TSA POLICY BRIEF 01/2022

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

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PREAMBLE:

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 study, 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. Startups can contribute to Tanzania's industrialisation and Development Vision 2025 (TDV 2025) by accelerating growth and development in a supportive environment.

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 benchmarked countries, 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).

The Study 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

STUDY OBJECTIVES:

The main 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.

METHODOLOGY:

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.

FINDINGS:

The Status of Startup Environment in Tanzania

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[1], include policies, laws and regulations, financing, business development support, markets, human capital,

[1] ANDE "Entrepreneurial Ecosystem Diagnostic Toolkit", December 2013

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 (20030, 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 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.

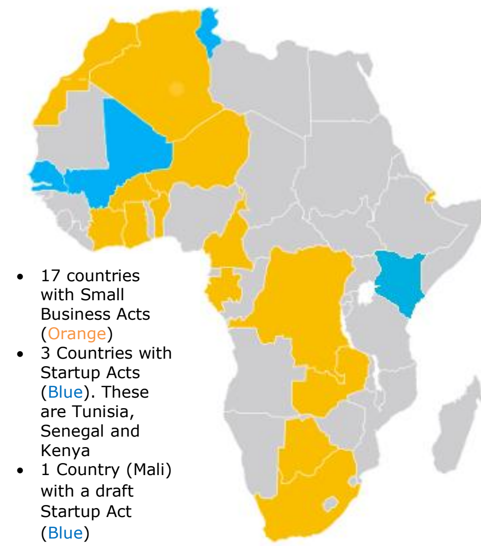
Another important aspect is on the intellectual property (IP) for startups. There is a need for orderly protection and sharing of proprietary information in the form of intellectual property assets. Therefore, the national IP Policy should, among others, seek to encourage strategic protection of IP assets 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 study 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.

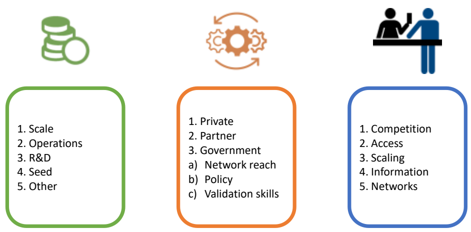
Startup Acts are legislative instruments aimed at fostering entrepreneurship and enabling the development of new firms with high growth potential. Most startup Acts create incentives (tax, subsidies, procurement, etc.) for firms considered as startups according to their respective definitions, which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

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 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.

RECOMMENDATIONS:

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 should be designed to ensure orderly protection and sharing of proprietary information in the form of intellectual property assets.[2] 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.

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 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

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[2] 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, accessed 3rd January 2022.

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 mew 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[3] 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[4]. 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 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

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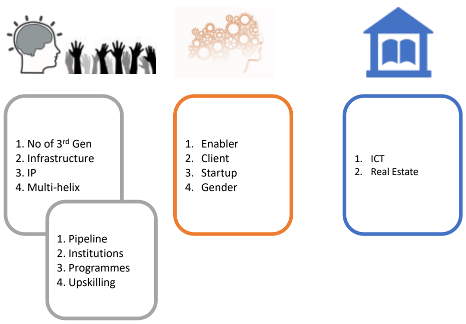
[3] Section 88 (1) and 91(1) of Income Tax Act, 2004

[4] SME Tax Compliance and Simplification, OECD Centre for Tax Policy and Administration, 2007

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[5].

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

(v) *Capacity building:* The startup pipeline should be provided with capacity building promotion and support. There is need for

[5] Section 345 (4) of the Companies Act, 2002

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.

General Recommendations and Best Practices

These recommendations are derived from a benchmark study of selected recent African startup Acts. 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.

(i) 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.

(ii) 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.

(iii) 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).

(iv) 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.

(v) 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.

(vi) Design interventions to include the under-served

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.

(vii) Ensure political will and co-operation between Government ministries and agencies

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.

(viii) 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.

(ix) 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:

✓ *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).

✓ *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.

✓ *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.

✓ *Taxation*
- Taxation harmonisation for online and offline services (i.e. application of existing tax statutes, sector-specific taxes, tax collection responsibilities).

Recommendations Regarding Specific Agencies and Actors

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

(i) 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.

(ii) 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.

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.

(iii) 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.

It is recommended that incubators should be inculcated in the current organisational structure of LGAs.

Also, LGA technical officers and other stakeholders should be involved in identifying key challenges to be addressed by startup incubators. This will encourage entrepreneurs to solve their own problems.

(iv) 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.

It is recommended that 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.

(v) 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.

It is recommended that 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.

(vi) 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.

It is recommended that 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.