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HELPDESK REQUEST

What evidence is there that markets in Tanzania are more oligopolistic than in other countries at a similar level of development?

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1 Summary

This report addresses the question *'What evidence is there that markets in Tanzania are more oligopolistic than in other countries at a similar level of development?'*. By examining indicators of the policy context, degree of competition and market outcomes, through Ellis and Singh's (2010) framework for analysing market competition, it provides an overview of evidence around market competition in Tanzania generally, and specifically in the financial services, telecoms, tourism and manufacturing sectors.

The evidence reviewed in this document consists of internationally and locally produced documentation from international and local research organisations, as well as individual researchers, covering the topics of market competition and business environment in Tanzania, and specifically in the financial services, telecoms, tourism and manufacturing sectors. Due to its market size and regional proximity, Kenya is used as the key comparator country, though an imperfect one, to Tanzania in this study. Where appropriate, comparisons are also made with Rwanda and Uganda. While it is difficult to find direct evidence of oligopolistic markets in Tanzania based on quantitative market outcomes (e.g. concentration ratios) or reported actions in the market, this report also considers more indirect signals of market competitiveness through examining evidence around the policy context and market environment.

Generally, the evidence suggests that the degree of competition in Tanzanian markets is low relative to its neighbour Kenya. Tanzania ranks 31 spots lower than Kenya on the *2014-2015 Global Competitiveness Index,* ranking particularly low on indicators such as intensity of local market competition and extent of market dominance. Poor access to finance and complex and inconsistent tax and regulatory regimes that foster corruption appear to create a policy environment which hinders competition. Furthermore, the general inability of many Tanzanian firms to compete in the export markets suggests constraints on domestic competition as well.

The existing evidence suggests that Tanzania's telecoms industry is the most competitive, in terms of being relatively less concentrated, out of those considered in this study. It is less concentrated in terms of market share than the telecoms industry in Kenya, and key advances that reduce barriers to competition have been achieved, such as interoperability of mobile financial services. Competition in the tourism industry appears to be particularly affected by a burdensome tax and regulatory regime. In financial services, specifically commercial banking, the level of competition appears to be increasing over time, but market outcomes still lag far behind those in Kenya, largely a legacy effect of the privatisation of formerly state-owned banks. The Tanzanian manufacturing sector, and specifically its food processing industry, appears to be the most concentrated of those studied. The literature provides evidence of specific anti-competitive practices and the achievement of favourable market positions through political influence amongst powerful firms in this industry. Therefore, although evidence suggests that Tanzanian markets are generally less competitive than Kenyan markets, the level of competition cannot be generalised across sectors and there are other constraints to market entry outside any existence of oligopolistic markets.

2 Overview

This report reviews the evidence on the nature of market competition in Tanzania, and specifically evidence that supports or refutes the existence of an oligopolistic market structure. Where possible, it provides comparison with countries at a similar level of development in the region, primarily Kenya due to its market size and proximity, but also Rwanda and Uganda. It further provides a more in-depth look at four specific sectors in Tanzania: 1) financial services; 2) telecoms; 3) tourism; and 4) manufacturing.

The OECD (1993) defines an oligopoly as 'a market characterized by a small number of firms who realise they are interdependent in their pricing and output policies. The number of firms is small enough to give each firm some market power'. It is because the number of firms in small that each firm is likely to better understand how its competitors would react to changes in the market, which can result in dampened competition as firms will likely see advantages to coordinating to act similar to how a monopolist would (DFID 2008). However, for the purposes of identifying evidence of oligopolistic markets, it is less clear what counts as a 'small number of firms' and how one can tell they 'realise they are interdependent in their pricing and output policies'.

As it can be difficult to find evidence that speaks directly to the degree of competition in Tanzanian markets from market outcomes, this report also looks more indirect indicators of market competitiveness through examining evidence of the policy context and market environment. It borrows this methodology from Ellis and Singh (2010), who theorise that the nature of competition in a product market should be a factor of both the characteristics of the product (e.g. cost structure, switching costs, etc.) and the market environment (e.g. GDP, geographical characteristics, etc.). Therefore, significant differences in market outcomes across countries with similar market environments should be attributed to differences in the policy context for competition. Figure 1 outlines this conceptual framework and lists a number of characteristics to consider when investigating the policy context and market environment, degree of competition, and market outcomes.

Figure 1: Framework for analysing market competition

Source: Ellis and Singh (2010)

By adopting this framework to compare countries with similar market environments (e.g. Tanzania and Kenya), we might expect that observed differences in policy context or market outcomes would signal variation in the degree of competition in those countries, which is useful when there is little direct evidence on this. Therefore, this report considers evidence covering the policy context, degree of competition and market outcomes in Tanzania. However, it is important to note that no two countries can have identical market environments and therefore variation in policy context, for example,

should not be directly interpreted to imply variation in the degrees of competition or an indication of oligopolistic markets. For example, while Kenya and Tanzania are relatively similarly sized markets in the same region, Kenya has a higher GDP per capita than Tanzania and the two countries have very distinct histories. In particular, it is worth taking into account Tanzania's history of socialism in the post-independence era and the lingering effect of this on its markets today when compared with Kenya. Therefore, evidence within this framework should only be considered as suggestive when considering the question at hand.

Section 3 provides a general overview of the evidence on market characteristics and policy context for market competition in Tanzania. Section 4 then considers specific market characteristics in four specific sectors: financial services, telecoms, tourism and manufacturing, and Section 5 concludes.

3 General market characteristics in Tanzania

This section provides an overview of the policy context and macro indicators that have a bearing on the degree of competition in Tanzania, more generally, relative to those in comparator countries. Based on this evidence, Tanzania's markets are generally characterised as less competitive, relative to Kenya's markets.

Tanzania ranked 121 of 144 on the *2014-2015 Global Competitiveness Index*, with a score of 3.6 out of 7. This score was 0.3 points and 31 spots behind Kenya, which ranked 90 of 144 with a score of 3.9 out of 7. Kenya scored better than Tanzania on each component of the index (basic requirements, efficiency enhancers, and innovation and sophistication factors) and their sub-components. Tanzania and Uganda scored very similarly on the index, with Tanzania scoring one spot ahead, while Rwanda ranked 62 of 144 with a score of 4.3, or 59 spots ahead of Tanzania. See Figure 2 for a breakdown of these main indicators.

Figure 2: Global Competitiveness Index

	Tanzania		Kenya		Uganda		Rwanda	
	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
FCI 2014-2015	**121**	**3.6**	**90**	**3.9**	**122**	**3.6**	**62**	**4.3**
Basic requirements	**124**	**3.7**	**115**	**3.8**	**126**	**3.6**	**67**	**4.6**
Institutions	93	3.5	78	3.7	115	3.3	18	4.6
Infrastructure	130	2.3	96	3.3	129	2.3	105	5.2
Macroeconomic environment	109	4.1	126	3.7	96	4.4	79	3.1
Health and primary education	108	4.9	120	4.6	122	4.4	86	4.6
Efficiency enhancers	**114**	**3.4**	**66**	**4.1**	**110**	**3.5**	**91**	**5.5**
Higher education and training	134	2.4	95	3.8	129	2.7	122	3.0
Goods market efficiency	122	3.9	62	4.4	119	3.9	42	4.6
Labour market efficiency	47	4.4	25	4.7	27	4.7	9	5.1
Financial market development	96	3.7	24	4.8	81	3.8	55	4.3
Technological readiness	131	2.5	87	3.5	119	2.8	98	3.1
Market size	75	3.6	74	3.6	86	3.3	125	2.5
Innovation and sophistication factors	**107**	**3.3**	**40**	**4.0**	**104**	**3.3**	**66**	**3.6**
Business sophistication	112	3.5	44	4.4	109	3.5	84	3.8
Innovation	98	3.0	38	3.7	96	3.1	53	3.5

With a more in-depth look at Tanzania and Kenya, these countries appear comparable on the overall score for 'basic requirements', but their scores and associated rankings differ more dramatically under indicators of 'efficiency enhancers' and 'innovation and sophistication factors'. Specifically, Kenya scores much higher than Tanzania in financial market development (1.1 points or 72 spots), a key indicator of the context in which businesses are competing. Kenya also scores 0.7 points and 67 spots above Tanzania on

'innovation and sophistication factors', which indicate wide differences in market outcomes, such as local supplier quantity and quality, nature of competitive advantage and capacity for innovation, from which the degree of competition could potentially be inferred.

Figure 3 explores in more depth the breakdown of the value for goods market efficiency, which contains measures of both the degree of competition (intensity of local competition, extent of market dominance) and the policy context (effectiveness of anti-monopoly policy, prevalence of trade barriers) and market outcomes (degree of customer orientation). There are no indicators within this list where Tanzania scores higher than Kenya. Interestingly, Kenya scores 1.4 points or 102 spots higher than Tanzania on the indicator for intensity of competition and 0.6 points or 54 spots higher than Tanzania on the extent of market dominance, two indicators that speak directly to the degree of competition. Kenya also scores much higher, 0.6 points or 54 spots, on the effectiveness of anti-monopoly policy, an indicator of policy context. Further, Kenya scores 1.2 points and 82 spots ahead of Tanzania on degree of customer orientation, a market outcome that could support evidence of differing degrees of competition in the two countries.

Figure 3: Goods market efficiency broken down

	Tanzania		Kenya	
	Rank (out of 144)	Score (1-7)	Rank (out of 144)	Score (1-7)
Goods market efficiency	**122**	**3.9**	**25**	**4.4**
Intensity of local competition	123	4.3	21	5.7
Extent of market dominance	95	3.5	41	4.1
Effectiveness of anti-monopoly policy	96	3.8	42	4.4
Effect of taxation on incentives to invest	96	3.4	76	3.6
Total tax rate, % profits	101	44.9	98	44.2
No. procedures to start a business	106	9	118	10
No. days to start a business	105	26.0	112	32.0
Agricultural policy costs	101	3.4	50	4.0
Prevalence of trade barriers	125	3.9	110	4.0
Trade tariffs, % duty	104	9.7	98	8.8
Prevalence of foreign ownership	104	4.1	78	4.5
Business impact of rules on FDI	82	4.3	70	4.4
Burden of customs procedures	123	3.2	92	3.6
Imports as a percentage of GDP	76	45.2	75	45.5
Degree of customer orientation	117	3.9	35	5.1
Buyer sophistication	101	3.1	89	3.2

Further literature provides a deeper understanding of the characteristics underlying some of the figures in the *2014-2015 Global Competitiveness Index*, particularly around the general policy context and market outcomes.

Policy context

Thulasoni (2012) outlines five areas of Tanzanian competition law and policy requiring urgent technical assistance according to a peer review of competition law and policy for Tanzania.

The identified areas for improvement included the following.

1. Cartel investigation techniques.
2. The interface and action required when there is an abuse of intellectual property rights in the market.
3. Quantitative or economic analysis in abuse dominance and merger cases.
4. Prosecution and evidence handling in competition matter, dealing with persons who breach competition law but are outside Fair Competition Commission (FCC) jurisdiction.
5. Effective consumer protection and case management.

These issues indicate where there were weaknesses in the competition authority which had potential for exploitation. Some of these relate to the investigation of behaviour that would relate to an oligopolistic market structure (e.g. cartel investigation, analysis in abuse dominance and merger cases).

Also a feature of the policy context, access to finance is consistently mentioned as a major constraint to enterprise growth (World Bank and IFC 2013, Dinh and Monga 2013, MIT 2010). Access to finance was ranked as the most important constraint to enterprises in the *Tanzania Enterprise Surveys 2013*, more so than the average of SSA countries. It was also identified more frequently as a problem for smaller firms. As a comparison, access to finance is not considered to be much of an issue among Kenyan firms. According to the *Kenya Enterprise Surveys 2013*, less than 10 percent of Kenyan firms listed access to finance as the main obstacle for them, whereas over 35 percent of Tanzanian firms referred to this as their main obstacle.

Tanzania's policy context for market competition is complicated further by complex and inconsistent regulatory and tax regimes, which have been associated with corruption and the abuse of market power, for example, in the pursuit of exemptions (CTI 2013, Morisset and Haji 2014). The OECD (2013) notes that administrative discretion in the management of investment incentives in Tanzania increases the risk of corruption and rent seeking. They refer specifically to projects that qualify for 'strategic investor status', for which investment incentives can be determined on a case-by-case basis upon negotiation. They further note that overlapping roles and weak governance in the administration of land reduces effective oversight, control, transparency and accountability within institutions, creating opportunities for corruption.

Cooksey and Kelsall (2011) find that tax assessment in Tanzania is characterised by corruption, extortion and arbitrariness, deterring business activity. They further note that large-scale produce buyers and food-processing and trading companies (such as Mohamed Enterprises Ltd and Bakhresa Group) have been able to use direct and indirect political influence to generate large monopoly rents. Licences to trade in transport, import-export, food-processing retail, tourism, telecommunication and media can also bring large rents.

Booth et al. (2014) add that, although it can be difficult to map business-political relationships, they can sometimes be inferred from decisions that favour a particular company, including the granting of tax exemptions as well as low levels of tax payments. They make note of a challenge from Zitto Kabwe, a Chadema member of parliament, as

to why a number of large companies were not on the list of major corporate tax payers in Tanzania.

Their cited examples of how the structure of rents can affect market power in Tanzania include:

- investors needing to pay bribes in order to conduct business, particularly with regard to work permits, utility services and import clearance;
- the securing of land concessions involving bribes (though they do not always work);
- isolated cases of small investors losing their property through the courts, particularly if their interests clash with those of powerful local figures; and
- inside information creating a key advantage in 'winning' government tenders (e.g. a license for the import of duty-free rice and sugar).

Booth et al. (2014) suggest that this policy context has limited competition by allowing Tanzania's ruling elite to work with productive sectors of the economy in a manner that frustrates attempts to open economic opportunities to a broader range of investors and entrepreneurs.

Market outcomes

Morisset and Haji (2014) note that Tanzania has a small number of exporting firms, with 1,700 direct exporters or 0.015 percent of its estimated 11 million total firms. It has fewer exporters per million inhabitants (50) than both Rwanda (70) and Uganda (90). There is also a high concentration of exporting firms, with one percent of exporters accounting for 60 percent of exports and 25 percent of exporters accounting for 99 percent of exports between 2003 and 2009. They further find that exporters in Tanzania export an average of only four products compared to seven products for Kenya. Exports are characterised as a market outcome and Tanzania's relative lack of competitive exports may be indicative of the degree of competition in its markets. On the other hand, Morisett and Haji (2014) find that merchandise exports in Tanzania have grown rapidly in Tanzania over the past decade, at 15 percent per year.

The next sections outline evidence on the competitiveness of particular markets in Tanzania: financial services, telecoms, tourism and manufacturing.

4 Sector-specific market characteristics

This section considers more specifically the market characteristics of four sectors in Tanzania: financial services, telecoms, tourism, and manufacturing. These sectors were selected both because they are important sectors within the Tanzanian economy and because variances in the competition landscapes across these sectors were expected to provide valuable insights.

4.1 Financial services

While there has been significant analysis on the structure of the banking sector in Tanzania, there is a lack of evidence in this area from the last few years. Simpasa (2011) relates the policy context in Tanzania to the degree of competition in its banking sector. His analysis finds that, while there have been improvements overtime and the removal of entry barriers has incentivised the expansion of banking institutions and the establishment of new domestic private banks, the dominance of a few large banks threatens the competitiveness of the sector. There are a large number of market players and there is a high degree of contestability (or low barriers to entry and exit), but there are high levels of concentration, with the top three banks holding more than half of total market share in terms of assets, loans and deposits in 2008. He argues that this structure represents a lasting dominance from three formerly state-owned banks (CRDB, NMB and NMC), with a monopoly structure transferred into foreign private ownership with minimal effect on market concentration. With this in mind, Simpasa (2011) notes however, that relative to the mean concentration ratio (a measure of the total output produced in an industry by a given number of firms in the industry) in Sub-Saharan Africa in 2006 (89.1 percent), Tanzania's banking sector was less concentrated. See Figure 4 for a breakdown of the market shares of Tanzania's three, five and ten largest banks in 2004, 2006 and 2008 in terms of assets, loans and deposits.

Figure 4: Market share in the Tanzanian banking sector, 2004-2008

Table 1: Market share in the Tanzanian banking sector, 2004–2008

	Percentage of industry assets, loans and deposits								
	Assets			Loans			Deposits		
	2004	2006	2008	2004	2006	2008	2004	2006	2008
3 largest banks	67.0	48.1	54.8	57.3	54.4	57.0	68.0	52.2	57.8
5 largest banks	90.2	68.1	69.0	81.0	72.9	70.5	89.1	74.0	71.8
10 largest banks	89.5	88.5	86.2	89.4	83.5	83.5	99.0	91.7	86.7

Source: Simpasa (2011)

There are a select number of studies that explore the degree of competition in Tanzania's financial services market, or more specifically, its banking industry. A few studies have used the Panzar-Rosse methodology to calculate the H-statistic, an indicator of competition in the banking sector. This methodology investigates the extent to which changes in factor prices are reflected in revenue in an industry that is in a profit-maximising equilibrium (Pastory and Moshi 2014). The H-statistic reflects the elasticity of the sum of gross revenue in the banking sector with respect to input prices. The H-statistic takes on a value between -1 and 1, 0 and below representing a monopoly (or oligopolistic) market and 1 representing perfect competition. Values between 0 and 1 represent monopolistic competition. Another methodology used is the Lerner index, which aims to capture pricing power by measuring a bank's ability to set the price above its marginal cost, an indication of market power (Sanya and Gaertner 2012).

Simpasa (2011) employs the Panzar-Rosse methodology on a bank-level dataset from 2004-2008, while Pastory and Moshi (2014) do so with data from 1998-2011. Using this methodology Simpasa (2011) calculates an H-statistic of 0.663, while Pastory and Moshi (2014) calculate an H-statistic of 0.8, both characterising monopolistic competition. Pastory and Moshi (2014) point out, however, that banking competition in Tanzania remains mostly limited to urban areas where the level of intermediation of commercial banks is large.

Figure 5: Lerner Index Over Time

Lerner Index Over Time

	2001	2008	Period average
Kenya	0.29	0.28	0.29
Rwanda	0.36	0.41	0.37
Tanzania	0.34	0.37	0.32
Uganda	0.39	0.36	0.36

Source: Sanya and Gaertner (2012)

Sanya and Gaertner (2012) do an empirical analysis of competitiveness in the banking system in Kenya, Tanzania, Uganda and Rwanda and find an overall low degree of competition in each country due to both structural and socioeconomic factors. They use bank-level consolidated financial data for 2001-2008 from the Bankscope database to calculate both the Lerner index and the Panzar and Rosse H-statistic. They find the Kenya banking system to be the most competitive, followed by Tanzania, then Uganda and Rwanda. Interestingly, the H-statistic calculated for Tanzania by Sanya and Gaertner is lower than that calculated by both Simpasa (2011) and Pastory and Moshi (2014). These differences suggest that, with the data available, the H-statistic may not be a reliable indicator for the competitiveness of Tanzania's banking system and how this is changing over time. See Figure 5 for the Lerner Index calculated for each country for 2001 and 2008, and Figure 6 for the H-statistic calculated over the period 2001-2008.

Figure 6: H-statistic in the EAC (2001-2008)

H-statistic in the EAC (2001–2008)	
Kenya	0.60
Rwanda	0.24
Tanzania	0.56
Uganda	0.55
EAC	0.61

Source: Sanya and Gaertner (2012)

In terms of market outcomes, Tanzania ranks below Kenya on the indicator for financial sector development (score and ranking of 3.7 and 96 for Tanzania relative to 4.8 and 24 for Kenya) on the 2014-2015 Global Competitiveness Index. This indicator incorporates an array of market outcome indicators (such as availability and affordability of financial services, and ease of access to loans), all of which score higher in Kenya than in Tanzania. Rwanda also ranks significantly higher than Tanzania in financial sector development, while Uganda ranks only slightly higher. Further, as noted in Section 2, access to finance is consistently mentioned as a major constraint to enterprise growth in Tanzania (World Bank and IFC 2013, Dinh and Monga 2013, MIT 2010).

4.2 Telecoms

With regard to the policy context for Tanzania's telecoms industry, Mazer and Rowan (2016) look at the role that effective competition and competition policy play in developing mobile financial services in Kenya and Tanzania. While they consider different improvements in competition in both markets, for example a 2014 ruling to end agent exclusivity clauses in Kenya and interoperability agreements amongst mobile network operators in Tanzania in 2014 and 2015, they do not pass a judgement on the relative competitiveness of these markets. Particular to mobile money, Koblanck (2015) credits the Bank of Tanzania with fostering positive and supportive regulatory environment, encouraging the mobile financial services industry to take the lead within regulatory parameters.

While there is indicative reporting on the degree of market competition in the telecoms sector in Tanzania, there is not a wide array of evidence in this area. Mfungahema (2014), with the Tanzania Communications Regulatory Authority (TCRA), reviewed the state and nature of competition in the Tanzanian telecoms market. Specific objectives of the study were to: review and assess the level of competition in the telecoms market; determine the existence of dominance in the market; identify anti-competitive practices in the market; and determine whether the market required revised or additional regulation. The TCRA investigated ten markets within the telecoms industry and found that, in four of those markets (termed 'call origination', 'retail internet access', 'wholesale broadband internet access', and 'international connectivity'), there were no operators with significant market power. In the fixed access and retail leased lines markets, one operator (TTCL) was found to hold significant market power, but this was not judged to be a concern by the TCRA, given competition from mobile operators. All operators were found to hold significant market power in fixed termination and mobile termination, and one operator (NICTBB) was found to have significant market power in wholesale leased lines and transmission. While Vodacom was found to have significant market power in the mobile money market at the time of this study, the achievement of interoperability agreements amongst mobile network operators in 2014 and 2015, facilitating mobile money transfers across networks (Mazer and Rowan 2016), may have reduced this power, in theory.

For mobile payments, in particular, Koblanck (2015) shows that Tanzania's market is more balanced in terms of market share than that of Kenya. In 2013, the lead operator in Tanzania held 53 percent of market share, whereas the lead player in Kenya held 74 percent. They found that a healthy competitive environment and broad customer awareness helped to foster relative parity in negotiating power between actors involved in the interoperability process in Tanzania.

Mfungahema (2014) found that, although the four main operators (Airtel, Vodacom, Zantel and Tigo) held more than 85 percent of mobile subscribers in 2012 (indicating a concentrated market), there was a fast rate of change in competitive positions, which did not allow any one operator to exploit their dominant positions in the market. The entrance of new competitors in the market, such as Viettel Group in 2015 (TanzaniaInvest, 2015), also indicates a degree of market competition amongst mobile phone operators. Comparatively, market share in Kenya is more concentrated with Safaricom holding 68 percent of the market share for mobile network subscriptions in 2014 (Oteri et al. 2015). This was followed by Airtel (16 percent), Essar (8 percent) and Telkom (8 percent).

On market outcomes, price reductions over time suggest a level of competition exists in the Tanzania telecoms industry. Mfungahema (2014) found that between 2005 (when competition was introduced to the industry) and 2012, there had been a steady decline in prepaid tariffs, associated with a decrease in prices.

4.3 Tourism

Evidence on the nature of competition in the tourism market in Tanzania is limited and concentrates mostly on the policy context, specifically burdensome and confusing regulation and taxation regimes. Morisset and Haji (2014) find inefficiency in Tanzania's tourism sector is created by overlapping functions and parallel institutional structures, which increase the transaction costs of dealing with the public sector. They find that extensive regulation in the sector makes it difficult for SMEs in particular. They also observe investment is discouraged through weak incentives, reporting a claim by the Tourism Confederation of Tanzania (TCT) and Zanzibar Association of Tourism Investors official that over 300 laws, fees and regulations are imposed on the industry. The World Bank (2015) notes that tourism operators are subject to more than 20 taxes and fees, which are not streamlined or transparent, making compliance time consuming while also providing opportunities for corruption and underreporting of revenues.

Raheem and Mkindi (2010) calculate that a Tanzanian tour operator spends an average of 745 hours per year, the equivalent of Tsh 2.9 million, on regulatory procedures, and that an average hotel operator spends 1,042 hours per year, or Tsh 3.4 million, on the same. While figures on time and money spent on regulatory procedures in the tourism sector in of comparator countries are not provided, the results from Blanke and Chiesa's (2011) Travel and Tourism Competitiveness Index below suggest that Kenya provides a slightly better regulatory environment for travel and tourism than Tanzania.

Raheem and Mkindi (2010) find that regulations affect all tourism businesses - large, small, foreign and locally-owned – but in different ways. While small locally-owned firms may be less scrutinised by government officials, large foreign-owned firms are more easily able to access finance to expand. On the other hand, the World Bank (2015) suggests that the unclear and uncertain tax system is particularly disadvantageous to new and small investors by creating significant barriers to entry. This, they argue, decreases the overall level of competitiveness of the tourism sector. It is unclear what the combined effect of these policies would be on the competitiveness of the tourism sector. If the barriers to entry for small firms are relatively more burdensome than the scrutiny of large firms then the tax and regulatory regime would have the effect of decreasing market competition. If the opposite were true, however, it would have the effect of increasing market competition.

Blanke and Chiesa (2011) report on Tanzania's competitiveness in tourism through the Travel and Tourism Competitiveness Index. While this index contains few indicators on internal market competition, it may be interpreted as indicative of market outcomes in Tanzania's tourism sector, in terms of how competitive its exports are. On the 2011 index, Kenya ranked higher than Tanzania, though only by seven places (103 out of 139 relative to 110 out of 139). Kenya scored higher on 'travel and tourism regulatory framework' (113 versus 121) and 'travel and tourism business environment and infrastructure' (106 versus 127), while Tanzania scored higher on 'travel and tourism human, cultural and natural resources' (56 versus 72) and on the indicator for price competitiveness in the travel and tourism industry (56 versus 93). These results are particularly interesting given that the travel and tourism industry and economy were estimated to be more than twice as great in Kenya than in Tanzania in 2010. The World Bank (2015) also finds that there are about 60 percent more registered tour operators in Kenya than in Tanzania. They attribute this difference partially back to barriers to entry. In Tanzania, an investor must make upfront costs of up to USD 5,000 for a tourism license and own a minimum of five vehicles, whereas the equivalent license fee costs USD 200 in Kenya, where operators are only required to own one vehicle (World Bank 2015).

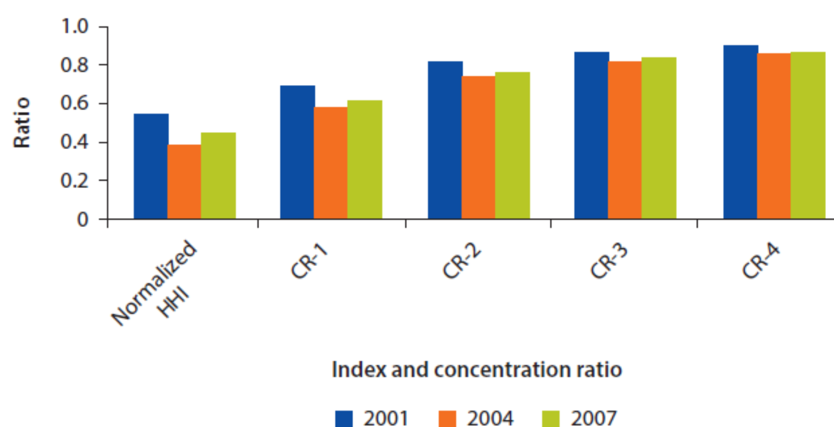
4.4 Manufacturing

There is a wide array of evidence on market competition in Tanzania's manufacturing sector. Much of the evidence supports the view that the policy context does not support growth in the manufacturing sector and, relatedly, does not support a high degree of competition. Wangwe et al. (2014) find that barriers to growth in manufacturing result from technological, financial, policy and administrative constraints. Dinh and Monga (2013) find that lack of access to finance is the most binding constraint in manufacturing and contributes to the failure of small firms to grow into medium-sized firms, thus creating a 'missing middle'. They cite that, from 2006 to 2010, only 3 percent of companies in Tanzania borrowed from financial institutions. Dinh and Monga (2013) further point to the restrictiveness of Tanzania's trade regime, citing its trade restrictiveness index, a measure of tariff and non-tariff barriers, as 52.9 percent, 84 percent of which accounts for nontariff barriers. As such, Tanzania's trade regime is by far the most restrictive in the EAC, compared to Kenya at 7.1 percent, Rwanda at 14.2 percent and Uganda at 7.2 percent.

Sutton and Olomi (2012) suggest that Tanzania's industrial giants, which originated as trading companies, were able to grow by taking advantage of internally generated finance, benefiting from the organisational capital gained from developing a medium-sized company, and acquiring in-depth knowledge of their markets. They point to the availability of land for industrial activity as a key challenge facing industry in Tanzania, noting that experience in acquiring land varies widely from case to case and can depend on capturing the attention of the highest levels of government. They profile five large and widely diversified firms in Tanzania, the majority of which were mentioned to have acquired assets from the government during privatisation.

Figure 7: Average Level of Concentration, Formal Manufacturing Industries, Tanzania, 2001-07

Figure 3.3 Average Level of Concentration, Formal Manufacturing Industries, Tanzania, 2001–07

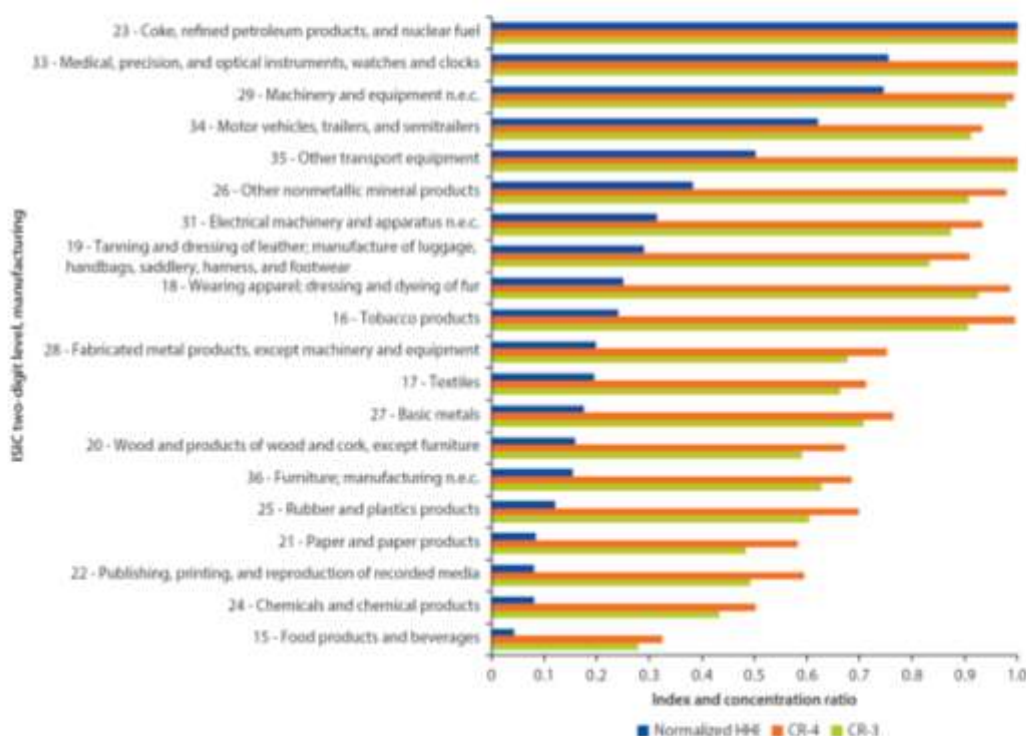


Source: Dinh and Monga (2013)

In terms of indicators for the degree of competition in manufacturing, Sutton and Olomi (2012) cite that only 22 firms account for over half of all of Tanzania's exports, illustrating the powerful role played by a small number of large players. Dinh and Monga (2013) find formal sector manufacturing industries in Tanzania to be highly concentrated, based on both concentration ratios (e.g. CR-1-4) and indices, such as the Herfindahl-Hirschman index (HHI). The HHI is calculated by summing the squared market shares of each firm in a particular industry, with higher values representing lower levels of competition. The CR-1-4 represents the share of the market that is taken up by 1-4 firms, with higher values indicating lower levels of competition. Dinh and Monga

(2013) cite that in almost all manufacturing groups (within ISIC three-digit level classifications), the top 3-4 firms produce over 50 percent of domestic production. Figure 7 shows the average level of concentration of formal manufacturing industries in Tanzania in 2001, 2004 and 2007, showing a small improvement on average between 2001 and 2004, but then an increase in concentration from 2004 to 2007. Figure 8 breaks down the calculated ratios and indices by subsector, suggesting that certain subsectors (such as food products and beverages) are more competitive than others.

Figure 8: Concentration among Formal Manufacturing Industries, ISIC Two-Digit Level, Tanzania 2007

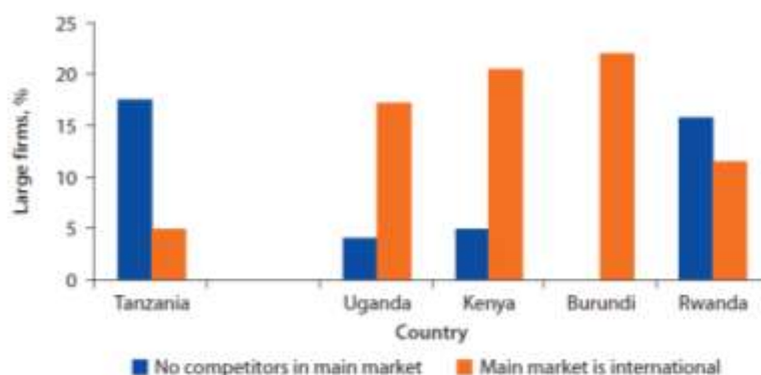


Source: Dinh and Monga (2013)

Kahyarara (2011) also finds limited levels of competition amongst Tanzanian manufacturing industries using panel data from annual surveys of industries between 2000 and 2008. With the exception of food products and beverages, he finds that the top 3-4 firms in all manufacturing groups account for more than 50 percent of total production. He notes, however, that apart from the textile, apparel, coke, and other non-metallic mineral products, all manufacturing subsectors in Tanzania experienced a decrease in the level of market concentration between 2001-2002 and 2006-2007. More recently though (2004-2007), levels of concentration have risen again in a number of industries including tobacco, machinery and equipment, electronic machinery and apparatus, motor vehicles and other transport equipment. These findings are in line with those presented by Dinh and Monga (2013).

Results from the World Bank Enterprise Surveys (2013) show that competition among large manufacturing firms is weaker in Tanzania than other East African countries. Figure 9 shows that the share of large firms reporting no new competitors was much larger in Tanzania (17.5 percent) than in Kenya (5 percent) and Uganda (4 percent) in 2008.

Figure 9: The Competition Facing Large Firms, Five Countries, 2008



Source: World Bank (2013)

Digging more deeply into a specific sector of manufacturing, Hansen et al. (2015) analyse findings from qualitative research conducted with Tanzanian SMEs in the food-processing sector in 2013 and 2014, focusing on factors that have enabled certain enterprises to be successful. Their research is the strongest indication of vested interests and anti-competitive behaviour specifically restricting competition in the Tanzanian manufacturing sector. They find that political strategies are essential to the growth and survival of food processing firms in Tanzania, noting that all major conglomerates in Tanzania are represented in Parliament by owners or family members and that these representatives are used to influence regulations that could impact their businesses.

They cite multiple examples to substantiate this claim, including the following.

1. Azam was able to ensure low tariffs on grain imports, but high tariffs on the import of wheat, in order to build a protected market for itself. Azam also addressed the issue of unreliable power supply by building a close relationship with TANESCO in order to receive advance warning of power shortages.

2. On the other hand, VOIL, a company that used to occupy a protected domestic position with help from good political contacts, lost its political influence during the 2000's was unable to exert influence to counter the liberalisation of Tanzania's market for edible oils.

They go on to conclude, 'there is no doubt that several of our case enterprises owed their market position almost exclusively to politically formulated tariff walls, taxation regimes and local content requirements and that they were actively involved in influencing these policies and regulations' (Hansen et al. 2015, pp. 22). Hansen et al. (2015) also find evidence of anti-competitive practices, reporting that Azam was able to disrupt the logistics and sales operations of its competitor, Azania, by pressuring wholesalers and logistics providers not to service Azania.

5 Conclusion

This report has found evidence to suggest that Tanzanian markets tend to be characterised by a lower level of competition than their counterparts in Kenya; however, this is not generalizable across the sectors explored in this study. The evidence reviewed consisted of internationally and locally produced documentation from international and local research organisations, as well as individual researchers, covering the topics of market competition and business environment in Tanzania, and specifically in the financial services, telecoms, tourism, and manufacturing sectors. Based on Ellis and Singh's (2010) framework for analysing market competition, evidence on the policy context, the degree of competition and market outcomes were considered as suggestive of the level of competition in particular markets. With the exception of the manufacturing sector, no direct evidence of oligopolistic markets was identified, but rather evidence that was suggestive of lower levels of competition when interpreted through this framework. The study has focused on using Kenya as the main comparator country for Tanzania; however, when it was appropriate, comparisons were also made with other countries in the region such as Rwanda and Uganda.

Broadly, Tanzania tends to score worse than Kenya on indicators of market competition. The policy context for this includes poor access to financial services, as well as a burdensome and inconsistent tax and regulatory regime. However, the policy context, degree of competition and market outcomes differ substantially by sector. While the manufacturing sector appears to be relatively oligopolistic and dominated by a select powerful elite, as indicated by both concentration ratios in the sector supporting qualitative evidence, Tanzania's telecoms sector is characterised by a more competitive policy context and a lower degree of market concentration than Kenya. While the tourism sector appears constrained by excessive tax and regulatory burdens, the financial services sector is relatively less constrained than the tourism sector, but remains influenced by diminishing legacy effects of state ownership. Therefore, there are relatively low levels of market competition in some sectors, but it is difficult to prove where this is a result of oligopolistic markets as there are many other barriers to market competition in Tanzania.

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