PRIVATE FOREIGN INVESTMENT AND THE POOREST COUNTRIES:

The Case of Tanzania

Oswald Mashindano

PRIVATE FOREIGN INVESTMENT AND THE POOREST COUNTRIES: The Case of Tanzania

Oswald Mashindano

Introduction

Background information

Since independence in 1961, Tanzania has been committed to fighting poverty and improving the well-being of its people.[1] In the five years following independence, Tanzania made steady progress in economic growth and in meeting the basic needs of its citizens.

From the Arusha Declaration in 1967 until the mid-1980s, Tanzania followed a socialist path to development, relying on a strong state to deliver equitable benefits across the entire country. The socialist economic model was characterized by central government controls in key areas of economic policy, such as investment planning; restrictions on private activities; prices; wages; interest and exchange rates; rationing of capital and foreign exchange; and banking.

During the 1970s, Tanzania suffered a series of crises leading to economic collapse. Improvements in living standards and the achievements won in the initial period after independence were under serious threat by the end of the 1970s.

The situation was further aggravated by various macroeconomic imbalances, which were manifested in budgetary deficits, balance-of-payments deficits, growing debt burden, increasing inflationary pressures, and weakening productive sectors (Table 2). The capacity of Tanzania's

Table 1 **Human development indices**

Human Development Indicators	**1960**	**1970**	**1980**	**1987**
Life expectancy at birth (in years)	41	45	52	53
Infant mortality (per thousand live births)	146	na	120	107
Literacy rate (%)	na	33	na	90

Source: B. Ndulu, "Tanzania's Economic Development: Lessons from the Experience and Challenges for the Future," in Msambichaka *et al.*, *Development Challenges and Strategies for Tanzania: An Agenda for the 21st Century* (Dar es Salaam: Dar es Salaam University Press, 1994).

Table 2 **Economic development indicators**

Economic variable	**1966-70**	**1971-75**	**1976-80**	**1981-85**	**1986-92**
Real GDP growth rate (%)[a]	3.9	3.8	2.8	0.7	4.1
Gross Capital Formation/GDP	24.2	26.8	28.0	18.1	24.6
Gross Domestic Savings/GDP	17.1	12.9	15.3	10.5	5.1
Current Account Balance (millions of US$)[b]	(4.7)	(157.7)	(256.9)	(241.9)	(231.6)
Current Account Balance/GDP (%)	(1.3)	7.7	(6.4)	(5.8)	(13.3)
Recurrent Budget Balance/GDP (1966-91)	0.3	0.8	(0.4)	(4.1)	(4.8)
Overall fiscal balance/GDP (excluding loans, grants, and import support)	(5.3)	(8.8)	(12.6)	(11.5)	(10.9)
Overall fiscal balance/GDP (including external finance)	(3.7)	(4.8)	(7.1)	(8.2)	(3.0)
Inflation	2.8	13.7	13.7	30.2	26.2

Notes: [a] These are annual average growth rates.

[b] The current account balances are also annual averages. They include receipts and payments for merchandise exports and imports, respectively, as well as receipts and payments for exports and imports of other goods and services, respectively. The first and last balances, (4.7) and (231.6), are for 1967-70 and 1986-88, respectively.

Sources: F. Musonda, "Tanzania Investment Policy and Performance." (Dar es Salaam: ESRF, 1992) and B. Ndulu, "Tanzania's Economic Development," in L.A. Msambichaka *et al.*, (eds), *Development Challenges and Strategies for Tanzania: An Agenda for the 21st Century* (Dar es Salaam: Dar es Salaam University Press, 1994).

economy to support delivery of basic social services came under enormous strain. Some of the earlier gains made in the previous decade in education, health services, and water supply began to be reversed. By the end of the 1970s, national earnings were far below consumption levels, a clear indication that the country was living beyond its means. Thus, in the early 1980s, Tanzania embarked on a number of reform initiatives to solve the crisis. Since the early 1980s, Tanzania has been in transition toward a market-based economic management system in response to the emerging economic crisis of the 1970s. The major elements of the country's reform process include trade and exchange liberalization, parastatal sector reforms, investment promotion reforms, and tax reforms.[2] Others include financial sector reforms and civil service reforms.

Tanzania's investment-related initiatives

Tanzania's development measures are linked to its National Development Vision 2025, which has defined broad targets and goals for future economic development. By 2025, Tanzania is envisaged to be comparable to current middle-income nations in terms of economic growth and standard of living. In order to achieve the set targets and goals, the government has undertaken a number of initiatives. Chief among these is the creation of an attractive atmosphere for investment in Tanzania. To attract private foreign investment (PFI), Tanzania has amended and enacted several policies. These include the launching of a new Investment Policy of Tanzania in 1996, which led to the Tanzania Investment Act of 1997. Other changes introduced by the 1997 Investment Act include the establishment of the Tanzania Investment Center (TIC), with a mandate to identify investment priorities, introduce investment incentives, protect investors' rights, and introduce a new company registration process.[3]

In the early 1990s, Tanzania began to seriously embrace private foreign investment, partly because national capital accumulation and investment were extremely low. Other driving forces included declining foreign aid and an unsustainable level of external debt. Together these have made non-debt private investment an attractive source of financing development in the country. In addition, the key role played by private foreign investment in the development miracle of some East Asian countries increased the desire of Tanzania to follow the example. FDI accounted for almost half of gross capital formation in Viet Nam and a significant share investment in three other East and South Asian countries—Singapore (27.5 per cent), Hong Kong (18.6 per cent), and Malaysia (18.3 per cent). (Table 3).

This paper assesses the prospects for foreign direct investment for Tanzania in terms of improving the country's investment rate. Specifically, an appraisal of the potentials and pitfalls of FDI in bridging the existing gap between savings and investment as well as in bringing other benefits to the Tanzanian population is made.

Table 3 **Share of foreign direct investment in gross fixed capital formation (1988-98)**

Country	**% Share of FDI in gross fixed capital formation (annual averages)**
Singapore	27.5
Viet Nam	42.2
Hong Kong	18.6
Taiwan	2.6
Malaysia	18.3
South Korea	1.5
China	10.2
Philippines	8.4
Thailand	6.7
Indonesia	4.0

Source: *World Investment Report 2000*, UNCTAD

Table 4 **Growth of FDI flows: 1992-2002**

Year	Value of FDI in millions of US$	Gross Capital Formation (millions of TShs)	Contribution of FDI to total investment (%)
1985-1993	23.00[a]	242,325	–
1994	50.20	566,660	4.8
1995	150.86	597,792	14.7
1996	148.64	627,237	14.2
1997	157.80	700,803	14.4
1998	172.20	902,614	13.1
1999	516.70[b]	999,650	41.3
2000	463.40[b]	1,281,046	30.0
2001	327.40[b]	1,406,302	22.5
2002	240.40[b]	1,807,750	13.3

Notes: TShs: Tanzania shilling

[a] Annual average.

[b] The value of investments for the period 1999-2002 has been revised following the results of a joint 2001 Bank of Tanzania (BoT), National Bureau of Statistics (NBS), and Tanzania Investment Center (TIC). BoT, NBS, and TIC, "Report on the Study of Foreign Private Capital Flows in Tanzania," Dar es Salaam, 2001.

Sources: BoT, NBS, and TIC, "Report on the Study of Foreign Private Capital Flows in Tanzania (2001); and United Republic of Tanzania (URT), *Economic Survey, 1998; 1999; 2000; 2001; and 2002* (Dar es Salaam: President's Office—Planning and Privatization, (1999-2003).

Analysis of investment development in Tanzania

FDI has been on an upward trend in Tanzania since the beginning of economic reforms in 1985. The 1996 Investment Promotion Policy and the resulting 1997 Investment Act of Tanzania have further attracted a significant amount of FDI.[4]

For example, official estimated FDI flows in 2001 increased to US$327.4 million from US$150.86 million in 1995, compared to an annual average of US$23 million between 1985-93 (Table 4). The share of FDI in the country's investment during this period subsequently rose to a high of 41.3 per cent in 1999.

However, the total investment in Tanzania remains below the 25 per cent of GDP which the Economic Commission for Africa considers to be the minimum investment requirement for any African country to achieve sufficient growth.[5] Growing FDI has increased Tanzania's investment level from 16.4 per cent in 1997 to 18.4 per cent of GDP in 2001 and 21 per cent in 2002. Given Tanzania's low domestic savings rates, growing FDI has helped to increase the overall investment level despite the fact that it is still below 25 per cent of GDP (see Appendix Table 2).

Table 5 **Stock of FDI and non-FDI from 1995-99 (US$millions)**

FDI and non-FDI components	1995[a]	1996[a]	1997[a]	1998	1999
FDI components					
Total Direct Equity	573.2	618.9	661.2	1,190.7	1,458.6
Total long-term intracompany loans	39.3	50.2	78.0	372.8	570.9
Total short-term intracompany loans	5.0	7.5	13.6	39.6	79.4
Total suppliers credit from related companies	2.3	4.8	7.2	34.6	45.5
Total FDI stock	**619.8**	**681.4**	**760.0**	**1,637.7**	**2,154.4**
Non-FDI (other liabilities) components					
Total Portfolio Equity	6.3	6.3	6.4	26.9	27.6
Total long-term loans from unrelated companies	7.2	9.0	33.4	170.8	251.3
Total suppliers credit from unrelated companies	13.1	13.4	12.4	47.3	50.2
Other short-term loans from unrelated companies	1.9	3.4	5.2	50.9	132.0
Total stock of non-FDI	**28.5**	**32.1**	**57.3**	**295.9**	**460.9**
Total stock of FDI and non-FDI	**648.3**	**713.5**	**817.3**	**1,933.6**	**2,615.3**

Note: [a] Most of the surveyed companies did not report historical information before 1998.

Source: BoT, NBS, and TIC, "Report on the Study of Foreign Private Capital Flows in Tanzania", 2001.

Composition of PFI

According to a survey conducted by the Bank of Tanzania (BoT), in close collaboration with the Tanzania Investment Center (TIC) and the National Bureau of Statistics (NBS), toward the end of 1999, a large proportion of private foreign investment in Tanzania originated from FDI-related sources.

Private foreign investment consists of FDI, portfolio equity (purchase of shares in local companies), and various kinds of borrowing. However, some FDI is financed through borrowing rather than through an infusion of equity.

In 1998 and 1999 FDI accounted for 85 and 82 per cent of overall PFI investment, respectively, while non-FDI related liabilities were, respectively, 15 and 18 per cent.[6] In both years, direct equity has tended to dominate non-equity components of FDI. Direct equity accounted for 73 per cent in 1998 while non-equity components of FDI accounted for the remaining

27 per cent. The corresponding stock of direct equity and non-equity components in 1999 were 68 per cent and 32 per cent, respectively. Thus, PFI is dominated by FDI and in turn the FDI component is dominated by direct equity as opposed to non-equity items. This is a healthy balance because it reduces the risk of bankruptcy faced by many companies with foreign ownership when their investments do not perform well. The debt:equity ratio (without non-FDI items) was 27:73 and 32:68 in 1998 and 1999, respectively. The corresponding ratios with non-FDI components were slightly higher at 38:62 and 44:56 in 1998 and 1999, respectively.

In terms of foreign portfolio equity investment, an Act was passed by the Tanzanian Parliament in August 2003 allowing foreign investors to purchase shares on the Dar es Salaam Stock Exchange (DSE). Prior to this legislation, foreign investors were, strictly speaking, not allowed to participate in the market. The volume and proportion of foreign portfolio equity investment to PFI was, therefore, insignificant.

Table 5 indicates that FDI stocks in Tanzania increased by approximately 32 per cent from 1998 to 1999. In 1999 total FDI flows amounted to US$516.8 million while non-FDI flows amounted to US$165.0 million. Thus, FDI items accounted for about 76 per cent while non-FDI accounted for the remaining 24 per cent of total private foreign investment.

In relation to Tanzania's private foreign investment, bank borrowing from abroad registered a decline of 12.3 per cent from a 1998 stock of foreign borrowing at US$3.8 million to US$3.0 million in 1999. Most of the banks in Tanzania do not attach any importance to external borrowing for their own and domestic clients' financial requirements because only one out of 16 banks reported borrowing from external sources for onward domestic lending purposes.[7] Tanzanian banks are constrained from foreign borrowing due to both external and internal prudential factors such as availability of competitive instruments abroad, the cost of borrowing, exchange risk, and the limited opportunities for onward domestic lending. Internally, the limited lending opportunity is the most important factor as domestic banks are plagued with excess liquidity. The absorptive capacity of the private sector is generally weak. Based on these factors, domestic banks do not attach any importance on external borrowing for onward lending domestically. This signals a need to deepen local financial markets.

PFI sources and utilization

Systematic data on home country breakdown of PFI is lacking, as are other aspects of PFI portfolios, such as external borrowing by local banks and foreign portfolio equity investment in Tanzania. Systematic data collection is an area in which the TIC needs to invest more resources for effective management of the economy.

Keeping in mind such deficiencies, available information on FDI

Table 6 **Major foreign affiliates in Tanzania, 2000**

Company	Country of Origin	Total investment (US$ millions)	Type of FDI and industry	Status
Kahama Mining	Canada	610	Gold mining	Greenfield
Geita	Ghana/South Africa	400	Gold mining	Mergers and acquisitions
Tanzania Telecommunications Company	Netherlands/ France	120	Telecommunications	Privatized and joint venture
Voda Com	United States/ South Africa	120	Telecommunications	Greenfield
Tanzania Breweries Company Limited	South Africa	120	Manufacturing	Privatized and joint venture
Tanzania Cigarette Company Limited	Japan	80	Manufacturing	Privatized and joint venture
Golden Pride	Australia	77	Gold mining	Greenfield
Afrika Mashariki	Australia	72	Gold mining	Greenfield
Mtibwa Sugar Company Limited	Mauritius	48	Manufacturing	Privatized and joint venture
Kilombero Sugar Company Limited	United Kingdom/ South Africa	40	Manufacturing	Privatized
Serena Hotels	Pakistan	33	Tourism	Greenfield
Mic Tanzania	United Kingdom	27	Telecommunications	Greenfield and joint venture
Merelani	South Africa	20	Mining	Greenfield
National Bank of Commerce	South Africa	15	Banking	Privatized
Indian Ocean Hotels	United Kingdom	15	Tourism	Greenfield and joint venture
Holiday Inn	South Africa	13	Tourism	Greenfield

Sources: UN, UNCTAD Investment Policy Review. The United Republic of Tanzania. UNCTAD/ITE/IPC/Misc.9 (Geneva: UN, 2002) and G.M. Kabelwa, “South African FDI in East Africa. The Case of Tanzania.” Working Paper Series No. 5. (Dar es Salaam: ESRF, 2003).

projects approved by the TIC is used to make the present analysis and provides some indication on where PFI is directed and by whom it is undertaken.

FDI in Tanzania originates from a wide range of countries located mainly in four continents: Europe, North America, Africa, and Australia. Some Asian countries also form a small part of FDI. A picture based on the number of approved foreign investments is slightly different from the one given if total value of investment is taken as a measure.[8]

A 2002 survey by the United Nations shows that an assessment based on investment value tends to favour countries with FDI projects in capital-intensive mining and services such as banking, telecommunications, and hotels. Table 6 shows the major foreign FDI suppliers in Tanzania by company name, status, type and value of investment.

As can be seen in Table 6, of the 16 projects, nine are greenfield, while the remaining seven were privatized (see also Appendix Table 3). The sectoral distribution of FDI in Tanzania based on total investment value is skewed in favour of mining (65 per cent), followed by services (19 per cent), and manufacturing (16 per cent). The largest FDI sectoral destination is mining, where the gold industry takes the lead, followed by the service sector. In terms of number of approved foreign investments, almost 50 per cent of total approvals during 1990-2000 were in manufacturing (many of them small projects), 38 per cent were from the service sector (transport, communications, hotels and restaurants, construction, and financial services), 15 per cent was accounted for in the primary sector, and 3 per cent of the approved investments were in mining (a few large capital-intensive projects). The picture is more or less the same if tax paid to the government by approved foreign affiliates is taken as a measure. The share of the manufacturing and service sectors is considerably higher with Tanzania Breweries Ltd. taking the lead followed by Tanzania Cigarette Ltd. (Appendix Table 4).

Toward the end of 1999, FDI stock in the agricultural sector was US$151.4 million, equivalent to 7 per cent of the total. Note that the agricultural sector, which accounts for more than 50 per cent of GDP, more than 50 per cent of foreign exchange earnings and is the largest employer, still lags behind other sectors in attracting investment to the country. This is partly because of the risks associated with investments in the sector, and also due to a lack of policy incentives.

In terms of a sectoral FDI allocation pattern, mining, services, and manufacturing are the leaders. The geographical allocation of FDI flows in Tanzania has tended to marginalize those regions, mostly rural, which are not as commercially active with a less developed economic infrastructure and scarce social amenities to attract and support a wide range of business activities. Rural areas tend to draw less FDI compared to urban centres.

Specific policies and measures to attract and retain PFI

Specific measures undertaken by the Government of Tanzania to attract PFI include approval of the Investment Promotion Policy in 1996, simplification of investment procedures such as a FDI Registration Process, establishment of the Tanzania Investment Center, and publication of the National Investment Guide.[9] Other measures are publication of the dispute settlement procedures and approval of a number of investment incentives (see Appendix Table 5).

The incentive items in Tanzanian investment policy are diverse. They include:

- import duty drawback on raw materials
- rescheduling of VAT payment on project capital assets
- zero-rated VAT on manufactured exports
- yearly appreciation of unrecovered capital investment in mining
- five-year carry-over of all business losses against future profits
- the right to transfer outside the country 100 per cent of foreign exchange and profit earned
- reduced import tariffs on project capital items, 5 per cent import duty for investment in priority areas, and zero per cent for investment in lead sectors
- 100 per cent investment allowances and deductions against Tanzanian corporate tax in the first year of income
- access to land
- automatic approval of the employment of up to five foreign nationals in any project granted a certificate of incentives

Although most of these incentives apply to both foreign (with minimum initial capital of US$300,000) and local investors (with minimum initial capital of US$50,000), to a large extent, foreign investors receive preferential tax treatment. One of the major incentives provided by the Investment Act is the guaranteeing of investments against nationalization and expropriation. As well, the Act provides for a 30 per cent corporate tax rate.[10] However, the government has not been able to tap the revenue potential from foreign investors because of a lack of capacity of the national tax revenue authority to administer an effective tax regime.

Although data to validate this assertion is lacking and tax revenue by foreign investments has been growing, untapped revenue potential remains significant.

Tanzania's investment incentive structure lends itself to capital flight. The findings from a 2000 study by Nyoni is a clear testimony to this claim. Section 21 of the 1997 Act guarantees all projects holding Certificates of Investment unconditional transferability of payments abroad through any authorized bank in freely convertible currency. These certificates cover remittances of net profits and dividends, service charges for foreign loans, royalties and technology transfer charges, the proceeds of liquidations or sale of capital assets in Tanzania, and salary payments to expatriate staff employed in Tanzania by a registered foreign company.[11]

Policy toward capital account liberalization

Financial sector liberalization in Tanzania was primarily aimed at increasing efficiency in the provision of banking services and facilitating the activities of investors in the country. Among the major components of these reforms was the privatization of state-owned banks, allowing foreign banks to operate alongside local banks and the establishment of the Capital Market and Securities Authority (CMSA) and the Dar es Salaam Stock Exchange (DSE).

Significant changes have occurred in the financial sector and related monetary policies. Removal of exchange controls on the current account and relaxation of capital control were implemented during the second half of the 1990s. While all current account transactions were fully liberalized in 1996, a gradual and cautious liberalization has been taking place with respect to the capital account in order to avoid speculative short-term capital flows. A fully liberalized capital account encourages speculators to make short-term capital transfers haphazardly, which is detrimental to the economy and can lead to financial instability. The Government of Tanzania has, therefore, been hesitant to fully liberalize the capital account.

The rules governing capital markets in Tanzania allow non-residents to purchase shares at the DSE with certain restrictions. For example, non-residents can only purchase shares in firms with not more than 65 per cent foreign shareholding. Residents must own the remaining 35 per cent. However, out of the six business establishments listed by the Capital Market Authority, only two can sell shares to foreign investors; the remaining four are already 65 per cent or more foreign-owned.[12]

The role of PFI in overall development strategy

The impact of PFI on the economy

Tanzania's investment climate has improved considerably with the acceleration of reforms. The World Economic Forum's Africa Competitiveness Report 2000-2001 has top-ranked Tanzania in a survey of African nations' efforts to improve economic and investment conditions. Surveys of business opinion rank Tanzania top among African countries in terms of optimism concerning the reforms and improvements, thus signaling confidence in the liberalization and market reform process.[13] Tanzania's improved climate is the result of a number of factors, including a peaceful political environment, a strong natural resource base, an ideal location as a port of entry for landlocked states, and responsible fiscal and monetary management. At the same time, overall investment levels in Tanzania are still too low to foster significant economic and social development in the country. The potential for investment expansion is enormous. In this section the contribution of private foreign investment toward the country's overall development to date is assessed by looking at its impact on different economic sectors in Tanzania.

FDI, for example, has had both negative and positive impacts on the economy. Anecdotal information shows that FDI's contribution is still too low given the existing opportunities in terms of conducive investment climate and available natural resource base. Among other issues are threats to employment security and occupational safety; vertical integration in tourism encourages capital flight; and a good number of the incentives for foreign investors are increasingly exacting a toll on the country. In addition, ownership of major investments is skewed in favour of foreigners, benefit sharing is not guaranteed, and investors are frequently not interested in mitigating the environmental consequences of production activities. The list is probably much longer than this. To validate such claims one needs statistics. However, data for Tanzania is generally lacking. Although capital flight is a real problem, relevant data is not available from official sources. The fact that agriculture and other areas have not attracted adequate FDI suggests that its contribution to poverty reduction nationally is low.

Much as they attract capital inflows, the absence of restrictions on profit remissions and the right to transfer 100 per cent of foreign exchange and profits outside the country not only encourage but also facilitate capital flight. Furthermore, Tanzania is said to be losing huge sums of government revenue through vertical integration in tourism, where all the services provided to tourists in Tanzania are paid for in the country of origin, thus denying the country any associated tax revenue.[14]

The environmental consequences of expanding tourism and extractive industries such as mining are becoming evident in Tanzania.[15] Among the environmental problems due to tourism are effluent discharges into the sea, mangrove destruction, beach erosion, and game park degradation. Ebony trees have also been depleted due to expansion in the woodcarving trade. Observable environmental problems in mining communities include the subsequent accumulation in sediments of mercury and its bio-magnification in the food chain within the aquatic ecosystem.

On the other hand, many sectors in Tanzania have attracted an impressive amount of private foreign investment. Among the major ones are the manufacturing, tourism, construction, transportation, mining, financial, and telecommunications sectors.[16] The following sub-sections look at the impact of new investments in three sectors.

Mining

As can be seen from Table 7, in terms of total number of mineral-related activities, while only 11 licenses were issued in 1990, a total of 262 and 413 were approved, respectively, in 1999 and 2001.

The mining sector has recorded remarkable growth judging from indicators such as the number and value of investments, employment opportunities, export earnings, volume of production, and new discoveries of mineral reserves. Table 8, for instance, shows that royalties collected by the government have grown from US$0.227 million in 1996 to US$ 8.663 million in 2000, a 32-fold increase.

However, the proportion of royalties to total mineral exports is insignificant (Table 9), despite having increased from 0.4 per cent in 1996 to 4.8 per cent in 2000.

Finance

As noted earlier, both local as well as foreign private participation in the financial sector is growing. A total of 19 banks and 12 non-banking financial institutions were established in Tanzania Mainland by July 2002. Sixteen of the banks have majority private foreign ownership while two are private local banks and one is state-owned. The proliferation of private players in the sector has led to more competition and increased efficiency in banking operations in the country. Foreign banks have built up a capital base and clientele, including major international corporations as well as local public and private enterprises. For example, by the end of 2000, the Standard Chartered Bank had built up a capital base of over US$220 million.

In addition, the new banks have introduced a number of innovative products and services previously not available in Tanzania, including Internet services for corporate customers (the first such service in East Africa), enabling corporate customers in the region to access their accounts or conduct business through electronic banking services. Apart from increasing employment opportunities in the country, these banks have also

Table 7 **Number of mineral-related establishments in Tanzania**

	Year												
Type of license	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002[a]**
Reconnaissance	na	na	11	10	30	13	40	21	5	23	na	11	8
Prospecting	9	18	72	59	132	100	192	341	321	218	224	182	45
Mining	2	7	9	4	2	na	5	13	11	11	25	46	3
Mineral Dealer	na	na	na	na	139	157	na	na	na	19	226	174	11
Total	11	25	92	73	302	270	237	385	389	262	475	413	67

Notes: [a] Denotes that data for 2002 are for January and February only.
na = not available.

Source: Kulindwa *et al.*, 2003.

Table 8 **Government revenue accruing from royalties (1996-2000)**

Category	**1996 (Millions Tshs/USS)**		**1997 (Millions Tshs/USS)**		**1998 (Millions Tshs/USS)**		**1999 (Millions Tshs/USS)**		**2000[a] (Millions Tshs/USS)**	
	Tshs	**US $**	**Tshs**	**US $**	**Tshs**	**US $**	**Tshs**	**US $**	**Tshs**	**US $**
Gemstone	117.7	0.203	89.7	0.147	82.3	0.136	202.1	0.253	471.8	0.590
Diamond	na	na	na	na	313.5	0.517	674.9	0.844	1.115.7	1.4
Diamond (exports by dealers)	14	O.024	20.7	0.034	21.2	0.035	22.8	0.029	53.1	0.66
Gold (exports by dealers)	na	na	11.7	0.019	3.7	0.003	15.6	0.02	10.0	0.013
Gold (exports by large-scale mines)	na	na	na	na	na	na	942.3	1.178	4,813.0	6.0
Gold (exports by Meremeta Ltd)	na	na	na	na	na	na	na	na	na	na
Total	131.7	0.227	122.1	0.199	420.7	0.691	1,857.7	2.324	6,463.6	8.663

Notes: Large-scale mines comprise Golden Pride Project and Ashanti Goldfields-Geita. Note also that due to difficulties involved in obtaining data from Meremeta Limited, royalties paid by this company are not available despite the fact that the company makes significant gold exports.

na = not available. The total figure for the year 2000 does not include royalties by Meremeta.

Source: Kulindwa, *et al.*, 2003.

Table 9 **Royalties as a percentage of total mineral exports (1996-2000)**

Year	**Mineral exports (US$ millions)**	**Royalties (US$ millions)**	**% of royalties to total exports**
1996	55.9	0.227	0.4
1997	92.8	0.199	0.2
1998	103.0	0.691	0.7
1999	85.6	2.324	2.7
2000	181.9	8.663	4.8

Source: Kulindwa *et al.*, 2003.

promoted new technology and improved skills through employee training. Current employee figures for the Standard Charter Bank, Citibank, and the Amalgam Bank of South Africa, for example, stand at 190, 100, and 934 employees, respectively.

The formal financial sector in Tanzania has undergone considerable change since the financial sector reforms of the last decade.

Privatization and foreign ownership have affected credit access for small and medium enterprises and for the rural sector. As a result of the reforms, most banks and financial institutions have withdrawn from the rural areas and are now concentrated in the urban centres. For example, over 80 branches of the former National Bank of Commerce, which were located in rural areas, were closed down during the 1990s.[17]

Telecommunications

The government has allowed private sector participation in the provision of non-basic services such as Internet service provision, mobile cellular telephones, sales and installation of equipment (telephone sets, fax, telex, etc.,), and in wiring subscriber premises. Note that the license for value-added investments and local land mobile cellular telephone operators requires that locally-owned shares be at least 35 per cent and that of foreigners can be more than 50 per cent.

Telecommunication services which are now provided in the country have made some of the remote villages in the country accessible through:

- basic and fixed telephone services
- mobile cellular services
- card phone services
- public data communication
- Internet communication services

In addition to the improvements in local technology, telecommunication services, and competitive prices, new job vacancies in the sector have been created. For example, the number of telephone lines installed grew from 76,369 in 1991, to 126,515 in 1999, and 177,802 in July 2001, with an exchange capacity of 234,640.

Foreign firms have also designed new and better managerial and technical skills that have helped to improve the operations of local companies. The result has been a boom in the supply of cellular services and a decline in the price of handsets. Fixed line installation delays have been largely eliminated.

Privatization policy in Tanzania

Private Sector Development (PSD) is one of the priorities of Tanzania's investment policy. With the appropriate macroeconomic policy environment and institutions in place, a strong private sector can generate revenue for governments, enhance efficiency, and also encourage competition. It is important that, during the course of PFI inflows, the domestic private sector is not put at a disadvantage. Tanzania's PSD strategy is based in part on the privatization of state-owned enterprises. By the end of June 2002, the Parastatal Sector Reform Commission (PSRC) had completed a total of 469 divestiture transactions.[18] These units were divested either through joint ventures between local and foreign investors, outright sales, or through leases and liquidations, mostly to domestic investors.

Most enterprises bought by domestic investors were relatively small while those acquired by foreign investors, many of them transnational corporations (TNCs), were large companies such as Tanzania Breweries and the Tanzania Cigarette Company. Most of these potentially profitable firms were running below capacity and plants were in poor condition.[19] Acquiring such companies required large investments in renovations, new equipment, meeting outstanding debts, and human resources.

The investment capital requirement imposed by the PSRC of US$50,000 (initially set at US$100,000) limited the participation of local investors most of whom have small capital capacity. However, most of the smaller privatized companies are now in the hands of local investors. Firms generating lower profits dominate this category while firms with higher value and profit potential are owned by foreign investors. Thus, the privatization policy in Tanzania has resulted in many large firms, mostly former parastatals, falling under foreign ownership.

Taxes and fiscal policy implications

Tax reforms, for example, streamlining and broadening the tax base, have been an important component of Tanzania's economic reform program. Throughout the 1980s and early 1990s, tax reforms aimed to simplify the tax system and enhance tax revenue collection. A value-added tax (VAT) was instituted in 1998 to replace sales tax and part of the stamp duty and entertainment taxes.

In 2002 general corporate tax in Tanzania stood at 30 per cent. This is similar to rates for other countries in sub-Saharan Africa except for Ghana at 35 per cent and Zimbabwe at 25 per cent. Tanzania has no withholding tax on interest, unlike South Africa which imposes 20 per cent and Ghana's 5 per cent. Withholding tax on dividends is 10 per cent, less than the South African rate of 12.5 per cent and Zimbabwe's 20 per cent. VAT on capital goods is zero and is 20 per cent on non-capital goods and services. In the mining sector, royalties are set at only 3 per cent of net sales revenue; no royalties are paid on cut and polished gemstones to encourage investment in mineral processing which can benefit the local economy in terms of employment generation and tax revenues.

There are two points related to tax structure in Tanzania. On the one hand is the claim that, despite these reforms, the private sector in Tanzania is burdened with a series of local taxes through numerous local licenses, permits, duties and levies which impose additional transaction costs on investors.[20] Multiplicity of taxes and non-transparent procedures, which encourage corruption, are obstacles to local investors and could work as barriers to inflows and operations of FDI in the country.

On the other hand, there are those who feel strongly that Tanzania is giving away more than necessary in the name of "investment incentives."[21] Paradoxically, both of these claims are correct and not unique to Tanzania. These are common problems to many developing countries and serve as barriers to sustainable development in Tanzania. Thus, there is an urgent need for the government to develop a tax regime with streamlined regulations and investment promotion, one that ensures fair and transparent returns to Tanzanians through tax collections.

Trade performance, export processing zones, and PFI

Trade policy is critical to facilitate imports required for production and to encourage exports. Improving Tanzania's trade environment is therefore a critical factor for attracting private foreign investment.

Tanzania now has a relatively open economy. Foreign exchange allocation, import licensing, exchange rates, etc., have been liberalized. On the positive side, many of the cumbersome, bureaucratic, and time-consuming procedures such as import/export and licensing processes have either been rectified or are being reformed.

Three major areas need considerable attention if more benefits from FDI are to be realized. First, trade openness has created illegal imports which remain a serious problem in Tanzania.[22] Border controls need to be strengthened and effective coordination mechanisms are also required, particularly at the highest political levels. Secondly, economic liberalization in general and trade liberalization in particular have not led to export growth that is proportional to the growing volumes of imports. Tanzania is still heavily dependent on primary exports. While agricultural exports have fallen by 50 per cent from their 1996 levels, mineral exports have increased seven-fold (Table 10). Meanwhile, manufactured exports fell by half. There is potential for diversification and expansion of the country's export base, which remains untapped despite liberalization of trade and investment.

PFI linkages with foreign aid

Official development assistance (ODA) to Tanzania has been declining.[23] Data shows Tanzania received US$617 million of ODA during 1995-98, significantly below the 1990-94 figure of US$876 million.

Relative to gross national product (GNP), ODA declined from 28 per cent to 13 per cent between 1990 and 1998. ODA per capita also declined from 46 per cent to 31 per cent during that same period. On the other hand, net FDI inflows increased from US$14 million to US$116 million annually, compensating for about half of the ODA decline. In 1990, the share of FDI to total resource flows was negligible but rose to 15 per cent in 1998.

There is a high degree of complementarity between aid and FDI. Aid in Tanzania is used to finance infrastructure projects, technical assistance, budget support, and debt relief. Foreign aid also has supported different economic and social sectors (such

Table 10 **Value of traditional and non-traditional exports (US$ millions)**

Commodity	1996	1997	1998	1999	2000	2001	2002	% Change (2001/02)
Agricultural commodities								
Coffee	136.11	119.28	108.74	76.60	83.70	57.10	35.22	(38.32)
Cotton	125.33	130.38	47.63	28.50	38.00	33.70	28.63	(15.04)
Sisal	5.32	9.12	6.78	7.30	5.60	6.70	6.55	(2.24)
Tea	22.54	31.83	30.43	24.60	32.70	29.00	29.60	2.07
Tobacco	49.24	53.64	55.39	43.40	38.40	35.70	55.52	55.52
Cashew nuts	97.77	91.08	107.32	100.90	84.40	56.60	46.59	(17.69)
Cloves	–	–	–	19.90	10.00	12.30	3.96	(67.80)
Sub-total	436.31	435.33	356.29	301.20	292.80	231.10	206.07	(10.83)
Non- traditional commodities								
Petroleum products	15.79	7.12	0.10	0.40	0.00	0.00	0.00	
Minerals	55.85	51.08	26.37	73.30	177.40	302.23	383.76	26.98
Manufactured goods	122.80	111.33	35.69	30.10	43.10	56.16	65.90	17.34
Other exports	133.01	147.70	170.08	138.40	149.90	186.95	246.82	32.02
Sub-total	327.45	317.23	232.24	242.20	370.40	545.34	696.48	27.71
Grand Total	763.76	752.56	588.53	543.40	663.20	776.44	902.55	16.24

Source: URT, Economic Survey, 2002, 2003a.

as livestock, health, and education) and financing of research activities. Most FDI in the tourism, manufacturing, mining, and construction sectors is heavily dependent on the services of the ports (harbours and airports), which have to a large extent been developed by aid support.

The key role of good governance

Despite sweeping economic reforms, the investment climate in Tanzania faces a number of challenges, which have undermined the potentially positive impacts of both domestic investment and FDI.

These challenges include excessive bureaucracy among government institutions, which creates fertile ground for corruption, thus increasing the cost of doing business.

Moreover, Tanzania's justice system fails to deliver adequate support to investors. A critical problem is that contracts often cannot be enforced through the courts because of backlogs, inefficiencies, and the absence of knowledge and awareness of commercial law in the court system. Such problems erode investors' confidence and undermine the security of their assets and /or investments.

In addition, the investment climate is adversely affected by the state of law and order.

All of these factors inhibit investors in Tanzania by increasing the cost of doing business and undermining efforts to build a competitive private sector.

Summary, conclusions, and recommendations

Tanzania is endowed with an abundance of productive natural resources such as arable land, a variety of raw materials, water, and mineral resources, and enjoys a prime geographical location within Africa. However, due to capital and skills deficiencies, Tanzania lacks the capacity to fully develop its existing productive resources to attain sustainable economic growth and raise living standards for its people. Resource endowment may be a necessary condition for the development of any country, but not a sufficient one. Tanzania needs the capacity to tap and utilize its rich resource endowment.

Tanzania has acknowledged and recognized the importance of attracting FDI in order to attain a desirable economic growth rate and improve living standards. In other words, the poor capital base and skills deficiencies in Tanzania justify the ongoing initiatives by the government to encourage more investment both from local entrepreneurs and foreign investors. In short, foreign investment is seen as a prerequisite for increased economic growth and development in Tanzania.

Although the preceding analysis of private foreign investment in Tanzania did not have access to consistent and accurate data, a number of tentative conclusions can be drawn. Tanzania is a relatively new entrant in the global competition for FDI. Its efforts to increase FDI date back to the first half of the 1980s when the country started liberalizing the trade regime as part of its Structural Adjustment Program. Foreign direct investment has experienced a dramatic upward trend in Tanzania, and the country's investment level during this period rose accordingly in large part because of FDI inflows. It can be concluded that FDI is an important channel for increasing economic growth in Tanzania. Thus, the government should further streamline regulations, including the investment incentive scheme in order to attract more FDI.

Foreign direct investment is the dominant component of PFI and is, in turn, dominated by direct equity as opposed to non-equity items such as long- and short-term intracompany loans and suppliers credit from related companies. This is an indication of a suitable and healthy climate where investment risk is minimized. Much as Tanzania also needs non-equity capital inflows, the government should continue to encourage direct equity-related FDI to ensure lower debt:equity ratios.

Bank borrowing from abroad for its own and domestic clients' financial requirements is not currently of great importance to Tanzania. A number of factors are said to constrain Tanzanian banks from foreign borrowing. Chief among these are the cost of borrowing, exchange risk, and the limited opportunities for onward domestic lending. Limited lending opportunities are a major inhibitor as domestic banks are plagued with excess liquidity. The absorptive capacity of the domestic market is generally limited for a number of reasons including lack of entrepreneurship and skills to design and manage business plans. There is, therefore, an urgent need to build capacity of investors in the business community.

Monitoring and evaluating FDI in Tanzania is constrained by poor data. For example, systematic data on FDI country of origin, FDI repatriated income and profits, and capital flight are lacking. Systematic data is an area which the Tanzania Investment Center needs to devote more resources to assist in management of the economy. Unless Tanzania develops a better statistical tracking system for PFI and/or FDI, monitoring and evaluating capital inflows will most likely fall short.

Looking at the various criteria used to evaluate the impact of FDI, it is clear that mining, services, and manufacturing are important sectors in terms of the value and growth of investment in the country, as well as in terms of generating government revenue. However, the primary sector, including agriculture and fishing, should also receive greater priority if employment creation is to be promoted. Although some studies show that FDI has generated growing employment, lack of appropriate skills, for example, within the mining sector is said to hinder labour absorption. This problem is particularly serious in rural areas. Skills development should be an integral part of developing a diversified rural economy. The availability of skilled human resources has not kept pace with industrial growth in Tanzania. Human resource development has not been given due emphasis at the level of national strategies. A more pro-rural employment strategy for mining is paramount to mitigate the marginalization of the rural sector and improve the benefits from FDI.

The importance of FDI in Tanzania also includes technology, linkages to the local economy, and contributions to the local infrastructure such as roads, schools, and hospitals. Both domestic and international trade have also improved substantially. The challenge ahead is to identify some major obstacles for example, within the investment incentive framework and tax regime and provide long-term corrective measures in order to make use of the untapped opportunities in this area.

Despite ongoing reforms, the tax structure in Tanzania remains complicated. Numerous local taxes impose additional transaction costs on investors. Multiplicity of taxes and non-transparent procedures which encourage corruption, are obstacles to local investors. They further work as barriers to inflows and operations of FDI in the country. In addition, Tanzania is giving away more than necessary in the name of "investment incentives." These are valid claims, which are not unique to Tanzania. They serve as barriers to sustainable development in Tanzania. There is an urgent need for the government to develop a tax regime with streamlined regulations and investment promotion that ensures fair and transparent returns to Tanzanians through tax collections. The current royalty of 3 per cent, for example, could be raised to 5 per cent without compromising the country's competitiveness in the world market.

An act adopted by the Tanzanian parliament in August 2003 allows foreign investors to purchase shares on the Dar es Salaam Stock Exchange (DSE). Prior to this act, foreign investors were officially not allowed to participate in the market. The rules governing capital markets in Tanzania allow non-residents to purchase shares at the DSE only under certain restrictions. Capital markets in Tanzania are still in their infancy. Of the six business establishments listed by the Capital Market Authority, only two can accommodate additional foreign investors because the remaining four are already 65 per cent or more foreign-held.

Tanzania's development activities must be financed if poverty reduction and improved welfare of the people are to be realized. When the government is striving to improve domestic savings, other reliable and effective sources need to be secured. Obviously, private foreign investment is one of the potential and most effective sources if properly managed. Some positive impacts of FDI are evident in the mining, financial, and telecommunication sectors. While the government continues to find ways to attract more FDI, existing investment agreements should be subjected to continuous review and renegotiations if and as necessary to cope with adverse impacts.

It is equally important to note that, while its role and importance is being acknowledged, government efforts to attract FDI should not compromise parallel initiatives to improve domestic savings. The role of FDI can easily be exaggerated primarily because authorities do not want to take steps to raise domestic savings. There is a need to change such attitudes since investment levels in any country are principally determined by domestic savings while foreign investment can play only a secondary role.

Biography

Oswald Mashindano is a Research Fellow with the Economic Research Bureau (ERB) of the University of Dar es Salaam in Tanzania. He wrote this chapter while on sabbatical leave attached to a project on Regional Programme on Enterprise Development (RPED) at the Economic and Social Research Foundation (ESRF), also in Dar es Salaam. For the past 16 years, Dr Mashindano has been a lecturer at the University of Dar-es-Salaam. He is also a part-time lecturer at Zanzibar University, College of Business Education (CBE) and Wardolf College (Dar es Salaam Campus). Dr. Mashindano is the co-author of various publications. His recent books include *Maendeleo Stahimilivu (Sustainable Development); Tourism Growth and Sustainable Development and Mining for Sustainable Development in Tanzania*. He is also a co-author of several articles including: The *Agricultural Sector and Poverty in Tanzania: The Impact and Future of the Reform Process*; and *Poverty in Tanzania: Situation, Perception and Escape Routes*.

Appendix

Some of the measures taken by the government of Tanzania to attract and retain PFI

1. Investment Procedures: FDI Registration Process

Prior to setting up a business, parties must acquire a few general approvals, licenses, and permits. New establishments must register with the Business Registration and Licensing Agency (BRELA) to acquire a Certificate of Incorporation or Certificate of Compliance. This is a compulsory requirement for both local and foreign establishments. Thereafter registration for Trade and/or Services Marks Certificate is needed before finally acquiring a Business License. In addition, operations in various sectors would require sector-specific licenses.

Tax law requires all establishments to register with the tax authority namely, the Tanzania Revenue Authority (TRA). All investors are issued a Tax Identification Number (TIN) before making any transaction related to the respective business.

Since all land in Tanzania belongs to the state, investors can acquire land through government granted rights of occupancy, Tanzania Investment Center (TIC) derivative rights, or subleases granted out of rights of occupancy by the private sector. Non-resident occupancy of land is restricted to investment purposes only and investors who need to deploy foreign personnel must apply for residence permits.

TIC has senior officers from other departments and/or sectors whose approval is obligatory permanently stationed at the Tanzania Investment Center (TIC). This move is aimed at facilitating and expediting the registration process. These sectors are for example, land, TRA, Immigration, Labour, Trade, and BRELA.

2. Investment Incentives Measures

As noted before, Tanzania has amended and enacted several policies in order to attract more FDI. A few of these measures are briefly elaborated below.

Investment Promotion Policy

Tanzania approved its new investment policy in October 1996. The aim of the review was to establish a better business and investment environment by pointing out legislation that was anti-business. Such measures were meant to reduce or eliminate bureaucracy.

Establishment of TIC

TIC was established in 1997 as a one-stop centre so as to promote, coordinate, and facilitate investment in Tanzania. It is a focal point for all investors and liaises with investors from initial enquiries right up to project start-up. The Center aims at completing the application process within 14 working days. All government departments and agencies are required by law to cooperate fully with the Center. The TIC deals with all enterprises whose minimum capital investment is not less than US$300,000 if foreign owned and US$ 50,000 if locally owned.

Investment Guide

The Investment Guide is meant to provide investors with important information on investment opportunities existing in Tanzania. Investment potential in Tanzania Mainland includes sectors such as mining and infrastructure (road construction, bridges, airports, generation of electricity, telecommunication, water services, backup services to mining). Others are agriculture, commercial buildings, micro-finance banks, export processing, manufacturing, and tourism.

Investment Incentives

The incentive items in Tanzanian investment policy are diverse. They include:

- Import duty drawback on raw materials
- Rescheduling of VAT payment on project capital assets
- Zero-rated VAT on manufactured exports
- Yearly appreciation of unrecovered capital investment in mining
- Five-year carry-over of all business losses against future profits
- The right to transfer outside the country 100 percent of foreign exchange and profit earned
- Reduced import tariffs on project capital items, 5 per cent import duty for investment in priority areas and zero per cent for investment in lead sectors
- 100 per cent investment allowances and deductions against Tanzanian corporate tax in the first year of income
- Access to land
- Automatic approval of the employment of up to five foreign nationals in any project granted a certificate of incentives

Dispute Settlement

The 1997 Investment Act provides for negotiation and settlement of disputes between different parties. Upon failure to reach an amicable settlement, arbitration can be sought through the national laws and through the International Center for Settlement of Investment Disputes (ICSID). In 2000, efforts made to strengthen and streamline arbitration through national legislation led to the establishment of the Commercial Court, which was expected to expedite litigation of commercial disputes. Despite this move, difficulties in enforcing contractual obligations, especially in relation to debt collection from local customers of foreign affiliates, and lack of transparency and timeliness in resolution of commercial disputes, continue to be the prime weaknesses in the framework for settling investment and business-related disputes at the national level.

Appendix Table 1 **Trends in tax revenues (millions of TShs)**

Tax component	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02
Import duty &	50,229	(23%)	81,926	(27%)	131,387	(34%)	176,773	(35%)	187,375
excise duty	(32%)	171,993	(28%)	178,000	(26%)	250,397	(31%)	266,322	(29%)
Sales tax	70,388	(32%)	81,965	(27%)	84,558	(22%)	115,278	(23%)	145,371
(local & imports)	(25%)	0	(0%)	0	(0%)	0	(0%)	0	(0%)
Value-added Tax	0	(0%)	0	(0%)	0	(0%)	0	(0%)	0
	(0%)	208,579	(34%)	222,341	(32%)	301,983	(36%)	351,894	(37%)
Income tax	58,505	(27%)	86,645	29%	103,871	(27%)	125,716	(25%)	156,951
	(27%)	162,355	(26%)	209,712	(31%)	194,013	(23%)	219,852	(23%)
Other tax	41,234	(18%)	49,363	(17%)	63,918	(17%)	87,588	(17%)	96,467
	(16%)	73,356	(12%)	75,053	(11%)	81,396	(10%)	100,410	(11%)
Total tax revenue	220,358	(100%)	299,899	(100%)	383,744	(100%)	505,355	(100%)	586,164
	(100%)	616,284	(100%)	685,106	(100%)	827,789	(100%)	938,478	(100%)

Notes:
(a) Prior to the introduction of the Value-added Tax (which became operational during 1998/99), there was sales tax.
(b) Figures in brackets are proportions of total tax revenue.

Source: URT (2003a).

Appendix Table 2 **GDP share of domestic savings and Tanzania's investment: 1990-2002** (millions of TShs)

Year	Total GDP	Domestic savings	% of Domestic savings to GDP	Gross capital formation	% of gross capital formation to GDP
1990	760,005	78,578	10.3	216,909	28.5
1991	989,594	114,120	11.5	286,072	29.0
1992	1,275,917	131,249	10.3	373,043	29.2
1993	1,607,763	46,686	3.0	433,548	27.0
1994	2,125,324	(3,625)	(0.2)	566,660	26.7
1995	2,796,642	75,395	2.7	597,792	21.4
1996	3,452,558	270,988	7.8	627,237	18.2
1997	4,281,600	284,076	6.6	700,803	16.4
1998	5,126,177	299,629	5.8	902,614	17.6
1999	5,977,699	344,000	5.8	999,650	16.7
2000	6,705,134	803,000	12.0	1,281,046	19.1
2001	7,624,616	925,000	12.1	1,406,302	18.4
2002	8,618,071	1,204,000	14.0	1,807,750	21.0

Sources: URT (2003a); NBS (2000); and NBS files.

Appendix Table 3 **Approved projects, employment, and total value of investment in Tanzania (1997-2002)**

Year	Total no. of approved projects	New projects	Old projects (expansion & rehabilitation	Local projects	Foreign projects	Joint projects	Total employment	Total investment (million TShs)
1997	199	165	34	90	53	56	37,311	602,642
1998	213	157	56	111	46	56	35,010	447,275
1999	181	136	45	81	43	57	12,933	399,138
2000	1,624	1,219	405	745	343	536	241,250	4,957,288
2001	223	155	65	87	53	80	24,699	1,091,805
2002	311	206	105	126	104	81	33,132	1,024,536

Source: URT (2003a).

Appendix Table 4 **Taxes paid to the government by select privatized companies** (millions TShs)

Company	Year of divestiture	2000/01	2001/02
Tanzania Breweries Company Limited	1993	18,334.5	43,472.0
New African Hotel	1993	325.7	664.3
Tanzania Cigarette Company Limited	1995/96	10,598.8	40,880.5
Tanga Cement	1995	–	1874.4
National Bank of Commerce	1997	–	3,420.4
Tanzania Portland Cement (Wazo)	1997	1,807.7	3,403.6
Mbeya Cement Company	1997	–	847.5
Kilombero Sugar Company	1997/98	1,590.0	570.7
Kibo Paper Industries	1997	57.5	101.4
Kunduchi Beach Hotel	1997	17.6	33.2
Morogoro Canvas Mill	1998	1.9	109.7
Cooperatives and Rural Development Bank	1999	–	1,818.8
Mtibwa Sugar Company Limited	1999	889.3	892.5
TPC – Arusha Chini	2000	2,339.5	2,107.5
Dar es Salaam Airports Handling Company Limited	2000	24.6	533.9
Tanzania Telecommunication Company Limited	2001	512.7	28,529.7
Total		**36,499.8**	**129,260.1**

Source: URT (2003a).

References

Ackello-Ogutu C. and Echessah P. N. "Unrecorded Cross-Border Trade between Tanzania and her Neighbours: Implications for Food Security." Technical Paper No. 89. (Dar es Salaam: USAID, 1998).

Bank of Tanzania (BoT), National Bureau of Statistics (NBS), and Tanzania Investment Center (TIC), "Report on the Study of Foreign Private Capital Flows in Tanzania." Dar es Salaam, 2001.

Chachage, C. S. L., "The Meek Shall Inherit the Earth but not the Mining Rights," in P. Gibbon (ed), *Liberalized Development in Tanzania: Studies in Accumulation Processes and Local Institutions* (Upsalla, Sweden: The Nordic Institute for African Studies, 1995).

Economic Research Bureau (ERB), "A Study of Rural Financial Services in Tanzania and Proposals for the Future Rural Financial Services Programme." Final Report Submitted to the Ministry of Agriculture and Cooperatives (MAC) and International Fund for Agricultural Development (IFAD) Dar es Salaam, ERB-UDSM, 2000.

Economic and Social Research Foundation (ESRF), "Labour Flexibility in Tanzania." Report Submitted to the ILO. Dar es Salaam, 2002.

ESRF. "Linking Millennium Development Goals (MDGs) and Policy Frameworks in Tanzania." Report Submitted to the United Nations Development Programme (UNDP), Dar es Salaam, 2003.

Hafidh, M. "Zanzibar Direct Investment: Evolution and Performance." Paper Presented at the First National Reference Group (NRG) of the Investment for Development (IFD) (Dar es Salaam: ESRF, 2002).

Kabelwa G. M. "South African FDI in East Africa: The Case of Tanzania." Working Paper Series No. 5 (Dar es Salaam: ESRF, 2003).

Kulindwa, K.; O. Mashindano; F. Shechambo; and H. Sosovele. *Mining for Sustainable Development in Tanzania* (Dar es Salaam: Dar es Salaam University Press, 2003).

Kulindwa, K.; O. Mashindano; and H. Sosovele. *Tourism Growth and Sustainable Development*. (Dar es Salaam: Dar es Salaam University Press, 2002).

Madete L. and Aiko R. "Investment for Development Project. Final Report Submitted to the Government of Tanzania." (Dar es Salaam: ESRF, 2003.)

Musonda, F. *Development Strategy and Manufactured Exports in Tanzania*. Lund Economic Studies No. 52 (CITY: Department of Economics, University of Lund, 1992).

Musonda, F. and Madete, L. "Tanzania Investment Policy and Performance." (Dar es Salaam: ESRF, 2002).

National Bureau of Statistics (NBS). *National Accounts of Tanzania* (1990-2000) (Dar es Salaam: President's Office, Planning and Privatization, 2000).

Ndulu, B. “Tanzania’s Economic Development: Lessons from the Experience and Challenges for the Future”, in L.A. Msambichaka, *et al.*, (eds), *Development Challenges and Strategies for Tanzania: An Agenda for the 21st Century* (Dar es Salaam: Dar es Salaam University Press,1994).

Nyoni T.S. “Capital Flight from Tanzania”, in Ajayi S.I. and Khan M.S. (eds.), *External Debt and Capital Flight in Sub-Saharan Africa*, Washington, DC, IMF.

Ole-Naiko, E.N. “Situation of Investment in Tanzania and the Need to Attract Investment in the Livestock Sector and its Related Products.” Paper Presented at the 2nd Think Tank Workshop, Arusha.(Dar es Salaam: TIC, 2002).

UNCTAD, *World Investment Report 2000 - Cross-border Mergers and Acquisitions and Development*, New York, July 2000

United Nations Development Programme (UNDP). “Linking Millennium Development Goals (MDGs) and Policy Frameworks in Tanzania.” Report Submitted to the Manager, Resident Coordinator’s Office, UNDP, Dar es Salaam, 2003.

United Nations. *UNCTAD Investment Policy Review: The United Republic of Tanzania*, UNCTAD/ITE/IPC/Misc.9. (Geneva: United Nations, 2002).

United Republic of Tanzania (URT). “National Investment Promotion Policy.” President’s Office, Planning and Privatization, Dar es Salaam.

“The Mining Act, 1997.” Ministry of Energy and Minerals, 1997.

The Tanzania Development Vision 2025, President’s Office, Planning and Privatization, 1999.

Economic Survey 1998. President’s Office, Planning and Privatization, 1999a.

Poverty Reduction Strategy Paper (PRSP), Vice President’s Office, 2000.

Economic Survey 1999, President’s Office, Planning and Privatization, 2000a.

Tanzania Investment Guide, Dar es Salaam, Tanzania Investment Center, 2001.

“Poverty Reduction Strategy Paper (PRSP) Progress Report 2000/2001: Draft Two,” 2001a.

Economic Survey 2000, President’s Office, Planning and Privatization, 2001b.

Rural Development Strategy (RDS): Final Report, Prime Minister’s Office, 2001c.

“Report on the 2nd Think Tank Meeting on Strategic Investment Promotion in the Livestock Sector,” Ministry of Water and Livestock Development (MoWLD), 2002.

“Public Expenditure Review (PER) for the Agricultural Sector: Financial Year 2002/03,” Ministry of Agriculture and Food Security, 2002a.

Household Budget Survey 2000/01, NBS, 2002b.

"Privatization in Tanzania: Annual Review 2001/2002 and Action Plan 2002/2003," President's Office, Planning and Privatization, 2002c.

"Situation Analysis of Production, Processing, Marketing and Investment in the Livestock Sector in Tanzania." Report Prepared for the Livestock Sub-Sector Think Tank Workshop, Ministry of Water and Livestock Development, 2002d.

Economic Survey 2001, President's Office, Planning and Privatization, 2002e.

"Reform, Growth and Poverty Reduction: Opening Address by the President of the United Republic of Tanzania, His Excellency Benjamin William Mkapa at the Inaugural Tanzania Development Forum." Dar es Salaam, 2003.

Economic Survey 2002, President's Office, Planning and Privatization, 2003a.

World Bank. *Agriculture in Tanzania Since 1986: Follower or Leader of Growth* (Washington, DC: IFPRI, 2000).

Footnotes

1 The United Republic of Tanzania was formed in 1964 following the union of the Republics of Tanganyika (now Tanzania Mainland) and Zanzibar (including the island of Pemba). Throughout this paper Tanzania is referred to as Tanzania Mainland, which is the major focus of the present discussion.

2 URT, *Tanzania Investment Guide* (Dar es Salaam: Tanzania Investment Center, 2001) and Kulindwa *et al.*, 2003.

3 See for example URT, "Report on the 2nd Think Tank Meeting on Strategic Investment Promotion in the Livestock Sector (Dar es Salaam: Ministry of Water and Livestock Development, 2002) and United Nations, *UNCTAD Investment Policy Review: The United Republic of Tanzania* UNCTAD/ITE/IPC/Misc.9, Geneva, 2002.

4 BoT, NBS, and TIC, "Report on the Study of Foreign Private Capital Flows in Tanzania," Dar es Salaam, 2001; UN, 2002; E.N. Ole-Naiko, "Situation of Investment in Tanzania and the Need to Attract Investment in the Livestock Sector and its Related Products." Paper Presented at the 2nd Think Tank Workshop, Arusha (Dar es Salaam: TIC, 2002).

5 URT, 2003.

6 These findings are based on a total of 404 companies surveyed in 1999. Since then no other such survey has been conducted in the country, despite the fact that the BoT, TIC, and NBS used this survey as a capacity- building and learning exercise for conducting a more comprehensive study.

7 BoT, NBS, and TIC, 2001.

8 UN, 2002.

9 Specific measures are included in URT, "National Investment Promotion Policy," President's Office, Planning and Privatization, 1996 and UN, 2002.

10 UN, 2002 and Kulindwa *et al.*, 2003.

11 See URT, "The Mining Act 1997," Ministry of Energy, 1997 and UN(2002).

12 Establishments listed by the Capital Market Authority are Tanzania Breweries Limited (TBL), Tanzania Oxygen Limited (TOL), Tanga Cement Corporation, Tanzania Cigarettes Company (TCC), Tanzania Tea Parkers Company Limited (TATEPA), and Dar es Salaam Harbours and Airport Handling Company Limited (DAHACO). Out of the six, TOL and DAHACO have not exhausted the 65% ceiling.

13 Results for other evaluation criteria used in this survey are presented in UN, 2002.

14 Kulindwa *et al.*, 2002.

15 See for example Kulindwa et al,. 2002 and Kulindwa *et al.*, 2003.

16 See for example UN, 2002; L. Madete and R. Aiko, "Investment for Development Project. Final Report Submitted to the Government of Tanzania" (Dar es Salaam: ESRF, 2003).

17 Economic Research Bureau, "A Study of Rural Financial Services in Tanzania and Proposals for the Future Rural Financial Services Programme." Final Report Submitted to the Ministry of Agriculture and Cooperatives (MAC) and IFAD. (Dar es Salaam: ERB, 2000)

18 URT, *Privatization in Tanzania: Annual Review 2001/2002 and Action Plan 2002/2003*. (Dar es Salaam: President's Office, Planning and Privatization, 2002c).

19 UN, 2002.

20 URT, "Situation Analysis of Production, Processing, Marketing and Investment in the Livestock Sector in Tanzania." Report Prepared for the Livestock Sub-Sector Think Tank Workshop, Ministry of Water and Livestock Development, Dar es Salaam, 2002d; and UN, 2002.

21 See, for example, C.S.L. Chachage, "The Meek Shall Inherit the Earth but not Mining Rights." In Gibbon (ed), *Liberalized Development in Tanzania: Studies in Accumulation Processes and Local Institutions* (Upsalla, Sweden: The Nordic Institute for African Studies, 1995); and Kulindwa *et al.*, 2003. Looking at the tax structure critically, one realizes that Tanzania has been overly generous to investors compared to many other countries in both the developing as well as developed world. The situation could be improved by adjusting tax incentives to be more favourable for the local owners.

22 C. Ackello-Ogutu and P.N. Echessah, "Unrecorded Cross-Border Trade Between Tanzania and her Neighbours: Implications for Food Security." Technical Paper No. 89 (Dar es Salaam: USAID, 1998.

23 UN, 2002.