PPP AND TECHNOLOGY TRANSFER A POLITICAL SETTLEMENT FRAMEWORK

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PUBLIC-PRIVATE PARTNERSHIPS AND TECHNOLOGY TRANSFER

A Base-line survey of business environment reforms and local content requirements in Tanzania

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NRF National Research Foundation
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DFG Deutsche Forschungsgemeinschaft German Research Foundation

EXECUTIVE SUMMARY

Several African countries continue to underperform in science, technology and innovation (ST&I) despite increasing GDP growth rates and foreign direct investment in the continent in recent years. This is partly because of the absence of adequate incentives for technology transfer, which consolidates context-specific local content requirements and demands for a favourable business environment by private sector actors. Science, technology and innovation (STI) are engines of growth in any economy. Yet, several countries on the continent continuously fail in meeting the set STI goals and developmental objectives in their development plans, and regional instruments such as Africa's Science and Technology Consolidated Plan of Action (CPA), which articulates the African Union (AU) agenda for harnessing STI to boost economic growth and improve the lives of African people.

As an alternative to the new institutional economic approach which relies on formal institutions, good governance and value chain economics, this baseline study use a political settlement approach to bring the history and political economy of public-private partnerships and its impact on technology transfer in sharper contrast. The over-reliance on investment incentives such as tax exemptions and inadequate regulatory and institutional frameworks in African countries has led to pervasive levels of capital flight, tax avoidance and corruption, which further translates into unsustainable revenue buoyancy for many countries on the continent. Additionally, punitive tax regimes for businesses and the lack of proper tax administration also increases the burden for private sector actors in many African countries. Not surprisingly, extra-legal or informal social transactions continue to be the main determinants of industrial and investment policies in Africa. Such arrangements have seen the over-dependence on macro-economic indicators such as FDI and export, at the expense of local infant industries and plausible local content requirements which encourage technology and knowledge transfer through PPPs.

Through the sustainable development Goal (SDG) 9, countries have pledged to 'build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation' in their countries. In particular, SDG Target 9.5 calls upon states to encourage innovation and substantially increase the number of researchers, as well as public and private spending on research and development. Additionally, the lack of adequate skills for industry, and insufficient financial support for skills development continue to plague the continents skill-starved manufacturing and industry sectors. Only three sub-Saharan African countries are close to meeting the 1% target as expenditure of GDP on research and development. It is the hope that this base-line survey will contribute to new ways of engaging with questions around public-private partnerships and technology transfer strategies or policies in African countries.

BACKGROUND

The government of Tanzania (GoT) is currently at a crossroads in redefining its relationship with the private sector. The second Five-Year Development Plan (FYDP) 2016/17 -2020/2021 describes the developmental approach under President John P. Magufuli as a 'business unusual' approach, which entrenches policy and institutional reforms required by the government to play an active role within the private sector (URT 2016, 3). Through the FYDP, whose theme is 'nurturing industrialisation for economic transformation and human development', the GoT is seeking to discipline rent with a 'pragmatic approach', including direct involvement in deals making (Andreoni 2017, 4). The GoT aims to do so by 'strengthening dialogue mechanisms with the private sector and other stakeholders, given the fact that some of the reforms are likely to trigger trade-offs' (URT 2016, 2). What is certain is that the GoT is seeking ways to renegotiate its relationship with the private sector and to re-establish public trust in institutions which have been marred by high levels of corruption scandals in the recent past (Nyang'oro 2017, Cooksey 2017).

This report, therefore, aims to evaluate the impact of public-private partnerships as described by the National Public-Private Partnership Policy on technology transfer in Tanzania. While there is no clear-cut definition for technology transfer, this report considers technology transfer as the transfer of 'theoretical and practical knowledge, skills, and artefacts that can be used to develop products and services as well as the production and delivery of these theoretical and practical knowledge systems' (Burgelman, Christensen, and Wheelwright 2008). In order to determine the impact of PPPs on technology transfer, the report reviews policy requirements which support science, technology and innovation (STI), protect and support infant industries, and encourages job creation in Tanzania. In addition to their usefulness as a vehicle for poverty alleviation and investments, PPPs can also allow the public sector to access the benefits brought by the private sector in terms skills and management (Kavishe, Jefferson, and Chileshe 2019, 354).

Investors evaluating investment options, governments interested in improving business conditions, and developmental organisations seeking to explain economic performance have always grappled with defining and measuring the business environment. While there are challenges in obtaining reliable data for a comprehensive analysis of public-private partnership on technology transfer (TT), some business environment indicators and local content requirements (LCR) can be useful indicators in such an analysis.

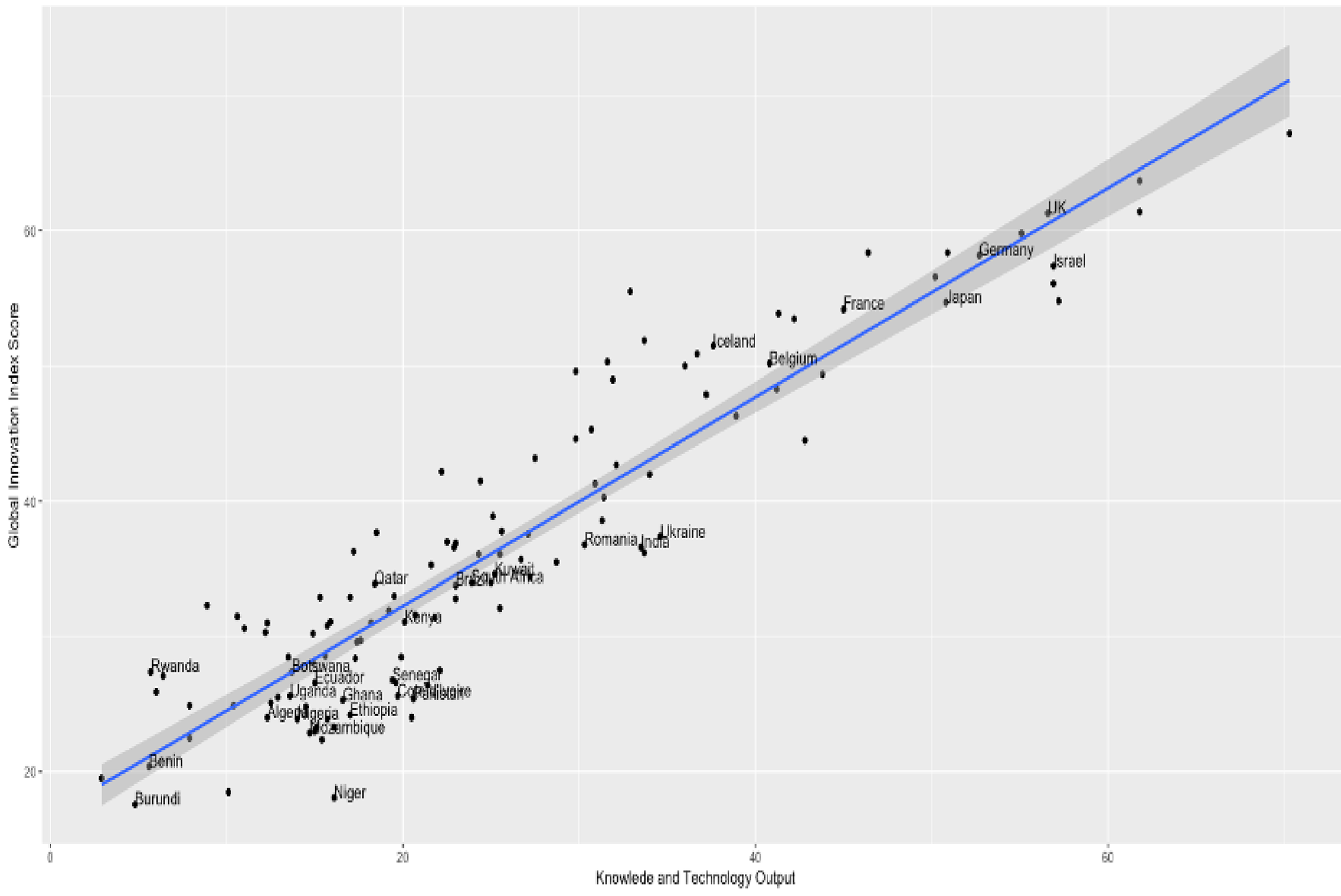


Figure 1 Innovation and Knowledge and Technology Output - Global Innovation Index 2019

The assumption here is that – a favourable business environment (BE) attracts much needed foreign direct investment (FDI) in the form of investors or private sector actors with the potential capital to develop and support local industries through 'learning by doing' or technology and knowledge transfer. Secondly, favourable local content requirements in the form of public policy and regulations may ensure that a certain percentage of knowledge, intermediate goods, and raw materials used in production or processing are sourced from domestic manufacturers. Most African countries, including Tanzania and the comparator countries considered in this survey, struggle in both innovation and science and technology output domains (see *Figure* 1).

Based on these assumptions, we can conclude that favourable local content requirements and the right business environment increase STI for local infant industries, and present opportunities for local enterprises to become internationally competitive in their technology and manufacturing capability, and eventually create more jobs. In other words, LCRs provide incentives for local firms to produce and innovate in the most promising sectors and potentially lower their production costs over time.

Therefore, the ambitions of the GoT to rework its relationship with the private sector presents an opportunity for developmental organisations to propose strategies and actions which intend to marry public expectations - policy and regulatory - and those of the private sector – a favourable business environment (BE). However, commonly used analytical approaches used to determine the impact of public-private partnerships on technology transfer such as value chain analysis and new institutional economic assumptions may

produce poor results in countries where the regulatory and institutional framework is weak, and where informal social transactions remain prominent determinants of policy choices and outcomes (Khan 1995, Khan 2017). Put differently, to understand the drivers of economic change; a political settlement approach can be a more useful tool in analysing the way specific policy choices emerge. Such an approach provides insight into the continues negotiation of policy choices either through state action or pressure and relationships between the state and different private sector actors (Behuria, Buur, and Gray 2017, 523).

Hence, by relying on a political settlement framework, this baseline study brings the history and political economy of public-private partnerships and its impact on technology transfer in Tanzania into sharper focus. While the recent policy reforms in the business sector have been described as interventionist and 'creating unwanted uncertainty in the business environment in Tanzania' (Ng'wanakilala 2019), contemporary political and economic interventions must be understood within a broader historical context. For example, the negative impact of tax evasion, high-levels of corruption and clientelism or primitive rent-seeking within the business sector, and public institutions (Gray 2013), and low levels of technology and knowledge transfer cannot be excluded from any analysis of the business environment in Tanzania today.

This report, therefore, aims to situate government expectations in terms of policy and statutory requirements, exemplified in LCR, within the needs and demands of the private sector – a favourable business environment. It is the hope that this base-line survey will contribute to efforts made by developmental organisations to design non-confrontational dialogue mechanisms to enhance public-private partnerships and technology transfer strategies or policies in Tanzania.

REPORT STRUCTURE

The agriculture sector and public-private partnerships in Tanzania

Tanzania's economy remains heavily dependent on rain-fed agriculture (Mongi et al., 2010). Over a quarter of Tanzania's gross domestic product (GDP) comes from the agrarian sector, providing 85 per cent of exports, and employing 75 per cent of the workforce (World Bank 2019). Due to the significance of agriculture in state revenue and employment, the Tanzanian government sees export-oriented agriculture, mainly large commercial agriculture in crops such as coffee, tea, sugar cane and sisal as a development opportunity (SAGCOT 2011). The Tanzanian Government, through concerned Ministries like the Minister for Industry, Trade and Investment, and institutions like the Tanzania Investment Centre (TIC) and the Tanzania Private Sector Foundation (TPSF), engage in export-oriented agriculture as a means to increase foreign direct investments, farmers income, technology transfer, and employment.

However, in recent years, the agrarian sector in Tanzania has been affected by repeated climatic and economic shocks, resulting in sustained low crop yields and food insecurity at both household and national levels (Henry et al., 2019, Thornton et al. 2019). This is despite Tanzania having had an average gross domestic product (GDP) growth rate of 6% between 2010 and 2018, compared to the sub-Saharan Africa GDP growth rate average of 2.98% of the over the same period (World Bank 2019). Also, Tanzania's population growth is one of the fastest in the world, at a rate of over 2.7% per year (Agwanda and Amani 2014), with implications on many facets of planning and economic management as well as food security (Mashindano and Maro 2011, 14).

By attracting investors, multinational companies (MNC), state-owned enterprises (SOE) and sovereign wealth funds (SWF), large commercial farms have become a means to accumulate capital and much needed FDI through the acquisition of 'cheaply' available land and labour (Vermeulen and Cotula 2010). The challenge for Tanzania, therefore, is to use the potential embedded in agriculture to contribute towards poverty reduction, economic growth, and food security.

Take, for example, the Agriculture Sector Development Programme ASDP, which was launched by the government of Tanzania (GoT) in October 2001, to create an enabling and conducive environment for 'improving profitability' in the agrarian sector, as the basis for improved farm income and rural poverty reduction (ASDS 2001). The International Fund for Agricultural Development (IFAD), the World Bank, the African Development Bank (AfDB), the European Union (EU), Irish Aid and the Japanese International Cooperation Agency (JICA) were the leading donors in the first phase of the ASDP which ran from 2006 -2013. Within the strategic framework of the ASDP (see *Figure* 3), President Kikwete launched the *Kilimo Kwanza* – agriculture first strategy on the 3rd of August 2009 as a national resolve to accelerate agriculture transformation in Tanzania by 'providing incentives to attract more agricultural investors' (Mousseau and Mittal 2011, 15).

Within the same institutional framework, President Kikwete launched the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) partnership (See *Figure* 2) in May 2010 as part of the *Kilimo Kwanza* strategy - (SAGCOT 2010). The SAGCOT partnership aims to facilitate the development of clusters of profitable agricultural businesses (see *Figure*4) within the Southern Corridor of Tanzania (SAGCOT 2010b). The corridor covers approximately one-third of mainland Tanzania. It extends north and south of the central rail, road and power 'backbone' that runs from Dar es Salaam to the northern areas of Zambia and Malawi (Bergius, Benjaminsen, and Widgren 2018, Steffens, Hartmann, and Dannenberg 2019). The SAGCOT encompasses the regions of Dar es Salaam, Morogoro, Iringa, Mbeya, Ruvuma, Njombe, Rukwa & Katavi (SAGCOT 2010b).

Kilimo Kwanza Growth Corridors Executive Committee

- Government of Tanzania
- Unilever
- Yara International
- Agricultural Council of Tanzania (ACT)
- Alliance for a Green Revolution in Africa (AGRA)
- Confederation of Tanzanian Industries (CTI)
- Tanzania Sugarcane Growers Association
- United States Agency for International Development (USAID)
- Irish Embassy –Tanzania

Kilimo Kwanza Growth Corridors (other) partners

- Diageo
- DuPont
- General Mills
- Monsanto
- SAB Miller
- Syngenta
- Standard Bank (Stanbic)
- National Microfinance Bank
- Norfund
- Norwegian Embassy – Tanzania
- Food and Agriculture Organisation (FAO)
- The World Economic Forum

SAGCOT Technical Team

- AgDevCo (co-lead)
- Centre for Sustainable Development Initiatives (CSDI)
- Korongo
- Logistics Consulting Group
- Prorustica (co-lead)
- Tanzania Agricultural Partnership

Figure 2 Strategic public-private partnership within the SAGCOT

Primarily influenced by the private sector (see *Figure* 2), the SAGCOT is expected to produce 680,000 tonnes of field crops (maize, tea, soya and wheat), 630,000 tonnes of rice, 4.4 million tonnes of sugar case, 3,500 tonnes of red meat and 32,000 tonnes of high-value fruits by 2030 (SAGCOT 2011, Mbunda 2016, 282)

Initiatives like the SACGOT fall within Tanzania's Development Vision (TDV), and National Strategy for Growth and Reduction of Poverty (Mkukuta) (see *Figure* 3). The TDV is designed to transform Tanzania into an emerging economy by 2025 (MAFAP 2013). Other strategies for implementing TDV 2025 include The Comprehensive Africa Agriculture Development Programme (CAADP) framework and successive five-year development plans. In an analysis of Food and Agricultural Policies in Africa by the FAO, authors described the SAGCOT 'as an opportunity for aligning public investment with policies aimed at increasing agricultural output and productivity, while reducing hunger and poverty (Angelucci et al. 2013, 135). The SACGOT is implemented by an operational support system, the SAGCOT Centre Ltd, which was established as a limited company by guarantee in 2011 (SAGCOT 2010b).

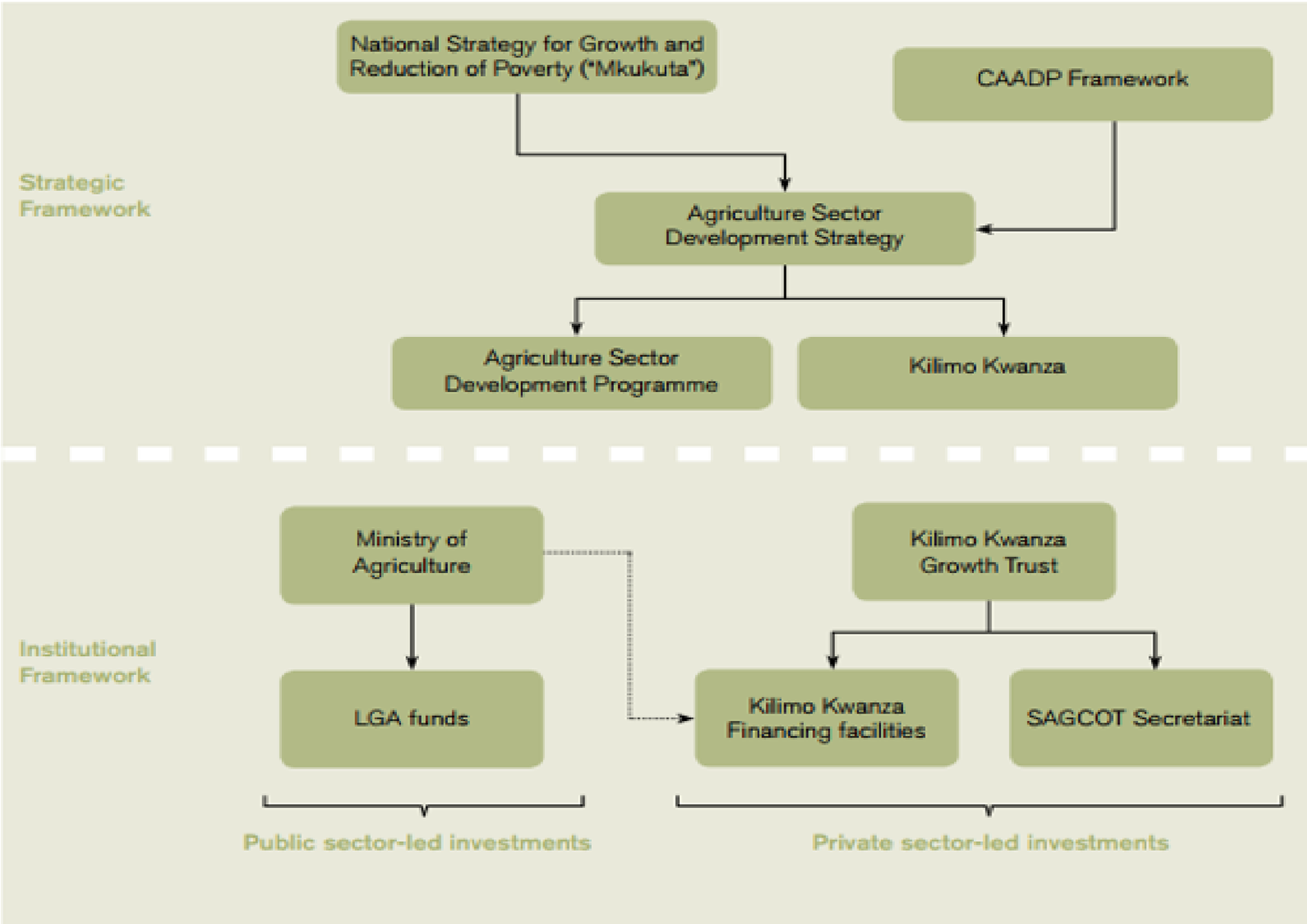


Figure 3 SAGCOT within Tanzania's developmental and agricultural strategic framework

However, while the SAGCOT makes claims of extensive benefits to Tanzania's smallholder farmers, such as technology transfer and increased income (see *Figure* 4), Mbunda (2016, 282) observed that policymakers did not sufficiently integrate small-scale farmers in the conception, designing and implementation stages of the SAGCOT initiative. There have been reports about land disputes in Southern Highland of Tanzania (Schiavoni et al. 2018, Twomey, Schiavoni, and Mongula 2015b), while authors like Mousseau and Mittal (2011, 26) have reported incidences of deprivation from essential human rights, and discriminatory decision and policy-making processes during the implementation of large-scale land acquisition schemes within the SAGCOT.

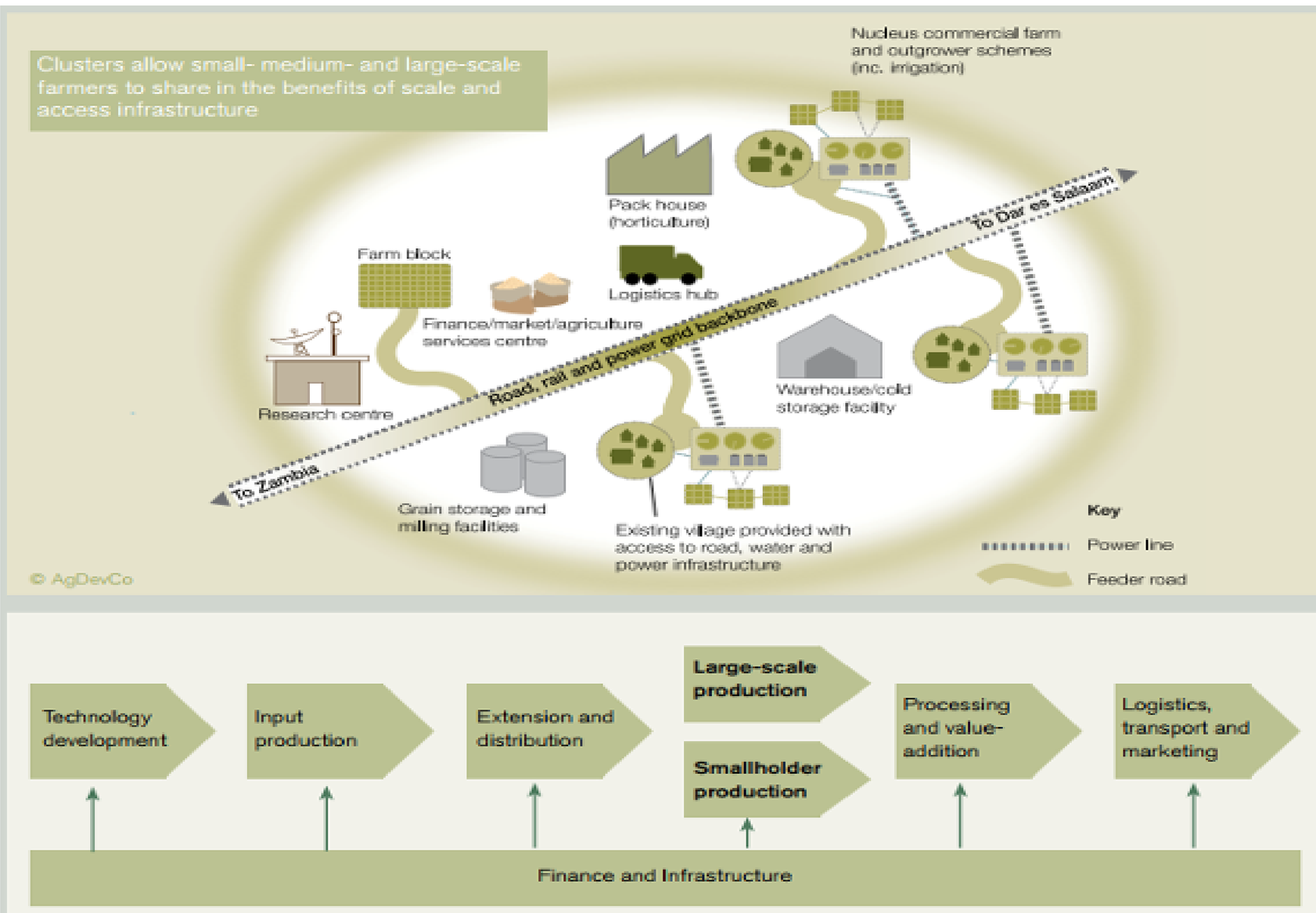


Figure 4 Illustration of an agricultural cluster and a value chain envisaged by the SAGCOT partnership scheme (SAGCOT 2011, 8)

The mining sector and public-private partnerships in Tanzania

The ambitions of Mw. Julius K. Nyerere to allow mineral resources in Tanzania unexploited until the technological and knowledge base of the Tanzanian economy is mature enough, played an important part in the slow growth and development of the mining sector in Tanzania. This prevented private sector access to mining opportunities during the socialist era until the late 1990's when new mining reforms were introduced under the influence of the World Bank. The introduction of the 1998 Mining Act, promoted by the World Bank, was considered to be very attractive to foreign investors (Campbell and Bhatia 1998). Lange and Kinyondo (2016, 1097) report that during the first four years following implementation of the new legislation, four large scale gold mines were established (see *Table* 1)

Large scale gold mines in Tanzania (by year of project start).

Name	Present/last owner	Project Start	Projected/actual closure year	Projected/actual life time	Years of operation before corporate tax was paid
Golden Pride (GPM)	Resolute Mining Ltd	1999	2014	13	11
Geita Gold Mine (GGM)	Ashanti Gold	2000	2026	26	9
Bulyanhulu (BGM)	Acacia	2001	2035	34	Not yet (after 13 years of operation)
North Mara (NMGM)	Acacia	2002	2022	20	Not yet (after 12 years of operation)
Tulawaka (TGM)	Acacia and Northern Mining Exploration[a]	2005	2013	8	7
Buzwagi (BZGM)	Acacia	2009	2020	11	Not yet (after 5 years of operation)
New Luika (NLGM)	Shanta Mining Company Ltd	2012	2023	11	Not yet (after 2 years of operation)

[a] Tulawaka was officially closed in 2013 but is now owned and operated by the Tanzanian state through STAMICO.Source: Adapted from the Annual Report of Tanzania Minerals Audit Agency (TMAA 2015). All Acacia mines were formerly owned by African Barrick Gold.

Table 1 Large scale gold mines in Tanzania (by year of project start) Source: (Lange and Kinyondo 2016, 1069)

The new 1998 mining regulations undermined the importance of protecting local communities and focused on macro-economic benefits by inviting foreign mining companies into Tanzania. Investments in the mining sector became very controversial for a number of reasons. Firstly, displaced people complained of unfair treatment. Secondly, companies had been granted a lucrative VAT and duty exemptions which negatively affected revenue buoyancy (Lange 2011). For example, mining companies in Tanzania had been granted a five-year period of VAT and duty exemption, and by 2002, seven large-scale mines contributed only USD 36.2 million in revenue (Lange 2011). Although Tanzania was the third-largest gold producer in Africa by 2008, the annual royalties from mining were less than USD 30 million (TMAA, 2015:9). According to Lange and Kinyondo (2016) among the five mines established in the period 1999–2005, two have never paid corporate taxes, and the three others started paying only after 7, 9 and 11 years of operation, respectively (see Table 1).

According to the Tanzania Private Sector Foundation (TPSF), the awareness of local content was low up until 2013 'as the government didn't really think about it before and local content was not really a language at the time' (Lange and Kinyondo 2016). With increasing pressure from civil society organisations on the importance of local content reforms, the two major mining companies, Acacia and GGM, together with the government authorities, responded by establishing the Integrated Mine Technical Training Programme (IMTT) at the Arusha Technical College (NECTA) and Moshi VETA College in 2009. While the project has equipped the sector with better-qualified employees, it has most probably not entailed that Tanzanians have replaced expats in the sector to any significant degree.

Additionally, the media has witnessed increasing reports of tax evasion and under-reporting mining activity by many mining companies in Tanzania. The latest example that of the London-listed gold-mining company, Acacia gold scandal of 2017 (Lauwo, Kyriacou, and Dedoulis 2017). Acacia gold was charged with a bill of $190bn for supposedly unpaid taxes. This also pushed the GoT to introduce further scrutiny and regulatory reforms in the extractive and natural resource sector, including the passing of the Natural Wealth and Resources (Permanent Sovereignty) Act (PSA) in July 2017, and the Public-Private Partnership (Amendment) Bill 2018 (Roder 2019, Poncian 2019). These new regulatory reforms are aimed at ensuring that foreign investors resolve disputes exclusively through Tanzania's domestic courts, without recourse to international arbitration (Henstridge 2018).

In an interview with a director at the Tanzania Private Sector Foundation, after a series of expert investigations, it was alleged that Acacia had robbed the taxpayer of billions of shillings by exporting undeclared minerals. Additionally, royalties were undervalued at 4%, and Magufuli had succeeded to renegotiate an increase in royalties which currently stands at 16% and the repayment of $300 million in settlements by the mining company(du Venage 2017). There has recently been the formation of a public-private platform called the *Tigwa-group* between Acacia and the government of Tanzania. It is expected that Twiga will give the GoT full visibility, access and participation in decisions made for and by the mining company in Tanzania.

METHODOLOGICAL APPROACH

This baseline survey uses a mixed methodological approach. For initial analysis of secondary data, extensive literature review and documentary analysis on scientific literature were conducted using - public policy documents, civil society and media reports, and internal documents on investments policy and public-private partnerships in Tanzania. Primary data was collected between December 2017 and September 2018. The survey draws on interviews and consultations with a broad range of stakeholders in Tanzania. Meetings were held with officials from the private sector; Tanzania Private Sector Foundation (TPSF); Civil Society Organisations (CSO); Legal and Human Rights Centre (LHRC), Tanzania, Business and Human Rights Tanzania (BHRT), Activists, Tanganyika Legal Society, Tanzania National Farmers Network (MVIWATA), and Tanzania National Committee of Family Farming (TANCOFF); Public institutions; Commission of Human Rights and Good Governance (CHRAGG) Tanzania; three independent consultants and academics (University of Dar es Salaam staff, Saint Augustin University Staff).

Secondly, quantitative data on Business Environment Indicators (BEI), employment data and LCR data such as S&T indicators on Tanzania and comparator countries, including Kenya, Rwanda, Uganda, Ethiopia, Burundi and South Africa were sourced from the World Bank development indicators repository, the Global Innovation Indicator Index Data, and public statistics from the various counties. Qualitative data was coded and categorised using NVIVO, while quantitative data was analysed using the statistical software R.

ANALYTICAL FRAMEWORK

The analytical framework used in this survey is a political settlement framework (PSF), which was introduced by Khan (1995) as a substitute for New Institutional Economics (NIE). A political settlement approach has much more specific meaning as a strategic political economy analytical framework that provides a novel way of understanding the drivers and outcomes of contemporary socioeconomic change (Behuria, Buur, and Gray 2017, 508, Gray 2013). It refers to the combination of power and institutions that are mutually compatible and sustainable in terms of political and economic viability' (Khan 2017). The political settlement supports the analysis of institutions and helps understand why institutional arrangements may work well in certain parts of the world but produce poor results in others (Khan 1995, Khan 2017). In other words, the PSF helps analyse how institutional arrangements emerge or fail to realise their developmental objectives (Khan, 2010).

A political settlement is the continues struggles for distribution of power and rent between powerful social groups within a specific social context. An understanding of the continues negotiation of power and rent between social groups in a given country, sector or organisation is needed to understand the local importance of particular features of institutions and the 'holding of power'.

By understanding the political settlement between private capital, which continuously negotiates for favourable investment policies, and the government's effort to increase political 'legitimacy' and support by enacting policies which protect infant industries, such an approach provides unique insight into political and economic change in Tanzania. It takes into account formal institutional arrangements such as the role of law, and non-formal transactions such as bribery and corruption, to understand how specific institutional arrangements are sustained or disrupted in the continues struggle for the distribution of power and rent among powerful social groups. Understanding how governments and institutions work, and appreciating the organisation of local political economies in developing countries is a prerequisite for development intervention (Behuria, Buur, and Gray 2017, 509).

Gray (2013) has used the political settlement framework as a tool to analyse aspects of continuity and change in Tanzania's industrial policies since independence. Nazneen and Hickey (2019) have used the political settlement approach to evaluate the complexities in negotiating 'gender equity in the global south'. Andreoni (2017) carries out an in-dept political settlement analysis of the anti-corruption campaign under the Magufuli regime in Tanzania, and Usman (2019) looks into the successes and failures of economic reforms in Nigeria using a political settlement framework. The political settlement approach has also been used by the Partnership for African Social and Governance Research in Nairobi, and the Hierarchies of Rights: Land and Investments in Africa at the University of Eduardo Mondlane in Mozambique (Behuria, Buur, and Gray 2017, 510). While these are just a few of the extensive literature and use of the political settlement analysis, the 'recurring theme in these analyses is the underlying power dynamics shaping institutional policy performance' (Kelsall 2018, 6).

This survey, therefore, regards public-private partnerships as the social foundation within which policy choices are negotiated, supported or disrupted. Such partnerships involve the continues negotiation for a favourable business environment to increase profits and incentives for businesses, while governments negotiate for policies to encourage job creation, protect infant industry and enhance technology transfer to increase political support. Institutions and power relations are seen within such an analysis as arrangements that characterise the social order in a particular country within a broader global economic context. It places these processes specifically within the context of global capitalism while allowing for a much richer understanding of the economy by drawing from various theories of economic change (Behuria, Buur, and Gray 2017, 524). For example, the developmental objectives of the GoT are expressed through policy and regulation, and the private sector continues to advocate for policies that will increase profitability and fair competition. The GoT may use policies and regulatory mechanisms such as local content requirements to augment political support, protect infant industries and incentivise innovation and job creation, while private sector actors may use or withhold capital to sustain or disrupt policies which may impact businesses. That is, private sector actors may support local content policies and regulations if such policies and regulations are beneficial to the needs and aspirations of the private sector.

As an illustration, lower factions of the ruling coalition, including infant industries, and the constitution of voters may sustain or undermine the survival of the ruling coalition. The greater the power of higher factions of the ruling coalition relative to lower factions, the stronger the coalition's implementation and enforcement capacities. In such an analysis, questions about legitimacy become salient. In other words, the ability of the ruling coalition to implement or enforce policies and regulations, e.g. taxation and interest rates - depends on the probability that other authorities, private sector institutions, and the constitution of voters will act to confirm the decisions of the given authority (Tilly 2017).

Finally, studying and understanding how political settlements are financed helps determine the relationship between the ruling coalition and economic actors. For example, the histories of particular firms, multinational corporations, mining companies and business individuals are critical in determining specific political and economic outcomes in an economy. It is essential in this case to look at ownership structures within particular sectors of the economy, and those who work in financial institutions – political party elites, friends, and ethnicity engagements with the ruling coalition.

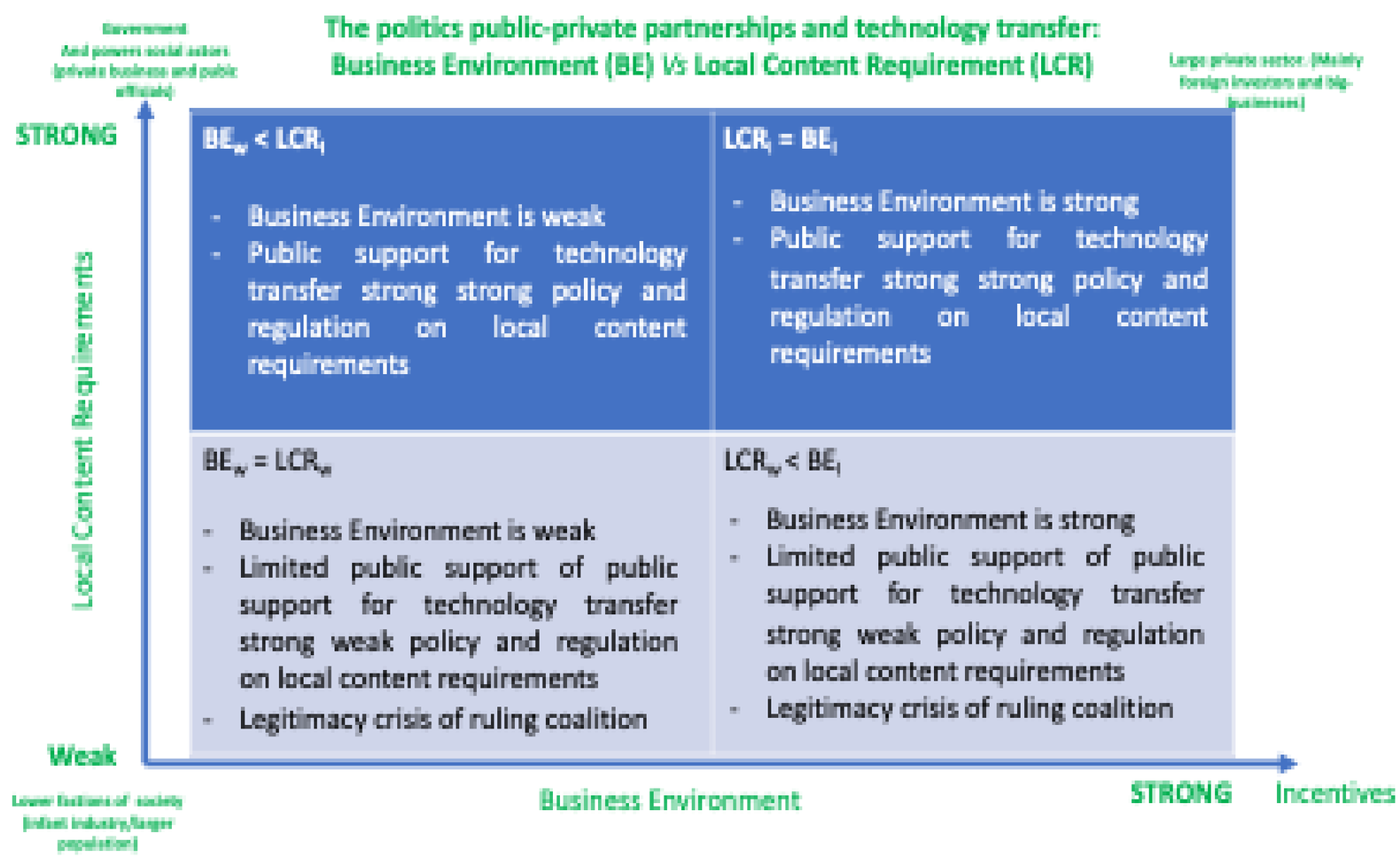


Figure 5 Political Settlement for technology transfer: Business Environment (BE) Vs Local Content Require (LCR)

Figure 5 illustrates four possible outcomes of the struggle for a favourable business environment (BEi), and strong local content requirement (LCRi), between the GoT and private sector actors in establishing a sustainable public-private partnership.

POSSIBLE SCENARIOS IN POLITICAL SETTLEMENT FRAMEWORK

Scenario 01

Business Environment demands are weaker than Local Content Requirements (BEw < LCRi). The top - left quadrant of the political settlement framework represents a scenario where business environment policies are weak - described by **BEw**, while the incentive or policy and regulatory framework for local content requirements are strong – represented by LCRi. In this sc**enari**o, private sector investors with potential capital may withhold much-needed capital for the development and support of local industries. In this case, for example, the government may struggle to compete with the cost of subsidies provided to infant industries, and venture capitalist may increase the cost of capital needed by local private sector actors for STI.

Scenario 02

Both business environment demands, and local content requirements are strong (**BEi = LCRi)**. The top - right quadrant of the political settlement represents a scenario where business environment policies are strong - represented by **BEi,** and the incentive or policy and regulatory framework for local content requirements are equally strong – represented by **LCRi.** In this scenario, private sector investors with potential capital have the incentive to provide capital to develop and support local industries. In this case, private sector actors also support LCR as such reforms may be beneficial to the expectations of the private sector. The favourable and robust LCR may counteract government subsidies in other countries – reducing public expenditure on subsidies for local industries, venture capitalist will benefit from an increase in performing loans as local industries expand and become internationally competitive.

Scenario 03

Both business environment demands and local content requirements are weak **(LCRw= BEw).** The bottom - left quadrant of the political settlement represents a scenario where local content requirement - policy and regulation - are inadequate, represented by the symbol **LCRw,** and business environment policies are weak - represented by the symbol **BEw.** For example, in this scenario, private sector investors with potential capital may withhold much needed capital to develop and support local industries. There may also be high incidences of capital flight through tax evasion/avoidance, corruption and clientelism. 'The misalignment between formal institutions of the state and the ways that powerful groups organise to make claims on the state is a significant driver of clientelism in low-income countries' like Tanzania (Behuria, Buur, and Gray 2017, 511). Additionally, the government may struggle with the cost of subsidies, a legitimacy crisis as lower factions of the ruling coalition begin to challenge government policy and a decline in revenue collection through taxes. Venture capitalist may also suffer due to an increase in non-performing loans.

Scenario 04

Business Environment demands are more robust than Local Content Requirements **LCRw < BEi.** The bottom - right of the political settlement framework represents a scenario where local content requirement -policy and regulation- are weak, represented by the symbol **LCRw,** while business environment policies are strong - represented by the symbol **BEi**. In this scenario, for example, private sector investors will not adhere to local content requirements but may continue to provide capital which may be co-opted by government elites in rent-seeking, or clientelism to secure its short-term survival. Capital needed for the protection and support of local industries may be misused. The government may lose political support, struggle to compete with the cost of subsidies, and venture capitalist may suffer due to the increase in non-performing loans as local industries become less competitive.

After illustrating the analytical framework, the next section takes a detailed look at the business environment in Tanzania, relative to comparator countries. As described earlier, qualitative data from interviews with key stakeholders in the public and business sectors are used in defining the business environment in Tanzania. Quantitative date from the World Bank development indicators, more specifically from the 'business environment enterprise survey' has been used to describe the business environment.

THE BUSINESS ENVIRONMENT IN TANZANIA AND COMPARATOR COUNTRIES

'Investors are like birds; they always stay up a tree which is stable - and has fruits. This is what Tanzania is like today; there are areas with big potential for investments and also has stable political stability.'

By Israeli Minister of Justice Ms Ayelet Shaked -The Citizen 4th May 2018.

This quote by the Israeli Minister of Justice was made during a two-day Tanzania-Israeli Business and Investment Forum in Dar es Salaam in April 2018. Three discursive elements stand out from the quote, and these elements can be analysed in greater detail. First, the nature of investors; described like birds, they perch where there are potential high hanging fruits or resources which can be used to increase profit or meet their business goals and ambitions. Second, investors need a suitable environment to grow and build their nest, which is – political stability – political stability denotes a predictable policy and regulatory framework for investments. Uncertainty is bad for business and investors, who may not invest where there is high uncertainty. The final discursive element is the relationship between investors and those at the bottom of the proverbial tree.

The analogy from the Israeli minister cannot be more befitting of the nature and relationship between impacted citizens and the swarm of investors. Those at the bottom of the proverbial tree are a majority Tanzanian citizen, mainly agrarian workers, who are less likely to benefit from the high hanging fruits produced by the so-called 'favourable business environment'. This section takes a detailed look at the business environment using interview data from public policy documents, consultations with key stakeholders in Tanzania, and indicators from the World Bank.

The business environment (BE) is a combination of internal and external factors that influence a company's operating capacity in a given country or socio-political and economic context. These factors include the availability of a reliable ecosystem for businesses such as clients and suppliers, improvements in science, technology and incentives for innovation, the rule of law, government policy and politics, including market, social and economic trends.

01 The Economy of Tanzania and Comparators

The economic growth of any economy can be measured by the change in the volume of output or the real incomes of its residents. According to the United Nations System of National Accounts (UNSC 2009), there are three plausible indicators for calculating growth. These are (1) the volume of gross domestic product (GDP), (2) real gross domestic income, and (3) real gross national income.

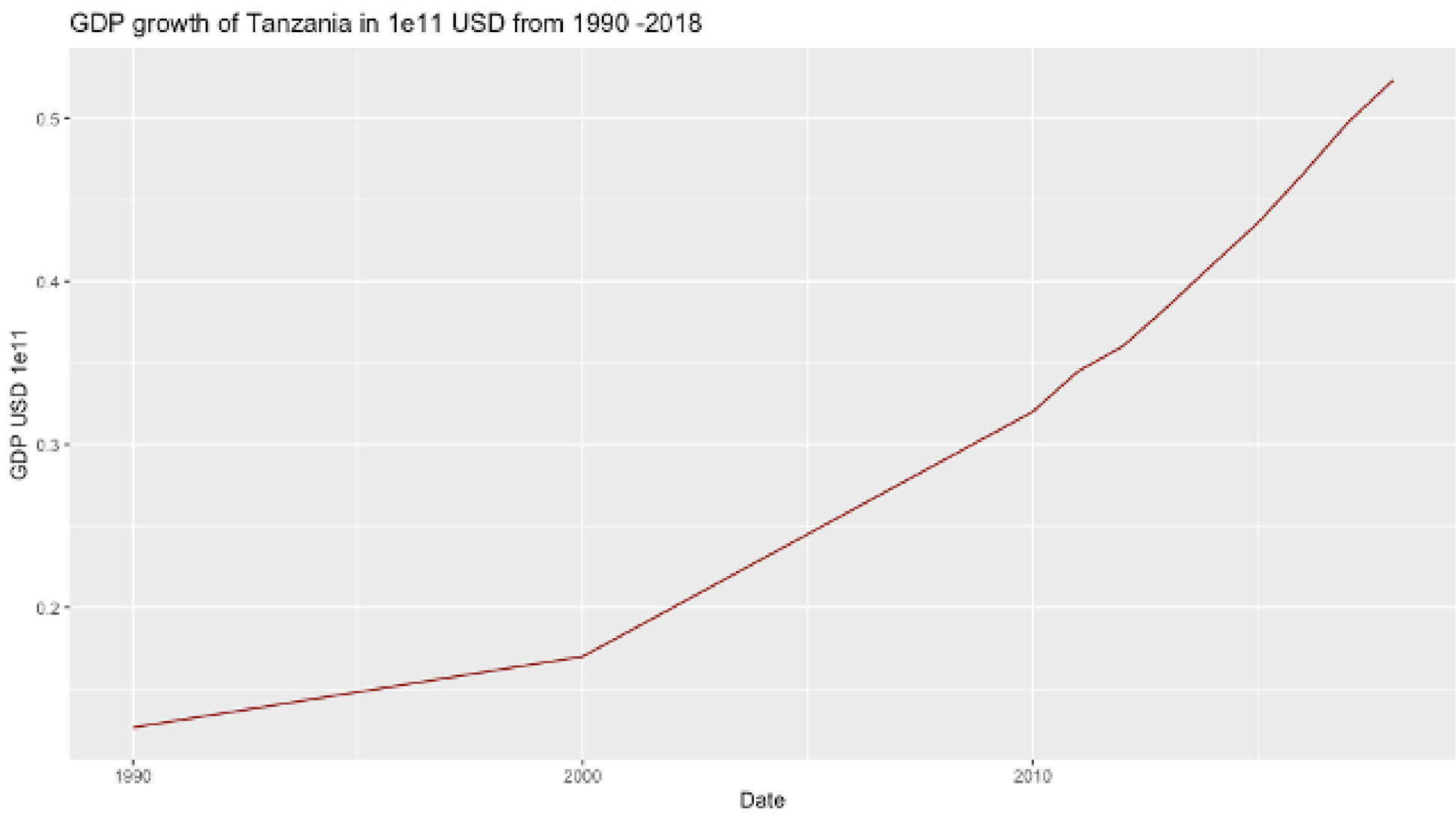


Figure 6: GDP Growth of Tanzania *(1x1011)USD 1990 -2018*

This base-line survey uses the GDP as a measure of economic growth in Tanzania and comparator countries. Comparator countries are Rwanda, Kenya, South Africa, Uganda, Burundi and Ethiopia. These countries have been chosen because they are in the same economic zone as Tanzania, i.e., the East African Community (EAC) and Southern Africa Development Community (SADC), excluding Ethiopia which is in the East African region but not a member of these inter-governmental organisations.

The expansion of a country's GDP is indicative of a growing economy, while a contraction in GDP indicates a slowdown in a country's economy. GDP accounts for all domestic production regardless of whether the income increases through domestic or foreign institutions. Additionally, a country's projected GDP growth rate can be used to determine if companies operating within the country are likely to experience growth. The GDP growth rate provides insight into how fast the economy is growing by comparing one-quarter of the country's GDP to the previous quarter. The GDP growth rate is determined by factors such as **personal consumption,** which includes retails and consumer rates; **Government spending,** which include social security, defence and welfare-related spending. Another factor which determines the GDP growth rate is the **net trade** – the difference between the total value of exported goods and services, and the total value of imported products. Finally, the **Business investment** – including real estate, hard and soft infrastructure and inventory levels constitute an important determinant of GDP growth rate.

Figure 6 shows the GDP of Tanzania, which measures the economic output of the economy. *Figure* 7 is the GDP growth rate of Tanzania and comparator countries, split between 1990-2000, and 2000-2018. These figures provide different perspectives into the nature of the economy and provide valuable insight for investors on economic performance. There has been a constant increase between 1990 – 2018 in GDP growth in Tanzania. This increase in GDP is also reflected in the average annual GDP growth rate of Tanzania in *Figure* 7, which increase from 3% between 1990-2000 to 6.4% between 2000-2018. Compared to its comparators, Tanzania's GDP growth rate by sector (see *Figure* 8) shows a GDP growth rate of 8.8% and 7.8% in industry and manufacturing respectively in from 2000-2018. However, in the agrarian sector, a GDP growth rate of 4.3%, below the total average of 6.4% is indicative of **r**elatively slower growth in the agricultural industry.

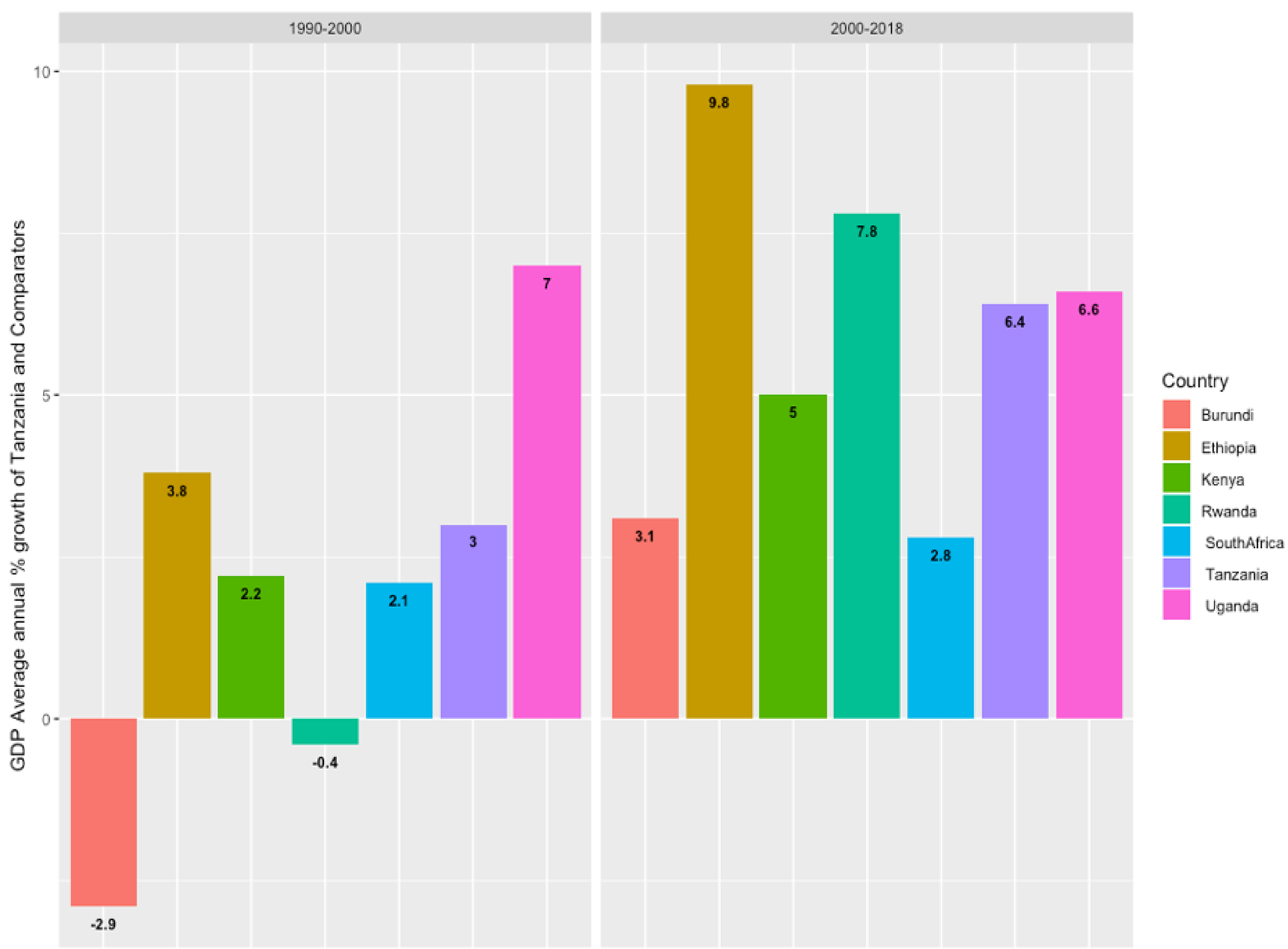


Figure7 GDP Average annual % growth of Tanzania and comparators 1990 - 2018

For example, in the manufacturing sector, Tanzania's GDP growth rate is 7.8% compared to Kenya and Uganda with an average GDP growth rate of 3.4% and 5.4% respectively. Burundi seems to underperform in all sectors, while Ethiopia outperforms all competitors in the region.

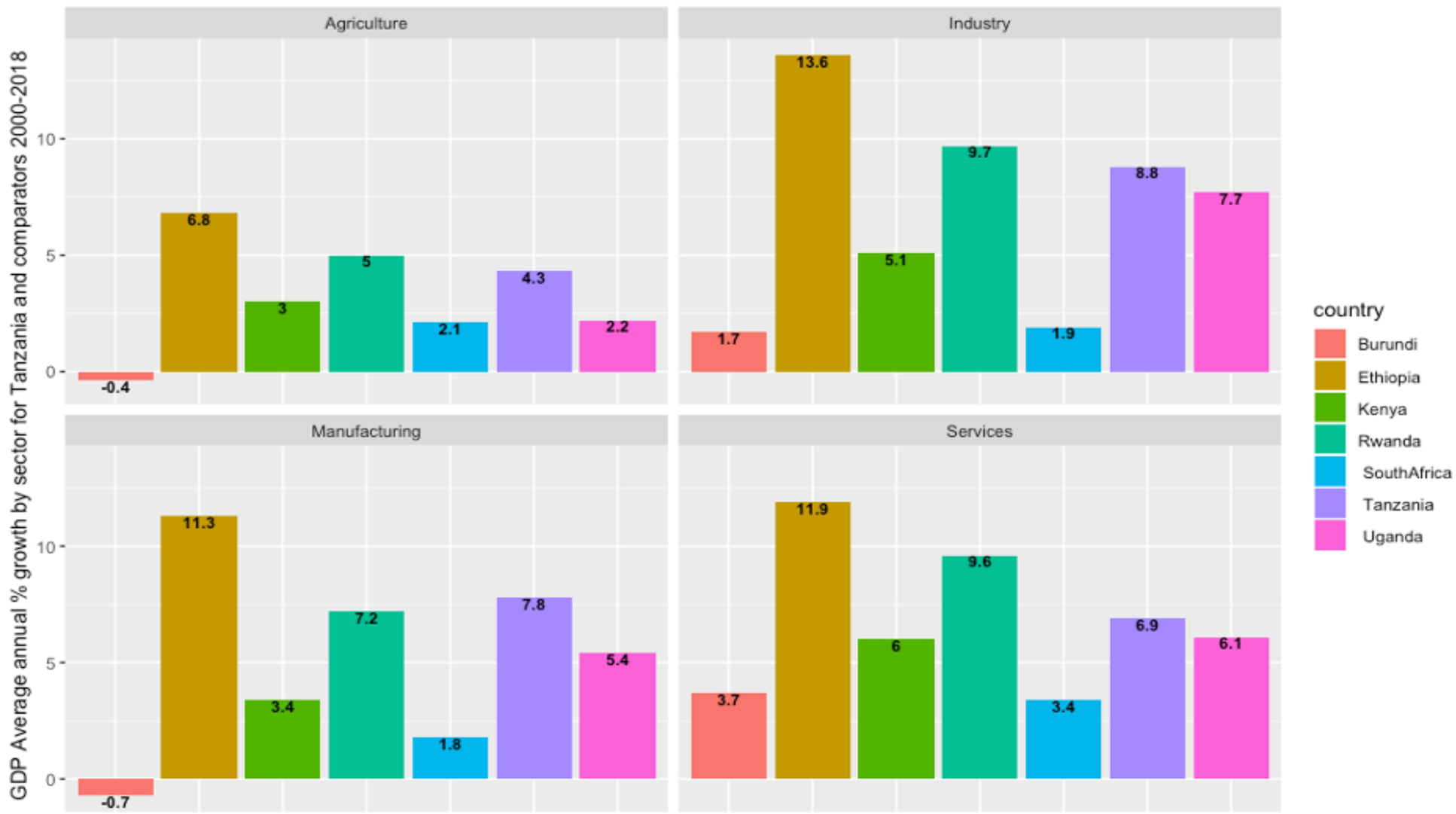
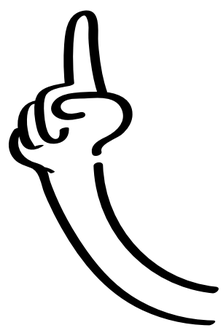


Figure 8 Per cent annual GDP growth rate and GDP growth rate by sector for Tanzania and comparators 2000-2018

02 Employment rates in Tanzania and its Comparators

IMPORTANT POINT!

What defines the prosperity of a country is its consumption. A country that has 80% consumption as a percentage of GDP is certainly prosperous. But today, ask yourself what is the rate of consumption in Tanzania?



By former sectary general of Tanzania Chambers of Commerce Industry and Agriculture (TCCIA), Interviewed, September 2018

The productivity and wealth of a country's population are amongst the most important determinants of economic success. Employment indicators, such as the labour force, payroll, and unemployment, estimate how many citizens are employed and whether they are making more or less money than before. The financial markets carefully watch these employment indicators, to understand and make predictions on consumer spending. Low employment rates are often associated with low consumer spending, which can hurt GDP statistics and overall economic growth prospects.

Tanzania's economy is predominantly agrarian, employing an average of 66.45% of the workforce in 2018. This has several implications in determining consumer spending habits, especially in cases where a majority of those employed in the agrarian sector are subsistence farmers – they consume what they produce. South Africa employed 7% in the agricultural industry within the same period, with an agrarian industry that is less subsistence than that in Tanzania. From *Table* 2, Tanzania witnessed a decrease in the rate of employment in the agricultural sector from an average of 82.55% in 2000 to an average of 66.45% in 2018. There was an increase in the employment rate in manufacturing from 2.9 % to about 7% during the same periods, and in the service industries from 14.55% in 2000 to 26.6% in 2018.

The increase in employment rates in the manufacturing and service industries can be explained by an increase in public policy towards foreign direct investments, which has led to an increase in the demand for non-agricultural rural employment (NARE). Hence, a decline in the demand for jobs in the agricultural sector. However, care must be taken when interpreting data on non-agricultural related activities in countries like Tanzania where it is reported that over 80% of women working in non-agriculture related activities are employed as waste gatherers, labourers on construction sites, and domestic workers or other low-paid occupations (Black 2015)

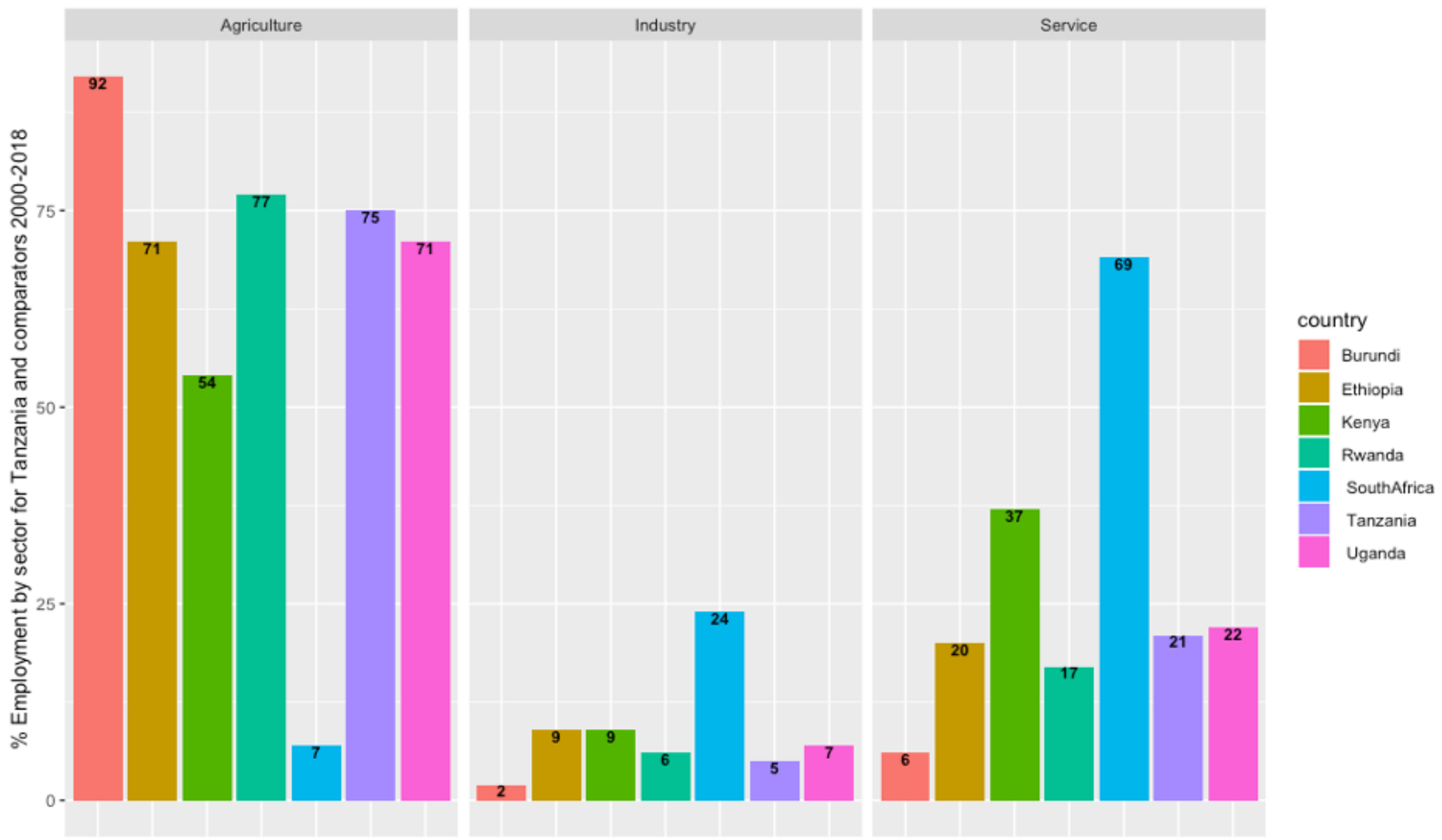
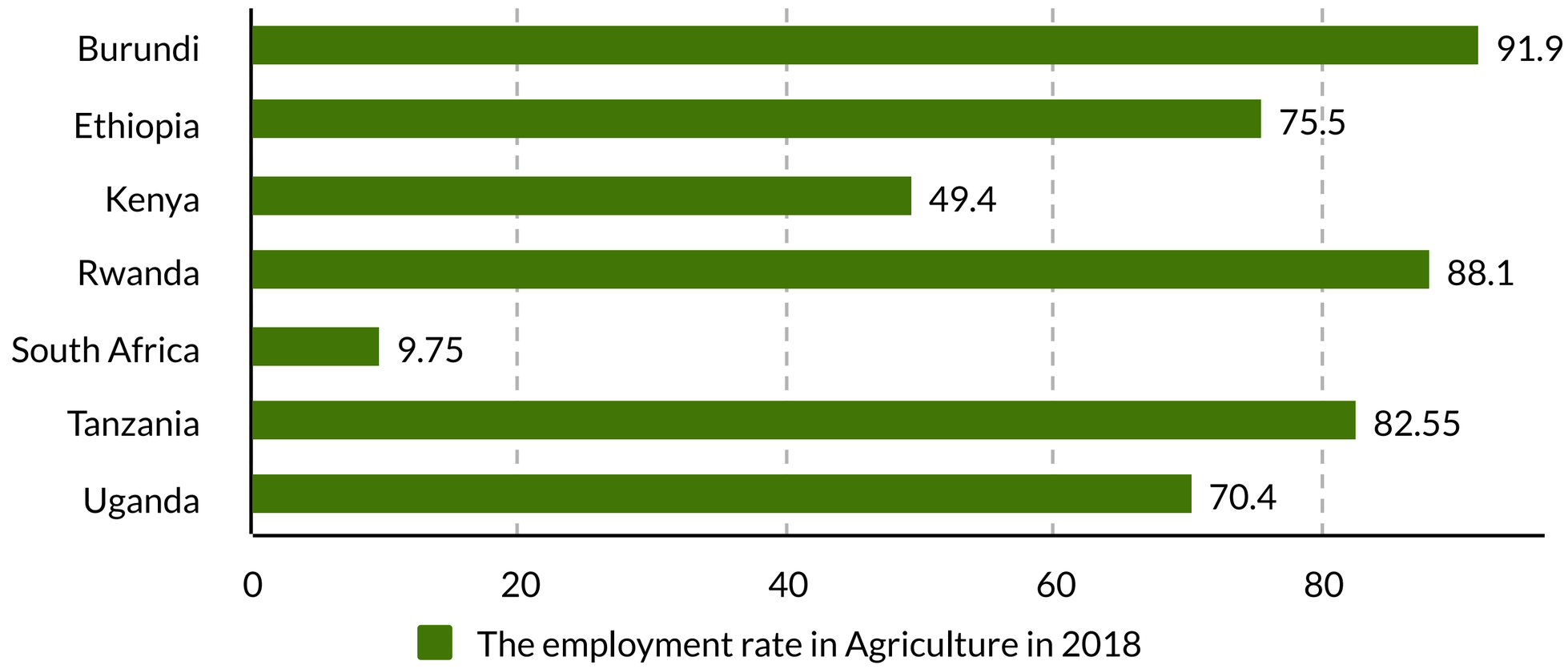


Figure 9 Average percent employment by sector in Tanzania and comparators 2000-2018

Compared to comparators, Tanzania is still lagging in the expansion of its manufacturing and services industries. Table 2 shows that in 2018, the average employment rate in the manufacturing industry in Tanzania stood at 7%, compared to South Africa and Kenya where the manufacturing industries employed 22.1% and 7.35% of the workforce respectively. The businesses implication on consumer spending, in this case, is easily predictable. Income generated from employment in the service and manufacturing industry contributes directly to the expansion of the economy through domestic consumer spending. *Figure 9* is a representation of the average employment rate in Tanzania and comparator countries from 2000-2018. Lower rates of employment may indicate low levels of consumer spending, which also impact the expansion of the economy.



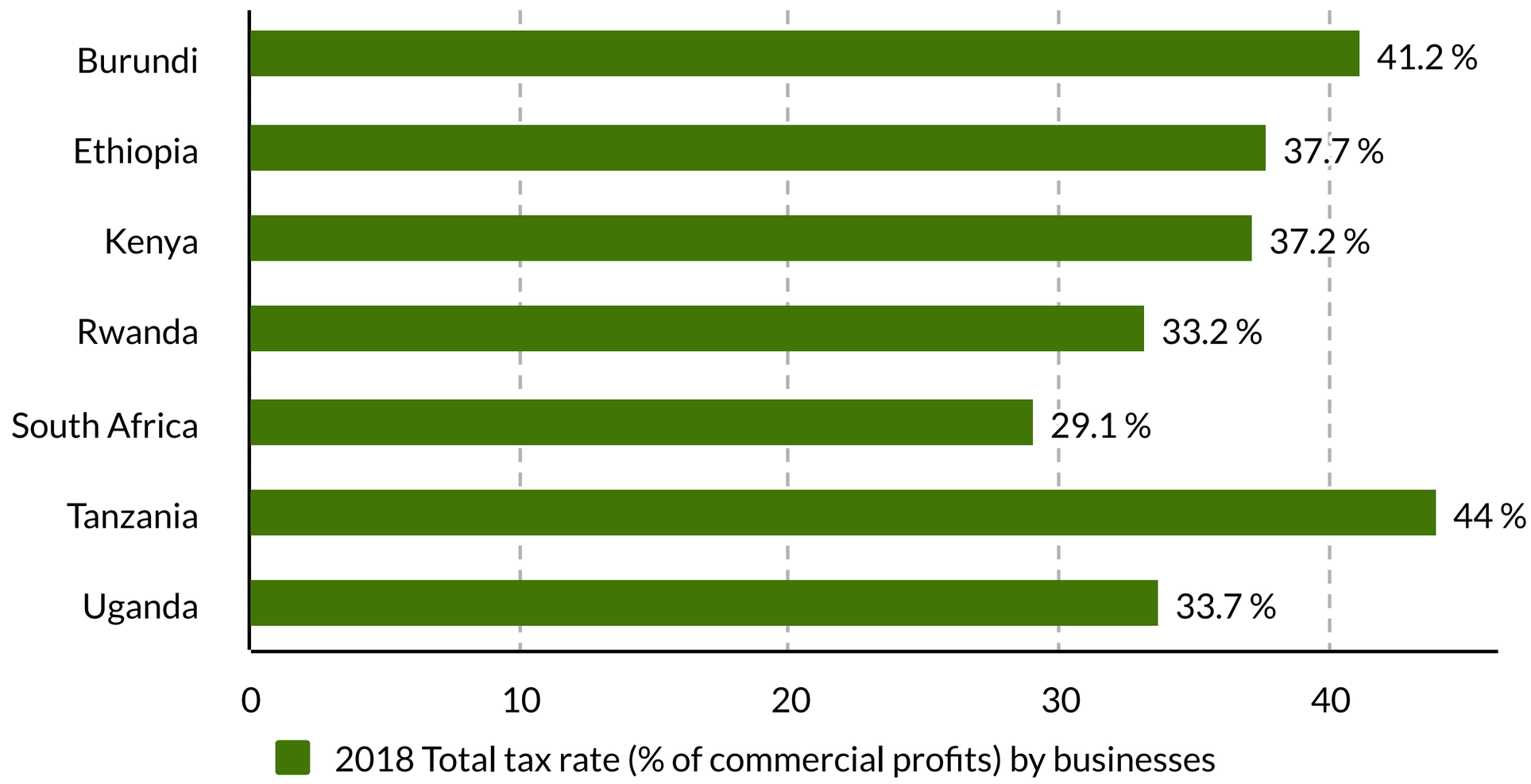
Country	Agriculture		Industry		Service	
	2000	2018	2000	2018	2000	2018
Burundi	91.9	91.75	2.25	2.15	5.85	6.1
Ethiopia	75.5	65.75	7	11.95	17.5	22.3
Kenya	49.4	57.65	11.35	7.45	39.25	34.95
Rwanda	88.1	66.2	2.55	9.05	9.25	24.75
South Africa	9.75	5	25.5	22	64.8	73
Tanzania	82.55	66.45	2.9	7	14.55	26.6
Uganda	70.4	70.95	7.3	7.2	22.25	21.8

Table 2 Breakdown of average percentage employment rate by sector in Tanzania and its comparators by sector 2000 - 2018

03 Regulation and Taxes in Tanzania and Comparators

Business enterprises or investors are taxed on income or commercial profits from their investments. The failure to file or pay tax can subject a business to penalties including fines, interest and even possible jail time. For most companies, the aim is to reduce the amount of taxes owed as much as possible. Thus, the impact of tax on investment and business decisions comes down to how to minimise taxes on commercial profits.

On the other hand, taxes are the primary source of revenue for governments. The Source of tax revenue is generally determined by changes in the economic priorities of the government. Tax policy may reflect concerns about distributional effects (inequality), economic efficiency (including corrections for externalities such as climate change or pollution charges), and the practical problems of administering a tax system. There is no ideal level of taxation. But taxes influence incentives and thus the behaviour of economic actors and the economy's competitiveness.



	Tax revenue collected by central government (% of GDP)		Number of payments	Time to prepare, file and pay taxes (hours)	Total tax rate (% of commercial profits)
	2010	2017	2018	2018	2018
Burundi	N/A	N/A	24	232	41.2
Ethiopia	8.2	7.6	29	300	37.7
Kenya	N/A	15.7	25	180	37.2
Rwanda	N/A	13.6	8	96	33.2
South Africa	25	27	7	210	29.1
Tanzania	9.9	11.8	60	207	44
Uganda	N/A	13.7	31	195	33.7

Table 3 Tax policy in Tanzania and comparators

Table 3 shows that tax revenue collected as a percentage of GDP by the GoT increased by 2% from 2010 to 2017, this can be a result of changes in government attitude towards social policy and spending. An example is the introduction of tuition-free education for children between the ages of 8 and 12 in Tanzania under the Magufuli government (Asim, Chugunov, and Gera 2019). The GoT has also increased spending on the improvement of health care services in the country. Public expenditure on major infrastructures such as roads, electricity and water can also be a reason for governments to increase taxes. Improvements in tax administration can also be a good reason for the increase in the amount of tax collected by the state. For example, one could argue that the high level of tex revenue of South Africa is not as a result of high taxes, but a consequence of a relatively effective and efficient tax administration system. The reinforcement and introduction of Electronic Fiscal Device (EFD), including online Tax Identification Numbers (TIN) by the Tanzania Revenue Authority (TRA) in recent years, could also provide some explanation for the increase in tax revenue.

However, tax evasion and avoidance is still an issue of concern for revenue buoyancy in Tanzania. In June 2018, the Executive Director of Tax Justice Network Africa (TJNA), Mr Jason Braganza, during the presentation of the report 'financial secrecy index 2018: said ‘the lack of agreements with regards to information exchange has made Tanzania a lucrative country for companies and individuals seeking offshore accounts’.

At the breakfast debate organised by the Policy Forum in Dar es Salaam, Mr Braganza added that Tanzania's reluctance to sign the Multilateral Convention on Mutual Administration Assistance in Tax Matters (MATM) and the government's withdrawal from the Open Government Partnership (OGP) in 2017 have sealed Tanzania's place as a significant offshore destination for illicit transactions. According to Mr Braganza, Tanzania also suffers from the lack of a comprehensive legal framework to ensure disclosure of beneficial ownership of companies registered in the country.

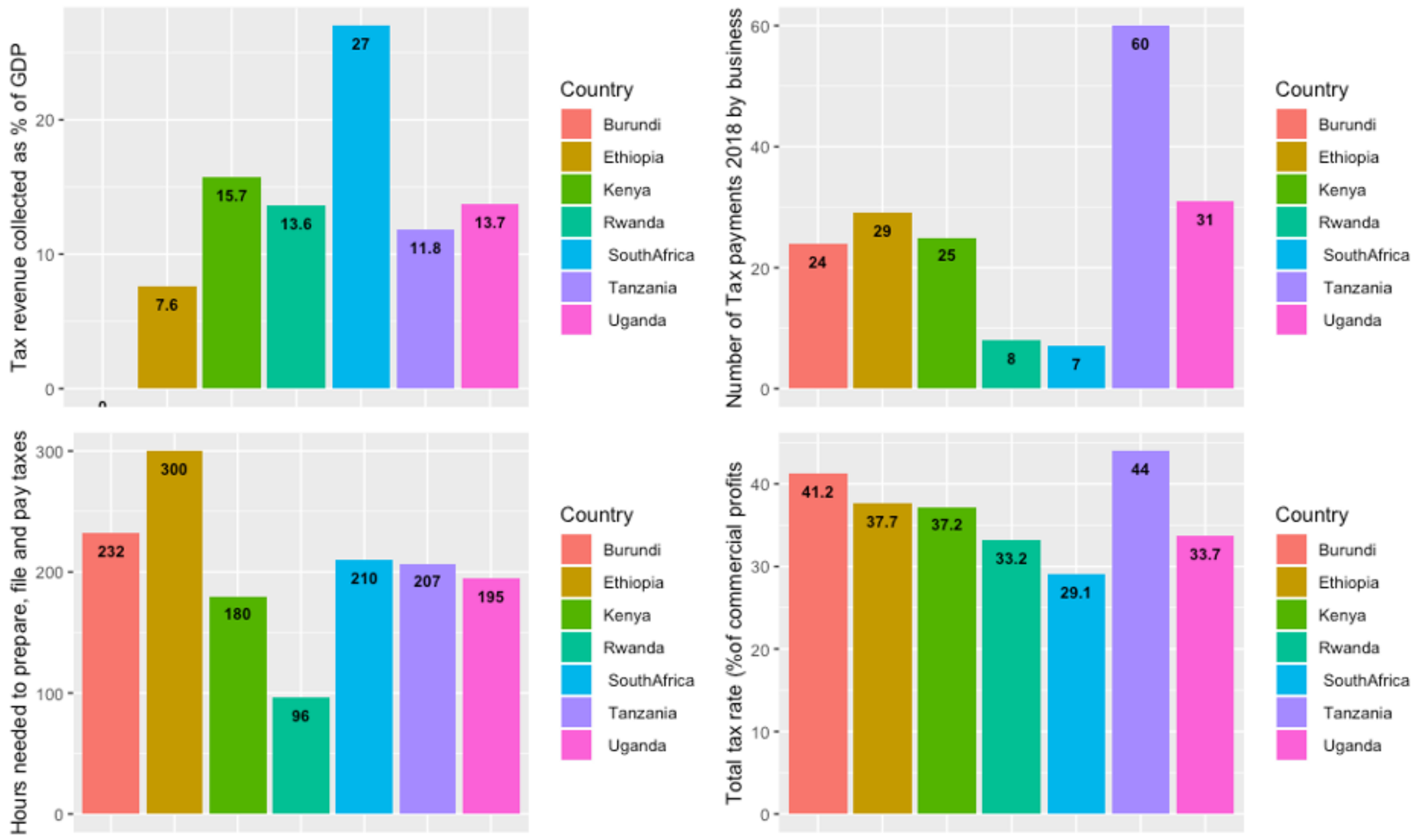


Figure 10 2018 Tax policy in Tanzania and comparators

Practical problems in the administration of tax collection can act as a cost to businesses, as such issues may increase cost on investments. For example, from *Figure* 10, Tanzania has the highest number of tax payments[1] --sixty - made by businesses, as compared to South African based businesses which make only seven tax payments. This is a reflection of the total number of taxes paid by businesses, including electronic filing. This also strongly correlate with the time[2] needed to prepare and pay taxes, i.e., time it takes to prepare, file, and pay (or withhold) taxes. In 2018, businesses and investments based in Tanzania spent over 207 hours to prepare and pay tax, while businesses in comparator countries like Rwanda and Kenya spend 180 and 96 hours/year respectively. Ethiopia has the highest number of hours used by businesses to file or pay for Tax – 300 hours.

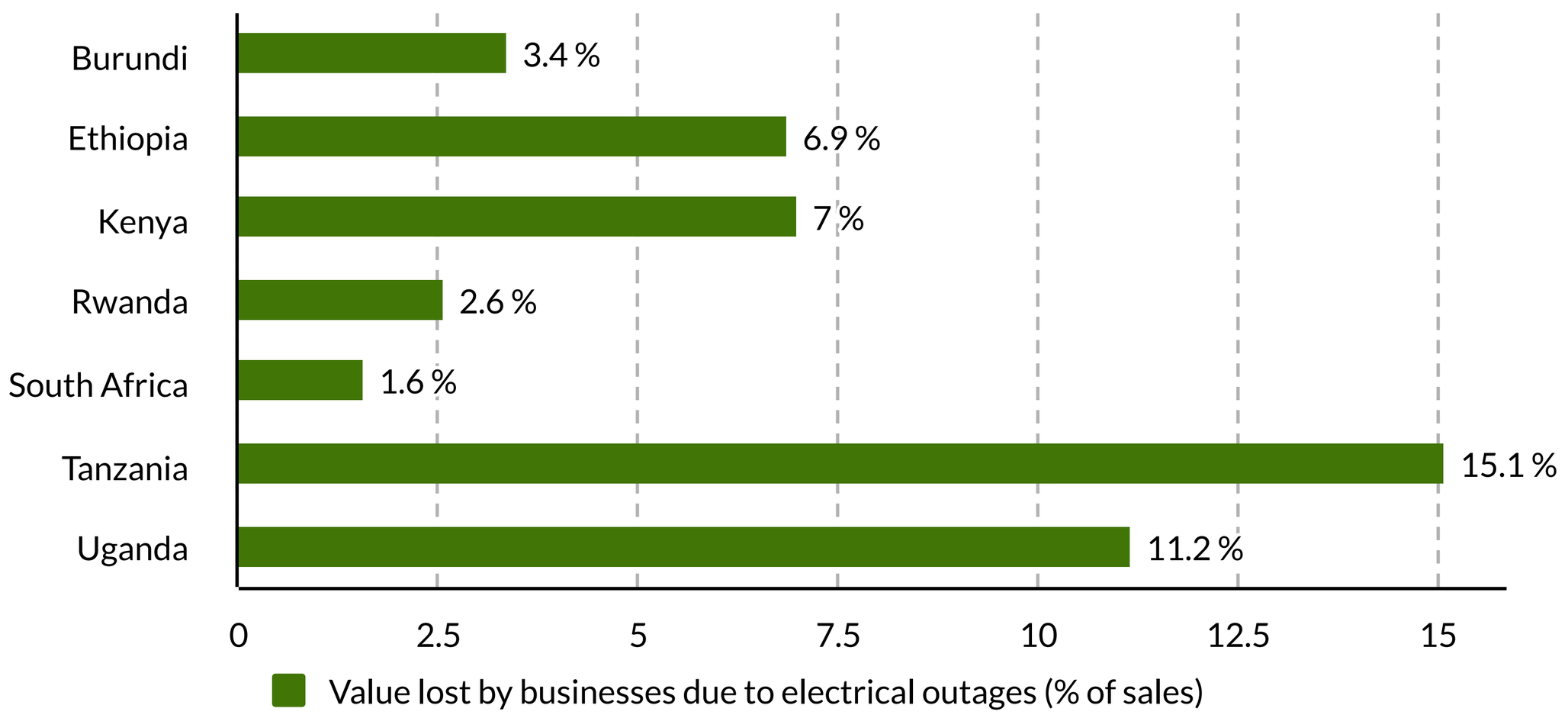
It is, therefore, very obvious that Tanzania, still faces problems in clearly defining the 'investment environment' to support revenue buoyancy and increase profitability for the private sector. Tanzania must take a view of these policies to ensure that the people of Tanzania benefit from the influx of investors into the country. By controlling the illicit flow of 'company revenue' and increasing transparency within the business environment, the GoT can increase tax revenue collection. This can be done by addressing tax administration challenges.

[1] The tax is counted as 2018 tax payment data.
[2] Time is calculated here in hours per year to pay the corporate income tax, the value added or sales tax, and labour taxes, including payroll taxes and social security contributions.

While these tax policy indicators cannot be treated in isolation, it is important to note that they are all mutually enforcing. They contribute to the perception of businesses and investors about the investment climate or business environment. In all, as businesses advocate for lower taxes or make efforts to cut down the cost of taxes on business profits, the total amount of tax[1] in a country may be an important factor in informing investors and business about the business environment of a country. In this case, Tanzania has the highest tax rate of 44% percentage on business profit, compared to South Africa, Ethiopia and Kenya which have 29.1%, 41.2% and 37. 2% respectively. According to an International Monetary Fund (IMF) report focusing on East Africa, incentives - particularly tax incentives are not the only factor in attracting investments. However, political stability, functional and quality infrastructure and predictable macroeconomic policy were identified as critical for attracting business and investments in a country (IMF 2008).

04 Infrastructure in Tanzania and Comparators

This report views infrastructure within the business investment in two broad categories: hard infrastructure - roads, electricity, dams, water supply, telecommunication; and soft infrastructure - permits and licences, knowledge, fairness and anti-corruption mechanisms (see *Figure* 11). Businesses are primarily concerned with hard infrastructure because it has a direct impact. However, soft infrastructure has a secondary impact and is also important in determining the attractiveness of an economy to business.



[1] Total tax rate measures the amount of taxes and mandatory contributions payable by businesses after accounting for allowable deductions and exemptions as a share of commercial profits.

	Time required to obtain operating license (days)	Corruption/ Bribery incidence (% of firms)	Informality/ Firms competing against unregistered firms (% of firms)	Infrastructure, Value lost due to electrical outages (% of sales)
Burundi	10.1	30.3	51.3	3.4
Ethiopia	5.4	26.8	23.1	6.9
Kenya	13.8	26.4	59.3	7
Rwanda	11.1	6.9	56.7	2.6
South Africa	36.2	4.2	45.3	1.6
Tanzania	18.8	20.8	72.6	15.1
Uganda	10.4	22	95.2	11.2

Table 4 Infrastructure indicators for the business environment in Tanzania and comparator countries

As mentioned earlier, an essential factor in investment decision making is the quality of infrastructure in the destination country. Reliability and availability of infrastructure benefits households, support development, increases the movement of labour and enhances communication or the transfer of goods and services. Firms with access to modern and efficient infrastructure - telecommunications, electricity, and transport - can be more productive. A reliable infrastructure enhances the competitiveness of the economy and generates a business environment conducive to firm growth and development. For example, good infrastructure efficiently connects firms to their customers and suppliers and enables the use of modern production technologies.

Conversely, deficiencies in infrastructure, such as intermittent electricity supply, creates barriers to productive opportunities and increase costs for all firms - from micro-enterprises to large multinational corporations. For example, firms in Tanzania reported 15.1% of losses in value due to intermittent electricity supply, as compared to South Africa and Rwanda businesses which loss just 1.6% and 7% in value respectively (see *Table* 4). Among comparator countries, Tanzania based businesses had the highest loss in value due to the intermittent nature of electricity supply.

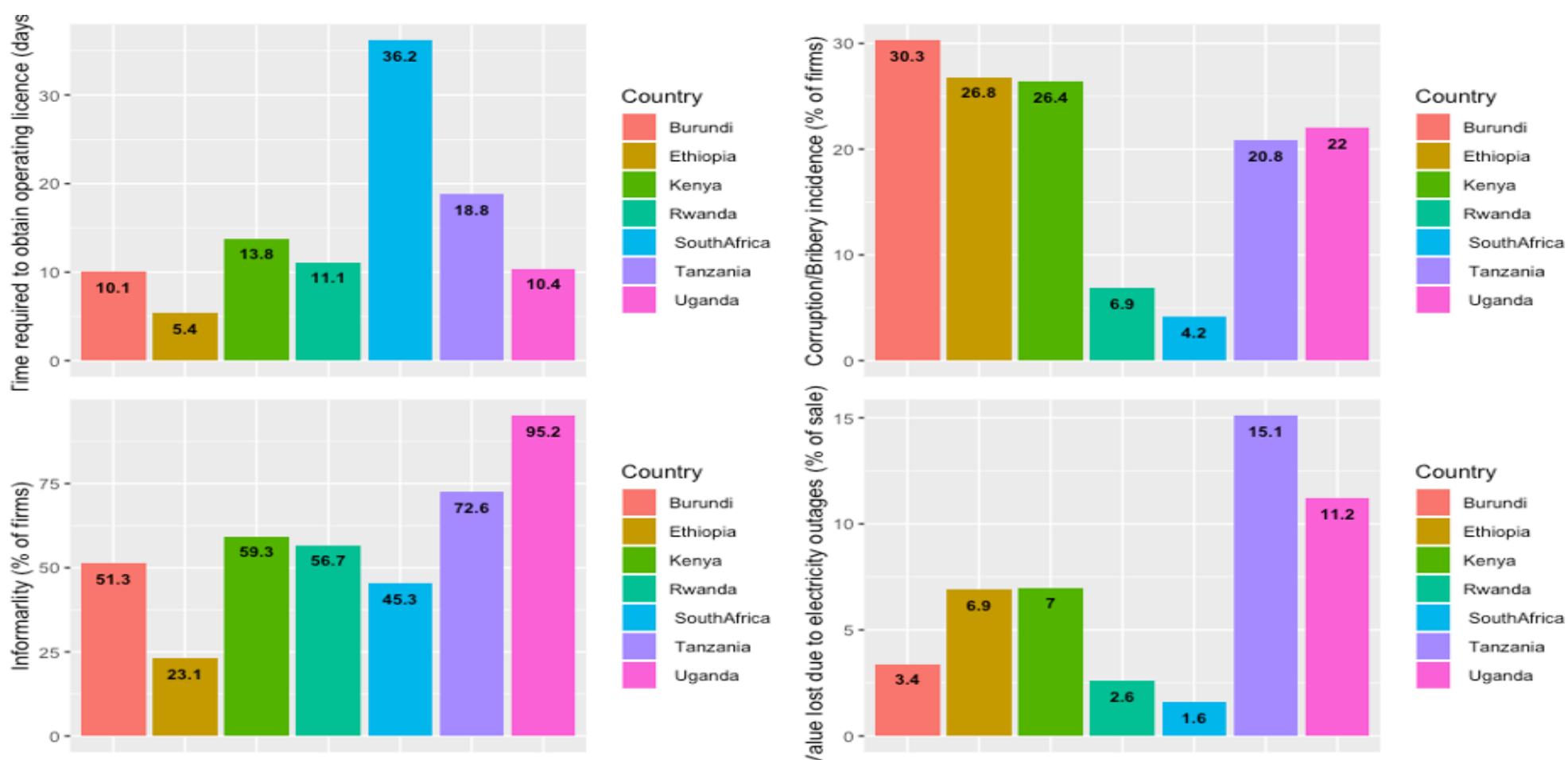
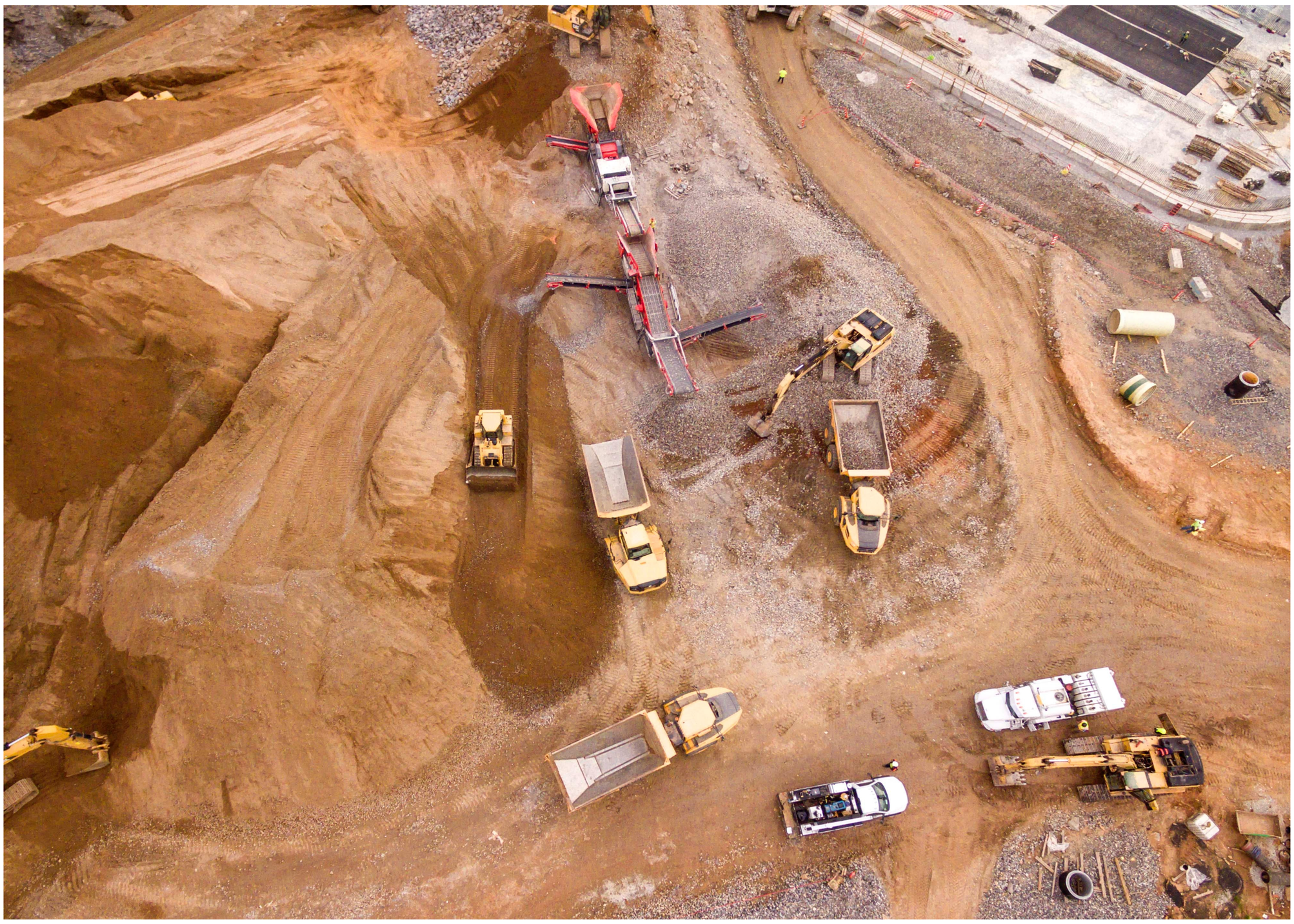


Figure 11 Hard and soft infrastructure indicators for Tanzania and comparator between 2007 and 2018

Corruption and informality (see De Soto 2000) in the business sector can also increase cost and burden for businesses in destination countries. Campos et al. (1999) have argued that corruption may impact businesses differently in instances where those seeking favours from the government are sure to obtain those favours. However, in countries with less corruption and more predictable procedures tend to attract more investors than those with high corruption levels. From *Figure* 11, while businesses in Kenya (26.4%) reported incidences of corruption, firms registered in Tanzania (20.8%) also reported a high prevalence of corruption relative to comparator countries like Rwanda (6.9%) and South Africa (4.2%). Burundi and Ethiopia scored higher prevalence frequencies of corruption by businesses within the surveyed period of 30.3% and 26.8% respectively. Informality or competition with unregister firm also have consequences on the enforcement of competition laws and policy. The importance of regularising businesses or what De Soto calls 'dead capital' has been extensively documented (De Soto 2000). 72.4% of firms in Tanzania reported that they are experiencing competition from unregistered companies.

In summary, these factors should not be treated in isolation but should be understood within a broader range of essential indicators used by investors and businesses to predict or make investment decisions. Although the Tanzania economy continues to expand, other indicators are pulling the countries attractiveness backwards. Policymakers, private sector actors, development organisation like civil society organisations must think of strategies and non-confrontational mechanism to address these challenges within the business environment in Tanzania. In the next section, this report examines local content requirements (LCRs) in Tanzania. That is, policy and regulatory mechanisms that are in place to ensure that a certain percentage of intermediate goods, knowledge and services used in production or processing are sourced domestically.



LOCAL CONTENT REQUIREMENTS IN TANZANIA AND COMPARATOR COUNTRIES

IMPORTANT POINT!

The meaning of university education is to lunch you into the world and to give a means of getting into the world. It is not every graduate who gets a white-collar job, but you are being prepared more than anybody else to face the world.

By board member of the Tanzania Private Sector Foundation, interviewed September 2018

The GoT, through its FYDP, has pledged to 'continue improving the business environment and in so doing, provide a wide range of appropriate incentives and support to unleash the creativity of private sector and other stakeholders in harnessing Tanzania's comparative advantages. The ambition of the government is to boost productivity, enhance innovation, foster economic integration and deepen participation in regional and global value chains' (URT 2016). Countries implement local content requirements (LCRs) to strengthen their domestic industry, and to become competitive in international markets and eventually secure associated local job creation. Proponents of LCRs argue that, in the medium term, greater competition among businesses will encourage innovation in the development of local industries and consequently lower technology costs. Accordingly, the medium-term benefits will compensate for the short-term cost on investments and incentives provided for the support and protection of local infant industries. Also, proponents claim that, by promoting learning by doing and the transfer of technology, LCRs foster sustainable practices within the economy. An example of such a requirement is boasting investments and innovation in science, technology and innovation (STI).

In realising that African countries can benefit from STI, the African Ministerial Council on Science and Technology (AMCOST) adopted Africa's Science and Technology Consolidated Plan of Action (CPA) in 2005. The CPA articulates the African Union (AU) agenda for harnessing STI to boost economic growth and improve the lives of African people (Molotja, Sithole, and Mumba 2014). Within this context, technology transfer is broadly viewed as a process that includes the facilitation of the diffusion of technological knowledge, and general issues related to the development of technical capabilities (Bessant and Rush 1995, Amesse and Cohendet 2001). Through sustainable development Goal (SDG) 9, countries have pledged to 'build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation'. In particular, SDG Target 9.5 calls upon countries to encourage innovation and substantially increase the number of researchers, as well as public and private spending on R&D.

Both Indicators 9.5.1 and 9.5.2, i.e., R&D expenditure as a proportion of GDP and Researchers per million inhabitants are considered in this baseline study as an indicator of efforts made by governments with regards to the diffusion of technological knowledge. A low number of researchers or technicians engaged in the creation of knowledge or creation of new applications may impede the attainment of SDG9. In addition, businesses may be less interested in countries where the knowledge base is weak and innovation indicators are poor. So, how do we link the efforts made in science, technology and innovation to the business environment, job creation, sustainable livelihoods and the improved well-being of citizens? How should capacity and competencies be built in order to innovate?

This section will start by defining the STI indicators in Tanzania. The aim is to highlight the needs of the GoT to encourage technology transfer through local content reforms which are also suitable for business. According to the United Nations (2004), to foster development through technology transfer, – public and private organisations – must be encouraged to **(1)** share information about innovations and outcome. **(2)** provide incentives (economic and non-economic) that create healthy competition. **(3)** Use a combination of practical approaches pioneered by agencies such as the media, to produced and design programmes and platforms for teaching- and practice-based case studies on inventive processes. **(4)** maintaining a facilitative climate for innovation, dissemination and adoption of technology.

[1] The fields of science and technology used to classify R&D according to the Revised Fields of Science and Technology Classification are: 1. Natural sciences; 2. Engineering and technology; 3. Medical and health sciences; 4. Agricultural sciences; 5. Social sciences; 6. Humanities and the arts.

01 Sharing information about innovations and outcomes

Researchers are professionals engaged in the conception or creation of new knowledge, products, processes, methods and systems, as well as in the management of innovative projects. For example, the FYDPII of Tanzania identifies the improvement of R&D in crops cultivation as an area for strategic interventions (URT 2016). Part of the challenges plaguing crop production in Tanzania is the lack of technologies which improve soil nutrient quality and weak research infrastructure. *Table* 5 shows that Tanzania is lagging behind its comparator countries in the number of researcher and technicians per million of people.

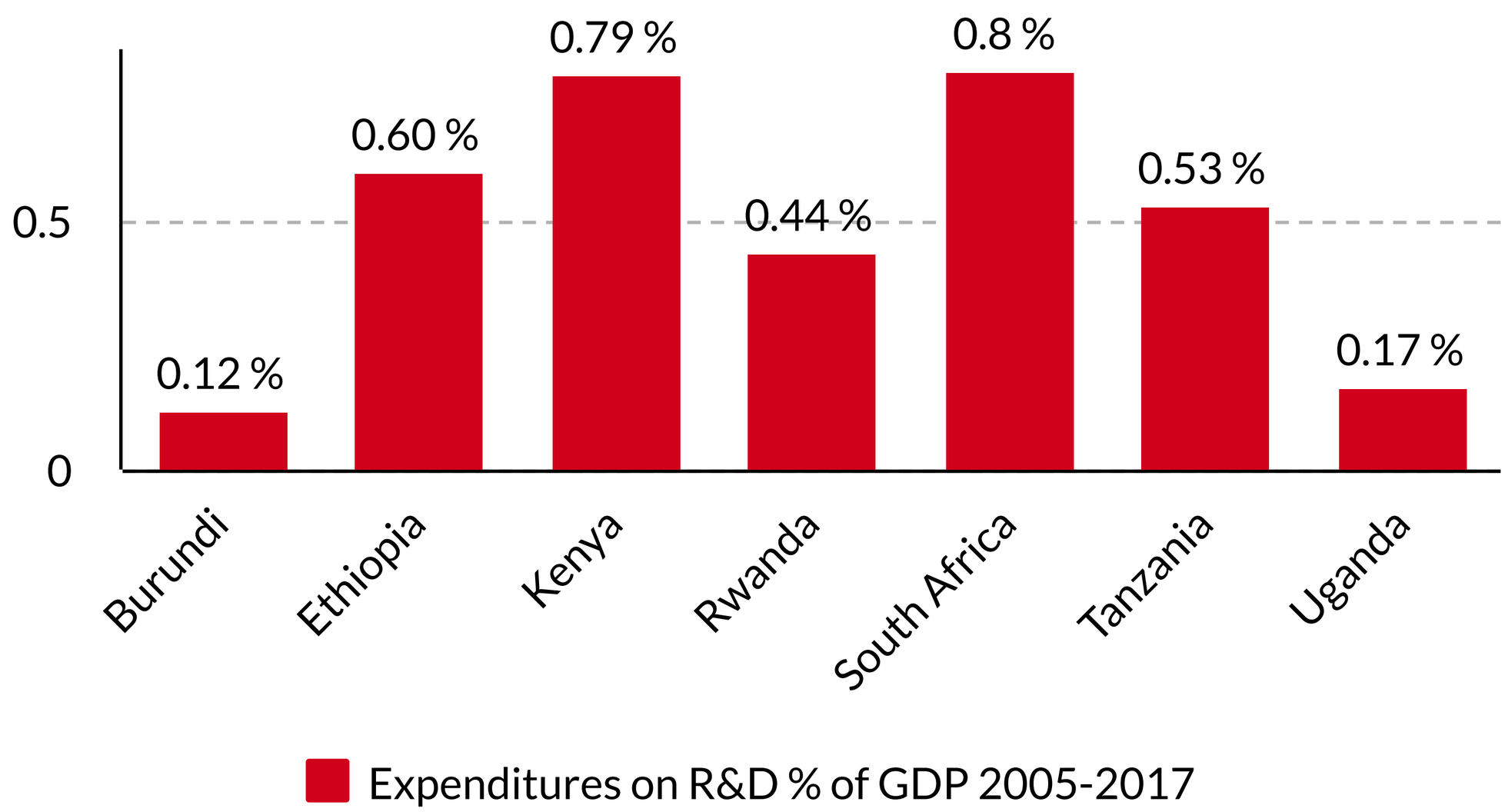


Figure 12 Expenditure on R&D as % percentage of GDP in Tanzania and comparator countries

	Research and development (R&D)		Scientific and technical journal articles	Expenditures on R&D
	Researchers per million people	Technicians per million people		% of GDP
Tanzania & comparators	2005-17	2005-17	2016	2005-17
Burundi	N/A	N/A	11	0.12 %
Ethiopia	45	33	1121	0.60 %
Kenya	225	638	987	0.79 %
Rwanda	N/A	N/A	115	0.44 %
South Africa	473	139	11,881	0.8 %
Tanzania	18	6	539	0.53 %
Uganda	26	10	573	0.17 %

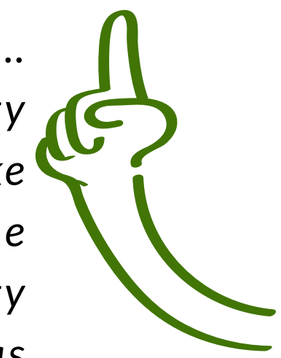
Table 5 STI indicators for Tanzania and comparators

Tanzania has just 18 researchers per million of its population, and six technicians per million while comparator countries like South Africa have 473 researchers per million and 139 technicians per million. Burundi has the lowest number of researchers and technicians among comparator countries (see *Table* 5). Additionally, there is a need for proper systems, infrastructure and resources to diffuse information about innovations; these can be done through broadcast, media or the production of scientific knowledge and data. The GoT has completed the National ICT Infrastructure Backbone Project, by laying 25,954 kilometres of optic fibre cable (OFC)[1] covering 24 regions of mainland Tanzania (URT 2016, 17). However, such measures also depend on the number of researchers, technicians and the willingness or ability of people to utilise published or disseminated information. Here, literacy levels, media landscape, accessibility and the cost of research output is vital.

For example, in 2016 the number of scientific and technical journal articles produced[2] by researchers and technicians in Tanzania (see Table 5) was 539, compared to 11,881 produced by South African researchers and technicians in 2016. Burundi produced the lowest number of scientific and technical journals within the surveyed period.

IMPORTANT POINT!

Tanzania indeed lacks skilled people, and this is because... there was laxity in making sure that the educational quality and technical quality that we adopted could make Tanzanians acquire the required skills. But at the moment the country has put up a policy at the technical and university level, and changes at the ministerial level – which has combined all educations issues.



By board member of the Tanzania Private Sector Foundation, interviewed September 2018

Although efforts are being made by the GoT to increase education facilities and provide support for research and technology, the GoT has continuously failed to meet its target of one per cent of GDP on STI related activities (URT 2016, 17). Between 2005 and 2017, Tanzania spent an average of 0.53% of its GDP on research and development (see *Figure* 12).

Market failure is the principal reason for public sector spending in research and technology transfer. In other words, research and innovation that is either not patentable, identified with only long-term payoffs, or difficult to insure against failure usually requires public spending. Research projects that do not directly yield marketable products often fit the criteria for public sector involvement. The competitive market system fails to provide the incentives for private-sector research and technology transfer in these cases. An excellent example is agricultural research innovation at the primary level.

[1] OFC provides a solid base for scaling up the broadband access, connectivity and the provision of efficient services nationally and in the region and ultimately provide 40 per cent of the communications services availed to land-locked countries in the region.
[2] The number of scientific and engineering articles published in the following fields: physics, biology, chemistry, mathematics, clinical medicine, biomedical research, engineering and technology, and earth and space sciences. The NSF considers article counts from a set of journals covered by Science Citation Index (SCI) and Social Sciences Citation Index (SSCI)

The African Union has set a target of 1% of GDP invested in R&D. Still, data available show that only three sub-Saharan African countries are close to this target: South Africa (0.8%), Kenya (0.7%) and Senegal (0.75%). The GoT recognises the inability of educational institutions in Tanzania to marry skills training and skills required by the labour market (URT 2016). Additionally, low quality of education and inaccurate investment and insufficient financial support for skills development have been recognised by the GoT as a strategic area of skills development interventions (URT 2016, 178).

02 Incentives that create healthy competiton

The sharing of information about innovation and outcomes cannot be evaluated in isolation. It should be viewed in relation to public expenditures on R&D, and the incentives provided by public and private organisation to create healthy competition for innovation to thrive. Such incentives may include both capital and current expenditures provided to the private sector, public enterprises, educational institutions and private non-profit organisations. Other incentives could be from developmental partners, often acquired through strategic partnerships with foreign organisations and multilateral corporations.

A good example is the Human Development Innovation Fund (HDIF) by UKAid providing a £40 million competitive challenge grant to businesses, NGOs and research institutions driving innovative approaches which aim to improve the quality, value-for-money, and sustainability of basic services in: health, education, water, sanitation and hygiene (WASH), and early childhood development in Tanzania. However, efforts need to be made by the GoT to encourage domestic credit to the private sector. This may be in the form of subsidies, grants, and other social benefits that are unrequited, nonrepayable transfers on current account to private and public enterprises.

Country	Domestic credit to private sector % of GDP (2017)	Subsidies a % of Expense 2017	Charges for the use of intellectual (payments) property ($millions) (2018)	Patent applications filed (residents and non-residents) (2017)
Burundi	17.8%	35%	N/A	N/A
Ethiopia	17.71 %	53 %	9	8
Kenya	28 %	37 %	207	178
Rwanda	21.7 %	34 %	N/A	456
South Africa	65.7 %	61 %	1,816	7644
Tanzania	13.1 %	58 %	4	2
Uganda	16.2 %	29 %	11	9

Table 6 Incentive to private and public enterprises in Tanzania and comparator countries

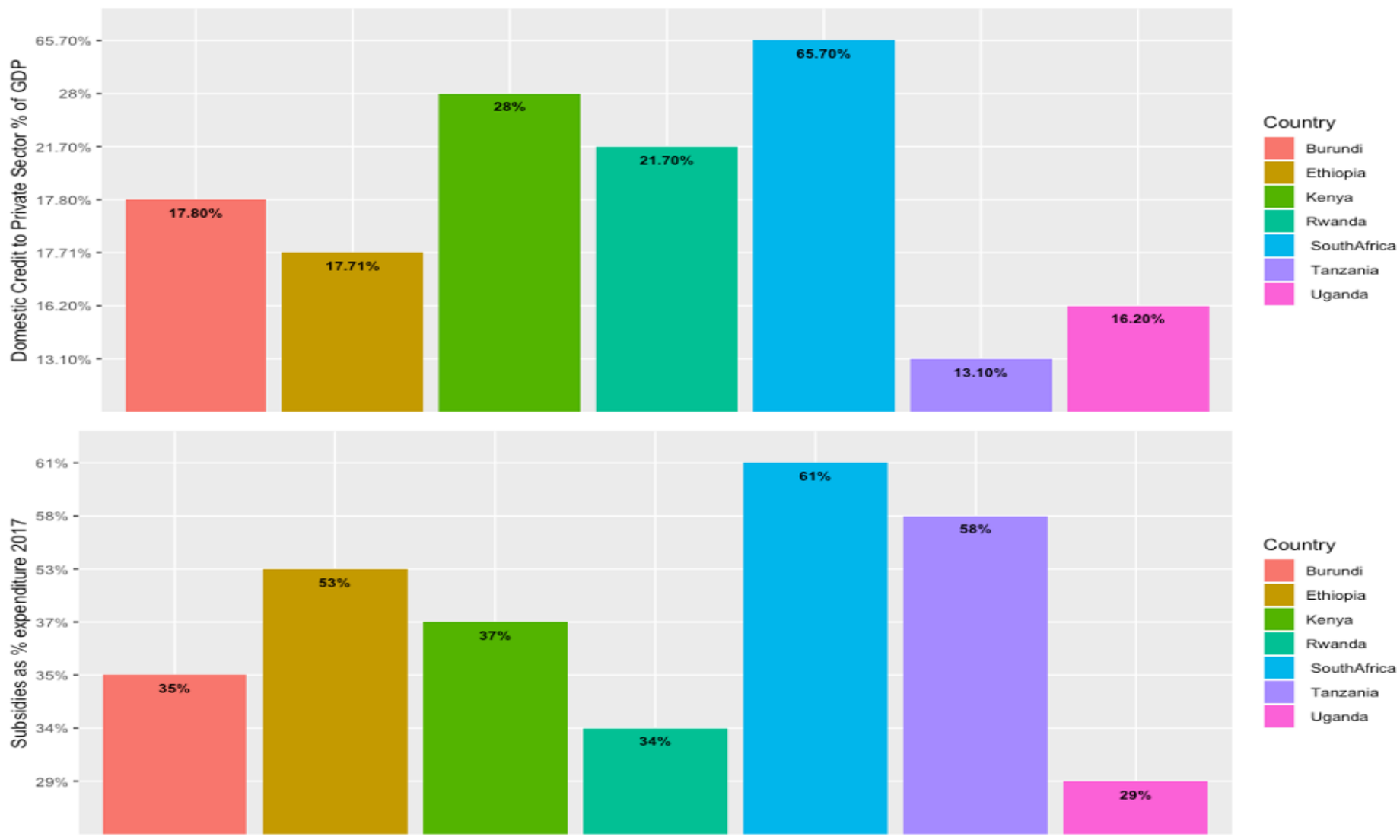


Figure 13 Domestic credit and government subsidies to the private sector for Tanzania and comparators in 2017

Figure 13 shows that in 2017, the GoT contributed 58% of GDP as subsidies, grants, and other social benefits to private and public enterprises. While these may be a good incentive to the private sector, it is also a burden on the provision of other public goods by the Government such as the construction of roads, water and energy supply. Additionally, it is difficult to statistically determine the impact of such subsidies on technology transfer as they may be directed towards social and welfare causes rather than ST&I. For example, over the same period, over 15% of expenditure was on fuel subsidies in Burundi.

More trackable domestic credit provided to the private sector by financial corporations or equity services such as through loans, purchases of nonequity securities, and trade credits and other accounts receivable, is just 13.1% of GDP in Tanzania compared to South Africa which is 65.7 % of GDP. This is an indication of high incidences of risk, high non-performing loans, and lack of adequate security for lenders. Private markets are the engine of productivity growth, creating productive jobs and higher incomes. And with the government playing a complementary role of regulation, funding, and service provision, private initiative and investment can help provide the basic services and conditions that empower local industries.

Patent-based statistics reflect the inventive performance of countries, as well as the subtleties (partnerships, MoUs) and co-operations in the innovation process or technology paths. Patent data provide a uniquely comprehensive source of information on inventive activity and the multiple dimensions of the innovative process (e.g. geographical location, technical and institutional origin, individuals and networks). Besides, according to the GoT, Tanzania makes low use of advanced and modern technologies, primarily due to the high cost of sourcing and updating these technologies, restrictive patent rights acquisition, and limited knowledge on new technologies (URT 2016, 17).

Furthermore, patent data form a consistent basis for comparisons across time and countries. Patent data can be used in the analysis of a wide array of topics related to technical change and patenting activity including industry-science linkages, licensing strategies by companies, internationalisation of research, and indicators on the value of patents (see Lee and Lee 2008). From *Table 6*, Tanzania has the lowest patent application (2) compared to other countries in the region. South Africa is the highest with 7,644 patent applications.

03 Practical approaches to produce and design programme and platforms for teaching and practice

Asian countries gained success in economic development by focussing on small-holder agriculture through the Green Revolution. By concentrating on smallholder agriculture, Asian countries demonstrated the contribution of smallholder-oriented policy in economic growth, employment creation, and poverty reduction (Deininger and Byerlee 2012). It may be for this reason that GoT recognises through the Agricultural Sector Development Strategy (ASDS-II 2015), that the focus on macro-economic benefits from large-scale commercial farmers has not contributed to the reduction of poverty in Tanzania.

However, the expansion on agriculture or the commercialisation of agriculture, if adequately managed, designed and implemented, may have a significant positive impact on employment and technology transfer in host countries like Tanzania (Blomström, Kokko, and Mucchielli 2003, Msuya 2007). Yet, most countries in Sub-Saharan Africa, including Tanzania and comparator countries lack adequate financial capital, technology, and know-how (Alamirew et al. 2015, 1124). Technology transfer depends on the performance and learning ability of host country farms, which rely on the stock of their technical knowledge. While active learners will get access to modern technology, passive watchers will be left behind. Additionally, institutional factors - such as corruption, also play a significant role in impeding technology transfer in SSA (Deininger and Byerlee 2012).

The GoT recognises that there is a scarcity of local capacity in technology development centres around the country (URT 2016, 146). There is a need to increase support for train-the-trainers programmes with the active involvement of the private sector, vocational training institutions & civil society. Consultants, think-tanks and civil society groups can be useful in building bridges for innovation in technology transfer by supporting and contributing to public-private partnerships (Bessant and Rush 1995). Some interventions by the private sector have been successful in terms of knowledge and technology transfer in Tanzania (see Lange and Kinyondo 2016).

It is essential to understand that public-private partnerships need the practical and strategic support of civil society organisations and developmental partners who can provide strategic interventions and institutional support for technology transfer and innovation.

IMPORTANT POINT!

we are usually engaged by different ministries at the end of a project or policy process. When we provide valuable advice, we are often treated as anti-government or anti-progress - so I will say we have not really been engaged that much in the development of new investment policies in Tanzania.

By representative, Tanzania Business and Human Rights (TBHR), interviewed June 2018

Such strategic and collaborative partnerships may have been established in institutions such's as the (TNBC) Tanzania National Business Council (1998), which deals with challenges facing the private sector in Tanzania and coordinated by the Tanzania Private Sector Foundation (TPSF). Another example of institutional support mechanisms for PPPs is the Business Environment Strengthen for Tanzania (BEST-Dialogue), an initiative supported by the Danish government. However, several civil society organisations still experience limited levels of engagement with public institutions in investment and local content requirement reforms

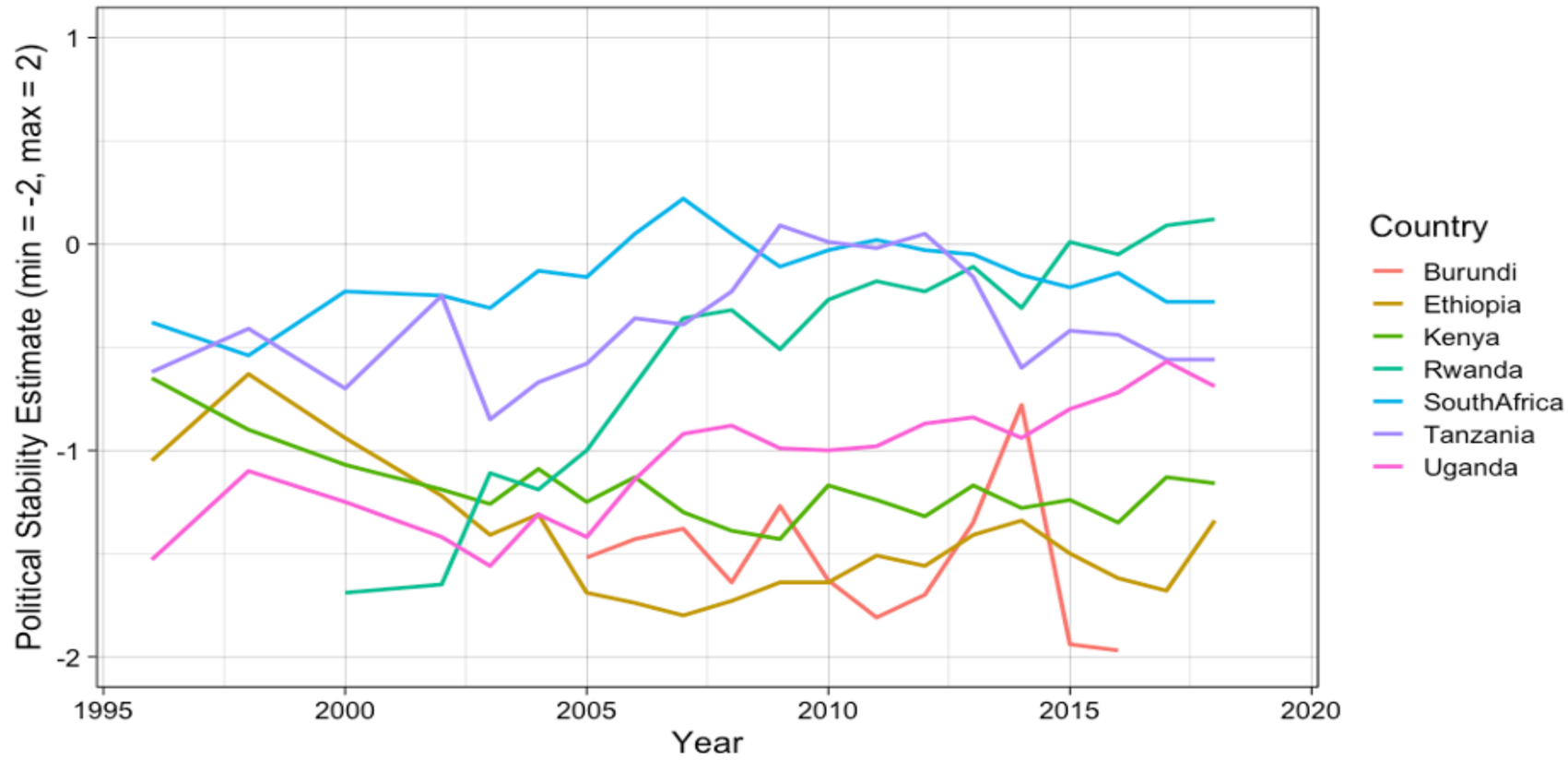
04 Maintaining and facilitative climate

The GoT seeks to strengthen the country's focus on investment as a vector for growth and integration in the industrial sector. In doing so, they GoT expects to improve the capacity of local firms to diversify their activities and increase competitiveness on an international scale (URT 2016). Maintaining a facilitative climate for innovation, dissemination and adoption of technology, i.e., providing a supportive policy environment, political leadership, environmental stability, and internal social structure and capacity encourages business support for technology transfer. In other words, the business regulatory environment assesses the extent to which the legal, regulatory, and policy environments help or hinder private businesses to invest in job creation and the growth and integration of local industries in global value chains.

The indicators used for accessing the business regulatory environment in this survey include government efficiency, the role of law, political stability, regulatory quality, and voice and accountability.

Political Stability

Political stability and absence of violence/terrorism indicators measure perceptions of the likelihood of political instability and politically motivated violence, including terrorism. *Figure* 14 shows that although the perception of political stability is on the decline, the trend is beginning to move upwards. Compared to other countries in the region like Burundi, Kenya, Uganda and Ethiopia, Tanzania is perceived to be relatively stable. South Africa and Rwanda are seen to be more politically stable than other countries in the region.

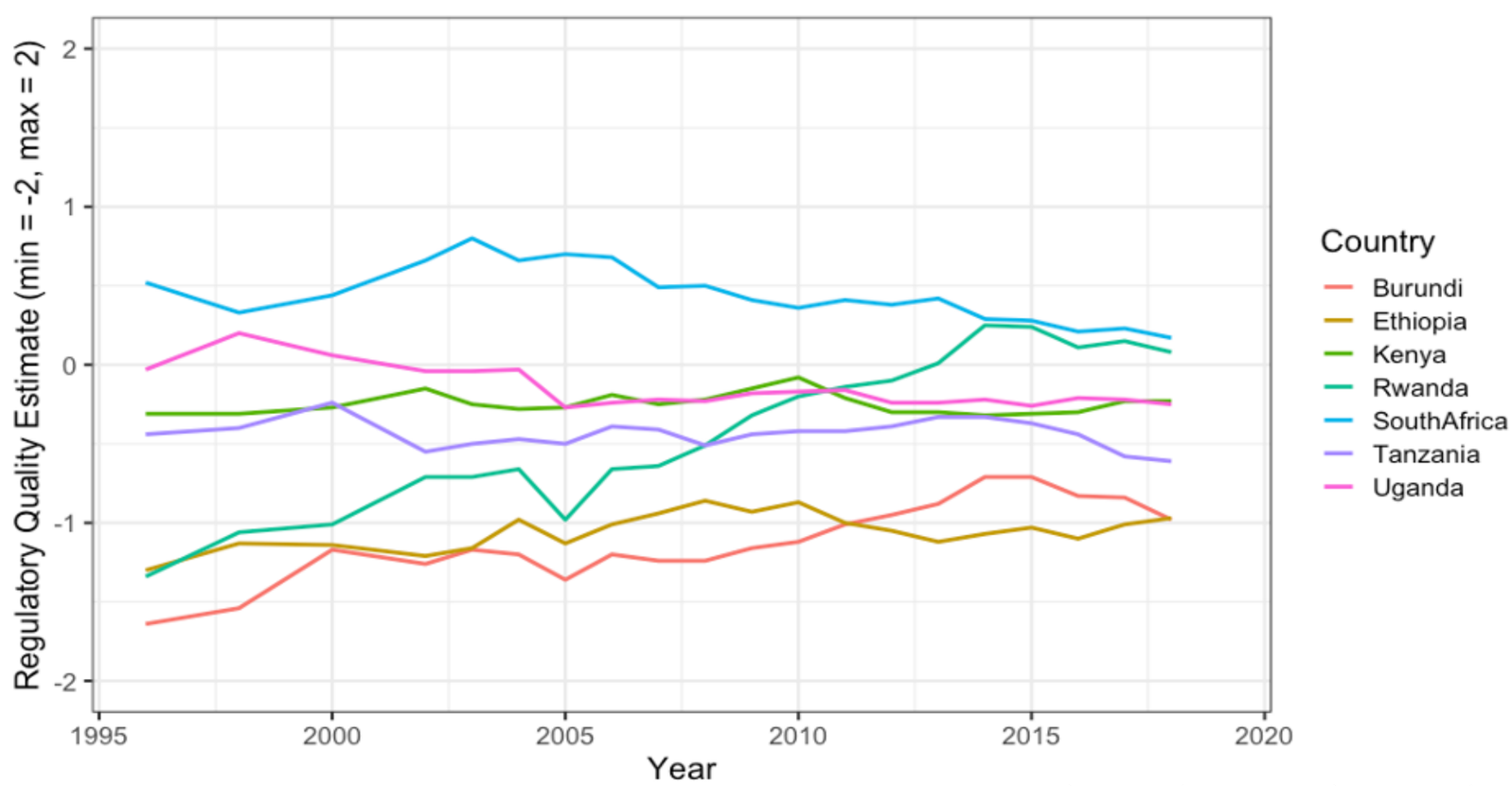


*Estimate of political stability ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance

Figure 14 Estimate of Governance on Political Stability and Absence of Violence in Tanzania and Comparator Countries

Regulatory quality

This indicator captures perceptions about the government ability to formulate and implement sound policies and regulations that permit and promote private sector development. *Figure 15* shows that there is a weak believe that the government of Tanzania can formulate and implement sound policies and regulations that permit and promote private sector development. There has also being a decline in the level of governance performance in regulatory quality since 2010, as shown in *Figure 15*. Only Burundi and Ethiopia score lower than Tanzania among comparator countries.

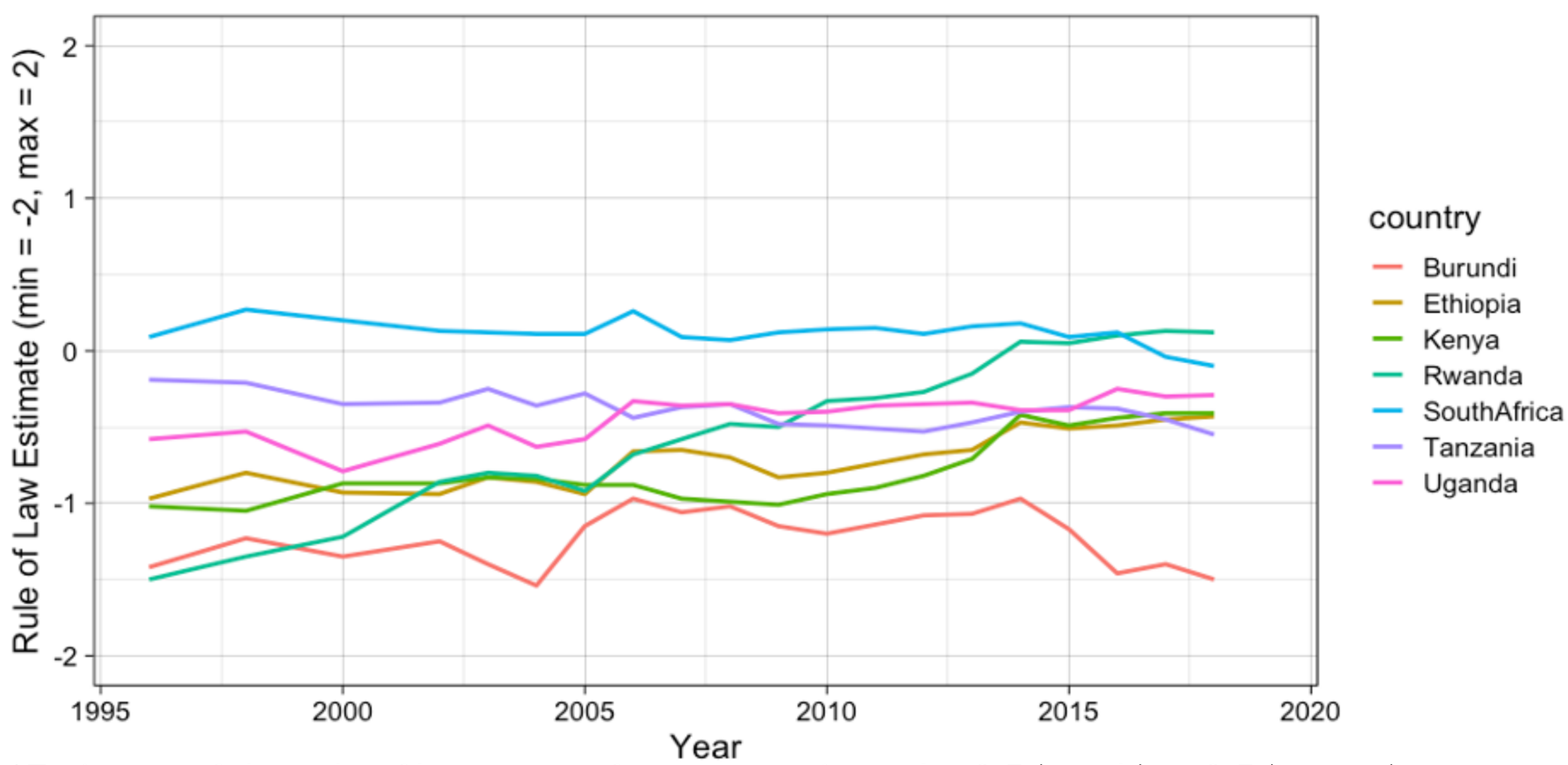


*Estimate of regulatory quality ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance

Figure 15 Estimate of Governance on Regulatory Quality in Tanzania and Comparator Countries

Rule of law

This indicator reflects the extent to which agents/businesses have confidence in and abide by the rules of society. It also measures perceptions about the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence. Since 2015, there has been a sharp decline in the extent to which agents including private sector actors have confidence in rules such as the quality of contract enforcement and property rights in Tanzania (see *Figure* 16). For example, this period has witnessed the withdrawal of land title deeds from several investors and the enactment of laws which cause uncertainty in the protection of the rights of investors in Tanzania. In May 2016, in an effort by President Magufuli to improve statuary control over land, the government revoked ownership of more than 1,800 hectares (4,400 acres) of land in the Morogoro region to resolve conflicts between farmers and herders. Tanzania, like many African countries, is noted for weak property rights and land laws (Alden-Wily 2012, Alden-Wily 2011).



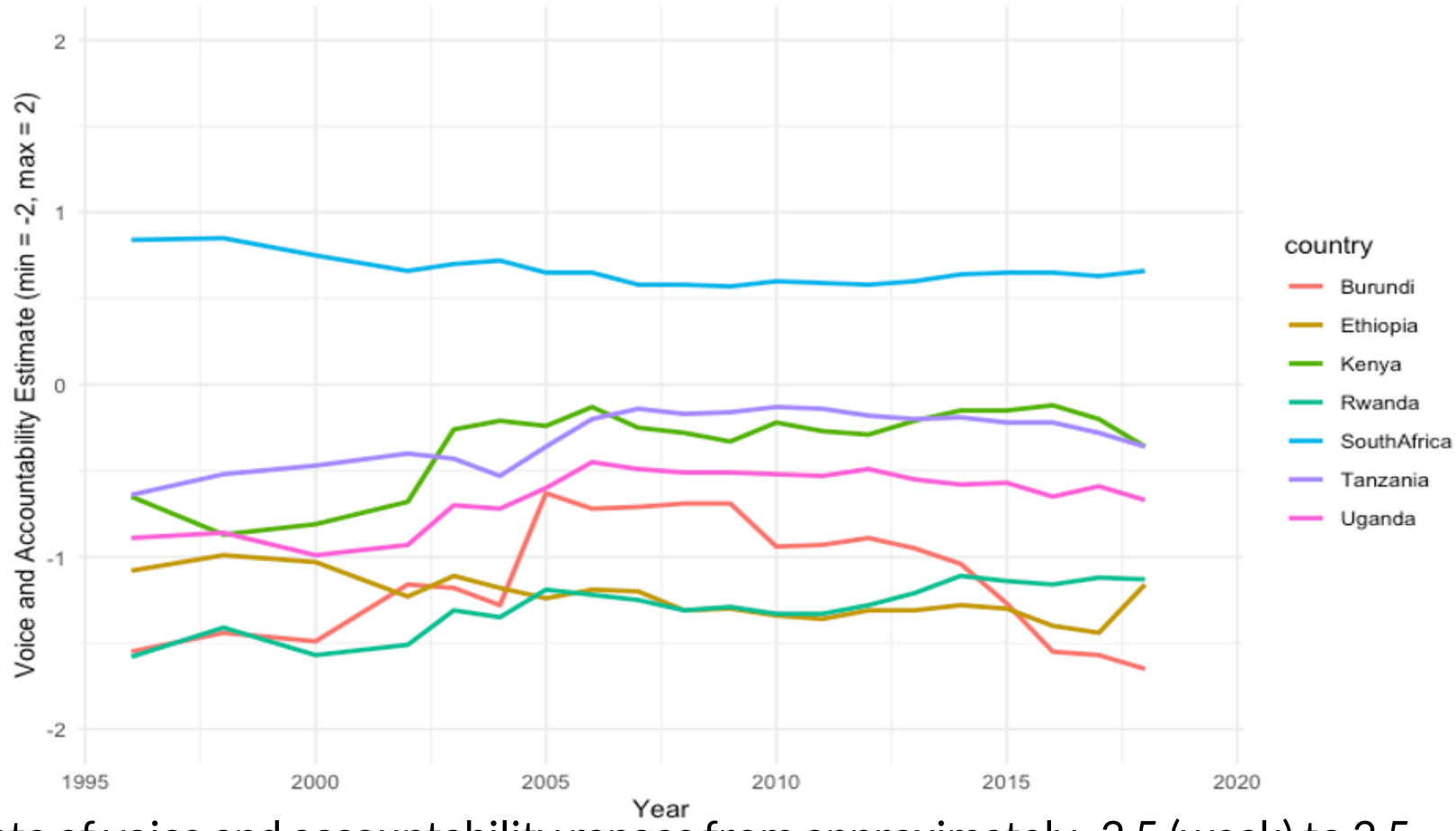
*Estimate of the rule of law ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance

Figure 16 Estimate of Governance on the Rule of Law in Tanzania and Comparator Countries

It is the hope that the GoT will continue to make efforts to ensure that there are systems and structures of governance to uphold the rule of law, which are democratic, effective and ensure accountability, predictability, transparent, inclusiveness and corruption-free at all levels (URT 2016, 76).

Voice and Accountability

The voice and accountability indicator reflects perceptions of the extent to which a country's citizens participate in selecting their government, as well as freedom of expression, freedom of association, and free media. From *Figure* 17, the belief that citizens place on having a voice, including freedom of the media is on the decline in Tanzania. This has severe implications for the role played by the civil society and in the role played by the media in ensuring that there are checks and balances within policy circles and control over the excessive use of power by public institutions and private enterprises.



*Estimate of voice and accountability ranges from approximately -2.5 (weak) to 2.5 (strong) governance performance

Figure 17 Estimate of Governance on Voice and Accountability in Tanzania and Comparator Countries

POLITICAL SETTLEMENT OF PUBLIC-PRIVATE PARTNERSHIPS IN TANZANIA

It may be interesting for development practitioners to understand why Ethiopia, although not part of the inter-governmental organisations in Eastern and Southern Africa, and often characterised as autocratic, continues to outperform its comparator countries in all indicators within the business environment category such as the GDP growth rate or the influx of FDI. Rather than relying on good governance, or new institutional economic and rational choice assumptions, a political settlement analysis may provide more plausible answers to such a critique of the political economy of Ethiopia. Indeed, the concentration of power within the ruling coalition, and the absence of a viable challenge to authority within lower ranks of the ruling coalition increases the capacity of the ruling coalition to implement and enforce more predictable macroeconomic policies. Rwanda seems to follow the same trend (see Behuria and Goodfellow 2016), while countries like Uganda, and Burundi, with a constant threat to the ruling coalition, underperform in many of the business environment indicators.

In recent years, the political settlement approach has enjoyed an increasingly influential role within scholarly and policy circles in evaluating the effectiveness of various institutional and policy interventions in African countries (Behuria, Buur, and Gray 2017, 508). Unlike the mainly institutional economic frameworks – that rely on formal market dynamics and ideas about 'good governance' such as the innovation systems or value chains, the interest of the political settlement analysis in developing countries is a function of the prominence of informal social transactions within policy circles (Khan 2017, 644).

Changes in the distribution of power are not necessarily aligned to formal arrangements. For example, the political stability in Tanzania after the introduction of neoliberal policies is the 'legacy of attempts to centralise political power – holding power - within the [ruling political party] and restrict forms of political competition'- mainly by ring-fencing investment incentives in favour of influential business actors at the commanding heights of the Tanzanian economy (Gray 2013, 194). Political settlements are studied with an assumption that power is rooted in history (Behuria, Buur, and Gray 2017, 512). To be able to understand the current state of public-private partnerships in Tanzania is to understand how far the country has come. What has been the mindset of political leadership? What is the nature of the governance system in relation to the evolution of policies? How have social groups responded to these changes or reforms over time? The only way to understand the distribution of organisational power in Tanzania today is to look at its history and see how public and private sector organisations have mobilised, won and lost in the past.

This section illustrates using examples drawn from interviews, extensive documentary analysis and literature review to explain how disruptive variables affect the evolution of policies within the business environment in Tanzania (see *Figure* 18). The section does so by understanding the history of public-private partnerships in Tanzania under five broad history windows. These windows have been categorised based on 'political ruptures', moments of profound change which structured new divisions of power, political and economic changes within the business environment in Tanzania. It sheds more light on leadership, ideology and the evolution of the developmental ambitions of the ruling coalition over time.

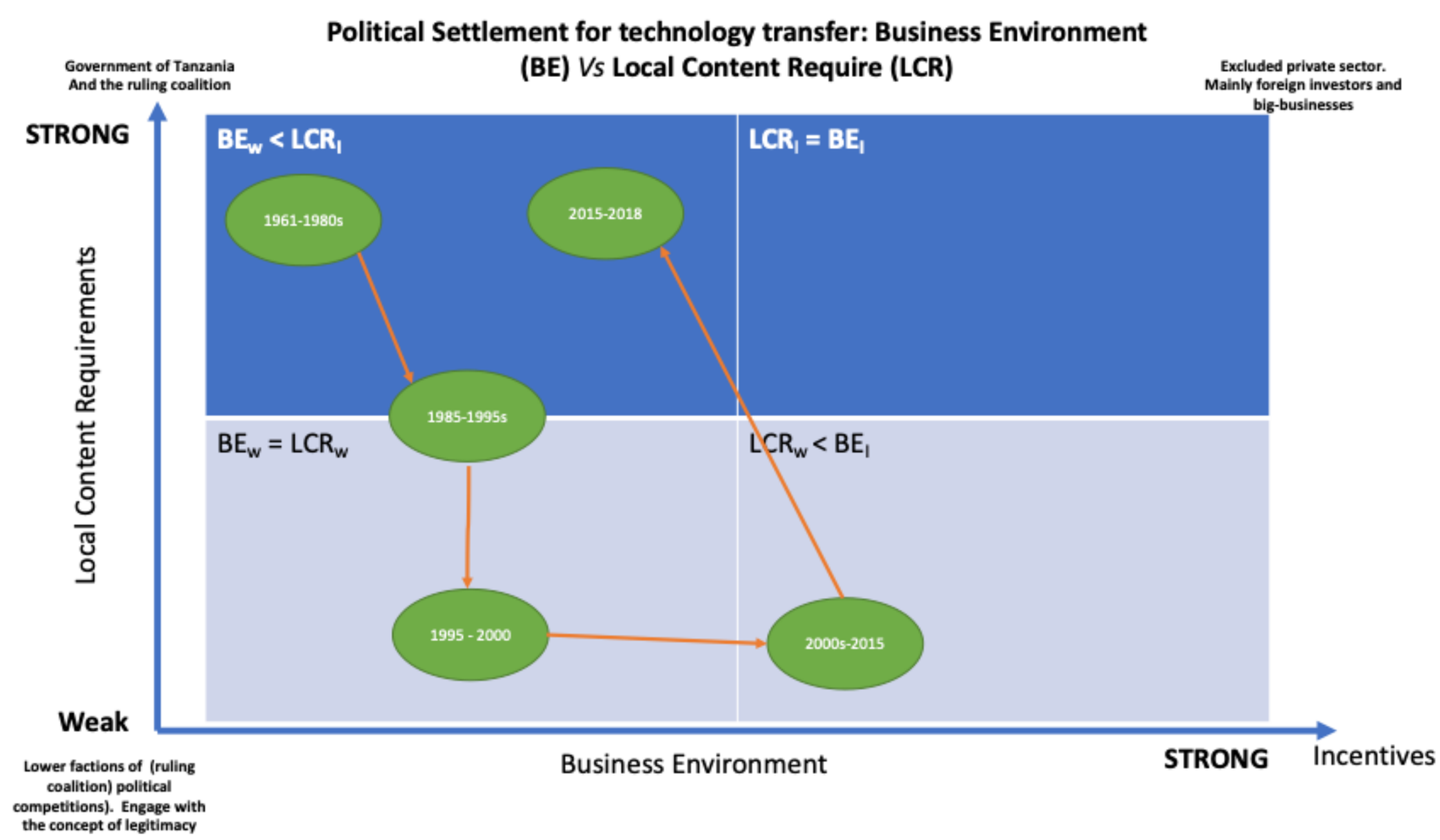


Figure 18 Timeline of the political settlement of public-private partnerships in Tanzania 1961-2018

The State Enterprise

To Nyerere, the economy of the newly independent Tanzania was typically colonial and depended on subsistence production and primary commodities for export. In the 1960s, import-substituting industrialisation strategies provided a favourable environment for industry to grow - mainly because of state subsidies and favourable tariffs on manufactured imports (Gray 2013, 188). Economic progress and dissociation from the capitalist economic structure left by the Europeans depended fundamentally on hard work, freedom and self-reliance (*kujitegemea*) (Fatton 1985, Lal 2012). For example, in 1962, Nyerere experimented with a 'self-help scheme', resulting in the haphazard expansion of infrastructure all over the country (Bjerk 2015, 109). People began to build schools, dispensaries, roads, and other hard infrastructure on their initiative. The ambition to mobilise all Tanzanians for development was the quintessence of the independence rhetoric (Bryceson 1980).

The goal was to create an industrial base upon which Tanzania could become a predominantly self-sustaining economy (Bryceson 1980, 547). This resulted in the emergence of the co-operative movements in 1962 to take the place of Asian and Arabs who had acted as middlemen under colonial rule (Aminzade 2003). Hundreds of cooperatives and unions joined to form the Cooperative Union of Tanganyika in 1962. According to Burke (1964, 209), in 1963, there were more than 800 societies with membership exceeding 300,000. Nevertheless, industrial policy was successful and colonial restrictions that had reserved certain industrial activities for British firms were removed (Mbilinyi 1986). The cooperatives moved into wholesale, retail and import businesses (Nindi 1977). The expansion of the co-operative movement into trade pushed Tanzanian–Asians into the manufacturing sector industry (Coulson 1982). Hence, ownership in the industrial and manufacturing sector became predominantly Tanzanian-Asian (Gray 2013). Some examples of the firms established under Asian ownership during this period include textile firms such as Sunguratex and Kilitex, glass bottle manufacturing firms like Kioo Limited and ALAF (Aluminium Africa Ltd) for aluminium products.

IMPORTANT POINT!

During Mw Nyerere's era, Tanzania was industrialised. We had a textile industry which grew so fast, we had a bicycle factory which was thriving...you can see that was the first bicycle we produced (pointing to a picture with Mw. Nyerere riding a bicycle), and we had a paper mill.

Former director, Tanzania Breweries Ltd, interviewed September 2018

Tariffs were often set based on discussions between investors and the Ministry of Commerce and Industry rather than through a cohesive industrial strategy (Rweyemamu 1966). The association of newly established private sector actors with state elites influenced political and economic decisions in several public institutions like the Ministry of Cooperatives and Community Development (Burke 1964, 210). The likely outcome was a tendency for increased bureaucracy and clientelism (Chazan et al. 1999). One consequence of this association was the replacement of local organisations with the Tanzania Development Corporation. The task of the corporation was to ensure the development of industry adhered to national interests (Rweyemamu 1966, Mramba and Mwansasu 1972).

However, faced with challenges due to the absence of adequate supervision, lack of proper planning and coordination within the industrial and manufacturing sectors (Saul 1975), corrupt elites began exploiting small-scale producers, and local monopolies started to emerge.

The Tanzanian Development Corporation was dissolved in 1964 to form the National Development Corporation (NDC). The newly formed NDC had a more socialist defined objective to build up public enterprises. The NDC was also involved in establishing public partnerships with private businesses to ensure that investments provided through public support were properly utilised. The newly formed corporation was the instrument of public ownership in manufacturing, industries and mining (Nyerere 1972). By bringing in needed finance into targeted private businesses, the government directly intervened in supporting struggling businesses and also became minority partners for several firms and corporations. However, the private sector continued to exist despite the implementation of the nationalisation policies, and regulatory reforms against 'possessive individualism' through the 1967 Arusha Declaration (Jackson 1979, 219). Additionally, Previous managers, mainly Tanzanian-Asians, remained as managers of the newly nationalised industries (Gray 2013).

The increasing dominance of Tanzanian-Asians in policy and business circles and their strong influence on the ruling political party created animosity within parliament. Several Tanzania elites began advocating for the 'indigenisation of the economy' (Aminzade 2000, 2003). The horizontally excluded faction of the ruling coalition – who advocated for the Africanisation of the economy, relied on indigenisation debates as a critique of the industrial policies implemented by the ruling coalition – which largely favoured Tanzanian-Asians. This meant that political relations between the state and Tanzania-Asian investors became difficult (Gray 2013). Following the 1967 Arusha Declaration, the government adopted an interventionist approach through stringent price controls with the objective to create a public sector-led development (Muganda 2004). The need to obtain state permits for price-controlled items pushed market goods into an economy created by linkages along political party line (Waters 1992). By the end of 1968, the government had taken over control of over thirteen firms. The first Five-year Development Plan, drafted under the guidance of the new Ministry of Development Planning, specified the scope of planned public investment (Morse 1964). However, because of the lack of an indigenously owned industrial sector, almost all the industrial firms that were nationalised were owned by Tanzanian – Asians (Gray 2013). In such social and economic contexts, the span of social networks can be stronger than the reach of formal institutions (Chazan et al. 1999, 101).

Additionally, lower factions of the economy, labour unions, increasingly demanded better working condition (Coulson 1982, Coulson 1979). There was an increase in the number of strikes till Trade unionism was reorganised in 1964 to form the National Union of Tanganyika Workers. The National Union of Tanganyika Workers played an essential role in disciplining the workforce, especially in restraining demands for higher wages and promoting positive attitudes towards work (Morse 1964).

Nyerere also introduced legislation to prevent, regulate and settle labour disputes. (1) The Trade Unions Ordinance (Amendment) Act, No. 51 of 1962; (2) the Civil Service (Negotiating Machinery) Act, No. 52 of 1962; and (3) the Trade Disputes (Settlement) Act, No. 43 of 1962. Together, these regulatory instruments considerably kerbed the power of the trade unions (Jackson 1979, 226). The focus on industrial policy, the discipline of labour under socialism and rapid capital investments by the state contributed to the growth in labour productivity until 1973 (Gray 2013).

The top-left quadrant of the political settlement framework in *Figure* 18 represents a scenario, which is representative of the period under socialist rule in Tanzania. Business environment policies were weak and discouraged private property and business through the 1967 Arusha declaration. However, the ability of the ruling coalition to co-opt powerful groups of the private sector, Tanzanian-Asians, allowed the ruling coalition to sustain its developmental ambitions in the short term. Additionally, the disciplining of lower factions of the ruling coalition through new labour union reforms and regulation contributed to an increase in labour productivity. In 1974, the private sector still accounted for 30 per cent of salaried employment.

While the extractive industry was negatively impacted by Nyerere's position to 'leave the resources under the ground till Tanzanians are competent enough to manage them' (Lange and Kinyondo 2016), industrial progress was predominantly based on consumer goods (Rweyemamu 1966, Mramba and Mwansasu 1972) and assembly-type activities - like the bicycle factory which imported parts from India (Coulson 1982, Mwapachu 2005). On the other hand, the agriculture sector saw the creation of production units under the *ujamaa vijijini* scheme, which introduced a major legitimacy crisis for the ruling coalition. The top-down approach used in the implementation of the developmental ambitions under the Nyerere regime such as the *Ujamaa vijijini* scheme contributed to the failure of the programme (Bryceson 1982). While the extension of state control was meant to transfer power to workers and to peasants, in reality, economic control was increasingly vested in an expanding group of party, bureaucratic and management officials (Shivji 1976).

Parastatals had access to state subsidies, finance from state-owned commercial banks, and foreign concessional financing. Parastatals also benefited from rents related to import substitution, such as those created by tariffs and exchange rate policy (Bigsten and Danielsson 1999). However, by 1974, the industrial sector began to show signs of poor economic performance, mainly due to falling productivity and chronic underutilisation capacities. For example, textile mills recorded less than 10% capacity utilisation by mid-1980s (Gray 2013). The government struggled to compete with the cost of subsidies and funding for public enterprises and local industries. Additionally, External factors such as the 1979 war with Uganda (Acheson-Brown 2001) and pressures from proponents of the neoliberal orthodoxy (Gibbon 1995, Hewitt 1999) began pushing for economic and political reforms which resulted in a change of the political settlement within the business environment and the inability of the ruling coalition to enforce its policy and ideological ambition of socialism.

Introduction of Neoliberalism and multi-party politics

IMPORTANT POINT!

Mwinyi undertook to open up investments not only nationally, but of a regional character and it did inculcate some understanding by big business people in the region because Tanzania was thought of as a socialist country and now they realised; Oh wait a minute! We now have a country with a president who is opening up space to private investments.

By former sectary general of Tanzania Chambers of Commerce Industry and Agriculture (TCCIA), Interviewed, September 2018

After the resignation of Nyerere in 1985, Tanzania witnessed a shift towards a more neoliberal economic structure. Following the failures of the socialist regime, President Ali Hassan Mwinyi adjusted his developmental desires to the conditionalities of foreign financiers, including the International Monetary Fund (IMF) and the World Bank. In all, the economic and political reforms in the 1980s brought around three fundamental changes in Tanzania *(1)* The devaluation of the shilling (Loxley 1989). *(2)* Changes in the political structure, - introduced by the 1991 Zanzibar Declaration and multipartism (Cameron 2019). *(3)* Changes in the regulatory framework, including investment and private property laws in the introduction of the 1990 Investment Act. However, the IMF and the World Bank subjected economic reforms to close supervision and led to the constriction of domestic space for exercising policy sovereignty (Mwapachu 2005, 135, Therkildsen 2000, 64). This also meant that the ruling coalition was weak and vulnerable to a growing and stronger private-sector faction. It was in the interest in the ruling coalition to secure its short-term survival by co-opting the influence of powerful actors within the private sector.

Nonetheless, many of the political elites, especially those who advocated for the indigenisation of the economy, viewed the political and financial influence of these multilateral institutions as intrusive (Picard and Garrity 1994). The ruling coalition continued to maintain its relationship with the industrial ownership structure that had been created under the socialist period (Gray 2013). The GoT was now ready to welcome private investors, evident in the National Investment (Promotion and Protection) Act, 1990, and the 1991 Zanzibar declaration, which overhauled the restrictions to own business and private property in the 1961 Arusha declaration. The 1990 investment act was a product of proponents of indigenisation debates and the Africanisation of the economy, which saw some areas of the economy protected for exclusive investment by local investors – these included areas like including retail shops, exchange bureaux, travel agencies, restaurants, petrol stations, the media, mining, security companies, and building contracting (Biermann and Wagao 1986).

The change from a socialist economy to a liberal economy spurred the need for changes in legislation, and the task to prepare new legislation for investments was entrusted to three institutions (Peter and Mwakaje 2004, 11). These were the Ministry of Finance, Economic Affairs and Planning; Tanzania Industrial Studies and Consulting Organisation (TISCO); and Technical Assistance Group of the Commonwealth Fund for Technical Cooperation, London. The production of a full-fledged investment law was dependent on a discussion report titled '*The promotion of Private Investment in Tanzania*' prepared by the Technical Assistance Group of the Commonwealth Fund for Technical Cooperation (CFTC) in 1987. The GoT was now ready to welcome private investors, evident in the enactment of the National Investment (Promotion and Protection) Act, 1990, and the 1991 Zanzibar declaration, which also overhauled the restrictions to own business and private property in the 1961 Arusha declaration.

The new 1990 Investment Act further introduced the Investment Promotion Centre (IPC) together with provisions prescribing application procedures, investment incentives, dispute settlements and transfer of foreign currency (Peter and Mwakaje 2004). In 1991, subsidies provided to farmers were suspended. The removal of government subsidies in 1991 badly affected local food production and rural development as farmers depended heavily on these inputs (Mbonile 1995). These developmental programmes led to unfair competition for small-scale farmers and infant industries in Tanzania (Meertens 2000, 337). Increasing levels of inequality within the private sector and public service began to emerge (Engberg-Pedersen et al. 1996, 303).

On a political front, mounting pressures from horizontally excluded factions of the ruling coalition who advocated for economic reforms on racial grounds were prohibited from mobilising supporters based on race (or ethnicity or religion). However, indigenisation debates remained a dominant issue within the newly established multiparty electoral system (Aminzade 2003, Nagar 1996). For example, Rev. Christopher Mtikila of the Democratic Party denounced Indians and Arabs as thieves and looters of the country's wealth *(gabacholis)*, and claimed that the economy was run by 161 Tanzanian- Asians at the expense of indigenous Africans or the downtrodden people (*mkombozi wa walahoi*) as he called them (Aminzade 2003, 52). In a seemly strategic move, ruling political party elites like Idi Simba began substituting the indigenisation rhetoric as a struggle against foreign interference.

In other words, to excluded factions of the ruling coalition like Mwakitwangwe and Mtikila, *indigenisation* was defined in terms of race and advocated for an economy designed for indigenous black Africans (*wazawa*), excluding Tanzanian-Asians as disloyal outsiders who are exploiting the nation for their benefit (Aminzade 2000, 44). On the other hand, ruling political party elites like Idi Simba, leader of the Confederation of Tanzania Industries (CTI), transformed the debates to a struggle based on territory. Here, *indigenisation* draws a different boundary, between citizens (*wananchi*) and foreigners, and seeks to protect the nation's economy and culture from the threat of foreign domination (Aminzade 2000, 44).

The political elites, especially those who advocated for indigenisation against foreign interference, viewed the political and financial influence of the IMF and the World Bank as intrusive (Picard and Garrity 1994). However, the ruling coalition continued to maintain its relationship with the industrial ownership structure that had been created under the socialist period (Gray 2013). In fact, the meaning of the term *indigenous* (*uzawa*) shifted from a racially charged designator of the boundary between Tanzanian-Asians and African Tanzanians to a term used to designate the boundary between foreigners and citizens (Aminzade 2000, 46). It marked what Zoomers (2010) describes as the 'foreignisation of space' within the investment environment in Tanzania.

Nonetheless, the IMF and the World Bank continued to subject economic reforms to close supervision and led to the constriction of domestic space for exercising policy sovereignty (Mwapachu 2005, 135, Therkildsen 2000, 64). Loxley (1989) provides a detailed account of the 'dispute' between the IMF and 'powerful groups' of the Tanzanian economy in the 1980s. The private sector was marred by conflicts within political elites, leading to lack of coalition in the voice of local private sector actors and increase in levels of clientelism and corruption within political and business circles (Mwapachu 2005). Several authors have highlighted the lack of convergence around the implementation of the economic and political reforms introduced by the IMF and the World Bank (Shivji 1991, Doriye 1992, Hewitt 1999). This also meant that the ruling coalition was weak and vulnerable to a growing and stronger private-sector faction. It was in the interest in the ruling coalition to secure its short-term survival by co-opting the influence of powerful actors within the private sector

Implementation of the neoliberal orthodoxy

The transition to multi-party politics in 1995, was dominated by advocates for broader investment policies, specifically to encourage foreign investments. The new market-led approach to industrial development was set out in the Sustainable Industries Development Policy 1996 to 2020 (Gray 2013, 191). There was a corresponding increase in coalitions between elites in the private sector and the ruling party. According to Andreoni (2017), during this period, corruption became a significant driver of change within the ruling coalition. The ruling elite failed to build effective state institutions to oversee the realisation of its broad-based developmental objectives. President Mkapa was nominated with approval from a still influential Nyerere, to take over the leadership of the Chama cha Mapinduzi (CCM) and oversee the transition of the country into a multiparty democratic state. New investment laws were introduced through the 1997 Tanzania Investment Act, which opened up investments in any sectors as long as the requisite capital of 100,000USD for local investors and 300,000 USD for foreign investors was/is met. The new 1997 Investment Act abolished the protection of domestic industries or the ring-fencing of investment sectors for local investors. In the mining sector, institutional requirements for local content became weaker through the 1998 Mining Act - as elaborately described by Lange and Kinyondo (2016, 1097).

IMPORTANT POINT!

The World Bank's Strategy for African Mining technical paper, 1992 "criticised the previous local content, local employment and local ownership requirements and specifically recommended the state not to distinguish domestic from foreign investors and not to use mining as an engine of employment generation" (Hansen, 2013:20). The World Bank's five-year Mineral Sector Technical Assistance Project culminated in the drafting and implementation of the 1998 Mining Act (Butler, 2004:68) which makes no mention of local content.

by Lange and Kinyondo (2016, 1097).

Public sector banking continued until their privatisation in 1999/2000, a significant decision of President Mkapa. Nyerere's resistance to privatising the banking sector was defeated after his demise in 1999. To Nyerere, banks such as the National Bank of Commerce (NBC), were 'the people's bank'. It was the perception, among a majority of Tanzanians that State-owned enterprises were 'the people's assets (*Mali ya Umma*)' (Mwapachu 2005, 396). Those associated with owning state enterprises were derogatorily referred to as 'bloodsuckers'- deemed *capitalist exploiters* (Brennan 2012). In fact, the government privatised publicly owned institutions, which were bought mainly by Tanzanian-Asians who had strong links with the global market (Aminzade 2013), which also gave rise to an unprecedented period of large-scale land investments by private investors in Tanzania (Ngoitiko et al. 2010, 273).

For example, while indigenous manufacturing increased after the liberalisation of the economy in mainly petit manufacturing activities, around 26% of all manufacturing firms was owned by Asian capital by 2002 (Gray 2013). A larger part was owned by foreign companies, with 1% of manufacturing remaining under public control (Kinabo 2004). There was a surge in the number of public policies and strategies to attract foreign investments. Therkildsen (2000, 62) satirically referred to this surge as '*projectitis*', with over 2,000 development projects listed by the World Bank (1994, 194).

IMPORTANT POINT!

There was no policy or system in place to prepare [ordinary] Tanzanians and allow them to participate in the privatisation process. The entire privatisation was carried out so that people would come from outside and bythe public enterprises. That was the concept. It was not a concept of supporting Tanzanians to participate in the privatisation and own these businesses.

By board member of the Tanzania Private Sector Foundation, interviewed September 2018

Additionally, the lack of an effective institutional and regulatory framework in the wake of market-led investments affected the functioning of state institutions such as the Tanzania Revenue Authority which became plagued by high-level of corruption (Fjeldstad 2003). For example, the falsification of VAT receipts to the tune of shillings 34 billion per annum by 2003, and increasing cases of tax exemption of approximately 414 billion in 2001 contributed to losses in Tax revenue by the government (Osoro 1995, Mwapachu 2005). The absence of robust regulatory and oversight institutions in Tanzania allowed corrupt politicians and institutions to engage in rent-seeking with devastating consequences on the economy (Cooksey 2017, 4).

The political settlement during this period was characterised by weak local content requirements, exemplified in the 1998 mining and 1997 investment act, the incentive to attract foreign investment was strong. However, the business environment was plagued with high levels of corruption and weak institutional mechanisms to boast revenue buoyancy. There were high incidences of capital flight through tax evasion/avoidance, corruption and clientelism.

Legitimacy Crisis of the neoliberal Orthodoxy

A review of the Tanzanian Development Vision (TDV) 2025 in 2010 resulted in a recommendation for the government to allocate appropriate resources, for accelerated sustainable and inclusive economic growth (Mashindano and Maro 2011). The review showed that the rate of economic growth did not correlate with poverty reduction, gender equality and improved livelihood levels. Many development objectives of the ruling coalition became populist vehicles for promises during election campaigns (Kelsall 2018).

In the recent report of the Agriculture Sector Development Strategy (ASDS-II 2015), the GoT acknowledges that the focus on large commercial farms has made little contribution to the reduction of poverty in Tanzania. Authors of the TDV review report attributed this mismatch in economic growth and poverty to high levels of dependency with over 70% of the population below the ages of 30, unemployment and the lack of technical and scientific capacity needed by industry. As an outcome of the recommendations made in the review, the government introduced the Big Results Now (BRN) programme, launched in 2013 and aimed at improving the provision of public services (Janus and Keijzer 2015).

According to Janus and Keijzer (2015), the Big Results Now (BRN) programme prioritised short-term gains over longer-term sustainability. Results based cooperation models were 'over-simplistic incentive models' and did not take into account the past and present cultural, and social realities of Tanzania (Pearson, Johnson, and Ellison 2010, 320). By the end of the Kikwete administration in 2015, the contradictions between the ideas of the ruling class and the lived experiences of common Tanzanians had become palpable. Increasing corruption scandals and the imminent disintegration of the ruling political party (Fouéré 2008, Cooksey 2017), paved the way for a leader who would advocate for change, and disrupt the business as usual approach in Tanzania(Pelizzo and Bekenova 2016). It was also compounded by inhouse fighting within the ranks of the ruling coalition. It has been argued that the pragmatism of President Magufuli, his anti-establishment agenda and fight against corruption propelled him to the head of a nation, and a ruling political party which needed fundamental changes in structure - principles, values and institutions. An image undoubtedly different from the neoliberal reforms introduced in the late 1980s (Pelizzo and Bekenova 2016).

The bottom - right of the political settlement framework represents a scenario where the local content requirement was weak, yet the ambition of the ruling coalition to attract FDI was strong as demonstrated in *Figure* 5 and the plethora of developmental projects in the agricultural sector. In this scenario, private sector investors did not adhere to local content requirements but continued to provide capital which was co-opted by government elites in rent-seeking and clientelism. Capital needed for the protection and support of local industries was misused. The ruling coalition saw a decrease in political support, and also struggle to compete with the cost of subsidies for infant industries.

The Rise of New Nationalism

Indeed, the increasing and multifarious impacts of direct investment and land acquisition by foreign investors continue to stimulate debates about excessive foreign involvement in investment policy and design in Tanzania (Zoomers 2010, 86, Schlimmer 2018). The emergence of what Shivji (2019) has described as 'new nationalism' in Tanzania is in part linked to (1) the increasing levels of distrust in the political class due to perceived high levels of corruption (Pelizzo and Bekenova 2016). (2) the perceived 'foreignisation of spaces' due to the increasing impact of foreign involvement on investment deals and investment policy (Schlimmer 2018) and (3) the disenfranchisement of an agrarian workforce within a capitalist-oriented, industrial skills-starved economy (Amin 2017, Ngoitiko et al. 2010). Political actors in Tanzania and in other Eastern African countries such as Ethiopia, Uganda and Kenya as argued by Boone (2014) have transformed the debate around large-scale land investments into political capital and rallying calls to attract voters (Schlimmer 2018, 88).

The new regime brings us back to the top-left of the political settlement framework where the business environment incentive is weak but hoping to move towards the top-right of the political settlement represented by strong local content requirements and good business environment incentives - **BWi = LCRi.** President J. P. Magufuli became president of Tanzania in November 2015. During his first days in office, Magufuli sought to regain the trust and political support of Tanzanians and has borrowed some of Nyerere's rhetoric, with a focus on work ethics *(hapa kazi tu)*, public morality and the re-introduction of 'big-government' economics (URT 2016). It may be for this reasons that Cheeseman (2018) argues that Magufuli's leadership does not represent a real break with the past, but instead needs to be understood in the context of the country's return to a more statist economic approach under Nyerere. This political settlement places the current ruling coalition back to the in the top-left quadrant as shown in Figure 18.

His focus on social policies and anti-establishment campaigns came through when he introduced free education for the ages of 8-12 in 2015 (Asim, Chugunov, and Gera 2019). Magufuli publicly cancelled Independence Day celebrations in 2016 and asked that the cost of celebration be deviated to the improvement of health service in the country. Magufuli has presented himself as 'the president for the poor' and relies on this popular support as political leverage, against his opponents and political enemies. 'His taste for the dramatic has caught public attention and his willingness to disturb the status quo has convinced many that his intentions are more sincere than those of his predecessors' (Paget 2017, 2019).

IMPORTANT POINT!

When a leader [Magufuli] comes as a sovereign state and rejects things which are not consonant with the sovereignty of the state, he must correct them. It's not an abuse of office. Correct those things so that Tanzania natural resources are exploited for the purpose of helping Tanzanians [not foreigners].

Interviewed, September 2018

In 2017, Magufuli ordered the arrest of several public and business figures involved in the Escrow scandal. According to Cooksey (2017), those arrested had privileged relationships with powerful and influential government officials. In doing so, Magufuli has distanced himself from the political and business elite and consolidated power around his ruling coalition. The GoT has been slow to associate itself with large developmental projects like the SAGCOT and according to experts 'the relationship seems to be cold nobody really understands'.

It is common to see or hear Magufuli reprimanding government and business official in public for failing to fulfil their duties. In his first years in office, '*Magufuli seized idle land from investors to return to poor farmers'* as headlined in a Reuters article on the 1st June 2016 (Makoye 2016). During the launch of the second phase of the Agricultural Sector Development Plan (ASDP) in 2018, president Magufuli publicly questioned why the president of the Tanzania Agriculture Development Bank (TADB) was still in service, when money intended for small-scale farmers (Shs 186.5 billion), was loaned to borrowers such as investment banks, and other financial institutions who were not involved in any agriculture-related activity.

The current political regime presents itself through political rhetoric and actions by making social claims, used by governments to reshape the business environment. For example, Magufuli has transferred the 'investment docket' from the Tanzania Investment Centre (TIC) to the Prime Minister's Offices, placed under a Minister of State Hon. Angela Kairuki. Additionally, Magufuli cancelled the appointment of the TIC's executive director who had been appointed by Kikwete in 2013 and created a new Land Investment Unit (LIU) under the purview of the Ministry of Land. A decision motivated by the president's efforts to remediate the TIC's lack of efficiency (Bélair 2018, 379).

Magufuli's election in November 2015 was built on the mantra of anti-corruption and a drive for greater industrialisation (URT 2016). Cheeseman (2018), adds that by focusing on making the government 'perform' for the people, Magufuli has raised public expectations of a ruling party *Chama Cha Mapinduzi* (CCM) that has stagnated over the last 20 years. His industrialisation campaign has also been demonstrated through imposed caps on interest rates at seven per cent (7%). It is expected that this will boost private sector borrowing for investment and economic growth (BoT 2019, TanzaniaInvest 2018b). However, excessive taxes may continue to increase the burden of loan repayment by domestic private sector actors, SMEs, and banks may be less viable due to increases in non-performing loans and low-interest rates. For example, in January 2018, five banks were closed by the BoT due to the detrimental capital position of the said banks (TanzaniaInvest 2018a).

New reforms within foreign private investments, exemplified in the passing of laws such as the Natural Wealth and Resources (Permanent Sovereignty) Act (PSA) of July 2017, may see the withdrawal of many investors from Tanzania (Scurfield and Mihalyi 2017). The BoT (BoT 2018, 4) reports that there has been a decline of FDI from an average of 2.1 billion USD in 2013 to 1.2 Billion in 2017. In October 2018, the government of Tanzania gave the Dutch government a notice of intent to terminate its Bilateral Investment Treaty with the Netherlands.

CONCLUSIONS

This report has provided an overview of private-public partnerships by looking at the business environment and local content requirements in Tanzania as the starting point. Although the report uses data from the World Bank and the Global Innovation Index Indicators to provide a macro-level representation of the business environment in Tanzania, it, however, deviates from the institutional economic analysis and relies on a political settlement approach. The report describes the business environment (BE) as a combination of internal and external factors that influence the operating capacity of private sector actors in a given country or socio-political and economic context. These factors include the availability of a reliable ecosystem for businesses such as consumer capacity - clients and suppliers, improvements in science, technology and incentives for innovation, the rule of law, government policy and politics, and market, social and economic trends.

While constant efforts have been made by the GoT to improve the business environment and encourage technology transfer through local content reforms and regulations, social interactions between the ruling coalition and private sector actors have undermined the implementation of these reforms in the past. The report defines technology transfer as a process that facilitates the diffusion of technological knowledge among users in Tanzania, with attention given to general issues related to the development of technological capabilities. Comprehensively, there is no clear-cut definition for technology transfer, and it often relates to the theoretical and practical knowledge, skills, and artefacts that can be used to develop products and services as well as used for their production and delivery.

From a political settlement analysis, little effort has been made to marry government developmental ambitions and the expectations of the private sector. It ultimately culminated in a legitimacy crisis of the neoliberal orthodoxy and the ruling coalition which was plagued with high levels of corruption and tax evasion by 2015. The political settlement was disrupted by the election of a president whose ambition is to discipline rent and take active rule in deals making. The current GoT is seeking ways to rebalance its relationship with the private sector, why ensuring that local content requirements are met. However, as acknowledged in the FYDPII, such a business unusual approach is likely to trigger trade-offs. This also presents an opportunity for developmental organisations to develop new strategies and dialogue mechanisms which are non-confrontational and propose solutions that can marry public policy and private sector ambitions. It will be beneficial for the GoT and associated public institutions to engage in a rigorous deliberative process to improve public buy-in into the developmental ambitions of Tanzania.

In the past, expert opinion has failed to reflect socio-political realities on the ground, and feedback mechanisms for complaints and improvement have been neglected at the expense of macro-economic benefits which have not added to revenue buoyancy. For an improvement in technology transfer, local content requirements must be balanced with the attractiveness of the business environment in Tanzania.

Possible Steps

Tax administration: The introduction of Electronic Fiscal Device (EFD) and online Tax Identification Numbers (TIN) by the Tanzania Revenue Authority (TRA) can help improve Tax administration in the country. If implemented properly, these measures can increase the amount of tax revenue and transparency. Rather than focus on increasing the number of taxes, governments should focus on effective and efficient tax administration. Increasing taxes may be a deterrent to business and may continue to negatively affect technology transfer.

Access to finance: Public and private institutions should increase incentives for equity services and make efforts to reduce load repayment burden for local and infant industries. The aim is to ensure that risk on investments is mitigated by addressing a broader set of factors that can influence innovation adoption, including education levels, patents, knowledge sharing, political stability and infrastructure (soft and hard). Thus, policies need to be flexible enough to raise awareness and to permit potential beneficiaries and innovators to explore and evaluate technologies against context-specific criteria prior to adoption.

Sharing of information about technology: Information about innovation is not usually free and widely available. Policies and efforts towards technology transfer and innovation need to make use of extensive use of a wide range of communication channels to ensure that information promotion and diffusion component are easily accessible to a wider audience. Transactions in technology transfer are progressive, intersectoral, multidisciplinary and not always on the basis of one-to-one. Therefore, rather than rely exclusively on donor led recommendations, African governments and the Tanzanian government, in particular, must involve local institutions, activist, and consultants who can play a critical role of bridging the managerial capacities needed to identify, absorb, disseminate and assimilate context-specific input of knowledge and technology required for a successful transfer.

Several technologies and knowledge requirements in the Tanzanian economy such as agricultural tools, machinery, improved seed varieties, policy formulation, mining and engineering equipment etc. might need to be sourced from a combination of suppliers, actors and institutions. Governments must be able to identify competently trained intermediate organisations e.g. research institutions, mining consultants, vocational training centres – who are able to understand local knowledge gaps. The intermediate organisation can act as a managing agent, who is charged with the monitoring and evaluation of capacity gaps and progress, sourcing of competent agents base on private sector demands, and help to enable and assure effective technology transfer.

Valorisation of local actors: Public-private partnership ventures or initiatives need to identify role models and opinion leaders at community and sector level. If correctly identified, there is a greater likelihood for other local industries to adopt new technologies by following or copying these role models. Public-private partnerships and related policies should be designed to include facilities which encourage continuous interaction and exchange between a wide range of local stakeholders such as researchers, entrepreneurs, policymakers and financial institutions. This can be done through symposia, trade fairs, conferences and other networking events.

Skills training: There is often a strong cultural dimension embedded within a particular technology. The transfer of technology through public-private partnerships may fail because there is a lack of appreciation of the cultural, historical and socio-political difference between countries, sectors or even local contexts. Public and private sector actors must take into account the importance of the cultural determinants underlying the success or failure of technology transfer. There is a need to increase spending in professional and technical training programmes which builds technological capacity and learning processes to absorb and optimise the technology. Resources should also be channelled towards the post-adoption period as well as promote or facilitate the adoption of technology.

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