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Competition, Investment  
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**Discussion Paper**



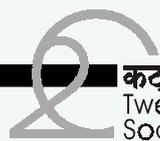
# Investment Policy in Tanzania - Performance and Perceptions



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# Investment Policy in Tanzania – Performance and Perceptions

कट्स ✕ CUTS  
CUTS Centre for Competition,  
Investment & Economic Regulation



# Investment Policy in Tanzania

## – Performance and Perceptions

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कट्स ✕ **CUTS**

**CUTS Centre for Competition, Investment & Economic Regulation**

D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India

Ph: +91.141.220 7482, Fax: +91.141.220 7486

Email: c-cier@cuts.org, Website: www.cuts.org

*In Association With*



**Economic and Social Research Foundation**

PO Box 31226, 51 Uporoto Street, Dar-es-Salaam, Tanzania

Ph: +255.22.276 0260/276 0758, Fax: +255.22.260 2649

Email: esrf@esrf.or.tz, Website: www.esrf.or.tz

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## Acronyms

ABSA	Amalgamated Bank of South Africa
ARIPO	African Regional Industrial Property Organisation
BOT	Bank of Tanzania
BRELA	Business Registrations and Licensing Agency
CBI	Cross Border Initiative
cf	Compare
CUTS	Consumer Unity & Trust Society
DFID	Department for International Development
DSE	Dar-es-Salaam Stock Exchange
EAC	East African Community
EAPTC	East African Posts and Telecommunications Corporation
EIA	Environmental Impact Assessment
EPZ	Export Processing Zone
ESRF	Economic and Social Research Foundation
EU	European Union
FDI	Foreign Direct Investment
HIPC	Highly Indebted Poor Countries
HIV/AIDS	Human Immuno Deficiency Virus/Acquired Immune Deficiency Syndrome
HRD	Human Resource Development
ICSID	International Centre for Settlement of Investment Disputes
IFD	Investment for Development
IFTD	Integrated Framework for Trade and Development
IMF	International Monetary Fund
IOR-ARC	Indian Ocean Rim Association for Regional Co-operation
IPC	Investment Promotion Centre
IPR	Intellectual Property Rights
MIGA	Multilateral Investment Guarantee Agency
MTEF	Medium Term Expenditure Framework
NBS	National Bureau of Statistics
NEMC	National Environmental Management Council
NESP	National Economic Survival Programme
NISC	National Investment Steering Committee
NPES	National Poverty Eradication Strategy
NSTP	National Science and Technology Policy
PER	Public Expenditure Review
PRSP	Poverty Reduction Strategy Paper
PSRC	Pares total Sector Reform Commission
RBP	Restrictive Business Practices
SADC	Southern African Development Community
SAP	Structural Adjustment Programme
TIC	Tanzania Investment Centre
TPTC	Tanzania Posts and Telecommunications Corporations
TRA	Tanzania Revenue Authority
TRP	Telecommunications Restructuring Programme
TTCL	Tanzania Telecommunications Corporations Ltd.
UNCTAD	United Nations Conference on Trade and Development
URT	United Republic of Tanzania
VAT	Value-Added Tax
WB	World Bank
WIPO	World Intellectual Property Organisation
WTO	World Trade Organisation
ZIPA	Zanzibar Investment Promotion Authority

## Foreword

One of the striking features of the economies of poor countries in the past decade has been the pervasive and vigorous attempt at promoting foreign direct investment (FDI). The reasons are evident. In the past two decades, global FDI flows have exceeded growth rates of world exports of goods and non-factor services, and even of world GDP, at current prices. To poor countries like Tanzania, FDI, thus, becomes a key for promoting higher and faster economic growth and transformation. FDI is also perceived to be the enabling vehicle for transfer of technology, cutting-edge skills, best management practices and a culture of competition.

The assumed benefits of FDI have, inevitably, unleashed a battleground of competition for investment: direct investment, portfolio investment, cross-border mergers and acquisitions, cross-listing of corporate shares in regional and sub-regional stock exchanges, and bank lending. As most poor countries more proactively embrace liberal economic policies, this battleground has become fiercer, because the critical determinants for attracting FDI are increasingly commonplace. It is little wonder, therefore, that the distribution of FDI flows is uneven, but so is the character and quality of investment.

For this same reason, the challenges confronting poor countries in attracting FDI have become more onerous. As the effects of investment promotion are often benign, countries are now necessarily called upon to be more creative and innovative in their strategies and methods of differentiating the products they promote for investment and broadly exploiting their national distinctive advantages.

Consequently, how one brands Tanzania, for example, as a marketable place for investment, how investment promotion is actually undertaken, who is targeted as a potential customer, how the competition is determined and attacked with the right set of weapons to weaken it, and how investors are facilitated and managed before and after they set up their business, constitute critical distinctive advantages.

Yet, in spite of these challenges, a paradoxical situation is emerging in Tanzania. On the one hand, FDI, which has embraced privatisation as one of its core dimensions, has over the past decade proved to be an important strategic vehicle in promoting higher economic growth, new technologies and skills, a culture of competition in many key economic sectors and reversing the trends in job losses from a moribund state-owned enterprise sector. On the other hand, in recent times, FDI has become a target of attack.

An attitude of wariness and half-heartedness about FDI is taking shape. It is an attitude that views FDI as an instrument of economic disenfranchisement, loss of right to economic sovereignty, marginalisation of native Tanzanians from wealth ownership, income inequality, job losses and external dependency.

It is in the context of this emerging paradoxical environment about the need for and role of FDI in Tanzania, at a time when the country is well-poised to make a dramatic great leap forward in economic growth, partly because of FDI, that the current report: Investment Policy in Tanzania – Performance & Perceptions, prepared by the Economic and Social Research Foundation (ESRF) of Tanzania for CUTS Centre for Competition, Investment & Economic Regulation, is timely and worthwhile.

The report principally captures the perceptions of the Tanzanian civil society in two main areas: the contribution and benefits of FDI to Tanzania's social and economic development and Tanzania's potential in attracting FDI. The areas and parameters selected for respondents' responses are perceptive and exhaustive, and the results from the responses are cogent and

well articulated. Based on the research results, the report succinctly outlines the factors that constitute the key determinants of FDI flows and the perceived character and performance of foreign investment in Tanzania. More importantly, the report provides useful insights on the key areas for policy-making and the action required to improve the environment that would spur FDI into Tanzania.

Many of the sensitivities that surround FDI in Tanzania have been well-captured in special sections in the report entitled “Issues for Comments”. These areas of concern would be of great use to policy-makers who have to constantly respond to the challenges of making Tanzania a more attractive destination for FDI, while, at the same time, ensuring that domestic sensitivities about the role of FDI are taken care of. Apart from being useful to policy-makers, these issues of concern will also constitute a wealth of topics for future research work.

July 2003

Juma V. Mwapachu  
Tanzanian Ambassador to France  
Paris

## Preface

This report was prepared as part of the activities of the Investment for Development (IFD) Project. The aims of the project were to assess impact of foreign direct investment (FDI) in a number of developing and transition economies including Tanzania and use the information so generated to advocate for better approaches that could be used to enhance the benefits of FDI.

The report is based on the two-year research conducted at the Economic and Social Research Foundation (ESRF) under the IFD project, which was coordinated by Consumer Unity & Trust Society (CUTS) of India. From the study it has become clear that more studies that assess the impact of FDI in productive sectors of the economy are needed. Equally important is the need to undertake further studies that would ascertain the efficacy of incentives for promoting foreign private capital flows into Tanzania. The need to strengthen authorities that are dealing with investment promotion and facilitation for monitoring of private investment activities is especially critical at this point in order to be able to determine the contribution of the investment towards GDP, to government earnings and to export led growth in the country.

The report on Investment Policy in Tanzania- Performance and Perceptions is based on a review of policies on both domestic and foreign private investment as well as a survey of perceptions of the civil society organisations on the performance and impact of FDI in Tanzania. In the course of the research three National Reference Group meetings were held and the views of the participants in these meetings have been incorporated in this report. From these activities several advocacy points have been developed on how best Tanzania could go about attracting the kinds of FDI that are most likely to positively impact on the economy without at the same time marginalizing the development of the local private investment initiatives.

The report urges that while development partners and the private sector have a role to play in enhancing the flows of FDI into the country, the brunt of making FDI work for the development of Tanzania lies within the realm of the government. This therefore necessitates that within the government (both central and local) there should be adequate capacity to regulate investment activities while at the same time mitigating the possible risks associated with investment activities. Careful planning and regulation is essential, as the benefits of FDI cannot accrue automatically in an economy if the policy framework and strategic economic and political infrastructure do not exist or are not conducive. The private sector is urged to take an active role in the transition of the economy towards a market-oriented economy. In addition the report calls upon the civil society to play an active role in providing checks and balances against tyranny of the state and the private sector on the marginalised communities in the country.

The ESRF acknowledges the contribution of CUTS in initiating and coordinating this research and the Department for International Development (DFID), UK for its support. It also acknowledges the contribution of the UNCTAD for its collaboration. The ESRF is also grateful to the country researchers, Dr. Flora Musonda, Dr. Flora Kessy, Ms. Lorah Madete and Ms. Rose Aiko for their hard work in preparing this report. We at the ESRF would also like to express our appreciations to Mr. Juma Mwapachu, Ambassador of Tanzania to France for agreeing to review and contribute towards this report.

September 2003

H.K.R. Amani  
Executive Director  
Economic and Social Research Foundation  
Dar-es-Salaam, Tanzania

## Introduction

Attracting FDI has become increasingly important for developing countries. Many developing countries and transition economies use a variety of measures to try to attract FDI, but with varying degrees of success. Many governments, including Tanzania, are trying to create 'enabling environments' for investment, through making changes in the national economic and institutional infrastructure.

*It is worthwhile to take stock of Tanzania's position in terms of its viability as an attractive location for both domestic and foreign private investors to engage in profitable investment activities, especially those that will harness resources needed to foster a rapid and sustainable economic development process.*

For Tanzania, significant post-independence efforts to promote private investment can be traced from the late 1980s, when the role of local and foreign private investment activities in the development process of the country gained recognition and importance. Slightly more than a decade since these concerted efforts began, it is worthwhile to take stock of Tanzania's position in terms of its viability as an attractive location for both domestic and foreign private investors to engage in profitable investment activities, especially those that will harness resources needed to foster a rapid and sustainable economic development process.

This assessment has been conducted as part of the "Investment for Development"(IFD) Project. The project endeavoured to study the investment regimes of selected developing/transition economies and build capacity on investment policies, trends and perceptions. The emphasis has been on co-operation between countries and within and between regions, sharing information and experience, and engendering joint initiatives.

Consumer Unity & Trust Society (CUTS), in collaboration with the United Nations Conference on Trade and Development (UNCTAD), has implemented this two-year project, launched in September 2001. The Department for International Development (DFID), UK, supported the project. The project involved fact-finding and advocacy work on investment regimes in seven developing and transition economies, namely, Bangladesh, Brazil, Hungary, India, South Africa, Tanzania and Zambia. In Tanzania, Economic & Social Research Foundation implemented the project, in collaboration with CUTS.

## Tanzania Macroeconomic Overview

### 1.1 Market Size and Growth

*Despite modest improvement recorded following the adoption of reforms measures since 1986, the growth rate is still too low to make a significant dent on poverty reduction efforts in the country.*

Tanzania has a large population (about 32 million people), which signifies a potential market size for business activities in the country. However, low incomes and low growth rates of both real and per capita income (see Table 1.1) have meant a small market size in the country. During the crisis period of mid 1970s to 1980s, per capita and real income growth in the country was negative. But, despite modest improvement recorded following the adoption of reforms measures since 1986, the growth rate is still too low to make a significant dent on poverty reduction efforts in the country. In order to reduce poverty economic growth rates closer to the range of 6-7 percent would need to be fostered (World Bank, 2001).

### 1.2 Macro Stability

Strict anti-inflationary measures undertaken by the government since 1995 enabled significant reduction of the inflation rate from a double digit experienced until 1995 to a single digit rate in 1999. But, while these stabilisation efforts have been important, there have been concerns regarding the stringency of the recessionary approach used to achieve low inflation rate targets. That is, while good for controlling inflation, tight monetary policy has resulted into high real lending rates and a credit squeeze, reducing investment.

*Low real deposit rates are a disincentive to financial savings, while high real lending rates raise the cost of financing investment.*

The interest rate spread has widened considerably since the onset of liberalisation of financial markets, as deposit rates have fallen faster with the deceleration in inflation rate, while lending rates have fallen at a very slow pace (See Table 1.1). This phenomenon has acted as a deterrent to both (mobilisation of savings and the channelisation of meagre resources) to productive activities. Low real deposit rates are a disincentive to financial savings, while high real lending rates raise the cost of financing investment. Bank of Tanzania (2000) has attributed the rigidity in lending rates to structural impediments in the economy, which include high lending risks as a result of a large portfolio of non-performing assets, non-supportive legal framework, high operation costs of some commercial banks and inadequate competition.

**Table 1.1: Trends in Selected Macroeconomic Indicators in Tanzania, 1990-1999**

Indicators	Years									
	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Population (in millions)	23.9	24.6	25.3	26.0	26.7	27.5	28.3	29.1	30.0	31.1
GDP Factor Cost (US\$m)	3,846	4,445	4,226	3,879	4,170	4,866	5,953	7,043	7,719	7,879
Real GDP Growth (%)	5	6	4	4	3	3.6	4.5	3.5	4.0	4.7
Per Capita Income (US\$) (Nominal)	160.9	180.7	167.0	149.2	156.2	176.9	210.3	235.6	257.0	270.0
Per Capita Real GDP Growth (%)	2.2	3.2	1.2	1.2	0.2	0.8	1.7	0.7	1.2	2.0
Inflation Rate (%) ++	32	34	24	24	27	27.4	21	16.1	12.8	7.9
Savings Deposit Rate, Average (%)	26	26	26	24	25	21.1	16.7	15.1	7.0	8
Lending Rate Average (%)	26.0	26.0	30.0	30.0	31.5	35.5	33.5	26.5	26.0	22
Public Gross Fixed Capital Formation/ GDP (%)	11.4	9.7	9.9	8.0	6.5	3.6	3.8	3.2	3.6	3.3
Private Gross Fixed Capital Formation/ GDP (%)	16.7	18.9	19.1	18.6	20.0	17.6	14.2	12.9	13.8	13.2
Private Gross Fixed Capital Formation/ Total (%)	59.4	66.1	65.9	69.8	75.6	82.8	78.9	80.1	79.2	79.8
Gross Domestic Savings/GDP (%)	-0.6	-0.6	-2.4	-3.1	-1.2	0.8	5.4	6.2	6.0	2.2
External Debt Service (%)**	-	-	-	-	-	44.1	40.8	36.4	40.2	27.9
Debt Service as % of Exports***	33.0	-	-	-	-	16.5	17.3	17.5	16.2	17.4
Foreign Direct Investment Flows (US\$m)	0.0	0.0	12.0	20.0	50.0	150.0	148.5	157.8	172.2	183.8
Services as % of Total Exports	43.8	29.3	29.7	41.4	44.6	46.1	41.3	39.6	47.7	54.2
Current Account Balance (US\$m)	-558.9	-736.1	-708.1	-1,022	-711	-646.4	-461.2	-555.1	-946.6	-862.0
Current Account Balance/GDP (%)	-13	-15	16	-21	-14	-11	-6	-6	-9	-7
FDI Inflow (US\$m)	-3.3	2.9	12	20	50	119.9	150.1	157	172	183
FDI Stock (US\$m)	93	93	105	125	175	325	473	631	803	987
FDI Stock as % of GDP	2.2	2	2.1	2.7	4.1	6.5	8.1	9	9.9	11.2
Foreign Reserves (Weeks of Imports)	6.8	8.2	12.4	6.0	9.5	6.6	11.3	16.5	13.4	18.0

**Key:**

++ Annual average. By Sept-end 2000, it had declined to 5.7 percent (from 5.8 percent I June 2000).

\*\* As percentage of Government recurrent revenue. Reliable data available only from 1995.

\*\*\* As percentage of total exports for financial year, (where 1994 = 1993/94).

Sources: BOT (various), URT (2000) Economic Surveys and UNCTAD Online data base<sup>1</sup> [http://www.unctad.org/en/subsites/dite/fdistats\\_files/fdistats.htm](http://www.unctad.org/en/subsites/dite/fdistats_files/fdistats.htm) [http://www.unctad.org/en/subsites/dite/fdistats\\_files/fdistats.htm](http://www.unctad.org/en/subsites/dite/fdistats_files/fdistats.htm) (12/06/2002)

### 1.3 Infrastructure

*The infrastructure network, needs to be upgraded to facilitate improved accessibility to productive locations.*

Underdeveloped infrastructure is often pointed out as one of the key constraints to exploiting Tanzania's development potential. The infrastructure network, therefore, needs to be upgraded to facilitate improved accessibility to productive locations.

#### 1.3.1 Transport

The transport network in Tanzania is geared towards serving an economy dependent on the outside world for output markets and imported inputs. This has left major gaps in terms of creating a relatively more cohesive network that would have fostered the development of a domestic market for the country's economic activities which are distributed, partly following the location of natural endowments (World Bank & URT, 2001).

#### 1.3.2 Power Sector

The electricity supply system is mainly hydroelectric, with five hydro power plants<sup>1</sup> supplying 85 percent of the total electricity. The remainder of the supply is thermal. There are high prospects to switch from diesel-based to gas-based generation of electricity from Songo Songo gas reserves. There are scattered efforts to tap solar power, but this is still at a nascent stage and is, therefore not well tapped. Installed capacity for generating hydro and thermal electricity in the national grid reached 763 GWH in 2000 (URT, 2001). For most part, a state-run utility company—Tanzania Electrical Supply Company (TANESCO) Ltd – manages power generation supply and distribution<sup>2</sup>.

*Opportunities abound for private sector participation in the power sector. Some of the expected gains include removal of the cost inefficiencies and low revenue collections, which are the main sources of high unit costs being lamented by consumers.*

As at the end of last year, Independent Power Tanzania Ltd (IPTL) became the first private company to generate electricity, following a protracted standoff it had with the government. However, they supply this electricity to TANESCO, which then supplies it to consumers through the national grid. Opportunities abound for private sector participation in the sector. Some of the expected gains include removal of the cost inefficiencies and low revenue collections, which are the main sources of high unit costs being lamented by consumers. Private actors can also facilitate the expediting of rural electrification efforts where power service is relatively scarce and in the development and promotion of alternative sources of power.

#### 1.3.3 Water

Tanzania is endowed with abundant water resources. However, harnessing of these resources for irrigation and other economic and social development activities has not reached satisfactory levels. The installed capacity for water schemes rated at 1,156,607 cubic metres per day is on the low side, out of which only 69.8 percent is fully used. The overall objective was to provide clean and safe water for all users by 2002. However, current water supply covers only 68 percent of urban areas and 46 percent of rural areas (URT/World Bank, 2001). Technical and commercial losses hamper supply of water, both for domestic and industrial purposes in the urban areas.

*Urban water authorities are, being restructured and reorganised into autonomous systems to facilitate private participation, with a view to making them self-financing.*

Urban water authorities are, therefore, being restructured and reorganised into autonomous systems to facilitate private participation, with a view to making them self-financing. Efforts are also underway to rehabilitate and expand water infrastructure in a number of major towns (URT, 2001). This augurs well for investment endeavours, both in creating opportunities for profitable private investment and also for the much-needed improvement in water infrastructure, which in turn perks up the investment environment.

#### 1.4 Technology and Skills Level

Skill inadequacies and shortages among the Tanzanian populace are among the impediments to Tanzania's ability to benefit from the market-oriented development approach<sup>3</sup>. Skill shortages are most apparent in managerial and technical areas manifested by the significant amounts of outsourcing by foreign investors of personnel from the neighbouring country of Kenya and other countries. That this is happening amidst a situation where a number of graduates are facing difficulty in finding jobs where they can apply their training or any jobs at all puts into question the relevance of the curriculum to demands of the emerging private sector dominated economy.

*Numerous efforts have been made to foster technological advancement in the country.*

Numerous efforts have been made, at least at the policy formulation and institutional framework arrangements, to foster technological advancement in the country. These efforts have included approaches geared at fostering and increasing indigenous technological level, and importation of technology transfer from abroad. There is, however, little evidence of any improvement in this situation. Restrictive investment policy environment, combined with lack of strategies for standardisation and acquisition of varied technologies that were being imported, hampered early efforts to import technology, while weaknesses in the education system hampered efforts to improve technological capacity in the country.

*The National Science and Technology Policy was revised in 1996 to align it with Tanzania's progress towards a market-oriented economy.*

The National Science and Technology Policy (NSTP) was revised in 1996 to address this anomaly and also to align it with Tanzania's progress towards a market-oriented economy. But, even with this revision, technology policy reforms appear to be lagging behind other policy reforms, especially since the institutional framework and support systems remain unchanged and are more geared to serving the pre-liberalisation objectives, which are not in line with the technological needs and problems of the private enterprise sector (UNCTAD 2001).

Three key issues impinge on the skills and competencies of Tanzania's human resource. The first one is the weakness in terms of the structure, access, relevance and adequacy of the education system. Key aspects of accessibility, namely, the availability and affordability of education, need to be improved, especially at the post-primary level, where it has not been able to keep pace with either the expansion of the population or the demands of the modernising economy.

*The prevailing difficulty for educated people in securing jobs in which they are trained, especially following the civil service reforms where the government is retrenching workers further complicates the situation. The government should strive to encourage the development of adequate entrepreneurial, organisational and innovation capacities including adaptation to modern technological skills.*

The second one is the high cost of education, relative to the income levels of the majority of Tanzanians. This has been a major deterrent factor in increasing enrolments in tertiary education level. The prevailing difficulty for educated people in securing jobs in which they are trained, especially following the civil service reforms where the government is retrenching workers further complicates the situation. Most people now expect to be employed in the private sector and should have adequate competencies to be able to get those jobs. There is therefore a need to revise the education and training system according to the new and emerging manpower requirements. Given the shortage of managerial and technical skills in the country, the government should strive to encourage the development of adequate entrepreneurial, organisational and innovation capacities including adaptation to modern technological skills.

***More technical and management institutes are required to develop a cadre of well-trained engineers, scientists and public and private sector managers.***

This indicates that, in addition to the improved access to university education, more technical and management institutes are required to develop a cadre of well-trained engineers, scientists and public and private sector managers. Efforts are already underway, at least in terms of improving technical skills, to ensure that mastery in application of such skills is acquired. One of the key items placed by the 1996 National Technical Education and Training Policy paper is fostering of such skills in agriculture, trade, and commerce sectors. The Ministry of Science, Technology and Higher education plans to establish Institutes of Technology in four zones<sup>4</sup> and twenty regional Technical Colleges.

***Brain drain is another factor that arrests the pace of skill creation and retention. Some have migrated to Kenya and Uganda and some to countries outside Africa.***

The adequacy of the education system can be gauged against its ability to inculcate cognitive frames for analysing personal and institutional development issues. Specifically, it should foster in individuals the development of flexible thought process and analytical skills; questioning and creative problem-solving skills; creativity, evaluative and synthesising skills; and the ability to grasp and apply the emerging information communication technologies proactively, both individually and as a team. Frequent recourse to foreign technical assistance in a significant number of skills points to the inadequacy of the education system in this area.

Finally, besides the education system, brain drain is another factor that arrests the pace of skill creation and retention. In the search of higher benefits, a significant number of highly trained personnel have left the country and gone to southern Africa especially Namibia and Botswana. Some have migrated to Kenya and Uganda and some to countries outside Africa. Some of them leave for training abroad and either stay there for extended periods of time or do not come back at all.

***The HIV/AIDS pandemic threatens to erode the gains that have so far been made in human development for the past four decades.***

Another setback looming over the efforts aimed at creating a skilled human resource pool is the HIV/AIDS pandemic, which threatens to erode the gains that have so far been made in human development for the past four decades. The rate of HIV infection is estimated to have reached 8.1 percent in Tanzania (URT/World Bank 2001) and is fast moving from being a purely health problem to an economical and social concern. Not only has it eroded the expected longevity of productive life from the peak of 52 years in 1988 to the 48 years in 2000, it is also depleting disproportionately the productive and skilled segment of the population. The government, in collaboration with other sectors, NGOs and individuals, has, therefore, initiated a major sensitisation campaign to prevent and control the epidemic.

### **1.5 Trends in Foreign Direct Investment**

***It is only in the first six years of independence and post-1985 that a favourable attitude towards foreign investments can be observed in Tanzania. Private foreign capital was encouraged and seen as one of the main vehicles for rapidly transforming the backwardness of the economy inherited from the colonial regime.***

In terms of foreign investments, it is only in the first six years of independence and post-1985 that a favourable attitude towards foreign investments can be observed in Tanzania. These two periods are separated by nearly two decades of hostility to foreign, especially private investment, following the promulgation of the Arusha Declaration (AD). In the earlier period, private foreign capital was encouraged and seen as one of the main vehicles for rapidly transforming the backwardness of the economy inherited from the colonial regime.

For the latter period, declining foreign aid, unsustainable level of external debt and conditions created by a world economy, which is increasingly becoming global, is enabling Tanzania, like many other developing countries to find non-debt creating private sources of external financing an attractive

alternative for financing development. The perceived benefits of FDI come from its potential to transfer technologies and modes of operation to host countries.

*It is no longer sufficient for countries to have good resource endowments or low cost labour in order to attract FDI. It is now necessary to have sufficient communications and transport networks, competitive and efficient managers and operators and a strong technical skill base as well. FDI is the least volatile flow and is considered, by far, the most effective one to enhance growth amongst developing countries.*

Yet, globalisation has also meant that there is increased competition among countries for the dwindling FDI flows. With this increased competition it is no longer sufficient for countries to have good resource endowments or low cost labour in order to attract FDI. In addition to natural resources and cheap labour it is now necessary to have sufficient communications and transport networks, competitive and efficient managers and operators and a strong technical skill base as well.

There are three main types of private foreign capital flows into Tanzania: direct investment, portfolio investment and bank lending. Foreign direct investment (FDI) is the least volatile flow and is considered, by far, the most effective for enhancing growth amongst developing countries.

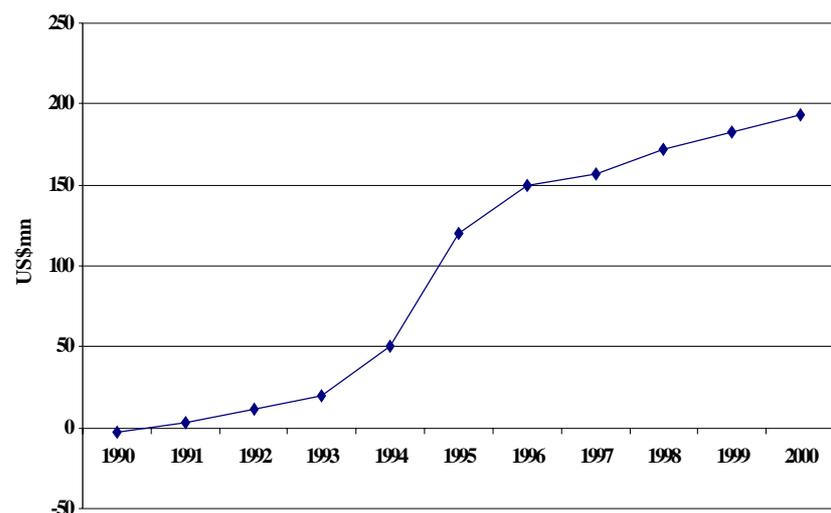
### 1.5.1 Foreign Direct Investment

Net FDI inflows into Tanzania have shown a steady increase from 1991. There was a significant response from foreign investors from the second-half of 1990s, to the improved economic situation and moving forward of the privatisation programme. The major influx of FDI flows occurred between 1994 and 1995, where the annual level of net FDI inflows more than doubled from US\$50mn to US\$119mn in 1995. It has since been increasing steadily and stood at US\$192mn in 2000 (see Fig. 1.1). During 1995-2000, Tanzania received a total of US\$1bn, compared to less than US\$2mn during 1986-1981 (UNCTAD 2001).

*During 1995-2000, Tanzania received a total of US\$1bn, compared to less than US\$2mn during 1986-1981.*

While FDI inflows hovered close to 0 percent of GDP in 1980s, it increased to 2.1 percent in 1998 and averaged 1.3 percent from 1990-1998. By 1999, inward stock of FDI had reached 11.2 percent of GDP, up from 7.0 percent in 1995, and lower still at 2.2 percent in 1990 (UNCTAD 2001).

Figure 1.1: Net FDI Inflows to Tanzania 1990-2000



Source: World Investment Directory (1995), World Investment Report (2000), published by UNCTAD.

*Previous sources of data estimating foreign private capital flows severely underestimated the amount of capital flows that have found their way into Tanzania. Flow of FDI into Tanzania was US\$516.8mn in 1999, far above the current estimation by UNCTAD at US\$193mn.*

*According to UNCTAD 2001, acquisitions of companies by foreign investors have been few, but these gave a significant push to increased FDI flows.*

*There is high potential for profitable joint ventures between domestic and foreign private investors, through which foreign investment can enhance the local development process.*

It is worth noting at this juncture that the National Bureau of Statistics (NBS), Tanzania Investment Centre (TIC) and the Central Bank jointly conducted a census of private capital flows into Tanzania for the period 1998 and 1999. The Report<sup>5</sup> of the census points out that previous sources of data estimating foreign private capital flows underestimated the amount of capital flows that have found their way into Tanzania.

According to the Report, flow of FDI into Tanzania was US\$516.8mn in 1999, far above the current estimation by UNCTAD at US\$193mn. The stock of FDI in the country was valued at US\$1,637.7mn and US\$2,154.4mn for 1998 and 1999, respectively (cf. UNCTAD figures at US\$803mn and US\$987mn for 1998 and 1999, respectively). It is not clear at this juncture how the various sources of information of FDI data are going to be reconciled.

### **(a) Mode of Entry**

The main channels of entry for FDI have been greenfield investment, either through sole ventures by foreign investors or joint ventures with the locals. Participation in privatisation process is gaining strength, especially the ongoing divestiture of public utility companies. Gibbon (1999) estimated that privatisation proceeds accounted for a third to half of FDI flows between 1992 and 1998, with a cautionary note on the reliability of the figures. According to UNCTAD 2001, acquisitions of companies by foreign investors have been few, but these gave a significant push to increased FDI flows.

In 1993, it was estimated that the value of these acquisitions was higher than annual FDI inflows, while in 1994 it was still one-quarter. Subsequently, the share has fluctuated between 1 and 4 percent annually. Overall, the share of foreign acquisitions in FDI inflows has been above one-tenth between 1993 and 1998. Cumulative data on foreign investment projects approved by TIC between 1990 and 2000 (Fig. 2.4) points to the foreign investors' interest in greenfield investments.

Besides HRD and agriculture projects, where the share of new ventures as compared to those involving rehabilitation of existing facilities was equal, prospective investors earmarked new ventures, which comprised 79 percent of the approved projects within that period. This implies that only 21 percent of the investors who entered the country through TIC<sup>6</sup> acquired existing facilities through either participation in privatisation or other channels of acquisition.

### **(b) Ownership**

Sixty-one percent of the projects approved were joint ventures, indicating the willingness of potential investors to form partnerships with local private investors. This pattern is more pronounced in the transport (80 percent), mining (72 percent), telecommunications (70 percent) and housing sectors (88 percent), although it appears that no projects have been approved in the housing sector after 1994. In terms of numbers, these are not sectors that have drawn a large number of investors.

However, given that in all the sectors the number of projects that had local partnership was higher, it is safe to assume that there is high potential for profitable joint ventures between domestic and foreign private investors. This augurs well for transfer of skills and technologies and the creation of other forms of linkages through which foreign investment can enhance the local development process.

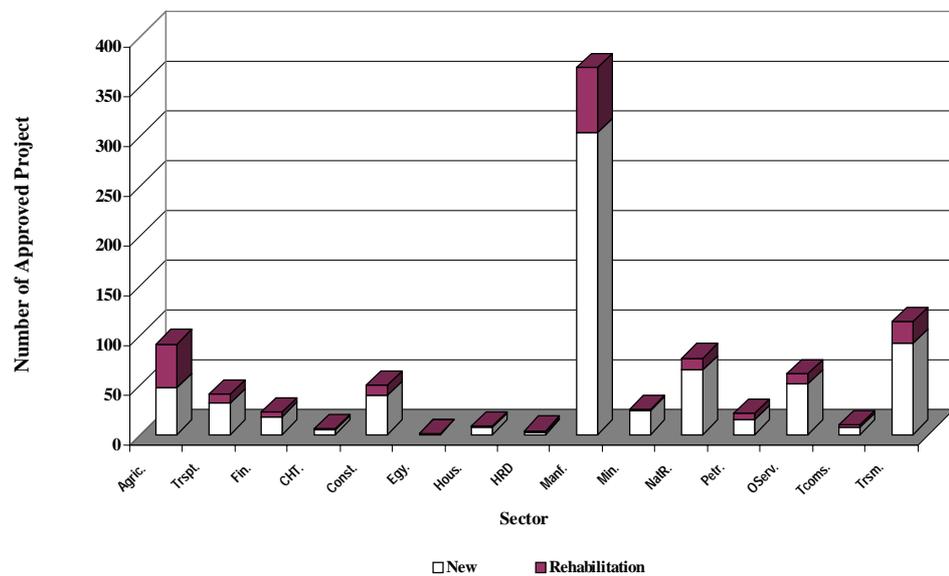
The manufacturing sector seems to be attracting the highest number of foreign investors, with 269 projects, followed by tourism, 114 projects, agriculture, 91 projects and the natural resources sectors, 77.

### (c) Sectoral Distribution of FDI

There is no official data on the actual sectoral distribution of FDI in the country. However, based on the number of projects that have been approved by TIC between 1990 and 2000, (see Fig. 1.1 below), the manufacturing sector seems to be attracting the highest number of foreign investors, with 269 projects, followed by tourism with 114, agriculture with 91 and the natural resources sectors with 77 projects over the same period.

The natural resources sector attracted a significant amount of projects, especially in the period 1996-97, mostly directed to the fisheries sector. This development was a result of efforts to take advantage of the European market for fish fillet. Developments in this area have, however, been arrested by environmental and sustainability concerns, as well as import bans that the European Union (EU) imposed on fish and fish products from the Lake.

**Figure 1.2: Cumulative Foreign Investment Projects Approved by TIC, by Mode of Entry and Sector 1990-2000**



**Key:**

- Agric. = Agriculture
- Trspl. = Transport
- Fin. = Financial Service
- CHT. = Computers and High Technology
- Const. = Construction
- Egy. = Energy
- Hous. = Houses
- HRD. = Human Resource Development
- Manf. = Manufacturing
- Min. = Mining
- NatR. = Natural Resources
- Petr. = Petroleum
- Oserv. = Other Services
- Tcoms. = Telecommunications
- Trsm. = Tourism

Source: TIC

However, in terms of monetary value of capital flows, the data on projects approved by the TIC indicates the telecommunications sector seems to have attracted the largest amount, at TZS 1,104,883mn (US\$1bn) possibly due to expensive equipment, given the small number of projects. This was followed by the manufacturing sector, which attracted investment worth TZS 673,140 mn (US\$655mn), the natural resources sector, which received projects worth TZS 257,665mn (US\$250mn), and the agriculture sector, which attracted projects worth TZS 223,668mn (US\$217mn), cumulatively between 1990 and 200.

***Mining is the largest sector in terms of attracting FDI in Tanzania. UNCTAD (2001), indicates that, the value of total cumulative flows into the mining sector was estimated at US\$370mn.***

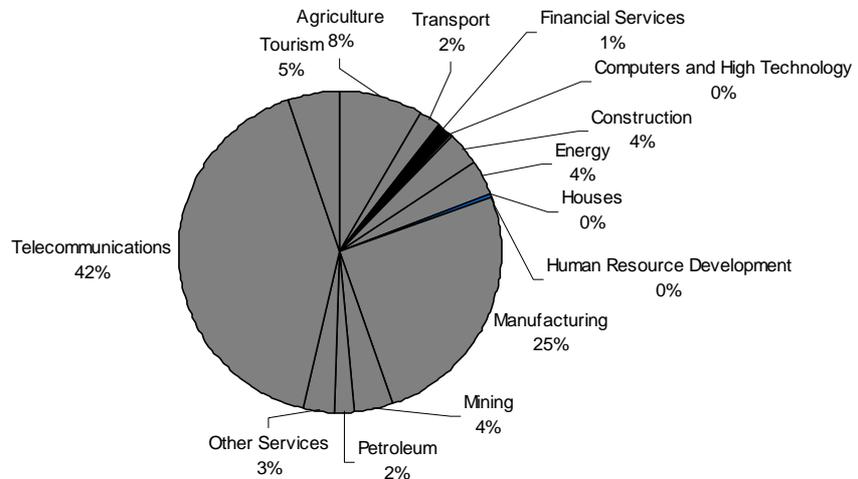
Other sources indicate that mining is the largest sector in terms of attracting FDI in Tanzania. UNCTAD (2001), quoting WTO (1998), indicates that, by the end of 1998, the value of total cumulative flows into the mining sector was estimated at US\$370mn, at more than 50 percent of cumulative flows. Using data on total investments of foreign affiliates, these organisations rank the services sector as the second recipient of FDI flows, receiving 19 percent<sup>7</sup> of the total, followed by the manufacturing sector. As mentioned earlier, it is possible that TIC data significantly underestimates investments in the mining sector, since the approval, licensing, issuing of incentives and monitoring of the extraction activities are under the direct supervision of the Ministry of Energy and Minerals.

***Mining and quarrying and manufacturing sectors accounted for a combined share of more than 80 percent of the total flows during 1998.***

The other source of information on sectoral distribution of FDI is the report of a foreign capital census alluded to earlier in this section. The information in this report corroborates what is indicated in the UNCTAD (2001) study. According to the joint NBS, the TIC and the Bank of Tanzania study, mining and quarrying and manufacturing sectors accounted for a combined share of more than 80 percent of the total flows during 1998, with mining and quarrying commanding the largest share of 66.8 percent.

This was followed by the agriculture, hunting and forestry sectors, at a distant 2.6 percent and slightly behind the trade, accommodation and catering services, which accounted for 5.4 percent. In terms of the stock, again mining and quarrying and the manufacturing sectors accounted for the largest share of the FDI stock for both 1998 and 1999. In 1998, mining and quarrying accounted for 30.8 percent of FDI stock, followed by manufacturing at 24 percent. In 1999, the share of mining and quarrying had gone up to 39.4 percent and, although the manufacturing sector remained the second-largest recipient of FDI, it had a slightly reduced share of 22.1 percent. The third-largest sectors were wholesale and retail trade, catering and accommodation services, which accounted for 15.4 and 13.1 percent of the FDI at the end of 1998 and 1999, respectively.

**Figure 1.3: Sectoral Distribution of Cumulative Foreign Investment Projects Approved by TIC 1990-2001 by Projected Capital**



Source: TIC

Comparison across data sources is not easy due to different classifications of sectors. However, all sources bring out the importance and potential of the manufacturing sector in attracting FDI and point to the low levels of FDI that have been attracted to the agricultural sector, in comparison with its importance in the economy. The NBS/TIC/BOT<sup>8</sup> (2001) Census Report of investment activities in Tanzania shows that for both 1998 and 1999, the share of the FDI stock in the agricultural sector accounted for about 7 percent of the total.

### (c) Country of Origin

*Projects from Western Europe accounted for 47 percent of all the projects that were approved. UK was the most prominent investor in the region.*

The data from TIC (Fig 1.3) indicates that projects from Western Europe dominated the scene. They accounted for 47 percent of all the projects that were approved. This is not surprising, given that the flow of goods, services and resources between the country and West Europe and, in particular, with the United Kingdom (UK), dates back to the colonial era. The data also indicated that UK was the most prominent investor in the region. This is followed by the East and South Asian region, accounting for 15 percent of the approved foreign-owned projects.

*Investments from within the East African region come next, accounting for 10 percent of the projects approved in the last decade.*

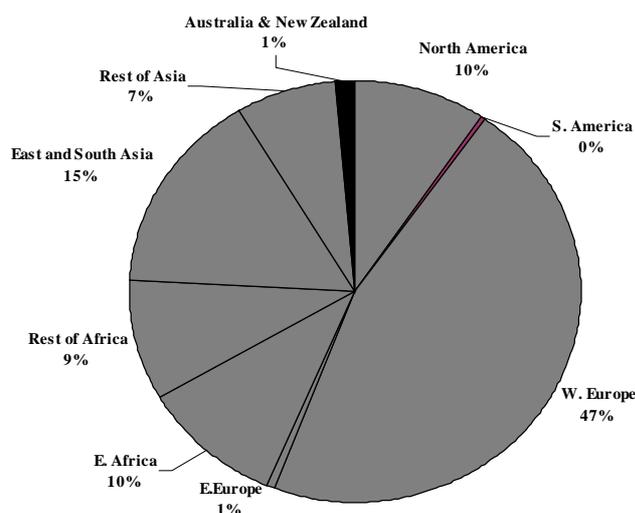
Such large a number of projects from Western Europe coming into Tanzania might have been prompted by the rapid growth of economic activity in the region, which may have generated enough high surpluses to induce investors in the region to seek alternative regions to invest in and realise high returns from their investments. Investments from within the East African region come next, accounting for 10 percent of the projects approved in the last decade. These were mainly from Kenya, which is relatively more economically developed in comparison to Tanzania and Uganda. This ratio tallies with the investment from the North American region, most of which is Canadian.

The joint NBS/TIC/BOT<sup>9</sup> Census Report displayed a slightly different pattern for the years 1998 and 1999. In their findings, Ghana topped the list in terms of FDI stock in the country by the end of 1999. It had FDI stock worth US\$398.8mn, followed by the UK, which had a stock of FDI worth US\$337.4mn. With the exception of the UK, most of the leading countries, especially Ghana, Australia and Canada, are heavily involved in the mining sector.

**Ghana topped the list in terms of FDI stock in the country by the end of 1999 followed by UK, which had a stock of FDI worth US\$337.4mn.**

The report's listing of the top ten countries in order of the magnitude of the stock of FDI they own in Tanzania shows that the top five are Ghana, which accounted for 18.5 percent, UK 15.7 percent, Australia 11.0 percent, Canada 8.0 percent, and USA 6 percent in FDI flows, followed by regional countries Mauritius and Kenya as for 1999.

**Figure 1.4: Foreign Investment Projects Approved by the TIC, by Country of Origin 1990-2001**



Source: TIC Approval Data

Therefore, Ghana was still the leader, but other countries also featured in the top ten. These were South Africa, Panama, Mauritius, France and Russia. Ghana accounted for 26 percent of the total FDI flows, followed by Australia with 25.3 percent and Canada with 14.8 percent. Countries within the region that appear to have significantly invested in Tanzania were Kenya, South Africa and Mauritius, which accounted for 5.7, 3.9 and 3.7 percent, respectively.

### 1.5.2 Foreign Portfolio Investment

Tanzania established the Dar-es-Salaam Stock Exchange market in 1998, but it was not until the opening up of the market for foreign participation in November 2002 that foreign portfolio investment flows were allowed into the country. Foreign participation in the market had been constrained by lack of arrangements and established provisions for cross border listing and outward capital transfer. Opening up of the capital market for foreign participation is part of the efforts towards further liberalisation of the capital account and the institution of mechanisms to ensure vigilance in maintaining financial and macroeconomic stability.

**Opening up of the capital market for foreign participation is part of the efforts towards further liberalisation of the capital account.**

Foreign portfolio flows are known for their high volatility and can be detrimental to development, if financial speculative disorder leads to massive portfolio outflows – the Asian financial crisis of 1997 being an obvious example. Obtaining the maximum benefits from foreign portfolio flows requires careful sequencing of financial liberalisation, proper financial regulations and, possibly, even controls on portfolio flows.

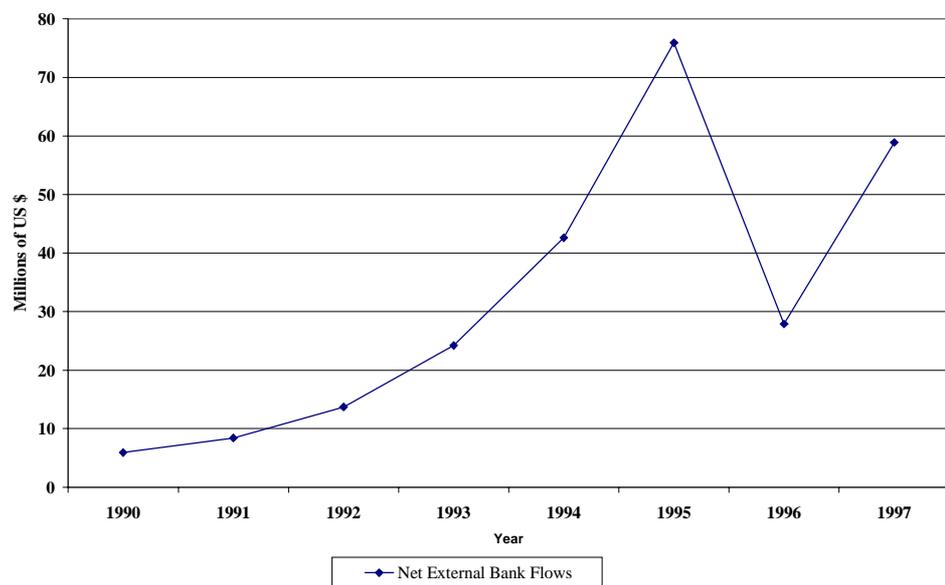
The Central Bank has cautiously pointed out that the benefits of allowing portfolio investment in Tanzania are long-term and are largely dependent on the number and quality of private companies that will be listed at the Dar-es-Salaam Stock Exchange (DSE). It will also depend on the pace of expansion of the market capitalisation of the DSE.

### 1.5.3 Private Bank Lending

**Foreign bank lending has become important, since the liberalisation of the banking sector in Tanzania. Foreign banks have increased the competition and the range of products in the banking sector.**

Foreign bank lending has become important, since the liberalisation of the banking sector in Tanzania. According to Bhinda, et al (2000), overall net bank flows increased slightly (See Fig. 1.4) after 1993. These peaked in 1995 at US\$75.9mn and have since displayed a volatile trend, dropping to US\$27.9mn in 1996, before rising again to US\$58.8mn in 1997. Foreign banks have increased the competition and the range of products in the banking sector. Their participation will prove particularly beneficial if they provide term finance to medium and large firms for investment.

**Figure 1.5: Net External Bank Flows to Tanzania 1990-1998**



Source: Bhinda, et al (2000). *Private Capital Flows to Africa: Perception and Reality*. FONDAD (The Hague). P.35

### Issues for Comments

- (i) What approaches can best be used to increase FDI inflows into Tanzania?
- (ii) Data discrepancies with respect to FDI inflows and distribution into sectors need to be looked into properly. What best approaches can be used by Investment Promotion Agencies to ensure that quality data is available?
- (iii) How can Tanzania improve the skills and competencies of her workforce and increase her stock of skilled workers?
- (iv) Portfolio investment funds are largely speculative in nature and have suspect contributions to economic growth. How should the government regulate this form of investment fund flows?
- (v) The data from investment promotions indicate approved FDI and not actual FDI. We need better investment-monitoring to ascertain how much of the approvals actually translate into actual FDI?
- (vi) The investment rate is said to be still too low to foster meaningful economic development. What approaches can be used to increase domestic savings for investment?



## Overview of Main Policy Trends

*There has been a series of other economic, political and institutional reforms undertaken under the support of the World Bank and the IMF from 1986, in response to the economic crisis that the country faced since mid 1970s.*

The first attempt of Tanzania to reform its economy and align it to move towards more market-oriented economy came with the adoption of the internal National Economic Survival Programme (NESP) in 1980/81-1981/-82, followed by the World Bank International Monetary Fund Structural Adjustment Programme (SAP) in 1982/83-1984/85). Since then, there has been a series of other economic, political and institutional reforms undertaken under the support of the World Bank and the IMF from 1986.

These reforms were undertaken in response to the economic crisis that the country faced since mid 1970s. It is usually argued that the crisis was mainly a result of the poor economic policies (import substitution), coupled with the excessive state involvement in productive activities of the economy.

### 2.1 National Development Initiatives and Poverty Reduction Efforts

*The Vision's main objectives are achieving high quality livelihood for Tanzanians, attaining good governance through the rule of law and developing a strong and competitive economy.*

In the last decade (1990-2000), the Government of Tanzania, in collaboration with other stakeholders, has produced a number of documents that attempt to guide the country's development process. The main document is the Tanzania Development Vision 2025, prepared in 1999. The Vision's main objectives are achieving high quality livelihood for Tanzanians, attaining good governance through the rule of law and developing a strong and competitive economy.

*The process of formulating policies and establishing programmes of action to realise the development aspirations set out in the Vision 2025 has begun.*

The Vision 2025 defines a strong and competitive economy as one that is diversified and semi-industrialised, is growing at 8 percent annually, has sustained macroeconomic stability, is supported by an efficient infrastructure and, has increased capability to integrate and compete effectively in the global economy. The process of formulating policies and establishing programmes of action to realise the development aspirations set out in the Vision 2025 has begun. Some of these policies and programmes were actually prepared concurrently with the country's development vision. Below are some of these developments.

- (i) The National Poverty Eradication Strategy (NPES) 1998 outlines the national strategy and objectives for poverty eradication efforts through 2010. The NPES provides a framework that is supposed to guide poverty eradication initiatives that are aimed at halving absolute poverty by 2010 and eradicating it completely by 2025. The NPES's priority sectors are social services, agriculture, employment creation and income generation.
- (ii) Medium term national strategy for poverty reduction, encapsulated in the Poverty Reduction Strategy Paper (PRSP) has also been developed. The PRSP process began in fiscal year 2000/01 and is expected to end in fiscal year 2002/03. The strategy emphasises the promotion and acceleration of equitable growth, investment in human capacities, protection of vulnerable groups and a conducive environment for growth and poverty reduction. Although it was

formulated in the context of the Highly Indebted Poor Countries (HIPC) initiative, Tanzania's PRSP builds strongly on the initiatives that were already in place. It is guided by the overarching orientation of the Vision 2025 and NPES, only that it covers a shorter life span in comparison with the earlier documents and in so doing, narrows down priorities outlined in them. For instance, the PRSP aims at:

- a. Reducing the proportion of population below the basic poverty line from 48 percent in 2000 to 42 percent in 2003, (cf. the NPES aims to reduce this to 24 percent in 2010).
- b. Reducing the proportion of rural population below the basic poverty line from 57 percent to 49.5 percent in 2003, (cf. the NPES'S target is 29 percent in 2010).
- c. Reducing the proportion of the food poor from 27 percent to 23.5 percent in 2003, (cf. the NPES target is to reduce the proportion to 14 percent in 2010).

To ensure that resources are adequately channelled to priority sectors, in line with the poverty reduction strategies, a Medium Term Expenditure Framework (MTEF), prepared under the Public Expenditure Review (PER), was established in Financial Year 2000-01. The PER process was initiated in 1997 to inculcate transparency and foster participation of all the stakeholders in the management of government expenditure, while MTEFs are overviews of expenditure strategies spanning three years, developed to ensure predictability of resources for the sectors, especially those earmarked as pertinent for poverty reduction.

## 2.2 Trade Policy

*Trade developments in the Tanzania were limited by the lack of an up-to-date trade policy that could have taken the developments in the market into account following liberalisation of foreign trade. A new trade policy (2002) has already been finalised and has been in operation since June 2003.*

Prior to the mid-80s, the economic policy aimed at higher growth of income and industrialisation process, based on import substitution, with little scope and/or role of the private sector. From the onset of the reform in the mid-80s, the country's trade policy has increasingly relied on market incentives and less controls. Over this period, trade developments in the Tanzania were limited by the lack of an up-to-date trade policy that could have taken the developments in the market into account following liberalisation of foreign trade.

The last comprehensive trade policy prepared by the government dated back to 1980 and it focused on domestic trade. As such, the trade reforms during the whole period were undertaken under the guidance of the short-term adjustment programmes that guided the economic management in the post-reform period. A new trade policy (2002) has already been finalised and has been in operation since June 2003.

*The essence and mission of the IFTD is the development of domestic and export trade as the engine of economic growth.*

The formulation of the trade policy has been preceded by the establishment of a solid framework, entitled Integrated Framework for Trade and Development (IFTD), on which the current efforts to create a sound trade regime are predicated. The IFTD was formulated as a response to the decisions made at the World Trade Organisation (WTO) Ministerial Meeting held in Singapore in late 1996. The essence and mission of the IFTD is the development of domestic and export trade as the engine of economic growth. It recognises poverty alleviation as an issue of concern and the importance of high growth rates to alleviate poverty with trade development as a key stimulant for growth. The programme is underpinned by three objectives: private sector development, trade growth and poverty alleviation (URT, 1999).

*The criteria for levying import tariffs are the degree of processing and the importance of the imported item for the development of the economy.*

## 2.3 The Tariff Regime

The main taxes that are charged on imports are general customs duty rate, East African Community (EAC) rates, suspended duty, excise taxes and value-added tax. The 2001/02 annual budget framework changed the 5-band general tariff structure into one with 4 bands. The criteria for levying import tariffs are the degree of processing and the importance of the imported item for the development of the economy. Therefore, the more finished a product the higher the import tariffs. However, preferential rates are applied to imports from Kenya and Uganda under the EAC arrangements and are charged tariff rates which are 80 percent lower than the general tariff rates for products from the rest of the world. Suspended duty is selectively applied at the discretion of tax authorities aiming at protecting local producers. Suspended duty is a flat ad-valorem rate of 20 percent. Excise taxes are charged on selected imports at specific rates, units of currency per applicable unit of measure, e.g. volume, weight, etc. or at a flat ad-valorem rate of 30 percent on some of the goods. Value-added tax (VAT) is imposed on most imports and the rate is currently 20 percent.

*The Tanzanian tariff regime is, nevertheless, criticised for being investor-unfriendly and non-growth oriented.*

The Tanzanian tariff regime is, nevertheless, criticised for being investor-unfriendly and non-growth oriented. This is also cited as one of the factors that increase the cost of production and have hampered the growth of various sectors of the economy, including the agricultural sector, which is the major contributing sector to economic growth.

## 2.4 Regional Integration and Trade Arrangements

Tanzania is party to a number of regional trade groupings and international agreements governing trade. These include:

### 2.4.1 Southern African Development Community (SADC)

Tanzania signed the treaty to join SADC in August 1992. The ultimate goal of the SADC is to attain regional economic integration, to be approached via sectoral protocols. Eight such protocols have been on water use, drug trafficking, mineral development, energy, education and training, and simplification of immigration procedures. Two others are under preparation. The trade protocol entered into force on January 25<sup>th</sup>, 2000.

### 2.4.2 East African Community (EAC)

*In November 1999, Tanzania, Kenya and Uganda signed the East African Community (EAC) Treaty as its founding members. The countries have formed an EAC legislative assembly and a Court of Justice to facilitate the smooth running of the community's activities.*

In November 1999, Tanzania, Kenya and Uganda signed the East African Community (EAC) Treaty as its founding members. The EAC still constitutes these same three countries. The treaty aimed at basically creating a Customs Union, followed by a Common Market and, ultimately, a Monetary Union and Political Federation. As part of this exercise, the countries have formed an EAC legislative assembly and a Court of Justice to facilitate the smooth running of the community's activities.

The treaty covers many other areas such as infrastructure and services, investments in industrial activities, development of human resources, science and technology, agriculture and food security, tourism and wildlife, etc. Achievements to date include full convertibility of the currencies of member countries and creation of common internal passports, while mechanisms for free movement of people and capital are still being considered.

### **2.4.3 Cross-Border Initiative (CBI)**

*The initiative aims at facilitating cross-border economic activity by eliminating barriers to the flow of goods, services, labour and capital and to help integrate markets by co-ordinating reform programmes supported by appropriate macroeconomic policies.*

The Cross-Border Initiative (CBI) comprises a common policy framework developed by fourteen participating countries in Eastern and Southern Africa.<sup>10</sup> Four co-sponsors, namely, the European Union (EU), IMF, the WB and the African Development Bank fund the initiative. The initiative aims at facilitating cross-border economic activity by eliminating barriers to the flow of goods, services, labour and capital and to help integrate markets by co-ordinating reform programmes in several key structural areas, supported by appropriate macroeconomic policies. Efforts to develop this framework started in 1993. Key elements of the Initiative include:

- (i) Liberalising foreign exchange systems by eliminating restrictions on current account transactions and certain capital transactions and establishing unified inter-bank spot foreign exchange markets;
- (ii) Dismantling non-tariff barriers on imports and exports, eliminating tariffs on trade between CBI participants and lowering tariffs on a non-preferential (Most Favoured Nation–MFN) basis to be agreed upon; and
- (iii) Strengthening domestic financial markets by, *inter alia*, improving prudential and supervisory capacity of the central banks, and simplifying and liberalising investment procedures.

### **2.4.4 Indian Ocean Rim Association for Regional Co-operation (IOR-ARC)**

*The Association aims at facilitating trade and investment in the region through liberalisation, removing impediments to trade and lowering barriers towards a freer and enhanced flow of goods, services, investment and technology within the Indian Ocean rim.*

The Indian Ocean Rim Association for Regional Co-operation (IOR-ARC) is a grouping of nineteen<sup>11</sup> Indian Ocean littoral and island states, launched in Mauritius in March 1997. China, Egypt, France, Japan and the United Kingdom are Dialogue Partners, while the Indian Ocean Tourism Organisation is an Observer. The Association aims at facilitating trade and investment in the region through liberalisation, removing impediments to trade and lowering barriers towards a freer and enhanced flow of goods, services, investment and technology within the Indian Ocean rim. It operates as a tripartite organisation, bringing together the government and business, through the IOR Business Forum and the academic community, through the IOR Academic Group. The growth and evolution of the IOR-ARC underlines the growing awareness of the economic opportunities within the region in an era of global trade liberalisation. The IOR-ARC had two additional objectives: promoting sustainable growth and balanced development of the region and the member states; and focusing on those areas of economic co-operation which provide maximum opportunities to develop shared interests and reap mutual benefits.

### **2.4.5 WTO Membership**

*All WTO agreements became binding on Tanzania. WTO agreements cover goods, services and intellectual properties.*

Tanzania is a contracting party to the Final Act of the Uruguay Round and the Marrakesh Agreement establishing the WTO, which came into being in 1995. Subsequently, all WTO agreements became binding on Tanzania. WTO agreements cover goods, services and intellectual properties. They include individual country's commitments to

- (i) Lower customs tariffs and other trade barriers
- (ii) Open and keep open service markets and procedures
- (ii) Settle trade disputes and prescriptions on the special treatment to be accorded to developing countries so as to ensure smooth participation and reaping to the extent possible the benefits of the multilateral trade system

*Tanzania enjoys the provisions in some the WTO Agreements, which provide the countries of this category longer transition periods before they are required to fully comply with the agreements.*

Agreements on trade in goods are covered under the General Agreement on Tariffs and Trade (GATT) whereas agreements on trade in services and trade related intellectual property are dealt with under the General Agreement on Trade in Services (GATS) and General Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS), respectively. Being in the developing country category, Tanzania enjoys the provisions in some the WTO Agreements, which provide the countries of this category longer transition periods before they are required to fully comply with the agreements. The country is also eligible for technical assistance to facilitate smooth, effective and beneficial participation in transition into the multilateral trade system.

*Tanzania is one of the 12 countries benefiting from the Integrated Framework for Trade Related Technical Assistance provided by core agencies and other development partners.*

According to a WTO trade policy review conducted in 2000, the low level of awareness and understanding of the WTO Agreements, and the consequent implications, inadequate financial, institutional, technical and technological capacities have undermined the efforts to comply with the WTO Agreements. This reports also documents that Tanzania seems to have made efforts to comply with the WTO requirements of establishing a National Enquiry Point, housed at the Tanzania Bureau of Standards, and the Acceptance of Good Practice on Voluntary Standards.

As indicated in earlier sections, Tanzania is one of the 12 countries benefiting from the Integrated Framework for Trade Related Technical Assistance provided by core agencies and other development partners. An Inter-Institutional Technical Committee on WTO has since been established.

## **2.5 Capital Controls**

The second half of the 1990s witnessed significant relaxations of capital controls. In 1996, all current account transactions were fully liberalised. Efforts to liberalise transactions in the capital account moved relatively more cautiously, in order to avoid short-term speculative capital flows. Full liberalisation of the capital accounts was done in October 2002 as per BOT announcement<sup>12</sup>. Before this time however, the capital account was only partially liberalised. Residents' investments abroad and participation in the local money and capital market was allowed.

*Inflows of long-term capital funds like loans and direct investments and their associated income-related flows (dividends, interest) are unrestricted.*

Non-residents were not allowed to participate in the local money and capital market. However, inflows of long-term capital funds like loans and direct investments and their associated income-related flows (dividends, interest) are unrestricted.

## **2.6 Privatisation Regulation**

Parastatal reforms in Tanzania have been implemented through the Parastatal Sector Reform Commission (PSRC)<sup>13</sup> (1993) and the Loan Advances and Realisation Trust (1991). The main objectives of the reforms have been: (i) to improve the operational efficiency of publicly-owned enterprises in the parastatal sector and their contribution to the national economy; (ii) to reduce the burden of parastatal enterprises on government budget; (iii) to expand the role of the private sector in the economy, hence enable the government to concentrate public resources on its role as the provider of basic public services; and (iv) encourage wider participation by the people in the ownership and management of business.

### **2.6.1 Privatisation Strategy**

Privatisation has been carried out using the following approaches:

- (i) Trade sales—sales of shares or of assets to another company. This can be carried out by direct negotiation, tender or auction.
- (ii) Joint ventures – this uses a combination of components of different methods, usually partial trade sales and management contracts.
- (iii) Public share offers – mainly through the stock market with the objective of promoting savings.
- (iv) Public auction – this is regarded as a quick and effective mechanism to privatise small enterprises and usually involves sales of assets.
- (v) Private placement – this is typically by institutional investors, through negotiation.
- (vi) Management and/or employee buy-outs (MEBO).
- (vii) Privatisation funds as purchase vehicles for wider share ownership.
- (viii) Liquidation for highly indebted enterprises.

### **2.6.2 Restructuring**

*In the circumstances where sale of shares or assets is deemed infeasible, alternative options that do not involve sale of shares or assets are used.*

In the circumstances where sale of shares or assets is deemed infeasible, alternative options that do not involve sale of shares or assets are used. This is mainly through lease contracts with or without a purchase option, and management contracts. The lease with or without purchase option is however not encouraged in Tanzania due to the little incentive that the lessees usually have in creating long-term improvements to the company. Instead management contracts have been encouraged.

Such methods are, therefore, given priority as interim short-term measures, if and when necessary. It has also been noted that, with the exception of cases where the managers have had a substantial ownership stake, Tanzania has not been well served by such methods. Table 2.1 outlines the status of the privatisation process, as of Mid 2000.

Table 2.1 indicates that trade sale has been the most popular method of divesting public companies, with 165 divested this way (49.5 percent of the total 333 companies) comprising of core and non-core assets of privatised companies. The second best option appears to be the liquidation by the PSRC, with 61 (18.3 percent of the companies) divested in this manner. Thirty-four companies (10.21 percent) were privatised through the Loan Advances and Realisation Trust.

PSRC (2001) reports that by December 2001, 326 companies had been divested. Of these, 122 companies had been 100 percent sold/divested to residents by 100 percent, 190 were joint ventures between local and foreign investors, and 10 had been sold to workers and managers of the respective companies, whereas 14 were divested to foreigners by 100 percent.

<b>Divestiture Method</b>	<b>1992<sup>14</sup></b>	<b>1993-94</b>	<b>1994-95</b>	<b>1995-96</b>	<b>1996-97</b>	<b>1997-98</b>	<b>1998-99</b>	<b>1999-00</b>	<b>Total</b>
Trade Sales	5	18	11	24	25	29	24	29	165
Liquidation by PSRC	0	16	17	9	11	6	2	0	61
Closure	4	5	1	7	1	0	2	0	7
Lease	2	8	5	7	1	0	2	0	7
PCS/MGT CT	0	1	2	0	2	0	0	0	5
Restructuring	NA	NA	NA	NA	NA	2	0	0	2
Floatation	NA	NA	NA	NA	NA	1	0	0	2
Total Divested by PSRC	11	48	36	43	40	38	29	30	275
Under LART <sup>15</sup>	0	11	9	0	0	14	0	0	34
<b>TOTAL</b>	<b>11</b>	<b>59</b>	<b>45</b>	<b>43</b>	<b>40</b>	<b>52</b>	<b>29</b>	<b>30</b>	<b>309</b>
NON-CORE ASSETS	NA	NA	NA	NA	NA	9	7	8	24

*Source: Parastatal Sector Reform Commission*

## **2.7 Competition Law**

### **2.7.1 Legislation and Institutional Framework**

*The Act extends to all enterprises engaged in business, whether private or public, and covers transactions in the production and distribution of goods and services.*

The main legislation that governs the legal and institutional foundations for Tanzania's burgeoning market economy is the Fair Competition Act, following the renaming and amendment of the Fair Trade Practice Act (1994) towards the end of 2001. The scope and application of the Act extends to all enterprises engaged in business, whether private or public, and covers transactions in the production and distribution of goods and services. The legislation is applicable only within the national territory, with areas of exemptions being limited to sovereign acts of the State and labour markets, particularly as they relate to trade unions' collective bargaining rights.

The Act prohibits three main types of business conducts: restrictive business practices (RBPs), whether horizontal and/or vertical; misuse of market power; and control of monopolies and concentration of economic power, through mergers and acquisitions. Specifically, the conducts prohibited include price-fixing, collusion, bid rigging and the formation of cartels. The Fair Trade Practices Act (1994) also prescribed rules for the protection of the interest of consumers and prohibited misleading or deceptive conducts and imposed the obligation to label prices in shops and compliance with safety standards.

*The Fair Trade Practices Act (1994) also prescribed rules for the protection of the interest of consumers and prohibited misleading or deceptive conducts and imposed the obligation to label prices in shops and compliance with safety standards.*

The institutional framework under the Free Trade Practice Act legislated two distinct organs to oversee its implementation, the Fair Trade Practices Commission and the Appeals Tribunal. The Commissioner for Trade Practices had the overall administrative responsibility for the implementation and monitoring of the Act, while the Trade Practices Tribunal was established as an appellate body to adjudicate on the appeals arising from decisions of the Trade Minister and the Commissioner (ESRF, 2001).

The amendments made to the Act in 2001 made three changes to the structure and operation of the Commission and the Tribunal<sup>16</sup>. It also created the Fair Competition Commission, composed of five commissioners (cf. one Commissioner under the previous legislation), one of which was to be a full-time Executive Chairman and the rest sharing responsibilities on a part-time basis. The changes made by the amendments were:

- (i) It sets out the requirements for the Commission regarding selection, appointment and performance of duties by the Commissioners, conflicts of interest, standards of conduct and confidentiality, selection of personnel, decision-making process of the Commission and, budget preparation and approval, all of which were non-existent before.
- (ii) It expanded the jurisdiction of the Tribunal - entitled Fair Competition Tribunal – to cover appeals against decisions made by regulatory agencies under the Surface and Maritime Regulatory Authority Act (SUMATRA) and the Energy and Water Regulatory Authority Act (EWURA), both of 2001, and harmonised the powers of these Authorities with those of the Competition Act.

The foregoing institutional mechanisms are in the process of being set up and are not yet operational.

### 2.7.2 Application

*The valiant and commendable efforts to ingrain a business environment that is as competitive as it is adequately regulated, appeared to be hampered by the absence of a competition policy to guide them.*

In terms of application, Tanzania has had little experience or jurisprudence in the regulation and arbitration of competition matters and would need to take advantage of precedents and procedures developed in other jurisdictions, given its relatively recent adoption of market-based development policies. For instance, between 1998 and 1999, the Fair Trade Practices Commissioner dealt with only seven cases. Moreover, despite the valiant and commendable efforts to ingrain a business environment that is as competitive as it is adequately regulated, these efforts appeared to be hampered by the absence of a competition policy to guide them.

This is manifested in the presence of other bodies that were designed to regulate activities in specific sectors, without apparent or obvious linkages with the main competition regulation. As a result, the emerging pattern of regulating competitive behaviour, or otherwise, seems to be that of a three-tiered structure, with sectoral policies (tier 2) guiding the legislation (tier 3) in the respective sectors<sup>17</sup> and a national competition legislation (tier 1) to provide the overall regulatory framework.

The budget and time constraints could not allow a thorough investigation of how these different sectoral legislations and their policies, where applicable, feed into and are informed by the Fair Competition Act. But it suffices to say that it would be relatively more ideal if the Act was guided by an overall competition policy, preferably drawing from and/or informing, wherever and whichever is applicable, the sectoral policies. The formulation of a national competition policy is, therefore, imperative.

### 2.8 Labour Market Regime

*The Immigration Act is currently perceived by the investor community to augur well with their needs for expatriate personnel to fill the gaps of personnel not available in the country.*

Tanzania's labour laws are fragmented, old and have been subjected to many amendments, which make referencing difficult. Except for the regulations governing immigrant labour and expatriate personnel (Immigration Act of 1995 which came into force in 1998), no major changes in labour legislations have been made since 1965 (Maenda, 2000). The Immigration Act is currently perceived by the investor community to augur well with their needs for expatriate personnel to fill the gaps of personnel not available in the country.

*Prevailing employment laws are not yet fully capable of supporting a modern private sector economy. Terminating employees is relatively complicated and difficult, due to the high threshold of proving an employee's incompetence, negligence or criminal acts.*

This implies that prevailing employment laws are not yet fully capable of supporting a modern private sector economy. This has often given rise to a number of grievances from both parties. Many investors have complained about the outdated labour laws, which, in their opinion, make the cost and number of worker benefits relatively high. There are also lamentations that terminating employees is relatively complicated and difficult, due to the high threshold of proving an employee's incompetence, negligence or criminal acts. Most investors try to get around this problem by utilising the recent changes in labour regulations. This allows employers to sign short-term contracts (three-months, one- two-year) with employees<sup>18</sup>, as provided in the Employment Ordinance. However, employees feel that abiding by the provisions of the existing labour laws would tantamount to exploitation, hence the preference to enter into voluntary agreements with employers, especially with new owners of divested public firms.

The Government recognises this limitation in its labour legislations. The Ministry of Labour, with the support of Denmark, has thus begun to reform labour laws. It is doing this through simplification of existing legislation and processes, especially in relation to employee dismissal, and reviewing and adjusting the role of the Industrial Court and making other changes to bring in Tanzania into line with best practice standards in its competitor countries. This greater flexibility in employment is essential in the context of exports from Tanzania in the cyclical global economy (UNCTAD, 2002).

## **2.9 Environmental Regulations**

There is a growing awareness at the national level of the environmental consequences of unplanned and unregulated economic and commercial developments, especially in sensitive coastal and rural areas of Tanzania which are important to its growing tourism economy and areas near manufacturing and mining establishments.

*Awareness of the link between development and environmental issues led to the passing of the Act of Parliament No 19 of 1983, which established the National Environmental Management Council.*

This awareness of the link between development and environmental issues led to the passing of the Act of Parliament No. 19 of 1983, which established the National Environmental Management Council (NEMC) to:

- (i) Formulate policy on environmental management;
- (ii) Co-ordinate activities of all bodies concerned with environmental matters;
- (iii) Evaluate the existing and proposed environmental policies;
- (iv) Recommend measures to ensure that developmental plans take adequate account of environmental effects;
- (v) Foster co-operation between the government and other bodies engaged in environmental programmes;
- (vi) Stimulate public and private participation in the beneficial use of natural resources;
- (vii) Seek advancement of scientific knowledge of changes in the environment;
- (viii) Specify standards, norms and criteria for protection of the quality of the environment and ensure beneficial uses;
- (ix) Establish and operate a system of documentation and dissemination of information;
- (x) Formulate proposals for legislation in the area of environmental issues;
- (xi) Establish and maintain liaison with international organisations in environmental matters; and
- (xii) Promote general environmental education programmes.

Major activities undertaken by the NEMC were the preparation of the National Environmental Action Plan (NEAP) in 1994 and the formulation of the National Environmental Policy in (NEP) in 1997. The NEP is designed to provide a framework for co-ordination and consultation among various stakeholders on environmental issues. Its goal is to ensure that sustainable development, i.e., which maximises long-term welfare of both the present and future generations, is achieved.

*Each relevant ministry is required to designate an officer responsible for environmental matters.*

Its underlying principles are the need to balance accelerated economic growth with sustainable use of natural resources, which, in turn, calls for the integration of environmental management considerations in all sectoral areas of policy and action. The institutional framework for implementing both the Plan and the Policy is based on the strategy of creating sectoral inter-linkages, under the direction of the Vice President's office.

Each relevant ministry is required to designate an officer responsible for environmental matters, develop its action/implementation plan and periodically report on the progress of the NEAP, which has to be revised after every three years. The VP's office is to publish an annual environment protection plan. The implementation of the plan is overseen by the NEMC.

Despite this elaborate environmental policy and framework, the existing arrangements are not clear on procedures or the accompanying institutional framework for ensuring that investment undertakings that have a high potential impact on the surrounding environment are preceded by environmental impact assessments (EIAs). Business/investment registration processes outlined in the Investor's Guide are silent on the need and procedures to follow, if one needs to check on the environmental soundness of the ventures.

*FDI projects guaranteed by Multilateral Investment Guarantee Agency (MIGA) must undertake EIAs, especially for those in the mining, oil and natural gas sectors and tourism projects in wildlife parks and coastal areas.*

However, UNCTAD (2001) notes that there is an increase in national awareness on the environmental consequences of unplanned and unregulated economic and commercial developments and that it is now standard practice for major FDI projects in Tanzania to undertake EIAs in advance of construction. FDI projects guaranteed by Multilateral Investment Guarantee Agency (MIGA) must undertake EIAs, especially for those in the mining, oil and natural gas sectors and tourism projects in wildlife parks and coastal areas.

## **2.10 Fiscal Regime Facing Investors**

*Even after more than a decade of reforms, there is still a need to simplify and rationalise the tax system and structure in Tanzania.*

Tax reforms in Tanzania have aimed at simplifying the tax system, enhancing revenue collection and, at the same time, creating a business and investor-friendly environment. However, despite the reforms that have been undertaken, there are still complaints that the tax system is complicated, unfair and laden with multiple tax rates, which increases the cost of doing business tremendously. This suggests that even after more than a decade of reforms, there is still a need to simplify and rationalise the tax system and structure in Tanzania.

The main taxes that investors are subjected to are summarised in Table 2.2. But, in addition to these taxes, there are also other local licences, permit duties and levies throughout the country, depending on the nature and locality<sup>19</sup> of the business.

<b>Table 2.2: Main Taxes Affecting Business and Investment Activities</b>	
<b>Name of Tax</b>	<b>Rate</b>
<b>Taxes Due to the Central Government</b>	
<b>Corporate tax</b> Levied on all resident and non resident corporate bodies*	30%
<b>Personal Income Tax</b> These rates are applicable to sole traders, partners, directors and salaried employees. There are four individual tax rate bands for the Mainland and 11 for Zanzibar Isles, but the highest and lowest marginal tax rates are the same.	Ranges from 17.5- 30%
<b>Skills and Development Levy</b> Employers who employ more than four employees pay this levy	6% of the gross emoluments paid to employees during the month
<b>Capital Gains Tax</b> Charged on the gain from sale of any interest held on premises or any financial asset	10%
<b>Withholding Tax</b> This is levied on several kinds of transactions, as follows: Dividends income from unlisted companies Dividends income from companies listed in DSE Loan interest Insurance commission Rental income Management or professional fee Royalty fees Pension or retirement annuity exceeding TZS 5,000 Overland transport Shipping Rent premium Technical services (wages and salaries for consultants, and management fee up to 2% operating costs)	10% 5% 15% 7.5% 15% 20% 20% 15% 4% 1.95% 15% 3% 3%
<b>Import Duty</b>	0%, 10%, 15%, 25%
<b>Excise Duty</b> Charged on specific or <i>ad valorem</i> tax rate on certain imported and locally manufactured consumer goods	Range 10-30%
<b>Suspended Duty</b> Levied on few products, as a measure against dumping	Range 10-50%
<b>Value-added Tax</b> Consumption Tax on Goods and Services It is a multi-stage tax levied at each stage of the production and on most of imports. Any business with more than TZS 20,000,000 (US\$0.019mn) turnover per annum is required to register for VAT Purposes	20%
<b>Stamp Duty</b> Charged on all instruments listed in the schedule to the Stamp Duty Act 1972, as follows: Receipts of non-VAT registered traders Adhesive stamps [usually to authenticate legal instruments] Registration of security of mortgage Lease agreements	1.2% of the turnover 4% of the selling price TZS. 10,000 (US\$0.09mn) Lower of TZS. 10 million or 0.96% of the value
<b>Car Benefit Tax</b> Levied on all public and private commercial companies that own saloon cars, station wagons and/or pick-ups not exceeding 2 tons	TZS. 100,000 (US\$97mn) per annum
<b>Taxes due to the Local Government</b>	
<b>Development Levy</b> Broad-based levy paid by individuals and business enterprises in each local authority	1.0% of the income
<b>Property Tax</b> This is charged on owners of property in most urban councils in the country	0.15% of rateable value
<b>City Service Levy</b> Demand-driven non-discriminatory user charge levied by the relevant local authority. All corporate entities paying this levy are exempt from paying producers cess.	0.3% of turnover
*Except holders of TIC certificate of Incentives <i>Source: Tanzania Investor's Guide: 2002 and Beyond</i>	

## **2.11 Intellectual Property Rights Regulations**

### **2.11.1 The Legal and Institutional Framework**

In Tanzania, the Business Registrations and Licensing Agency (BRELA) administers the intellectual property laws, through its Intellectual Property Division. Other institutions are the Ministry of Industries and Trade, which remains the parent Ministry, and the Commercial Court, which has the authority to deal with intellectual property rights (IPR) issues in a timely manner.

Intellectual property rights are traditionally divided into two branches: industrial property and copyright. Industrial property includes inventions (patents), trademarks, industrial designs and geographic indications of sources, while copyrights include literary and artistic works (novels, poems, plays, films, musical and artistic works, drawings, paintings, photographs, sculptures and architectural designs).

### **2.11.2 IPR Legislation**

#### **(a) Industrial Property**

##### **(i) Patents**

*Patents are to be granted for ten years, renewable for two periods of five years each. Trade and Service Mark Protection is granted for ten years, renewable thereafter for seven-year periods.*

Patents Act No. 1 of 1987 governs this. Prior to the enactment of this law, the procedure was limited to the re-registration of patents that had been registered elsewhere, especially in the UK. Under this law, patents are to be granted for ten years, renewable for two periods of five years each.

##### **(ii) Trade Marks**

The Trade and Service Marks Act No. 12 of 1986 governs trademarks. Under this law, Trade and Service Mark Protection is granted for ten years, renewable thereafter for seven-year periods.

##### **(iii) Industrial Designs**

The Standards Act of 1975, the Tanzania Commission of Science and Technology Act of 1986 and the Protection Ordinance Cap 219 govern regulations on industrial designs.

#### **(b) Copyright**

The Copyright and Neighbouring Rights Act No. 7 of 1999 governs copyrights regulation in Tanzania. This law covers artistic, literary and broadcast copyrights and provides for the protection of folklore. One of the major changes ushered in by this law was that, for the first time, infringement of copyrights was made a crime. Copyright protection is for the life of the author(s) or surviving author(s), if co-authored, plus 50 years. Applied art is protected for 25 years from the date of creation, while anonymously published and audio-visual works are protected for 50 years from the date of publication.

### **2.11.3 Enforcement of Property Right Laws**

Despite efforts undertaken to establish an elaborate legal and institutional framework for IPR administration and regulation, the enforcement of intellectual property rights regulations is still weak. This is because these efforts were not accompanied with requisite human and institutional capacity building<sup>20</sup>. Weaknesses in enforcement mechanism have led to non-compliance or, at best, compliance only in part in adhering to IPR laws.

*Literature on IPRs indicates that the ways in which IPRs influence FDI are as complex, as they are subtle and, on their own, strong IPR enforcement does not guarantee flows of FDI.*

Weaknesses in enforcement of intellectual property infringements need to be addressed, since IPRs are important for FDI, especially in relation to practical protection of brands, logos, technology products, etc., the loss of which has been a cause of concern for many capital-exporting countries. It is, however, worth pointing out that literature on IPRs indicates that the ways in which IPRs influence FDI are as complex, as they are subtle and, on their own, strong IPR enforcement does not guarantee flows of FDI.

#### **2.11.4 International Agreements**

Tanzania is a member of the WTO and African Regional Industrial Property Organisation (ARIPO). As a member of the ARIPO, Tanzania refers patent applications to ARIPO for preliminary and substantive searches and registration. It is also a member of the World Intellectual Property Organisation (WIPO). WIPO focuses on promoting international co-operation in intellectual property protection, creates model laws for adoption by developing nations and ensures national legislations are enforced in them.

Tanzania is also a member of the International Union of Protection of Industrial Property Rights (Paris Union) and International Union of the Protection of Literary and Artistic Works (Berne Union). It is also party to the Harare Protocol on Patents and Industrial Designs, the Banjul Protocol on Trademarks, the Madrid Agreement on Trademarks and the Patent Cooperation Treaty and numerous other key international protocols on governing the creation, ownership and litigation of IPRs.

#### **Issues for Comments**

- (i) To what extent has the government been successful in implementing the policies intended to enhance FDI flows and ensuring benefits from them?
- (ii) Much as Tanzania undertook to reform its tax system, the fiscal regime is still said to be too complex and is not growth oriented. What should the government do to ensure that the tax regime is less cumbersome to the investor?
- (iii) The present labour market regime is not in tune with the market requirements. What should be done to improve it?
- (iv) How best should the competition law be made comprehensive?
- (v) Should the government use incentives for best practices rather than regulations to promote environmentally sound investment practices?
- (vi) It is argued that in Tanzania there is weak enforcement of intellectual property rights. What approaches could be used to improve enforcement of intellectual property rights?
- (vii) Tanzania is still lacking adequate capacity in trade and international negotiations. Given this limitation, how well does Tanzania benefit from the international and regional trade arrangements?



## Tanzania Investment Policy Audit

### 3.1 National Investment Promotion Policy

*The objectives of this policy were to ensure that an environment that would attract and promote both local and foreign investment is created.*

A specific national policy, "The National Investment Policy", to address investment issues was first formulated in 1990. The objectives of this policy were to ensure that an environment that would attract and promote both local and foreign investment is created. The government's intention in formulating the policy was to ensure that investment would be promoted in a manner that would:

- (i) Foster utilisation of the nation's natural and other resources;
- (ii) Maximise foreign resource inflows through export oriented activities;
- (iii) Discourage debt accumulation;
- (iv) Facilitate substantial foreign exchange savings through efficient import substitution;
- (v) Facilitate increase in food production;
- (vi) Foster linkages among various economic sectors;
- (vii) Foster transfer of appropriate technology;
- (viii) Develop human resource;
- (ix) Promote balanced and equitable growth throughout the country; and
- (x) Enhance the development of economic cooperation within Eastern and Southern Africa.

*Tanzania joined the International Centre for Settlement of Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA), to consolidate guarantees and give confidence to the private investors.*

In addition, the government specifically enacted a new Investment Promotion and Protection Act in 1990 that offered a variety of incentives and legal guarantees. There were, *inter alia*, tax holidays and exemptions, foreign exchange benefits and rights to land.

To enhance the legal framework for arbitration of investment disputes, Tanzania joined the International Centre for Settlement of Investment Disputes (ICSID) and the Multilateral Investment Guarantee Agency (MIGA), to consolidate guarantees and give confidence to the private investors. The Act provided a legal and regulatory framework for investments and laid out a broad and comprehensive schedule delineating priority investment areas, controlled areas (requiring certain minimum amount of foreign investment), reserved areas (for public sector), and those activities which were reserved for local investors.

*Within five years some weaknesses in the policy and legislation that translated into discouraging signals for private investors began to emerge. Five main weaknesses were identified.*

In an attempt to establish an elaborate institutional framework, an autonomous organ of the government to oversee investment activities, the Investment Promotion Centre (IPC), was established in the same year. These encouraging trends notwithstanding, within five years some weaknesses in the policy and legislation that translated into discouraging signals for private investors began to emerge.

Five main weaknesses were identified. First, the frequent changes that were being made to the provision of investment policy and code reduced the credibility of both the policy and the code. Second, there was an apparent lack of coordination between the IPC and other agencies dealing

*There were some administrative weaknesses that limited effective attraction of foreign investors and created discontent among the domestic investors who perceived that investment incentives were biased against them, but favoured foreign investors.*

with foreign investment, and as a result the IPC certificates added to, rather than reducing, the long list of permits/licences that investors required in order to establish their businesses. Third, there were some administrative weaknesses that on the one hand limited effective attraction of foreign investors and on the other created discontent among the domestic investors who perceived that investment incentives were biased against them, but favoured foreign investors. Fourth, the relatively large size of the area reserved for public investment contradicted the government's declared resolve to promote the development of the private sector. Fifth, there existed several laws and regulations that came into direct conflict with some of the provisions of the Act.

To rectify this situation, both the Act and Policy were reviewed and in 1996 a new National Investment Policy was put in place to replace the one adopted in 1990. This policy outlined the framework with which the following objective could be achieved:

- (i) Promotion of exports;
- (ii) Facilitation of new technologies;
- (iii) Optimisation of foreign exchange inflows/earnings;
- (iv) Equitable and balanced development in the country; and
- (v) The establishment of a transparent legal and regulatory framework.

A new Act, the Tanzania Investment Act of 1997, was enacted to provide the legal framework within which to operate the new investment policy. Under the new code, investment approvals were given on a non-discriminatory basis, provided a minimum sum to be invested was met by local and foreign investors (cf. 1990 Act in which the investment categories were delineated). The only categorisation made under this code is that of opportunities in which sectors are categorised as either lead or priority sectors based on the importance attached to the respective sector's potential to trigger a rapid and sustainable growth process in the country.

*The lead sectors have been identified as agriculture and agro-based industries, mining, tourism, petroleum and gas as well as economic infrastructure.*

The lead sectors have been identified as agriculture and agro-based industries, mining, tourism, petroleum and gas as well as infrastructure<sup>21</sup>. Priority sectors include manufacturing, natural resources such as fishing and forestry, aviation, commercial buildings, financial services, transport, broadcasting, human resource development, and export promotion projects – export processing zones (EPZ). Efforts to establish EPZs in mainland Tanzania have been underway since 1990s.

The EPZ law was enacted in 2002 and the National Development Corporation (NDC) has been appointed to supervise the establishment of the zones. Given the large resource requirement for the EPZ, the government has decided to delineate areas where zones could be established and offer these as investment opportunities to the private sector providing the land and the required legislation with which necessary infrastructure will be developed by private investors. It is expected that EPZ status would also be given to individual factories that have the potential to export 80 percent or more of their production. However, arguing that the EPZ is likely to undermine the tax revenues, the World Bank has shown opposition to the EPZ law.

The 1997 Investment Act also sets out a minimum period of 14 days in which relevant government agencies are supposed to process applications and provide a framework through which land can be acquired, incentives spelt out and revenue laws assessed. However, the provisions of this Act

are not applicable to:

- (i) Investment in mining and oil exploration currently covered under the Mining Act of 1998 and the Petroleum Exploration and Production Act of 1980 respectively;
- (ii) Investment in Zanzibar which are administered under a separate legislation applicable in Zanzibar only; and
- (iii) Investment below US\$300,000 for foreign investors and US\$100,000 for local investors (wholly owned or joint venture).

Foreign investors, in terms of natural persons, are defined as persons who are not citizens of Tanzania. For companies or corporate bodies, foreign investors are defined as companies incorporated under the law of any country other than Tanzania and where a person(s) who is(are) not a Tanzanian holds more than fifty percent of the shares. In the case of partnerships, foreign investors are defined as those in which a Tanzanian does not own controlling interests.

*The TIC is expected to coordinate, encourage, promote and facilitate investment in Tanzania and advise the Government on investment policy and related matters.*

The TIC was established under the new investment code to serve as a “One-stop Investment Promotion Agency” in the country. The TIC is expected to coordinate, encourage, promote and facilitate investment in Tanzania and advise the Government on investment policy and related matters. The TIC is required to serve all investors, including those who are not bound by the provisions of the Tanzania Investment Act of 1997, to obtain the necessary permits, licences, approvals, consents, authorisations, registrations and other matters required by the law to enable them to set up and operate their investments.

## **3.2 Investing in Tanzania**

### **3.2.1 The Registration Process**

In order to set up a business, a number of general approvals, licences and permits are required. At the beginning, in the mainland, all enterprises, regardless of their legal form need to register their operations with the BRELA to acquire Certification of Incorporation or Certificate of Compliance for a local company or a foreign company respectively. They also need to register to the same for Trade/Services Marks Certificate and Business Licence. However, operations in various sectors require sector specific licences as well.

*In order to set up a business, a number of general approvals, licences and permits are required. Operations in various sectors require sector specific licences.*

Most businesses are also required to register with the Tanzania Revenue Authority (TRA), Income Tax and/or Value Added Tax (VAT) departments. The investor will be issued with a Taxpayer Identification Number (TIN). The TIN is needed for registration or transfer of title deeds, issuance of trade and industrial licences, registration of motor vehicles, securing work permits, contracts of service/supply especially with the government ministries and independent agencies, registration for VAT and importation of goods, customs and clearing and forwarding, etc.

For investors who need land, since land in Tanzania belongs to the state, investors can acquire right of occupancy to land in three ways:

- (i) Through government granted right of occupancy to land;
- (ii) TIC derivative rights; and
- (iii) Sub-leases granted out of right of occupancy by the private sector.

Such occupation of land by non-residents is restricted to land for investment purposes only.

Those investors who need to deploy foreign personnel need to apply for resident permits. To facilitate the registration process, the TIC is permanently housing senior officers from the Department of Lands, TRA, Immigration Department, Labour Division, Directorate of Trade and BRELA. Moreover, the TIC also provides facilitation services by way of processing the applications for various permits and approvals upon submission of relevant documents at a minimal fee. Investors have the option, however, of either using TIC or lawyers of their choice to assist them in setting up their companies.

*TIC provides facilitation services by way of processing the applications for various permits and approvals upon submission of relevant documents at a minimal fee.*

In Zanzibar, all FDI applications and advices are handled by the Zanzibar Investment Promotion Authority (ZIPA) staff, who liaises with relevant Union Government Ministries where required. The licensing procedure and documentation requirements are fairly straightforward. Nevertheless, there are certain categories of investments in Zanzibar that are reserved for local investors only. These include retail and wholesale trade in services, product brokerage, operation of taxis, barbershops, hairdressing and beauty parlours, butcher shops and ice cream manufacturing.

### **3.2.2 Investment Incentives**

The following fiscal incentives are guaranteed to the investors through the TIC.

- (i) Favourable investment allowances and deductions (100 percent) on industrial buildings, plant and machinery and agriculture expenditure;
- (ii) Deferment of VAT payment on project's capital/assets;
- (iii) Import duty drawback on imported raw materials;
- (iv) Zero-rated VAT on manufactured exports;
- (v) Straight line accelerated depreciation allowance in capital goods;
- (vi) Yearly appreciation of non-recoverable capital investment in mining;
- (vii) A five year carry over of all business losses against future profits;
- (viii) The right to transfer outside the country 100 percent of foreign exchange earned and profits; and
- (ix) Reduced import tariff on project capital items, 5 percent import duty for investment in priority areas and zero percent of the same for investment in lead sectors.

The TIC also grants certificates of incentives to bonafide investors. The certificates confer to their holders the following incentives in addition to the fiscal incentives:

- (i) The recognition of private properties and protection against any non-commercial risks;
- (ii) Fast track service to obtain permits such as residence and work permits; and
- (iii) Recognition of the strategic investor status so that assistance from all government ministries is offered in a timely and efficient manner.

Majority of the incentives offered have a base and are delivered through reduction in or exclusion from tax or duty payments to investor's fiscal obligations in lead and/or priority sectors meeting the threshold level of investments stipulated in the National Investment Act. However, the amendments that have been made to the Finance Bill almost annually since 1997 to curb tax avoidance and evasion have gradually been harmonising fiscal incentives, eliminating differences in incentives offered to investors in the different categories of investment opportunities. These amendments have made award of investors' benefits more automatic and have gradually eroded the role of Certificate of Incentives that are given to investors in the lead and priority sectors of the economy.

### 3.2.3 Dispute Settlement

The 1997 Investment Act provides for negotiation and settlement of disputes between Tanzania and foreign enterprises and the TIC and the central government. Upon failure to reach amicable settlement through this channel, arbitration can be sought through the national laws and through ICSID. Efforts made to strengthen and streamline arbitration through national laws have led to the formation of the Commercial Court in 2000 to expedite litigation of commercial disputes.

*Efforts made to strengthen and streamline arbitration through national laws have led to the formation of the Commercial Court in 2000 to expedite litigation of commercial disputes. Lack of transparency and timely resolution of commercial disputes continue to be the prime weaknesses for settlement of investment and business related disputes at the national level.*

However despite these efforts, UNCTAD's (2001) assessment reveals that difficulties in enforcing contractual obligations especially in relation to debt collection from local customers of foreign affiliates and lack of transparency and timely resolution of commercial disputes continue to be the prime weaknesses in the framework that is currently used for settlement of investment and business related disputes at the national level.

## 3.3 Bilateral/Regional Agreements on Investments

### 3.3.1 Bilateral Investment Treaties

Tanzania has bilateral treaties for promotion and protection of FDI with the United Kingdom, Switzerland, Germany and Swaziland.

### 3.3.2 Bilateral Investment Treaties for Avoidance of Double Taxation

Tanzania has also signed bilateral investment treaties for avoidance of double taxation with Denmark, India, Italy, Norway, Sweden, Zambia, Finland, Kenya and Canada.

#### Issues for Comments

- (i) What approaches are more likely to help Tanzania coordinate its incentives schemes more effectively so as to deter abuse of incentives?
- (ii) The Tanzanian judicial system is criticised for its lack of objectivity and timeliness in settling of investment disputes. What should be done to resolve this situation?
- (iii) Tanzania is a signatory to Bilateral Investment Treaties (BITs). How effective is its participation in such international frameworks?
- (iv) The Tanzania Investment Centre (TIC) is now operating as a one-stop centre in investment facilitation in the country. To what extent has the Centre been efficient in achieving its stated objectives?
- (v) Apart from the Centre's role of approving and facilitating investments, is there a scope for the Investment Centre to undertake the role of regulating and monitoring FDI in the country?



## CHAPTER-4

# Evaluation of Foreign Investment Policy Regime

The aim of promoting investments as gleaned from key policy documents (Vision 2025, PRSP, National Investment Policy for 1996), is to facilitate sustainable long-term poverty reducing economic growth in the country and to foster smooth and beneficial integration of the Tanzanian economy into the global economy. Any efforts to fight poverty therefore aim at empowering the affected populace with economic, social and political weapons to mane their environment effectively. They will need to engage themselves in income generating activities, acquire the requisite skills to engage in these activities in a manner that will yield optimal output and an environment that provides them with the freedom, flexibility and choice in organising themselves to engage in such activities.

*Tanzania has succeeded in creating the necessary initial conditions to attract FDI. Investors often cite red tape in investment establishment as one of the disturbing hurdles.*

Following the liberalisation of the economy and efforts to create an enabling environment for investment, Tanzania has been striving to establish a clear policy of openness to both foreign investment and trade. Efforts have also been made to improve public private sector dialogue on investment issues, as part of the efforts to facilitate the role that private investments can play in the development of the country. Tanzania has thus succeeded in creating the necessary initial conditions to attract FDI.

However, there are still hurdles that investors face in the country. Specifically investors often cite red tape in investment establishment as one of the disturbing hurdles. Most of the decisions pertaining to investment are made at the central government level. Moreover, some of the key business licences and permits are issued in Dar-es-Salaam at the headquarters of respective agencies, which means that regardless of investment location, investors will have to travel to Dar-es-Salaam to obtain them.

*A possible solution in this case would be for TIC to devise some ways to extend its services to other regions of the country, so that its services can reach various regions and reduce costs to investors.*

The process of obtaining investment clearances/approvals, as a result, becomes time consuming and costly to investors. There have been some calls to rectify this situation through decentralisation of some of these licensing procedures so as to ease the burden of investors having to go all the way to Dar-es-Salaam to handle licensing and other pertinent issues. A possible solution in this case would be for the TIC to devise some ways to extend its services to other regions of the country, possibly through subcontracting of officers in respective local governments at the initial stages, when it is not yet able to establish branches, so that its services can reach various regions and reduce costs to investors.

Continuous revisions and improvements are being made to regulations and procedures that are aimed at improving the business environment in the country. The Minister for Planning and Privatisation announced in January 2002, that despite the country's satisfactory performance in attracting FDI, a review of the 1997 Investment Act was imminent to iron out the bureaucratic hurdles that the provisions of the current act have

***Recent initiatives to strengthen the investment facilitation process have involved the high echelons of the government through the formulation of the National Investment Steering Committee under the chairmanship of the Prime Minister.***

not been able to address. This in itself is an important indicator of the importance that the authorities are attaching to promotion of investment activities. Recent initiatives to strengthen the investment facilitation process have involved the high echelons of the government through the formulation of the National Investment Steering Committee (NISC)<sup>22</sup>, which is under the chairmanship of the Prime Minister. The NISC is charged with the responsibility of providing speedy rectification when hurdles arise in investment promotion.

These developments are encouraging. However they are not matched with equal efforts to assess the benefits of foreign investment that are accruing to the country from the upsurge of flows of FDI. Efforts need to be made to assess the impact of these flows in terms of their contribution to the country's development process and availing development finance, technological and technical expertise and facilitating access to export markets for locally produced goods. The omission of the representation of the Ministry of Science and Higher Education in the NISC is one of the indications that more efforts are directed at promoting and facilitating investments in comparison to efforts that are directed at ensuring that investment activities that are being promoted, augment the nation's development aspirations.

***It is important to create a forum that can facilitate exchange of information and ideas that could enhance Tanzania's ability to generate reliable and consistent data sources.***

A key tool in monitoring and assessment of investment is consistent information. Currently there are a number of sources generating data on investment activities. Consistency between these data sources however remains suspect and although the data collecting agencies may have different purposes when collecting this information, it is still important to create a forum that can facilitate exchange of information and ideas that could enhance Tanzania's ability to generate reliable and consistent data sources.

In addition, there has been a perception that investment promotion efforts have been biased towards attracting foreign investors at the expense of local investors who have almost been neglected. Promotion of foreign investment should go hand in hand with the promotion of domestic investment. Foreign investment should complement rather than replace domestic investment if their contribution to the economy is to be sustainable. Moreover, this will facilitate more growth, which is itself a key determinant of foreign investment flows, due to the effect it has on market power.

***There has been a perception that investment promotion efforts have been biased towards attracting foreign investors at the expense of local investors who have almost been neglected.***

Efforts should therefore be made to facilitate domestic resource mobilisation especially through increasing the level of savings so that investments can also be financed locally. It is encouraging to see that TIC is working on this anomaly. TIC has issued various statements encouraging private domestic investors to make the most of the abundant profitable investment opportunities and is indicating that special efforts are being made to ensure that due attention is given to the promotion and facilitation of private domestic investment by the centre.

### Issues for Comments

- (i) What approaches can the government use to ensure that the benefits of FDI are more felt by the local community?
- (ii) How well can the bias towards foreign investors at the expense of local investors be addressed for sustainability of local investment in the country?
- (iii) Do we need more regulations or better interventions in investment practices?
- (iv) How well can policies be used to ensure that FDI practices augur well with our national development aspirations?
- (v) What approaches can be used to generate consistent and quality information on investment activities in the country?



## Analysis of Civil Society Survey

### 5.1 The Sample for the Survey

*A survey of civil society was undertaken to obtain the views of the civil society regarding the developments in the investment climate of the country.*

A review of literature on reforms reveals that Tanzania has done a tremendous job in creating an environment that is conducive to investment in the country. These efforts have been coupled by deliberate policy changes and formulation of new policy documents, including sectoral policies, for the purpose of facilitating the process of creation of an enabling investment environment. A survey of civil society was undertaken to obtain the views of the civil society regarding the developments in the investment climate of the country following these policy changes.

Questionnaires were sent to a sample of six types of civil society organisations, namely: trade unions, business associations, NGOs, religious organisations, representatives of the academia and the media. The respondents were asked to provide their perceptions on a number of issues related to FDI policy and performance. This section therefore draws from this survey conducted between the month of October and December 2002. Fifty questionnaires were collected from this survey.

#### 5.1.1 Perceptions of the Contribution of FDI to National Economic Development

*An analysis of the civil society responses revealed that the civil society perceives that foreign direct investments have made significant contributions to the national economy in the last decade.*

An analysis of the civil society responses revealed that the civil society perceives that FDI has made significant contributions to the national economy in the last decade, and even more so in the last two to five years. This perception is in line with the recent developments in the investment environment in the country. The sectors that are perceived to have had significant inflows of FDI are mining, tourism, natural resources and manufacturing/industry. Commerce/trade/business was ranked the fifth most important sector followed by social services, which is the sixth. Communications, financial sector, agriculture, transport and production activities by the central government follow in importance after social services. Table 5.1 below summarises the civil society's responses about the contribution of FDI to the national economic development in the last decade.

	<b>Yes</b>	<b>No</b>
(a) In the past 2 years	79	21
(b) In the past 5 years	85	15
(c) In the past 10 years	63	37

#### 5.1.2 Perception of Economic Impact of FDI

The civil society's perception regarding economic, social and environmental impact of FDI is that the economic impact of FDI has been more pronounced in tourism, natural resources, manufacturing, and mining

sectors compared to the remaining sectors such as communication and transport, social services, agriculture, financial services, and commerce/trade. See table 5.2.

*The perception among the civil society is that FDI has contributed much more in tourism and natural resources, manufacturing and social services as compared to the remaining sectors.*

### 5.1.3 Perception of the Social Impact of FDI

With regard to the social impact of FDI, the survey results revealed that the perception among the civil society is that FDI has contributed much more to the tourism and natural resources, manufacturing and social services as compared to the remaining sectors. The impact of FDI on the society in the remaining sectors is perceived to have been positive, but only minimal. See Table 5.3.

Sector	Strong Positive Impact (%)	Weak Positive Impact (%)	Little or No Impact (%)	Weak Negative Impact (%)	Strong Negative Impact (%)	Total Response (%)	Total Number of Responses	Total Index Value*
Mining	36	27	18	9	9	100	33	20%
Tourism and Natural Resources	32	53	12	3		100	34	29%
Manufacturing/Industry	31	49	14	6		100	35	27%
Social Services	14	86	0	0	0	100	7	26%
Commerce/Trade/Businesses	36	27	18	18		100	11	24%
Communications and IT	50	25	25	0	0	100	8	35%
Other Services	0	67	33	0	0	100	3	13%
Financial Sector	50	17	33	0	0	100	6	33%
Agriculture	13	38	50	0	0	100	8	15%
Transport and Communication	20	80	0	0	0	100	5	28%
Central Government	0	0	100	0	0	100	1	0%

\*Index Value = [3 x % of Strong Positive Responses + 1x% of Weak Positive Responses + 0x% of Insignificant Responses + (-1) x % of Weak Negative Responses + (-3) x % of Strong Negative Responses]/5

Sector	Strong Positive Impact (%)	Weak Positive Impact (%)	Little or No Impact (%)	Weak Negative Impact (%)	Strong Negative Impact (%)	Total Response (%)	Total Number of Responses	Total Index Value*
Mining	9	31	28	25	6	100	32	3%
Tourism and Natural Resources	30	48	15	6	0	100	33	27%
Manufacturing/industry	0	52	36	9	3	100	33	7%
Social Services	38	63	0	0	0	100	8	35%
Commerce/Trade/Businesses	9	36	27	0	27	100	11	-4%
Communications and IT	25	50	25	0	0	100	8	25%
Other Services	33	33	33	0	0	100	3	27%
Financial Sector	17	17	67	0	0	100	6	13%
Agriculture	13	38	38	13	0	100	8	13%
Transport and Communication	60	40	0	0	0	100	5	44%
Central Government	100	0	0	0	0	100	1	60%

\*Index Value = [3 x % of Strong Positive Responses + 1x of Weak Positive Responses + 0x of Insignificant Responses + (-1) x % of Weak Negative Responses + (-3) x % of Strong Negative Responses]/5

## 5.2 Perception of the Environmental Impact of FDI

*The environmental impact of FDI, while perceived to be positive and significant in tourism and natural resources, is only minimal in most of the remaining sectors.*

The survey results revealed that the civil society perception that the impact of FDI on the environment has been positive in all sectors except in mining, manufacturing and commerce/trade/business. The environmental impact of FDI, while perceived to be positive and significant in tourism and natural resources, is only minimal in most of the remaining sectors. Table 5.4 below provides a summary of the responses of the civil society on the environmental impact of FDI.

Sector	Strong Positive Impact (%)	Weak Positive Impact (%)	Little or No Impact (%)	Weak Negative Impact (%)	Strong Negative Impact (%)	Total Number (%)	Total Response Responses	Total of Index Value*
Mining	6	16	19	50	9	100	32	-9%
Tourism and Natural Resources	27	36	21	15	0	100	33	21%
Manufacturing/ Industry	0	19	39	39	3	100	33	-6%
Social Services	14	43	29	14	0	100	8	14%
Commerce/Trade/ Businesses	0	36	18	45	0	100	11	-2%
Communications and IT	13	25	38	13	13	100	8	3%
Other Services	0	33	67	0	0	100	3	7%
Financial Sector	20	20	60	0	0	100	6	16%
Agriculture	0	56	33	11	0	100	8	9%
Transport and Communication	0	40	60	0	0	100	5	8%
Central Government	100	0	0	0	0	100	1	60%

\*Index Value = [3 x % of Strong Positive Responses + 1 x % of Weak Positive Responses + 0 x % of Insignificant Responses + (-1) x % of Weak Negative Responses + (-3) x % of Strong Negative Responses] / 5

## 5.3 Perception of the Impact of FDI on Specific Parameters

*FDI is acclaimed for its ability to provide rapid access to the needed finance, technology, technical knowledge, management expertise and international markets as well as enhancing competition and employment opportunities in developing countries.*

FDI is acclaimed for its ability to provide rapid access to the needed finance, technology, technical knowledge, management expertise and international markets as well as enhancing competition and employment opportunities in developing countries. These benefits, however, are accompanied by threats. Some of the threats to host countries that have been associated with FDI inflows include:

- (i) Erosion of domestic entrepreneurial capacity and loss of jobs in domestic firms;
- (ii) Foreign firms inhibiting local entrepreneurship in competitive fields in the economy;
- (iii) Problems of balance of payments i.e. where outflows of interest incomes, dividends and profits of foreign investments induce a net capital outflow;
- (iv) Introduction of inappropriate technologies;
- (v) Crowding out of government resources when they are used to finance concessions and other special facilities to attract foreign investors;
- (vi) Loss of domestic economic autonomy, if particular policy instruments are sacrificed in defence to interests of foreign investors; and,
- (vii) Negative externalities such as environmental pollution and damage.

*FDI had positive impact on the quality and number of job opportunities and availability of new technologies.*

To gauge the perception of civil society regarding possibility of these effects occurring in Tanzania, respondents were requested to express their observations on the items presented in the first column of Table 5.5 below. The table also presents the aggregate distribution of the responses regarding the perceived impact of FDI on these specific parameters of the economy. The picture that emerges at the aggregate level is that FDI is felt to have had a positive impact on the quality and number of job opportunities and availability of new technologies; competition in the local market, opportunities for domestic businesses, quality of products available to consumers, balance of payments, environment, demonstration of better technologies to local firms and, learning and technology upgrading by local firms.

Sector	Strong Positive (%)	Weak Positive (%)	Insignificant (%)	Weak Negative (%)	Strong Negative (%)	Total Response (%)	Total Number of Responses	Total Index Value*
Quantity of jobs	29	36	20	11	6	100	141	17%
Quality of jobs	37	37	20	5	1	100	142	26%
Availability of new technologies	41	41	15	1	1	100	145	32%
Competition	43	36	14	7	1	100	149	29%
Opportunities for domestic businesses	28	32	21	12	8	100	143	14%
Quality of products available to consumers	44	39	9	6	1	100	145	30%
Prices of products for consumers	23	41	22	8	6	100	143	16%
Choice of products available to consumers	52	26	17	4	1	100	142	34%
Balance of payments of the country	25	29	38	4	5	100	128	18%
Physical Environment	16	30	28	17	9	100	140	4%
Demonstration of better technologies to local firms	30	38	23	5	4	100	146	22%
Learning and technology up gradation by local firms	27	38	25	8	2	100	134	19%

\*Index Value = [3 x % of Strong Positive Responses + 1x% of Weak Positive Responses + 0x% of Insignificant Responses + (-1) x % of Weak Negative Responses + (-3) x % of Strong Negative Responses]/5

The results of analysis of civil society impressions about the sector-specific impact of FDI on these parameters of the economy are discussed in the sections that follow. They reveal not only the positive contributions of FDI but also the negative influence that FDI has had on these parameters in different sectors.

#### **(a) Impact of FDI on Quantity of Jobs**

While at the aggregate level, the impact of FDI on the quality of jobs is seen by civil society respondents to have been positive in the country, the number of job opportunities has not grown fast enough to absorb the increasing job seekers. At the sectoral level, the impact of FDI on the quality of jobs is observed to have been positive in all the sectors except the financial, where it is negative. This impression of civil society might be attributed to entrenchments associated with privatisation and restructuring of state owned banks.

*The impact of FDI on the quality of jobs is seen to have been positive in the country, the number of job opportunities has not grown fast enough to absorb the increasing job seekers.*

The civil society perception is that the positive impact is more pronounced in the tourism and natural resource sector, followed by the mining sector and social services. The respondents felt that the impact is positive but minimal in the remaining sectors, which include manufacturing industry, commerce/trade/business, communications/IT, transport and agriculture.

#### **(b) Impact on Quality of Jobs**

On the whole civil society perception is that the impact of FDI on quality of jobs is positive in all the sectors of the economy. It is, however, perceived that the impact has been the highest in the tourism and natural resources sectors followed by mining and manufacturing/industry. Respondents ranked commerce/trade/business after the manufacturing sector in terms of the impact, followed by communications/IT and financial sector. While the impact of FDI on quantity of jobs is felt to be negative in the financial sector, the impact on the quality of jobs in this sector is thought to be positive. This impact is only seen to be minimal in the remaining sectors—social services, transport and agriculture—and this perception of civil society may be attributed to the minimum FDI inflows to these sectors.

*The impact of FDI on quality of jobs is noticed to have been positive in all the sectors of the economy. It is highest in tourism and natural resource sectors, and mining and manufacturing/industry.*

#### **(c) Impact of FDI on Availability of New Technologies**

The overall impact is viewed to be positive in all the sectors. The respondents' perception is that the impact on the availability of new technologies has been the highest in the tourism and natural resources sectors, followed by the mining and manufacturing/industry, then by commerce/business/trade, communications/IT, financial sector, social services, agriculture and transport sectors. But, despite the positive civil society perception regarding the contribution of FDI to the availability of new technologies, local entrepreneurs in most cases still lack the capacity to adopt the new technologies to their own use. Thus, technology transfer through FDI is limited in this case.

#### **(d) Impact of FDI on Competition in Local Market**

The opening up of the economy to foreign participation has led to an increase in competition in all the sectors of the economy, but the extent of competition tends to vary with sectors, size and distribution of companies. In the financial sector, for instance, it is reported that competition is stiff among few large banks that serve corporate clients and is mostly concentrated in the urban areas, where most banks are located. Civil society respondents felt that competition is stiffer in tourism and natural resources, mining, manufacturing/industry, commerce/business/trade and communications/IT sectors, compared to the rest of the economy.

*Competition is stiff among few large banks that serve corporate clients but stiffer in tourism and natural resources, mining, manufacturing/industry, commerce/business/trade and communications/IT sectors, compared to the rest of the economy.*

#### **(e) Impact of FDI on Opportunities for Domestic Businesses**

One of the advantages of FDI is that it enhances the capacity of domestic investors through competition and technology transfer. On the aggregate, the survey reveals that civil society respondents think that FDI has led to improvement in opportunities for domestic investors. At the sectoral level, however, the impact of FDI on the opportunities for domestic investors is felt by them to have been highest in tourism and natural resources, but only minimal in the remaining sectors. The impact in the mining and financial sectors is however, seen to have been negative. This perception could be attributed to the increase in competition between foreign and local companies.

*Most of the products in the country, especially from small-scale production activities, do not meet international standards, thus limiting Tanzania's capacity to access international markets.*

#### **(f) Impact of FDI on Quality of Products**

The impact on the quality of products is seen by civil society respondents to have been highly positive in tourism and natural resources, followed by mining and manufacturing/industry. It is thought that in the remaining sectors, while the impact is positive, it is only minimal. But, while this impression may be closer to the truth, there are concerns that most of the products in the country, especially from small-scale production activities, do not meet international standards, thus limiting Tanzania's capacity to access international markets.

#### **(g) Impact of FDI on Prices of Products**

The impact on prices of products were observed by the respondents to be positive in all the sectors, except in the communications/IT, where it is seen to be negative. The leading sectors that was pointed out, in this case, are tourism and natural resources, followed by mining, manufacturing/industry and commerce/business/trade.

#### **(h) Impact of FDI on Choice of Products Available**

The respondents felt that the choice of products available has increased in all the sectors due to FDI. The leading sectors that was pointed out by the respondents are tourism and natural resources, followed by manufacturing/industry, mining and commerce/trade/business. The impact is thought to be only minimal in the remaining sectors.

#### **(i) Impact of FDI on Balance of Payments**

Overall, it is perceived by the respondents that the impact of FDI on the balance of payments of the economy has been positive. The impact is thought to be minimal in almost all the sectors, except tourism and natural resources, which it is perceived to have the greatest impact.

#### **(j) Impact of FDI on the Environment**

The respondents thought that the impact of FDI on the environment is negative for the mining and manufacturing/industrial sectors. Further the responses showed that civil society thought that the impact is highly pronounced and positive in the tourism and natural resource sectors. In the remaining sectors, the impact of FDI on the environment is thought to be minimal.

*Impact of FDI on demonstration of new technologies is positive in all the sectors.*

#### **(k) Impact of FDI on Demonstration of Better Technologies**

The overall perception is that impact of FDI on demonstration of new technologies is positive in all the sectors. Most civil society respondents, however, observed that the impact is most pronounced in tourism and natural resources, followed by mining, manufacturing/industry and commerce/business/trade. In the remaining sectors, it is felt that the impact is positive, but only minimal.

#### **(l) Impact of FDI on Learning and Technology Upgrading by Local Firms**

The impression of civil society is that the extent to which FDI has improved learning and technology upgrading in local firms is greatest in tourism and natural resources, followed by mining, manufacturing and commerce/business/trade. The impact is seen to be only minimal in the remaining sectors.

### (m) Impact of FDI on revenue for the government

Civil society views the impact of FDI on revenue for the government to be positive in all the sectors. The leading sectors as ranked by the respondents are tourism and natural resources, followed by manufacturing/industry and mining. The impact is thought to be only minimal in the remaining sectors, which include business/trade, transport, financial sectors and agriculture and social services.

### 5.4 Perceptions About Potential Benefits of FDI

The analysis of the responses obtained in the civil society survey shows that the civil society acclaims FDI's potential to contribute positively to the economy. The following are some of the channels through which FDI is believed to contribute towards the development of the economy:

- (i) Bringing in valuable new technologies;
- (ii) Bringing in valuable new management techniques;
- (iv) Contributing to the competitiveness of the national economy;
- (v) Increasing access to the world market;

Positive Perceptions	Agree Strongly	Agree Partly	Neither Agree nor Disagree	Disagree Partly	Disagree Strongly	Total Responses	Total Index Value*
FDI makes up for insufficient domestic investment	11	13	12	11	3	50	10
FDI brings in valuable new technologies	16	28	4	-	-	48	44
FDI brings in valuable new management techniques	16	19	10	2	3	50	30
FDI improves the competitiveness of the national economy	21	15	7	4	2	49	30
FDI increases access to world markets	17	20	7	2	3	49	32
FDI is a valuable source of foreign capital	19	21	5	1	4	50	35
FDI helps enhance exports	19	18	8	2	2	49	33
FDI helps reduce imports	6	14	13	8	8	49	4

\*Total Index Value is calculated as follows: 'Agree Strongly or Agree Partly' is given a score of +1, while 'Disagree Strongly or Disagree Partly' is assigned a score of -1. 'Neither Agree nor Disagree' type responses get a score of 0. The scores are then summed up to give the Total Index Value.

Perceptions	Agree Strongly	Agree Partly	Neither Agree nor Disagree	Disagree Partly	Disagree Strongly	Total Responses	Total Index Value*
FDI brings in environmentally-harmful technologies	4	15	14	11	5	50	-3
Foreign investors are only interested in getting access to the domestic market	11	12	10	10	6	49	-7
FDI reduces the profitable opportunities available to domestic investors	13	12	11	6	8	50	-11
FDI results out of unfair advantages of multinational firms	10	12	14	7	6	49	-9
Foreign investors do not care about the impact of their investments on civil society	17	11	12	7	2	49	-19

\*Total Index Value is calculated as follows: 'Agree Strongly or Agree Partly' is assigned a score of -1, while 'Disagree Strongly or Disagree Partly' is given a score of +1. 'Neither Agree nor Disagree' type responses get a score of 0. The scores are then summed up to give the Total Index Value.

- (iv) Bringing in valuable foreign capital resources;
- (v) Enhancing exports; and
- (vi) Helping in reducing imports.

Nevertheless, the responses also indicate that there are concerns amongst the respondents about the possible negative impact that FDI might have on the national economy. Tables 5.6 and 5.7 indicate civil society inclination towards FDI.

From Table 5.7, it can be seen that there is concern over the possible negative implications FDI may have on the economy. Specifically, the concerns are:

- (i) FDI may be a source of environmentally-harmful technologies;
- (ii) FDI may reduce profitable opportunities available to local businesses/investors, especially where the local firms cannot compete in the market;
- (iii) Foreign investors are not concerned about the impact of their activities on the civil society;
- (iv) Foreign investors are only interested in gaining access to the domestic market; and
- (v) FDI arises out of unfair advantages enjoyed by multinational corporations/firms.

Inclination to FDI	Numbers	Percentage
Positively inclined towards FDI	38	76
Negatively inclined towards FDI	12	24
Total respondents	50	100

Generally, the measure of inclination for FDI (constructed from Tables 5.6 and 5.7) indicates that 76 percent of the respondents are positively inclined towards FDI, while the remaining 24 percent are negatively inclined towards it (see table 5.8). We could, therefore, say that civil society agrees that FDI is an important contributor to growth.

## 5.5 Country's Potential to Attract FDI

### 5.5.1 Exploitation of Tanzania's Potential to Attract FDI

Civil society thinks that Tanzania is attracting less FDI than it should, despite having peace, tranquility and political stability. The following reasons are thought to be contributing towards this phenomenon:

- (i) Poor administrative system, especially legal, and regulatory framework which is plagued by overlapping regulations that duplicate functions of agencies and increasing red tape in investment establishment;
- (ii) Poor enforcement of intellectual property rights and other regulations;
- (iii) Weak leadership in national economic planning;
- (iv) Weak information disclosure;
- (v) Corruption, which leads to high transaction costs, and therefore discourages investment;
- (vi) Weaknesses inherent in the national investment policy. Particularly, concern is expressed on the land law, tax regulations and labour laws, which are thought to be outdated;
- (vii) Poor physical infrastructure in the transport and communications sectors;
- (viii) Inadequate number of skilled personnel in the country;
- (ix) Lack of adequate promotional efforts;
- (x) Lack of a comprehensive trade policy;
- (xi) Low incomes, which imply small market prospects for future investment;
- (xii) Sense of insecurity among foreign investors in the country; and
- (xiii) Insufficient participation of the native population in the investment sector because of lack of information/awareness.

*Tanzania not only needs to have appropriate policies, but also ensure that it efficiently monitors investments it attracts, in order to ascertain their contribution to the economy.*

Some of the members of the civil society that were interviewed expressed concerns that the problem is not that Tanzania is attracting less FDI than it should, but that it lacks the appropriate strategies and mechanisms for monitoring and regulating investment activities to ensure that their benefits are felt by the society as a whole. Thus, civil society argues that Tanzania not only needs to have appropriate policies, but also to ensure that it efficiently monitors investments it attracts, in order to ascertain their contribution to the economy.

### 5.5.2 Suggestions on Efforts to Exploit Tanzania's Potential to Attract FDI

The following are suggestions that came up from the survey as to what the government should do in order to attract more FDI:

- (i) As corruption is a result of poor enforcement of contracts and lack of transparency, it is, therefore, important that contracts made with investors are not kept secret and there should be some national

*The policies of a country do have an important influence on the nature of impact and influence of FDI on the local economy and the society.*

- commission/court, an open one, to ensure that contracts are enforced;
- (ii) Several cases of failed investment that have been observed point to the possibility that the government is not ensuring in all the cases how viable the investments are, before approving them. The government should carry out a strict scrutiny of proposed investments to establish what impact they are likely to have on the economy;
  - (iii) The government should review the investment policy, particularly FDI-specific policies;
  - (iv) Red tape should be reduced in investment approval procedures. The government needs to make simple and easy-to-enforce trade regulations, including business-licensing regulations;
  - (v) Tax regulations and rates should be reviewed;
  - (vi) Review the land Act, which has been prohibiting the use of land as a collateral in securing loans;
  - (vii) Labour laws should be updated/reviewed and the mechanisms necessary for the effective functioning of labour relations in the country should be strengthened;
  - (viii) Promotional efforts should be increased and personnel dealing with investment should be educated on how to handle investment opportunities (capacity building initiatives);
  - (ix) Have policies to guide citizens to have the spirit for hard work, responsibility and commitment, including policies for capacity building for local firms to ensure competitiveness;
  - (x) The civil society and investors should be involved in a participatory policy-making process;
  - (xi) The competition policy should be strengthened;
  - (xii) Financial sector and investment-related policies should be updated, so as to reduce the cost of investment finance to investors; and
  - (xiii) Enforcement of regulations, including intellectual property rights, should be improved.

### **5.5.3 Country's Policy, Nature of Impact of FDI and Required Policy Changes**

From the impressions of civil society, elicited through the civil society perceptions survey, it was revealed that civil society thinks that the policies of a country do have an important influence on the nature of impact and influence of FDI on the local economy and the society. For this reason, the suggestion made is that the policy of the country needs to change – that is, it should be made less restricted and more liberal<sup>23</sup>. At the same time, the respondents argue that the decision to make the investment policy less restricted, or more liberal, should take into account the importance attached to specific sectors of the economy.

*Despite the fact that Tanzania has put a lot of efforts to attract FDI, more still needs to be done to ensure that there are appropriate institutions to ensure environmental sustainability of the ecosystem.*

Below are the suggestions from the survey responses regarding the policies that the government should pursue in order to increase the benefits from FDI.

#### **(a) Devise appropriate policies to support local businesses to upgrade technology/gain access to finance, etc.**

The weak technology base and the high cost of investment finance to local firms, especially small firms, is seen as a weakness that hinders meaningful gain from FDI.

### **(b) Strengthen environmental regulations**

Civil society notes that despite the fact that Tanzania has put a lot of efforts to attract FDI, more still needs to be done to ensure that there are appropriate institutions to ensure environmental sustainability of the ecosystem.

*The most serious problem in the country is that there is a great disparity between policy statements and enforcement practices.*

### **(c) Introduce/strengthen competition policy**

Civil society argues for the need to strengthen competition policy. Tanzania has a competition law, but has been lacking a comprehensive competition policy. It has, however, been noted that efforts are underway to develop one.

### **(d) Strengthen sectoral regulations**

Failure to attract FDI in some sectors has been attributed to lack of appropriate sectoral policies and regulations in those sectors. But, the most serious problem in the country is that there is a great disparity between policy statements and enforcement practices.

*Investors have often blamed the government for slow implementation of labour regulations.*

### **(e) Strengthen labour legislation**

Civil society sees the need for the government to strengthen its labour legislation by enhancing labour protection and enforcing it. Investors have often blamed the government for slow implementation of labour regulations. There is, thus, a need to make labour regulations more flexible, so that the market conditions can rule.

### **(f) Strengthen intellectual property rights legislation**

Tanzanian's weak enforcement mechanism for intellectual property infringement is one of the limitations that is said to have hindered meaningful contribution of FDI to national economic development. The government has indicated that it will undertake efforts to ensure that enforcement procedures are strengthened. In Tanzania, the Registrar of Companies oversees intellectual property matters, which are governed by legislation on patents, trade and service marks, and copyrights. Tanzania has been amending its legislation to conform to the WTO requirements. The most recent one is the Copyright Act of 1999.

*Tanzania has been amending its legislation to conform to the WTO requirements.*

### **(g) Impose requirements on foreign firms**

Civil society also sees the need for the government to impose requirements on foreign firms, in order to increase the benefits from FDI. The suggested requirements include:

- (i) Job creation;
- (ii) Employment of local managers;
- (iii) Transfer of technology;
- (iv) Local content norms;
- (v) Exports;
- (vi) Mitigate any adverse foreign exchange impact;
- (vii) Transfer skills and know-how to local subsidiary as well as non-affiliate firms; and
- (viii) Training of local technical and managerial manpower.

#### **5.5.4 Other Options for Influencing the Behaviour of Foreign Firms**

A majority of the surveyed civil society (44 percent) is not well-informed as to whether there are any other options that can be used to influence the behaviour of foreign firms for the benefit of the local economy. 39 percent, however, agree that there are other options and suggest the

following measures (as other options) that can be used to enhance benefits from FDI for the local economy:

- (i) Monitoring and regulation of investment activities to ensure that they comply with domestic regulations;
- (ii) Creation of an adequate pool of competent personnel, without imposing legal requirements on foreign firms to train and create a pool of personnel;
- (iii) Maintenance of public-private sector social dialogue and strengthening of industrial relationship;
- (iv) Ensuring proper use of tax revenue for national, social and economic development;
- (v) Encouraging partnership between local and foreign firms;
- (vi) Serious review of the land law and labour legislation, in order to make the investment environment more conducive;
- (vii) Striving to build a culture of patriotism and responsibility among Tanzanians;
- (viii) Finding a way to ensure foreign firms respect human rights; and
- (ix) Strengthening intellectual property rights' legislation in the country.

*Agricultural sector remains the most important contributor to the GDP. Efforts to diversify exports have also not yielded much result, as traditional exports such as coffee, cashew nuts, tobacco and tea continue to dominate the country's exports.*

### **5.5.5 FDI Targeting Specific Sectors**

Tanzania's lack of appropriate sectoral policies and weaknesses in enforcement of policies and regulations are among the factors that have contributed to either its failure to attract FDI in these sectors or to make their contribution meaningful for sustainable development of the national economy. To date, the agricultural sector remains the most important contributor to the GDP. Efforts to diversify exports have also not yielded much result, as traditional exports such as coffee, cashew nuts, tobacco and tea continue to dominate the country's exports.

For national development objectives, Tanzania needs to do more than to target FDI to specific sectors. For national defence and security concerns, however, some of the respondents feel that FDI should be banned in the ammunition industry. Some respondents also had the view that FDI should be disallowed in sectors such as small and medium-scale enterprises, agriculture, public utilities, tourism and natural resources.

It is important for the government to ensure that the efforts to attract FDI go hand in hand with the efforts to protect the environment and make the contribution of FDI felt more in the economy. Efforts should also be made to increase the competitiveness of local investors in different sectors of the economy. Some of the respondents, however, had the opinion that FDI should be channelled to:

- (i) Manufacturing industry, particularly heavy industries, to produce machines locally;
- (ii) Physical infrastructure facilities, especially in transport and communications;
- (iii) Education and human resource development;
- (iv) Agriculture and agro-processing;
- (v) Mining industry;
- (vi) Financial sector; and
- (vii) Social services such as water, electricity etc.

### Issues for Comments

- (i) How well informed is the civil society regulating the benefits and costs as well as the impact of FDI in Tanzania?
- (ii) What approaches could be used to ensure that the civil society gets timely and well-balanced information on current issues related to FDI in the country?
- (iii) While it can be said that FDI has led to positive impact on the economy in the last ten years, it has been very difficult to determine the depth and breadth of this impact. Are there approaches, especially at the investment promotions levels, that could be used to establish the extent of the impact on the economy?
- (iv) There are concerns that local investors face higher costs of finance and have limited capacity to compete with their foreign counterparts. What strategies could reduce costs of finance and increase local investors' competitiveness in various sectors?
- (v) What approaches could be used to improve local entrepreneurial capacity and competence in business in the new environment?
- (vi) Should investment in some sectors be confined to the domestic companies only?
- (viii) Should cross-border mergers and acquisitions be promoted, especially at the East African level?



## Case Studies

This section is intended to highlight sectoral policies and performance since liberalisation and privatisation efforts started in earnest in 1990 in different sectors under study. Three sectors were chosen for case studies: mining, financial and telecommunications sector. The selection of the sectors for case studies was based on the fact that these sectors have seen the largest proliferation of FDI funds since liberalisation efforts started in earnest in 1990. The case studies include data and information from secondary sources and interviews with industrial professionals.

### 6.1 The Mining Sector

#### 6.1.1 Sector Policy Overview

*The government embarked on rigorous efforts to foster policy and institutional changes that would enhance investment in mining.*

The mining and mineral sector in Tanzania promises to be an increasingly important contributor to the GDP and export earnings. Following the encouragement of private sector participation in the 1990s, mining activities have increased in Tanzania. Between 1995 and 2001, the government embarked on rigorous efforts to foster policy and institutional changes that would enhance investment in mining. These efforts resulted in the formulation of the Mineral Policy of Tanzania, introduced in 1997, followed by the enactment of a new Mining Act in 1998 and the new Mining Regulations, released in 1999.

The main objective of the 1997 policy was to facilitate exploitation of mineral resources that would contribute significantly towards income generation, employment creation, social and economic infrastructure development (particularly for rural areas), increased foreign exchange earnings and government revenues as well as reducing poverty. The Mineral Policy of Tanzania has, since, gained reputation of being the 'best of its kind' in terms of providing a positive supportive environment with attractive taxation and capital allowances<sup>24</sup>.

*The Mineral Policy of Tanzania has, since, gained reputation of being the 'best of its kind' in terms of providing a positive supportive environment with attractive taxation and capital allowances.*

Exploration and exploitation of mineral resources, including petroleum and gas sub-sectors, in Tanzania, fall under the supervision of the Ministry of Energy and Minerals. But, despite all the positive arguments of incentives, there are indications of their abuse by foreign investors. Recently, the government, for instance, had to remove tax incentives on petroleum imports for mining companies, due to the fact that some of the foreign companies, accorded the incentives, have been abusing them by importing petroleum and selling it in the open market. There are also concerns as to whether the government has effective and practical criteria for issuing and removing incentives. There have been, therefore, some calls for a review of the criteria used in issuing incentives to foreign investors.

#### 6.1.2 Performance of the Sector

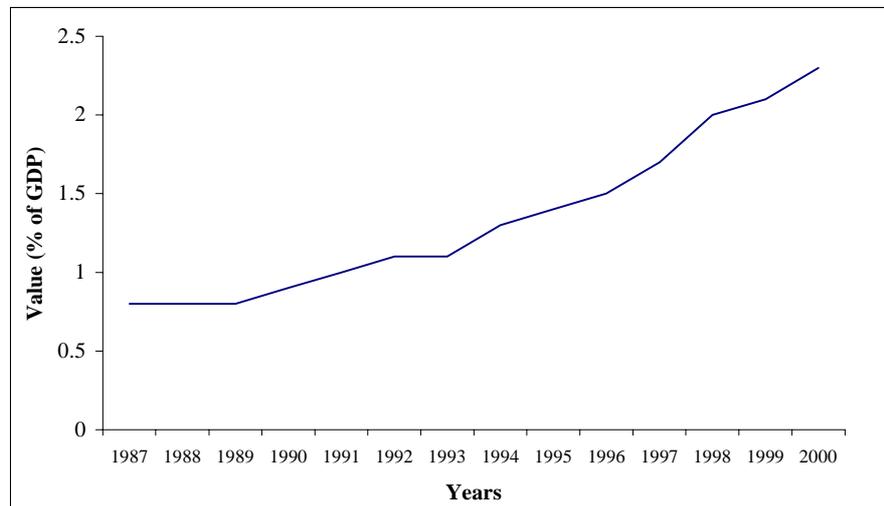
The mineral sector is one of the fastest growing sectors in the country in absolute terms. It is fastest growing also in terms of its contribution to the economy and export activities. Between 1997 and 2001, this sector

has grown at an average annual rate of 16.2 percent. Its annual contribution to the GDP rose from 1.7 percent in 1997 to 2.5 percent in 2001 (URT, 2000). In nominal terms, export earnings generated by the sector increased from US\$29.7mn in 1996 to US\$311.9mn in 2001. This increase was mainly attributed to the huge capital invested by big mining companies.

*Export earnings generated by the sector increased from US\$29.7mn in 1996 to US\$311.9mn in 2001. This increase was mainly attributed to the huge capital invested by big mining companies.*

Employment in the sector has also increased, as has government revenue. The revenues from the sector are from taxes, prospecting royalties and mining licence fees. Large mining companies have been the most reliable source of government revenue from the sector. This is because tracking of production volumes and exports from big mining companies is relatively easier, compared to the small-scale miners whose informal nature of operations make them difficult to keep track of.

**Figure 1.6: Contribution of Mining Sector Expressed as a Percentage of GDP (1992 = 100)**



Source: Economic Survey, 2000

### 6.1.3 FDI in the Mining Sector

*There has been a tremendous increase in prospecting in mining. From 1995, to date, over US\$1.5bn have been invested in the mining sector. By the year 1999, over 5000 exploration licences had already been issued.*

There has been a tremendous increase in prospecting in mining following the policy changes undertaken by the government since early 1990s. These policy changes have included efforts to create an enabling environment for investment in the mining sector through:

- (i) Introduction of a competitive mining policy and an equally competitive mineral legislation;
- (ii) Review and streamlining of tax regulations on mining activities; and
- (iii) Establishment of a sound macroeconomic framework.

Local and/or joint ventures and FDI have gradually increased in the areas of exploration and mining. Large mining companies, such as Ashanti Goldfields, Anglo Gold, Barrick Gold Corporation, Resolute, etc., are currently involved in important mining projects in the country. Table 5.9 below shows some of the key foreign investors in the sector. From 1995, to date, over US\$1.5bn have been invested in the mining sector. By the year 1999, over 5000 exploration licences had already been issued (Economic Survey, 2000).

Despite the fact that the mineral sector, primarily focused on gold production, offers one of the best opportunities for growth in the country, the viability of Tanzanian gold production is closely tied to international

	<b>Name of the Company</b>	<b>Owner</b>	<b>Mineral</b>	<b>Start of Production</b>
1	Kahama Mining Corp	Barrick Gold	Gold	April 2001
2	Golden Pride	Resolute	Gold	April 2001
3	Geita	Ashant/Anglogold	Gold	February 1998
4	Africa Mashariki East Africa Mines	Africa Mashariki Spinifex	Gold	2002
5	Merelani	AFGEM	Tanzanite	August 2000
6	Williamson	De Beers & Tz. Gov.	Diamonds	1940
7	Kabanga Nickel Project	Barrick Gold	Nickel	-

*Source: URT, Tanzania Investor's Guide 2002 and Beyond*

gold prices, which have shown continued volatility. This is because the local market for minerals is still small and, therefore, most of the output from the mining sector is exported or sold to foreign-owned firms.

*The local market for minerals is still small and, therefore, most of the output from the mining sector is exported or sold to foreign-owned firms.*

## **6.2 The Financial Sector**

The choice of the financial sector for case study was based on the importance of the sector to national savings and investment mobilisation efforts. The fact that since liberalisation there has been a great transformation of the sector and the increase in private, both local and foreign, participation in the sector which has led to more competition and, therefore, increased efficiency in banking operations in the country.

### **6.2.1 Sector Overview**

The financial sector has been undergoing intense reforms since early 1990s. The objectives of these reforms included the desire to:

- (i) Facilitate the attainment of macroeconomic stability;
- (ii) Support structural adjustment in the real economy; and
- (iii) Provide effective support to the economy, especially by financial deepening and diversification in an environment of serious market competition<sup>25</sup>.

Some of the measures that have been undertaken under various components of the reforms are:

- (i) Redefinition of the roles of Bank of Tanzania and its reorientation through the BOT Act, 1995;
- (ii) Liberalisation of the banking sector to allow establishment of private commercial banks;
- (iii) Restructuring of state owned banks in an attempt to increase their managerial capacity, improve their operational efficiency and rehabilitate their balance sheets by removal of non-performing assets, re-capitalisation and eventual privatisation;
- (iv) Removal of government controls from financial markets; and
- (v) Liberalisation of current and capital accounts.

*The Bank of Tanzania's emphasis is now on the conduct of monetary policy, especially on adopting the use of indirect policy instruments, open market operations and strengthening its role in banking supervision.*

Under its redefined role, the BOTs emphasis is now on the conduct of monetary policy, especially on adopting the use of indirect policy instruments, open market operations and strengthening its role in banking supervision. This is important in ensuring a resilient and well-regulated financial system essential for macroeconomic and financial stability.

One important attribute of the financial sector reform was to allow operation of private commercial banks in the country. As a result of the creation of a new environment under which financial institutions could operate, a

total of 19 banks and 10 non-banking financial institutions were established in mainland Tanzania by July 2002. Foreign banks, by and large, dominate the banking sector. Out of the 19 banks currently operating in Tanzania, 16 (accounting for more than 80 percent banking) have majority private foreign ownership, while two banks are private local banks and one is state-owned.

*The major limitation in financial sector development, however, is that most private and foreign financial institutions are concentrated in Dar-es-Salaam.*

The major limitation in financial sector development, however, is that most private and foreign financial institutions are concentrated in Dar-es-Salaam. Up-country branch networks of private banks are mainly confined to two regions, Mwanza and Arusha. The state-owned National Micro Finance Bank has the largest branch network – with 105 branches across the country, the National Bank of Commerce Limited with 31 branches and the Co-operative and Rural Development Bank with 23 branches, the activities of the rest of the banks are limited to Dar-es-Salaam or, at best, branches in few major towns.

### **6.2.2 FDI in the Banking Sector**

Following the liberalisation of the financial sector, foreign private investors have dominated the private banking scene in Tanzania. The literature on the experience of other emerging economies indicates that foreign banks are, typically, more efficient than local banks (IMF, 2000, p. 165). They help to improve the availability of financial services by introducing new services not available in the host country.

*Foreign banks help improve the availability of financial services by introducing new services not available in the host country.*

They also improve the quality and pricing of services, either directly as providers of such services or indirectly through competitive pressures on domestic banks, forcing the latter to introduce improvements. This development has taken a similar face in Tanzania too. Foreign banks are more efficient as compared to local banks, and, therefore, the local banks are forced to learn from them and adopt new methods that would allow them to compete in the sector.

Some of the benefits of the influx of foreign investors in the banking sector, as exemplified by the contributions of the three largest foreign banks in the country, have included transfer of technology and upgrading of skills. This has happened due to massive transfer of technology through bringing in skilled expatriate banking personnel, on the job training for locally recruited bank personnel, and opportunities accorded to employees for specialized training abroad.

These contributions, however, could not have occurred automatically. They are determined by government policy, including the establishment of competitive environment on the one hand, and the strengthening of the existing institutions, reinforcement of the regulatory system and putting in place an effective supervisory mechanism, on the other (Temu and Due, 2000).

*The total assets of foreign banks, wholly owned and joint ventures, accounted for more than 70 percent of the total assets of the financial institutions in the country.*

### **6.2.3 The Role of Foreign Banks: Transfer of Technology and Human Resource Development**

Foreign banking activities have grown considerably since the liberalisation efforts started in the early 1990s in the country. As on June 30, 2000, it is reported that the total assets of foreign banks, wholly owned and joint ventures, accounted for more than 70 percent of the total assets of the financial institutions in the country.

The largest four foreign owned banks in the sector are the National Bank of Commerce (NBC) (it became foreign owned after its purchase by Amalgamated Bank of South Africa), Citibank, Standard Chartered Bank and Stanbic. In June 2000, NBC owned about 30.5 percent of the total assets of the financial institutions, Citibank 9.7 percent, Standard Chartered 7.69 percent and Stanbic 5.46 percent. Rest of the foreign banks in the country are small, with individual assets that are below one percent of the total assets of the financial institutions in the country.

*By the end of 2000, the Bank had built up a capital base of over US\$220mn and a clientele that included major international corporations in the country as well as local public and private enterprises.*

#### **(i) Standard Chartered Bank**

The Standard Chartered Bank was the first international bank to open operations since the introduction of the financial sector reforms in 1990. The first branch was opened in Dar-es-Salaam in 1993, followed by five additional branches: two in Dar-es-Salaam and one each in Mwanza, Arusha and Moshi. By the end of 2000, the Bank had built up a capital base of over US\$220mn and a clientele that included major international corporations in the country as well as local public and private enterprises.

Between 1998 and 2002, the Bank introduced a number of innovative products and services previously not available in the country. Among these is the Internet service for corporate customers, the first such service in East Africa, which enables corporate customers in the region to access their accounts or conduct business through the electronic banking service facility. Other international banks have since followed suit.

The Standard Chartered Bank has 190 employees, five of whom are expatriates, including the Head of Finance who is a Kenyan. The Bank's training programme is closely linked to its strategy of maintaining and improving competitiveness through the use of cutting edge technology and acquisition of market and management techniques.

The Bank uses three training methods for its employees: (i) in-house training through learning by doing; (ii) workshops on specific topics such as credit management, marketing and customer relations; and (iii) training of technical staff in neighbouring countries, including Zimbabwe and South Africa. The Bank also sponsors management and technical staff for specialized training in the United Kingdom.

#### **(ii) Citibank**

*Citibank's strategy is to build a pool of professionals with regional exposure, by switching them around the 16 countries in which the group has a presence in Africa.*

The Citibank entered Tanzania through the establishment of a branch in Dar-es-Salaam in 1995 and has since expanded to Mwanza and Arusha. The number of employees of the Bank is 100, with 75-80 professionals, including five expatriates. Citibank's strategy is to build a pool of professionals with regional exposure, by switching them around the 16 countries in which the group has a presence in Africa.

Training is undertaken at three levels: in-country, by visiting personnel or expatriates; regional, undertaken either in Nairobi or South Africa; and international training at the Corporate Training Centre in Istanbul. Besides these three levels of training, the bank also operates an international mentoring and appraisal scheme. Citibank recruits from the University of Dar-es-Salaam around 80 percent, with the balance from the Institute of Financial Management (IFM).

### **(iii) Amalgamated Bank of South Africa**

The Amalgamated Bank of South Africa (ABSA) had a larger and different challenge, following its entry through acquisition. The ABSA started with 1,176 employees when it purchased the state-owned National Bank of Commerce in 1999. This number has gradually been reduced to 934. The ABSA brought in six expatriates to introduce new priorities systems and procedures, and they subsequently increased to 11.

The Bank used an industrial psychologist to obtain a profile of all the staff to help it identify the people it could use and in what capacity. Salaries were increased by 25 percent in order to retain the best staff. In terms of new recruitments, the ABSA has not attached excessive value on academic qualifications, but rather has focused on capabilities and the ability to learn through experience. The focus of training has been on two aspects: telephone etiquette and the new integrated computer system.

### **(iv) International Bank of Malaysia**

The International Bank of Malaysia commenced Greenfield operation in Tanzania in 1998. The small staff numbers 18, including one Malaysian. Almost all of the eight professionals are graduates. Two of its staff studied at the International Islamic University of Malaysia and except one, the rest is from the University of Dar-es-Salaam. Recruitments at graduate level were followed by two to three months' training in Malaysia.

Training is also undertaken within the Bank through the Association of Bankers that has yearly specialist programmes on, for example, liability management and credit. The growth has been slow but gradual and the Bank has intentions of establishing other branches around Dar-es-Salaam, with the aim of handling small and medium-sized, mostly business, customers.

Many of the new foreign investors have also introduced programmes where locally recruited staff is sponsored by the banks to obtain further training in formal learning institutions within Tanzania or abroad. The Bank believes that, in order to maintain its current competitive position in the face of intense competition from other international banks such as the Citibank, the Barclays Bank, etc., investment in upgrading the skills of its Tanzanian staff and training them in modern management skills are critical.

Some of the foreign banks have their staff trained in the home country and often by the parent bank itself, so that the trainees, while acquiring new skills, also gain a better understanding of the working methods and culture of the bank. For example, when the International Bank of Malaysia was established in Tanzania, it headhunted and recruited Tanzanians studying in Malaysia, who were then given three to four months' additional training by the parent bank before returning to Tanzania.

As has been noted earlier, despite the impressive developments that have been recorded in the sector since liberalisation efforts started in the 1990s, foreign banking activities have tended to concentrate in major towns in Tanzania. The reason for this pattern is said to be the structural impediments in the country. This has resulted in urban-based competition in the sector – confined to a few large banks dealing with corporate clients and a few small and medium sized banks dealing with retail customers in major towns.

*Many of the new foreign investors have also introduced programmes where locally recruited staff is sponsored by the banks to obtain further training in formal learning institutions within Tanzania or abroad.*

*Despite the impressive developments that have been recorded in the sector, foreign banking activities have tended to concentrate in major towns in Tanzania.*

*The challenge that the country faces now is to ensure that it can facilitate the distribution of foreign banking activities throughout the country.*

The challenge that the country faces now is to ensure that it can facilitate the distribution of foreign banking activities throughout the country. There is also a need for the government to design appropriate regulations that will enable the local small investor community to obtain investment finance easily through banks.

Currently, the government is addressing the obstacles related to the conflicting clauses in the Land Act that are said to limit lenders' ability to seize property from borrowers in the event of default. However, it may still need to intervene in various areas as well as ensure that savings' mobilisation translates into effective investment.

## **6.3 The Telecommunications Sector**

### **6.3.1 Sector Overview**

*In 1978, the Tanzania Posts and Telecommunications Corporation (TPTC) was formed to take over the powers and functions of the defunct EAPTC. Postal and telecommunications operations and regulations became fully integrated functions of the TPTC.*

The East African Posts and Telecommunications Corporation (EAPTC) managed telecommunications services in Tanzania until 1977. In 1978, the Tanzania Posts and Telecommunications Corporation (TPTC) was formed to take over the powers and functions of the defunct EAPTC. Postal and telecommunications operations and regulations became fully integrated functions of the TPTC. The TPTC also became the sole monopoly in the telecommunications sector and continued to enjoy the exclusive right to operate public-switched telephone network until the deregulation and liberalisation efforts in the telecommunications sector started in the country in the 1990s.

As of 1991, the telephone density in the country averaged 0.3 lines per 100 people, compared to the average of 0.46 lines per 100 people in all of sub-Saharan Africa. The quality of service was poor and workers' productivity was low, while the demand was as high as 200 percent of the supply. Local tariffs were very low, equivalent to US\$0.2 per minute, while international tariffs were among the highest in the world, about US\$ 6.40 per minute.

Tanzania is currently in the process of modernising its telecommunications sector. The government started to focus on liberalisation of its telecommunications industry in 1993 through the implementation of the Telecommunications Restructuring Programme (TRP). The net result of TRP was the separation of the TPTC's Posts and Telecommunications activities and the establishment of the Tanzania Communications Commission (TCC) in 1994.

*Privatisation in the sector moved forward with the recognition that telecommunications infrastructure is an essential component of the overall economic development*

The Tanzania Telecommunications Incorporation Act of 1993 established the Tanzania Telecommunications Corporation Ltd (TTCL) as the wholly state-owned basic telephone service operating company. The Act also had a provision for the privatisation of the TTCL. Privatisation in the sector moved forward with the recognition that telecommunications infrastructure is an essential component of the overall economic development.

The government allowed private sector participation in the provision of non-basic services such as internet service provision, specialised services such as mobile cellular telephone, sale and installation of customer premises equipment such as telephone sets, fax, telex, etc, and wiring of subscriber premises.

The licenses for value-added services and local land and cellular telephone operators, however, include the conditions that locally-owned shares

should not be less than 35 percent and that a foreign company which owns majority shares, over 50 percent, should submit to the TTC the guarantee of network performance for the duration of the licence.

### **6.3.2 Telecommunications Services Available**

Telecommunications services provided in the country include:

#### **6.3.2.1 Basic Telephone Line Services**

These are offered by TTCL, which provide its services countrywide, and ZANTEL, whose activities are confined to Zanzibar Island only. TTCL is a joint venture between the Government of Tanzania, which owns 65 percent of the total company shares and MSI/DTECON, Netherlands which owns 35 percent of the shares.

#### **6.3.2.2 Mobile Cellular Services**

Currently, Tanzania has 4 national cellular licensees: (i) MIC Tanzania Limited, which operates as Mobitel Tanzania Limited; (ii) ZANTEL Limited – licensed to provide both basic and mobile phone services, with activities restricted to the Zanzibar Islands; (iii) TTCL's subsidiary, Celtel; and (iv) Vodacom Tanzania Limited.

#### **6.3.2.3 Card Phone Services**

Three companies, TTCL, Vodacom (T) Limited (foreign) and Jupiter Communications (foreign), are currently providing these services. The service is very popular with the public and seems to have eliminated the traditional long waiting lines prevalent in telephone booths.

#### **6.3.2.4 Radio-paging Services**

Licenses to cover the whole country were granted to four companies in 1995: TTCL, Beep-Me Limited, Call Systems Limited and African Communications Group Telecasters Limited (ACG), later renamed Adesemi. However, due to low returns, paging business has not been successful, leading to bankruptcy of the operators. As of December 2001, there were no active operators in radio paging.

#### **6.3.2.5 Public Data Communication**

The following foreign companies operate the services in the country: SITA group (now operating as Equant Tanzania Limited), Datel and Wilkem/Afsat. The University of Dar-es-Salaam is also licensed to provide internal services but without resale capabilities. Tanzania Communication Commission has also granted licenses to Simbanet (T) Ltd, SOFT-TECH (T) Limited, FASTCOM Africa Limited, TTCL, Pan African Communications Ltd, TANSAT, and Satcom Africa Networks to offer the service.

#### **6.3.2.6 Internet Communications Service**

Despite such obstacles as lack of credit, lack of demand due to low incomes and lack of infrastructure, among others, Tanzania has shown consistent growth in both the IT and communications markets. Consistent with the current trend of upgrading Internet connections and encouraging IT usage sweeping Africa, the Tanzanian government has embarked upon a mission to cultivate a more technologically advanced climate. In July 1996, Tanzania had no Internet service, but by May 2000, Tanzania had jumped to the 13<sup>th</sup> place among all the African nations in the Internet connectivity ranking.

The current number of Internet host sites is not available, but the latest information provides 536 Internet host sites in year 2000. The number of

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*This progress is attributed to the opening up of the telecommunications and Information Technology sectors to foreign participation.*

Internet account subscribers has grown to 100,000 as on February 2002.<sup>26</sup> Much of this progress is attributed to the opening up of the telecommunications and Information Technology sectors to foreign participation.

### **6.3.3 Regulation and Policy**

Before the reform of the sector, the Ministry of Communications and Transport was responsible for the policy and overall supervision of the sector, including regulation. The TPTC was responsible for frequency allocation as well as type approval of terminal equipment. Under the new Tanzania Communications Commission (TCC) Act of 1993, the Minister of Transport and Communication is responsible for policy. The regulatory role is vested in the TCC, under the general oversight of the Minister.

Several guidelines have now been given by the TCC concerning participation of foreign investors in the telecommunications sector. These include the requirement that all aspiring foreign investments have at least a 35 percent stake owned by local shareholders. In cases where foreigners own a majority share (over 50 percent) in the company, the company is required to provide to TCC a guarantee of its networking in the period of its licence.

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Tanzania has, however, not made any specific commitments in the WTO with respect to its telecommunications sector's operations. Recently, however, Tanzania revealed its intention to underline its commitment to telecommunications liberalisation by making specific bindings under the General Agreement on Trade in Services (GATS). In October 1997, Tanzania enacted the National Telecommunications Policy (NTP), which clarifies the government's objectives for its telecommunications sector. These include accelerated development of an efficient telecommunications network that can provide a national infrastructure and access to current technologies by all the sectors of the economy and all segments of the population.

### **6.3.4 FDI on the Telecommunication Sector**

One of the explicit goals of the liberalisation and privatisation of the telecommunication sector in Tanzania was to attract FDI, which would bring with it skills and technology. International participation in Tanzanian telecommunications sector is clearly high and has ranged from operation of the networks to various value-added services such as data transmission.

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The growth of the telecommunication sector has also seen the proliferation of foreign equipment suppliers in Tanzania. Among the telecommunications equipment suppliers are Alcatel, Motorola, Siemens, Ericson and Nokia as cellular equipment and network infrastructure suppliers. There are also fixed-line infrastructure suppliers such as Alcatel, British Telecom TMC (UK), Dial Face (Italy), Crompton (India), ERCA and DPA (South Africa).

According to the TIC documents, in the period from 1990 to the end of 2001, 21 projects were approved in the telecommunication sector. The total investment in the sector in that period amounted to TZS 1,210,287mn (US\$1178.47mn). This is estimated to be about 20 percent of total investment in the country over the period and created 1932 employment opportunities. Of these, three were foreign, 11 local-foreign joint ventures, seven local and four expected rehabilitation projects. This shows that foreign investment in the sector has been high, relative to local investment.

### 6.3.5 Impact of FDI on Telecommunication Sector

*The introduction of liberalisation and competition in telecommunication has shown a positive effect on the adoption of new technologies, market development and improved telecommunications services in the country.*

The introduction of liberalisation and competition in telecommunications has shown a positive effect on the adoption of new technologies, market development and improved telecommunication services in the country. Tanzania has received large inflows of foreign capital in the telecommunication sector. Inflows of technology, as a result of technology based license agreements or direct participation in a local firm via capital ownership, have played a significant role in improving the local technological potential, through adaptation and diffusion. The introduction of these most recent technologies has led to the provision of better services in the country, and at more competitive prices. Jobs too have been created in the process.

There have also been faster rollouts of networks to achieve universal service objectives. For instance, the number of telephone lines installed grew from 76,369 in 1991 to 126,515 in 1999, a growth of about 65 percent in eight years, and 177,802 in July 2001, a growth of about 40 percent in the two years, with an exchange capacity of 234,640. This, and the growth of the number of mobile telephone subscribers, reflects the introduction of new and more efficient technologies as well as indicates what competition has done in the sector.

Foreign firms have also come up with new and better managerial and technical skills that have helped improve the operations of local companies and telecommunication services.

#### Issues for Comments

- (i) Why is it that the impact of FDI has not been as favourable as had been anticipated? Is it policy weakness or implementation failure?
- (ii) What approaches could be used to increase the benefits of FDI in the country?
- (iii) How is the government going about promoting high quality FDI into Tanzania?
- (iv) Is the risk averse attitude of banks to lending due to collateral issues or are there other factors inhibiting bank confidence?
- (v) How can equity finance be further developed?
- (vi) Can Tanzania spur greater FDI flows, if its capital market is more integrated within the East African Capital Market?
- (vii) There is concern that the social impact of FDI in mining is, at most, minimal and that it does not benefit the local community. What better interventions could be used to improve its impact?
- (viii) How well can information technology and e-communication be used to promote pro-poor investment practices?

## Policy Recommendations and Conclusion

*Tanzania has done a great job in improving its investment climate and promoting investment, both foreign and local. However, bottlenecks and barriers to investment still exist. These render the economic environment incapable of facilitating private sector operations.*

### 7.1 Policies to Attract More FDI

Tanzania has done a great job in improving its investment climate and promoting investment, both foreign and local. However, bottlenecks and barriers to investment still exist. These barriers include slow processing of immigration permits for foreign investors and expatriate personnel (except when investors go through TIC), slow review of labour laws, slow approval of investments due to red tape, lagging legal sector, land reforms that have resulted into limited transparency and a supportive legal framework, regulations governing international trade and transfer of funds by investors, and infrastructure bottlenecks.

All these render the economic environment incapable of facilitating private sector operations. Constraints still exist in international trade and transfer of funds by investors, infrastructure, transparency and supportiveness of legal and regulatory framework. This is evidenced by slow progress in revising relevant legislations on fair trade, on competition, practices in the private sector, corruption, complicated and non-transparent tax regulations, and poor enforcement of intellectual property rights legislation.

The government is, therefore, urged to take appropriate steps to correct these shortcomings. Some of the suggestions are:

- (i) Improvement in the administrative system, especially the legal and regulatory framework;
- (ii) Strengthening the leadership capacity in National Economic Planning;
- (iii) Strengthening information disclosure and enforcement mechanisms;
- (iv) Reducing red tape in investment approval and registration;
- (v) Harmonising the labour legislation;
- (vi) Implementation of land law reforms and review of clauses on transfer of property rights;
- (vii) Strengthening the intellectual property rights;
- (viii) Improving spending on critical infrastructure (social, human and physical) for national economic development;
- (ix) Strengthening competition policy;
- (x) Devising appropriate policies and strategies for building the capacity of local firms to ensure competitiveness and encourage the spirit of hard work commitment and dependability; and
- (xi) Combating corruption in the country.

### 7.2 Policy Options to Increase the Benefits from FDI to the National Economy

*The efforts to liberalise the economy and enhance private sector-led development have led to the increase in foreign investments in the country, but local entrepreneurial capacity seems to be at a stand still.*

The efforts to liberalise the economy and enhance private sector-led development have led to the increase in foreign investment in the country, but local entrepreneurial capacity seems to be at a stand still. Furthermore, the review of the Tanzanian trade policy by the Government of Tanzania in the year 2000 reveals that the efforts to diversify exports by increasing the export of manufactured industrial output have not yielded much results, as the export of traditional crops continues to dominate the export sector.

*National policies do not seem to have adequately addressed the development challenges in other sectors, particularly agriculture, which is the mainstay of the economy.*

There have also been concerns that FDI has had negative environmental impacts, particularly on the mining and manufacturing sectors. Furthermore, national policies do not seem to have adequately addressed the development challenges in other sectors, particularly agriculture, which is the mainstay of the economy. As a result, these sectors have not fared well as compared to mining and tourism, which are emerging as major contributors to the country's GDP and government revenue.

The benefits emanating from FDI practices are yet to be enhanced. Since the government has the major role of establishing the necessary infrastructure for this to happen, it is urged to take practical steps for this purpose. Some of the approaches may include:

- (i) Reduction and possible elimination of trade barriers that raise the cost of imports to local businesses;
- (ii) Reducing the discrimination that has consistently favoured the mining and tourism sectors and promoting the development of the agricultural sector, which is the mainstay of the economy;
- (iii) Reducing the cost of financial resources, especially for local small investors;
- (iv) Streamlining the tax system and enhancing its transparency and simplicity;
- (v) Enhancing the high quality economic infrastructure to reduce costs;
- (vi) Eliminating the institutional impediments to investment and business operations (weak enforcement of property rights, deficiencies in the legal framework and corruption);
- (vii) Establishing a structured public/private sector dialogue mechanism;
- (viii) Creating a credible, efficient and non-intrusive public administration that operates in a predictable and transparent way;
- (ix) Investing in technological infrastructure, including information technology to reduce transaction costs and ensure timely access to quality data and information; and
- (x) Speeding up the legal sector reforms that have a direct bearing on private sector development in company legislation: bankruptcy laws, settlement of commercial disputes, land laws, labour laws and immigration procedures.

### **7.3 Conclusion**

While the Tanzanian development drives prior to the adoption of liberal economic policies in 1980s did not promote private investment initiatives, the situation has changed significantly since the reforms started. Deliberate moves were undertaken by the government to create conditions that would foster private-sector-led development in the country in the new market oriented economy. These efforts have yielded considerable results in terms of creating initial conditions for private investment to thrive in the country. In turn, some positive impact on the country's development can be seen in areas such as improvement and use of new technologies, quality and efficiency in service provision, availability of new products and increase in competition in the local market. Mining activities have also contributed through community development initiatives in the areas where they are located.

The data on investment level in the country shows that investment level (especially domestic investment) is still very low. Similarly, the long-run benefits emanating from FDI seem elusive. This may be due to the constraints that still remain, for instance poor transport infrastructure in rural agricultural areas (particularly road transport), high cost of energy,

*Some positive impacts on the country's development can be seen in areas such as improvement and use of new technologies, quality and efficiency in service provision, availability of new products and increase in competition in the local market.*

non-alignment of the legal, and regulatory and taxation environments particularly enforcement mechanisms for various regulations; inadequate supply of middle – cadre personnel who are equipped with the constraints such as inadequate knowledge of modern business techniques and customer service care standards, scarcity of investment finance particularly in small scale enterprises, and weak entrepreneurial capacity.

***Notwithstanding Tanzania's encouraging record in attracting FDI, a number of challenges still exist and need to be addressed for FDI to contribute meaningfully to national development. The main challenge is to ensure that Tanzania is able to attract both the kind and amount of investment.***

***More work also needs to be done to ensure that the national educational policy, and the science and technology policy augurs well with the skills required in the current market conditions to meet the national development aspirations.***

The implication of all this is that notwithstanding Tanzania's encouraging record in attracting FDI, a number of challenges still exist and need to be addressed for FDI to contribute meaningfully to national development. The main challenge is to ensure that Tanzania is able to attract both the kind and amount of investment that will be accompanied by asset bundles that match the development needs of Tanzania amidst intensified competition amongst potential host countries for these investment flows. Capacity in both the private and public sector, awareness of the possible and more efficient investment frameworks, existence of sound and acceptable national development directives that can provide a basis for achieving this objective is thus essential. Other requirements include the existence of properly coordinated national policies, as well as incentives and regulations governing the issuance of incentives to various investors. More work also needs to be done to ensure that the national educational policy, and the science and technology policy augurs well with the skills required in the current market conditions to meet the national development aspirations.

The government efforts in improving the investment climate should be commended. Nevertheless, it important to ensure that the progress that has been achieved in this area as well as the benefits recorded are consolidated for sustainable development.

## Endnotes

- 1 Kidatu, Mtera, Nyumba ya Mungu, Hale and Lower Kihansi
- 2 Recently started undergoing a divestiture process
- 3 ESRF, 2002; UNCTAD, 2001; World Bank, 2001; Wangwe, 1995
- 4 There are three Technical Colleges of Mbeya, Arusha and Dar-es-Salaam. Dar-es-Salaam branch is being transformed into a fully-fledged Institute of Technology, so as to play a pioneering role in the acquisition and development of technology-based education in the country.
- 5 Tanzania Investment Report: Report on the Study of Private Capital Flows in Tanzania, December 2001.
- 6 There are a number of other institutions, which deal with the registration of private investors. For instance, investments in the banking sector are registered and supervised by the Bank of Tanzania, while investors interested in producing goods for export are under the umbrella of the National Development Corporation (NDC) and the investors interested in extractive process in the mining and petroleum sectors are under the jurisdiction of the Ministry of Energy and Minerals. Other investors who are not interested in getting the certificate of incentives go through the normal procedures of registering their enterprise at the Business Registration and Licensing Agency (BRELA).
- 7 They also caution that this could also be an underestimation, given the large number of foreign banks which have been established in the last decade, whose approval, establishment and scrutiny is under the Central Bank.
- 8 Tanzania Investment Report (2001): Report of Survey of Foreign Investment in Tanzania undertaken jointly by Bank of Tanzania, Tanzania Investment Centre and National Bureau of Statistics.
- 9 Tanzania Investment Report (2001): Report of Survey of Foreign Investment in Tanzania undertaken jointly by Bank of Tanzania, Tanzania Investment Centre and National Bureau of Statistics.
- 10 Burundi, Comoros, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, the Seychelles, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe.
- 11 Australia, Bangladesh, India, Indonesia, Iran, Kenya, Madagascar, Malaysia, Mauritius, Mozambique, Oman, the Seychelles, Singapore, South Africa, Sri Lanka, Tanzania, Thailand, the United Arab Emirates and Yemen
- 12 Bank of Tanzania Press Release, November 2002.
- 13 The PSRC is vested with the responsibility and powers of implementing restructuring activities in respect of specified state-owned enterprises (parastatals) and specified government minority shares in privately-owned companies. It also deals with vital issues of retrenchment, debts, utility regulation and promotion of consultative mechanism between the government and the private sector.
- 14 Mostly done by relevant ministries directly before the formation of the PSRC.
- 15 Loans Advances and Realisation Trust – created in 1991 to provide a machinery for removing non-performing assets from financial institutions and allowing them to restore their balance sheets.
- 16 Sourced from “Foreign Direct Investment and Competition Policy: Issues and Recommendations”, Report prepared by FIAS in February 2002.
- 17 For some, the legislation preceded the policy, e.g., the National Telecommunications Policy was instituted in 1997.
- 18 The Tanzania Investor Road Map: US Agency for International Development: Two reports, 1996 & 1999.
- 19 The revenue sources for the Local Government come from a number of local taxes and fees collected within the jurisdiction of each local authority, e.g., City Council, Municipal Council, Town Council and District Councils.
- 20 (Wangwe et al, (1996); Wangwe, (2001); UNCTAD (2001)).
- 21 Roads and Bridges Construction, Airports, Generation of Electricity, Water and Sanitation Services and Backup services to the mining sector
- 22 The NISC comprises of the Ministers of Finance, Planning and Privatisation, Agriculture and Livestock Development, Industries and Trade, Ministry of Lands and Human Settlements Development, the Attorney General, the Governor of the Central Bank and the Director General of TIC who is also the secretary. The NISC is backstopped by a technical committee, which is chaired by the Deputy Permanent Secretary of the Ministry of Finance, Presidents Office Planning and Privatisation, the Commissioner for Lands, the Director of International Law (Ministry of Justice and Constitutional Affairs), and the Director of Investment Promotion of TIC who is also the Secretary.
- 23 Investment for Development: Tanzania Report B
- 24 UNCTAD, 2001
- 25 See Kimei, C.S. (1999). The Role and Experience of Financial Institutions in Financing of Economic Growth. A paper presented during the 11th Financial Institutions Conference, Arusha, International Conference Centre, 15th to 17th February 1999.
- 26 Economic Intelligence Unit, 2001: Africa and the Internet: An Unrealized Opportunity, 06 May, 2001.

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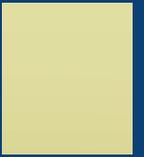
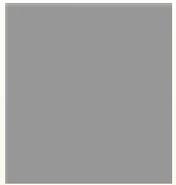
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**CUTS Centre for Competition, Investment & Economic Regulation**  
D-217, Bhaskar Marg, Bani Park, Jaipur 302 016, India  
Ph: +91.141.220 7482, Fax: +91.141.220 7486  
Email: c-cier@cuts.org, Website: www.cuts.org