tawe members Businesses	Credit Committee	Dec 2002	<ul style="list-style-type: none"> <li>At least 50% of the members have joined</li> <li>At least 4 products have been developed</li> <li>Repayment rate is at 98%</li> <li>Portfolio at risk is &lt; 2%</li> <li>At Least 15% of members are savers only</li> </ul>
		1.1.2.Design savings and credit products that respond to the needs of the members	Board of Tawe ASCA	April 2003	
		1.1.3. Develop credit and saving policies	Members/Board	June 2003	
		1.1.4. Recruit ASCA members	Board	Feb 2003	
		1.1.5. Employ Competent credit officers and Managers	Board	June 2003	
		1.1.6. Develop ASCA through different stages	Manager	Dec 2003	
		1.1.7. Access to external Credit	Board	March 2004	
		1.1.8.Recruit competent Board of Directors	Executive Committee Tawe	Jan 2003	
		1.1.9. Train and retain Board and Staff	Manager	Continuous	
	1.2.Most of Members businesses are loanable	1.2.1.Training on entrepreneurship development and project proposal writing is conducted 1.2.2.Some members are referred to other financial institutions	Members Development Committee	Continuous but starting by Feb 2003  Continuous but starting by Dec2003	<ul style="list-style-type: none"> <li>At least 3 seminars are conducted</li> <li>At least 10% of applicants access to external loans</li> </ul>
2 .Community understands equal opportunities and women are conducting businesses without hindrance	2.1.Women entrepreneurs are empowered and are generating income	2.1.1.Conduct research and identify impediments to women entrepreneurs barriers to generate income	Members Development Committee	Feb 2003	No of meeting disseminating results findings
		2.1.2.Collaborate with women rights institutions and advocate for women equal rights and opportunities	Government and Community Affairs Committee	Continuous	Increase in the number of collaborations made
		2.1.3.Adress and develop advocacy issues specific for women entrepreneurs and dialogue with relevant policy formulation institutions with TCCIA	Government and Community Affairs Committee	Continuous	No of policies changes influenced

	2.2. Women are making decisions	2.2.1. Members are enabled to utilise their hidden indigenous skills	Members Development Committee	Nov. 2003	Increase in the commercialisation of women indigenous skills
		2.2.2. Business/study tour are conducted to expose members to other women entrepreneurs inside and outside the country	Members Development Committee	Mar. 2003	Increase in study visits No of businesses developed after study visits
3. Capability of identifying and utilising business opportunities is developed	3.1. Entrepreneurship culture is developed	3.1. Entrepreneurship development Trainings Conducted	-do-	Jan. 2003	<ul style="list-style-type: none"> <li>Members who have received intervention is &gt; 50%</li> <li>75% of the participants have ranked the interventions as satisfactory</li> </ul>
	3.2. Business Development Interventions conducted	3.2.1. Needs assessment conducted		Oct 2002	
		3.2.2. Institutions offering BDS identified 3.2.3. Resources and sponsors identified 3.2.4. Proposals for funding are prepared 3.2.4. Training programs are conducted 3.2.5. Technology transfer and Market linking conducted		Dec 2002  Continuous	
4. TAWÉ implementation capacity developed	4.1. TAWÉ has permanent and competent staff	4.1.1. Members are motivated to pay in time	Member retention and recruitment Committee/ CEO	Aug 2002	◆ Increase in the number of members
		4.1.2. Staff recruitment and retention scheme developed	Secretary/CEO	Jan 2003	◆ 80% of staff are retained
		4.1.3. Competent staff are head hunted and recruited	Chairperson	Mar 2003	◆ 60% of targeted candidates apply for the jobs