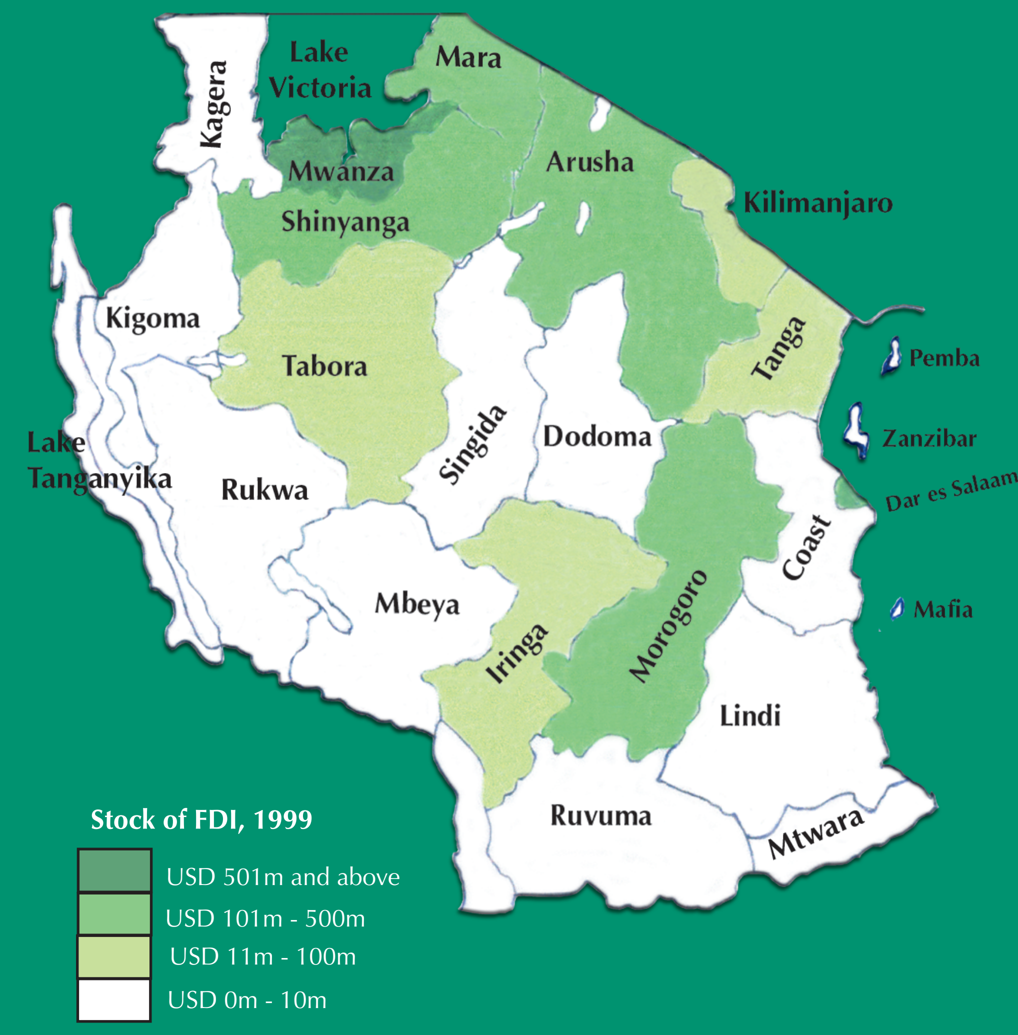
# TANZANIA INVESTMENT REPORT

## Report on the Study of Foreign Private Capital Flows in Mainland Tanzania





**BOT website: www.bot-tz.org**
**TIC website: www.tic.co.tz**
**NBS website: www.nbs.go.tz**

**DECEMBER 2001**

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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| **AIDS** | Acquired Immune Deficiency Syndrome |
| **BPM5** | Balance of Payments Manual Version 5 |
| **BOP** | Balance of Payments |
| **BOT** | Bank of Tanzania |
| **BRELA** | Business Registration and Licensing Agency |
| **CMSA** | Capital Market and Securities Authority |
| **CTI** | Confederation of Tanzania Industries |
| **DSE** | Dar es Salaam Stock Exchange |
| **DAWASA** | Dar es Salaam Water and Sewage Authority |
| **DFID** | Department For International Development |
| **DFI** | Development Finance International |
| **EAC** | East African Community |
| **ESRF** | Economic and Social Research Foundation |
| **EU** | European Union |
| **EFA** | External Finance for Africa |
| **FAL** | Foreign Assets and Liabilities |
| **FDI** | Foreign Direct Investment |
| **GDP** | Gross Domestic Product |
| **HIV** | Human Immunodeficiency Virus |
| **IFEM** | Inter-Bank Foreign Exchange Market |
| **ICSID** | International Centre for Settlement of Investment Disputes |
| **IIP** | International Investment Position |
| **IMF** | International Monetary Fund |
| **IPC** | Investment Promotion Centre |
| **MIGA** | Multilateral Investment Guarantee Agency |
| **MNC** | Multinational Corporation |
| **NBS** | National Bureau of Statistics |
| **PSRC** | Parastatal Sector Reform Commission |
| **PER** | Perception |
| **PI** | Portfolio Equity Investment |
| **PCFS 2000** | Private Capital Flows System established in year 2000 |
| **ROC** | Registrar of Companies |
| **SADC** | Southern African Development Community |
| **TBS** | Tanzania Bureau of Standards |
| **TANESCO** | Tanzania Electric Supply Company Ltd |
| **TIC** | Tanzania Investment Centre |
| **TIR2001** | Tanzania Investment Report 2001 |
| **TRA** | Tanzania Revenue Authority |
| **TB** | Treasury Bills |
| **USSR** | Union of Soviet Socialist Republics |
| **UK** | United Kingdom |
| **USA** | United States of America |
| **USD** | United States Dollars |
| **VAT** | Value Added Tax |

# PREFACE

During the past few decades the world has witnessed increased flows of private capital particularly to emerging markets and developing countries. The least developed countries, including Tanzania, have also benefited from private capital flows. These flows have increasingly augmented domestic savings, and a substantial part of the capital flows have been in the form of private foreign direct investment, which besides providing finance, brings with it managerial skills, technology, marketing expertise and market links, all of which are in short supply in these countries. While it is generally evident that the flow of private capital into Tanzania has been growing, not much has been done to ascertain about the nature, magnitude, composition, and sustainability of these flows.

Monitoring private capital flows in Tanzania has therefore become an increasingly urgent task. With open and liberal payments and exchange regime, Tanzania has found it increasingly difficult to monitor private investment because most of the monitoring instruments, (including documentation) of the earlier control regime have been abandoned completely. Monitoring private capital flows in a liberalised environment therefore calls for a new arrangement involving enhanced cooperation between the private sector (investors in particular) and public sector.

In consideration of this need to monitor capital flows, the Bank of Tanzania in close collaboration with the Tanzania Investment Centre and the National Bureau of Statistics embarked on a survey study of Private Capital Flows in Tanzania that has lead to this report, which should be viewed as an essential step toward establishing a reliable monitoring system.

This study, the first of its kind in Tanzania, is intended to provide information on the current state of foreign private investment (by type, country of origin, sectoral and regional distribution) as well as bring out investor perceptions of the economy and business environment (ranging from the macroeconomic situation, to infrastructure, financial, governance and labour factors).

This study is expected to be followed by similar periodic surveys that will update the information contained in this report. The information is also expected to provide a basis for developing policies on investment promotion and planning on future investment strategies.

It is hoped that local and foreign investors, policy markers, donors, international institutions, academicians and other stakeholders will find the report a useful source of information.

Daudi T. S. Ballali
Governor
BANK OF TANZANIA
December 2001

## ACKNOWLEDGEMENT

The Tanzania Investment Report 2001 (TIR2001) was prepared under the overall supervision of P. M. Noni (Director of Economic Policy – Bank of Tanzania), E. Ole Naiko (Director of Investment Promotion – Tanzania Investment Centre), and A. Athmani (Director of Economic Statistics – National Bureau of Statistics) by a technical team led by S. Mrutu and comprising F. Rutabanzibwa, C. Assey, and Z. Kiwelu (Bank of Tanzania). M. Kipilimba (Bank of Tanzania), designed and developed the Private Capital Flows Software in addition to his active participation in the preparation of the report.

The technical team was assisted during data collection, verification and inputting by D. Thewa, E. Maganga, N. Moshy, F. Mlele, P. Lawuo, R. Twagirayezu, D. Mattaba, P. Makanza, B. Kasyombe, and L. Temba, ( Bank of Tanzania). Others were N. Senzia, F. Lukwaro, P. Mhondo, and P.Lyimo, (Tanzania Investment Centre); and M. Chintembo, V. Tesha, S. Simba, M. Martin, G. Simbila, A. H. Mafito, G.Temba, D. Masolwa, A. K Ntinika, T. Lyimo, M. V. Domotali and T. Kikombele (National Bureau of Statistics).

Undertaking the countrywide study on private capital flows could not have been possible without the strong commitment and leadership from the top management of the participating institutions namely the Bank of Tanzania, Tanzania Investment Centre, and National Bureau of Statistics.

The investors across sectors and regions co-operated well in providing information, which formed the basis for the analysis and conclusions made in the study. In addition, the report benefited from various views expressed by participants who attended the Workshop on dissemination of the findings of the study held on 13th December 2001. Appreciation is extended to them all.

Special appreciation is extended to Professor Samuel M. Wangwe (Director of Economic and Social Research Foundation – ESRF) for his valuable comments on the final draft that have enriched the quality of the final report.

Last but not least, sincere appreciation is also extended to the Governments of Sweden, Switzerland and United Kingdom for their financial assistance and Development Finance International of London for providing technical assistance.

# TABLE OF CONTENTS

# LIST OF TABLES



## Boxes

## LIST OF FIGURES

# EXECUTIVE SUMMARY

## Rationale

During the past few decades the world witnessed the entrenchment of globalisation. Capital is flowing relatively freely in search of higher returns to emerging capital markets of developing countries. Developing countries benefit from private capital because these flows augment the limited domestic savings and bring with it finance, managerial skills, technology, marketing expertise and market links. However, new opportunities also bring risks that should be managed properly, especially in the case of volatile short-term capital inflows.

Developing countries have increasingly put in place the environment necessary for attracting foreign private capital flows, such as liberalizing their economies, adopting appropriate macroeconomic policy frameworks by improving infrastructure and public service delivery, and addressing governance issues. The Government of Tanzania, aware of development opportunities associated with private capital inflows, has since the mid 1980s made concerted efforts to attract foreign investment. These efforts include economic liberalization toward a market oriented economy, restoration of macroeconomic stability and implementation of various institutional reforms, accompanied by the formulation of a number of sector specific policies, especially in mining and tourism. These reforms have demonstrated the Governments commitment in promoting a conducive environment for attracting foreign investment.

While it is generally evident that the flow of private capital to Tanzania has been growing, very little can be ascertained about the nature, magnitude, composition and sustainability of the flows. Although foreign exchange regulations require the companies and individuals through their bankers to report to the Bank of Tanzania (BOT) capital inflows for statistical purposes, limited information had been submitted which would be useful for balance of payments purposes as well as for economic policy making, besides being useful in promoting and facilitating investment.

Given the importance of this information in economic and financial analysis, and decision-making by private investors, government bodies and donors, the Government of Tanzania commissioned this study in collaboration with Development Finance International (DFI) of London, and supported by the Government of Sweden, Switzerland and the United Kingdom.

## Objective and method

The exercise involved conducting an extensive country wide survey of companies partially or fully foreign owned. The objectives were to:

- Establish an institutional framework to regularly and comprehensively collect data on all types of private capital flows for balance of payments, investment promotion and macroeconomic policy formulation.
- Strengthen public-private sector dialogue by regularly obtaining perceptions on investment policy and factors affecting the investment climate, and reporting results of the analysis back to stakeholders for their information and decision making.
- Design and establish the private capital flows database for data processing and analysis.

## Findings on Investment Data

***Foreign Private investment into Tanzania is much greater than previously estimated…***

Policy reforms carried out during the 1990s have contributed to attracting additional private capital into Tanzania as reflected in data gathered in this exercise for 1998 and 1999. Survey results show that total foreign private investment stock rose by more than one third to USD 2.6 bn between 1998 and 1999. This amount is much higher than previous estimates had shown.

***Most investment is from affiliated companies….***

Most of this investment is in the form of Foreign Direct Investment (FDI), which increased from USD 1.6 billion in 1998 to USD 2.2 billion in 1999. This amount is significantly higher than previous national and international estimates. The flow of FDI particularly during the past decade has contributed substantially to the growth of Gross Domestic Product (GDP). This trend is in line with the Tanzania Investment Centre (TIC) records which show that approved investment increased sixteen-fold from USD 47 million in 1990 to USD 768 million by 2000. The financing structure of foreign companies indicates that in 1999 FDI related flows accounted for 82 percent of total, and the flow from non-FDI sources (including minor equity shareholdings and debt from non-affiliated sources) accounted for the remainder.

***The bulk of FDI and overall investment is via equity and long-term debt ….***

The bulk of FDI stock in 1999 is made up of equity (67 percent) and long-term loans (26 percent). This composition suggests that FDI could be a stable source of finance for the economy.

The share of equity finance to the total FDI stock decreased from 73 percent to 68 percent between 1998 and 1999, with debt finance increasing accordingly. However, this pattern varies by sector of economic activity. In the mining sector, for example, the foreign debt to foreign equity ratio was as high as 80:20 in 1999, reflecting greater exposure to foreign creditors. It also varies by source country with, for example, Canadian investors providing mainly equity and Italian investors providing mainly long-term debt. This study has identified private sector external debt as a priority area for monitoring.

***Investors borrow much more from their affiliates abroad.***

The stock of borrowing from all sources almost doubled from USD 0.7 billion by end 1998 to USD 1.1 billion by end 1999 with most of it contracted directly from affiliated companies abroad on a long term basis. This source and maturity could be generally preferred, as it is cheaper and less risky compared with finance from unaffiliated sources, which are of a shorter duration. However, company decision on project implementation may make debt from affiliates risky. It is, for example, relatively easier for a parent company to withdraw a commitment to its subsidiary because terms and conditions in the loan agreement are more flexible. This figure suggests that this should be a key area for further monitoring and research.

***FDI is coming from a diversity of traditional and non-traditional source countries……***

The source of FDI flows into Tanzania has for historical reasons been dominated by the United Kingdom (UK). However, the recent surge in investment in the mining sector brought in new investors from Ghana, Australia, Canada and the United States of America (USA).

These four countries accounted for about 60 percent of the FDI stock by end of 1999, and the top ten countries for about 80 percent. The biggest advantage of this diversity is that in the event of adverse changes in economic fundamentals in any of these countries, and combined with the volatile nature of such changes to the mining sector in particular, the adverse effects on Tanzania would be moderate. The finding showed that some investors list their companies on markets other than those of the country in which they reside, thus for investment promotion purposes, there is a difference between the country in which the decision to invest is taken (a policy issue), and the country from which the actual investment is recorded (a technical issue).

***…and mostly into mining, manufacturing, and tourism but relatively little into agriculture…***

Consistent with the country's privatisation, investment and liberalization policies, the stock of FDI is skewed in favour of mining (about 40 percent at end 1999), manufacturing (22 percent), and tourism (13 percent). The bias to mining and manufacturing increased during 1999 and accounted for about 80 percent of total FDI flows. In relative terms, agriculture accounted for a low share of the total FDI stock (7 percent) in spite of its important role in the economy, contributing to over 50 percent of GDP and foreign exchange earnings, as well as being the largest employer. This is largely because the Government has not provided a conducive environment and complementary public investment to attract domestic and foreign investments in agriculture.

**….and concentrated in particular regions.**

By end 1999, over 75 percent of FDI stock was found to be concentrated in Dar es Salaam, Mwanza, Shinyanga and Arusha regions. Dar es Salaam accounted for 36 percent, due to the fact that most of the major privatised manufacturing companies are located there. Most of the mining activities are concentrated in Shinyanga, Mwanza and Mara, while the major fish processing companies are located around Lake Victoria in Mwanza and Mara. A substantial amount of foreign investments is also found in Morogoro, Iringa, Tanga, Tabora, and Kilimanjaro, with very little located elsewhere. The regional pattern of FDI indicates that lower foreign investment goes to regions with less developed economic infrastructure and social amenities. The above scenario suggests that location of FDI within Tanzania could be influenced by availability of raw materials, provision and reliability of utilities, transport and communication, access to markets, and, to the extent that region and sector of economic activity can be closely related, sector-specific incentives, and economic viability. All these imply that there may be a need to address constraints through specific policy formulation.

***Local banks report low or no external borrowing and lending.***

Short-term lending by resident banks to non-residents was found to be insignificant. Long-term lending abroad is restricted and is subject to approval by the Bank of Tanzania. However it is unlikely that local banks would start involving themselves with long term lending abroad if restrictions on capital account transactions were further relaxed. In addition, the high interest rates and other structural problems (e.g. lack of bankable projects, restrictions in the land law and weakness in the judiciary, poor creditworthiness of clientele, lack of risk guarantee mechanism, and absence of credit information agencies) discourage domestic lending by local banks. Borrowing from non-resident sources was negligible, and most banks indicated that they do not expect to increase liabilities for their own purposes or for lending, despite having no restrictions on this item, and that relatively higher domestic lending rates tend to encourage foreign borrowing.

Just over half the responding banks felt competition in their sector was either high or very high while just under half felt there was "medium" level of competition, with vast potential opportunities still to be explored. The nature of competition is mainly urban based and limited to two categories of clients i.e. few big banks dealing with corporate clients, and small and medium sized banks dealing with retail customers. This is related to structural impediments adversely affecting financial intermediation and it is an issue for further discussion between banks and the Government.

### Findings on Investor Perceptions

***Most investors plan to increase their investment due to social, economic and political stability.***

Economic reforms undertaken since the mid 1980s have been commended, and have increased confidence. The role of monetary policy and fiscal policy in reducing inflation from above 30 percent in the mid-1990s to about 6 percent in 2000 was under-scored. A major finding of the study was that 71 per cent of respondents plan to expand their investment in the medium-term due to stable social, economic, and political conditions. Many acknowledged that these are the main factors that influenced their initial decision to invest in Tanzania. Those in tourism, transport, finance, mining and manufacturing were pleased with investment policy by sector. Investors in the agricultural sector however are discontented by the unfavourable investment environment and felt that peculiar features of the sector are not addressed in the overall investment policy, suggesting the need to formulate agriculture specific investment policies.

***Economic liberalization has yielded positive result…***

Liberalization policies implemented during the 1990s were confirmed to have yielded positive results. Investors in the mining and banking sectors expressed strong positive opinion and recommended further reforms including full financial account liberalization. However, investors in the manufacturing sector had mixed feelings, pointing out the negative experiences of trade liberalization, the major concern being the importation of cheap and substandard products that have undermined domestic production.

***…but respondents feel this could be assisted by further institutional and other reforms…***

Institutional reforms such as the establishment of TIC, Parastatal Sector Reform Commission (RSRC) and Tanzania Revenue Authority (TRA) have contributed to improvement of the general macroeconomic environment in Tanzania, but these reforms were perceived by the private sector not to have gone far enough in addressing the problems faced by investors. For instance, at the time of conducting the survey, there was no harmonization of tax incentives and measures between different Government departments (e.g. between TIC and TRA). In addition, land, labour, and legal reforms have lagged behind the other reforms, thereby undermining the impact of the already implemented reforms. Therefore, there is a need for further review of institutional and other reforms.

***…the need for enhanced access to credit…***

While respondents were generally satisfied with banking services, they indicated that higher bank lending rates and limited availability of credit undermines the level of their activities. Lending rates of above 20 percent have no relation with the low inflation rate of 6 percent and deposit rates of 3 to 5 percent during 2000, implying imperfections in the market. High lending rates have led to market segmentation whereby only large corporate investors can access the credit at lower cost. Banks on their part insist that high interest rates result from high-risk borrowers, high operational cost and the weaknesses in land law and the judiciary system, which make the process of registering mortgage and loan recovery cumbersome. Government needs to address the above factors in its efforts towards the financial sector reforms.

***…and further efforts in addressing bureaucracy and corruption.***

Bureaucracy in some government departments has been observed as a problem, despite slight improvements in recent years. Incentives offered by TIC play a significant role in attracting FDI, and the establishment of TIC as a one-stop centre is simplifying the process of project registration and start-up. However, investors are still obliged to approach other government departments in the process of setting up their projects. Respondents commended the establishment of TRA noting the improved tax administration. However, they complained of the high VAT rate of 20 percent and of the slow speed of decision-making at TRA with introduction of VAT. Moreover, investors are concerned that corruption in the VAT and Customs departments, in the Judiciary and the Police has not been checked sufficiently. This suggests the need for more concentrated efforts to fight corruption in these areas.

***Infrastructure and public services were poorly rated, but with some notable improvements…***

Respondents were concerned with the high cost and poor reliability of utilities, electricity and water rates considered to be the highest in the region. This calls for Government action to address the matter. Conversely, investors commended the positive effects arising from improvements in the quality of telecommunications.

***…and availability of skilled staff needs to be improved.***

Labour factors, were on average not rated favourably. In their view, labour legislation overprotects employees, there is insufficient availability of highly educated and skilled labour, and HIV/AIDS is increasingly having a negative effect on productivity. These perceptions suggest the need to expand opportunities and incentives for training technical and managerial staff.

# CHAPTER ONE

# INTRODUCTION

During the past few decades the world witnessed the entrenchment of globalisation that significantly eroded barriers to cross-boarder movements a process that has enabled economic agents to freely choose where to save and invest based on global considerations. Through globalisation, both developing and developed countries are forced to adapt to the fast changing global environment.

Globalization has among others, facilitated private capital to flow across countries with little restrictions. Capital is thus flowing relatively freely in search of higher returns even into the emerging capital markets of developing countries. Developing countries on their part benefit from private capital flows because they augment limited domestic savings and bring with them finance, managerial skills, technology, marketing expertise and market links all of which are most needed in developing countries.

These benefits have thus influenced developing countries to increasingly put in place the environment necessary for attracting foreign private capital flows. Among other efforts, countries have liberalized their economies, adopted appropriate macro-economic policy frameworks, improved infrastructure and public service delivery, put in place the right financial intermediaries and addressed governance issues. The government of Tanzania cognizant of this fact and also aware of development opportunities associated with private capital inflows has since the mid 1980s made efforts to attract foreign investment. Efforts in this regard include economic liberalization and institutional reforms, including the formulation of a new investment policy and investment code in 1990, and its revision in 1997. The formulation or revision of a number of sector-specific policies, including mining and tourism policies, further shows the commitment of the Government in creating a conducive environment to attract foreign capital.

There is consensus in the literature that net private capital flows to developing countries have been constantly increasing with time, especially in the 1990s. One source suggests that private capital flows have tripled to USD150 billion a year during 1995 to 1997, from about USD 50 billion a year during 1987 to 1989[1]. In Tanzania, recent official statistics indicate that net Foreign Direct Investment (FDI) increased from USD 12 million in 1992 to about USD 183.0 million in 1999, representing more than 15 times increase in 7 years[2]. Also, other studies point to the fact that the role of FDI as a source of development finance in Tanzania has been increasing.[3]

While it is generally evident that the flow of private capital to developing countries has been growing, very little can be ascertained about the nature, magnitude, composition and sustainability of the flows. The importance of getting this information for economic and financial analysis and decision making by private investors, government bodies and donor communities cannot be overemphasized. More specifically, monitoring of private capital flows is important because:

[1] Barry Eichengreen et al (1999), Liberalizing Capital Movements: Some Analytical Issues; IMF Economic Issue No 17, February

[2] FDI data in Tanzania has thus far been estimated from TIC approval records and privatisation data from PSRC. See details in Chapter 2.

[3] For example Kimei and others 1998, Noni and others 1999

- The information gathered can be used for the compilation of balance of payments statistics,investment promotion and macro-economic policy formulation.

- Accurate data leads to good economic and financial analysis and appropriate policy decisions.

- Several developing countries have declared the intention to move gradually into full financial account liberalization,hence the need for a monitoring framework.

- International organisations (e.g. the International Monetary Fund (IMF) and the World Bank) and donors require this kind of information for analysis of its impact on global economic stability, to assess the need for donor flows and their role in promoting developing economies.

- International investors represented mainly by Multinational Corporations (MNC), international financial institutions and credit rating agencies require accurate and timely information for financial assessment of return on investments and to assess credibility of the recipient countries.

- Monitoring capital flows assist governments to strengthen dialogue with the private sector. This will also help in obtaining perceptions on investment policy and factors affecting the investment climate in the country.

- Continuous collection of information on foreign private capital flows builds a reliable database for a country. It can therefore establish a reliable framework for collecting, processing and analysing private capital flows data on an ongoing basis.

Notwithstanding these underlying principles for monitoring private capital flows, investment flows into Tanzania had not been accorded the attention they deserve until recently. There is thus lack of reliable and timely data on private capital flows (in particular FDI), rendering implementation and evaluation of macroeconomic policy actions related to capital flows less effective.

Recognizing the importance of monitoring of private capital flows; the Government of Tanzania put in place a number of measures to monitor the flows. For instance, between November 1998 and June 1999, a pilot survey on companies that are partially or fully foreign owned covering regional (East and Southern Africa) and international investors, and bank flows was carried out by the Bank of Tanzania (BOT) and Tanzania Investment Centre (TIC) in collaboration with External Finance for Africa (EFA), an organisation based in London. A final report for this pilot survey was submitted to relevant authorities in December 1999[4] .

The current study was initiated by BOT, TIC and National Bureau of Statistics (NBS) in collaboration with Development Finance International (DFI)[5] with the objective of assessing the nature of foreign private capital flows into and out of Tanzania. Specific objectives were to:

- establish an institutional framework to regularly and comprehensively collect data on all types of private capital flows for balance of payments, investment promotion and macroeconomic policy formulation;

- strengthen public-private sector dialogue by regularly obtaining perceptions on investment policy and factors affecting the investment climate in Tanzania; and

[4] Details in Noni and Others 1999.
[5] Formerly known as EFA.

- design private capital flows database for data processing and analysis.

To achieve the stated objectives, the following implementation activities were planned:

- Conducting a sensitisation and training workshop;
- Conducting census of all companies, which are partially or fully foreign owned;
- Designing computer software for data input and processing;
- Compiling, processing and analysing data;
- Report writing; and
- Presenting a final report during dissemination/closing workshop.

The Governments of Sweden, Switzerland, and UK, and the Bank of Tanzania funded the project activities.

# CHAPTER TWO

## RECENT TRENDS IN POLICY REFORMS AND FOREIGN INVESTMENT IN MAINLAND TANZANIA

This Chapter summarises recent trends in foreign private capital flows in Tanzania. It examines policies and incentives adopted by the Government of Tanzania to attract foreign private capital since the early 1990s focusing on liberalization and structural policies introduced in order to promote private sector activities. The chapter also reviews data problems encountered following liberalization and removal of exchange controls data tracking mechanism, and examines the efforts taken to estimate data for official reporting during the period 1992 to 2000.

In order to gauge the responsiveness of foreign private investors to government policies and incentives given, the magnitude, composition and trends of private capital flows based on TIC certificates of incentives for the period covering 1990 to 2000 have also been examined. TIC holds enormous data that can be extracted from investment approval records i.e. Application Forms that are filled-in and submitted to TIC by potential investors. Such data if captured comprehensively, would form a useful benchmark for comparison with actual data that is collected through censuses. The data on investment approvals presented in this chapter relates to investments that are partially or fully owned by non-residents.

### *2.1 Major Policy Reforms*

After almost two decades of central planning that was characterized by excessive government interventions in the economic activities[6], the Government from 1985 changed the direction of its policies towards market based economic management. Key to these changes were:

- Trade and exchange liberalization
  - Abolition of exchange controls on current account transactions
  - Abolition of import and export licenses
  - Partial liberalization of the financial account

- Parastatal sector reforms
  - Privatisation of state owned companies
  - Institutional reforms

- Investment promotion reforms
  - Guarantees against nationalization
  - Provision of tax holiday incentives
  - Establishment of IPC (trans formed later into TIC)
  - TIC transformed into one stop centre

- Tax reforms (streamlining and broadening of the tax base)
  - Establishment of TRA
  - Introduction of Value Added Tax (VAT)

- Financial sector reforms
  - Privatisation of state owned banks
  - Allowing foreign banks to operate alongside local banks
  - Establishment of the Capital Market and Securities Authority (CMSA) and the Dar es Salaam Stock Exchange (DSE).

- Civil service reforms[7]
  - Restructuring the Public Service
  - Performance Improvement

[6] Promulgation of the Arusha Declaration of 1967 and the nationalization policy that folowed discouraged active participation of the private sector in the economy.
[7] URT (2001), Public Service Reform Programme 2000-2011.

- o Pay Reform
- o Records and Information System
- o Capacity Building

### *2.2 Evolution of Investment Related Policies*

Noticeable flows of private capital into Tanzania gained momentum only after the mid-1990's when liberalisation and structural reforms were intensified, especially after the review of the investment legislation incentives and other investment promotional and facilitation efforts. The Government adopted a National Investment Promotion Policy in February 1990 and enacted an investment code known as the National Investment (Promotion and Protection) Act No. 10 of 1990 (NIPPA). Accordingly, the Government established the Investment Promotion Centre (IPC) as an institution responsible for promotion, approval, monitoring and facilitation of foreign private capital flows into the country. These developments encouraged investment from both local and foreign investors.

However, by the mid-1990s there were signs that the investment policy and code did not auger well with investor requirements especially because of conflicts between the investment code and other laws governing investments. There was also a perception of an unpredictable investment climate due to goal-shifting syndrome, leading to unpredictable incentives and the IPC increasingly being perceived as another bureaucracy. This necessitated the initiatives to conduct three studies i.e. the Investors' Road Map Study, Investment Policy Review and Investment Code review. The three initiatives resulted into the adoption of the new National Investment Promotion Policy of 1996[8], replacing that of 1990 followed by the Tanzania Investment Act No. 26 of 1997 which effectively repealed NIPPA, 1990. The IPC was thus transformed into Tanzania Investment Centre (TIC), charged with two main functions namely, to promote investments (both foreign and local) and to facilitate all investors whether registered by the Centre or not.

Considerable improvements were made on the new Investment Code. For example, investment approvals are now based on a minimum sum equivalent of USD 300,000 for foreign investors and USD 100,000 for local investors. To minimize bureaucracy, the Investment Code also set a maximum period of 14 working days within which relevant government agencies were supposed to have processed applications sent to them by TIC and that "where the centre does not receive a written objection from the relevant authority within the specified time, the necessary licence or approval shall be deemed to have been granted"[9]. As a guarantee to investors, TIC Act of 1997 states categorically that business enterprises shall be guaranteed unconditional transferability of dividends, loan servicing, remittance of proceeds in the event of liquidation[10] and a guarantee against nationalisation.

In addition to the incentives and regulatory measures to attract investors contained in TIC Act 1997, a number of sectoral policies were also reviewed in favour of private investment in Tanzania, for example, the mining policy in 1997 and tourism policy in 1997. Each of these policies clearly describes the importance and commitment by the Government to ensuring that a conducive environment for attracting investments in the country is in place[11].

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[8] Madete (2000), identified several weaknesses in policy and Legislations that necessitated review of National Investment Promotion Policy during mid-1990s. These weaknesses are, inter alia; reduced credibility of both the IPC code and policy as a result of frequent changes that were being made provisions, existence of contradictions and disputes between IPC code and other legislations/laws or other government executing agencies, and administrative weaknesses that limited effective attraction of foreign investors.

[9] This is in line with TIC Act, (1997) section 16(4) and (5) - pp444.

[10] Liberalisation of FDI is declared in 1998 Foreign Exchange Regulations BoT, as well as Foreign Exchange Circular no. 6000/DEM/EX.RE/58 of September 1998.

[11] Details in Tourism Policy (1997); Mining Policy (1996).

Furthermore, the Government reformed the tax system by rationalizing the tax structure and establishing Tanzania Revenue Authority (TRA) as an independent institution to administer the tax system. Under the adopted privatisation programme, more than half of the 400 public entities that existed prior to 1993, had been divested by the end of 1999. It is estimated that about one third of Tanzania FDI in 1992 – 1993 came through privatisation[12] .

The Government also enacted the Banking and Financial Institutions Act, 1991, which liberalised the financial sector in order to increase efficiency in the provision of banking services and to facilitate activities of investors. Following liberalisation, the number of commercial banks increased from two state-owned banks in 1993 to 19 banks (17 private) and 12 non-bank financial institutions as of end 2000. The financial sector was liberalised.

Rapid transformation towards removal of exchange controls on the current account and relaxation of capital controls were experienced after the mid -1990s. For example in 1996 all current account transactions were fully liberalized. However, with respect to the capital account, Tanzania is moving cautiously towards full liberalization, avoiding speculative short-term capital flows. Currently, investments abroad by residents are still restricted as is the case with participation of non-residents in domestic money and capital market. As a step towards full capital account liberalization, inflows of long-term capital e.g. loans and foreign direct investments and their associated income related outflows are unrestricted[13] .

Other measures to attract foreign investors include the establishment of commercial courts in 1999 to speed up the settling of commercial disputes thus building investor's confidence. Besides, Tanzania has signed a number of bilateral and multilateral international treaties including Multilateral Investment Guarantee Agency (MIGA), the International Centre for the Settlement of Investment Disputes (ICSID), and the Convention for the Protection of Industrial Property and Convention on Recognition and Enforcement of Foreign Arbitration Award. These arrangements guarantee the security of FDI against losses arising from armed conflict or international disorder, protection against nationalisation, and ensure transfer of profit, dividends and capital.

As part of its efforts to advertise its investment opportunities, Tanzania has participated in many international fora and hosted the first investment forum in Dar es Salaam in 1996, followed by several other more specific investment fora such as Mining (1997), Commonwealth (2000), Sweden (2000). These fora have provided foreign investors with the opportunity to explore investment potentials in the country and to meet with their potential domestic counterparts.

### *2.3 Impact of the Reforms on Business Environment*

All these measures were taken along side macro-economic stabilisation policies (fiscal and monetary policies) geared towards lowering inflation to single digit levels. Government commitment to consistently pursue these macroeconomic stabilization and structural policies and the frequent necessary reviews made to some policies where necessary, acted as an important catalyst towards building confidence of private investors.

[12] Bhinda et. All 1999.
[13] Foreign Exchange Regulations, 1998 and Foreign Exchange Circular no. 6000/DEM/EX.REG/58 OF 24th September, 1998.

### 2.3.1 Inflation, Interest Rate and Exchange rate.

The foreign Exchange Act of 1992 (further amended in 1998) liberalised exchange and interest rates and are now determined by market forces. Short-term lending rates declined substantially from an average of 33.4 percent in 1995 to 21.9 percent in 1999 but still remain high at more than 20 percent during the year 2000 despite a decline in inflation to single digit levels **(Figure 2.1).**

Deposit rates on the other hand were below 5 percent in 2000 implying high interest margins.

The nominal exchange rate depreciated from TZS 195.1 per dollar in the year 1990 to TZS 800.5 per dollar in year 2000 **(Figure 2.2),** implying low and falling purchansing power of the shilling Such trends imply that further reforms in the financial sector are required to widen and deepen the services.

*Figure 2.1: Trend Inflation, Short-term and Long-term Interest Rates*

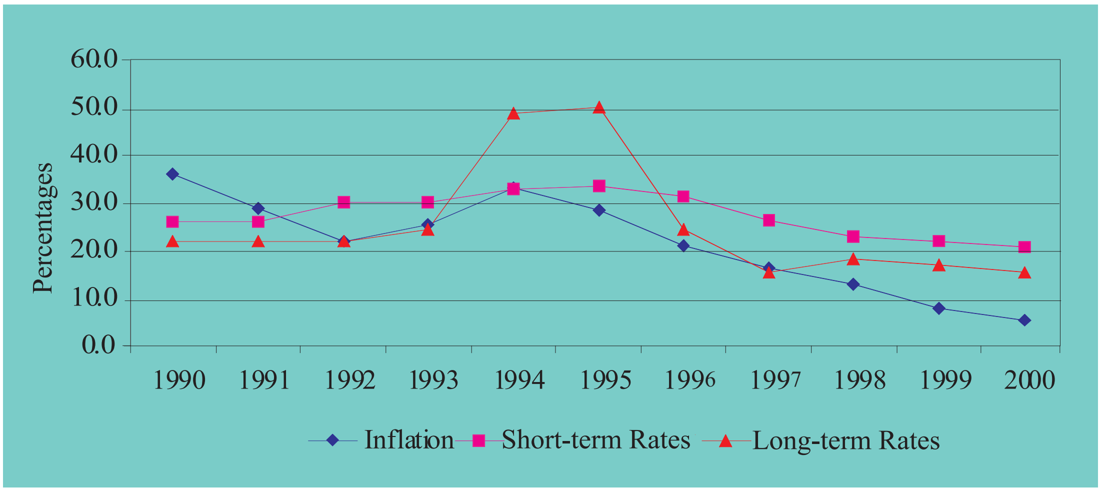
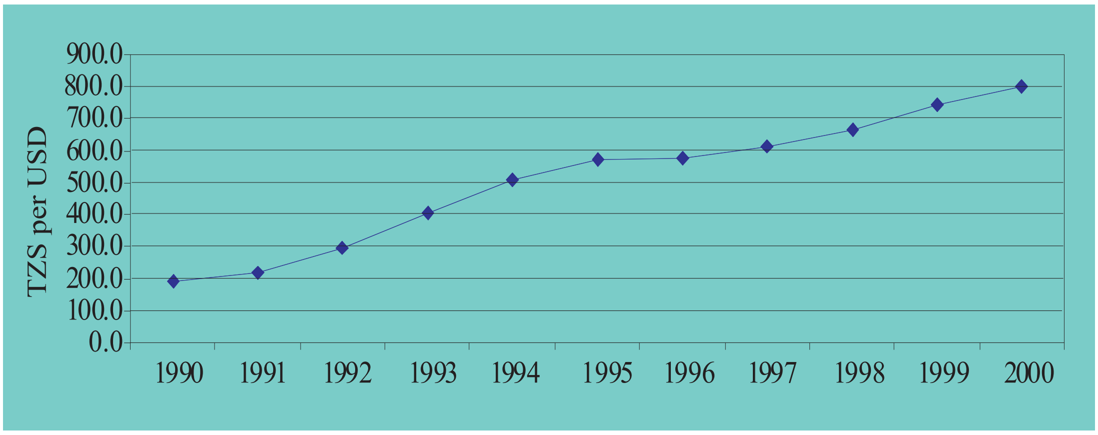



*Figure 2.2: Average Exchange Rate Movements 1990-2000*




### *2.3.2: Utility Serivices*

So far the government under its privatisation programme, has effectively privatised most of its commercial and industrial enterprises but not the main public utilities enterprises e.g. in water and power sectors, that have a significant bearing on the cost of doing business. Generally, utility services are poor and erratic. In addition Tanzania charges higher electricity and water tariff rates than both Kenya and Uganda. However, on average Tanzania charges lower oil pump prices than Uganda while Kenya is charging the lowest among the East African countries.

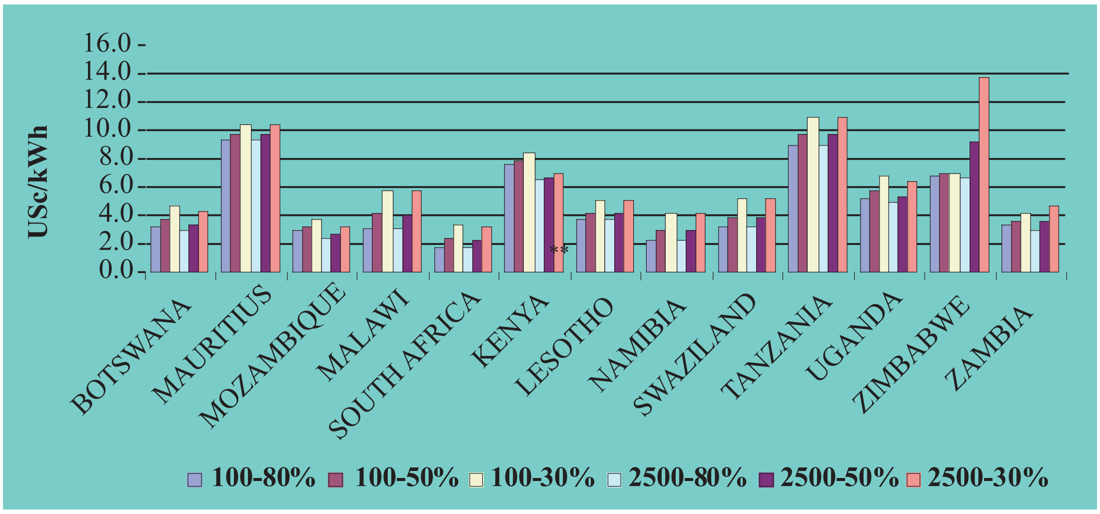
*Table 2.1 Comparative Cost of doing business in EA region*

| | Electricity | Water & Sewerage | Diesel* | Petrol* | VAT |
|---|---|---|---|---|---|
| | USc/ kWh | USc / 1cubic m. | USc /1 Litre | percent | |
| Tanzania | 9 –12 | 0.99 | 67 | 70 | 20 |
| Kenya | 6.5 – 8.5 | 0. 016 - 0. 002 | 60 | 71 | 16 |
| Uganda | 5 - 6.8 | 0. 014 | 74 | 86 | 17 |

* Oil Pump prices

When compared to its trading partners in SADC region, Tanzania charges (9 – 12 USc/kWh) higher electricity tariffs than many of its partners whose tariffs range between 3 – 5 USc/kWh **(Figure 2.3).**

*Figure 2.3 Electricity Tariffs in Southern and East Africa - April 2001 (Industrial Consumption)*




**Source:**<u>**www.sad-elec.com**</u>

On household power consumption [Figure 2.4], Tanzania tariffs range between 3 and 7 USc/kWh, which is relatively low within the SADC region. The lower tariff of household power consumption (that account for about 60 percent of total consumption of electricity in the country) is a result of subsidisation by industrial consumers.

### *2.3.3 Tax regime*

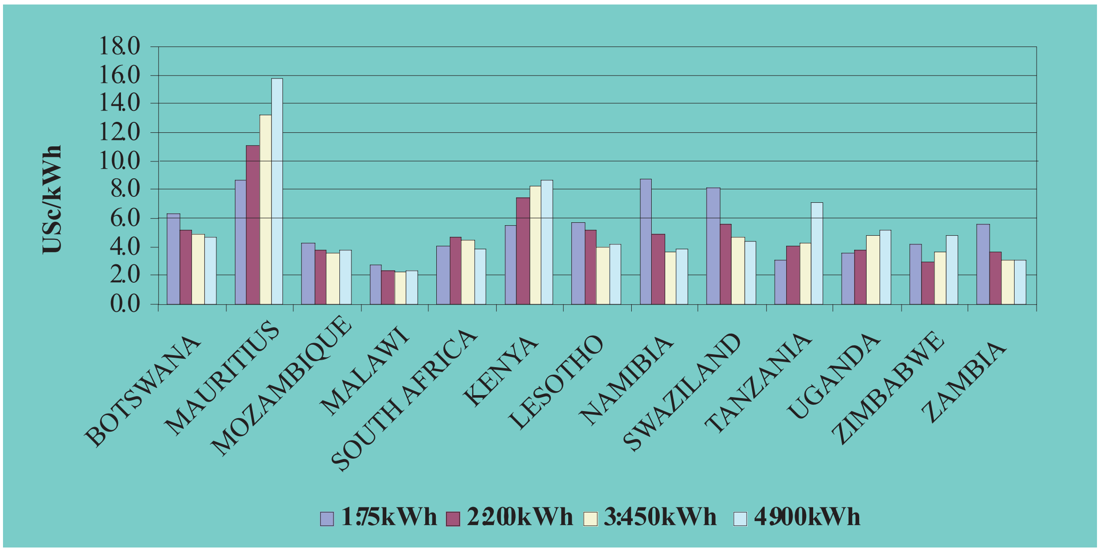
The government has had substantial improvements in simplifying, rationalising and broadening the tax base, but it has a higher VAT rate than Kenya, Uganda and many of its other trading parteners, Therefore, Tanzania' manufactured products are generally less competitive because of the high VAT rate, electricity and water costs.

## 2.4 The Effect of Policy Reforms on Compilation of Private Capital Flows Statistics

Monitoring of private capital flows in Tanzania experienced serious problems after liberalization of the external sector, especially in 1993, after removal of exchange controls together with their associated reporting requirements. This decision created an information gap relating to Balance of Payments (BOP) statistics in general as it removed the institutional arrangement to regularly collect, compile and analyse the information.

Cognizant of these problems, the Bank of Tanzania estimated some components of private capital flows from information provided by commercial banks, TIC (approval records) and Parastatal Sector Reform Commission (PSRC). The information collected, though valuable was limited in use, due to methodological flaws associated with its sources. They could only give an indication of the trends and not the actual magnitude and composition of private capital flowing into the country. A number of factors accounted for this including having a significant time lag between approval and actual investments and in some cases, the approved investments never taking off, actual investments turning out to be less than approved investments, and some information necessary for compilation of balance of payments like borrowing from intra-company accounts, reinvested earnings and their related investment income, outward payments and withdrawal of investments, not obtained from these records. In addition, approval records from TIC relate only to investments above USD 300,000 and are limited to inflow data.

*Figure 2.4: Electricity Tariffs in Southern and East Africa – April 2001 (Domestic consumption)*




**Source:**<u>**www.sad-elec.com**</u>

## 2.5 Magnitude of Approved Foreign Private Investment 1990 - 2000

Official estimates of FDI flows for the period 1992 to 2000 are as shown in Table 2.2. No FDI outflows were estimated due to existing restrictions on capital inflows.

*Table 2.2: Official Estimated FDI Flows in Tanzania 1992-2000*

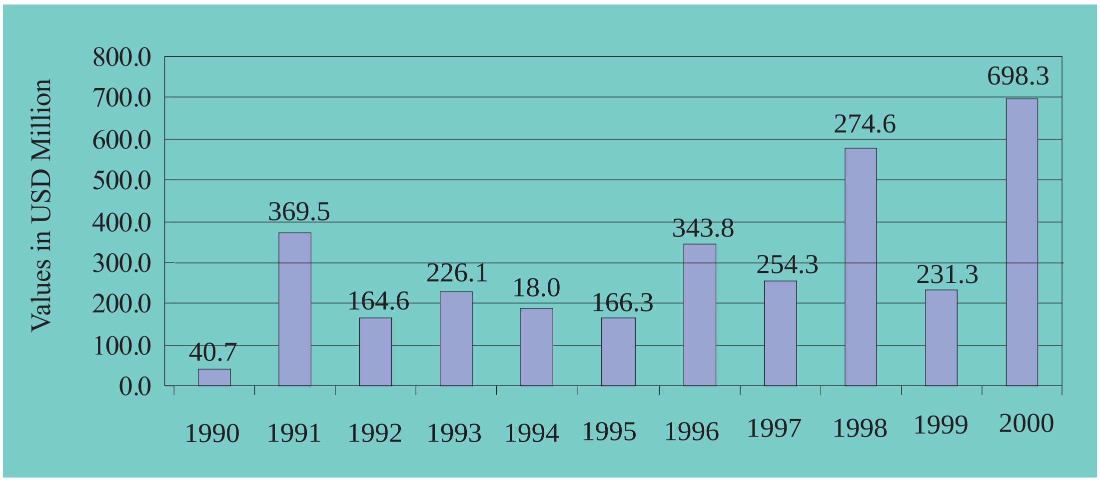
Million of USD

| Year | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|---|---|---|---|---|---|---|---|---|---|
| FDI Inlows | 12.0 | 20.0 | 50.0 | 150.0 | 148.0 | 157.8 | 172.2 | 183.4 | 192.8 |
| FDI Outflows | - | - | - | - | - | - | | | |

**Source: Bank of Tanzania**

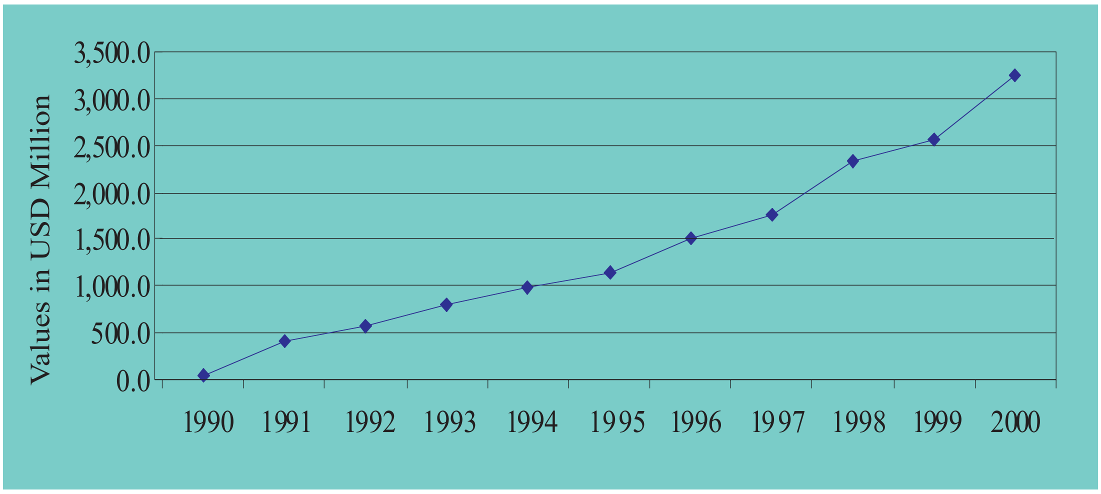
Data recently compiled from TIC approval records reveal a growth pattern that corresponds with the investment policy evolution and promotional efforts that the Government undertook since the early 1990s. From **Figure 2.5** it is evident that investors are sensitive to domestic policy and incentive packages. After the establishment of IPC in 1990, the value of approved investments rose sharply from a total of less than USD 50.0 million in 1990 to about USD 369.5 million and 226.1 million recorded in 1991 and 1993 respectively, but fell to USD 166.3 million in 1995 as a result of administrative weaknesses in the IPC. Similarly, the positive effects of the Mining Policy (1997), Tanzania Investment Centre Act (1997) and other promotional policies including investors forum of 1996 are noticeable through the increase of value of approved investment during 1996, 1998 as well as 2000 when it peaked at USD 698.3 million.

*Figure 2.5:TIC Approved Foreign Investments, 1990 – 2000*




Examined differently, the positive response of foreign investments to policy incentives can also be seen in **Figure 2.6.** The chart illustrates that better policy and improved administration during the late 1990s resulted in faster growth of the stock of investment than was the case during the early 1990s.

*Figure 2.6:Stocks of TIC Approved Foreign Investment 1990 – 2000*



# CHAPTER THREE

# QUANTITATIVE RESULTS

The analysis of quantitative data obtained from the census is based on a number of assumptions and basic methodological standards for compilation of private capital flows data that are outlined in Appendix I.

As much as possible, compilation was based on standards outlined in the IMF Balance of Payments Manual Version 5 (BPM5) which recommends that private capital flows statistics be compiled as part of balance of payments (BOP) and international investment position (IIP) which require grouping of private capital data into direct investment, portfolio investment and other investments. On this basis, two types of questionnaires were designed namely foreign assets and liabilities (FAL) for FDI and portfolio equity investment (PI), and banks survey for other investments.

According to international data classification standards, FDI stocks and transactions are composed of three sub-classifications: (i) equity capital (ii) reinvested earnings and (iii) other capital (non-equity intra-company transactions). The direct investment income component is obtained from income on equity (dividends and profit payments) and income on debt (non-equity interest payments). In the absence of foreign participation in organised financial markets (e.g. Stock exchange), portfolio investment is limited to portfolio equity investment. Other investments include short and long-term debt from unrelated companies to FDI and Non-FDI companies.

To satisfy these international standards and other analytical considerations, companies with foreign ownership were asked to provide disaggregated information such that it could be classified by source country, by economic sectors and by geographical region in which the investment is located in Tanzania. Distinction was made between stocks and flows as well as income related flows. Due to inconsistencies in the data reported by investors[14], the study adopted both the change in stock approach and transaction approach in calculating annual flows of FDI.

## 3.1 Response Rate

A total of 875 questionnaire returns were received, being 55.3 percent of all questionnaires distributed. The response rate was calculated based on all questionnaires completed and returned, but excluded all those representing local companies and companies that could not be located.

*Table 3.1a: Distribution of Questionnare and Responses in Absolute numbers*

| | Total | Companies with foreign ownership | Local Companies | Not Located |
|---|---|---|---|---|
| Questionnaires distributed | 1583 | 496 | 370 | 717 |
| O/w Returned | 875 | 404 | 370 | 101 |
| Not returned | 708 | 92 | 0 | 616 |

[14] Detail explanations on data limitations are covered under Analytical Methods sub-section of Appendix 1.

Out of the 875 questionnaires received, 404 represented companies with foreign ownership, 370 were for local companies while 101 questionnaire, were for companies that could not be located because some companies:

- have changed address;
- have ceased to exist; or
- have changed business names and possibly line of business.

Overall response rate based on companies with foreign ownership surveyed was 81.5 percent (Table 3.1b).

*Table 3.1b: Response Rate of FDI Companies*

| | | Companies with foreign ownership | In percentage |
|---|---|---|---|
| Questionnaires distributed | | 496 | 100.0 |
| O/w | Returned | 404 | 81.5 |
| | Not returned | 92 | 18.5 |

### *3.1.1 Response rate by region*

Table 3.2 shows geographical spread of companies with foreign ownership in the country which are concentrated mainly in Dar es Salaam, Arusha Tanga, Mwanza, and Kilimanjaro . Dar es Salaam with 269 investment covered had a response rate of 90.7 percent, whereas Arusha with 80 companies had a response rate of 83.3 percent, Tanga had 24 percent, Mwanza 84.0 percent, and Kilimanjaro 93.8 percent[15].

*Table 3.2: Response Rate by Region*

| Region | Companies with foreign ownership that were covered | Companies with foreign ownership that responded |
|---|---|---|
| Arusha | 96 | 80 |
| Dar es Salaam | 269 | 244 |
| Dodoma | 1 | 1 |
| Iringa | 6 | 3 |
| Kilimanjaro | 16 | 15 |
| Mara | 6 | 3 |
| Mbeya | 3 | 1 |
| Morogoro | 5 | 5 |
| Mwanza | 44 | 37 |
| Pwani | 1 | 1 |
| Ruvuma | 1 | 1 |
| Shinyanga | 2 | 2 |
| Tanga | 46 | 11 |
| **TOTAL** | **496** | **404** |

[15] These percentages are computed from Table 3.2

### *3.1.2 Sectoral distribution of responded companies*

Out of the 404 foreign investors that responded, 30.9 percent were from the manufacturing sector, 17.1 percent from wholesale, retail trade, catering and accommodation services 11.1 percent from Agriculture, Hunting & Forestry and Fishing, 10.4 percent from Finance, Insurance, Real Estate & Business Services while Transport, Storage & Communication accounted for 10.2 percent **(Table 3.3).**

### *3.1.3 Quality of response*

Out of 404 questionnaires received, 397 (about 98.2percent) were completed satisfactorily and in order to expedite the process and control the quality of responses, continuous follow- ups were made for further verification.

*Table 3.3:Sectoral Distribution of Responded Companies.*

| Sector | Responded | In Percentage |
|---|---|---|
| Manufacturing | 125 | 30.9 |
| Wholesale, Retail trade, Catering & Accom. Serv. | 69 | 17.1 |
| Agriculture, hunting & forestry | 45 | 11.1 |
| Finance, Insurance real estate & Business Serv. | 42 | 10.4 |
| Transport, Storage & Communication | 41 | 10.2 |
| Mining & Quarry | 24 | 5.9 |
| Construction | 19 | 4.7 |
| Community, Social & Personal Services | 6 | 1.5 |
| Electricity, Gas & Water | 1 | 0.3 |
| Activities not adequately defined | 32 | 7.9 |
| **Total** | **404** | **100.0** |

Despite the high response rate and the high quality of responses, respondents faced a number of problems, for example;

- Some investors (particularly small ones) found the questionnaire complicated because they lack competent staff to answer the questions correctly.
- Lack of culture to provide statistical information to public authorities.
- Fear that the information may be used for tax purposes despite assurance that the information would be treated in strict confidentiality.

## 3.2 Magnitudes and Composition of Foreign Private Capital Flows

### *3.2.1 Stock of foreign private capital, 1998 and 1999*

Data collected from the study reveals that the stock of foreign private capital in companies with foreign ownership has been increasing over the recent past **(Table 3.4).**

*Table 3.4:Stock of FDI and Non-FDI 1995-1999*

Millions of USD

| FDI and Non-FDI Components | 1995* | 1996* | 1997* | 1998 | 1999 |
|---|---|---|---|---|---|
| **FDI Components** | | | | | |
| Total Direct Equity | 573.2 | 618.9 | 661.2 | 1,190.7 | 1,458.6 |
| Total Long -term Intra-Company Loans | 39.3 | 50.2 | 78.0 | 372.8 | 570.9 |
| Total Short-term Intra-Company Loans | 5.0 | 7.5 | 13.6 | 39.6 | 79.4 |
| Total Suppliers Credit from Related Companies | 2.3 | 4.8 | 7.2 | 34.6 | 45.5 |
| **Total FDI Stock** | **619.8** | **681.4** | **760.0** | **1,637.7** | **2,154.4** |
| **Non-FDI (Other Liabilities)** | | | | | |
| Total Portfolio Equity | 6.3 | 6.3 | 6.4 | 26.9 | 27.6 |
| Total Long Term loans From Unrelated Comp. | 7.2 | 9.0 | 33.4 | 170.8 | 251.3 |
| Total Suppliers Credit from Un-related Comp. | 13.1 | 13.4 | 12.4 | 47.3 | 50.2 |
| Other Short Term loans From Unrelated Comp. | 1.9 | 3.4 | 5.2 | 50.9 | 132.0 |
| **Total Stock of Non FDI** | **28.5** | **32.1** | **57.3** | **295.9** | **460.9** |
| **Total Stock of FDI and Non FDI** | **648.3** | **713.5** | **817.3** | **1,933.6** | **2,615.3** |

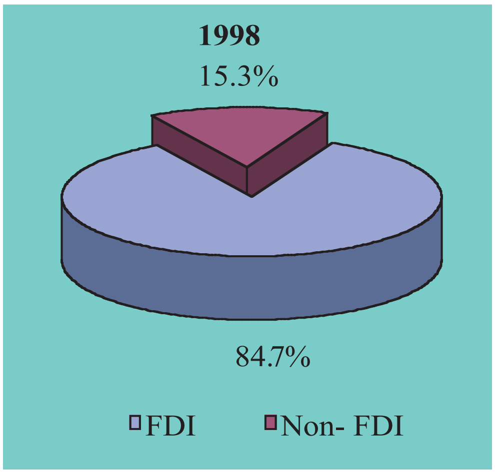
* Most of the companies did not report historical information for the period before 1998

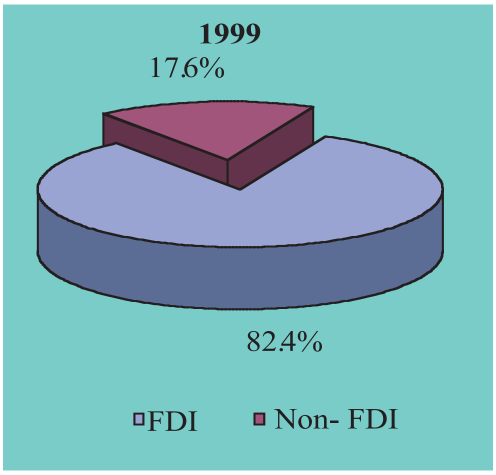
Study results show that total FDI stock rose by 31.6 percent to USD 2,154.4 million as at end 1999, from USD 1,637.7 million as at end 1998. Similarly, the stock of non-FDI liabilities increased by 55.8 percent to USD 460.9 million, from USD 295.9 million. The total stock of liabilities (FDI and non-FDI) reached USD 2,615.3 million as at end 1999 compared with USD 1,933.6 million at end 1998, representing an increase of 35.3 percent.

In 1998, the stock of FDI related liabilities accounted for 84.7 percent of the total stock of FDI and Non-FDI related liabilities, whereas Non-FDI related liabilities accounted for only 15.3 percent. The data reveals that a big proportion of foreign private capital in Tanzania originates from FDI related sources. This type of financing minimises the risk faced by companies with foreign ownership from creditor threats in the event that their investments perform poorly. In 1999 FDI related stock accounted for 82.4 percent while Non-FDI related liabilities accounted for 17.6 percent **(Figure 3.1)**

Further examination of the magnitude and composition of FDI stock reveals that at the end of 1998, direct equity dominated the financing pattern, accounting for 73.0 percent while non-equity components of FDI accounted for the remaining 27.0 percent. In 1999, the stock of direct equity also dominated the financing pattern accounting for a reduced share of 67.7 percent, while non-equity components of FDI accounted for an increased share of 32.3 percent **(Figure 3.2).**

*Figure 3.1: Comparison of FDI and Non-FDI Stock of Liabilities for 1998 and 1999*

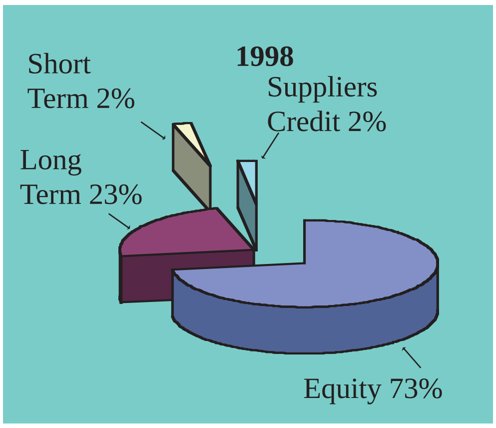


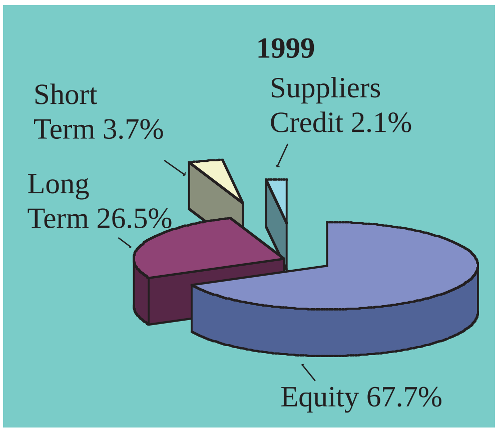




The financing structure of companies with foreign ownership in Tanzania shows a bias towards equity financing, with a debt/equity ratio of 32:68 in 1999. However, if non-FDI liabilities (short and long-term borrowing from unrelated companies) are included, the debt/equity ratio increases slightly to 44:56 but still reflects strong commitment of foreign investors to their investments in Tanzania.

Regarding debt financing, long-term shareholders and intra-company loans are more commonly used than short-term intra-company loans. The stock of long-term shareholders and intra-company loans accounted for about 26.5 percent of total stock of FDI by end of 1999, whereas short-term loans by shareholders and related companies accounted for 5.8 percent. The heavy reliance on equity financing by investors is attributed to its non-debt creating nature, whereas the large stock of long term debt financing, relative to short-term debt is a reflection of the fact that most of the projects are still at investment stages or at initial years of their operations.

*Figure 3.2: Composition of FDI Stock for 1998 and 1999*



### *3.2.2 Flows of foreign private capital in 1999*

The flow of foreign private capital into FDI companies has been increasing in the past years consistent with trends in the stock of foreign liabilities as indicated in Table 3.5. The Total flow of FDI for the 404 surveyed companies during 1999 was USD 516.8 million while non-FDI flows amounted to USD 165.0 million, resulting into a total flow of USD 681.8 million which is 7.9 percent of GDP.

*Table 3.5:Flows of FDI and non - FDI 1999*

Millions of USD

| FDI and non-FDI Components | Amount | percent of FDI and Non-FDI Flows | Percent of Total Flows |
|---|---|---|---|
| **FDI components** | | | |
| Total Direct Equity (change in stock) | 267.9 | 51.8 | 39.3 |
| Total Long Term Intra-Company Loans | 198.1 | 38.3 | 29.1 |
| Total ShortTerm Intra-Company Loans | 39.8 | 7.7 | 5.8 |
| Total Suppliers Credit from Related Companies | 11.0 | 2.1 | 1.6 |
| **Total FDI Flows** | **516.8** | **100.0** | **75.8** |
| **Non FDI (other Liabilities)** | | | |
| Total Portfolio Equity (change in Stock) | 0.6 | 0.4 | 0.1 |
| Total Long Term loans From Unrelated Company | 80.5 | 48.8 | 11.8 |
| Total Suppliers Credit from Un-related Companies | 2.9 | 1.8 | 0.4 |
| Other Short Term loans From Unrelated Company | 81.1 | 49.2 | 11.9 |
| **Total Flow of Non FDI** | **165.0** | **100.0** | **24.2** |
| **Total Flows of FDI and Non FDI** | **681.8** | | **100.0** |

Thus, FDI related flows accounted for 76.0 percent of total new foreign liabilities for 1999 while the non-FDI liabilities (mainly new loans from unrelated companies) accounted for 24.0 percent **(Figure 3.3).**

Similarly, the composition of FDI flows into Tanzania during 1999 shows a bias towards equity financing. Out of the total flow of FDI amounting to USD 516.8 million, equity capital amounted to USD 267.9 million (or 51.8percent) whereas debt financing amounted to USD 248.9 million (48.2 percent). This structure of financing implies a debt/equity ratio of 48:52. However, if non-FDI liabilities (short and long-term borrowing from unrelated companies) are included, the debt/equity ratio worsens slightly to 61:39 indicating that foreign investments had a higher exposure to debt financing in 1999 **(Figure 3.4)**.

*Figure 3.3: Comparison of FDI and Non-FDI Flows for 1999*

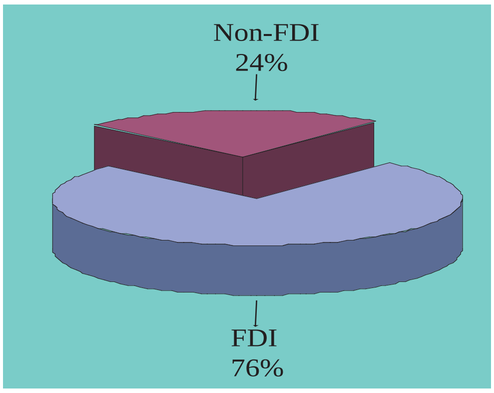
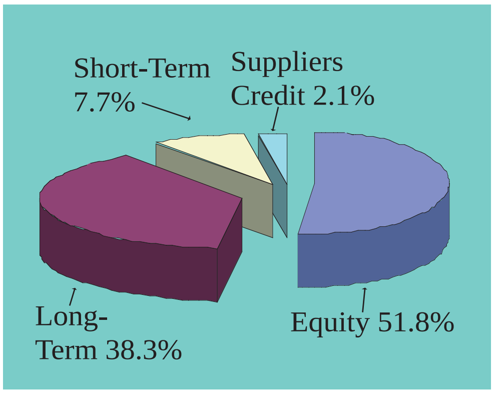



*Figure 3.4: Comparison of FDI Flows for 1999*




## 3.3 Foreign Direct Investment by Country of Origin

### *3.3.1 Stock of FDI by country of origin for 1998 and 1999*

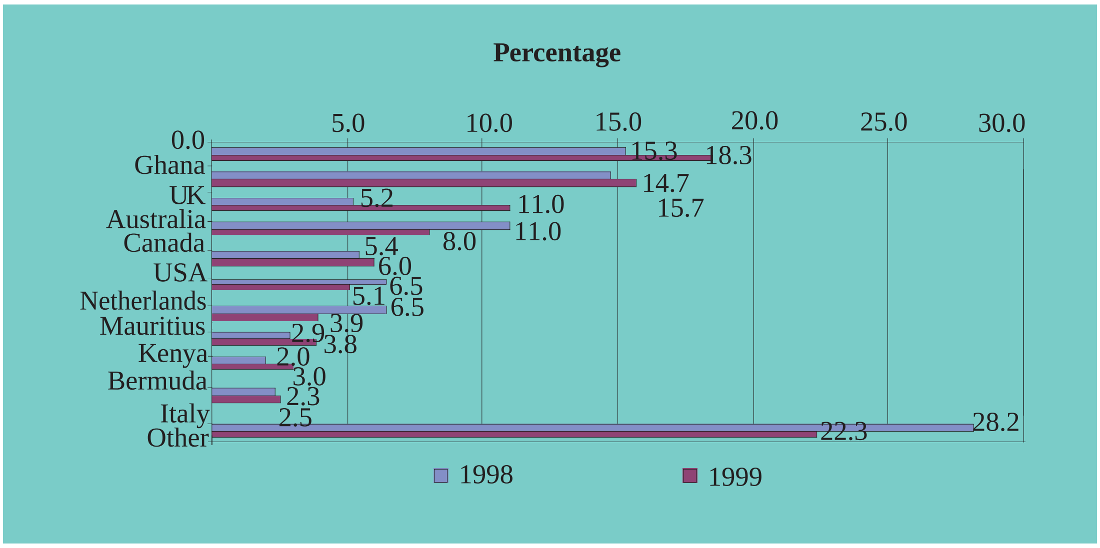
Data on FDI stock by country of origin shows unexpected results for 1998 and 1999 with, new comers overtaking traditional countries like the UK. Table 3.6 gives a listing of ten leading countries with investments in Tanzania as at end 1999. It may be noted that Ghana tops the list with a stock of USD 398.8 million followed by the UK with the stock of USD 337.4 million. With the exception of the UK, most of the leading countries namely Ghana, Australia and Canada are heavily involved in the mining sector.

*Table 3.6 :Stock of FDI by Country of Origin, 1998 to 1999*

Millions of USD

| | EQUITY | | LONG-TERM LOANS | | SHORT-TERM LOANS | | SUPPLIERS CREDIT | | TOTAL FDI | |
|---|---|---|---|---|---|---|---|---|---|---|
| COUNTRY: | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | 1998 | 1999 | **1998** | **1999** |
| Ghana | 240.0 | 240.0 | 22.0 | 155.0 | 2.5 | 3.8 | - | - | **250.3** | **398.8** |
| UK | 202.6 | 221.8 | 101.6 | 108.9 | 7.8 | 5.3 | 1.8 | 1.3 | **240.9** | **337.4** |
| Australia | 73.1 | 162.2 | 21.0 | 61.5 | 12.1 | 13.2 | - | 0.5 | **85.3** | **237.3** |
| Canada | 79.1 | 155.2 | 17.6 | 17.9 | - | 0.3 | - | - | **180.8** | **173.4** |
| USA | 87.5 | 96.0 | 33.3 | 32.2 | - | - | 1.4 | 1.0 | **89.0** | **129.2** |
| Netherlands | 105.4 | 108.7 | 0.3 | 0.9 | - | - | 0.7 | 0.6 | **106.1** | **110.1** |
| Mauritius | 70.4 | 84.2 | 0.0 | - | - | 0.2 | - | - | **105.6** | **84.4** |
| Kenya | 43.8 | 57.9 | 6.1 | 6.3 | 2.4 | 15.8 | 1.5 | 2.9 | **47.6** | **82.8** |
| Bermuda | 28.5 | 28.5 | 28.7 | 30.7 | 2.3 | 4.2 | 1.7 | 1.9 | **32.8** | **65.2** |
| Italy | 32.5 | 21.0 | 30.1 | 30.9 | 0.0 | - | 5.5 | 2.7 | **37.9** | **54.6** |
| Other | 228.0 | 283.3 | 111.9 | 126.5 | 12.5 | 36.8 | 22.0 | 34.8 | **461.4** | **481.3** |
| **Total** | **1,190.7** | **1,458.6** | **372.8** | **570.9** | **39.6** | **79.4** | **34.6** | **45.5** | **1,637.7** | **2,154.4** |

*Figure 3.5: The Stock of  FDI by Country of Origin*




Hence out of the total stock, Ghana accounts for 18.5 percent, UK 15.7 percent, Australia 11.0 percent, Canada 8.0 percent, USA 6.0 percent and Netherlands 5.1 percent. Within the region (Eastern and Southern Africa), only Mauritius and Kenya feature among the top ten. On the other hand, South Africa, which has stepped-up its investment in the country does not appear in the top ten list as at the end of 1999 **(Figure 3.5).**

One very important finding from the study result is that there is no geographical concentration of sources of FDI flows in Tanzania. This diversification is beneficial to the country since it minimises external shocks that may arise as a result of economic disturbances in any single country.

### *3.3.2 The flow of FDI by country of origin for 1999*

The FDI flows into Tanzania for the year 1999 shows a different ranking of top ten countries when compared to that of FDI stock. While Ghana still leads with a total flow of USD 134.2 million in 1999, new countries have emerged into the top 10 list including South Africa, Panama, Mauritius, France and Russia **(Table 3.7).**

***Table 3.7 :Flow of FDI by Country of Origin, 1999***

| **Country** | **Amount** | **Percentage** |
|---|---|---|
| Ghana | 134.2 | 26.0 |
| Australia | 131.0 | 25.3 |
| Canada | 76.6 | 14.8 |
| Kenya | 29.2 | 5.7 |
| UK | 23.6 | 4.6 |
| South Africa | 19.9 | 3.9 |
| Panama | 15.3 | 3.0 |
| Mauritius | 14.0 | 2.7 |
| France | 13.5 | 2.6 |
| Russia | 8.6 | 1.7 |
| Other | 50.9 | 9.8 |
| **TOTAL** | **516.8** | **100** |

Ghana accounted for 26.0 percent of the total FDI flows into Tanzania in 1999, followed by Australia with 25.3 percent, Canada 14.8 percent. Countries from the Eastern and Southern African region namely Kenya, South Africa and Mauritius account for 5.7 percent, 3.9 percent and 3.7 percent respectively.

*Table 3.8 :Flow of FDI Equity by Country of Origin, 1999*

| Country | Amount | Percentage |
|---|---|---|
| Australia | 89.1 | 33.2 |
| Canada | 76.1 | 28.4 |
| UK | 19.3 | 7.2 |
| Kenya | 14.1 | 5.3 |
| Panama | 14.1 | 5.3 |
| Mauritius | 13.9 | 5.2 |
| South Africa | 8.6 | 3.2 |
| USA | 8.4 | 3.1 |
| Lebanon | 4.5 | 1.7 |
| Netherlands | 3.3 | 1.2 |
| Other Foreign | 16.7 | 6.2 |
| **TOTAL** | **267.9** | |

In terms of FDI flow by equity capital, Ghana does not feature in the list of top ten countries implying that FDI from Ghana for 1999 was largely financed through debt **(Table 3.8)**. Australia and Canada, which have heavy investment in the mining sector, had a combined share of more than 60 percent of total equity investments in Tanzania during 1999.

## 3.4 Sectoral and Regional Distribution of FDI

### *3.4.1 Sectoral Distribution.*

Analysis by sectoral distribution reveals that Mining & Quarrying, and Manufacturing sectors accounted for the largest share of the FDI stocks as at end 1998 and 1999 (Table 3.9).

*Table 3.9: Stock of FDI by Sector, 1998 and 1999*

Millions of USD

| Sector | 1998 Amount | 1998 Percentage | 1999 Amount | 1999 Percentage |
|---|---|---|---|---|
| Mining & Quarrying | 503.6 | 30.8 | 848.9 | 39.4 |
| Manufacturing | 406.4 | 24.8 | 475.4 | 22.1 |
| Wholesale, Retail Trade,Catering & Accommodation Services | 251.7 | 15.4 | 281.4 | 13.1 |
| Agriculture, Hunting & Forestry | 119.5 | 7.3 | 151.4 | 7.0 |
| Finance Insurance, Real Estate & Business Services | 133.9 | 8.2 | 147.7 | 6.9 |
| Construction | 106.9 | 6.5 | 120.8 | 5.6 |
| Transport, Storage & Communication | 49.5 | 3.0 | 60.0 | 2.8 |
| Others | 29.5 | 1.8 | 31.6 | 1.5 |
| Community, Social & Personal Services | 1.4 | 0.1 | 1.8 | 0.1 |
| Electricity, Gas & Water | 35.4 | 2.2 | 35.4 | 1.6 |
| **TOTAL** | **1,637.7** | **100.0** | **2,154.4** | **100.0** |

In 1998, Mining and Quarrying accounted for 30.8 percent of the total FDI stocks, followed by Manufacturing with 24.8 percent. At the end of 1999, the share of Mining and Quarrying had gone up to 39.4 percent while Manufacturing remained second with a slightly reduced share of 22.1 percent. The third largest sector is Wholesale, Retail trade, Catering and Accommodation Services, which accounted for about 15.4 percent and 13.1 percent as at end 1998 and 1999, respectively.

The rest of the sectors absorbed less than 10 percent each, with investments in the Agriculture sector accounting for about 7 percent in both years. Finance, Insurance, Real estate and Business Services whose stock of FDI accounted for about 7 percent, at end 1999 is a new sector with great potential to attract more investments following liberalization of the financial sector and the trade and exchange regime. Sectoral distribution of FDI flows is similar to that of FDI stock with high concentration in Mining and Quarrying, and Manufacturing sectors. The two sectors accounted for a combined share of more than 80.0 percent of the total flows of FDI during 1999, with Mining and Quarrying commanding the largest share of 66.8 percent **(Table 3.10).**

*Table 3.10: Flows of FDI by Sector, 1999*

Millions of USD

| Sector | Amount | Percentage |
|---|---|---|
| Mining & Quarrying | 345.3 | 66.8 |
| Manufacturing | 69.0 | 13.4 |
| Wholesale, Retail Trade, Catering & Accommodation Services | 29.7 | 5.7 |
| Agriculture, Hunting & Foresty | 31.9 | 6.2 |
| Finance Insurance, Real Estate & Business Services | 13.8 | 2.7 |
| Contruction | 14.0 | 2.7 |
| Transport, Storage & Communication | 10.5 | 2.0 |
| Others | 2.1 | 0.4 |
| Community, Social & Personal Services | 0.4 | 0.1 |
| Electricity, Gas, Water | 0.0 | 0.0 |
| **TOTAL** | **516.7** | **100.0** |

Agriculture, Hunting and Forestry, the largest sector in the economy attracted only 6.2 percent of FDI flows during 1999, slightly ahead of Wholesale, Retail Trade,Catering & Accommodation Services Sector (tourism related activities) that accounted for 5.7 percent.

The sectoral pattern of FDI flows indicates a policy and promotional bias in favour of Mining and quarrying, and manufacturing sectors. The results do indicate that there has not been substantial investment in the agriculture sector partly because of the risks associated with investments in the sector, and also due to lack of policy incentives to attract more investment in the sector.

### *3.4.2 Regional distribution*

Distribution of foreign direct investments across regions in Tanzania shows a bias in favour of Dar es Salaam and Mwanza. The two regions account for a combined share of nearly 60.0 percent of the stock of FDI in Tanzania at the end of 1998 and 1999 **(Table 3.11).**

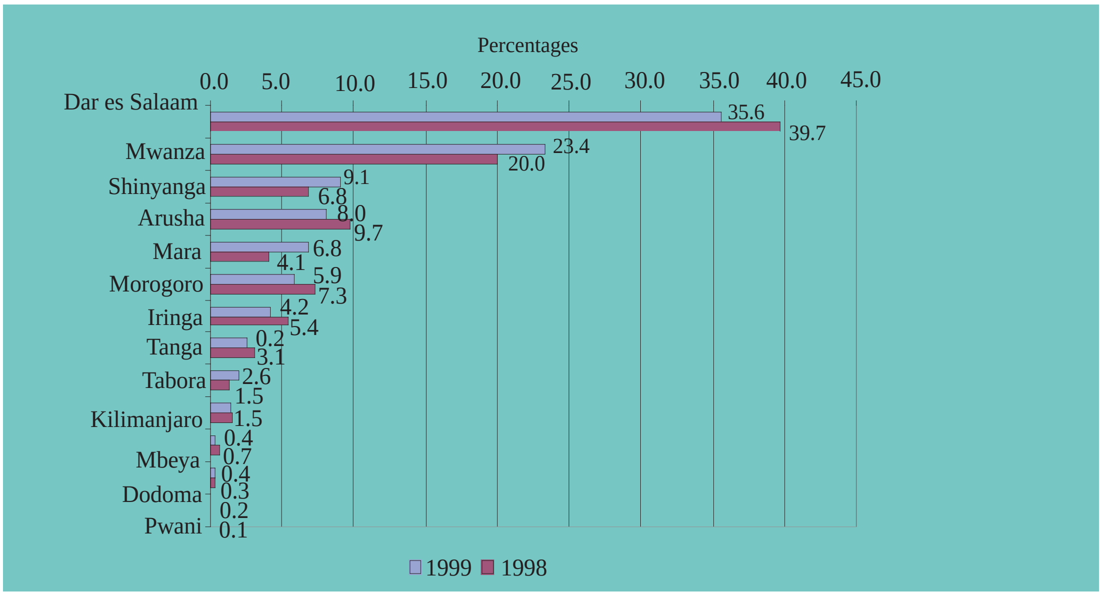
Dar es Salaam has attracted substantial investment mainly because of being the main commercial centre and having unparalleled social and economic infrastructure conducive for a wide range of business activities. Mwanza on the other hand is the main commercial centre in the Lake zone and is endowed with abundant natural resources, namely, Lake Victoria with great potential for fishing, and good weather that support agricultural activities and is also rich in minerals especially gold.

*Table 3.11: Stock of FDI by Region by end 1998 and 1999*

Millions of USD

| Region | 1998 Amount | 1998 Percentage | 1999 Amount | 1999 Percentage |
|---|---|---|---|---|
| Dar es Salaam | 649.8 | 39.7 | 767.3 | 35.6 |
| Mwanza | 327.4 | 20.0 | 503.3 | 23.6 |
| Shinyanga | 111.2 | 6.8 | 196.2 | 9.1 |
| Arusha | 159.2 | 9.7 | 173.4 | 8.0 |
| Mara | 66.7 | 4.1 | 147.3 | 6.8 |
| Morogoro | 119.3 | 7.3 | 127.4 | 5.9 |
| Iringa | 88.9 | 5.4 | 90.3 | 4.2 |
| Tanga | 50.2 | 3.1 | 55.2 | 2.6 |
| Tabora | 21.7 | 1.3 | 43.0 | 2.0 |
| Kilimanjaro | 25.3 | 1.5 | 32.1 | 1.5 |
| Mbeya | 10.9 | 0.7 | 8.3 | 0.4 |
| Dodoma | 5.3 | 0.3 | 7.2 | 0.3 |
| Pwani | 1.9 | 0.1 | 3.4 | 0.2 |
| **TOTAL** | **1,637.80** | **100.0** | **2,154.40** | **100.0** |

*Figure 3.6: Stock of FDI by Region for 1998 and 1999*




Other regions, which have attracted substantial amounts of FDI, are Shinyanga, which accounted for 9.1 percent of total stock in 1999, followed by Arusha with 8.0 percent and Mara with 6.8 percent (Figure 3.6).

Mining activities in the lake region have been responsible for attracting investments in the regions of Shinyanga and Mara while Arusha, being the main commercial centre in the northern zone, has attracted substantial amounts of FDI due to its potentials in Manufacturing, Mining and Tourism. Arusha is also the headquarters of the East African Community (EAC) and its easy accessibility by air, rail and road networks has become one of the main destinations of foreign investments in Tanzania.

The study results indicate that Mwanza

was leading with a share of about 34 percent in the distribution of FDI flows by region in 1999, followed by Dar es Salaam with 22.8 percent, Shinyanga with 16.5 percent and Mara with 15.6 percent. There is very little flow of FDI in the rest of the regions. (**Table 3.12).**

*Table 3.12 :Flow of FDI by Region*, 1999

| Region | Amount | percentage |
|---|---|---|
| Mwanza | 175.9 | 34.0 |
| Shinyanga | 85.0 | 16.5 |
| Dar es Salaam | 117.6 | 22.8 |
| Mara | 80.6 | 15.6 |
| Tabora | 21.3 | 4.1 |
| Arusha | 14.2 | 2.7 |
| Morogoro | 8.1 | 1.6 |
| Kilimanjaro | 6.7 | 1.3 |
| Tanga | 5.0 | 1.0 |
| Dodoma | 1.9 | 0.4 |
| Pwani | 1.5 | 0.3 |
| Iringa | 1.4 | 0.3 |
| Mbeya | -2.5 | -0.5 |
| **TOTAL** | **516.8** | **100** |

## 3.5 Income Related FDI Flows

Income related flows include dividends paid to foreign shareholders, and interest on foreign borrowings by FDI companies.

### *3.5.1 Dividends*

**Table 3.13** provides data on dividends payments by sector for 1999. In 1999 a total of USD 42.4 million was paid to foreign investors. 62.7 percent of the dividends paid in 1999 originated from the manufacturing sector, followed by Finance, Insurance, Real Estate, and Business services sector with 26.1 percent, whereas tourism related services accounted for 9.1 percent. (**Table 3.13).**

The table reveals that very little dividends were paid out with respect to Agriculture and Transport sectors, which signifies the low level of foreign investments in these sectors. The mining sector, which featured prominently on both stocks and flows in 1999, did not register any dividends payments during 1999, indicating that most of the mining projects were new and some not fully operational.

### *3.5.2 Interest*

Total interest income payments during 1999 amounted to USD 28.0 million out of which 61.8 percent was paid for long-term loans and the remaining 38.2 percent for short-term loans. This implies that FDI external debt is largely dominated by long-term borrowing, and mostly from related companies. Similarly much of the short-term borrowing originated from related companies (**Table 3.14).**

*Table 3.13: Dividends paid by Sector1999*

| Sector | Amount | Percent of Total |
|---|---|---|
| Manufacturing | 26.6 | 62.7 |
| Financing,Insurance,Real Estate & Business Services | 11.1 | 26.1 |
| Wholesale, Retail Trade ,Catering & Accommodation Services | 3.9 | 9.1 |
| Agriculture, Hunting & Forestry | 0.6 | 1.4 |
| Transport & Storage and Communication | 0.2 | 0.5 |
| Community, Social and Personal Services | 0.0 | 0.0 |
| Construction | 0.0 | 0.0 |
| Mining and Quarry | 0.0 | 0.0 |
| Electricity Gas and Water | 0.0 | 0.0 |
| Others | 0.1 | 0.2 |
| **Total** | **42.4** | **100.0** |

*Table 3.14:Interest Paid by Debt Type for 1999*

Millions of USD

| Debt Type | Amount | Percentage |
|---|---|---|
| Long Term loans From Unrelated Company | 9.6 | 34.3 |
| Long Term Intra-Company Loans | 7.7 | 27.5 |
| Short Term loans From Unrelated Company | 7.4 | 26.4 |
| Short-Term Inter-Company Loans | 2.0 | 7.1 |
| Suppliers Credit From Related Companies | 0.0 | 0.0 |
| Suppliers Credit from Un-related Companies | 1.3 | 4.6 |
| **Total Interest Paid** | **28.0** | **100.0** |

During 1999, sectoral distribution of interest payments indicates that Manufacturing and Mining sectors account for 33.2 percent and 31.8 percent of total payments respectively followed by tourism related services that accounted for 12.1 percent.

Interest payments on long-term loans was dominated by Mining sector that accounted for 41.9 percent, followed by Manufacturing sector with 17.9 percent. (Table 3.15).

This is consistent with the earlier finding that the mining sector was mainly financed by long-term loans, hence the high interest payments.

*Table 3.15: Interest Paid by Sector and Debt Type for 1999*

Millions of USD

| Sector | Long Term | Percentage | Short Term | Percentage | Total | Percentage |
|---|---|---|---|---|---|---|
| Manufacturing | 3.1 | 17.9 | 6.2 | 57.9 | **9.3** | **33.2** |
| Financing, Insurance, Real Estate & Business Services | 1.7 | 9.9 | 0.1 | 1.0 | **1.8** | **6.4** |
| Wholesale, Retail Trade , Catering & Accommodation Services | 2.8 | 16.0 | 0.7 | 6.5 | **3.4** | **12.1** |
| Agriculture, Hunting & Forestry | 0.4 | 2.5 | 1.2 | 11.2 | **1.7** | **6.1** |
| Transport & Storage and Communication | 1.1 | 6.3 | 0.5 | 4.7 | **1.6** | **5.7** |
| Community, Social and Personal Services | 0.2 | 1.2 | 0.0 | 0.0 | **0.2** | **0.7** |
| Construction | 0.6 | 3.4 | 0.3 | 2.8 | **0.9** | **3.2** |
| Mining and Quarry | 7.2 | 41.9 | 1.7 | 15.9 | **8.9** | **31.8** |
| Electricity Gas and Water | 0.0 | 0.0 | 0.0 | 0.0 | **0.0** | **0.0** |
| Others | 0.2 | 0.9 | 0.0 | 0.0 | **0.2** | **0.7** |
| **Total** | **17.3** | **100.0** | **10.7** | **100.0** | **28.0** | **100.0** |

Interest payments on short-term debt was dominated by manufacturing sector accounting for 57.9 percent, followed by mining sector that accounted for 15.9 percent. The pattern indicates that there is a substantial amount of short-term borrowing particularly suppliers credit to facilitate operations in the manufacturing and mining sectors for the period under study.

# CHAPTER FOUR

# BANK'S SURVEY

In principle, private capital flows comprise of FDI, Portfolio Investment (PI) and other investments. In the absence of non-residents participation in the Dar es Salaam Stock Exchange (DSE), portfolio investment flows through the stock market could not be surveyed. However, efforts were made to survey other investment flows by the private sector/locally owned companies and other entities through the banking system. The banks survey was conducted in recognition of the important role banks perform in mobilising and allocating financial resources. In total, 16 banks were surveyed for quantitative and qualitative information with respect to banks themselves as well as their clients.

The following is a summary of the result on both quantitative and qualitative aspects.

## 4.1 Bank Lending Abroad

Private capital flows – inflows and outflows through banks appeared to be very limited. Bank lending abroad was limited to bank placements recording a stock position amounting to USD 49.0 million by end 1999, being a decline from USD 66.3 million by end 1998. Only five banks out of 16 reported bank placements amounting to USD 0.25 million during 1999, up from USD 0.12 during the previous year. There were no trade credits or any type of long-term lending abroad by local banks.

### *4.1.1 Reasons for Limited Lending Abroad*

- The existence of profitable opportunities in the local market.
- Absence of risk guarantee mechanism. Four banks out of 16 indicated the absence of having credit risk guarantee mechanism in the country and absence of credit rating agency as some of the main impediments to expanded lending within and outside Tanzania.
- Most banks in Tanzania are foreign owned with their main business focus to the local market rather than external market.
- Existence of restrictions on external lending by local entities (i.e. capital account is partially liberalised with foreign investments being subjected to BOT approvals).

### 4.1.2 Motivations for lending abroad

Despite difficulties experienced on lending abroad, four banks out of 16 pointed out that their continued lending was mostly influenced by the following factors:

- Character of the borrower (most lending directed to banks abroad).
- Level of profitability.
- Credit risk insurance mechanism available abroad (largely ensured if it is bank to bank lending).
- Speedy recovery process and existence of legal jurisdiction in case of default.

In spite of the existence of external motivations for lending abroad by local banks, the volume of lending abroad still remain low as explained in sub-section 4.1.1.

In general, and as observed above, many banks indicated that they do not lend abroad and have no immediate plans for doing so **(Table 4.1).**

*Table 4.1: Direction of bank lending outside Tanzania*

| | Short term | Long term |
|---|---|---|
| Start/expand | 3 | 2 |
| Maintain | 1 | 0 |
| End | 2 | 0 |
| No opinion | 10 | 14 |
| **Total** | **16** | **16** |

Out of 16 banks surveyed, only 3 indicated the intention to start/expand short-term lending abroad in order to meet external obligations of the correspondent banks as well as improve leverage among related banks abroad. On the other hand, 2 banks indicated the intention to stop short-term lending abroad due to limitations in internal jurisdiction. One bank cited the existence of local profitable opportunities as one reason that might slow down their motive to lend abroad.

## 4.2 Bank Borrowing from Abroad

Contrary to expectation, it was only one bank out of 16 that reported to have borrowed externally (for long-term) on its own and clients' financial needs. By end 1999, the stock of foreign borrowing amounted to about USD 3.0 million, which was a decline of 12.3 percent from USD 3.8 million at end 1998. None of the banks reported any short-term borrowing from abroad.

The bank that reported having foreign borrowing had a net outflow amounting to USD 1.1 million during 1998 compared with a net outflow of USD 0.2 million during 1999. The higher net outflow in 1998 was mainly due to the absence of borrowing (loan disbursement) during the year. Similarly, principal repayments and interest charges were higher in 1998 compared to 1999.

### *4.2.1 Factors Influencing Borrowing from Abroad*

When asked on factors influencing their behaviour on borrowing from abroad, two banks indicated that they do not conduct any such transactions. Two other banks cited the following internal and external factors as their main considerations on foreign borrowing:

External factors:

- Availability of competitive instruments abroad;
- Cost of borrowing;
- Feasible terms.

Internal factors:

- Exchange risk;
- Limited opportunities for onward domestic lending.

Based on these observations, most of the banks (14 out of 16) did not attach any importance on external borrowing for onward lending domestically **(Table 4.2).**

**Table 4.2: Borrowing Abroad for Domestic Lending**

| Borrowing for Lending | Very Significant | Significant | Not Significant |
|---|---|---|---|
| Foreign currencies | 1 | 1 | 14 |
| Local currencies | - | 1 | 14 |

The future outlook of foreign borrowing by Tanzanian banks is still uncertain given the factors described under 4.2.. However, the bank, which reported to have borrowed from abroad is planning to expand borrowing in the future. One other bank reported to be planning to start short and long-term borrowing from abroad while two banks were thinking of starting long-term borrowing (**Table 4.3).**

**Table 4.3:Direction of Bank Borrowing from Abroad**

| | Short term | Long term |
|---|---|---|
| Start/expand | 2 | 3 |
| Maintain | - | - |
| End | - | - |
| No opinion | 14 | 13 |
| **Total** | **16** | **16** |

The rest of the banks were largely uncertain on their future plans. When asked on how their borrowing for domestic lending have changed over time, almost all the banks did not show any immediate change in their borrowing behaviour **(Table 4.4).**

***Table 4.4:Change in Foreign Borrowing for Domestic Lending***

| Borrowing for lending | Increase | Not changed | Decreased |
|---|---|---|---|
| Foreign currencies | 1 | 15 | - |
| Local currencies | 1 | 15 | - |

## 4.3 Other Observations

### *4.3.1 The Impact of Regional Integration*

### Arrangements (EAC, SADC) on Banks' Business

Almost all banks gave favourable opinion about the impact of revival of EAC and the increased spirit of co-operation under SADC. Many banks consider increased free movement of capital, labour and entrepreneurship within the region under the auspices of EAC and SADC to be the driving force towards increased scope of economic activities and ultimately leading to widening and deepening of banking business. Business opportunities, trade flow, investments and corporate finance are expected to increase leading to an advancement of modern banking practices through sharing of experience in important areas like credit risk management and fraud control.

### 4.3.2 Level of Competition in Bank Business.

All banks admitted that competition in the banking business existed **(Table 4.5)**.

Four banks considered the competition to be very high due to the fact that the number of banks and non-bank financial institutions together with bureaux de change is quite high in relation to the size of the economy. Big foreign investors especially from Europe and South Africa channel their business to the well-established foreign banks. However, six banks pointed out that the level of competition is only medium because there are vast potential opportunities, which are yet to be fully utilised. The nature of competition is limited to two categories of clients i.e. a few big banks dealing with few corporate customers and small and medium size banks dealing with retail customers.

*Table 4.5:Level of Competition in Banking Business*

| | Very high | High | Medium | low | Very low |
|---|---|---|---|---|---|
| Level of competition | 4 | 4 | 6 | 0 | 0 |

### *4.3.3: Problems in Making Repayment Abroad*

Since most banks indicated low volume of borrowing from abroad (for both themselves and their clients) they currently do not face any problems related to making repayments abroad. However, the bank that reported borrowing from abroad (and potential borrowers in future) considers exchange rates volatility the greatest risk facing the nature of future borrowing.

### *4.3.4 Investors' Willingness to Report Information to Authorities*

Reporting of various types of information by investors to relevant authorities is important for statistical and policy making purposes. All investors including banks were asked to provide views on methods that could be used by the authorities to improve the level and quality of reporting. Almost all banks pointed out that they already comply by submitting statutory monthly, quarterly, and annual returns to the Bank of Tanzania and most are willing to further comply if there is additional information requirement by the BOT. However, the banks made the following suggestions as regards to submission of information to other institutions.

- Assurance that the information re quested would be treated with strict confidentiality and that it would be used by only the requesting institutions and for the intended purposes only.

- Creation of a transparent regulatory framework that allows institutions to participate in appropriate policy formulation and review of issues affecting them.

- Getting feedback on the report presented to the government and see whether they are of any relevance in the improvement of their banking business.

- Harmonising the reporting system and reducing the number of reports.

# CHAPTER FIVE

## INVESTORS' PERCEPTIONS

This chapter analyses the determinants of the flow of foreign private capital into mainland Tanzania based on investors' perceptions on how various economic and political factors have affected their investment decisions and operations in Tanzania.

Overall, foreign private capital flows are influenced by both 'pull' and 'push' factors. In Tanzania pull factors include macroeconomic stability, governance, existence of large savings-investment gap, improvements in the state of infrastructure, improvements in the provision of financial services, labour stability and other social-economic factors such as labour productivity, legal framework and other sectoral policy reforms. Push factors include, globalisation, recession/boom conditions, the need for diversification of investment portfolio, return on investment, and historical relationship between countries[16] .

In this study, foreign investors were required to identify the extent to which factors including macroeconomic policies, infrastructure and public services, financial services, governance, and labour have affected investment in their business. They were also requested to give their opinion on other factors namely corruption, internal security, and regional and international political concerns. Investors were required to rank the impact of each of these factors on investment decisions and their day to day operations. Ranking levels ranged from 1 for "very positive effect" to 7 for "very negative effect". Rank 4 was given for "No effect". In order to value the dynamic aspects of these factors, investors were required to compare the situation at the time they started business and the current period i.e. year 2000. Nevertheless, caution has to be taken on the interpretations and conclusions arrived at during the "start-up period" since start-up dates differ, some going as far back as the 1950's and 1960's. However, most of the companies that responded to the questionnaires were registered in Tanzania during 1990s.

Apart from the specific factors, investors were also requested to respond to open-ended questions, which solicited views on a range of issues including sources of information that guided investors to invest in Tanzania, factors that attracted the investors, the likely direction of their future investment, and investors' general feeling on the Government efforts to promote investments in Tanzania. As a means of promoting dialogue between the private and the public sectors, investors were also asked to suggest measures that the Government could take to encourage investors to volunteer information to the Government regarding their operations.

In addition to written responses qualitative information was also obtained through oral interviews that were conducted by enumerators.

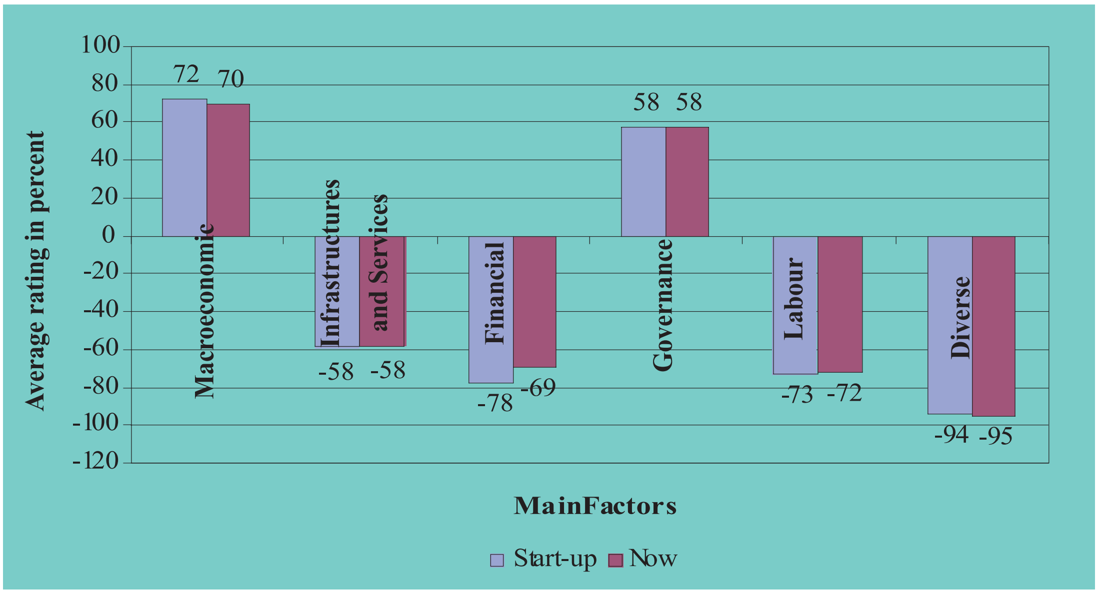
Generally, perception questionnaires were well received and completed by the investors. Overall results indicate that as at end of 2000, on average, about 70 percent and 58 percent of investors had a favourable opinion on macroeconomic factors and governance factors respectively **(Figure 5.1).**

The factors that did not feature well in investors' perceptions were infrastructure and public services, financial, labour and diverse factors.

Only significant results (positive or negative perceptions) on sub-factors are presented in the following sections. In order for the analysis of perception

[16] Kimei C. et al (1997)

*Figure 5.1: Overall Investors Perception on Main Factors Affecting Investment Climate (in percentage)*

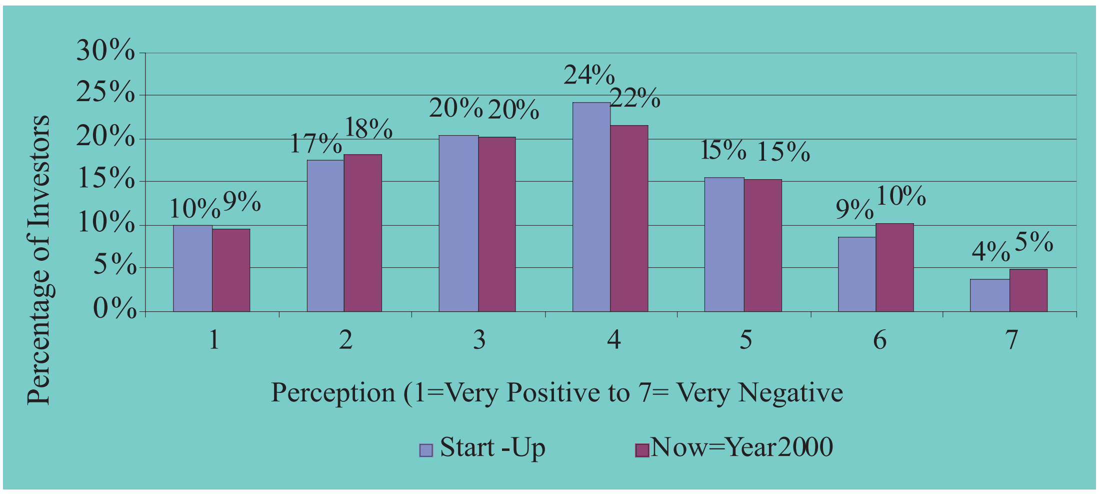



scores to be meaningful, a rank of 4 that represented "no effect" was taken to mean either negative or positive but with no significant effect perceived. Thus rank 4 score was added to the dominant perception. For example, if the general perception was negative (as may be depicted by the graph), then the percentage of rank 4 was incorporated in the total negative score and vice versa. The perception results on all considered sub factors are presented in Appendix 3.

## 5.1 Macroeconomic Factors

In order to understand the opinion of investors on macroeconomic policy measures pursued by the Government, investors were required to rank the various macro-economic factors that affect their operations. These factors are: fiscal policy, monetary policy, government stability, government spending, regulatory framework, state intervention in private business, business environment, environmental policy, foreign policy and financial sector stability.

*Figure 5.2:Investors' General Perception on Macroeconomic Factors*



*Box 5.1: Notice to Importers of Substandard Items into Tanzania*

**Tanzania Bureau of Standards**

**NOTICE TO IMPORTERS AND WHOLESELLERS OF DRYCELL BATTERIES**

We have noted with great concern that the Tanzania market has been flooded with substandard imported batteries (dry cells) which are not certified by TBS. Substandard batteries have short life period and can destroy the electronic equipment through leakage. In accordance with the standards Act, 1975 it is illegal for any person to import, distribute/ sell the batteries unless they comply with the Tanzania Standard (TZS) 143: 1981.

All importers of the undermentioned brands of batteries are hereby required to report within two weeks from the date of this notice at the offices of Tanzania Bureau of Standards Headquarters, Ubungo Dar es Salaam where they will be informed on the modalities of certification of their producrs. After the expiry of this period, TBS will take legal action against all importers wholesellers and distributors who will not comply with this notice. These brands of batteries are:

| | Brand | Origin |
|---|---|---|
| 1. | ABC | Indonesia |
| 2. | ABC | China |
| 3. | Bell | China |
| 4. | Tiger Head | China |
| 5. | Yarico | China |
| 6. | Rambo | China |
| 7. | National Hyper | Indonesia |
| 8. | National Prima | Indonesia |
| 9. | Novino | India |

Consumers are advised to refrain from buying batteries which are not certified by TBS to ensure safety of their electronic equipment and long service output. So far TBS has certified the following brands of batteries:-

| Brand | Size(s) | Company |
|---|---|---|
| National | UM-1, UM--2, UM-3 | Matsushita Electric Co (EA) |
| Duracell (Alkaline) | LR6, LR14, LR20 and 6 LR61 | Kingsway Internatinal (T) Ltd P.O. Box 9712, Dar es Salaam. |

D. J. Mwakyembe
DIRECTOR

The perception of investors on the macroeconomic factors has generally been positive, implying that investors have confidence in government economic reforms, which have been undertaken since the mid 1980s. 72 percent of the investors found macroeconomic factors to have been positive at the start-up of business and 70 percent still found it positive in the year 2000 (Figure 5.2).

Despite the good impression the investors have on macroeconomic policies, there was no consensus on the extent to which the Government should liberalise[17]. While most investors in the banking and the mining sectors, prefer further liberalisation as well as full liberalisation of the capital account, most investors in the manufacturing sector would prefer limited liberalization with some level of protection. These views are based on the premise that too much external trade

[17] This observation was also noted in the report on the pilot survey of foreign investments by Noni et al, 1999.

liberalization can turn Tanzania into a dumping place for sub-standard and cheap imports. Indeed this contention is supported by Tanzania Bureau of Standards (TBS) concern that was published in the Sunday Observer on 22nd November 1998, which warned the public and importers against inferior imported items such as batteries, match boxes, tyres, radios," khanga" etc. **(Box 5.1).**

### *5.1.1 Monetary Policy*

Results show that at start-up 77 percent of the investors found monetary policy to be conducive to the investment decisions **(Figure 5.3)**. Monetary policy is generally commended for containing inflation to single digit. For more than two years inflation remained at single digit from as high as 33.1 percent in 1994, down to 21.2 percent in 1996, 12.8 percent in 1998, 7.7 percent in 1999 and to 5.9 percent by end December 2000.

### *5.1.2 Fiscal policy*

The study results shows that 68 percent of investors found fiscal policy to be conducive for investment at the time of start-up and only 56 percent found fiscal policy to be conducive by the year 2000 implying that fiscal policy has been undermining their operations **(Figure 5.4).** They cited in particular VAT at the rate of 20 percent to be too high. The negative perception may have been influenced by the following: -

- Establishment of TRA in 1996, which strengthened tax administration;
- Introduction of VAT at a rate 20 percent which broaden the tax base;
- Coming to an end of IPC related tax holidays.

However, the tax reforms implemented during the mid 1990s have been generally pro-business except that the lag in policy effectiveness might have contributed to the weakening of the favourable opinion expressed at the start up time .

***Figure 5.3:Investors' Rating of Monetary Policy in Tanzania***

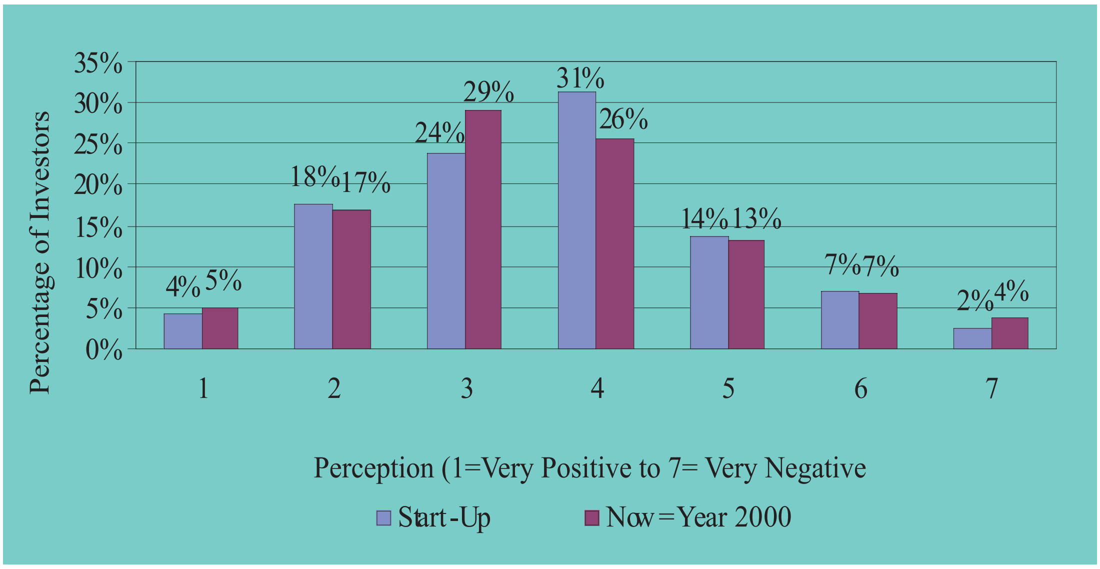
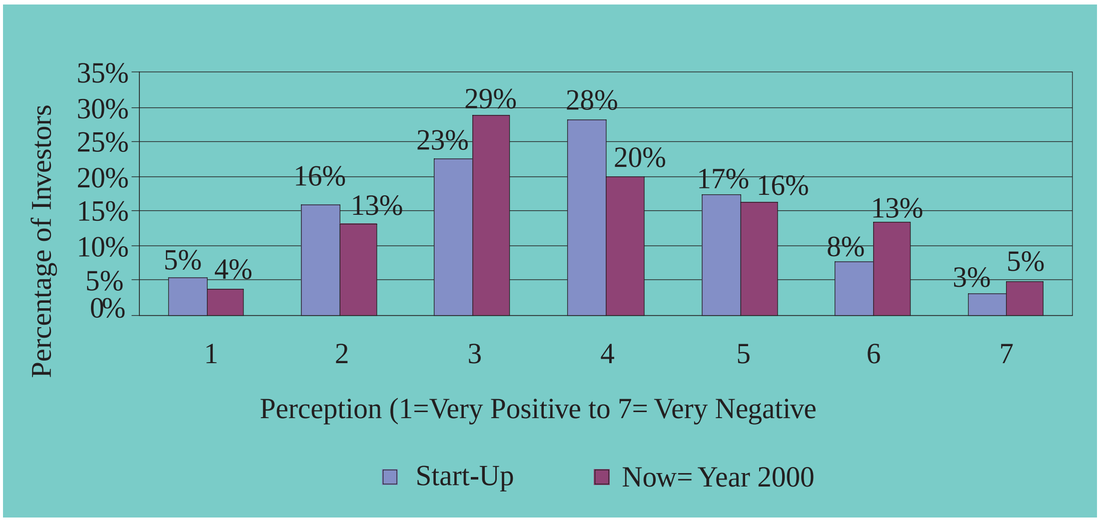


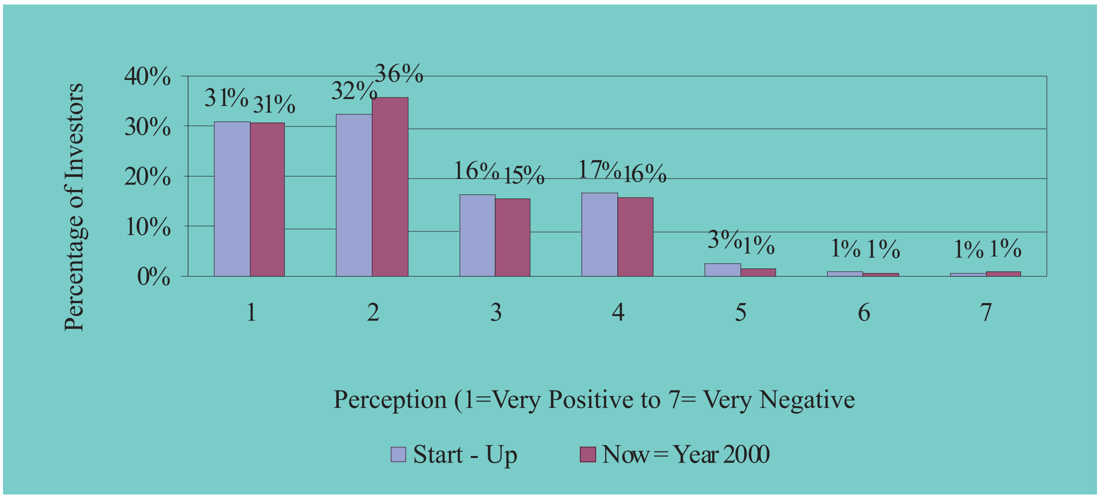
*Figure 5.4:Investors' Rating of Fiscal Policy*




### 5.1.3 Government Stability

Government stability was singled out as the most important factor that attracted foreign investors to Tanzania with 96 percent of investors indicating favourable opinion at start of their operations, compared with 98 percent in the year 2000. Furthermore, most investors commended the government for not intervening in the day-to-day operations of private businesses **(Figure 5.5).**

*Figure 5.5:Investors' Rating of Government Stability*



### *5.1.4 Other Macroeconomic Factors*

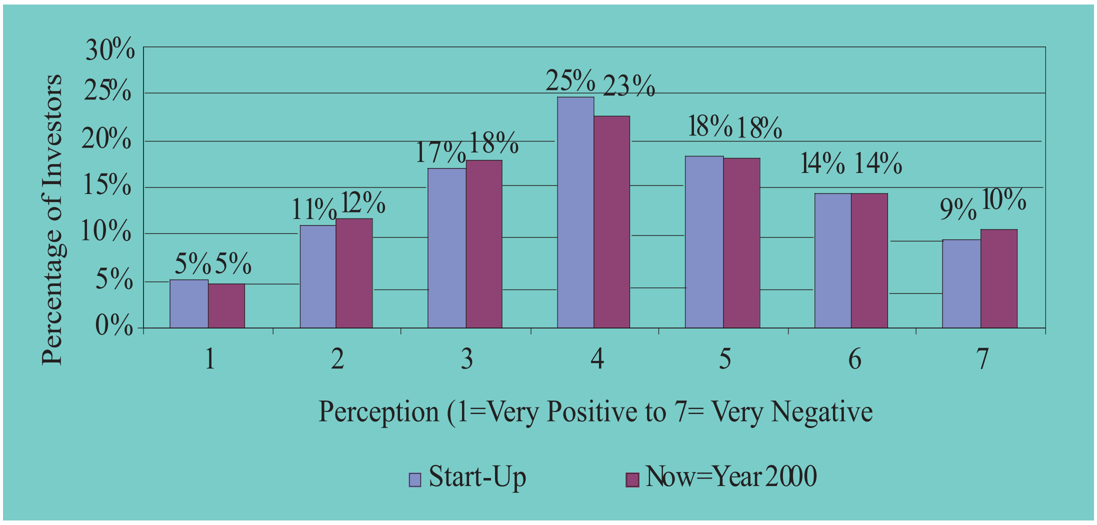
Institutional reforms such as the establishment of TIC, PSRC and TRA have been praised for having supported the macroeconomic reforms. However investors perceived lack of co-ordination among institutional reforms thus causing bureaucracy, and confusion, partly because of conflicting laws especially between TIC and TRA. There is therefore a need to harmonise the laws and regulations in order for them to be more effective in promoting a conducive investment environment.

In addition, the investors found the general legal framework inadequate in supporting the economic reforms, expressing concern that legal reforms have lagged behind economic reforms. There is need, therefore for the Government to speed up the review of the legal framework.[18]

### *5.2 Infrastructure and Public Services*

The infrastructure and public services factors include inland transport, ports, electricity and water supply, postal services, telecommunications, customs services, immigration facilities, municipal services (garbage, sewerage), banking services and credit rating. About 58 percent of the investors found infrastructure and public services to be in poor state at start up and the same was reported for the present **(Figure 5.6).** However, investors acknowledged remarkable improvement in the telecommunication sector but expressed concern on the state of the electricity and water supply services and rural roads.

*Figure 5.6:Investors' General Perception on Infrastructure and Services Factors*

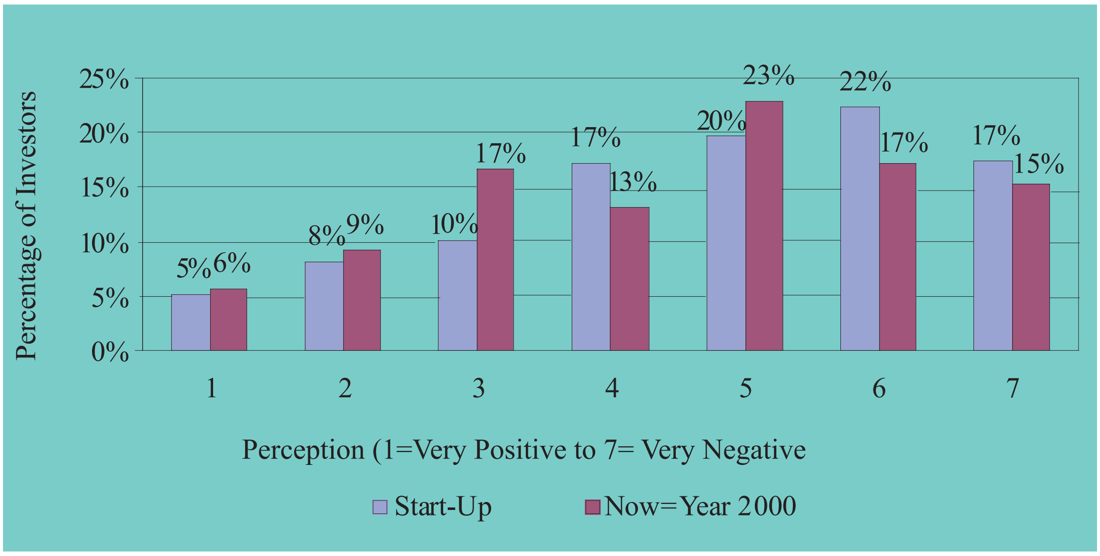



### *5.2.1 Utilities*

Major concerns with regard to utilities centred on unreliable supply and high costs of electricity and water. About 76 percent of the investors found electricity services to be poor at the start-up compared with 68 percent by year 2000 **(Figure 5.7(a)**. One investor pointed out that unreliable supply of electricity; water and sewerage services cost his company 7.5 percent over and above normal costs in 1999. The high operational cost undermines the competitiveness of Tanzania's products in the market.

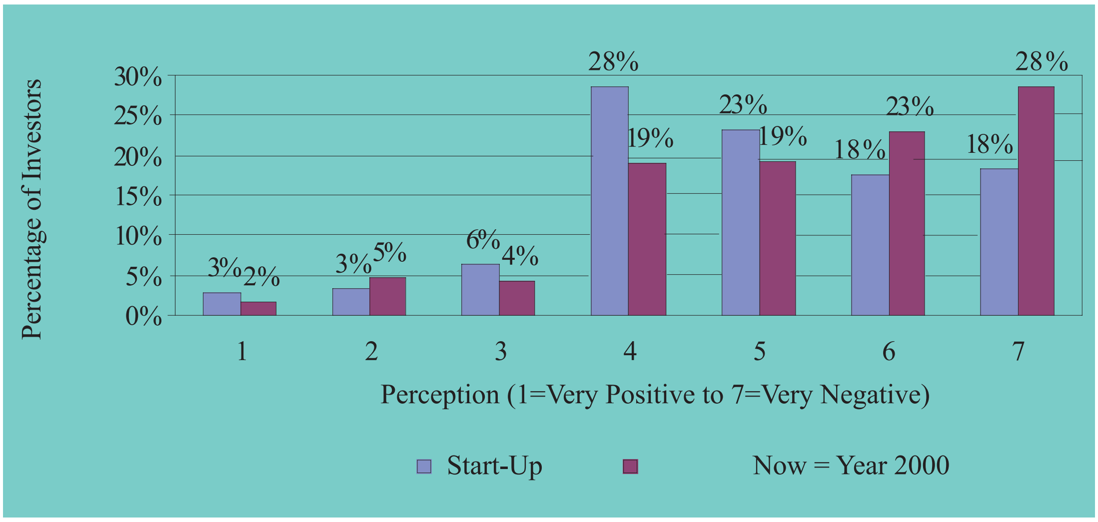
[18] A review of outdated laws in Tanzania has been well documented, most recent is a report of a study by ESRF for Confeeration of Tanzania Industries (CTI) on "Review of Legal, Regulatory and Judicial Framework Regarding MAnufacturing and Business Sector in Tanzania"December, 2000.

*Figure 5.7(a):Investors' Rating of the Electricity Supply in Tanzania*




Electricity and water tariff are considered too high in Tanzania relative to its neighbours. While 87 percent of investors found electricity tariff to have a negative impact on their investment at the start-up, the number increased to 89 percent at the year 2000 **[Figure 5.7(b)].**

*Figure 5.7(b):Investors' Rating of Electricity Tariff in Tanzania*

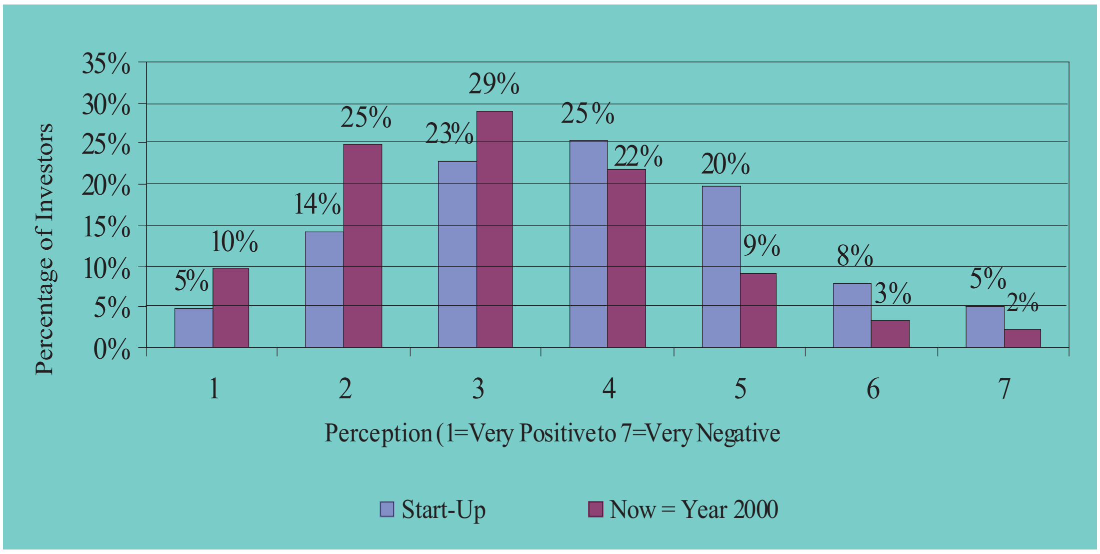



Household consumption, which account for about 60 percent of total consumption of electricity in the country is subsidized by industrial consumption hence the high industrial tariffs. TANESCO is beleaguered with high losses (technical and non-technical), which for example amounted to about 50 percent of expected revenue for the year 2000. In order for TANESCO to break-even, tariffs especially for industries are maintained high. There is need therefore to improve efficiency in the utility company and review and adjust the tariffs across the industrial and household categories with a view to improving the investment and business environment.

### *5.2.2 Banking services*

Financial services are considered fundamental for operations of investors. 77 percent of the investors had favourable opinion on the state of banking services by year 2000, which is an improvement from 67 percent at the start-up **(Figure 5.8).** The financial reforms have enabled Tanzania to attract investors of international reputation in the banking and insurance business. However, investors expressed concern on the lack of long-term financing facilities.

***Figure 5.8:Investors' Rating of Banking Services in Tanzania***




### *5.2.3 Other Infrastructure Services*

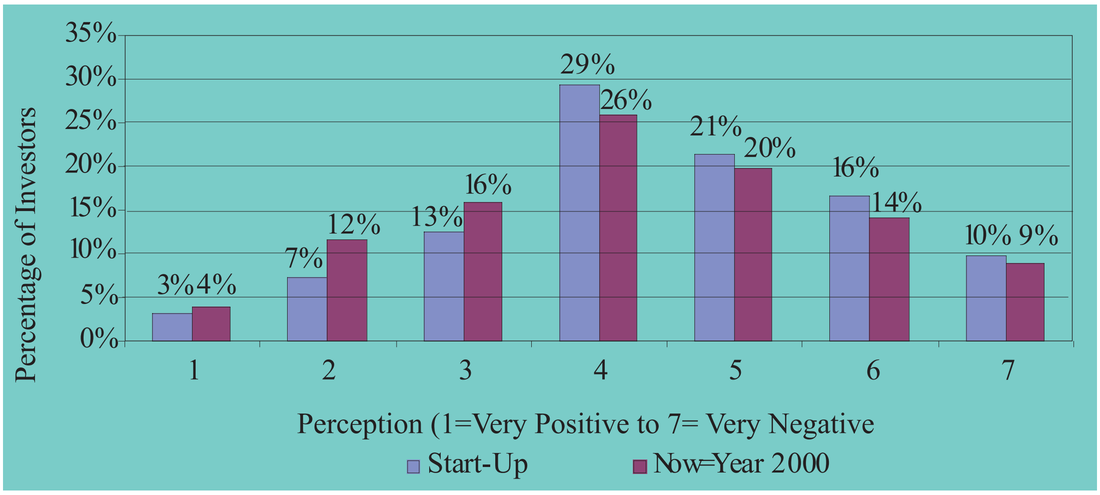
Generally the state of infrastructure was found to be poor but improving, calling for an urgent need to improve rural roads, water, electricity supply and municipal services.

### 5.3. Financial Factors

The following sub-factors were considered under the financial category: inflation, availability of business credit, interest rate, depreciation of domestic currency, national payment system and exchange control. At the start-up, 76 percent of investors considered financial factors to have a negative effect in their investment decisions. However, by year 2000 only about 69 percent of investors still had a negative perception implying that there has been some improvement in the delivery of financial services **(Figure 5.9).**

Investors singled out high bank lending rate and non-availability of credit as the most disturbing factors. Short-term lending rates declined substantially from an average of 33.4 percent in 1995 to an average 21.9 percent in 1999 but still remain high at more than 20 percent during the year 2000 despite a decline in inflation to single digit levels. Regarding interest rates, investors find the high interest rates restricting investments in the country (Figure 5.10). Banks maintain that high lending rates are a result of high credit risk.

*Figure 5.9:Investors' General Perception on Financial Factors*




## 5.3.1 Domestic Currency

Depreciation of the domestic currency was considered destabilizing by many investors **(Figure 5.11)**. 87 percent of investors perceived negatively the development in the shilling exchange rate at start-up. The negative perception has remained high, improving slightly to 82 percent by year 2000. Some investors were concerned that the value of the shilling was overvalued, hence undermined the level of competitiveness of Tanzania products in the world market.

## 5.4 Governance Factors

Governance factors examined include, regional trade integration, trade policy, investment incentives, bureaucracy, tax collection efficiency, effectiveness of the legal system, land law and administration, and speed of decision-making. **Figure 5.12** shows that 58 percent of investors had favourable opinion of governance factors and the same percentage of investors held this opinion at year 2000. However, specific factors reveal mixed perceptions with favourable opinion given to investment incentives and speed of decision-making by TIC and BOT. On the other hand, unfavourable opinion was expressed on bureaucracy, tax collection efficiency, effectiveness of the legal system and delays in decision making by TRA.

*Figure 5.10:Investors' Rating of Interest Rate in Tanzania*

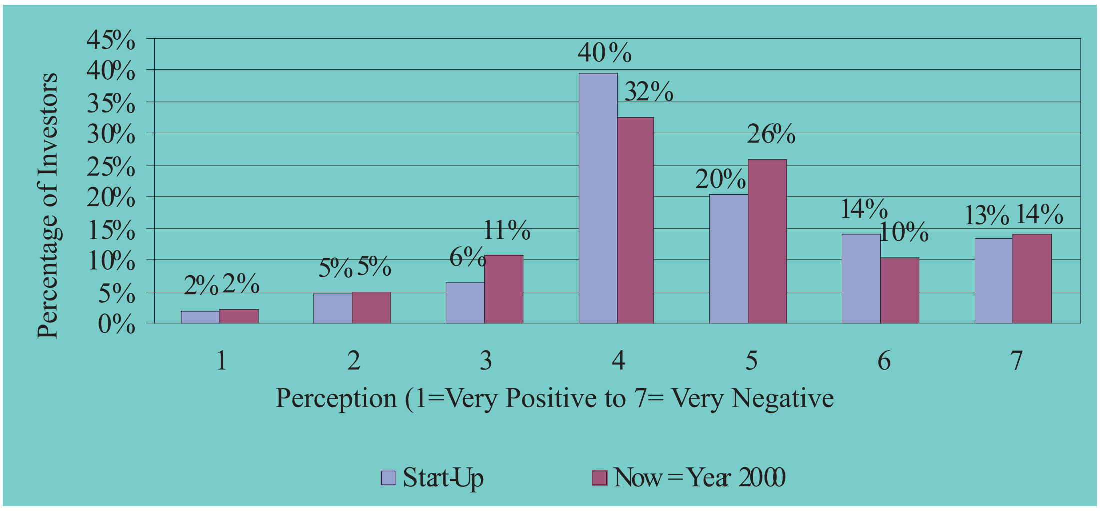


*Figure 5.11:Investors' Rating of Exchange Rate in Tanzania*

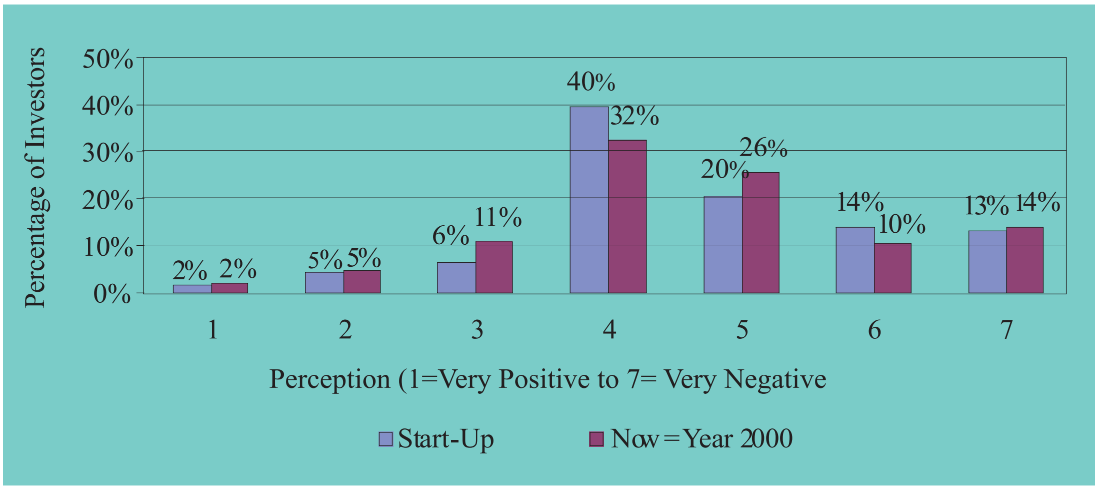
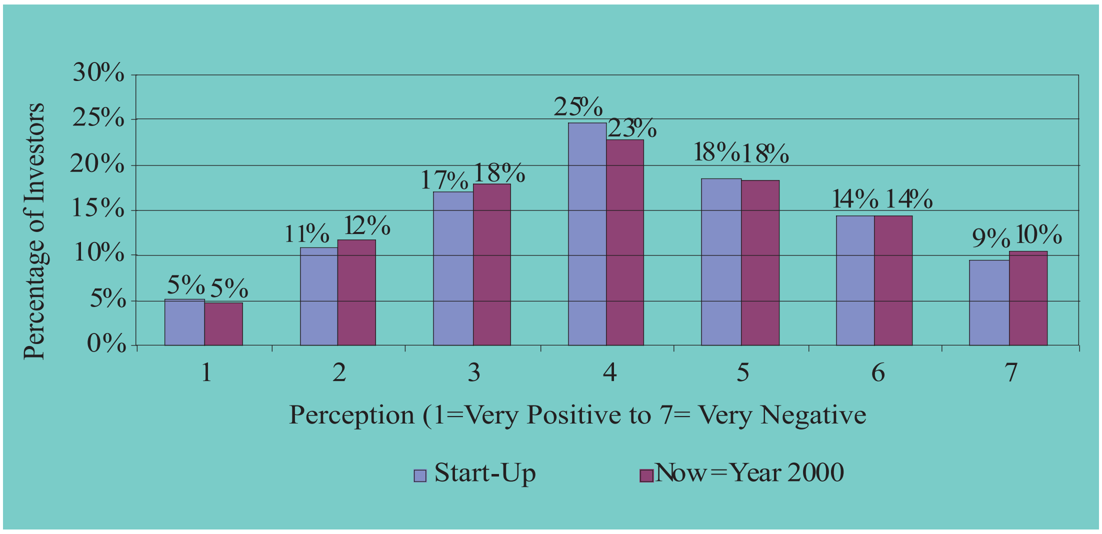



*Figure 5.12: Investors' General Perception on Governance Factors*




### *5.4.1 Investment Incentives*

78 percent of investors at start-up and 80 percent of investors by year 2000 rated the investment incentive package favourably. This follows the review of Investment Promotion Policy that resulted in the establishment of TIC as a one-stop centre. Investment registration procedures at the TIC have since been simplified and became less bureaucratic. TIC is thus praised for offering reasonable incentives to investors and moving steadily towards a truly one-stop centre **(Figure 5.13).**

### *5.4.2 Bureaucracy*

About 90 percent of investors ranked bureaucracy negatively at the start up, a perception that is still maintained by investors despite a slight improvement to 87 percent by the year 2000. Generally investors find Tanzania to be very bureaucratic, with some government departments lacking consistency and coherence in their operations, factors that discourage investment. Despite the establishment of TIC as a one-stop centre in 1997, investors are still obliged to contact other institutions and government agencies in the course of setting up business. It is observed that some government departments have not been friendly to investors, although there has been a slight improvement in recent years. **(Figure 5.14).**

*Figure 5.13:Investors' Rating of Investment Incentives in Tanzania*

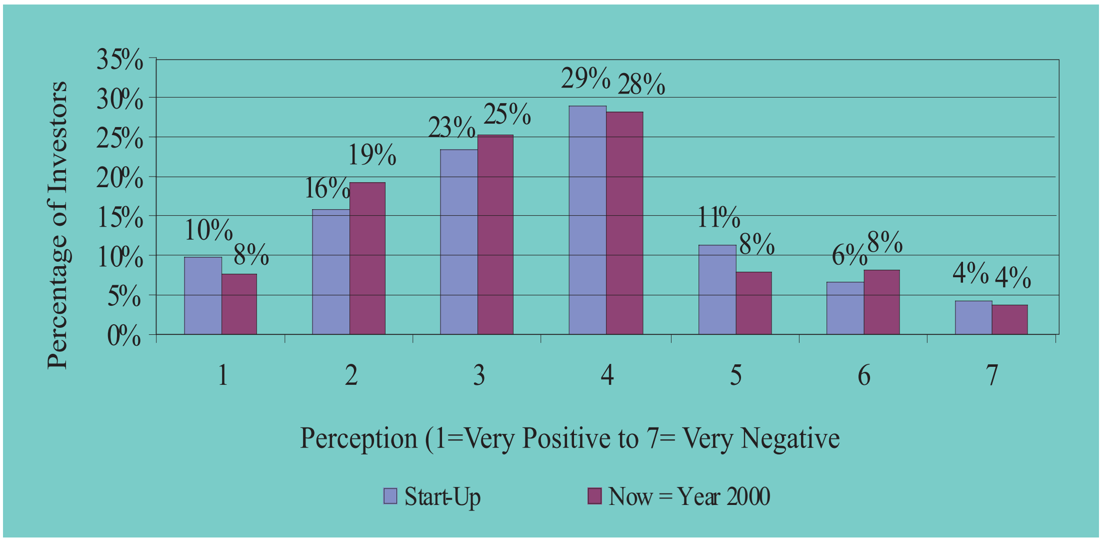
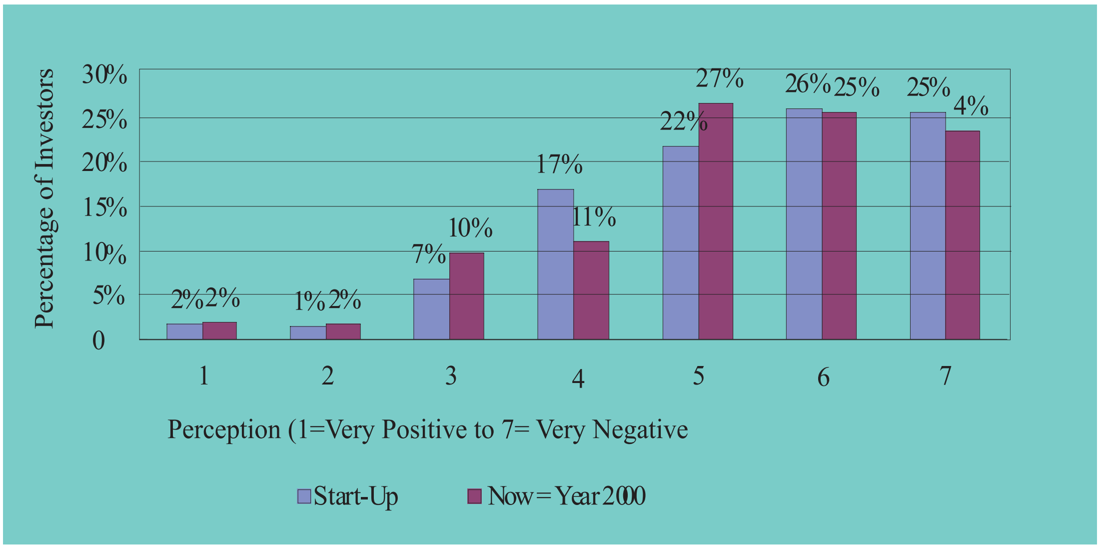


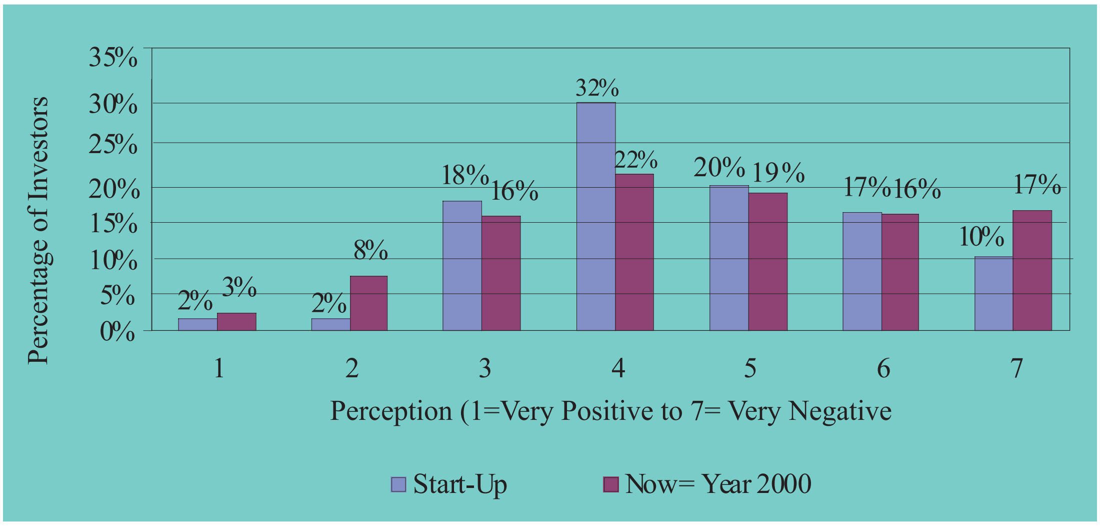

*Figure 5.14:Investors' Rating of Bureaucracy in Tanzania*




### 5.4.3 Tax Collection Efficiency

About 77 percent of investors had a negative perception on tax collection efficiency compared with 74 percent in 2000, indicating a slight improvement **(Figure 5.15)**. Investors acknowledged that the establishment of TRA had improved tax administration but complain of the slow pace in decision-making after the introduction of VAT. However, investors emphasized not to be misunderstood that they do not like taxation, instead they disliked the manner in which tax authorities were treating taxpayers, a situation which created room for corruption. Investors expressed the need to improve efficiency especially in the administration of the Customs and VAT Departments.

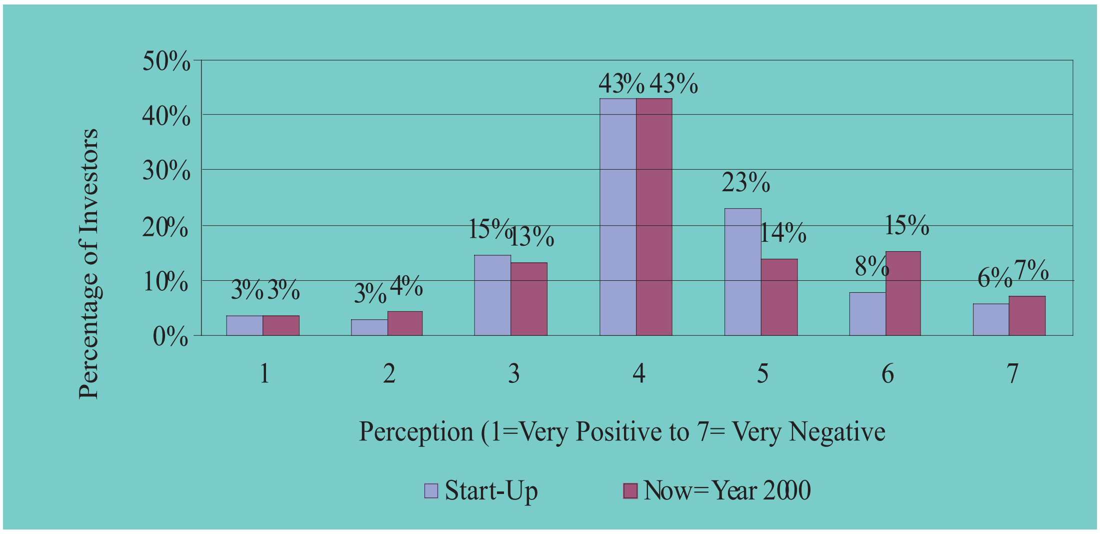
*Figure 5.15:Investors' Rating of Tax Collection Efficiency in Tanzania*




### *5.4.4 Land Law and Administration*

Many investors rated land laws and administration negatively. About 43 percent of the investors at start-up indicated that land law and administration had no impact on their operations. The same proportion of investors maintained the same opinion by year 2000 **(Figure 5.16)**. This is consistent with the fact that many of the investors are not in the agricultural sector which is most impacted by land laws.

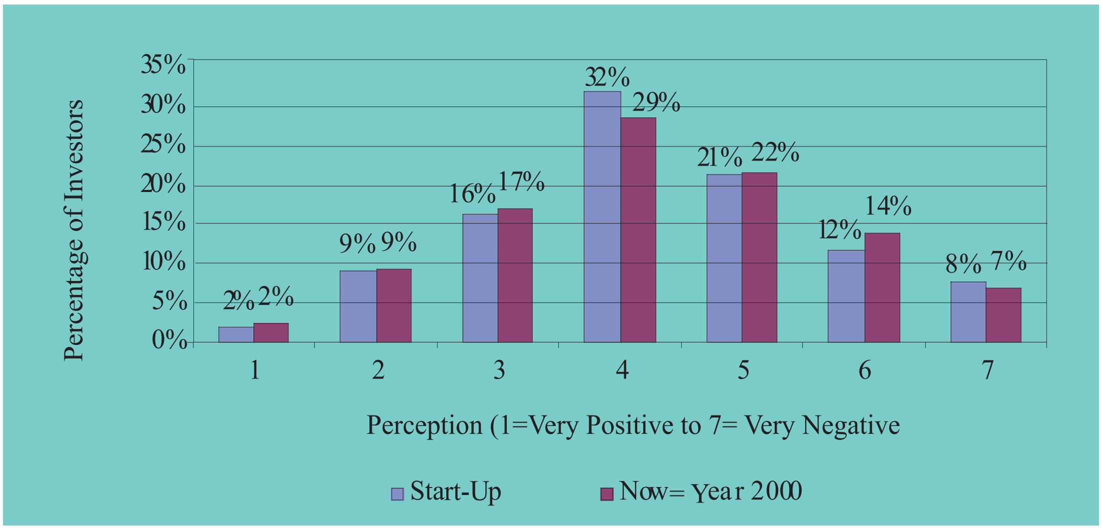
*Figure 5.16:Investors' Rating of Land Law Administration in Tanzania*




### *5.5 Labour Factors*

Labour factors that were examined include labour legislation, employment of expatriates, labour stability, minimum wage, availability of highly educated and skilled employees, and HIV/AIDS. In general, labour factors were perceived by the investors to have had a negative effect on investment both at start-up and in year 2000. 73 percent of investors had a negative opinion at start-up and 72 percent by the year 2000 **(Figure 5.17).**

*Figure 5.17:Investors' General Perception on Labour Factors*

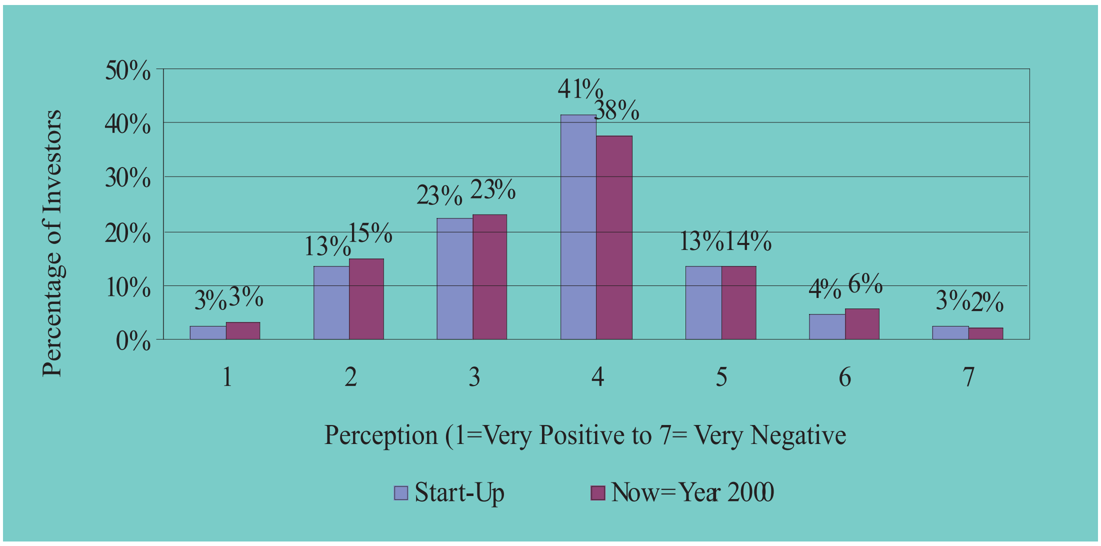



Many investors indicated that the minimum wage legislation had no effect on their business. However, they observed weaknesses with regard to labour legislation that overprotect employees making it difficult for employers to fire unsuitable ones. Limited availability of highly educated and skilled labour was also observed especially in specialised fields such as human resource management, tourism, insurance and finance.

### *5.5.1 Labour Stability*

About 77 percent of the investors found labour to be reasonably stable and the rating improved slightly to 79 percent in year 2000 (Figure 5.18). Strict laws govern Trade Unions in Tanzania. Lockouts are not unusual but not frequent enough to be a concern to investors.

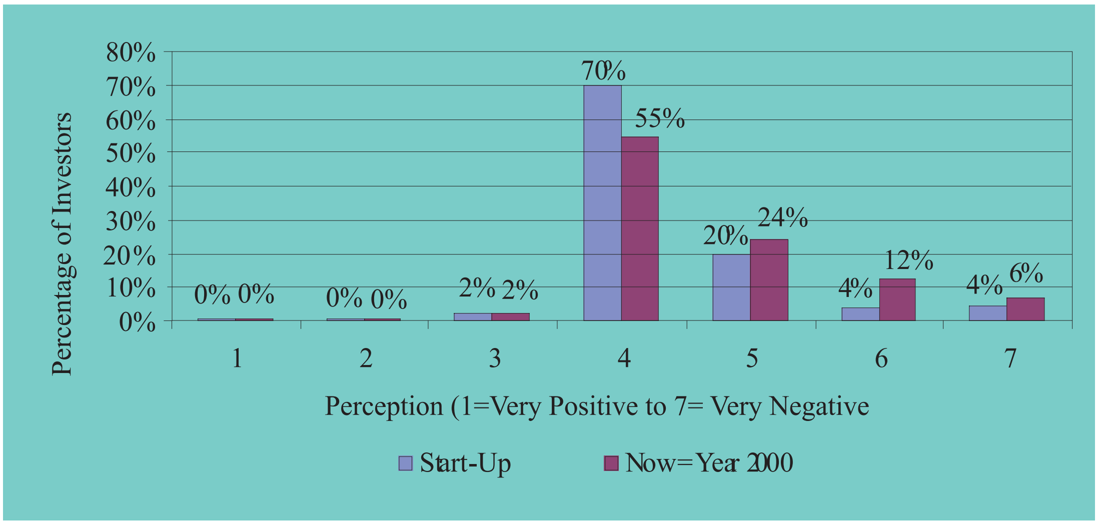
*Figure 5.18:Investors' Rating of Labour Stability in Tanzania*



### 5.5.2 HIV/AIDS

The effect of HIV/AIDS on investment is increasingly becoming a problem. While about 70 percent of investors were neutral about the impact of HIV/AIDS at start-up, only 55 percent of the investors felt the same in year 2000. On the other hand, investors who have been negatively affected by HIV/AIDS increased from 28 percent at start up to 42 percent by 2000. ***(Figure 5.19).***

*Figure 5.19:Investors' Rating of HIV/AIDS in Tanzania*




### 5.6 Diverse Factors

Diverse factors, which were examined, include corruption, internal security, domestic political scenario, regional political scenario, domestic economic situation, global economic situation, market expansion, Zanzibar route and smuggling. Investors singled out corruption, and smuggling as the most disturbing factors while domestic political scenario, and market expansion were the most encouraging factors.

### 5.6.1 Corruption

While investors praised Government efforts in fighting corruption, they pointed a finger at corruption in the Judiciary, Police and Customs and recommended that corruption should be addressed more seriously and culprits penalised accordingly. Out of the 404 investors surveyed, 94 percent found corruption to be a problem at start up. The number has declined to 91 percent by 2000 implying a slight improvement **(Figure 5.20).**

### 5.6.2 Smuggling

Some investors particularly those in the manufacturing sector expressed concern over the high level of smuggling in the country. They complained that some consumer goods smuggled into the country resulted into unfair competition in the market.

### 5.6.3 Domestic Political Scenario and Internal Security

Investors consider Tanzania as a stable country politically, an important factor in attracting investment in the country. 87 percent of investors at start up and 85 percent in the year 2000 consider the country's political stability to have made

Tanzania a safe destination for investments **(Figure 5.21)**. Other studies[19] on capital flows conducted in Tanzania arrived at a similar conclusion. For many years since its independence in 1961, Tanzania has not experienced any serious political turmoil unlike some of its neighbours. Many investors have rated favourably the state of internal security.

***Figure 5.20:Investors' Rating of Corruption in Tanzania***

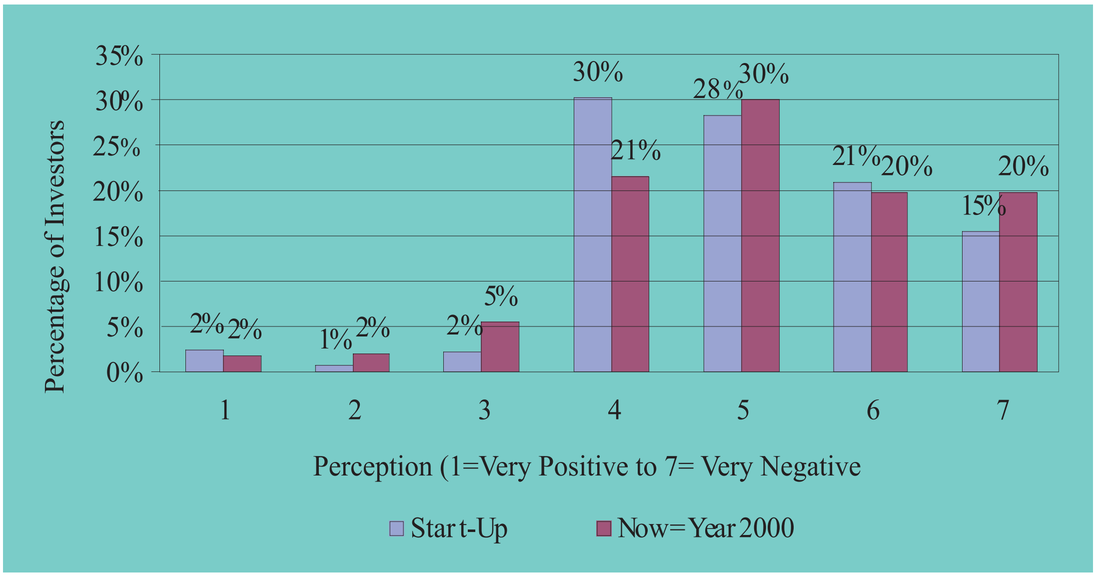
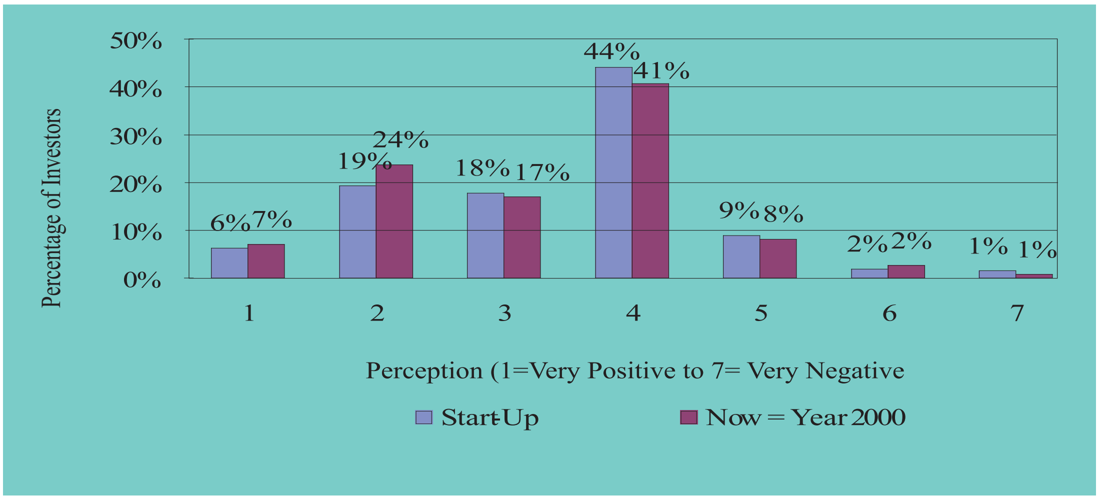



***Figure 5.21:Investors' Rating of Domestic Political Scenario in Tanzania***




### *5.7 General Perception on Investment Climate*

Investors were asked open-ended questions on factors influencing their investment decisions, future trends of the investments and general opinion on Government policies and management of the economy.

[19] For example Dr. Godwin Mjema, Dr. Charles Kimei, Dr. Ben tarimo and Anna Msutze on Capital flows to Tanzania presented to the EFA Workshop on Private Capital Flows to Sub-Saharan Africa, held at Cape Town 14-15 July 1997.

### *5.7.1 Generally how do you find the investment policy and climate in promoting private capital flows in Tanzania?*

Investors were required to provide opinions on whether the investment policy is favourable with regard to their respective sectors. Answers to this question are presented for each sector.

**Table 5.1**, shows that 72 percent of investors across sectors found the investment policies and climate to be favourable. Agriculture and construction had the least favourable investment climate while the only investor in the electricity/water/gas sector found the investment climate to be favourable. For other sectors, the majority of investors found the investment climate favourable, ranging between 72 percent to 82.

*Table 5.1: General Rating of Investment Policies by Sector*

| SECTOR DESCRIPTION | FAVOURABLE (in percentage) |
|---|---|
| Agriculture, Hunting & Forestry | 55 |
| Mining & Quarry | 75 |
| Manufacturing | 72 |
| Electricity, Gas & Water | 100[20] |
| Construction | 53 |
| Wholesale, Retail, Accommodation & Tourism | 79 |
| Transport & Storage and Communication | 79 |
| Financing, Insurance & Real Estate and Business Services | 75 |
| Community, Social & Personal Services | 80 |
| Activities not adequately defined | 76 |
| **Responses out of Total** | **72** |

### *5.7.2 What is the likely direction of your investment in Tanzania in the medium-term?*

**Table 5.2** shows that about 71 percent of investors surveyed plan to expand their businesses in Tanzania in the medium term mainly because of the socio-political stability. Other factors include stable macroeconomic conditions, improved infrastructure, improved market conditions and market expansion, and good governance (efforts towards fighting corruption and labour stability).

*Table 5.2: likely Direction of Investment in the Medium-Term*

| Investment Direction | Number | Percentage |
|---|---|---|
| Expansion | 230 | 71 |
| No Change | 61 | 19 |
| Contraction | 31 | 10 |
| **Total** | **322** | **100** |

[20] By the time of the survey there was only 1 private electricity company that has been registered. It responded positively to the investment climate hence the 100 percent

[21] The percentage given in the table refer to the proportion of investors in each specific sector who found the investment climate favourable and by reference implying how attractive the seector is to investment.

Only 10 percent of investors surveyed indicated the intention to reduce their investments in the medium-term while 19 percent expect to maintain their current levels of investment. The reasons given for the decision to reduce future investment levels in agriculture relate to unfavourable weather, high electricity tariffs and unstable world prices. In the mining sector, the reasons advanced for reduction were high costs of operations and limited access to credit. In the manufacturing sector, problems relate to high electricity costs, tax evasion and inadequate protection of domestic industries and dumping.

### *5.7.3 Specify the most important factors that influenced your initial decision to invest in Tanzania*

More than 60 percent of investors mentioned political stability as the number one factor influencing the decision to invest in the country. Other influencing factors include domestic economic situation, natural endowments and the country's strategic location as a gateway to Eastern, Central and Southern Africa.

### 5.7.4 Identify or tick below the most reliable source of information for your initial investment decisions

Different investors used different sources of information, which influenced their initial decision to invest in Tanzania. The most preferred sources were business associates with 29 percent; Government sources such as TIC with 16 percent and word of mouth and local media with 13 percent and 10 percent respectively. Few investors used donors and international agencies as sources of investment information. One implication of these findings is that there is a need for the Government to enhance its promotional efforts by targeting specific groups of investors using high level executives (including the president) in the promotion strategy as was done in the case of the mining sector.

*Table 5.3:Most Reliable Source of Information for Initial Investment Decisions*

| Source of Information | Number of Responses | Percentage |
|---|---|---|
| Local Media | 65 | 10 |
| International Media | 57 | 9 |
| Government | 106 | 16 |
| Donor and International Agencies | 43 | 6 |
| Business Associates | 190 | 29 |
| Competitors | 54 | 8 |
| Word of Mouth | 89 | 13 |
| Other | 59 | 9 |
| **Total** | **663** | **100** |

### *5.8 Improving Dialogue between Government and the Private Sector*

One of the objectives of conducting private capital flows census is to enhance dialogue between private and public sectors for their mutual benefit.

#### *5.8.1 What measures can the Government undertake to improve investors' willingness to report to the Government on their operations?*

The responses received focused on the survey methodology, confidentiality, education of investors and feedback of survey results. On methodology, most investors found the questionnaire rather long and some questions were to their opinion sensitive. Physical visits were preferred rather than having questionnaires sent through the post. They also preferred short and simple questionnaires. Investors also indicated that they would be more willing to report if the Government was perceived to be solving their problems in time and if they were given feedback on the actions taken. Feedback could be given through regular dialogue with the private sector or through seminars and workshops and supplemented by public notices and radio/television advertisements.

# CHAPTER SIX

# MAIN FINDINGS AND POLICY IMPLICATIONS

This Chapter focuses on the main findings and policy implications based on quantitative and qualitative results.

## *6.1 Quantitative Results*

### *6.1.1 Policy Measures and their Impact on Private Capital Flows*

The level of stock and flows of foreign private capital, FDI in particular, into Tanzania has been increasing during the 1990s. Although historical information on the stock and flows of FDI for the period prior to 1998 has been scanty. Results from the study suggest that policy reforms carried out during the 1990s have attracted additional private capital into Tanzania as shown by the increase in investments approved in TIC from USD 47.3 million in 1990 to USD 767.8 million by year 2000. Furthermore, the increase in the stock of FDI from USD 1,637.7 million in 1998 to USD 2,154.4 million in 1999 shows a positive response to actions taken in the past few years. These investments have further expanded production capacity, increased the scope of forward and backward linkages and enhanced the demand and supply of goods and services in the economy. Thus investment policies put in place during the 1990s have yielded positive results and should be maintained and improved further in order to make Tanzania a major investment destination.

### *6.1.2 Financing Pattern*

The financing pattern indicates that companies with foreign ownership rely more on shareholders' and inter-company borrowing compared to other types of borrowing. For example in 1999, FDI related flows accounted for 82.4 percent and financing from non-FDI accounted for 17.6 percent. Shareholders and inter-company borrowing are more preferred presumably because they are less costly. As regards FDI related stocks, equity financing accounted for 73.0 percent and 67.7 percent during 1998 and 1999 respectively, while debt financing accounted for 27.0 percent and 32.3 percent respectively. In other words, debt/equity ratio on stocks increased from 27:73 in 1998 to 32:68 in 1999. However, for the mining sector debt/equity ratio was as high as 75:25 in 1998 and 80:20 in 1999, indicating a more exposure to foreign creditors.

### *6.1.3 FDI Foreign Debts and Impact on Policy Formulation*

Most of the borrowing was contracted directly between companies with foreign ownership and creditors. Although foreign exchange regulations require the companies through their bankers to report these transactions to BOT for statistical purposes, little information has been submitted for incorporation in the country's balance of payments and in Tanzania's International Investment Position (IIP), and hence it is not taken into account in the course of macroeconomic policy formulation. This matter raises some concern given the magnitude of liabilities that FDI companies have contracted. The study indicates that the stock of inter-company and other types of borrowing increased from USD 742.9 million in 1998 to USD 1,156.7 million by end 1999. The failure to capture these transactions, reduces the quality and reliability of external debt data and impairs macroeconomic policy formulation. In addition, the fact that some companies with foreign ownership maintain offshore accounts, from which, their debt servicing is made directly without exerting pressure on the inter-bank foreign exchange market (IFEM) complicates the matter even further. Therefore, there is need for the Government to set up a mechanism for capturing these outflows.

### *6.1.4 FDI Flows by Country of Origin*

The source of FDI flows into Tanzania has for historical reasons been dominated by the UK, but the recent surge in investment in the mining sector has brought in new investors from Ghana, Australia, Canada and the USA, which together with UK accounted for 59.2 percent of the FDI stock by end 1999. About 77.7 percent of FDI stock was from the ten top countries. The diversity of FDI flows by country of origin has advantages and disadvantages. The most important advantage is that in the event of adverse changes in economic fundamentals in any of the source countries, the effects on Tanzania are not likely to be very substantial. However when it comes to formulating policies it becomes difficult to design a policy that target investors from a particular country or a block of countries such as EU or SADC or EAC.

### *6.1.5 Flows of FDI by Sectoral Distribution*

Flows of FDI in Tanzania are concentrated in the mining and manufacturing sectors which together accounted for 61.5 percent of total stock by end 1999. Substantial FDI flows have also been recorded in the wholesale and retail trade and catering, and accommodation services (tourism related activities), and agriculture, hunting and forestry. The sectors that have attracted least investments are utilities supply (water, gas and electricity), and community, social and personal services. This finding is consistent with the country's privatization[22] , investment and liberalization policies, which have focused more on mining, manufacturing, and tourism. The stock of FDI in agriculture stood at USD 151.4 million, or 7.0 percent of the total by the end of 1999. Agriculture, which accounts for more than 50 percent of GDP, and more than 50 percent of foreign exchange earnings, and employing 70 to 80 percent of the labour force lags behind other sectors in attracting investments. This situation reflects the little efforts made to provide the necessary incentives to attract investors and the limited complementary rural investments that the government is making in the agricultural sector. Current government efforts in fighting poverty could be enhanced if substantial flows of FDI are attracted in the agricultural sector. The low level of FDI in utilities is a reflection of the slow privatization process of water (DAWASA) and electricity (TANESCO) companies. On the other hand, liberalization measure in the financial, and transport, storage and communication sectors have led to a surge in FDI flows in recent years.

### *6.1.6 Flows of FDI by Regional Distribution*

The location of FDI flows in Tanzania is influenced by factors such as availability of raw materials, level and reliability of utilities (water and electricity), transport and communication services and access to markets. The study findings indicate that most of companies with foreign ownership are concentrated in Dar es Salaam, Mwanza, Shinyanga and Arusha regions. By end 1999, the four regions

[22] Privatization of utilities companies is presently underway

together accounted for 76.1 percent of total stock of FDI, with Dar es Salaam accounting for 35.6 percent, which shows that most of the major privatized manufacturing companies are located in Dar es Salaam. On other hand most of the mining activities are concentrated in Shinyanga, Mwanza and Mara regions, while all fish processing companies are located around Lake Victoria in Mwanza and Mara regions. A substantial number of companies with foreign ownership are also located in Arusha, Morogoro, Iringa, Tanga, Tabora, Kilimanjaro, and Mbeya, but very few investments are located in Dodoma, Pwani, Mtwara Lindi, Ruvuma, Rukwa, Singida, Kigoma and Kagera. The pattern of the geographical distribution of FDI flows indicates that regions with few national resources and less developed economic infrastructure and social amenities also tend to have less flows of FDI. In order to address the problem of uneven development, the government has to improve basic infrastructure of regions that have resources for attracting FDI. There is also need to enhance mechanisms for promoting private investments at all levels of government (central, regional and local levels) particularly, at the regional level.

### *6.1.7 Income Related Flows*

Dividend payments during 1999 amounted to USD 42.4 million, up from USD 32.4 million in 1997. Interest payment on loans amounted to USD 27.6 million during 1999, of which 60.5 percent was for long-term loans and the remaining 39.5 percent was for short-term loans. This implies that FDI related external debt is dominated by long-term borrowing. Availability of this information on a continuous basis would improve the coverage in the balance of payments and International Investment Position (IIP) of Tanzania.

### *6.1.8 Other Investment Flows (Banks Survey)*

#### Bank Lending Abroad

The study results revealed that bank lending abroad is dominated by short - term bank placement. Long term lending abroad was not recorded due to existing restrictions on capital account transactions. It is unlikely that banks in Tanzania will lend abroad even if capital account restrictions are relaxed because most of the banks are foreign owned with their business focused mainly on the local market. However, high interest rates and other structural problems[23] discourage domestic borrowing and hence banks resources tend to be invested in government papers, which are less risky. The majority of the banks surveyed did not indicate any immediate intention to expand their level of lending abroad but intended to increase their short- term bank placement.

#### Bank Borrowing from Abroad

Only one bank reported information on its borrowing abroad making it difficult to make any remarks of policy significance. However, based on the qualitative survey, most banks clearly stated that they do not expect to increase their borrowing from abroad despite the fact that there are no restrictions on banks that limit their scope of foreign borrowing.

## 6.2 Qualitative (Perception) Results

### *6.2.1 General Macroeconomic and Political Environment*

Many investors acknowledge that macroeconomic environment and

[23] Included are lack of bankable projects, weaknesses in land laws and judiciary, poor creditworthiness of the clientele, lack of risk guarantee mechanism, and absence of credit rating agencies.

political stability are the main factors influencing their decision to invest in Tanzania. The economic reforms undertaken by the government since the mid 1980s have been commended and have increased investors' confidence. The role of monetary policy and fiscal policy in reducing inflation from above 30 percent in the mid 1990s to about 6 percent by mid 2000 was under-scored. However, political stability was singled out as the most important factor.

### *6.2.2 Institutional and Other Reforms*

Despite the fact that institutional reforms that led to the establishment of TIC, PSRC and TRA have contributed towards improvement of the general macroeconomic environment in Tanzania, there are feelings that these reforms have not gone far enough in addressing the problems faced by investors. For instance, there is need to harmonize tax measures between different government departments, for example between TIC and TRA. Land, labor, and legal reforms have also lagged behind the other reforms, thereby undermining the impact of the implemented reforms to the economy. Investors noted that the establishment of the commercial court is a commendable initiative but more needs to be done to improve the regulatory legal framework.

### *6.2.3 Liberalization Policy*

Liberalization policies implemented during the 1990s were perceived to have yielded positive results with investors in the mining and banking sectors expressing strong positive opinion on liberalization policies covering their respective sectors and recommending further reforms including full capital account liberalization. However, investors in the manufacturing sector pointed out some negative experiences of trade liberalization particularly the importation into Tanzania of cheap and substandard products which amounts to dumping, a situation which is perceived to have undermined production of domestic products. The Government should, as a matter of urgency, enact an anti-dumping legislation and effectively implement it.

### *6.2.4 Quality of Economic Infrastructure*

Surveyed companies with foreign ownership were generally satisfied with the quality of telecommunication and banking services in the country; but were much concerned with high cost and unreliability of electricity and water supply services. Tanzania's electricity tariff rates (industrial) are considered the highest among its trading partners in the EAC and SADC regions. The Government should therefore speed up privatization of electricity and water supply companies as well as implement the Songo Songo gas to electricity project in order to improve reliability and efficiency and reduce the cost of electricity in the country. In addition efforts should be increased to improve road infrastructure including rural roads..

### *6.2.5 Financial Factors*

Investors indicated that higher bank lending rates and limited availability of credit undermines the level of their activities. Lending rates of above 20 percent have no relation with inflation of about 6 percent in year 2000, implying that there are imperfections in the market. High lending rates have led to market segmentation whereby only big investors can access the credit at low cost, and adverse selection whereby high-risk investors are the ones that access credit. Government needs to address the factors behind this phenomenon. Banks on their part insist that high interest rates are caused by high risk borrowers, high operational cost and the weaknesses in the land law and judiciary system which make the whole process of registering mortgages and loan recovery cumbersome.

### *6.2.6 Governance Factors*

Bureaucracy in some government departments has been observed as one of the problems investors face despite some improvement in recent years. Investments incentives offered by TIC play a significant role in attracting FDI and the establishment of TIC as a one-stop center has simplified the process of investment registration and made it less bureaucratic. However, investors are still obliged to approach other government departments in the process of licensing their businesses. There is a need to continue strengthening TIC and making it an effective one-stop center for investors. TIC should also establish regional/zonal centers to address problems experienced by investors in the regions. Investors also commended the establishment of TRA, noting that it has improved tax administration but perceived the VAT rate of 20 percent as too high and the speed of decision-making at TRA to be too slow. It is also perceived that corruption in VAT and Customs departments has not been adequately checked and that TRA should speed up decision- making and address corruption in its departments.

### *6.2.7 Labour Factors*

Labour factors, were on average not rated favourably by many investors because labour legislation over- protects employees, there is limited availability of highly educated and skilled labour, and HIV/AIDS is increasingly having a negative effect on labour productivity.

Government should consider reviewing the labour legislation to take into account the concerns of employers. Opportunities for training technical and managerial staff should be expanded and the private sector should be encouraged (e.g. through appropriate incentives) to establish training institutions to complement government efforts. Furthermore, Government in collaboration with the private sector and other stakeholders should step up its HIV/AIDS campaign. The establishment of TACAIDS is an important initiative in this direction.

### *6.2.8 Other Factors*

Corruption was singled out as one of the most frustrating problems affecting investors. While commending the government recent efforts in fighting the malaise, investors are still concerned over the level of corruption in the Judiciary, Police, and Customs departments. There is need therefore, to increase efforts to fight corruption involving the collaboration of other key players.

### *6.2.9 General Perception On Investment Policy*

About 72 percent of investors covered in the study generally expressed a favorable opinion on the quality of the investment policy in Tanzania despite some variation across sectors. While investors in the tourism, transport, finance, mining and manufacturing sectors seem to be comfortable with policies in place, investors in the agriculture, and construction sectors are discontented by the investment environment. These investors observed that current investment policies have not addressed some peculiar features in agriculture and construction. Government should therefore review the investment policy taking into account the observations pointed out by the investors in the specific sectors.

## *6.3 Uses of the Information Collected*

6.3.1 Continuous collection of information on foreign private capital flows builds a reliable database for a country. It is therefore important to establish a reliable framework for collecting, processing and analyzing private capital flows data on an ongoing basis for use by both the public and the private sectors.

6.3.2 The information gathered will be used for the compilation of balance of payments statistics and IIP, investment promotion and macroeconomic policy formulation.

6.3.3 International organisations (e.g. IMF and World Bank) and Donors require this kind of information for compilation and analysis of its impact on global economic stability, to assess the need for donor flows and their role in promoting development in developing economies.

6.3.4 International investors represented mainly by Multinational Corporations(MNC), international financial institutions and credit rating agencies require accurate and timely information for financial assessment of return on investments and for assessing credibility of the recipient countries.

6.3.5 Monitoring capital flows assist governments to strengthen dialogue with the private sector by regularly obtaining perceptions on investment policy and factors affecting investment climate in the country.

# CHAPTER SEVEN

## ASSESSMENT OF THE RESULTS AND THE WAY FORWARD

This chapter examines the implementation of the Private Capital Flows Project and assesses the extent to which the objectives have been met, and identifies implementation gaps (methodological and analytical) and proposes a strategy for the way forward.

### *7.1 Assessment of the Results in Relation to the Objectives*

7.1.1 Objective One: 'to establish an institutional framework to regularly and comprehensively collect data on all types of private capital flows for balance of payments, investment promotion,and macroeconomic policy formulation'.

The following have been achieved:

- Institutional framework involving BOT, TIC, and NBS for monitoring private capital flows data; in particular FDI has been established.
- Built technical capacity across the three institutions for organizing and conducting the survey on private capital flows;
- Information gathering instrument on investors' perceptions has been established and through it, information on investors' perception on investment climate was collected.

7.1.2 Objective Two: 'to strengthen public sector dialogue with private sector by regularly obtaining perceptions on investment policy and factors affecting the investment climate in Tanzania'.

The following were achieved:

- Sensitization Workshop conducted in May 2000, has promoted dialogue between the public and private sectors on issues of investment policy and enhanced the awareness of the private sector on information reporting.
- Instruments for information gathering on investors' perceptions have been established and information on investors' perception on investment climate was collected.
- The census and the methodology employed deepened and widened the scope of personal contact, thereby improving working relationship between the public sector officials and investors.
- The Dissemination Workshop held in December 2001 has enhanced the dialogue by providing feedback of the survey results to the investors/private sector and provided a platform for discussion of policy issues arising thereof.

7.1.3 Objective Three: 'to design private capital flows data base for data processing and analysis'.

The project achieved the following:

- A computer programme for monitoring private capital flows was designed and developed using local expertise.

- Developed technical capacity across the participating institutions to operate, maintain, and update the database on private capital flows.

- Established a database capable of storing and facilitating the processing and analysis of data on private capital flows.

- Established more realistic baseline data on FDI and PI stocks for 1998 to 1999 and flows for 1999.

- Established more realistic income related flows (dividend payments and interest payments on external debt of companies with foreign ownership) for 1999.

## 7.2 Gaps to be filled

Despite the achievements outlined above, there were several gaps identified:

- Survey of PI through the stock exchange was not conducted because the capital account is not fully liberalized.

- Information on outward private capital flows was not surveyed because that part of the capital account is not liberalized.

- Most investors failed to provide information on market values as indicated in the questionnaire and hence most information reported on stocks and flows reflect book values.

- Many investors did not provide separate information for retained earnings and instead it was included in the reported stock/ flow of equity.

- Information on principal repayment of external loans was not captured by the survey.

- Many investors did not provide historical information on investment levels that would help in building up investment data series.

- Private capital flows by locally owned companies were not well covered by the census. The current census focused on companies with foreign ownership.

- Survey on other private capital flows through banks did not provide adequate information due to poor response by the banks. Even where response rate was good, the information provided lacked many details such as sectoral/geographical distribution for borrowing and lending abroad.

## 7.3 Lessons Learnt

The following are the lessons learnt during implementation of the project.

- Institutional coordination has enabled sharing of technical expertise and resources.

- Strong commitment by top management of the institutions and the project team has been instrumental in the successful implementation of the project.

- Creating awareness through sensitization workshop and media publicity has enhanced cooperation of the private sector.

- Physical visits and direct interviews in conducting the survey have enhanced cooperation with the private sector and improved quality of reporting and compliance.

- Participation of international resource persons from DFI has brought in international experience and expertise at the design and implementation stages of the project and this helped to build local capacity in several aspects of this work.

## 7.4 The Way Forward

The following strategies are recommended as a way forward:

- Reviewing and updating the current investors' register to include both local and foreign investors.

- Reviewing the current data collection instrument (FDI) to encompass both foreign direct investment and other private capital flows through banks, and to include all the necessary information and details to fill gaps identified in section 7.2.

- Undertaking a company survey, targeting both locally and foreign owned private companies to collect data/information on all private capital flows (for years 2000 and 2001).

- Establishing a new data collection instrument for Portfolio Investment in preparation for full capital account liberalizaation.

- Strengthening institutional participation and coordination for future monitoring of private capital flows.

- Enhancing partnership between the private and the public through a continuous process of dialogue and information sharing.

- Provision of adequate funding for future surveys by all concerned institutions.. Donor funding should only supplement shortfalls in local resources.

- Integrating the developed monitoring system for private capital flows in the national monitoring frameworks so that the system is streamlined and becomes part and parcel of the data compilations of TIC and NBS.

- Inclusion of Zanzibar in future surveys.

- Deciding on institutions responsible for future collection and compilation of private capital flows data.

- Deciding on how private capital flows data should be collected in a more sustainable manner.

- Deciding on the criterion to be used in determining the sample for the future sample surveys.

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It is important to be familiar with the following terminology and the relationship between the terms before reading the full report.

*Balance of Payments (BOP)* is an accounting statement designed to provide, for a specific period of time, a systematic record of an economy's transactions with the rest of the world. BOP refers to transactions between residents and non-residents for a period of one year. It is a statistical statement that brings together inflows and outflows of transactions classified under appropriate components, in two accounts – the current account and capital & financial accounts. BOP data are therefore concerned with transactions between residents and non-residents and NOT with the currency of transaction. Typically, a transaction in foreign currency between two residents of any country would not be considered a BOP transaction.

*Book values* Value of an asset as recorded in the books of account of an organization, usually the historical cost of the asset reduced by the amounts written off for depreciation. If the asset has ever been revalued, the book value will be the amount of the revaluation less amounts subsequently written off for depreciation. Except at the time of purchase of the asset, the book value will rarely be the same as the market value of the asset.

*Dividends* are income on equity.

*Equity* means shares in companies, and equivalent ownership interest in unincorporated enterprises. Foreign Direct Equity Investment denotes ownership of 10 percent or more of the ordinary shares, voting power, or equivalent in an enterprise, by someone resident in another economy.

*Estimated - Market value:* Market values or market prices are used for valuing transactions. This is the amount of money that a willing buyer pays to acquire something from a willing seller, when such an exchange is one between independent parties and on the basis of commercial considerations only. This is the best measure of economic value. The actual price at which transactions are recorded in the books of the transactors will be the market price – or a close approximation thereof. However, these transactions may be between related companies – which could impact on the "commercial consideration" of market values. Related companies in different countries may charge transfer prices to each other (different to what they would have charged independent parties) so as to shift profits between enterprises and countries, and minimise taxes. Market values are usually difficult to estimate. The Preferred techniques of calculating market values (particular to equity) include stock exchange valuations of listed companies, auditor's estimates of market values, a recent purchase or sale between directors of the company, Director's estimate, Financial Manager's estimate, and accountant's estimate.

*Country of Origin (of investment):* is associated with the residence of the shareholders where main decisions on the operations of a company are made.

*Financial Instruments:* These are instruments/special documents that are used to facilitate financial transactions e.g. treasury bills, bonds, debentures, stocks etc.

*Flows:* Flow is a change in stock position and it takes place during a period of time. Private Capital Inflows can be seen as an increase in international indebtedness (liabilities) to a country's private sector during a specified period of time. This constitutes foreign investment in an enterprise. Capital Outflows can similarly be seen as an increase in country's Investment (Assets) abroad. This also implies Investments abroad by a domestic enterprise. ***Categories:*** Flows fall under three major categories namely, transactions, holding gains or loses and other changes in Assets. Transactions are economic exchange involving two economic entities (e.g. a foreign and a local enterprise). It may be worth noting that all transactions are flows but not all flows are transactions. Holding gains and loses (also known as valuation changes or capital gain/loses) are those types of flows that involve change in stock position that is due to price changes of an asset, but not a result of economic interactions. These are types of flows which are not transactions thus not recorded in BOP.

*Foreign Direct Equity Investment (FDEI)* denotes ownership of 10 percent or more of the ordinary shares, voting power, or equivalent in an enterprise, by someone resident in another economy.

*Foreign Direct Investment* (FDI) is defined as a case where a resident entity in one economy (creditor) acquires lasting interest in an enterprise in another economy (recipient) with significant degree of influence. Usually FDI is in the form of ownership of means of production like factories or equity share including equity purchase, reinvested earnings and inter-company loans and debt transactions. FDI in the census form is obtained by summing up: new equity investment Q5 plus reinvested earnings in Q6 plus the sum of {shareholder and intra-company loan (long term) + shareholder and intra-company borrowing (short-term) + supplier's credit from related company (short term)} in Q8.

*Foreign Portfolio Equity Investment (FPEI)* is defined as a case where a shareholder owns less than 10 percent of equities in an enterprise.

*Foreign Portfolio Investment (FPI):* - Foreign Portfolio Investment (FPI) are purely financial assets, which include, Foreign Portfolio Equity Investment (FPEI), Investments in Bonds, Money market instruments and Financial derivatives other than the items included in the definition of foreign direct investment.

*International Standard Industrial* Classification (ISIC) is a standardised way of dis-aggregating economic activities for international data comparison purposes. For the current census, this has been modified with further dis-aggregation to better cover activities in Tanzania and remains consisted with international norms.

*Net asset values* (the difference between assets and liabilities)

*Non-equity* means all other financial instruments including loans, trade credit and supplier credit (for goods and services), bonds, debentures, notes, money market instruments, shareholder and inter-company loans, arrears of debt or interest, and deposits.

*Regional Classifications:* A way to define geographical distribution of economic activities, enterprises and subsidiaries in Tanzania. e.g. Dar es Salaam, Arusha, Mwanza, Mbeya, Tanga etc.

*Reinvested (or retained) earnings (profits)* These are the direct investor's share (calculated as a proportion of direct equity held) of that part of the earnings (after tax on earnings) that are not distributed as dividends by the direct investment enterprise, together with earnings of branches that are not remitted to the direct investor. This is a component of FDI.

*Related Companies:* Related companies with a direct investment enterprise (10 percent of ordinary shares) are subsidiaries (a non-resident owner owns more than 50 percent of the shares) and associates (50 percent or less). Branches (unincorporated enterprises wholly owned by non-residents).

*Resident, Non Resident and country of Residence:* A resident is any individual, enterprise, or other organisation ordinarily residing in Tanzania. In other words, its centre of economic activity is in Tanzania. All other entities are regarded as non-residents. For statistical purposes, an individual who lives in Tanzania for more than a year is considered to be a resident, regardless of the individual's citizenship or nationality. An enterprise incorporated in Tanzania is considered a resident of Tanzania irrespective of the domicile of the owners of the enterprise. A branch of a foreign company operating in Tanzania for more than a year is treated as a local company.

*Shareholder and inter-company loans / borrowing:* This is the borrowing or lending of funds (among related companies) between the direct investor (non-resident), and the direct investment enterprise (resident). These transactions can create or dissolve investment as well as maintain, expand or contract it.

*Stocks:* Stock refers to position at a point in time (e.g. end of year position). Stocks can be divided into assets and liabilities.

*Supplier's Credits:* These include trade credits. On one hand they are claims from the direct extension of credit by suppliers of goods and services to buyers, while on the other hand they are liabilities of buyers of goods and services. In addition this concept include advance payments for work in progress, or to be undertaken, associated with such transactions. Most are short term.

# APPENDIX 1: METHODOLOGY

A series of activities that were undertaken in conducting the study are chronologically explained below. First and foremost is the institutional set-up for conducting the study, and a review of the lessons drawn from the pilot survey conducted a few years back. Issues related to sensitisation seminar and a training workshop will also be highlighted. This will be followed by the methods employed in the conduct of the study, including issues on data base development for data capturing and processing. Lastly, analytical methods used in the calculations with regards the quantitative results will be explained.

## 1. Institutional Set-up for the Study

The Bank of Tanzania (BOT), in close collaboration with Tanzania Investment Centre (TIC) and the National Bureau of Statistics (NBS), conducted the study. The reasons for the co-operation include the following:

- To share expertise and experience
- Efficient use of available man power at headquarters and the regions
- Capacity building for this and future surveys
- Joint ownership of the project
- Used a combined legal authority for the conduct of the survey with anticipation of improving compliance

The study was co-ordinated by the BOT through its department of Trade, Finance and Investment Policies.

## 2. Lessons from the Pilot Survey

The Pilot Survey was intended to measure the magnitude and nature of FDI flows within the Eastern and Southern African region. It was carried out in Tanzania between November 1998 and July 1999 and was organized by the External Finance for Africa and conducted by the BOT in collaboration with the TIC. The survey involved 101 companies most of them in Dar es Salaam, and a few others in the regions. The survey was conducted by use of questionnaires that were designed to cover a wide range of information, both qualitative and quantitative. It also involved direct interviews with top executives for most of the companies visited in and around Dar es Salaam area. The response rate for this survey was 62 percent. The BOT and TIC used this survey as a capacity building and learning exercise for conducting a more comprehensive study. Most of the practices adopted for the present study were drawn from the lessons learned in the Pilot Survey.

## 3. Initial Preparations for the Census

For the study to commence smoothly, initial preparations were necessary. The preparations were meant to enable the stakeholders to properly understand their roles and responsibilities in the study. Hence, a sensitization seminar and a training workshop were convened for that purpose.

### *3.1 Sensitization workshop*

Sensitization workshop was held in Dar es Salaam on the 8$^{th}$ of May 2000. The purpose of the one-day sensitization workshop was to promote and launch the study of foreign private capital flows by creating awareness among senior private sector representatives, of the importance of data collection for both government and the private sector. More specifically to:

- Introduce and to impress upon the private sector, data requirements by the public sector (i.e. BOT, TIC and NBS) and their role and mandate in collection of such data.

- Stress the importance of the required data for balance of payments, investment promotion, and macroeconomic policy formulation.

- Brief private sector on conclusions from the last (pilot) survey as a means of providing feedback to the private sector.

- Provide a forum for private investors to air their concerns in supplying data.

- Test the suitability of survey forms by disseminating the forms to them for information and comments.

The Sensitization Workshop that was officiated by His Excellency Mr. B. Dinwiddy, the British High Commissioner to Tanzania, was well attended by Chief Executives of BOT, TIC and NBS and their staff. In attendance were also executives from the private sector, other public institutions, and donor community. A total of 20 executives from the Tanzania business community attended and participated actively in the discussions. The International resource persons comprised Mr. Nils Bhinda from External Finance for Africa (EFA), Mr. Hendrie Scheun from the Bank of Namibia, and EFA Director, Dr. Mathew Martin.

### 3.2 Training workshop

Training workshop followed immediately from 9th May 2000 to 12th May 2000 with the purpose to train the enumerators on various stages of survey procedure. Training workshop drew 9 participants from BOT, 7 from NBS, and 2 from TIC. All BOT and TIC staff were from Headquarters, However, NBS had 3 from Headquarters and 4 from Tabora, Tanga, Kilimanjaro and Mara regions. Resource persons were Mr. Nils Bhinda of EFA, Mr. Hendrie Scheun from Bank of Namibia, Mr. Shaft Mrutu, Mr. Charles Assey and Mr. Modest Kipilimba, all from BOT, Ms. Nakuala Senzia from TIC, and Mathew Chintembo from NBS.

The training was practically focused on every stage of survey implementation. It was conducted through lectures, discussions and working groups. Topics covered include:

- Learning on census implementation from the pilot survey, and other countries

- Devising methods to improve accuracy and detail of investors' register

- Appreciating the importance of legal mandate to collect data, and data confidentiality.

- Training in concepts used in balance of payments in the context of the Foreign Assets and Liabilities (FAL) questionnaire.

- Training in concepts used in balance of payments in the context of the Banking Survey questionnaire.

- Checking data quality through checks built into the survey form, and company financial statements.

- Understanding purpose of, and terminology used in the Investor Perceptions questionnaire.

- Developing interview technique for all enumerators through practical exercises.
- Determining which data entry and

analysis software to use for the present and future surveys.

- Checking the accuracy of data in put by full or sample check, and in-built protection of cells in the computer programme to reduce scope for errors.

- Marketing of the study through media and closing workshop.

- Designing implementation timetable and division of labour for the smooth conduct of the study.

### 3.3 Preparation of investor's register

Following the successful completion of the Workshop, the next task was to prepare investor's register. The intention was to establish an investor's register containing all the necessary information relevant for smooth conduct of the survey. The main source of information for the register is BOT (for banks and other financial institutions), and TIC, Registrar of Companies (ROC)[24], and PSRC for all other investors. The register was meant to cover all establishments that are fully or partially foreign owned. In a nutshell, the exercise of preparing the register was so demanding because file records in some organizations were not organized well and that some records were already in archives. A consolidated list of 1583 establishments that was compiled formed the basis for the study.

### 3.4 Finalization of the Survey Questionnaires

For any survey to be successful, there should be simple and well-designed questionnaires. Advantages of a good questionnaire includes; easy to fill (i.e. being simple and understandable), high possibility of getting accurate and timely data, less time to be consumed while filling, and high response rate. On the other hand, poorly designed questionnaires results into low response rate, low quality data and usually takes longer to complete. In view of the above, the questionnaires for the survey were redesigned based on comments raised by the private sector resource persons and the training workshop participants including international resource persons. The comments raised were helpful in making the questionnaires suited for the intended purposes. Two types of questionnaires were redesigned.

The first questionnaire, in blue papers, was for Foreign Assets and Liabilities (FAL) and was supposed to be filled by either the Chief Executives and/or Chief Accountants or Directors for Finance because they know much about their investments than junior officers. The second questionnaire in green papers was for perception (PER) survey. This was specifically for Chief Executives who know much about existing policies and their impact in their company's operations. The colour for each type of questionnaire paper was made different for easy identification. A supplementary questionnaire was designed to capture private capital data through banks.

### 3.5 Enumerator's Manual

The manual was a tool for guiding enumerators in conducting interviews during the survey. It contained the meaning of different terminologies that were used in the questionnaires as well as explaining the meaning of the questions.

### 3.6 Marketing of the Study

Different approaches were used in marketing the survey including press releases

[24] The register of Companies (ROC) has since been transformed into a government agency and assumed a different name of "Business Registration, and Licensing Agency (BRELA).

and press conferences. Press releases describing the survey and the role of private sector investors in the survey appeared on three different newspapers namely; Daily News, Financial Times and Business Times. In addition, press conferences were held in early July 2000 and mid-August 2000.

## 4. Distribution of Questionnaire

### *4.1 Physical Visits*

The study was conducted to cover all identified establishments in Tanzania with foreign ownership either fully or partial. As already pointed out, the study of 1,583 companies was based on the lists from TIC, BOT, ROC (now BRELA), and PSRC. Questionnaires were distributed to companies located in Dar es Salaam starting from the 12th June 2000, while distributions of questionnaires in the regions started on the 26th June 2000 after substantial progress has had been made in Dar es Salaam. Regional visits were arranged in six different routes as follows:

- Morogoro, Iringa and Mbeya
- Tanga
- Arusha and Kilimanjaro
- Tabora and Shinyanga
- Mwanza and Mara
- Pwani (Coast).

Table 1 below summarizes the distribution of questionnaires.

*Table 1: Distribution of Questionnaire in Da es Salaam and in the Regions*

| REGION | NUMBER OF INVESTORS COVERED | INTERVIEWED | BY POST |
|---|---|---|---|
| Dar es Salaam | 824 | 424 | 400 |
| Morogoro | 51 | 38 | 13 |
| Iringa | 16 | 5 | 11 |
| Mbeya | 9 | 5 | 4 |
| Tanga | 69 | 18 | 51 |
| Arusha | 353 | 149 | 204 |
| Kilimanjaro | 64 | 37 | 27 |
| Tabora | 2 | 0 | 2 |
| Shinyanga | 18 | 13 | 5 |
| Mwanza | 115 | 57 | 58 |
| Mara | 12 | 9 | 3 |
| Pwani | 16 | 6 | 10 |
| **TOTAL** | **1549** | **761** | **788** |

In the course of distributing questionnaires, direct interviews were conducted with senior officials of the companies that were physically visited by the enumerators in Dar es Salaam, Morogoro, Iringa, Mbeya, Tanga, Arusha, Kilimanjaro, Tabora, Shinyanga, Mwanza, Mara and Coast regions. The enumerators explained to the respondents how to complete the questionnaire. Apart from the data collection, discussions between the enumerators and senior executives centered on qualitative aspects of the questionnaire in order to obtain detailed information on investor's perception and the impacts of various policies on their operations.

### *4.2 By post*

Questionnaires were sent by post to companies that could not be located easily for interview with pre-paid envelopes for return. Follow-ups were made by telephone to clarify and/or to assist in filling the questionnaires. All investors including those who were visited were requested to complete and return the questionnaires to either BOT or TIC or NBS.

Since it was not possible to make visits to all regions, only the most important centers with high concentration of foreign investments were covered. Distribution of questionnaire to investors in the rest of the regions was done by post as indicated in Table 2 below:

***Table 2: Distribution of Questionnaire in the Regions - through post***

| REGIONS | NUMBER OF INVESTORS |
|---|---|
| Dodoma | 8 |
| Kagera | 9 |
| Kigoma | 3 |
| Lindi | 2 |
| Mtwara | 5 |
| Singida | 4 |
| Ruvuma | 3 |
| **TOTAL** | **34** |

### 4.3 On-job training and follow ups

In the course of distributing questionnaires in the regions, the trained enumerators spent extra time to train NBS regional staff on how to facilitate the conduct of the interviews. Following the low rate of response during the initial stages of the study, efforts to collect questionnaires were stepped up through physical visits as well as by telephone. As a result of these efforts the response rate improved significantly.

## 5. Development of Software for Data Entry and Processing

### *5.1 The system and manual development*

In the absence of a system to capture and process data on private capital flows in Tanzania, efforts were made by BOT to design one, namely 'Tanzania Private Capital Flows System' (PCFS 2000). In addition a System's Manual was also prepared as a guide to end - users. The system has gone through continuous updates and is now operational.

### *5.2 End-user training workshop*

Between 15$^{th}$ to 19$^{th}$ January 2001 a training workshop was conducted in Morogoro for the purpose of introducing data entry personnel and processors to the newly developed PCFS 2000 System. More specifically the objectives of the Training Workshop were to:

- Cultivate the expertise among the users by providing them with the background to the project and the way forward, introduce key macroeconomic/BOP concepts, examine and interpret questionnaires, stress the importance of the study for BOP, investment promotion and macroeconomic analysis.

- Train end-users on how to use the System by providing basic Ms Access application and data entry and report writing skills.

- To test the System with regard to its suitability in data inputting, accuracy, dependability, reliability and to obtain participant's views on the necessary improvements.

- The training was practical. It focused on the description and analysis of the private capital flows as practical training on the use of Private Capital Flow database.

Training was conducted through lectures, discussions and working groups.

The Training Working was attended by 13 participants from the three participating institutions namely BOT, TIC and NBS.

### 5.3 Data entry, verification and processing

The exercise of data entry started immediately after the Training Workshop in Morogoro ended, and was completed in end February 2001. Data verification was also conducted to ensure consistency and accuracy.

## 6. Survey of Bureau de change

The survey on bureau de change and pension funds was not conducted due to a number of reasons. Bureau de change are mainly moneychangers and have ceased to conduct international transactions. Likewise, pension funds in Tanzania mainly deal with social security and do not have foreign contribution in their capital neither do they invest abroad.

## 7. Analytical Methods

### 7.1 Adherence to international standards

In Chapter three, quantitative data obtained from the study was presented and analysed. The analysis is based on a number of assumptions and basic methodological standards for compilation of private capital flows data. As much as possible, compilation was based on standards outlined in the IMF Balance of Payments Manual Version 5 (BPM5). The manual recommends that private capital flows statistics be compiled as part of balance of payments (BOP) and international investment position (IIP) which require grouping of private capital flows into direct investment, portfolio investment and other investments. On this basis, two types of questionnaires were designed namely foreign assets and liabilities (FAL) for FDI and Portfolio Equity Investment (PI), and banks survey for Other Investments.

According to international data classification standards, FDI stocks and transactions are composed of sub-classifications, namely:

- Equity capital
- Reinvested earnings, and
- Other capital. These are non-equity FDI comprising of:
    - Shareholders and intra-com pany loans, and
    - Suppliers credit from related companies.

Direct investment income is comprised of:

- Income on equity (dividends and profits), and
- Income on debt (interest payments arising from Non-equity FDI)

In the absence of foreign participation in organised financial markets (eg. Stock exchange), portfolio investment is limited to portfolio equity investment.

Other investments include short and long term debt from unrelated companies to companies with or without foreign ownership.

To satisfy these international standards and other analytical considerations, companies with foreign ownership were asked to provide disaggregated information in such a way that it could be classified by source country, by economic sectors or by geographical region in which investment is located in Tanzania. Distinction was made between stocks and flows as well as income related flows.

## 7.2 Computation of FDI

It was revealed in the study that some investors included retained earnings when reporting stock levels for direct FDI equity while others made the distinction between the two. For the sake of consistency, the analysis in this report assumes that retained earnings are automatically included in the amount of direct FDI equity as reported by investors, hence there is no separate item for retained earnings.

## 7.3 Calculating flows

There are two methods of calculating flows namely stock approach, and transaction approach. Stock approach takes the change in the value of stock between successive years as a proxy for flows, while transaction approach considers the sum of the values of all transactions that occurred during a year. Due to inconsistencies observed in the data reported by the investors, a combination of both methods was adopted in calculating flows. All the companies that responded reported stock positions of equity for 1998 and 1999 but very few reported on transactions of new equity for 1999. Reporting of both stocks and flows is important for crosschecking and ensuring consistency in data. It was also noted that most companies reported stock position for non-equity FDI as at end 1999 but some did not report information for end 1998. In general, very few companies reported historical information. Therefore, the change in stock for non-equity FDI between 1998 and 1999 is not reliable. On the other hand, most companies provided information on non-equity (loans) FDI transactions for 1999 only.

In view of the lack of sufficient data in both equity and non-equity FDI, a combination of change in stock (for the case of equity) and transactions (for the case of non-equity FDI) was adopted in calculating FDI flows. The same approach was also used in calculating non-FDI flows. As pointed out earlier, retained earnings were assumed to have been included in the change in stock between 1998 and 1999.

## 7.4 Analysis of perception results

The questionnaire on perceptions required investors to rank the impact of factors on their investment decisions and day-to-day operations. Ranking levels ranged from 1 for “very positive” to 7 for “very negative”. Rank 4 was given for “no effect”.  In order for the analysis of perception scores to be meaningful, rank 4 was taken to mean that the ranked factor could either be negative or positive but with no significant effect perceived. So rank 4’s score was added to the dominant perception. For example if the general perception was negative (as may be depicted by the graph), then the percentage of rank 4 was incorporated in the total negative score and vice versa.

## 7.5 Reporting period

The questionnaire on Foreign Assets and Liabilities (FAL) was aimed at collecting information for the years 1998 and 1999. Additional information was requested for historical data covering the years 1993 to 1997, but most companies did not provide the information especially for1993 to 1997, and therefore analysis done in Chapter three is focused for the years 1998 and 1999. However, in order to get the general trends of foreign liabilities overtime, the scanty data that was obtained for 1995 to1997 was in some isolated cases presented.

## APPENDIX 2:

## STATISTICAL TABLES

### *Table 1: STOCK OF FDI BY COUNTRY OF ORIGIN - 1998*

Millions of USD

| Country | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| UK | 202.6 | 101.6 | 7.8 | 1.8 | 313.8 |
| Ghana | 240.6 | 22.0 | 2.5 | - | 265.1 |
| Australia | 73.1 | 21.0 | 12.1 | - | 106.3 |
| USA | 87.5 | 33.3 | - | 1.4 | 122.2 |
| Netherlands | 105.4 | 0.3 | - | 0.7 | 106.4 |
| Canada | 79.1 | 17.6 | - | - | 96.7 |
| Mauritius | 70.4 | - | - | - | 70.4 |
| Italy | 32.5 | 30.1 | - | 5.5 | 68.1 |
| Bermuda | 28.5 | 28.7 | 2.3 | 1.7 | 61.2 |
| Kenya | 43.8 | 6.1 | 2.4 | 1.5 | 53.7 |
| Malaysia | 2.8 | 35.3 | - | 2.4 | 40.5 |
| Germany | 27.2 | 7.8 | 0.1 | 0.1 | 35.1 |
| Norway | 22.9 | 8.2 | - | 0.4 | 31.5 |
| South Africa | 18.8 | 7.1 | - | 6.5 | 32.4 |
| France | 22.3 | 7.8 | - | 0.2 | 30.2 |
| Denmark | 17.9 | 6.0 | 0.1 | - | 24.0 |
| Luxembourg | 11.1 | 5.4 | - | - | 16.5 |
| Switzerland | 13.5 | 4.6 | 2.1 | 8.1 | 28.3 |
| Sweden | 17.6 | 3.3 | - | 3.7 | 24.5 |
| Isle of Man | 9.8 | 3.2 | - | - | 13.0 |
| IFC | 2.8 | 8.0 | 2.0 | - | 12.8 |
| China | 8.9 | - | 1.0 | - | 9.9 |
| Malawi | 7.7 | 0.8 | 2.0 | - | 10.5 |
| Zambia | 5.5 | 1.2 | 2.0 | - | 8.6 |
| Japan | 3.2 | - | 3.2 | 0.1 | 6.5 |
| India | 0.8 | 3.9 | - | - | 4.7 |
| Saudi-Arabia | 2.9 | 1.2 | - | - | 4.1 |
| Libya | 3.8 | 0.8 | - | - | 4.6 |
| Foreign-Not Specified. | 3.4 | 0.2 | - | 0.1 | 3.7 |
| Kuwait | 0.4 | 3.2 | - | - | 3.5 |
| Ireland | 2.5 | 0.3 | - | - | 2.7 |
| Egypt | 2.6 | - | - | - | 2.6 |
| United Arab Republic | 1.9 | 0.1 | - | 0.2 | 2.2 |
| Virgin Islands (U.S) | 1.0 | 0.9 | - | - | 1.9 |
| Bahamas | 1.9 | - | - | - | 1.9 |
| Channel Islands | 0.3 | 1.6 | - | - | 1.9 |
| Seychelles | 1.7 | - | - | - | 1.7 |
| Greece | 1.5 | 0.2 | - | - | 1.7 |
| Korea | 1.5 | - | - | - | 1.5 |
| Belgium | 1.1 | 0.3 | - | 0.1 | 1.4 |

| Country | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| U.S.S.R | 1.1 | - | - | - | 1.1 |
| Austria | 1.0 | - | - | - | 1.0 |
| Panama | 1.0 | - | - | - | 1.0 |
| Thailand | 0.1 | 0.8 | 0.1 | - | 0.9 |
| Pakistan | 0.8 | - | - | - | 0.8 |
| Cote D'Ivoire | 0.6 | - | - | - | 0.6 |
| Zimbabwe | 0.5 | - | - | - | 0.5 |
| Liechtenstein | 0.5 | - | - | - | 0.5 |
| SAS | 0.5 | - | - | - | 0.5 |
| Yugoslavia | 0.4 | - | - | - | 0.4 |
| Uganda | 0.4 | - | - | - | 0.4 |
| Finland | 0.3 | - | - | - | 0.3 |
| Singapore | 0.2 | - | - | - | 0.2 |
| Swaziland | - | - | - | 0.2 | 0.2 |
| Gibraltar | 0.1 | - | - | - | 0.1 |
| Cyprus | 0.1 | - | - | - | 0.1 |
| Lebanon | 0.1 | - | - | - | 0.1 |
| Sri Lanka | 0.1 | - | - | - | 0.1 |
| Dominica | 0.1 | - | - | - | 0.1 |
| Quatar | 0.1 | - | - | - | 0.1 |
| Sudan | - | 0.1 | - | - | 0.1 |
| Indonesia | - | - | - | - | - |
| Senegal | - | - | - | - | - |
| Guinea | - | - | - | - | - |
| Yemen | - | - | - | - | - |
| Sierra Leone | - | - | - | - | - |
| European Community | - | - | - | - | - |
| **TOTAL** | **1,190.7** | **372.8** | **39.7** | **34.6** | **1,637.7** |

*Table 2: STOCK OF FDI BY COUNTRY OF ORIGIN-1999*

Millions of USD

| Country | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| Ghana | 240.0 | 155.0 | 3.7 | - | 398.7 |
| UK | 221.8 | 108.9 | 5.3 | 1.4 | 337.4 |
| Australia | 162.2 | 61.5 | 13.2 | 0.5 | 237.3 |
| Canada | 155.2 | 17.9 | 0.3 | - | 173.4 |
| USA | 96 | 32.3 | - | 0.9 | 129.2 |
| Netherlands | 108.7 | 0.9 | - | 0.6 | 110.1 |
| Mauritius | 84.2 | - | 0.2 | - | 84.4 |
| Kenya | 57.9 | 6.3 | 15.8 | 2.9 | 82.8 |
| Bermuda | 28.5 | 30.7 | 4.2 | 1.9 | 65.2 |
| Italy | 21 | 30.9 | - | 2.7 | 54.6 |

| Country | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| South Africa | 27.3 | 4.8 | 18.1 | 2.6 | 52.8 |
| Germany | 27.4 | 7.8 | 9.7 | 4.4 | 49.2 |
| Malaysia | 4.5 | 35.3 | - | 4.8 | 44.6 |
| Norway | 25.1 | 9.6 | - | 0.4 | 35.2 |
| Denmark | 17.7 | 8.1 | 3.4 | - | 29.2 |
| France | 24.5 | 2.9 | - | 0.3 | 27.7 |
| Switzerland | 16.5 | 0.6 | 0.3 | 9.7 | 27 |
| Luxembourg | 4.2 | 17.9 | - | - | 22.1 |
| Sweden | 18.2 | 1.4 | - | 0.4 | 2- |
| Panama | 15.1 | 1.2 | - | - | 16.3 |
| Foreign-Not Specified. | 8.7 | 1.9 | 1.6 | 3.4 | 15.7 |
| Isle of Man | 9.9 | 4.2 | - | - | 14.1 |
| IFC | 4.8 | 9 | - | - | 13.8 |
| China | 9.8 | - | - | - | 9.8 |
| Malawi | 7.7 | 1.9 | 0.1 | - | 9.7 |
| Japan | 3.2 | - | 3.4 | 2.3 | 9 |
| Saudi-Arabia | 4.6 | 2.1 | - | - | 6.7 |
| Lebanon | 4.6 | 1.3 | - | - | 5.8 |
| Zambia | 5.5 | - | - | - | 5.5 |
| India | 1.1 | 4.2 | - | - | 5.3 |
| Belgium | 4.8 | 0.3 | - | - | 5.1 |
| Virgin Islands(U.S) | 1 | 1.9 | - | 1.3 | 4.2 |
| Egypt | 3.4 | 0.7 | - | - | 4.1 |
| Austria | 3 | - | - | 0.8 | 3.8 |
| Libya | 3.8 | - | - | - | 3.8 |
| Ireland | 2.5 | 1.3 | - | - | 3.7 |
| Pakistan | 3.7 | - | - | - | 3.7 |
| Channel Islands | 0.7 | 2.7 | - | - | 3.4 |
| Barbados | 3 | - | - | - | 3 |
| Kuwait | 0.4 | 2.6 | - | - | 2.9 |
| United Arab Republic | 2 | 0.5 | - | 0.3 | 2.9 |
| U.S.S.R | 1.3 | 0.2 | - | 1.3 | 2.8 |
| Uganda | 0.4 | 2 | - | - | 2.3 |
| Greece | 1.8 | 0.2 | - | - | 2.1 |
| Cote D’Ivoire | 2 | - | - | - | 2 |
| Bahamas | 1.9 | - | - | - | 1.9 |
| Seychelles | 1.7 | - | - | - | 1.7 |
| Swaziland | - | - | - | 1.6 | 1.6 |
| Korea | 1.5 | - | - | - | 1.5 |
| Yemen | - | - | - | 1.2 | 1.2 |
| SAS | 0.8 | - | - | - | 0.8 |
| Zimbabwe | 0.5 | - | - | - | 0.5 |
| Liechtenstein | 0.5 | - | - | - | 0.5 |
| Cyprus | 0.4 | - | - | - | 0.4 |
| Yugoslavia | 0.4 | - | - | - | 0.4 |
| Finland | 0.3 | - | - | - | 0.3 |
| Singapore | 0.2 | - | - | - | 0.2 |
| Guinea | 0.2 | - | - | - | 0.2 |
| Gibraltar | 0.2 | - | - | - | 0.2 |
| Quatar | 0.2 | - | - | - | 0.2 |
| Sri Lanka | 0.1 | - | - | - | 0.1 |

| Country | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| Hong Kong | - | - | 0.1 | - | 0.1 |
| Dominica | 0.1 | - | - | - | 0.1 |
| Thailand | 0.1 | - | - | - | 0.1 |
| Sierra Leone | 0.1 | - | - | - | 0.1 |
| Sudan | - | 0.1 | - | - | 0.1 |
| Indonesia | - | - | - | - | - |
| Senegal | - | - | - | - | - |
| Israel | - | - | - | - | - |
| **TOTAL** | **1,458.60** | **570.9** | **79.4** | **45.** | **2,154.40** |

*Table 3: STOCK OF FDI BY REGION-1998*

Millions of USD

| Region | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| Dar es Salaam | 460.4 | 157.6 | 15.5 | 16.3 | 649.8 |
| Mwanza | 270.1 | 45.1 | 12.1 | - | 327.4 |
| Arusha | 111.2 | 40.2 | 6.2 | 1.5 | 159.2 |
| Mara | 66.7 | - | - | - | 66.7 |
| Shinyanga | 90.2 | 19.3 | - | 1.7 | 111.2 |
| Morogoro | 110.3 | 5.2 | 3.8 | - | 119.3 |
| Iringa | 27.6 | 56.0 | 0.2 | 5.1 | 88.9 |
| Tanga | 32.7 | 15.8 | 1.8 | - | 50.3 |
| Kilimanjaro | 13.2 | 4.0 | - | 8.1 | 25.3 |
| Tabora | 0.8 | 20.9 | - | - | 21.7 |
| Mbeya | 5.5 | 5.4 | - | - | 10.9 |
| Dodoma | - | 3.4 | - | 1.9 | 5.3 |
| Pwani | 1.9 | - | - | - | 1.9 |
| Ruvuma | - | - | - | - | - |
| **TOTAL** | **1,190.7** | **372.8** | **39.7** | **34.6** | **1,637.7** |

*Table 4: STOCK OF FDI BY REGION-1999*

Millions of USD

| Region | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| Dar es Salaam | 547.3 | 163.8 | 35.4 | 15.5 | 761.9 |
| Mwanza | 295.2 | 198.7 | 13.5 | 10.2 | 517.7 |
| Shinyanga | 176.2 | 18.1 | 1.5 | 1.9 | 197.6 |
| Arusha | 129.0 | 42.9 | 10.5 | 2.3 | 184.7 |
| Mara | 143.7 | - | - | - | 143.7 |
| Morogoro | 79.7 | 15.4 | 14.4 | - | 109.5 |
| Iringa | 29.4 | 60.5 | 0.3 | - | 90.3 |

| Region | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| Tanga | 34.5 | 17.0 | 3.6 | - | 55.1 |
| Tabora | 0.8 | 42.2 | - | - | 43.0 |
| Kilimanjaro | 14.9 | 4.6 | - | 12.5 | 32.0 |
| Mbeya | 5.8 | 2.1 | 0.3 | - | 8.3 |
| Dodoma | - | 4.3 | - | 2.9 | 7.2 |
| Pwani | 1.9 | 1.3 | - | 0.1 | 3.4 |
| Ruvuma | - | - | - | - | - |
| **TOTAL** | **1,458.6** | **570.9** | **79.4** | **45.5** | **2,154.4** |

*Table 5: STOCK OF FDI BY SECTOR - 1998*

Millions of USD

| Sector | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| Mining & Quarry | 473.1 | 81.3 | 12.1 | 1.7 | 568.2 |
| Manufacturing | 334.5 | 57.4 | 6.9 | 8.3 | 407.1 |
| Wholesale, Retail Trade, Catering & Accommodation Services | 187.3 | 46.2 | 8.6 | 9.4 | 251.5 |
| Financing, Insurance, Real Estate & Business Services | 99.1 | 32.4 | - | 1 | 132.5 |
| Agriculture, hunting & forestry | 52.97 | 49.47 | 1.91 | 1 | 105.34 |
| Construction | 38.45 | 45.64 | 3.34 | 5.59 | 93.02 |
| Transport, Storage &Communication | 36 | 1.9 | 6.7 | 3.2 | 47.7 |
| Electricity, Gas &Water | -6 | 35.3 | 0 | 0 | 35.36 |
| Community, Social & Personal Services | 1.06 | 0.34 | 0 | 0 | 1.4 |
| Others | 22.61 | 2.86 | 0 | 3.89 | 29.36 |
| **TOTAL** | **1,245.00** | **352.8** | **39.6** | **34.1** | **1,671.50** |

*Table 6: STOCK OF FDI BY SECTOR - 1999*

Millions of USD

| Sector | Equity | Long-term | Short-term | S/Credit | Total |
|---|---|---|---|---|---|
| Mining & Quarry | 583 | 265.5 | 14.2 | 2.1 | 864.8 |
| Manufacturing | 363.5 | 67.8 | 31.6 | 15.4 | 478.2 |
| Wholesale, Retail Trade, Catering & Accommodation Services | 215.7 | 5- | 15.3 | 13.2 | 294.1 |
| Financing, Insurance, Real Estate & Business Services | 112.7 | 32.8 | - | 0.6 | 146.1 |
| Agriculture, hunting & forestry | 67.9 | 58.8 | 4 | 4.6 | 135.3 |
| Construction | 46 | 51.3 | 7.9 | 3.3 | 108.5 |
| Transport, Storage & Communication | 41.9 | 5.1 | 6.3 | 5.5 | 58.7 |
| Electricity, Gas & Water | 0.1 | 35.3 | - | - | 35.4 |
| Community, Social & Personal Services | 1.4 | 0.5 | - | - | 1.8 |
| Others | 26.5 | 3.9 | 0.2 | 0.9 | 31.5 |
| **TOTAL** | **1,458.60** | **570.9** | **79.4** | **45.5** | **2,154.40** |

*Table 7: STOCK OF NON-FDI LIABILITIES BY COUNTRY OF ORIGIN-1998*

Millions of USD

| Country | Portfolio | Long-Term | Short-Term | S/Credits | Total |
|---|---|---|---|---|---|
| Malaysia | - | 83.8 | - | - | 83.8 |
| USA | 16.7 | 14.5 | 6.0 | 3.9 | 41.1 |
| Australia | - | 16.9 | 1.2 | 5.0 | 23.0 |
| Bermuda | 0.1 | 17.0 | 0.4 | 5.0 | 22.5 |
| South Africa | - | 4.4 | - | 17.8 | 22.2 |
| Kenya | 1.1 | 5.6 | 11.0 | 0.9 | 18.6 |
| UK | 1.5 | 6.6 | 6.4 | 1.3 | 15.8 |
| Switzerland | 0.1 | 1.8 | 4.2 | - | 6.1 |
| Mauritius | 0.1 | 0.8 | 5.0 | - | 5.9 |
| France | 2.4 | 2.5 | - | - | 4.9 |
| IDA | - | 4.8 | - | - | 4.8 |
| Germany | 0.1 | - | 2.9 | 0.9 | 3.9 |
| Netherlands | 3.6 | 0.2 | - | - | 3.8 |
| IFC | - | 3.2 | - | - | 3.2 |
| Norway | - | 2.3 | - | - | 2.3 |
| Italy | - | - | - | 2.3 | 2.3 |
| Belgium | - | - | - | 1.8 | 1.8 |
| Channel Islands | - | 1.4 | - | - | 1.4 |
| EADB | - | 1.3 | - | - | 1.3 |
| Canada | 0.1 | 0.1 | - | 0.7 | 0.9 |
| Isle of Man | - | - | 0.9 | - | 0.9 |
| Indonesia | - | - | - | 0.6 | 0.6 |
| India | 0.4 | - | - | 0.1 | 0.5 |
| Swaziland | - | - | - | 0.4 | 0.4 |
| Denmark | - | - | - | 0.2 | 0.2 |
| Japan | - | - | - | 0.2 | 0.2 |
| Greece | - | - | - | 0.1 | 0.1 |
| Sudan | - | - | - | 0.1 | 0.1 |
| Sweden | - | - | - | - | - |
| Other | 0.7 | 3.5 | 12.8 | 6.2 | 23.2 |
| **TOTAL** | **26.9** | **170.8** | **50.9** | **47.3** | **295.9** |

*Table 8: STOCK OF NON-FDI LIABILITIES BY COUNTRY OF ORIGIN - 1999*

Millions of USD

| Country | Portfolio | Long-Term | Short-Term | S/Credits | TOTAL |
|---|---|---|---|---|---|
| Malaysia | - | 104.1 | - | 7.6 | 111.7 |
| UK | 1.7 | 62.9 | 6.3 | 3.2 | 74.1 |
| Germany | 0.1 | - | 45.7 | 0.2 | 46.0 |
| USA | 16.8 | 12.8 | 9.0 | 6.5 | 45.1 |
| Australia | - | 20.2 | 7.0 | 7.8 | 35.0 |

| Country | Portfolio | Long-Term | Short-Term | S/Credits | TOTAL |
|---|---|---|---|---|---|
| Mauritius | 0.2 | 0.8 | 25.0 | - | 26.0 |
| Bermuda | 0.1 | 19.1 | 0.2 | 4.3 | 23.7 |
| South Africa | - | 6.3 | - | 6.0 | 12.3 |
| Kenya | 1.2 | 1.3 | 6.1 | 2.0 | 10.6 |
| Switzerland | 0.1 | 2.2 | 4.9 | - | 7.2 |
| France | 2.3 | 4.3 | - | - | 6.6 |
| Netherlands | 4.2 | 0.8 | 0.1 | 0.1 | 5.3 |
| Saudi-Arabia | - | - | 5.2 | - | 5.2 |
| PTA Bank | - | - | 5.1 | - | 5.1 |
| IFC | - | 4.8 | 0.2 | - | 5.0 |
| IDA | - | 5.0 | - | - | 5.0 |
| Italy | - | - | - | 4.8 | 4.8 |
| Isle of Man | - | 0.9 | 1.3 | - | 2.2 |
| Norway | - | 2.1 | - | - | 2.1 |
| Channel Islands | - | 1.3 | - | 0.2 | 1.4 |
| Belgium | - | - | - | 1.3 | 1.3 |
| Indonesia | - | - | - | 0.8 | 0.8 |
| Canada | 0.2 | 0.1 | - | 0.3 | 0.7 |
| Zambia | - | 0.4 | - | - | 0.4 |
| India | 0.2 | - | - | 0.1 | 0.3 |
| Japan | - | 0.2 | - | - | 0.2 |
| Sudan | - | - | - | 0.2 | 0.2 |
| Denmark | - | 0.2 | - | - | 0.2 |
| Zimbabwe | - | - | - | - | - |
| Other | 0.5 | 1.7 | 15.5 | 4.6 | 22.4 |
| **TOTAL** | **27.6** | **251.3** | **131.7** | **50.2** | **460.9** |

*Table 9: STOCK OF NON-FDI LIABILITIES BY REGION - 1998*

Millions of USD

| Region | Portfolio | Long-Term | Short-Term | Supplier-Credits | Total |
|---|---|---|---|---|---|
| Dar es Salaam | 25.8 | 133.9 | 24.2 | 24.2 | 208.0 |
| Tabora | - | 16.9 | 1.2 | 5.0 | 23.0 |
| Arusha | 0.6 | 6.8 | 5.6 | 8.1 | 21.1 |
| Shinyanga | - | 4.3 | 4.7 | 5.0 | 14.0 |
| Kilimanjaro | | 0.4 | 9.4 | - | 9.8 |
| Morogoro | 0.1 | - | 5.0 | 3.0 | 8.1 |
| Mara | - | 3.3 | - | 1.0 | 4.3 |
| Mwanza | 0.4 | 2.8 | - | 1.1 | 4.3 |
| Iringa | - | 2.3 | - | - | 2.4 |
| Tanga | - | 0.1 | 0.9 | - | 1.0 |
| Ruvuma | - | - | - | - | - |
| **TOTAL** | **26.9** | **170.8** | **50.9** | **47.3** | **295.9** |

*Table 10: STOCK OF NON-FDI LIABILITIES BY REGION - 1999*

Millions of USD

| Region | Portfolio | Long-Term | Short-Term | S/Credits | TOTAL |
|---|---|---|---|---|---|
| Dar es Salaam | 26.3 | 159.4 | 33.2 | 2- | 238.8 |
| Arusha | 1.0 | 6.4 | 48.3 | 8.5 | 64.3 |
| Mwanza | 0.2 | 56.2 | - | 0.9 | 57.3 |
| Tabora | - | 20.1 | 7.0 | 7.7 | 34.8 |
| Morogoro | 0.1 | - | 25.0 | 5.0 | 30.1 |
| Shinyanga | - | - | 6.7 | 4.3 | 11.0 |
| Kilimanjaro | - | 0.2 | 10.4 | 0.3 | 10.9 |
| Mara | - | 5.7 | - | 2.5 | 8.2 |
| Iringa | - | 2.1 | - | 1.1 | 3.1 |
| Tanga | - | 1.1 | 1.2 | - | 2.3 |
| Ruvuma | - | 0.1 | - | - | 0.1 |
| **TOTAL** | **27.6** | **251.3** | **131.8** | **50.2** | **460.9** |

*Table 11: STOCK OF NON-FDI LIABILITIES BY SECTOR - 1998*

Millions of USD

| Sector | Portfolio Equity | Long-Term | Short-Term | S/Credits | TOTAL |
|---|---|---|---|---|---|
| Electricity, Gas & Water | - | 84.0 | - | - | 84.0 |
| Manufacturing | 23.0 | 30.4 | 13.6 | 15.0 | 82.0 |
| Wholesale, Retail Trade, Catering & Accommodation Services | 1.4 | 20.8 | 18.7 | 3.6 | 44.6 |
| Mining & Quarry | - | 20.2 | 1.2 | 1- | 31.3 |
| Transport, Storage & Communication | - | 8.1 | - | 15.0 | 23.1 |
| Construction | 0.1 | 1.6 | 12.2 | 3.3 | 17.2 |
| Agriculture, hunting & forestry | 0.6 | 5.6 | 4.7 | 0.3 | 11.2 |
| Financing, Insurance & Business Services | 1.8 | - | 0.5 | - | 2.3 |
| Community, Social &Personal Services | - | 0.1 | - | - | 0.1 |
| Other | 0.1 | - | - | 0.1 | 0.3 |
| **TOTAL** | **26.9** | **170.8** | **50.9** | **47.3** | **295.9** |

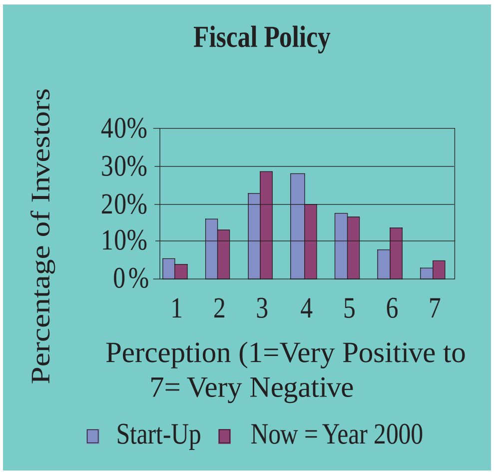
*Table 12: STOCK OF NON-FDI LIABILITIES BY SECTOR - 1999*

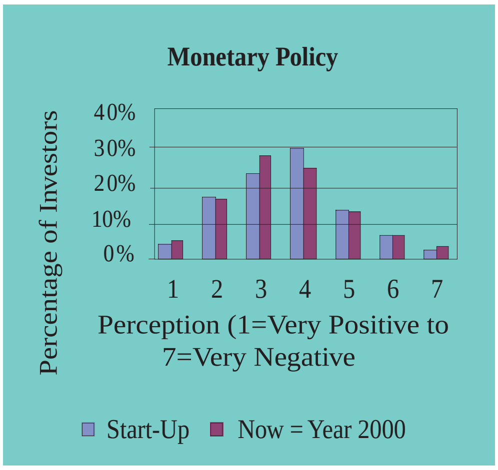
Millions of USD

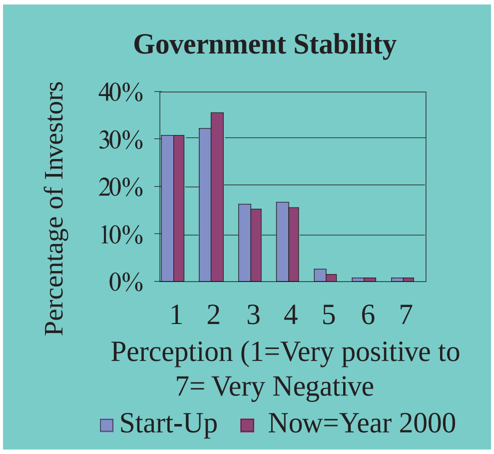
| Sector | Portfolio Equity | Long-Term | Short-Term | S/ Credits | TOTAL |
|---|---|---|---|---|---|
| Manufacturing | 22.3 | 34.7 | 35.1 | 18.8 | 110.9 |
| Mining & Quarry | 0.1 | 74.2 | 7.0 | 12.1 | 93.3 |
| Electricity, Gas & Water | - | 85.9 | - | - | 85.9 |
| Wholesale, Retail Trade, Catering & Accommodation Services | 1.5 | 23.5 | 28.9 | 2.8 | 56.7 |
| Transport, Storage & Communication | - | 2- | 0.2 | 9.2 | 29.4 |
| Construction | 0.1 | 7.4 | 10.5 | 6.3 | 24.4 |
| Agriculture, hunting & forestry | 0.9 | 5.3 | 6.9 | 0.2 | 13.4 |
| Financing, Insurance & Business Services | 2.4 | - | 1.1 | - | 3.5 |
| Community, Social & Personal Services | - | 0.2 | - | - | 0.2 |
| Other | 0.3 | 0.2 | 42.0 | 0.8 | 43.3 |
| **TOTAL** | **27.6** | **251.3** | **131.8** | **50.2** | **460.9** |

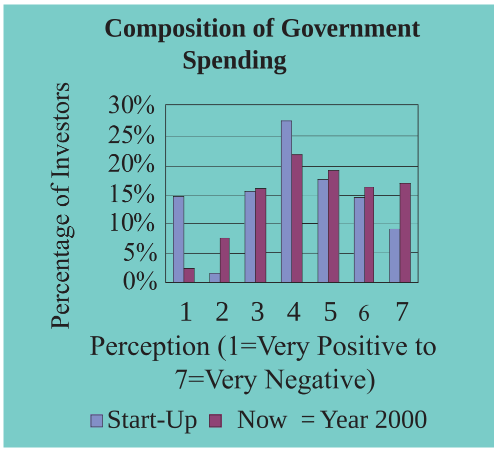
# APPENDIX 3: PERCEPTION CHARTS BY SUB-FACTORS

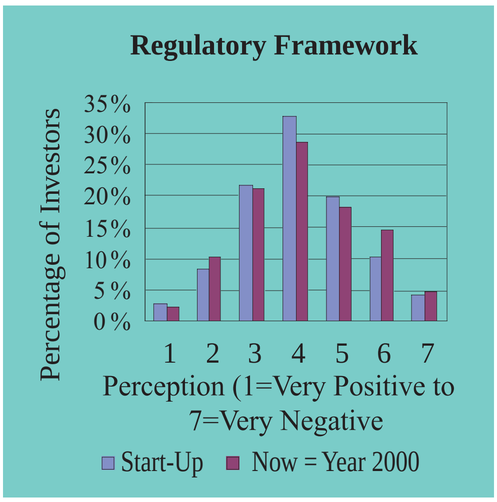
## Macroeconomic Factors

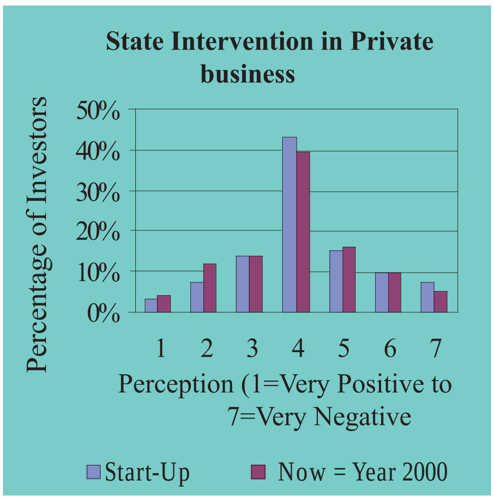


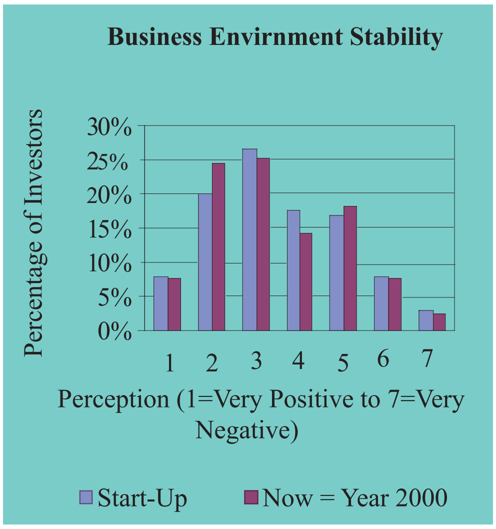



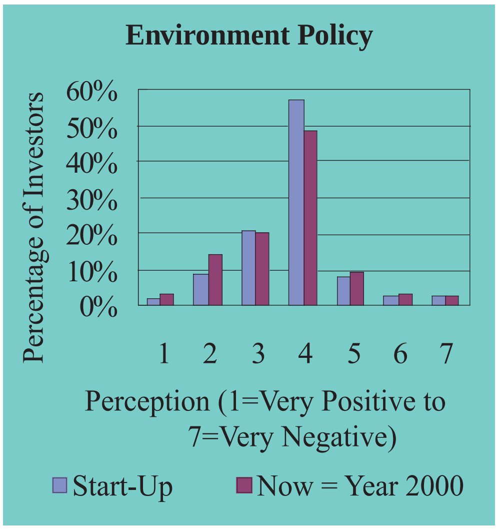



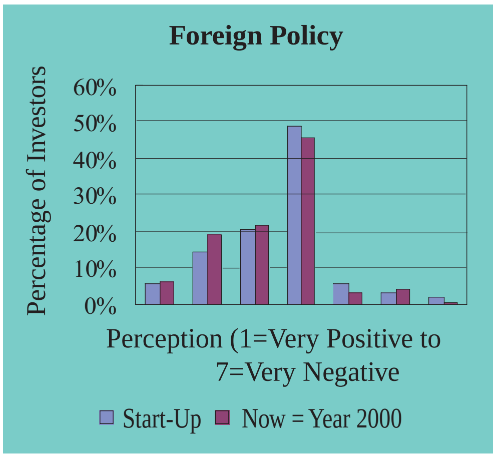



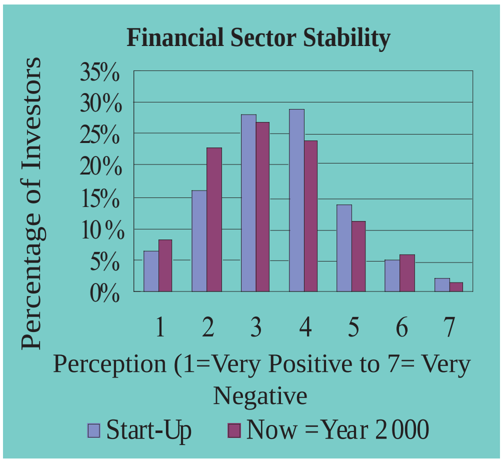



## Macroeconomic Factors (Cont.)

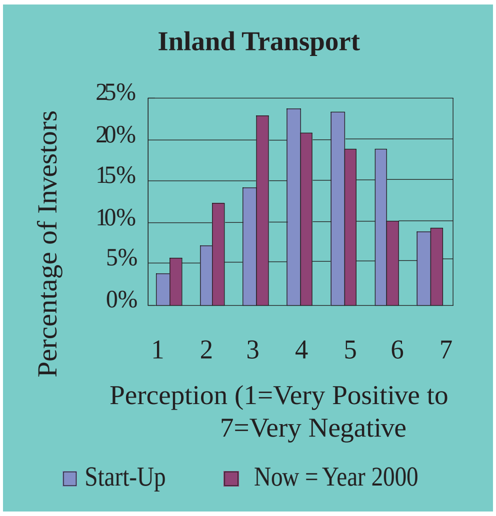


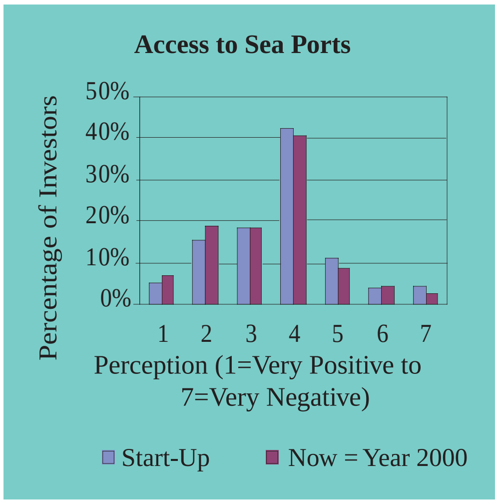



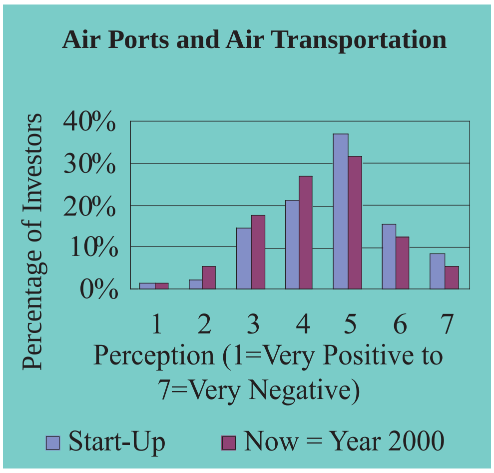



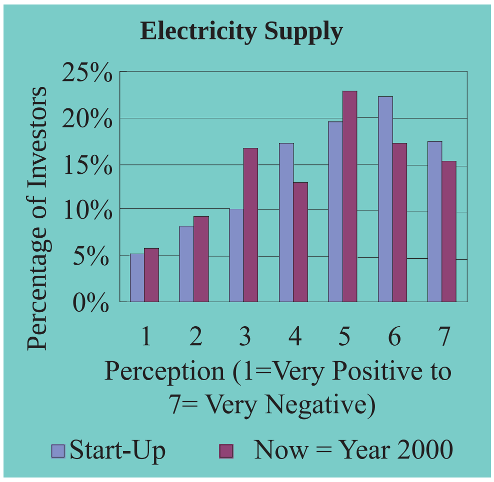



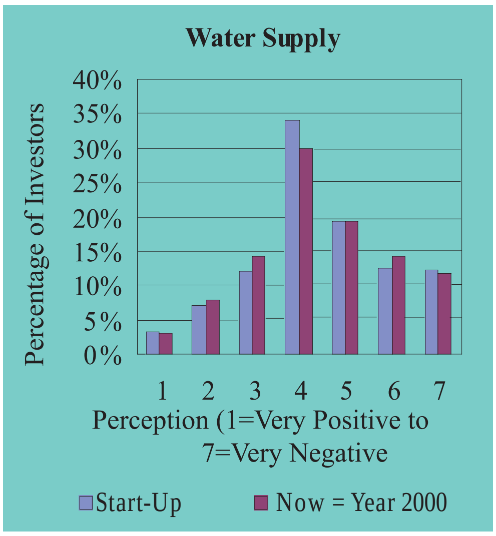
## Infrastructures and Services Factors

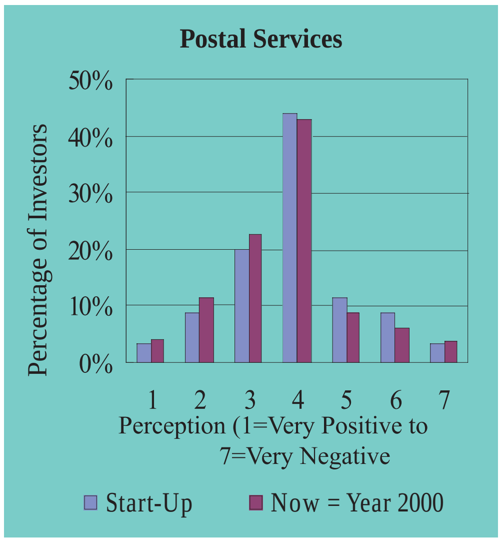


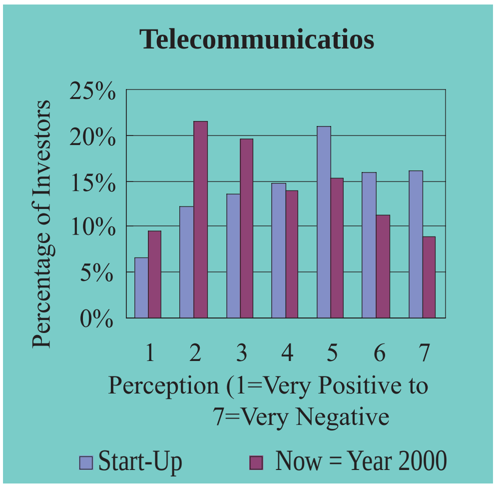



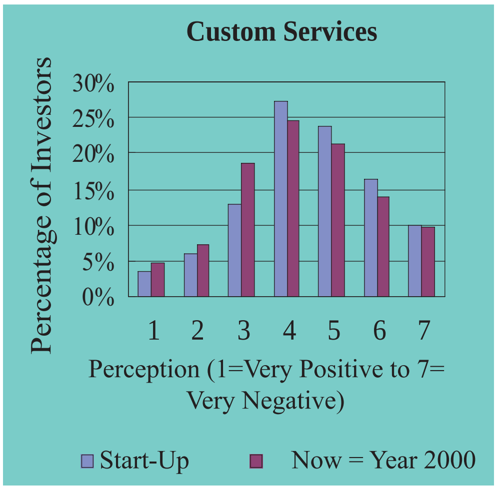



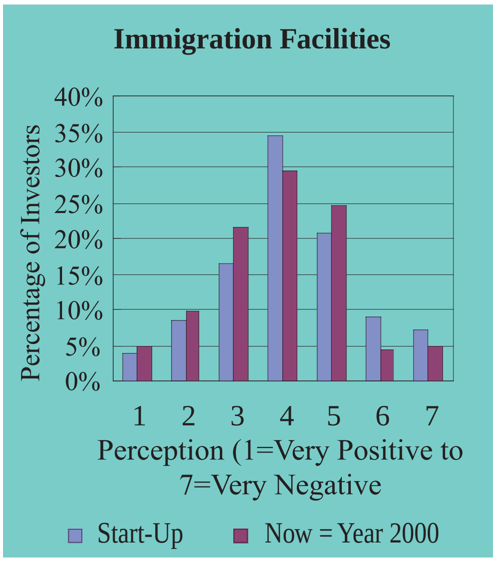



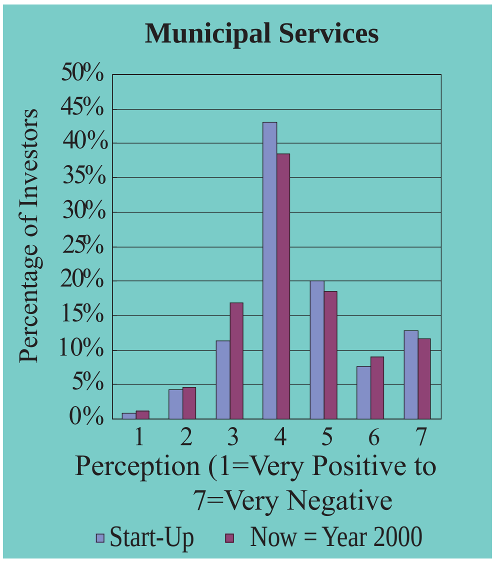



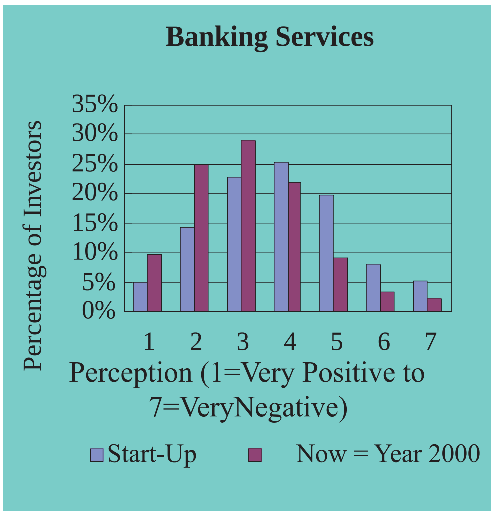
## Infrastructures and Services Factors (Cont.)

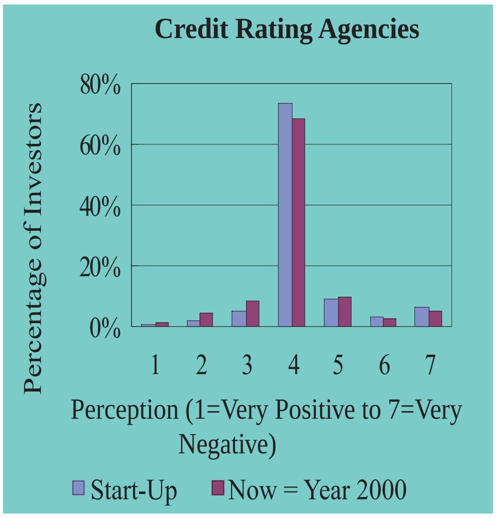


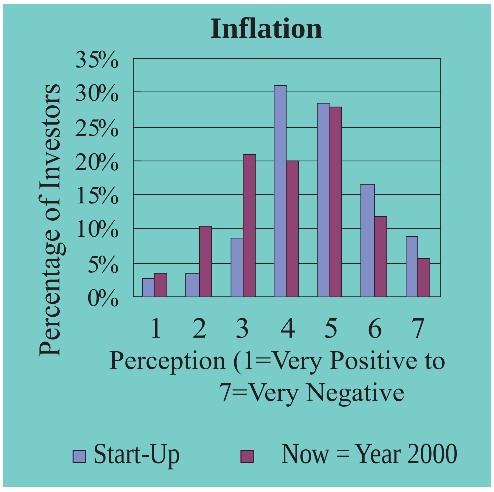



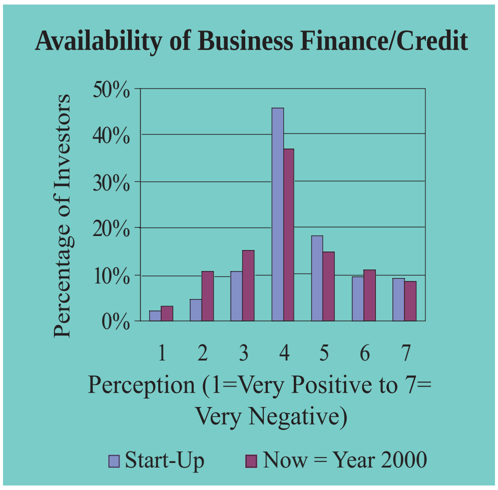



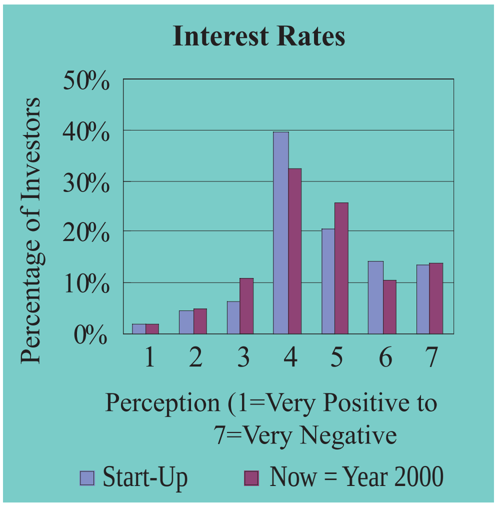



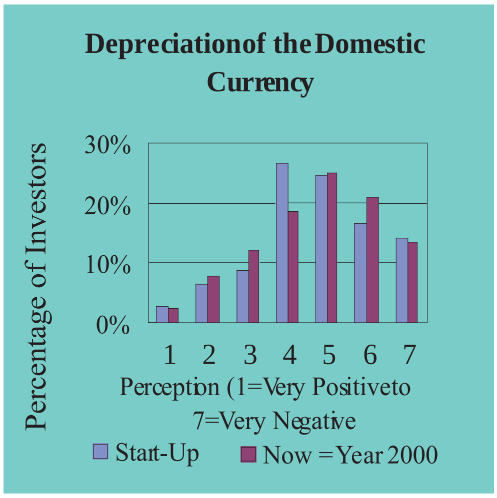



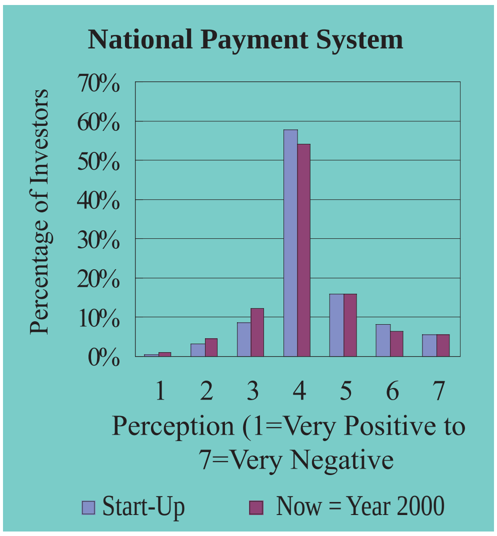
## Financial Factors

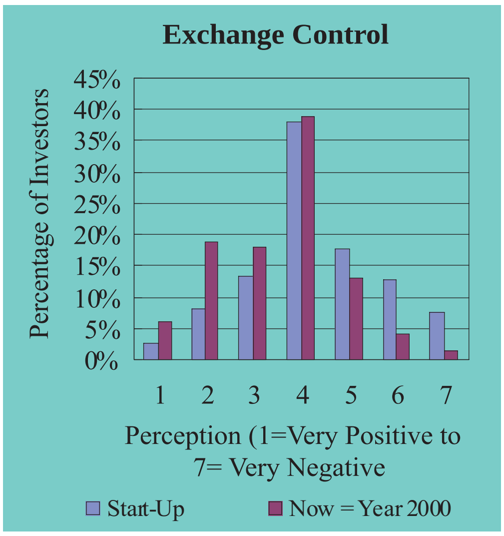


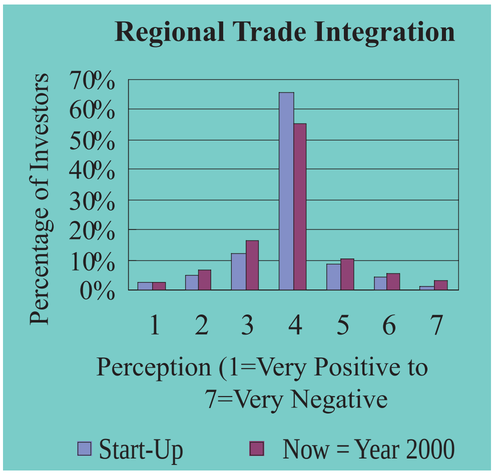



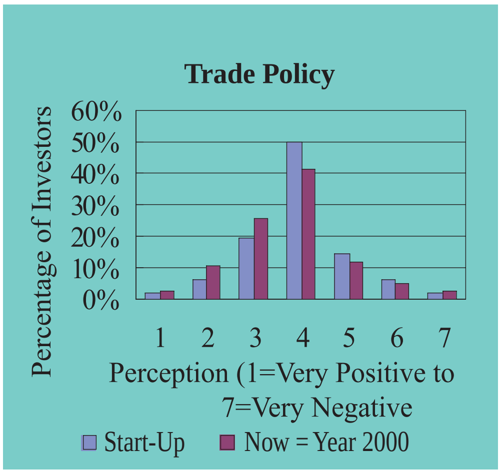



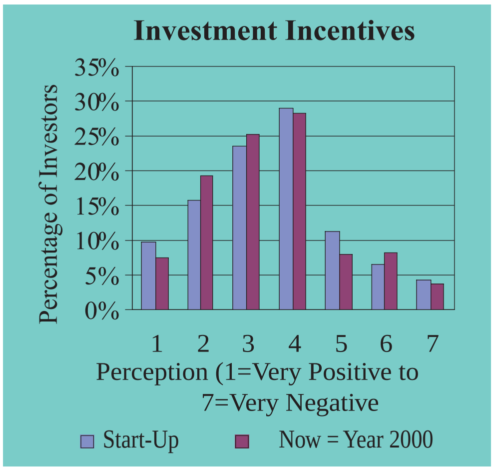



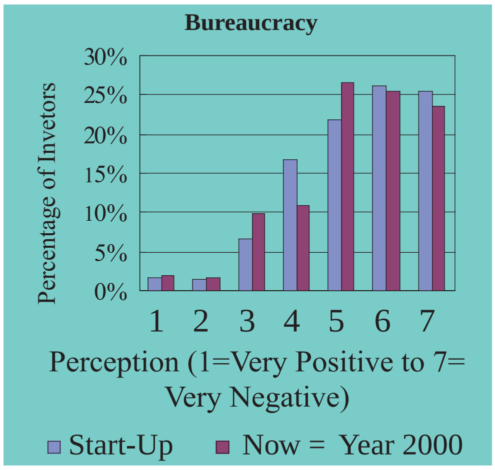



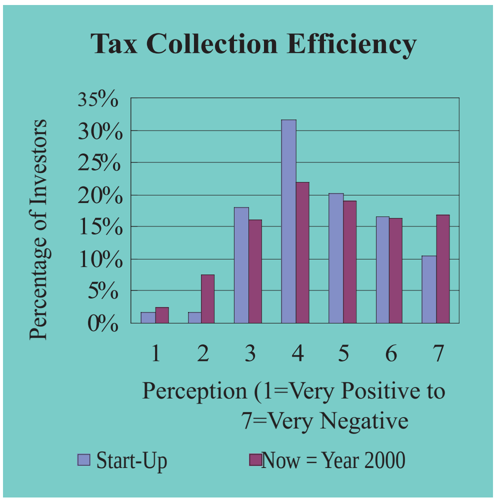
## Governence Factors

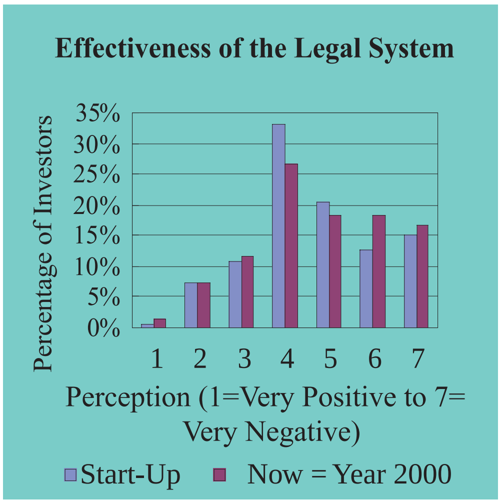


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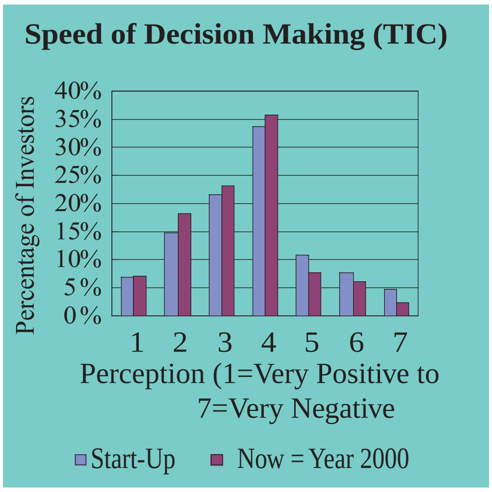
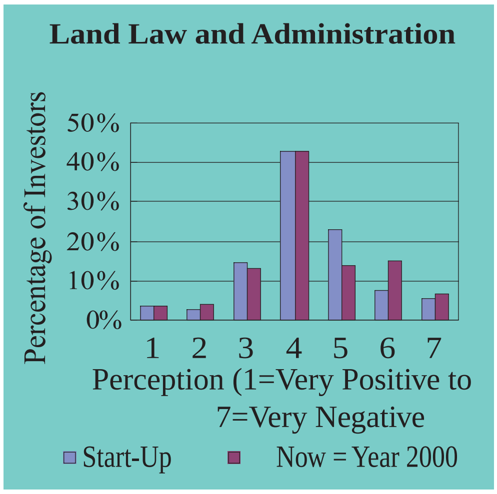
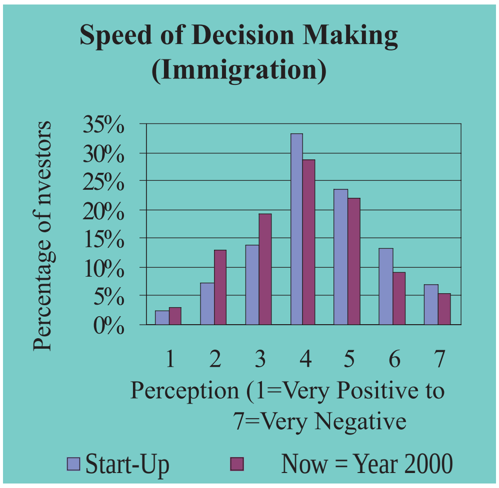


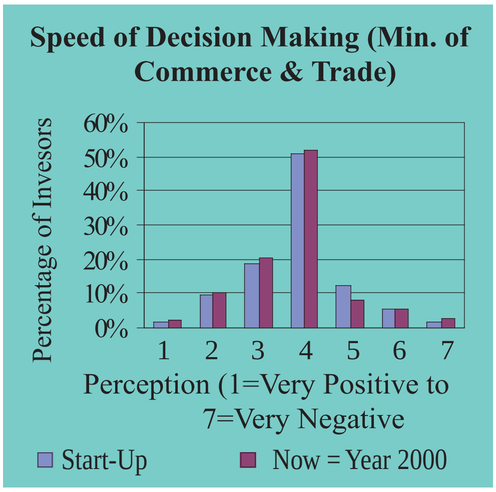
Speed of Decision Making (TIC)



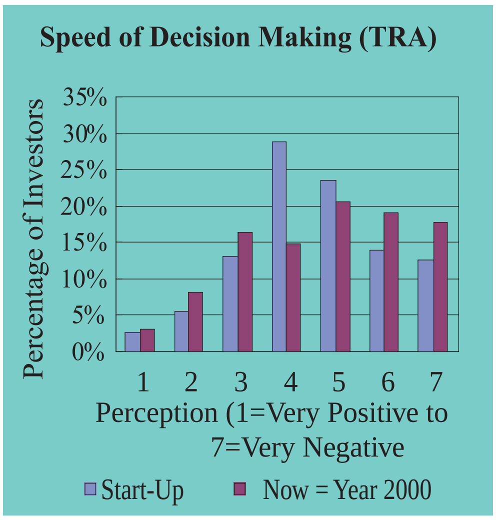
Land Law and Administration



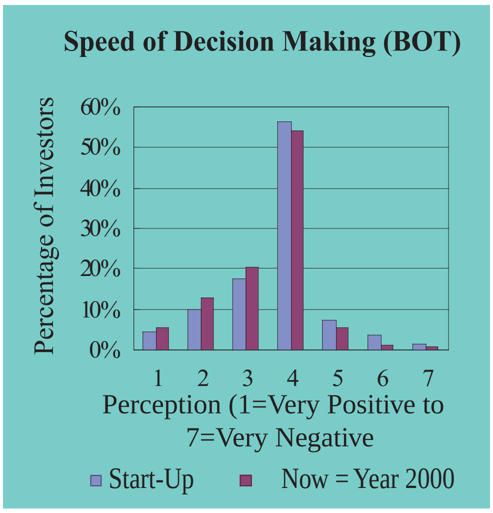
Speed of Decision Making (Immigration)



Speed of Decision Making (Min. of Commerce & Trade)

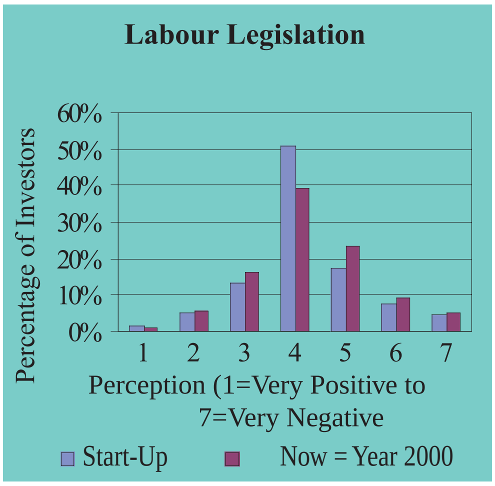


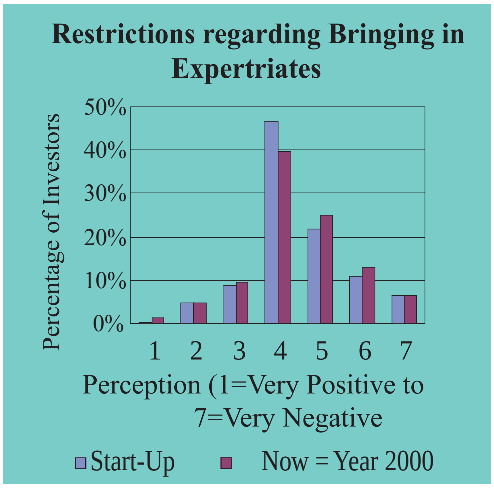
Speed of Decision Making (TRA)

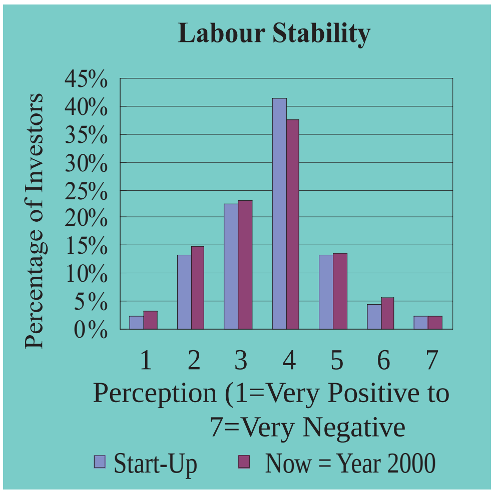


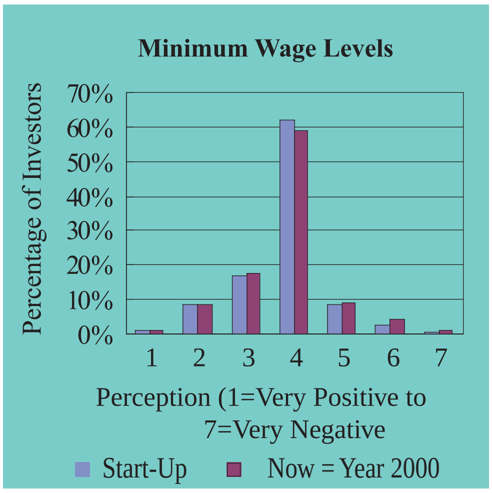
Speed of Decision Making (BOT)

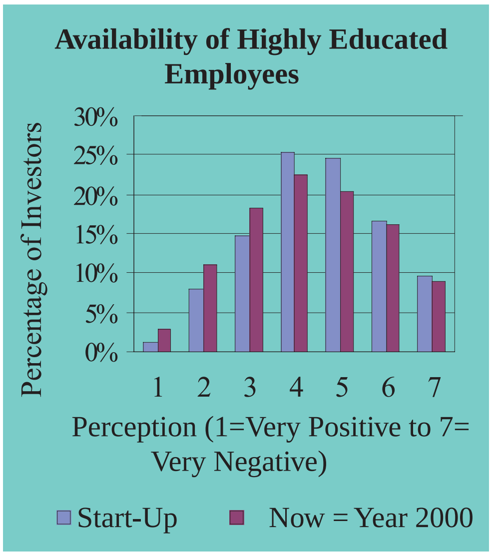
## Labour Factors

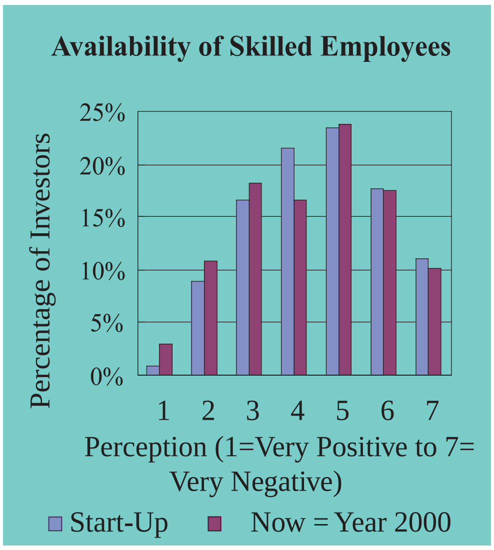


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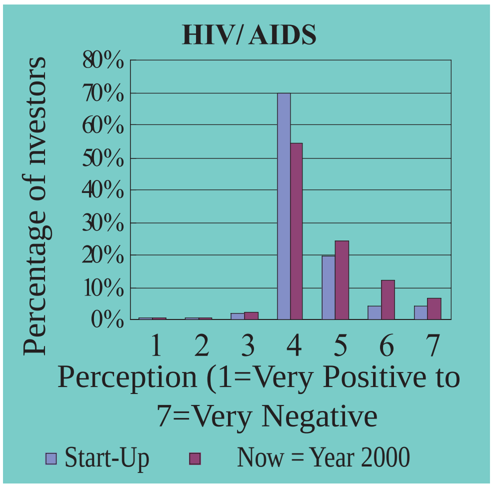
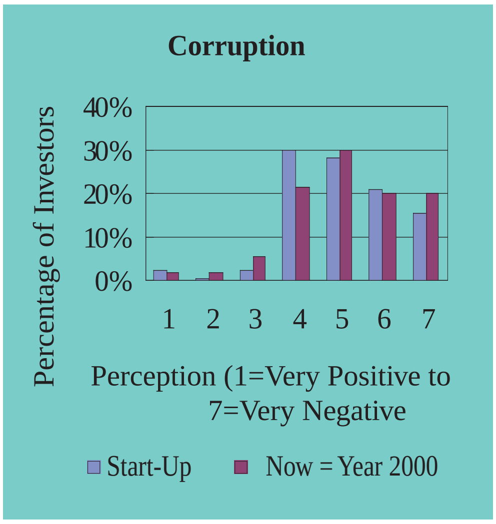
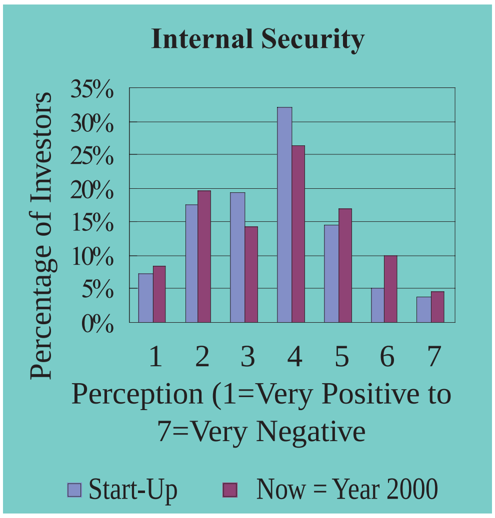
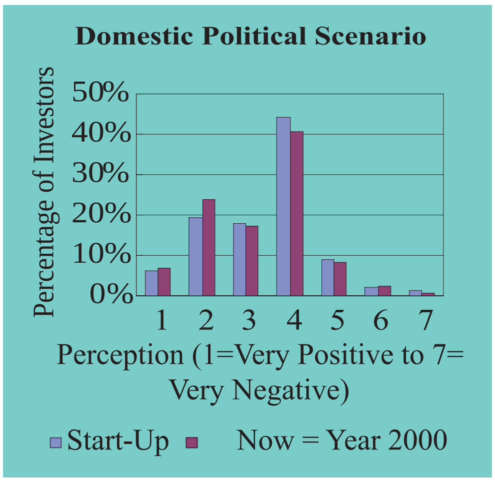
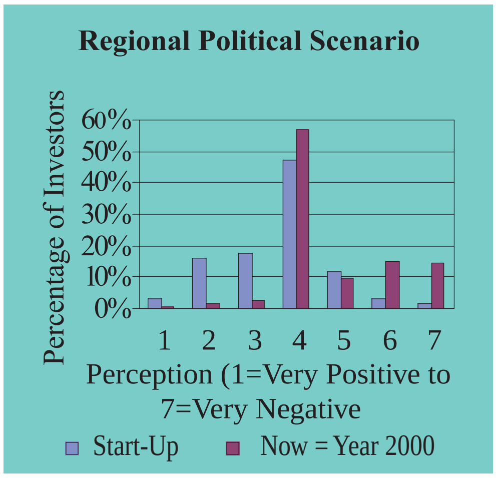



## Diverse Factors



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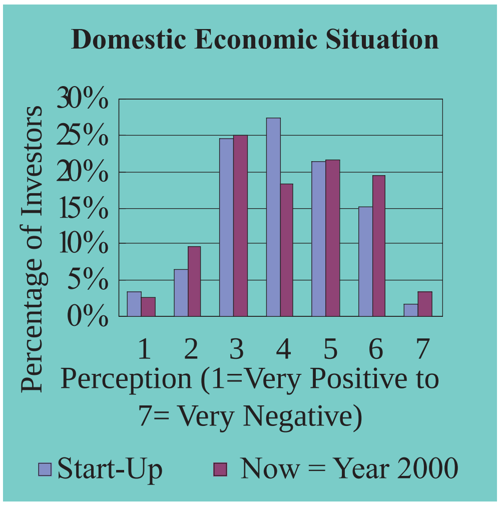


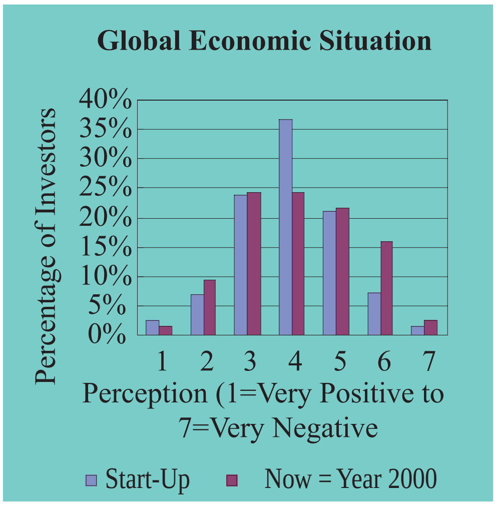


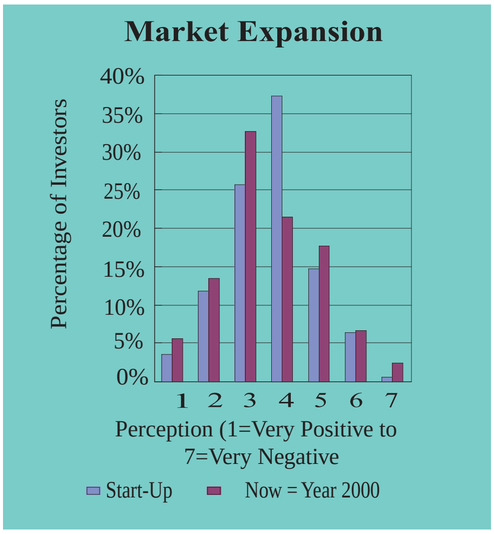


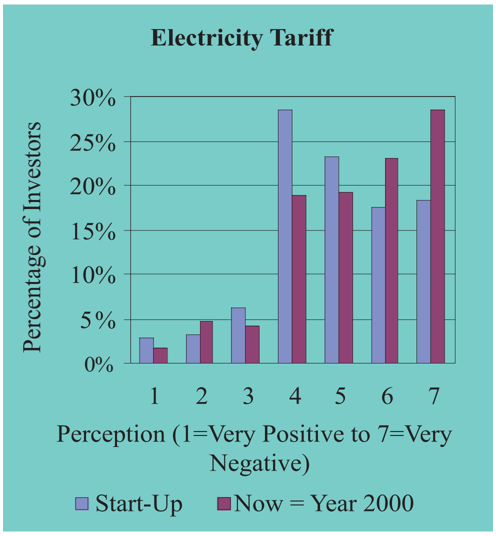


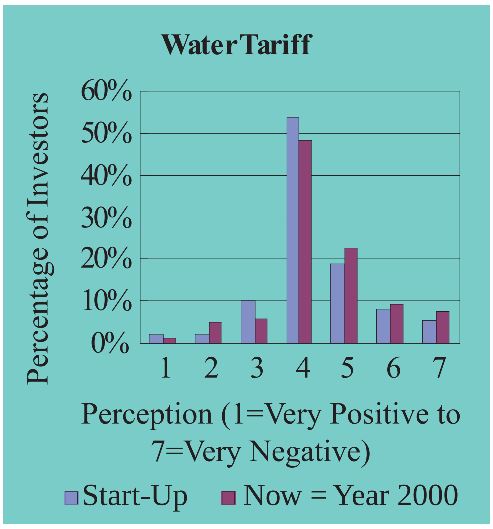


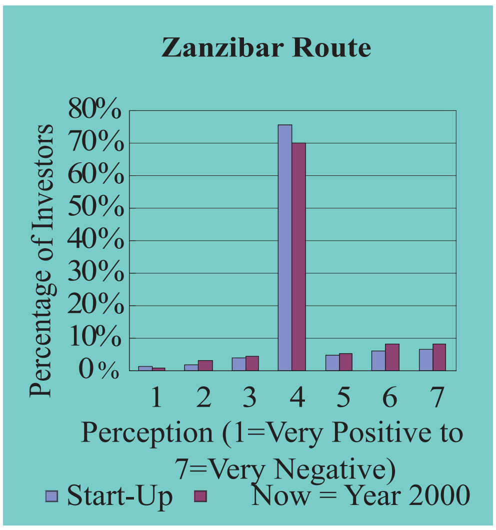

# APPENDIX 4

## Questionnaire on Investments with foreign Assets and Liabilities - Quantitative

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**Confidential**

National Bureau of Statistics
P.O.Box 796
DAR ES SALAAM
Tel: (255)-51-122722-3
(255)-51-111634
Fax: (255)-51-112352/135601

Bank of Tanzania
P. O. BOX 2939
DAR ES SALAAM
Tel: (255)-51- 110946-52,
(255)-51-110977-79
Fax: (255-51) 112573/113325

Tanzania InvestmentCentre
P. O. Box 938
DAR ES SALAAM
Tel: (255)-51-116328-32
(255)-51-34200
Fax: (255-51) 118253

**June 5th 2000**

Dear Investor,

## CENSUS OF INVESTMENTS WITH FOREIGN ASSETS AND LIABILITIES

**FORM TYPE**: BOP/1/2000
**COMPANY REFERENCE NUMBER**:……………........….. *(for internal use only)*
**REPORTING PERIOD**: Year-ends 1998 and 1999 for Stocks; Calendar Year 1999 for Flows.
**DUE DATE FOR RETURN: Thursday 6th July 2000**

### PAR T A: GENERAL INFORMA TION

| | | |
|---|---|---|
| **Date completed**: | | |
| **Company name**: | | |
| **Name and position of person completing this return**: | | |
| **Company Address**: | | |
| **Tel**: | **Fax**: | **E-mail:** |
| **Please give details of an alternative person whom we may contact in case we have any questions.** | | |
| **Date of Establishment**<br>____/ _____/ _________ | **Date of Commencing Operations**<br>_____/ _____/ _________ | |

## PLEASE READ THIS FIRST

### Purpose of survey

This form collects information to be used in the compilation and classification of Tanzania balance of payments statistics and international investment position. This information will be used by the Bank of Tanzania, Tanzania Investment centre, National Bureau of statistics and the Government in national and international economic policy formulation, and in analyses of international transactions and their relationships to domestic economic activity. By quantifying inward and outward investment we also wish to assess confidence in the economy, and use your feedback to design policies to encourage private investment. Your co-operation is therefore vital to this effort.

### Confidentiality

Information will be used only for statistical purposes, and be published in aggregated form. Data relating to individual organisations will not be made available to anybody outside the Bank of Tanzania, Tanzania Investment centre or National Bureau of Statistics**. *Government officials failing to comply with confidentiality clause face severe penalties including summary dismissal. This is in accordance with Bank of Tanzania Act, 1995, Tanzania Investment Act, 1997, and the Act establishing National Bureau of Statistics.***

### Collection and submission of data

Completion of this form is compulsory under section 6(b) of the Tanzania Investment Act No. 26 of 1997, Statistical ordinance No. 33 of 1961 establishing the National Bureau of Statistics and section 47 sub-sections (1), (2) and (4), and section 49 of Bank of Tanzania Act of 1995. Failure to comply could result in legal and/or administrative action against non-compliance. Please note the due date for return, given at the top of this form, and keep a copy for your reference.

### Help

To help us, please attach a copy of your latest annual financial statements to your completed form. If you need help in completing, or explanation of terms or questions, please refer to the notes attached. Alternatively, please contact ***Mr S. Mrutu of BOT – telephone 119312, Mrs N. Senzia of TIC - telephone 116328 and Mr M. Chimtembo of NBS-telephone 122722***.

**THANK YOU IN ADVANCE FOR YOUR COOPERATION.**

## PLEASE READ THE FOLLOWING NOTES & INSTRUCTIONS BEFORE COMPLETING THE FORM.INSTRUCTIONS AND DEFINITIONS

### Reporting basis

This form requests information and statistics on foreign investment in your enterprise (or group of companies) and on investment in foreign companies by your enterprise (or group). Where possible, please use figures from your accounts. *Unaudited data are perfectly acceptable for this purpose.* Some data may not be readily available from your accounts. In these cases, *please provide careful estimates*. We would rather have your best estimate than nothing!

If your business has more than one branch or enterprise in Tanzania, *consolidated data should be submitted on a single form*. If your business is a member of a group of related companies, *a single form should be completed in respect of all related companies in your group* in Tanzania.

Please do not leave blank spaces even where the question does not apply to you. So we know we do not need to follow up with you,, *please enter **"n/a"** in the appropriate box, or at the start of the question.*

### Definitions

#### *1. Residents and Non-residents*

A *resident* is any individual, enterprise, or other organisation ordinarily residing in Tanzania. In other words, its centre of economic activity is in Tanzania. All other entities are regarded as *non-residents*. For statistical purposes, an individual who lives in Tanzania for more than a year is considered to be a resident of Tanzania, regardless of the individual's citizenship or nationality. An enterprise incorporated in Tanzania is considered a resident of Tanzania irrespective of the domicile of the owners of the enterprise. A branch of a foreign company operating in Tanzania for more than a year is treated as a resident of Tanzania. Balance of Payments (BOP) data are concerned with transactions between residents and non-residents, NOT with the currency of transaction. Typically, a transaction in foreign currency between two residents of Tanzania would therefore not be captured in the BOP.

#### *2. Financial instruments*

**a.** *Equity* means shares in companies, and equivalent ownership interest in unincorporated enterprises. Direct Equity Investment denotes ownership of 10% or more of the ordinary shares, voting power, or equivalent in an enterprise, by someone resident in another economy.

**b.** *Non-equity* means all other financial instruments including loans, trade credit and supplier credit (for goods and services), bonds debentures, notes, money market instruments, shareholder and inter-company loans arrears of debt or interest, and deposits.

#### *3. (Estimated) Market value*

This form asks you to submit market values. If shares in your company (or foreign companies in which your company has invested) are traded on a stock exchange or other organised market, the 1999 and 1998 year-end value of those shares should be used as the basis for the "(Estimated) market value".

If no stock market price or other market value is available for shares in your company (or foreign companies in which your company has invested), please use the best available proxy. Where possible, please use *net asset values* (or *shareholders' funds*). Alternatively, use a *recent transaction price*, a *directors' valuation, valuation by your auditor,* or *valuation by analogy*.

#### *4. Transactions*

Transactions (flows) in foreign currency should be converted to Tanzania Shillings (TZS) at the mid point of the buying and selling rate applying at the date of the transactions. Levels (stocks) should be translated at the midpoint of the buying and selling rates applying to end-1998 and end-1999 as appropriate.

#### *5. Countries*

In most questions on this form (ie, numbers 3-5, and 7-14), you are asked to disaggregate information on your assets and liabilities by country. In each of these questions you are given 6 country boxes. The first three boxes are for you to enter information relating to up to three main countries, judged according to size. The fourth box is for you to provide a sum of information for all the other countries, so we can derive the total for all foreign investors. The fifth box is for all Tanzanian shareholders combined so that we can derive total investment in your enterprise **(box 6).**

## 1. INDUSTRIAL AND REGIONAL CLASSIFICATION

Please tick the main area(s) of economic activity, and the location of your enterprise and its subsidiaries in Tanzania, giving brief information on major activities and/or products, based on gross receipts.

| **Industrial Classification** | **Summary of main activities** | **Location (s) in which your activities are located** |
|---|---|---|
| 1. Agriculture, hunting, forestry and fishing | | |
| 2. Mining and quarrying | | |
| 3. Manufacturing | | |
| 3a. Agro-industry | | |
| 3b. Food and beverages | | |
| 3c. Machinery, motors and equipment | | |
| 3d. Chemicals and petroleum | | |
| 3e. Other manufacturing (specify) | | |
| 4. Electricity, gas and water | | |
| 5. Construction | | |
| 6. Wholesale & retail trade, & catering & accommodation services | | |
| 6a. Accommodation and tourism | | |
| 6b. Wholesale, retail and catering | | |
| 7. Transport, storage & communication | | |
| 7a. Transport and storage | | |
| 7b. Communication | | |
| 8. Financing, insurance, real estate, & business services | | |
| 8a. Financing, insurance and business services | | |
| 8b. Real estate | | |
| 9. Community, social and personal services | | |
| 0. Activities not adequately defined (specify) | | |

## 2. SUBSIDIARIES

For this survey, please report if possible, on a consolidated basis including all of your Tanzania subsidiaries. Please list any subsidiaries (or sub-subsidiaries) your enterprise has in Tanzania, and indicate whether their international transactions are included on this form.

| *Name of subsidiary* | *Are its international transactions included in this form? (YES/NO)* |
|---|---|
| | |
| | |
| | |
| | |
| | |
| | |

## PART B: FOREIGN INVESTMENT IN THIS ENTERPRISES

***Please complete this section if your enterprise or any of its subsidiaries in Tanzania had non-resident shareholders or any other liabilities to non-residents during 1999.***

| |
|---|
| **Please report all values in thousands of (TZS or USD).**<br>**PLEASE TICK THR CURRENT YOU USE IN COMPLETING THIS FORM** |

| **USD** | **TZS** |
|---|---|

## 3. FOREIGN DIRECT EQUITY INVESTMENT IN YOUR COMPANY

Please list the name, country of residence and ownership stake of each non-resident company, or other non-resident individual or organisation, owning **<u>10% or more</u>** of the total equity in your company. ***Please see Note 1,3 and 5 on page 3 for guidelines on residence, market value and country of residence respectively***.

### 3(a) AS AT END-1998

| *Name of foreign direct investor/ Institution(eg ADB) (shareholder/owner)* | *Country of residence (please enter below)* | *Ownership stake at end 1998 (shareholding)* |
|---|---|---|
| | *(Estimated) Market value* | *Percent of total voting rights* |
| 1. | | |
| 2. | | |
| 3. | | |
| 4. All other Foreign investors | | |
| 5. All Tanzanian Investors combined | Tanzania | |
| Total | | |

### 3(b) AS AT END-1999

| *Name of foreign direct investor/ Institution(eg ADB) (shareholder/owner)* | *Country of residence (please enter below)* | *Ownership stake at end 1999 (shareholding)* |
|---|---|---|
| | *(Estimated) Market value* | *Percent of total voting rights* |
| 1. | | |
| 2. | | |
| 3. | | |
| 4. All other Foreign investors | | |
| 5. All Tanzanian Investors combined | Tanzania | |
| Total | | |

## 4. FOREIGN PORTFOLIO EQUITY INVESTMENT IN YOUR COMPANY

For individual equity holdings by non-resident companies, other non-resident individuals or organisations of **<u>less than 10%</u>** of total equity in your company, please group holdings and ownership stake together by investors' country of residence (***Please see Note 1,3 and 5 on page 3 for guidelines on residence, market value and country of residence respectively***)

### 4(a) AS AT END-1998

| *Country of residence/Institution (eg ADB) (please enter below)* | *Ownership stake (shareholding)* | |
|---|---|---|
| | *(Estimated) Market value* | *Percent of total voting rights* |
| 1. | | |
| 2. | | |
| 3. | | |
| 4 All other Foreign Investors combined | | |
| 5 All Tanzanian investors combined | | |

### 4(b) AS AT END-1999

| *Country of residence/ Institution(eg ADB) (please enter below)* | *Ownership stake (shareholding)* | |
|---|---|---|
| | *(Estimated) Market value* | *Percent of total voting rights* |
| 1. | | |
| 2. | | |
| 3. | | |
| 4. All other Foreign Investors combined | | |
| 5. All Tanzanian investors combined | | |

## 5. NEW EQUITY INVESTMENT BY (SHARES ISSUED TO) NON-RESIDENTS

Please calculate (giving totals by country of non-resident) for your enterprises and subsidiaries in Tanzania:

- *amounts received from non-residents* (in cash or otherwise) for new shares (or other new ownership stakes) issued to them in calendar year 1999;

- *amounts paid to non-residents* (in cash or otherwise) for redemption or acquisition of shares (ownership stakes) in your enterprise in calendar year 1999:

| **Enter country name (see Note 5)** | ***1.*** | ***2.*** | ***3.*** | ***4. All others combined*** |
|---|---|---|---|---|
| **Amounts received** | | | | |
| **Amounts paid** | | | | |

## 6. REINVESTED EARNINGS ATTRIBUTABLE TO FOREIGN DIRECT INVESTMENT FOR YOUR COMPANY

Please calculate total retained earnings *attributable to Foreign Direct Investment in calendar year 1999* for your enterprises and subsidiaries in Tanzania, by working through the following table.

***NOTE: all businesses with foreign assets and liabilities should complete this section.***

| |
|---|
| **1. Operating profit earned (before taxes on profit)** |
| **2. Taxes on profit** |
| **3(a). Dividends paid and profits remitted to non-residents (FDI and Portfolio investors combined)** |
| **3(b). Dividends paid and profits remitted to residents** |
| **4. Dividends and profits remitted to foreign direct investors only** |
| **5. Total retained earnings**<br>***Please calculate as: Item 1 – 2 – 3(a) –3(b)*** |
| **6. Retained earnings attributable to foreign direct investors**<br>**(*Eg, if a company is 50% owned by foreign direct investors, then Item 6 would be 50% of Item 5*).** |

## 7. PROFITS REMITTED AND DIVIDENDS PAID TO NON-RESIDENTS

Please state total profits remitted and dividends paid to non-resident individuals or organisations, classified by country for the *calendar* year 1999. *Please note: if your accounting year is not the calendar year please provide your best estimates based on, for example, aggregating quarterly data.*

| *Country (enter names – see Note 5)* | *Profits remitted in 1999* | *Dividends paid in 1999* |
|---|---|---|
| | | |
| 1. | | |
| 2. | | |
| 3. | | |
| 4. All others combined | | |

## 8. FOREIGN NON-EQUITY LIABILITIES TO NON-RESIDENTS

Please provide the following information by country, in the tables below (***Please see Note 2b,4 and 5 on page 3 for guidelines on non-equity, transactions, and country of residence respectively***)

- *total stocks* by country, for end-1998 and end-1999, of *non-equity liabilities* to non-resident organisations or individuals;
- *transactions* during 1999.
- *interest paid* on the above during the *calendar year* 1999;

***Please do not include domestic (resident to resident) borrowing in foreign currency or Tanzania Shillings.***

**For banks completing this form: Please do not include the deposits held by non-resident parent companies or non-resident unrelated companies in the tables below.**

### 8(a) STOCKS FOR END 1998

| *LIABILITY* | *TOTAL (Stocks) FOR END 1998* | | | |
|---|---|---|---|---|
| **Long-term foreign borrowing** *(original maturity greater than 12 months)* | | | | |
| **Enter country names /Institution(eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder & Inter-Company borrowing*** | | | | |
| ***Other long-termBorrowing with Unrelated companies*** | | | | |
| **Short-term foreign borrowing** *(original maturity 12 months or less)* | | | | |
| **Enter country names / Institution(eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder and Inter-Company borrowing*** | | | | |
| ***Supplier credits from Related companies*** | | | | |
| ***Supplier credits from Unrelated companies*** | | | | |
| ***Other short-term Financing*** | | | | |

## 8(b) STOCKS FOR END 1999

| *LIABILITY* | *TOTAL (Stocks) FOR END 1999* | | | |
|---|---|---|---|---|
| **Long-term foreign borrowing** *(original maturity greater than 12 months)* | | | | |
| **Enter country names /Institution (eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder & Inter-Company borrowing*** | | | | |
| ***Other long-term Borrowing with Unrelated companies*** | | | | |
| **Short-term foreign borrowing** *(original maturity 12 months or less)* | | | | |
| **Enter country names / Institution(eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder and Inter-Company borrowing*** | | | | |
| ***Supplier credits from Related companies*** | | | | |
| ***Supplier credits from Unrelated companies*** | | | | |
| ***Other short-term Financing*** | | | | |

## 8(c ) TRANSACTIONS DURING 1999

| *LIABILITY* | *TRANSACTIONS DURING 1999* | | | |
|---|---|---|---|---|
| **Long-term foreign borrowing** *(original maturity greater than 12 months)* | | | | |
| **Enter country names / Institution(eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder & Inter-Company borrowing*** | | | | |
| ***Other long-term Borrowing with Unrelated companies*** | | | | |
| **Short-term foreign borrowing** *(original maturity 12 months or less)* | | | | |
| **Enter country names / Institution(eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder and Inter-Company borrowing*** | | | | |
| ***Supplier credits from Related companies Supplier credits from Unrelated companies*** | | | | |
| ***Other short-term Financing*** | | | | |

### 8 (d) INTEREST PAID IN 1999

| *LIABILITY* | *INTEREST PAID IN 1999* | | | |
|---|---|---|---|---|
| **Long-term foreign borrowing** *(original maturity greater than 12 months)* | | | | |
| **Enter country names / Institution(eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder & Inter-Company borrowing*** | | | | |
| ***Other long-term Borrowing with Unrelated companies*** | | | | |
| **Short-term foreign borrowing** *(original maturity 12 months or less)* | | | | |
| **Enter country names / Institution(eg ADB)** | *1.* | *2.* | *3.* | *4. All others combined* |
| ***Shareholder and Inter-Company borrowing*** | | | | |
| ***Supplier credits from Related companies*** | | | | |
| ***Supplier credits from Unrelated companies*** | | | | |
| ***Other short-term Financing*** | | | | |

## PART C: INVESTMENT ABROAD BY THIS ENTERPRISE

***Please complete this section if your enterprise or any of its subsidiaries in Tanzania had investments in (or loans to) foreign enterprises during 1999.***

### 9. FOREIGN DIRECT EQUITY INVESTMENT IN NON-RESIDENT ENTERPRISES

Please list the name, country of location and ownership stake of each non-resident company in which your company owns **10% or more** of the equity, and any non-resident branches of your company ***Please see Note ,3 and 5 on page 3 for guidelines on market value and country of residence respectively***.

### 9(a) AS AT END-1998

| ***Name of non-resident company*** | ***Country of location (please enter below)*** | ***Ownership stake at end-1998 (shareholding)*** | |
|---|---|---|---|
| | | ***(Estimated) Market value*** | ***Percent of total voting rights*** |
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. All others combined | | | |

### 9(b) AS AT END-1999

| *Name of foreign company* | *Country of location (please enter below)* | *Ownership stake at end-1999 (shareholding)* | |
|---|---|---|---|
| | | *(Estimated) Market value* | *Percent of total voting rights* |
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. All others combined | | | |

## 10. FOREIGN PORTFOLIO EQUITY INVESTMENT IN NON-RESIDENT ENTERPRISES

For your company's individual equity holdings in non-resident companies amounting to **less than 10%** of total equity in the foreign company, please group holdings together by country (where these companies are located) and show total investment ***Please see Note 3 and 5 on page 3 for guidelines on market value and country of residence respectively***.

### AS AT END-1998, AND END-1999

| *Country of location (of companies)* | *Total investment* | |
|---|---|---|
| | *Total (estimated) market value at End-1998* | *Total (estimated) market value at End-1999* |
| 1. | | |
| 2. | | |
| 3. | | |
| 4. All others combined | | |

## 11. PROFITS AND DIVIDENDS RECEIVED FROM NON-RESIDENTS AND RETAINED EARNINGS

Please state total profits and dividends received from non-resident companies and retained earnings classified by country, for the *calendar year* 1999. *Please note: If your accounting year is not the calendar year please provide your best estimates based on, for example, aggregating quarterly data.*

| *Country (enter below – see Note 5)* | *Profits earned in 1999* | *Dividends received in 1999* | *Reinvested Earnings for 1999* |
|---|---|---|---|
| 1. | | | |
| 2. | | | |
| 3. | | | |
| 4. All others combined | | | |

## 12. FOREIGN NON-EQUITY ASSETS (CLAIMS ON NON-RESIDENTS)

Please provide the following information by country (directly negotiated with foreign borrowers), in the tables below (***please turn to page 3 and read Note 2b for definitions of non equity, Note 4 on transactions, and Note 5 on country)***:

- *transactions* during 1999.
- *interest received* during the *calendar year* 1999;

***Please do <u>not</u> include foreign currency (or other resident-to-resident ) loans from Tanzania institutions***.

**<u>For banks completing this form</u>:**

- **Please ensure that you include lending (short or long term) to parent and non-parent foreign direct investors or other unrelated non-resident companies in the tables below.**
- **Please note that this question overlaps slightly with the more detailed Question 2 on the Annual Survey for Banks, which is for analytical rather than BOP data compilation purposes. You are kindly requested therefore, to complete both questions**.

### 12 (a) TRANSACTIONS DURING 1999

| ***ASSET*** | ***TRANSACTIONS DURING 1999*** | | | |
|---|---|---|---|---|
| **Enter country names** | *1.* | *2.* | *3.* | *4. All others combined* |
| **Long-term foreign loans** *(original maturity greater than 12 months)* | | | | |
| ***Shareholder & Inter-Company loans*** | | | | |
| ***Other long-term Loans to Unrelated Companies*** | | | | |
| **Short-term foreign loans** *(original maturity 12 months or less)* | | | | |
| ***Shareholder and Inter-Company loans*** | | | | |
| ***Supplier credits with Related companies*** | | | | |
| ***Supplier credits with Unrelated companies*** | | | | |
| ***Other short-term Financing*** | | | | |

## 12(b) INTEREST RECEIVED IN 1999

| *ASSET* | *INTEREST RECEIVED IN 1999* | | | |
|---|---|---|---|---|
| **Enter country names** | *1.* | *2.* | *3.* | *4. All others combined* |
| **Long-term foreign loans** *(original maturity greater than 12 months)* | | | | |
| ***Shareholder & Inter-Company loans*** | | | | |
| ***Other long-term Loans to Unrelated Companies*** | | | | |
| **Short-term foreign loans** *(original maturity 12 months or less)* | | | | |
| ***Shareholder and Inter-Company loans*** | | | | |
| ***Supplier credits with Related companies*** | | | | |
| ***Supplier credits with Unrelated companies*** | | | | |
| ***Other short-term Financing*** | | | | |

## PART D: HISTORICAL DATA ON FOREIGN INVESTMENTS IN THIS ENTERPRISE

**13. If available, please provide historical data (at year-end) of foreign companies/ individuals who own 10% or more equity investment in your enterprise during the period 1993-97**

| **Name of foreign investor** | **Country of Residence** | **EQUITY HELD AT YEAR END** | | | | |
|---|---|---|---|---|---|---|
| | | **‘93** | **‘94** | **‘95** | **‘96** | **’97** |
| 1. | | | | | | |
| 2. | | | | | | |
| 3. | | | | | | |
| All other foreign investors | | | | | | |
| All Tanz. Invest. Combined | | | | | | |

**14. If available, please provide historical data (at year-end) on foreign companies/ individuals who owns less than 10% equity investment in your company during the period 1993-97.**

| **Name of foreign investor** | **Country of Residence** | **EQUITY HELD AT YEAR END** | | | | |
|---|---|---|---|---|---|---|
| | | **‘93** | **‘94** | **‘95** | **‘96** | **’97** |
| 1. | | | | | | |
| 2. | | | | | | |
| 3. | | | | | | |
| All other foreign investors | | | | | | |
| All Tanz. Invest. Combined | | | | | | |

**15. Please state total profits remitted to foreign individuals or organisations, classified by country for the *calendar* year 1993-97 (Please note: If your accounting year is not the calendar year please provide your best estimates based on, for example, aggregating quarterly data.)**

| **Country of Residence** | **DIVIDENDS PAID DURING THE YEAR** | | | | |
|---|---|---|---|---|---|
| | **'93** | **'94** | **'95** | **'96** | **'97** |
| 1. | | | | | |
| 2. | | | | | |
| 3. | | | | | |
| All other foreign investors | | | | | |
| All Tanz. Invest. Combined | | | | | |

**16. Please state total dividends paid to foreign individuals or organisations, classified by country for the *calendar* year 1993-97 (Please note: If your accounting year is not the calendar year please provide your best estimates based on, for example, aggregating quarterly data.)**

| **Country of Residence** | **PROFIT REMITTED DURING THE YEAR** | | | | |
|---|---|---|---|---|---|
| | **'93** | **'94** | **'95** | **'96** | **'97** |
| 1. | | | | | |
| 2. | | | | | |
| 3. | | | | | |
| All other foreign investors | | | | | |
| All Tanz. Invest. Combined | | | | | |

**17. Please give the total retained earnings in *calendar year* 1997 for your enterprises and subsidiaries in Tanzania.**

| **Country of Residence** | **RETAINED EARNINGS** | | | | |
|---|---|---|---|---|---|
| | **'93** | **'94** | **'95** | **'96** | **'97** |
| 1. | | | | | |
| 2. | | | | | |
| 3. | | | | | |
| All other foreign investors | | | | | |
| All Tanz. Invest. Combined | | | | | |

**18. If data is available, please give aggregate totals for 1993-97, of *non-equity liabilities* to non-resident organisations or individuals.**

| | Total as at year end | | | | |
|---|---|---|---|---|---|
| ***Liability*** | *1993* | *1994* | *1995* | *1996* | *1997* |
| Long-term foreign loans *(original maturity greater than 12 months)* | | | | | |
| Shareholder and Inter-company loans | | | | | |
| Other long-term loans | | | | | |
| Short-term foreign financing *(original maturity of 12 months or less)* | | | | | |
| Shareholder and Inter-company loans | | | | | |
| Supplier credits from Related companies Supplier credits from Unrelated companies | | | | | |
| Other short-term Financing | | | | | |

**19. For 1993-97, and if available, please indicate interest paid for each year:**

| | Interest paid | | | | |
|---|---|---|---|---|---|
| ***Liability*** | *1993* | *1994* | *1995* | *1996* | *1997* |
| Long-term foreign loans *(original maturity greater than 12 months)* | | | | | |
| Shareholder and Inter-company loans | | | | | |
| Other long-term loans | | | | | |
| Short-term foreign financing *(original maturity of 12 months or less)* | | | | | |
| Shareholder and Inter-company loans | | | | | |
| Supplier credits from Related companies Supplier credits from Unrelated companies | | | | | |
| Other short-term Financing | | | | | |

## PART E: SUPPLEMENTARY QUESTIONS FOR BANKS AND OTHER FINANCIAL INSTITUTIONS

### PLEASE READ THIS FIRST

**Purpose of survey**

This form collects information to be used by the Government of Tanzania to improve national and international economic policy formulation and for investment promotion purposes. As such, it is a means to improve dialogue between government and the private sector. It complements the Assets and Liabilities Survey (Parts A, B, and C above)

**Confidentiality**

Information will be used only for statistical and policy making purposes, and be published in aggregated form. Data relating to individual organisations will not be made available to anybody outside the Bank of Tanzania, Tanzania Investment Centre and National Bureau of Statistics. Any official of these institutions failing to comply with confidentiality face stern disciplinary actions including summary dismissal and in severe cases prosecution which may lead to imprisonment.

**Collection and submission of data**

Completion of this form is compulsory under section 47 sub-sections (1), (2) and (4), and section 49 of Bank of Tanzania Act of 1995. Failure to comply could result in legal and/or administrative action against non compliance. Please note the due date for return, given at the top of this form, and keep a copy for your reference.

**Help**

If you need help completing the forms, or any explanation of terms or questions on this part of the questionnaire, please contact **Mr C. Assey or Mr S. Mrutu of Bank of Tanzania, telephone 119312**.

### INSTRUCTIONS AND DEFINITIONS

**Reporting basis**

This form requests information and statistics on the stock and inflow of private capital (both short term and long term) through your bank/institution (or group of companies) and on private lending abroad through your bank/institution (or group). Where possible, please use figures from your accounts. *Unaudited data are perfectly acceptable for this purpose*. Some data may not be readily available from your accounts. In these cases, *please provide careful estimates*. We would rather have your best estimate than nothing! If your bank has more than one branch or office in Tanzania, *consolidated data should be submitted on a single form*.

**Valuation**

All values should be reported in **thousands of TZS or USD**. For transactions, please convert amounts denominated in other currencies to TZS or USD at the rate used at the time of the transaction and, for opening and closing positions, the rate applying at the reference date. If the transaction rate is not known, use the mid-point of the buying and selling rate applying at the date of the transaction.

## Definitions

### 1. *Residents and Non-residents*

The definition of resident/non-resident is as appearing in Part A of this questionnaire

### *2. Financial instruments*

### *Trade Credit*

Assets consist of:
1. Prepayments on imports, extinguished upon delivery of the goods or services.
2. Trade credit extended on exports, extinguished by actual payment (postpayment).

Liabilities consist of:
1. Prepayment of exports, extinguished upon delivery of exports.
2. Trade credit received on imports, extinguished by actual payment (postpayment).

### *Other Loans*

Loans are financial assets created through the lending of funds by a creditor (lender) directly to a debtor (borrower). They include loans (different from trade credits) to finance trade, mortgages, other loans and advances, financial leases for the purchase of goods (where payment consists of interest on the outstanding liability, and repayment of the loan liability). Repurchase agreements are treated as a form of securitised loan. They consist of the sale (made with the intention that the transaction will be reversed at a specified future date) of a security such as a government bond by one institution to another.

### *Bridging Loans*

These are usually short-term loans, taken out to help cover the repayment of other loans.

### *3. Maturity*

*Short-term*: original contractual maturity of one year or less.
*Long-term*: original contractual maturity of more than one year.

## PART E.1: LENDING ABROAD (TO NON-RESIDENTS)- ASSETS

| |
|---|
| Please report all Values in thousands of (TZS or USD).<br>PLEASE USE ONLY ONE CURRENCY EITHER TZS OR USD IN COMPLETING THIS FORM |

### LENDING TO NON-RESIDENTS BY LOAN TYPE (FINANCIAL INSTRUMENT)

Please state your total exposure to non-residents (giving stocks at year-end 1998 and 1999, and transactions during 1999) for the following types of lending, distinguishing between long and short-term lending (***please refer to notes & definitions on pages 14 and 15***):

**20. Please state the stock of the amount of your total lending abroad by category of credit as at end 1998 and end 1999.**

| STOCK POSITION | END 1998 | END 1999 |
|---|---|---|
| Trade Credit (short-term)<br>Export<br>Import | | |
| Other short-term (specify)<br>1<br>2<br>3 | | |
| Long-term (specify)<br>1<br>2<br>3 | | |
| **Total stock**<br>**Short-term**<br>**Long-term** | | |

**21. Please state the amount of your total lending abroad by category of credit during 1998 and 1999**

| TRANSACTIONS DURING THE PERIOD | 1998 | 1999 |
|---|---|---|
| Trade Credit (short-term)<br>Export<br>Import | | |
| Other short-term (specify)<br>1<br>2<br>3 | | |
| Long-term (specify)<br>1<br>2<br>3 | | |
| **Total flows**<br>**Short-term**<br>**Long-term** | | |

## PART E.2: BORROWING ABROAD (FROM NON-RESIDENTS) - LIABILITIES

### BORROWING FROM NON-RESIDENTS BY LOAN TYPE (FINANCIAL INSTRUMENT)

Please state your total borrowing on behalf of your client and yourselves from abroad (non-residents) (giving stocks at year-end 1998 and 1999, and transactions during 1999) for the following types of borrowing, distinguishing between long-term and short-term borrowing (***please refer to notes & definitions on pages 14 and 15***)

**22. Please state the stock of the amount borrowed abroad (from non-residents) by type as at end 1998 and 1999.**

| STOCK POSITION | END 1998 | END 1999 |
|---|---|---|
| Trade Credit (short term)<br>Export<br>Import | | |
| Other short-term (specify)<br>1<br>2<br>3 | | |
| Long-term (specify)<br>1<br>2<br>3 | | |
| **Total stock**<br>**Short-term**<br>**Long-term** | | |

**23. Please state the amount disbursed, principal repaid, and interest and other charges paid in respect to each category of short-term and long-term loans during 1998.**

| TRANSACTIONS DURING 1998 | Disbursements | Principal repaid | Interest and other charges paid | Net flows |
|---|---|---|---|---|
| | 1 | 2 | 3 | (1-2-3) |
| Trade Credit (short-term)<br>Export<br>Import | | | | |
| Other short-term (specify)<br>1<br>2<br>3 | | | | |
| Long-term (specify)<br>1<br>2<br>3 | | | | |
| **Total disbursed/ repaid**<br>**Short-term**<br>**Long-term** | | | | |

**24. Please state the amount disbursed, principal repaid, and interest and other charges paid in respect to each category of short-term and long-term loans during 1999.**

| TRANSACTIONS DURING 1999 | Disbursements | Principal Repaid | Interest and other charges paid | Net flows |
|---|---|---|---|---|
| | 1 | 2 | 3 | (1-2-3) |
| Trade Credit (short-term)<br>Export | | | | |
| Import<br>Other short-term (specify)<br>1<br>2<br>3 | | | | |
| Other long-term (specify)<br>1<br>2<br>3 | | | | |
| **Total disbursed/ repaid**<br>**Short-term**<br>**Long-term** | | | | |

## PART F: MOTIVATIONS AND EXPERIENCES OF BANKS AND OTHER FINANCIAL INSTITUTIONS

### 25. What is the likely direction of your bank's lending outside Tanzania, with regard to each type of instrument (tick box), and why?

| | Start / Expand | Maintain | End / | REASON Contract |
|---|---|---|---|---|
| **Lending to non-residents**<br>Trade Credit<br>Export<br>Import<br>Other short-term (specify) | | | | |
| 1<br>2<br>3 | | | | |
| Other long-term (specify)<br>1<br>2<br>3 | | | | |

### 26.What is the likely direction of your bank's borrowing from non-residents (abroad), with regard to each type of instrument (tick box), and why?

| | Start / Expand | Maintain | End / Contract | REASON |
|---|---|---|---|---|
| **Borrowing from non-residents (abroad)**<br>Trade Credit<br>Export<br>Import | | | | |
| Other short-term (specify)<br>1<br>2<br>3 | | | | |
| Other long-term (specify)<br>1<br>2<br>3 | | | | |

### 27. What influence do the following risk guarantee mechanisms have on your lending:

| | |
|---|---|
| Export Credit Agency | |
| Private insurance | |
| Other (Specify) | |

**28. What instruments do you use to hedge against risks associated with borrowing from abroad (by yourselves and your clients)?**

**29. What are the key factors that influence the level of borrowing from non-residents (abroad) on behalf of your clients (and yourselves).**

**30. Please list the key factors in order of importance, you see as most critical in your lending decisions to non-residents (abroad).**

**31. Please list the key factors in order of importance, you see as most critical in your borrowing decisions from non-residents (abroad).**

**32. In which direction is your business likely to be affected by the current initiative towards reviving East African Co-operation as well as the influence of South Africa in the region.**

**33. How significant is your borrowing from correspondent banks abroad for lending to Tanzania residents**

| | | Very significant | Significant | Not significant |
|---|---|---|---|---|
| **1** | Borrowing for lending in foreign currencies | | | |
| **2** | Borrowing for lending in local currency | | | |

**33. How has your borrowing abroad for domestic lending changed over time**

| | | Increased | Not changed | Decreased |
|---|---|---|---|---|
| **1** | Borrowing for lending in foreign currencies | | | |
| **2** | Borrowing for lending in local currency | | | |

**Comment on your views**

**34. What problems (by yourselves or your clients) if any, do you face in making repayments abroad in servicing external debt.**

**35. What incentives and mechanisms can government provide, to make banks more willing to report to government on their operations?**

**36. How do you characterise the level of competition in banking business in Tanzania. Please tick as appropriate**

| | Very high | High | Medium | Low | Very low |
|---|---|---|---|---|---|
| **Level of competition** | | | | | |

**Please give reasons for your opinion**

***THANK YOU FOR YOUR COOPERATION.***

# APPENDIX 5

## Questionnaire on Investments with foreign Assets and Liabilities - Perception

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**Confidential**

National Bureau of Statistics
P.O.Box 796
DAR ES SALAAM
Tel: (255)-51-122722-3
(255)-51-111634
Fax: (255)-51-112352/135601

Bank of Tanzania
P. O. BOX 2939
DAR ES SALAAM
Tel: (255)-51- 110946-52,
(255)-51-110977-79
Fax: (255-51) 112573/113325

Tanzania InvestmentCentre
P. O. Box 938
DAR ES SALAAM
Tel: (255)-51-116328-32
(255)-51-34200
Fax: (255-51) 118253

**June 5th 2000**

Dear Investor,

## CENSUS OF INVESTMENT WITH FOREIGN ASSETS AND LIABILITIES

## PERCEPTIONS FORM

**FORM TYPE**: BOP/2/2000
**COMPANY REFERENCE NUMBER**:…………………….. ***(for internal use only)***
**REPORTING PERIOD**: Year-ends 1999
**DUE DATE FOR RETURN: Thursday 6th July 2000**

### A. GENERAL INFORMATION

| | | |
|---|---|---|
| **Date completed**: | | |
| **Company name**: | | |
| **Name and position of person completing this return**: | | |
| **Company Address**: | | |
| **Tel**: | **Fax**: | **E-mail:** |
| **Please give details of an alternative person whom we may contact in case we have any questions.** | | |
| **Date of Establishment**<br>_____/ _____/ __________ | **Date of Commencing Operations**<br>_____/ _____/ __________ | |

## PLEASE READ THIS FIRST

### Purpose of survey

This form collects information to be used by the Government of Tanzania to improve national and international economic policy formulation and for investment promotion purposes. As such, it is a means to improve dialogue between government and the private sector. It complements the Assets and Liabilities Survey, which is being disseminated to you to capture and classify balance of payments statistics and international investment position.

### Confidentiality

Information will be used only for statistical purposes, and be published in aggregated form. Data relating to individual organisations will not be made available to anybody outside the Bank of Tanzania, Tanzania Investment centre or National Bureau of Statistics***. Government officials failing to comply with confidentiality clause face severe penalties including summary dismissal. This is in accordance with Bank of Tanzania Act, 1995, Tanzania Investment Act, 1997, and the Act establishing National Bureau of Statistics.***

### Collection and submission of data

Completion of this form is compulsory under section 6(b) of the Tanzania Investment Act No. 26 of 1997, Statistical ordinance No. 33 of 1961 establishing the National Bureau of Statistics and section 47 sub-sections (1), (2) and (4), and section 49 of Bank of Tanzania Act of 1995. Failure to comply could result in legal and/or administrative action against non-compliance. Please note the due date for return, given at the top of this form, and keep a copy for your reference.

### Start-up Date

The questionnaire includes questions that require information to be given at particular dates, including start-up. Start-up refers to the year when foreign investment first took place (i.e. date of commencement of the project).

### Help

To help us, please attach a copy of your latest annual financial statements to your completed form. If you need help in completing, or explanation of terms or questions, please refer to the notes attached. Alternatively, please contact ***Mr S. Mrutu of BOT – telephone 119312, Mrs N. Senzia of TIC - telephone 116328 and Mr M. Chimtembo of NBS-telephone 122722***.

**1. To what extent have the following macroeconomic factors affected investment in your business?**

| Very strong positive effect | Strong positive effect | Limited positive effect | **No Effect** | Limited negative effect | Strong negative effect | Very strong negative effect |
|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** |

[*] Note: "at start-up" refers to the year when foreign investment first took place.

| | at start-up* | Now |
|---|---|---|
| Fiscal policy | ( ) | ( ) |
| Monetary policy | ( ) | ( ) |
| Government stability | ( ) | ( ) |
| Composition of government spending | ( ) | ( ) |
| Regulatory Framework | ( ) | ( ) |
| State intervention in private business | ( ) | ( ) |
| Business environment stability | ( ) | ( ) |
| Environmental policy | ( ) | ( ) |
| Foreign policy | ( ) | ( ) |
| Financial sector stability | ( ) | ( ) |

*Please add any additional Information*

**2.To what extent have the availability and condition of the following infrastructures and services affected investment in your business?**

| Very strong positive effect | Strong positive effect | Limited positive effect | **No Effect** | Limited negative effect | Strong negative effect | Very strong negative effect |
|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** |

| | at start-up* | now |
|---|---|---|
| Inland Transport (roads, rails) | ( ) | ( ) |
| Access to seaports | ( ) | ( ) |
| Airports and Air Transportation | ( ) | ( ) |
| Electricity supply | ( ) | ( ) |
| Water supply | ( ) | ( ) |
| Postal services | ( ) | ( ) |
| Telecommunications | ( ) | ( ) |
| Custom services | ( ) | ( ) |
| Immigration facilities | ( ) | ( ) |
| Municipal services (garbage, sewerage, etc.) | ( ) | ( ) |
| Banking services | ( ) | ( ) |
| Credit rating agencies | ( ) | ( ) |

*Please add any additional Information*

* Note: "at start-up" refers to the year when foreign investment first took place.

**3. To what extent have the following financial factors affected investment in your business?**

| Very strong positive effect | Strong positive effect | Limited positive effect | **No Effect** | Limited negative effect | Strong negative effect | Very strong negative effect |
|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** |

| | **at start-up*** | **Now** |
|---|---|---|
| Inflation | ( ) | ( ) |
| Availability of business finance/credit | ( ) | ( ) |
| Interest rates | ( ) | ( ) |
| Depreciation of the domestic currency | ( ) | ( ) |
| National Payment System | ( ) | ( ) |
| Exchange control | ( ) | ( ) |

*Please add any additional Information*

**4. To what extent have the following governance factors affected investment in your business?**

| Very strong positive effect | Strong positive effect | Limited positive effect | **No Effect** | Limited negative effect | Strong negative effect | Very strong negative effect |
|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** |

| | **at start-up*** | **now** |
|---|---|---|
| Regional trade integration | ( ) | ( ) |
| Trade policy | ( ) | ( ) |
| Investment incentives | ( ) | ( ) |
| Bureaucracy | ( ) | ( ) |
| Tax collection efficiency | ( ) | ( ) |
| Effectiveness of the legal system | ( ) | ( ) |
| Land law and administration | | |
| Speed of decision making in the following institutions | | |
| *Tanzania Investment Centre* | ( ) | ( ) |
| *Ministry of Commerce and Industries* | ( ) | ( ) |
| *Tanzania Revenue Authority* | ( ) | ( ) |
| *Immigration* | ( ) | ( ) |
| *Bank of Tanzania* | ( ) | ( ) |
| *Other (specify)* | ( ) | ( ) |

*Please add any additional Information*

* Note: "at start-up" refers to the year when foreign investment first took place.

### 5. To what extent have the following labour factors affected investment in your business?

| Very strong positive effect | Strong positive effect | Limited positive effect | **No Effect** | Limited negative effect | Strong negative effect | Very strong negative effect |
|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** |

| | **at start-up*** | **now** |
|---|---|---|
| Labour legislation | ( ) | ( ) |
| Restrictions regarding bringing in expatriates | ( ) | ( ) |
| Labour stability | ( ) | ( ) |
| Minimum wage levels | ( ) | ( ) |
| Availability of highly educated employees | ( ) | ( ) |
| Availability of skilled employees | ( ) | ( ) |
| HIV / Aids | ( ) | ( ) |

*Please add any additional Information*

### 6. To what extent have the diverse factors presented below affected investment in your business?

| Very strong positive effect | Strong positive effect | Limited positive effect | **No Effect** | Limited negative effect | Strong negative effect | Very strong negative effect |
|---|---|---|---|---|---|---|
| **1** | **2** | **3** | **4** | **5** | **6** | **7** |

| | **at start-up*** | **now** |
|---|---|---|
| Corruption | ( ) | ( ) |
| Internal security | ( ) | ( ) |
| Domestic political scenario | ( ) | ( ) |
| Regional political scenario | ( ) | ( ) |
| Domestic economic situation | ( ) | ( ) |
| Global economic situation | ( ) | ( ) |
| Market expansion | ( ) | ( ) |
| Electricity tariff | ( ) | ( ) |
| Water tariff | ( ) | ( ) |
| Zanzibar route | ( ) | ( ) |
| Smuggling | ( ) | ( ) |

*Please add any additional Information*

* Note: “at start-up” refers to the year when foreign investment first took place.

**7. Please specify the most important factors that influenced your initial decision to invest in Tanzania.**

**8. What is the likely direction of your investment in Tanzania in the medium-term?**
Please tick appropriate box.

| Expansion | No change | Contraction |
|---|---|---|
| | | |

**Please specify which factors would influence such decision.**

**9. What measures can the government undertake to improve investors' willingness to report to the government on their operations.**

**10. Please identify or tick below the most reliable sources of information for your initial investment decisions.**

| | |
|---|---|
| Local media (please specify) | |
| International media (please specify) | |
| Government (please specify agency) | |
| Donors and international agencies (please specify) | |
| Business associates | |
| Competitors | |
| Word of mouth | |
| Other (please specify) | |

**11. Generally, how do you find the investment policy and climate in promoting private capital flows in Tanzania?**

**12. Any other comment regarding the effect of Government policies on your organi sation.**

***THANK YOU FOR YOUR COOPERATION.***