# Investment Policy in Select Least Developed Countries

## – Performance and Perceptions

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Twenty Years of Social Change
1984 to 2003

# 0337

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**Published by:**

कट्स CUTS

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

This report* is being published as a part of the Investment for Development Project, with the aim to create awareness and build capacity on investment regimes and international investment issues in seven developing and transition economies: Bangladesh, Brazil, Hungary, India, South Africa, Tanzania and Zambia. It is supported by:

DFID
Department for International Development, UK

UNCTAD



**Citation:**

CUTS, 2003, Investment Policy in Select Least Developed Countries
-Performance and Perceptions

**Printed by:** Jaipur Printers P. Ltd., Jaipur 302 001

**ISBN 81-8257-010-7**

***Other reports are also available with CUTS***

#0337 SUGGESTED CONTRIBUTION INR50/US$10

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| | |
|---|---|
| BEPZA | Bangladesh Export Processing Zones Authority |
| BITs | Bilateral Investment Treaties |
| BoP | Balance of Payments |
| BoI | Board of Investment |
| BSCIC | Bangladesh Small and Cottage Industries Corporation |
| BTTB | Bangladesh Telegraph and Telephone Board |
| CUTS | Consumer Unity & Trust Society |
| DFID | Department for International Development |
| EAC | East African Community |
| EPZ | Export Processing Zone |
| EU | European Union |
| FDI | Foreign Direct Investment |
| FY | Financial Year |
| GDP | Gross Domestic Product |
| GFCF | Gross Fixed Capital Formation |
| ICSID | International Centre for Settlement of Investment Disputes |
| IFD | Investment for Development |
| IIFC | Infrastructure Investment Facilitation Centre |
| IMF | International Monetary Fund |
| ISP | Internet Service Provider |
| LDC | Least Developed Country |
| MFA | Multi-fibre Arrangement |
| MIGA | Multilateral Investment Guarantee Agency |
| NRB | Non-resident Bangladeshi |
| OPIC | Overseas Private Investment Corporation |
| PMO | Prime Minister's Office |
| PPP | Purchasing Power Parity |
| RMG | Ready-made Garment |
| SAARC | South Asian Association for Regional Cooperation |
| SADC | Southern African Development Community |
| SAGQ | South Asian Growth Quadrangle |
| SoE | State-owned Enterprise |
| TA | Telecom Authority |
| TCC | Tanzania Communications Commission |
| TIC | Tanzania Investment Centre |
| TPTC | Tanzania Posts and Telecommunications Corporation |

| | |
|---|---|
| TRP | Telecommunication Restructuring Programme |
| UNCTAD | United Nations Conference on Trade and Development |
| UK | United Kingdom |
| US | United States of America |
| VAT | Value Added Tax |
| VSAT | Very Small Aperture Terminal |
| WIR | World Investment Report |
| ZAFREZA | Zanzibar Free Economic Zones Authority |
| ZCCM | Zambia Consolidated Copper Mines |
| ZFPA | Zanzibar Free port Authority |
| ZIC | Zambia Investment Centre |
| ZIP | Zanzibar Investment Policy |
| ZIPA | Zanzibar Investment Promotion Authority |

# Preface

Least developed countries (LDCs) are defined by the United Nations as the ones which have low per capita gross domestic product and poor indicators for nutrition, health, education and literacy. Further, these countries are said to be economically vulnerable because of instability in agricultural production and exports, low importance of manufacturing and services in production and exports, and narrow economic base. These characteristics make LDCs vulnerable to domestic as well as global crises. Almost all the LDCs undertook policy measures to improve their economic base in 1990s, which included measures of economic liberalisation and restructuring. Like other developing countries LDCs have also adopted policies and regulatory changes to facilitate higher FDI inflows, such as privatisation of state-run units, removal of licensing, and quotas and other restrictive measures, etc.

In 1990s, FDI inflows increased at a fast rate the world over, including the LDCs. If we look at the data, as per the United Nations Conference on Trade and Development (UNCTAD), FDI in LDCs increased from an annual average of US$0.6bn during 1986-90 to an annual average of US$3.7bn during 1996-2000. Further, LDCs weathered the slump in global FDI inflows in 2001 better than developed and most developing countries, since inflows to these countries actually increased in 2001. FDI in LDCs, though small in absolute numbers, makes a substantial contribution to gross domestic capital formation in many of the LDCs. However LDCs remained small players in the global FDI race in 1990s, since most FDI flowed into developed and big developing countries.

It is important to strengthen investment policy regimes of LDCs to facilitate higher FDI since it can play an important role in promoting economic development. It is also important to devote more resources to study the experiences of LDCs with FDI, to develop strategies on FDI to promote economic growth in these countries. More studies on FDI data in LDCs should be conducted, since extensive overall and sectoral data on FDI is not available for many LDCs.

This report studies the investment regimes of three LDCs: Bangladesh, Tanzania and Zambia. All the three countries had adopted policy measures to facilitate inward FDI in 1990s along with other measures of liberalisation in 1990s. Despite this, Bangladesh and Zambia did not experience a steady or constant increase in FDI inflows, in contrast to Tanzania. Even then, Tanzania remained a small player in the global and regional FDI game. Bangladesh, in fact, is reported to have the most liberal investment regime in South Asia. The performance of the Zambian economy in 1990s was quite poor, as it actually shrunk in this period. The report compares FDI policies, performance and perceptions in the three LDCs and recommends some policy and action changes to facilitate FDI, which would promote economic growth and development.

This report has been prepared as part of a seven-country two-year project "Investment for Development" implemented by Consumer Unity & Trust Society, Jaipur, India with the support of the Department for International Development (DFID), UK, and in collaboration with UNCTAD.

CUTS would like to thank David Ongolo, Research Adviser for CUTS in Nairobi, Kenya, for preparing this report. We would also like to thank Farooq Sobhan, President, Bangladesh Enterprise Institute, and K.S. Sajeev and Eric Kalimukwa of Africa Resource Centre, Lusaka, Zambia for commenting on the report. Lastly, I would like to thank my colleagues at CUTS: Rajeev D. Mathur, Nitya Nanda and Sanchita Chatterjee for providing critical comments and adding value to the report.

| | |
|---|---|
| December 2003 | Pradeep S. Mehta |
| Jaipur | Secretary General |

*CHAPTER-1*

# Introduction

It is now widely acknowledged that Foreign Direct Investment (FDI), under conducive environment for both foreign investors and host governments, has the potential to play the role of an engine of growth in developing countries. The purpose of this paper is to analyse the role of FDI in the economy of three LDCs: Bangladesh, Tanzania and Zambia, which are a part of a seven-country study under the project, entitled *Investment for Development* (IFD).

The project was implemented by Consumer Unity & Trust Society (CUTS), India, supported by the Department for International Development (DFID), UK, and in collaboration with United Nations Conference on Trade and Development (UNCTAD). The project sought to assist the selected countries in attracting investment by identifying the factors that encourage or inhibit investment flows, identifying the problems or deficiencies that exist at the national level, and designing and implementing solutions.

To start with, this paper compares the investment policy framework in the three LDC project countries. Secondly, it compares the performance of the countries in attracting FDI. Thirdly, it compares the civil society's views on FDI in the three countries. This report is based on the Country Papers, prepared by the country researchers in the three countries as well as secondary data obtained from the sources cited in the references.

The LDCs are a group of countries with very low incomes and are generally concentrated in the southern part of the hemisphere. As Table 1.1 below shows, Bangladesh is the biggest of the three countries in terms of population, and Gross Domestic Product (GDP) in terms of purchasing power parity (PPP). LDCs generally exhibit low rates of growth. This is evident from the negative rates of economic growth in Zambia during the period 1975-2000 and later during 1990-2000. This, of course, puts a great challenge before the developmental process in these countries. However, in terms of key social indicators, one of the three countries, Bangladesh, has been performing relatively well, for example, in primary education, which can be gauged from the figures of enrolment of children in primary schools.

LDCs receive relatively small amounts of FDI but this can play an important role in their domestic capital formation. Official development assistance (ODAs) is still the largest source of external capital for LDCs but this declined in absolute and relative terms between 1995 and 2000. FDI inflows to LDCs are highly concentrated: between 1986-1990, the top five LDCs received 78 percent of FDI received by all LDCs. However, by 1996-2001 the share of the top five had declined by 55 percent. A point to be noted is that relatively fewer LDCs receive FDI in the form of mergers and acquisitions (M&As) compared to other developing and developed countries: one problem faced by LDCs is a lack of sectoral breakdown of FDI data.

**Table 1.1: The Three LDCs: Comparative Social and Economic Situation**

| | Population in 2000 (millions) | Total GDP in 2000 (nom-inal US$bn) | GDP per capita in 2000 (PPP US$) | GDP per capita– annual growth rate (percent) | | Net enrolment primary schools in 1998 (percent) |
|---|---|---|---|---|---|---|
| | | | | 1975-2000 | 1990- 2000 | |
| **Bangladesh** | 137.4 | 47.1 | 1602 | 2.2 | 3 | 100 |
| **Tanzania** | 35.1 | 9 | 523 | 0 | 0.1 | 4 |
| **Zambia** | 10.4 | 2.9 | 780 | -2.1 | -2.3 | 22 |

*Source: UNDP, Human Development Report, 2002*

*CHAPTER-2*

# Recent Trends and Patterns of FDI

## 2.1. Volume of FDI

The three LDCs are far from being major players in terms of destinations for FDI. Table 2.1 shows that only Tanzania has managed a considerable increase in FDI inflows since the early 1990s unlike the other two countries that have not been able to sustain a steady growth in FDI. Annually, Bangladesh attracted only US$6mn between 1990 and 1995. Even though there was an appreciable jump over the four-year period starting 1997, it sharply declined to US$78mn in 2001. After averaging US$122mn on annual basis between 1990-95, FDI inflows in Zambia peaked in 1997 at US$207mn but declined steadily till 2001 before picking up again in 2002.

**Table 2.1: Inward FDI Flows in US$mn and Year-specific Share for the Region**

| Country/ Year | 1990-95 (Annual average) | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | Percent share for region at highest in flow (year as shown) |
|---|---|---|---|---|---|---|---|---|
| Bangladesh | 6 | 14 | 139 | 190 | 178 | 280 | 78 | 0.2 (share in 2000 of region's131,123) US$bn |
| Tanzania | 39 | 9 | 158 | 172 | 183 | 193 | 224 | 1.9 (share in 2001 of region's 11,841) |
| Zambia | 122 | 117 | 207 | 198 | 163 | 122 | 72 | 2.5 (share in 1997 of region's 8,137) |

*Source: UNCTAD, World Investment Report, 2002*

From a regional perspective, FDI in Bangladesh at US$280mn in 2000, which was the highest level attracted by the country, was only 0.2 percent of the US$131bn of FDI that went to the South, East and South-East Asia region. Similarly, while FDI to Tanzania has exhibited a steady growth since 1996, the amount of US$224mn in 2001 was a tiny share of the almost US$12bn flowing to sub-Saharan Africa in 2001. However, from a closer East African regional perspective, the flows were more significant in comparison to Kenya's US$50mn and slightly less than Uganda's US$ 229mn in 2001. Peak FDI inflows in Zambia during 1997 of US$207mn constituted a share of 2.5 percent in the region.

It must be noted that the above figures based on UNCTAD *World Investment Report* (WIR), 2002 have been disputed by the Government of Bangladesh. A World Bank report entitled, "*Foreign Direct Investment in Bangladesh*", published in October 1999, indicates that contrary to what has been indicated by UNCTAD WIR, Bangladesh did far better in attracting FDI during the period 1996 to 1999. The figures given are shown in Table 2.2 below. The total for the three-year period, 1996-99, is US$1.6bn. The corresponding figure, according to the WIR figures, is only $507mn, a difference of $1.125bn. The World Bank report provides details of the FDI inflows, which was primarily in the energy sector (oil and gas exploration and power generation).

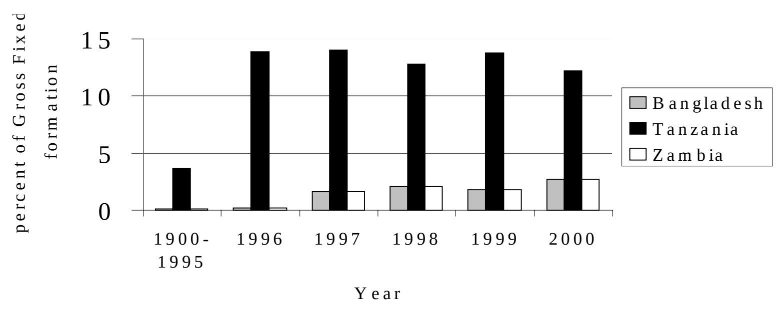
**Table 2.2. Foreign Direct Investment in Bangladesh**

| | |
|---|---|
| 1996-1997 | US $355mn |
| 1997-1998 | US $463mn |
| 1998-1999 | US $814mn |
| **Total** | **US $1.632bn** |

*Source: World Bank, Foreign Direct Investment in Bangladesh, 1999*

In terms of the importance of FDI in the overall investment in the economy, the picture is as shown in Chart 2.1. FDI inflows consistently contributed to above 13 percent of gross fixed capital formation (GFCF) in Tanzania since 1996, compared to Bangladesh and Zambia, where it was insignificant.

**Figure 2.1: The Three LDCs: Inward FDI Flows as a percentage of Gross Fixed Capital Formation**




*Source: UNCTAD, World Investment Report, 2002*

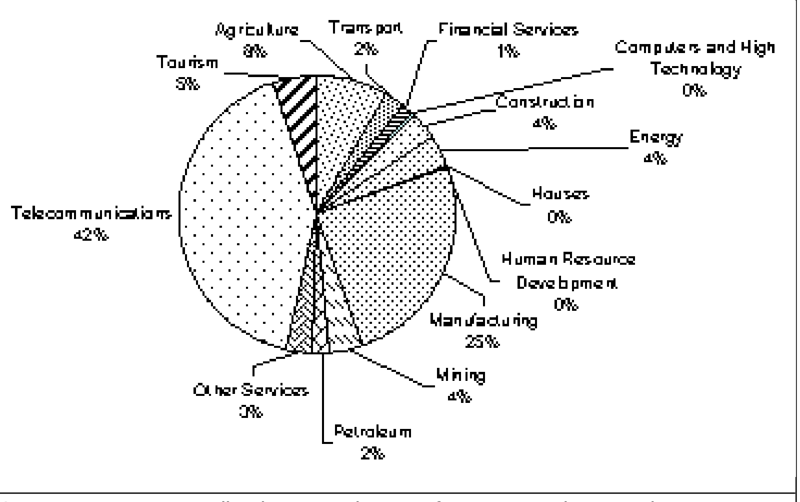
Bangladesh is the only country among the three LDCs that has shown FDI outflows though in meager quantities between 1991 and 2002. The annual average outflows from the country was US$3mn between 1991 and 1998 and peaked in 2001 at US$21mn. Tanzania had an outflow of only US$1mn in 2000 whereas Zambia did not have anything to show.

## 2.2. Sectoral Distribution

There is no reliable official comparable data on the annual sectoral distribution of FDI in the three LDCs. For Tanzania, estimates have been made based on the number of projects that have been approved by the Tanzania Investment Centre (TIC), which says that between 1990 and 2000, the manufacturing sector, with 369 projects, attracted the highest number of foreign investors, followed by tourism with 114 projects, the agricultural sector with 91 and the natural resources sector with 77 over the same period.

The natural resources sector in Tanzania attracted a significant amount of projects, especially in the period 1996-1997, mostly directed to the fisheries segment. This development was a result of efforts to take advantage of the European market for fish fillet. Developments in this area have, however, been

**Figure 2.2: Tanzania: Sectoral Distribution of Cumulative Foreign Investment Projects Approved by TIC - 1990-2001 by Projected Capital**




*Source: Investment Policy in Tanzania – Performance and Perceptions* arrested by environmental and sustainability concerns as well as import ban that the European Union (EU) imposed on fish and fish products from the Lake Victoria region.

It is very difficult to account for values of sectoral distributions of FDI into Tanzania. This is because of lack of consistency in data sources and differences in items that are categorised in each sector. However, a recent survey of foreign investment[1] in Tanzania reveals that in the years 1998 and 1999, there was a concentration of FDI inflows in the natural resource sector. This is roughly in line with the trend revealed by the TIC project approval categories. 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 in FDI in Tanzania went up to 39.4 percent, and although the manufacturing sector remained the second-largest recipient of FDI, it had a slightly reduced share at 22.1 percent. The third-largest sector was wholesale and retail trade, catering and accommodation services, which accounted for 15.4 and 13.1 percent of FDI at the end of 1998 and 1999, respectively.

For Bangladesh, it is just as difficult to have a correct estimate of sectoral FDI. Balance of payments (BoP) account, as prepared by Bangladesh Bank, does not keep any record of sector-wise inflows of FDI. Recently, a World Bank study[2] made an attempt to provide some breakdown of FDI according to important recipient sectors at the beginning of the Bangladesh's fiscal 1994-95. It is evident that during the financial year ( FY) 1994-95 to FY 1998-99, outside the Export Processing Zone (EPZ), the highest amount of FDI came in gas sector, followed by power.

Other important sectors outside the EPZ are telecom, cement, and textile, although virtually no FDI came in the textile sector since FY 1998. A good amount of FDI was directed to the EPZ. Although there is proper and fairly complete recording of FDI inflows in the EPZ, sectoral breakdown of FDI is not readily available. However, a breakdown of total investment in EPZ is available for major category of products. As some 80 percent of investment in EPZ comprises of FDI, this may provide some idea about the sectoral breakdown of FDI in the EPZ.

As Table 2.3 shows, slightly more than 25 percent of total investment in EPZ is directed to readymade garments (RMG), 24 percent to textile, about nine percent to leather goods and shoes, and five percent to electronics. Thus, about 50 percent of the total investment in EPZ has been made in the textile and RMG sector. Hence, total FDI in textile and RMG within and outside EPZ is quite high.

**Table 2.3: Industries, Total Investment and Employment under the Bangladesh Export Processing Zone (up to February 2002)**

| | No. of Industries | Total Investment (US $mn) | Total Employment |
|---|---|---|---|
| RMG | 42 | 130.4 (25.4 percent) | 58000 |
| Textile | 18 | 124.2 (24.2 percent) | 10517 |
| Leather goods & shoes | 14 | 45.05 (8.8 percent) | 5775 |
| Electronics | 10 | 26.72 (5.2 percent) | 1844 |
| Metal | 8 | 12.67 (2.5 percent) | 440 |
| Plastic goods | 9 | 10.41 (2.0 percent) | 1234 |
| Others | 69 | 164.67 (32 percent) | 37891 |
| Total | 170 | 514.2 (100 percent) | 115701 |

*Source: Investment Policy in Bangladesh – Performance and Perceptions*

As in the case of Tanzania, Bangladesh Board of Investment (BoI) keeps with itself the product categorywise records of registered investment. Table 2.4 below shows that the highest amount of FDI registered with BOI is in the services sector, followed by the chemical industry. Other important sectors, in terms of registered FDI with BoI, are textile and apparel, food and allied, glass, ceramic and other non-metals etc.

However, it should be remembered that these are indications of expected investment projects and do not necessarily reflect actual investment. Indeed, in the case of Bangladesh, it is stated: "...these figures cannot provide any clear idea about the sectoral distribution of FDI, because two-thirds of the registered investment did not materialise."[3] Moreover, some of the larger FDI projects need not register with BoI in Bangladesh.

Oil and gas has attracted a lot of FDI, of course, mainly attracted by the abundant natural supplies. As Table, 2.5 shows, during 1996-1999, outside the EPZ, highest amount of FDI came in the gas sector, followed by power.

Low cost is the factor most often cited by the private as well the public sector in Bangladesh when asked to name the most attractive feature of the investment environment of the country. For example, in 1998, the average hourly labour cost in apparel manufacturing was a mere US$0.43, which makes Bangladesh very competitive, both regionally and globally. Bangladesh as an LDC also enjoys duty-free access to the EU and has also been given fairly generous

| Table 2.4: FDI in Manufacturing Sector, Registered under Board of Investment (US$mn) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Sector | 1995-96 | 1996-97 | 1997-98 | 1998-89 | 1999-00 | 2000-01 | Total* | Share (per-cent) |
| 1. Agro-based industries | 4.00 | 15.90 | 7.95 | 63.65 | 5.95 | 0.72 | 98.36 | 0.90 |
| 2. Food and allied | 40.00 | 48.89 | 346.47 | 19.97 | 2.41 | 0.62 | 458.98 | 4.21 |
| 3. Textile and apparel | 79.00 | 106.91 | 92.76 | 50.28 | 41.03 | 201.57 | 588.98 | 5.39 |
| 4. Printing and publishing | 26.00 | 9.00 | 0.00 | 2.00 | 0.18 | 122.01 | 159.19 | 1.46 |
| 5. Leather goods and rubber | 16.00 | 4.05 | 21.09 | 8.62 | 0.63 | 0.00 | 50.39 | 0.46 |
| 6. Chemical industry | 572.00 | 113.64 | 53.85 | 336.51 | 962.43 | 201.35 | 2246.68 | 20.59 |
| 7. Glass, ceramics & other non-metals | 115.19 | 0.00 | 99.39 | 53.26 | 142.13 | 17.11 | 432.38 | 3.96 |
| 8. Engineering industries | 101.00 | 21.31 | 10.62 | 96.84 | 20.98 | 29.77 | 286.29 | 2.62 |
| 9. Service sector | 140.00 | 596.59 | 2279.30 | 1290.85 | 770.99 | 650.7 | 5730.00 | 52.51 |
| 10.Miscellaneous | 461.21 | 137.21 | 248.58 | 3.56 | 8.15 | 3.03 | 826.19 | 7.90 |
| **Total** | **1554.40** | **1053.50** | **3160.01** | **1925.54** | **1954.88** | **1226.88** | **10912.61** | **100.00** |

*Source: Investment Policy in Bangladesh – Performance and Perceptions*
* Projected figures

quotas in the US market for its RMG, which is competitive even by regional standards.

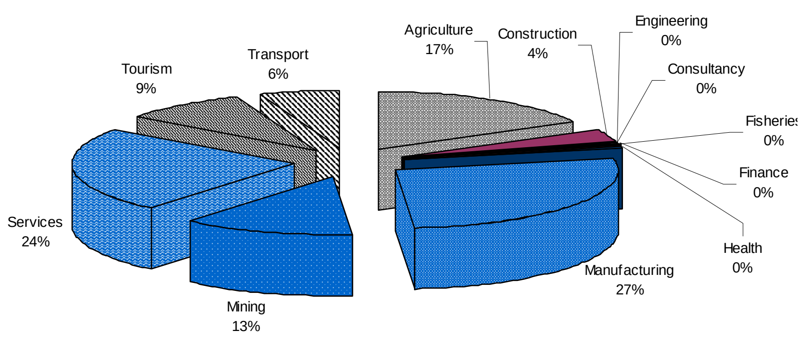
For Zambia, "the little discussion on the country's investment policies and performance probably explains lack of detailed reporting of investment inflows by national accounting authorities"[4] . Data held by Zambian Investment Centre (ZIC) only refers to pledges and does not include actual investments undertaken. In Zambia, it is difficult to distinguish between the type of foreign investment. Information available does not distinguish investment by type, i.e. whether they were destined for take-over of existing firms or establishment of new production premises. Chart 2.2 below gives a cumulative sectoral summary of investment certificates issued by ZIC between 1993 and 2001.

| Table 2.5: Importance of Oil and Gas in Inflow of FDI in Bangladesh (US$mn) | | | | | |
|---|---|---|---|---|---|
| **Sector** | **1995-96** | **1996-97** | **1997-98** | **1998-99*** | **1999-00*** |
| 1. Gas | 40 | 170 | 217 | 194 | 51 |
| 2. Power | 0 | 0 | 60 | 321 | 185 |
| 3. Telecom | 4 | 31 | 26 | 13 | 10 |
| 4. FDI in EPZ | 26 | 46 | 59 | 73 | 88 |
| 5. Other FDI | 171 | 50 | 25 | 206 | 296 |
| 6. Ports | 0 | 0 | 0 | 100 | 100 |
| 7. Biman (National Airline) | 0 | 0 | 0 | 0 | 50 |
| 8. Cement | 35 | 0 | 0 | 89 | 135 |
| 9. Textiles | 9 | 16 | 0 | 0 | 0 |
| 10.Others | 127 | 34 | 25 | 17 | 11 |
| **Total FDI inflow** | **241** | **296** | **387** | **807** | **629** |

*Source:* *World Bank, Foreign Direct Investment in Bangladesh, 1999*
* Projected figures

As shown in figure 2.3, manufacturing is at the top, followed by services, and trading in this category, agriculture is next, followed by mining and tourism. "It should also be emphasised that this does not in any way illustrate the actual picture of investment flows into Zambia, rather only goes to give an idea about the interests among those investors that obtained investment certificates".[5]

**Figure 2.3: Sector-wise Certificates of Foreign Investment 1993-2001**




*Source:* *Investment Policy in Zambia – Performance and Perceptions*

*CHAPTER-3*

# Comparative Policy Framework

## 3.1. Overview of Investment Laws

Since the beginning of 1990s, Bangladesh has adopted a number of policies to facilitate the expansion of the private sector and increase inflows of foreign investment. In fact, a recent assessment showed that the country offers perhaps the most liberal FDI regime in South Asia. The policy framework for foreign investment in Bangladesh is based on the Foreign Investment (Promotion and Protection) Act, 1980, which provides for non-discriminatory treatment between foreign and local investment, protection of foreign investment from expropriation by the state and ensured repatriation of proceeds from the sale of shares and profits.

Bangladesh Industrial Policy (BIP) of 1999 envisaged a dominant role for the private sector. This provided, for instance, 100 percent FDI equity participation as well as joint venture with local private or public sponsor in all sectors, except for five reserved public sectors: a) defence equipment and machinery; b**)** production of nuclear energy; c) forest plantation and mechanised extraction within the bounds of reserved forests; d) security printing (currency notes) and minting; and e**)** railways. BIP allows foreign investors to also buy enterprises earmarked for privatisation.

In particular, foreign investment in Bangladesh is encouraged in the following activities.

- Export-oriented industries;
- Industries in the EPZs;
- High technology products that will be either import substitutes or export oriented;
- Undertakings in which more diversified use of indigenous natural resources is possible;
- Basic industries, based mainly on local raw materials; and
- Labour-intensive/ technology-oriented/ capital-intensive industries.

The categories that are exclusively reserved for the government are:

- Arms, ammunition and other defence equipment;
- Nuclear energy;
- Forest plantations and mechanised extraction within reserve forests;

- Currency minting and printing; and
- Railways

All FDI needs to be registered in Bangladesh. If the plant is to be set up in an EPZ or in an industrial estate, registration is done with the Bangladesh EPZ Authority or Bangladesh Small and Cottage Industries Corporation (BSCIC), as the case may be. If the factory is set up elsewhere, it must register with BoI. In addition, pre-registration clearance is required for investment in ready-made garments, banks, insurance companies and other financial institutions.

Industrial projects need to take clearance from the Environment Department. Any foreign or local investor, who wants to employ foreign nationals, must apply in advance to BoI. An industrial unit is required to limit the number of foreign employees to a maximum of 15 per cent of its total workforce, including its senior management.

Comparatively, in Zambia, the legal requirements for a foreign investor to get established in the country are fairly easy. Unlike Bangladesh, there is no distinction between foreign or domestic investors. And there are no business ventures reserved solely for the government.

However, the government of Zambia does not have a clearly defined investment policy, as the economic or socio-economic objectives of what qualifies as an investment policy are not evident. What seems to exist, as a policy, is a set of fiscal measures for new investment. An investment policy would have a clear focus on technology development and transfer, human resource training and job creation.

At any rate, to set up shop, all a prospective company needs do is to register with the Registrar of Companies at the Ministry of Commerce, Trade and Industry, by submitting the company charter and a registration fee. The minimum nominal capital required to register a limited company is Zambian Kwachas (ZK) 500,000 (US$106). Usually, a certificate of incorporation is issued within 24 hours of submitting the required documents and payments.

It is not mandatory to register a foreign investment with ZIC. Basically, foreign investors are not considered to be different from domestic investors. Thus, both local and foreign investors may or may not register with ZIC. ZIC may assist holders of investment certificates after their registration with pre-investment advice. This includes companies seeking to set up new businesses, expand, rehabilitate or modernise existing ones in Zambia. An approved investment licence enables an investor to obtain up to five expatriate residents work permits. Apart from ZIC, there is also small enterprise development promotion legislation, which provides for various tax exemptions for small rural or village enterprises.

In addition to the incentives above, the Zambian Government provides additional incentives in the recently introduced Export Processing Zones Act of 2001. Under the new Act, there is provision for the establishment of the Export Processing Zones (EPZ) Authority to administer the Act. This provides for incentives relating to business enterprises in EPZ, such as exemption from corporate tax, duty on imported raw materials, plant and machinery, etc.

Tanzania has a body of statutes that govern investment (both local and oreign), foreign trade (imports and exports), customs duties, business licensing, intellectual property rights, export control, competition policy and other related matters. It also has a clear policy of openness to investment, although some procedural barriers still need to be overcome, such as centralisation of investment decisions at the central government level and existence of red tape in investment establishments. The Tanzania Investment Policy of 1996 governs investment in the country. Subsequently, the Investment Act, 1997, was enacted to help create an attractive commercial environment and to provide incentives for inward investment. A separate statute, however, focuses on investment opportunities in the mineral sector. The Mining Act of 1998 provides special incentives to investors in the mineral sector. With a few exceptions, 100 percent foreign ownership is permitted in most economic activities.

The provisions of the Investment Act of 1997 are, however, not applicable to investment in Zanzibar, where the government oversees its own foreign investment procedures. While Tanzania mainland had developed a clear investment policy since 1990, developments in the investment climate in the Zanzibar islands have taken place in the absence of a concrete investment policy. As a result, private investment activities have been guided solely by sectoral policies.

Zanzibar permits 100 percent foreign ownership, except in some small retail areas and small tourist services. Zanzibar has also enacted legislation for the creation of EPZs and provides support services and other incentives for businesses that export 80 percent or more of their output. Among the legislations that govern investment in Zanzibar are: (i) Zanzibar Investment Promotion Act, 1986; (ii) Zanzibar Free Economic Zone Authority Act, No. 17/1992; and (iii) Zanzibar Free Port Authority Act No. 9/1998.

| Box 4.1: Fiscal and Other Incentives for Foreign Investment | | |
|---|---|---|
| **Bangladesh** | **Tanzania** | **Zambia** |
| • *Tax Holidays:* For 5-7 years for corporation tax, depending on location<br>• *Accelerated depreciation:* For industrial undertakings that do not enjoy tax holidays<br>• *Tax exemptions:* Royalty and technical fee tax exemption for 15 years (private sector power companies) and 3 years (for technicians employed in industries).<br>• *Capital gains:* Transfer of shares of public limited companies listed with stock exchanges receive tax exemptions<br>• *Duty concessions:* No import duty charged for importing capital machinery and spares.<br>• *Interest exemptions:* On foreign loans, under certain conditions, is permitted.<br>• *Fiscal incentives:* Non-resident Bangladeshis can purchase shares in initial public offering where a quota of 10 percent has been fixed, and can maintain foreign currency deposits. | • *Deferment of VAT:* Is permitted on project capital assets.<br>• *Import duty:* Import duty drawback is provided on raw material.<br>• *Tariffs:* There is a provision for reduced import tariffs on capital items.<br>• *Exports:* Zero-rated VAT on manufactured items of export is available.<br>• *Accelerated depreciation:* Is available on straight-line method on capital goods.<br>• *Deductions:* 100 percent investment allowances and deductions are available on industrial buildings, plant and machinery and on agriculture expenditure. | • *Income tax*: 15 percent reduction in income tax for export of non-traditional products is available, in addition to 85 percent reduction for rural enterprises for five years.<br>• *Development allowance:* 10 percent development allowance on capital expenditure on growing tea, coffee or banana plants and other agriculture products. Besides, 100 percent farm works allowance for expenditure on farming land for the purposes of farming. |

## 3.2. Investor Protection

Risks of expropriation are almost non-existent in these three countries, as they follow the principle of free-market economy. The Foreign Investment (Promotion and Protection) Act, of Bangladesh provides for protection of foreign investment from expropriation by the state. Moreover, Bangladesh is also a signatory to the Multilateral Investment Guarantee Agency (MIGA), which insures investors against political risk. OPIC's (Overseas Private Investment Corporation, USA) insurance and finance programmes are operational in Bangladesh. Fully foreign-owned firms or joint ventures are not obliged to sell their shares through public issues, irrespective of the amount of the paid-up capital.

The right to private ownership and establishment of business enterprises is also fairly secured in Zambia. Private entities may freely establish and dispose of interests in business enterprises, but the ZIC board's approval is required to transfer an investment licence for a given enterprise to a new owner. Investments may only be expropriated by an Act of parliament, relating to the specific property to be expropriated. The law states that compensation must be at a fair market value, although the method for determining fair market value is ill-defined.

Zambia is a signatory to MIGA, which has been used by only one foreign investor since it was acceded to. Land, which is held under 99-year lease, may "revert" to the government, if it is ruled to be undeveloped. So far, no privately held land has "reverted," but it has occurred for parastatals and university lands.

Protection of property rights in general is weak in Zambia. These are poorly defined, except for registered private properties on state land. Current business laws are outdated and some modern business practices are not covered under the current law. There is no bankruptcy law in Zambia. Though tax laws have improved, their enforcement concentrates on the formal sector, while a large informal sector goes untaxed. Planned legal reforms include strengthening of commercial law and property rights.

Tanzania enacted an Investment Promotion and Protection Act in 1990, later reviewed and put in place in 1996 a new National Investment Policy, and in 1997, a new investment code, the Tanzania Investment Act that offered a number of benefits to the investors by providing for a legal framework. Among others, it sets out a minimum period in which relevant government agencies should process applications through which land can be acquired. Further, the TIC, by granting certificates of incentives to the investors, confers on them the recognition of private properties and protection against any non-commercial risks. The country is also a signatory to MIGA.

Tanzania has an elaborate legal and institutional framework for IPR administration and regulation. The enforcement of intellectual property rights regulations is weak as the efforts were not accompanied with requisite human and institutional capacity building.

### 3.3. Dispute Settlement

In Zambia, there have been relatively few investment disputes since 1991. The investment code provides that disputants first resort to internal dispute settlement before they may go to international arbitration, which is recognised as binding. The courts in Zambia are reasonably independent, but contractual and property rights, as noted earlier, are weak and final court decisions can take a long time. The government recognises international arbitration as binding. Zambia is not a member of the International Centre for Settlement of Investment Disputes (ICSID). It has ratified the convention on settlement of disputes between states and other nationals of other states, but has not ratified the convention on recognition and enforcement of arbitration awards.

Bangladesh follows standard dispute settlement procedures arising in the course of business transactions and investment. Investors can take shelter of courts in case of disputes either with the government or any private party.

In Tanzania, 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 an amicable settlement through this channel, arbitration can be sought through the national laws and ICSID. The commercial court was formed in 2000 to expedite litigation of commercial disputes. However, an assessment made by UNCTAD in 2001 reveals that difficulties in enforcing contractual obligations especially in relation to debt collection from local customers of foreign affiliates, lack of transparency and timely resolution of commercial disputes continue to be the prime weaknesses in the framework that is currently used for settlement disputes at the national level.

### 3.4. Bilateral Investment Treaties

Bangladesh has entered into a number of investment and taxation agreements with a number of countries. It has bilateral treaties on investment promotion and protection with 20 countries: Belgium, Pakistan, China, the Philippines, France, Poland, Germany, Republic of Korea, Indonesia, Romania, Iran, Switzerland, Italy, Thailand, Japan, Turkey, Malaysia, the UK and the USA.

There are no known bilateral investment agreements involving Zambia, apart from double taxation treaties with a number of countries. Since there is no distinction in law between a foreign and a domestic investor, domestic laws are used to cover foreign investor interests.

Tanzania has bilateral treaties for promotion and protection of FDI with the UK, Switzerland, Germany and Swaziland. Tanzania has also signed bilateral treaties for avoidance of double taxation with Denmark, India, Italy, Norway, Sweden, Zambia, Finland, Kenya and Canada.

### 3.5. Investment Facilitation Institutions

There are a number of investment facilitation institutions in Bangladesh. The primary institution in this regard is BoI, under the Prime Minister's Office (PMO). The one-stop services provided by BoI include free investment counselling, utility service connections, and solution of problems, such as difficulties arising in clearing imported machinery under concessional rate of import duty. It also helps in getting environmental clearance for projects. BoI also undertakes investment promotion activities at home and abroad and works for conciliation of disputes relating to foreign investors, and provides assistance to entrepreneurs to avail infrastructural facilities for industries.

Bangladesh Export Processing Zones Authority (BEPZA) has been set up with the primary objective to provide special areas (EPZs), where potential investors would find a congenial investment climate, free from cumbersome procedures and duties. In order to provide one-stop services to the investors in EPZs, BEPZA sanctions projects generally within one week, issues required import/export permits, issues required work permits for foreign nationals working in EPZ enterprises and provides required infrastructure facilities in EPZs.

In addition, Bangladesh Small and Cottage Industries Corporation (BSCIC) provides its industrial estates to investors. Both BEPZA and BSCIC approve payment of royalties, technical know-how fees and appointment and payment of remuneration of foreign personnel. However, while BEPZA has been successful in attracting FDI and can be viewed as a success story, the same is not true for the BSCIC industrial estates, which have failed to attract any FDI. This has a great deal to do with the administration and location of the BSCIC estates.

More recently, the government has also permitted setting up of private export processing zones. The most notable among these is the 2500-acre Korean EPZ in Chittagong. This US$200mn investment is expected to attract FDI from Korea and the region. However, it has taken the government an inordinately long time to process the approval.

IIFC has been set up with the support of the World Bank to catalyse investment by the private sector in the development of ports, roads, energy, telecom and water supply. Established at a cost of US$15mn, the centre works closely with the Infrastructure Development Company – another affiliate of the World Bank.

In Zambia, ZIC is the investment promotion agency, whose aim is to create awareness about the investment opportunities in the country and facilitate investment process. It serves as a one-stop shop for investors to deal with registration and other regulatory requirements. An investor, who qualifies for incentives under the Investment Act, in addition to the general incentives, is entitled to an exemption from customs duties, sales duties and sales tax on all machinery and equipment required for the establishment, and rehabilitation or expansion of that enterprise. Apart from ZIC, the Small Enterprise Development Promotion legislation provides for various tax exemptions for small rural, or village, enterprises. These exemptions are similar to the ones mentioned in the para above.

The Zambian Government provided additional incentives in the Export Processing Zones Act of 2001. Under this Act, there is a provision for the establishment of the Zambia Export Processing Zones Authority (ZEPZA) to administer incentives relating to business enterprises in Export Processing Zones.

In 1998, Zambia launched the Framework and Package of Incentives (FPI) for the private sector participation in hydro-power generation and transmission development. The FPI, among other things, established the Office for Promoting Private Power Investment (OPPPI) within the MEWD. The OPPPI is responsible for promoting the FPI, soliciting and evaluating proposals, negotiating and awarding contracts and finalising implementation and power purchase agreements.

In Tanzania, the Investment Act of 1997 established Tanzania Investment Centre (TIC) as the sole investment promotion agency in the country. TIC is supposed to perform as a one-stop agency to coordinate and facilitate investment, a goal that has not been fully realised. The Centre provides certificates of incentives on approved projects having a minimum investment of US$300,000 if foreign owned and US$100,000 if owned locally. TIC has identified priority investment sectors as mining, petroleum and gas, tourism, infrastructure development, aviation, agriculture, construction, financial services and manufacturing.

At the moment, institutions that plan and implement policies deemed necessary in tackling Zanzibar socio-economic problems, in general, and investment in particular are: (a) Zanzibar Investment Promotion Authority (ZIPA), established in 1991 to oversee the establishment of most of the investment projects, except those that are export oriented and transit trade related, and advise the Government on investment policy and related matters; (b) Zanzibar Free Economic Zones Authority (ZAFREZA); and (c) Zanzibar Freeport Authority (ZFPA).

Generally, LDCs, including the ones that have been studied here, consistently fail to attract the attention of international investors due to the perceived high costs of investment. As in the past, a welcoming FDI regime remains fundamental to attracting FDI. But today's globalising investor has a wide choice of developing country locations and desires those that are capable of enforcing competition, providing stable and transparent rules for private business and, over time, improving the quality of their local productive factors. While there have been significant improvements in the policy regime for FDI in the countries, they have not been significant enough to attract FDI.

*CHAPTER-4*

# Sectoral Performance in Attracting FDI

Under the IFD project, the project countries studied investment policies, performance and perceptions in selected sectors. Some of the countries studied a common sector. E.g. among the LDCs, Tanzania and Bangladesh studied telecommunication, and Tanzania and Zambia studied mining. Apart from these, the three LDCs studied some stand-alone sectors. In this section the experiences of the selected sectors for foreign investors are discussed.

Each of the three countries that have been studied has different sectors that have been at the forefront of the policy and FDI-related changes in the recent years. Some of these sectors, such as textiles in Bangladesh and mining in Zambia and Tanzania, are important segments significantly contributing to the overall employment, output and export earnings. However, some sectors studied, such as telecom and cement in Bangladesh, reflect how policy that is not in line with economic considerations can lead to a situation, where not only are the requirements of cheap and quality products not met, but the overall investment also suffers.

The two common sectors, mining and telecommunication, are examined separately for each country and then discussed in a comparative context. This draws insights from the commonalities and differences in their experiences. Other sectors examined individually for each country are tourism, finance, agro-business, RMG and cement.

## 4.1. Telecommunication in Tanzania and Bangladesh

### *4.1.1. Telecommunication in Tanzania*

Tanzania is currently in the process of modernising its telecommunication sector. In 1978, Tanzania Posts and Telecommunication Corporation (TPTC) was formed to take over the powers and functions of the defunct East African Posts and Telecommunication Corporation. As of 1991, the teledensity in the country averaged 0.3 lines per 100 of population, compared to the average of 0.46 per 100 of population in sub-Saharan Africa. The quality of service was poor, workers' productivity was low, while the demand was as high as 200 percent of the supply. Local tariffs were very low (equivalent to US$0.02 per minute), while international tariffs were among the highest in the world.

Then, the government started focussing on liberalisation of its telecommunication industry in 1993 through the implementation of the Telecommunication Restructuring Programme (TRP). The net result of TRP was separation of TPTC's posts and telecommunication activities, and establishment of the Tanzania Communications Commission (TCC) in 1994. The government allowed private sector participation in provision of non-basic services, such as value-added services specialised services like mobile cellular telephony sale and installation of customer premises equipment (telephone sets and fax) and in wiring subscriber premises.

Tanzania's teledensity has since improved to 0.8 per 100 as of February 2002. While this is still too low compared to that of developed countries and the sub-Saharan Africa, it is nevertheless, a good reflection of the improvement in telecommunication infrastructure.

One of the aims of liberalisation and privatisation in Tanzania was to attract FDI, which would bring with it skills and technology. This has been successful as international participation in the sector is high, both in network and value-added services provision, and proliferation of foreign equipment suppliers, as shown in Table 4.1 below.

| **Table 4.1: Tanzania - Foreign Firms in the Telecom Sector** |
|---|
| **Cellular equipment and network infrastructure suppliers** |
| Alcatel |
| Motorola |
| Siemens |
| Ericsson |
| Nokia etc. |
| **Fixed line infrastructure suppliers** |
| British Telecom TMC (UK) |
| Dial Face (Italy) |
| Crompton (India) |
| ERCA |
| DPA (South Africa) etc. |
| *Source*: *Investment Policy in Tanzania – Performance and Perceptions* |

The introduction of liberalisation and competition in telecommunication has shown a positive driving effect on the adoption of new technologies, market development and more in general, on the entire Tanzanian economy. 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 and to 177,802 in July 2001 with an exchange capacity of 234,640.

### *4.1.2. Telecommunication in Bangladesh*

Bangladesh has one of the lowest teledensities in the world. Until the early 1990s, the telecom sector in Bangladesh had been characterised by a traditional government-owned monopoly for telecom services. Inefficiency of Bangladesh Telegraph and Telephone Board (BTTB), rent seeking activities by BTTB employees that increased cost of connection, inadequate growth of BTTB capacity resulting in a long waiting time for a connection, and the convenience of cellular phones — all resulted in a large demand for mobile phones.

Deregulation of the telecommunication sector created scope for private operations to run mobile cellular phone systems, operate rural telephone exchanges, provide paging and trunk call making facilities, and become internet service providers (ISPs). In the early 1990s, a couple of private sector investors were licensed to provide rural telephone services and one to provide value-added services, like radio-paging. A few years later, during the second-half of 1990s, four private sector operators were licensed to provide cellular telephone services in the country, as Table 4.2 shows, in terms of subscriber growth. Many other private companies were licensed to become VSAT and ISPs.

**Table 4.2. Growth of Telephones in Bangladesh Since 1997**

| | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|
| Mobile | 33000 | 60000 | 128660 | 283000 | 654318 |
| BTTB | 441000 | 463000 | 474000 | 580000 | 590000 |

*Source: Investment Policy in Bangladesh – Performance and Perceptions*

Private sector development of the telecommunication sector, particularly in cellular phone services, is basically propelled by foreign investment. Foreign collaboration came from Malaysia and Norway. FDI inflows (including debt) in this sector had reached US$50mn in 1997. Since then, growth has been even faster. Foreign operators have invested in excess of US$250mn in the last four years.

*Grameen Phone* is leading the mobile market with 73 percent market share, followed by City Cell and Aktel with 12 percent and 11 percent share respectively, and Sheba, which has four per cent of the market. While City Cell operates under CDMA technology, the other three providers are GSM mobile operators.

Nevertheless, all is not well. A low interconnection regime has seriously hampered the country's mobile phone growth. More than 80 per cent of mobile users are not allowed to access BTTB's local, national and international connections, as shown in Table 4 .3. BTTB, which functions as an operator, also functioned until very recently as the regulator and was concerned primarily with making life as difficult as possible for the private operators. Since the establishment of an independent Telecom Authority (TA) last year, the power of BTTB has been curtailed. However, BTTB, through the Ministry of Post and Telecommunication, has continued to stand in the way of opening up the telecommunication market. Efforts are currently under way to strengthen TA and make it a more effective independent regulator.

**Table 4.3: Mobile Market in Bangladesh**

| Brand (launched) | With BTTB connection | Without BTTB connection | Total till 2001 | Market share |
|---|---|---|---|---|
| City Cell (1993) | 3605 | 0 | 3605 | 12 percent |
| City Cell Digital (1999) | 20765 | 52810 | 73575 | |
| Grameen Phone (1997) | 35000 | 440138 | 475138 | 73 percent |
| AKTEL(1997) | 40000 | 35000 | 75000 | 11 percent |
| Sheba (1998) | 24000 | 3000 | 27000 | 4 percent |
| Grand Total | 123370 | 530948 | 654318 | 100 percent |

*Source: Investment Policy in Bangladesh – Performance and Perceptions*

The impact of FDI in the telecommunication sector is quite evident. It has improved the communication network across the country. On 16th August 2003, *Grameen Phone* celebrated the increase of its network to 1 million subscribers. FDI has played an important role in the telecommunication sector. It has made a positive impact on both the quantity and quality of jobs in the telecommunication sector. It had a positive impact on the availability of new technology. FDI in this sector is also reported to have had a positive impact on quality and choice of products available to consumers. The multi-player impact has also been considerable.

### *4.1.3. Review*

Telecommunication is one sector where FDI has contributed significantly to better communications, integration of the people, greater investment in the economy and better foreign exchange position the world over. The Tanzanian case demonstrates how capital-constrained governments can exploit opportunities by allowing and attracting greater FDI, when international firms are involved. This significantly impacts the provision of better and greater services to the consumers. Moreover, the Tanzanian case has also shown that greater FDI in other complementary sectors, such as equipment, is possible when the driving sector (the networks sub-sector) is allowed to grow unhindered.

In contrast, Bangladesh's experience shows how policies that are not well thought out have adverse effect on consumers. Despite the observed advantages of FDI, foreign firms and other private operators have not been provided with a level playing field. Thus, the full potential of the sector is yet to be realised due to lack of interconnectivity. This problem is essentially due to BTTB having a say in policy formulation. This has only harmed the country by hampering greater capital inflows.

For both the countries, the latest technology in the international market is being accessed rapidly by a rapid response of greater openness in FDI policy. This has had a positive impact on consumers in two ways — greater accessibility and better quality of services. Also, the economy has gained due to greater efficiencies and growth.

## 4.2 Mining in Tanzania and Zambia

### *4.2.1 Mining 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 in 1997, followed later by the enactment of a new Mining Act of 1998 and the Mining Regulations, 1999.

The main objective of the 1997 policy was to facilitate the exploitation of mineral potentials that would contribute significantly towards income generation, employment creation, social and economic infrastructure development (particularly for rural areas), increasing foreign exchange earnings and government revenue, as well as reducing poverty. Despite valid arguments for incentives for investment promotion, there have been concerns that incentives have been too generous to the extent that the economic benefits of mining activities in Tanzania are reaped elsewhere, rather than in Tanzania.

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 and others are currently involved in important mining projects in the country.

The sector has grown at an annual average rate of 16.2 percent per year between 1997 and 2001. Its annual contribution to GDP rose from 1.7 percent in 1997 to 2.5 percent in 2001. Employment and government revenue from the sector has also increased. The revenues from the sector are earned from taxes, prospecting royalties and mining license fees.

#### *4.2.2 Mining in Zambia*

The mining sector has been an important contributor in economic development in Zambia for over 70 years, with exports of mineral products contributing about 70 percent of total foreign exchange earnings. Over the years, the national economy has developed a comparative advantage in copper and cobalt mining. Copper still accounts for more than 70 percent of the country's foreign exchange earnings. For instance, the closure of Konkola Copper Mines following the withdrawal of Anglo-American Corporation would have not only affected the Copperbelt and the entire mining sector due to interdependence, but would have also caused the entire system to become economically unsustainable.

Deposits of gold, diamonds, zinc, gemstones, coal and a variety of agro and industrial minerals are also found in Zambia. Large-scale mining is active in copper, cobalt and coal, while small-scale mining is active in a variety of gemstones that include emeralds, amethyst, aquamarine, tourmaline, garnets and citrine. Mining provides critically needed inputs for other sectors, such as agriculture, agro-chemicals and the electricity industry.

Data reveals that the sector rebounded in 2001, recording a growth of 14 percent in real value-added terms, compared to a growth of 0.1 per cent in 2000. The favourable performance of the sector was due to significant increases in copper and cobalt production in 2001. This marked performance of the sector was, however, achieved against a backdrop of low metal prices and disruption of operations. Increases in production were the result of privatisation and expansion by international firms operating in the country. Privatisation remained a key element of Zambia's structural reform programme.

Among the companies which underwent privatisation in 2000, were the remaining assets of Zambia Consolidated Copper Mines (ZCCM), which was a major milestone in the privatisation programme and private sector development. Prior to its privatisation, the deterioration in the performance of ZCCM had adverse effects on the treasury (low tax revenue and rising government subversions), external sector (declining export earnings) and in the real sector (declining employment and incomes). Major assets of ZCCM were sold to two consortia of local and foreign investors. Privatisation also saw the acquisition of Bwana Mkubwa Mine by First Quantum Minerals Limited, who have transformed it into a modern mining setup. Hence, levels of foreign penetration in the sector are extremely high, as appearing in Table 4.4.

**Table 4.4: Foreign Penetration in Zambia's Mining Industry**

| Division / Mine | Ownership |
|---|---|
| Chambishi Copper Mine | China Non-Ferrous Metal Industries Corporation |
| Konkola Division/KDMP, Nchanga Division, Nampundwe Mine | Commonwealth Development Corporation (UK), International Finance Corporation (investment wing of the IMF) |
| Mufulira Division, Nkana Mine, the Concentrator and Cobalt Treatment Plant | First Quantum Minerals (Canada) Glencore AG International |
| Nkana Smelter and Refinery (Smelter Company Ltd) | Anglo American Corporation (South Africa) |
| Bwana Mkubwa Mine | First Quantum Minerals Ltd (Canada) |
| Maamba Collieries Ltd | Kuyasa Mining (South Africa) |
| Ndola Lime Company Ltd | Socomer (Belgium) |
| Roan Antelope Mining Corp. | Binani Group of India (has since shut down) |
| Chambishi Cobalt Plant | Avmin Ltd of South Africa |
| Nampundwe Pyrite Mine | CDC of the UK |
| Kansanshi Copper Mine | Cyprus Amax Minerals of the USA |
| Chingola Refractory Ore Dumps | International Finance Corporation<br>CDC of the UK |
| Chibuluma Mine | Metorex (Pvt.) Ltd & Miranda Mines of SA<br>Crew Dev. Corporation of Canada<br>Genbel Ltd of Australia |

*Source: Investment Policy in Zambia – Performance and Perceptions*

Since 2001, however, the government has been moving towards greater incentives for the sector, which included reduction of royalty, corporate tax rate, greater deductions, lowering/elimination of other taxes and duties. But this was not attractive enough for some investors. The decision by Anglo American Corporation to cut back on its investment in Zambia's copper industry could have affected the country's economic prospects. The implications of Anglo's announcement shook the government and Zambia's cooperating partners into seriously seeking alternative strategy for the hitherto copper–dependent economy. The World Bank predicted that FDI to Zambia would fall by more than 40 percent, while shrinkage in the country's Gross Domestic Product (GDP) would decrease by more than three percent. The government had previously expected GDP to grow by four percent in 2002.

#### *4.2.3 Review*

The experience of the mining industry in Tanzania reveals that the short-run large incentives could attract FDI (provided ground-level conditions are right), but the overall long-term benefits to the economy need to be considered before large incentives are provided. If such concerns remain and grow stronger over a period of time, the government will be forced to reverse its policy. This could have a negative impact on long-term development. Consequently, incentives should be given only if necessary and should not be too high for such policies to be politically sustainable. In the case of Zambia, privatisation was the key. Though privatisation occurred, care was taken not to allow a single owner to monopolise the industry. For both countries, it is also not clear why tax incentives need to be given. In Zambia, it certainly had no effect. Competition between countries in giving greater concessions, especially in the minerals sector, is not likely to increase overall demand, but will only have a negative impact on revenue collections.

## 4.3 Individual Case Studies

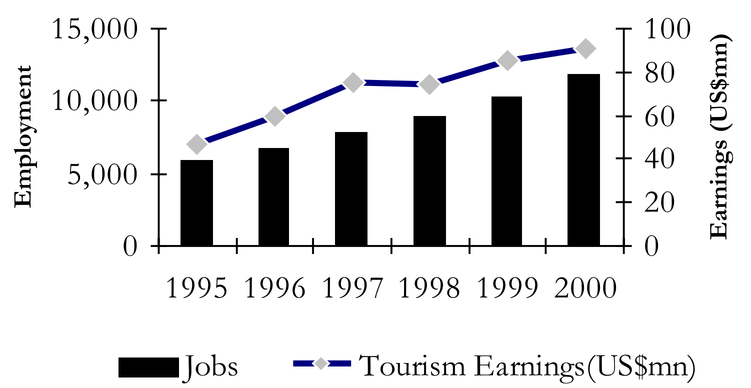
#### *4.3.1 Tourism Sector in Zambia*

Tourism in Zambia has experienced some positive growth, with foreign exchange receipts increasing by an annual average of 13 percent between 1995 and 2000, or an absolute increase from US$47mn in 1995 to US$91mn in 2000. The number of tourist arrivals increased from 163,000 in 1995 to 457,419 in 2000. In terms of employment creation, the sector has contributed about 12,000 jobs in 2000, from about 6,000 in 1995.

Zambia has considerable untapped natural resources for tourism development. These include abundant wildlife, rich cultural and natural heritage sites, abundant water resources, peace and tranquillity. The country has 19 National

Parks and 34 Game Management Areas, covering 33 percent of the country, but only five percent of this has been developed for tourism.

**Figure 4.1: Growth of Tourism: Impact on Zambian Economy**




*Source: Ministry of Tourism, Zambia*

The government's role in the growth of tourism sector is to facilitate private sector involvement through investment promotion, marketing and provision of infrastructure and supportive legislation. These have been prioritised into development zones and national programmes in the Tourism Development Master Plan.

In an effort to stimulate investment in the tourism sector, the government offered several incentives. These included a reduction in corporate tax for tourist operators and recognising them as exporters of non-traditional items; allowing a reclaim of VAT on costs incurred in establishing tourism enterprises; and zero-rating for accommodation offered by hotels, lodges and guest houses

**Table 4.6: Foreign Ownership of Hotels in Zambia**

| Hotel | Foreign Ownership |
|---|---|
| Zambezi Sun | South Africa |
| Royal Sun | South Africa |
| Taj Pamodzi | India |
| Holiday Inn | South Africa |
| Protea | South Africa |

*Source: Investment Policy in Zambia – Performance and Perceptions* and also tourism activities, like boat-cruising, micro-lighting, helicopter tours and making safari walks a regionally competitive product. Moreover, the waiver on tourist visas has been reinstated.

The Government of Zambia has largely been trying to provide a good environment for the tourism sector. In doing so, it has managed to ensure a high growth in the tourism sector and a positive impact on the employment rate, though the industry is yet to reach its full potential. More significantly, this policy has involved low government intervention in the tourism sector. Policies, such as those on elimination of tourism visa, tend to have a strong positive impact and economically cost less to the government. The Zambian tourism sector case strongly suggests directions for good policy – low government intervention and an enabling environment.

### *4.3.2 The Financial Sector in Tanzania*

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

- Facilitating attainment of macroeconomic stability;
- Supporting structural adjustment in the real economy; and
- Providing effective support to the economy, especially by financial deepening and diversification in an environment of serious market competition.

Under its re-defined role, the Bank of Tanzania's emphasis has been on the conduct of monetary policy, especially adopting the use of indirect policy instruments, open market operations and strengthening its role in banking supervision. This is important in ensuring a resilient, well-regulated financial system, essential for macroeconomic and financial stability.

One important attribute of the financial sector reforms was to allow operation of private commercial banks in the country. As a result of 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 Tanzania. Foreign banks dominate the banking sector. Sixteen of the 19 banks (accounting for more than 80 percent) have majority private foreign ownership while two banks are local and privately-owned and one is state-owned.

Some of the benefits of the influx of foreign investors into the banking sector include transfer of technology and upgrading of skills. The improvements that have been so far recorded in the financial sector would not have been possible without a massive transfer of technology through bringing in skilled expatriate banking personnel, on-the-job training and sending local staff abroad to specialised training institutions.

These contributions do not necessarily come up automatically but are determined by government policy, including establishment of a competitive environment on the one hand, and strengthening existing institutions, reinforcing the regulatory system and putting in place an effective supervisory mechanism, on the other. Only time will tell how efficient the new regulatory system is, but available evidence suggests that the right path is being followed.

### *4.3.3 The RMG and Textile Industry in Bangladesh*

The textile sector has traditionally been the largest manufacturing sector in Bangladesh. Currently, Bangladesh's textile sector contributes more than five percent of the country's GDP, it earns more than 70 percent of country's export earnings and employs some 1.6 million people. The overall liberalised environment towards FDI, along with cheap labour cost, has been important for attracting FDI in this sector. However, other government policies also played an important role, which include many incentives and support.

**Table 4.7: Growth of RMG Industry**

| Year | Quantum Index of Production | Bank Advance to Apparel Producing in mn of Takas (In US$mn)* | Export of RMG (US$mn) | | |
|---|---|---|---|---|---|
| | | | Woven | Knit | Total |
| 1991 | | | 736 | 131 | 867 |
| 1992 | | 1619.2 (28) | 1064 | 119 | 1183 |
| 1993 | 268.94 | 2221.6 (38) | 1240 | 205 | 1445 |
| 1994 | 273.56 | 2561.9 (44) | 1292 | 264 | 1556 |
| 1995 | 354.95 | 4018.7 (68) | 1835 | 393 | 2228 |
| 1996 | 439.98 | 3793.0 (64) | 1949 | 598 | 2547 |
| 1997 | 507.1 | 3542.9 (60) | 2238 | 763 | 3001 |
| 1998 | 644.89 | 5916.2 (101) | 2843 | 940 | 3783 |
| 1999 | 710.61 | – | 2985 | 1035 | 4020 |
| 2000 | 766.32 | 6996.4 (119) | 3083 | 1270 | 4353 |
| 2001 | 811.67 | 11471.7 (195) | 3364 | 1496 | 4860 |

*Source*: *Investment Policy in Bangladesh – Performance and Perceptions*
* Using the Exchange rate on 13.01.04

The textile industry of Bangladesh now comprises of more than 30 sub-sectors. The major sub-sectors are: spinning, weaving, dying-printing-finishing, knitting-knit dying and finishing, and readymade garments (RMG). Starting with nine factories in late 1970s, the RMG sector now has some 3000 factories that employ about 1.6 million workers. Real growth rate of exports of RMG was 12 percent (about two-and-a-half times of GDP growth over the matched period). The RMG activities not only propelled the growth of accessories and spare parts, but also rendered tremendous externalities by increasing other economic activities in such areas as banking, hotels and tourism, consumer goods utility services and transportation.

Aggregate figures on actual investment data are virtually non-existent. It is also difficult to quantify the exact magnitude of FDI in textile and RMG. Total investment in this sector is more than US$250mn within the EPZ; most of this investment is in firms either wholly or partly owned by foreign entities (joint ventures).

In the mid-90s, the government identified the textile sector as a thrust sector. The Ministry of Textile came up with a new textile policy in 1995. The main objective of this policy is to attain self-sufficiency in textiles for meeting the local as well as the export-oriented RMG demand for fabrics. Accordingly, the government has designed an incentive package that is conducive to encourage investment in the textile sector directly, as well as indirectly by stimulating profitability at least in the short and medium run. The package includes different fiscal, financial and institutional instruments.

The RMG sector in Bangladesh grew without a matching growth in its backward linkage activities until recent years. Such lopsided growth of the RMG sector has been possible because of the protective environment provided by the preferential market access under trade agreements and various supportive policies of the national government. However, existence and sustained growth of RMG would be contingent upon improved quality, diversification of products, increased efficiency, and the dynamics of global trade in textiles and clothing. One of the most important factors associated with its competitive advantage is the development of domestic efficient and dynamic backward linkage capacity.

The case of the RMG sector reveals that countries can benefit in the short run from advantages offered by changing international trade regimes. However, in the long term, sustained growth would require a strong base of domestic productive capabilities. FDI will occur only when these conditions appear. Bangladesh has exploited its advantages of cheap labour. The base now exists for Bangladesh to build upon. In all likelihood, even when the temporary advantages disappear, Bangladesh's outward-oriented and open policies will ensure a strong growth in the sector.

### *4.3.4 The Agro-processing Sector in Zambia*

The real growth rate in the agricultural and agri-business sub-sector has fluctuated significantly mainly due to the sector's high dependence on seasonal rainfall, reduced investment and the failure to strategically position the sector according to its comparative advantage. There were poor yields in the 1990s, mainly due to droughts experienced particularly in the southern parts of the country. Added to this has been a decline in soil fertility (due to constant cultivation and over-application of fertilisers) in areas that have traditionally been the most productive.

During pre-1991 period, the co-ordination of responsibilities relating to the small and micro enterprise sector (most enterprises in the agro-processing sector fall under this category) was generally chaotic with too many agencies sharing the tasks. The main ministry, the Ministry of Commerce, Trade and Industry, was then charged with the responsibility of coordinating and developing a policy for the sector.

Increasingly from 1983, the government decided to eliminate subsidies on maize and fertilisers, partly for the purpose of fiscal consolidation and partly to remove the distortions caused by the maize segment. By 1994, all consumer subsidies on maize and maize products were completely eliminated and the prices were totally freed. Exports of all agricultural commodities, as long as they adhered to health regulations, became free and permissible, and in order to expose Zambia to the competitive external market, imports of agricultural commodities and inputs (e.g. fertiliser and seed) were allowed and opened to the private sector as well. At the same time tariffs were cut. Besides, all parastatals that were involved in marketing activities had been either abolished (e.g. National Agricultural Marketing Board) or were earmarked for privatisation.

The government has attempted to create a positive policy environment, within which agricultural market liberalisation could be consolidated. The policy and institutional improvements have focused in the last five years on outstanding reforms in the key areas of (a) consolidating the liberalisation of agricultural marketing (primarily, elimination of subsidies to marketing parastatals and, subsequently, their privatisation); (b) strengthening the liberalisation of trade and pricing policy; and (c) streamlining the land tenure system to make it receptive to the policy of liberalisation.

| Table 4.8: Foreign Ownership of Agribusiness in Zambia (As of November, 2002) | |
|---|---|
| **Establishment or Company** | **Foreign Ownership** |
| Nakambala Sugar Company | Ilovo Sugar of South Africa<br>Commonwealth Dev. Corporation |
| Zambia Seed Company Ltd | Weibull AB (27.5 percent shareholding)<br>Swedfund International AB (25 percent) |
| Zambia Horticultural Products Ltd | Foodcorp of South Africa |
| Zambia Coffee Company Ltd | African Plantations Corp. |
| Zambia Cashew Company | CDC (12.5 percent shareholding) |
| Nchanga Farms – Mukumpu Ipumbu Farm | CDC |
| National Milling Co. | Erabus BV and Namib Mills |
| Nanga Farms | CDC |
| Mpongwe Development Co. | CDC (70 percent shareholding) |
| Lint Co. of Zambia, Chipata Unit | Clark Cotton of South Africa |
| Kawambwa Tea Company | Metal Distributors of UK |

*Source: Zambia Privatisation Agency*

All the state-owned enterprises in the sector have either been liquidated or privatised. Given such liberalisation, it is not surprising that foreign penetration is important. However, there is a large concentration of firms from South Africa, as revealed by Table 4.8, though others, such as UK also have some role.

Information on how foreign firms have been operating and how important a role they have played is not available yet. However, the policy directions taken by the Zambian Government are facilitative of FDI, that is, privatisation, lower government role in production and marketing, greater liberalisation and openness. However, the agriculture sector is one where nature plays a very important role and therefore, year-to-year fluctuations are to be expected. This is especially true of areas that do not have an adequate year-long irrigation potential.

### *4.3.5 Cement Industry in Bangladesh*

Cement is one the most important construction materials. Nature of growth in the construction sector requires a faster growth of the demand for cement. The experiences of the last few years suggest that demand for cement grows at a 10 percent rate per year, indicating good conditions for profitable investment.

The construction sector is considered to be one of the highest growing sectors in Bangladesh. Average growth rate in the sector has been around eight percent while the average growth rate of the economy is five percent. Data indicates that investments were quite low in cement and asbestos industries until 1995. Nevertheless, both production and investment in the sector has been increasing rapidly since. However, value addition in the cement sector is quite low as all these new industries are grinding mills that transform clinkers to cement. While Bangladesh imported cement from Thailand, Indonesia and Malaysia until recent years, presently it imports clinkers from these countries to grind into cement.

At present, there are some 52 cement factories in the country. Most of them are relatively small units. Many units have been constructed as joint ventures and on foreign investment. Total investment in the largest forthcoming capacity plant is US$242mn. The total of all other foreign investments in the cement sector is much lower than the investment by Lafarge. The basic driving force for FDI towards the grinding mills was the large and growing demand for cement, tariff differential between import of clinkers and cement, fall in clinker price from East Asian countries after the East Asian crisis etc. Foreign firms are observed

**Table 4.9: Growth of Cement Sector**

| | Bank Advance as on 31st December in mn of Takas (In US$mn)** | | Sectoral advance as a percent of total advance to manufacture | Quantum Index of Cement Production (FY 1989 =100) |
|---|---|---|---|---|
| 1991 | – | | – | – |
| 1992 | 174.3 | (3) | 0.3 percent | |
| 1993 | 224.3 | (4) | 0.3 percent | 60.31 |
| 1994 | 286.7 | (5) | 0.3 percent | 94.09 |
| 1995 | 420.4 | (7) | 0.4 percent | 91.98 |
| 1996 | 1200.9 | (20) | 1.1 percent | 123.87 |
| 1997 | 1580.5 | (27) | 1.3 percent | 177.47 |
| 1998 | 1648.2 | (28) | 1.1 percent | 157.8 |
| 1999 | – | | – | 227.55 |
| 2000 | 1545.8 | (26) | 0.9 percent | 399.39 |
| 2001* | 5617.6 | (95) | 3.2 percent | 379.07 |

*As on 30th September

*Source: Investment Policy in Bangladesh – Performance and Perceptions*
** Using the Exchange rate on 13.01.04

to perform marginally better than local firms. Average size of the business and employment per firm are higher for the foreign firms.

Perceptions of local cement manufacturers indicate that FDI in this sector has resulted in a decline in their sales, but it has increased product quality. Cost of skilled labour has also increased. Civil society perception is, however, that foreign investment in this sector had a positive impact on the quality of product, prices of product and choice of consumers.

Bangladesh's experience with the cement sector has important ramifications for FDI in small markets. One large investment has the capability to overpower all competition from the domestic industry. Competitive markets can rarely survive in such a situation. It would be natural for the domestic industry to suffer with greater FDI. An economic policy that is oriented towards low costs and consumer welfare, will tend to support opening up of imports (such as, from India, Nepal and Myanmar), along with greater FDI. The regional market could also provide larger markets for Bangladesh's own low-cost (based on low wage) domestic production.

*CHAPTER-5*

# Civil Society Perceptions

Under the IFD Project, a national survey on civil society perceptions was conducted in the project countries. The aim of the survey is to gauge the perceptions of civil society on the positive and negative aspects of FDI, the relationship between FDI and domestic investment and measures adopted by governments to facilitate FDI. The number of respondents to the survey in these countries is: Bangladesh 50, Tanzania 50 and Zambia 43. The survey in the three LDCs has shown that civil society is more or less positively oriented towards FDI in each of the three countries. Nonetheless, it does have certain specific concerns related to the contribution of FDI to the economy. These concerns are reflected in its orientation towards having some constraints in the functioning of FDI firms. Civil society plays an important role in shaping public opinion in the long run.

## 5.1 Comparison of Results of Civil Society Surveys

From the queries put forward, perceptions of civil society on both positive and negative aspects of FDI were covered. Among the three countries, the survey shows that civil society respondents show greater agreement on the positive aspects of FDI than the negative ones. All the country studies show that civil society is highly aware of their own country experiences. Countries that had a positive experience with FDI on certain aspects show high agreement levels. For instance, FDI brings in valuable technology, as shown in Table 5.1 below.

**Table 5.1 Positive Civil Society Perceptions: Percentage in Agreement**

| | Bangladesh | Tanzania | Zambia |
|---|---|---|---|
| FDI brings in valuable new management techniques | 84 | 70 | 74 |
| FDI is a valuable source of foreign capital | 82 | 80 | 59 |
| FDI brings in valuable new technologies | 88 | 92 | 85 |
| FDI increases access to world market | 85 | 76 | 76 |
| FDI increases competitiveness of the national economy | 85 | 73 | 62 |
| FDI helps to enhance export | 76 | 76 | 56 |
| FDI makes up for insufficient domestic investment | 68 | 48 | 67 |
| FDI helps reduce import | 58 | 41 | 32 |

Perceptions of a majority of civil society respondents in Bangladesh and Tanzania are in line with the evidence and theory, both of which have shown that technology, capital and competitiveness are the key contributions of FDI. Even so, there is less agreement on some of its potential benefits, such as making up for insufficient domestic investment and access to world markets. The majority of Zambian civil society respondents, in turn, agree with the contention that benefits from FDI are in terms of technology but not in terms of competitiveness and capital contribution. Also, civil society respondents in Tanzania show lesser agreement on the positive aspects. In Zambia, the import reduction impact is not considered to be an important one: less than a third of the respondents agree on this.

Table 5.2 highlights the perceptions of civil society respondents of the three countries on the potential negative aspects of FDI. Significant inter-country differences reveal that civil society in all the countries tend not to agree on the negative aspects.

**Table 5.2 Negative Civil Society Perceptions: Percentage in Agreement**

| | Bangladesh | Tanzania | Zambia |
|---|---|---|---|
| FDI brings in environmentally harmful technologies | 38 | 38 | 11 |
| FDI reduces the profitable opportunities available to domestic investors | 47 | 50 | 73 |
| Foreign investors are only interested in getting access to domestic markets | 58 | 47 | 55 |
| FDI results out of unfair advantages of multinational firms | 65 | 45 | 79 |
| Foreign investors do not care about impact of their investments on civil society | 62 | 57 | 71 |

A larger proportion of the civil society respondents in Zambia perceive that FDI results out of unfair advantages of multinational firms as opposed to Tanzania, where less than half is inclined to believe the same. As may be expected, a majority of civil society respondents agree that foreign investors do not care about their impact on civil society. Still, the proportion of those agreeing to this differs significantly across the three countries. In the three countries, civil society tends to agree that FDI does not bring environmentally harmful technologies.

Overall, the civil society survey responses suggest that though the respondents are in greater agreement on the positive aspects of FDI than the negative side, there is a concern related to the negative aspects in most countries.

Given these concerns, it is but natural that respondents would have views on the role that the government should play. The survey also included questions on what action government policies should take. This is discussed below:

Apart from Zambia, in all the countries there is strong agreement on the potential policy actions that would support the strengthening of domestic businesses (Table 5.3). There is less agreement on the necessity of strengthening environment regulations–with the Zambian civil society least supportive of this measure. This study shows that the respondents think that the gains from FDI can be most significant when there is a high level of competition. Strengthening of competition policy gets among the largest affirmative responses in Bangladesh and Tanzania, but the least in Zambia.

Civil society respondents from the countries that have had the highest FDI historically also tend to be less oriented towards greater regulations and legislations. Responses from Tanzania show lower agreement for greater government intervention than the other two countries.

**Table 5.3 Policies to Increase the Benefits of FDI – Percentage in Agreement**

| | Bangladesh | Tanzania | Zambia |
|---|---|---|---|
| Support local businesses to upgrade technology/gain access to finance, etc. | 91 | 98 | 61 |
| Strengthen environmental regulations | 77 | 93 | 61 |
| Introduce/strengthen competition policy | 89 | 100 | 50 |
| Strengthen sectoral regulations | 66 | 97 | 50 |
| Strengthen labour legislation | 69 | 98 | 50 |
| Strengthen intellectual property rights legislation | 88 | 90 | 85 |

Generally, civil society respondents are highly in favour of imposing certain requirements on FDI. This again indicates that though the respondents consider that FDI can have a positive impact, there is a strong perception that specific government regulations and requirements are required to have such an impact. Of the countries studied, the Tanzanian civil society shows a greater agreement in favour of specific government interventions.

Employment, export and technology related requirements receive the most support from the survey responses in the three countries studied, except in Zambia, where export considerations received less than half the support. Within this class of interventions, those related to the training of local employees received the strongest support. Significantly, balancing requirements for foreign exchange outgo have the least support.

The majority of civil society respondents also agreed that regulations and their enforcement mechanisms have a significant role for enhancing FDI flows and increasing their benefits to the economy. The burden of creating the necessary conditions (both traditional and non-traditional factors) for FDI to contribute to sustainable development, therefore, lies with governments, and so, they should take practical steps to create the conditions. The approaches may include the policy recommendations discussed in the next section.

**Table 5.4: Policies to Increase the Benefits of FDI – Percentage in Agreement**

| | Bangladesh | Tanzania | Zambia |
|---|---|---|---|
| Impose requirements on firms to: | | | |
| • Create jobs | 84 | 95 | 70 |
| • Employ local managers | 80 | 97 | 74 |
| • Transfer technology | 91 | 94 | 76 |
| • Source supplies from local firms or impose local content norms | 71 | 94 | 65 |
| • Export from the economy | 80 | 94 | 47 |
| • Balance foreign exchange impact | 62 | 88 | 74 |
| • Transfer skills and know-how to local subsidiary firms | 94 | 100 | 59 |
| • Transfer skills and know-how to local non-affiliate firms | 63 | 81 | 70 |
| • Train local technical and managerial manpower | 94 | 97 | 47 |

CHAPTER-6

# Recommendations

## 6.1 Improvement in Investment Climate

Although the investment regimes of the three countries have been liberalised, their investment climate could be considerably improved. There is a critical need to improve governance through appropriate reform measures in the countries' administrative systems. Adequate training of the officials and simplification of laws are important in this regard. Mindset of the public officials must be changed to stimulate development process through the private sector.

Studies suggest that investment incentives are necessary, but not a sufficient condition for attracting high-quality investment. High levels of incentives may attract FDI, but they also generate negative domestic concerns about the overall benefit of FDI, (*e.g. mining in Tanzania*). Hence, governments should ascertain cost effectiveness of various investment incentives offered to investors, depending on circumstances and level of transparency of investors' practices.

The investment centres and ministries of foreign affairs should take steps through foreign missions to promote the positive development in the country among the potential investors.

## 6.2. Strong but Limited Government Interventions

In some sectors, such as finance, good regulation is a necessary condition not only for FDI to be successful, but also for sustainable growth. A government devoting more efforts towards good regulation is likely to yield more FDI than creating specific policies aimed at attracting it (*e.g. financial and telecom sectors in Tanzania*). Even in the presence of infrastructure and ground-level constraints, a policy of openness to FDI can strengthen the economies (*e.g. Zambian agro-industry*). Complementary sectors and activities have to be functioning properly before FDI can be expected to make a strong positive impact (*e.g. telecom interconnectivity in Bangladesh*).

It has been noted that a careful regulation of activities of foreign investors is crucial to ensure that FDI fits well within a country's national development programme: improving information availability on trade and investment issues in a balanced way to the local community, so as to stimulate interest and provide checks against mass resistance to FDI.

## 6.3. Tax-related Constraints

Despite the reforms that have been undertaken, there are still complaints that the national tax systems are complicated, unfair and laden with multiple tax rates which increase the cost of doing business. There is still a need to simplify and rationalise the tax system and structure in Tanzania.

## 6.4. Privatisation and Further Reform

Privatisation of state-owned enterprises (SOEs) should be geared up to stimulate domestic and foreign investment. Privatisation of some profit-making units even may be undertaken to ensure a healthy environment for private sector development. Breaking up large public sector organisations into more competing entities should be done (*e.g. mining in Zambia*). Financial institutions and some of the public utilities may be privatised to ensure better service. Private sector participation in some of the sectors, like telecom, port and railways should be encouraged.

## 6.5. Legal and Judicial System

Improving enforcement of regulations, such as intellectual property infringements, environmental standards and labour regulations, is essential. In addition, improvements in law and order situation overall would complement these. Environmental and other regulations must be equally enforced among all the relevant firms, so as to attract FDI by ensuring a level playing field and to extract the desired benefits from it. Modernisation of business law will help ensuring compliance with all relevant regulations.

## 6.6. Development of Infrastructure and Human Resources

Creation of critical infrastructure, appropriate for trade and investment cooperation, provides an enabling environment for better and more efficient economic activity. The three countries should invest more in physical and social infrastructure. Both, the government and private sector, should come forward for investment in infrastructure. Government should make appropriate policies that private sector can smoothly operate in providing infrastructure services.

To address the human resource constraints, higher education needs to be restructured, so as to develop more skilled manpower suitable to production and management activities of international standards.

## 6.7. Financial Infrastructure

There is a lack of appropriate policies and strategies that can promote long-term lending by financial institutions and reduce the cost of investment finance to small investors in less developing countries. Also, there are indications of existence of moral hazard problems that have led to banks setting high lending rates, while also limiting the loans they issue especially to local and small investors. Financial facilities must be there to create conditions conducive for banks to issue loans to facilitate medium and long term investment activities.

## 6.8. Importance of the Local Market

Governments should make appropriate policies to ensure macroeconomic stability, foster growth and reduce poverty. All the three countries are well on their way to implementing these policies. For instance, Bangladesh has already achieved some success in this regard due to moderate economic growth, along with the development of a sizeable affluent middle class during the last decade. Appropriate government authorities, like the Investment Centres, should actively publicise this positive development to foreign investors.

## 6.9. Regional and Sub-regional Cooperation

Regional and sub-regional economic cooperation should be enhanced. Sub-regional cooperation may also play an important role. For Bangladesh, this is within the framework of SAARC. Cooperation within the South Asian Growth Quadrangle (SAGQ) framework may be useful in realising investment complementarities in the sub-region. One specific example of potential Indian FDI in Bangladesh is the health sector, as there is a huge outflow from Bangladesh on account of medical services. Bangladesh may develop capacity of its seaports to facilitate exports from the northeastern states of India.

For Tanzania, cooperation is within the framework of the East African Community and SADC. There are encouraging efforts underway to create common investment codes in the East African Region. It is recommended that the countries should, at most, agree on principles to be used in attracting and promoting investment in the region.

## 6.10. Need for Appropriate Framework for Public-Private Sector Dialogue

There is a need to establish an appropriate framework for public-private sector dialogue on investment issues in the country that will also ensure inclusion of practitioners in the informal sector. In this way, it will be possible to ensure that suggestions from the private sector are taken aboard while designing investment policies and regulations that will impact them. Thus, the governments should interact closely with civil society to (i) enable a better appreciation in the public of the many facets of policy formulation, and (ii) better equip the governments to gauge public opinion.

CHAPTER-7

# Conclusion

It is widely accepted that FDI can be a major catalyst for development and integration of the three economies into the global market. Like other developing countries, the three countries, Bangladesh, Tanzania and Zambia, have to compete to attract FDI and benefit from it. There is agreement among the civil society in the three countries that FDI has contributed to development, though with concerns about social, economic and environmental sustainability. While the potential benefits of FDI are well known, countries are urged not to take these benefits for granted nor expect that they would accrue automatically if there are no appropriate policies and/or infrastructure to ensure that they fit well within national development objectives.

National policies matter considerably in enhancing benefits of FDI. These are also among the best incentives a country can offer. These should normally include general macroeconomic and institutional frameworks, and create a regulatory environment that is transparent towards investment, upgrading infrastructure, technology and human competencies to the level where full potential benefits of FDI can be realised.

The burden of making FDI work for national economic and social development may lie within the government, but other parties, such as business/investor community, civil society organisations, labour unions, local communities, FDI-originating countries, regional integrations, and international governmental organisations also have an indispensable role to play. Cooperation is, therefore, needed among all stakeholders and interest groups in promoting positive FDI practices.

While the persons covered in the civil society survey were, on the whole, positive about the importance of FDI, key government departments have proved to be major obstacles. Politicians, the private sector, in particular the large companies and groups, trade unions, academics, media and the NGOs have repeatedly shown themselves to be hostile to specific projects, which could have a major impact on FDI flows. There is in sum, a mistrust of transnationals, irrespective of the fact that some among them, such as BAT, Lever, BATA and others, are among the leading tax-payers in the countries (as in Bangladesh) and important sources of foreign exchange (mining in Zambia and Tanzania).

It is evident that what is required is a major exercise by the governments and the media to educate the public about the importance of FDI. The central problem, which has evidently clouded the judgement of key people inside and outside the governments, has been a lack of transparency in dealing with many of the multinationals and, at the same time, a lack of expertise within the governments to negotiate with multinationals in any sector. It is imperative that the governments proceed to develop capacity in each of the major areas or sectors, where negotiations with multinationals are entailed. A good database on FDI flows is also essential, including providing for a well-structured, systematic way of measuring FDI flows on a regular basis. Issues relating to the prevailing investment climate, such as infrastructure problems, access to credit, corruption, governance, and law and order situation, should also be addressed.

Both, the government and the private sector, should be encouraged to attend more meetings and conferences on investment-related issues and problems, so as to improve the knowledge and understanding about FDI and the role it can play. Strong independent regulatory agencies are a must and the three countries need these urgently. The legal system needs to be improved to provide for speedy disposal of cases.

## Endnotes

1 Report of survey of foreign investment done jointly by Bank of Tanzania, Tanzania Investment Centre and National Bureau of Statistics.

2 As cited in Investment Policy in Bangladesh – Performance and Perceptions, pg 12.

3. *Ibid*

4 Investment Policy in Zambia – Performance and Perceptions, CUTS

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