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Zanzibar

The Effect of the Investment Climate on Performance of Micro and Small Enterprise in Zanzibar

A Comparison with Mainland Tanzania and other Countries

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ABBREVIATIONS AND ACRONYMS

EPZ	Export Processing Zone
ESRF	Economic and Social Research Foundation
FDI	Foreign Direct Investment
FTZ	Free Trade Zone
MSEs	Micro and Small Enterprises
NBS	National Bureau of Statistics
PBZ	People's Bank of Zanzibar
PSEs	Special Economic Zones
PSEZ	Pomeranian Special Economic Zone
RPED	Regional Program on Enterprise Development
SSEZ	Shenzhen Special Economic Zone
TFP	Total Factory Productivity
USAID	United State Agency for International Development
WBES	World Bank Enterprise S urvey

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This report was written by George Clarke, Tilahun Temesgen, and Michael Wong. It is based on an analysis of World Bank Enterprise Survey (WBES) data conducted by the Economic and Social Research Foundation (ESRF) in Dar es Salaam, Tanzania and the Regional Program on Enterprise Development (RPED) at the World Bank in collaboration with the National Bureau of Statistics (NBS). The surveys were conducted between April and July 2003 and in July 2004. The ESRF staff members involved in this project included Professor H.K. Amani, Josaphat Kweka, Oswald Mashindano and John Kajiba. John Paton played an important role in the first round of survey implementation. Johannes Hoogeveen and Paolo B. Zacchia acted as peer reviewers. Vijaya Ramachandran provided helpful comments.

EXECUTIVE SUMMARY

Zanzibar is a small island economy close to the Tanzanian mainland. As with other small economies, Zanzibar is vulnerable to terms of trade and other shocks. Although the economy is slowly becoming less dependent on clove production and clove products, this natural resource still makes up a large share of exports and jobs. Diversifying into manufacturing would allow Zanzibar to reduce this vulnerability. This goal is consistent with *Zanzibar's Growth Strategy (2006-2015)*, which sees manufacturing as one of four economic growth sectors.

This study looks at factors that affect the performance of manufacturing enterprises—and their resulting incentives to invest. The main source of information is a 2003-2004 World Bank Enterprise Survey. The report is complementary to an earlier report that looked at the investment climate in the whole of the United Republic of Tanzania, including Zanzibar, using data from 2003—the 2004 Investment Climate Assessment (Regional Program on Enterprise Development, 2004). To avoid redundancy, this report focuses primarily on areas where the investment climate is different in Zanzibar than in mainland Tanzania.

The firms covered in the survey are poorly integrated into international markets as few export outside Tanzania. Because Zanzibar's economy is small, firms that remain focused on local markets likely will stay small and employ fewer than 50 workers.

Even compared to small firms in other small economies, firms in Zanzibar appear to be especially unlikely to export. For example, they are less likely to export than are similar firms in other small island economies such as the Seychelles or Mauritius. This suggests that the poor export performance is not simply due to small country size. Other factors also play a role.

One important factor is that productivity is low, meaning firms are not highly competitive on international markets. Labor productivity is very low in Zanzibar, even when compared to labor productivity in mainland Tanzania. Whereas the median firm in mainland Tanzania produces over \$2000 of value-added per worker, the median firm in Zanzibar produces only \$1000 per worker. Moreover, when compared to the best performing countries in Sub-Saharan Africa labor productivity in mainland Tanzania is low. Although low labor productivity in Zanzibar can, in part, be explained by the fact that firms are smaller than their counterparts on the mainland and labor productivity is typically lower in small firms, micro and small enterprises (MSEs) are less productive than MSEs on the mainland and in most other countries in Sub-Saharan Africa.

Another reason for the low productivity is that MSEs tend to be less capital intensive in Zanzibar. The median MSE in Zanzibar has less than \$300 of capital per worker, compared to about \$1400 on the mainland. This figure is also low when compared to other countries in Sub-Saharan Africa. For example, in Senegal and Kenya the median MSE is over \$3000 of capital per worker.

After controlling for their smaller size and lower capital intensity, firms in Zanzibar compare more favorably with firms elsewhere in Tanzania. But total factor productivity—the part of

productivity that cannot be explained by the use of capital and labor—remains lower for the average enterprise in Zanzibar than for the average enterprise in mainland Tanzania. Further, total factor productivity is far lower in Zanzibar than in most productive low-income countries in Sub-Saharan Africa.

Most aspects of the investment climate appear similar in Zanzibar to mainland Tanzania. But there are some differences. Zanzibar often compares favorably with mainland—including in areas such as corruption and tax administration that mainland firms see as serious growth impediments. For example, Zanzibar firms were less likely to need to bribe officials in order to secure government contracts or to ‘get things done’; tax administration is less burdensome; and the regulatory burden is lighter.

Although this gives some reason for optimism, problems remain. First, wages and salaries are lower in Zanzibar than on the mainland. Whereas the median MSE in Zanzibar reports that it pays about \$400 per worker per year, the median enterprise in Dar es Salaam reports that it pays \$950 per worker and the median MSE elsewhere in mainland Tanzania reports that it pays \$1700 per year. Although low wages allow MSEs in Zanzibar to remain competitive despite low labor productivity, this is at the expense of workers. If firms could improve their productivity, wages could increase thus allowing firms to remain competitive.

One plausible reason for low wages and low labor productivity is the workforce’s low skill base. Worker skills was one of the few areas of the investment climate that firm managers in Zanzibar found to be a greater obstacle to their enterprise’s operations and growth than their counterparts on the mainland. Objective data confirm these perceptions; both workers and managers have less education in Zanzibar than elsewhere in Tanzania. Overall, firms in mainland Tanzania compare relatively unfavorably with firms in Kenya and Uganda with respect to employee, but not manager, education. Despite this, enterprises in Zanzibar invest less in worker training than enterprises in mainland Tanzania do.

Another area of the investment climate that appears to be a larger problem in Zanzibar is access to finance. Managers perceive access to credit as a greater constraint, firms are less likely to have loans or overdraft facilities, and firms without loans are less likely to say that they did not want one in Zanzibar than in mainland Tanzania. When combined with the previous finding that firms in Zanzibar have less capital per worker, it suggests that access to finance might be even more problematic in Zanzibar than it is elsewhere in Tanzania.

In summary, Zanzibar’s investment climate appears relatively favorable in some respects. Despite this, wages and labor productivity remain low and firms are not very competitive. Two areas that appear more problematic in Zanzibar than elsewhere in Tanzania—and are also worse in Tanzania than in the better performing low-income countries in Africa—are access to finance and worker skills. If the Government could improve the investment climate along these lines, wages could increase while allowing firms to remain competitive.

INTRODUCTION

Zanzibar is a small island economy in the Indian Ocean. It is close to the Tanzanian mainland and consists of two main islands, Unguja and Pemba, and several smaller islands. Both its geographic area and population are small. About 1,072,000 people lived in Zanzibar in 2005 and the combined area of the islands is only about 2,654 square kilometers. Zanzibar is a semi-autonomous part of the United Republic of Tanzania. It has its own Government, which consists of a legislature, a House of Representatives; an executive, headed by the President of Zanzibar; and a Judiciary.

Over the past decade, Zanzibar's growth has been fairly high, averaging about 7 percent a year. But it also has been unstable. For example, GDP growth exceeded 16 percent in 1996, but fell to about 2 percent in 1998 (Ministry of Finance and Economic Affairs, 2006). Population growth has also been rapid, averaging about 3 percent a year.

Agriculture remains the most important economic sector, contributing between 21 and 25 percent of GDP over the past decade (Ministry of Finance and Economic Affairs, 2006). It also contributes about 40 percent of jobs and 70 percent of foreign exchange earnings. Manufacturing is less important, contributing only about 5 to 6 percent of GDP and less than 5 percent of export earnings.

Zanzibar's Growth Strategy (2006-2015), however, recognizes that manufacturing could be an important source of growth (Ministry of Finance and Economic Affairs, 2006). This study looks at factors that constrain investment and growth in manufacturing. Since an Investment Climate Assessment (Regional Program on Enterprise Development, 2004) was completed recently for the entire country of Tanzania, which included Zanzibar, this report mostly focuses on areas where Zanzibar is different from the mainland. The results from the Tanzania Investment Climate Assessment are summarized below.

I. THE WORLD BANK ENTERPRISE SURVEY

The main source of information for this report is data from firm surveys conducted in 2003 and 2004 in mainland Tanzania and Zanzibar. The 2003 survey, which covered about 276 manufacturing firms, was conducted between April and June 2003 and included 10 regions in mainland Tanzania and Zanzibar. The 2004 survey, which covered only Zanzibar, was conducted in July 2004 and included 19 manufacturing firms. Firms in the 2003 survey were omitted from the 2004 sample frame. The surveys were conducted by the Economic and Social Research Foundation (ESRF) in Dar es Salaam and the Regional Program on Enterprise Development (RPED) at the World Bank, in collaboration with the National Bureau of Statistics (NBS).

Firms in the two surveys were randomly selected from a sample frame that was stratified by firm size and location. The sample frame was constructed using lists of firms with over 5 employees from various government sources, including a list from the National Bureau of Statistics. To ensure that the sample included enough large firms, large firms are overrepresented (i.e., the probability of selection depends on firm size). The regions and sectors

covered in the survey were selected based on the concentration of manufacturing firms in these areas.

There were a total of 40 manufacturing enterprises from Zanzibar in the two surveys—21 in the 2003 survey and 19 in the 2004. Because of the modest size of the two Zanzibar surveys, we pool the two samples for most of the analysis. In cases where there are significant differences between the 2003 and 2004 surveys, we note this in the text.

Although the sample is small, it represents a significant share of manufacturing firms on the island. The 24 firms with over 10 employees account for about 20 percent of firms this size. In contrast, the survey includes only nine firms with between five and nine workers (about 3 percent of firms in this size class). The remaining firms had fewer than five employees—about 0.3 percent of firms are in this size class. These firms employed about 15 percent of workers in manufacturing in Zanzibar at the time of the surveys.¹

At the time of our survey about 50 percent of firms in the Zanzibar ES were in the food and beverage sector, with another one-third in the wood and furniture sector (see Table 1). These sectors are also important in the survey in mainland Tanzania, although they make up smaller shares of our sample. More firms from Zanzibar are in the construction materials sector, with fewer represented by textiles or the garment industries.

Survey firms from Zanzibar are smaller than firms from mainland Tanzania (see Table 1). Almost one-third of the sample from Zanzibar has fewer than 10 employees, compared to 14 percent of firms from Dar es Salaam and 10 percent of firms from elsewhere in mainland Tanzania. There are no large firms in the sample for Zanzibar. In comparison, large firms make up over a quarter of the sample from the mainland.

Because the firms from Zanzibar are smaller on average than the firms from the mainland, some comparisons are difficult. Most notably, labor productivity and capital intensity (that is the capital the firm has for each worker) tend to be lower in micro and small enterprises (MSEs). Moreover, MSEs often face different investment climate constraints than do larger firms. They often find it more difficult to get financing and find it harder to cope with substandard infrastructure. Because of these concerns -- and to make the Zanzibar and mainland Tanzania samples comparable -- our analysis concentrates only on MSEs.

Table 1: Characteristics of enterprises in the Enterprise Surveys for Zanzibar and mainland Tanzania

	Zanzibar	Dar es Salaam	Other Mainland
Number of Enterprises	40	112	143
Micro (1-9 workers)	34%	14%	10%
Small (10-49 workers)	54%	37%	49%
Medium (50-99 workers)	11%	22%	14%
Large (100-499 workers)	0%	20%	23%
Very Large (500 and up)	0%	7%	4%
Firm exports good outside Tanzania	3%	29%	30%
Firm imports raw materials from outside Tanzania	11%	69%	48%
Majority foreign-owned	3%	10%	4%
Majority government-owned	0%	8%	4%
Food and Beverages	43%	22%	32%
Furniture and Wood	35%	21%	23%
Construction Materials	15%	5%	3%
Textiles and Garments	5%	10%	13%
Other	3%	42%	29%

II. THE INVESTMENT CLIMATE IN TANZANIA

This report uses data from two surveys—one that covered mainland Tanzania and Zanzibar and one that covered Zanzibar only. Results from the first survey that covered the mainland and Zanzibar were presented in an earlier assessment (Regional Program on Enterprise Development, 2004). The earlier assessment did not present or discuss results for Zanzibar separately. To avoid redundancy, this report focuses on those areas of the investment climate where there are significant difference between Zanzibar and mainland Tanzania. To put the results in context, this section summarizes the main results from the earlier assessment. As in that assessment, results in this section for Tanzania pool firms from mainland Tanzania and Zanzibar.

Labor productivity is low in Tanzania (including Zanzibar). In 2002, value added per worker was about \$2300 (in constant 2005 US\$). This figure was considerably lower than in Kenya (about \$5000 for each worker), but higher than in Uganda (about \$1600).² Comparisons with more recent surveys elsewhere in Sub-Saharan Africa confirm that labor productivity is lower in Tanzania than in many other countries in Sub-Saharan Africa. Value-added per worker is lower in Tanzania than it is in 20 of the 32 countries in Sub-Saharan Africa where Enterprise Surveys had been done by December 2006. Even ignoring the six middle-income countries (South Africa, Namibia, Mauritius, Botswana, Swaziland and Cape Verde), this puts Tanzania somewhere close to the median for low-income countries in Sub-Saharan Africa and far below the fast growing economies of China and India.

Consistent with the idea that Tanzanian firms are not highly competitive, they were also less likely to export than firms in China and Kenya—although more likely to export than firms in

Uganda. The difference between Tanzania and Kenya does not appear to be entirely explained by differences in firm size or sector of operations. Even after controlling these, firms in Tanzania were less likely to export. Trade is also restricted by two other things—low competitiveness and the high burden of trade and customs regulations.³ Exporters rated trade regulations as the sixth greatest problem they faced. Moreover, consistent with this, customs and port delays were higher in Tanzania (7 days for exports) than in Kenya, Uganda or China.

One of the reasons for firms' low productivity and competitiveness in Tanzania is that worker skills and education are low. Workers in Tanzania have less education than do workers in either Kenya or Uganda. About 43 percent had only a primary education or less at the time of these surveys in contrast to about 20 percent in Kenya and Uganda. Since the percentage of workers with university-level education was about the same in all three countries, the gap is caused by the low percentage of Tanzanian workers with secondary and vocational education.

Despite these dispiriting statistics, firms do not invest much in improving workers' skills. Although enterprises in Tanzania were more likely to have formal training programs than in Uganda, they were less likely to have them than either Kenya or China. Enterprises without training programs were most likely to say that they were unable to afford formal training programs or that informal training was enough. Contrary to this belief, formal training appears to payoff in Tanzania. Total factor productivity (TFP) was 11 percent higher in the Tanzanian enterprises with formal training programs.

As well as being asked for quantitative information to estimate levels of productivity and competitiveness, firms were asked what they see as the biggest problems they face. Enterprises in Tanzania, including Zanzibar, were most likely to rate tax rates, electricity, interest rates, tax administration, corruption, access to finance, and macroeconomic instability as the most serious problems. As previously noted, exporters were also concerned about trade and customs regulations.

Although perceptions provide an interesting starting point for the analysis, it is more difficult to make cross-country comparisons based on perception-based data than with more quantitative evidence.⁴ For this reason, the survey also collected quantitative evidence on many areas of the investment climate.

This quantitative evidence, and evidence from other sources, suggests there is room for improvement in many areas. For example, although Tanzania performs well on most measures of governance (such as political stability, the rule of law, and regulatory quality), corruption appears to remain a problem. About 33 percent of enterprises that did business with the government said bribes are needed to secure government contracts and about 35 percent of enterprises said that bribes also are needed to move things forward in customs, taxes, licenses, and other government services.

Similarly, objective measures of power and financial sector performance also suggest that these are problems in Tanzania. Although the cost of power is not excessive compared to other countries in the region, reliability is a serious problem. The median enterprise in Tanzania reported losing 5 percent of production because of surges and outages in 2003. In comparison,

median firms in China and Uganda reported losing 0 percent of sales; firms in Kenya reported losing 5 percent of sales. Access to credit also appears to be worse than in Kenya or China.

CHAPTER 2: CHALLENGES THAT SMALL ISLAND ECONOMIES FACE

Over the past 40 years, many economists and development experts have claimed that small economies—and especially small island economies—face more serious development challenges than larger economies. A recent study that looked at economic growth and development in small states, including small island economies, found many examples of papers, conferences and seminars devoted to the problems these countries face (Easterly and Kraay, 2000). The authors noted that many featured titles included words such as ‘problems’, ‘vulnerabilities’, and ‘challenges’.

These papers suggest several reasons why small island economies might not perform as well economically as larger non-island economies. Many of these revolve around two issues—size and remoteness.⁵ Although some of the problems that they cause are macroeconomic, others might directly affect enterprise behavior, performance or structure. This section will discuss the ways in which size and remoteness affect economic performance and describe how these factors might affect enterprises in Zanzibar. It will also present evidence from the Zanzibar Enterprise Survey on these issues.

One way that size might affect economic performance is that small economies might be more vulnerable to economic shocks. Economies of scale and little diversity in natural resources prevent small economies from diversifying production across industries and sectors (Commonwealth Secretariat and World Bank Joint Task Force on Small States, 2000; Streeten, 1993). This makes them vulnerable to terms of trade shocks, and natural disasters that affect the entire economy, or demand shocks (for example, shocks that affect global tourism). Easterly and Kraay (2000) show that small economies are more vulnerable to such shocks than larger economies. Growth volatility and volatility of terms of trade are significantly higher for small economies.⁶

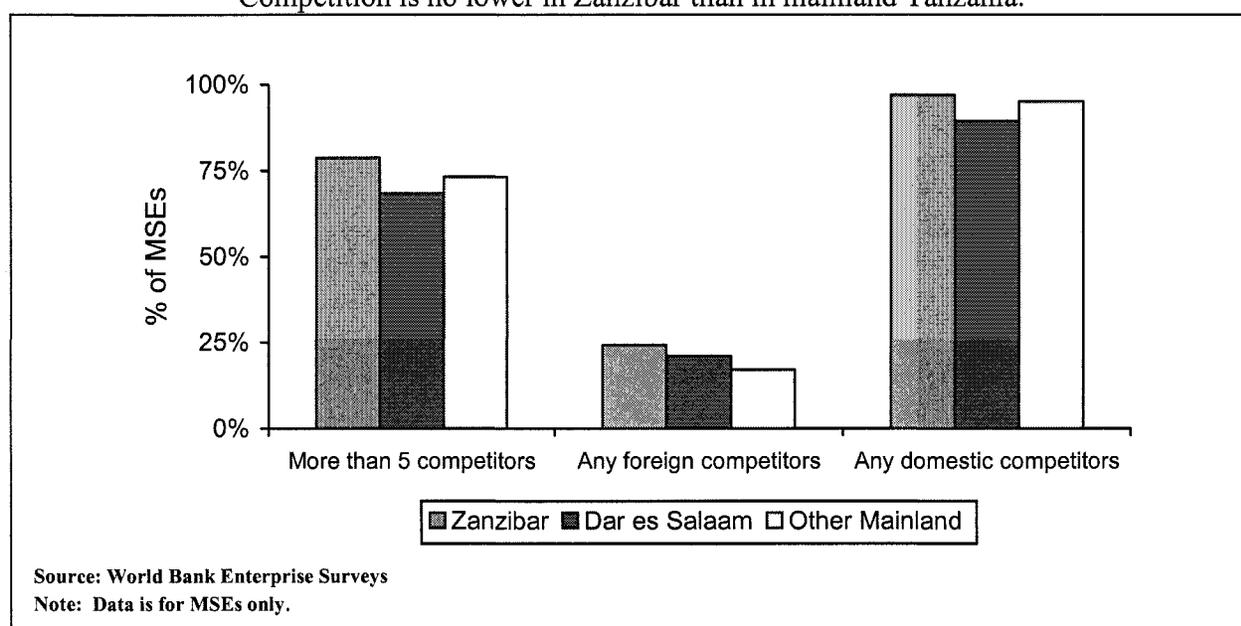
Zanzibar could be vulnerable in this respect. Cloves and clove products dominate the economy, earning about 70 percent of export earnings and employing more than 60 percent of the labor force (Zanzibar Investment Promotion Agency, 2004). Although this could be a problem, Zanzibar is not the only economy in Sub-Saharan Africa that faces this vulnerability. Many countries in the region export only a few primary products (Collier, 1998). A recent study noted that in the late 1990s, 39 of 47 of African countries depended on two primary commodities for over half of their export earnings (Morrissey and Filatotchev, 2000). As a result, most countries in the region—including larger economies—are susceptible to terms-of-trade shocks. Keeping this in mind, however, concentration does seem to be high in Zanzibar when compared to the Sub-Saharan Africa region. Diversifying into manufacturing, which makes up only about 5 percent of exports, would lessen Zanzibar’s vulnerability in this respect.

A second problem is that small size might restrict competition, especially in island economies where imports are more expensive. Because scale economies mean only a few domestic firms can operate in some sectors, it is possible that production will be highly concentrated in at least some economic sectors. This could lead to higher prices, lower quality, or less innovation. Because firms from mainland Tanzania, including Dar es Salaam, have

access to Zanzibar’s market, this might be a lesser concern in Zanzibar. Close to half of firms from Dar es Salaam sell some of their output in Zanzibar suggesting that this might be the case.

In practice, competition does not appear to be especially low in Zanzibar (see Figure 1). Firms from Zanzibar were more likely to say they had more than five competitors and that they faced competition from both domestic and foreign competitors than were firms on the mainland. They also report lower average local market shares than elsewhere in Tanzania (28 percent in Zanzibar, compared to 32 and 34 percent in Dar es Salaam and elsewhere in mainland Tanzania). Moreover, the differences between Zanzibar and elsewhere in Tanzania are not statistically significant. This provides little support for the idea that competition is low in Zanzibar.

Figure 1
Competition is no lower in Zanzibar than in mainland Tanzania.



Another problem small economies face is that they might be unable to reach economies of scale in production of public and private goods. For public goods, many services might be subject to indivisibilities that make them costly to provide in small countries (Alesina and Spoloare, 1997). Consistent with this, the median wage bill for the public sector was about 10 percent higher in small developing countries than in larger developing countries (Commonwealth Secretariat and World Bank Joint Task Force on Small States, 2000). Because public administration is more expensive, this can lower the quality or quantity of public goods small countries provide.⁷ For example, some studies suggest it is more costly to provide education and training in small countries and that it might not even be financially feasible to provide some specialized or higher level education (Commonwealth Secretariat and World Bank Joint Task Force on Small States, 2000).

Although it seems reasonable that economies of scale might raise the cost of providing public services such as health care or education, there is little empirical data to support the idea that these services are worse in small economies. In fact, some studies find that health and

education outcomes appear to be better, not worse, in small economies. On average, child mortality rates are lower, life expectancy higher and school enrollment rates larger in small economies than in similar large economies (Dommen, 1980; Easterly and Kraay, 2000). One possible explanation is that voters may be more willing to provide local goods, such as public health and education, in small economies if they are less diverse than larger economies (Alesina and others, 1999). Zanzibar also appears to perform well in this respect. Literacy rates are slightly higher and infant and child mortality are slightly lower in Zanzibar than in mainland Tanzania (Revolutionary Government of Zanzibar, 2006)

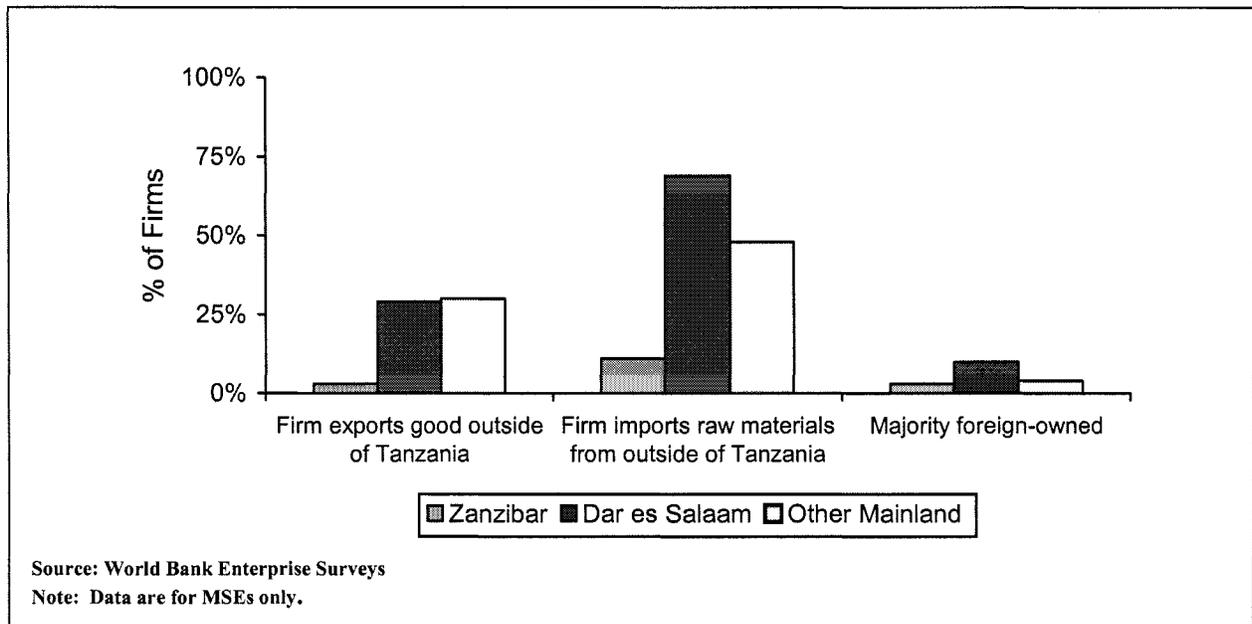
Difficulties reaching scale economies might also affect private production. With only small domestic markets to trade in, firms might have to produce less than they would ideally unless they are able to enter export markets. Further, it will also be difficult for countries to develop clusters of firms in single industries—especially without making the country vulnerable to external shocks. For example, Streeten (1993) notes that “[f]ew small countries can afford an aircraft industry, integrated motor car production, or the production of heavy railway stock.” To the extent that this is the case, it suggests small economies must generally integrate themselves into international supply chains in at least some industries.

Although the World Bank Enterprise Surveys for Tanzania and Zanzibar over-sampled large firms, the companies surveyed in Zanzibar were small compared to mainland firms. Most had fewer than 50 employees (see Table 1). The difference in samples reflects differences in the overall population of firms on the mainland and in Zanzibar. Although many enterprises in both Zanzibar and mainland Tanzania are microenterprises with fewer than 10 employees, there are fewer medium-sized or large firms with over 50 employees in Zanzibar. In the Industrial Census of 2001, only 2 enterprises in Zanzibar had more than 100 employees (about 2 percent of enterprises with more than 10 employees) and none had more than 200 employees. In comparison, in 2003-5, there were 88 firms in Dar es Salaam with more than 100 employees (20 percent of firms with more than 10 employees) and 17 with more than 500 employees (4 percent).⁸

Because firms in Zanzibar are small, they might behave differently than firms on the mainland. First, small firms are less likely to export than larger firms.⁹ The large fixed costs associated with setting up an international distribution or service network make exporting easier for large enterprises. Further, large enterprises have better access to finance than small enterprises—especially in developing countries—making it easier for them to finance these costs.

Evidence from the World Bank Enterprise Survey suggests that firms from Zanzibar are less well integrated with the global economy than firms from mainland Tanzania (see Figure 2). Only one firm in Zanzibar reported having either direct or indirect exports outside Tanzania. Interestingly, however, this does not seem to be only because firms from Zanzibar are smaller. None of the MSEs from Zanzibar exported outside Tanzania. In comparison, 12 percent of MSEs from mainland Tanzania exported some part of their production.

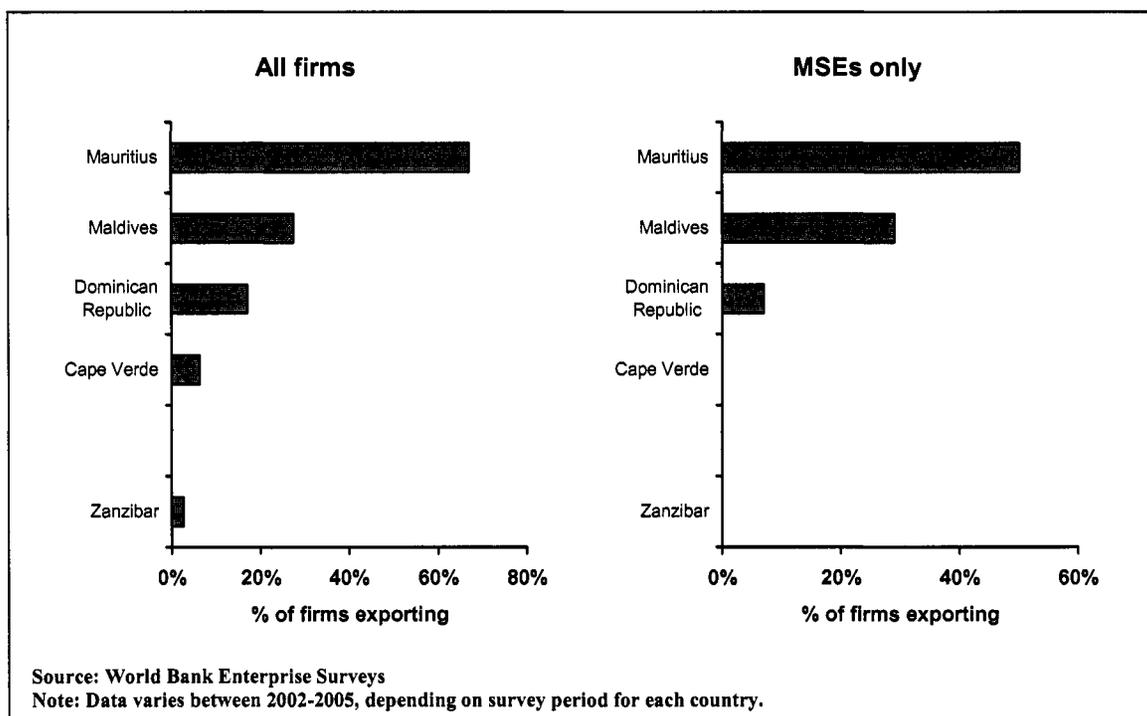
Figure 2
Firms in Zanzibar are less well integrated with the global economy than firms from mainland Tanzania.



One possible reason firms from Zanzibar do not export, even after controlling for size, is that Zanzibar does not border other Sub-Saharan Africa countries. Since African port facilities and procedures are often slow and overloaded, it is difficult to export overseas (Clarke, 2005). Perhaps because of this, most manufacturing firms in mainland countries that export do so to neighboring countries. For example, manufacturing firms in the World Bank Enterprise Survey for mainland Tanzania were more likely to export to Kenya and Malawi than they were to any other countries. Since Zanzibar does not have land borders, firms in Zanzibar might find it especially difficult to export.

If this were the case, we might expect to see similar patterns in other small island economies, especially those in Sub-Saharan Africa. Although many studies have shown that small economies, including small island economies, are open to trade, exports are often concentrated in a few industries (Commonwealth Secretariat and World Bank Joint Task Force on Small States, 2000). To see if Zanzibar looks like other small island economies, the percent of firms exporting and exports as percent of sales are shown for firms in Zanzibar and firms in several other small island economies where World Bank Enterprise Surveys were done (see Figure 3). Although firms in some island economies, such as Cape Verde, do not export much, firms in other countries, such as Mauritius, show success in this respect (see box 1). This suggests that Zanzibar does perform worse in export capacity than do other small island economies.

Figure 3: Firms in Zanzibar are less likely to export than firms in other island economies.



A final possibility is that the low share of exports might be because firms only 'export' to mainland Tanzania. As defined in the World Bank Enterprise Survey, exports only refer to those outside Tanzania. Using this methodology, sales Zanzibar firms make on the mainland are classified as domestic sales. Although the survey questionnaire did not include questions that allow us to identify sales in mainland Tanzania as distinct from sales in Zanzibar, results from other surveys suggest this fact might explain, in part, differences between Zanzibar and other small island economies. In a survey conducted in 2006, about 18 percent of firms in Zanzibar export to the mainland. This would make Zanzibar less of an outlier compared to other island economies with respect to exporting—although it would still perform less well than the best performing economies such as Mauritius.

Box 1: Mauritius' Success in Exporting

Mauritius once depended on a few agricultural exports for most of its foreign exchange earnings. Even though Mauritius is a small, remote island, Mauritius now has a large manufacturing sector, especially in the textiles and clothing sectors. Manufacturing sector growth in Mauritius is often associated with its export-processing zone (EPZ) established in the early 1970s using Taiwan, China as a model. The fiscal incentives to investors, such as tax holidays or duty drawbacks, are common to other countries where EPZs exist. But unlike other EPZs, over 50 percent of investment came from local entrepreneurs. Rather than creating economic enclaves with plants set up by foreign multinational corporations with little local spillover effects, the EPZ in Mauritius has driven local manufacturing sector growth with forward and backward linkages.

The EPZ started showing positive results in the early 1980s. In 1971, there were only nine EPZ firms. By 2000, there were over 500. Employment in the EPZ also grew, from 644 workers in 1971 to over 90,000 in 2000. This gave sugar factory owners an alternative activity. This, in turn, carried them through the agricultural crisis in the late 1970s. It also built confidence and raised wages in other sectors of the economy and brought foreign investors, global business linkages, and new ideas into the Mauritius. These factors allowed Mauritians to modernize and to build investor confidence in many sectors, especially tourism.

Source: Regional Program on Enterprise Development (2007)

Zanzibar performs better after taking exports to mainland Tanzania into account. But firms from Zanzibar are still less likely to export to mainland Tanzania than firms from mainland Tanzania are to Zanzibar. About 44 and 39 percent of firms from Dar es Salaam and elsewhere on mainland Tanzania sell some of their output in Zanzibar. This is considerably higher than the 18 percent of firms from Zanzibar that sell goods on the mainland.

So what can Zanzibar do to encourage manufacturing exports? Some things related to improved firm productivity and competitiveness are discussed in detail in the next Chapter. Other things, such as capitalizing on informal networks that Zanzibari's have in other regions, for example in the Middle East. Trade and customs regulations, which are a serious problem in Tanzania overall, could also be improved (Regional Program on Enterprise Development, 2004).

Finally, the Mauritian experience might suggest that Zanzibar's exports could be increased by setting up new Export Processing Zones (EPZs), or expand existing ones. Although EPZs have sometimes been successful, such as Mauritius and Madagascar, they have not always performed well in Africa. Most zones are performing below expectations and some have failed (for example, see the description of Senegal in Annex 1). Historically the main reasons for failure were inadequate provision of infrastructure services, lack of a market strategy, a public rather than a public-private partnership approach, and an inadequate institutional framework in these zones. This strongly suggests that merely setting up the zones is not enough.

A second major issue that affects the economic performance of many small island economies is remoteness. One way remoteness might affect economic performance and firm behavior is the effect distance has on transportation costs. Since small island economies are far from major sea and air routes, and all imported goods must be shipped or flown in, it can be

costly to import and export goods to small island economies. Problems associated with physical remoteness are made worse by small economic size. Because small countries often need small shipments, bulk cargo shipments must be broken into smaller parts. Small, remote islands also are vulnerable to market exploitation by freight carriers and airline companies so as to further push up transport costs. Consistent with the view that transportation costs are a problem, recent studies found that the ratio of insurance and freight costs to merchandise imports is high in small island economies (Atkins and others, 2000; Briguglio, 1995). The high cost of transportation will raise the price of imported goods, reduce the purchasing power of consumers and raise market power for domestic firms in these economies.

Zanzibar is less remote than many other islands (for example, many Pacific islands, Cape Verde or Mauritius). It is found about 35 miles from the coast of the mainland and is only about 45 miles from Dar es Salaam. Although, as noted earlier, the poor performance of ports might make importing and exporting more difficult, especially in Sub-Saharan Africa, it is not as remote as some other small islands. In this respect, remoteness is less of an issue in Zanzibar than for other island economies.

Although the World Bank Enterprise Survey does not provide direct information on transportation costs, it does provide some indirect information. Firms are asked about delays in getting shipments of inputs, damage during shipping, and about number of days of inventory of important inputs. Briguglio (1995) argues that firms in remote locations keep larger inventories to avoid delays if they run out.

The indirect measures of transportation costs do not suggest that transportation problems are larger in Zanzibar than in mainland Tanzania. Firms from Zanzibar report slightly higher average losses because of transportation delays than firms on the mainland (4.3 percent of sales compared to 3.6 percent on the mainland), but the difference is not statistically significant. They also report lower average losses because of breakage, theft, and spoilage during transportation (0.7 percent of the value of cargo compared to 1.6 percent on the mainland), and report keeping, lower inventories of needed inputs (median of 7 days compared to median of 30 days). Only the second difference is statistically significant.

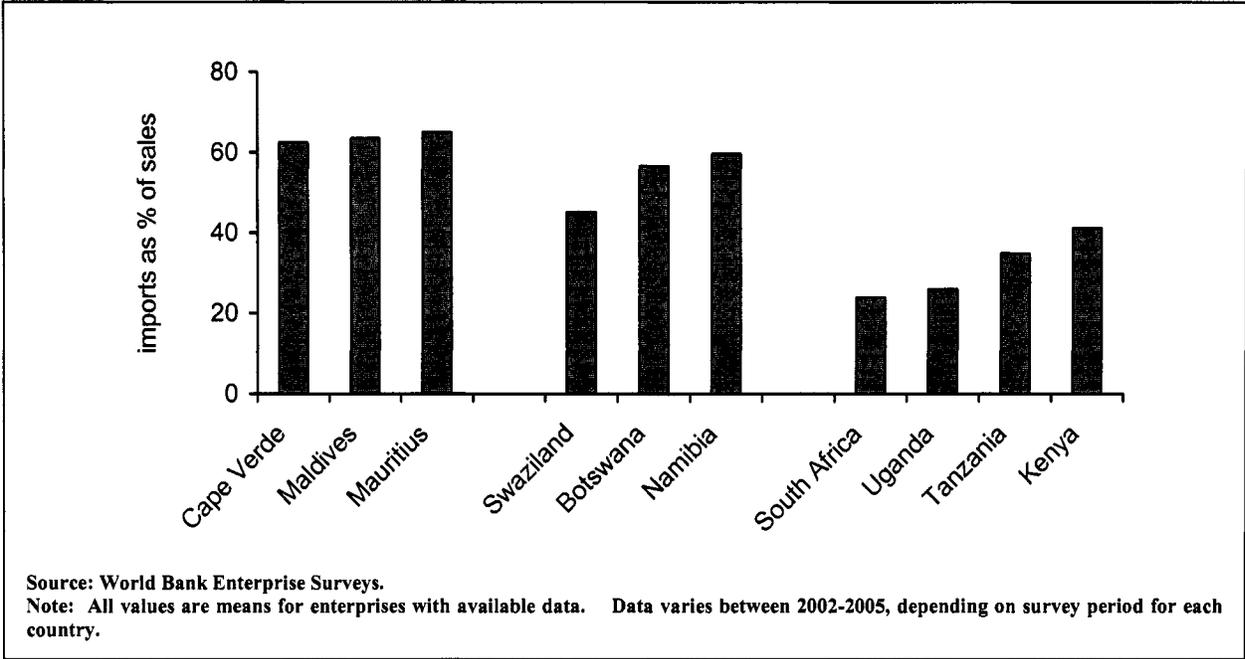
Size and remoteness interact in important ways. Because the small size of the domestic economy makes it difficult to find domestic producers, firms are often more dependent on imported inputs than firms in larger countries. That is, even though the high cost of transportation raises the price of inputs, firms often need imported inputs because of costly or unavailable domestic substitutes. The high cost of imported inputs will, in turn, affect firm performance by raising costs and, in so doing, make it more difficult for them to export.

Despite high transportation costs, firms in small island economies are highly dependent on imported inputs. For example, firms from Cape Verde, Mauritius and the Seychelles are all heavily dependent on imported inputs—as are firms in small economies on the mainland such as Swaziland, Botswana and Namibia—compared to larger economies on the mainland (see Figure 4).

Unfortunately, the Zanzibar Enterprise Survey does not provide similar information. Although the survey asks about use of imported inputs from outside Tanzania, it does not

separate inputs from mainland Tanzania from inputs from Zanzibar. As a result, it is unclear whether domestic goods are from the mainland. Other evidence, however, is consistent with this idea that imported inputs are important. For example, imports are about 80 percent of its basic requirements, including goods brought in from mainland Tanzania, Zanzibar (Zanzibar Investment Promotion Agency, 2004).

Figure 4: Firms in small economies, including small island economies, are heavily dependent upon imported inputs



So what is the net impact of size and remoteness on macroeconomic performance? Although most theoretical studies suggest that small economies face more serious challenges than larger economies, recent empirical work has challenged this pessimistic view. Easterly and Kraay (2000) find that small economies have higher per capita GDP, have better health and education outcomes, and are more productive than larger economies. They also find that after controlling for other factors, small economies grow faster. Earlier studies found weaker results, i.e., that small economies grew at about the same pace as larger economies. Armstrong and others (1998) find neither small states nor islands grow more slowly than large and non-island economies. Milner and West (1993) find the same.

The mixed empirical results can be explained in various ways. Most notably, several authors noted the benefits of being small. Easterly and Kraay (2000) find that small countries benefit more from being more open to trade than they lose because of macroeconomic instability. Armstrong and others (1998) suggest other explanations, including that social cohesion might be enhanced and that flexibility in political decision-making might be higher.

In summary, although Zanzibar’s small size appears to affect firm characteristics and behavior in some ways (for example, size and internationalization), the effect does not appear

large in other ways (most notably, transport costs and competition). Moreover, it is not clear that Zanzibar's size will affect its economic performance. Although the literature on small island economies has focused largely on problems and vulnerabilities of small islands, there is little empirical evidence that small islands perform worse in economic terms than other countries.

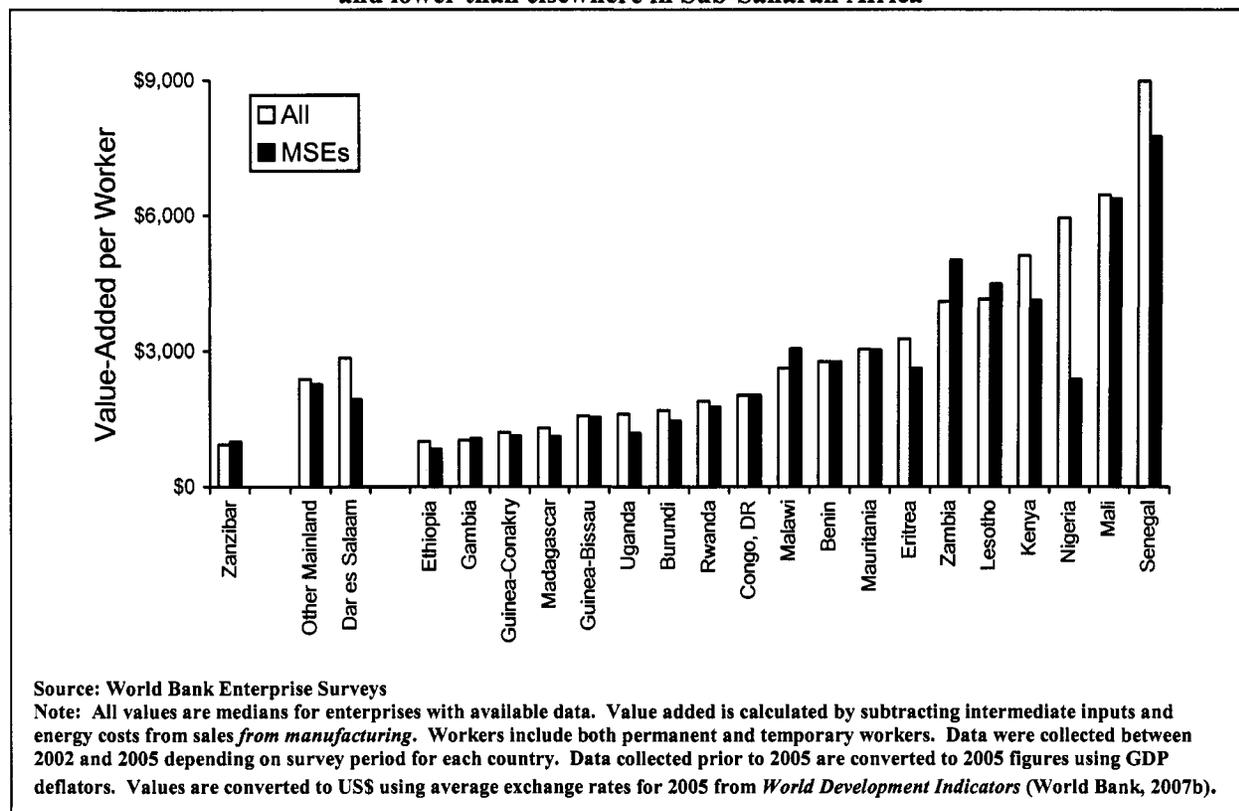
CHAPTER 3: FIRM PERFORMANCE IN ZANZIBAR

The previous chapter noted that firms in Zanzibar were smaller and less well integrated into international markets than firms in mainland Tanzania. A natural question therefore is whether this affects firm performance. This chapter addresses this issue, comparing firm performance in Zanzibar with firm performance in mainland Tanzania, Kenya and Uganda, and other low-income economies in Sub-Saharan Africa.

I. LABOR PRODUCTIVITY

Labor productivity, a basic measure of firm productivity, is the output a firm produces less the cost of raw materials (such as iron or wood) and intermediate inputs (such as engine parts or textiles) divided by the number of workers used to produce the output. Labor productivity is higher in firms that produce more output with fewer raw materials and fewer workers. Differences in labor productivity can be the result of differences in technology, organizational structure, worker skills, management style and ability, or in differences in the capital available to a firm. Because the labor productivity measurement does not take capital (i.e., machinery and equipment) into account, it will be higher in firms that use capital in place of labor (i.e., firms that are capital intensive).

Figure 5: Labor productivity is lower on average in Zanzibar than it is in other parts of Tanzania and lower than elsewhere in Sub-Saharan Africa

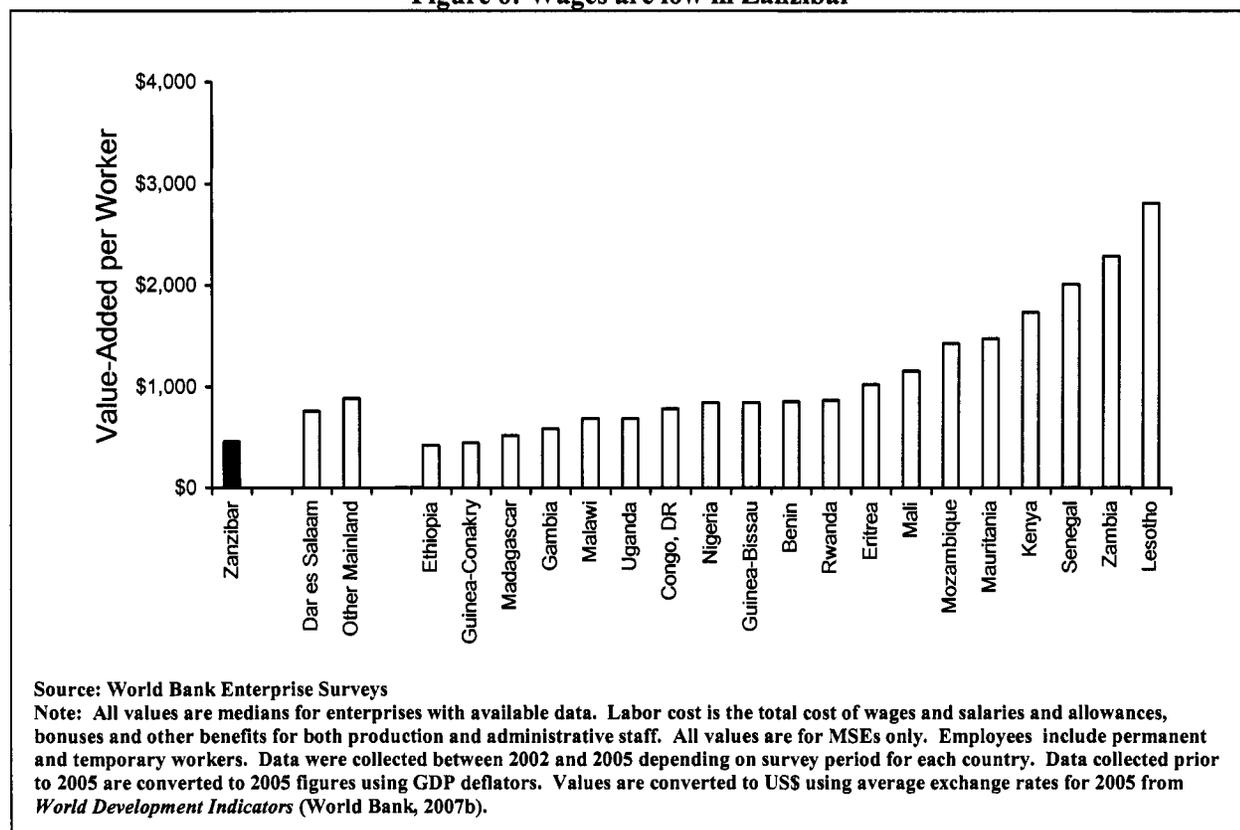


Labor productivity (value-added per worker) is lower for the median firm in Zanzibar than for firms elsewhere in mainland Tanzania (see Figure 1). Firms in Zanzibar produce less than US\$1000 (in 2005 US\$) of value-added per worker, compared to \$2900 per worker in Dar es Salaam and \$2400 per worker elsewhere in mainland Tanzania. This is also lower than value added per worker in other low-income Sub-Saharan African countries. Although labor productivity is only slightly higher in a few countries (Ethiopia, Gambia, Guinea-Conakry), in many countries it is over two times as high; in the most productive low income countries such as Kenya and Senegal it can be more than four times as high as in Zanzibar.

One reason for Zanzibar’s low labor productivity is that firms in Zanzibar tend to be smaller than firms in mainland Tanzania and elsewhere in Africa. Among the countries in Figure 1, labor productivity is lower among MSEs than it is for larger enterprises in nearly all the countries for which data are available.

After controlling for this by only looking at micro and small enterprises (MSEs) with less than 20 employees, the difference between Zanzibar and elsewhere in mainland Tanzania is less stark. Median labor productivity is about \$1000 per worker in Zanzibar, \$1930 in Dar es Salaam and \$2300 elsewhere in mainland Tanzania. Labor productivity for MSEs is higher in Zanzibar than in Ethiopia, similar to Guinea-Conakry, the Gambia, Madagascar and Uganda, but it remains significantly lower than in better performing African countries such as Kenya and Senegal.

Figure 6: Wages are low in Zanzibar



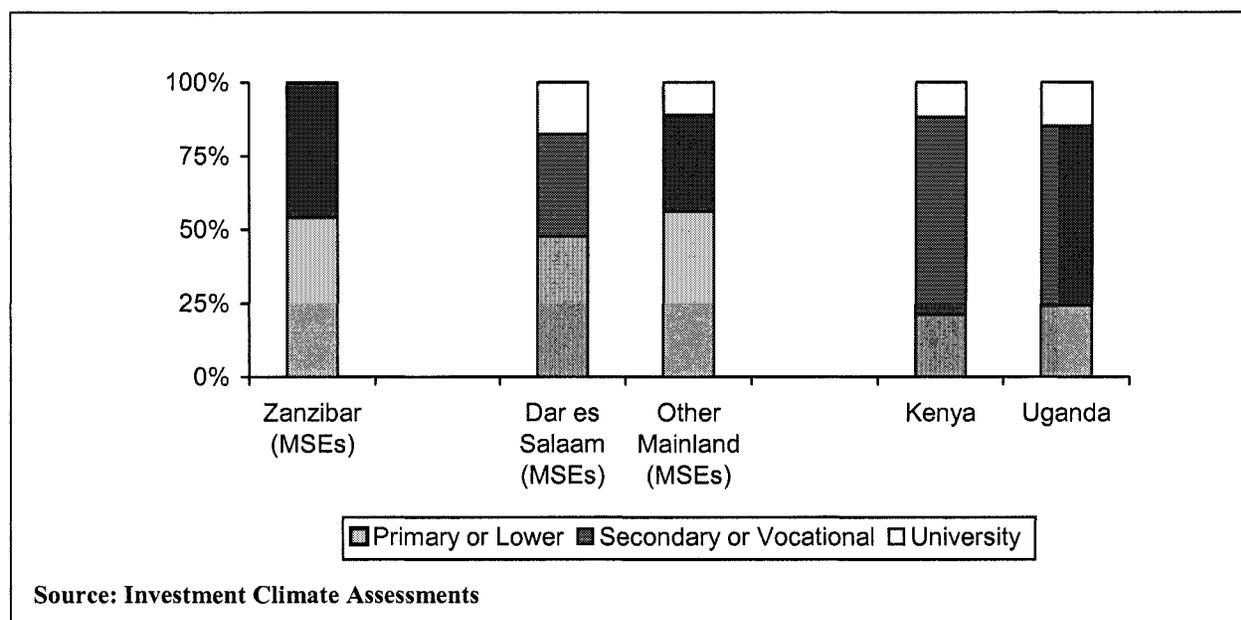
Given that labor productivity is so low in Zanzibar—even after controlling for firm size—a natural question is how firms manage to stay in business despite their low productivity. An important factor is that wages are also low—about 40 percent lower for MSEs in Zanzibar than they are for MSEs in Dar es Salaam.

Wages also are low compared to other low-income countries in Sub-Saharan Africa. This is consistent with qualitative evidence from a small survey of foreign investors in Zanzibar that found that wages were not an inhibiting factor for investment and that they were low compared to mainland Tanzania (Office of Chief Government Statistician, 2005). Although labor costs in mainland Tanzania are broadly comparable with other low-income countries in Sub-Saharan Africa, labor costs are lower in Zanzibar than in most other countries (see Figure 6), especially the most productive African countries. The strong cross-country correlation, even among low-income countries, between wages and firm productivity confirm the link between labor productivity and wages (0.75).

Why are labor productivity and wages and salaries lower in Zanzibar than they are elsewhere in Tanzania and in other African countries? One reason might be that workers' educational attainment is low—even compared to mainland Tanzania. Zanzibar's Growth Strategy notes that in the entire workforce (i.e., not only among workers in MSEs), close to two-thirds of workers are categorized as unskilled workers and that few workers have university level education (Ministry of Finance and Economic Affairs, 2006).

Educational attainment also seems to be low for the enterprises in the World Bank Enterprise Survey. About 18 percent of MSE employees in Dar es Salaam and 11 percent of MSE employees elsewhere in Tanzania have a tertiary education, compared to only 0.2 percent have the same in Zanzibar. This is also lower than in Kenya or Uganda—where about 12 percent of MSE employees have a tertiary education .

Figure 7: Educational attainment is lower in Zanzibar than on the mainland.

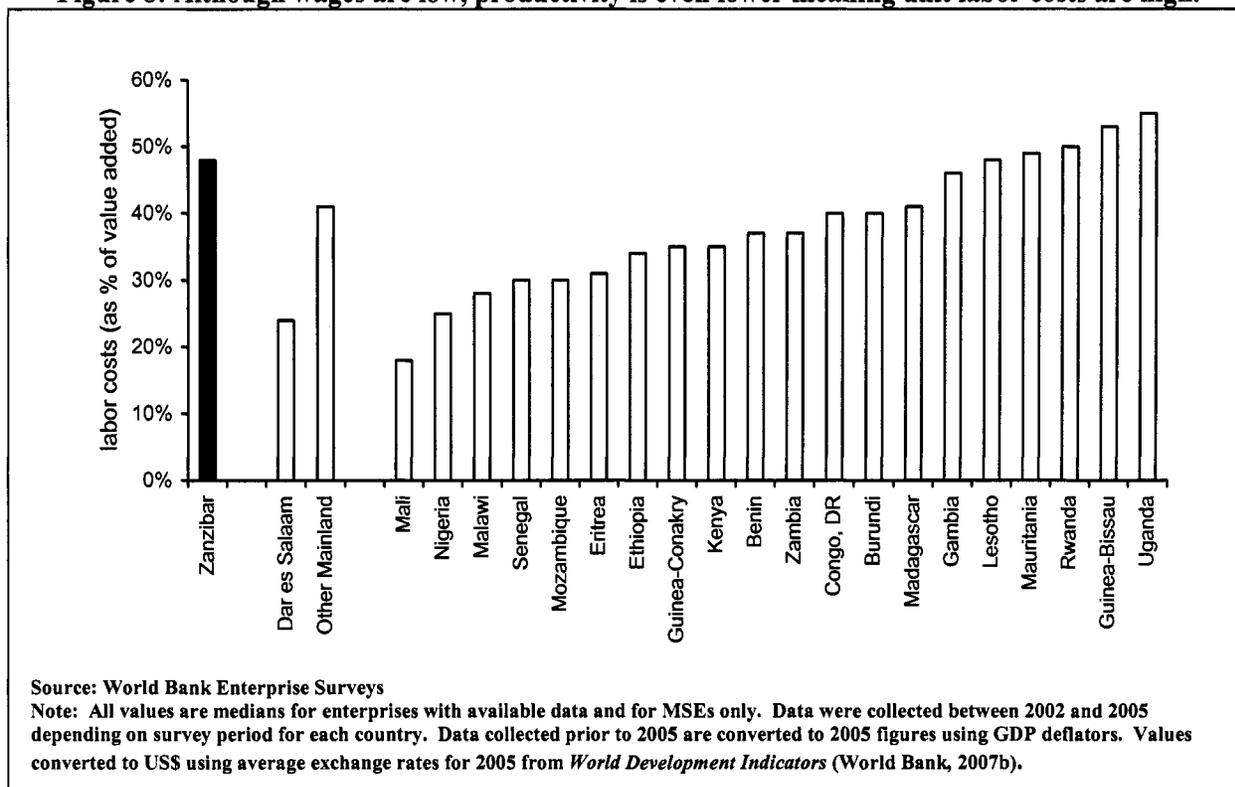


The difference between Zanzibar and mainland Tanzania is much smaller for primary education—about 54 percent of workers in MSEs in Zanzibar have a primary education or less, compared to 56 percent in other parts of mainland Tanzania and 47 percent in Dar es Salaam. As noted earlier, far fewer workers in Kenya or Uganda – where most workers have some secondary or vocational training--, have solely a primary education. This suggests the main difference between Zanzibar and mainland Tanzania is in tertiary education—fewer workers progress from secondary to tertiary levels in Zanzibar. But the main difference with Kenya and Uganda is at the level of primary rather than secondary education.

What is the net impact of this on firm competitiveness? Because both wages and productivity are low in Zanzibar, likely as a result of low education, firms could potentially remain competitive despite having lower labor productivity than firms in other low income economies.

Unit labor cost (labor cost as a percent of value-added) is a measure of labor costs that measures the net impact of labor costs on competitiveness by taking into account differences in productivity. Unit labor cost is higher when higher labor costs are not fully reflected in higher productivity. When a firm’s unit labor cost is high (i.e., when labor costs are high compared to productivity), it will find it more difficult to compete on international markets. Although unit labor cost is not the only factor that affects competitiveness—for example, it does not take into account the cost of capital or capital intensity—it is a better measure of competitiveness than labor costs alone.

Figure 8: Although wages are low, productivity is even lower meaning unit labor costs are high.



In this case, low wages do not appear to make up for low productivity. Unit labor costs, which are equal to 48 percent, are higher for MSEs in Zanzibar than for similar firms in Dar es Salaam or mainland Tanzania (see Figure 8). It is also high compared to most other countries in Sub-Saharan Africa, where unit labor costs are usually between 20 and 30 percent. Although lower than in the countries with the highest unit labor costs, such as Uganda and Guinea-Bissau, this suggests that firms in Zanzibar will find it difficult to compete on international markets. The extent to which this is the case will depend in part on how capital intensive firms in Zanzibar are.

II. CAPITAL PRODUCTIVITY

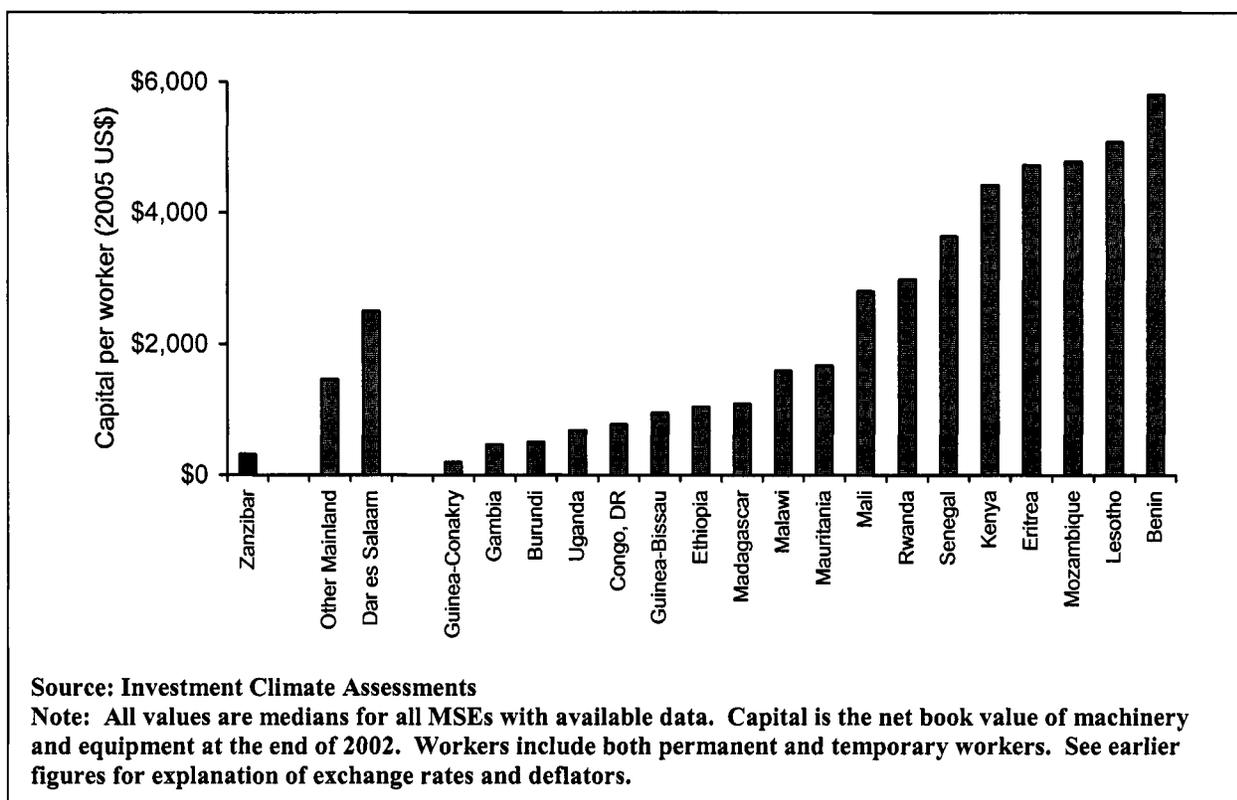
The low educational attainment of workers in MSEs in Zanzibar may partially explain why labor productivity is low in Zanzibar. But it is not the only reason. In addition to worker education, labor productivity is affected also by the capital a firm has. Labor productivity is usually higher for capital intensive firms and industries.

This fact suggests it is important to also look at capital use. Although measures of capital intensity provide some context for the previous results, it is more difficult to measure capital than it is to measure labor (for example, it is easy to measure wages and number of workers). This is because most machinery is long-lived, providing services over a long period. As a result, it is difficult to measure its contribution to output in one year. As capital ages, it becomes less productive (i.e., it depreciates in value) even before it becomes obsolete or stops working. Although accounting rules for depreciating machinery and equipment exist, these often bear little resemblance to true rates of economic depreciation—and can vary across countries. The book value of capital (i.e., the value of capital in company accounts) is therefore not an especially accurate measure of the value of capital—especially for small firms that often do not keep detailed audited accounts.

As an alternate measure of the value of capital, recent World Bank Enterprise Surveys have asked firm managers how much it would cost to replace their equipment in its current condition. Although this is a useful measure of capital—and provides another check on results—in practice, markets for used capital are thin. Firm managers might not know the true value of their capital—especially if the equipment is old or if they have not purchased similar equipment in years. This is the measure of capital that this assessment focuses on—although results are qualitatively similar when looking at book value.

Low capital use might also explain the low productivity of firms in Zanzibar. Capital intensity, capital per worker, is lower for the median MSE in Zanzibar (about US \$300 per worker) than in Dar es Salaam (\$2500) or elsewhere in mainland Tanzania (about \$1500). This is also low compared to other countries in Africa—although not the lowest. For example, firms in Uganda have about \$700 of capital per worker and firms in Senegal and Kenya have significantly more capital (over \$3500 per worker).

Figure 9: Micro and Small Enterprises in Zanzibar have less capital per worker than similar enterprises in mainland Tanzania and elsewhere in Africa



Although capital per worker gives an idea about how capital intensive firms are, it does not provide much information on how productively that capital is being used. Capital productivity, the ratio of value added to the net book value of machinery and equipment, measures how productively firms use capital. It is analogous for capital to (the inverse of) unit labor costs for workers. Capital productivity is higher in firms that produce a lot with little machinery and equipment. This could be because the firm is more efficient or it could be because the firm uses a labor intensive production technology (i.e., relies heavily on labor to produce their output).

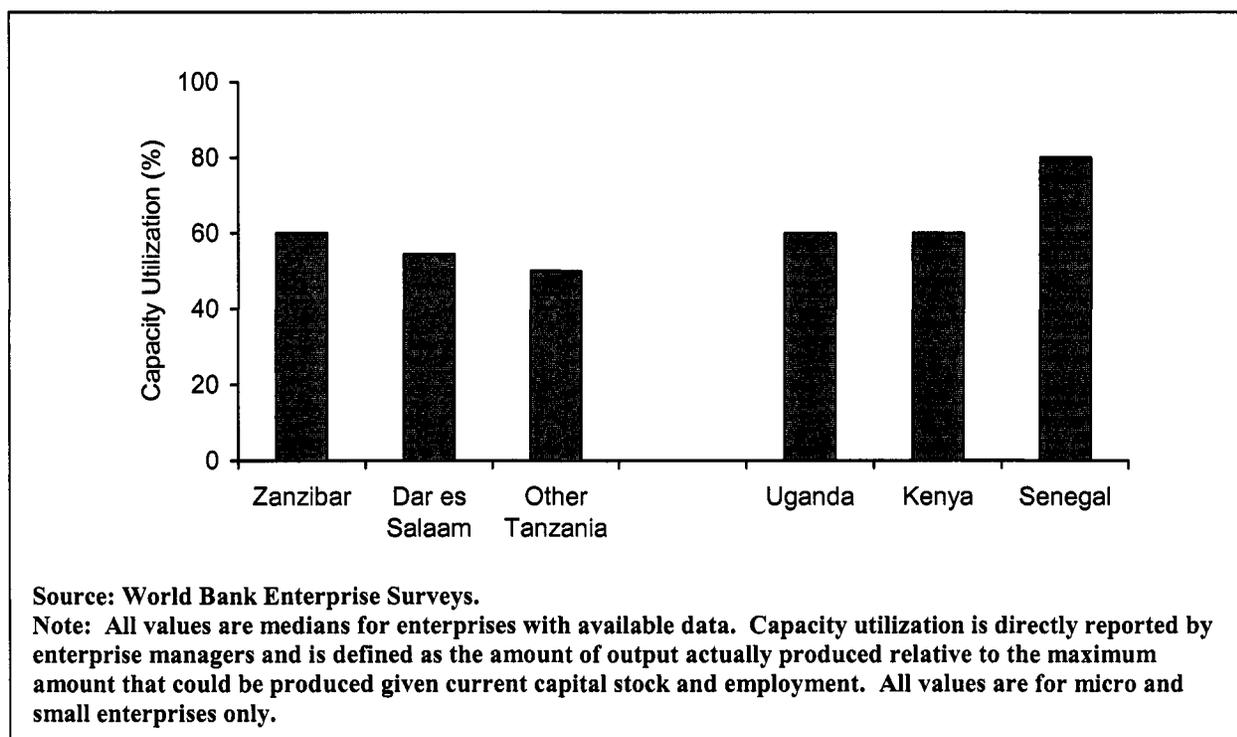
In contrast to labor productivity, which measures the value-added per worker, capital productivity (value added over capital) is high in Zanzibar. The ratio of value added to capital is about 180 percent in Zanzibar, significantly higher than in Dar es Salaam (90 percent) and other parts of Tanzania (100 percent). It is also significantly higher than in Kenya or Senegal—two countries that use capital intensively—but slightly lower than in Uganda, another country with modest capital per worker. Given that the median firm in Zanzibar has little capital, it is not surprising that capital productivity is high.

III. CAPACITY UTILIZATION

Another reason why labor productivity might be low in Zanzibar is that firms may have much unused capacity. This, however, does not seem to be the case. As part of the World Bank

Enterprise Survey, enterprise managers were asked to estimate capacity utilization in their firm—how large their actual production was compared to the maximum amount that they could have been produced with the capital and workers that they employed at the time. The average MSE in Zanzibar reported that its capacity utilization was about 60 percent (see Figure 10). This is slightly higher than elsewhere in Tanzania—about 55 percent and 50 percent for Dar es Salaam and other mainland locations. But it is still lower than in more successful low-income economies in Africa, such as Senegal (70 percent) and other successful economies such as China (70 percent).

Figure 10: Capacity Utilization is higher in Zanzibar than elsewhere in Africa and in most middle income countries—but lags behind the most productive regions in China.



IV. TOTAL FACTOR PRODUCTIVITY

Although the results presented in the previous subsection provide useful measures of performance and competitiveness, they have some drawbacks. The main problem is that when considered separately, labor and capital productivity can present incomplete, and sometimes contradictory, evidence. For example, in Zanzibar labor productivity is low, while capital productivity is high. Both of these are due, at least in part to the fact that firms are labor intensive.

Total factor productivity (TFP) avoids some of these problems by taking capital and labor use into account simultaneously. Differences in total factor productivity are the result of differences in things other than capital or labor. For example, differences might be because of differences in firm organization, differences in management efficiency, or differences in worker skills or education. To the extent that differences in technology are not embedded in the

machinery and equipment that the firm uses, differences in total factor productivity can also account for this.

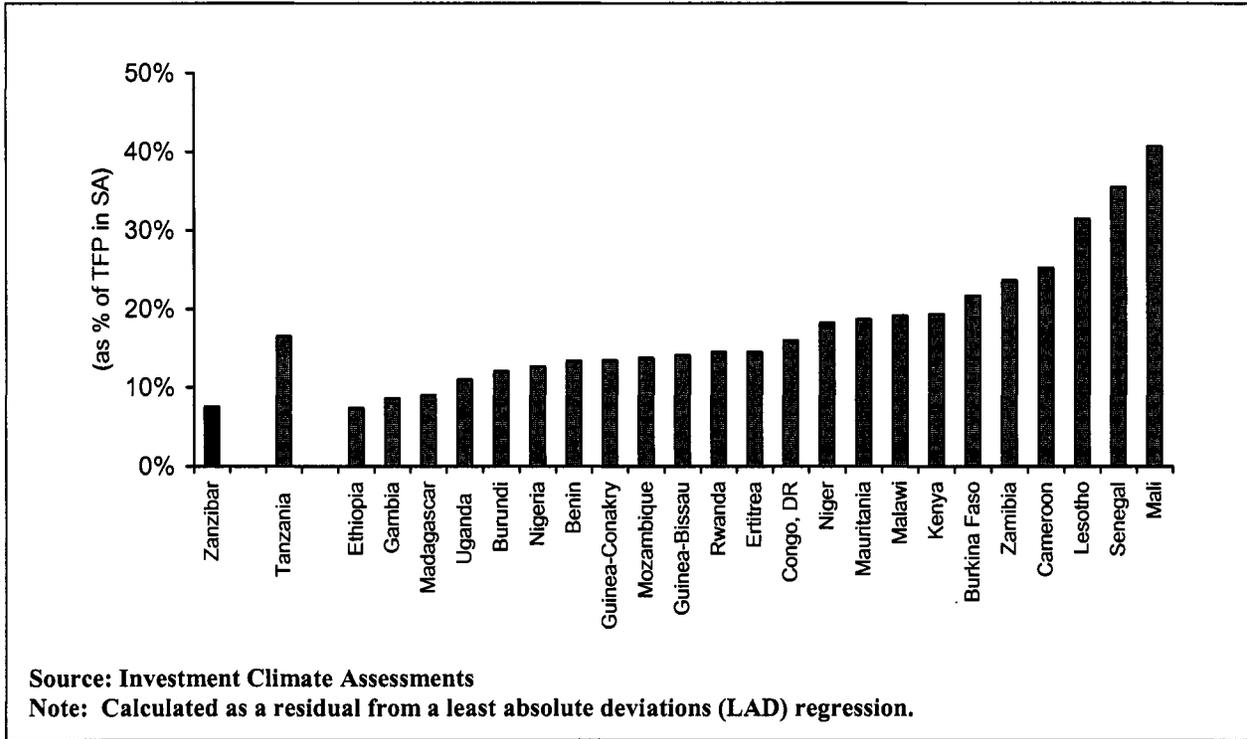
Besides taking capital and labor use into account, TFP has several other advantages over the other measures of firm performance presented in the previous section. Most importantly, TFP is calculated in a regression framework, therefore it is possible to control for many things during calculations. For example, when comparing average TFP across countries it is possible to control for differences in sector composition.

Some problems, however, remain.

1. As with labor productivity, labor costs per worker, capital per worker and other measures of firm performance denominated in US dollars, cross-country comparisons of TFP are vulnerable to exchange rate fluctuations. If the exchange rate is overvalued compared to its long-run equilibrium then TFP might look artificially low. Measures that are ratios, such as capital productivity or unit labor costs, avoid this problem.
2. As discussed earlier, capital is more difficult to measure than labor for theoretical and practical reasons. Since TFP depends on measurement of capital, it will be mismeasured when capital is mismeasured.
3. Because estimates are calculated in a regression framework, it is less clear than the measures in the previous subsections. One issue is that estimates of TFP for groups of firms do not have natural units. For cross country comparisons, TFP is shown as % of TFP in South Africa—one of the most productive countries in Africa. A second issue is that estimates can depend up estimation method (for example, ordinary least squares, frontier estimation, or least absolute deviations (LAD) estimation). In practice, however, the results in this section do not appear to be highly sensitive to different estimation techniques.

Total factor productivity is low in Zanzibar, suggesting that the low labor productivity is not simply the result of low capital intensity, size or sector. This suggests that other factors are playing a role (for example, low capacity utilization or low education and skills among workers). Notably, total factor productivity is significantly lower than in mainland Tanzania.

Figure 11: Total Factor productivity is also low in Zanzibar



CHAPTER 4: THE INVESTMENT CLIMATE IN ZANZIBAR

Labor and total factor productivity are lower in Zanzibar than elsewhere in Tanzania and than in most other low-income countries in Sub-Saharan Africa. Further, firms in Zanzibar are far less productive than firms in the most productive low-income economies in Africa (e.g., Kenya and Senegal) or in the fastest growing low-income countries such as China. Moreover, wages remain low in Zanzibar even in comparison with elsewhere in Tanzania.¹⁰ If firms were able to improve their productivity, they would be able to increase wages and salaries while increasing competitiveness in international markets.

Recent work shows how steps to improve the investment climate can result in increased firm productivity and improved firm performance.¹¹ Firms in Africa appear to be especially disadvantaged in this respect; investment climate problems mean that indirect costs are far higher for firms in Africa than for firms in other countries and their productivity is consequently lower.¹²

As noted earlier, this chapter focuses on areas of the investment climate in Zanzibar that are different from mainland Tanzania. The results for Tanzania as a whole are discussed briefly in Chapter 2 and in more detail in Regional Program on Enterprise Development (2004)

I. FIRMS PERCEPTIONS ABOUT THE INVESTMENT CLIMATE IN ZANZIBAR

So what are the most significant investment climate problems in Zanzibar? The World Bank Enterprise Surveys ask enterprise managers what they rate as the greatest constraints on enterprise development and growth. Although perception-based measures have several well-known problems, they provide a useful starting place for analyses of the investment climate.¹³ Throughout this report, the perception-based data are supplemented with objective indicators of the investment climate to ensure robustness.

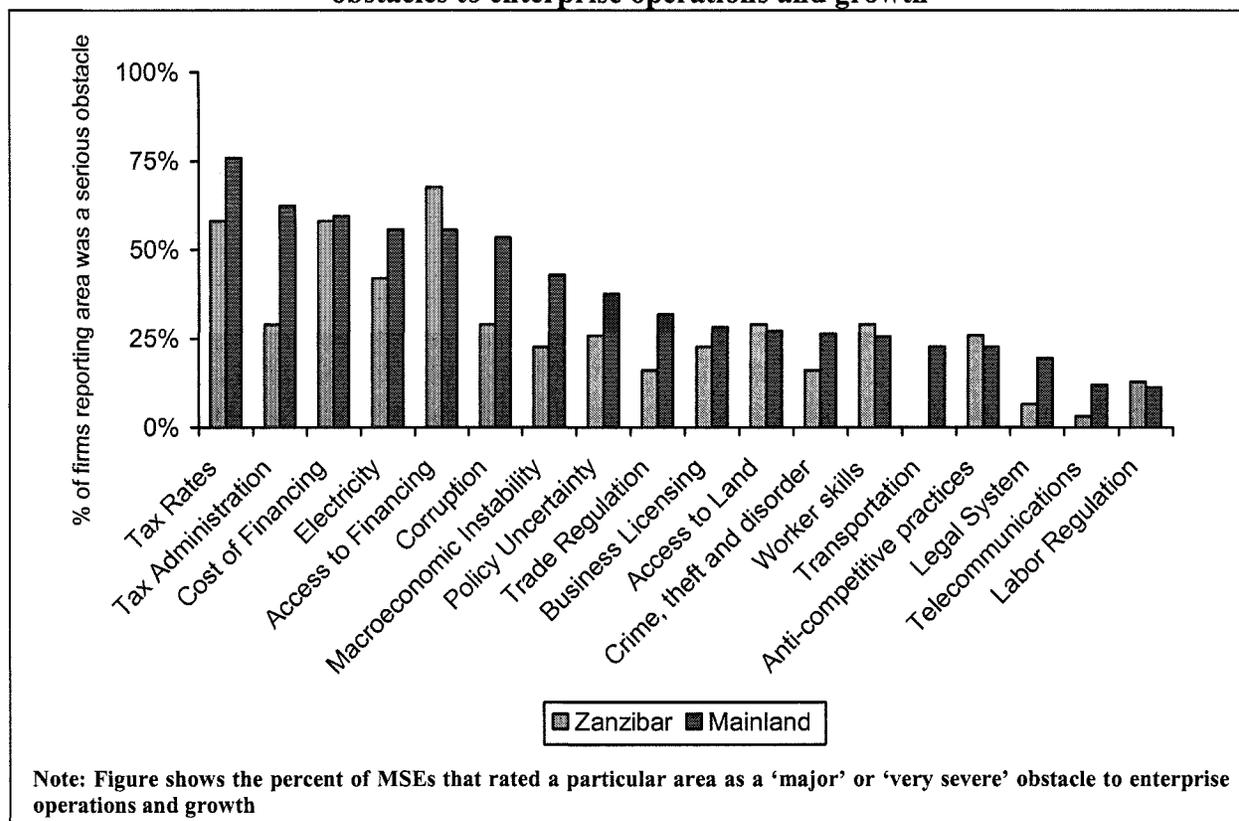
Figure 12 shows the percent of firms that rated various components of the investment climate as a major or very severe obstacle to enterprise operations and growth. Several things stand out clearly in the data. Most notably:

- Perceptions about obstacles are similar in Zanzibar and elsewhere in Tanzania. The top five obstacles in both Zanzibar and mainland Tanzania were tax rates, tax administration, cost of financing, access to financing, and electricity.
- Perceptions in Zanzibar were generally more favorable than in mainland Tanzania—enterprises in Zanzibar were less likely to rate most areas of the investment climate as serious obstacles than enterprises in mainland Tanzania.
- But there were some differences. Enterprises in Zanzibar were far less concerned about tax rates and administration, corruption, and macroeconomic instability than firms in mainland Tanzania. In most of these areas, the difference in perceptions remains statistically significant after controlling for size (see Appendix).
- In one area, access to finance, perceptions were far less favorable in Zanzibar. The difference is statistically significant.¹⁴

- Consistent with the earlier evidence that workers in Zanzibar are less well educated than workers in mainland Tanzania, firm managers in Zanzibar remain more worried about worker skills than managers elsewhere in Tanzania. The difference is not statistically significant.

Figure 12:

In most cases, firms in Zanzibar and mainland Tanzania had similar perceptions about obstacles to enterprise operations and growth



II. MACROECONOMIC INSTABILITY

The first area where there was a noticeable difference between Zanzibar and mainland Tanzania is macroeconomic instability—enterprises in Zanzibar are far less concerned about it than enterprises in mainland Tanzania. This might seem puzzling since the two main aspects of macroeconomic instability that are mentioned on the survey, exchange rate instability and inflation, are similar in both locations. As a result, we might expect perceptions also to be similar.

But differences exist between the two samples. Most notably, whereas firms from mainland Tanzania were interviewed in 2003, half of the firms from Zanzibar were interviewed in 2004. This appears to partly explain the difference. Among the MSEs interviewed in Zanzibar in 2003, about 30 percent said that macroeconomic instability was a major or very

severe obstacle. In contrast, only about 12 percent of the MSEs interviewed in Zanzibar in 2004 said the same.

This does not, however, explain the entire difference. About 40 percent of MSEs in mainland Tanzania rated macroeconomic instability as a serious obstacle in 2003— higher than the number in Zanzibar in the same year.

In addition to the level of inflation or exchange rate volatility, other factors affect whether firms see macroeconomic instability as a serious problem. For example, firms involved in international trade were more concerned about macroeconomic instability than were firms that are not. Whereas 49 percent of firms that directly imported raw materials and 43 percent of firms that export rated macroeconomic instability as a serious obstacle, only 30 and 40 percent of firms that did not directly import or export rated it as the same. Since MSEs in Zanzibar were less likely to import and export goods from outside of mainland Tanzania and Zanzibar (3 percent and 0 percent) than MSEs in mainland Tanzania (44 percent and 12 percent), this might also account for part of the difference.

To see whether this is the case, we estimated an econometric model to study whether observable differences between firms in mainland Tanzania and Zanzibar explain the difference in perceptions. After controlling for size, sector of operations, age and whether the enterprise imports or exports, the difference between Tanzania and Zanzibar becomes small and statistically insignificant, suggesting that the differences in perception are due to observable differences between firms (see Appendix).

III. TAX RATES AND ADMINISTRATION

Taxation is another area that MSEs from Zanzibar were less likely to rate as a serious obstacle. Although the government of Tanzania has tried to improve tax administration in recent years, this is not why firms in Zanzibar rated tax administration as a lesser obstacle than firms on the mainland did.¹⁵ Firms in Zanzibar were no less likely to rate tax administration as a serious problem in 2004 than they were in 2003—about 26 percent rated it as a serious obstacle in 2004, compared to 29 percent in 2003. Moreover, the difference in perceptions is not statistically significant for firms in 2003 and 2004 (i.e., the difference could be random due to the small sample).¹⁶ Fewer firms rated tax rates as a serious problem in 2004 than in 2003—47 percent in 2004 compared to 67 percent in 2003. But once again, after controlling for other factors that affect perceptions about tax rates (e.g., enterprise size and sector of operations), the difference is not statistically significant. Moreover, in both cases, enterprises on the mainland were more likely to rate tax administration as a serious problem even after controlling for survey year and enterprise characteristics.

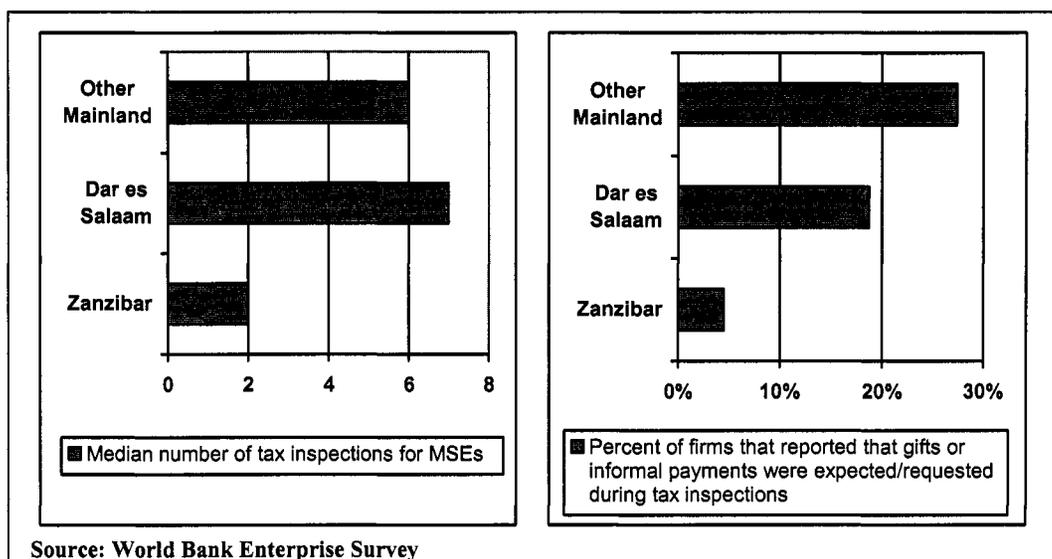
Objective measures of the investment climate support the idea that tax administration is a less pressing problem on Zanzibar than it is in mainland Tanzania (see Figure 13). MSEs in Zanzibar reported they had fewer tax inspections and required meetings than firms in either Dar es Salaam or other mainland locations. Whereas the median MSE in Zanzibar reported only two required meetings or inspections by tax officials in the previous year, the median MSE in Dar es Salaam reported seven meetings and the median MSE elsewhere on the mainland reported 6 meetings.¹⁷ Firms also were less likely to report when bribes or gifts were requested or needed

during these meetings (about 5 percent in Zanzibar compared to 19 percent in Dar es Salaam and 27 percent in other mainland locations).¹⁸

Despite having fewer required meetings and inspections, tax evasion does not appear to be a more significant problem in Zanzibar than elsewhere in Tanzania. As part of the Enterprise Survey, managers were asked to estimate how much of their revenues firms like theirs would report to the tax authorities. The question was asked in this way so that managers could respond without incriminating themselves. MSEs in Zanzibar estimated that firms like theirs would report about 71 percent of revenues to the tax authorities, compared to 68 percent in Dar es Salaam and 67 percent in other parts of mainland Tanzania. This suggests that the increasing the number of inspections and meetings does not automatically improve compliance.

Figure 13:

Tax administration is less burdensome in Zanzibar than elsewhere in Tanzania.



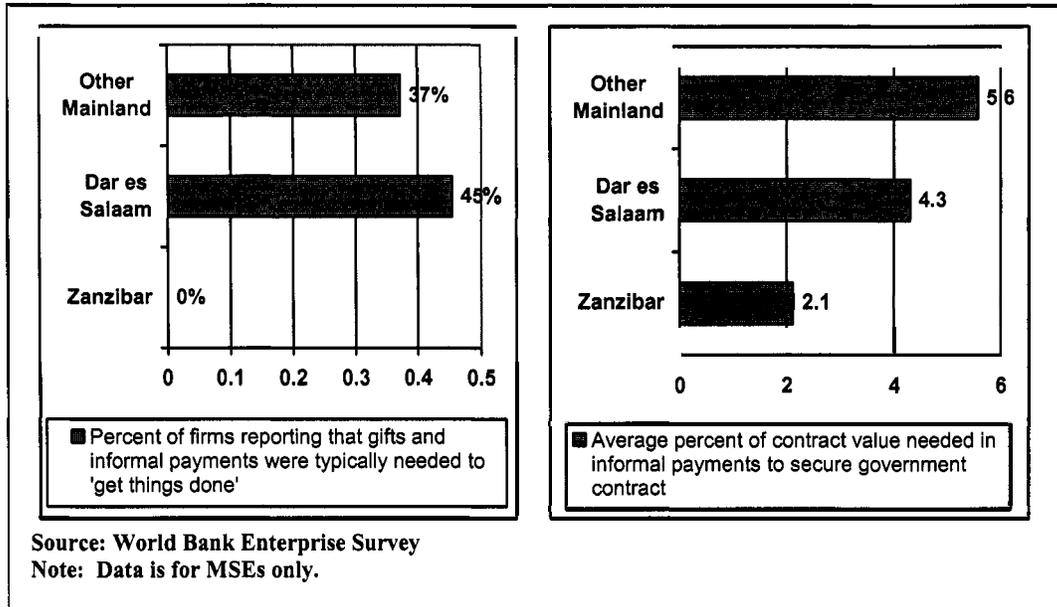
The higher levels of tax evasion are consistent with the observation that bribes to tax officials are more common in mainland Tanzania. To the extent that firms use bribes to avoid paying taxes, it might not be surprising that both bribes and evasion appear more common in mainland Tanzania than in Zanzibar

IV. CORRUPTION AND REGULATION

In addition to taxation and macroeconomic instability, MSEs in Zanzibar were also far less likely to rate corruption as a serious obstacle than enterprises in mainland Tanzania. Whereas 53 percent of managers of MSE in mainland Tanzania said that corruption was a major or very severe obstacle to their enterprise's operations and growth, only 29 percent of managers in Zanzibar said the same.

Figure 14:

Bribes are less common in Zanzibar than in mainland Tanzania.



As noted earlier, MSE managers in Zanzibar were far less likely to say that informal payments or gifts were requested during tax inspections than managers in mainland Tanzania were. Also consistent with this, they were far less likely to say that bribes or informal payments were 'needed to get things done'. Of the 40 enterprise managers interviewed in Zanzibar, none said bribes were needed to get things done—very different from Dar es Salaam and elsewhere in mainland Tanzania where 45 percent and 37 percent said bribes were needed to get things done (see Figure 14). MSEs also were less likely to report that bribes were needed to secure government contracts and, said when bribes were needed, the payments were smaller on average.

Why is corruption a less serious problem in Zanzibar than elsewhere in Tanzania? One possibility is that the regulatory burden is lower in Zanzibar. Whereas the median enterprise in Zanzibar had fewer than 10 required meetings and inspections in the year before the survey, the median enterprise in mainland Tanzania had over 15. Managers in Zanzibar also reported spending less time dealing with government regulations and inspections—about 5 percent of senior management time in Zanzibar compared with close to 15 percent in mainland Tanzania.

Consistent with this evidence with respect to the regulatory burden, a recent study concluded that it takes less time and costs less to start a business in Zanzibar than in other areas of Tanzania (World Bank, 2007a). It took only 129 days to complete all regulatory procedures to start a business in Zanzibar, compared to 194 days in Mbeya, 326 days in Dodoma, and 528 days in Kigoma. The most time-consuming steps were transferring property, business registration and business licensing. Other steps, such as connecting power and water and NSSF registration were relatively less burdensome.

Over-regulation can lead to corruption.¹⁹ When the burden of regulation is high, managers have greater incentives to offer bribes to regulators and government officials to reduce the burden of regulation. Moreover, government officials have greater reason to impose and enforce stringent regulations when they believe that they will be able to collect bribes from enterprise managers trying to avoid those regulations. To the extent that frequent meetings allow regulators and managers to develop close working relationships, the possibility of collusion increases.

V. FINANCE

One area that enterprise managers in Zanzibar were more likely to see as a serious obstacle than their counterparts on the mainland was access to finance. Whereas 56 percent of MSE managers in mainland Tanzania said that access to finance was a major or very severe problem, 68 percent of MSE managers in Zanzibar said the same.²⁰ In contrast, there was little difference for cost of financing—about 59 percent of MSE managers in Zanzibar said it was a serious obstacle compared to about 58 percent of MSE manager in mainland Tanzania.

Given the high level of concern about access to finance, it is not surprising that the financial sector is not very developed in Zanzibar. According to the recent Zanzibar Growth Strategy (2006-2015), financial intermediation accounted for only 2 percent of GDP in 2005 (Ministry of Finance and Economic Affairs, 2006).

The People's Bank of Zanzibar (PBZ) dominates the banking sector in Zanzibar. Of the 20 firms in World Bank Enterprise Survey that reported the primary bank that they did business with, 19 listed the People's Bank of Zanzibar. The other banks operating in Zanzibar are branches of main banks located in Dar es Salaam.

As of late 2006, PBZ was operating under a Memorandum of Understanding (MOU), which it entered into with the Government of Zanzibar and the Bank of Tanzania in 2003. Under the MOU, PBZ was being prepared for privatization (Ministry of Finance and Economic Affairs, 2006).

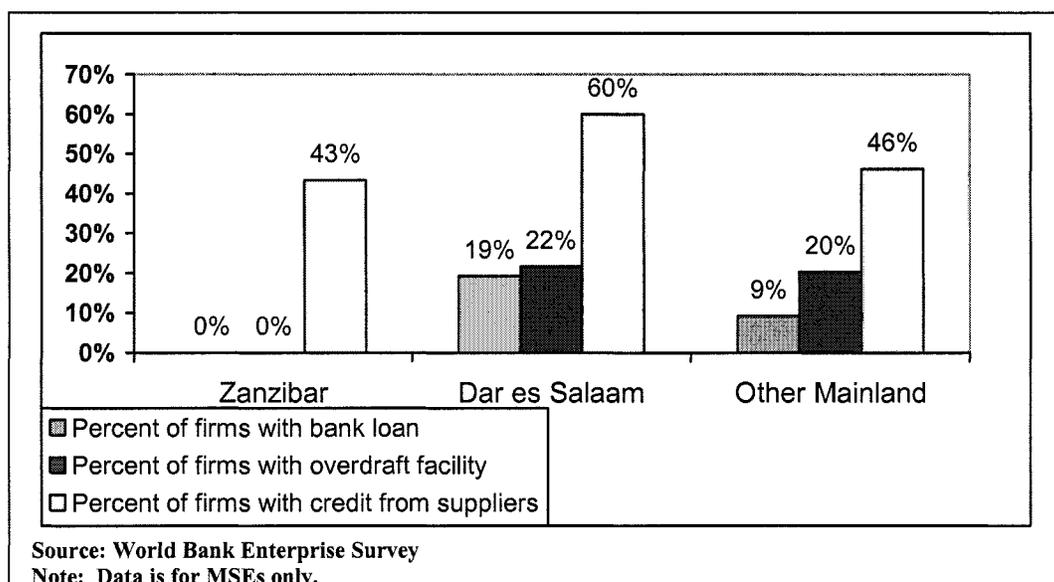
Objective data support the idea that financing is an especially serious problem in Zanzibar—none of the MSEs in the sample for Zanzibar reported that they had a bank loan, while 10 percent of enterprises on the mainland outside of Dar es Salaam and 19 percent of enterprises in Dar es Salaam did (see Figure 15). Firms in Zanzibar were also less likely to get credit from suppliers and were less likely to have overdraft facilities.

Why do so few MSEs in Zanzibar have loans? Of the 30 MSEs in Zanzibar that responded to the question on whether they had a bank loan, 25 said that they had never applied for one. This was similar to in mainland Tanzania, where 89 of 111 MSEs without loans said that they have never applied.

Firms were also asked why they had never applied for a loan. They were allowed to give multiple responses to the question (that is, they could say that collateral requirements were too stringent and that interest rates were too high). The most common responses in Zanzibar were that collateral requirements were too stringent (50 percent of MSEs), application procedures too cumbersome (56 percent) and interest rates were too high (48 percent). In comparison, 52

percent of MSEs in mainland Tanzania said that collateral requirements were too stringent, 57 percent said application procedures were too cumbersome, and 69 percent complained that interest rates were too high.

Figure 15:
MSEs were far less likely to have loans or overdraft facilities in Zanzibar than in mainland Tanzania.



Cultural values that shun borrowing might partly account for the low level of borrowing in Zanzibar, but this does not seem to drive the difference between mainland Tanzania and Zanzibar.²¹ In fact, MSEs in Zanzibar were less likely to say that they had not applied for a loan because they did not want or need one than MSEs in mainland Tanzania.²² Whereas only 32 percent of MSEs without loans in Zanzibar said that they did not want one, 50 percent of MSEs without loans in mainland Tanzania said the same.

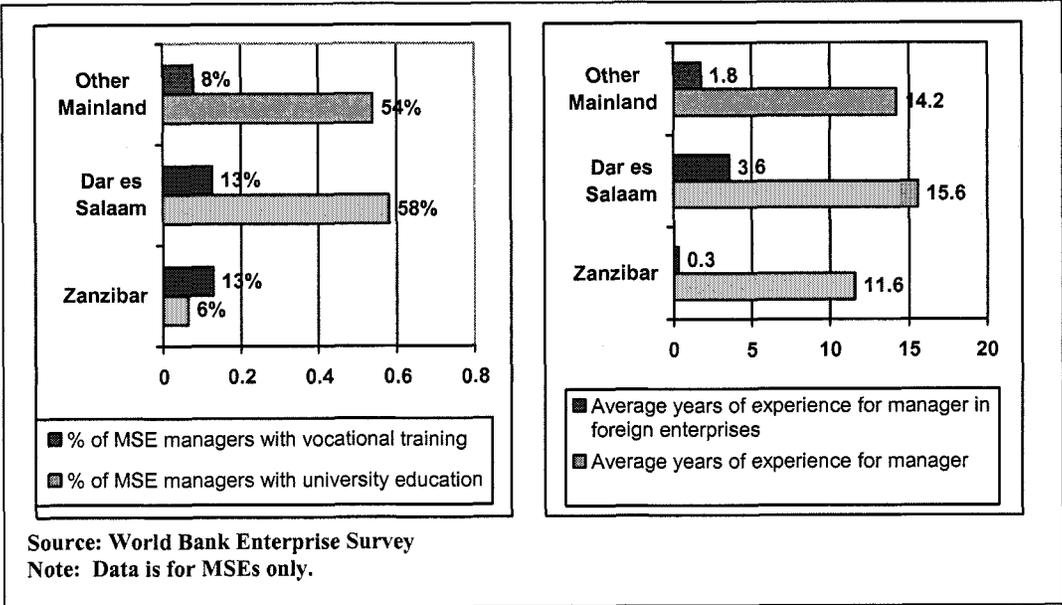
When combined with the previous information that MSEs in Zanzibar are less capital intensive than MSEs in mainland Tanzania, the evidence suggests that access to credit is more difficult for MSEs in Zanzibar than it is for MSEs in mainland Tanzania. Managers perceive access to credit as a greater constraint, firms are less capital intensive, firms are less likely to have loans or overdraft facilities, and firms without loans are less likely to say that they did not want a loan in Zanzibar than in mainland Tanzania. All this evidence suggests that finance is a greater problem in Zanzibar than elsewhere in Tanzania.

VI. TRAINING AND WORKER SKILLS

Managers were slightly more likely to rate worker skills as a serious obstacle in Zanzibar than they were in mainland Tanzania—although the difference was not statistically significant. Further, as noted in the previous section, objective indicators suggest that workers in MSEs in Zanzibar are less well educated than workers in MSEs in mainland Tanzania.

Managers also tend to have less education than their mainland counterparts. Only 6 percent of MSE managers in Zanzibar have a university education—far less than on the mainland where over 50 percent of managers do (see Figure 16). MSE managers in Zanzibar were slightly more likely to have vocational education than MSE managers on the mainland, but the difference was not large.

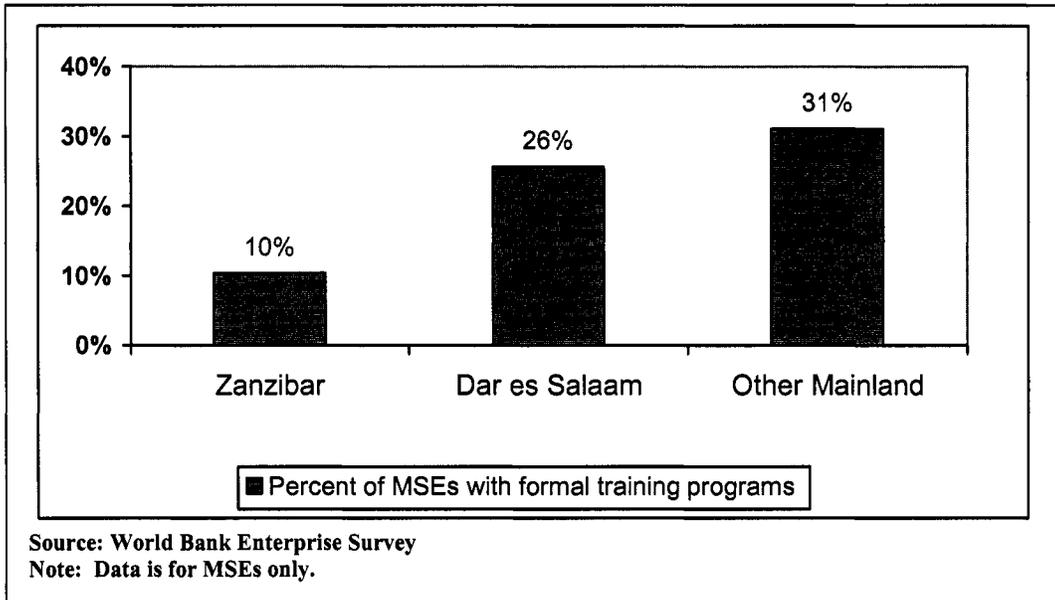
Figure 16:
Managers have less education and less experience in Zanzibar than managers on the mainland.



MSE managers in Zanzibar also had less experience than managers in MSEs on the mainland. The average manager had about 12 years of experience working in the sector before running the establishment, with only 0.3 years in foreign-owned establishments. In comparison, managers in Dar es Salaam had over 15 years experience with close to four years working in foreign-owned companies. The low level of experience in foreign-owned companies is not surprising given that foreign-owned companies appear less common in Zanzibar than in mainland Tanzania.

Finally, enterprises were also less likely to provide formal training to their employees in Zanzibar. Only 10 percent of MSEs in Zanzibar reported a formal training program, compared to 26 percent in Dar es Salaam and 31 percent elsewhere on the mainland. When enterprises without formal programs were asked why this was, the most common responses were that training was not affordable or that in-house informal training was adequate for their needs.

Figure 17:
MSEs were less likely to provide formal training in Zanzibar than in Dar es Salaam or elsewhere in mainland Tanzania.



One reason why enterprises in Zanzibar might provide less training than enterprises on the mainland is that managers with less education tend to be less likely to provide formal training to their workers. 31 percent of enterprises in Tanzania with a manager with a university degree had a formal training program, compared to only 21 percent of enterprises with managers without a degree.

CONCLUSIONS

This study looks at firm performance and the investment climate in Zanzibar. The main source of information is a 2003-2004 survey of manufacturing enterprises. The report is complementary to an earlier report looking at the investment climate in the whole of the United Republic of Tanzania, including Zanzibar (Regional Program on Enterprise Development, 2004). To avoid redundancy with the earlier report, this report focuses on areas where the investment climate is different in Zanzibar from mainland Tanzania.

Zanzibar is a small island economy found close to the Tanzanian mainland. Like other small island economies, limited diversification and a small domestic market make Zanzibar vulnerable to terms of trade and other shocks. Diversifying into manufacturing—a goal that is consistent with *Zanzibar's Growth Strategy (2006-2015)*—would reduce this vulnerability. This report looks at existing manufacturing firms in Zanzibar to see how their performance compares with similar firms in other parts of Tanzania, other countries in Africa, and other small island economies. It also compares the investment climate in Zanzibar with the investment climate on the mainland and in other nearby countries.

In many ways, the investment climate in Zanzibar appears relatively favorable when compared to the investment climate on the mainland. Firms are less likely to be concerned about most aspects of the investment climate. Objective evidence is consistent with the subjective evidence—the burden of regulation appears lower in Zanzibar than in mainland Tanzania, tax administration is less burdensome, and fewer firms report paying bribes.

Despite this, firms in Zanzibar do not appear to be competitive. Few firms export any part of their output—even to the mainland—suggesting that they cannot compete in international markets. Moreover, firms in Zanzibar are both small and unproductive when compared to firms from other countries in Sub-Saharan Africa, including mainland Tanzania. Although labor productivity is low in Zanzibar partly because firms are small, MSEs are less productive even than similar firms on the mainland or elsewhere in Sub-Saharan Africa. Reasons for low productivity include the fact that MSEs do not use much capital and low worker skills and education. Low wages, coupled with even lower labor productivity, makes it difficult for Zanzibar firms to compete in international markets.

Although the investment climate in Zanzibar is more favorable in many areas than it is on the mainland, firms remained more concerned about several areas. Consistent with the evidence on worker skills and capital intensity, firms were more likely to say that access to finance and workers skills and education were serious problems than firms on the mainland were. Objective data are consistent with this—fewer firms had loans, firms reported having less capital and workers and managers were less likely to be university educated in Zanzibar. Improving education—and taking steps to attract skilled workers from the mainland and elsewhere—and improving access to finance, therefore, should be a priority.

Although poor access to finance might partly explain the low capital intensity in Zanzibar, other factors less easily captured in a World Bank Enterprise Survey might also play a role. One factor that might affect investment that is not captured easily in a firm survey is

political uncertainty and instability. Previous studies have shown that private investment is lower in countries that are less politically stable (Stasavage, 2002). The observed instability in Zanzibar might therefore contribute to low investment.

In addition to taking steps to improve competitiveness, the government could take several additional steps to improve export performance. Although Tanzania has made progress with respect to improving trade and customs regulations in recent years—reducing the time to complete export procedures from 30 days in 2005 to 24 days in 2007 and the time to complete import procedures from 51 days to 30 days—these periods are lengthy compared to the best performing countries, where similar procedures often are completed in a week, or less. Singapore's example, in particular, shows that many procedures can be reduced significantly even in strong-performing economies. Other things, such as capitalizing on informal networks, for example in the Middle East, that Zanzibari's have in other regions, would also be useful.

Box: Reducing customs delays through computerization in Singapore and Ghana

In recent years, governments have used computerization to dramatically reduce processing times for imports and exports. Rather than requiring submission of multiple forms to multiple agencies, a trader now can electronically submit a single document that contains all the information required by different agencies. This information can then be submitted to all relevant agencies, which then respond with the necessary permits or request additional information. By eliminating overlapping requirements and multiple forms, the process reduces transaction costs for firms and minimizes direct contact between public officials and the trader, potentially reducing opportunities for side-payments.

Singapore used these methods in 1989 to reduce processing time from 2-4 days to a few minutes and the number of required documents from between 3 and 35 to a single document. Freight forwarders estimate that the program has reduced their cost of handling trade documentation by between 20 and 35 percent. Singapore's success, and a similar program in Mauritius, inspired the government of Ghana to adopt a similar program called TradeNet. Before the program, importers estimated that the fastest clearance time at sea ports was four days, while the average clearance time was several weeks. After implementing the program, about 14 percent of clearance took less than a day at Tema port and only 11 percent more than five days. At the airport, average clearance times fell from three days to four hours, with 18 percent of clearances taking less than two hours.

Although computerization can reduce delays, it will not succeed unless procedures are modified to fully exploit its potential benefits. Before implementing TradeNet, the Ghanaian customs administration already was using a standard software package to help them process imports. But procedures were not designed to take advantage of the package and as a result the technology was underused. For example, customs declarations had to be manually entered into database, a process that took up to 24 hours, rather than being submitted electronically.

Source: De Wulf (2004); World Bank (1998)

More activist approaches to improving integration should be approached with caution. One possibility would be to start new, or expand existing, export processing zones. The rationale for export processing and economic zones for most countries is to boost competitiveness, reduce the cost of doing business and to increase firm level competitiveness. Over 100 countries, from developed countries such as the USA or Canada to other developing countries such as Madagascar and Vietnam have applied the zones successfully. The traditional economic zone focuses on improving cost competitiveness by providing a package of incentives such as import and export duties exemptions and tax holidays. The zones are often restricted to isolated enclaves

to relatively remote areas or near transport hubs. Today, most zones are shifting their target from low-margin, low cost-cost activities to higher value-added industries. With increasing globalization, zones are increasingly embedded in the existing supply structure and in the local economy.

Zanzibar has established or plans to establish Free Economic Zones within Fumba Area, Amaan Industrial Park in Unguja and Michewweni Area in Pemba, in addition to Free Port in Maruhubi Area in Unguja. The zones provide exception from custom laws and regulations and other incentives provided with an investment certificate. What is striking is that the zone policy has so far had little impact on the Zanzibar export profiles. The majority of traditional zone enterprises tend to be in labour intensive activities such as apparel, textiles and electronic assembly industries. Zanzibar so far has attracted trade merchandise (second hand clothes) for the mainland market. This is no different than many zones in island economies in the Caribbean. The Dominican Republic, Jamaica, and Barbados receive large foreign direct inflows from the USA and export back to the same market. In the case of Zanzibar however, the purchasing power of the mainland does not fill the role of the leading Foreign Direct Investment (FDI) investor.

Successful zones are characterized by some or all of the following features:

- Streamlined regulatory framework
- Public-private partnership approaches for zone development
- Largely private sector-led; lead role for one developer
- Clear zone designation and development criteria
- Top level, integrated support of government e.g., Jordan, UAE
- Competition on the basis of facilitation and services rather than incentives
- Zone authority is autonomous, flexible, and focused on regulation,
- Regulatory authority capabilities are built up
- Minimization of public expenditure by locating zones carefully/using existing facilities

While experience to date in Zanzibar is limited, it confirms the experience elsewhere that the success of EPZs depends on the three main areas discussed above: (i) reliable infrastructure services at international comparable standards, (ii) an overall strategy in which the EPZs/SEZs are embedded, and (iii) adequate institutional framework that enables strong private sector participation and professional management.

STATISTICAL APPENDIX

1.1 Methodology.

The methodology is similar to the methodology used in a recent paper by Gelb, Ramachandran, Shah and Turner (2006). The question of whether firms in Zanzibar have different perceptions about the investment climate is approached by estimating the following equation:

$$\text{Perception about IC}_i = \beta_1 + \beta_2 \text{ Zanzibar Dummy} + \beta_3 \text{ Size} + \varepsilon_i \quad (3.1)$$

The dependent variables are dummy variables indicating whether the manager of firm i rates that area of the investment climate as a major or very severe obstacle. The independent variables are a dummy indicating whether the firm is located in Zanzibar and firm size (number of workers). Because the dependent variable is a dummy variable, the model is estimated using standard maximum likelihood estimation. Results from the regression for each of the obstacles are shown below. Since the sample for Zanzibar is made up almost entirely of MSEs, the regressions only include these firms. As an additional control for size differences, firm size (log of number of workers) is included in the regression. This allows us to look at whether perceptions are different in Zanzibar and the mainland after controlling for firm size.

In addition, we look more closely at differences in perceptions about macroeconomic instability by including extra regressions looking at this variable. In particular, these regressions control for whether the survey was conducted in 2003 or 2004.

Table A.1: Difference in perceptions between Zanzibar and mainland Tanzania

	Telecom	Power	Access to Land	Tax Rates	Tax Administration	Trade and Customs Regulation	Courts	Labor Regulation	Worker Education	Business Licensing	Access to Finance	Macro Instability	Corruption	Crime
	176	174	176	176	176	175	174	176	176	174	175	175	175	175
Observations	176	174	176	176	176	175	174	176	176	174	175	175	175	175
Zanzibar (dummy)	-0.696 (-1.53)	-0.289 (-1.19)	0.0644 (0.25)	-0.372 (-1.51)	-0.790*** (-3.08)	-0.473 (-1.64)	-0.624* (-1.70)	0.166 (0.52)	0.132 (0.51)	-0.0184 (-0.070)	0.427* (1.70)	-0.531** (-1.98)	-0.569** (-2.26)	-0.223 (-0.80)
Constant	-1.181*** (-8.67)	0.0979 (0.93)	-0.669*** (-5.88)	0.563*** (5.07)	0.185* (1.76)	-0.557*** (-5.00)	-0.926*** (-7.48)	-1.335*** (-9.09)	-0.736*** (-6.36)	-0.680*** (-5.92)	0.0884 (0.84)	-0.268** (-2.51)	0.0530 (0.50)	-0.686*** (-5.98)
Pseudo R-Squared	0.03	0.01	0.00	0.01	0.04	0.01	0.02	0.00	0.00	0.00	0.01	0.02	0.02	0.00

	Telecom	Power	Access to Land	Tax Rates	Tax Administration	Trade and Customs Regulation	Courts	Labor Regulation	Worker Education	Business Licensing	Access to Finance	Macro Instability	Corruption	Crime
	176	174	176	176	176	175	174	176	176	174	175	175	175	175
Observations	176	174	176	176	176	175	174	176	176	174	175	175	175	175
Zanzibar (dummy)	-0.760* (-1.65)	-0.259 (-1.05)	0.0444 (0.17)	-0.375 (-1.51)	-0.788*** (-3.05)	-0.396 (-1.36)	-0.593 (-1.60)	0.181 (0.56)	0.169 (0.64)	-0.0270 (-0.10)	0.381 (1.50)	-0.550** (-2.02)	-0.534** (-2.10)	-0.194 (-0.69)
Number of Workers	-0.234 (-1.36)	0.124 (0.99)	-0.0729 (-0.54)	-0.0113 (-0.088)	0.00621 (0.050)	0.252* (1.80)	0.142 (0.90)	0.0563 (0.32)	0.118 (0.85)	-0.0292 (-0.22)	-0.196 (-1.55)	-0.0523 (-0.41)	0.143 (1.13)	0.0918 (0.65)
Constant	-0.576 (-1.26)	-0.233 (-0.67)	-0.476 (-1.26)	0.593 (1.64)	0.169 (0.48)	-1.244*** (-3.11)	-1.308*** (-2.95)	-1.486*** (-3.02)	-1.056*** (-2.66)	-0.602 (-1.59)	0.612* (1.73)	-0.128 (-0.35)	-0.329 (-0.93)	-0.934** (-2.33)
Pseudo R-Squared	0.04	0.01	0.00	0.01	0.04	0.03	0.03	0.00	0.01	0.00	0.02	0.02	0.0269	0.01

Note: T-statistics are in parentheses. Regressions are Probit regressions using a dummy variable indicating that the firm saw that area of the investment climate as a 'major' or 'very severe' obstacle to enterprise operations and growth.

*** significant at 1 percent level ** significant at 5 percent level * significant at 10 percent level

Table A.2: Effect of year and firm characteristics on perceptions about macroeconomic instability

	Firms rates macroeconomic instability as a serious obstacle to enterprise operations and growth	
Firm is located on mainland Tanzania outside of Dar es Salaam (dummy)	0.1873** (-2.03)	0.0446 (-0.39)
Firm is located in Dar es Salaam (dummy)	0.2079** (-2.16)	0.0634 (-0.54)
Interview was conducted in 2004 (dummy)	-0.2981** (-1.99)	-0.2976 (-1.63)
Number of Workers (natural log)		-0.0172 (-0.55)
Age of firm (natural log)		0.0881** (-2.22)
Firm exported in 2001/02 (dummy)		0.0185 (-0.20)
Firm imported directly in 2002 (dummy)		0.1795** (-2.36)
Observations	289	289
Pseudo R-Squared	0.01	0.02
		0.07

Note: T-statistics are in parentheses. Regressions are Probit regressions using a dummy variable indicating that the firm saw macroeconomic instability (inflation, exchange rates) as a 'major' or 'very severe' obstacle to enterprise operations and growth.
*** significant at 1 percent level ** significant at 5 percent level * significant at 10 percent level

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ANNEX 1: SELECTED EXAMPLES OF SEZ DEVELOPMENT

Example 1: ZonaAmerica Business and Technology Park, Uruguay

ZonaAmerica is one of the leading-edge free zones oriented to IT, software, regional headquarters, biotechnology and electronics operations. Leading companies include Tata Consulting Services (India) engaged in software development for the Spanish-speaking market.

Examples of specialized facilities provided by the zone include: Fiber optic and Wi-Fi network, teleport and microwave links, internet security and on-site help desk, intelligent buildings, wireless perimeter security, research lab facilities, business services center, and medical and daycare facilities.

Example 2: Zones Within Zones, the Unique Case of China

Special Economic Zones (SEZ's) were established by China to serve as 'demonstration areas' for policy reforms and to encourage foreign investment. The economic impact of these zones has been far-reaching, transforming entire regions and economies.

The Shenzhen Special Economic Zone (SSEZ) provides a snapshot of the impact of the SEZ's on China's economic development. Twenty-three years of growth has transformed Shenzhen from a small sleepy fishing village into a thriving urban metropolis. Today, Shenzhen is an export-oriented economy that exports about US\$48 billion of goods per year, or 14 percent of the country's exports. The SSEZ has absorbed about \$30 billion of FDI and directly employs about 3 million workers.

What is less well known is that the SEZs include hundreds of other zones. National level zones, all with special and differing incentive regimes include: 14 Open Coastal Cities, 15 Free Trade Zones, 17 EPZs, 54 Economic and Technological Development Zones, 53 High Technology Development Zones, and 15 Border Economic Cooperative Areas. There are many other provincial- and city-level zones.

Example 3: Shannon Free Zone, Ireland

The Shannon Free Zone is the world's oldest EPZ, established in 1958. Located at Shannon International Airport, the zone offered investors secure access to European markets, attractive tax benefits and subsidized rent and facilities. Specialized training and manpower development facilities were integrated into zone design from its inception. As a result, export manufacturing activities accelerated.

Presently, there are 120 companies employing over 7,500 workers within the zone. As a large share of the zone's activities are in service sectors, the zone's contribution to overall merchandise exports is relatively small, accounting for less than 3 percent of the total. On a yearly basis, zone exports total US\$2.5 billion and imports US\$1.2 billion.

Over time, liberalization of the Irish economy outside the zone has reduced its relative importance. Nevertheless, the Zone remains an important catalyst for the region, leading the economy's diversification into new, value-added sectors.

Example 4: Pomeranian Special Economic Zone, Poland

Poland has 14 free zones established throughout the country. Though identified as SEZs, the zones generally cover only a limited land area and focus on traditional EPZ and FTZ activities. The program, established in 1995, has been designed as a regional development tool.

The experience of the Pomeranian Special Economic Zone (PSEZ) demonstrates the Polish approach to reusing existing infrastructure for zone development. The PSEZ was established in 2001 as a result of the merger of two Special Economic Zones in Tczew and Żarnowiec. The SEZ covers an area of 348 hectares and is located in the Pomorskie Province, Kwidzyń, Starogard Gdański, Tczew and Żarnowiec. The Zone will operate until the year 2017.

One of the key features of this zone is its effective use of existing buildings and infrastructure, and its development of the grounds of the former site of the now defunct nuclear power station project in Żarnowiec.

By the end of 2000, a total of 71 permits had been granted to conduct business activities in the Tczew and Żarnowiec SEZs. By the end of 2004 it is anticipated that total investment outlays in the zone will amount to US\$212 million, with at least 4,000 to 6,000 new jobs created.

Example 5: The Failed Industrial Linkages Program in the Dominican Republic

Although many of the examples discussed above suggest the potential benefits of SEZs, not all SEZs are as successful. One example of a less successful zone is a USAID-sponsored backward linkages program in the Dominican Republic, which illustrates the challenge some countries have experienced in developing linkages with EPZs.

While feasibility studies revealed abundant EPZ demand for textiles, precision plastic parts, metal stamping, machine shops, and tool, mould and die making, backward linkages failed to develop. The most important reasons for this include:

- The relevant sectors frequently did not exist as the Dominican Republic never made significant inroads into the manufacture of capital and intermediate goods.
- Local producers generally failed to meet world market standards for price, quality and delivery terms
- Local manufacturers often had no interest in supplying EPZs, being satisfied with current operations and profitability levels

Example 6: Dakar EPZ, a Text-Book Failure

Senegal was a pioneer in the creation of free zones and in establishing its EPZ in 1974. The project generated significant hopes, as Senegal expected to profit from the de-localization of

enterprises from industrialized countries, in the same manner as countries of the Maghreb, the Caribbean or Southeast Asia had before. The scheme's promoters sought to exploit Senegal's geographical position as well as the port and airport facilities offered by Dakar.

In 1999, almost 20 years after its creation, Senegal's authorities admitted the project was a complete failure and ended it. At the time of its demise, the Dakar EPZ hosted just 14 active enterprises. The principal reasons for the program's failure were:

- Excessive bureaucracy involving different institutions in the country, especially Customs
- Unnecessarily delays in obtaining the necessary permits, often exceeding one year.
- Unrealistic goals imposed on potential investors, both with regard to jobs creation – each company was required to employ at least 150 people-- and to the size of the initial investment
- Poor reputation of the local workforce, judged to be unproductive and expensive
- Elevated costs for other ingredients of production such as energy, water, and communications.
- Rigid labor regulations—employment contracts were permanent and employers did not have complete freedom to recruit the people they wanted/needed.

Example 7: Private Free Zone Development in the Dominican Republic

The country's 22 public zones were established primarily as a means to encourage regional development outside the capital area. Instead, the private sector zones, which today number 31 (including joint public-private ownership), are heavily concentrated around Santo Domingo, The Dominican Republic's largest population center and close to critical port and airport infrastructure. There are currently 194 companies operating in the public zones and 326 in private or joint ownership zones.

Surveys of zone enterprises highlight the role of the private sector in upgrading the facilities and services required of export enterprises, particularly those in manufacturing (Rhee and Belot, 1990). The private zones, driven by market forces, are located primarily in the vicinity of Santo Domingo, providing access to the country's highly qualified and productive labor force, as well as access to high quality transportation infrastructure,

Most importantly, zone enterprises here demonstrate a willingness to pay higher prices for their space (in some cases, up to three times higher) in return for high quality infrastructure facilities, and services. The private zones boast state-of-the-art telecommunications services, well-developed business support services, and quality manufacturing and office space.

Source: Gauthier (2004)

ANNEX 2: QUESTIONNAIRE

ENTERPRISE NO.

	FIRM ID
--	---------



INVESTMENT CLIMATE SURVEY OF TANZANIA

The Economic and Social Research Foundation of Tanzania
and
Regional Program on Enterprise Development of the World Bank

DATE _____

Data Entry Operator			
Entered			
Checked by Data Entry			
Checked			
Approved			

INTERVIEWER (S):

NAME	NUMBER

- SECTOR:**
- 1 Agriindustry.....
 - 2 Food, beverages & tobacco.....
 - 3 Chemicals and Paints.....
 - 4 Construction Materials.....
 - 5 Furniture.....
 - 6 Metals.....
 - 7 Paper, Printing, Publishing.....
 - 8 Plastic.....
 - 9 Textile and Leather.....
 - 10 Wood.....

- REGION:**
- 1 Arusha
 - 2 Mtwara
 - 3 Dar es Salaam
 - 4 Pemba
 - 5 Dodoma
 - 6 Rukwa
 - 7 Kagera
 - 8 Ruvuma
 - 9 Kilimanjaro
 - 10 Singida
 - 11 Tabora
 - 12 Tanga
 - 13 Morogoro
 - 14 Zanzibar
 - 15 Mwanza
 - 16 Pwani
 - 17 Shinyanga
 - 18 Lindi

- LOCATION:**
(Name of Location)
- 1 Capital City
 - 2 Other City or town, Over 1 million population
 - 3 City or town of 250,000-1 million
 - 4 Town of 50,000-250,000
 - 5 Town or location of less than 50,000

NAME OF FIRM: _____

ADDRESS: _____

TELEPHONES: _____

TELEFAX: _____

OWNER OF THE FIRM (FOR A PROPRIETORSHIP): _____

IF INFORMAL, GET HOME ADDRESS:

RESPONDENT: _____

RESPONDENT'S POSITION: _____

PERSON TO CONTACT: _____

FIRST VISIT

SECOND VISIT

DATE AND TIME PROPOSED FOR THE VISIT

DATE AND TIME PROPOSED

DAY	MONTH

TIME

DAY	MONTH

TIME

DATE OF THE INTERVIEW

DATE OF THE INTERVIEW

DAY	MONTH	YEAR

TIME BEGUN	TIME FINISHED

DAY	MONTH	YEAR

TIME BEGUN	TIME FINISHED

--

RESULT: COMPLETED 1
 UNCOMPLETED 2
 NO CONTACT 3

--

RESULT: COMPLETED 1
 UNCOMPLETED 2
 NO CONTACT 3

IF NOT COMPLETED, WHICH SECTIONS ARE NOT COMPLETED:

IF NOT COMPLETED, WHICH SECTIONS ARE NOT COMPLETED:

TABLE OF CONTENTS

DATA ENTRY

- SECTION I: ENTREPRENEURSHIP/BUSINESS HISTORY
- SECTION II: PRODUCTION, INVESTMENT AND MARKET SHARE
- SECTION III: FINANCE
- SECTION IV: LABOR AND TRAINING
- SECTION V: CAPACITY, LEARNING AND TECHNOLOGY
- SECTION VI: INFRASTRUCTURE
- SECTION VII: TRADE
- SECTION VIII: BUSINESS ENVIRONMENT

DATA ENTRY OPERATOR:

CODE: _____

DAY	MONTH	YEAR

GENERAL INSTRUCTIONS TO ENUMERATORS AND FIELD COORDINATORS

The questions in this survey should be answered by the owner or managing director. If the owner/managing director is not available, try to make an appointment with him/her at a later date to conduct the interview. With the owners/managing director's permission, other staff (e.g. the accountant) could answer parts of the questionnaire.

IT IS IMPORTANT THAT YOU STRESS THE REASONS FOR THIS INTERVIEW AND ITS CONFIDENTIALITY.

Please state all monetary values in Tanzania shilling. More generally, the enumerator should ensure that the unit of measurement is clearly recorded at all times and consistent throughout the survey.

Explain to the respondent that the questionnaire consists of 8 sections. The first section deals with background information; Section 2 with production, investment, and market share; Section 3 with finance; Section 4 with labor and worker training; Section 5 with capacity, learning and technology; Section 6 with infrastructure; Section 7 with trade; and Section 8 with business environment.

Finally, inform the respondent that there are four types of questions: yes and no questions, questions with a fixed number of given alternatives, questions on quantitative information, and a few open-ended questions.

The sampling unit of this survey is the establishment rather than the firm. However, there are also a few items at the beginning of the questionnaire that relate to the firm to which a sampled establishment belongs. It is therefore important that enumerators have a clear grasp of the distinction between the two concepts and that they make sure the answers a respondent gives to each question relate to the right entity. An establishment is a production or service facility or unit with distinctive management and location. In the case of manufacturing industries, the term is synonymous with plant or factory. A company or a firm could have just one establishment or plant. It could also have two or more establishments or plants. The answers that respondents give to the first section of the questionnaire will reveal whether the enumerator is dealing with a single establishment or has approached the management of a multi-establishment company or firm. In a multi-establishment situation, most of the questions in the first section refer to the firm rather than any particular establishment of it, while questions in the rest of the questionnaire refer to one and only one of the establishments owned by the firm. In this case the enumerator must ensure that respondents give answers to questions in Section 2 onward only in relation to a particular establishment that has been identified by name or by location. This problem would not arise in a single-plant situation, because in that case responses to all items of the questionnaire would refer practically to the same entity.

SECTION I: ENTREPRENEURSHIP AND BUSINESS HISTORY

1. Is this establishment part of a company with one or more other plants?

Yes1
 No, it is a stand-alone firm....2

- Private held, limited company 2
- Publicly held, limited company 3
- Cooperative 4
- Sole proprietorship 5
- Partnership 6
- Government Owned..... 7
- Other (specify) 8

IF NO, GO TO QUESTION 6.

2. Where is the your headquarters located in this country?

(Name of Location) _____

- Capital City 1
- Other City or town, Over 1 million population 2
- City or town of 250,000-1 million 3
- Town of 50,00-250,000 4
- Town or location of less than 50,000 5

How many plants/establishments does your firm operate?

2. (a) in this industry

(b) in other industries

a) How many establishments (separate operating facilities) does your firm have in this country?

b) Does your firm have holdings or operations in other countries?

Yes=1 No=2

In what year did this firm begin its operations?
 (Refers to the parent company) YEAR

In what year did this firm start operations in Tanzania?
 YEAR

What is the current legal status of your firm?
 Publicly listed company 1

What percent of your firm is owned by:
 Private Sector: a) domestic _____ %
 b) foreign _____ %
 Government/State _____ %
 Other _____ %
 Total 100

If your firm is not state-owned at the moment, was it previously?

Yes 1
 No 2

If yes, in what year was your firm privatized?

YEAR

How was this firm acquired?

- Established..... 1
- Bought it..... 2
- Inherited it..... 3
- Other..... 4

If you started up this firm, what percent of the start-up finance came from the following sources?

(a) Owner savings/internal funds (%)

SECTION I: ENTREPRENEURSHIP AND BUSINESS HISTORY

(b) Equity, sale of stock _____ (%) _____
 (c) Bank loan _____ (%) _____
 (d) Family or friends _____ (%) _____
 (e) Money lenders _____ (%) _____
 (f) Other informal sources _____ (%) _____
 (g) Other _____ (%) _____
 Total (%) 100 _____

Which of the following best describes the largest shareholder or owner in your firm? _____

- Individual _____
- Family _____
- Domestic company _____
- Foreign company _____
- Bank _____
- Investment fund _____
- Managers of the firm _____
- Employees of the firm _____
- Government or government agency _____
- Other (Specify) _____

What percentage of your firm does the largest shareholder or owner own? _____

PERCENT _____

If the largest shareholder is an individual (or a family):

(i) Is this principal owner also the manager/director?

Yes 1 _____
 No 2 _____

(ii) Is the principal owner male?

Yes 1 _____
 No 2 _____

(iii) What is the ethnic origin of the principal/majority owners? _____

African 1 _____

- Asian 2 _____
- Lebanese/Middle Eastern 3 _____
- European/American 4 _____
- Other 5 _____

(iv) What is the nationality of the majority shareholder? _____

- Kenyan 1 _____
- Uganda 2 _____
- Tanzanian 3 _____
- Other African 4 _____
- Other Non-African 5 _____

If answer to 15(iv) is 3, which part of Tanzania does the owner of firm/establishment come from? _____

- Arusha 1 _____
- Dar es Salaam 2 _____
- Dodoma 3 _____
- Iringa 4 _____
- Kagera 5 _____
- Kigoma 6 _____
- Kilimanjaro 7 _____
- Lindi 8 _____
- Mara 9 _____
- Mbeya 10 _____
- Morogoro 11 _____
- Mtwara 12 _____
- Mwanza 13 _____
- Pemba 14 _____
- Pwani 15 _____
- Rukwa 16 _____
- Ruvuma 17 _____
- Shinyanga 18 _____
- Singida 19 _____
- Tabora 20 _____
- Tanga 21 _____
- Zanzibar 22 _____

TO BE ANSWERED BY THE OWNER OF THE BUSINESS

Did you (the owner) ever work for a foreign-owned or foreign-managed firm? _____

SECTION I: ENTREPRENEURSHIP AND BUSINESS HISTORY

Yes..... 1
No..... 2

How many years of experience did you have in this industry prior to establishing or acquiring this business?

Owner not present 3

NOTE: For the remainder of this survey, please answer with respect to this establishment

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

SALES:

What percentage of your annual domestic sales last year (i.e., 2002) was sold to:

- (a) the government _____ %
- (b) state-owned or controlled enterprise _____ %
- (c) multinationals located in your country _____ %
- (d) parent company or its subsidiaries _____ %
- (e) very large domestic firms (300 or more workers) _____ %
- (f) other (small firms, individuals) _____ %

TOTAL 100%

In the last year, what percentage of your firm/establishment's sales are sold:

a. For Cash	%
b. Pre-Paid	%
c. On Credit	%
Total	100%

Over the past year (i.e., 2002), what percentage of your output (in value) is subcontracting work you do for other firms? _____ PERCENT

Between 2000-2002, what % of annual sales revenue of your firm was sold as:

	2002	2001	2000
a. Direct exports	%	%	%
b. Indirect exports (through a distributor)	%	%	%
c. Sales to domestic units	%	%	%
TOTAL	100%	100%	100%

Complete the following sales information for the last financial year (i.e., 2002) about the three most important (by share sales revenue) products sold by your firm.

Description	Unit	Quantity sold as per units stated	Total value of sales TZS	Value of Direct Exports TZS
1)				
2)				
3)				

a. Within your main product line, what percentage share of the local market in your city or town is made up by sales of your establishment? _____ PERCENT

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

b. Within your main product line, what percentage share of the national market is made up by the sales of your establishment? PERC

RAW MATERIAL PURCHASES:

At the time you receive delivery of your most important input or supply, how many days of inventory do you typically have on hand? _____ days of inventory of main input.

What percentage of sales and how many days of production was lost last year due to:

	Percent of Sales Lost	Days of Production Lost
Delivery Delays from Suppliers	%	
Transportation Delays	%	
Other Causes (SPECIFY)	%	

Ask the following information about the three most important raw materials (in terms of volume of total raw material purchases) for the latest financial year

Description	Unit	Total quantity of purchases in 2002 as per units stated	Value of total annual purchases in TZS	Percentage share of this material in annual purchases of all raw materials	Value of direct imports of this material TZS
1)					
2)					
3)					

Approximately what percent of annual purchases of raw materials by your establishment was from the following sources?

	2002	2001	2000
(a) your direct imports	%	%	%
(b) imported by distributors	%	%	%
(c) bought from domestic producers	%	%	%
Total	100%	100%	100%

What percent of your purchased material inputs/supplies are of lower than agreed upon quality (e.g., damaged supplies, lower than expected standard of goods, etc.)? PERCENT

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

FINISHED PRODUCTS:

What is/are your main product line/s? _____

Do you have other income generating activities beyond these main business lines? (1-YES, 2-NO) _____

If YES, what percent of your workers time is accounted for by:

- Manufacturing: specify main line of business (e.g. textiles) _____ %
- Services: main service provided _____ %
- Commerce (retail/wholesale trade): _____ %
- Construction: _____ %
- Other (specify) _____ %

How many days does your establishment stock inventory of your most important product? (Important product in terms of sales volume)

(For the following questions, if respondent does not know the precise number, but knows it is more than 20, please code as "555")
Over the last year, within your main product line, how many of the following do you have in the domestic market?

- Domestic Private Firms State Owned Firms Foreign Owned Firms
- a. Competitors _____
- b. Suppliers of main supply or input _____
- c. Customers _____

Now I want to ask you a hypothetical question. If you were to raise your prices of your main product line or main line of services 10% above their level in the domestic market (after allowing for any inflation) which of the following would best describe what would happen? IT IS ASSUMED THAT COMPETITORS DO NOT CHANGE THEIR PRICES AND YOU DO NOT IMPROVE THE QUALITY OF THE PRODUCT AT THE TIME OF PRICE CHANGE).

- Our customers would continue to buy from us in the same quantities as now
 - Our customers would continue to buy from us, but at slightly lower quantities
 - Our customers would continue to buy from us, but at much lower quantities
 - Our customers would stop buying from us.
- INVESTMENT and CAPITAL:

How much did your establishment spend on additional machinery, equipment, vehicles, land, and buildings?

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

	2002		2001		2000	
	amount ('000 TZS)	of which % imported	amount ('000 TZS)	of which % imported	amount ('000 TZS)	of which % imported
a) New machinery and equipment		%		%		%
b) Second hand machinery & equipment		%		%		%
c) Land, buildings, improvement in leasehold						
d) Vehicles						

- a) New machinery and equipment
- b) Second hand machinery & equipment
- c) Land, buildings, improvement in leasehold
- d) Vehicles

a. Of this was any of it spent on creating a new establishment? Yes= 1 No=2
 b. If yes, how much in fiscal year 2002? TZS. _____

Approximately what share of net profits was re-invested in your establishment last year (that is, not distributed to owners or shareholders) (-222= No Profit) PERCENT

Of the land and buildings occupied by this establishment, what percent is owned or leased/rented?

Owned Leased or rented If leased/rented, av. contract length
 Land _____% _____% _____ months
 Buildings _____% _____% _____ months

Have you sold any buildings or equipment in the last three years? Yes= 1 No= 2

IF NO, GO TO QUESTION 24.

Please give the value (in Tanzanian shillings) any equipment or property your establishment sold.

	2002	2001	2000
Machinery and equipment.....			
Land and buildings or leasehold.....			
c. Vehicles.....			

How much did the following cost your establishment in Tanzanian shillings during 2002, 2001 and 2000?

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

	2002TZS	2001TZS	2000 TZS
Rent for Machinery and Equipment			
Lease for Machinery and Equipment			
Rent for land or building			
Lease for land or buildings			
Rent (lease) of vehicles			
Royalty or license fee to domestic companies			
Royalty or license fee to foreign-owned companies			

What percentage share of the plant, machinery and equipment, in terms of value, is in the following age categories?

- (a) Less than 5 years old _____ %
- (b) 5-10 years old _____ %
- (c) 10-20 years old _____ %
- (d) more than 20 years old _____ %
- TOTAL _____ 100%

What would be the cost of replacing all your machinery and equipment (that is if your machinery is not new) at the end of 2002 by acquiring new machines?

Quote market price, Tanzania shillings _____

How much would you get if you sold all your machinery and equipment at the end of 2002? _____ (Book value, Tanzania shillings)

What would be the cost of replacing all your business premises or leasehold at the end of 2002? _____ Tanzania shillings

If you own your premises what is the estimated market rent that your plant would have paid for its business premises in 2002? _____ Tanzania shillings

Please estimate the value (in Tanzanian shillings) of any equipment or property you intend to invest in over the next three years.

	2003	2004	2005
a. Machinery and equipment.....			
b. Land and buildings or leasehold.....			
c. Vehicles.....			

What was this establishment's average capacity utilization over the last year? _____ PERCENT

(Capacity utilization is the amount of output actually produced relative to the maximum amount that could be produced with your existing machinery and equipment and regular shifts)

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

FINANCIAL STATEMENTS:

Do you prepare annual budgets?

Yes.....1
No2

Do you monitor annual budgets?

Yes.....1
No2

Right now, how many months ahead does the management of your enterprise plan its activities with regards to:

	Months
product mix and target market	
human resources (employment and training)	
investments	

Does your firm have its accounts audited by an outside agency

Yes.....1
No2

Does your firm keep its accounts on an annual basis

Yes.....1
No2

When does this firm's fiscal year end?

What were the annual totals of the following for your firm for 2002, 2001, and 2000?

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

(USE SEPARATE WORKSHEET TO GENERATE ANNUAL FIGURES IF THE FIRM DOES NOT KEEP ACCOUNTS ON ANNUAL BASIS)

	Value in TZS as of end of the fiscal year of		
	2002	2001	2000
What were the annual totals of the following for your firm for the last 3 financial years?			
Total sales			
Total sales from manufactured goods (sales value)			
Total cost of manufactured goods			
Percentage of manufactured goods that came from FY opening inventories	%	%	%
Value of sales from trading			
Value of sales from services			
Purchases of materials excluding fuel			
Cost of energy:			
Electricity			
Fuel			
Other			
Direct Labor costs (incurred in the manufacturing process)			
a) Wages and salaries			
b) Allowances, bonus, other benefits			
Indirect labor costs (administrative labor costs)			
Interest charges and financial fees			
Other Overhead Cost – (excluding wages + salaries)			
Depreciation			
a) Depreciation for Land and building			
b) Depreciation for Machinery and Equipment			

Total Expenditures on Generator Fuel:

	2002	2001	2000
GENERATOR FUEL (TZS)			

If applicable, what were your sales in the following years:

	1999	1998	1993
Sales (TZS)			

Please provide information on the following balance sheet items for your establishment

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

	Value in TZS as of end of the fiscal year of	
	2002	2000
Total Assets		
Property, Plant and Equipment:		
Gross Value (Acquisition cost)		
a. Machinery and equipment (including transport) ...		
b. Land, buildings and leasehold improvement		
Net book value		
a. Machinery and equipment (including transport) ..		
b. Land, buildings and leasehold improvement		
Current Assets:		
Inventories and stocks		
a. Finished goods		
b. Work-in-progress		
c. Raw materials excluding fuel		
d. Fuel		
Accounts receivable		
Cash on hand and in bank		
Other		

Please provide information on the structure of your establishment's liabilities

	Value in TZS as of end of the fiscal year of	
	2002	2000
Total Liabilities		
Long-term liabilities (i.e. more than 1 year)		
Short-term liabilities (i.e. one year or less)		
a. Of which:		
payables		
Equity - Share Capital		
-- Retained Earnings (Reserves and Surplus)		

*Note: Total Assets must equal Total Liabilities

OVERDUE PAYMENTS AND PAYMENT DISPUTES:

Overdue payments

SECTION II: SALES, RAW MATERIALS, PRODUCTS, INVESTMENT, FINANCIAL STATEMENTS AND OVERDUE PAYMENTS

During the past three years did you resolve any important disagreements (including payment disputes) with customers or other businesses using any of the following private or informal methods of conflict resolution?
(1 – Yes, 2- No)

	Private Customers	Government	NGOs/ Other
(a) Approximately how many invoices are issued in a typical year to the following clients?			
(b) Approximately how many of these are paid late?			
(c) Average number of weeks to resolve after becoming overdue (weeks)			
(d) Approximately, how many late payments result in formal disputes involving courts or other third parties?			

	Did you Use? (1-Yes, 2-No)
a. Lawyer (without going to court)	
b. Formal Mediator/ Arbitrator	
c. Government Official	
d. Respected member of business community	
e. Other respected member of society	
f. Business Association or Chamber of Commerce	
g. Other (Specify _____)	

Resolution of payment disputes through third parties.

Means	Arbitration	Commercial Courts
a) Have you used this resolution method? (1-Yes, 2-No)		
b) If yes, on average, how long did the process take? (Weeks)		
c) If yes, on average, how much of the disputed payments did you recover? (Percent)		
d) In the most recent case that you won, were you able to enforce the judgment (i.e., collect payment)? (1-Yes, 2-No, NA-Never won)		
e) In the most recent case you won, if you were able to enforce the judgment, what was the enforcement fee? (Percent of settlement value, NA – Never won)		

SECTION III: FINANCE

Do you purchase inputs on credit from suppliers?
 Yes 1
 No 2

Has this maximum changed over the last year (i.e., 2002)?
 Increased..... 1
 Decreased 2
 Remained the Same 3

IF NO, GO TO QUESTION 4.

If yes, on average what percent of your inputs are purchased on credit? PERCENT

If the amount increased, how much did the maximum amount increase by? (Please note that this is the difference between the previous and current amount.)

TZS	
TZS	

When you buy on credit from your suppliers, on average how long do you have before you must make payment? DAYS

What amount of an increase did you apply for? TZS

For the most recent overdraft was a collateral of some sort required?
 Yes 1
 No 2

How many financial institutions does this firm currently do business with (excluding insurance companies)? NUMBER

IF YES, which type of collateral was required?
 Deposit..... 1

What share of your total borrowing (loans, accounts payable) is denominated in foreign currency? PERCENT

Equivalent value of the inventory of finished products..2
 Other (SPECIFY.....).....3
 Other (SPECIFY.....).....4

Do you have an overdraft facility?

Yes 1
 No 2

Has your firm ever applied for a bank loan?
 Yes 1
 No 2

IF NO, GO TO QUESTION 16.

What percent is currently unused? PERCENT

IF NO, GO TO QUESTION 28

What is the current interest rate on overdrafts? PERCENT

Do you currently have a bank loan
 Yes 1
 No 2

What is the maximum amount of your overdraft facility? TZS.

IF NO, GO TO QUESTION 27

In the past year, i.e. 2002, for how many days have you utilized the maximum amount of your overdraft facility?

How many bank loans do you have?

NUMBER

When was the latest loan approved?

YEAR

SECTION III: FINANCE

Did the most recent loan require collateral or deposit of some sort?
 Yes 1
 No 2

If yes, what share of the collateral was:

a) Land and Buildings?	%
b) Machinery?	%
c) Intangible Assets (accounts receivable, inventory)?	%
d) Personal assets of owner/manager?	%
e) Other	%
TOTAL	100%

What was the approximate value of collateral required as a percentage of the loan value?
 PERCENT

What was the loan's approximate annual cost/rate of interest?
 PERCENT

What is the period of the latest loan?
 YEARS

How much is the principal of your latest loan
 TZS

How long did it take to get the loan from the time when you applied for it?
 WEEKS

Would your firm like to borrow more than it is able to at the current interest rate (is this firm credit constrained)?
 Yes1
 No2

If you have never applied for a bank loan, did you decide not to for any of the following reasons? (Multiple YES answers are possible)

a. Collateral requirements too stringent	(1-Yes, 2-No)
b. Don't want to incur debt	
c. Application procedures for bank loans too cumbersome	
d. Don't need one	
e. Didn't think I'd get one	
f. Interest rate is too high	
g. Already heavily indebted	
h. Corruption in the allocation of bank credit	
i. May create complications with tax authorities	
j. Other (specify _____)	

If your latest application for a loan was rejected, were the following reasons given to you when it was turned down? (Multiple YES answers are possible)

a. Lack of collateral	(1-Yes, 2-No)
b. Incompleteness of application	
c. Perceived lack of feasibility of project	
d. Other (specify _____)	

When was the application rejected?
 YEAR

How long did it take the bank to reject the application from the time of submission?
 WEEKS

How long does it take to clear the following payments through your financial institution (i.e. until the recipient can draw the funds) and what is the charge or fee?

	How long (Days)	Charge (% of transaction)	OR Fee (in TZS)
a. Cheque			
b. Domestic bank transfer			
c. Foreign bank transfer			

SECTION III: FINANCE

What percent of payments from domestic and foreign companies are made in the following ways: (as percent of payments from that type of enterprise)

	Domestic companies	Foreign Companies
a) Cash	%	%
b) Cheque	%	%
c) Draft	%	%
d) Bank Transfer	%	%
e) Other (SPECIFY)	%	%
TOTAL	100%	100%

Does this firm (or the owner, if this firm is owned by a sole proprietor) have any of the following accounts?

Account?	(1-YES, 2-No)
a. Current	
b. Savings	
c. Foreign Currency Account	
d. Foreign Bank Account	

Please identify the contribution over the last year of each of the following sources of financing for your establishment's

Working Capital (i.e., inventories, accounts receivable, and cash)
 New Investments (i.e., new land, buildings, machinery, and equipment)

Internal funds or Retained earnings	_____ %	_____ %
Local commercial banks (loan, overdraft)	_____ %	_____ %
Foreign owned commercial banks	_____ %	_____ %
Leasing arrangement	_____ %	_____ %
Investment Funds/Special Development	_____ %	_____ %
Financing/Or Other State Services	_____ %	_____ %
/Gov/NGO/Donor sources	_____ %	_____ %
Trade credit (supplier or customer credit)	_____ %	_____ %
Credit cards	_____ %	_____ %
Equity, sale of stock	_____ %	_____ %
Family, friends	_____ %	_____ %
Informal sources (e.g. money lender)	_____ %	_____ %
Other (specify source): _____	_____ %	_____ %

TOTAL 100% 100%

Please list names of all the main banks that you have a financial relationship with

Name of Bank (list by decreasing order of importance with the most important bank first)	When did your firm first establish a relationship with this bank? (YEAR)	Size of overdraft facility provided by this bank (most current) (TZS)	Number of current outstanding or active loans with this bank? (Number)	When did you last receive a loan from this bank? (YEAR) (NA if you have never received loan)
1.				
2.				
3.				
4.				

SECTION IV: LABOR AND TRAINING

How many security personnel does this firm employ? NUMBER

How many workers are mainly devoted to generator operation and maintenance? NUMBER

What percent of your permanent skilled workers are foreign nationals? PERCENT

How many employees does your firm currently have (including managers)? NUMBER

Of these current employees how many are:

Employees	Total
(a) Full-time (permanent)	
(b) Full-time (casual)	
(c) Part-time	

What percentage of your permanent employees fall into each of the following age categories? (estimates OK)

Age Range	Males	Females
a. Less than 30 years old		
b. 30-45 years old		
c. More than 45 years old		
TOTAL	100%	100%

What percent of the permanent workforce at your establishment has the following education levels? (estimates OK)

Education Range	PERCENT
a. Did not complete secondary	
b. Secondary	
c. Vocational training	
d. Diploma or other tertiary study	
e. Graduate degree (BA, BSc, etc.)	
f. Post graduate degree (PhD, Masters)	
TOTAL	100%

Of those who did not complete primary school (6 years), what percent are female?

When your firm started its operations in Tanzania, what was the total number of full-time paid employees? NUMBER

In 2002, how many employees did your plant

	Number of Employees
a. Hire?	
b. Dismiss or lay off?	
c. Left due to sickness or death?	
d. Left for other reasons?	

Did the firm pay terminal benefits for any of these workers in 2002?
 Yes 1
 No 2

Within the last two years, how much time did it take to fill you most recent vacancy through external recruitment for a

	WEEKS (NA if have never recruited this vacancy)
a. skilled technician?	
b. production/service worker?	

Given your current level of output, if you were free to choose without restrictions your level of employment, would you increase employment, decrease employment, or keep the same level of employment?
 Increase.....1
 Decrease.....2
 Keep the Same.....3

SECTION IV: LABOR AND TRAINING

If you said that would like to increase your level of employment:

a. By what percentage would you like to increase your workforce? PERCENT

b. What is the main reason why you do not increase your workforce?

- Can not find skilled workers 1
- Labor taxes make it too expensive 2
- Due to regulations, it is difficult to fire new workers once they are hired 3
- Mandatory minimum wage is too high 4
- Mandatory benefits for workers are too costly 5
- Other (SPECIFY) 6
- Not Applicable NA

If you said that would like to decrease your level of employment:

a. By what percentage would you like to decrease your workforce? PERCENT

b. What is the main reason you do not reduce your workforce?

- We believe it is wrong to fire people 1
- We are prevented from firing people according to the contract 2
- Due to regulations, it is too expensive to reduce workforce 3
- We prefer to avoid troubles caused by local officials 4
- We worry about the social consequences of firing workers 5
- We worry about violent reaction from workers 6
- Other (SPECIFY) 7
- Not Applicable NA

How many days of production last year did you lose due to :

	DAYS
a) strikes or other labor disputes?	<input type="text"/>
b) civil unrest?	<input type="text"/>

What percentage of your labor force unionized?
Percent

Do non-union workers benefit from union-negotiated wages and benefits?
(1-YES, 2-NO)

What is the highest level of education of the top manager?

- Did not complete secondary school
- Secondary School
- Vocational Training
- Diploma or other tertiary study
- Graduate degree (BA, BSc etc.)
- Post graduate degree (Ph D, Masters)

How many years of experience working in this sector did the top manager have before running this establishment

	YEARS
a. Total Years of Experience	<input type="text"/>
b. Years with foreign-owned enterprises	<input type="text"/>
c. Years with domestically owned enterprises	<input type="text"/>

d) Did any of these prior firms export? (1-YES, 2-NO)

Do you offer formal (beyond "on the job") training to your permanent employees?
(1-YES, 2-NO)

When considering how much to invest in training your workers, how important are the following considerations? (0-Not Important, 1-Minimally Important, 2-Moderately Important, 3-Important, 4-Very Important)

	Degree of Importance (0-4)
a. Training is not affordable due to firm's limited resources	<input type="text"/>
b. Training is costly because of high labor turnover	<input type="text"/>
c. We lack knowledge about training techniques and programs	<input type="text"/>
d. Firm uses a mature technology making training unnecessary	<input type="text"/>
e. Trained workers can readily be hired from other firms	<input type="text"/>
f. We are skeptical about the benefits of training	<input type="text"/>
g. In-house informal training is adequate	<input type="text"/>

SECTION IV: LABOR AND TRAINING

The following table applies only to the permanent workers in 2002

	Management	Professional	Skilled	Unskilled	Non-Production
a. What percentage of your total permanent employees received formal training in 2002? PERCENT					
b. What was the average number of weeks of training for each employee? WEEKS					

The following table refers only to the permanent workers of your plant:

	Total	Management	Professionals	Skilled Production Workers	Unskilled Production Workers	Non-production workers
Ave. number of workers during fiscal year 2000						
Ave. number of workers during fiscal year 2001						
Ave. number of workers during fiscal year 2002						
of which: % female						
Average monthly wage or salary (TZS)						
Average total monthly compensation* (TZS)						

* Wages and all benefits, including food, transport, social security (i.e. pensions, medical insurance, unemployment insurance) etc.

The following table refers only to the temporary workers of your plant:

	FY2002	FY2001	FY2000
Average number of temporary workers employed:			
Of which, average number of female workers			
Average length of employment for each worker - months			
Total compensation of all temporary workers (wages and benefits) (TZS)			

SECTION IV: LABOR AND TRAINING

Does your firm provide any of the following benefits to employees?

Type of Benefit	Is this benefit provided? (1-Yes, 2-No)	Do you finance this partially or completely from the company's own resources? (1-Yes, 2-No)	Do you purchase benefit from an outside provider (1-Yes, 2-No)
a. Health insurance (medical aid coverage)			
b. Medical care at company clinic			
c. Accident compensation or insurance			
d. Other health or medical benefit			
e. Other (SPECIFY _____)			

Do you have a pre-employment health check for employees? (1-YES, 2-NO)

Did your firm undertake any activities in the last fiscal year to prevent HIV/AIDS among employees? (1-YES, 2-NO)

If yes to question 28, which types of HIV-related activities were undertaken?

Benefit (1-YES, 2-NO)
a. HIV prevention messages
b. Free condom distribution
c. Counseling for HIV/AIDS
d. Anonymous HIV testing
e. Financial support of dependents of HIV-infected workers
f. Other (Specify _____)

If yes to question 28, how much have these activities cost you over the past 12 months? TZS

- Is the HIV affecting your sales?
- 1 Increased Sales.....
 - 2 Decreased Sales.....
 - 3 No discernible change.....
 - 4 Don't Know/Cannot Say.....

Is HIV affecting your workforce in the following ways? (multiple YES answers possible)

High absenteeism among workers infected with HIV/AIDS	(1-YES, 2-NO)
High absenteeism among workers who need to care for family members or friends infected with HIV/AIDS or to attend funerals	
High staff turnover due to sickness/deaths among workers with HIV/AIDS	
Difficult to recruit essential workers due to HIV/AIDS	
Other (SPECIFY _____)	

Do you provide any of the following benefits for workers infected by the HIV?

Do you provide benefit? (1-YES, 2-NO)	Cost of benefit in 2002 (TZSs)
a. Direct Medical Expenses	
b. Funeral Expenses	
c. Transportation for sick or dying workers	
d. Benefits for surviving family members	

SECTION IV: LABOR AND TRAINING

Approximately how many workers have died or left the enterprise due to HIV/AIDS over the last three years?

	Skilled/ Management/ Professional	Unskilled
a. Total Number of Deaths		
b. Number of deaths believed to be related to HIV/AIDS		
c. Number of workers who have left or retired early due to illnesses believed to be related to HIV/AIDS		

How many man-days would you estimate your organization has lost from absenteeism or sick leave due to HIV/AIDS related illnesses and other diseases in 2002?

	Skilled/ Management/ Professional	Unskilled
a. Man Days lost due to HIV/AIDS related illnesses (Days)		
b. Man days lost due to other diseases (Days)		

Are other diseases currently having an effect on your workforce?
(multiple YES answers possible)

	(1-YES, 2-NO)
High absenteeism among sick workers	
High absenteeism among workers who need to care for sick family members or friends	
High staff turnover due to other diseases	
Difficult to recruit essential workers due to other diseases	
Other (SPECIFY _____)	

What is the total amount that the firm has spent on medical expenses for staff (for both HIV and non-HIV related illnesses in 2002)? TZS

SECTION V: LEARNING AND TECHNOLOGY

SECTION V: LEARNING AND TECHNOLOGY

Has the firm invested in technology in the past three years?

(1-YES, 2-NO)

What percent of your workforce uses a computer in their jobs?

PERCENT

Does your establishment use technology licensed from a foreign-owned company?

(1-YES, 2-NO)

Thinking of your main product line or main line of services and comparing your production process with that of your closest competitor, which of the following best summarizes your position:

(select one)

1. My firm's technology is less advanced than that of its main competitor
2. My firm's technology is about the same as that of its main competitor
3. My firm's technology is more advanced than that of its main competitor

a) Has your firm received ISO certification for quality management (e.g. 9000/1/2) or environmental management 14000)?

(1-YES, 2-NO)

b) What percentage of your products is certified to national (TBS) or international (e.g. ISO, BSI, UL) standards?

	International
TBS	

PERCENT

Over the last two years, what were the leading ways in which your establishment acquired technology? Please identify which of the following is:

a. Most important	
b. Second most important	
c. Third most important	

CODES:

- Embodied in new machinery or equipment
- By hiring key personnel
- Licensing or turnkey operations from international sources
- Licensing or turnkey operations from domestic sources
- Developed or adapted within the firm locally
- Transferred from parent company
- Developed in cooperation with client firms
- Developed with equipment or machinery supplier
- From a business or industry association
- Trade Fairs
- Study Tours
- Consultants
- From universities, public institutions
- Adapted from competitors
- Other (please specify: _____)

a) Does your company invest in design or R&D? Yes - 1 No - 2

b) If Yes, do you allocate resources to design or R&D through:

- A formal budget - 1
- Ad hoc design and R&D projects - 2
- Both - 3

c) How much did your establishment spend on design or R&D in 2002?

TZS

(Spending includes wages and salaries of R&D personnel, such as scientists and engineers; materials, education costs, and subcontracting costs.)

SECTION V: LEARNING AND TECHNOLOGY

Has your company undertaken any of the following initiatives in the last three years?

	Undertaken Yes=1 No=2
Developed a major new product line	
Upgraded an existing product line	
Introduced new technology that has substantially changed the way that the main product is produced	
Discontinued at least one product (not production) line	
Opened of new plant	
Closed at least one existing plant or outlet	
Agreed a new joint venture with foreign partner	
Obtained a new licensing agreement	
Outsourced a major production activity that was previously conducted in-house	
Brought in-house a major production activity that was previously outsourced	

Which of the following is the most important influence on your establishment to reduce the costs of existing products or services? Pressure from

1. domestic competitors
2. foreign competitors
3. customers
4. shareholders
5. creditors
6. government or gov't agencies

Which of the following is the most important influence on your establishment to develop new products or services? Pressure from

1. domestic competitors
2. foreign competitors
3. customers
4. shareholders
5. creditors
6. government or gov't agencies

a. How many products does your establishment produce?

NUMBER

b. How many new products (i.e. those that involve a significant change in the production process) has your establishment introduced in the last three year?

NUMBER

SECTION VI: INFRASTRUCTURE

Is this establishment located in an industrial estate (where the government or the private sector provides the infrastructure)?

Yes1
 No2

During how many days last year did your establishment experience the following service interruptions, how long did they last, and what percent of your total sales value was lost last year due to:

What is your perception of the infrastructure service?

	Please rank on a scale of 1 to 5 with the following meaning: Do not need/ NA 0 No problem 1 Minor problem 2 Moderate problem 3 Severe problem 4 Not available 5
(a) Electricity	
(b) Water	
(c) Sealed Roads	
(d) Telecoms	
(e) Waste Disposal	
(f) Security (Police)	
(g) Postal Service	
(h) Air Freight Services	
(i) Trucking Services	
(j) Railways	

	Number (Days)	Average duration (Hours)	Lost value* (% total production)
(a) power outages or surges from the public grid?			
(b) insufficient water supply?			
(c) unavailable mainline telephone service?			
(d) transport failures?			

(*Please include losses due to lost production time from the outage, time needed to reset machines, and production lost due to processes being interrupted.)

Electricity

Does the firm own or share a generator? (1-YES, 2-NO)

If yes, what is the cost of the most recent generator purchased? TZS

What year did you purchase the generator? YEAR

What percentage of your electricity come from your own or a shared generator? PERCENT

What is your average cost of kilowatt-hour (KwH) of electricity from the public grid? (Total latest electricity bill divided by total units) TZS.

SECTION VI: INFRASTRUCTURE

YEAR TZS

Equipment

Was any of your equipment damaged or destroyed because of power fluctuations? (1-YES, 2-NO)

Does this firm have Internet access? (1-YES, 2-NO)

If YES, what year did your firm first get Internet access? YEAR

If yes please give an estimate of the value of the damaged equipment TZS

Does your enterprise regularly use in its interactions with clients and suppliers?

	Domestic Clients/Suppliers (1-YES, 2-NO)	Foreign Clients/Suppliers (1-YES, 2-NO)
(a) Mobile phone?		
(b) E-mail?		
(c) Website?		
(d) Fax		
(e) Fixed line telephone		

Water Supply

What share of your firm's water supply do you get from:

a. Municipal/public sources?	%
b. Your own well or a shared well?	%
c. Purchased from private vendors?	%
d. Other	%
TOTAL	100%

Did the firm do any of the following? (1-YES, 2-NO)

Build its own borehole or well?

Build its own water infrastructure?

Share its well with other firms or community?

(d) What was your annual cost of water consumption in 2002? TZS

Telecoms

How much did this firm spend on providing its own telecoms infrastructure? (e.g. telephone sets, switchboard, installation charges, etc) specify year

Security: How much did you spend in 2002 on the security infrastructure (e.g., fences, alarms, vehicles, etc.)? TZS

Transport & Services. Fill in the boxes below indicating whether your firm provides its own roads, transportation, waste disposal or any other services.

Yes.....1

No.....2

(a) Roads?	
(b) Transportation for workers?	
(c) Freight transport?	
(d) Waste disposal?	
(e) Other? (SPECIFY)	

What percentage of the value of your average cargo consignment is lost while in transit due to breakage, theft, or spoilage? (% of consignment value)

SECTION VII: TRADE

Exports

Have you exported any of your production or services in the past 5 years?

Yes.....1

No.....2

IF NO, GO TO QUESTION 7.

If you export: which year did you start exporting? YEAR

Which individual countries have been the major destinations for your exports (over past five years)?

Which year did you start exporting to the following regions and how were your exports of products distributed among them in 2002 ?

Regions	Year you first exported to this region /country	Percent of value of exports 2002
a. West Europe		%
b. East Europe and central Asia		%
c. North America (USA & Canada)		%
d. North Africa/Middle East		%
e. Other Asia		%
f. Kenya		%
g. Uganda		%
h. Other Africa		%
I. Others		100%

SECTION VII: TRADE

Please answer the following questions about export-related facilities:

Facilities	Does your firm use this export benefit? Yes.....1 No.....2	Compared to when the facility was not available or used by your firm? Do you export more 1 Do you export the same amount 2 Do you export less 3
Manufacture-in-Bond Scheme		
Customs Duty Drawback		
Duty suspension on imported inputs		
Bonded warehouse or similar scheme		
Profit tax exemption		
Export Credit Guarantee, e.g., Nexim		
Export Development Fund (EDF)		
Retention of Export Proceeds in Foreign Currency		
Export Processing Zone		
Export Adjustment Fund Scheme		
Foreign Inputs Facility (FIF)		
Duty Certificates		
Other		
(SPECIFY)		

SECTION VII: TRADE

If you export, what were the average and the longest number of days in the last year that it took from the time your goods arrive in the point of exit, (e.g. port, airport) until the time they clear customs?

	Number of Days (NA if do not export)
a. On average	
b. Longest time in the last year	

Yes1
 No2

If you import, what were the average and the longest number of days in the last year that it took from the time your goods arrive in their point of entry (e.g. port, airport) until the time you could claim them from customs?

	Number of Days (NA if do not import)
a. On average	
b. Longest time in the last year	

Imports

Were any of your raw materials imported in 2002?

Yes1
 No2

IF NO, GO TO NEXT SECTION

How were your imports of raw materials distributed between regions of origin in 2002?

Regions	Year you first imported from this region	Percent of value of imports (%) 2002
a. West Europe		
b. East Europe and central Asia		
c. North America (USA & Canada)		
d. North Africa/Middle East		
e. Other Asia		
f. Kenya		
g. Uganda		
h. Other Africa		
i. Others		
TOTAL		100%

Do you use a clearing agent

SECTION VIII: BUSINESS ENVIRONMENT

Business Environment

Please tell us if any of the following issues are a problem for the operation and growth of your business. If an issue poses a problem, please judge its severity as an obstacle on a four-point scale where:

0 = No obstacle 1 = Minor obstacle 2 = Moderate obstacle 3 = Major obstacle 4 = Very Severe Obstacle

	Degree of Obstacle				
	0	1	2	3	4
Telecommunications	0	1	2	3	4
Electricity	0	1	2	3	4
Transportation	0	1	2	3	4
Access to Land	0	1	2	3	4
Tax rates	0	1	2	3	4
Tax administration	0	1	2	3	4
Customs and Trade Regulations	0	1	2	3	4
Labor Regulations	0	1	2	3	4
Skills and Education of Available Workers	0	1	2	3	4
Business Licensing and Operating Permits	0	1	2	3	4
Access to Financing (e.g. collateral)	0	1	2	3	4
Cost of Financing (e.g. interest rates)	0	1	2	3	4
Economic and Regulatory Policy Uncertainty	0	1	2	3	4
Macroeconomic Instability (inflation, exchange rate)	0	1	2	3	4
Corruption	0	1	2	3	4
Crime, theft and disorder	0	1	2	3	4
Anti-competitive or informal practices	0	1	2	3	4
Legal system/conflict resolution	0	1	2	3	4
Competition from imports	0	1	2	3	4
Effect of HIV/AIDS on workforce	0	1	2	3	4
Effect of other diseases on workforce	0	1	2	3	4
Availability of business support services	0	1	2	3	4
Environmental Regulations	0	1	2	3	4

Whether or not you currently do business with the government, could you please comment on the ease or difficulty of the following

0 = No obstacle 1 = Minor obstacle 2 = Moderate obstacle 3 = Major obstacle 4 = Very Severe Obstacle

A. Learning about public tenders	0	1	2	3	4
B. Pre-qualifying to bid for public tenders	0	1	2	3	4
C. The bidding process: openness, fairness, complexity	0	1	2	3	4
D. The size of contracts as opposed to capacity	0	1	2	3	4
E. Award of contracts: timeliness, fairness	0	1	2	3	4
F. Supervision of contracts: competence, fairness	0	1	2	3	4
G. Timeliness and adequacy of payment	0	1	2	3	4
H. Competition for contracts	0	1	2	3	4
I. Requirements for unofficial payments	0	1	2	3	4

How would you generally rate the efficiency of government in delivering services (e.g., public utilities, public transportation, security, education, and health etc). Would you rate it as:

- 1...Very inefficient
- 2...Inefficient
- 3...Somewhat inefficient
- 4...Somewhat efficient
- 5...Efficient
- 6...Very efficient

Public Service Regulations and Efficiency

In a typical year, what percentage of senior management's time is spent in dealing with requirements imposed by government regulations (e.g., taxes, customs, labor

SECTION VIII: BUSINESS ENVIRONMENT

PERCENT

regulations, licensing and registration), including dealings with officials, completing forms, and so on?

It is often alleged that firms are required to make gifts or informal payments to public officials to "get things done" with regard to customs, taxes, licenses, regulations, services, and others.

Is this typically true for firms like yours? (1-YES, 2-NO)

b) If YES, in an average year, how much would such expenses cost a typical firm like yours? TZS

In many countries, firms are said to give unofficial, private payments or other benefits to public officials to gain advantages in the drafting of laws, decrees, regulations, and other binding government decisions. Using the following scale, to what extent have the following practices had a direct impact on your business?

(DK=Don't know NA = Not applicable 0 = No impact 1 = Minor impact 2 = Moderate impact 3 = Major Impact 4 = Decisive Impact)

Degree of Impact

Private payments or other benefits to Parliamentarians to affect their votes	0	1	2	3	4	NA	DK
Private payments or other benefits to Government officials to affect the content of government decrees	0	1	2	3	4	NA	DK
Private payments or other benefits to judges to affect the decisions of court cases	0	1	2	3	4	NA	DK
Illegal contributions to political parties and/or election campaigns to affect the decisions of elected officials	0	1	2	3	4	NA	DK

Regulations

On average, how many days in 2002 were spent in contact (i.e., in inspections, meetings) with inspections and mandatory meetings with officials of each of the following agencies in the context of regulation of your business? What were the costs associated with these interactions?

	Total days spent in inspections, required meetings with officials (Days)	% by local authorities (Percent)	Was number of days spent in inspections more or less in 2002 than in 2001 (1- More in 2002, 2-Less in 2002, 3-Same)	Total Cost of fines or seized goods (TZS)	Was Gift or Informal Payment Ever Expected/Requested? (Yes=1 No=2)	If yes, value? (TZS)
Tax Inspectorate						
Labor and Social Security						
Fire and Building Safety						
Sanitation/Epidemiology						
Municipal Police						
Environmental						
TOTAL, all agencies						

SECTION VIII: BUSINESS ENVIRONMENT

If you have registered, re-registered or applied for a license in the last 3 years, what were the time and costs associated with these activities?

	Total time spent completing activity (DAYS)	Number of offices or agencies visited	Total Cost including all official fees (TZS)	Value of unofficial payments or gifts. (TZS)
a. Registered Company (including all registration procedures)				
b. Applied for a basic activity license/permit				
c. Applied for a construction permit				
d. Applied for any other license/permit Specify				

If you have registered or re-registered in the past 3 years, did you hire an outside company to help you complete registration procedures? (1-YES, 2-NO)

When establishments in your industry do business with the government or local council, how much of the contract value is typically expected in gifts or informal payments to secure the contract? PERCENT

Think about national laws and regulations enacted in the last two years that have a substantial impact on your business:

(a) Did your firm seek to lobby government or otherwise influence the content of laws or regulations affecting it?
 Yes1
 No2

(b) How much influence do you think the following groups actually had on recently enacted national laws and regulations that have a substantial impact on your business?
 (DK=Don't know NA = Not applicable 0 = No influence 1 = Minor influence 2 = Moderate influence 3 = Major influence 4 = Decisive influence)

Groups that influenced regulations/laws	Level of influence
Your firm	
Other domestic firms	
Dominant firms or conglomerates in key sectors of the economy	
Individuals or firms with close personal ties to political leaders	
Foreign firms	
Business associations	
Labor unions	
Organized crime	
Regional or local government	
Military	
International development agencies or foreign governments	

Recognizing the difficulties many firms face in fully complying with taxes and regulations, what percentage of total sales would you estimate the typical firm in your area of activity reports for tax purposes? PERCENT

Security

Please estimate your firm's costs (as a percent of its total sales) of providing: (if firm has no costs in this area enter "0")

SECTION VIII: BUSINESS ENVIRONMENT

- (a) Security (equipment, personnel, and so on, excluding "protection payments") PERCENT
- (b) Protection payments (e.g. to organized crime to prevent violence)? PERCENT

Please estimate losses (as a percent of total sales) due to theft, robbery, vandalism or arson against your firm in the last year? TZS

- (a) What share of the incidents did you report to the police? PERCENT
- (b) Of these reported incidents, what percentage was solved (that is, the perpetrator was caught, etc.)? PERCENT

In general, government officials' interpretations of regulations affecting my establishment are consistent and predictable. "To what extent do you agree with this statement? Do you (read 1-6)

Fully disagree

Disagree in most cases

Tend to disagree

Tend to agree

Agree in most cases

Fully agree

	or N/A	1 = Yes 2 = No	(TZS.)
(i) A mainline telephone connection			
(ii) A electrical connection			
(iii) A water connection			
(iv) A construction permit			
(v) An import license			
(vi) Operating license			

Investment Decision

"I am confident that the judicial system will enforce my contractual and property rights in business disputes." To what degree do you agree with this statement? Do you (read 1-6)

- Fully disagree
- Disagree in most cases
- Tend to disagree
- Tend to agree
- Agree in most cases
- Fully agree

Do you cooperate with other local producers in any of the following ways?
(1-Always, 2- Usually, 3-Frequently, 4-Sometimes, 5-Seldom, 6-Never)

- a. Lending/Borrowing machinery 1 2 3 4 5 6
- b. Product development 1 2 3 4 5 6
- c. Marketing/Market research 1 2 3 4 5 6
- d. Training of workers 1 2 3 4 5 6

Based on your experience over the last two years, what was the actual delay from the day you applied to the day you received the service. And was a gift or informal payment asked for or expected to obtain each of the following:

	Wait (DAYS)	Gift asked for/expected	If Yes, Value,
<input type="text"/>			

SECTION VIII: BUSINESS ENVIRONMENT

- e. Purchase of inputs _____ 1 2 3 4 5 6
- f. Attracting investment _____ 1 2 3 4 5 6
- g. Exchange of information _____ 1 2 3 4 5 6
- h. Sub-contracting _____ 1 2 3 4 5 6

Do you belong to a business association or chamber of commerce?

	Do you belong? (1-Yes, 2-No)	Is it voluntary? (1-YES, 2-NO)	Have you attended a meeting in past year? (1-YES, 2-NO)
Business Association			
Chamber of Commerce			

For each of the following services, for your establishment over the last year, please assess whether it is affordable and evaluate the quality on a 1-4 scale where 1 is very poor and 4 is very good.

	Yes - 1 No - 2	0 - 4
(a) Lobbying government		
(b) Resolution of disputes (with officials, workers or other firms)		
(c) Information and/or contacts on domestic product and input markets		
(d) Information and/or contact on international product and input markets		
(e) Accrediting standards or quality of products; reputational benefits		
(f) Information on government regulations		

(Quality: 1 = very poor, 2 = somewhat poor, 3 = somewhat good, 4 = very good, N/A=not applicable to my establishment)

Affordable? Quality?

	Yes=1	No=2	Quality?
i) Engineering			1 2 3 4
N/A			
ii) Management consultants			1 2 3 4
N/A			
iii) Marketing			1 2 3 4
N/A			
iv) Accounting			1 2 3 4
N/A			
v) Legal services			1 2 3 4
N/A			
vi) Insurance			1 2 3 4
N/A			
vii) IT services			1 2 3 4 N/A

If yes, for each of the following, please indicate if this is a service the business association or chamber that is most important to your firm provides, and if so, what the value of this service is to your firm?
(0 = No value; 1= minor value; 2= moderate value; 3 = major value; 4= critical value to your firm)

Service	Provided?	Value

SECTION VIII: BUSINESS ENVIRONMENT

What are the three biggest obstacles to doing business in Tanzania?

DO NOT READ THESE RESPONSES TO THE RESPONDENT, ASK THE QUESTION AND LET HIM/HER TELL YOU THE PROBLEMS. THEN CODE APPROPRIATE OR WRITE IN THE OTHER PROBLEMS BELOW.

- NO PROBLEMS 0
- OWNERSHIP REGULATIONS 1
- TAX REGULATIONS AND/OR HIGH TAXES 2
- SKILLED LABOR SHORTAGE 3
- LABOR REGULATIONS 4
- OBTAINING LAND AND BUILDINGS 5
- FOREIGN CURRENCY REGULATIONS 6
- LACK OF BUSINESS SUPPORT SERVICES 7
- INADEQUATE SUPPLY OF INFRASTRUCTURE 8
- UTILITY PRICES 9
- INADEQUATE ACCESS TO CREDIT 10
- IMPORT REGIME 11
- HIGH COLLATERAL REQUIREMENTS 12
- HIGH INTEREST RATES 13
- INSUFFICIENT DEMAND FOR MY PRODUCTS 14
- COMPETITION FROM IMPORTS 15
- CRIME AND THEFT 16
- OFFICIAL CORRUPTION 17
- REGULATIONS FOR STARTING A BUSINESS, NEW OPERATIONS OR EXPANSION 18
- BUREAUCRATIC BURDEN 19
- SMUGGLING 20
- COUNTERFEIT GOODS..... 21
- OTHER (SPECIFY) 22

First	Second	Third

Appendix A: Survey of a Sub-Sample of Workers

INSTRUCTIONS FOR INTERVIEWERS

WE SUGGEST YOU INTERVIEW 10 EMPLOYEES/WORKERS FROM EACH FIRM (OR AS MANY AS ARE AVAILABLE). PLEASE ALSO OBSERVE THE FOLLOWING GUIDELINES IN SELECTING WORKERS TO INTERVIEW:

TRY TO INTERVIEW AT LEAST ONE WORKER IN EACH OF THE FOLLOWING CATEGORIES:

- Manager/Professional
- Technician
- Office Worker
- Sales/Service Worker
- Production Worker
- Line (Production) Supervisor

IF THE FIRM EMPLOYS CASUAL WORKERS, ASK TO INTERVIEW AT LEAST ONE CASUAL WORKER.

Appendix A: Survey of a Sub-Sample of Workers

WORKER NUMBER	What is your job now? CODE USING THE LABOR CATEGORIES BELOW	Where are you from? State region or, if not Tanzanian, country	SEX MALE 1 FEMALE 2	What is your age? YEARS	When did you leave school? YEAR	What is the highest level of education you completed? NONE 1 PRIMARY 2 SECONDARY (O & A LEVEL, HCE) 3 TECHNICAL/VOCATIONAL 4 BACHELORS DEGREE 5 MASTERS DEGREE OR HIGHER 6 PROFESSIONAL 7	How long have you been working for this firm?		How many years work experience did you have before you started working in this firm?	Are you a permanent full-time employee? YES 1 NO 2
							YEARS	MONTHS		
1										
2										
3										
4										
5										
6										
7										
8										
9										
10										

Managers

Proprietors (as Managers) 1

Appendix A: Survey of a Sub-Sample of Workers

Employed Managers	2	
Professionals (Require University Degree)		
Engineers, scientists, etc.	3	
Economists, programmers, mathematicians, other professionals		4
Technicians (with diploma or other formal qualification)	5	
Office and Sales Workers	6	
		7
Service Workers		
(i.e. cleaners, guards, food preparers and servers)		
Production Workers		
Foremen and Supervisors	8	
Other production workers	9	
Machine maintenance and repair		
(i.e. electricians, plumbers, welders, general repair workers)		10
Health Worker	11	

W O R K E R N U M B E R	Are you a member of a labor union? YES 1 NO 2	What was your job when you started in this firm? CODE USING THE LABOR CATEGORIES BELOW	How are you paid? HOURLY 1 DAILY 2 WEEKLY 3 MONTHLY 4 BY THE PIECE 5	What is your current or usual wage/salary and current allowances?				What was your usual wage/salary when you started (including allowances)?				How much do you receive in bonuses each year (e.g. for attendance, production, merit, etc?)
				Wages		Allowances		Wages		Allowances		
				Unit	TZS	Unit	TZS	Unit	TZS	Unit	TZS	
1												
2												
3												
4												
5												
6												
7												
8												
9												
10												

Managers
Proprietors (as Managers) 1
Employed Managers 2
Professionals (Require University Degree) 5
Engineers, scientists, etc. 3
Economists, programmers, mathematicians, other professionals 4
Technicians (with diploma or other formal qualification) 5
Office and Sales Workers 6

Service Workers 7
(i.e. cleaners, guards, food preparers and servers)
Production Workers
Foremen and Supervisors 8
Other production workers 9
Machine maintenance and repair
(i.e. electricians, plumbers, welders, general repair workers)
10
Health Worker 11

W O R K E R N U M B E R	Do you receive any of the following allowances in-kind?		Health clinic or a medical allowance? YES 1 NO 2	How many hours per week do you currently work for this firm? HOURS	Do you currently receive any formal training? WITHIN THIS FIRM 1 OUTSIDE THIS FIRM 2 NO 3	How long do these training courses last? NO OF DAYS	Did you receive formal training in the past? WITHIN THIS FIRM 1 OUTSIDE THIS FIRM 2 NO 3	How many training courses have you taken? Number	If you received training, did you receive higher wages after taking the course(s)? YES 1 NO 2
	Clothing? YES 1 NO 2	Transportation? YES 1 NO 2							
1									
2									
3									
4									
5									
6									
7									
8									
9									
10									

W O R K E R N O.	Have you been ill at any time during the past 30 days? 1...YES 2...NO	How many days of work did you miss due to your being ill in the last 30 days?	days	How many days of work did you miss due to your family members or friends being ill in the last 30 days?	days	If you or some member of your family were to fall seriously ill today, where would you ordinarily obtain treatment? USE CODE BELOW (More than one YES response is possible)	29. If you were to fall seriously ill today, which of the following financial arrangements for treating your illness would most apply to you? USE CODE BELOW	30. Is HIV/AIDS an important concern for you? 1) Not a concern 2) Small concern 3) Moderate concern 4) Big concern 5) Very big concern	Do you know where to be tested for HIV? 1...YES 2...NO	Would you be willing to pay to get tested for HIV at your firm, if the testing were voluntary and anonymous? 1...YES 2...NO	33. If YES, what is the maximum you would be willing to pay for it? TZS.
1											
2											
3											
4											
5											
6											
7											
8											
9											
10											

CODE FOR Q. 28

- 1...Healthcare facilities operated by the firm
- 2...Private health providers (including traditional healers)
- 3...Public facilities
- 4...Facilities of non-profit or charitable organizations
- 5...Other (specify in chart)

CODE FOR Q. 29

- 1...No significant out-of-pocket expenses necessary since treatment is free or low cost
- 2...High out-of-pocket expenses but reimbursed by employer fully or partially
- 3...High out-of-pocket expenses but reimbursed by insurance company fully or partially
- 4...High out-of-pocket expenses but financial support from friends/family not belonging to my household
- 5...High out-of-pocket expenses borne by my household
- 6...Other (specify in chart)

1 Data on total firms from 2001 Central Register of Enterprises as described in Office of Chief Government Statistician (2005).

2 Results in the previous report were presented in 2002 US dollars. For consistency with results for more recent surveys, these have been converted into 2005 dollars. Results are qualitatively similar in 2002 US dollars.

3

4 Although for a variety of reasons, critics often claim that perception-based data provide little information on the investment climate, recent studies show that perception-based measures perform well both in cross-country analysis and in within country, firm level comparisons (Gelb and others, 2006)

5 In addition to size and remoteness, Briguglio (1995) notes that vulnerability to natural disasters and environmental factors might also be important. These issues are not discussed here because they are not easily addressed using investment climate data.

6 Easterly and Kraay (2000) conclude that this is because these economies are more open to trade

7 A related problem is that small countries have a smaller labor pool from which they can draw public administrators (Briguglio, 1995). Since it is costly to train administrators who need specialized skills in small countries, it might be necessary to train people abroad for these tasks. However, given that small economies appear to be especially prone to outward migration (Dommen, 1980), this can be costly if the trained individuals do not return (Briguglio, 1995).

8 Data for Zanzibar are from Office of Chief Government Statistician (2007) and data from Dar es Salaam are from National Bureau of Statistics (2006).

9 Several empirical papers looking at Tanzania and other countries in Sub-Saharan Africa in the last decade found that small firms are less likely to export than are larger firms. Most notably, Grenier and others (1999) found that large Tanzanian enterprises export more than smaller enterprises. Using data from several countries in sub-Saharan Africa from the mid-1990s, Bigsten and others (2004), Söderbom and Teal (2003) and Clarke (2005) noted similar results.

10 See Eifert, Gelb and Ramachandran (2005), World Bank (2004a) and World Bank (2005) for comparisons of productivity in Tanzania with other countries in Africa and high-growth developing economies.

11 See World Bank (2004b), Dollar, Hallward-Driemeier and Mengistae (2003) and Escribano and Guasch (2005).

12 See Eifert, Gelb and Ramachandran (2005).

13 See, for example, Bertrand and Mullainathan (2001); Recanatini, Wallsten and Xu (2000); and Tanur (1992).

14 The difference is also close to significant after controlling more fully for firm size. See regression in the Appendix.

15 World Bank (2004a) discusses some recent changes in tax administration in Tanzania.

16 In regressions similar to those shown for macroeconomic stability in the Appendix, in a regression with a dummy variable indicating that the firm saw tax administration as a serious obstacle, the coefficient on the year dummy is statistically insignificant in the regressions both with and without the other controls.

17 This difference is statistically significant

18 This difference is statistically significant

19 See, for example, Djankov and others (2002) and Shleifer and Vishny (1993)

20 The difference is statistically significant at a 10 percent level before controlling for size and is just statistically insignificant at a 10 percent level after (see Appendix).

21 This is noted as one of the reasons why private borrowers do not borrow from banks in Zanzibar's Growth Strategy (2006-2015) (Ministry of Finance and Economic Affairs, 2006).

22 To be classified as not wanting or needing a loan, the manager had to reply 'yes' to either that they did not want a loan or that they did not want to incur debt.