



# POLICY BRIEF

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## Making Startup Act for Rising Startup Innovation Ecosystem: What Lessons can Tanzania Learn from other African Countries?

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## SUMMARY

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Startup Act accelerates the development startup companies in the country through tax holiday, tax relief and special treatment. Efforts to support start-up development in Africa have faced many challenges for over many years. This has mainly been due to lack policy to consider the formulation and implementation of appropriate Start-up Act. However, in recent years, some African countries, like Tunisia, have addressed those challenges by introducing a “Start-up Act” as from April 2018. Likewise, in 2018 key players in the Senegalese innovation ecosystem drafted a Startup Act as a means of promoting innovation and entrepreneurship in Senegal. Rwanda is also on its way in drafting its Startup Act. Therefore, while countries in Africa are increasingly joining the rest of the world to create enabling business environments for startups, it remains unclear on when Tanzania will formulate and implement its own Startup Act. It is from these initiatives from Tunisia, Mauritius, Senegal, Mali, Ghana and Rwanda that this policy brief is recommending for the need for developing a Start-up Act in Tanzania.

## INTRODUCTION

### THE ROLE OF STARTUPS IN DEVELOPMENT

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Startups are small companies that play a significant role in economic growth. They create more jobs, contribute to economic growth by encouraging innovation and competition. Startups have a direct impact on the cities that they make their homes. For instance, Infosys has changed Bangalore, Alibaba changed Hangzhou, Microsoft changed Redmond and Google transformed Mountain View, California. These companies started small, they grew and transformed the cities where they operated. They improved employment patterns by providing job opportunities to both experienced and young professionals. This led to surge in inflow of graduates and relocation of experienced professionals from different cities (Dida, 2021).



## Startups in Tanzania: Challenges around the Ecosystem

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Over the past decade Tanzania has experienced rapid growth about 6.5-7% annually and being called one of the “African growth miracle” countries (John, 2016). Yet, this growth is neither broad-based nor shared. This is because the the seemingly rapid economic growth does not reflect proportionate reductions in poverty in Tanzania, for the level has only decreased moderately from 34.4% in 2007 to 28.2% in 2012, and to 26.8% in 2016 (World Bank, 2019). It is estimated that about 1,000,000 job seekers enter in the Tanzania’s labor market annually, mainly the youth aged between 15 and 35years, who account for 60% of the unemployed whilst the economy’s capacity to create new jobs is less than 40,000 per annum in the public sector and 300,000 for private sector (NSYIA, 2016).

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To address these challenges, there have been initiatives to develop a robust start-up ecosystem that will support growth of the start-ups, create sustainable innovation spaces and attract readily available venture capital and investors’ funding. The initiatives are in line with the current promotion to develop ‘Silicon Dar’ in Dar es Salaam region to support innovations and other novelties as well as activating the young generation into entrepreneurship. As such, there have been great efforts in establishing innovation hubs in the country, which include Dar Technohama Business Incubator (DTBI), TANZAICT, SUGECO Agribusiness Innovation model and Sahara Ventures (Awadhi, 2018). As a result, several start-ups have been developed out of these established hubs. Unfortunately, contrary to the well-intended expectations, most of the start-ups developed had limited success, the only exceptions being the MOBISOL Tanzania and Maxcom. Most start-ups died within a short period of time (Awadhi, 2018).

World Bank (2016) conducted a study and found that failures of start-ups in Tanzania are largely to be associated with bureaucratic hurdles in their life cycle and unfriendly business environment. The World Bank (2016) further revealed that failures are due to strong bureaucratic measures related to compliances in TBS, TRA and VAT. For instance, taxation and laws governing filing of taxes are not friendly to start-ups. They are perceived to be high and not in a position that favors the development of start-ups. Generally, starting and growing a start-up in Tanzania, especially by the youth, is a tough endeavor because it involves lengthy Government processes, whose rules and regulations are difficult to comply and, in most cases, there are no clear guidelines to follow.

## Experience from the other African Countries

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Start-ups in most African countries, if not all, have been facing similar problems like those found in Tanzania in many sectors such as agricultural, investment, empowerment and trade policies. However, in recent years, some African countries, like Tunisia, have addressed those challenges by introducing a “Start-up Act” as from April 2018. There are lessons to learn from Tunisia whereby after the youth demonstrations caused by high unemployment, the new government formulated and implemented Strat-up Act to support youth entrepreneurs. The law comes after two years of discussions with legislators engaging entrepreneurs, civil society, and investors. As part of its provisions, the law supports startups in funding, grants them exemptions from corporate taxes, and allows both private and public sector employees up to a year off from their current jobs to run their outfits. Similarly, Mauritius has implemented a Start-up Act 2019-2020 which provides startups an incentive of eight-year tax holiday (AFRICAN Heroes, 2019).

In 2018 more than 60 key players in the Senegalese innovation ecosystem drafted a Startup Act as a means of promoting innovation and entrepreneurship in Senegal. The act has passed by the country’s cabinet and by December 2019, it was passed by the Senegalese National Assembly. Likewise, in April 2019, the Malian government drafted a document to allow stakeholders to analyze the policies that will make up the country’s first Startup Act (Oseni, 2019). Similarly, i4policy is currently developing a Ghanaian Startup Act. Rwanda is also on its way in drafting its Startup Act. Therefore, while countries in Africa are increasingly joining the rest of the world to create enabling business environments for startups, it remains unclear on when Tanzania will formulate and implement its own Startup Act. It is from these initiatives from Tunisia, Mauritius, Senegal, Mali, Ghana and Rwanda that stakeholders in Tanzania are recommending the need for developing a Start-up Act.

## Benefits of Start-up Act in African Countries

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It accelerates the development startup companies in the country through tax holiday, tax relief and special treatment. Attract Foreign Direct Investment (FDI) in the country, strengthened cooperation among start-ups in the innovation ecosystem and beyond, open up business partnership opportunities inside and outside country, support technology transfer and commercialization, support the growth of youth entrepreneurs in the country, attracts both venture capitals and angel investors and it support employment creation among youth and women in the country.

## The way forward/Policy Options in Tanzania

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This policy brief is advocating for the formulation and implementation of a Start-up Act in Tanzania. The brief is, considered to be timely, given the recent efforts by the 5th Government of Tanzania that aim at stimulating industrialization in order to raise GDP growth to 10% by 2021 through the increased share of manufacturing over the country's GDP to a minimum of 40% by 2025 (Tanzania Invest, 2019). In addition, currently, the Government of Tanzania is reviewing Small and Medium Enterprise (SMEs) policy of 2007. Therefore, this brief can be used as relevant inputs in this review to dialogue with the policy makers to consider the formulation and implementation of appropriate Start-up Act, guidelines in Tanzania.

Consequently, ***this policy brief is recommending for the formulation of Startup Act in Tanzania.*** This can be achieved only by conducting policy needs assessment to find out:

- Requirements for the formulation of a Start-up Act in Tanzania. The study will involve collecting information from various stakeholders on the status of start-ups in Tanzania in terms of the extent of job creation to youth, failures and success of start-ups, the directives and guidelines required in terms of supporting start-ups in aspects of accessing financing, land, monetary and non-monetary incentives for startup operation, skills development, and access to public markets in order to have a framework based on the local context.
- The next step is the validation workshop or Stakeholders meeting to share the findings (requirements for the Act) and lessons and the way forward.



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