

Building A Better Investment Climate: How to Get Started

Fast Track Regulatory Reforms for Broad-based Economic Growth

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BY: Bede Lyimo
Chief Executive Officer
Better Regulation Unit
Ministry of Planning, Economy & Empowerment,
P.O. Box 9242,
DAR ES SALAAM.
Email: bru@bru.go.tz; Phone +255 22 2122215

OUTLINE

1. Introduction: Broad-based growth & Poverty Reduction
2. Doing Business Indicators
3. Investment Climate Status in SSA: 2007
4. Good Future Prospects for SSA: Unfolding Reforms
5. Programme for Business Environment Strengthening for Tanzania (BEST)
6. Focus on Business Licensing reforms
7. An East African Perspective: Regulatory Policy Framework Harmonization?

Investment Climate reform for broad-based growth

- Broad-based economic growth - driving force behind poverty reduction
- only occurs when appropriate incentives in place to undertake investments in human and physical capacity and heighten productivity of factor inputs
- This central lesson of economics, although simple, is ill-learned
- Across the world, misguided regulations / inadequate infrastructure cause resources and effort to be diverted from productive uses
- Result is:
 - more poverty
 - larger informal sectors
 - higher unemployment
 - lower productivity
 - more corruption
- Solution - reform of the investment climate

Investment Climate reform for broad-based growth

SSA countries better off than Asia in 1960s but are now worse off –
What went wrong? [Blair Report]

3 critical sets of factors: constraints/challenges

- **Investment Climate:** - policies, laws, market & trade supporting institutions
- **Infrastructure:** - is it efficient / competitive?
 - Hard: transport, ports, utilities, communication, social infrastructure, & infrastructure for agriculture
 - Soft: financial and ICT services
- **Private sector core competencies: Innovation & creativity for higher productivity & excellence**
 - Education and skills: specific skills for each sector
 - Access to technology and other production assets
 - Access to finance
 - Access to foreign markets & entry into those markets

Doing Business indicators

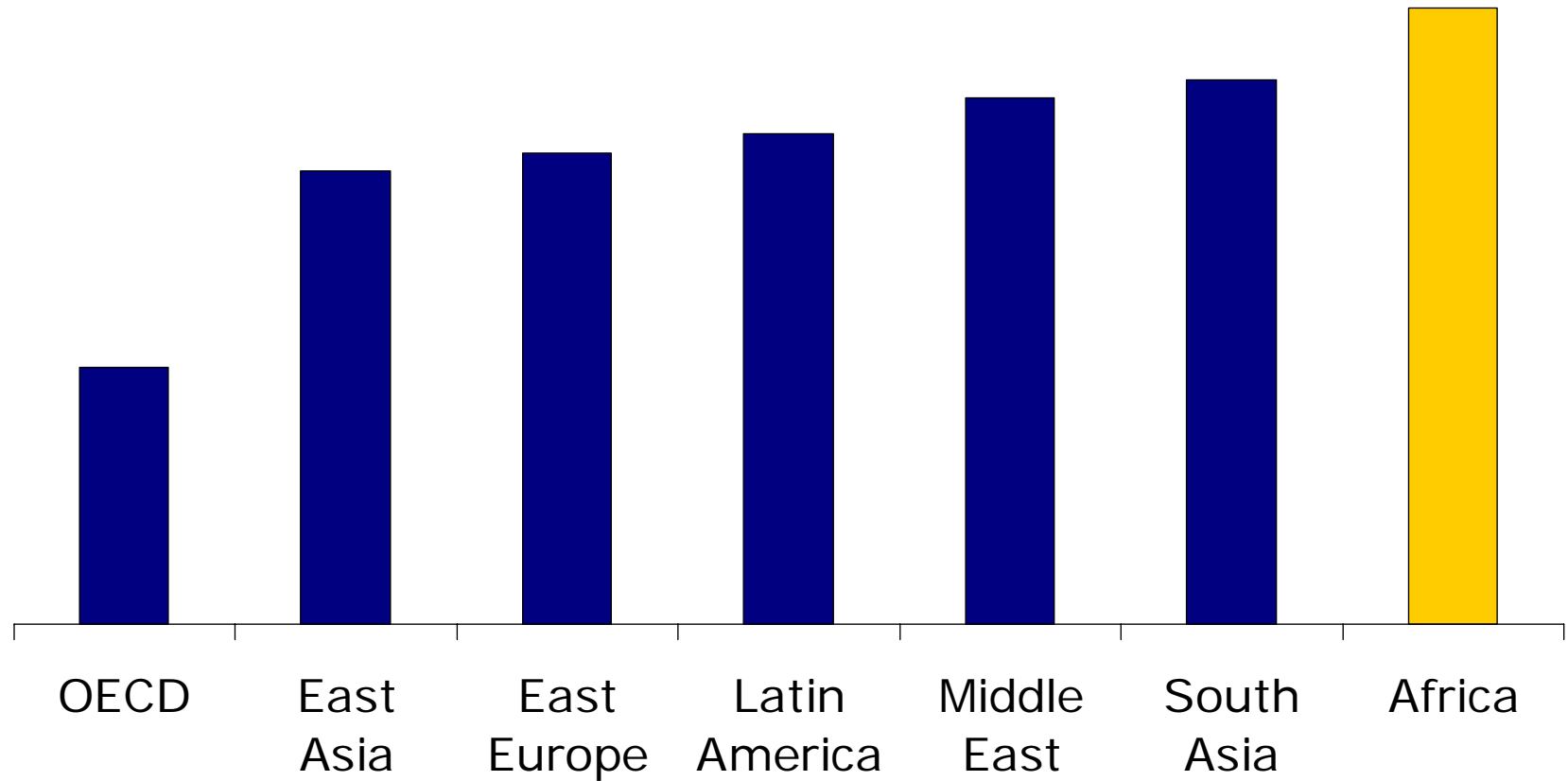
2007 Review based on ten factors:

1. Starting a business
2. Employing workers
3. Enforcing contracts
4. Trading across borders
5. Paying taxes
6. Dealing with licenses
7. Registering property
8. Getting credit
9. Protecting investors
10. Closing a business

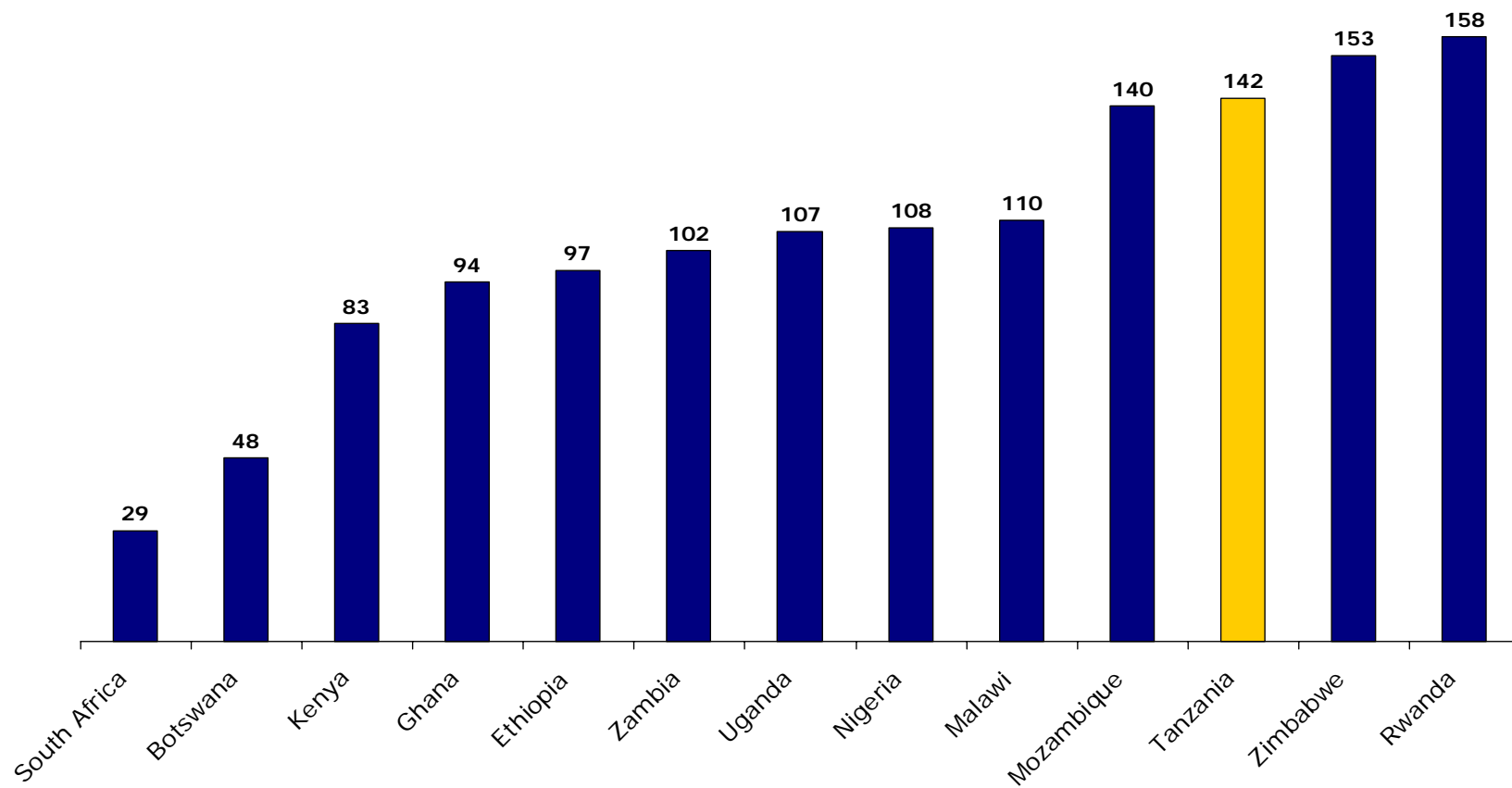
2008 to be updated to include two additional factors

1. Add Not paying bribes
2. Add Using infrastructure

Sub Saharan Africa: most difficult region to do business



Tanzania did not perform well in 2007 in the world & within Africa



A Glance at best African performers in 2007

Entry in Mauritius – 30th

Licensing (construction) in Swaziland - 16th

Hiring and firing in Uganda – 8th

Registering property in Sudan – 29th

Getting credit in Botswana - 13th

Protecting investors in South – 9th

Paying taxes in Mauritius – 11th

Trade in Cape Verde – 20th

Enforcing contracts in South Africa – 43rd

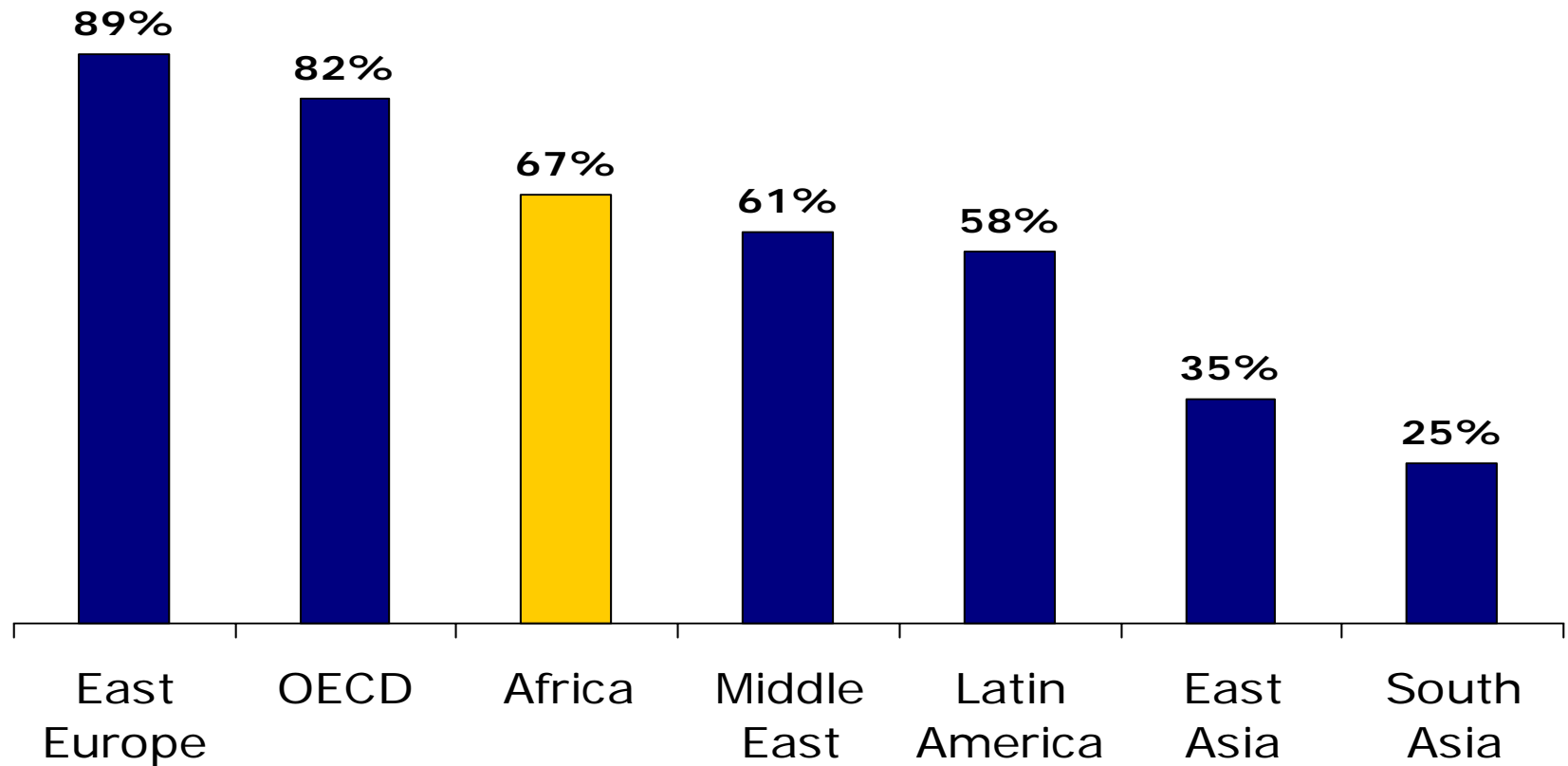
Closing in Botswana – 22nd

Tanzania's Ranking- ease of doing business

145 / 175 countries: vs Kenya at 83/175

Factor Description	Tanzania's Ranking	World's best
Starting a business	127	Canada
Dealing with licenses	172	Japan
Employing workers	143	United States
Registering property	157	New Zealand
Getting credit	117	United Kingdom
Protecting investors	99	New Zealand
Paying taxes	113	Maldives
Trading across borders	67	Hong Kong, China
Enforcing contracts	65	Denmark
Closing a business	105	Japan

Good future prospects: Africa ranks 3rd on good reformers; Tanzania is 1st in Africa & 10th in World



Where the Tanzanian gains in 2007 came from

Good score on 2007 report in 3 areas:

- Tax Administration Programme – import/export procedures under the Tanzania Revenue Authority
- Reform of the Company Act 2002 – protecting investors
- Reforms of the Business Licensing Act (removal of fees and introduction of lifetime business license)

Future prospects: Doing business in 2009 in outcomes of Programme for Business Environment Strengthening for Tanzania (BEST)

The Business Environment Strengthening Programme (BEST)

BEST focuses on minimising regulatory constraints to business, and changing the culture of government from control to facilitation of business and service delivery. Components are:

- Reducing the compliance costs of business registration, regulating (licensing) and exit
- Facilitating a national identity system to enhance access to finance (as well as modernization of RITA operations)
- Land reform to enhance security of tenure and boost economic growth through access to titled land
- Improving efficiency of commercial dispute resolution
- Labour market reform to enhance productivity
- Strengthening the TIC to attract investment
- Institutionalising RIA to improve quality of Govt decision-making
- BEST AC to enhance private sector advocacy
- BEST Zanzibar to improve investment climate in Zanzibar

Business entry: Licensing / Registration is a critical component of the investment climate

World Bank “*Doing Business*” indicators – 3 key indicators on which business licensing has bearing

- Ease of business entry
- Ease of doing business
- Ease of dealing with licences (construction industry used as proxy)

Where does Tanzania rank out of 175 countries worldwide?

Ease of business entry 127th

Ease of doing business : 142nd

Ease of dealing with licences : 172nd

Compare with Kenya and Uganda:

Ease of business entry: Kenya – 111th Uganda – 107th

Ease of doing business: Kenya – 83rd Uganda – 107th

Ease of dealing with licences: Kenya – 24th Uganda –

Is business licensing a problem in Tanzania?

- MKURABITA Diagnostic - “the business licensing system generates the most complicated and burdensome part of gaining legal access to business both in Mainland and in Zanzibar. The system is complex, lacks inter-agency coordination, and has no established standards for the different requirements and inspections that arise during the paperwork process.”
- Historically licensing used throughout EA as means of strictly controlling business activities and restricting competition from non-citizens. With liberalisation and decentralisation, licensing used principally for revenue generation
- The process of registering a business (normally a record-keeping process only) became ex ante approval process – firms required to fulfil variety of conditions, pay an array of fees to various agencies and obtain a variety of time-consuming approvals and licences, before starting operations
- Good progress made with introduction of BARA and repeal of Business Licensing Act, but this is not the full story

Yes – Regulatory business licensing is a major hurdle to growth

- General Licensing laws: the “Business Licensing Act No. 25 in Tanzania’s case: being replaced by Business Activities Registration Act, 2007.
- At least **65 licensing laws** administered by **53 autonomous agencies** regulate sectoral business activities in Tanzania. Plus, numerous licenses operate at local level
- No single policy in Tanzania to govern sectoral licensing in consistent, coherent and coordinated manner - so agencies impose their own criteria for licensing
- Proliferation of institutions, each with individual criteria, lack of coordination between them - leads to confusion, duplication, multiplicity and overlap in procedures, paperwork, inspections and fees – **high costs for businesses with low social return**
- Non-transparent procedures, complex paperwork, inefficient approval processes - no accountability for wasting firms’ time and money

Do social benefits of sectoral licensing outweigh the costs?

Net effect of the sectoral licensing regime is:

- high compliance costs for businesses including disproportionately high costs for smaller businesses (Regulatory Cost Survey 2006)
- high costs for implementation and enforcement agencies
- negative incentives that encourage businesses to operate in informal economy
- increased uncertainties and risks for investors
- levels of new investment, productivity and growth being retarded
- important standards are not being met.

Tanzania is now convinced that:

Improving government policies and behaviours that shape the investment climate matters not only for firms – it also **drives growth and improves opportunities for everyone**

Consider what regulation is necessary to meet important social objectives, and ensure benefits outweigh costs – ***smart governance!***

Tanzanian priority reform areas

- Business entry and dealing with licenses: National Identity Card project to address problem of identification of natural persons and support formalization of micro enterprises. In addition – the introduction of BARA and Regulatory Licensing reforms through instruments such as the Guillotine and Secto Licensing reforms
- Ease of exit to ensure that non-performing assets are put to alternative use
- Access to title land to ensure access to business premises or land for agriculture, security of tenure and use of landed property for mortgage purposes
- Labour law reforms to ensure fair contractual relationships between employers and employees (ease of hiring and firing)
- Efficient commercial dispute resolution (contract enforcement purposes): Review of the Civil Procedure System

An East African Perspective: Regulatory Policy Framework harmonization

- Kenya, Uganda, Rwanda and Tanzania are undertaking major regulatory framework reforms;
- What contribution towards the goals: Customs Union, Monetary Union, FTA and political federation?
- Similarities in reform areas & potential outcome due to focus on international best practice & good governance;
- More pro-active responses to harmonization through consultations between EAC member states in this area;
- Existence of common strategies in other areas: Private Sector Development Strategy; Joint Export & Investment Strategy; EAC Development Strategy; Harmonization of Standards etc. What of Regulatory Policy reforms?

An East African Perspective: Regulatory Policy Framework harmonization

- Strong Government commitment to enterprise growth and investment
- Policy being translated into a commitment from the ground level up – the links between business growth and raised living standards, and good regulation and business growth is now substantially understood and is internalised to bring about change;
- Building institutional capacities for implementation is an integral part of the BEST programme work plans: focus on ICT based systems and business process re-engineering;
- This commitment can be used to extend action into the area of harmonization at the EAC level – aim for the reforms to come up with a common framework

2 more challenges: Infrastructure & Private sector competitiveness

Investment Climate is not the panacea. There is tremendous potential for common action in the other areas as well. These remain powerful drivers for a realistic political union:

i. Infrastructure: Hard & Soft

- Hard: transport, ports, utilities, communication, social infrastructure, & infrastructure for agriculture
- Soft: financial and ICT services
- Tanzania's record is mixed: Good governance is an issue (we may not be St. Peter but we have to try harder)

ii. Private sector core competencies:

- Education and skills: skills for key sector (the challenge of scaling up the global value chain)
- Access to production assets (finance, technology etc)
- Access to foreign markets (regional and global) & entry into those markets

THANK YOU