



**UNITED REPUBLIC OF TANZANIA**

**MINISTRY OF INVESTMENT, INDUSTRY AND TRADE**

**A COMPARATIVE BASELINE STUDY ON THE ESTABLISHMENT OF  
A STARTUP POLICY IN TANZANIA**

**This Report was prepared by the Economic and Social Research Foundation (ESRF) on behalf of the Ministry of Investment, Industry, and Trade (MIIT) and the Tanzania Startup Association (TSA). Supported by The Kingdom of The Netherlands**



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## LIST OF ABBREVIATIONS AND ACRONYMS

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AfCFTA	African Continental Free Trade Area
AI	Angel Investor
BASATA	<i>Baraza la Sanaa la Taifa</i>
BBB-EE	Broad-Based Black Economic Empowerment
BDS	Business Development Services
BEST	Business Environment Strengthening for Tanzania
BRELA	Business Registration and Licensing Regulatory Authority
BRN	Big Results Now
BSA	Preferred Shares, Free Shares, and Warrants
CEO	Chief Executive Officer
CFAF	<i>Communauté Financière d'Afrique Franc</i>
CI	<i>Côte d'Ivoire</i> Innovation
CMSA	Capital Markets and Securities Authority
COSTECH	Tanzania Commission for Science and Technology
COVID-19	Coronavirus Disease
DD	Deputy Director
DIT	Dar es Salaam Institute of Technology
DSE	Dar es Salaam Stock Exchange
DT	Tunisian Dinar
DTBi	Dar es Salaam <i>Teknohama</i> Business Incubator
DUI	Doing Using Interacting
EGMS	Enterprise Growth Market Segment
ESRF	Economic and Social Research Foundation
FDI	Foreign Direct Investment
FYDP III	Third Five-Year Development Plan 2021/22 - 2025/26
GAC	Global Affairs Canada
GDP	Gross Domestic Product
GoT	Government of Tanzania
GEP	Graduate Entrepreneurship Programme
GPSA	Government Procurement Services Agency
HQ	Headquarters
i4Policy	Innovation for Policy
ICTs	Information and Communication Technologies
ID	Identity
IFC	International Finance Corporation
IHI	Ifakara Health Institute
IMED	Institute of Management and Entrepreneurship Development
IMF	International Monetary Fund
IP	Intellectual Property
IPR	Intellectual Property Rights
ISOs	Innovation Support Organisations
JICA	Japan International Cooperation Agency
KPIs	Key Performance Indicators
KYC	Know Your Customer
LGA	Local Government Authority
LGAs	Local Government Authorities
LLP	Limited Liability Partnership
LTD	Limited
MFP	Multi-Function Peripheral Product
MIIT	Ministry of Investment, Industry and Trade
MSMEs	Micro, Small and Medium Enterprises
MUHAS	Muhimbili University of Health and Allied Sciences

MVP	Minimum Viable Product
N/A	Not Applicable
NECTA	National Examinations Council of Tanzania
NEEC	National Economic Empowerment Council
NEEP	National Economic Empowerment Policy
NEIP	National Entrepreneurship and Innovations Programme
NEMC	National Environment Management Council
NFAST	National Fund for the Advancement of Science and Technology
NGN	Nigerian Naira
NGO	Non-Government Organisation
NIMR	National Institute for Medical Research
NSGPR	National Strategy for Growth and Reduction of Poverty
NSSF	National Social Security Fund
ODK	Open Data Kit
OECD	Organisation for Economic Co-operation and Development
ORS	Online Registration System
OSHA	Occupational Safety and Health Authority
PAYE	Pay As You Earn
PPRA	Public Procurement Regulatory Authority
PSFU	Private Sector Foundation Uganda
R	South African Rand
R&D	Research and Development
REPOA	Research for Poverty Alleviation
SADC	Southern Africa Development Community
SAIS	Southern African Innovation Support Programme
SAS	Simplified Share Company
SBA <sub>s</sub>	Small Business Acts
SDG	Sustainable Development Goal
SDL	Skills Development Levy
SEZ	Special Economic Zone
SIDO	Small Industries Development Organisation
SME <sub>s</sub>	Small and Medium Enterprises
STEM	Science, Technology, Engineering and Mathematics
STI	Science, Technology and Innovation
SUA	Sokoine University of Agriculture
SWAAT	Society for Women and AIDS in Africa -Tanzania Branch
TaCRI	Tanzania Coffee Research Institute
TAFIRI	Tanzania Fisheries Research Institute
TAFORI	Tanzania Forestry Research Institute
TANCIS	Tanzania Customs Integrated System
TASAC	Tanzania Shipping Agencies Corporation
TASAF	Tanzania Social Action Fund
TaTEDO	Tanzania Technology Development Organisation
TAWIRI	Tanzania Wildlife Research Institute
TCRA	Tanzania Communications Regulatory Authority
TCU	Tanzania Commission for Universities
TDV	Tanzania Development Vision
TGNP	Tanzania Gender Networking Programme
TIE	Tanzania Institute of Education
TIN	Taxpayer Identification Number
TIRDO	Tanzania Industrial Research and Development Organisation
TPSF	Tanzania Private Sector Foundation
TRA	Tanzania Revenue Authority
TRIT	Tea Research Institute of Tanzania



TSA	Tanzania Startup Association
TTCL	Tanzania Telecommunications Corporation Limited
TZS	Tanzanian Shilling
UDSM	University of Dar es Salaam
USD	United States Dollar
VAT	Value-Added Tax
VC	Venture Capital
VETA	Vocational Education and Training Authority
WBG	World Bank Group
WCF	Workers Compensation Fund
WIPO	World Intellectual Property Organisation

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## DISCLAIMER

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This report presents a Comparative Baseline Study on the Establishment of a Startup Policy in Tanzania. The study is jointly owned by the Ministry of Investment, Industry and Trade (MIIT) and Tanzania Startup Association (TSA). The study was commissioned to the Economic and Social Research Foundation (ESRF) in 2021. The preparation of the report took about 6 months, running from August 2021 to mid-January 2022.

The report has five chapters. Chapter 1 introduces the study by providing background information, rationale, objectives, and methodology used. Chapter 2 presents the status of the startup environment in Tanzania, while Chapter 3 presents the challenges facing startups and entrepreneurs in Tanzania. Chapter 4 benchmarks other African countries with Tanzania; and Chapter 5 presents recommendations.

This report does not represent a comprehensive account of all possible areas of policy intervention for startups in Tanzania. Instead, the account has focused on areas needing redress, given the current situation of the ecosystem. Additional concerns will be addressed as the Tanzanian startups' pipeline scales and the angel investor (AI) and venture capital (VC) landscape matures. Therefore, materials in this report should be used only for the intended purposes and not for defence in a legal dispute or any other matter of that nature.

The report is presented in good faith and cognizance of the 2018 Amendment to the Statistics Act (2015). Where a datum point used in this report unknowingly contradicts an official statistic, it should be deemed an error and the official statistic should be taken as the correct version.

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## EXECUTIVE SUMMARY

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### Introduction

Startups can contribute to Tanzania's industrialisation and Development Vision 2025 (TDV 2025) by accelerating growth and development in a supportive environment. Startups are rooted in innovation, addressing the deficiencies of existing products, processes, and services or creating entirely new categories, thereby disrupting entrenched ways of thinking and doing business. Startups generally focus their entrepreneurial<sup>1</sup> effort on solutions to wicked problems<sup>2</sup> that are difficult or impossible to solve because of incomplete, contradictory and changing requirements that are often difficult to recognise. As such, startups are largely knowledge-driven enterprises.

### Study Objective

The study's overall goal is to present the status of startup environment in Tanzania that will help in assessing whether the environment is suitable to support the emergence and development of startups and startup ecosystem as a whole. Also, the study aims to identify some key challenges influencing the business environment in Tanzania for startups, and present clear and feasible recommendations for policy and legislative reforms. In addition, the study develops a framework for reviewing the business climate for startups by comprehensively reviewing existing policies as well as legislative and regulatory framework challenges in light of the current best pan-African practices, including Tunisia, Senegal and Kenya.

### Methodology and Approach

The study employed mixed methods and approaches. These included a review of existing policies, laws, reports/publications, and primary data collection through consultations with relevant stakeholders. The research team developed and administered three questionnaires for the baseline study. One questionnaire was for ecosystem actors, the second was for innovation support organisations (ISOs), and the third was for startups. The respondents to the ecosystem support survey included academic departments, national think tanks, business registration agencies, development partners, regulators and Government ministries. Some of these were also consulted as part of key informant interviews. The surveys were administered from November to December 2021. About 16 ecosystem actors, 25 innovation support organisations (ISOs), and 63 startups responded to the survey.

### The Status of Startup Environment in Tanzania

The current situation of the startup environment in Tanzania is presided by lack of a specific law or policies on startups. The existing laws of Tanzania are not expressly defining the term “startups”, as there is no specific law or policy on startups. In addition, there is no single definition for startup provided by literature; however, in the context of this report, the term “startup” is used to refer to new entrants in business with high growth potential and knowledge-driven, regardless of whether they are termed as startups or small and medium enterprises (SMEs). A new firm or entrant with “high growth potential, mostly based on the perceived potential for growth and innovation”, is therefore the adopted definition for this report.

In analysing the status of the startup environment in Tanzania, the focus included assessing key domains that affect the entrepreneurship and innovation ecosystem as a whole. These domains, which are commonly used in the evaluation of the entrepreneurial ecosystem<sup>3</sup>, include policies, laws and regulations, financing, business development support, markets, human capital, research and development culture, and infrastructure. Much as there is no specific policy and legislation on startups, we found that there are several policies, such as the Small and Medium Enterprises Policy (2003), the National Trade Policy (2003), the National Research and Development Policy (2010), and the National Economic Empowerment Policy (2004) which, in one way or the other, have a direct or

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<sup>1</sup> This report uses the term **entrepreneur** and **startup** interchangeably to represent early stage knowledge-driven enterprises

<sup>2</sup> 1973, design theorists Horst Rittel and Melvin Webber introduced the term “wicked problem” in order to draw attention to the complexities and challenges of addressing planning and social policy problems. These are the crises that we long for answers to, but answers do not come easily. These include issues like education design, financial crises, health care, hunger, income disparity, obesity, poverty, terrorism, climate change and sustainability.

<sup>3</sup> ANDE “Entrepreneurial Ecosystem Diagnostic Toolkit”, December 2013

indirect implication on the startup ecosystem and, therefore, have impact in the development of startups. The most important reform is introducing a policy on startups by capitalising on existing policies and their direct or indirect implications on startups. The proposed policy on startups has to address the gaps in the existing policies. One of the identified gaps is the fragmentation of policies, while both are addressing almost the same thing. The new startup policy will also need to harmonise the roles in the policies that have implications on startups. The harmonisation has to be on institutional coordination of both research institutions and institutions that oversee other aspects of the startup ecosystem, such as capacity building and nurturing of startups, creating a conducive environment for startups on all pillars or domains of startups.

On legal and regulatory framework, as one of the key aspects affecting the startup ecosystem, an assessment was made on aspects such as business entry requirements, the cost of starting business, tax rates, available incentives and major compliance issues ranging from tax compliance to compliance with employment laws. Also, in assessment of the regulatory framework, which is made up of the Central Government and local governments, the study found that there are no specific incentives for startups, reporting requirements and penalties for non-compliance do not favour new entrants in business (i.e. startups), tax rates are not favourable and the entry requirements have a long list of requirements, some of which may be difficult for startups to comply.

Another important aspect is on the intellectual property (IP) for startups. There is a need for orderly protection and sharing of proprietary information in the form of intellectual property assets. Therefore, the national IP Policy should, among others, seek to encourage strategic protection of IP assets from research, in particular and, for the benefit of startups, should put emphasis on the effective use of utility models/certificates by enacting detailed provision under the Patents or the envisaged Industrial Property Act and commercialisation processes with users such as startups, SMEs and other large enterprises.

One of the most important legislative reforms to be undertaken for purposes of creating a favourable environment for the startup ecosystem is passing a specific piece of legislation on startups. Much as policies and laws are inter-related, it is important to enact a particular law that sets standards and procedures, which all stakeholders must follow. In addition, having a specific law on startups is important because, much as the SMEs Policy is in place, no legislation has been passed to give that policy the force of law. Also, the National Research and Development Policy, 2010, which is very key in the startup ecosystem, is not, to a large extent, reflected in the Tanzania Commission for Science and Technology Act, 1986, a key legislation in research and development. This is so because, after the passing of the policy in the year 2010, the 1986 law was not amended to reflect and give legal force to important aspects in the Policy.

The startup legislation should recognise the pre-startup stage where nurturing is crucial for entrepreneurs to go to the startup stage. The law should have clear provisions on the definition of startups and, where possible, differentiate between SMEs and startups. The law should also provide for registration and eligibility for registration of startups, establish institutions responsible for registration and coordination of all issues related to startups, as well as certification of incubators and accelerators. Institutions established in the startup law should also have the role of facilitating dialogue between regulators and stakeholders of the startup ecosystem, maintaining the register of startups and other important provisions which are key to the startup ecosystem. In addition, there should be provisions of incentive or support for startups. For purposes of avoiding conflicting and multiplicity of roles and functions, the startup law should have cross-referencing provisions that link the startup law with other important legislations, and those other legislations should be amended to accommodate what will be in the startup law.

### **Benchmarking Other African Countries with Tanzania**

This part benchmarks selected recent African startup acts from Tunisia, Senegal and Kenya, as well as the Startup Act draft from Mali, to develop a clear understanding of Tanzania's legislative framework, comparative strengths and weaknesses, and its potential for reform.

Startup Acts are legislative instruments aimed at fostering entrepreneurship and enabling the

development of new firms with high growth potential. Most startup Acts create incentives (tax, subsidies, procurement, etc.) for firms considered as startups according to their respective definitions, which are mostly based on perceived potential for growth and innovation. Criteria to define startups in startup Acts generally include the number of employees, annual turnover, capital requirements, number of years in existence, clauses on growth potential, and other qualitative criteria, especially on the sector of the firm. For example, in our assessment of startup Acts from other countries, we noted that the Tunisian Startup Act requires an economic model that presents a strong innovative and technological character.

Three countries in Africa, namely Kenya, Senegal and Tunisia, have enacted startup legislations. Startup Acts are also under development or consideration in several other African countries such as Benin, the Democratic Republic of Congo, Egypt, Ethiopia, Ghana, Nigeria, and Rwanda. Kenya, Senegal and, to a lesser extent, South Africa appear to have the most comprehensive regulations in place. At the same time, Ghana, Mozambique, Nigeria, Rwanda and Seychelles require some major amendments to their frameworks to accommodate startups. Cameroon, Gabon, Madagascar and Tanzania have fragmented and dispersed individual regulations, with much room for improvement towards having a specific startup policy and, ultimately, a startup Act.

Much as Tanzania has no specific law on startups like Tunisia, Senegal and Kenya have, Tanzania has implemented various regulatory reforms in the last six years across several areas, which create a strong foundation towards having a startup policy. These reforms include (i) making it easier to start a business by launching, in 2019, online company registration; (ii) in 2018: making it easier to issue construction permits by establishing a one-stop shop and by streamlining the process of issuing building permits (iii) in 2017: expanding the credit bureau borrower coverage and beginning to distribute credit data from retailers; (iv) reducing both exporting and importing time by creating, in 2016, an online system for downloading and processing custom documents, i.e. the Tanzania Customs Integrated System (TANCIS); (v) improving access to credit information by creating credit bureaus in 2015; and (vi) making cross-border trading easier by upgrading infrastructure at border posts and at the Port of Dar es Salaam in 2015.

Tanzania has a number of areas for improvement compared to many countries in Africa, offering better opportunities regarding the ease of doing business. By increasing land and property registration fees in 2018, Tanzania made property registration more expensive. In 2017 Tanzania made paying taxes more complicated and costlier by increasing the frequency of filing the skills development levy and by introducing a workers' compensation tariff to be paid by employers. In 2015, Tanzania increased registration fees, thus making it more difficult to start a business. The introduction of mobile money levy in 2021 has also disrupted the small and medium enterprises space in which startups thrive. Innovation and technology sector suffered a setback due to this new levy; paying taxes has as well become more complicated for companies by the introduction of an excise tax on money transfers. Furthermore, several gaps exist in support services, such as science, technology, engineering, and mathematics (STEM) training opportunities in the ecosystem; business services for entrepreneurs (recruiting, accounting, legal support); access to early-stage investment opportunities; and focus on international markets (scaling-up).

### **Challenges Facing Startups and Entrepreneurs**

The report highlights challenges for improvement and growth in the Tanzania startup ecosystem and makes recommendations of potential solutions. Some of the challenges and recommendations are on the following:

**Resource availability and access:** Startups have limited access to funding for ideation, validation and growth. Having policies that create an environment for promotion and incentivised funding as highlighted in this report will stimulate the startup ecosystem. In particular, there is lack of patient capital - i.e. long-term capital defined by the investor's willingness to forgo immediate returns and/or exercise some level of flexibility with the expectation of more substantial returns in future. Potential foreign investors are also not knowledgeable about Tanzanian startups, partly due to the fragmented and limited availability of information. The fragmented funding ecosystem requires startups to invest significant time and resources upfront in attracting funding of smaller amounts than counterparts in

the region. The Government should expedite its decision to capitalise development financing institutions in the country, who can provide long-term financing that is needed by star-ups.

**Platforms to explore innovative solutions:** Few platforms support the development of innovative solutions. The establishment of innovation and maker spaces would increase access to innovative products, processes and services.

**Business environment:** The study covered a number of aspects, including the legal and regulatory framework whose challenges have been highlighted above. Respondents quoted the business environment to be unsupportive of their growth. Several policies that are currently being reviewed, such as the SME Policy, Trade Policy, and Investment Policy, should accommodate interests of startups. As such, there is a need to strengthen and establish support mechanisms to increase access to finance, upskilling and validation. Increasing the number of ISOs and supporting their operations will boost the startup ecosystem.

**Entry and market access support:** Respondents indicated the unfavourable conditions for startup entry and market access. Policy directives and regulations that protect startup entry are recommended.

**Entrepreneurial skills:** A moderate number of respondents indicated that lack of entrepreneurial skilling programmes is a bottleneck to performance. In addition, entrepreneurship support organisations are inadequately capacitated to provide support to startups. Existing entrepreneurship courses offered by institutions such as the National Economic Empowerment Council (NEEC) and the University of Dar es Salaam Business School (UDBS) located at the main campus of the University of Dar es Salaam (UDSM) should be revisited to accommodate interests of startups. In addition, entrepreneurship should be incorporated into all levels of education to induce entrepreneur culture from the early stages of education. Programmes on entrepreneurship and innovation in higher learning institutions need to be strengthened.

**Support programmes are short term:** Most of the support programmes in the startup ecosystem are short-term, thus do not provide enough support to gain the needed skills, knowledge and guidance to successfully launch and validate businesses in the market. Medium-term and long-term programmes should be designed to suit the requirements of startups.

**Address gaps in support programmes:** Gaps in existing support programmes include quality of hubs' managers, trainers and facilitators, which has resulted in weak institutions mostly focused on light-touch early-stage programmes. Also, availability of skilled local talent is limited and, where available, such talent tends to be expensive, while some do not see the benefit of compensation in the form of equity during the earlier stages of startups development. The Government should intervene in providing opportunities for training and funding of such programmes through existing institutions that are providing training in entrepreneurship. This can also be achieved through networking and by forging linkages with related training institutions.

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## 1.0 INTRODUCTION

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### 1.1 Background

Startups turn ideas into new ventures, create value, recognise opportunity, evaluate and exploit it<sup>4</sup>. Startups are rooted in innovation and focuses on addressing the deficiencies of existing products or creating entirely new categories of goods and services, thereby disrupting entrenched ways of thinking and doing business for entire industries. That's why many startups are "disruptors."

A conducive policy environment that addresses entrepreneurial challenges and builds a strong entrepreneurial ecosystem would be a major advantage to Tanzania. Developing a comprehensive policy with matching legal instruments and a clear strategy would develop Tanzania's capacity to support entrepreneurial interventions. Well-designed legislative instruments for entrepreneurship, such as Startup Acts, ensure that markets and entrepreneurial activity are not limited by an unnecessary complex policy environment, excessive regulation and taxation, unfair competition and corruption.

Since Italy formulated its Startup Act in 2012, several countries have passed Startup Acts that streamline administrative processes and establish incentives (tax, subsidies, grants, procurement, etc.) for firms to leverage the potential for growth and innovation in the country. In Africa, three countries have enacted legislation on startups: Tunisia Startup Act of 2018; the Senegal Startup Act of 2019, and the Kenyan Startup Act of 2020.

With blessings from the Ministry of Investment, Industry, and Trade (MIIT), the Tanzania Startup Association (TSA) and The Netherlands Embassy partnered, in 2020, to strengthen the startup ecosystem in Tanzania by providing a framework that paves the way to achieving a conducive legal and regulatory business environment for the Tanzanian startup ecosystem. The first step in this process is establishing a baseline that considers best practices and experiences from other like-minded countries in a comparative survey.

### 1.2 Rationale

Over the last two to three decades, small and medium enterprises (SMEs) have gained global recognition for their contribution to poverty reduction, economic development, job creation, and innovation in developing countries. Despite the vital role played by SMEs, there remain impediments limiting the number of startup SMEs. Since about a third of Tanzania's gross domestic product (GDP) originates from the SMEs sector, the Government initiated several policies and programmes to strengthen the role of SMEs in economic development. However, these policies have not identified startups deserving special attention in the private sector and SMEs policy reform.

Startups can contribute to Tanzania's industrialisation and Development Vision 2025 (TDV 2025) by accelerating growth and development in a supportive environment. Startups are rooted in innovation and focuses on addressing the deficiencies of existing products, processes, and services or creating entirely new categories, thereby disrupting entrenched ways of thinking and doing business. Startups generally focus their entrepreneurial<sup>5</sup> effort on solutions to wicked problems<sup>6</sup> that are difficult or impossible to solve because of incomplete, contradictory and changing requirements that are often difficult to recognise. As such, startups are largely knowledge-driven enterprises.

Despite several interventions, efforts to build and support the entrepreneurial ecosystem have only yielded a few startups that managed to scale. Several startups go through the valley of death or remain

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<sup>4</sup> Salamzadeh, Aidin and Kawamorita Kesim, Hiroko, (2015). Startup Companies: Life Cycle and Challenges. Proceedings of the 4th International Conference on Employment, Education and Entrepreneurship (EEE), Belgrade, Serbia

<sup>5</sup> This report uses the term **entrepreneur** and **startup** interchangeably to represent early stage knowledge-driven enterprises

<sup>6</sup> 1973, design theorists Horst Rittel and Melvin Webber introduced the term "wicked problem" in order to draw attention to the complexities and challenges of addressing planning and social policy problems. These are the crises that we long for answers to, but answers do not come easily. These include issues like education design, financial crises, health care, hunger, income disparity, obesity, poverty, terrorism, climate change and sustainability



in the early stages of business development. Tanzanian entrepreneurs feature characteristics of the "missing middle"<sup>7</sup> similar to other countries in Africa that need to be addressed. Entrepreneurship has often fallen short of contributing positively to quick response to new economic opportunities and trends to be innovative, bring change and create decent jobs. Despite recent reforms, there are still critical bottlenecks to innovativeness and competitiveness in the private sector in general and in the SMEs in particular. The Tanzanian entrepreneurship ecosystem continues to be short of supporting businesses with high growth potential, competitiveness and job creation. Many challenges face entrepreneurial dynamism. This calls for policy-level interventions to enable a supportive entrepreneurial ecosystem. In this context, the Ministry of Investment, Industry and Trade (MIIT) and the Tanzania Startup Association (TSA) commissioned a comparative baseline study to inform a startup policy in Tanzania. The aim is to determine the barriers encountered by startups and use this information to recommend a supportive entrepreneurial environment. The study includes legislative and policy reform and benchmarks with similar policies and legislation initiatives in other African countries.

### **1.3 Objectives**

The study's overall objective is to present key challenges that influence the startup business environment in Tanzania and present clear and feasible recommendations for policy and legislative reforms. The study has developed a framework for reviewing the business climate for startups by comprehensively reviewing existing policies as well as legislative and regulatory framework challenges in the light of current best pan-African practices, including Tunisia, Senegal, and Kenya.

Specific objectives of the project include:

- i) Review and diagnose current challenges facing startups in Tanzania that are related to policies, as well as to legal and regulatory frameworks, which could potentially be addressed through realistic (legislative) reforms
- ii) Benchmark selected recent African startup acts from Tunisia, Senegal and Kenya to develop a clear understanding of Tanzania's legislative framework, comparative strengths and weaknesses and its potentials for reform
- iii) Prepare tangible, feasible and clear recommendations and best practices for policy and legislative reforms and further dialogue with policy makers and startup ecosystem stakeholders
- iv) Prepare a comparative baseline report containing startup challenges, benchmarks, best practices and recommendations.

### **1.4 Methodology and Approach**

In carrying out this study, a range of research methods and approaches were employed. These included a review of existing policies, laws and reports/publications, and primary data collection through consultations with relevant stakeholders. The research team developed instruments to capture quantitative and qualitative data from primary and secondary sources. The team employed a participatory (co-creation) approach to engage stakeholders to ensure fundamental inputs were included in the study.

The research team developed and administered three questionnaires for the baseline study. One questionnaire was for ecosystem actors, a second for innovation support organisations (ISOs), and a

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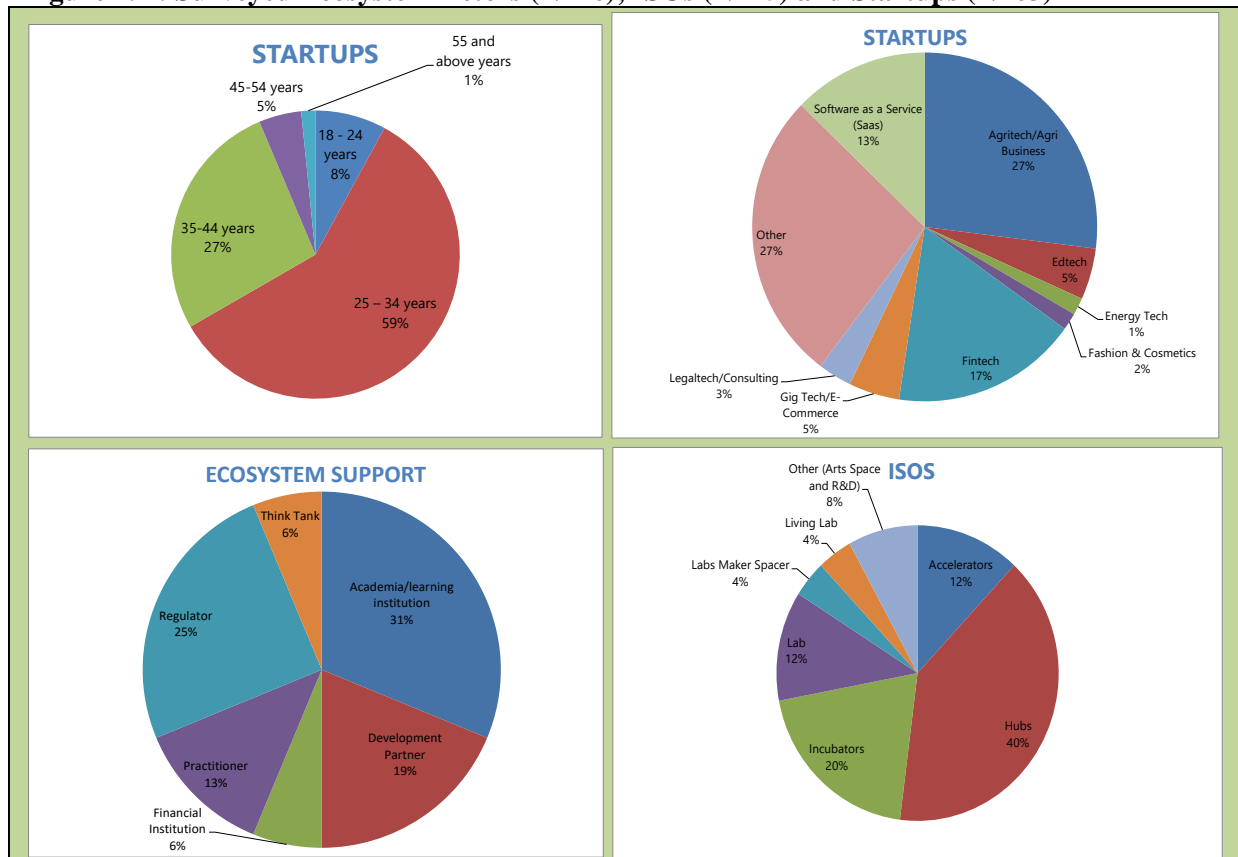
<sup>7</sup> The missing middle relates to an SME gap, i.e. the much smaller contribution of SMEs to the economy (17% of GDP in low-income countries compared to 50% of GDP in high-income countries). It also refers to a financing gap: lack of financing solutions for entrepreneurs who have grown out of micro-finance but are not able to access mainstream finance. The middle can also be lack of accessibility and addressability of the majority market, particularly due to the digital divide.

third for startups. The academia and research and development communities were the majority of the ecosystem actors, and the hubs were the main innovation support organisations responding to the survey. Startup individuals that responded to the study were mainly between 25-34 years of age.

Data from the online survey was edited, tabulated, and cast into charts and graphs using the open data kit (ODK) software.

Respondents to the ecosystem support survey included academic institutions, national think tanks, the business registration agency, development partners, regulators, and Government ministries. Some of these were also consulted as part of key informant interviews. The list of all consulted and their recommendations is provided in appendices 7.1 and 7.2.

**Figure 1. 1: Surveyed Ecosystem Actors (N=16); ISOs (N=25) and Startups (N=63)**



The surveys were administered from November to December 2021, with reminders issued to potential respondents. About 16 ecosystem actors, 25 innovation support organisations (ISOs), and 63 startups responded to the survey. However, the Tanzania Startup Association (TSA) has registered larger numbers (approximately 60 ISOs and around 200 startups) than the ones who responded, and thus the data gathered for the baseline may not be statistically representative. Therefore, the inferences for this report focus more on the qualitative information provided, which complement the desktop study.

## 1.5 Report Structure

The rest of the report is organised as follows: Chapter 2 presents the status of the startup environment in Tanzania; Chapter 3 presents the challenges facing startups and entrepreneurs in Tanzania; Chapter 4 shows benchmarking with other African countries; and Chapter 5 provides recommendations.

## 2.0 THE STATUS OF THE STARTUP ENVIRONMENT IN TANZANIA

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### 2.1 Startup Ecosystem in Tanzania

Currently, the laws of Tanzania are not defining the term “startups”, as there is no specific law on startups. However, reading a number of literature, much as they agree that there is no single definition, the term “startup” refers to “a company in the first stages of operation. Startups are founded by one or more entrepreneurs who want to develop a product or provide service for which they believe there is demand<sup>8</sup>” or one may say startups are new entrants in business<sup>9</sup> or new firms<sup>10</sup>. Based on available policies, startups in Tanzania are reflected in the context of small and medium enterprise (SMEs)<sup>11</sup>. In most cases, they are new entrants in business, much as the name is derived from the size of enterprises. The size of an enterprise is established by looking at the number of employees and capital investments<sup>12</sup>. Some articles differentiate between SMEs and startups. One of the differences lies in innovation, that is, startups strive to develop an innovative product that creates an impact on the market or improves an existing solution. At the same time, SMEs want to build products efficiently.<sup>13</sup> Another difference is that startups do not have a fixed business model, but rather explore the possibilities and opportunities to achieve a repeatable and scalable business model, while SMEs are enterprises focused on achieving an effective business model.<sup>14</sup>

Without embarking on the technical aspects of the terms SMEs or startups, the assessment in this report is on the new entrants in business regardless of whether they are termed as startups or SMEs. This section, in particular, assesses the current environment of startup ecosystem, and it is that assessment that will help establish whether the environment allows startups to emerge, survive and grow. In assessing the status, this section provides a brief summary of policies that have been reviewed, the researchers’ brief analysis of the policies and the reaction of stakeholders towards those policies. The same has been done with various laws reviewed. Challenges and recommendations are briefly highlighted in this section, but have been extensively covered in chapters 3, 4 and 5.

With an understanding that a startup ecosystem is formed by entrepreneurs and various types of organisations such as funding organisations, research institutions, universities, service providers, governments and others, interacting as a system to create startup companies, this section is assessing the current startup environment in Tanzania. The assessment covers key domains that affect entrepreneurship and the startup ecosystem. These domains include policies and laws, financing, business support, markets, human capital, research and development, culture, and infrastructure.

### 2.2 Policy Environment

#### 2.2.1 A Conducive Policy Environment: An Imperative

A conducive policy environment is good for business and is necessary to achieving broader development goals and objectives, notably, inclusive development, innovation and competitiveness, as well as in enhancing productive and decent employment, and high productivity. Competitiveness is key because, in order to survive and thrive, upcoming startups should be able to cope with global standards and best practices, since they must compete for resources (such as financing) and compete with foreign products, either as imports or exports. These are to be achieved primarily through supporting and building a strong entrepreneurial ecosystem with clear policy support to develop the capacity for facilitating entrepreneurial interventions and access to key resources. The policy should

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<sup>8</sup> <https://www.investopedia.com/terms/s/startup.asp>

<sup>9</sup> UNCDF Tanzania (2021), “The Fintech Start up Landscape in Tanzania”,

<sup>10</sup> Calvino, F., C. Criscuolo and C. Menon (2015), “Cross-country evidence on startup dynamics”, OECD Science, Technology and Industry Working Papers, 2015/06, OECD Publishing, Paris.

<sup>11</sup> Small and Medium Enterprise Development Policy, 2002 (SMEs Policy)

<sup>12</sup> SMEs Policy has categorised SMEs in three levels, i.e., micro enterprises which have 1 to 4 employees and capital investment of up to 5million, small enterprises which have 5-49 employees and capital investment of between 5 and 200mill; and medium enterprises which have 50 to 99 employees and capital investment of between 200million and 800million. On the other hand, large enterprises have more than 100 employees.

<sup>13</sup> <https://www.the-ifactory.com/startup-knowledgebase/en/article/difference-between-startup-and-small-business/>

<sup>14</sup> <https://www.the-ifactory.com/startup-knowledgebase/en/article/difference-between-startup-and-small-business/>

support economic models that present a strong innovative and technological character, new products and new business models. Identified national development policy frameworks do explicitly define startups as a category of new firms with high growth potential, based mostly on the perceived potential for growth and innovation. The pace of countries adapting to the digital world has been accelerated by the COVID-19 pandemic, resulting in a significant growth in technology ecosystems where, if supported by a conducive fiscal, monetary, and policy environment, startups can flourish and stimulate innovation and economic development.

The startup ecosystem in Tanzania is subject to policies that are for specific industries or sectors and those which are general but equally affect the startup ecosystem. To assess the policy environment, the research has reviewed a few policies that have a direct link with startups and the startup ecosystem. For each policy we have summarised what it states and assessed the extent to which it accommodates interests of startups. These are presented below.

### **2.2.2 Small and Medium Enterprises Development Policy, 2003**

The Small and Medium Enterprise Development Policy, 2003 (SMEs Policy) is a specific policy for SMEs-cum startups. The general objective of the policy is “to foster job creation and income generation through promoting the creation of new SMEs and improving the performance and competitiveness of the existing ones to increase their participation and contribution to the Tanzanian economy.” Also, one of the scopes of the policy is “Reviewing and reconsidering public policies and regulations that discriminate or hinder the startup survival and formalisation, and growth of SMEs.”

The SME Development Policy 2003 sets out seven (7) pillars in support of SME development; these pillars are: (i) a legal and regulatory framework focusing on simplification and rationalisation of procedures and regulations, physical infrastructure and provision of utilities in collaboration with the privates sector, local governments and development partners; (ii) supporting entrepreneurship development; (iii) building the capacity of institutions that provide training to SMEs; (iv) facilitating and supporting programmes for providing information pertinent to SMEs development; (v) promoting acquisition and adaptation of technology and networking between research and development institutions and SMEs in order to upgrade technology for higher productivity and competitiveness; (vi) supporting programmes that facilitate access to markets for SMEs products; and (vii) business development services, i.e. facilitating financial sector liberalization and financial intermediation to enhance SMEs access to finance, creating an institutional framework for SMEs development, rural industrialization and cross-cutting issues.

Generally, the policy environment of the startup ecosystem in Tanzania is preceded by the SMEs policy, which creates a positive foundation and a good start for startups. The policy recognises the importance of startups, although it does not distinguish between starting businesses in general and startups the way they are defined in this study. The challenges that are identified are also relevant for startups, such as the legal framework, physical infrastructure, entrepreneurship development, business training, technology transfer, marketing, and access to finance. Apart from identifying challenges, the policy has also highlighted strategies for addressing those challenges. Some of the strategies highlighted in the policy include simplifying business registration and licensing procedures; disseminating, through education and other programmes, values and attitudes that are conducive to the development of entrepreneurship; embarking on capacity building of business training institutions; facilitating joint ventures aimed at enhancing technology transfers, etc. What is needed from now on is to accommodate, more specifically, the unique interests of startups. Since the SME Development Policy is currently undergoing review, action should be taken to accommodate the interests of startups in the new policy.

### **2.2.3 The National Economic Empowerment Policy, 2004**

The major objective of the National Economic Empowerment Policy, 2004 is ensuring that the majority of the citizens of Tanzania have access to opportunities to participate effectively in economic

activities in all sectors of the economy. According to the policy, “the focus is on areas that have high potential to generate quick results, especially those which directly impact on the lives of individuals with entrepreneurial capability in agriculture, livestock keeping, fishing, forestry, building and construction, trade, tourism, mining, manufacturing, and transportation”. This is very much relevant to startups to the extent they are highly potential for impacting lives of Tanzanians. The policy recognises that the tax regime has not been able to create adequate opportunities for effective participation of the majority of Tanzanian citizens in the economy. As a strategy, the policy is proposing an extension of available tax incentives to large investors to enable Tanzanians to benefit from such incentives. In addition, the policy identifies challenges such as low levels of skills and education, and lack of resources, as a hindrance for effective participation of many Tanzanians in economic activities. One of the strategies to address the challenge is to revise “school curricula to impart entrepreneurship skills to graduates and ensure that they are self-confident, innovative and motivated to work diligently.” This applies to startups too.

Apart from the above areas, the National Economic Empowerment Policy, 2004 is also identifying and sets strategies in other areas that are relevant to and have implications for startup development, such as infrastructure; investment capital to establish a credit guarantee agency; a legal and regulatory framework, especially in licensing and public service delivery; and access to markets with a strategy of ensuring that local companies are given preferential treatment when the Government awards procurement tenders. All these areas are key in creating a suitable environment for startups.

The National Economic Empowerment Council (NEEC), established under the National Economic Empowerment Act, 2004 as a result of the National Economic Empowerment Policy (NEEP), has issued an Inclusive National Entrepreneurship Strategy, 2017 (Strategy). The Strategy was issued to provide “a coherent vision and framework for implementation, coordination, monitoring, and evaluation of entrepreneurship development efforts” in Tanzania. The mission of this strategy is “to build a national entrepreneurship ecosystem for enhanced entrepreneurial spirit and performance of economic activities, the creation of new startups and the formalisation and growth of domestic micro, small and medium enterprises (MSMEs), upgraded productive capacities as well as innovative and sustainable solutions to environmental and social challenges”. This is very relevant to startups.

#### **2.2.4 The National Research and Development Policy, 2010**

Another important policy that shapes the policy environment of startups in Tanzania is the National Research and Development Policy, 2010. This policy underscores the importance of research and development, that is, apart from improving people’s living standards by stimulating growth and increased productivity in critical productive sectors of the economy, research and development “can bring about product innovations, product improvement, increased service efficiency, effectiveness, and improved performance in the market place”. All these are key for startups.

It is important to note that the policy has identified some challenges facing research and development, and has proposed solutions which, if implemented, will benefit SMEs including startups, and the startup ecosystem. The policy recognises that “there is an inadequate supportive environment for private sector involvement in research; inadequate mechanisms for technology transfer and commercialization of research results, an ineffective mechanism for ensuring that research results and developed technologies are commercialized and disseminated”. These are relevant to startups development. The policy points to the importance of incubation centres and clusters; science and engineering entrepreneurship centres; venture capital; and management of intellectual property rights (IPR). These are at the core of the challenges faced by startups.

#### **2.2.5 Development Vision 2025**

The Development Vision 2025 does not explicitly make reference to startups but it makes policy statements that are consistent with the tenets and development of startups. Vision 2025 refers to building a strong and competitive economy with strong growth and imbued with innovativeness and

creativity. In this context, the promotion of the establishment of incubation programmes and technology transfer and adaptations programmes are consistent with Vision 2025.

### **2.2.6 Third Five-Year Development Plan 2021/2022 - 2025/2026 (FYDP III)**

The Third Five-Year Development Plan (FYDP III) emphasises economic transformation, industrialisation, knowledge and capacity to maintain gainful participation in global trade. The policy keeps domestic and foreign investors interested in the country's growth potential. The plan accords priority to increased investment in science, technology, and innovation capabilities as the most effective way to turn the country's areas of comparative advantage into competitive advantages, spur industrialisation and become competitive in the domestic, regional and global markets.

FYDP III envisages building the knowledge and STI-based capacity for improved competitiveness and productivity in all sectors. FYDP III calls for sponsoring entrepreneurship training for eligible entrepreneurs, facilitating registration/formalisation, sharpening business plans, and back up for engagement with potential financiers. All these are relevant to the development of startups.

### **2.2.7 The National Public Procurement Draft Policy, 2012**

The National Procurement Draft Policy, 2012 acknowledges that the public procurement policy is a national development tool for achieving social and economic objectives as it can be a stimulus to a nation's entrepreneurial development and, thus, contribute to the nation's economic growth. One of the most relevant areas that the policy touches is the participation of SMEs in public procurement market. The policy acknowledges that many problems exist in developing and transitioning countries, which keep local suppliers, in particular SMEs, from taking advantage of local and country-level market place opportunities. The policy is clear that, much as Tanzania's procurement system has in one way or the other tried to address the problem of increased participation by SMEs by providing support for the domestic supplier base, support for SMEs has remained weak and the actual participation of SMEs in public procurement continue to be limited as the Government procurement is mainly undertaken mostly by larger firms, both local and international.

With the understanding of the fact that "SMEs can be enabled to grow into bigger enterprises and that they constitute a substantial section of the national economic management", the policy is proposing that there is a need for the country to institute affirmative action to support SMEs by, among other things, (i) creating a cost-effective public procurement system that encourages, involves and promotes locally-based SMEs in as wide a spectrum of public services as possible in which they have the capability; (ii) ensuring there are friendly and accessible procedures and institutional arrangements to encourage participation of the local private sector in public procurement; (iii) ensuring that, when procuring goods, services and works, procuring authorities make deliberate efforts for a positive bias through granting preference for utilisation of local qualified expertise and other inputs.

### **2.2.8 General Observations on Policies**

Having read the policies, we note that much as initiatives in the policies are different and some do not even expressly mention startups or SMEs, they still impact startups if they are fully implemented. However, there is a lack of an institutional framework to coordinate the implementation of the initiatives highlighted in the policies. For example, the SMEs Policy vests the coordination role and implementation of the policy in the Ministry of Investment, Industry and Trade, while the National Economic Empowerment Policy vests the roles in the National Economic Empowerment Council, an apex body under the Prime Minister's Office, and the Research and Development (R&D) Policy vests the coordination roles and everything under COSTECH. All policies mention the roles of lead ministries; still, there is likelihood of overlapping roles of institutions like COSTECH, NEEC, Small Industries Development Organisation (SIDO), and the like. These policies are fragmented because they were introduced for different purposes and not entirely for the startup ecosystem, which means that if a specific policy for startup is introduced, it may cover all the gaps in the policies reviewed.

Also, there is no harmonisation of the roles in the policies because the NEEP names SIDO as a small enterprises development agency responsible for technical skills development in project implementation, product quality, and market development for projects, as well as responsible for the development of small and medium-scale enterprises (SMEs), a role that is not mentioned in the SMEs Policy under the Ministry of Investment, Industries and Trade. When reading the Research and Development Policy, it is clear that roles placed under SIDO in the NEEP are similar to what is given to research and development institutions, especially institutions of higher learning.

Much as the policies are not expected to have all details, they still have not mentioned how to identify startups and how to nurture them through capacity building, etc. Also, the policies are silent on the identification, registration, and regulation of other key players in the startup ecosystem, such as research and development institutions, incubators, and other parties dedicated to startups and which will benefit from incentives.

On the aspect of markets, which is one of the components in the development of startups, the reviewed participation in the procurement for startups (SMEs) is covered in the draft policy that has not yet been finalised as of the date of this report. This scenario means that, despite the acknowledged importance of SMEs in the policy, there is no policy regarding the participation of startups on public procurement. Access to or participation in public procurement, if made easier, creates favourable environment for upcoming startups that cannot meet stringent conditions under procurement laws. Apart from the benefits to startups, by opening up to startups, the Government increases the choices from where public entities may procure goods and services. The Government may also benefit from startups that offer cheaper and innovative goods and services. The reviewed policies are silent on the access of startups to public procurement. We note that there are laws in place which provide for participation of special groups in public procurement<sup>15</sup>. The special groups include women, youth, elderly and persons with disability. These laws have been reviewed in the legal and regulatory section of this report (below).

On intellectual property rights, the current policy setup in Tanzania lacks clear-cut benchmark on how startups will be integrated within the broad innovation and market equation, although the Research and Development Policy recognises the importance of having an effective mechanism for ensuring that research results and developed technologies are commercialised and disseminated. There is neither linkage nor a platform for startups to access valuable knowledge and research results from universities and other research and development institutions. The problem is further aggravated by lack of institutional coordination, which results in these institutions assuming that their research problems and generated knowledge may have little use, if at all, by startups. Consequently, it is important to fill the looming institutional and coordination gap; some institutions have embarked on their internal initiatives to establish incubation programmes. Examples of such initiatives are by the University of Dar es Salaam (UDSM) and Sokoine University of Agriculture (SUA), which have started incubation systems guided by their internal research and intellectual property policies<sup>16</sup>. These initiatives indicate lack of comprehensive national policy and regulatory framework, which will guide and inform the establishment, operations, and growth of startups.

### **2.2.9 Field Response on the Policy Environment**

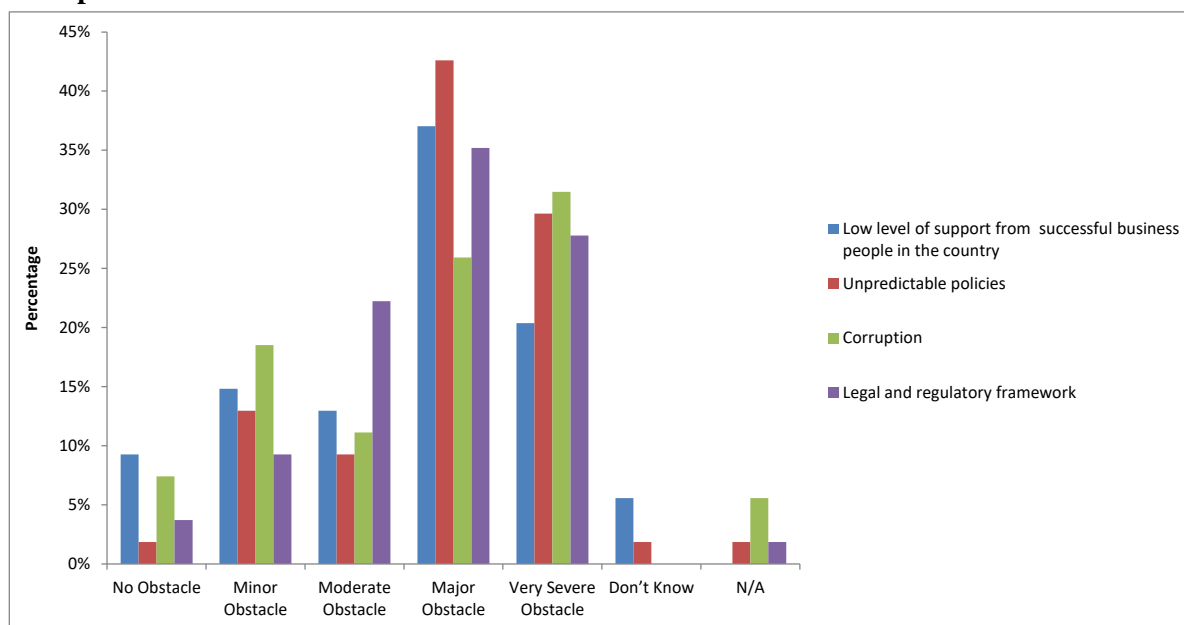
Responding to whether the business policy environment was perceived to be favourable to startups, the answer was largely negative, indicating that startups found the policy environment not to be sufficiently supportive, not explicit in its support and is perceived to be an obstacle in their operations in many areas, including taxation and regulatory framework as a whole.

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<sup>15</sup> Public Procurement Act, 2011, Public Procurement Regulations, 2013 (G.N 446 of 2013), Public Procurement (Amendment) Regulations, 2016 (G.N 333 of 2016), the Guideline for Participation of Special Groups in Public Procurement, 2020

<sup>16</sup> Research Policy and Operational Procedures, University of Dar es Salaam, 3<sup>rd</sup> Edition, 2015

**Figure 2. 1: Degree to which business environment is an obstacle to current operations of startups**



*Source: Field Data, 2021*

### 2.3 Legal and Regulatory Framework

Tanzania has successively made various attempts to create a conducive business environment. The major reforms that have been employed include Business Environment Strengthening for Tanzania (BEST), Big Results Now (BRN) and, currently, the Tanzania Blueprint that provides a guide to creating a business enabling environment where the Government and the private sector work closely in pursuing Tanzania Development Vision 2025. The Blueprint is designed to make strategic reforms on the current regulatory framework, so as to enable it to address challenges of doing business, which manifested in long and complicated procedures of starting and doing business in Tanzania. In this regard, the main objective of the Blueprint is to improve the business environment in Tanzania through the reduction of regulatory burdens and risks faced by businesses in complying with regulations. The proposed reforms will reduce regulatory burdens to businesses by promoting transparency of the regulatory regime through using information and communication technologies (ICTs) platforms, adopting and implementing mechanisms that will promote and ensure an efficient regulatory policy, and simplifying the business-regulatory regime to avoid duplications and overlaps of mandates within regulatory agencies.

The Blueprint has depicted several regulatory reforms whose implementation is still outstanding, notably the existence of high compliance costs; the prevalence of high costs in enforcing implementation, both at central and local government levels; and a persisting conflict of interest between carrying out the regulatory function and raising revenue. This conflict of interest is even more explicit when some regulators are also players in the competition in the industry that they are regulating. For instance, the state-owned Tanzania Telecommunications Corporation Limited (TTCL) serves a dual role as a mobile service provider and a national communications solution provider, whereas the Tanzania Shipping Agencies Corporation (TASAC) is a regulator and player in the same industry. Another challenge that the private sector has often pointed out is insufficient stakeholders' engagement in the dialogue processes of the existing legal and regulatory reforms. While there has been considerable improvement in the use of online service delivery and integration of available electronic systems, the main challenge is to integrate these systems and roll them out more fully to remove asymmetries in service delivery systems when all systems are integrated and effectively talking to each other.



The field data has shown that 85 percent of the responding startups perceived the legal and regulatory framework to be an obstacle (moderate, major or very severe) as reported in Figure 2.1.

### 2.3.1 Entry Regulations

Startups, like any new company or firm, must be registered under the laws of Tanzania before operation. A startup may be registered as a company under the Companies Act, 2002 whereby entrepreneurs may join hands to form a company. For a company to be incorporated, there must be at least two persons as shareholders<sup>17</sup> and two as directors<sup>18</sup> of the company. The same persons may act as shareholders and directors; there is also a requirement of having one person as a Company Secretary<sup>19</sup>. The requirements for setting up a company are not cumbersome; if all documents and information are properly filled and uploaded online, it may take three days to have the company incorporated and a certificate of incorporation issued.

The second registration mode is the business name under the Business Names Registration Act, Cap 213. An individual, or in partnerships with others, may register a business name to carry their business activities. The requirement of an individual registering a business name arises only when that individual intends to carry business under a name that does not consist of his true name or initials<sup>20</sup>. The process of business name registration is not complicated as well, and does not take long for a business registration certificate to be issued if the required documents are available and properly filled.

The second entry requirement immediately after registration or incorporation of a company or business name, as the case may be, is to register such entity with the Tanzania Revenue Authority (TRA). TRA issues a taxpayer identification number (TIN)<sup>21</sup>; the process of applying for TIN is not complicated. However, one of the notorious requirements is a need for proof that the applicant has business premises from where the intended business activities are supposed to be carried. This requirement has been imposed in practice because the law requires the applicant to simply provide the correct description of the premises within which the proposed business or investment is situated or managed<sup>22</sup>. Having business premises is a challenge for startups but, in practice, TRA accepts third party lease agreements accompanied by letters from those third parties as assurance to TRA that they have offered office premises to the applicant. This means if the applicant has nobody to offer business premises, getting a TIN certificate will be a challenge.

Registering for value-added tax (VAT) is another entry requirement for business entities qualified for that purpose in the law<sup>23</sup>. Registration for value-added tax is mandatory for a person (companies included) who will be involved in making taxable supplies and if there is reasonable ground to expect that the person's turnover in the twelve months commencing at the beginning of the previous month will be equal to or greater than the registration threshold of Tanzania shillings one hundred million<sup>24</sup> or if the person carries on an economic activity involving the supply of professional services in Mainland Tanzania<sup>25</sup>.

Having a business licence is one of the mandatory entry requirements for businesses. Section 3 (1) (a) of the Business Licensing Act, 1972 provides that “no person shall carry on in Tanzania, whether as a principal or agent, any business unless he is the holder of a valid business licence”. It is an offence to carry out business without a valid business licence<sup>26</sup>. One of the requirements in an application for a business licence is for an applicant to have a document showing proof of having business premises<sup>27</sup>.

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<sup>17</sup> Section 26 and 27 of the Companies Act, 2002

<sup>18</sup> Section 186 of the Companies Act, 2002

<sup>19</sup> Section 187 of the Companies Act, 2002

<sup>20</sup> Section 4 of the Business Names Registration Act, 1930

<sup>21</sup> Section 22 of the Tax Administration Act, 2015

<sup>22</sup> Regulation 58 (2) (b) (ii) of the Tax Administration (General) Regulations, 2016

<sup>23</sup> Value-Added Tax Act, 2014 and Value-Added Tax (General) Regulations, 2015

<sup>24</sup> Section 28 of the Value-Added Tax Act, 2014 and Regulation 14 of the Value-Added Tax (General) Regulations, 2015

<sup>25</sup> Section 28 of the Value-Added Tax Act, 2014

<sup>26</sup> Section 19 of the Business Licensing Act, 1972

<sup>27</sup> Section 3(1) (b) a business has to be carried at a place specified in the licence

and also a tax clearance certificate<sup>28</sup>. The Occupational Safety and Health Authority (OSHA) may inspect and register business premises. Apart from the requirement for a business licence, if the business is regulated by, for example, the Tanzania Communications Regulatory Authority (TCRA), an entrepreneur will be required to first apply for an additional licence from TCRA before applying for a business licence.

The other key entry requirement is for employers to register with the Workers Compensation Fund (WCF) within thirty (30) days from the date of recruiting the first employee. Upon registration, the employer should make monthly payments to the fund, as highlighted in the general compliance section below. All these requirements represent a congested regulatory environment which becomes even cumbersome for startups to comply.

### 2.3.2 Cost of Starting Business

Starting a business in Tanzania involves the fulfilment of entry requirements highlighted in the above section and other requirements set by a specific regulatory authority, such as Tanzania Communication Regulatory Authority, Contractors Registration Board, Tanzania Bureau of Standards etc., which have not been discussed above. All these compliance requirements attract costs such as direct payment of official fees to the Government, consulting fees for those who are facilitating the process of starting a business for entrepreneurs, startups included. The fees may look reasonable and affordable but for startups, especially new graduates, the cost of starting business is a challenge. The following are highlights of what the cost entails.

According to Doing Business Report, 2020<sup>29</sup> that measures, among other things, the number of procedures involved, time, cost and paid-in minimum capital requirement for a small-to medium-sized limited liability company to start up and formally operate, indicates the following: first, there is no minimum capital requirement for the company to be registered; second, after preparation of the Memorandum and Articles of Association, an entrepreneur will have to notarize documents at a cost of TZS 10,000, and the company will be registered online through the Online Registration System (ORS) within six (6) days at the cost of TZS 337,000<sup>30</sup>. This fee is for the Government. It is important to note that the Government fees for registration of a company is based on the authorised capital written in the Memorandum and Articles of Association<sup>31</sup>. As for the business name, which is not required to indicate the authorised capital, the registration fee is just TZS 15,000<sup>32</sup>. The second stage is the registration of the company for TIN, which is not charged by the Government.

A business licence (trading licence) that is issued to every starting business is charged depending on the type and location of the business; the cost ranges from TZS. 50,000 to TZS 400,000 for a small locally-owned business<sup>33</sup>. Another cost associated with the business licence is the rent for office premises. This cost cannot be ascertained as it depends on the location and size of the office space.

Inspection fees for business premises paid to OSHA depend on the nature of business and the size of the entity; for example, for micro entities providing information and communication services, the fee is TZS 80,000; small firms are charged TZS 240,000, while for medium firms, the fee is TZS 480,000<sup>34</sup>. There is fire certification as well<sup>35</sup> together with inspection of business premises. Other entry requirements such as TIN, VAT, National Social Security Fund (NSSF) and WCF may not

<sup>28</sup> Section 13 of the Business Licensing Act, 1972

<sup>29</sup> World Bank, 2020. "Doing Business 2020," World Bank Publications- <https://www.doingbusiness.org/content/dam/doingBusiness/country/t/tanzania/TZA.pdf>

<sup>30</sup> Ibid page

<sup>31</sup> When capital is more than TZS 20,000 but not more than TZS. 1,000,000, the fee is TZS 95,000; more than TZS 1,000,000 but not more than TZS 5,000,000, the fee is TZS 175,000; more than TZS 5,000,000 but not more than TZS 20,000,000, the Government fee is TZS 260,000; more than TZS 20,000,000 but not more than TZS 50,000,000, the fee is TZS 290,000; more than TZS 50,000,000, the fee is TZS 440,000; see <https://www.brela.go.tz/index.php/companies/fees>

<sup>32</sup> <https://www.brela.go.tz/index.php/companies/fees>

<sup>33</sup> Section 8 of the Business Licensing Act, 1972 as amended by the Finance Act, 2014

<sup>34</sup> Occupational Safety and Health (General Administrative) (Amendment) Rules, 2018, GN 719 of 2018 read together with Occupational Safety and Health (General Administrative) Rules, 2015 which may be cited as GN 149/2015. Micro firms are those which employ 1 to 4 employees, small firms employ between 5 to 49 and medium firms employ between 50 and 99 employees as per GN 719 of 2018

<sup>35</sup> Fire and Rescue Force Act 2007 and its Regulations Inspection and Certificates Regulations 2008 as amended in 2014 and also Fire and Rescue Force Fire Safety Precaution in Building Regulations of 2015 GN 516

attract Government fees, but, like the incorporation of business and business licence, they do attract consulting fees if an entrepreneur is not familiar with the processes and opts to engage a consultant. Law firms, for example, charge between TZS 200,000 and TZS 800,000 for incorporating companies, TZS 300,000 and TZS 600,000 for business licences and TZS 200,000 and TZS 400,000 for TIN registration.

### 2.3.3 Major Compliance Issues

Legal and regulatory compliance is one of the most important components that shapes the business environment for good or bad, as it has direct consequence to the development of any business, including startups. The first major compliance issue for any business, including startups, is to comply with entry requirements that are discussed above. Those requirements ensure the entity is registered and has the certificate of registration or a certificate of incorporation. The business entity must also register with TRA, get a business licence from the relevant licensing authority, and register with the Workers' Compensation Fund and the National Social Security Fund for employees.

The second major compliance issue that is important and yet add more compliance burden to startups, is ensuring that the business entity files tax returns. There is a mandatory requirement for a person (an "instalment payer") who derives or expects to derive any chargeable income during a year of income from business or investment to pay income tax for the year of income by quarterly instalments<sup>36</sup>. This is normally referred to as provisional return based on the estimated profit in the year of income then divided into four equal instalments. This provisional return must be lodged online and the estimated instalments paid in time. There is no exemption from filing returns for startups; all registered tax payers, including startups, must file provisional tax returns. The forms are the same for all entities regardless of whether it is a startup or not and the penalty for non-compliance is punitive when default continues.

Apart from the provisional tax return, there is a mandatory requirement under Section 91 (1) of the Income Tax Act, 2004 for every person to file with the Commissioner not later than six months after the end of each year of income a return of income for the year of income. A return of income of a person for a year of income has to be in the prescribed form specifying the person's chargeable income for the year of income from each employment, business, and investment and the source of that income; as well as the person's total income for the year of income and the income tax payable and other details.

Apart from tax returns under the income tax, every VAT registered person is required to lodge a value-added tax return in the form and manner prescribed by the Minister on the 20th day of a month after the end of the tax period to which the return relates, and this return has to be filed whether or not that person has a net amount of value-added tax payable for that period<sup>37</sup>. The mode of calculating VAT payable, which may be a challenge to startups, is provided under section 67 of the VAT Act and is payable on the date when the tax returns are due for filing<sup>38</sup>. But, again, these requirements do not exempt startups from complying with these provisions because the law provides a uniform definition for all registered or taxable persons.

There is a requirement of filing tax returns online or manually as provided under Section 33 and Section 34 of the Tax Administration Act, 2015; however, there is now emphasis on filing electronically. Failure to file returns leads to penalties, as provided for by Section 78 (2) (b) of the Tax Administration Act, 2015; the current penalty is TZS 225,000 for each month or part of the month during which the failure continues. This penalty is heavy and is system generated immediately a taxpayer defaults. This is one of the major challenges mentioned by respondents when it comes to taxation. One may have no taxes to pay, but failure to file a nil tax return when due may attract a penalty of up to TZS 2,700,000 per annum for a single tax return not filed.

<sup>36</sup> Section 88 (1) of the Income Tax Act, 2004

<sup>37</sup> Section 66 (1) of the Value-Added Tax Act, 2014

<sup>38</sup> Section 67(3)(a) of the Value-Added Tax Act, 2014

Another major compliance issue that impacts startups is an obligation on any entity said to be an employer to pay skills development levy (SDL) if that employer has more than ten (10) employees<sup>39</sup>. The law requires an employer to pay SDL to TRA at the rate of 4.5 percent of every employee's gross salary per month. Going by the definition of SMEs under the SMEs Policy, which names small enterprises as those having between 5 and 49 employees, it is obvious that startups are also affected by this requirement.

Employers are also required to withhold payments from salaries of employees<sup>40</sup>. This tax is referred to as PAYE and has to be remitted together with SDL within seven days after the end of the calendar month in which the payment is received (withheld)<sup>41</sup>. Since employers become withholding agents of TRA for withholding taxes from employment, they are required to file with the TRA a statement in the manner and prescribed form within 30 days after the end of each six-month calendar period specifying payments made and the names of individuals from whom tax is being withheld (employees)<sup>42</sup>. This applies to other types of payments withheld by withholding agents. This requirement applies to SDL as well and is a challenge for startups that lack expertise and knowledge of all these compliance issues.

It is worth noting that the Employment and Labour Relations Act, 2004 imposes an obligation on every employer to promote an equal opportunity plan in employment and to eliminate discrimination in the employment policy or practice<sup>43</sup>. Furthermore, there is an obligation to register the Anti-Discrimination and Equal Opportunity Plan with the Labour Commissioner. Employers should also display conspicuously (whether on a notice board or other means) a statement indicating the rights of employees<sup>44</sup>.

Another compliance issue is the requirement to make deductions from employees' salaries then top up with the employer's contribution for remittance to the National Social Security Fund<sup>45</sup>. In addition, the Workers Compensation Fund Act, 2008 imposes an obligation on an employer carrying on business in Tanzania to register with the Director-General of the Workers Compensation Fund, which is established under section 5 of the Act<sup>46</sup>. Employers are required to keep a register or other record of the earnings and other prescribed particulars of all employees under their employment and are required at all reasonable times to produce the register on-demand to an authorised person for inspection. It is important to note that the law requires employers to contribute to the Fund per the Government Notice Number 169 of May 1, 2015. Private sector employers are required to contribute 0.6 percent of their annual wage bill. This contribution has to be remitted on a monthly basis<sup>47</sup>.

### 2.3.4 Regulatory Structure

The institutional regulatory framework in Tanzania for implementing policies, laws, and regulation has three levels. The first level is the Central Government, the second level is made up of the Central Government's agencies, and the third level is comprised of local government authorities. At times, the regulatory structure becomes a challenge to business, especially where regulatory institutions have conflicting roles or compete for revenue on the same subjects.

#### a) Central Government and its agencies

The regulatory role of the Central Government is manifested in the regulations and rules (subsidiary legislations) made by ministers of various Government ministries, as well as in the powers of ministers in the laws and regulations. Also, the Central Government's regulatory functions are exercised through Government agencies and institutions such as the Business Registration and

<sup>39</sup> Section 14 of The Vocational Education and Training Act, Cap 1994 (VETA) as amended by Section 81 of the Finance Act, 2021.

<sup>40</sup> Section 81 of the Income Tax Act, 2004 the rate is provided under paragraphs 1 and 4(a) of the First Schedule

<sup>41</sup> Section 84 (4) (b) of the Income Tax Act, 2004

<sup>42</sup> under Section 84 (2) of the Income Tax Act, 2004

<sup>43</sup> Section 7(2) of Employment and Labour Relations Act, 2004

<sup>44</sup> Section 16 of the Employment and Labour Relations Act, 2004

<sup>45</sup> Section 12, 13 and 14 of the National Social Security Fund Act, 1997

<sup>46</sup> Section 71 of the Workers Compensation Fund Act, 2008

<sup>47</sup> Section 74(6) and 75(1) of the Workers Compensation Fund Act, 2008

Licensing Authority (BRELA), the Tanzania Communication Regulatory Authority (TCRA), Bank of Tanzania (BoT), Contractors Registration Board (CRB), Tanzania Bureau of Standards (TBS), the Tanzania Revenue Authorities (TRA) and many other agencies that have direct impact on the regulation of businesses in Tanzania.

## b) Local Governments

Local governments derive their regulatory functions under Article 146 (1) of the Constitution of the United Republic of Tanzania, which states that “The purpose of having local government authorities is to transfer authority to the people. Local government authorities shall have the right and power to participate, and to involve the people, in the planning and implementation of development programmes within their respective areas and generally throughout the country.”

Urban local authorities are given powers to charge fees for various services or facilities offered by the authority<sup>48</sup>. Local government authorities (LGAs) have been given statutory mandate to make by-laws to better exercise their powers to charge fees. The powers vested in urban local authorities are also vested in district authorities. Some of the functions include formulation, coordination, and supervision of all plans for economic, industrial, and social development in their areas of jurisdiction<sup>49</sup>. District authorities also have the powers to make by-laws and to charge fees.<sup>50</sup>

The regulatory function of LGAs includes licensing businesses in their area of jurisdiction under the Business Licensing Act, 1972. The fees charged for licensing are part of the source of their revenues<sup>51</sup>. This licensing function is shared with the Central Government; that is why the law sets categories of businesses and fees for the Central Government and businesses whose licences are issued and charged by local governments<sup>52</sup>.

The institutional regulatory structure mentioned above may cause some challenges in the business environment, including startups. These challenges are summarised well in the statement by the Prime Minister of Tanzania, who said, “stakeholders have lamented of the apparently conflicting or duplicative policies and laws at central and local government levels relating to taxes, levies, licensing and other charges. The difference in charges across the local government authorities (LGAs) spectrum and the multiple regulatory agencies with seemingly similar roles and functions has also raised concern from a cross-section of stakeholders. From some stakeholders’ perspective, the prevalence of high costs in enforcing implementation, both at the central and local levels, is a result of the licensing regime laying more emphasis on revenue generation at the expense of provision of services”<sup>53</sup>.

### 2.3.5 Tax Rates

The Income Tax Act, 2004 stipulates several income tax rates for entities and individuals doing business in Tanzania. Individuals are defined into two categories: small-scale individual traders who are not required to maintain audited accounts and medium-scale individual traders who are not required to maintain audited accounts<sup>54</sup>. These categories are usually based on the turnover of the business in the year of income. Small traders are taxed by a presumptive tax system whereby the rates range from nil when the turnover is TZS 4,00,000 and 3.5 percent of the amount above TZS 14,000,000, provided the turnover does not exceed 100 percent<sup>55</sup>. For an individual to fall under the presumptive tax system, the income must be exclusively from business. In most cases, tax collectors use the best judgment rule to establish the tax payable because individuals rarely keep documents.

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<sup>48</sup> Section 66 (1) of the Local Government (Urban Authorities) Act of 1982

<sup>49</sup> Part V of the Local Government (District) Authorities Act, 1982 which starts at Section 111.

<sup>50</sup> Section 7 (1) (k) and 13(1) of the Local Government Finances Act, 1982

<sup>51</sup> Sections 6, 7 and 8 of the Local Government Finances Act, 1982

<sup>52</sup> Section 9 of the Business Licensing Act, 1972

<sup>53</sup> Tanzania’s Blueprint for Regulatory Reforms to Improve the Business Environment, Ministry of Industry, Trade and Investment, Dodoma, April 2018

<sup>54</sup> <https://www.tra.go.tz/index.php/income-tax-for-individual>

<sup>55</sup> Paragraph 2(3) of the First Schedule of Income Tax Act, 2004

Individuals who are required to prepare audited accounts (when annual turnover is above TZS 100,000,000) are taxed based on the annual profit determined from audited accounts, and the marginal rate is TZS 128,000/= plus 30 percent of the amount above TZS 1,000,000/= <sup>56</sup>.

Apart from individuals, profits of corporations such as companies incorporated under the Companies Act, 2002 attract a corporate tax of 30 percent of profits in the year of income <sup>57</sup>. Owners of a company are subjected to 10 percent withholding tax on dividends for companies not listed at Dar es Salaam Stock Exchange (DSE) and 5 percent for companies that are listed at DSE <sup>58</sup>. In addition, business entities, be it companies, individuals or individuals trading under registered business names, have an obligation to withhold 5 percent of service fee, which is paid to the resident person and 15 percent if payment of service fee is made to a non-resident <sup>59</sup>.

The value-added tax rate for registered taxable persons is 18 percent and the amount stated in the invoice becomes payable to TRA at the earlier of “the time when the supplier issues the invoice for the supply; the time when consideration for supply is received, in whole or in part; or the time of supply” <sup>60</sup>. By this provision, it does not matter whether or not the registered taxpayer has received the amount in the invoice because the word “the earlier” which is used in the provision assumes that the taxable person has enough cash flow to settle to TRA the 18 percent of the invoiced amount. This could be easier for startups struggling with cashflow if the law was allowing payment of taxes upon receiving payments.

It is important to note that, from studies conducted <sup>61</sup>, it is not easy, especially for startups, to compute tax based on the rates provided in the law, observe all due dates of effecting payments and filing all necessary returns. For example, Ndalaha (2019) <sup>62</sup> indicates that in an interview which was conducted in Arusha, “entrepreneurs are not in a position to determine the amount of tax liability owed to the Tanzania Revenue Authority. This is due to the complexity of the tax rules and regulations, which result into extreme difficulties in tax computations”.

### 2.3.6 Tax Incentives

One of the strategies mentioned in the SMEs Policy is for the Government to simplify the tax system and introduce tax incentives to nurture SMEs. The first incentives for startups would have been providing special rates for startups. However, as highlighted in the previous section, the provisions of Income Tax Act, 2004 do not exclude startups from payment and compliance with the tax rates provided by the law. The only difference is on rates for individuals based on the size of the turnover of their businesses. Turnover is not the sole indicator of an individual being categorised as a startup, more so because the turnover of below TZS 100,000,000 that is set under the Income Tax Act, 2004 and which sets a difference in tax rates, may easily be reached by a serious startup and cannot, therefore, benefit startups or be referred to as an incentive for startups.

Tax incentives given under Tanzania’s tax laws include a reduced rate of 25 percent which is charged for three years to newly listed companies with Dar es Salaam Stock Exchange, with at least 35 percent of equity share issued to the public <sup>63</sup>; reduced rate of 10 percent for newly established plant for assembling vehicles, tractors and fishing boats <sup>64</sup>; and a reduced rate of 20 percent for newly established business dealing with the manufacture of pharmaceuticals <sup>65</sup>. These rates are lower than the 30 percent corporate tax that is charged to other companies. Much as the rates stated above are for

<sup>56</sup> Paragraph 2(3) of the First Schedule of Income Tax Act, 2004

<sup>57</sup> Paragraph 3 (1) of the First Schedule to the Income Tax Act, 2004

<sup>58</sup> Section 82 (1) read together with paragraph 4 (b) of the First Schedule to the Income Tax Act, 2004

<sup>59</sup> Section 83 (1) read together with paragraph 4 of the First Schedule to the Income Tax Act, 2004

<sup>60</sup> Section 15 of the Value Added Tax Act, 2014

Section 15 of the Value Added Tax Act, 2014

Center for Tax Policy and Administration, 2007, Ndalaha, M (2019) Major Taxation Challenges facing Small and Medium Scale Business Enterprises, University of Arusha

<sup>62</sup> Ndalaha, M (2019) “Major Taxation Challenges facing Small and Medium Scale Business Enterprises”, University of Arusha, Tanzania

<sup>63</sup> Paragraph 3 (2) (a) of the First Schedule to the Income Tax Act, 2004

<sup>64</sup> Paragraph 3 (2) (b) of the First Schedule to the Income Tax Act, 2004

<sup>65</sup> Paragraph 3 (2) (c) of the First Schedule to the Income Tax Act, 2004

newly established companies, the nature and level of investment implied in the provisions may not fit startups whose criterion is given above. As such, those rates cannot be said to be of help to startups. Even if the same were accessible to newly established companies, the likes of startups, stringent listing compliance requirements create a massive hurdle.

The Tanzania Investment Act, 1997 provides for incentives to businesses qualified under the law. One of the qualifications is for the entity to have a minimum capital of Tanzania Shillings equivalent to USD 500,000 if it is wholly owned by foreigners and Tanzania Shillings equivalent to USD 100,000 if it is locally owned<sup>66</sup>. Although the Tanzania Investment Centre, established under the Tanzania Investment Act, 1997 may help any investor on investment issues including securing of permits<sup>67</sup> or by creating a good investment climate for investors both local and foreign, or carrying out support for local investment including entrepreneurship programmes to facilitate increase in local investments<sup>68</sup>, there are no specific provisions for startups and the threshold for an entity to have a certificate of incentive is unrealistic for startups entrepreneurs, most of whom are new graduates from universities or young individuals trying to enter into business for the first time.

### **2.3.7 Closing of Business**

Closing business is one of the most important aspects in any jurisdiction; first, because it is a requirement of law to close businesses that are no longer trading for whatever reason. Second, it is in order to avoid the burden of maintaining a business entity which is not trading as the requirements to file tax returns, annual returns and other similar compliance go on and attract penalties, despite the entity not trading. This avenue creates a good environment for startups that fail to take off and the owners decide to close them down and start other ventures if possible. There are two major ways of closing businesses in Tanzania; one is voluntary and the second is when an entity is insolvent and cannot proceed doing business. The voluntary closure of business is available to companies incorporated in Tanzania. Other entities, such as partnerships or foreign companies, are wound up by a court of law as if they are insolvent<sup>69</sup>.

#### **a) Voluntary Closure**

Voluntary closure – also called voluntary winding up – of a company is initiated by owners of the company making a resolution to wind up their business<sup>70</sup>. Much as the process is voluntary, company directors must file a declaration stating that their entity is solvent and will be able to pay all its debts within twelve months<sup>71</sup>. Company shareholders or owners must appoint an insolvency practitioner as a liquidator. This process involves publication of notices in newspapers and in the Government Gazette, as well as filing of notices to TRA and BRELA<sup>72</sup>. According to our interview with an insolvency practitioner, if the entire process is smooth in the sense that there are no complications from creditors (including TRA) who may emerge and raise claims, and the assets are not that problematic in disposing them, it may take six months for the entire company to be wound up. However, in practice, TRA delays the process because they normally do not issue a tax clearance certificate until they are satisfied that there is no tax payable; for that matter they take their time. This is a costly process, as the owners will have to pay an insolvency practitioner, pay for the notices that have to be published, pay Government fees and, possibly, pay a tax audit or consultant to handle the taxes, as an insolvency practitioner may not necessarily be a tax savvy person. The process and cost create an unfavourable environment in closing startups, should that need arise.

#### **b) Insolvency**

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<sup>66</sup> Section 2(2) of the Tanzania investment Act, 1997

<sup>67</sup> Section 2(5) and 6 (e) of the Tanzania investment Act, 1997

<sup>68</sup> Section 6(h) of the Tanzania investment Act, 1997

<sup>69</sup> Section 425 to 432 of the Companies Act, 2002

<sup>70</sup> Section 333(1) of the Companies Act, 2002

<sup>71</sup> Section 338(1)

<sup>72</sup> Section 334 of the Companies Act and Section 66 of the Tax Administration Act, 2015

Closing business as a result of a business entity failing to pay its debts<sup>73</sup> or creditors<sup>74</sup> may be initiated by one of the creditors and supported by others or may be initiated by shareholders themselves<sup>75</sup>. This process begins with a petition being filed in a court of law and, after hearing of the petition, a liquidator is appointed by the court<sup>76</sup>. The liquidator has to collect the assets of the company and thereafter distribute the assets so collected to creditors in the order of preference as provided by law. This process involves handling the petition in court, publishing and filing notices at BRELA and TRA, holding meetings with creditors and, if necessary, auctioning the assets of the company. This process takes a lot of time and may turn out to be subject of litigation during proof of debts before the liquidator and at the time of distribution of assets as, in most cases, assets fall short of liabilities of the company<sup>77</sup>.

## 2.4 Financing

Financing is an important factor in the development of startups; financing may be in the form of grants, equity capitalisation or debt financing.

### 2.4.1 Access to Venture Capital

Venture capital “is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential”<sup>78</sup>. In Tanzania, there is no specific law on venture capital; however, the transactions involved at the time of investing money into a startup or any company and the transactions when investors exit the company in which they invested, are regulated by laws<sup>79</sup> and, as such, those laws may encourage or discourage venture capital as a form of financing in any country.

Investment in the form of equity and exit in a company involves transfer and acquisition of shares or allotment of shares. These transactions attract income tax in the form of capital gain<sup>80</sup>; they also attract stamp duty on the instruments of transfer of shares between parties. Depending on the amount involved in the transfer of shares to investors, there is a requirement for Fair Competition Commission (FCC) to be notified for purposes of approving the transactions<sup>81</sup>. The process of share transfer and of securing FCC’s consent is cumbersome and failure to comply attracts huge penalties. There is no exception for startups when it comes to compliance, nor tax incentives for venture capital investing in startups compared to investing in listed companies.

During enquiry, researchers of this study noted that all venture capital firms investing Tanzania are registered outside Tanzania because the laws of Tanzania do not provide for registration of entities in the form of limited liability partnership (LLP). Unlike the general partnership where partners are liable for the negligent acts of other partners, in limited liability partnerships the partners are liable to their own actions in the partnership. Even if there was a legal framework for registration of limited liability partnership (LLPs), there is another challenge for investors to invest in venture capital firms because, in most cases, investors in venture capital would be the pension funds, but in Tanzania in accordance with the provisions of the Social Security Schemes Investment Guidelines, 2021, investment in venture capital firms is not one of the areas in which pension funds can invest<sup>82</sup>. This being the case, pension funds are hindered from investing in startups.

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<sup>73</sup> Section 279 (1) (d) of the Companies Act, 2002

<sup>74</sup> Section 281(1) of the Companies Act, 2002

<sup>75</sup> *ibid*

<sup>76</sup> Section 294 of the Companies Act, 2002

<sup>77</sup> In Miscellaneous Commercial Application No. 374 of 2017, the petition to wind up the company was filed in 2017 but the liquidator, Mr. Ayoub Mtafya, was appointed on 18 December 2019 and notices were filed by May 2020 following notification of liquidation in February 2020.

<sup>78</sup> [https://www.google.com/search?q=venture+capital+meaning&rlz=1C1CHBD\\_enTZ918TZ918&oq=venture+capital+&aqs=chrome.1.69i57j0i512i2j0i457i512j0i512i6.6925j0j15&sourceid=chrome&ie=UTF-8](https://www.google.com/search?q=venture+capital+meaning&rlz=1C1CHBD_enTZ918TZ918&oq=venture+capital+&aqs=chrome.1.69i57j0i512i2j0i457i512j0i512i6.6925j0j15&sourceid=chrome&ie=UTF-8)

<sup>79</sup> The Companies Act, 2002, the Stamp Duty Act, 1972, Income Tax Act, 2004, Fair Competition Act, 2003

<sup>80</sup> Section 90 of the Income Tax Act, 2004, 10% of the gain to the resident person and 20% for a non-resident

<sup>81</sup> Section 11 (2) of the Fair Competition Act, 2003, Rule 33(2) of the Fair Competition Commission Procedure Rules, 2013

<sup>82</sup> Guideline 8 of the Social Security Schemes Investment Guidelines, 2021



## 2.4.2 Access to Angel Investors

Unlike venture capital where venture capital firms manage the funds of their investors by investing into other companies, such as startups, angel investors invest their own funds directly into other companies including startups. As such, transactions of acquiring shares into companies and selling them back if they wish are the same and, therefore, subject to the same laws as in venture capital, which is discussed extensively under the section on venture capital.

## 2.4.3 Access to Debt Financing

Debt Financing is a common form of financing in Tanzania, and the main lenders are banks and financial institutions. Lending by banks and financial institutions is regulated by law<sup>83</sup>. One of the conditions which make it difficult for startups to borrow from commercial banks and financial institutions is the need for banking facilities to be secured by a collateral that covers the banking facility by 125 percent. It is a challenge for small businesses and, for that matter, startups to have securities such as landed properties for offering to banks as security for loans; thus, debt financing becomes a challenge.

A possible alternative avenue for startups borrowing is accessing loans through a micro-finance activities window<sup>84</sup>. Through this window, banks and financial institutions provide short-term loans to small or micro enterprises and low-income households which are usually characterised by the use of collateral substitutes, such as group guarantees or compulsory savings. This avenue has a challenge when it comes to provisions for non-performing loans. If a loan given to a small or micro enterprise remains unpaid for more than 90 days<sup>85</sup>, the lenders are supposed to make 100 percent provision for that loss<sup>86</sup> and yet, the Bank of Tanzania may require the lending bank or financial institution to make a further provision. According to researchers' interview with Mkombozi Commercial Bank PLC, the provisioning and the number of days within which a loan is treated as a loss in a way discourages lending to small or micro enterprises, as they are riskier.

## 2.4.4 Stock Markets

The stock market in Tanzania is regulated by the Capital Markets and Securities Authority (CMSA)<sup>87</sup>. CMSA registered or licensed the Dar es Salaam Stock Exchange (DSE) in 1998 for the purpose of, among other things, serving as a platform for companies to raise capital for their enterprises.

DSE has divided its equity market into two segments with different entry requirements. The first segment is the main investment market, which has more stringent and strict entry requirements than the second segment<sup>88</sup>. The second is the enterprise growth market segment (EGMS), which is open to startups and growing companies of all sizes<sup>89</sup>. One of the requirements that favours startups is that companies without profit track records are allowed to list in this segment and raise funds by way of public offering, underwriting, private placement or both. On business operations, companies seeking to raise funds through the enterprise growth market segment need to provide a "detailed profile of planned operations, including a 5-year business plan and independent technical feasibility report for companies with less than 12 months of operating history". All these favour startups; however, there are some of requirements that may hinder a number of entrepreneurs, such as university graduates, from accessing DSE capital for their startup businesses. One of such requirements is for the applicant to have an issued and paid-up capital of at least TZS 200 million. This requirement may be met by a few companies because it uses the criteria set in the SMEs Policy, i.e. a capital of TZS 200 million for medium enterprises, while most startups begin as micro enterprises.

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<sup>83</sup> The Banking and Institutions Act, 2006 and the Banking and Financial Institutions (Management of Risk Assets) Regulations, 2014

<sup>84</sup> Banking and Financial Institutions (Microfinance Activities) Regulations 2014

<sup>85</sup> Regulation 55 Banking and Financial Institutions (Microfinance Activities) Regulations 2014

<sup>86</sup> Regulation 61 Ibid

<sup>87</sup> Established under the Capital Market Securities Act, 1994

<sup>88</sup> Rule 41 of the Dar es Salaam Stock Exchange Public Limited Company Rules, 2016

<sup>89</sup> Part V of the Dar es Salaam Stock Exchange Public Limited Company Rules, 2016 and DSE

## 2.5 Markets

Tanzania Trade Development Authority (TanTrade), which is in the Ministry of Trade, was established under Section 4 of Tanzania Trade Development Authority Act, 2009. Some of the functions of this Authority as per Section 5 (1) (b) and (d) are to integrate the domestic market development and to foster better market access conditions for Tanzanian products and services at domestic, regional and international markets. The Authority does not have specific roles for creating market access for startups; that gap may be covered by a policy that identifies and addresses specific market challenges facing startups.

One of the proposed ways of helping SMEs to have access to and participate in public procurement is by having laws which, among other things, will provide friendly and accessible procedures and institutional arrangements to encourage participation of the local private sector in public procurement. This desire is reflected in laws that allow special groups<sup>90</sup> to participate in public procurement. The general qualification criteria required for participation is for an individual or a firm to be registered by appropriate special group supporting entities, which include but not limited to SIDO, VETA, Government ministry responsible for community development, councils in local government authorities and Tanzania Rural and Urban Roads Agency (TARURA)<sup>91</sup>.

The responsibility of the procuring entities with regard to the registered special groups is to set aside thirty percent (30%) of its annual procurement of goods, works and services exclusively to special groups situated within their respective jurisdictions<sup>92</sup>. To make sure that individuals and firm participate, the procuring entities may unbundle procurements where necessary, so as to make them affordable to registered special groups<sup>93</sup>. A procuring entity is supposed to make timely payments to registered entities for any performed contract for sustainability of special groups<sup>94</sup>.

To ensure that there is accountability, a procuring entity is supposed to give reason for its failure to meet the conditions to set aside the thirty percent (30%) stipulated by law<sup>95</sup>. Any the accounting officer who contravenes this regulation shall be liable for administrative action<sup>96</sup>.

The above-cited provisions create a suitable environment for startups to participate in public procurement, even though startups are not mentioned. For purposes of clarity, the law has to mention startups and provide more flexibility for them to participate in public procurement, given their importance to the economy and to society as acknowledged by the National Public Procurement Policy. Also, so as to avoid multiplicity of registrations, the startup policy and the law should provide mandate to the institution established under the policy and startup Act as one of the special group supporting entities. The startup policy should be geared towards solving challenges such as lack of information to startups on public procurement and on opportunities in the public market place.

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<sup>90</sup> Special groups” includes women, youth, elderly and persons with disability as defined in respective laws and policies”. Refer to Guideline 5 of the Guideline for Participation of Special Groups in Public Procurement, 2020

<sup>91</sup> Refer to Guideline 5 of the Guideline for Participation of Special Groups in Public Procurement, 2020

<sup>92</sup> Regulation 30C (1) of the Procurement Regulations, 2013 GN No. 446 of 2013 as amended by GN No., 333 of 2016),

<sup>93</sup> Regulations 42 of GN 446 of 2013

<sup>94</sup> Regulation 30D (1) of GN No. 446 of 2013); Guideline 14 of the Guideline for Participation of Special Groups in Public Procurement, 2020

<sup>95</sup> Regulation 30C (2) of GN No. 446 of 2013 as amended

<sup>96</sup> Regulation 30C (3) of GN No. 446 of 2013 as amended

## 2.6 Human Capital

Human capital is one of key components in the startup ecosystem. For startup firms to be productive and successful, they need to be founded by people who have quality skills needed in startup firms. The same applies to whoever will be employed in the firm. The quality of entrepreneurs and employees depend on the education system of any country.

### 2.6.1 Universities

In Tanzania, universities are registered under the Universities Act, 2005 and the Universities (General) Regulations, 2013 by the Tanzania Commission for Universities (TCU)<sup>97</sup>. Apart from registering universities, the functions of TCU include auditing, on regular basis, the quality assurance mechanisms of universities; providing guidance and monitoring criteria for student admission to universities; and making proposals of outlines of academic programmes or syllabi and general regulations of curriculum submitted to the Commission by universities<sup>98</sup>. In addition, TCU considers and makes recommendations to the Minister regarding the upgrading or downgrading of the status of a university<sup>99</sup>.

To ensure that universities are well qualified and have the requisite standards of a university, the process of accreditation or registration is very stringent<sup>100</sup>. Upon accreditation and registration, a university is required to be responsible for proper administration of its academic and governance affairs; ensure that the minimum standards and procedures prescribed by the Commission are at all times maintained and improved; ensure that no new procedures or programmes of instructions are mounted and that regulations in respect thereof are not made without the approval of the Commission; and subject itself to periodic external quality audit and technical evaluation every five years<sup>101</sup>.

From the above provisions, it is clear that the regulatory framework of universities is intact in ensuring that universities adhere to the standards of providing quality education at the level of university, as all important aspects are required by law to be monitored. According to TCU, by July 2019, there were thirty-four (34) full-fledged universities, fifteen (15) university colleges, and eleven (11) university campuses, centres and institutes<sup>102</sup>.

### 2.6.2 Technical Training Institutes

There are laws that govern technical education through technical training institutes. Whereas TCU registers universities, technical institutes are registered by established authorities, one of which is the Vocational Education and Training Authority (VETA)<sup>103</sup>. The objectives of VETA include provision of vocational training<sup>104</sup> opportunities<sup>105</sup> and to foster and promote entrepreneurial values and skills, as an integral part of all training programmes<sup>106</sup>. The functions of the Authority are to approve the registration of vocational training centres according to laid down standards; to issue regulations and guidelines on training matters, such as syllabi, the trade testing system, examination and certification; inspection and registration of vocational training and education institutions<sup>107</sup>. VETA has registered over 470 institutions - Government, private, church affiliated and district-level institutions<sup>108</sup>.

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<sup>97</sup> Established under Section 4 of the Universities Act, 2005

<sup>98</sup> Section 5 of the Universities Act, 2005

<sup>99</sup> *ibid*

<sup>100</sup> Regulation 4 to 13 of the Universities (General) Regulations, 2013

<sup>101</sup> Regulation 14 the Universities (General) Regulations, 2013

<sup>102</sup> The Tanzania Commission of Universities, "State of University Education in Tanzania 2018", July 2019

<sup>103</sup> Established under section 3 The Vocational Education and Training Act, 1994

<sup>104</sup> Section 2 define Vocational Education and Training" means training leading to a skilled occupation

<sup>105</sup> Section 4 of the Vocational Education and Training Act, 1994

<sup>106</sup> *ibid*

<sup>107</sup> Section 5 of the Vocational Education and Training Act, 1994

<sup>108</sup> Monika Redecker, Anne Wihstutz and Joyce Mwinuka "Vocational Education and Training by Government in Tanzania: The Example of Community Oriented Vocational Training in Folk Development Colleges" FAKT- Bonn, Dar es Salaam, May 2000

The National Council for Technical Education (NACTE)<sup>109</sup> is another authority that has powers to register and accredit technical institutions capable of delivering courses<sup>110</sup>. Also, it has the power to register technical teachers and other qualified technicians; to assist technical institutions in the overall development of the quality of education they provide and to promote and maintain approved academic standards<sup>111</sup>. In the discharge of its duties, NACTE has accredited and registered a total of 440 institutions<sup>112</sup>. Some of these institutions have been fully accredited and others are under provisional registration<sup>113</sup>.

Other institutes, such as the Dar es Salaam Institute of Technology (DIT), which has been established under law<sup>114</sup> as a one of higher technical training institutions in Tanzania, offer computer studies, civil engineering, electrical engineering, electronics and telecommunications engineering, laboratory technology and mechanical engineering.<sup>115</sup>

## **2.7 Research and Development**

Research and development are one of key components in the startup ecosystem, since through research, new designs, technologies, manufacturing processes and products are developed and taped by startups or adopted by existing businesses. It is also through research that new markets are discovered, new business strategies are put in place and the usefulness of old policies assessed in the light of emerging business trends and norms. In Tanzania, research and development is undertaken by both public and private institutions. The existence of research institutions makes the business environment in Tanzania suitable for startups and other businesses, as opportunities may arise from these institutions.

### **2.7.1 Public Research Institutions**

Public research institutions include public universities, such the University of Dar es Salaam (UDSM), Sokoine University of Agriculture (SUA) and Mzumbe University (MU). Other public institutions include Tanzania Wildlife Research Institute (TAWIRI)<sup>116</sup>, National Institute for Medical Research (NIMR)<sup>117</sup>, and Tanzania Fisheries Research Institute (TAFIRI)<sup>118</sup>, whose role is to carry out research in various aspects of fisheries for the purpose of establishing, improving or developing better methods or techniques of fishing, fish farming, manufacturing or processing of fish or fish products. Another public research institution is the Tanzania Forestry Research Institute (TAFORI)<sup>119</sup> with the role of, among others, “carrying out experiments and research relating to the planting, growth, development, conservation and use of local and foreign trees, and evaluating their suitability for and adaptation and alternative use in the wood and other industries.”

The Tanzania Engineering and Manufacturing Design Organisation (TEMDO)<sup>120</sup> is one of the most important public institutions. The major function of this organisation is to design and promote the designing of products and processes for Tanzanian industry in accordance with national industrial development policy. Another institute is the Tanzania Industrial Research and Development Organisation.<sup>121</sup>

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<sup>109</sup> Established under Section 3 of the National Council for Technical Education Act, 1997

<sup>110</sup> Section 5 of the National Council for Technical Education Act, 1997

<sup>111</sup> *ibid*

<sup>112</sup> <https://www.nacte.go.tz/index.php/registration/registered-institutions/>

<sup>113</sup> *ibid*

<sup>114</sup> Established under Dar es Salaam Institute of Technology Act, 1997

<sup>115</sup> Section 4 of the Dar es Salaam Institute of Technology Act, 1997

<sup>116</sup> Established under the Tanzania Wildlife Research Institute Act, 1980

<sup>117</sup> Established under the National Institute for Medical Research Act, 1980

<sup>118</sup> Established under the Tanzania Fisheries Research Institute Act, 2016

<sup>119</sup> Established under the Tanzania Forestry Research Institute Act, 1980

<sup>120</sup> The Tanzania Engineering and Manufacturing Design Organisation Act, 1980

<sup>121</sup> Established under the Tanzania Industrial Research and Development Organization Act, 1979

## 2.7.2 Private Research Institution

There are private research institutions which are involved in scientific research; these include Ifakara Health Institute (IHI), Tea Research Institute of Tanzania (TRIT), Tanzania Coffee Research Institute (TaCRI); and Tanzania Technology Development Organisation (TaTEDO).”<sup>122</sup>

Private institutions involved in social and economic research include the Economic and Social Research Foundation (ESRF); Research for Poverty Alleviation (REPOA); Tanzania Gender Networking Programme (TGNP); Society for Women and AIDS in Africa – Tanzania Branch (SWAAT) and private universities.”<sup>123</sup>

## 2.7.3 Coordination of Research Institutions

The Tanzania Commission for Science and Technology Act, 1986 established the Tanzania Commission for Science and Technology (COSTECH)<sup>124</sup>. The functions of this Commission include formulating policies on the development of science and technology and recommending its implementation to the Government. The Commission has also to monitor and co-ordinate activities relating to scientific research and technology development of all persons or body of persons concerned with such activities<sup>125</sup>. The Act is not express on how the coordination will be undertaken by the Commission. However, reading the provisions of Section 12 together with the Second Schedule to the Act, eighteen (18) public research institutions, including those named above, are affiliated to the Commission and the Commission is composed of the over twenty members (directors) representing public institutions in both Tanzania Mainland and Zanzibar<sup>126</sup>. Also, the committees of the Commission reflect the activities of public research institutions and include members from public institutions of higher learning in both Tanzania Mainland and Zanzibar<sup>127</sup>.

Reading the Tanzania Commission for Science and Technology Act, 1986, it is clear that it has not been amended to incorporate or reflect what is stated in the National Research and Development Policy, 2010. Thus, the policy lacks legal authority to implement its statements. The composition of the COSTECH and its committees has a huge number of members. Although the law has stipulated that the Commission should be comprised of over twenty members, the research team of this study, upon enquiring at the offices of the Commission, was informed that, in reality, there are only eight (8) members of the Commission following directives from the Government.

There are no expressed legal provisions on how the coordination of research activities will be held by the Commission, as there are no reporting requirements from research institutions under the auspices of COSTECH nor regulations made under the Act. In short, the law does not reflect how the Commission will operate in the startup ecosystem.

## 2.7.4 Intellectual Property Rights

Section 35 of the Act exempt inventors from a statutory obligation to disclose certain technical information which may qualify for patent protection. It provides, in part, that “where any person satisfies the Commission that the research being carried out by him is likely to lead to a scientific and technological invention by him, or that he is the grantee, proprietor or assignee of a patent duly registered under the law for the time being in force relating to registration of patents, he shall be exempt from disclosing any information relating either directly or indirectly to such invention or patent or to make available any record or findings relating to such invention or patent.” The essence of this provision is to preserve the novelty of such information at a time when a patent application is

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<sup>122</sup> The National Research and Development Policy, 2010

<sup>123</sup> Ibid.

<sup>124</sup> Section 4 of the Tanzania Commission for Science and Technology Act, 1986

<sup>125</sup> Section 5 (2) (a) and (b) of the Tanzania Commission for Science and Technology Act, 1986

<sup>126</sup> First Schedule to the Tanzania Commission for Science and Technology Act, 1986

<sup>127</sup> Section 14 read together with the Third Schedule to the Tanzania Commission for Science and Technology Act, 1986

filed. In the absence of this safeguard provision to keep such information confidential, disclosure may subsequently be considered as part of a prior art, thus disqualifying the patent application.

The marginal note of the foregoing section provides that it is for “protection of inventors” but the protection is not against infringement but rather to keep the information confidential and out of reach of possible infringement. The provision, which is the only section on intellectual property, does not address the challenge identified in the policy that in Tanzania there is “inadequate mechanism to ensure that researchers adhere to research ethics and uphold intellectual property rights,”<sup>128</sup> as the law does not provide guidelines on how to uphold intellectual property rights. Understandably, the Act is not meant to provide detailed provisions on protection of intellectual property rights; rather, it is a glimpse on the importance of intellectual property rights in the progress of science and technology.

### 2.7.5 Technology Transfer

COSTECH is required to establish a National Centre for the Development and Transfer of Technology<sup>129</sup>, which is the principal organ of the Commission, responsible for matters relating to the transfer, adaptation and development of technology including the assessment and choice of imported technology<sup>130</sup>. The Centre has the mandate to register all technology transfer agreements<sup>131</sup>. By technology transfer agreement the law means an agreement between a local industry and a foreign investor with respect to the use or exploitation of technological rights formulae and specifications, processes, patents or technical know-how of foreign origin; licensing of the use of exploitation or foreign-owned trademarks; and the furnishing of foreign technical, consulting, management and marketing services<sup>132</sup>.

Provisions on technology transfer are narrow in the sense that they focus only on north-south and cross-border technology transfer set up, while leaving out tremendous potential for internal technology transfer between local partners and institutions within the country. In addition, provisions under the Act have not been amended to accommodate and address one of the challenges identified in the Research and Development Policy, which is “Ineffective mechanism for ensuring that research results and developed technologies are commercialised and disseminated” due to inadequacy of important elements, such as inadequate number of incubation centres and clusters, science and engineering for accelerating their uptake<sup>133</sup>.

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<sup>128</sup> The National Research and Development Policy, 2010

<sup>129</sup> Section 15. (1) of the Tanzania Commission for Science and Technology Act, 1986

<sup>130</sup> Section 15. (2) Ibid

<sup>131</sup> Section 15(3) (i) of Tanzania Commission for Science and Technology Act, 1986

<sup>132</sup> Section 15(4) of Tanzania Commission for Science and Technology Act, 1986

<sup>133</sup> The National Research and Development Policy, 2010

## 3.0 CHALLENGES FACING STARTUPS AND ENTREPRENEURS IN TANZANIA

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### 3.1 Introduction

Countries across the globe, including Tanzania, are transitioning to knowledge-based economies that place increasing importance on new and small enterprises and how they innovate. A typical phenomenon is the outsourcing of standardised production from high- to low-labour cost-shifting the balance in the specialisation of advanced-economy firms towards more knowledge-based activities closely tied to local knowledge resources and capabilities.

Tanzania's large youth population, levels of unemployment, and socio-economic development challenges stimulate entrepreneurial motivation in Tanzania, and success stories are emerging. There are several examples including Agrinfo, a startup that provides farmers with decision support systems to optimise their operations sustainably. Agrinfo was awarded third place as an excellent startup in Africa by the Japan International Cooperation Agency (JICA) and Nikkei online pitch competition.

Despite these successes, a report by the Southern African Innovation Support Programme (SAIS)<sup>134</sup> observed that Tanzania under-performs in global entrepreneurial and innovation indices compared to its peers in neighbouring countries. The nascence of the Tanzanian entrepreneurial ecosystem and lack of a cohesive network were among the factors suggested as contributing to the under-performance. Innovation actors in Tanzania are largely scattered, though "Silicon Dar" is emerging as a maturing local sub-system in the country's commercial capital, Dar es Salaam. Some of the most successful startups stem from this "inner circle", which guarantees its members better access to finance than other ventures in the country.

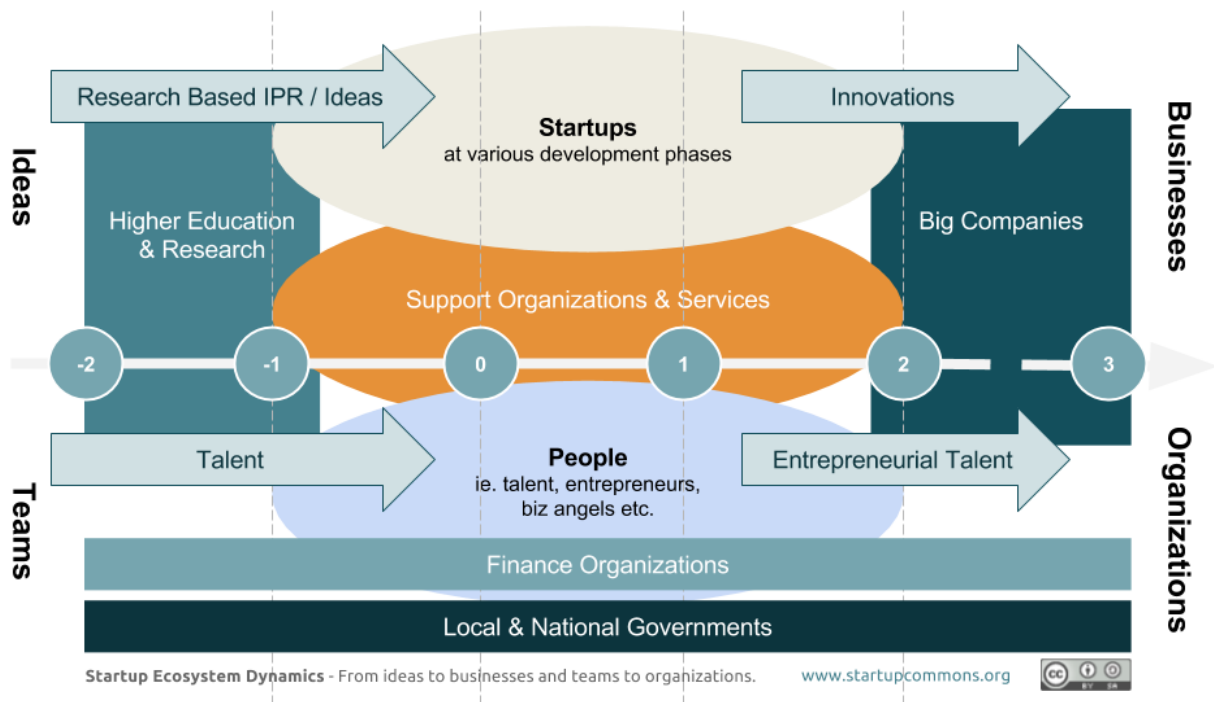
Generally, supportive entrepreneurial ecosystems with people, technology, capital, markets, and infrastructure produce successful startups. These ecosystems operate within an open, inclusive culture with enabling policies and leadership (See Figure 3.1). For Tanzania to benefit from innovative products, services, and processes that startups can introduce, unpacking the dynamics of its ecosystem to identify gaps and opportunities are essential.

This chapter presents challenges that need to be addressed for improvement and growth in the Tanzania entrepreneurial ecosystem, recommending potential solutions with policy implications. Opportunities come from comparisons with other countries, best practices and engagement with innovation actors. The challenges are categorised as those pertinent to (a) the startup and (b) the ecosystem or support.

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<sup>134</sup> Elina Voipio, Ilari Lindy, and Misha Gericke (2021): Entrepreneurial ecosystems in the SADC region – Namibia, Tanzania, Botswana, Zambia and South Africa.

**Figure 3. 1: Ecosystem Dynamics**



Source: Startupcommons.org

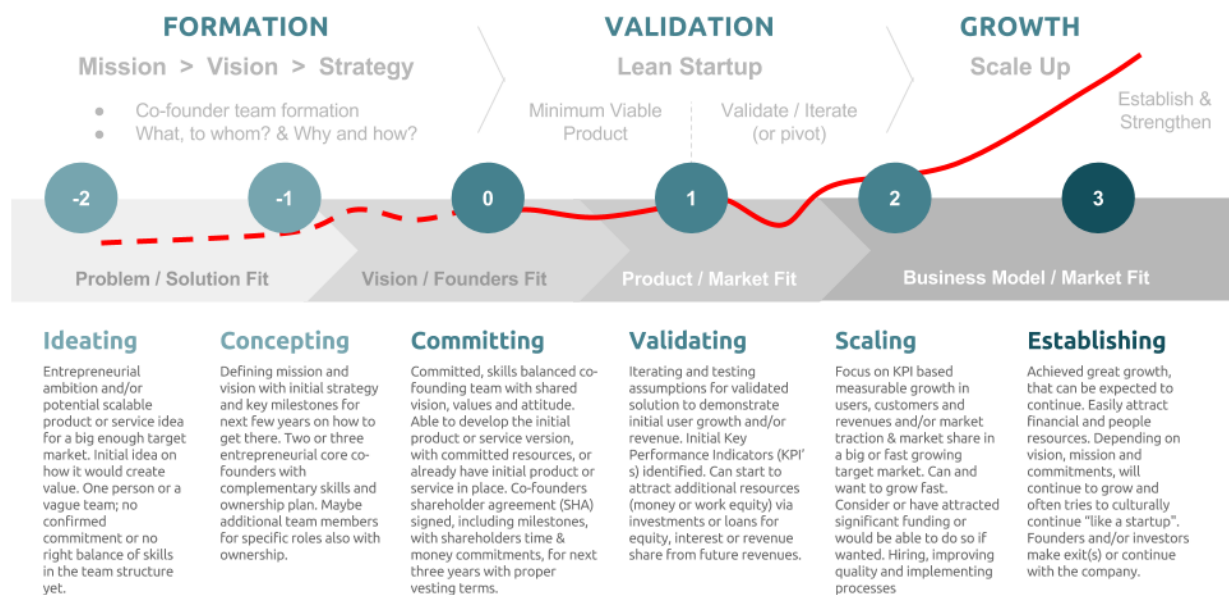
### 3.2 Startups Journey

A startup's life cycle goes through three phases, namely bootstrapping (formation), seed (validation), and scaling (growth), complexly dependent on the ecosystem. For Tanzanian startups, **bootstrapping** is limited by lack of resources needed for positioning the venture for growth. The ideation stage requires demonstration of product feasibility, cash management capability, team building and management, and customer acceptance<sup>135</sup> (Brush *et al.*, 2006).

<sup>135</sup> Brush, C. G., Carter, N. M., Gatewood, E. J., Greene, P. G., & Hart, M. M. (2006). The use of bootstrapping by women entrepreneurs in positioning for growth. *Venture Capital*, 8(1), 15-31.



**Figure 3. 2: Startup development phases**



Startup Development Phases - From idea to business and team to organization.

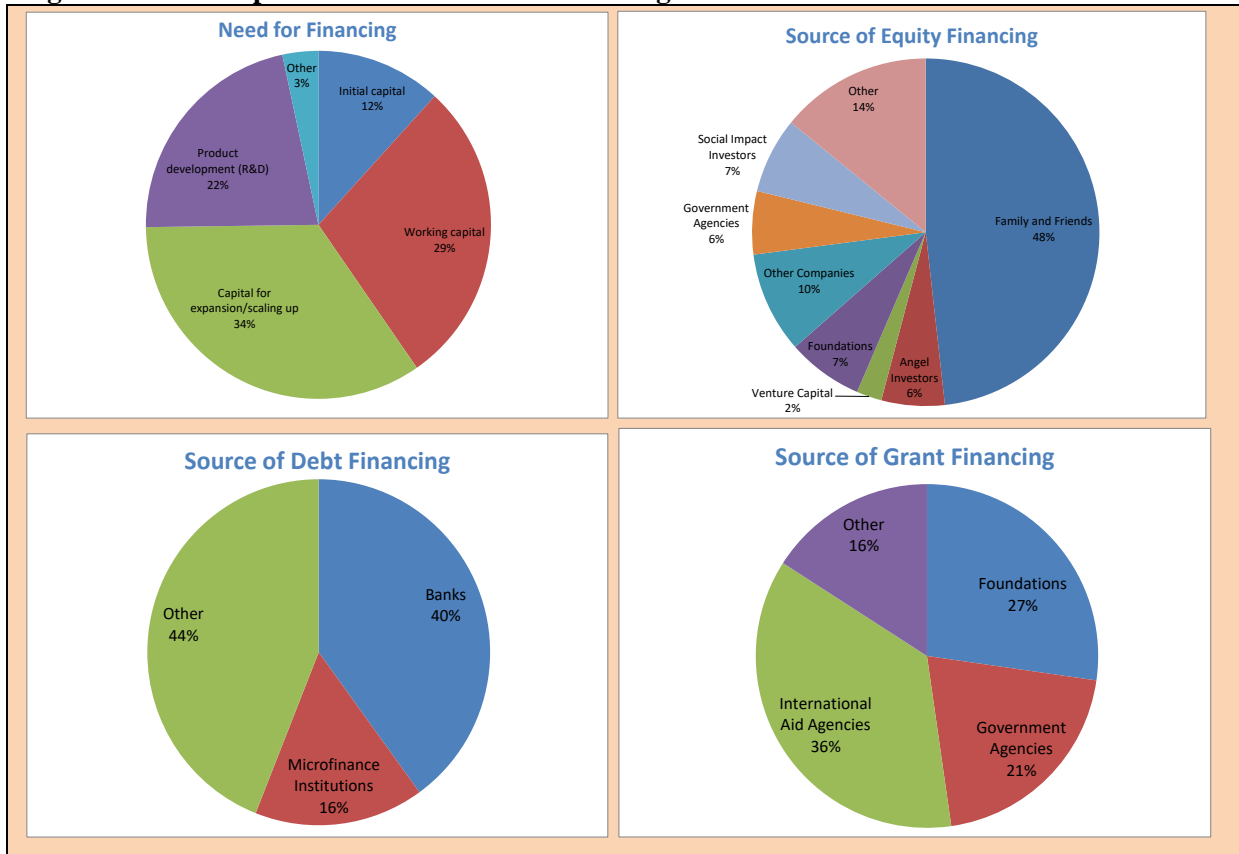
Version 3.0 - [www.startupcommons.org](http://www.startupcommons.org)



**Source:** Startup Commons

Friends and family are the primary financing source for startups in Tanzania (See Figure 3.3) for bootstrapping. Angel Investor (AI) networks and crowd funding fill the resource gap for bootstrapping in developed economies, as the innovation ecosystem is more developed. The Tanzania Angel Investment Network is a recent development managed by SSC Capital, with no more than a handful of deals done in this space, suggesting that the potential growth beyond bootstrapping for most startups is limited due to lack of resources. Ecosystem actors recognise the gap in the landscape and recommend for innovative financing options to be availed.

**Figure 3. 3: Startup needs and sources for financing**



Innovation spaces offer an opportunity to address the financing gap at early stages of the startup journey, including innovation spaces. The Tanzania Commission for Science and Technology (COSTECH) set up an innovation space, BUNI, in 2011 with funding from a bi-lateral programme with Finland, TANZICT. BUNI runs several initiatives, including team building programmes, essential business competencies and prototype development, and key competencies needed by early stage startups. BUNI was set up as a model innovation hub; it is one of the first hubs in the country with a broad offering, of which not many of the more than 60 hubs in the country provide this level of support. In the bootstrapping/ideation phase most of the hubs run hackathons and ideation challenges that provide short-term capacity. Furthermore, some academic institutions with entrepreneurial programmes offer conceptualisation and team building but do not extend to prototype development. For the innovation pipeline to grow there is a need for strategic interventions at the bottom to build and strengthen platforms that provide innovative solutions and further these into startup companies. COSTECH has made traction in this regard by rolling out a call for maker spaces and innovation hubs to be set up all over the country in 2020.

A startup team's resilience is tested during the **seed stage** as the prototype is further developed and validated in a market. Startups in 'Silicon Dar' and other maturing sub-local systems, such as Arusha and Kilimanjaro, are better placed to access support from accelerators and incubators and command sizeable investment tickets (5,000 – 20,000 United States Dollars)<sup>136</sup> to grow their enterprises. However, this stage is quite uncertain for most startups and many fail. Failure is attributed to financing, facilities and technical competence associated with market validation. Few initiatives support this stage, particularly in Sub-Saharan Africa. Successful startups source support from family and friends and, in some cases, crowd-funding initiatives similar to bootstrapping. Furthermore, at this stage, startups encounter market entry challenges, (e.g. regulations, intellectual property) as their

<sup>136</sup> Seedstars Tanzania under the SAIS 2 project were able to award 5 startups that completed their acceleration programme with 5,000 United States Dollars. Seedstars also secured investment for other startups amounting to 20,000 United States Dollars.

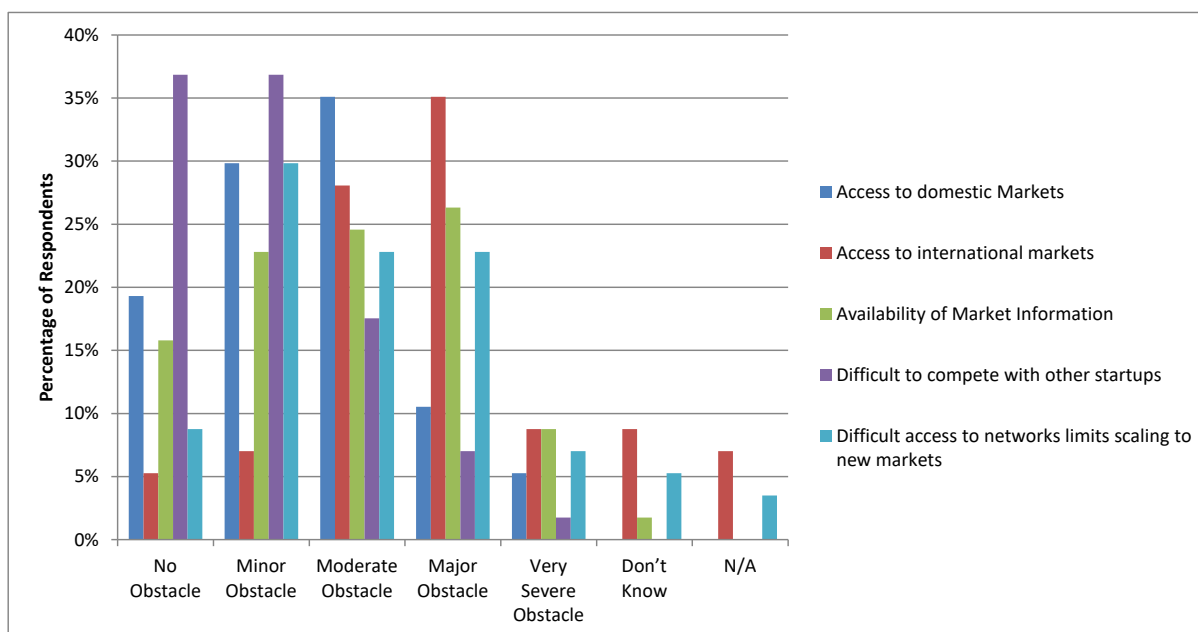
prototypes (minimal viable products) are tested in a market setting. The seed stage is critical as innovative products, processes, or services are valued and likely to attract investment or otherwise. Several hubs and accelerators in the country value startups through pitch events that double up as exposure to investment. In some cases, through hubs and accelerators, startups will access grants and, where these are not available, startups solicit debt to resource this stage (see Figure 3.3).

A startup **grows** when it starts to sell, enter markets, and hire staff. In the scaling or growth stage, a startup seeks corporate finance and transitions out of the startup space. Tanzania boasts a few eagles that have scaled, such as Ubongo Kids, Shule Direct, NALA, Jamii Africa, and East Africa Fruits. At this stage, startups experience similar challenges typical to small and medium enterprises (SMEs) related to the enabling environment and access to finance, as the support instruments are the same.

Cultural phenomena limit bootstrapping, seeding, and growth stages throughout the startup lifecycle. Startups in Tanzania are particularly prone to the following:

- i. *Unrealistic expectations*: Entrepreneurship is often considered a fashionable quick way to business success which is not valid. The rate of non-completion of boot camps for ideation and team building are evidence of this. Translation of realistic expectations and understanding that sustainability requires consistent efforts is needed. To succeed in a competitive environment, high but realistic expectations, resources availability, potential extent of growth, and other market factors need to be precise.
- ii. *Startup teams*: Startups generally lack human resource competencies, and the team building support provided by innovation spaces does not fill that gap. Empower, in partnership with the University of Dar es Salaam, aims to provide the basic human skills needed by entrepreneurs to reduce the fallout of potential startup teams.
- iii. *Partnership*: Mature businesses and startups depend on building strategic, productive partnerships. Unfortunately, finding trustworthy partners in a highly digitised competitive landscape is challenging. Partnerships pay great dividends for startups, but a variety of factors before collaborating, such as intellectual property rights, and roles and responsibilities need to be considered. Organisations that enjoy a sound presence within the market and a good reputation amongst the industry giants make good partners for startups.
- iv. *Customer trust*: Customers are a force behind a startup's success, and Tanzanian startups must compete to market their innovative products.
- v. *Market dynamics*: From respondents of the survey, domestic markets are relatively more accessible than international markets. For both international and domestic markets, access to market information and networks is the main challenge for entry (see Figure 3.4).

**Figure 3. 4: Access to domestic and international markets and access to market information and networks**



### 3.3 Ecosystem Support

Ecosystems that facilitate the growth and development of startups exhibit favourable culture, enabling economic policy, access to finance, high-quality human capital, research and development, infrastructure, and markets<sup>137</sup>. Furthermore, entrepreneurship gains are realised when the ecosystem is receptive to innovation.

Startups fall under sustainable development goal (SDG) 9, whose aims is to build resilient infrastructure, promote sustainable industrialisation, and foster innovation. Tanzania's voluntary review of the achievement of this SDG in 2019 revealed the following:

- The country has sustained GDP growth of 6.7 percent and facilitated creation of decent jobs and sustainable incomes, with an average labour force participation rate of 83 percent
- Programmes on entrepreneurship, apprenticeship, technology and business incubator programmes established
- Efforts to reduce inequalities include a productive solid social safety net programme
- There is increased access to mobile phones and rural electrification, thus promoting financial and economic inclusion among the rural population
- Local government authorities (LGAs) allocated 10 percent of their empowerment revenues to youth and women
- Private sector programmes have enhanced women entrepreneurship skills, thus reducing gender-related income inequalities.

Despite the progress, there are still areas for improvement.

#### 3.3.1 Policy and Legislative Issues

Policies enable innovation to benefit economies by providing improved products, processes, and services with increasing efficiency and creating jobs. In short to medium term, governments can use policies for entrepreneurship and innovation to meet productivity and job creation objectives.

<sup>137</sup> Isenberg D. (2011). The entrepreneurship ecosystem strategy as a new paradigm for economy policy: principles for cultivating entrepreneurship, Babson Entrepreneurship Ecosystem Project, Babson College, Babson Park.

Chapter two of this report outlines the policy and legislative situation, pointing to gaps that need to be addressed for startup support. For example, a research by the Organisation for Economic Co-operation and Development (OECD) shows how unbalanced taxes on company profits and losses and high average tax rates can diminish SMEs and entrepreneurship activity. In addition, there should not be unnecessary obstacles, such as taxation, social security, bankruptcy legislation, competition policy, product market regulation, labour market regulation, financial markets, and intellectual property protection, to SMEs and entrepreneurship in the economy's institutions<sup>138</sup>.

Tanzania's socio-economic landscape has changed and the policy environment is not designed to accommodate change flexibility. Thus, most of the ensuing laws are static. The laws are not enacted contrary to the policies. For example, the national trade policy accommodates intellectual laws, companies, and business names. The Business Licensing Act originates from a policy that is silent on startups. Consequently, the laws are silent on startups and lack an equivalent concept/terminology.

There are opportunities to redress elements of the gaps using existing instruments, such as purposive flexibility in interpreting and administering the legalities. A short-term measure would be, for example, that BRELA takes into consideration the novelty of startups prior and the versatility of their operations waves requirements, such as the need for a physical address when setting up a business. Furthermore, chapters or sections in the existing Companies Act, 2002 could be amended to startups. Consequently, laws would need amendment (amend pieces of legislation or *sui-generis* law written).

Ultimately, demand-driven reasonable/achievable informed policy goals based on evidence by reliable and continuous monitoring and evaluation will enable regular review.

It is essential to note that not all startups are profit-driven businesses. Social entrepreneurship and social innovation are growing even in Tanzania. These startups mainly register as non-government organisations (NGOs), as their needs and *modus operandi* does not align with profit-making businesses. The inclusion of these initiatives requires a broader conceptualisation of the Companies Act of 2002.

Startups operate across sectors and ministries, which suggests a conundrum for policy intervention. COSTECH, as a coordinating body between academia commercial entities, has championed startups in Tanzania under the mandate of science, technology and innovation (STI). COSTECH drafted a policy, to be tabled to Parliament, which addresses several of the challenges encountered by startups. Should startup matters at policy level be considered under STI, it should be noted that STI is a Union matter under the United Republic of Tanzania, and thus programmes and interventions implemented by COSTECH cover both Tanzania Mainland and the Isles of Zanzibar<sup>139</sup>.

### 3.3.2 Financing

Startups financing needs are different at each stage of growth and development. Albeit, financing gaps are a leitmotif in conversations on startup challenges. In Tanzania, the funds (tickets) needed per startup stage are significantly lower than in developed economies due to the latter's maturity of the ecosystem.

**Seed-stage financing:** The ideation stage is generally associated with high-risk capital due to the rate of non-success of the ventures and administrative cost. Funding at this stage is within the range of 5,000 - 20,000 USD, offered in the form of training with small amounts going towards product development. Seed-stage funding is usually from Government grants, development partners, or family and friends. The National Fund for the Advancement of Science and Technology (NFAST) hosted by COSTECH is the primary source of Government funding for innovation that supports ideation. COSTECH also solicits development partner support to promote ideation in the country. Apart from COSTECH, development partners and the private sector work with innovation hubs to stimulate this stage of the startup pipeline. For example, Sahara Ventures, a lead accelerator in Dar es Salaam, invested between USD 6,000 and USD 15,000 in over 30 startups in 2020.

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<sup>138</sup> OECD (2009), Taxation of SMEs: Key Issues and Policy Considerations, OECD, Paris

<sup>139</sup> When drawing up this report commissioned with the support of Tanzania mainland's Ministry of Investment, Industry and Trade (MIIT), the challenges of startups stem mainly from Tanzania Mainland. These can be extended to include those from Zanzibar.

Responses to funding at the bootstrapping stage include establishment of programmes and initiatives such as BUNI that can carry the administrative risk of support and introduce tax breaks for support of ideation.

**Validation financing:** When startup prototypes are validated, funds are needed for market research, testing and reiteration. The investment tickets needed for this stage are more expensive (between USD 15,000 and USD 100,000), with slightly reduced risk as proven solutions are available. The role of innovation support players, such as incubators and accelerators, is significant as the investment readiness of a startup is established. Incubators and accelerators must attract funding that they disburse to startups. Incubators and accelerators alleviate the investment risk from venture capital by preparing startups for scaling (growth). Funding sources for validation in Tanzania are mainly development partners and, to a lesser extent, the private sector. The Government, through NFAST, plays two roles in this stage: one by demonstrating a model incubator (Dar es Salaam Teknohama Incubator (DTBi)) hosted at COSTECH. The second role is through NFAST in partnership with development partners and the private sector. COSTECH supports incubators and accelerators across the country.

Tanzania is yet to build a continuous pipeline of investment-ready startups. This reflects the **availability** and **ability** of incubators and accelerators and **funding**. Furthermore, few entities finance this 'missing middle', which requires tickets of around 100,000 USD to prepare startups for Series A funding for growth. A catch-22 characteristic of this stage, startups can only raise capital if they have already raised capital (Jumanne Mtambalike, pers. comm). Innovation support organisations, i.e. incubators, accelerators and organisations that support entrepreneurs, need to mature and ensure robust competencies to attract financing that can be disbursed to their beneficiaries.

**Growth financing:** At the growth stage, startups enter markets with a validated product, process or service; the client base is built and growing. Financing gaps here are generally for the growth of operations and coverage. Venture capital and angel investors are the primary vehicles that finance the growth or scaling of startups. Accelerators support startups to broker deals with venture capital and angel investor. Sahara Ventures hosts an annual event where investors, startups, and other innovation actors engage. Briter Bridges 2019<sup>140</sup> shared data from tech deals in Africa amounting to \$1.25bn. From the deals made, only one was from Tanzania. The low performance of Tanzanian startups is attributed to the low output from the validation stage, minimal presence of angel investors and venture capital in the country and lack of support mechanisms to facilitate growth. For example, in Nigeria, locals put up mid-sized investments to help companies prepare for outside investment. Tanzania lacks similar mechanisms to graduate startups. Furthermore, financial institutions have rigorous compliance measures for credit that startups do not always have.

Mechanisms that can increase access to finance include:

- Collaboration between foreign and local investors. Collaboration at minimum in the form of local content can incentivise foreign investors to invest in building local technological capability. Sahara Ventures and My Growth Fund of South Africa use this approach to attract financing for startups
- Provide incentives for investment in regions that are otherwise not attractive for investment
- Provide incentives for investment in relatively high-tech sectors. In some instances, where foreign direct investment (FDI) capabilities are appreciably higher than those of local firms, meaningful spill over occurs
- Sector-specific funds can cater for unique needs of startups, diversify funding mechanisms, and increase access.

### 3.3.3 Business Support

The growth and development of startups in a knowledge-based economy depend on quality instruments to support competitiveness and innovation. Startups access business support from

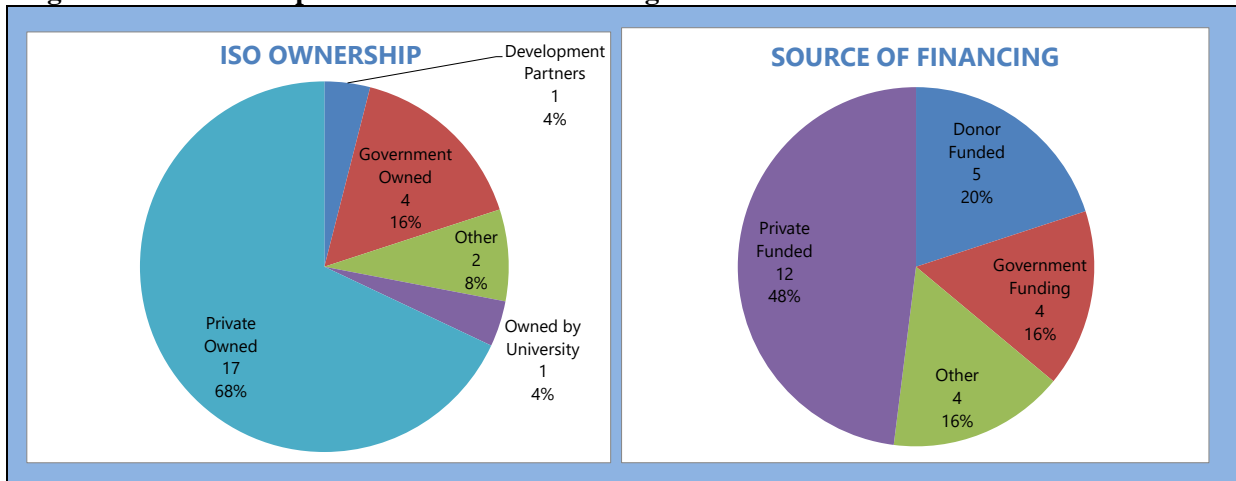
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<sup>140</sup> Briter Bridges is a data-driven research firm dedicated to collecting, curating, and visualising information about business and investment across underserved markets, with a specific focus on Africa.

innovation spaces, business incubators or labs, accelerators, maker spaces, and any organisation that supports entrepreneurs.

Innovation support organisations aim to enhance economic development through job creation, building a robust entrepreneurship climate, facilitating sustainable market entry for startup companies, increasing access to innovative products, processes and services and diversifying the country's economy. The support provided includes business services, infrastructure, training, and access to networks<sup>141</sup>.

**Figure 3. 5: Ownership of ISOs and their financing sources**



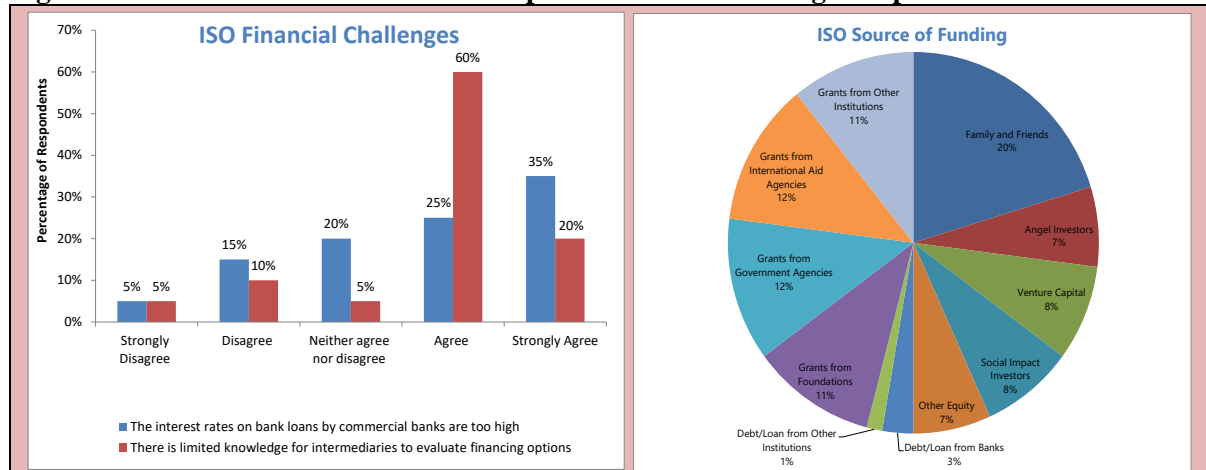
Recent records indicate that innovation support organisations (ISOs) in Tanzania are increasing; approximately forty (40) of them are active<sup>142</sup>. Most of ISOs that responded to the survey were privately run, though the most prominent ones receive some form of support from Government or development partners (See Figure 3.5). The other sources of funding mentioned are mainly blended or hybrid financing options, where development partners collaborate with the private sector or with the Government.

In spite of the existing support options, ISOs hubs in Tanzania remain limited in their ability to provide quality support due to:

- i) **Financial sustainability:** Several ISOs rely on external resources, including development partner support, for financing their operations. Innovation hubs in Tanzania are also startups in their growth. Business models for sustainable operations of innovation hubs need validation with successful graduates. If hubs could validate their services, this would attract potentially paying clients. The few ISOs that responded to the survey acknowledge lack of understanding on how to access resources outside of existing mechanisms. The primary support for ISOs is from family and friends, Government, and development partners. None of the respondents indicated access to SME finance mechanisms. Furthermore, only five ISOs indicated that they could serve up to one-hundred clients, the main limitation being resources.

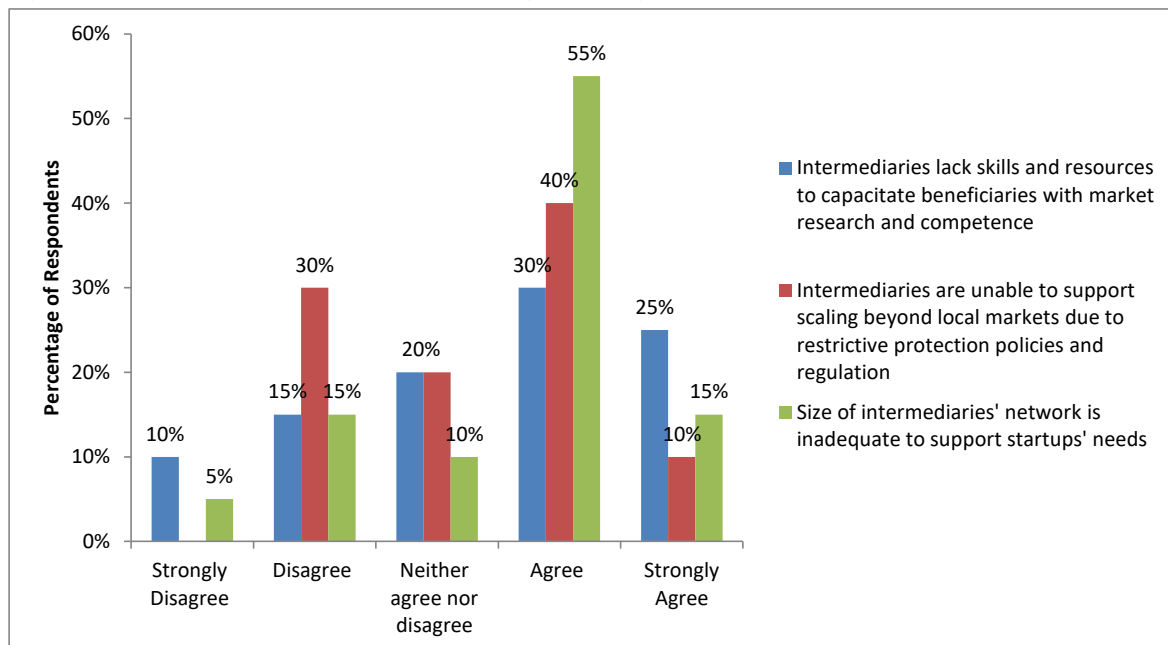
<sup>141</sup> Lipińska, A (2018). Areas and Forms of Operation of Academic Business Incubators alongside Startup Organizations. PRZEDSIĘBIORCZOŚĆ I ZARZĄDZANIE. Wydawnictwo SAN | ISSN 2543-8190. Tom XIX | Zeszyt 9 | Część III | ss. 423–440  
<sup>142</sup> HDIF (2018): A mapping of Tanzanian hubs and innovation spaces

**Figure 3. 6: Sources of finances for ISO operations and knowledge of options to access finance**



ii) **Inability to attract clients, awareness training:** In addition to lack of validated business models for innovation hubs in Tanzania, the concept of support is still novel and considered a service provided using Government or development partner resources. As a result, startups are unwilling or unable to pay for the services of innovation hubs. Furthermore, awareness of the role of hubs, how they operate and how they contribute to socio-economic development is lacking in several segments of the policy and business environment. This lack of recognition undermines innovation hubs' expected role in improving access to finance and advocating for favourable policy and regulation. Hubs also acknowledge not having the requisite skill set to meet client needs. This makes growth somewhat challenging for some of the ISOs who responded to the survey (See Figure 3.7).

**Figure 3. 7: ISO Customers and marketing challenges**



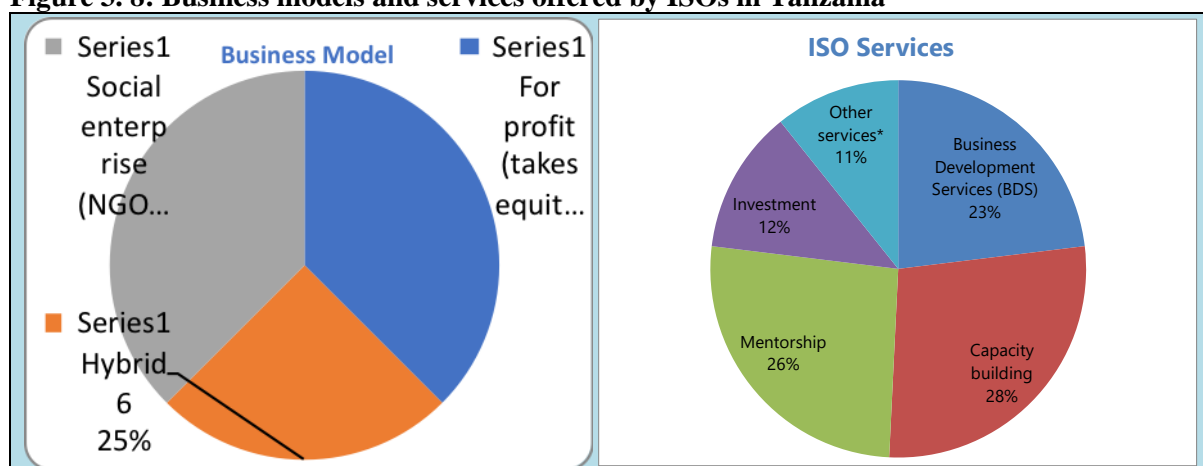
iii) **Connectivity and political buy-in:** Innovation hubs cater mainly for Tanzanian youth (aged 18-45 years). Entrepreneurship in Tanzania is considered a possible means to alleviate unemployment, mainly of graduates from tertiary education and not so much to provide innovative solutions to wicked challenges and generate jobs and wealth. The political agenda advocates for micro, small and medium enterprises (MSMEs) as a collective with startups, and thus the value of the latter is diminished. Furthermore, innovation hubs connect startups



to support other than business advisory services. The support is broad, and the innovation hub staff cannot avail everything. Thus, mentors, technical expertise, legal services, and others are expected to be part of the innovation hubs' network. For newly established hubs, these networks are undeveloped in many instances. The respondents to the survey quoted that there is an inadequate number of mentors, and the few available often lack the necessary skills.

- iv) **Lack of long-term strategy:** Several hubs in Tanzania are initiated as short-term initiatives as part of large programmes, mainly with development partner support. However, the transition or transformation to self-sustaining organisations requires realignment and development of business models that were not part of the original design. All ISOs offer generic business support services, and few are differentiated by a unique value proposition which, in many cases, is entrepreneur specific and short term. Such services include intellectual property rights registration, personal coaching and counselling, digital manufacturing, and sector-specific products (reflected as 'other' in Figure 3.8). In addition, some ISOs operate hybrid models combining for-profit and not-for-profit, which creates some challenges with taxation.

**Figure 3. 8: Business models and services offered by ISOs in Tanzania**



- v) **High staff turnover:** Innovation hub managers and their staff are entrepreneurial individuals and, thus, exit from the hubs is relatively high. Furthermore, quality talent for running hubs and retaining talent is challenging where remuneration is dependent on sustainable business models, which are lacking.
- vi) **General management:** Like other ventures, innovation hubs require skilled management with robust processes for success.
- vii) **ISO focus.** Some respondents of the survey indicated sector-specific challenges due to the area of focus. Non-tech ISOs tend to have less access to resources than those with a strong tech focus.

### 3.3.4 Markets

Tanzania has a population estimated at 59.73 million, projected to reach 70.1 million by 2021 (World Bank, 2020). The commercial capital city, Dar es Salaam, is one of the fastest-growing cities in the world<sup>143</sup>. The country has high fertility levels, reduced mortality and low net levels of migration. Tanzania attained lower-middle-income status in June 2020, and the Global Innovation Index 2020 listed it as the most improved least developed country. The market for innovative solutions in Tanzania is not limited by size but by capabilities to access and enable policies.

Access to markets is the remit of the Ministry of Investment, Industry and Trade (MIIT). MIIT is responsible for promoting internal, international and bilateral trade. In doing so, the ministry advocates and supports market access programmes that are generally fully or partially funded by the

<sup>143</sup> African Development Bank (2014): Tracking Africa's progress.

Government of Tanzania (GoT). The programmes are bi-directional, i.e. inbound and outbound<sup>144</sup>. **Inbound programmes** attract high growth companies from international markets to host cities or countries. Such a programme can include an introduction to the local ecosystem and enable connections. The Sahara Ventures Annual Event is the only example of such a programme in Tanzania. The event is held annually in Dar es Salaam and thus inadequate to cater for the demand. **Outbound programmes** further the growth of domestic companies to international markets to scale businesses. For example, Tanzanian startups have participated in the SAIS-funded BoostUP programme since 2017, which follows a three-stage capacity building and competition event that exposes them to the Finnish ecosystem. Inbound and outbound programmes provide connections and exhibit the entity on credible platforms for startups.

There are limited policy directives and strategies to protect startups from entering markets in Tanzania, and the probability of failure is high. To survive in a competitive business environment without protective policies, startups have to punch above their weight to gain recognition amongst the clusters of established MSMEs and large businesses.

### 3.3.5 Human Capital

Startups are similar to other business ventures when it comes to attracting quality human capital. Most founders originate from institutions of higher learning, particularly those whose innovations are technology driven. During the ideation and validation stages, startups have to upgrade and acquire skills or expertise to incremental improvements in their products, processes, organisational methods and market strategy. Innovation hubs are instrumental in this upskilling process. Startups outsource services such as legal advice and special technical expertise where upskilling or acquiring talent is not possible. Upskilling and outsourcing add to the cost of setting up an entity and can be limiting.

Institutions of higher learning in Tanzania embarked on entrepreneurship training in recent years. For example, the University of Dar es Salaam, the oldest in the country, has a directorate for innovation and entrepreneurship and hosts incubators in some of its schools and colleges. Other universities have emulated this and established centres or programmes to instil entrepreneurial skills in graduates. Outside of universities, some research and development organisations like Ifakara Health Institute (IHI) and the Tanzania Industrial Research Development Organisation (TIRDO) also implement and promote entrepreneurial initiatives.

Despite an increasing trend towards building entrepreneurial institutions of higher learning, there are still few programmes available. From the consultations and survey conducted, available programmes in these institutions range from boot camps to fully fledged degrees. A more detailed survey would be needed to confirm the adequacy of the programmes.

### 3.3.6 Research and Development

Academic and research and development institutions play an important role in innovation systems by educating the younger generation and providing competent human resources. Exploiting new science developed in universities and research laboratories is crucial for startup ventures. Facilitation and support for breakthrough innovation will promote incremental innovation and job creation, including facilitation of spin-offs and spin-ins from universities and research and development organisations.

COSTECH has listed thirty-five (35) active<sup>145</sup> universities and research and development organisations in the country. The Tanzania Commission for Universities (TCU) lists thirty-one (31) chartered universities, but few are engaged in research and development.

Limitations in research and development and knowledge transfer contribute to low levels of innovation in Tanzanian startups. Most Tanzanian startups are in information and communication technologies (ICTs), as access to research infrastructure and knowledge is relatively easier post-graduation from higher learning institutions or formal education. In other fields, facilities are a bottleneck and exploitation of knowledge to create tangible solutions is limited. The research and

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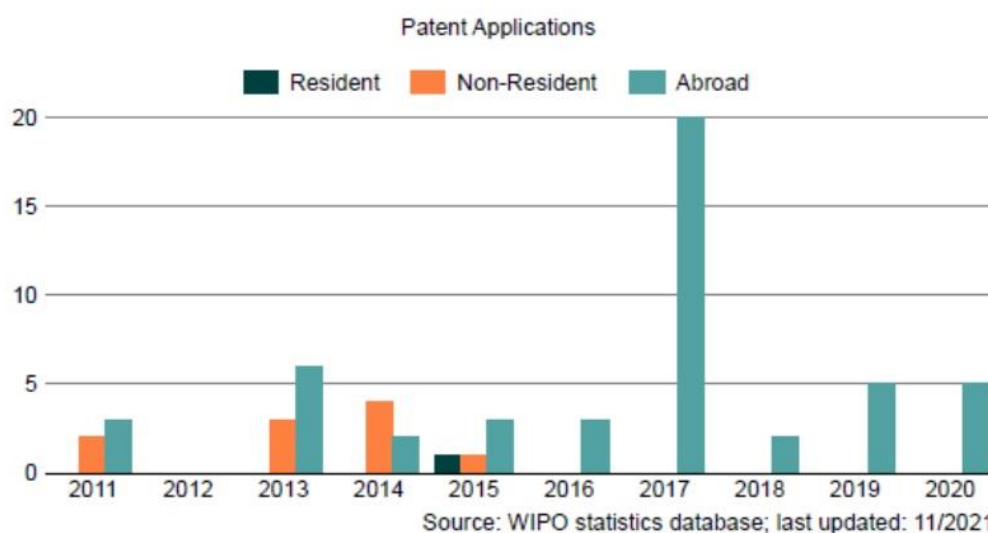
<sup>144</sup> Ajay Ramasubramaniam August 18, (2018): Entrepreneur India, an international franchise of Entrepreneur Media

<sup>145</sup> Active R&D indicates organisations that have submitted applications for research clearance from the National Research and Registration Committee at COSTECH.

development space in Tanzania is yet to attain a critical mass of infrastructure that can adequately serve its beneficiaries and innovators. For non-ICTs-based solutions, there are a couple of maker spaces, but these are under-staffed and do not cater for the entire spectrum of demand.

In Tanzanian academic institutions, emphasis is on publications and less attention is on commercialising research outputs. Intellectual property rights (IPR) products (patents, trademarks, industrial design) are indicators of innovation in a country. However, Tanzania has a low number of patents registered with the World Intellectual Property Organisation (WIPO) (see Figure 3.9 below). The statistics may also be due to limited monitoring and evaluation efforts. Tanzania hosts mechanisms to access external IPR to further stimulate innovation through the Business Registration and Licensing Authority (BRELA). BRELA is the WIPO focal institution and has partnered with COSTECH to build awareness on intellectual property rights and on the opportunities to further innovation from research and development. University of Dar es Salaam, in partnership with BRELA and WIPO, has launched a postgraduate programme on IPR to build knowledge competence; protect and promote reverse engineering of existing intellectual property.

**Figure 3. 9: Number of resident and non-resident patents registered for Tanzania**



Innovation is both technological and non-technological, and Tanzania is yet to recognise the latent potential of non-technological innovations. Doing using interacting (DUI) innovations that are non-technological require a different type of support, focused more on increasing capacity to absorb knowledge from outside the venture. Examples of DUI programmes in Tanzania being implemented are at Tumaini University in Iringa using the RLabs and Demola approaches. DUI exposes startups to knowledge systems, increases workforce skills and promotes connectivity in the innovation ecosystem.

### 3.3.7 Culture

It is essential for policy to engender conducive cultures and attitudes in the ecosystem with entrepreneurship. Startup enablers, clients and founders all need to foster positive attitudes.

#### i) Enablers

Startup enablers are administrators, regulators, and the Government at all levels responsible for policy, regulations and administration. The enablers ensure that the environment is conducive for startups to thrive. Currently, Tanzania addresses startup needs with those of MSMEs in Tanzania; this is inadequate. Lack of awareness of the salient needs of startups is one of the reasons that the Tanzania Startup Association is advocating for a stand-alone policy. An example is the Know Your Customer (KYC) control, governed by the Microfinance Act of 2019, which does not facilitate loans

for tech startups that have no collateral. Another example is the Companies Act, which recognises intellectual property as a security, but financial institutions do not.

## **ii) Clients**

Successful innovative solutions depend on the originator and the creativity and adaptability of clients. Clients are individuals, businesses (small and large), governments, societies (local, regional and international). Startup products, processes and services tend to disrupt established complex work flows. An example is a finance aggregator system developed by NALA<sup>146</sup>. NALA has reorganised long-standing business practices, tailored software to link payments inside and outside Tanzania. NALA clients have had to build trust in this non-traditional money transfer platform with little or no insurance and contracting for the benefit of reduced transaction costs and administration.

## **iii) Startups**

At the core of a startup, success is the founder's drive. Entrepreneurship is promoted in many countries as a job creator and an alternative to employment. However, whilst many individuals are entrepreneurial, few are successful as startup founders. Sometimes complacency sets in when an innovation has a monopoly and does not pay attention to new entrants.

### **3.3.8 Infrastructure**

Infrastructure that supports startups is by and large similar to the needs of MSMEs. However, subtle differences are in the focus of startups. ICTs infrastructure is critical for creative software, business and financial services. Policies would enable affordable online presence and protection against cybercrime for startups and their clients.

Some startups need physical spaces for operations, particularly during the validation and growth stages. However, real estate policies in Tanzania are driven by market forces, and there are few co-working space options that startups can access.

### **3.3.9 Gender**

A quarter (25%) of the startup respondents were female, suggesting the balance between genders is still skewed to males.

## **3.4 Startup Resilience**

The formation and development of enterprises in an economy transitioning to a knowledge base depend on quality instruments to support competitiveness and innovation. In addition, the instruments should ensure that business models can operate in turbulent environments. Startups are generally vulnerable to ecosystem shocks, and thus mechanisms to ensure resilience are critical. Policy interventions can tackle short-term challenges, support short-term liquidity and availability of funding, and foster the ability of startups to grasp new business opportunities that may arise during and after the pandemics. The startup ecosystem can draw lessons and experience from the Tanzania Social Action Fund (TASAF) initiative, which provides relief support to the under-served.

Furthermore, the 'disruption' that innovative startups can create is pronounced in periods of economic crisis and recovery, as with the COVID-19 pandemic. Therefore, in instances of economic crisis, the ecosystem must not dissuade but support new business models and innovative solutions.

## **3.5 Conclusion**

This report does not represent a comprehensive account of all possible areas of policy intervention for startups in Tanzania. Instead, the account has focused on areas needing redress, given the status of the ecosystem. As the Tanzanian startups' pipeline scales and the angel investor and venture capital landscape matures, additional concerns will be addressed.

Policy makers and other ecosystem actors need to be aware and prepare for the potential job losses in the medium term through "disruption" as entrepreneurs strive for increased productivity. Research

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<sup>146</sup> NALA money transfer platform uses USSD technology; it is not dependent on internet availability. This is in direct response to the cost of mobile data in Africa, and spotty network coverage in some locations.

suggests that "high-growth enterprises" account for two per cent (2%) to eight per cent (8%) of all enterprises with ten or more employees, while "gazelles" account for less than one per cent (1%) of such enterprises<sup>147</sup>. Nonetheless, startups can generate significant socio-economic impacts.

Policies that reduce barriers to entrepreneurship and provide incentives for startups and other innovation actors will grow robust innovation ecosystems.

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<sup>147</sup> OECD 2018: Enabling SMEs to Scale Up – Discussion Paper at the SME Ministerial Conference held in Mexico City

## 4.0 BENCHMARKING OTHER AFRICAN COUNTRIES WITH TANZANIA

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This chapter benchmarks selected recent African startup legislations from Tunisia, Senegal and Kenya, as well as the draft Startup Act from Mali, to develop a clear understanding of Tanzania's legislative framework, comparative strengths and weaknesses and its potentials for reform.

### 4.1 Introduction

African countries are increasingly realising that entrepreneurship and innovation are important for enhancing employment and productivity, as well as for creating quality jobs and inclusive economic growth. Unfortunately, several constraints, such as unfavourable legal and regulatory frameworks, under-developed infrastructure, lack of business development services, limited access to finance, scarcity of skilled labour, and weak cultural support, are limiting entrepreneurship to realise its full potential (Severino and Hadjenberg, 2016).

To address these constraints, nineteen African governments have therefore enacted dedicated legislation in the form of Startup Acts and Small Business Acts (SBAs)(see Table 4.1), as well as other policy instruments, with the aim of promoting entrepreneurship and stimulating the creation and development of SMEs (Stever *et al.*, 2020).

The COVID-19 pandemic accelerated the pace of countries adapting to the digital world, resulting in a significant growth in technology ecosystems across the African Continent. *It is therefore important for Tanzania to create an enabling environment, within which startups can flourish by benefitting from a conducive regulatory, fiscal, monetary and policy climate. Supportive legislation and the fostering of the creation and growth of a startup ecosystem is of the utmost importance to stimulate innovation and economic development in Tanzania.*

Startups often find complying with complex financial and regulatory requirements quite onerous. Any startup legislation should therefore be holistic and should complement existing laws. A well-drafted law, specifically suited for startups, should address the main challenges and bottlenecks of the ecosystem to create an enabling environment in which new startups can flourish through the various stages of their lifecycle – from incorporation to expansion and maturity.

### 4.2 Startup Acts

Startup Acts are not an entirely new concept or unique to Africa. Italy was the first country to pass a startup Act in 2012, specifically designed to stimulate innovation and promote entrepreneurship. The enactment of startup Acts in Tunisia in 2018, Senegal in 2019, and Kenya in 2020, created a growing interest in the creation of an enabling environment for startups and investors and thus paved the way for multiple proposals in several other African countries such as Algeria, Benin, the Democratic Republic of Congo, Egypt, Ethiopia, Ghana, and Rwanda, amongst others.

*It is imperative that Tanzania structures any proposed Startup Policy or Act in line with global standards and best practices, since a lot of funding from venture capitalists is emanating from foreign countries.*

### 4.3 Entrepreneurship Ecosystem

Research and practice have proven that entrepreneurship thrives in environments where multiple factors and stakeholders (public and private) collaborate to form an entrepreneurship ecosystem, composed of governance, markets, financing, human capital, culture, infrastructure, and support mechanisms (Isenberg, 2011).

A study of various entrepreneurial ecosystem diagnostic tools reveals seven challenges faced by entrepreneurs across the world:

- **Governance:** Non-conducive laws and regulations affecting the startup and growth of firms, as well as associated implementation practices
- **Finance:** Lack of financing mechanisms, including debt, equity, grants, and blended financing for starting and growing a firm

- **Culture:** Unfavourable societal attitudes toward entrepreneurship, unavailability of role models, low tolerance of risk, and low level of trust
- **Support:** Lack of professional services, including business development services, incubators, accelerators, and friendly entrepreneur associations
- **Human capital:** Lack of skills and aptitudes needed to start and grow firms supplied by education institutions and the private sector
- **Markets:** Lack of early customers, distribution channels, suppliers, and entrepreneurial networks
- **Infrastructure:** Lack of accessible and reliable quality of infrastructure, including electricity, telecommunication, transportation, and logistics (Steuer *et al.*, 2020).

Not all these challenges affect the growth of entrepreneurship directly. Some will have a direct influence (finance, business development services), partial influence (regulation & compliance, access to markets, skills, infrastructure and equipment, research and development, and innovation), or indirect influence (culture). These challenges are also not limited to an individual entrepreneur, but can also pertain to a team, firm, or the broader private sector environment.

#### 4.4 Countries with SME and Startup Policies and Acts

A study of the processes followed in various African countries to create a favourable environment for entrepreneurship and startups could shed significant light on the challenges faced by entrepreneurs, as well as on the public policy development process required to ensure inclusiveness and effectiveness.

Table 4.1 below provides detailed profiles of policy and legislative interventions regarding SMEs and Startups (indicated in blue), arranged according to country.

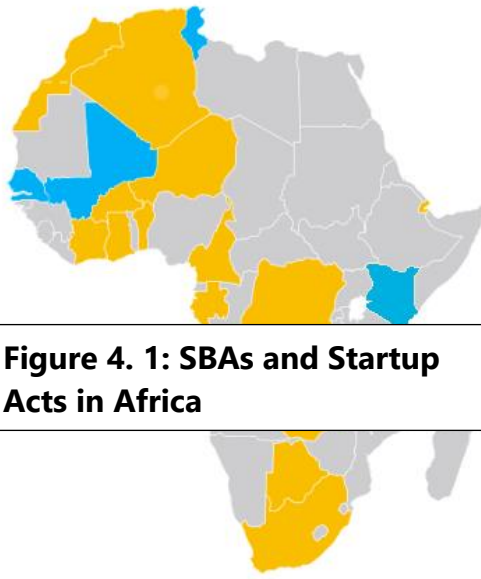
**Table 4. 1: Policy and legislative interventions in Africa**

Country	Solution	Type	Year	Description
Algeria	SME Act	Law	2017	Law No.17-02 of 10 January 2017. Orientation law on the development of small and medium sized enterprises
Benin	Decree on National Charter for SMEs	Law	2005	Decree of 25 August 2005 on the National Charter for SMEs
Botswana	Small Business Act 2004	Act	2004	Act of 13 February 2004 to establish the Local Enterprise Authority
Burkina Faso	SME Act and associated Decree on SME Charter	Law	2017	Law No. 015-2017/AN of 27 April 2017 establishing a law on orientation and promotion of SMEs Decree No. 2017-1165/PRES/MCIA/MATD/ MINEFIS of 30 November 2017 adopting the SME Charter of Burkina Faso
Cameroon	SME Act	Law	2010 2015	Law No. 2010/001 of 13 April 2010 on the promotion of SMEs in Cameroon Law No. 2015/010 of 16 July 2015 amending the Law No. 2010/001 of 13 April 2010 (new provisions on the SMEs' definition)
Côte d'Ivoire	SME Act	Law	2014	Law No. 2014-140 of 24 March 2014 on the national policy for promotion of SMEs
Djibouti	Decree on micro-businesses	Decree	2013	Decree No. 2013-121-121/PR/MHUE of 10 June 2013 on regulation and qualification of very small business
The Democratic	SME Act	Law	2009	Charter for SMEs and the craft sector of 24

Country	Solution	Type	Year	Description
Republic of Congo				August 2009
Gabon	SME Act and SME Charter	Law	2005 2015	Law No. 16/2005 on the promotion of SMEs The 2015 Gabonese SME Citizen Charter
Ghana	National Business and Small-Scale Industries Act	Act	1981	Established the National Board for Small-Scale Industries Act of 1981, which provides business support services to SMEs
Kenya	Small and Micro Enterprises Act	Act	2012	An Act of Parliament to provide for the promotion, development, and regulation of micro and small enterprises; to provide for the establishment of the Micro and Small Enterprises Authority, and for connected purposes
Kenya	Startup Act	Act	2020	Startup Act 2020
Mauritius	10-year Master Plan for the SME Sector in Mauritius 2016 SME Act 2017	Policy Act	2016 2017	Provides a strategic framework for SME development as a core pillar of the government's growth strategy from 2016-2026 To provide for the repeal of the SME Development Authority Act following the incorporation of SME Mauritius Ltd
Mali	Startup Act	Law	2019	The draft Mali Startup Act, approved by Cabinet in October 2019
Morocco	SME Charter Act	Law	2002	Law No. 53-00 of 23 July 2002 establishing the SMEs Charter
Niger	SME Act	Charter	2010	SME Charter in Niger instituted by the ordinance of 16 December 2010
Nigeria	National Policy on Micro, Small and Medium Enterprises, 2015	Policy	2015	Outlines key objectives, strategies & programmes for influencing the development of MSMEs. The Policy delineates several programmatic areas: legal & regulatory services, human resources development, technology, research & development, extension & support services, infrastructure, marketing & finance. In addition, the policy identifies and elaborates on special target enterprise categories. The report proposes institutional framework for the implementation & monitoring of the National Policy, with SMEDAN as the primary responsible institution. An action plan & institutional framework for the implementation of the National Policy on MSMEs is also proposed.
Rwanda	2010 SME Policy	Policy	2010	Rwanda designed the Rwandan SME Policy to complement a set of existing policies/strategies that aim to increase non-farm employment, develop business and technical skills in the Rwandan workforce, support targeted value-added clusters, strengthen the financial sector, grow the tax



Country	Solution	Type	Year	Description
				base & facilitate investment finance to generate industrial growth. Defines SMEs, identifies 5 policy objectives, legal implications, impact potential, etc.
<b>Senegal</b>	SME Act	Law	2008 2010	Orientation Law No. 2008-29 of 28 July 2008 on the promotion and development of SMEs
	Startup Act	Law	2020	Law No. 2012-32 of 31 December 2012 amending the law of 28 July 2008 <a href="#">Law No. 2020-01 on the creation and promotion of startups of 6 January 2020</a>
<b>South Africa</b>	Small Business Act	Law	1996	National Small Business Act 1996
<b>Tanzania</b>	SME Development Policy 2003	Policy	2003	Tanzania developed the 2003 policy within the framework of Tanzania's Vision 2025 and other national strategies. It sets out 7 pillars in support of SME development: Legal and Regulatory Framework, Physical Infrastructure, Business Development Services, Access to Finance, Institutional Framework for SMEs Development, Rural Industrialization, Cross Cutting Issues
<b>Tunisia</b>	Startup Act	Law	2018	Law N° 2018-20 of 17 April 2018 (الناشئة تونس) relating to startups focusing mostly on innovative startups (part of the wider strategy of Digital Tunisia 2020). The Startup Act aims to simplify administrative procedures, but also to facilitate access to finance and international businesses. The Act envisages the creation of a single point of contact for entrepreneurs to obtain information and conduct the required formalities for registration and operation
<b>Zambia</b>	Small Enterprises Development Act of 1996	Act	1996	An Act to provide for the establishment of the Small Enterprise Development Board and define its functions; to establish the Micro and Small Enterprise Development Fund; provide for the development and registration of micro and small enterprises; repeal and replace the Small Industries Development Act, 1981; and provide for matters connected with or incidental to the foregoing.
<b>WAEMU</b>	2015 Community Charter for SMEs	WAEMU Directive	2015	The Directive on the Community Charter for SMEs



**Figure 4. 1: SBAs and Startup Acts in Africa**

As is evident from Table 4.1 there are 17 countries with small business Acts (SBAs); only three countries have enacted startup Acts, namely Kenya, Senegal, and Tunisia; and only one country has approved a draft startup Act, namely Mali (indicated in blue in the table above and the map). Startup Acts are under development or consideration in several other countries such as Benin, the Democratic Republic of Congo, Egypt, Ethiopia, Ghana, Nigeria, and Rwanda.

Small business Acts are legislative instruments (laws), with a transversal scope, aiming to boost the creation and development of SMEs (indicated in yellow on the map).

Startup Acts are legislative instruments aimed at fostering entrepreneurship and enabling the development of new firms with high growth potential. Most startup Acts create incentives (tax, subsidies, procurement, etc.) for firms considered as startups

according to their respective definitions, which are mostly based on perceived potential for growth and innovation (Steuer *et al.*, 2020).

**4.5 Regulatory Environment in Africa**

According to diagnostic reports by the World Bank, several regulatory issues relevant to startups exist as depicted in tables 4.2 and 4.3.

**Table 4. 2: The regulatory environment in 11 African countries**

Country	No substantial regulation	Only basic framework or dispersed individual regulation	Comprehensive regulatory framework, but with major addition or amendments needed	Comprehensive regulation in place, but small additions or upgrades recommended	Comprehensive and modern regulation in place
Cameroon		X			
Gabon		X			
Ghana			X		
Kenya					X
Madagascar		X			
Mozambique			X		
Nigeria			X		
Rwanda			X		
Senegal					X
Seychelles			X		
South Africa				X	
Tanzania		X			

**Source:** Google and the International Finance Corporation (IFC), 2021

As illustrated in Table 4.2, Kenya, Senegal and, to a lesser extent, South Africa appear to have the most comprehensive regulations in place, while Ghana, Mozambique, Nigeria, Rwanda, and Seychelles require some major amendments to their frameworks to accommodate startups. Cameroon, Gabon, Madagascar and Tanzania have fragmented and dispersed individual regulations, with much room for improvement. Table 4.3 provides examples of regulatory gaps that the diagnostics highlighted, as well as an indication of the countries where these gaps are prominent.

**Table 4. 3: Examples of regulatory issues relevant to startups**

Category	Regulatory gaps	Country examples
Innovation and firm growth	<p>Regulatory challenges related to starting a business, enforcing contracts, and trading across borders. Examples include built-in regulatory bias against new products and business models, as regulators tend to be somewhat risk-averse and protectionist</p> <p>Outdated and ineffective policies for stimulating investment in the digital industry; gaps in insolvency and investor liability legislation; lack of regulatory frameworks for high initial investments, and access to finance and markets.</p> <p>In addition, there is lack of labour-related policies and regulations in hiring full-time employees for startups. Policies strongly protecting employees and the administrative burden can prevent hiring decisions of startups that often face financial uncertainty.</p>	Gabon, Ghana, Mozambique, Nigeria, Seychelles, South Africa <u>Tanzania</u>
Competition and market dominance	Legal and regulatory gaps related to licensing, fair competition, and spectrum allocation.	Ghana, Kenya, Senegal, Seychelles <u>Tanzania</u>
Connectivity and access	Legal and regulatory gaps related to access to digital infrastructure, as well as to access and use of mobile-enabled and digital services.	Cameroon, Kenya, Madagascar <u>Tanzania</u>
Data Privacy, security, ownership, and localisation	Legal and regulatory gaps related to data storage, data ownership, privacy and cyber security, and cross-border data flows. Examples include lack of a legal framework on ownership and licensing of government data; access to shared services and re-usable public sector data.	Cameroon, Gabon, Ghana, Mozambique, Nigeria, Rwanda, Senegal <u>Tanzania</u>
Payments	Legal and regulatory gaps related to licensing of payment service providers, payment authorisation, and processing. Examples include failing to address the emergence of new business models where startups developed platforms that act as payment intermediary; legal vacuum around digital signatures and banking regulation to allow banks to deliver financial services remotely.	Cameroon, Ghana, Madagascar, Nigeria
Tax registration, filing, and reporting	Lack of legal clarity regarding the number of taxes and costs that are still high and mostly unknown by digital entrepreneurs. Examples include onerous value-added tax (VAT) and corporate tax legislation and procedures; tax laws that do not recognise numerous emerging business models.	Mozambique, Nigeria, Seychelles <u>Tanzania</u>

**Source:** Google and the International Finance Corporation (IFC), 2021

When focusing only on startup Acts of countries in Africa, certain primary characteristics become evident as depicted in Table 4.4 below.

**Table 4. 4: Primary characteristics of startup Acts in Africa**

Characteristics	Kenya	Mali	Senegal	Tunisia
Instrument identifies an authority responsible for implementation	X	X	X	X
Instrument sets framework for startup development	X	X	X	X
Identifies target beneficiaries and provides definitions	X	X	X	X
Entitlement based labelling process in instrument			X	X
Discretionary labelling process in instrument	X	X		
Incentives to startups included in the instrument	X	X	X	X
Policy objectives included in the instrument	X			
Monitoring & evaluation framework referenced in the instrument	X		X	

**Source:** Adapted from Stever *et al.*, 2020

It is evident that all four startup Acts contain basic provisions that outline a framework for startup promotion. They include the definition of a startup, financing, incentives, support schemes, agencies responsible for implementation, and the process for labelling startups.

#### 4.5.1 Target Beneficiaries: Definition of Beneficiaries in Startup Policies and Acts

Criteria to define startups in startup Acts generally include number of employees, annual turnover, capital requirements, number of years in existence, clauses on the potential for growth, and other qualitative criteria, especially on the sector of the firm, e.g. the Tunisian Startup Act requires an economic model that presents a strong innovative and technological character.

Tunisia's Startup Act is the only law with requirements for annual turnover. However, Acts in both Tunisia and Mali have capital investments requirements - that nationals (similar to some SBAs) hold two-thirds of the company's capital.

All startup Acts provide limits on the maximum years of operation (4-8 years) and include a growth potential clause, which remains open to interpretation or specification. Senegal requires its startups to have "strong growth potential in search of a disruptive business model", while Tunisia specifies a high technological value business model that is highly innovative and which utilises cutting-edge technology.

What is lacking from Africa's startup Acts, in comparison with global startup Acts such as the Italian Act, is that it does not allow an innovative startup to transition to "innovative SME" status given certain conditions for maturity and experience. The law defines an "innovative SME" as any small and medium enterprise operating in the field of technological innovation, irrespective of its date of incorporation, its company purpose, and its stage of maturity. Table 4.5 presents the criteria for qualifying startups in countries with startup Acts.

**Table 4. 5: Criteria for beneficiaries**

Country	Size	Annual Turn-over	Capital requirements	Stage	
	Number of employees	Cap	Criteria	Limit on years of operation	Growth potential requested
Kenya			Registered in Kenya as a company under the Companies Act; or partnership firm under the Partnership Act; or limited liability partnership under the Limited Liability Partnership Act; or non-government organisation under the NGO Coordination Act. Has as its objective the innovation, development, production, or improvement of commercialisation of innovative products, processes or services. HQ in Kenya. Majority owned by Kenyans. Owner of registered patent or software.	7 yrs 10 yrs for biotech startups	No
Mali	< 5 management		Malians/legal persons governed by Malian law must hold 2/3 of capital	4 yrs	Yes
Senegal			Senegalese citizens or residents must hold at least 1/3 of capital, or the Startup must be a Senegalese legal entity with its registered office in Senegal. The Act labels foreign companies as Startups if Senegalese citizens own 50%.	8 yrs	Yes
Tunisia	Workforce < 100 employees	Annual turnover < \$5.3 million	More than 2/3 held by natural persons, collective investment funds/companies, capital investment companies, venture capitalists, authorised financial institutions.	8 yrs	Yes

**Source:** Various Startup Acts

Although Tanzania does not yet have a startup Act, it has an SME Development Policy with the following criteria:

**Table 4. 6: Status criteria in Tanzanian entrepreneurship policy**

Categorisation	Size (# of employees)	Capital requirements/ Investments
Micro-enterprise	1-4	< 5M TZS
Small enterprise	5-49	< 200M TZS
Medium enterprise	50-99	< 800M TZS
Large enterprises		> 800M TZS

**Source:** Tanzania Entrepreneurship Policy

Since it is important that entrepreneurs meet the prescribed criteria, standards, and expectations to benefit from a startup Act and/or policies, legislators often put in place a labelling process. There are currently two approaches to the labelling of startup process, namely discretionary and entitlement labelling processes. Of countries that have startup Acts, only Mali and Kenya have a discretionary process, while Senegal and Tunisia follow an entitlement-based labelling process, often through registration.

With an entitlement-based labelling process, companies are expected to apply at a designated institution (e.g. a ministry or registrar) in order to qualify, subject to submitting proof of the stated criteria. In countries that follow a discretionary process, definitions for the types of firms that qualify are specific to certain sectors and seem to justify the need for a more targeted process, managed by a committee and composed of a mix of public and private actors.

#### 4.5.2 Overview of Interventions

Four countries have already signed startup Acts, while others (such as Benin, *Côte d'Ivoire*, Togo, and several others) are currently considering it. Most of these laws address the seven challenge categories, although governments have not equally implemented all of the categories. Table 4.7 presents a summary of the startup interventions in Africa according to the seven challenge categories.

**Table 4. 7: Interventions by category**

Country	Governance	Finance	Culture	Support	Human Capital	Markets	Infra-structure
Kenya	X	x		x	x		
Mali		x		x			
Senegal	X	x		x		x	x
Tunisia	X	x	x	x	x	x	
<b>Total</b>	<b>3</b>	<b>4</b>	<b>1</b>	<b>4</b>	<b>2</b>	<b>2</b>	<b>1</b>

**Source:** Startup Policies and Acts of 4 African Countries

The highest number of interventions are in finance (4), support (4), and governance (3). When studying the interventions in detail, the following aspects become evident:

- **Finance:** Startup financing through provision of grants and soft loans, bank financing and venture finance, is a strong theme in the startup Acts. All four countries have financial interventions. Countries use financing interventions, such as grants or soft loans programmes, to channel funding directly to firms or indirectly through guaranteed funds, or to create a conducive regulatory environment for equity financing, Table 4.8 gives a summary of finance interventions per country with startup Acts.

**Table 4. 8: Finance interventions**

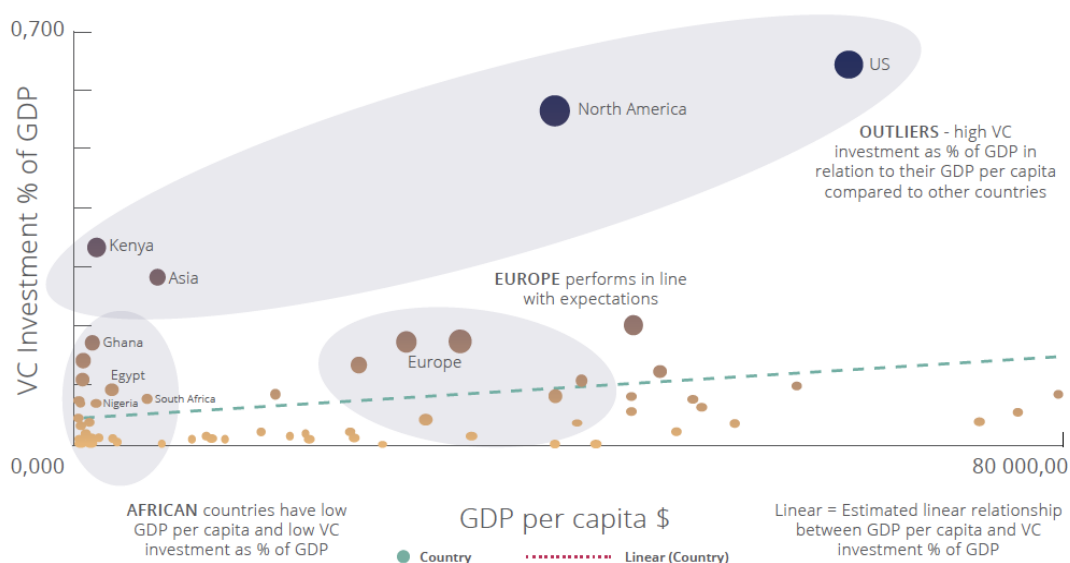
Tunisia	Senegal	Mali	Kenya
<ul style="list-style-type: none"> <li>• Access to grants</li> <li>• Leave of absence to create a startup</li> <li>• Covering of costs of filing procedures and patent registration fees.</li> <li>• Tax reliefs</li> <li>• National Social Security Fund (CNSS) support.</li> <li>• Support by support organisations during ideation, pre-seed incubation, seed, acceleration, and growth stages.</li> </ul>	<ul style="list-style-type: none"> <li>• The state may subsidise the formalisation of the company</li> <li>• Labelled startups benefit from funds, in the form of loans, from public and private sources</li> <li>• Alternative strategies and mechanisms for financing startups will be defined and implemented by an inclusive Commission established under the startup Act.</li> </ul>	<ul style="list-style-type: none"> <li>• Startups are legally entitled to issue convertible bonds, and are authorised to issue multiple convertible bonds, regardless of the option periods for conversion</li> <li>• The right to open a special account in foreign currency with approved intermediaries, without capital controls on funds raised</li> <li>• Any promoter of a startup may benefit from a startup scholarship for a duration of one year</li> <li>• Tax exemption of profit for investors.</li> </ul>	<ul style="list-style-type: none"> <li>• Subsidise the formulation of startups</li> <li>• Exemption of registration fees</li> <li>• Provide fiscal and non-fiscal support to startups admitted into the incubation programmes</li> <li>• Credit guarantee scheme with the objective of providing accessible financial support, establishing a framework for credit guarantee, and creating a guarantee for investors.</li> </ul>

**Source:** Startup Acts of 4 African Countries

Instruments that support financial intermediaries, such as fund of funds (FOF) and interventions within capital markets are not common in Africa. Countries pay very little attention to interventions within capital markets and pre-seed finance.

Global venture capitalist data values show that Africa, as a region, significantly under-performs as is evident from Figure 4.2. This is mostly due to the difficulty in starting a business in some countries, e.g. in Nigeria.

**Figure 4. 2: Venture capital per GDP per capita**



**Sources:** AfricArena calculations; IMF data; OECD data; Partech Data; World Bank Data

From the figure above it is evident that Kenya and Ghana received the highest percentage of GDP venture capital investments. The reason for Kenya's ranking is that it is easier to set up and operate a business in Kenya than it is in other countries in Africa. *It therefore appears that the East African market is highly valued.* This is because of a more mature ecosystem that impact investors initially supported, and in which it is significantly easier for foreign investors to set up offices.

Table 4.9 below presents a detailed breakdown of startup investment activity in the various African countries.

**Table 4. 9: Startup investment activity in Africa**

Country	VC investment 2019 \$m	VC investment 2020 \$m	Change %	investment 2019 #	investment 2020 #	Change number	Ave deal size 2019	Ave deal size 2020	% change ave deal size	Doing Bus.	GDP per Capita \$	investment % GDP	investment per Capita
<b>TOTAL</b>	<b>2021.0</b>	<b>1428.3</b>	<b>- 29%</b>	<b>250.0</b>	<b>359.0</b>	<b>44%</b>	<b>8.08</b>	<b>3.98</b>	<b>- 51%</b>				
<b>Nigeria</b>	747.0	307.0	-59%	38.0	71.0	87%	19.66	4.32	-78%	131	2229.9	0.0685	1.53
<b>Kenya</b>	564.0	305.0	-46%	52.0	52.0	0%	10.85	5.87	-46%	56	1816.5	0.3194	5.80
<b>Egypt</b>	211.0	269.0	27%	47.0	86.0	83%	4.49	3.13	-30%	114	3019.2	0.0888	2.68
<b>South Africa</b>	205.0	259.0	26%	66.0	72.0	9%	3.11	3.60	16%	84	6001.4	0.0737	4.42
<b>Ghana</b>	55.0	111.0	102%	10.0	13.0	30%	5.50	8.54	55%	118	2202.1	0.1657	3.65
<b>Rwanda</b>	126.0	11.6	-91%	4.0	4.0	0%	31.50	2.90	-91%	38	820.0	0.1120	0.92
<b>Uganda</b>	38.0	11.3	-70%	4.0	4.0	0%	9.50	2.83	-70%	116	794.3	0.0321	0.26
<b>Morocco</b>	7.0	11.2	60%	4.0	12.0	200%	1.75	0.93	-47%	53	3204.1	0.0094	0.31
<b>Senegal</b>	16.0	8.8	-45%	6.0	2.0	-67%	2.67	4.40	65%	123	1446.8	0.0373	0.54
<b>Cote d'Ivoire</b>	2.0	6.5	225%	0.0	6.0			1.08		110	2276.3	0.0111	0.25
<b>Algeria</b>	4.0	5.5	38%	1.0	1.0	0%	4.00	5.50	38%	157	3974.0	0.0032	0.13
<b>Tanzania</b>	0.0	4.6		0.0	4.0			1.15		141	1122.1	0.0073	0.08
<b>DRC</b>	4.0	4.6	15%	2.0	1.0	-50%	2.00	4.60	130%	183	580.7	0.0091	0.05
<b>Cameroon</b>	4.0	4.0	0%	3.0	3.0	0%	1.33	1.33	0%	167	1507.5	0.0103	0.15
<b>Zambia</b>	13.0	3.8	-71%	4.0	3.0	-25%	3.25	1.27	-61%	85	1305.1	0.0163	0.21
<b>Togo</b>	0.0	3.8		0.0	2.0			1.90		97	679.3	0.0692	0.47



<b>Tunisia</b>	8.0	3.4	-57%	3.0	7.0	133%	2.67	0.49	-82%	78	3317.5	0.0088	0.29
<b>Malawi</b>	0.0	3.3		0.0	1.0			3.30		109	411.6	0.0430	0.18
<b>Sierra Leone</b>	0.0	3.0		0.0	1.0			3.00		163	527.5	0.0728	0.38
<b>Gambia</b>	0.0	2.7		0.0	1.0			2.70		155	777.8	0.1479	1.15
<b>Benin</b>	0.0	2.4		0.0	1.0			2.40		149	1219.4	0.0167	0.20
<b>Ethiopia</b>	1.0	2.2	120%	1.0	2.0	100%	1.00	1.10	10%	159	855.8	0.0023	0.02
<b>Mauritius</b>	0.0	1.8		0.0	3.0			0.60		13	11099.2	0.0128	1.42
<b>Mali</b>	0.0	1.0		0.0	1.0			1.00		148	879.0	0.0058	0.05
<b>Libya</b>	0.0	0.6		0.0	1.0			0.60		186	7685.9	0.0012	0.09
<b>Madagascar</b>	0.0	0.2		0.0	1.0			0.20		161	523.4	0.0014	0.01
<b>Zimbabwe</b>	13.0	0.0	-100%	1.0	0.0	-100%	13.00			140	1464.0	0.0000	0.00
<b>Niger</b>	3.0	0.0	-100%	1.0	0.0	-100%	3.00			132	553.9	0.0000	0.00

From Table 4.9 it is evident that Tanzania receives a relatively small inflow of venture capital investments. Therefore, there is a need to continue improving the business environment.

- **Support:** Most startup policies and Acts contain interventions to provide some level of business support to startups via incubators and business support centres, business support services, research and development, and operations. All four countries employed non-financial support instruments such as incubators and public or private business development centres organised according to sector or thematic area. The interventions also included research and development and operations support.
- **Governance:** The most common interventions are tax incentives, followed by simplification and streamlining of operational regulations and the provision of startup access to information and clarity of regulations. Others include stipulations to address the co-ordination of enterprise policy, the enforcement of contracts, permits, bankruptcy and intellectual property. Interestingly, no mention is made of immigration and digital governance.
- **Markets:** A prominent theme in Africa is assistance to startups in their access to markets. Access to local and international markets are critical for long-term sustainability of startups and, without support, many find it difficult to compete with more established players. Therefore, governments created support by giving special preference to startups in public procurement, encouraging modernisation through the adoption of innovative technologies, and making it easier to access land, equipment, and other inputs. Some laws and policies provide support for internationalisation through export and import assistance, business-to-business linkages, and marketing. Recently, African startups have also been facing significant competition from foreign companies, as well as from larger local companies; yet, none of the startup laws addresses the challenges of unfair competition.

- **Culture:** Cultural support for entrepreneurs include support to women, networking, and personal development as interventions. Only Tunisia has interventions regarding culture. The focus is mostly on the support of women in entrepreneurship, networking, community support and personal development. None of the startup laws addresses community development.
- **Human capital:** Startups often struggle to find the right talent. Only two countries (Kenya and Tunisia) incorporated human capital interventions such as business skills, advanced skills and basic skills in entrepreneurship, as well as the development of more flexible regulations and frameworks in the labour market.
- **Infrastructure:** Interventions on infrastructure appear to be a low priority. Only Senegal has infrastructure interventions, addressing logistics-related challenges such as the transport of goods, utilities, and digital infrastructure. The interventions also included spatial/special zone policies offering services such as basic infrastructure (i.e. energy, water, roads, access to ports), as well as high-end infrastructure (e.g. laboratories). Since infrastructure affects not just startups but the economy at large, it is likely that other laws will address such interventions.

On a sub-category level, it is evident that countries address certain interventions more regularly in their startup policies and Acts, as is evident from Table 4.10.

**Table 4. 10: The percentage of intervention sub-categories that countries address**

Sub-category	Percentage
Growth Support	75%
Grant and soft loans	75%
Paying taxes	75%
Public procurement	50%
Bank financing	50%
Business skills	50%
Innovation adoption	50%
Operational regulations	50%
Clarity of rules and access to information	50%
R&D and R&D transfer	50%
Venture finance	50%
Equipment & Inputs	25%

**Source:** Startup Acts of the Countries

From the study of startup policies and Acts, it became apparent that countries paid very little or no attention to the following challenges often experienced by startups:

- Pre-seed financing
- Unfair competition: Market power of existing business is too large; foreign companies benefitting from import arrangements; and the widespread informal economy
- Immigration: The right to work permit and residence permit need attention in the light of the African Continental Free Trade Agreement (AfCFTA), as well as to promote business development. Countries will also have to address the African diaspora
- Digital governance
- Macro-economic conditions
- Enforcement of contracts: Late payments/unpaid debts of governments and public agencies toward entrepreneurs – a major cause of bankruptcy of startups due to high debt costs and interest rates. Startups need priority payment mechanisms.

### 4.5.3 Monitoring and Evaluation

Among the four startup Acts, only Senegal’s refers vaguely to a monitoring framework by mentioning the committee responsible for reporting. Indicators (to be reported on quarterly) that should receive

attention are, for example, access to credit for innovative startups; the use of new online incorporation procedure for innovative startups; economic trends on employment dynamics, composition of shareholders and financial performance; and results of startup incubators and hub programmes.

#### 4.6 Countries that Have Enacted Startup Acts

Reviewed startup Act interventions per country are summarised in Table 4.11 below:

**Table 4. 11: List of African startup Acts reviewed**

Year	Country	Type	Description
2018	Tunisia	Law	Law N° 2018-20 of 17 April 2018 relating to startups focusing mostly on innovative startups (part of the wider strategy of Digital Tunisia 2020).
2019	Senegal	Law	Law No 2020-01 on the creation and promotion of startups of 6 January 2020
2019	Mali	Law	A <b>draft</b> Act to allow relevant stakeholders to review the framework and policies that will make up the final startup Act
2020	Kenya	Law	Kenyan Startup Act, 2020.

##### 4.6.1 Tunisia

After 3 years of a participatory policy-making process, Tunisia was the first African country to enact a startup Act on 2 April 2018 (Law No. 20 of 2018). The intention of this law is primarily to make it easier for local entrepreneurs to start and run a business by providing a set of tax incentives such as an eight-year tax break, exemptions from capital gain tax for investors, and several other measures. The idea was that support to the creation and growth of innovative startups would turn Tunisia into a vibrant entrepreneurial hub. The startup Act also aims to simplify administrative procedures and to facilitate access to finance as well as to international business. The Act envisages the creation of a single point of contact for entrepreneurs to obtain information and process the required formalities for registration and operation.

Table 4.12 presents key pillars and elements of the Act and supporting policies.

**Table 4. 12: Key pillars and measures of the Tunisia Startup Act**

Key pillars	Key elements
Entrepreneurship culture	<ul style="list-style-type: none"> <li>• <b>Startup leave:</b> A 1-year leave, extendable to 2 years, granted to any employee who leaves his/her job for establishing a startup. To be eligible, the employee must be tenured with at least 3 years' experience within his/her original company.</li> <li>• <b>Startup stipend:</b> Establishment of a living stipend granted to up to three founders of a startup during its first year of existence. The Act bases the calculated amount of the stipend on the average previous income for employees and a fix allowance for those unemployed.</li> <li>• <b>Patents:</b> Management and payment of patenting fees for startups locally and internationally.</li> </ul>
Facilitated procedures for creation, development & exit	<ul style="list-style-type: none"> <li>• <b>Startup portal:</b> A startup portal is the point of contact for startups regarding administrative and regulatory processes related to the creation, development and, where appropriate, the liquidation of a startup.</li> <li>• <b>SAS and financial instruments:</b> Reforming the Commercial Companies Code to include, among others, the Simplified Share Company (SAS), preferred shares, free shares, and warrants (BSA)</li> </ul>
Financing startups	<ul style="list-style-type: none"> <li>• <b>Tax relief for individuals and entities</b> that invest directly in startups or that subscribe into venture capital funds dedicated to startups, with limits of income or profits subject to taxation.</li> <li>• <b>Tax relief on capital gains:</b> Investment in startups is exempt from capital</li> </ul>

Key pillars	Key elements
	<p>gains taxation.</p> <ul style="list-style-type: none"> <li>• <b>Guarantee fund for startups:</b> It guarantees venture capital funds investments in startups. It intervenes only in case of voluntary liquidation.</li> </ul>
Access to international markets	<ul style="list-style-type: none"> <li>• <b>Technological card:</b> An increase of a technology card ceiling for startups up to 100k DT per year.</li> <li>• <b>Startup account:</b> Every startup has the right to open a special foreign exchange account in Tunisia, which it freely supplied through capital contribution, quasi-capital, and revenues in foreign currencies.</li> <li>• <b>Facilitating customs procedures:</b> The Customs Code considers startups as “Authorised Economic Operators.”</li> </ul>

**Sources:** Tunisia Startup Act, *Loi No 2018-20 du 17 Avril 17 2018*; Government Decrees, *Décrets No 2018-840 du 11 Octobre 2018*, and the Startup Portal, *Portail des Startup*, <https://www.startupact.tn>

Applicants can apply once a month if they fulfil the defined criteria to obtain the startup label. A technical committee (i.e. labelling committee) determines the suitability of eligible applicants. The criteria are, for example, that the company has not existed for 8 years or more; the number of employees is less than 100; more than two-thirds of its shareholders are founders, angel, or hedge fund investors; the company has an innovative business model, preferably technology based; and its activities significantly contribute to economic growth.

Two years after passing the Tunisia’s Startup Act, it paid off and the country’s digital economy has deepened. By the fourth quarter of 2019 the country had over 165 new startups registered, 24 new co-working spaces opened, and a fund of \$18.5 million raised in a one-year period. In 2021, the Tunisian Government revealed that 500 businesses received the “startup label,” entitling them to incentives. The market place (online retail), business, and software services startups, followed by EdTech, HealthTech, creative industries, and FinTech, dominated the list. In 2019, the startups cumulatively generated a \$23 million turnover and \$25 million in 2020. Angel and venture capital increased from eleven percent (11%) in 2019 to thirty-six percent (36%) in 2020. Nineteen (19) foreign companies have set up shop in Tunisia since the enactment of the startup Act, and startups have created 2829 jobs.

#### 4.6.2 Senegal

After 19 months of co-creation, deliberation and engagement that included a diversity of stakeholders across the entrepreneurship ecosystem, a startup Act was adopted by the Senegal Parliament in December 2019 (Senegal Startup Act No 17/2019 of 27 December 2019) to make Senegal the only second country in Africa to pass a startup Act. Senegal’s aim was to promote innovation and entrepreneurship, create support and governance frameworks, launch a resource centre dedicated to startups, and to position the country as the Francophone leader in technology and entrepreneurship in Africa.

Like Tunisia, it created a startup label to filter access to benefits, based on a discretionary process led by a labelling committee. The criteria, selection procedures, and benefits for Senegalese startups to boost startup access success include, amongst others:

- Creating a startup registration platform dedicated to startups to carry out registration and labelling formalities, as well as to facilitate access to information, training, and capacity building
- Reducing registration fees for creation of companies
- Setting up guarantees and public or private financing, in particular alternative financing, and measures to promote investment
- Facilitating access to public procurement and procurement preference
- Implementing support and capacity building measures for startups, especially in the early stage
- Supporting research and development activities

- Training for youth and female entrepreneurs
- Supporting formalisation
- Granting the .sn web domain name
- Providing assistance in protecting startups' innovations with national and international intellectual property protection bodies
- Access to public projects through a preferential regime up to five percent (5%)
- Establishing tax incentives such as three tax-free operational years for startups and reducing contributions as well as other social charges for startups as provided for by Senegal's Finance Law 2020.

### 4.6.3 Mali

The Government released a policy document in April 2019 and invited all relevant stakeholders to review the proposals, after which it would pull everything together into a formal bill. The aim was to facilitate the growth of the local startup scene by creating an enabling environment for innovation, investment, and job creation.

Mali has started the process for the adoption of a startup Act, after the Cabinet approved a draft Act in October 2019. i4Policy assisted in the development of the startup Acts in Senegal and Mali, with joint leadership from startup communities and senior Government champions.

Unfortunately, a major political setback derailed the implementation process in 2020. However, the Malian Government succeeded in drafting a new policy document to allow relevant stakeholders to review the frameworks and policies that pertain to the country's startup Act.

### 4.6.4 Kenya

A Startup Bill enacted by the Parliament of Kenya in October 2020 (Startup Act 2020) provides a framework for the development of innovative entrepreneurship, establishing incubation hubs, and building a network of global and regional investors to promote and sustain startups/emerging businesses based on creativity, innovation, and the use of new technologies.

The Startup Act endeavours to provide a legislative framework:

- That fosters a culture of innovative thinking and entrepreneurship
- For registering startups and linking such startups with financial institutions, the private sector research institutions and such other institutions at national and county levels of Government
- To facilitate investment in and the provision of fiscal and non-fiscal support to startups in Kenya
- That promotes an enabling environment for establishing, developing and conducting business and for regulating startups
- For the establishment of incubation facilities at national and county levels of Government and an environment that promotes the establishment of startups
- For monitoring and evaluating the legal and regulatory framework and putting in place mechanisms that encourage the development of startups.”

The Startup Act also promotes the establishment of incubation programmes and provides for matters related to the role of national and county governments to:

- Promote innovation
- Facilitate transfer of technology and innovation
- Create and develop a sustainable, globally competitive small and medium enterprise sector that contributes towards accelerated growth of the economy
- Promote creation of employment and production of wealth
- Promote linkages between universities and research institutions and the business community.

The Act mandates national and county governments to put in place a national and county incubation policy framework for the development of the business incubation sector and startup system. The Kenya National Innovation Agency – established under the Science, Technology, and Innovation Act, 2013 – and county executive committee members are responsible for matters relating to science,

technology, and innovation; as well as for establishing incubation programmes and regulations on the relationship between incubators and startups.

Incentives provided for in the Act are:

- Subsidised formalisation of startups
- Protection of the intellectual property of innovations by startups in Kenya and with international organisations
- Fiscal and non-fiscal support to startups admitted into incubation programmes
- Support in the form of research and development activities
- Establishment of a credit guarantee scheme for startups to provide accessible financial support to startups.

## **4.7 Countries in the Process of Formulating Startup Policies and Acts**

### **4.7.1 Algeria**

In September 2020, Algeria passed an executive decree to create a national committee for labelling startups, innovative projects, and incubators. The aim of the committee was to establish a favourable climate and a specific legal framework for startups and micro-enterprises, in addition to strengthening the technological transition to inject real momentum into consolidating the institutional fabric and diversifying resources and income of the national economy.

Algeria had already introduced some measures in its 2020 finance law in the form of tax incentives for the benefit of startups in the country, startups that operate in the field of innovation and new technologies. These are tax exemptions relating to profit tax and value-added tax (VAT), with the aim of ensuring sustainability of these businesses and achieving sustainable economic development in the medium term.

Measures also relate to customs exemptions during the early phase and facilitation of access to land as it concerns the expansion of investment projects.

### **4.7.2 Cameroon**

Cameroon, arguably, is one of the most active startup ecosystems in Central Africa. With a population of 25 million, of which twenty-three percent (23%) is connected to the Internet, the country is poised to becoming a regional hub for startups, albeit the controversial political regime. Under the draft 2021 Finance Law project, startups in this Central African country, especially those in the field of information and communication technologies (ICTs), would benefit from a range of tax incentives.

In the incubation phase, which cannot exceed 5 years, these startups will benefit from an exemption from all taxes, duties and fees, with the exception of social contributions. Upon exiting the incubation phase and in the event of the owner(s) selling the startup, a reduced rate of ten percent (10%) will apply to the capital gains on the sale. In the event of entry into the operating phase, the company also benefits for a period of five years from an exemption on the licence registration fees as well as increase of share capital. Cameroon also exempts startups of all taxes and employer charges on salaries paid to their employees, except for social contributions.

In addition, the draft text provides for the application of a reduced corporate tax rate of fifteen percent (15%) and an application of a fifty percent (50%) allowance based on the calculation of the deposit and the minimum collection of corporate tax. It also makes provision for an income tax credit of thirty percent (30%) on research and innovation expenses capped at CFAF 100 million; and the application of a reduced rate of tax on income from movable capital of five percent (5%) on dividends paid to shareholders and interest paid to investors. Beyond the fifth year of operation, a common law tax regime applies. However, although there were some talks in this regard, Cameroon has not consulted widely or drafted a specific startup Act. The problem is that startups are still facing difficulties accessing finance, as financial institutions require bankable projects or collateral to finance projects.

### 4.7.3 Democratic Republic of Congo (DRC)

In 2020 the DRC Government contracted i4Policy and Orange Corners to assist in the co-creation with stakeholders of a startup Act to enable a more equitable, inclusive and sustainable development of the economy and society.

On 7 February 2020, i4Policy brought together 60 key players from the entrepreneurial ecosystem to organise a policy hackathon with the objective of developing a startup Act. Eventually, DRC developed the Act, submitted it for feedback in August/September 2020, and legally reviewed it.

### 4.7.4 Ethiopia

Ethiopia released the first draft of its startup Act for public comments in August 2020. The aims of the policy positions in the draft document look to (i) creating an innovative ecosystem in Ethiopia; (ii) supporting the launch of more businesses; (iii) promoting innovation and job creation; and (iv) erasing entrepreneurship barriers by easing the procedures for establishing, running, expanding, and closing businesses, while increasing foreign direct investment, thus boosting the larger Ethiopian economy.

Structurally, the Act proposes the establishment of a national startup council, and an innovation fund. Before the final draft is tabled in Parliament, it will have to run through the Ministry of Innovation and Technology, Ministry of Revenue, Job Creation Commission, Ethiopian Ministry of Trade and Industry, Ministry of Finance, among others.

The draft further gives clarity on what constitutes a startup. The National Startup Council will be able to determine whether an entity qualifies or does not qualify for a startup business label or an innovative business label.

A council will oversee an innovation fund, which will issue startup scholarships, replace workers on startup leave, cover fees involved in the registration of intellectual property, cover costs of administrative support, incentive ecosystem builders, and provide guarantees. The fund will derive its revenues from the Government budget, grants, loans, and any other external donations.

It is worth noting that for a company to meet the classification of a “startup” the entity must be a “small, micro, or medium enterprise.” In addition, the organisation’s legal existence should not exceed 5 years.

### 4.7.5 Ghana

In October 2020, the Ministry of Business Development, through its agency, the National Entrepreneurship, and Innovations Programme (NEIP), launched the formal consultation process for the development of the Ghana Startup Act with the aim of promoting startups for jobs and wealth creation. Ghana established a technical working committee of the Startup Bill, consisting of key stakeholders, to develop and fine-tune the first draft of the Ghana Startup Bill. During a three-day workshop, stakeholders discussed thoroughly the draft bill.

Some of the issues that the workshop dealt with included:

- Definition of a startup, startup certification and label selection processes
- Startup benefits and incentives include:
  - Tax waivers for 8-10 years and tax holidays
  - Business support and capacity building programmes
  - Access to markets
  - Intellectual property rights
  - Research and development support
  - Investor and mentor support.

After wide consultation, the technical committee is now busy formulating a draft startup Bill.

#### 4.7.6 Ivory Coast (*Cote d'Ivoire*)

After almost three years of talks to formulate a startup Act, a consultative workshop took place in Yamoussoukro from 30 August to 3 September 2021. The workshop saw the participation of many members of the startup ecosystem in *Côte d'Ivoire*, including representatives from the General Secretariat of the Presidency of the Republic, the Prime Minister, six technical ministries, and several supervision structures in the country, all with the common goal of making the startup initiative a common cause. A validation workshop in respect of a proposed Startup Bill in *Côte d'Ivoire* followed from 4-6 October 2021 in Yamoussoukro to fine-tune the proposed law.

The Startup Act in *Côte d'Ivoire* intends to create a holistic environment for the development, conduct of business, and regulation of startups. After various stakeholders had contributed to the proposed draft law, *Côte d'Ivoire* presented the draft Bill for a startup Act to participants for finalisation. The most recent edition of the draft Bill also took into consideration relevant remarks of a committee of specialists.

The draft Bill will be submitted for a validation session to the General Secretariat of the Presidency, the Prime Minister, the General Secretariat of the Government, the Ministry of Digital Economy's advisory body, as well as *Côte d'Ivoire* Innovation 20 (CI 20), the organisation representing Ivorian startups and the entire private sector ecosystem, before final adoption by the Government.

The Government emphasised that they are committed to the promotion of the digital economy, as well as to making technology the engine of structural transformation of the country's economy.

#### 4.7.7 Morocco

Morocco's startup revolution started a few years after the Arab spring with the rise of some key ecosystem players, whose mission has been to build one of the most vibrant startup scenes on the African Continent. The goal is to create value, transform the economy and society, and enable talented entrepreneurs to shape their own destinies by building innovative businesses that have the potential to turn into success stories.

Morocco, like many other countries undergoing development, is currently experiencing a transitional phase between the paper era and the digital age, a digital transformation that is likely to serve young tech-savvy entrepreneurs well. Registration as an auto-entrepreneur (for free lancers) is for instance digital and highly accessible. It is also easier for startups to obtain funding, and many incubators and accelerators are available.

However, startups are still complaining of a tough climate due to bureaucracy, upfront costs and difficulty accessing credit. It is still hard to obtain seed money due to the risk averse nature of banks. Therefore, despite many talks about a Moroccan Startup Act, it is still a missing piece to enhance the vibrant ecosystem and to facilitate more innovation. In fact, Morocco's interest in small startups is a recent phenomenon.

Despite concerted efforts in the past five years to grow Morocco's startup ecosystem (e.g. a venture capital fund and techno parks) the World Bank is of the opinion that Morocco still needs better access to capital, greater legal protection, and more business networks.

#### 4.7.8 Nigeria

To stimulate the economy of Nigeria and improve the business environment, startup leaders, investors and representatives of Government held a meeting that focused on the development of a legal framework to deal with the major challenges encountered by startups in Nigeria.

The aim of the Startup Bill is to create a favourable environment for startups by providing incentives; harmonising existing laws; providing innovation-friendly updates that would boost startup activities; removing regulatory constraints; and developing an ecosystem that would allow startups to thrive.



Although there is no final clarity on the provisions of the first draft of the Startup Bill, it will contain provisions addressing access to funding, as well as offer tax incentives and startup grants to foster economic growth and ensure the viability of startups. Nigeria envisions that a startup Act will bring together relevant Government agencies in a single location (a one-stop shop/centre) to provide fast-tracked services for obtaining relevant information, registering documents, business entry approvals, licences, and permits. The Bill also proposes a national council for digital innovation and entrepreneurship that will be responsible for collaborating with various regulatory bodies to ensure the provision of support services and incentives for startups.

Some of the salient incentives and support services proposed by the draft Bill are:

1. **Provision of regulatory support:** To reduce regulatory hurdles currently faced by startups, relevant regulators, including the Corporate Affairs Commission, Trademarks, Patent and Design Registry, Central Bank of Nigeria, and the National Office for Technology Acquisition and Promotion are to set up help desks with appropriate personnel; and to provide support to startups through the portal
2. **Provision of discounts to startups:** Regulators will be required to grant discounts on their licensing/registration fees to startups.
3. **Expedition of licence applications for Fintech Startups:** The Bill requires the Central Bank of Nigeria and the Securities and Exchange Commission to ensure that the licence application process for startups is expedited and seamless
4. **Provision of tax incentives to startups:** The Bill proposes the following tax incentives:
  - a) Tax exemption on the profits of startups for 7 years
  - b) Taxation of goods and services supplied by startups at a reduced value-added tax (VAT) rate of three percent (3%)
  - c) Provision of tax credit to startups that create a minimum number of jobs
  - d) Tax incentives to employees of startups and investors in startups.
5. **Provision of funding to startups:** The Bill proposes the establishment of a startup investment seed fund to provide funding to early-stage startups who meet the criteria set by the Council
6. **Procurement of technology-related goods and services by Government/state-owned enterprises:** The Bill proposes that Government ministries, departments and agencies set a 15 percent margin of preference in favour of startups when procuring technology related products.

It is, however, important to remember that Nigeria recently enacted certain laws to regulate businesses at every stage of their lifecycle and to deal with the major bottlenecks that businesses and startups encounter. For instance, the Companies and Allied Matters Act 2020 which governs the formation and management of business entities in Nigeria, introduced provisions to encourage the development of startups such as single-shareholder companies, reduced the cost of incorporation and filing, introduced limited liability partnerships, and exempted single-shareholder companies from having annual general meetings.

The Finance Act 2019 fosters active fiscal supervision geared towards stimulating the economy and creating an enabling environment for sustainable development. It introduced the exemption of small companies (companies with a gross turnover of NGN 25 million or less) from paying Companies Income Tax (Minerva Legal, 2021).

In Nigeria, the technology sector contributed more to the country's overall GDP than the oil and gas sector did between 2010 and 2020. Growth in technology innovation can therefore boost overall economic growth. Although a step in the right direction, doubt exists if Nigeria's Startup Bill would be able to harmonise Nigeria's fragmented regulatory structure into one Act, as well as the success of implementation in the various states of the federal system. Nigeria has a plethora of enabling laws and regulations that could aid startups, but these laws are largely dormant due to non-implementation.

#### 4.7.9 Rwanda

Following in the footsteps of Tunisia and Senegal, Rwanda has set the ball rolling on the formulation of a Startup Act in August 2020. i4Policy has been tasked to draft a national startup Act with the hope

that this will accelerate the development of Rwanda's fledgling tech startup ecosystem. Although Rwanda's capital, Kigali, ranks in the top 6 of the newest Global Startup Ecosystem Rankings Report by StartupBlink, the country's technology startup ecosystem is not nearly as connected, robust, and funded as top startup scenes in Kenya, Nigeria and South Africa.

Despite some shortcomings, Rwanda catalysed the emergence of an active and growing entrepreneurial ecosystem, especially within the Rwandan capital. Thanks to forward-thinking policies on the part of the Government, Rwanda now boasts one of the fastest-growing and most startup-friendly economies in Africa. The country currently ranks 38<sup>th</sup> on the global ease-of-doing-business index and 2<sup>nd</sup> on the African Continent after Mauritius.

However, startup funding remains a problematic subject in Rwanda, as the entire ecosystem (comprising of entrepreneurial support organisations and the entrepreneurs themselves) is still heavily dependent on funding from donors. More than 75 percent of Rwandan startups did not have access to external funding in 2020.

Nevertheless, it looks like the Rwanda Startup Act, coupled with the ease of doing business in the country and the tech infrastructure investments made in the last few years, is the next step towards making Rwanda a preferred destination for startups.

#### **4.7.10 South Africa**

Several stakeholders are working hard to make life easier for South African startups by developing a startup Act. During September 2021, the South African Startup Act Steering Committee released a white paper that contains elements of the proposed Act to get wider input from the public.

The white paper emphasised the growth of a startup ecosystem by addressing the following aspects:

- The presence of a supporting entrepreneurial culture
- Legal definitions for startups, the startup ecosystem, and high-growth enterprises
- Labelling (to distinguish startups from other labels such as small enterprises, tech enterprises, SMEs, entrepreneurial businesses, and many others)
- Exempting qualifying startups for a set period from regulatory and associated burdens of indicated existing policies, taxes, and implications
- Harmonisation of policies and Acts that have a direct bearing on startups and removing or reducing the burdens and red tape limiting startup growth
- Outlining specific interventions needed to support qualifying startups with the potential to becoming high-growth firms
- Enabling startups to have better access to financial capital through tax breaks and incentives to encourage investment in qualifying startups
- Quality and depth of startup networks
- Removing barriers that inhibit access to skilled talent. A more flexible employment regime that underpins the ability to appoint and dismiss without fear of penalties and pro-labour rulings
- Removing inhibiting regulatory barriers that hamper globalisation and investment into qualifying startups
- Exemption from preferential procurement limitations. Relaxation of Broad-Based Black Economic Empowerment (BBB-EE) legislation for the purposes of procurement and supply chain grading, enabling quicker access to supply chains of corporate South Africa and the public sector. This will increase opportunities for market access, as well as enable capital raising from offshore investors.

Criteria for qualification as a startup are:

- Newly established or incorporated less than five years
- Operational entity based in South Africa
- Annual turnover less than R100 million
- It does not distribute its profits, and has not done so in the past

- Its mission statement concerns, predominantly or exclusively the development, production and commercialisation of innovative products or services, with a clear technological component, where innovative products or services are defined as per the OECD definition of innovation
- It is not the result of a company merger or split-up, or of a business or branch transfer
- It operates in permissible sectors of the economy as outlined
- Finally, it meets at least one of the three following high-growth related indicators: research and development (at least 15% of the highest of turnover or annual costs); or one third of total workforce are qualified research and development professionals; or the company is the owner or licensee of a registered patent or original registered software.

These reforms are important, since South Africa's ecosystem struggles as it is not foreign investor friendly and foreign domiciled startups struggle to raise local seed stage capital.

#### **4.7.11 Uganda**

Stakeholders within Uganda's budding ecosystem are rooting for a startup policy. Unfortunately, startups do not experience Uganda's current laws as favourable due to lack of intellectual property protection, expensive and copyright processes, and taxation. Therefore, conversations about challenges and how a startup Act could address them started in 2020.

Several key stakeholders are participating in the Startup Act Uganda project. At the first countrywide consultative meetings in February 2021, stakeholders discussed the challenges that hamper the growth of startups from the perspective of the entrepreneur. Thereafter, for four months, the project team has been discussing what entrepreneurs want to see in the policy. In April 2021, the dialogue culminated into the development and approval of a Position Paper by the Policy Advocacy Committee of the Private Sector Foundation Uganda (PSFU). The national public-private dialogue followed this in May 2021 to further gain opinions from entrepreneurs, academia, private sector and relevant Government ministries on the relevance of a national startup policy.

In August 2021, Uganda established a select team of ecosystem leaders and representatives of key ministries to lead the harmonisation of existing laws and preparation of a policy brief. They are working through the Ministry of Trade, Industry and Cooperatives to assess the existing Micro Small and Medium Enterprises (MSMEs) Policy so as to identify if they would be able to address the interests of the startups in this policy. If they find that it is lacking, Uganda will develop a separate policy to support startups.

As the work progressed, it became evident that some laws or policies may require amendment to align with a startup policy. At the end of the day, the ecosystem players will benefit from startup-friendly policies and a conducive business environment leading to increased venture capital interest to grow startups.

### **4.8 Comparison of Tanzania with Benchmarking Countries**

#### **4.8.1 Comparison of Tanzania's SME Development Policy with SME Policies from Other Countries**

Often governments realise the value and the potential of the SME sector to transform their economies but are facing disjointed and uncoordinated measures that various actors in the entrepreneurial ecosystem administer. Where there are pre-existing laws supporting business (e.g. taxation, insolvency, investment, etc.), countries can use an SME policy as a guiding instrument to align, evaluate, or tailor these laws to startups. Unlike legislative instruments (laws) such as startup Acts, where businesses need to follow specific procedures under penalty of prosecution, policies provide a broad outline of goals, methods, and principles that governments seek to achieve, but have no legal basis.

The Government of Tanzania has adopted (like Nigeria, Rwanda, and Mauritius) such a holistic policy to guide cross-cutting interventions for SMEs. The Tanzanian SME Development Policy, implemented since 2003, is the earliest of its kind. Tanzania followed a participatory approach for

preparation of a holistic scope and developed this policy to serve as a guideline for stakeholders, while offering strategic directions aligned with the national vision (Tanzania Development Vision – TDV 2025). For its preparation, Tanzania conducted zonal workshops from 1998 to 2001 with main stakeholders and followed it by a second round of consultations on the draft policy in six locations across the country. These resulted in a policy composed of an overview of the SME sector, objectives, policy areas with strategic actions, roles, and responsibilities, and monitoring and evaluation. After the launching of the Policy, Tanzania drafted detailed guidelines meant to serve as an operational tool for the implementation of the Policy.

Table 4.13 summarises key indicators of the Tanzanian policy and compares it with the **only three other countries in Africa that have SME and entrepreneurship policies**, namely Mauritius, Nigeria, and Rwanda (see Table 4.1).

**Table 4. 13: Key indicators in SME and entrepreneurship policies**

Country	Solution	Authority Responsible	Framework for MSME/ Startups	Target beneficiaries	Entitlement based process	Discretionary process	Financing, incentives & support schemes	Policy objectives	Monitoring & Evaluation
SME and Entrepreneurship policy		<i>Instrument identifies an authority responsible for implementation</i>	<i>Instrument sets framework for MSME/ Startup development</i>	<i>Identifies target beneficiaries and provides definitions</i>	<i>Entitlement based labelling process in instrument</i>	<i>Discretionary labelling process in instrument</i>	<i>Incentives to MSMEs or Startups included in instrument</i>	<i>Policy objective included in instrument</i>	<i>M&amp;E framework referenced in instrument</i>
Mauritius	10 Year Master Plan for SMEs	X	X	X	X		X	X	X
Nigeria	National policy on MSMEs	X	X	X			X	X	X
Rwanda	2010 SME Policy	X	X	X			X	X	X
Tanzania	SME Development Policy 2003	X	X	X			X	X	X

**Source:** Stever *et al.*, 2020

All SME and entrepreneurship policies determined criteria to define SMEs, which can be beneficiaries of financial incentives and specific schemes, generally using number of employees, annual turnover, and capital requirements. Table 4.14 presents a comparison of the various criteria in

SME and entrepreneurship policies.

**Table 4. 14: Status criteria in SME and entrepreneurship policies**

		Categorisation	Size (# of employees)			Annual Turnover		Capital Requirements
SME/Entrepreneurship policy	Type of enterprise		Micro / Very small	Small	Medium	Cap	Factor of per capita GDP	Paid-in Capital/ Capital investments
Mauritius	10 Year Master Plan for SMEs	Micro Small Medium	1-5	6-20	21-100	Micro <2M Rupees Small <10M Rupees Medium <50M Rupees	Micro – 6x Small – 28x Medium – 138x	Assets: Micro <2M Rupees Small <20M Rupees Medium <50M Rupees
Nigeria	National policy on MSMEs	Micro Small Medium	1-9	10-49	50-199			Assets Micro <10M Naira Small <100M Naira Medium <1000M Naira
Rwanda	SME Policy	Micro Small Medium	1-3	4-30	31-100	Micro <0.3M RwF Small <12M RwF Medium <50M RwF Large >50M RwF		Capital Investments Micro <0.5M RwF Small <15M RwF Medium <75M RwF Large >75M RwF
Tanzania	SME Development Policy	Micro Small Medium	1-4	5-49	50-99			Capital Investments Micro <5M TZS Small <200M TZS Medium <800M TZS Large >80M TZS

Source: Stever *et al.*, 2020

All four policies contained some level of details on their monitoring and evaluation frameworks. However, Mauritius' 10-year plan was by far the most comprehensive of the four. Table 4.15 depicts monitoring and evaluation of SME/entrepreneurship policies of Tanzania and other countries.

**Table 4. 15: Monitoring and evaluation clauses in SME and entrepreneurship policies**

SME/ Entrepreneurship Policy	Interim or Final Report	Frequency of reporting	Logical framework (indicators, outcomes or areas of focus)	Data & data collection process	Roles and responsibilities
Mauritius	X	X	X	X	X
Nigeria	X	X		X	X
Rwanda	X	X	X		X
Tanzania	X		X		X

**Source:** Stever *et al.*, 2020

Below follows a more detailed discussion of some of the clauses:

- **Reports:** Tanzania's policy proposed the publication of a document at a regular forum of SME stakeholders, and Nigeria similarly highlighted a baseline report with key MSMEs statistics and indicators. Mauritius also proposed programme performance reports to measure results, identify challenges that require corrective action, and the sharing of the reports with stakeholders
- **Frequency of reporting:** Tanzania does not address the frequency of reporting. Nigeria proposed the use of independent monitoring teams on a half-year basis, and an annual review of baseline data and statistics through the SME Development Agency and the National Bureau of Statistics. Mauritius recommended the production of bi-annual programme performance reports
- **Logical frameworks:** Tanzania and Nigeria have action plans that include high-level objectives, detailed activities, and time frames for completion. However, Mauritius' is the only policy with a full logical framework containing high-level strategic goals and targets, while breaking down more detailed activities and key performance indicators (KPIs) by initiative. Rwanda references a logical framework in the policy as having a detailed implementation plan with indicators that include policy objectives, policy choices, and strategies to achieve the policy objectives, timeframe, and responsible implementing agencies for accountability purposes
- **Roles and responsibilities:** All four countries listed an agency or organisation responsible for reporting. In Tanzania and Rwanda, the responsibility lies with their respective ministries of trade with support from implementing ministries and agencies. In Nigeria, the responsibility falls on the National Council on MSMEs along with state and local government councils. In Mauritius, the policy proposes a three-tier structure, which includes an inter-ministerial committee, a high-level steering committee for operationalising the recommended actions, and up to six technical committees for implementing, reviewing, and reporting high impact initiatives and actions. It also proposed that Mauritius creates an SME observatory to build data-collection capabilities, set up monitoring and evaluation mechanisms, and provide data for evidence-based policy reviews.

*Tanzania estimates that the Tanzanian SME Development Policy has led to a five-fold increase of the number of businesses in 10 years, creating 370,000 jobs. However, many stakeholders pointed out key limitations over the years.*

*Growth opportunities and investment options in Tanzania are currently limited for startups due to lack of finance, limited knowledge of the complex statutory requirements, limited business skills amongst entrepreneurs, and continuity of private and Government support. The current regulatory framework is a major bottleneck to a growing Tanzania startup ecosystem. The need for a co-created startup legislation supporting startups with tailor made laws and policies is high and will empower entrepreneurs, address key development issues, foster innovation and sustainable growth, attract investment, provide access to funding and education, and create jobs.*

## 4.8.2 Comparison of Tanzania’s SME Development Policy with African Startup Acts

When comparing the Tanzanian SME Development Policy of 2003 and the related legislative framework with the startup policies and Acts of Tunisia, Senegal, Mali, and Kenya, the maturity of the regulatory environment is depicted in Table 4.16.

**Table 4. 16: The regulatory environment**

Country	Solution	Regulatory environment
Tanzania	SME Development Policy 2003	Only basic framework with fragmented and dispersed individual regulations
Tunisia	Startup Act 2018	Comprehensive and modern regulation in place
Senegal	Startup Act 2019	Comprehensive and modern regulation in place
Mali	Draft Startup Act 2019	Comprehensive regulation in place, but small additions or upgrades recommended
Kenya	Startup Act 2020	Comprehensive and modern regulation in place

*From the above it is evident that the need for a startup Act in Tanzania is emphasised by the fact that the almost twenty-year-old framework is, according to current thinking, quite basic with many fragmented and dispersed Acts and regulations to support it. The above therefore motivates for the existence a comprehensive and modern startup policy for Tanzania.*

Key indicators of the Tanzanian policy in comparison with the four African countries that have startup Acts are summarised in Table 4.17.

**Table 4. 17: Key indicators**

Country	Authority Responsible	Target beneficiaries	Entitlement based process	Discretionary process	Financing, incentives & support schemes	Monitoring & Evaluation
Description	<i>Instrument identifies an authority responsible for implementation</i>	<i>Identifies target beneficiaries and provides definitions</i>	<i>Entitlement based labelling process in instrument</i>	<i>Discretionary labelling process in instrument</i>	<i>Incentives to MSMEs or startups included in instrument</i>	<i>M&amp;E frame-work referenced in instrument</i>
Tanzania	X	X			X	X
Tunisia	X	X	X		X	
Senegal	X	X	X		X	X
Mali	X	X		X	X	
Kenya	X	X		X	X	X

From Table 4.17 it is evident that Tanzania’s SME Policy compares very well with the startup Acts of the four African countries. It is understandable that a SME policy does not necessarily make provision for a formal labelling process.

Table 4.18 below compares the qualifying criteria for beneficiaries of Tanzania SME Development Policy with the beneficiaries of the four African countries that have startup Acts.

**Table 4. 18: Qualifying criteria**

Country	Size	Annual Turnover
	Number of employees	Cap
Tanzania	Micro: 1-4 Small: 5-49 Medium: 50-99 Large?	Micro: < 5m TZS Small: < 200m TZS Medium: < 800m TZS Large: > 800m TZS
Tunisia	Workforce < 100 employees	Annual turnover < \$5.3 million
Senegal	None	None
Mali	< 5 management	None
Kenya	None	None

The above table shows that the criteria in Tanzania’s policy are well defined. Senegal and Kenya do not place any limit on the number of employees, while Mali does not have a limit on the annual turnover.

### 4.8.3 Strengths of Tanzania’s SME Policy

Tanzania implemented various regulatory reforms in the last six years across several areas:

- Made starting a business easier by launching online company registrations in 2019
- Made issuing construction permits easier by implementing a one-stop shop and streamlining the building permit process in 2018
- The credit bureau expanded borrower coverage and began to distribute credit data from retailers in 2017
- Reduced the time for both exporting and importing by establishing, in 2016, the Tanzania Customs Integrated System (TANCIS), an online system for downloading and processing custom documents
- Improved access to credit information by creating credit bureaus in 2015
- Made cross-borders trading easier by upgrading infrastructure at the Port of Dar es Salaam in 2015.

### 4.8.4 Weaknesses of Tanzania’s SME Policy

According to the World Bank’s 2020 *Doing Business Report*, Tanzania compares poorly with many countries in Africa, which perform well by offering better opportunities in terms of ease of doing business:

**Table 4. 19: Ease of doing business**

Indicator	Country	Score	Rank
Starting a business	Kenya	82.7	129
	Sub-Saharan	80.1	
	Angola	79.4	146
	Malawi	77.9	153
	Botswana	76.2	159
	Tanzania	74.4	162
Construction permits	Botswana	75.6	44
	Kenya	67.6	105
	Angola	65.3	120
	Malawi	63.1	128
	Sub-Saharan	58.5	
	Tanzania	57.9	149
Registering property	Botswana	65.8	82
	Malawi	64.9	90
	Kenya	53.8	134



Indicator	Country	Score	Rank
	Sub-Saharan	53.6	
	Tanzania	50.1	146
	Angola	43.3	167
Getting credit	Kenya	95	4
	Malawi	90	11
	Tanzania	65	67
	Botswana	60	80
	Sub-Saharan	45.2	
	Angola	5.0	185
Protecting minority investors	Kenya	92	1
	Botswana	60	72
	Malawi	58	79
	Tanzania	50	105
	Sub-Saharan	38.5	
	Angola	32	147
Paying taxes	Botswana	80	59
	Kenya	72.8	94
	Angola	69.5	106
	Malawi	62.4	135
	Sub-Saharan	57.8	
	Tanzania	51.3	165
Trading across borders	Botswana	86.7	55
	Kenya	67.4	117
	Malawi	65.3	127
	Sub-Saharan	53.6	
	Angola	36.2	174
	Tanzania	20.2	182
Resolving insolvency	Kenya	62.4	50
	Botswana	48.2	84
	Tanzania	39.1	116
	Malawi	34.9	134
	Sub-Saharan	31.3	
	Angola	0.0	168

Tanzania made registering property more expensive by increasing land and property registration fees in 2018. In 2017, Tanzania made paying taxes more complicated by increasing the frequency of filing the skills development levy and costlier by introducing a workers' compensation tariff to be paid by employers. In 2015, Tanzania made starting a business more difficult by increasing registration fees. The country also made paying taxes more complicated for companies by introducing an excise tax on money transfers.

Furthermore, several gaps exist in support services:

- Science, technology, engineering, and mathematics (STEM) training opportunities in the ecosystem
- Business services for entrepreneurs (recruiting, accounting, and legal support)
- Access to early-stage investment opportunities
- Focus on international markets (scaling-up).

Most of the support programmes in the ecosystem are short-term programmes, which do not provide enough support to gain the needed skills, knowledge, and guidance to successfully launch and validate businesses in the market. Gaps in the quality of hubs managers, trainers and facilitators result in weak institutions, mostly focused on light-touch early-stage programmes. There is also limited availability of skilled local talent. Where available, such talent tends to be expensive, and some do not see the

benefit of compensation in the form of equity during the earlier stages of a startup's development.

There is also lack of patient capital - i.e. long-term capital defined by the investor's willingness to forgo immediate returns and/or exercise some level of flexibility with the expectation of more substantial returns in the future. Potential foreign investors are also not knowledgeable about Tanzanian startups, partly due to the fragmented and limited availability of information. The fragmented funding ecosystem requires startups to invest significant time and resources upfront to attract funding of smaller amounts than counterparts in the region.

#### **4.8.5 Need to Update Regulations on Startups**

*There is therefore an urgent need to update Government regulations to recognise startups' specific needs and foster venture growth.* These needs include sandbox licences to allow them to pilot their innovation while validating business models in the market, as well as policies on tax exemption for bootstrapping startups. In the absence of a startup legislation, technology entrepreneurs have to follow long, complex and high-cost regulatory policies that are not favourable for early-stage businesses. To promote a conducive institutional ecosystem and foster entrepreneurial success, Government regulations should further aim to support innovation and approaches to create an enabling regulatory framework.

#### **4.8.6 Best Practices to Implement**

The analysis of the literature and the various African startup policies and Acts identified the following best practices:

- A policy or Act clearly specifies the criteria for the definition of target beneficiaries. The number of employees, annual turnover, capital requirements, years in existence, and clauses on the potential for growth and innovation generally define startups
- A policy or Act follows a holistic approach in its scope by including clauses, objectives or interventions covering most of the seven challenge categories of governance, financing, markets, support, human capital, culture, and infrastructure
- The challenge categories that are addressed the most are:
  - Governance, in particular tax incentives, operational regulations (e.g. product quality and environmental compliance), and clarity of rules and access to information
  - Business support, in particular growth support (e.g. incubators)
  - Finance, in the form of grants, soft loans, bank financing (e.g. guarantee funds), and venture finance
  - Access to markets, with an emphasis on public procurement and innovation adoption by customers.
- A startup policy or Act must make it easier for entrepreneurs from foreign countries to start companies in Tanzania. The policy or Act should consider a special category of visas to allow entrepreneurs who are foreign nationals to work in Tanzania if they establish a new company, invest a pre-specified amount of money, and create a certain number of full-time jobs, or raise a specified amount of revenue in two years. Making Tanzania attractive to foreign entrepreneurs would lead to innovation and job creation in the country.

#### **4.8.7 Gaps in Current Startup Policies and Acts**

The study identified certain gaps in current startup policies and legislation that would be beneficial for Tanzania to address:

- Current policies, Acts and interventions reviewed do not adequately address all challenges equally, with reference to:
  - Pre-seed financing
  - Unfair competition
  - Immigration

- Digital governance
- Macro-economic conditions.
- Much fewer interventions have been put in place to bolster:
  - Entrepreneurial culture, education, and human capital in general
  - Access to dedicated infrastructure, despite the importance of these constraints as expressed by African entrepreneurs.
- Most startup policies and Acts do not include instruments to help entrepreneurs specifically in underserved regions where they face the biggest hurdles
- Most of the policies and Acts did not include monitoring and evaluation (M&E) clauses or are very vague on M&E (Stever *et al.*, 2020).

#### 4.8.8 Addressing Challenges Through Policy and Legislative Interventions

There is little doubt that startup policies and Acts can have a significant impact on private sector development if the country properly designs and implements them. Tanzania’s SME Development Policy implemented since 2003, for example, has led to a five-fold increase in the number of businesses over a period of ten years and created 370 000 jobs. Table 4.20 presents countries that have interventions in the form of policies and/or legislation to address the challenges experienced by entrepreneurs and startups.

**Table 4. 20: Challenges that policy and legislative interventions should address**

Challenge	Sub-challenges	Interventions
<b>Governance</b>	<ul style="list-style-type: none"> <li>● Obtaining permits</li> <li>● Enforcement of contracts</li> <li>● Bankruptcy</li> <li>● Paying taxes</li> <li>● Intellectual property</li> <li>● Operational regulations</li> <li>● Digital governance</li> <li>● Immigration</li> <li>● Clarity of rules</li> <li>● Coordination of enterprise policy</li> <li>● Macro framework</li> </ul>	<ul style="list-style-type: none"> <li>● Tax incentives</li> <li>● Simplification and streamlining of operational regulations</li> <li>● Measures for startup access to information and clarity of rules</li> <li>● Clauses and policies to address coordination of enterprise policy</li> <li>● Enforcement of contracts</li> <li>● Insolvency, bankruptcy, and 2<sup>nd</sup> chance</li> <li>● Intellectual property</li> <li>● Obtaining permits</li> <li>● Macro framework and conditions</li> <li>● Immigration</li> <li>● Digital governance (e-signatures, consumer protection in e-commerce)</li> </ul>
<b>Finance</b>	<ul style="list-style-type: none"> <li>● Pre-seed finance<sup>148</sup></li> <li>● Venture finance</li> <li>● Bank finance</li> <li>● Capital markets</li> </ul>	<ul style="list-style-type: none"> <li>● Grant &amp; soft loans</li> <li>● Bank financing</li> <li>● Venture finance</li> <li>● Capital markets</li> <li>● Startup specific boards</li> </ul>
<b>Culture</b>	<ul style="list-style-type: none"> <li>● Personal development</li> <li>● Community support<sup>149</sup></li> <li>● Networking</li> <li>● Women in entrepreneurship</li> </ul>	<ul style="list-style-type: none"> <li>● Support to women in entrepreneurship</li> <li>● Networking</li> <li>● Personal development</li> </ul>
<b>Support</b>	<ul style="list-style-type: none"> <li>● Growth support</li> <li>● Operations support</li> <li>● R&amp;D</li> </ul>	<ul style="list-style-type: none"> <li>● Supporting growth through public and private incubators and business support services with advisory services by trained personnel</li> </ul>

<sup>148</sup> None of the policies or laws addressed pre-seed finance, possibly, since it is relatively new for SME markets

<sup>149</sup> Only a few policies and none of the laws addressed community development.

Challenge	Sub-challenges	Interventions
		<ul style="list-style-type: none"> <li>• R&amp;D and R&amp;D transfer support funded by public sector grants</li> <li>• Operational support</li> </ul>
<b>Human Capital</b>	<ul style="list-style-type: none"> <li>• Basic skills</li> <li>• Advanced skills</li> <li>• Business skills</li> <li>• Labour market</li> </ul>	Developing new talent and upskilling existing SMEs to drive entrepreneurship: <ul style="list-style-type: none"> <li>• Provision of business skills for existing startups</li> <li>• Development of more flexible regulations and frameworks in the labour market</li> <li>• Addressing advanced skills</li> <li>• Development of basic skills in entrepreneurship</li> <li>• Mainstreaming entrepreneurship education through curriculum revisions and extra-curricular activities</li> <li>• Emphasis on demand driven skills to bridge industry skills gaps</li> <li>• Training programmes for startup management and students to bridge gaps</li> </ul>
<b>Markets</b>	<ul style="list-style-type: none"> <li>• Internationalisation</li> <li>• Equipment &amp; inputs</li> <li>• Public procurement</li> <li>• Business to business (B2B)</li> <li>• Unfair competition</li> <li>• Marketing</li> <li>• Innovation adoption</li> </ul>	Promotion of access to local and international markets via: <ul style="list-style-type: none"> <li>• Giving preference to startups in public procurement</li> <li>• Encouraging modernisation through the adoption of innovative technologies</li> <li>• Making it easier to access land, equipment, and other inputs</li> <li>• Support for internationalisation through export and import assistance</li> <li>• Business-to-business linkages</li> <li>• Marketing</li> <li>• Addressing competition from foreign companies and unfair competition</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>• Digital infrastructure</li> <li>• Utilities</li> <li>• Logistics</li> </ul>	<ul style="list-style-type: none"> <li>• Logistics-related challenges focused on transport of goods</li> <li>• Utilities</li> <li>• Digital infrastructure</li> </ul>

**Source:** Adapted from Stever *et al.*, 2020.

#### 4.9 Conclusion

“Entrepreneurship does not take place in a void, at random or under the general influence of homogenous economic conditions. It occurs in specific places that create the right conditions for it and within the context of a particular set of incentives, opportunities, and barriers” (Monitor Group, 2009:22).

The number of countries in Africa exploring startup Acts and enacting reforms that position science and technology at the heart of their economic transformation is therefore growing. Startup policies and Acts send a strong signal to existing and potential entrepreneurs - and their investors - that the governments recognise the importance of entrepreneurship and will incentivize it.

Nigeria, Kenya and Egypt, which are home to the continent’s most vibrant startup hubs (Lagos, Nairobi, and Cairo), have benefitted from an increased attention in African technology by

international investors, which led to their initiatives into startup legislations to create conducive environments and ecosystems, as well as to simplify business transactions and reduce red tape for entrepreneurs. Rwanda and Ghana, two of Africa's fastest growing economies, have both started discussions with key stakeholders to improve the enabling environment for startups and investors. Even larger economies such as Kenya, Ethiopia, and Uganda have followed, and are currently in various stages of passing their own startup legislation versions.

For several countries, such as Tunisia and Senegal – the two first movers in this arena – the policies amalgamated by startup Acts are part of broader government strategies to position their respective countries as innovation hubs by leveraging an emerging tech scene to improve economic development.

Startup policies and legislation allows startups to operate with the certainty afforded by a clear framework for expansion but should be accompanied by facilitation of skills and technology transfer to make home-grown solutions more scalable and sustainable.

If implemented more broadly across the Continent of Africa, startup policies and legislation could further catalyse a positive change in the broader business environment by improving local support for entrepreneurs and signalling global venture capital investors that African innovation is here to stay.

The development of startup policies and Acts can galvanise the entrepreneurship community and socialise governments with entrepreneurship issues (as in the case of Tunisia). However, while such legislation assumes that startups generate a set of spillover benefits that other firms do not, a recent World Bank Group (WBG) High Growth Firm Study has found that this story is much more nuanced. Moreover, any type of policy or legislative intervention that provides a particular set of regulatory or tax benefits to one set of firms is merely a second-best measure, as improving the business environment for all firms should be the priority. Furthermore, success of such initiatives hinges upon implementation support from the donor community and progress on complementary reforms outside the policy or legislation (amendments of commercial code).

***Based on the success of startup policies and Acts in Africa to create a conducive environment for startups, as well as economic growth in the respective countries as illustrated above, it is highly recommended that Tanzania establishes a startup policy to align the current fragmented and dispersed startup regulations and laws and streamline current processes. In formulating a new startup policy, Tanzania should simultaneously address the gaps and weaknesses in current policies (and legislation) discussed above.***

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## 5.0 RECOMMENDATIONS

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### 5.1 Recommended Legislative and Policy Reforms

#### 5.1.1 Policy Reform

- (i) One of the most important and necessary steps in improving the current environment for the startup ecosystem in Tanzania is to reform policies that have impact on startups so as to provide more guidance, consistency, clarity, efficiency and accountability. The reform should capitalise on the existing policies that are articulate on a number of key issues in the creation, growth and graduation of startups into larger enterprises
- (ii) The most important reform is to introduce a policy on startups by capitalising on existing policies, such as the updated versions of Small and Medium Enterprises Development Policy, 2003 (which is being finalised as SME Development Policy of 2022) and the National Trade Policy 2003 (which is being revised into NTP 2022), as well as on the National Research and Development Policy, 2010, and the National Economic Empowerment Policy, 2004. The proposed policy on startups has to address the gaps in existing policies and in the updated forms of the policies
- (iii) One of the identified gaps is the fragmentation of policies while they are addressing almost the same thing. A startup policy will bring together the fragments in a rationalised and coordinated policy
- (iv) The new startup policy will need to harmonise the roles in the policies that affect startups. Harmonisation has to be on institutional coordination, on both research institutions and institutions which are overseeing other aspects of the startup ecosystem, such as capacity building and nurturing of startups, and creating conducive environment for startups on all pillars or domains of startups
- (v) Institutionally, the startup policy will be managed by one ministry and designed to be inclusive regardless of the regulator under whom the startup falls.
- (vi) **A national intellectual property policy will be designed to ensure** orderly protection and sharing of proprietary information in the form of intellectual property assets.<sup>150</sup> In addition, market competition will be regulated to assure fairness and discourage frivolous trade practices, such as counterfeiting and trademark imitations, which discourage investment in branding and innovation. It is recommended to have a national intellectual property policy that should, among others, seek to encourage strategic protection of, in particular, intellectual property assets from research, and for the benefit of startups. The policy will place emphasis on the effective use of utility models/certificates and patents to the benefit of startups

#### 5.1.2 Legislative Reform

- (i) It is recommended that a specific piece of legislation be passed on startups. The legislation will set standards and procedures that must be followed by all stakeholders and give the startup policy and related policies the force of law
- (ii) It is recommended that the startup legislation should recognise pre-startup stage where nurturing is crucial for entrepreneurs to go to the startup stage.
- (iii) It is recommended that the law should have clear provisions on the definition of startups and, where possible, differentiate between SMEs and startups. There should also be registration

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<sup>150</sup> MWAKAJE, S. J., (2011). National Study on the Effective Use of Intellectual Property in Small and Medium Sized Enterprises in Tanzania, accessible at: [https://www.wipo.int/edocs/pubdocs/en/wipo\\_natstudy\\_sme\\_tanzania.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_natstudy_sme_tanzania.pdf), accessed 3<sup>rd</sup> January 2022.

and eligibility for registration of startups, institutions responsible for registration and coordination of all issues related to startups, certification of incubators and accelerators, incentive or support for startups, facilitation of dialogue between regulators and stakeholders of the startup ecosystem, maintaining the register of startups and other important provisions

- (iv) It is recommended that legislation should avoid overlapping and multiplicity of roles and functions. This should be done by ensuring that the startup law has cross-referencing provisions that link the startup law with other important legislations, and those other legislations which have been reviewed in this report should be amended to accommodate what will be in the startups law
- (v) It is recommended that the Tanzania Commission for Science and Technology Act, 1986 be amended to ensure there are provisions in the general framework of administration and coordination of the startup ecosystem, as well as legal provisions for managing technical issues on innovation, research and development coordination and a framework on technology transfer that is more robust than the one provided for in Section 15 (supra)
- (vi) It is recommended that the new legislation should ensure better coordination of research and development by providing the Commission with the mandate to create a pool of research institutions instead of making them affiliates as per the current law
- (vii) It is recommended that the new law should recognise research institutions under it as incubators of startups, as they will have specialised knowledge in research or their establishing laws should state clearly that one of their roles is to provide incubation services to startups and, in so doing, they will be eligible for incentives provided under the Startup Act. Private sector players whose research is not their core business, but due to the nature of business they can provide support to startups in the same or similar way as a research institution, may also register as incubators for purposes of getting incentives associated with incubation of startups
- (viii) It is recommended that legislation should make provision for research institutions to be given adequate financial and technical incentives. Incentives could be based on performance such as the number of incubates they host and success stories from their incubation programmes. It is recommended that the new legislation recognises the special position of startups when it comes to tax rates, filing of tax returns, incentives etc. The tax policy should recognise their important position in the economy as potential tax payers, employers and players in the economy. The law should also provide special tax incentives such as lower tax rates or no tax on income for a certain period for startups. Such tax incentives will fertilise the startup ecosystem and attract capital inflow in the economy. The incentives that are provided could be changed to normal tax rates when startups graduate to another stage as will be provided under the law. The legislation should prepare different tax returns for startups, which are simple, with little details and less frequency of filing at TRA. This will be effected by amending the provisions of the Income Tax Act, 2004<sup>151</sup> and the Tax Administration Act, 2015 on the requirements of filing returns and the form of tax returns. Having less frequent filing requirements for small firms will reduce the cost of compliance and at the same time provide firms with a cash flow advantage<sup>152</sup>. The VAT provision should be amended to allow startups to make payment upon receipt of cash, as startups have cash flow issues regarding paying VAT before being paid for services rendered or for goods supplied
- (ix) The law on startups should have a general provision on the entitlement of tax incentives for startups with specific incentives provided under the Finance Act, which is issued every financial year. This will give room for introducing new incentives or amending incentives

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<sup>151</sup> Section 88 (1) and 91(1) of Income Tax Act, 2004

<sup>152</sup> SME Tax Compliance and Simplification, OECD Centre for Tax Policy and Administration, 2007

from year to year, depending on the industry and need in any particular period

- (x) It is recommended that, as a further incentive to startups, the Minister for Finance may, under Section 10 of the Income Tax Act, 2004 amend the Second Schedule to the Act, by exempting from taxation, income received by startups in the form of grants or donations from all sources. In addition, expenses incurred by entities that are registered as incubators, hubs and labs, in financing or supporting startups be allowable expenses under Section 16 of the Income Tax Act, 2004 in the same way as it applies to contributions made to charitable institutions, provided certain control measures are followed
- (xi) The requirement for physical business premises should be relaxed in the case of startups. The requirement for having office premises while applying for a business licence and taxpayer identification number, be dispensed with when it comes to startups. Startups should be allowed to use the address of incubators and the like at the stage of applying for a business licence and taxpayer identification number
- (xii) Application forms should be simplified for startups and other requirements be strapped as well
- (xiii) It is recommended that closure requirements be simplified and speeded up. Time limits be set for TRA to submit their claims with proof so as to speed up the process of both voluntary and compulsory closure of businesses. In addition, the process of closure of startups upon failure to take off or for whatever reason be simplified; for example, the requirements to appoint an insolvency practitioner may be dispensed with for voluntary closures and publication may not necessary be three times as is the case now, and the period for closure may be set to one month from the date of completing all processes instead of the current requirement of three months<sup>153</sup>.

## 5.2 Ecosystem Building

Challenges that startups and entrepreneurs face in Tanzania present opportunities for the improvement and growth of the ecosystem. Recommendations presented can be implemented with existing policies and legal frameworks, and others are unique to the entrepreneurial ecosystem and may need stand-alone policy intervention.

- i. **Funding:** Increase financing flows to the ecosystem. Attracting funding from the private sector should be encouraged by using tax breaks or tax deductibility provisions in tax laws
- ii. **Support:** Innovation support organisations (ISOs) are an essential support mechanism in the ecosystem. The operations of ISOs are diverse, cutting across different sectors. There is need for policy and legislation that recognise the different business models (private sector, Government, civil society, social impact), which these entities take and afford them the legality and flexibility to operate
- iii. **Infrastructure:** Establishing innovation and maker spaces across the country will increase startups' access. Existing infrastructure policy and legislation should accommodate the infrastructural specifics for these spaces. Property and energy tax should be supportive. In addition, digital infrastructure, for example a startup portal and application that aggregate information on and for startups will increase access to learning and opportunities
- iv. **Markets:** Influence and encourage market uptake of startups' products, processes, and services. Flexibility in procurement legislation should be designed to facilitate market entry and market development

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<sup>153</sup> Section 345 (4) of the Companies Act, 2002



- v. **Capacity building:** The startup pipeline should be provided with capacity building promotion and support. There is need for definitive programmes that promote the start of the innovation pipeline ideation. Entrepreneurship courses at all levels of education will induce supportive culture from the early stages of education. It is also important to strengthen programmes on entrepreneurship and innovation in institutions of higher learning.
- vi. **Research and development:** Startups should be provided access to research results from institutions of higher learning and from research and development organisations that generate knowledge and in-built mechanisms for commercialisation. Startups need access to facilities to iterate and improve their products
- vii. **Intellectual property:** Tanzania’s intellectual property policy should reflect startups and make provisions for promoting innovation.

### 5.3 General Recommendations and Best Practices

These recommendations are derived from a benchmark study of selected recent African startup Acts narrated in Chapter 4. From the literature and the various legislation by African policy and law makers, certain lessons can be learned, both regarding the design of startup Acts and their technical content. The following recommendations are therefore made based on the good practices from other African countries.

#### ***Recommendation 1: Adopt a participatory approach***

- 1) Tanzania Startup Association (TSA) and Government of Tanzania (GoT) should follow a participatory process of co-creation by involving entrepreneurs and their partners (investors, incubators, etc.) from the beginning in the co-design and co-evaluation of startup legislation and policies. This entails that TSA and GoT seek input from industry associations and startup organisations when crafting and implementing regulations
- 2) TSA and GoT should consider using the assistance of experienced organisations such as the World Bank and the Innovation for Policy Foundation (i4Policy) to facilitate participatory processes, for example through the arranging of hackathons
- 3) It is recommended that participative process is divided into several main phases such as:
  - a. Agenda setting: emphasise, unite, define and prioritise
  - b. Drafting: ideate, design and review
  - c. Implementation: adopt, deliver and evaluate.

#### ***Recommendation 2: Create a holistic ecosystem and follow a long-term approach***

- 1) Startup and entrepreneurship legislation and policies must recognise the ecosystems and inter-connections of entrepreneurs and should therefore be inclusive, holistic, and well-coordinated. Formulation of legislation should recognise the interdependence of the multiple components of the ecosystem and therefore adopt a holistic ecosystem approach
- 2) TSA and Government must guard against policy fragmentation and contradictory mandates through excellent inter-agency co-operation. Contradictory mandates (e.g. collecting tax revenue and enabling business; protecting local labour and importing skilled labour) should be carefully analysed and merged into a single, coherent framework
- 3) TSA and Government should establish holistic but realistic, long-term goals with sustained political commitment
- 4) TSA and Government should ensure that policy measures are aligned to existing programmes and reforms.

#### ***Recommendation 3: Focus holistically on framework conditions and not only on startup***

- a. The aim of TSA and Government interventions should be to improve the general business

environment to ease the entry, functioning and exit for all firms

- b. Instead of focusing on growth potential and high-potential firms as the core policy goal, TSA and Government **should rather focus on framework conditions** such as improving allocative efficiency (healthy firm entry, exit, allocation of labour and financial resources), encouraging business-to-business spillovers (better flow of knowledge across firms, tighter linkages to external markets, networks, and agglomeration), and the strengthening of firm capabilities (innovation, managerial and entrepreneurship skills).

***Recommendation 4: Clearly define target beneficiaries***

- a. TSA and Government should clearly define the target beneficiaries of the legislation and policies based on rules
- b. TSA and Government should clearly state the policy objective(s), whether fostering growth, creating jobs, enhancing productivity, stimulating innovation and technology development, or supporting under-served and fragile populations
- c. Discretionary processes applied by a selection committee and subjectively based on perceived high growth potential, job generation, productivity enhancement and innovation, must be avoided since it is difficult to develop and administer qualitative selection criteria associated with unobservable characteristics
- d. It is recommended that, rather, an **entitlement selection process** is followed. This entails an objective, rules-based selection process with clear-cut criteria for being considered as a startup or not. Firms qualify subject to submitting proof of the stated criteria.

***Recommendation 5: Focus on the quality of implementation and monitoring***

- a. TSA and Government should focus on the quality of execution and implementation. Monitoring and data collection mechanisms should therefore be established
- b. Detailed strategies, action plans, adequate institutional anchoring and co-ordination across the public sector, clearly allocated responsibilities, well-staffed teams, adequate budgets, effective communication (including clear guidelines easily understood by users), and quick processes (including limited bureaucracy and non-duplicative paperwork) should be formulated or established
- c. Compliance should be carefully managed to avoid fraud
- d. All outputs and outcomes should be monitored against inputs to determine the success of policies by a monitoring body
- e. Impact evaluations should be undertaken to test assumptions, ensure inclusive access, and clarify the outcome of the public expenditure to justify its continuation or expansion
- f. Policy makers should also consider outsourcing the implementation of certain policy interventions to established private sector or civil society players.

***Recommendation 6: Design interventions to include the under-served***

- a. TSA and Government must ensure that policy interventions do not benefit only the privileged and, therefore, reinforcing existing inequalities. Policies, legislation, and programmes should therefore be designed not only for high-growth entrepreneurs, but also for under-served regions and populations.

***Recommendation 7: Ensure political will and co-operation between Government ministries and agencies***

- a. To ensure political will and close co-operation between Government ministries and agencies, it is important that the Presidency, all relevant Government ministries (e.g. education and finance ministries) and agencies, and the tax authority are involved in the process of the drafting and finalising of the startup Act.

***Recommendation 8: Follow novel processes in the digital era***

- a. When formulating the startup Act, policy makers and legislators must adapt their regulatory approaches and tools based on an understanding of emerging digital technologies and business models. This includes new principles such as agile regulation and regulatory sandboxes in select industries that can accelerate the development of technologies and innovative business models. Agile regulations can incorporate various approaches to experimentation, co-creation, knowledge acquisition, feedback loops, and course correction.

***Recommendation 9: Create an enabling legal and regulatory environment in a digital world***

- a. Overall, TSA and Government should create a venture-friendly legal and regulatory environment that supports the creation and growth of startups in an increasingly digital world.
- b. The following elements of an enabling environment should be considered:
  - a. *Innovation and firm growth*
    - Accelerated incorporation and registration changes (e.g. mergers, acquisitions, listings)
    - Ability to attract global expertise and the use of gig workers, such as contractors and e-Labour
    - Ability to raise capital, complete mergers and acquisitions, and effectively repatriate foreign investments
    - Access to agile regulation such as sandboxes to enable testing of business models (e.g. self-driving vehicles, use of drones)
    - Trust in intellectual property rights, including fair use
    - Access to shared services and reusable public-sector data
    - Effective competition (inter-operability, such as open platforms, access to application programming interfaces (APIs), and data sharing).
  - b. *Doing business digitally*
    - Connectivity, including universal access, spectrum management, Internet connectivity policies, domain name registration, and data infrastructure (data centre, cloud computing, artificial intelligence)
    - Data privacy and security, including the right to data subjects, cross-border data transfers, and cyber security and enforcement
    - Payments, including licensing of payment service providers, and payment authorisation and processing
    - Logistics, including connecting online transactions to offline production, and customs processes (cross-border e-Commerce)
    - Digital market regulations, including electronic documents and signatures, consumer protection, and intermediary liability.
  - c. *Sector and industry*
    - Technical regulation for digital business in the various sectors such as fintech, mobility, tourism, e-Commerce, etc.
    - Examples include licensing, quality and certification standards, occupational health and safety, environment protection, etc.
  - d. *Taxation*
    - Taxation harmonisation for online and offline services (i.e. application of existing tax statutes, sector-specific taxes, tax collection responsibilities).

**5.4 Recommendations Regarding Specific Agencies and Actors**

This part is an extension of the recommendations derived from the benchmarking of selected recent African startup Acts narrated in Chapter 4. They are made with specific reference to agencies and actors.

### 5.4.1 Government

Government should create favourable conditions for startups to access loans they can afford. Furthermore, the Government should create a favourable environment and clear policy for venture capitalists and angel investors to support startups.

### 5.4.2 Financial Institutions

It is a well-established fact (and was pointed out by the numerous studies and the survey undertaken by this study) that banks and financial institutions do not have favourable loan conditions for startups. This was mentioned as one of the major challenges in Tanzania.

#### **Recommendation:**

- *Financial institutions should re-evaluate their current loan policies and procedures regarding entrepreneurs and startups and work with the Government to create a favourable environment for entrepreneurs and investors.*

### 5.4.3 Local Government Authorities (LGAs)

The role of incubators at the level of local governments has led to the eventual success of startups in many African countries, as well as globally. The organisational structure of LGAs should recognise the initiative or institutions that have their own incubators in their areas of jurisdiction. Therefore, LGAs should cover the remunerations and overhead costs of such incubators from their own (often limited) resources.

#### **Recommendations:**

- *Incubators should be inculcated in the current organisational structure of LGAs*
- *LGA technical officers and other stakeholders will be involved in identifying key challenges to be addressed by startup incubators. This will encourage entrepreneurs to solve their own problems.*

### 5.4.4 Tanzania Commission for Science and Technology (COSTECH)

Proper registration of startups, according to pre-defined criteria, is an important part of the startup process, as is the monitoring and evaluation of startup performance over time. The creation of a central hub for registration, as well as the monitoring and evaluation of startup performance are therefore mandatory.

#### **Recommendations:**

- *A startup registration hub, as well as a monitoring and evaluation hub to monitor startup performance should be established*
- *COSTECH could be considered as a possible main hub for registering startups through various programmes (e.g. DTBi) and to oversee their performance with full reporting to the necessary ministries and agencies*
- *Incubators should be inculcated in the current organisational structure of COSTECH as an implementer and promoter*
- *COSTECH should provide technical support to LGA technical officers and other stakeholders when needed.*

### 5.4.5 Small Industries Development Organisation (SIDO)

Basic industries, such as foundries (casting and forging) are key to most of manufacturing and engineering work. However, there is currently a shortage of providers in the forging industry, as well as the provision of forging education. The previously well-known SIDO forging workshops are outdated and will have to be modernised to accommodate newer technologies such as additive manufacturing or 3D printing.

**Recommendations:**

- *SIDO should establish relevant and modern programmes for startups*
- *Existing SIDO programmes should be revisited to be matched with current needs of startups*
- *SIDO workshops should be modernised to reflect current technological practices and to match the needs of startups as well as needs of the current market.*

**5.4.6 Education Institutions (System and Curriculum)**

Primary, secondary and university level education (mostly) should prepare students to become entrepreneurs, to run their own business or employ themselves.

**Recommendations:**

- *Tanzania's education system should introduce special programmes to educate startups on how to start their business (something which is not taught in schools), though some of the institutions (such as UDSM) are doing this from their own sources of funding.*
- *Primary, secondary, and tertiary education should include studies on entrepreneurship and on how to start a business for all students.*

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## 7.0 APPENDICES

### 7.1 Consulted Stakeholders

Sn	Designation/Position of the Respondent	Department	Institution
1.	Coordinator of Planning and Development	Development and Planning	Teofilo Kisanji University
2.	Director General - Dar es Salaam Institute of Technology Company LTD	DIT Company	DIT
3.	Technical Services Coordinator	Technical Services	ICTs Commission
4.	Principal Statistician	Directorate of Business Support/Planning, M&E	BRELA
5.	Programme Manager	Business Sector	Embassy of Denmark
6.	Senior Lecturer and DD Entrepreneurship	Accounting and UDSM Innovation and Entrepreneurship Centre	University of DSM
7.	Senior Development Officer	Growth That Works for Everyone (GROWE)	Global Affairs Canada (GAC)
8.	Instructor	Electrical And Power Engineering	Mbeya University of Science and Technology
9.	Senior Engineer	ICTs	Ministry of Information, Communication and IT
10.	Manager of Innovation	Centre for Development and Transfer of Technology	COSTECH
11.	ICTs Officer	Directorate of Industrial Affairs	TCRA
12.	Planning and Research Manager	Corporate Services	National Economic Empowerment Council
13.	Director of Risk And Compliance	Risk and Compliance	TIB Development Bank
14.	Investment Team lead	Trade Council	Danish Ministry of Foreign Affairs/Embassy of Denmark
15.	CEO	N/A	IMED
16.	Statistician	Research Policy and Planning Department	Tanzania Revenue Authority

### 7.2 Survey Responses to the Qualitative Questions

The challenges and recommendations presented have been edited to collate similar ideas and to group them according to areas of concern. The inference has been drawn only to emphasise policy level recommendations in Chapter 3 of the report. Challenges and administrative recommendations will inform readers who are not policy makers, such as LGAs and other implementing agencies.

#### 3.3.1 Policy and Legislation

##### *Amendments to Company and Tax Laws:*

- i) Facilitate the protection of ideas (IPR) for specific periods to promote innovations, joint ventures capital mobilisation. Strengthen capacity for patent and copyright production and protection



- ii) Facilitate verification of online business and reconsider physical locations as a mandatory requirement. Consider the use of ISO physical address to register a business (this may limit startups that are not part of an ISO)
- iii) Consider single shareholder businesses to enable more startups to enter the market
- iv) Income tax holidays for income and other taxes by agents such as municipal authorities until a startup's gross income is about 10 Million could stimulate and incentivise the ecosystem
- v) Abolish taxations from LGAs that are trouble-sum to startups
- vi) Periodic reviews of tax laws to respond to changes in the ecosystem will facilitate innovation
- vii) Licensing regulations - review costs to accommodate financial capabilities of startup; consider fair trade competitions between large businesses and startups
- viii) Laws of investment should be reduced
- ix) Where skills are lacking, the Government should allow skilled foreign labour to mentor locals. Exchange programmes should be supported with the aim of developing local standards instead of translating foreign standards and enforcing them locally.

***The National Environment Management Act:***

- x) The National Environmental Management Act and accompanying regulations administered by the National Environment Management Council (NEMC) do not provide a business environment for startups to thrive and scale. The legislation can cater for startups by providing for progressive compliance supported by capacity building.

***Electronic and Postal Communications (Online Content) Regulations, 2020***

- xi) The Electronic and Postal Communications (Online Content) Regulations, 2020, limit the potential growth of startups in the information and communications technologies (ICTs) space. The regulations set high fees for online content, making it difficult for startups to realise growth. Scrapping off or reducing fees for online content businesses will allow growth and development of startups in the ICTs space.

***The National Policy on Youth Development, 2007***

- xii) Empowerment of youth by providing startup funds should start when students enter institutions of higher learning. Entrepreneurship and innovation progress through iteration. The policy should recognise hubs, innovation spaces, entrepreneurship centres and incubators at institutions of higher learning as a vital engine for producing innovative products and creating jobs. Funds should be set aside annually by national budgets for university innovation and incubation centres.

**3.3.2 Financing**

- i) Startup business is riskier than SMEs; existing funding structures, such as the Youth Development Fund managed by LGAs, is designed to support groups and traditional business. Therefore, develop a funding structure to meet the needs of startups
- ii) Government Budget should increase percentage allocation to research and innovation activities
- iii) Incentivise local investors with tax subsidies to increase access to investment and markets
- iv) Access to finance is no longer a major problem. It's the ability to have a niche target market in established systems
- v) Access to loans from banks: financing institutions do not want to lend to startups. They require elaborate, complicated and unrealistic requirements (e.g. audited accounts for three years, etc.). Inadequate finance and a short period to return interest. Banks have no products for creatives
- vi) ISOs do not have any other sources of funding apart from donors. It is hard to invest in startups if you do not have scalable products of your own or shares from profit-making businesses
- vii) Lack of funding for ISOs dealing with post-harvest innovations or with product development
- viii) The Government should support ISOs as they create jobs and product development

- ix) Limited exposure to alternatives results in low innovation outputs
- x) Accessing loans, grants and capital is difficult and, in most cases, foreign venture capitalists do not understand the local situation
- xi) Cash flow is a challenge for startups with a proven business model and paying customers
- xii) Lack of information on available opportunities
- xiii) There are a lot of challenges in accessing capital. More should be done in the field of angel investment and venture capital
- xiv) There is no startup policy to facilitate financial services in Tanzania; all are charged as big enterprises.

### **3.3.3 Business Support**

- i) Tanzania Insurance Regulatory Authority (TIRA) - provide insurance to startups with businesses that are currently not accommodated by TIRA's regulations
- ii) Address low morale for startups under incubation – many are there for survival purposes
- iii) Quality assurance and quality control authorities should waive charges on startups as they are in the early stages
- iv) Low level of awareness of startup services.

### **3.3.4 Markets**

- i) Challenge to meet regulations on the export market. Lack of export services has limited access to markets abroad
- ii) Getting funds to scale to new markets
- iii) High demand low supply due to small working capital
- iv) It is challenging to connect with users of our services. We struggle to create a more extensive network, but it is costly
- v) Lack of market information, particularly for new products (e.g. animation)
- vi) Lack of trust in local companies to implement enterprise solutions
- vii) Technology is ahead of the population in Tanzania, making it difficult to introduce new software products
- viii) Lack of trust in startup ability formalised
- ix) Dependence on larger agencies for business development reduces margins.

### **3.3.5 Human Capital**

- x) Retention of quality staff is dependent on remuneration, trust, commitment, co-startup training. It is demanding as for large businesses and the capacity for startups is limited. Commission work is rarely considered
- xi) Expectations, especially for software industry, are high, with unformalised returns
- xii) Most startup lack organisational structures to facilitate human capital development
- xiii) Most staff are not committed to the vision of startups
- xiv) Organisation for niche sectors like animation
- xv) Institutions of higher learning do not equip graduates for the market
- xvi) Trust and integrity is another major issue
- xvii) When dealing with new technologies, it's hard to get skilled developers
- xviii) Employment laws and the tax are high for a startup.

### **3.3.6 Research and Development**

The education system in the country is primarily focused on white-collar office jobs rather than on skills/entrepreneurial skills.

### **3.3.7 Culture**

- i) End users don't trust local solutions. Any failure affects the whole business chain. Iteration is not readily accepted. Moving a product from MVP to MFP is a challenge
- ii) The market has low adaptability, and startups work in the innovation space, which adopters influence

- iii) Intermediaries are not connected
- iv) The "My son, study hard to get a job" syndrome. Parents themselves make their children grow with the mentality that after hard work in class, the reward is a good job. Robert Kiyosaki's book "Rich Dad Poor Dad" challenges such parents. He wishes that parents would have said to their children, " Work hard in the class so as you can establish your own business and run it successfully"
- v) A lot of startup founders do not have limited motivation due to the cultural environment
- vi) Each hub should have its own culture for best results
- vii) Fear of people to depend on themselves
- viii) The majority of Tanzanian youth have poor work ethics. Youth are unemployed but they still don't want to work
- ix) Universities should change and award innovations and spin-off companies rather than issuing just certificates. Institutions of higher learning should work with employing institutions in designing curriculum for training/education instead of working in isolation. Mentorship, apprenticeships and internships should be inbuilt into the training/education curriculum. Non-academic innovation should also be rewarded for exemplarity.

### 3.3.8 Infrastructure

- i) Many ISOs focus on physical premises, while technology enables virtual support to startups, online mentorship, and online progress monitoring, and even online investing
- ii) High cost of renting lab premises to host startups
- iii) Most university master plans lack the space/buildings specific for non-curricular innovations and entrepreneurship centres and facilities for interested students
- iv) Most infrastructure doesn't consider people with disability. There is a need to have multiple innovation/hub space that functions with the required material/utilities
- v) Reliable Internet (fibre, cable) is not accessible everywhere, increasing Internet services costs
- vi) Very few spaces outside Dar. Startups outside Dar are struggling
- vii) Startups cannot usually afford working spaces, especially during bootstrapping. Free public co-working spaces should be established
- viii) Advance payment for working space makes many startups to opt to work from their own houses, which leads them to slow growth.

## 7.3 List of Documents Reviewed

1. Tanzania Blueprint for Regulatory Reforms to Improve the Business Environment, Ministry of Industry, Trade and Investment, Dodoma, April 2018
2. Tanzania Inclusive National Entrepreneurship Strategy, 2017
3. Tanzania Small and Medium Enterprise Development Policy 2002
4. Tanzania SME Development Policy 2002, Implementation Review, November 2012
5. Africa's Blueprint for The Development of an ICT Startups and Innovation Ecosystem, 2020
6. Tunisian Startup Act of 2018
7. Senegal Startup Act of 2019
8. Kenya Startup Act, 2020

### **TANZANIA LEGISLATIONS:**

#### **REGISTRATION AND LICENSING**

9. The Companies Act. Cap. 2002
10. The Business Names Registration Act, 1930
11. The Business Licensing Act, 1972
12. The Business Activities Registration Act, 2007
13. Tanzania Investment Act, 1997
14. The National Industries (Registration and Licensing) Act, Cap 46
15. Patents (Registration) Act, Cap 217
16. Trade and Service Marks Act
17. Copyrights and Neighbouring Rights Act, Cap 218

**TAXATION**

18. The Income Tax Act Cap. 332
19. The Tax Administration Act, 2015
20. The Vocational Education and Training Act of 1994
21. The Tax Administration (General) Regulations, 2016
22. The Value Added Tax, 2014
23. The Tax Administration (General) Regulation, 2016
24. The Value Added Tax (General) Regulations, 2015
25. The Value Added Tax General Regulation, amendments, 2018
26. The Tax Administration (Transfer Pricing) Regulations, 2018
27. The East African Community Customs Management Act, 2004

**EMPLOYMENT etc.**

28. The Employment and Labour Relations Act, 2004,
29. Non-Citizen (Employment Regulation) Act No.1/2015
30. The Immigration Act no. 7 of 1995
31. Workers Compensation Act 2008 (No. 20 of 2008) (Cap. 263)

**REGULATORY AUTHORITIES**

32. the National Environment Management Act No. 19 of 1983
33. The Environmental Impact Assessment and Audit Regulations, 2005
34. The Public Health Act, 2009
35. The Occupational Health and Safety Act, 2003
36. Fair Competition Act 8 of 2003
37. The Standards Act, No. 2 of 2009, Cap 130
38. Tanzania Food and Drugs Authority Act, Cap 219
39. Tanzania Food, Drugs and Cosmetics Act, Cap 219 [R.E 2002]
40. The Tanzania Trade Development Authority Act, 2009.
41. Energy and Water Utilities Regulatory Authority Act, Cap 414
42. The Electronic and Postal Communications Act, 2010
43. Tanzania Communications Regulatory Authority Act, No. 12/ 2003

**LOCAL GOVERNMENT**

44. The Local Government (District Authorities) Act 1982 (Cap 287)
45. The Local Government Finances Act, 1982
46. The Local Government (Urban Authorities) Act 1982 (Cap 288
47. The Local Government Laws (Miscellaneous Amendments) Act, 2006
48. the Local Government Authorities Rating Act, Chapter 289

**FINANCING AND FUNDS**

49. The Industrial Promotion and Development Fund Act, Cap 198
50. The Microfinance Act, Cap 407;
51. The Bank of Tanzania Act, 2006
52. The Banking and Financial Institutions Act, 2006
53. The Foreign Exchange Act, 1992
54. The Cooperative Societies Act, 2013
55. The Small Industries Development Organization Act, 1973 Cap 112
56. The Government Loans, Guarantees and Grants Act, 1974 read together with the Government Loans, Guarantees Grants (Amendment) Act, 2003 [9 of 2003]
57. The Capital Markets and Securities Act, 1994

**EDUCATION AND RESEARCH INSTITUTIONS**

58. The Universities Act, 2005, Cap 326

59. The Education Act, Cap 353
60. The Vocational Education and Training Act of 199
61. Tanzania Forestry Research Institute Act, Cap 277
62. Tanzania Fisheries Research Institute Act, Cap 280
63. Tanzania Industrial Studies and Consulting Organization Act, Cap 145
64. Tanzania Wildlife Research Institute Act, Cap 260
65. The Centre for Agricultural Mechanization and Rural Technology Act, Cap 181
66. The National Institute for Medical Research Act, Cap 59
67. The Protection of New Plant Varieties (Plant Breeders) Act, Cap 344
68. The Tanzania Commission for Science and Technology Act, Cap 226
69. The Tanzania Engineering and Manufacturing Design Organization Act, Cap 176
70. The Tanzania Industrial Research Development Organization Act, Cap 159
71. The Tanzania Institute of Education Act, Cap 142
72. The Tropical Pesticides Research Institute Act, Cap 161
73. National Council for Technical Education Act, Cap 129

**OTHERS**

74. The Public Procurement Act, 2011 read together with The Public Procurement (Amendment) Act, 2016
  75. Public Procurement Regulations 2013
  76. Public Private Partnership Act, 2010 read together with the Private Partnership (Amendment) Act of 2014
  77. Public Private Partnership Regulations of 2015
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