TABLE OF CONTENT

FORMALIZING THE INFORMAL SECTOR AND REDUCING THE COST OF DOING BUSINESS IN TANZANIA

1. Introduction

A significant proportion of population in Tanzania is young. According to the UN definition of youth (15-24) about 20 percent of population is the youth category. However, using the Tanzanian definition of youth (15-35) 35 percent of the population comprises young people (NBS, 2003).

Employment in general and youth employment in specific is vital to a prosperous nation devoid of poverty and social exclusion and for stability, peace and harmony. A job does not only generate income, but it is also human dignity and participation in the society (NYECP: 1). Unemployment, particularly that of the youth represents a huge difficulty for the Tanzanian economy. In the face of this, employment creation is central to all economic and social policies in developing economies.

The government of Tanzania has put the issue of youth employment high on its agenda. A good number of policy and institutional framework have been introduced. However the scope of the problem is vast and needs specific interventions.

Formalization of the informal sector and reduction of the cost of doing business is a component of a programme to support employment opportunities for the youth in Tanzania. It is believed that one of the ways to create jobs for the youth is through establishment and formalisation of businesses. We are all aware that business formalisation is not an easy task due to a number of obstacles and the high costs involved in doing formal business in Tanzania. Globally, Tanzania stands at 134 in the ranking of 185 economies on the ease of doing business and at 113 on the ease of starting a business. It is argued that the high cost of doing formal business, in form of registration and sustaining formalization, encourages informality.

The purpose of this paper is to discuss and provide suggestion on how to support government and private entities to formalize the informal sector and reduce the cost of doing business.

2. Literature Review

2.1 Definition of formalization

The issue of formalisation is quite complex, and one cannot generally state that the formal economy is good and the informal bad for society: *"The experiences indicate that no simple rule exists that increasing or decreasing 'formalisation' necessarily improves or worsens the well-being of the poor or welfare of society at large"* (Guha-Khasnobis, et al. 2006: 9).

The term "formalisation" is closely related to the term "informal sector". It is worth discussing the phenomenon of the informal sector in the first place. There are many different concepts and definitions of the "informal sector". According to Chen (2004: 5), the term was coined at the beginning of the 1970s by Hart (1973). Mutakyahwa (2012) defines informal sector as "that part of an economy which is not taxed, not monitored in any way by government nor is included in any calculation of gross national product (GNP)". Generally speaking, the view of the informal sector has changed and is bound to continue changing. Nevertheless, in the literature one or more of the following characteristics is typically attributed to the "informal sector": The informal sector consists of self-employed persons and enterprises that:

- employ a small number of workers, who are often family members and have a low level of schooling;
- use simple production technologies and techniques;
- perform labour intensive activities;
- are exposed to strong competition;
- lack any form of social security;
- do not possess a formal registration, permit or license for their business activity and/or generally evade business regulations; and
- rarely have access to formal financial services including credit and loan facilities.

For the case of Tanzania, ESAURP (2012) defines informal sector to include all enterprises (not individuals) that:

- are not formally registered with relevant bodies such as BRELA, LGAs and statutory bodies like TRA;
- conduct their businesses outside the established government structures and systems and thus operate outside the formal economy,

- are left out of the taxation system and thus do not contribute to the country's tax revenue.

Accordingly, there are many definitions of the term "formality". Commonly, one or more of the following three criteria are used to define a formal business:

- size (more than a certain number of employees);
- legal status (formal registration, permit, license etc.); and
- (human) capital intensity of the technology used (more than a certain threshold amount of physical and/or human capital per worker) (Bigsten / Kimuyu / Lundvall 2004, 704).

ESAURP sees formalisation of enterprises to involve taking appropriate steps to transform them into formal operations through:

- registration with relevant authorities;
- acquisition of licences, permits, etc.;
- incorporation within the taxation system; and
- compliance with labour laws, etc.

For the purpose of this paper, the definition of formality is based on the legal status of the enterprise with respect to the areas (a) registration and/or license, (b) labour regulation, and (c) tax regulation. Hence "formalisation" for this study means the process through which an enterprise becomes compliant with the laws and regulations in the aforementioned areas. Kenyon (2007a: 3), too, prefers a legalist definition when he states: "Formalization refers to the process whereby previously non-compliant enterprises become integrated into these formal or state-sanctioned institutions, such as property registries and tax-rolls".

2.2 Informal Economy in Tanzania

A number of recent studies indicate that the informal sector in Tanzania plays a significant role in the Tanzanian economy. It is increasingly gaining importance in generating Tanzanian economic growth as it absorbs over 70 percent of the country's workforce. According to ESAURP (2009), the informal sector absorbs around 63 percent of the annual increase in the urban labour-force as compared to 9 percent absorbed by the formal sector. Estimates suggest that about 48 percent of the total national economy lies within the informal sector. According to the findings of ESAURP (2012)[1] the size of the informal sector of the five sectors studied accounted for 15.6 percent of GDP, 36 percent total employment and 18 of tax revenue. Surely, no government can afford to ignore this magnitude of contribution to the economy or disregard the importance of encouraging its transition to the formal economy.

At present most of the revenue, which could in theory be collected from SMEs remains uncollected due to the barriers noted in the ESAURP study reports. Nonetheless, some SMEs have made the transition into the formal sector, overcoming the barriers, which restrain other SMEs from formalising their businesses. By paying taxes they demonstrate an appreciation that the benefits entrepreneurs get from undertaking formal activities can outweigh the costs. If it can be appreciated more widely that benefits outweigh costs there is a strong possibility of increasing the number of formal businesses that comply with all domestic taxation requirements.

The predominance of the informal sector within the Tanzanian economy has thus denied the nation a significant amount of tax revenue, as informal activities have avoided taxation and remains outside the tax net. This produces an unfortunate situation where achieving domestic resource mobilisation remains one of the major challenges facing the government as it seeks to meet international commitments and attain its development goals.

In Maliyamkono et al. (2009), it is argued that expanding the tax base by formalising informal activities is essential if domestic revenue is to be increased. It has been claimed that, if well tapped, the existing informal sector has the potential of contributing as much as 50% of the country's Gross Domestic Product (GDP). The formalisation process is, however, widely perceived as being characterised by barriers, which are more substantial than the benefits to be gained by joining the formal sector. In setting policies and strategies to facilitate formalisation policy makers need to address these perceptions of the imbalance between barriers and benefits. This requires developing strategies, which will create incentives for many enterprises to make the transition into the formal sector and consequently lead to increased tax revenues since the enterprises will be in the tax net.

[1] The results have been published in a book titled: Transforming the Informal Sector: How To Overcome The Challenges,

3. Business formalisation

3.1 The need for business formalization

There is a widespread consensus in the literature pertaining to reasons why stakeholders, including both governments and their development partners, aim to reduce the size of the informal sector. Some of the reasons are the following:

a) Informality inhibits enterprise growth because it denies entrepreneurs access to key business services, formal markets and productive resources such as capital and land. Usually, informal business operators do not separate business from personal assets and it thus increases risks and therefore constrains business growth.

b) A large informal economy is not conducive to the long-term provision of public goods needed for growth, nor does it permit adequate social security expenditure or the creation of a society in which businesses can trade and invest with confidence.

c) Formal economy jobs can provide greater economic and social benefits than those in the informal economy, so greater formality may also equal better pay and protections.

d) Formal economies enable availability of information about enterprises in order to strengthen frameworks for policy advocacy and facilitate deal making, trade and investment.

e) With formal economy the government is able to broaden its tax base and also be able to provide higher quality, better paid and more sustainable employment. In turn this will contribute to improvement of the welfare of marginalized groups caught in the informal economy through confirming their rights to participate in market opportunities thus contributing to poverty alleviation initiatives.

f) A large informal economy may indicate a breakdown in the social contract between citizens and the state, a sign of a state, which has lost citizens' trust and is failing to deliver basic services and security.

g) States with large informal economies find it hard to raise adequate revenue necessary for investment and the provision of public goods and services.

This can lead to poor delivery of services and a vicious circle in which businesses become even less willing to pay taxes.

h) A large informal economy can also mean a weakened environment for policy advocacy due to the smaller constituency of economic actors in a position to advocate for policy reform. Greater formalisation makes for a more stable state and an improved dynamic for reform.

i) Informal businesses and communities are often unable to access utility connections and other services such as sources of information.

j) Efforts to reduce the informal economy are likely to help reduce poverty, because reducing barriers to formalisation can stimulate enterprise growth and create work opportunities.

k) Formal economies facilitates access to credit.

3.2 Formalisation and business development

Some researchers see to establish a link between formalisation and business development themselves. They see formalization as necessary for businesses to grow (Kaufmann and Parlmeyer 2000, p.11). The researchers of the Doing Business team of the World Bank argue that reducing regulations will foster the formalisation and subsequently the growth of these firms (Djankov et al. 2002b). With formalization, entrepreneurs gain better access to finance (e.g. lower interest rates less collateral requirement), which allows them to invest, attract more clients and increase turnover and profits.

From a national perspective, the informal economy implies both benefits and costs to society. On one hand, the informal economy offers job opportunities in particular to the poorer population and enables businesses to operate that would not be able to do so as formal enterprises. This is partly due to the low entry costs associated with starting informal businesses. Informality offers a *"low costs arena for experimentation that can lead to business growth"* (Nelson and De Bruijn 2005, 575). In this context, it is important to keep in mind that even if the government were striving to reduce the cost of formality to an "optimal level" – the cost of formality in such an optimum would not equal zero. This is mainly due to the fact that:

- certain cost of regulation is necessary to enhance social welfare (e. g. taxes to finance the courts etc.);
- Certain costs of formality are rooted in poorly developed capabilities on the part of entrepreneurs (filling in even a simple form may constitute a [prohibitively] high cost for an illiterate entrepreneur.

On the other hand, the informal economy also has negative implications for the overall economy. The tax evasion associated with informality has a harmful effect on long-term overall growth and productivity, because governments cannot deliver *"publicly provided goods and services such as infrastructure, education, and law and order"* (Bigsten, et al., 2004, p.713). As a consequence, lack of resources and public goods negatively affects the business environment, which is not able to support small-scale enterprise development (Nelson and De Bruijn 2005: 576). One can observe an obvious interplay: governments depend on taxes for good performance and the private sector needs a business-friendly environment for development. However, sufficient tax revenues do not guarantee that governments will use them efficiently, effectively and wisely to provide the public goods needed for business environments that support private sector development. Therefore, bad governance and poor administration capacities seem to be important factors that hinder both enterprise formalisation and development.

3.3 Why Businesses stay informal

Although there are several reasons for businesses to formalize, a good numbers of SMEs decide to stay informal. It is widely believed by small entrepreneurs, however, that the costs of formalising informal activities actually outweigh the benefits attained by becoming formal. If this is actually the case, any strategy adopted by policy makers will need to minimize the barriers and maximize the benefits in order to motivate people to formalise their businesses.

The analysis of recent literature produced a number of insights into the culture of compliance and non-compliance amongst the informal and small-scale entrepreneurs in Tanzania and about the persistence of their perceptions.

3.4 **Motivating factors**

After looking at different elements, which define the informal sector, let us now turn to another aspect. What determines formalization? According to Djankov et al. (2002b: 1), enterprises formalise when benefits outweigh the costs of formalization.

ESAURP (2012) also points out this view by asserting that 'entrepreneurs decisions depend on the incentives available to them as they make calculated assessments on what they expect to receive in return, and the probable cost of non-compliance'. ESAURP conclusion is 'if the benefits of formality exceed costs the enterprise will join the formal economy but if costs of formality exceed benefits then enterprise will remain informal'.

Table 1summarizes the costs and benefits of formalisation from the entrepreneur's perspective. The Doing Business approach puts emphasis on the costs associated with business regulations as the main obstacle for formalisation of businesses. Taxes are one of the most common costs of formalisation which some enterprises cannot or do not want to comply with. As a reaction, “informalisation” becomes a “survival and development strategy” (Nelson and De Bruijn 2005, 584).

The fact that many small enterprises and self-employed people in developing countries do not formalise is just reflective of the structural handicaps these mostly “necessity-entrepreneurs” are faced with. They are trapped in a vicious circle in which low skills, low capital formation, low productivity, low returns on investment and bureaucracy reinforce one another and thus become obstacles to formalization. Formalisation will also depend on the informal firm’s characteristics, such as education of the manager, connection with business networks and profitability. The quality and accessibility to public and business development services are also other important factors in business formalization process. For example, the cost of a business license fee may be negligible for a profitable small informal business but too high for a self-employed street vendor with poor sales.

Table 1: Costs and benefits of formalisation from the entrepreneur's perspective

Costs	Benefits
✓ Burdensome government regulations and monetary costs related to starting a business: Time and money spent on the company's registration, obtaining permits and licenses, minimum capital requirements etc. For instance, administrative cost of establishing a business in Tanzania is 30.9% of annual income (ESAURP 2012) ✓ Burdensome government regulations related to the operation of the business: Formal entrepreneurs need to spend much time on fulfilling requirements and submitting documents. ✓ Monetary costs related to the operation of the business: Enterprises need to pay taxes (income or corporate tax, VAT, public services tax etc.) and contributions to social security for their employees. ✓ In Tanzania, the average tax rate is 45.2% of the profits to be paid, on average, 48 times and requiring a total of 172 working hours in a year. ✓ Administrative cost of keeping records: books and hiring of personnel	✓ Enterprises can grow without being afraid to become a target of government inspections ✓ Less vulnerable to corruption and harassment in attempts to avoid penalties. ✓ More certainty in the prospects of the enterprise (secure property rights, insurance, state protection, etc.) ✓ Access to state protection ✓ Access to police and court services in order to enforce contractual rights, etc. ✓ Access to business development services: finance, management support, training opportunities, financial services, markets and information ✓ Easier to obtain export permits and government contracts ✓ Participation in SME assistance programmes, etc. ✓ Freedom to cooperate with other partners and DPs

Source: Djankov et al. (2002b: 4-9) and ESAURP (2012)

Costs of doing business therefore entail not only registration, but also the sustenance of formalized businesses, which include renewal of licenses and permits, meeting health inspection and environmental requirements. Cost of doing business includes not only the monetary cost, but also time spent to comply with rules and regulations, which determine entrepreneurs' opportunity cost of doing business in small enterprises. Costs are thus both in monetary terms and time spent by entrepreneurs (SME operators). The World Bank Doing Business 2013 has revealed that it takes 26 days to have an enterprise registered and also spend almost 28.2 percent of the annual income per capita. There are also other hidden costs or qualitative constraints that raise the costs of doing business in Tanzania. These include red tape and harassment. These broad transaction costs may constrain growth of the small business sector and thus remain informal.

Entrepreneurs have to go through several stages in formalizing a business including registration of business, acquiring business license, payment of taxes and fees. The World Bank report on Doing Business (2013) in Tanzania reveals a complex business formalization process. One has to go through 9 procedures in 6 agencies and offices. The Road Map Study (ILO/UNIDO/UNDP 2002) found also that costs of registration for entrepreneurs from the regions were 6-7 times higher than in Dar es Salaam. The higher cost includes traveling and accommodation in the capital city where the national registration office (BRELA) is located. With BRELA zonal or regional offices and the introduction of online registration may improve the situation.

As regards the benefits of formalisation, these are most obvious when we assume a well-governed state with effective institutions and public services (including courts, police) but much less palpable in the context of badly governed states with weak institutions and public services. Moreover, gaining access to the formal financial sector is a plausible incentive for formalisation, given the bankability of the business. Informal moneylenders often charge high interest rates, and finance from friends are often unreliable (Djankov et al. 2002b: 9). However, access to a formal bank credit may remain beyond the reach of an illiterate entrepreneur without accounting skills, even though he may possess an official permit. On the other hand, the existence of other sources of finance (e.g. from social and business networks) can reduce the need to apply for bank credits.

3.5 **Barriers to formalisation**

It may be useful to gives a few examples of factors that discourage entrepreneurs from joining the formal sector and thus decide to remain in the informal sector.

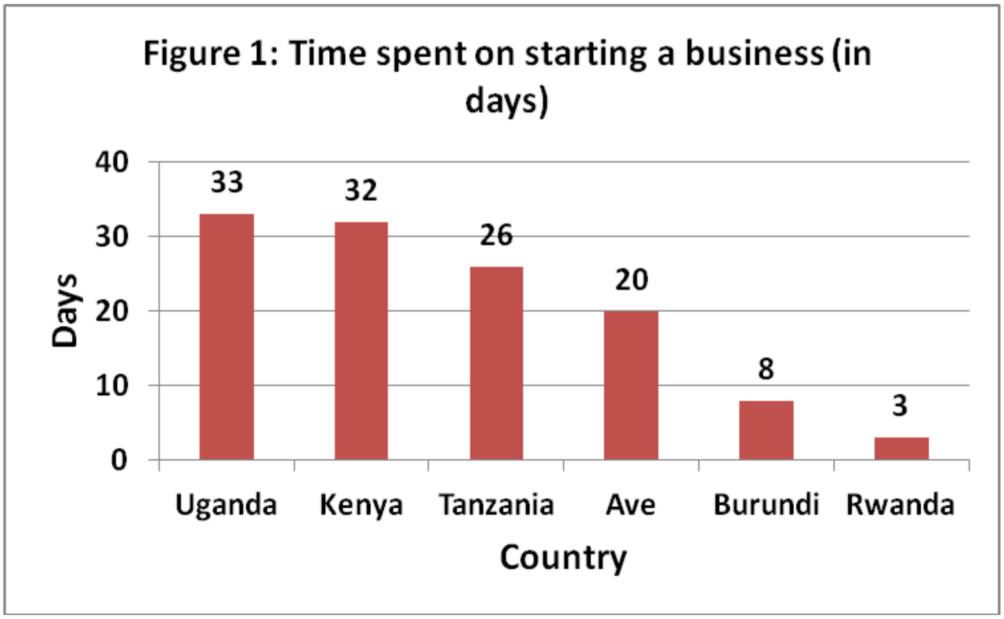
a) Time spent during registration process

The cumbersome registration process and the multiplicity of offices passed through in order to register an enterprise is one of the factors that hinder business formalization. The time spent on the formalization process discourages enterprises from joining the formal sector because the time involved imposes a high cost on a small business. The 2013 Doing Business Report' by the World Bank reveals that in Tanzania it takes up to 26 days to have a business established. Compared to other EAC countries, this is higher than both Rwanda (3 days) and Burundi (8 days). Both Table 2 and Chart 1 illustrate this situation more clearly. Of all the countries surveyed, Botswana has the longest period, 61 days. Thus, of the 8 countries surveyed, Tanzania is not the most bureaucratic but additional measures have to be undertaken to reduce the time taken in this process. Entrepreneurs in Rwanda and Burundi have to go through only 2 and 8 procedures, respectively. The reduction of the procedures is one of the areas for review. Annex 2 reveals the 9 procedures for starting a business in Tanzania.

Table 2: Time and costs needed to start a business

Country	Number of Procedures	Time - days	Cost (% of income per capita)
Burundi	4	8	18.3
Kenya	10	32	40.4
Rwanda	2	3	4.3
Tanzania	9	26	28.2
Uganda	15	33	76.7
Average	**8**	**20**	**33.6**
Botswana	10	61	1.6
Mozambique	10	13	19.7
Malawi	10	39	83.7

ESAURP study conducted in 2012 found that the length of time spent on registration did not reveal any relation to the gender of the entrepreneur and only a limited correlation with education level. Generally, the education level one attained does not relate to the time to be spent except that those with no formal education obviously find it hard to navigate the registration process as quickly as those with secondary education. This is because more time is required to seek assistance in filling the forms as well as fully understanding what the questions actually mean and what is required of them.



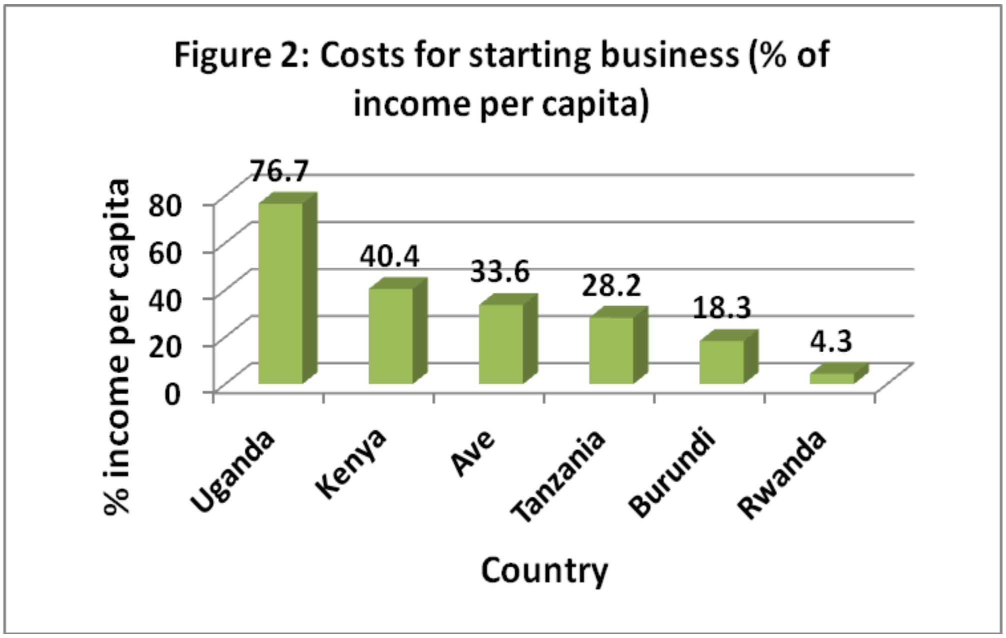
Source: World Bank: Doing Business 2012

b) High Costs involved

The costs of completing the whole registration process seem to be high. The high costs involved are partly due to the time spent and the number of procedures one has to go through. Table 2 reveals that the higher the number of procedures the more time (i.e. days) one requires to have her/his business registered. Kenya, for example, has 10 procedures and a an entrepreneur will spend 32 days while the counterpart in Burundi will have to spend only 8 days for 4 procedures.

According to the World Bank 2012 Report on Doing Business the administrative cost of establishing a business in Tanzania was 28.2 percent of annual per capita income. Considering the high level of poverty of Tanzanians this cost of starting the business is very high. It is worth mentioning that high costs are not unique to Tanzania compared to other EA countries. Costs for Kenya and Uganda are 40.4 percent and 76.7 percent, respectively although it is 4.3 percent for Rwanda (Chart 2). Surprisingly, the cost of starting a business in Botswana is lower (1.6 percent) than that of Tanzania, although the time required to complete the formalities in Botswana is more than twice the time in Tanzania. On average, each procedure takes 6 days in Botswana while the time required is slightly less than 3 days in Tanzania. This anomaly requires explanation, although bribes and low level of education[2] could be some of the factors behind this difference. Cost factors therefore appear to have greater influence on decisions on business formalisation.

[2] One may have to hire a person to complete the required forma.



Source: World Bank: *Doing Business* 2012

c) Complex tax structure

It is widely reported in the literature that cumbersome and complex legal structures act as barriers to formalization of informal businesses. Businesses in Tanzania have to pay multiplicity of taxes. Taxation imposes the administrative cost of keeping records and thus places a burden of keeping records on entrepreneurs. Ishengoma and Kappel cited an example from a Peruvian setting that an employee in the administration department of a small formal firm has to spend about 40% of his/her time filling government forms (Ishengoma and Kappel, 2006).

The average tax rate is 45.3% of the profits representing, on average, a total of 172 working hours in a year and tax has to be paid in 48 times in a year (Table 3). This tax rate is regarded high compared to other East African countries. The rate in Uganda is 37.1% while it is 31.3% in Rwanda. Surely, entrepreneurs will compare the cost of complying with the tax regime against the costs of non-compliance and then make the decision that will be of greatest benefit to him or her. Taxation, therefore, imposes the administrative cost of keeping records and thus places a burden of keeping records on entrepreneurs.

Table 3: Paying taxes

Country	Global ranking	No. of payments per year	Time – hours per year	Tax rate (as % of profit)
Burundi	137	25	274	53.0
Kenya	164	41	340	44.4
Rwanda	25	17	134	31.3
Tanzania	133	48	172	45.3
Uganda	93	31	213	37.1
Average (EAC)	110	32	226	42.2
Botswana	39	32	152	25.3
Mozambique	105	37	230	34.3
Malawi	58	26	175	34.7
Namibia	112	37	350	22.7

Source: World Bank: *Doing Business* 2012/3

The 2012 ESAURP study reveals that almost 38% of the entrepreneurs do not have tax identification number (TIN) implying that they are not paying direct taxes. The percentages differ across sectors. Retail trade and services sectors have the lowest percentages (20%) while fisheries sector has the highest (83%). The factors that make entrepreneurs acquire TIN relate to law enforcement and administration. Some entrepreneurs acquire TIN in order to access official services such as grants and loans. The then Matching Grants Programme provided grants to SMEs on condition that the concerned entrepreneur could demonstrate that s/he was lawfully in business. Thus one of conditions was registration with tax authorities and this was evidenced by possession of a TIN and registration from BRELA. This condition also applies in Somaliland for one to access financial support from the Somaliland Business Fund (SBF).

The existence of high taxes and harassment from tax collectors has been cited as discouraging visibility and hence growth of enterprises in the informal sector in Tanzania. Some informal operators are reluctant to join the formal sector for fear of high taxes. The taxation barrier is not unique to Tanzania but is widely found in other countries. The Small Business Project's (SBP) recent compliance cost survey of the private sector in South Africa, revealed that 38% of informal entrepreneurs identified taxation as the biggest disincentive to registration.

It is worth emphasizing that business people are not always opposed in principle to paying tax but wish to avoid the hassle of excessively complex tax systems. ESAURP researchers have found out that despite this barrier facing informal sector businesses almost 23% of the informal sector operators indicated their "awareness that having TIN is mandatory for any business" and 18% said that they needed to comply with laws and regulations.

Within the EAC, just as there is great variation in the overall ranking on the ease of paying taxes; there is much variation in the underlying indicators. Tanzania requires 48 payments a year, while Rwanda requires just 17 (Table 3). Complying with taxes takes only 134 hours a year in Rwanda, while it takes 340 in Kenya and 172 hours a year in Tanzania.

d) Ignorance of formalisation formalities and benefits

Lessons from researches and practical experiences have revealed that many informal sector operators are ignorant of formalisation procedures due to their low level of education and social-economic status. Ishengoma et al. (1995) assert that the majority of unregistered enterprises were not aware of formal process or of any need to formalise, or of the benefits of participating in different societal institutions. The ILO (2003) finds that some employers and employees in the informal sector were entirely ignorant of regulations on working and employment conditions.

The 2012 ESAURP study also revealed the difficulties entrepreneurs face in accessing information on the registration process and thus pose a major barrier to formalisation. This ignorance of available information is partly due to a low level of education as almost half of SME operators have only primary education and thus find difficulties in accessing and fully understanding information on the registration process. This constraint is compounded by a lack of business skills as ESAURP study found out that 45% the entrepreneurs pointed out this as a challenge to their businesses.

For such entrepreneurs, having little access to essential information, such as which documents are needed to ship a container or even what the fee schedule is, requires consulting a tax official. This requirement frequently causes unnecessary delays and may encourage improper payments and bribes, which inevitably leads to increased business costs.

When asked to mention the factors that would motivate entrepreneurs to register their businesses, entrepreneurs identified "awareness on registration procedures" to be one of the major factors that would motivate them to register their businesses. Another motivating factor, which was especially significant to the retail trade was "having someone to facilitate the processes involved". These results clearly show that awareness of the registration procedures and ability to process the registration are very important considerations for informal sector operators to decide whether or not to formalise their businesses.

e) Financial constraints

Most informal enterprises start their businesses with minimal or very small capital. According ESAURP (2012) entrepreneurs whose initial investment was above 1 million shillings accounted for only 24 percent of the respondents. This low level of startup capital itself explains why such enterprises could not afford the formalization costs at the point of start up of their businesses. Limited start-up capital is not surprising because the money for investment comes mainly from peoples' own savings (50 percent), families (24 percent) and transfers from other businesses (16 percent). Sources from formal financial institutions account for not more than 5 percent, except in the case of the services sector, which gets 14 percent of the investments from formal financial institutions (ESAURP, 2011). The 2009 FinScope report confirms this and points out that 56 percent. Tanzanian adults are effectively excluded from financial services and only 12.4 percent **are** formally included (FinScope 2009). The reasons for this very limited access include the following:

i. low awareness of financial products and a low level of education;
ii. absence of recognized identities, property, lack of fixed business premises and proof of address and referees;
iii. most informal operators cannot provide sufficient collateral.
iv. lack of bank accounts –FinScope 2009 reported that 90 percent of Tanzanians had never had bank accounts and in 2012 ESAURP also revealed that 61 percent of the enterprises had no bank accounts.

An informal business that is not registered by any authority would mean that the business couldn't have access to financial services in the formal sector such as credit facilities or loans. It is thus not surprising that entrepreneurs indicate that access to services such as loans, grants training and information is an important motivating factor for business formalisation in Tanzania.

The Doing Business 2013 Report has useful information on having access to credit in Tanzania. The report examines the factors that facilitate access to credit in Tanzania by assessing credit information systems and the legal rights of borrowers and lenders in collateral and bankruptcy laws. Credit information systems enable lenders to view a potential borrower‘s financial history (positive or negative), which is valuable information to consider when assessing risk. The information also permits borrowers to establish a good credit history that will allow easier access to credit. Sound collateral laws enable businesses to use their assets, especially movable property, as collateral.

According to the 2013 report, the Tanzanian economy has a score of 0 on the depth of credit information index[3] and a score of 7 on the strength of legal rights index[4] (see Table 4). Higher scores indicate more credit information and stronger legal rights for borrowers and lenders. The scores for both indicators have not changed since 2005 meaning that there have not been any improvements pertaining to credit information system and collateral and bankruptcy laws in Tanzania supporting lending and borrowing. Globally, Tanzania is ranked 129th in the ranking of 185 economies on the ease of getting credit (Table 4). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how well regulations and institutions in Tanzania support lending and borrowing. Tanzania is far below other EAC members (except Burundi). This is an area to be addressed. When economies strengthen the legal rights of lenders and borrowers under collateral and bankruptcy laws, and increase the scope, coverage and accessibility of credit information, they can increase entrepreneurs' access to credit.

Table 4: Access to credit

Country	Global ranking	Strength of legal rights index (0-10)	Depth of credit information index (0-6)
Burundi	167	3	1
Kenya	12	10	4
Rwanda	23	7	6
Tanzania	**129**	**7**	**0**
Uganda	40	7	5
SSA	109	6	3
Mozambique	129	3	4
Malawi	129	7	0

4. Easing Regulatory Business Environment: Some Examples

4.1 Introduction

Tanzania needs an investment climate (including a business regulatory environment) that is well suited to scaling up trade and investment and can act as a catalyst to modernize the regional economy. Improving the investment climate is therefore an essential ingredient in expanding business activity, boosting competitiveness, spurring growth and ultimately, supporting human development. Fostering economic growth by tapping the potential of the private sector is among the main objectives of the fourth EAC development strategy. In addition to

[3] Credit information index ranges from 0 to 6

[4] Legal rights index ranges from 0 to 10

increasing institutional coordination, other important steps to achieve this objective are better integrating small and medium-size enterprises into the financial sector and creating business-friendly administrative structures and tax regimes. Additional challenges are to ensure the availability of reliable statistics and to implement credible surveillance and enforcement mechanisms.

Let us look at a few examples before suggesting steps to be taken by the Government of Tanzania and other stakeholders.

4.2 Measures taken

a) Business regulations
Tanzania eliminated a requirement for inspections by health, town and land officers as a prerequisite for obtaining a business license.

b) Business registration process
Kenya, Rwanda and Tanzania are already implementing online business registration. The ultimate goal of the reform program is a private sector that promotes economic growth and job creation. So far, the program is achieving measurable progress toward this goal.

c) Licensing
Tanzania reformed its licensing procedures in 2008, abolishing the license fee for small and medium-size enterprises and reducing the cost for companies with a turnover of more than 20,000 Tanzania shillings. It also simplified the license category system and reduced the number of licensed activities from 15 to 2.

d) One-stop shop
This involves bringing together representatives from several agencies involved in the start-up process: investment promotion agencies, the tax offices, immigration and others.

e) Information and communication technology
Introducing information and communication technology has been another common feature of start-up reforms. Today, 106 economies use modern technology for services ranging from name search to complete online business registration. EAC economies are among those providing electronic services. New data show the importance of access to regulatory information. The rise in e-government initiatives in the region and around the world provides an opportunity to increase access to information and transparency.

Tanzania has consolidated and digitized registered company names, allowing the company name search to be done online and speeding up name clearances. Rwanda has an integrated system for company registration.

Limited access to essential information, such as type of documents are needed to ship a container or even what the fee schedule is, requires a meeting with an official. This could cause unnecessary delays or even open the door to improper payments such as bribes.

f) Paying Taxes

Taxes are essential: governments need revenue to provide public services. Meeting revenue targets while minimizing distortions is always a challenge. Governments need to not only choose appropriate tax rates within a broad based, fair and transparent tax system but also design a tax compliance system that does not discourage tax compliance.

In recent years, the East African Community economies have undertaken substantial efforts to improve their tax systems—to make it easier to do business while also increasing tax revenue as examples testify.

- The Tanzania Revenue Authority established tax service centers in Dar es Salaam intensified risk-based and quality tax audits and encouraged greater use of electronic filing and payment systems.

g) Registering property

Tanzania reduced the transfer fee from 4 percent of the property value to 1 percent.

3.4 Measurable Results

Based on time-and-motion case studies from the perspective of the business, these indicators measure the procedures, time and cost required to complete a transaction in accordance with relevant regulations.

General

According to a recent review, evidence from several studies shows that reforms making it easier to start a formal business are associated with an increase in the number of newly registered firms as well as with sustained gains in economic performance, including improvements in employment and productivity. These efforts have led to clear results.

According to the World Bank Groups' Doing Business report analysis has revealed that reforms that significantly reduce the time cost, days and number of steps required to start a business generally have a real and sustainable impact on new firm registration. For example, Rwanda registered 4,500 new firms in 2011, up from 1,136 in 2008. This was in the wake of 2009 reforms that, among other things, eliminated six steps to register a business and shortened the process time from 14 to three days. Also, the number of newly registered limited liability companies in 2008 was about the same as the number of newly registered sole proprietorships. Then Rwanda revamped its business start-up process, making it easier and cheaper to set up a limited liability company by establishing a one-stop shop and cutting the cost of business registration. By 2010, a year later, almost 4 of every 5 newly registered enterprises were limited liability companies.

Taxes

- Over the past 8 years *'Doing Business' has* recorded 7 reforms making it easier or less costly to comply with taxes in the EAC. As a result of these reforms, the average number of tax payments in EAC economies fell from 36 in 2004 to 32 in 2011, while the average total tax rate dropped from 91.7% of profit to 42.2% (Table 3).
- Tax administrative measures in Tanzania have helped improve compliance, and tax revenue rose relative to GDP in each of the past 2 years.

5. FORMALISATION AND REDUCTION OF THE COST OF DOING BUSINESS

5.1 Introduction

The paper has pointed out that despite taking a number of reforms to improve business environment, Tanzania has been slowly moving downwards in the ranking on the global competitiveness index. For example, Tanzania has attempted to update its commercial laws to reduce administrative delays and the cost of conducting business, but the overall regulatory framework remains poor. Its investment climate is less favorable when compared to other countries in Sub-Saharan Africa such as Kenya, Rwanda and South Africa. Tanzania currently ranks 134th in the World Bank's Doing Business Report 2013 (out of 185 countries), indicating again a fall from last year's position (133). Annex 3 shows the ranking of Tanzania in various aspects of doing business in East African economies.

We are well aware that the barriers made it difficult for the Tanzanian private sector to grow and to be competitive with their businesses in the EAC common market. As a result such barriers also have a negative impact on creating more employment opportunities. An improved investment climate in Tanzania is a necessary condition to boost productivity, to create jobs and incomes, and to sustain the economic and social progress from the past decade.

There is need for the government to make quick and sufficient effort to address issues that are perceived to form barriers to an enticing investment climate and competitive business environment. The formalisation process is, however, widely perceived as being characterised by barriers, which are more substantial than the benefits to be gained by joining the formal sector. In setting policies and strategies to facilitate formalization, policy makers need to address these perceptions of the imbalance between barriers and benefits. This requires strategies to be developed, which will create incentives to many enterprises to make the transition into the formal sector and consequently lead to increased tax revenues since the enterprises will be included in the tax net.

5.2 Suggested measures for formalisation

It has been pointed out that informality in the enterprise sector is not an isolated event. It is driven by a wide range of economic, social and cultural contexts, which affect the size and nature of the informal economy in different countries and regions. Policy responses to the challenges faced by informal enterprises should be based on a careful analysis of the systems that create and maintain the informal economy and the presence of informal enterprises in each country. While there are many variations based on country and region, there are a number of common policy domains where policy, legal and regulatory reform are found to impact on the move out of informality for informal firms. These are briefly described below.

a) Business registration and licensing

Burdensome procedures and regulations consume time and financial resources. These transaction costs cut into the resources that can be used for core business activities. Rationalising and streamlining business registration and licensing procedures in order to make registration a simple administrative process that is separate from licensing is an important aspect of supporting formalisation. Licensing should be limited to those activities where it is justified on health, safety, and environmental or other grounds. Multiple licenses should be avoided to make it easier to submit applications. Simplification of procedures required to start businesses is foremost among the measures that will facilitate the formalisation of businesses. This will include reduction of the number of procedures[5] and making them simpler and affordable to all entrepreneurs, no matter how small their businesses may be. Definitely, these measures will reduce the number of days currently 26 and thus costs for registration will be lower from the current rate of 28.2% of per capita income. Several examples of positive results have been cited in various countries that have taken steps to streamline business registration and regulations. This process simultaneously involves obtaining the certificate of incorporation (business registration), Tax Identification Number (tax registration) and the Social Security registration for employee pension submission. Kenya launched an ambitious licensing reform programme in 2008 which has led to the elimination of 110 different business licenses and the simplification of a further

[5] Currently, there are 9 procedures which take 26 days to complete the registration process.

eight, thus cutting both the time and cost of obtaining licenses and registering a company.

b) Reform of property rights system

Ensuring formal property rights is fundamental. Effective administration of land is part of that. If formal property transfer is too costly or complicated, formal titles might go informal again. And where property is informal or poorly administered, it has little chance of being accepted as collateral for loans and thus limiting access to formal credit. According to data collected by *Doing Business*, registering property in Tanzania requires 8 procedures, takes 68 days and costs 4.4 percent of the property value (Table 5). Globally, Tanzania stands at 137 in the ranking of 185 economies on the ease of registering property (Table 5). The rankings for comparator economies and the regional average ranking provide other useful information for assessing how easy it is for an entrepreneur in Tanzania to transfer property. Over the years Tanzania has been slow at improving the situation. If we take the Year 2007 the number of procedures required to transfer property was 10 taking 77 days and now 8 procedures for 68 days. The cost has remained constant at 4.4 percent of the property value. There have not been any recorded reforms since 2007 while many countries have cut the time required substantially – enabling buyers to use or mortgage their property. Tanzania needs to take appropriate steps in this aspect.

Table 5: Property registration

Country	Global ranking	Procedures	Time in days	Fee/cost (% property value)
Burundi	127	8	64	3.3
Kenya	161	9	73	4.3
Rwanda	63	5	25	5.6
Tanzania	137	8	68	4.4
Uganda	124	12	52	1.9

The reform of property rights systems will facilitate informal businesses not only by providing collateral but also by making the right to operate from a particular property more secure. Property rights must be made accessible to all citizens and those rights must be clearly defined and rigorously enforced. A rapid implementation of MKURABITA will help in dealing with this problem. In Tanzania, it takes 68 days to transfer property while 52 days in Uganda. Annex 4 shows the time and costs involved when registering property in Tanzania.

In 2011/12, Burundi implemented a reform making it easier to register property. It established a statutory time limit for processing property transfer requests. This measure reduced the time required for property transfers by a month. The land registry now issues a new title in the property purchaser's name 30days faster. In 2011, Malawi eased property transfers by cutting in half the time required for obtaining consents and registration of legal instruments. In 2008, Rwanda reduced the time to register property[6], eliminated mortgage registration fees and shifted from a 6% transfer tax to a flat rate of 20,000 Rwandan francs (about $33).

c) Taxation policy and administration.

Inappropriate taxation systems can be an important aspect in encouraging informality. Simplifying tax administration is often required and countries have been experimenting with a single tax on MSMEs as a way of reducing the number of taxes, and offer different payment options, one-off or by installment. Furthermore, it is important to share information on what the tax money is spent, and how businesses will benefit from enhanced services. Evidence suggests that compliance rates go up when businesses know how their tax money is spent.. Tanzania has a high level of taxes due to multiple levies and levels charged by various authorities and regulatory bodies. This makes it very difficult for new business start-ups to be successful thus leaving Tanzanian youth with very meager perspectives for their future. Table 3 clearly shows how Tanzania fairs on this aspect when compared with other EAC countries. The transfer tax rate as a percentage of profit in Tanzania stands at 45.5% compared to the average of 42.2% for the East Africa region.

Taxation reforms include lowering the overall tax rate and by making tax codes simple and broadening the tax base. Furthermore, a consistent enforcement of taxation laws should be promoted by increasing the TRA's administrative capacity and minimize individual officials' discretionary powers. Such reforms would encourage profitable economic activities and consequently promote widespread compliance on licensing and other regulations. The reform of a tax system reduces the burden imposed by entering the formal economy. The outcome of such measures would not only be lower business costs but, in the long term, increase government revenues through broadening the tax base.

d) Essential business information and capacity building

In many if not most cases, entrepreneurs lack even the most basic knowledge on how to regularize their enterprises or of what they might stand to gain from doing so. The formal sector could be enlarged were information to be readily made available to all citizens on how to start a business, how to form a commercial entity and on the rights and responsibilities of entrepreneurs. An information or advisory service should be developed to provide essential business information as well as

[6] Through changes such as these, Rwanda cut the time to register property from 371 days in 2004 to 25 days in 2012.

creating a location for business development services. Enterprises thus require access to financial and business development services if they are to grow and become more sustainable.

In addition, training should be made available through such a service on those matters as obtaining permits and licenses, forming legal commercial entities, investing in businesses, and on how to understand and comply with business-related laws and regulations. Financial education and business skills are critical aspects, which need attention. The capacity building component could also include creating linkages between the public and the private sector institutions (including financial institutions) and support for the gradual integration of the informal sector into the formal sector. Such training would greatly facilitate small business in complying with the various legal requirements. Bringing basic skills training programmes to workers in the informal sector can thus help to reduce poverty and rate of unemployment, while improving overall economic growth. The Tanzania Private Sector Foundation, Tanzania Chamber of Commerce, Agriculture and Industry, BRELA, district trade officers and TRA have an important role to play in this area.

e) Credit facilities

Improving access to credit, as well as creating linkages between micro-finance and formal finance institutions would greatly encourage moves towards formalisation and facilitate the growth of small formal enterprises. Financial institutions such as MFIs and banks should promote a credit environment sympathetic to small business realities and crack down on systemic corruption through stringent penalties. There is need to review current collateral and bankruptcy laws so as to support lending and borrowing. Sound collateral laws will enable businesses to use their assets, especially movable property, as security to access credit. Definitely, these measures can increase entrepreneurs' access to credit.

The Government can facilitate the transition by establishing special banks that will serve small entrepreneurs by providing them with soft loans at affordable interest rates. Government can revoke outdated MSME laws, regulations and policies that hinder the growth and development of the sector.

6. CONCLUSIONS AND RECOMMENDATIONS

This paper has pointed out that reasons for the growth of the informal economy include the existence of barriers to entry into the formal economy, high costs, government regulations, corruption in granting permits and business start-ups capital have discouraged entrepreneurs to transform into formal sector.

Moving out of informality is an important step toward enterprise upgrading. Research works have shown that formal enterprises are more likely to create additional employment than their informal counterparts. There is an advantage of being formal. This is being recognised by government and other market actors, which help these enterprises, gather the resources required to create more employment than their informal peers. There are two main reasons for this. First, formalization is an indication of commitment. Those enterprise owners/managers who make the effort to comply to the requirements of the State and are successful in doing so are more committed to growing their business over the long-term. Second, compliance with the State provides recognition to small enterprises. Formal enterprises are more able to access the business and financial services they require to grow.

Enabling the transition to formality of informal enterprises requires an understanding of the multiple causes and dimensions of informality in the private sector. Integrated approaches are essential – ranging from a conducive business environment, the adaptation of outreach mechanisms to reach diverse segments of the informal economy and providing incentives to move out of informality including market and financial access, improving working conditions and streamlining costs and procedures of registration. Policy formulation also requires regular, structured dialogue with representatives of informal enterprises in order to be effective, understand the diverse constraints facing informal entrepreneurs and gain the trust of marginalized businesswomen and men.

The paper has suggested several strategies, which might be taken to facilitate the transition of MSMEs from informal to formal operations. However, there are three institutions, which ought to play a leading role in the transformation process of MSMEs to move out of informality.

The role of the Government

When developing policy responses to the problems of informal enterprises and their workers it is important for government authorities to understand the needs, constrains and opportunities of informal enterprises—careful diagnosis of the issues faced by informal enterprises is essential. This is likely to involve consultations with informal enterprises, their representative organisations, government officials and other business and worker representatives. From a policy perspective, the ILO places government in a primary position in facilitating the transition of enterprises from informality to formality. To this end, government should:

i. provide conducive macroeconomic, social, legal and political frameworks for the large-scale creation of sustainable, decent jobs and business opportunities;
ii. design and implement specific laws, policies and programmes to deal with the factors responsible for informality;
iii. remove the barriers to entry in the mainstream economy i.e. streamline registration and tax requirements, lower costs of compliance and provide the right incentives;
iv. ensure that the formulation and implementation involve the social partners and the intended beneficiaries in the informal economy;
v. provide an enabling framework at national and local levels to support representational rights including business associations (formal and informal) and large formal firms;
vi. inform all interested parties by *d*eveloping transparent guidelines to clarify rights and obligations of entrepreneurs; organize awareness campaigns via TV and radio; and
vii. build trust by encouraging and supporting public-private dialogue involving representatives from the informal sector and informal sector associations. This might involve the creation of a platform for dialogue between informal enterprises, government and other representative organisations, such as Employers' and Workers' Organizations17

The roles of Employers' and Workers' organizations

Complementing the role of government, employers' and workers' organizations should draw attention to the underlying causes of informality, galvanize action on the part of all tripartite partners to address them, and publicize and share the innovative and effective strategies and good practices that employers' and workers' organizations in different parts of the world have used to reach out informal enterprises. In addition, employers' organizations can help informal enterprises access information, finance, insurance, and technology and business development services and formulate an advocacy agenda. Employers' organizations can also act as a conduit for the establishment of links between informal and formal enterprises. Workers' organizations can sensitise workers in informal enterprises to the importance of collective representation and can include them in collective agreements and provide special services, including legal advice and information.

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Annex 1: The success story of Rwanda

From 2005 to 2008 Rwanda focused its regulatory reform efforts on reducing regulatory complexity and cost to improve the business environment. The country has continued to reduce complexity and cost but has focused even more on strengthening legal institutions relevant to business regulation.

The ultimate goal of the reform program is a private sector that promotes economic growth and job creation. The program is achieving measurable progress toward this goal.

After Rwanda simplified formalities for business registration in 2006, 77% more firms registered in the following year.18. In 2008, more than 3,000 firms registered, up from an average of 700 in previous years. In 2009, the number rose to 6,905. In 2010, the government managed to register 18,447 new businesses—nearly achieving its goal of registering 20,000 that year.19 However, the jump in registration numbers cannot be attributed solely to the simplification of the **start-up process**; the business registration reforms were part of a wider government agenda to promote private sector growth and entrepreneurship in Rwanda. Even so, the increase points to a positive trend. Good results are also showing up in the area of contract enforcement: the commercial courts started operating in Kigali in May 2008 and had fully cleared the case backlog by the end of 2009.20

Rwanda's consistent reforms to make trade easier improved the productivity of customs officials, who increased the number of documents they cleared annually by 39% between 2006 and 2009. And according to the Ministry of Trade and Industry, Rwanda's exports rose from $147 million in 2006 to $193 million in 2009. Rwanda recently adjusted some of the targets set in *Vision 2020*. Most notably, it raised the income per capita target from $900 to $3,500. This brings the target into line with levels in middle-income economies today and reflects Rwanda's recent growth, which increased income per capita to around $570 in 2011.21

One key to its achievements has been the strong commitment to reform shown by Rwanda's leaders and its citizens. The government has established structures for building a foundation for private sector development and coordinating government-wide reform efforts. Also, it has created a well-defined, long-term reform strategy that informs all of the country's short-term development goals.

The government has worked to meet the needs of entrepreneurs by streamlining regulatory processes involved in starting, operating and closing a business. Beyond undertaking legal and administrative reforms, the government has invested in training for professionals—including lawyers and judges—to ensure proper administration of the reforms.

Recognizing the benefits of a diverse knowledge base, Rwanda has also imported technical expertise from other countries, to replicate good practices and build capacity. The government has involved the private sector in the reform process and maintained an open line of communication to keep entrepreneurs, civil society and other stakeholders apprised of developments. All these efforts are showing results in Rwanda's regulatory performance. And Rwanda's dedication to private sector development, in triggering positive legal reforms, has contributed substantially to its overarching goal of promoting national reconciliation and prosperity.

Among the economies of the East African Community (EAC) and other regional blocs covered in Africa, Rwanda makes it easiest to start a business. Entrepreneurs need to complete only 2 procedures and wait 3 days—and can register their company online free of charge.

Starting early on in the reform campaign, Rwanda has implemented many business regulation reforms. These have transformed the life of the private sector and made it noticeably easier to do business. While challenges remain, the country has achieved much success in its reform agenda since the early 2000s. This success stems from many factors, and Rwanda's experience may provide useful lessons for other nations seeking to improve their business climate, particularly for those coming out of conflict.

Annex 2: The 9 procedures to start business in Tanzania

S/No.	Procedure	Time to complete (days)	Associated costs
1.	Apply for clearance of the proposed company name at the Business Registration and Licensing Authority "BRELA	1 day	no charge
2.	Obtain a notarized declaration of compliance	1 day	Notaries do charge at the range of TZS 10,000-50,000, for notarial services to normal documents such as form No. 14 b.
3.	Apply for incorporation of a company and obtain certificate of incorporation	4 days	TZS 206,200
4.	Apply for taxpayer identification number (TIN) with the Tanzania Revenue Authority	1 day	no charge
5.	Obtain taxpayer identification number (TIN)	1 day	no charge
6.	Apply for business license from the regional trade officer (depending on the nature of business)	6 days	TZS 1,000
7.	Apply for VAT certificate with the Tanzania Revenue Authority	4 days	no charge
8.	Register for the workmen's compensation insurance at the National Insurance Corporation or other alternative insurance policy	1 day	no charge
9.	Obtain registration number at the National Social Security Fund (NSSF)	7 days	no charge

Annex 3: Global Ranking of Doing business in EAC by topic

Country	Ease of Doing Business	Starting a business	Registering property	Getting credit	Protecting investors	Paying taxes	Trading across borders
Burundi	159	28	127	167	49	137	177
Kenya	121	126	161	12	100	164	148
Rwanda	52	8	63	23	32	25	158
Tanzania	134	113	137	129	100	133	122
Uganda	120	144	124	40	139	93	159
Ave	117					110	

Annex 4: Summary of procedures for registering property in Tanzania—and the time and cost

No.	Procedure	Time to complete	Cost to complete
1.	***Obtain an official search at the Land Registry** The seller must obtain the search of any encumbrance before starting the transaction formally. The document does not necessarily show all the owners of the property in the last 10 years. If the title number of the property is provided then the fee is TZS 2000. If only a plot number is provided then the fee is TZS 4,000. The search may take longer than 2 weeks if the file cannot be located due to the disorganization of the Land Registry.	7 days (simultaneous with Procedures 2, 3, and 4)	10,000
2.	*** Obtain land rent clearance from the Land Ministry showing payment of rents for the past 10 years** The seller is required to obtain a land rent clearance from the Land Ministry, showing that all land rents have been paid for the past 10 years	1 day (simultaneous with Procedures 1, 3, and 4)	No cost
3.	*** Submit application letter to obtain evaluation at Ministry of Lands** The seller can request the valuation report at the Ministry of Lands. The valuation report can will be prepared by the Ministry of Lands (valuation department) and sent to a government valuer for approval. Regardless, final approval must be given by the Chief Government Valuer. It does not necessarily include or reflect cadastral value of the property. Valuation of the property is for purposes of ascertaining stamp duty and Capital Gains Tax. The documentation shall include: • Property title issued by the Land Office and/or Land Registry • Land rent payment clearance for the current year (obtained in Procedure 3) • ID of the seller (citizenship, photo, if married and property is matrimonial property to prove spouse consent to the transaction) • Cadastral map/plan of the property prepared by an architect if it is a lease of part of the property such as a flat in a block building	6 days (1 day to submit application + 5-day waiting period for evaluation appointment) (simultaneous with Procedures 1, 2 &3)	The official valuation fee is calculated by using the following formula: (Property Value – 200,000) * (1.25/1,000) + 550 + valuation approval fee of 0.01% of property value
4.	**A government valuer inspects the property to confirm its value** A government valuer must determine the value of the property and, where necessary, establish a cadastral value and prepare a cadastral plan. In certain instances, the Chief Government Valuer may, inspect the property valued to confirm that the valuation report accurately reflects the correct property value. The valuation report must be approved by the Chief Government Valuer.	8 days (1 day to complete valuation + 7-day waiting period for delivery of valuation report)	Paid in Procedure 4

No.	Procedure	Time to complete	Cost to complete
5.	**Notarization and execution of the sale agreement and preparation of the transfer deed** A lawyer usually prepares and notarizes the sale agreement, and prepares the transfer deed, which takes about two days. Notarization of the sale agreement is mandatory. The process can be delayed if the seller fails to provide all the necessary documents for the preparation of the sale agreement and transfer deed. The process can also be delayed if the parties take a long time to negotiate and execute the documents. The cost of preparation	1 day	Approximately 3% of property value
6.	**Obtain approval for the transfer** This stage involves obtaining approval from the Commissioner of Lands for the disposition of the property. Documentation shall include: • Original Certificate of Title • Original Land Rent receipt for the relevant year • Original Valuation Report • Original Valuation Approval receipt • Transfer forms • Forms 29 (form for Notification of a disposition) • Form 30 (form for Application of grant of approval for disposition) • Copy of Passport/birth certificate (of two directors of the seller and buyer) • Certificate of Incorporation and Memorandum and Articles of Association of the Company (seller and buyer) • Board Minutes approving the disposition of the property in respect of the seller and Board minutes approving the purchase in respect of the buyer	14-21 days	TZS 5,000 approval fee
7.	**Obtain a capital gains tax certificate from the Tanzania Revenue Authority** A Capital Gains Tax Clearance Certificate is obtained from the Tanzania Revenue Authority before the name of buyer is recorded in the Land Office or the Land Registry.	14-21 days	Capital Gains tax is calculated as 10% of the amount gained by the Buying Company
8.	**The transfer deed is delivered to the Land Officer for its recording under the name of the buyer at the Lands Registry** Once approval has been obtained (see Procedure 8) the seller then pays the stamp duty and registration fees and also ensures that all the other taxes in respect of the property have been settled including Capital Gains Tax described in Procedure 9 above. Once all these fees are paid the transfer is then registered and the buyer is recorded as the owner of the property. Documentation Requirements: • Notarized sale agreement and transfer deed • Capital Gains Tax clearance certificate from the TRA • Consent letter from the Commissioner of Lands • The original title deed • Proof of payment of all necessary fees, i.e. land rent and registration fees	14 days	1% of property value (Stamp duty) + Registration Fee as follows: registration fee (0.25% of the property value + 500 for the instrument)

* Takes place simultaneously with another procedure.