



Analysis of the business environment in Least Developed Countries

United Republic of Tanzania

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United Republic of Tanzania

Region
Eastern Africa

Population
64,110,286

Demographic growth
3%

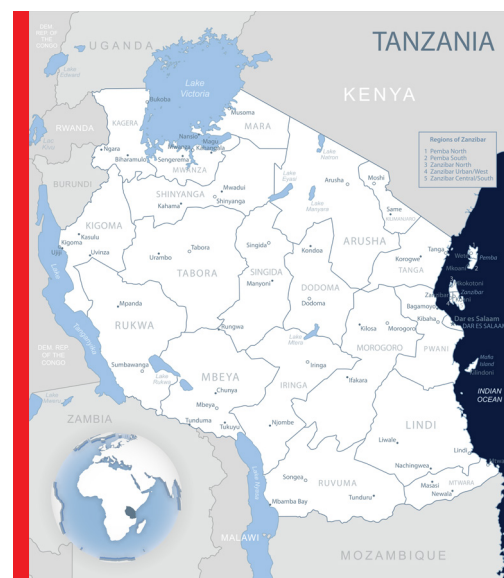
Average income (2020)
1,140 USD

Human Development Index:
160 out of 191 countries. The United Republic of Tanzania increased from 0.41 index in 2002 to 0.55 in 2021, growing at an average annual rate of 1.60%.

Economic membership
Southern African Development Community (SADC), East African Community (EAC)

Economic overview

The United Republic of Tanzania has been making strides to improve its business environment, especially since 2011. The positive outcome of achieving the status of a lower middle-income economy in July 2020 shows that the country is on track to continue building a competitive and industrial economy for human development.



The agriculture sector accounts for employment to more than 75 per cent of the population and contributes 29.1 per cent of the Gross Domestic Product (GDP). It is dominated by smallholder farmers dependent on rainfall for irrigation. Growth in the agricultural sector remains low, at around 4 per cent per year. Most crops grown are marketed in raw form, while value-addition to agricultural products is mainly on a small-scale secondary level. There is a significant out-migration of young people from low-productivity agriculture to urban informal service sectors, where productivity is just as low.

The government is taking measures to address these challenges by introducing subsidies to farmers and investors and removing unnecessary levies that have been seen to hamper the sector's growth. The government has also sought foreign financing for its flagship project Southern Agricultural Growth Corridor of Tanzania (SAGCOT), designed to develop that region's agricultural potential quickly. These

wide-reaching efforts should see production levels of key crops return to growth in the coming years, helping boost value-added processing.

Tanzania is a globally recognised destination for nature-based tourism. The tourism sector contributed an estimated 17 per cent of GDP and directly employed over 850,000 workers, making it the country's second-largest component of GDP and third-largest source of employment. As the tourism value chain is linked to numerous other economic sectors, it plays an outsized role in growth, employment, and poverty reduction, particularly for women, who comprise 72 per cent of all workers in the tourism sector¹.

The manufacturing sector in Tanzania remains relatively small, with most activities concentrating on creating consumer products such as foods, beverages, tobacco, textiles, furniture, and wood-allied products. Food processing and textile

³ World bank: Transforming Tourism: Toward a Sustainable, Resilient, and Inclusive Sector: Tanzania Economic Update. July 2021

are the leading manufacturing subsector. The manufacturing sector's contribution to the overall GDP has averaged 8 per cent over the last decade. However, activities within the sector have registered an annual growth of over 4 per cent. The sector is currently the third most important to the Tanzania economy, behind agriculture and tourism.

The mining industry has experienced high but greatly fluctuating growth rates in the last decade, with an annual average growth rate of 15 per cent per year. However, the growth departs from a low base, and the mining industry constitutes less than 5 per cent of Tanzania's GDP. The government expects the mining sector to grow to 10 per cent of the GDP by 2025. **The recent discoveries of very large offshore reserves of natural gas and, potentially, oil will make the extraction industry in Tanzania even more important.** The expected intensified extraction, export and domestic exploitation of Tanzania's natural resources hold great economic potential. It could contribute to solving the country's long-standing energy crisis and significantly boost domestic revenue.

The East African Community (EAC), comprising Kenya, Uganda, Rwanda, Burundi and Tanzania, is critical to achieving regional economic integration. The cooperation currently includes a customs union and a common market. The customs union, when finally implemented, will lead to common external tariffs and the free movement of goods within the region. The common market will entail the creation of a single regional market with free movement of labour and capital. Tanzania has also ratified the African Continental Free Trade Area (AfCFTA), which has excellent potential for increased continental trade with lower tariff barriers.

Challenges faced by the private sector

- **Inadequately skilled workforce:** 59 per cent of young workers (aged 15–29) are undereducated for their jobs. Tanzania's education and training systems suffer from inadequate equipment and

resources that do not match modern industry technology and resistance to curricula reforms². This compromises the quality of workforce skills, giving rise to skill shortages and constraining the operations and growth of formal sector firms. The secondary and vocational education systems are underfunded and ineffective as they remain largely disconnected from companies and unable to meet their needs³. Furthermore, few Tanzanian students received **vocational training**, with around 4 per cent of males and 2 per cent of females doing so⁴. Tanzania expects the highest growth of young people aged 18 to 23 between 2015 and 2035; this will undoubtedly strain government resources as they seek to expand educational opportunities.

- **Informal economy: 76 per cent of Tanzania's non-agricultural workforce is informally employed.** Individuals and businesses in the informal economy have more difficulty accessing capital, credit, technology, markets, and institutions. For workers, it can entail greater financial risk or fewer returns on their labour. It is connected to inferior working conditions, job insecurity, and lack of access to state benefits and social security. For governments, it translates to lower revenues, affecting their capacity to build institutions and deliver services to the public, placing the tax burden on businesses and workers in the formal economy.

- **Low access to credit, especially for micro, small and medium enterprises:** Longstanding structural issues in Tanzania's financial sector prevent proper intermediation. These issues include the high cost of financing, driven by high-interest rates on deposits, with some main banks reporting deposit rates as high as 12 per cent. The shallowness of Tanzania's financial sector leaves banks dependent on deposits for funding, which contributes to high lending rates. Elevated deposit rates contribute to the high cost of bank financing, which feeds into the lending

² Andreoni-Antonio: "Skilling Tanzania: improving financing, governance and outputs of the skills development sector." (2018).

³ Tan, Hong, Sajitha Bashir, and Nobuyuki Tanaka: "Skill use, skill deficits, and firm performance in formal sector enterprises: evidence from the Tanzania enterprise skills survey, 2015." World Bank Policy Research Working Paper 7672 (2016).

⁴ Danish Trade Union Development Agency: Labour Market Profile Tanzania & Zanzibar 2021/2022 <https://www.ulandssekretariatet.dk/wp-content/uploads/2021/06/LMP-Tanzania-and-Zanzibar-2021-Final.pdf>

terms and conditions extended to consumers and firms. The resulting feedback loop weakens the effectiveness of the monetary policy because when the central bank reduces official interest rates, banks do not equally decrease the rates charged to borrowers.

- **Private higher education institutions in Tanzania are constrained by unnecessary legal and administrative hurdles,** including existing controls on the number of students enrolled at each private university and the type of programs they are allowed to offer. They were operating below capacity, partly because of regulatory restrictions and partly because of a lack of financial resources among prospective students. They could potentially double their student intake in many programmes if they were allowed to do so without lowering the quality standards defined by TCU⁵.

- **Unpredictable changes in regulatory and fiscal regimes directly constrain and introduce uncertainty into firms' operations** and, as such, loom large in rankings of major business environment constraints. There is a lack of a conducive legal framework for new policies as sometimes technical, and implementation requirements have been given no due consideration. Regulators do not adopt a standard process in enforcing regulations to enable consistency, and businesses experience significant variations in timelines and formats in the execution of compliance orders. Tanzania's tourism sector has also long suffered from mutual distrust between the government and private firms, citing government inefficiencies and misunderstanding of the way the sector functions.

- **Electricity supply:** unreliable power grid and electricity supply negatively affect the activities of businesses. In 2020, 78.4 per cent of the total population had access to the grid electricity, while the number of households connected was 37.7 per cent. So far, 73.2 per cent of urban and 24.5 per cent of rural areas are electrified.

The energy supply is insufficient to meet the growing demand of businesses at a rate of 10 per cent-15 per cent annually⁶. The government's Five-Year National Development Plan 2021/22 – 2025/26 will include the development of three hydroelectric power plants, namely, Julius Nyerere (2,115 MW), Ruhudji (358 MW), Rumakali (222 MW).

- **Underdeveloped infrastructure:** The absence of effective transport solutions, including rail systems and road networks, is a major constraint to the private sector growth. Tanzania also has put infrastructure as its top agenda. Since 2015, the country has embarked on ambitious projects such as the Nyerere Hydro Power Plant, the construction of a Standard Gauge Railway (SGR) system and improvements of roads & airport systems. In the tourism sector, due to the government ceasing investment in tourism infrastructure, new investments inevitably have clustered around the old ones, where the necessary infrastructure was already in place, including Arusha, Moshi, Dar es Salaam, and gradually Zanzibar. This has limited the expansion and exploitation of other tourist opportunities.

- **Lack of regulatory framework for e-commerce:** A significant challenge is that e-commerce is poorly developed due to inadequate legal frameworks to support e-businesses and prevent cybercrimes. Consequently, e-transactions are reluctantly supported by financial institutions, which limits businesses' expansion ability to expand and hinders growth and employment due to the possibility of market expansion. However, a few e-commerce developers in the country are engaged in payment gateway and digital marketing solutions.

- **Tanzania's industrial sector** faces several challenges, such as using outdated technologies, poor maintenance of existing industries, environmental hazards, and production of uncertified goods. However, Tanzania's 2025

⁵ Worldbank: The Potential of Private Higher Education in Tanzania. 2021

⁶ ITA: "Tanzania - Telecommunications" · International Trade Administration · Accessed Nov. 2021, <https://www.trade.gov/country-commercial-guides/tanzania-telecommunications>

vision predicts that at least 40 per cent of the country's GDP will come from the manufacturing sector by 2025⁷.

- **Agricultural sector stakeholders** face considerable challenges in modernising the industry to increase yields, exports, and value-added processing. Slowing export revenues; land acquisition hurdles; and smallholder farmers struggling to access economically viable technology, adequate storage facilities, markets and credit have affected the sector.

- Companies with organisational capabilities should be directly involved in skill development through industrial placements, dual apprenticeships, and internships, with firms incentivised with rebate or grant models.

- Private education providers should be incentivised with targeted funds and partnerships involving levy rebates to restructure the education curriculum and training portfolio in TVET.

2. Support a job intensive, private-sector-led Covid19 recovery by:

- Evaluating and strengthening existing private-sector support programmes, such as the expedited arrears-clearance and VAT-refund efforts and targeted soft loans.

- Enhancing the quality, frequency, and scope of the public-private dialogue.

- Addressing administrative inefficiencies in private-sector regulation and streamlining licensing processes.

- Simplifying the process for acquiring work and residence permits.

- Prioritising public investment in ready-to-invest infrastructure for the manufacturing sector.

3. The government should seek and **encourage foreign and domestic investments** for the growth of labour-intensive industries and job creation, emphasising enhancing agriculture productivity; addressing key infrastructure gaps and promoting sustainable management of natural resources; building skills; and improving the business environment.

4. The government should improve **rural infrastructure** and essential services such as water and sanitation; energy for cooking, heat and light and employment generating commercial

Private sector policy recommendations

Policymakers are urged to consider designing and implementing more effective measures to enhance the private sector's participation in economic growth and development.

1. **Private sector collaboration with the government is needed to develop a national human capital development framework that is focused on identifying and moving the Tanzanian labour force from unproductive (subsistence and non-mechanised farming) to low-output informal employment) to productive sectors.**

- There should be a focus on information and communications technology (ICT) and other job-rich non-agricultural sectors.

- Small business owners should be offered training programmes to accelerate skills acquisition by combining financing, formalisation, and training programmes for entrepreneurs. This quickens the process of formalising the economy.

- Include ICT and computer education, including software development, web development and computer programming, as part of the school curriculum and government Technical and Vocational Education and Training (TVET) programmes.

⁷ World Bank, "Tanzania Economic Update: How To Transform Tourism Into A More Sustainable, Resilient And Inclusive Sector", The World Bank, Last modified 2021, <https://www.worldbank.org/en/country/tanzania/publication/tanzania-economic-update-how-to-transform-tourism-into-a-more-sustainable-resilient-and-inclusive-sector>

activities; transmission and communication of knowledge and information a national priority. The government should **encourage urban mobility** by reducing congestion costs in cities, which can absorb as much as a third of a worker's income. The government should improve space planning for industrial and business zones and urban transportation corridors, with special attention to secondary cities. Making strategic infrastructural investments in roads, rapid trains, and fibre optics will create job opportunities in these secondary cities' construction and service industries.

5. Establishing long-term financing instruments will provide the private sector with an enabling environment. The government should develop initiatives that support small business associations/incubators and strengthen existing associations to reduce fixed costs associated with training programmes, financing, and other services.

6. The leather industry is competitive as the cost of producing a pair of leather shoes is 20 per cent lower in Tanzania than in China. Tanzania has a large livestock population (17.7 million cattle, 12.5 million goats and 3.5 million sheep) and produces about 2.6 million pieces of raw hides and skins annually. A large portion is exported raw, and only 10 per cent is processed. Opportunities exist in establishing modern tanneries and leather finishing production units. The government should improve the quality (skills and standards) of skins and hides by providing technical assistance to livestock owners through associations. The government should also reduce (and gradually remove) export tax on raw hides and skins to promote a gradual competition on inputs price and quality.

7. Expansion of existing institutional, policy, and legal mechanisms for effective implementation and creation of private-public partnerships (PPPs) in the energy sector. The provision of financing for small power

producers (SPP) will stimulate the private sector-led development of renewable energy in remote rural areas that cannot connect to the national electricity grid. Additional initiatives such as Lighting Africa, Mobisol, and Off-Grid Electric will help to meet energy demand in Tanzania by exploring sustainable energy resources such as solar power⁸.

8. Capacity building involving procurement, negotiations, and efficient management and facilitation of PPPs in the manufacturing and agricultural sector. Regulations such as the Special Economic Zones (SEZ) Export User License and SEZ User License should be exploited to empower and motivate private investors to establish manufacturing plants in SEZ.

9. Improve connectivity and market access through improvements in hard and soft infrastructure, as well as using special economic zones.

- Modernise the port of Dar es Salaam and, in the longer run, develop new infrastructure around the agglomeration of Dar es Salaam (such as a dry port) and diversify toward new ports (e.g. Bagamoyo).
- Develop SEZ to leverage agglomeration effects and access to transport and electricity infrastructure and markets.

10. Move firms out of the informality trap by incentivising potential exporters to formalise their interactions with administration, commercial banks, and more significant foreign partners. The government should facilitate access to formal sources of financing by reducing information costs (ID registry, credit bureau), developing risk-sharing instruments (matching grants, leasing), and strengthening the capacities of potential exporters to apply for loans. Also, by improving access to information on potential markets and trading partners through network sharing.

⁸ Matthew Matimbwi: "Tanzania Energy Situation", Energypedia. Last modified 2021, https://energypedia.info/wiki/Tanzania_Energy_Situation.

11. Foster the employment potential of tourism:

- Improve the policy and institutional environment by revising the Tourism Policy (1999) and Tourism Act (2008) in close cooperation with the private sector.
- Foster an enabling environment for private sector growth in the tourism industry, including small businesses, by rationalising procedures for licenses and controls.
- Develop linkages with the local economy by strengthening local capacities, including at the community level, for providing tourists with food, accommodation and other services.
- Drop VAT tax on tourism deposits and tourist visa fees to encourage tourists to visit Tanzania.
- Diversify tourism products and attractions, beyond the over-utilized northern circuit and Zanzibar, by promoting infrastructure development and innovative marketing and branding initiatives, with special attention to the South.

- Financial support to tourism firms is critical to shore up employment and mitigate the impact of the Covid19 shock on poverty. Policies should improve the accessibility of transitional finance to private businesses and support seascape and landscape collaborations and co-investments⁹.

12. Supportive regulatory and incentives framework for private universities:

The development of a good-quality private sector should be an integral part of the government's strategy to expand higher education through institutional diversification. This requires simplifying the regulatory framework for private institutions to facilitate greater institutional autonomy and accountability, enabling access to research and innovation grants for fully accredited private universities, provide financial incentives for accredited private universities for programs in priority areas (e.g., subsidies, land leases), and identify and implement suitable models for PPP, particularly for STEM programs. TCU could consider allocating a financial grant to private universities that enrol a minimum proportion of low-income students, first-generation students, or women in STEM programmes, or students from remote rural areas.

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⁹ World Bank, "Tanzania Economic Update: How To Transform Tourism Into A More Sustainable, Resilient And Inclusive Sector". The World Bank. Last modified 2021. <https://www.worldbank.org/en/country/tanzania/publication/tanzania-economic-update-how-to-transform-tourism-into-a-more-sustainable-resilient-and-inclusive-sector>



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