

TANZANIA'S REFORM EXPERIENCE

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A. Historical Perspective - to underline Tanzania`s consistent commitment to reform:

- The policy of socialism promulgated in 1967 as the model of economic organization, characterized by state ownership of all major means of production;
- Little tolerance for private enterprise, especially that of the indigenous majority;
- Public sector employment in the civil service and state-owned enterprises become the only source of livelihood for the educated elite who were barred by the leadership code from engaging in any private business;
- Emergence of hostile official attitudes towards private enterprise and civil service disposition tilted towards control and excessive regulation;
- Concurrent resentment by the private sector and recourse to corruptive practices to induce facilitation;
- A downward economic spiral reaching rock bottom in the early 1980s, characterized by negative growth rates of the economy;
- Tanzania`s standing among the international investing community abysmal.

B. The Genesis of Reform:

- 1986 ushers in the first attempt at economic liberalization and departure from state control to a market-driven economy and market-friendly policies;
- First area of reform targeted relaxation of foreign exchange controls and liberalization of foreign trade, to ease the chronic shortages of general consumer goods and intermediate inputs for industry and other sectors;
- Awakening to the need for systematic investment promotion, leading to enactment of the Investment Promotion Act of 1990 which formed the Investment Promotion Centre(IPC) with focus on attracting foreign direct investment;
- Some tolerance for broader involvement in private enterprise and investment activity by all Tanzanians, including the educated elite, but the underlying legal and regulatory regimes remain basically unchanged;
- 1992, public acknowledgement of the critical role of the private sector in the development of the national economy, and the need to unleash and nurture the entrepreneurial potential of all sections of society;
- 1993, privatization of poorly performing public enterprises is considered. The Presidential Parastatal Sector Reform Commission (PSRC) is formed.

C. Initial Constraints to Development of a Private Enterprise Economy and Challenges of Reform:

- Pervasive and enduring entrepreneurial timidity and lack of business skills among the majority of Tanzanians, borne out of the anti private enterprise policies of the post-independence era;
- Inadequately developed legal and regulatory regimes that could not meet the needs of a buoyant private enterprise economy;
- Competitive pressures from the outside world as a result of globalization;
- Undeveloped financial markets and services, hence lack of investment capital;
- Weak economic infrastructure including roads, power, water, railways, ports, telecommunications, etc;
- Shortage of skilled manpower in almost all spheres of economic endeavor;
- Lingering lack of trust between private and public sector;
- Gaining political acceptability for Reforms.

D. The Era of Full-blooded Reforms

- 1994, formation of the Capital Markets and Securities Authority;
- 1996 marks the beginning of systemic focus on the reform agenda, with primary attention placed on building synergies between the different branches of public policy and institutions to build a foundation for a private enterprise economy;
- 1996, major drive on liberalization of the financial sector launched, resulting in privatization of the major state-owned banks, namely, CRDB and NBC, and progressive setting up of private banks to reach 22 commercial banks and 3 non-bank financial institutions ;
- 1996, formation of the Tanzania Revenue Authority to modernize tax administration and make it efficient and user-friendly, to promote voluntary tax compliance and strengthen the revenue base of the government;
- 1997, transformation of the Investment Promotion Centre (IPC) into the Tanzania Investment Centre (TIC) with focus on making it a one-stop-shop to ease the strain on the international investing community;
- 1999, formation of the Business Registration and Licensing Authority (BRELA) to handle business registration outside the mainstream of government bureaucracy, with a view to cutting down on red-tape and easing start up of businesses;
- 2000, initiation of the Business Environment Strengthening for Tanzania (BEST) program, with World Bank assistance, to embark on full-scale and integrated reform of the business environment and reducing the cost of doing business;
- 2002, formation of the Tanzania National Business Council (TNBC) to serve as the joint platform for dialogue between the Government and the Private Sector and build a constructive partnership for policy reform to push for faster economic growth;
- 2003, formation of the Fair Competition Commission;

- February, 2007, enactment of the Business Activities Registration Act (BARA) to further simplify the process of starting businesses by separating it from the revenue collection function;
- Adoption of the notion of “economic empowerment” of the economically disadvantaged sections of society as a key plank of government policy.

E. The BEST Program Objectives and Components:

The Program has the primary objective of minimizing regulatory and administrative constraints to entry and operation of businesses, and changing the culture of government from control to one of efficient facilitation. The Program has five components, namely,

- 1) Achieving better regulation, with priority given to simplifying and speeding up the process of business registration, formalization and modernization of land administration processes, and the modernization of labour laws with a view to creating flexible labour markets;
- 2) Simplifying and streamlining commercial dispute resolution so as to lower the cost of contract enforcement;
- 3) Strengthening the Tanzania Investment Centre so that it can more effectively serve the investing community;
- 4) Changing the culture and mindset of government functionaries towards private enterprise; and
- 5) Empowering private sector organizations to deliver effective advocacy in support of a better investment climate.

F. Regulatory Impact Analysis (RIA):

A crucial tool in entrenching positive legal and regulatory reforms is the concept of “Regulatory Impact Analysis”. This tool demands that every proposed regulatory measure is subjected to strict benchmarks on cost and anticipated benefits. In this regard, a program of induction on RIA has been initiated for key policy-level public officials in the Tanzania government to ensure that all policy proposals with regulatory implications are first subjected to this test to safeguard the business environment from sliding back into stifling regulation.

G. Reaping the Benefits of Reform:

The “Doing Business 2007” Report testifies to the efficacy of the reform measures that Tanzania has undertaken, progressively moving up the ladder of international comparisons to be among the top ten successful reformers. Some specific indicators are offered on page 146 of the Report. Further indicators of the benefits of Reform can be found in:

- increased FDI flows;
- expeditious adjudication of commercial disputes;
- quicker processing of land titles;
- enhancement of economic growth rates to between 5-7% from about 2% in the early 1990s;
- lowering the inflation rate to between 4- 6% from over 30% in mid 1980s;
- rising Government revenues from an average of Shs 45 billion per month in 1995 to over Shs 250 billion per month now;
- three-fold rise in foreign exchange earnings between 1995 and 2005; etc.

H. Conclusion.

What has been outlined here is just a synoptic view of a broad-based reform effort. More could be said about reforms in social sectors like education, health, governance, etc. which all go to strengthen human capital and the overall environment within which business takes place. What needs to be recognized, however, is that Tanzania is far from attaining what can be called a robust private enterprise economy. But noting how far we have come in a space of twenty years since reform started, there is every reason to believe that the economic transformation process will gain even greater momentum in the years ahead. What is critically needed now is increased international support in fixing the weak economic infrastructure which, in turn, will inspire more confidence in the international investing community.