Investment Policy in Tanzania

– An Agenda for Action

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CONTENTS

LIST OF ABBREVIATIONS

ACP-EU	-	African Caribbean and Pacific-European Union
AGOA	-	African Growth Opportunity Act
CMSA	-	Capital Markets and Securities Authority
CUTS	-	Consumer Unity & Trust Society
DFID	-	Department for International Development
EAC	-	East African Community
ESRF	-	Economic and Social Research Foundation
FDI	-	Foreign Direct Investment
GDP	-	Gross Domestic Product
NGO	-	Non-Governmental Organisation
CBO	-	Community Based Organisation
NRG	-	National Reference Group
ICFTU	-	International Confederation of Free Trade Unions
IFD	-	Investment for Development
IGO	-	Inter-Governmental Organisation
SADC	-	Southern African Development Cooperation
TRA	-	Tanzania Revenue Authority
TIC	-	Tanzania Investment Centre
UNCTAD	-	United Nations Conference on Trade and Development
ZIPA	-	Zanzibar Investment Promotion Authority
ZAFREZA	-	Zanzibar Free Economic Zone Authority
ZFPA	-	Zanzibar Free Port Authority

PREFACE

This is the second Tanzanian report prepared under the Investment for Development (IFD) project by Economic and Social Research Foundation (ESRF). The aim of this report is to advocate better approaches for enhancing the benefits of foreign direct investment (FDI) in Tanzania. This report could also help other developing and transitional economies facing similar constraints in their effort to enhance the role of FDI in their countries.

The report draws heavily from the first report titled, 'Investment Policy in Tanzania – Performance and Perceptions'. It also draws from the discussions and recommendations that were put forward during the National Reference Group (NRG) meetings.

The preparation of the first report was based on a review of policies on both domestic and foreign private investment in Tanzania, and a survey of civil society organisations, carried out to solicit their views and perceptions regarding performance and impact of FDI in Tanzania. In course of the research, three NRG meetings were held. From these activities, several advocacy points have been developed. All of them focus on the best way for Tanzania to attract those kinds of FDI, that are most likely to have a positive impact on the economy, without marginalising the development of the local private investment initiatives.

One of the policy recommendations being put forward is the need for the government to earnestly perform its role in the effort towards enhancing the positive impacts of FDI. The report argues that while development partners and the private sector have a role to play in enhancing the flows of FDI into the country, the main task of making FDI work for the development of Tanzania belongs to the government. This, therefore, necessitates that within the government (both central and local), there should be adequate capacity to regulate investment activities, and at the same time, to mitigate the possible risks associated with investment. Careful planning and regulation is essential, as the benefits of FDI cannot accrue automatically in an economy if the policy framework and strategic economic and political infrastructure do not exist or are not conducive. Governments of developing countries are also urged to form regional cooperation that would enable them to identify their niche areas.

The investor community is urged to play an active role in the transition of the economy towards a market-oriented economy by undertaking socially responsible investment practices. At the same time, FDI originating countries are also urged to assist the countries in their efforts towards capacity building, improving the investment environment, and thereby, enhancing the benefits of FDI by pursuing policies of openness to trade.

The civil society complements the role of the government in building local human entrepreneurial capacity and its capacity in promoting sustainable national development. It is also encouraged to play an active part in providing checks and balances against tyranny of the state and the private sector on the marginalised communities in the country by promoting effective information flows to the local communities.

ESRF acknowledges the important initiative undertaken by Consumer Unity & Trust Society (CUTS) of India in initiating and coordinating this research, the Department for International Development (DFID), UK for their support for the project and UNCTAD for their technical support. ESRF is grateful to the country researchers, Dr. Flora Musonda, Dr. Flora Kessy, Ms. Lorah Madete and Ms. Rose Aiko for their hard work that facilitated successful preparation of this report. We would also like to express our appreciation for all the members of the NRG for their invaluable comments and suggestions, without which this report would not have been a success.

9 October 2003

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

CHAPTER-1

Introduction

The Investment for Development Project

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

In the light of the importance of FDI in the framework of developing countries, the 'Investment for Development' project endeavours to study the investment regimes of selected developing/transition economies and build capacity on investment policies, trends and perceptions. The emphasis is on co-operation between countries and regions, sharing information and experience and engendering joint initiatives. This two-year project, launched in September 2001, is being conducted by the Consumer Unity & Trust Society (CUTS) India, in collaboration with the United Nations Conference on Trade and Development (UNCTAD) for holding regional seminars etc. and is supported by the Department for International Development (DFID), UK. The project involves fact-finding and advocacy work on investment regimes in seven developing and transition economies, namely, Bangladesh, Brazil, Hungary, India, South Africa, Tanzania and Zambia. Economic And Social Research Foundation (ESRF) is working with CUTS as the partner organisation in Tanzania for this project.

National Reference Group (NRG) Meetings

One of the key components of the IFD project was to form a National Reference Group (NRG) in each of the partner countries. The role of the NRG was to:

(i) Monitor the quality and content of the research outputs generated;

(ii) Create a sounding board which could be used for advocacy on foreign investment regimes in the project countries;

(iii) Facilitate discussions on international investment issues and deliberate on strategies, which could be used by developing countries at international forums; and

(iv) Attract attention to the project at the national level through National Reference Group meetings scheduled throughout the project time frame.

The National Reference Group in Tanzania was composed of parliamentarians, politicians, officials from key national and sub national government ministries and agencies, quasi government bodies, business representatives, civil society organisations, academia and investors.

Highlights of the Report

This report is one of the seven prepared by individual partner organisations in the project countries as part of this project. The report contains:

- Highlights of discussions in the NRG meetings;
- Background and analysis of key areas of the debate on FDI; and
- Prioritised policy recommendations emerging from the project research and the meetings.

The report will contain policy advocacy points on FDI for civil society, governments and inter-governmental organisations .It will be distributed widely in the country among policy makers, civil society organisations and business groups.

Organisation of the Report

This paper comprises of four sections: the introduction to 'The Investment for Development Project' being the first. Section two of this paper discusses briefly Investment Policy, Performance and Perceptions in Tanzania, while section three highlights the issues that emerged in the previous National Reference Group (NRG) meetings. Section four discusses the advocacy points—recommendations or actions for various interest groups and stakeholders in investment issues. Finally, section five briefly concludes the paper.

CHAPTER-2

Investment Policy, Performance and Perceptions in Tanzania

An Overview

Tanzania pursued an inward oriented development approach since 1967. This approach led to significant nationalisation of private industries and collectivisation of agriculture. By mid 1970s, the weaknesses of this approach started to become apparent as it led to economic setbacks and stagnation, which culminated into the economic crisis of 1980s. By mid 1980s, Tanzania had to consider adoption of a different development approach that would reduce the role of the State and foster private sector led development.

These reforms accelerated in the 1990s with earnest efforts to privatise state-owned parastatals and create enabling environment for private investment. The declining foreign aid, unsustainable level of external debt, relative ease of capital flows between countries (as a result of globalisation) made non-debt accumulating private sources of investments an attractive source of financing for development. The positive role that international financial flows were perceived to have had played in the development miracle of East Asian countries furthered the desire of the country to attract international financial resources.

Since 1995, with the acceleration of reforms, the investment climate in Tanzania has improved considerably. The World Economic Forum's Africa Competitiveness Report 2000-2001, published in conjunction with the Harvard Institute for International Development has top-ranked Tanzania, in a survey of African nations' efforts to improve economic and investment conditions, out of twenty-four countries on its index for the correction of initial economic conditions in recent years. The report also ranked Tanzania number two after Nigeria in the African continent for optimism for future growth. It is however important to note that despite the progress made in improving the initial conditions, investment effort in Tanzania is still too low and a lot of improvements are still needed to make investment work for its development.

Tanzanian Investment Policy

Tanzania has a body of statutes that govern investment (both local and foreign), foreign trade (imports and exports), customs duties, business licensing, intellectual property rights, export control, competition policy, and other related matters. She also has a clear policy of openness to investment, although a successful investor must still go through some procedures. The Tanzania Investment Policy established in 1996 governs investment in the country. A separate statute, however, focuses on investment opportunities in the mineral sector. The Mining Act of 1998 similarly liberalises opportunities for foreign investment and provides special incentives to investors in the mineral sector.

The Investment Act of 1997 was enacted to help create an attractive commercial environment, and to provide incentives for inward investment. This act also established the Tanzania Investment Centre (TIC) as the sole investment promotion agency in the country, also challenged to perform as a one-stop agency to coordinate and facilitate investment. 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 locally owned. TIC has identified priority investment sectors as mining, petroleum and gas, tourism, infrastructure development, aviation, agriculture, construction, financial services and manufacturing. With a few exceptions, 100 percent foreign ownership is permitted in most economic activities.

The legislations governing investment as stipulated in the Tanzania investment policy do not apply to Zanzibar. Zanzibar has therefore been using her own legislations to coordinate investment activities in the island and has recently developed its own investment policy document, which will be put into operation starting 2003. In this spirit the provisions of the 1997 Tanzania Investment Act are not applicable to Zanzibar.

In Zanzibar the government permits 100 percent foreign ownership in most activities except in some small retail areas and small tourist services. Zanzibar has also enacted legislation for the creation of Export Processing Zones (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. At the moment, institutions that plan and implement policies that are deemed necessary in tackling Zanzibar socio-economic problems in general and investment in particular are: (a) Zanzibar Investment Promotion Authority (ZIPA); (b) Zanzibar Free Economic Zones Authority (ZAFREZA); and (c) Zanzibar Freeport Authority (ZFPA).

FDI Performance

In real terms FDI flows in Tanzania increased in 1990s. Table 2.1 below shows trends in FDI flows in Tanzania since liberalisation efforts started in 1985.

Table 2.1: Trends in FDI flows into Tanzania

Year	FDI Flows Millions of US$
1985-1995*	23*
1994	50.2
1995	150.86
1996	148.64
1997	154.63
1998	172.22
1999	183.83
2000	192.8
2001	224.40

Source: The Economic Survey, 1999; 2001

*Annual Average

Tanzania has also been pursuing an aggressive policy of privatisation, with the support it receives from international financial institutions. The intention of the Government is for all parastatal entities to be either privatised or liquidated, although no target date for the completion of this process has been announced. Major privatisations have already taken place in the telecommunications and utility sectors as well as in financial services. Gibbon (1999) estimated that privatisation proceeds accounted for a third to half of FDI flows between 1992 and 1998 (but with cautionary note on the reliability of the figures). Acquisitions of companies by foreign investors while few, have given a significant push to increased FDI flows.

It is, however, 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. A recent survey of foreign investments[1] in Tanzania reveals that for the years 1998 and 1999, there was concentration of FDI inflows to natural resource sectors. Mining and quarrying accounted for 66.5 percent of total inflows, followed by manufacturing. Together, these sectors accounted for more than 80 percent of

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

FDI inflows into Tanzania in 1998. This was followed by accommodation and catering services, which accounted for 5.4 percent, and agriculture, hunting and forestry sector at a distant 2.6 percent.

In terms of stocks, mining and quarrying and the manufacturing sector accounted for the largest share of FDI for both 1998 and 1999. In 1998, mining and quarrying accounted for 30.8 percent of FDI stock followed by manufacturing at 24 percent. In 1999, the share of mining and quarrying went up to 39.4 percent and although manufacturing sector remained the second largest recipient of FDI, it had a slightly reduced share of 22.1 percent. The third largest sector was wholesale and retail trade, catering and accommodations services which accounted for 15.4 and 13.1 percent of the FDI as at the end of 1998 and 1999 respectively.

Civil Society Perceptions About FDI in Tanzania

The civil society perceive that indeed there are improvements in the investment climate and that FDI has contributed to national economic development in the last decade especially in the mining, tourism and natural resources, and manufacturing sectors. They also perceive that FDI has led to improvement in quantity and quality of jobs but not in all areas of economic activity and availability of new technologies but with concern for limited capacity of local investors to learn these new technologies and adapt them to their own use.

At the same time they raise concerns that while FDI has led to increased competition in the local market, it has also led to reduction in profitable opportunities available to local investors, especially in the mining and financial sectors and that FDI may be a potential source of environmentally harmful technologies.

The civil society has also raised concerns that despite Tanzania’s efforts to improve the investment climate, it is not attracting as much FDI as it should, and that there is no clear indication that the benefits of an increase in FDI are felt by the larger society. Among hindrances pointed out are weaknesses in the administrative and regulatory frameworks in matters related to investment, weaknesses in enforcement of the regulations, lack of appropriate infrastructure such as strong business minds among the indigenous population, large potential market due to low incomes, skilled personnel, transport and energy infrastructure, overlapping regulations and failure of investment promotion agencies to take a leading role in regulating investors practices in the country. The civil society also thinks that it is important to target FDI to specific sectors of the economy. However, the government may need to consider thoroughly the economic importance of each sector to national economic and social development so that the exercise may be sustainable.

Other recommendations include:

- The need for the government and its investment promotion agencies to take a leading role not only in investment promotion and facilitation but also in investment regulation;
- The need to have appropriate policy frameworks for intervening where needed so that positive spill over effects of FDI can be felt in the economy and contribute to positive social and economic development; and
- The need to involve the civil society in a participatory policy process as well as encouraging public private partnerships in matters related to private sector development in the country.

CHAPTER-3

Stakeholders' Views on FDI

The participants in the NRG meetings held in the course of the project discussed and deliberated on a number of issues pertaining to FDI in Tanzania. Below is a brief summary of the issues raised in the NRG Meetings.

Bureaucratic and Administrative Constraints to Investment

It was noted that one of the serious obstacles to investment in Tanzania has to do with bureaucratic and administrative constraints in approving investment requests. This kind of bureaucracy also encourages corruption. Participants suggested that the discretionary power of some individuals in the administrative organs should be curtailed.

Participants also noted that there are still problems in the registry department of the ministry of lands, which include poor record keeping , thus leading to delays in processing, land transfers and title deeds.

Tax Related Constraints

The tax system in the country, participants noted, is still complex, lacks transparency and is not growth oriented thus stifling development, especially of small investors. Furthermore, apart from the tax base being narrow, there are still a lot of loopholes that contribute to tax evasion. This situation ultimately creates unfair competition. It was suggested that in addition to streamlining the tax system procedures at entry points (airports, sea ports, border posts), they should be improved upon to curb tax evasion.

Physical Infrastructure

One of the important factors that potential investors look for when deciding to invest in a country is the quality of its physical infrastructure facilities, transport costs and the efficiency with which local distribution channels operate. Tanzania's transport infrastructure is however still poor. To attract high quality FDI, Tanzania has to invest in improving its infrastructure facilities.

Production Costs

It was noted that the cost of doing business in Tanzania is still very high for industries. Most of these costs are related to utility tariffs and multiplicity of tax rates. It was further noted that despite the marginal reduction in power tariffs, which came into effect in year 2002, the cost of energy for industries is still too high compared to cost to companies in other East African states.

The Tanzania Electricity Company is currently undertaking a study on Tanzania's electricity tariff. This study is intended to provide inputs for review of the power tariffs to various categories of consumers in Tanzania including industrial manufacturers. It is, however, not clear whether after the current research, the power tariffs will be increased or reduced.

Legal and Judicial System

The independence of the judiciary in Tanzania is said to have been eroded. Some functions of the judiciary have been moved to tribunals, which are headed by members of the State. There is also a growing tendency by both the executive and the legislature to question decisions of the judiciary. This is a serious weakness because as long as investors' confidence on the judiciary's independence continues to be eroded, promotion of foreign investment may prove elusive.

Human Resource Constraints

There is a critical lack of skilled personnel in Tanzania. This is enforced by weaknesses in the Tanzanian human resource development approaches. Skill shortages are more apparent in the technical and managerial areas that are essential in the increasingly skill-driven and competitive national, regional and international market conditions. This is exacerbated by massive brain drain as those who are skilled go elsewhere to find better paying jobs. Appropriate human resource development strategies need to be put in place and implemented. The work attitude of Tanzanians also needs to change to that of commitment and efficiency. It is unfortunate that the current labour laws in force in the country do not create a condition that is suitable for this change.

Financial Infrastructure

There is a lack of appropriate policies and strategies that could promote long term lending by financial institutions and reduce the cost of investment finance to small investors in the country, especially in agriculture. Also, there are indications of existence of moral hazards that have led to banks setting high lending rates while also limiting the loans they issue especially to local and small investors.

The government has also been criticised for interfering with bank lending activities. It goes as far as prescribing approaches that banks should use to deal with their borrowers who default. Participants pointed to clauses in the land law, which limit lenders from seizing property of borrowers in the event of default, thus encouraging unyielding behaviour by some borrowers.

It was noted in particular that the Land Bill does not create conditions that are conducive to banks to issue loans to facilitate investment activities.

The government has recently decided to amend the Land Act of 1999 as well as other legislative encumbrances that discourage prospective investors, both local and foreign. But people have also responded to this direction of change with concerns that unless other important limitations, such as unwieldy litigation procedures, hostile regulatory environment, unmitigated democracy, and corrupt and inept public officials are taken care of headlong, mere reform of the land legislation may not yield much in terms of promoting investment by reducing cost of finance to investors.

The Role of Incentives in Promoting Investment

Investment incentives are one of the factors that influence investors' decisions. Studies suggest that it is a necessary but not sufficient condition for attracting high quality investment. Tanzania has been offering a lot of incentives in this respect but it not clear how these incentives (tax and financial), will affect the quality of investment that Tanzania is able to attract. Recently, however, the government has been forced to remove incentives on petroleum imports for mining companies and foreign missions due to abuse of the service by beneficiaries.

It was also noted that it is not clear whether there should be a uniform or common policy on incentives in the East African Region given the recent developments in promoting the East African Community.

Potential Benefits of FDI

It was noted that Tanzania is making great efforts to attract FDI and that there is an indication that FDI is actually contributing to growth (though it may not be a clear cut one). There are observations that attribute much of the recent improvement in the economic growth to the rapid increase in FDI inflows particularly in the second half of 1990s.

But concerns were also raised regarding the social impact of FDI on the poor and local investors in the country. Participants noted that in most areas of economic activity, FDI seemed to dominate the local market, thus stifling local competition and entrepreneurial capacity. They pointed out that this is mainly a result of regulatory arbitrage where the government purposely keeps its regulations (e.g. environmental standards, labour regulations, tax regulations etc.) artificially low to attract foreign investors.

Furthermore, while it is expected that FDI can lead to infrastructure development and technology transfer, small investors do not benefit from technology transfer because they have, neither the resources nor the entrepreneurial capacity to acquire these new technologies and adapt them to their own use and benefit.

Regional Integration

Tanzania is a member of regional organisations including the East African Countries (EAC) and Southern African Development Community (SADC). Participants noted that it is encouraging, that efforts are underway to create common investment codes in the East African Region. They however raised concerns that it may not be feasible to establish a common investment code for the three East African Countries as each country has its own distinct characteristics, which need to be considered carefully. It was suggested that the countries should at least agree on principles to be used in attracting and promoting investment in the region.

Environmental and Social Sustainability of Investment

The Government needs to make greater efforts to assess the linkages between FDI and the environment in order to ascertain the environmental impact of FDI in the national economy. This will require that the Government puts in place an appropriate mechanism for investment inspection, monitoring and regulation.

Availability of Data on Investment in Tanzania

There is a serious lack of reliable and up- to-date data and information on investments in Tanzania. The Government should, therefore, through its investment promotion and monitoring agencies establish a reliable database that will serve to assess the contribution of FDI in the country. It was noted that the Bank of Tanzania, Tanzania Investment Centre (TIC) and the Tanzania Bureau of Statistics, together undertook a study to establish amount of FDI in Tanzania. The NRG participants highly commended these efforts but also pointed out that efforts to establish a reliable database should not end here.

Public-Private Sector Dialogue on Investment Issues

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 into account, when designing investment policies and regulations that will have an impact on them. They may also serve to provide checks and balances on investment practices, and advice on how the investment climate in the country may be improved in order to increase local productive capacity and improve the incomes of the people for poverty reduction.

In a move to foster dialogue, the government established the Tanzania National Business Council (TNBC) in the year 2001. It aimed at promoting public-private sector dialogue on investment issues.

Enhancing Investment Promotion Activities

It was noted that Tanzania has focused on incentives for investment and improving the investment environment in the country. It is important to ensure that Tanzania attracts high quality investment that will lead to meaningful economic and social development in the country. Participants also noted that the centralisation of investment promotion activities might not be the best approach and suggested that there is a need to decentralise activities of TIC and establish regional growth centres nationwide.

Regulation of Foreign Investors' Activities

It was noted that careful regulation of activities of foreign investors is crucial to ensure that FDI fits well within Tanzania's national development programme. The government also needs to undertake effective intervention to reduce negative externalities and increase benefits to the local communities in the vicinity of foreign investment activities.

Tanzania's Ability to Take Advantage of International Trade Opportunities

Tanzania's weak technical and entrepreneurial capacity is said to inhibit its ability to take advantage of profitable opportunities from international trade and preferential treatment afforded to Tanzanian exporters in the African Caribbean and Pacific-European Union (ACP-EU) framework and under African Growth Opportunity Act (AGOA).

CHAPTER-4

Agenda for Action

The major part of policy adjustments required to attract and maximise the benefits of FDI needs to be undertaken by Tanzania. But, other parties (including civil society organisations; investors and their home country governments; international institutions; and regional economic integrations) also have an important role to play in improving the investment climate, build capacity and maximise the benefits of FDI for economic and social development.

This section proposes actions that could be useful in promoting high quality FDI, facilitating and financing the transfer, diffusion and access by local entrepreneurs of suitable technology and know-how for sustainable development, thus increasing the benefits of FDI in the country.

Creating Enabling Environment for FDI

Actions for the Government

- Invest in critical infrastructure that is necessary to attract more FDI, for example in transport and communications; build domestic entrepreneurial capacity and active business minds as well as build capacity of the government in economic planning and policy formulation.
- Streamline the tax structure and administration to make it more transparent, flexible, growth oriented and investor friendly.
- Reduce bureaucracy, red tape and 'mal-administration and unfair practices' cited variously in customs and import valuation, in presumptive taxation, and in the lengthy procedures for assessment and payment.
- Improve enforcement of regulations and reduce overlaps in policies and regulation to improve the functioning of government agencies.

Actions for the Civil Society

- Complement the role of the government in building local human entrepreneurial capacity and the capacity of the government in promoting sustainable national development.

Actions for Inter-Governmental Organisations (IGOs)

- Avail technical assistance and complement the Government's efforts to build human and institutional capacity needed to understand implications of possible investment frameworks.

- Make informed and appropriate policies for the purpose of enhancing flows and benefits from FDI.
- Assist Tanzania and other developing countries to undertake and address the concerns of developing countries with respect to their participation in international trade and investment negotiations, for instance under the World Trade Organisation (WTO).

Formulating Corporate Responsibility

Actions for the Government

- Come up with national legislations that support better investment security for local markets, fair competition, and corporate responsibility by defining equitable, secure, non-discriminatory and transparent investment practices.
- Fight corruption in investment dealings, which is among the major impediments to efficient gains from FDI in Tanzania.

Actions for the Civil Society and the Media

- Inform consumers , shareholders and the wider society about companies' investment policies and standards. Raise awareness among the Tanzanian community about challenges posed by violation of human rights of communities in the sectors affected directly by FDI, for instance in the mining, manufacturing and agricultural sectors. This might also act as an important check and balance on investment practices.
- Build strong and genuine alliances with each other; with the communities affected by FDI, for example people living in the immediate vicinity of the mining sites; the intellectual community as well as like-minded people. This will enable presenting strong and informed voices to the policy makers and regional and international organisations on how to enhance the benefits of FDI.
- Contribute towards the development of implementation mechanism and monitoring of business performance strategies and benchmarks. For example, labour organisations can monitor and call employers to be accountable where companies fail to meet core standards regarding gender, age, discrimination, and workers' rights. They can also help in developing a guide to good practices in the country in accordance with minimum labour standards set by the International Confederation of Free Trade Unions (ICFTU) for multinational investments.

Actions for the Investor Community

- Foreign investors coming to Tanzania are urged to come up with an acceptable social face (i.e. responsible FDI practices).

Actions for FDI Originating Countries

- Help developing countries by curbing the supply side of bribery and corruption in international business operations.

Actions for Inter-Governmental Organisations (IGOs)

- Assist in improving the efficiency and functioning of financial markets, the development of innovative finance mechanisms, and monitor/foster codes of conduct so as to avoid financial crises.

Improving Quality and Reliability of Data and Information Flows

Actions for the Government

- Undertake practical steps to improve information dissemination and quality of data as this will generate better information flows, stimulate interest and help reduce uncertainty.

Actions for Inter-Governmental Organisations

- Disseminate information about global FDI trends and its impact on technology and trade, finance and economic growth as well as raise awareness of investment conditions so as to assist informed policymaking.

Mobilising National Support for FDI

The Government and the Civil Society

- Be responsible for a carefully planned and steadfastly implemented liberalisation policy to prevent/avoid drawbacks associated with FDI as well as misunderstandings and misconceptions that could lead to popular resistance to FDI.
- Establish an appropriate framework for public-private sector dialogue on investment issues among academia, non-governmental organisations (NGOs), community-based organisations (CBOs), labour unions and the business community. This could provide better framework of cooperation among different interest groups on investment issues in the country.
- Undertake efforts to raise awareness and knowledge about the benefits and constraints of FDI. Net benefits of FDI and trade agreements as well as their possible or actual drawbacks should be communicated in a balanced and easy manner for the understanding of the general public.

Increasing Benefits of FDI

Actions for the Government

- Undertake strategic regulation and intervention into the activities of foreign investors to ensure that FDI fits well within Tanzania's national development programme.
- Offer incentives for best practices undertaken by foreign investors and local investors in promoting environmentally sustainable investment practices.
- Ascertain the cost effectiveness of various investment incentives offered to foreign investors.
- Address policies and practices that increase rather than reduce investors' costs and perceived risks, since broad-based, transparent, non-discriminatory and predictable frameworks are among the best and long lasting incentives for investors.

Actions for Investment Originating Countries

These countries may assist Tanzania in its effort to improve the investment environment, build capacities and maximise the benefits of FDI through:

- Pursuing policies of openness to trade; and
- Supporting human and institutional capacity building and participation of Tanzania in the multilateral fora.

Actions for Regional Organisations (e.g. The East Africa Community (EAC) and Southern African Development Cooperation (SADC)

- These could provide an opportunity for member countries to consolidate their approaches to investment promotion. By acting together, member countries would be able to identify opportunities, that would otherwise have been overlooked, and allow measures to be undertaken to address or reduce barriers to trade and investment and increase benefits emanating from trade and investment cooperation.

CHAPTER-5

Conclusion

FDI is acclaimed to be a major catalyst for development and integration of the Tanzanian economy into the global market. Like other developing countries, Tanzania has to compete to attract FDI and benefit from it. There is an agreement among the civil society that FDI has contributed to our development especially in the last decade, though with concerns about social, economic and environmental sustainability. While the potential benefits of FDI are well known, these benefits can neither be taken for granted nor can they be expected to accrue automatically if, appropriate policies and/or infrastructure to ensure that they fit well within the national development objectives, are lacking.

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

But, while the burden of making FDI work for our national economic and social development may lie within the government, 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 to promote positive FDI practices, if FDI is to work for sustainable development.

ANNEXURE

Summary of NRG Discussions

One of the most important activities of the IFD project was the formation of a National Reference Group (NRG) in each project country to provide a sounding board and quality check on the research outputs. The main purpose of the NRG meetings was to attract attention to the project at a national level.

First NRG Meeting

February 27, 2002, Dar-es-Salaam

The first NRG meeting discussed investment policies and performance in mainland Tanzania and Zanzibar. It was followed by a general discussion by the participants with some suggestions and recommendations.

National Investment Policy and Performance (Mainland)

There are a number of constraints to private sector investment in Tanzania. These include poor quality of road network (especially in rural areas), poor infrastructure in the power and telecommunications sector, legal, regulatory and taxation bottlenecks, and inadequate supply of high middle–cadre personnel who are equipped with modern business techniques and customer service standards.

Zanzibar Direct Investment, Evolution and Performance

Zanzibar, which used to depend on clove export, is making efforts to diversify the economy. This has resulted in a fast expansion of the tourism industry in the isles. This expansion has both positive and negative effects. While it has stimulated transportation, handicraft, carpentry and food production sectors, it has at the same time lead to environmental degradation and the imitation of tourist behaviour among the youth. Zanzibar should do the following to attract investments:

- Exploit available potential, especially in the agriculture sector to complement the tourism industry;
- Develop willingness and ability of the local population to adopt and adapt new technology in the tourism industry;
- Regional cooperation in the tourism industry; and
- Encourage the growth of the local souvenir industry in quality, quantity and variety.

General Discussion

Participation of foreigners in local capital markets

- No law prevents foreigners from participating in the Dar-es-Salaam Stock Exchange (DSE), but cross border listing and capital transfer outward are still problematic. The government is working on this.

- Capital Markets Authority (CMSA) will need to offer good products i.e. reputable companies if it wants to attract meaningful foreign participation in the local stock exchange. In addition, foreign participation can be encouraged through encouraging foreign investment into local companies that want to be listed in the stock exchange.

Bureaucratic and administrative constraints

- Bureaucratic and administrative constraints in processing investment requests are serious obstacles to investment. For example, land transfers can take as long as six months. Bureaucracy also encourages corruption. It was suggested that discretionary powers of individuals should be curbed.
- Registry department, a section of the Land Ministry, has problems. Record keeping in the office of the Commissioner for Lands is not satisfactory and this leads to unnecessary delays in processing land transfer and title deeds.

Tax related constraints

- The tax structure is not stable, changing every six months. It is also not growth-oriented, stifling development especially for small investors.
- Tax evasion is very high, creating unfair competition. It was suggested that procedures at entry points (i.e. airport, sea ports, border posts) should be more stringent to minimise tax evasion.

Infrastructure

- High energy rates, due to inefficiency, discourages potential investors.

Legal system

- The judiciary's independence has been eroded. Some functions of the judiciary have been moved to tribunals, which are headed by members of the executive arm of the state. There is a growing tendency by both the Executive and Legislature to question decisions of the judiciary. Potential investors will not invest if they do not have confidence in the independence of the judiciary.

Human resource

- Skilled labour and business managers are lacking. Work attitude needs to change as well. However, it is unfortunate that present labour laws do not create a conducive atmosphere for this change.

Financial infrastructure

- Financial institutions are not vibrant, and this makes long-term lending difficult.

It was pointed out that enforcement mechanism is problematic in the banking system. The government adopts a prescriptive approach by telling banks what to do about debtors. The existing laws encourage borrowers, who have no intention of paying back their debts, to be obstinate.

The role of incentives in promoting investments

- The question of incentives especially in the mining sector was addressed. How far should incentives go and should there be a common policy for the whole (East African) region? Incentives are important because they attract investments, and consequently the government earns through taxes and royalties.

Benefits of FDI

- Concern was expressed that small investors did not benefit from technology transfer due to lack of resources to acquire this technology.

Regional integration

- There was a discussion on the current efforts to create a common investment code for the East African Community. It was argued that it would not be feasible to have a common investment code for the three east African countries (Uganda, Kenya and Tanzania) since each country had its own distinct characteristics. It was suggested that the countries should at the most agree on principles of attracting and promoting investment in the region.

Second NRG Meeting

November 20, 2002, Dar-es-Salaam

The second NRG meeting discussed a couple of issues of high importance to Tanzania and findings of a civil society survey. The meeting ended with a general discussion on the country's investment regime.

Three topical issues were raised:

Negotiation of the competition policy: There is no competition policy in Tanzania and with the free market the question is how Tanzania will be able to relate with advanced countries with known competition policies.

Investment in trade: Tanzania has to produce quality goods in regular supply so that it does not succumb to competition.

New government procurement procedures: Tanzania is on the verge of a transition to a system of international tendering that may cause disadvantage to domestic investors due to their lack of competitiveness.

As part of the IFD project, perceptions of the civil society on various issues were sought in relation to FDI. Some of the conclusions from the civil society survey were:

- The need to consolidate data sources on foreign investment in order to facilitate sound research and analysis;
- The civil society demonstrated a satisfactory level of awareness about FDI and its role in development; and lastly
- Secondary sources showed encouraging trends in terms of the amounts and impact of FDI.

It was noted that results of the civil society survey could be partially influenced by the type of sample used. It was suggested that better results might have been obtained in some cases, had those directly affected by the FDI activities been incorporated in the sample i.e. the people at grassroots. The need for identifying the appropriate FDI for Tanzania was discussed. One approach suggested to the presenters was in-depth research to look at the importance of FDI and its implications to civil society. Low levels of availability of data and low response in the survey was noted and it was decided that this would be better addressed by sampling some of the firms from different sectors to do in-depth research.

Investment without peoples' concern was another issue raised in the course of the discussion. Public debate on key areas of investment and the protection of the consumers was vital since several events have proved that private investment does not leave room for dialogue. Participatory procedures were required and freedom of the Tanzanians needed to be respected.

It was noted that the Tanzania Investment Centre (TIC) which is the centre for all investment activities is centralised. The suggestion was that it could be decentralised into growth centres at a national level, even, at district or ward levels, whereby the local/grassroots levels can be tapped into the development procedure. Examples were drawn from China.

Third NRG Meeting

February 27, 2003, Dar-es-Salaam

The third NRG meeting began with the mention of some concerns regarding Tanzania. The participants subsequently discussed the findings of the IFD project and the way forward in the project.

Capacity concerns: Tanzania has a low capacity in production of high quality commodities. He insisted that the attraction of FDI should increase the country's capacity to produce more and better quality products and therefore the policies and strategies have to reflect this need. He also noted that Tanzania needs:

- Policies and strategies that attract foreign investment and stimulate local private investors to participate effectively in investment.
- To identify specific areas of investment where creation of productive competition by Tanzanians is possible.
- To attract high quality investment that would be able to make maximum use of local resources rather than concentrate on importing resources.
- Facilitation and promotion of local entrepreneur capacity to penetrate the world market.

Social concerns: The investment policy should take on board social concerns especially on corporate matters. Concerns to be looked into are:

- The need for the government to effectively intervene to ensure that investment contributes towards human resource development.
- The need to facilitate investments that promote good practices such as anti-corruption, good governance etc.
- The need to accept investors who adhere to national and legal obligations.
- The need to put in place FDI policies that can contribute significantly towards empowerment of women and youth in issues related to poverty reduction and environmental sustainability.

During the course of the discussion, the following were touched upon: (a) the investment policy, performance and perception; (b) issues raised in previous NRG meetings; and (c) advocacy points.

The following issues/points of reference for the discussion were raised:

- How can FDI work better in the country?
- Resource-seeking investment vis-à-vis market-seeking investments.

- Should the policies be the focus of attracting FDI?
- The issue of permitting other forms of investment such as the portfolio investment.

The following deliberations emanated from the discussion:

- It was noted that the tax system in the country is weak—it lacks stability, flexibility and predictability. It was pointed out that the tax system in the country is not growth-oriented and there is a need to improve it.
- Corruption at various levels was recognised as a hindrance in the efforts to attract and benefit from FDI in the country. Less corruption would mean more foreign investment.
- It was noted that Tanzania relies on traditional factors for attracting FDI and uses non-traditional factors sparingly. It was advised that employment of both traditional and non-traditional factors would give Tanzania a better chance of benefiting from quality FDI.
- It was also pointed out that Tanzania lacks an internationally accredited laboratory for its export products. Depending on foreign laboratories does not stimulate local production. It was also mentioned that most of the agro products are sold internally without proper laboratory testing, as quality testing is expensive. Participants noted that Tanzanian goods face a lot of constraints in accessing international markets due to the importance attached to standards in foreign markets and weaknesses in quality control at home.
- Participants mentioned the need for an appropriate infrastructure for testing quality standards of products in the country and acknowledgement of the local accredited laboratory organs internationally.There is a need to ascertain the quality of FDI and for it to be led into sectors where it will be more beneficial. It was noted that most foreign investment comes in the form of privatisation proceeds and raises concern within the Tanzanian community regarding its impact on the economy and the society.
- The partnership between the government and the civil society organisations has to be strengthened so as to pave way for effective dissemination of information to the community about FDI potential benefits and constraints in the country.
- It was noted that Tanzania relies on traditional factors for attracting FDI and uses non-traditional factors sparingly. It was advised that employment of both traditional and non-traditional factors would give Tanzania a better chance of benefiting from quality FDI.
- It was suggested that the Central Bank should advise the TIC in investment procedures.
- Focused areas for investment should be established and an initiative taken to promote investment in such areas. Regions should also be involved and advised in the formulation of their own investment approaches.

- The partnership between the government and the civil society organisations has to be strengthened so as to pave way for effective dissemination of information to the community about FDI potential benefits and constraints in the country.

Discussion on the way forward and closing remarks:

The chairperson discussed the role of FDI in relation to fighting poverty. He also urged the researchers to incorporate the comments and discussions from the meeting in their reports and to reduce recommendations to manageable numbers. Specifically, he emphasised the importance of:

- The government assuming a proactive role in the improvement of the local human capacity and not leaving it to the civil society organisations alone.
- A move from resource to market-seeking investments so as to improve local capacity in tapping the benefits of foreign investment.
- The importance of Tanzania building its capacity to effectively participate in multilateral trade and investment negotiations for the purpose of improving its capacity to benefit from FDI.

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