ABBREVIATIONS AND ACRONYMS

AGOA	Africa Growth and Opportunities Act
AIDS	Acquired Immune Deficiency Syndrome
BEST	Business Environment Strengthening for Tanzania
BOP	Balance of Payments
BOT	Bank of Tanzania
BPM5	Balance of Payments Manual, 5th Edition
BRELA	Business Registration and Licensing Agency
BV	Book Value
CMSA	Capital Markets and Securities Authority
COMESA	Common Market for Eastern and Southern Africa
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DAWASA	Dar es Salaam Water and Sewage Authority
DDI	Domestic Direct Investment
DFI	Development Finance International
DOD	Disbursed Outstanding Debt
DRC	Democratic Republic of Congo
DSE	Dar es Salaam Stock Exchange
EAC	East African Community
EADB	East African Development Bank
EBA	Everything But Arms
EPZ	Export Processing Zones
ESIPP	EU/SADC Investment Promotion Programme
EU	European Union
FDEI	Foreign Direct Equity Investment
FDI	Foreign Direct Investment
FPC	Foreign Private Capital
FPI	Foreign Portfolio Investment
FSSA	Financial System Stability Assessment
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GSP	Generalized Scheme of Tariff Preferences
HIPC	Heavily Indebted Poor Countries
HIV	Human Immunodeficiency Virus
IFC	International Finance Corporation
IFRS	Internatinal Financial Reporting Standards
IIP	International Investment Position
IMF	International Monetary Fund
IPA	Investment Promotion Agency
LDCs	Least Developed Countries
MEM	Ministry of Energy and Minerals
MtDC	Mtwara Development Corridor
MTS	Multilateral Trading System
MV	Market Value
NACP	National AIDS Control Programme
NBS	National Bureau of Statistics
NDC	National Development Corporation
OCGS	Office of the Chief Government Statistician
OECD	Organisation for Economic Co-operation and Development
PCI	Private Capital Initiatives

PPP	Public-Private Partnership
PSED	Private Sector External Debt
PSRC	Parastatal Sector Reform Commission
SADC	Southern African Development Community
SDF	SADC Development Fund
SDI	Spatial Development Initiatives
SEA	South East Asia
SEZ	Special Economic Zones
TACAIDS	Tanzania Commission for HIV/AIDS
TANESCO	Tanzania Electric Supply Company Ltd.
TANROADS	Tanzania National Roads Agency
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
THA	Tanzania Harbours Authority
TIC	Tanzania Investment Centre
TIR01	Tanzania Investment Report of 2001
TIR04	Tanzania Investment Report of 2004
TNBC	Tanzania National Business Council
TRA	Tanzania Revenue Authority
TTCL	Tanzania Telecommunications Company Ltd.
TZS	Tanzanian Shilling
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
URT	United Republic of Tanzania
USA	United States of America
USD	United States Dollar
VAT	Value Added Tax
WIR	World Investment Report
ZAFREZA	Zanzibar Free Economic Zone Authority
ZFPA	Zanzibar Free Port Authority
ZIPA	Zanzibar Investment Promotion Agency
ZTC	Zanzibar Tourism Commission

PREFACE

The Tanzania Investment Report of 2004 (TIR04) is a follow-up of a similar study on Foreign Private Capital Flows into Tanzania produced in 2001 with the objective of monitoring closely the causes, magnitude, composition and sustainability of the flows in the country. Akin to the previous report, TIR04 has gathered and analysed valuable information linked to private capital flows for facilitating and indeed enhancing the formulation and conduct of Tanzania's macroeconomic and investment policies. In this respect, TIR04 is a useful document to a wide range of stakeholders including policy makers, the private sector, development partners, research institutions, the academia and to the general public.

Besides updating existing data on private capital flows, TIR04 has a broader geographical coverage for, unlike Tanzania Investment Report of 2001 (TIR01), it includes Zanzibar and hence its contents reflect, to a large extent, the macroeconomic impact of the flows on the entire Tanzanian economy. Like in the previous report (TIR01), this report includes investors' perceptions on Tanzania's investment climate with a view to address these concerns.

These additions have rendered TIR04 richer not only in terms of the data on magnitudes and sectoral distribution of foreign private investments but also the analysis of further policy actions and strategies for investment promotion. The analysis of Tanzania's macroeconomic and investment policies together with current government initiatives as highlighted in TIR04 avail existing and potential investors with sufficient and up-to-date information needed in investment decisions and for enhancing investors' confidence.

Contemporary developments in the domestic economy coupled with other global changes have necessitated and given a new impetus for close monitoring of foreign private investments not only in Tanzania but also in other developing countries. Further liberalization of the capital account in May 2003 allowed participation of foreign investors in the Dar es Salaam Stock Exchange (DSE). This is clearly a window for foreign private capital flows that raises the need for closer monitoring of private capital flows to address volatility and other undesired effects of such flows. The importance of comprehensive monitoring of foreign private investment in a liberalized environment cannot therefore be over-emphasised. However, for effective monitoring of foreign private investment and the formulation of appropriate macroeconomic and investment policies, it is important to recognize the role and contribution of the private sector and the entire business community.

Dialogue on reforms between the government and the private sector has gone a long way to remove impediments and improve the business environment. This has improved investment environment and promoted private sector-led economic growth for the country.

I, therefore, appeal for enhanced and sustained co-operation between the public and private sectors building on the already existing and well-established public-private sector partnership in Tanzania.

Daudi T. S. Ballali

GOVERNOR, BANK OF TANZANIA

December 2004

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In Tanzania Mainland, the Tanzania Investment Report of 2004 (TIR04) was jointly 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), Dr. J. Kyaruzi (Director of Research – Tanzania Investment Centre) and A. Athmani (Director of Economic Statistics – National Bureau of Statistics). The technical team was led by S. Mrutu and involved F. Rutabanzibwa, J. Kaniki, C. Assey, Z. Kiwelu, N. Moshy, P. Mboya, G. Mwambe and E. Rweyemamu, (all from the Bank of Tanzania); S. Kuwite and N. Tibenda (Tanzania Investment Centre), and M. Masuka (National Bureau of Statistics). The Private Capital Flows Oracle-based Software was designed and developed by F. Shayo, S. Sufiani, and F. Frederick (Bank of Tanzania) who also participated in data migration exercise from the earlier MS Access software.

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Rationale

Aware of development opportunities associated with private investments, Tanzania has since the mid 1980s made a number of efforts to attract foreign investment. The actions taken by the government to address investment impediments included policy and legislation reforms. In particular, reforms on trade, exchange rate and monetary policies as well as concerted efforts made in promoting private investment, good governance and improved infrastructure and social services have contributed to favourable investment environment in the country. In addition, the enhanced pace of globalisation and regional integration such as the East African Community (EAC) and the Southern African Development Community (SADC) have, partly, contributed to increased flow of Foreign Private Capital (FPC) into Tanzania.

The increase in FPC into Tanzania especially Foreign Direct Investments (FDI) has posed new challenges on monitoring the performance of the economy and overall macroeconomic policy formulation. Unequal distribution of FDI across sectors and regions is an additional challenge to the sectors and regions with low FDI. It is for these reasons that the Government, in 2001, initiated efforts for monitoring FPC flows. The survey is a follow-up from that of 2001 (TIR01) and intended to consolidate and build on the good progress made in the previous survey.

Objectives

The study involved conducting an extensive countrywide survey of fully or partially foreign owned companies. The main objectives of conducting this survey was, therefore, to consolidate gains from the previous survey on collecting, analysing and monitoring all types of Foreign Private Capital (PFC) for Balance of Payments (BOP), investment promotion and facilitation, and macroeconomic policy formulation. The specific objectives were to:

- update information on FPC for 2000 and 2001, and provide the basis for projections, and further policy analysis,
- extend the coverage of survey to include Zanzibar,
- collect and analyse information on Private Sector External Debt (PSED) to facilitate future debt data monitoring, and
- examine aspects of economic linkages of FPC to the domestic economy.

Findings on Investment Data

Foreign Private Investment into Tanzania is increasing fast…

Flow of FPC into Tanzania has been on the increase over the past decade and has significantly contributed to GDP growth. The stock of FPC increased substantially from USD 2,024.5 million in 1999 to an estimated level of USD 5,963.0 million by 2004, suggesting that foreign investors have identified many profitable investment opportunities in the Tanzanian economy. Limited access to domestic credit has constrained domestic investment which is, in part, the reason why the government embarked on liberalization of the country’s economy.

… and most of these flows are channelled through the domestic private sector.

More importantly, these flows are channelled into the private sector, which is considered dynamic and efficient in resource allocation. The role of the Government, in this respect, has been limited to that of strengthening policy environment that promotes private sector, which is regarded as the engine of growth.

Most of the foreign private investments are in the form of FDI…

Most of the foreign private investments are in the form of FDI, which are primarily intended to add to the economy's capital formation and hence create potentials for expanded production capacity in the economy. Survey results have shown that FDI has accounted for an average of about 85 percent of the total FPC stock in Tanzania during the 1998 – 2001 period. The other types of FPC such as Portfolio and Other Foreign Investments, mainly debt (short and long-term borrowings), accounted for the rest (15 percent). Though Portfolio and Other Foreign Investments account for relatively smaller share, they may lead to instability in the financial market due to their volatility and debt creation nature, if not well monitored and regulated.

Large share of FDI and overall investments are financed through equity and long-term debt…

Direct equity has featured as the dominant form of financing for the surveyed companies. On average, direct equity accounted for about 62 percent of the total stock of FDI during the 1998 – 2001 period. The other forms of financing i.e., short and long-term borrowings from related and unrelated companies abroad accounted for the remaining 38 percent. The pattern of financing indicates a debt-equity ratio of 0.4 (based on the stock of FDI). Higher equity component in the FDI stock reflects high level of confidence investors have on the investment climate in the country.

The financing components of FPC show that the equity component of the total stock was high during the 1999 – 2001 period. The debt-equity ratio for the entire FPC was 0.6 while that of FDI alone was 0.4. The higher debt-equity ratio on total stock of FPC arose from additional borrowing from other sources including unrelated companies abroad. The high component of debt element in companies with foreign investments (which forms a small portion of the private sector companies in the entire economy) calls for increased efforts in the monitoring of the Private Sector External Debt (PSED) because it is part of the national external debt and hence influences the national debt policy and strategy.

… and survey results reveal more PSED than in official records.

The debt component of FPC is quite substantial as shown by their debt-equity ratios. Survey results revealed that PSED (both disbursements and repayments) are higher when compared to official debt statistics. Possible explanation could be under-coverage of PSED by the official Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) maintained at the Bank of Tanzania (BOT). This may, partly, be due to non-capturing of short-term loans by the system and also non-adherence by some companies to the regulations governing external borrowing.

The existence of a large discrepancy between survey results and official debt statistics implies:

- the need for the BOT to put in place additional measures to ensure comprehensive monitoring of short and long-term PSED, including reviewing/enforcing the regulations governing external borrowing by the private sector, and
- the possibility of undermining the implementation of the national debt policy due to lack of vital information on debts, especially terms of borrowing such as type of currency of which debt are to be settled with, rate of interest, repayment schedules and their further implications on monetary, fiscal and exchange rate policies.

FDI flow is mostly into Mining, Manufacturing, and Tourism but relatively little into Agriculture…

Like the previous survey, the current survey results show that the dominant sectors in FDI flows into Tanzania are Mining, Manufacturing and Wholesale and retail trade (including tourism). This is not particular for Tanzania but a worldwide trend, according to World Investment Report (WIR) of 2004. The previous survey results showed that Manufacturing sector was the most dominant in terms of FDI inflows while the present survey results show that the Mining sector has taken the lead. Investment in the Mining sector is still substantial, accounting for 28 percent of total FDI stock in 2001. This is, however, a decline of 6 percent from 34 percent in 1999. The trend shows that major mining companies commenced operations after passing through the investment stage in the second half of 1990s. The surge of investments in the Manufacturing sector reflects the general Government policy of privatisation and mergers and acquisitions.

Agriculture, the largest sector in the economy with immense investment potentials, employing about 75 percent of the total population, contributing about 47 percent of GDP, directly producing about 45 percent of total exports, and the key target sector in the fight against poverty, is among the least in attracting FDI. The sector is still characterized by small-scale peasant farming. Mechanization and large scale commercial farming is limited, partly, due to the past land legislation despite the existence of arable land and the presence of conducive weather that supports production of a wide range of commodities.

… and coming from a diversity of traditional and non-traditional source countries with regional investors gaining prominence…

Survey results show that FDI stock in Tanzania is still dominated by OECD countries particularly UK, Canada, Japan and USA. As a group, OECD countries, accounted for 57.2 percent of the stock of FDI in 2001, followed by SADC (24.5 percent) and EAC (7.3 percent). However, the share of OECD countries in FDI stock declined from 61.5 percent in 1999 to 57.2 percent in 2001. Similarly, the share of FDI from all other countries (including the rest of Africa) declined substantially from 25.9 percent in 1999 to 11.0 percent in 2001. The share of FDI stock from SADC and EAC countries on the other hand increased from 10.1 percent and 2.5 percent in 1999 to 24.5 percent and 7.3 percent respectively in 2001. SADC and EAC together increased their share of FDI stock from 12.6 percent in 1999 to 31.8 percent in 2001. The trend has remained the same through 2004, according to TIC records. The strength of regional investors is more vivid when looking at FDI flows. In 2001, regional investors accounted for 42.2 percent of total FDI flows compared to 52.2 percent from OECD countries.

A key observation from the above findings is the increased investment from regional investors (SADC and EAC), which is a switch from OECD and all other countries. Regional investors are, however, dominated by those from South Africa and Kenya.

… and concentrated in particular regions.

Regional distribution of FDI in Tanzania shows that Tanzania Mainland accounted for an average of 96 percent of the FDI stock during 1999 – 2001 while Zanzibar accounted for only 4 percent. The distribution pattern between Tanzania Mainland and Zanzibar indicates fairly low investments in Zanzibar partly due to lack of investment policy, outdated investment code (1986) and too many institutions dealing with investments. These deficiencies are, however, being addressed and Zanzibar has now a new investment development policy in place, the new investment code has been approved by the cabinet and all investment promotion agencies are in the process of being merged. These measures are expected to substantially improve the investment inflows to Zanzibar.

Regional distribution of FDI for all the 26 regions in Tanzania (21 in Mainland and 5 in Zanzibar) shows that high concentration is in Dar es Salaam with 51.7 percent of total FDI stock during 1999 – 2001. This is followed by Shinyanga (11.5 percent), Mwanza (10.8 percent) and Arusha – including Manyara (8.3 percent). Others are Morogoro (5.5 percent) and Urban West – Zanzibar (2.4 percent). The rest of the regions, each accounting for between 0 – 2 percent. Low FDIs are in Ruvuma, Kagera, Singida, Lindi and Rukwa regions on the Mainland and North and South Pemba regions in Zanzibar.

The regions with high concentration of FDI are those endowed with a variety of natural resources and have better social and economic infrastructure. Development of social and economic infrastructure by the government in regions where they are inadequately developed is necessary in order to increase the prospects of these regions to attract investments. In addition, regions themselves should play a pro-active role in identifying and promoting investment potentials available in their areas.

Companies with foreign investments have created some economic links to the domestic economy….

Survey results show that companies with foreign investments have created several links to the domestic economy. For instance, domestic investors have been linked to foreign investors through partnership arrangements. However, the share of companies with foreign investments owned by Tanzanians is, although growing slowly, still low. It is shown that during 1999 – 2001, about 13 percent of the total stock of shares in companies with foreign investments was owned by Tanzanian investors compared to below 10 percent prior to 1999. This remains a great challenge to policy makers on how to enhance partnership with companies with foreign investments as a way of boosting the absorption of spill over effects associated with FDI inflows. Much of the stake by domestic investors is in the Manufacturing sector that accounted for an average of 53.9 percent of the total local ownership during 1999 – 2001. Other sectors where domestic investors have substantial stake are Financial and insurance (11.6 percent) followed by Wholesale and retail trade (10.3 percent) and Transport, storage and communication (9.1 percent).

Links to the Financial sector, and Goods and Labour markets

Other links are through the Financial sector, in particular the banking sub-sector through borrowing. An average of 14 percent of total borrowing by the surveyed companies during 1999 – 2001 was sourced from domestic banks. This level can be considered to be low by any standard, hence the need for stepping up efforts to addressing issues related to credit provision. Market links to both domestic consumers as well as to foreign consumers, and links to the domestic labour market are also substantial. For example, the surveyed companies reported a combined employment level of 104,422 by year 2002, out of which 97 percent were Tanzanians. It is, however, not clear as to which proportion of this employment level is attributable to new investments. This is an area that needs further research.

Findings on Investors' Perceptions

General investors' confidence is still very high

Most investors showed favourable perceptions on the prevailing investment climate in Tanzania. There are strong and positive perceptions on some factors, while there are some reservations on a few others. The average perceptions have been positive where 72.2 percent of all the surveyed investors indicated willingness to expand their investments in Tanzania, while 22.5 percent said they would maintain the present levels. Investors cited the most important aspects on their considerations to be appropriate macroeconomic environment and existence of peace and political stability in the country. Where favourable opinion was indicated, it reflects the positive impact of measures implemented by the Government on improving investment climate, while reservations implied the need for additional corrective measures.

Strong positive opinions was on the following factors:

- Economic factors, especially, general conduct of trade policies including market expansion, regional economic integration, general conduct of macroeconomic policy that has led into sustained and steady economic growth, and appropriate conduct of monetary policy that has led into low inflation rate,
- Domestic political stability and prospects for stability in the Great Lakes region, and
- Banking services, liberalization of the capital account and telecommunication services.

Areas of major concern that need policy intervention are:

- bureaucracy and corruption, slow legal reforms, tax administration and slow government decision-making processes,
- unreliable supply and high tariffs of electricity, water and telecommunications,
- inadequate inland transport infrastructure, and
- limited availability of skilled labour.

CHAPTER ONE

INTRODUCTION

Tanzania's effort towards promoting economic growth has encompassed, among others, formulation of appropriate macroeconomic policies, especially, those that take recognition of the role of the private sector in the economy. The private sector is considered the engine of growth following major policy reforms that started in mid 1980s which led to the shift from command economy to market oriented economy. One of the major areas of focus since then has been to promote private investment, from both domestic and foreign sources. Government's efforts to create good investment climate and high pace of globalisation, including strengthening of regional groupings such as SADC and EAC, in which Tanzania is a member, have played an important role in the increase of foreign private capital into Tanzania, particularly since mid 1990s.

The World Investment Report (WIR) of 2004 reveals that, at a global scale, FDI flows to developed countries fell by 25 percent from USD 490.0 billion in 2002 to USD 367.0 billion in 2003, while the flows to developing countries rose by 9 percent from USD 158.0 billion in 2002 to USD 172.0 billion in 2003. The increase in Foreign Private Capital (FPC) to Tanzania especially FDI is consistent with the African trend. For instance, Africa as well as Asia and Pacific have seen an increase in FDI inflows while Latin America and the Caribbean experienced a continuous decline. In 2003 for example, Africa recorded 28 percent higher inflows (USD 15 billion, up from USD 12.0 billion in 2002), driven mainly by natural-resource projects. Generally, global inflows of FDI declined in 2003 for the third year in a row to USD 560.0 billion.

The increase in FPC into Tanzania especially FDI has created a challenge on monitoring the performance of the economy and overall macroeconomic policy formulation, especially when considering its links to monetary and fiscal policies, exchange rate and debt management policies. Further, the sectors and regions, which received low FPC, need to intensify their promotional efforts to attract more investments.

The survey is as a follow-up attempt from that of 2001, which was intended to consolidate and build on the good progress made in the previous survey. The main objective of conducting this study is therefore to consolidate gains from phase one on collecting, analysing and monitoring all types of FPC for Balance of Payments, investment promotion and macroeconomic policy formulation. Specific objectives include; updating the information for 2000 and 2001, and providing the basis for projections and further policy analysis; extending the survey to include Zanzibar; collecting and analysing information on Private Sector External Debt (PSED) data to facilitate future debt data monitoring; and examining aspects of economic linkages to the domestic economy.

The survey on FPC flows that was conducted during 2002/03 covered all sectors of the economy and all regions in Tanzania Mainland (801 companies) and Zanzibar (142 companies). The survey was conducted with a view to obtain information for 2000 and 2001 as a way of updating information contained in Tanzania Investment Report (2001) and provides basis for projections. However, for purposes of enriching the analysis, estimated data for 2002 through 2004 have been incorporated using information obtained from other sources such as Tanzania Investment Centre (TIC), the Parastatal Sector Reform Commission (PSRC) and the Ministry of Energy and Minerals (MEM).

As much as possible, the conduct of the survey and analysis of the information was based on recommendations of the IMF Balance of Payments Manual Version 5 (BPM5), which require grouping of FPC data into Direct Investment, Portfolio Investment and Other Foreign Investments. On this basis, two sets of questionnaire were designed in the Tanzania Mainland, namely, Local and Foreign Assets and Liabilities (LFAL) and Private Sector External Debt (PSED) to capture information on investments, social and corporate responsibility and perceptions; and debt respectively while in Zanzibar, there was additional set of questionnaire on perceptions.

In Tanzania Mainland, three institutions namely; Bank of Tanzania (BOT), Tanzania Investment Centre (TIC) and National Bureau of Statistics (NBS) jointly conducted this survey whereas in Zanzibar, Zanzibar Investment Promotion Agency (ZIPA), the Office of Chief Government Statistician (OCGS) and the Bank of Tanzania, Zanzibar Branch (BOT – Zanzibar) were involved.

Good organisation, high commitment by the participating institutions and co-operation by investors ensured high quality of response, which was 87 percent for Tanzania Mainland and 97 percent for Zanzibar. Detailed methodological aspects of the survey are described in **Appendix 2.**

This report is organised into eight chapters. The next chapter highlights recent macroeconomic performance for Tanzania paying special attention to key policy measures adopted by the Union and Zanzibar governments to improve investment climate in the country. Chapter three through six present main findings of the study in which FPC, PSED, FDI linkage to the domestic economy and investors' perceptions are analysed. The main findings and policy implications are provided in chapter seven while chapter eight focuses on the assessment of the survey and the way forward.

CHAPTER TWO

RECENT MACROECONOMIC AND INVESTMENT DEVELOPMENTS

2.1 Introduction

The main focus of this chapter is to assess efforts made by the Government of Tanzania in creating a favourable investment environment for smooth operations of the private sector. It reviews recent macroeconomic changes and major policy actions undertaken by the government to ease operations of the private sector investments and provides some highlights on initiatives to attract Foreign Private Capital (FPC) at the international and regional levels.

2.2 Macroeconomic Developments

Tanzanian economy grew steadily from a GDP growth rate of about 3.6 percent in 1995 to 6.2 percent in 2002 but slowed down to 5.7 in 2003 due to low agriculture output caused by unfavourable weather condition during 2002/03. It is also important to note that this growth was achieved at the time when global GDP growth rate increased from 1.8 percent in 2002 to 2.6 percent during 2003 and that of Sub-Saharan Africa declined to 2.4 percent in 2003 from 3.3 percent in 2002. The country has continued to maintain prudent monetary and fiscal policies that have led to a sustainable low level of inflation. The annual inflation rate showed a continuous decline from 27.4 in 1995 to 4.4 in 2003 mainly the result of prudent fiscal and monetary policies. The selected macroeconomic indicators for the years 1995 through 2003 are summarized in **Table 2.1.**

The export sector has also performed considerably well as a result of reform measures. For instance, while the value of traditional exports increased by 8.1 percent from USD 206.1 million in 2002 to USD 222.7 million in 2003, that of non-traditional exports increased by 32 percent in 2003 to USD 919.7 million from USD 696.5 million in 2002. Following increased gold production, gold exports have grown sharply, increasing by 46.3 percent to USD 499.0 million in 2003 from USD 341.1 million in 2002. On the other hand, the rate of import growth was higher than that of exports due to increased imports of capital, intermediate and consumer goods. However, the overall balance of payments remained favourable during the period with a surplus of USD 402.8 million recorded in 2003. The Government continued with efforts to enlarge markets and enhance regional cooperation by negotiating a Customs Union with Kenya and Uganda.

Table 2.1: Selected Macroeconomic Indicators, 1995 – 2003

Year	1995	1997	1999	2000	2001	2002	2003
GDP Growth %	3.6	3.3	4.7	4.9	5.6	6.2	5.7
GDP (Mill. USD)	4,865.7	7,092.3	8,635.9	9,027.6	9,425.5	9,498.3	10,264.0
Inflation rate (p. a) %	27.4	16.1	7.8	6.0	5.2	4.5	4.4
Fiscal Deficit/GDP	-0.4	-2.6	-1	-1.8	-0.3	-0.2	-3.0
Fiscal Deficit/GDP (excl grants)	-2.4	-1.7	-5.8	-4.7	-4.1	-4.6	-7.1
Export/GDP	0.2	0.2	0.1	0.1	0.2	0.2	0.2
Imports/GDP	0.4	0.3	0.3	0.2	0.2	0.2	0.3
Current account balance /GDP	-9.6	-3.1	-9.6	-5.5	-5.1	-2.2	-4.4

Current account balance/GDP (excl. grants)	-18.8	-8.8	-14.4	-10.3	-9.5	-6.5	-9.8
FDI Flow/GDP	0.0	0.0	0.1	0.0	0.1	0.0	0.0
Exchange rate (p. a)	574.8	612.1	744.9	800.4	876.4	966.6	1,038.2
Exchange rate (e. p)	558.2	624.4	797.3	803.3	916.3	976.3	1,063.5
Gross Reserves (Mill. USD)	623.1	599.0	775.6	974.4	1,156.6	1,529.0	2,037.8
Import cover (Months)	6.6	3.8	4.2	5.7	6.3	8.4	9.0
Total Investment/GDP	19.6	14.9	15.5	17.6	17.0	18.9	18.5
O/w Private Investment/GDP	10.4	12.0	12.4	11.6	11.6	11.7	n. a
Savings/GDP	2.5	6.0	5.3	11.0	11.2	13.9	n. a

Source: Bank of Tanzania; Various Publications
Note: p. a = period average; e. p = end period; n. a = not available

Regarding fiscal developments, the share of tax revenue in total GDP ranged between 10 and 12 percent. Grants and foreign aid, amounting to between 10 and 12 percent of GDP, has made it possible for the government to spend more than it collects from taxes. The government's target is to increase tax revenue to 13.9 percent of GDP in the medium term and concentrate its expenditure on priority sectors designated to alleviate poverty. Recent tax reform measures have included modernizing the Tanzania Revenue Authority (TRA) in order to improve efficiency in tax administration and collection, and also abolishing some of the taxes and levies that were burdensome to businesses.

2.3 Investment Climate for the Private Sector

In 2000 through 2004, investment climate for the private sector's participation in the economy continued to make noticeable improvements. Some recent major developments in the country's economy include low inflation, sustained high GDP growth rate, relatively stable exchange rates and improved infrastructure that have been instrumental in attracting FPC flows from both domestic and, more significantly, foreign sources. The government has lent its support for the emergence of private sector-led economic growth. In this respect, the Tanzania National Business Council (TNBC) was established and has provided a forum for public/private sector dialogue to improve business environment in the country. TNBC addresses investment issues affecting domestic and foreign investors through respective round table meetings.

In addition, the Government has embarked on the implementation of a programme of Business Environment Strengthening for Tanzania (BEST). The purpose of the programme, whose implementation started in December 2003, is to reduce the burden of businesses by eliminating as many procedural and administrative barriers as possible and to improve the quality of services provided by the government in the private sector including commercial dispute resolutions. The BEST's five-year plan shows that the targets will be achieved through five inter-linked components (see **Box 2.1**). There are other ongoing initiatives to reform the business licensing system to make it a regulatory obligation than a source of revenue to the government.

The government's commitment to improve the private sector and attract investment has been awarded an international recognition. The country received an accreditation in the African countries improvement index report, published by the Centre for International Development at Harvard University in the USA. It was ranked ninth in the report, titled "The Africa Competitiveness Report (2004)",

Mr. Samwel Sitta (right), Chief Executive Officer of TIC receiving the Africa Investor award for Best Promotion Agency of the Year (2004).

Furthermore, in 2004 the Tanzania Investment Centre (TIC) was voted the best investment promotion agency in Africa by Africa Investor (Ai)[1].

2.4 Some Recent Institutional and Infrastructure Developments

Tanzania Investment Centre (TIC) continued with the crucial role of offering investment promotion services and acting as a 'one-stop shop' helping

Box 2.1: Summary of the Inter-linked Components of the BEST Programme

Components	Main Outputs
Achieving Better Regulation	o Unnecessary regulations removed o Sustainable process established for ensuring business - friendly laws, regulations and administrative procedures o Improved efficiency and transparency of government institutions dealing with business
Improving Commercial Dispute Resolution	o Improved accessibility to the court system for formal and informal business o Speed and quality of service provided by court system for business improvement
Strengthening the Tanzania Investment Centre	o Increased number and value of local and foreign investment in Tanzania o Enhanced promotion of Tanzania as investment destination
Changing the Culture of Government	o Improved customer service ethos for services provided to the private sector by the public and judicial service
Empowering Private Sector Advocacy	o Improved capacity of private sector stakeholders to identify regulatory problems and solutions and advocate for an improved business environment

Source: URT (BEST programme Volume 1, 2003)

benchmarking macroeconomic and investment climate success factors. Furthermore, in the African Foreign Investors Survey Report (2003) by UNIDO, Tanzania ranked the first in Investment Promotion Agency (IPA) performance between 2000 and 2002 and also the first in sales growth in 2002 by foreign investors' perceptions.

to lessen the burden of regulation, taxation and bureaucracy that constrains investment. As a result, TIC has minimized remarkably the time for service delivery. In 2004, it registered 454 projects worth USD 1,246 million, an increase of 82.0 percent from 2003

1 For further details, see htpp://www.idcz.co.za

where it registered 372 projects. TIC participated in the designing of the BEST programme. TIC in collaboration with various regional authorities, has organized seminars to promote entrepreneurship and investment. It also participated in organizing investors' forum in May 2003 whereby domestic and foreign investors and other stakeholders were informed of investment opportunities available in the country. In addition, TIC has established zonal offices and a department charged with the responsibility of assisting domestic investors in linking with foreign investors for joint venture purposes, preparing bankable projects, organizing seminars and meetings for domestic and foreign investors as well as general public in order to improve entrepreneurship skills, and inform them about the various investment opportunities in the country.

National Development Corporation (NDC) is mandated by the government to mobilize and channel investment resources into the industrial sector with the aim of increasing activities that will add value to Tanzania's resource base for domestic and export markets. Among other activities, NDC is overseeing the implementation of the Export Processing Zones (EPZ) and Spatial Development Initiatives (SDI). The Government in 2002 established Export Processing Zones (EPZ) aimed at attracting investments in agribusiness, textiles and electronics. EPZ are tax free zones and, therefore, expected to attract significant foreign private investment. Through the EPZ Act (2002), the government has mandated NDC to initiate, develop and manage operations under the EPZ programme. By the end of 2004, seven companies had been licensed under EPZ with a combined investment of USD 72 million, which created 1,200 direct jobs. In order to mobilize more funds for the development of infrastructure and provision of serviced industrial plots, the NDC undertook to attract private participation through the mobilization of Private Capital Initiatives (PCI).

The government has taken initiatives to adopt Special Economic Zone (SEZ – Tanzanian Mini-Tiger Plan 2020) the key objective being to accelerate economic growth and reduce poverty by creating a competitive environment for attracting domestic and foreign private investment. The focus of SDI is currently on Mtwara Development Corridor (MtDC).

Financial sector reforms have resulted into significant increase in the number of financial institutions and improvement in the efficiency and quality of financial services provision. A total of 26 banks and 6 non-bank financial institutions were already established in Tanzania Mainland by July 2004[2]. This has resulted into the creation of new environment under which financial institutions operate. However, the availability of long-term financing (loans) has continued to be inadequate. In addition, the establishment of Capital Markets and Securities Authority (CMSA) in 1994 and the Dar es Salaam Stock Exchange (DSE) in 1998 opened an extra window for resource mobilization from foreign sources to complement domestic savings. In general, Tanzania is moving cautiously towards full liberalization of capital account, avoiding speculative short-term capital flows[3]. DSE is expanding, but at a slow rate in terms of increase in the number of listing and

[2]See www.bot-tz.org

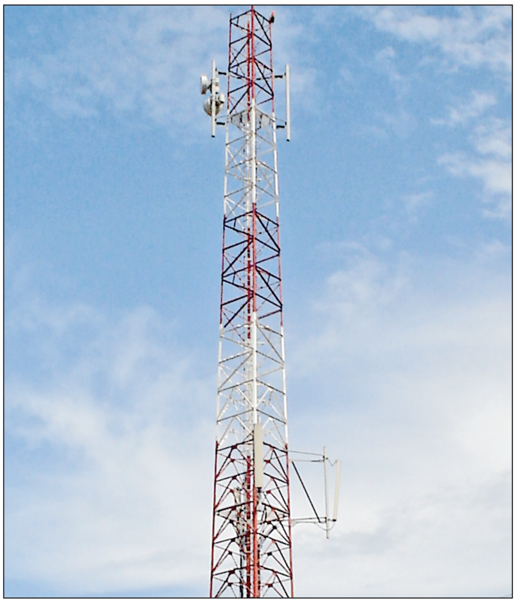
[3]For more details see Foreign Exchange Regulations, 1998 and Foreign Exchange Circular no. 6000/DEM/EX.REG/58 of 24th September 1998.

share transactions. By end of December 2004, only six business establishments were listed by the CMSA in the DSE of which only two are flexible and can sell shares to foreign investors. The remaining four establishments are already above the ceiling (65 percent or more) for foreign ownership[4]. Nevertheless, the CMSA has succeeded to educate and engage the public on the importance of trading shares in the stock exchange.

Physical infrastructure in Tanzania has been improved substantially. The government, through Tanzania National Roads Agency (TANROADS) has continued to improve the road network to tarmac level for all roads connecting major regional centres and to neighbouring countries of Uganda, Kenya, Rwanda, Burundi and DRC for the Northern and Western parts; and the road network linking Zambia, Malawi and Mozambique through the Mtwara Development Corridor project.

Telecommunications network has also been improved following liberalization of the telecommunications sub-sector in 1993. The number of private mobile phone operators increased from 1 in 1999 to 4 in 2003 and hence increasing the number of subscribers by 61 percent from 805,000 in 2002 to 1,298,000 in 2003 (see Table 2.2). In addition, the Government sold 35 percent of its shares in Tanzania Telecommunications Company (TTCL) to private operator in 2001. Until the end of 2003, there were 22 data communication operators, 23 Internet Service Providers compared to 3 and 7 in 1999 respectively.

Seaports operations have been significantly modernized. The Tanzania Harbours Authority (THA) operates



One of Vodacom towers which have significantly improved telecommunication network countrywide

Table 2.2: Status of Telecommunication Sector; Mobile Phone

Investor Name	Total Number of Lines				
	1999	**2000**	**2001**	**2002**	**2003**
Mobitel	37,261	56,511	89,056	160,000	210,000
Vodacom	-	50,000	180,000	300,000	700,000
Zantel	-	4,007	6,501	26,770	68,000
Celtel	-	-	-	120,089	320,000
TTCL Connected	149,934	173,591	140,685	161,590	147,006
Total	**187,195**	**284,109**	**416,242**	**768,449**	**1,445,006**

Source: Ministry of Communication and Transport (2004)

[4]The rules governing capital markets in Tanzania allow foreigners to buy shares at the DSE with certain restrictions. Fore example, foreigners can only purchase shares if the company is less than 65 percent foreign owned. The objective is to protect the Tanzanian capital account from financial instability that is hazardous to the economy.

three major ports; Dar es Salaam, Tanga and Mtwara and three minor ports. The privatisation of its container terminal in 2000 has made Dar es Salaam port the fastest and most efficient container handling port on the eastern and southern coast of Africa. The terminal handles 20 containers per hour per crane, while Durban, the largest terminal in Africa, handles 16 and Mombasa 10. The terminal, whose annual handling capacity is 250,000 teu[5], has three berths with a total length of 550 metres and 11.5 metres depth, three ship-to-shore gantry cranes and 13 rubber tyre gantry cranes supported by a variety of other container handling equipments including computerized container handling system. Between 2000 and 2002 the container terminal increased its output by 40 percent to 175,000 teu per year. It handles cargo for Zambia, Burundi, Rwanda, Uganda, and DRC.

Facilities and efficiency have given the Dar es Salaam port a significant advantage over other ports in Africa.

Capital availability in Tanzania in the form of loans particularly for SMEs is still a challenge that needs to be addressed. The interest rates charged by banks are still high for majority of small borrowers. However, lending rates for long-term borrowing have declined from 34 percent in 1995 to 13.4 percent in July 2004. Negotiated rates are below 10 percent. Access to foreign capital is not restricted and investors can freely arrange for external borrowing through the banking system (see Chapter 5). In addition, in May 2003, the government opened DSE for foreign investors' participation and is considering further liberalization measures.

Land in an agricultural economy like Tanzania is a matter that cannot be ignored in any policy making process. Since independence, land in the country has been owned by the State and it was not allowed to be used as capital for investment and as a collateral to acquire bank credit. This has of late been identified as one of the impediments to access bank credit for investment. In early 2004, the government revised the Land Act (1999) to institute legal capacity of individuals and businesses to use land for investment purposes. The new Land (Amendment) Act (2004) provides for both citizens and non-citizens including corporate bodies to obtain:

(i) a right of occupancy for purposes of investment approved under the Tanzania Investment Act (1997); or

(ii) a derivative right for purposes of investment approved under the Tanzania Investment Act (1997); or

(iii) an interest on land under a partial transfer of interest by a citizen for purposes of investment approved under the Tanzania Investment Act (1997) in a joint venture to facilitate compliance with development conditions.

Under the new Land Act, property based lending by financial institutions and sale of underdeveloped land including sale of underdeveloped land by the mortgage is encouraged.

Labour is another factor that is key to investors. Access to low cost labour is a key priority for companies competing in

[5]teu = twenty-foot equivalent unit.

the economies that are making efforts to attract foreign investments. Tanzania offers trainable skilled labour at much lower costs. The Government has made a long-term commitment to develop a pool of well-trained and skilled labour. For instance, it has almost doubled the education sector budget from USD 27.6 million in 2000/01 to USD 45.7 million in 2003/04 and is now offering free primary education. Plans are underway to revise the schools and colleges curricula to include special syllabuses that will involve training in special skills and reflect the training needs in the Tanzanian environment. In addition, the government has passed the Employment and Labour Relations Act (2004) with the purpose of having a labour regime whose policies, laws and regulatory structures promote employment, protect labour and at the same time allow enterprises to grow and compete in the modern economy. HIV/AIDS continues to affect labour supply in many developing countries including Tanzania. Most of the infected people are between the age of 20 and 49, an age group that constitutes most of the labour force. To combat this disease, the government has established the National AIDS Control Programme (NACP) whose priorities are medical care and training of HIV/AIDS patients, counselling and voluntary blood testing, diagnosing and treating sexually transmitted diseases, providing HIV/AIDS education as well as preventing mother-to-child HIV/AIDS transmission among others. Also, through the Tanzania Commission for HIV/AIDS (TACAIDS), a control strategy for 2003-2007 has been formulated. The strategy provides guidelines on how to implement HIV/AIDS Control Policy, which was prepared in 2001.

Utilities provision in Tanzania has improved in the recent past following the government's decision to embark on streamlining provision of these utilities. In order to improve efficiency and reliability in provision of their services, Dar es Salaam Water and Sewage Authority (DAWASA - which supplies water for Dar es Salaam) and Tanzania National Electric Supply Company (TANESCO) have been placed under management contracts of foreign companies. Consequently, water tariffs have been reduced to USD cents 43 per cubic metre in 2003 from USD cents 58 per cubic metre in 1998. Similarly, electricity tariffs for businesses have been reduced to USD cents 7 per kWh in 2003 from USD cents 12 in 1998 (Table 2.3).

Table 2.3: Water and Electricity Tariff, 1998 – 2003

Utilities	1998	1999	2000	2001	2002	2003
Water tariff (USD/unit)	0.58	0.60	0.56	0.51	0.45	0.43
Electricity tariff (USD/unit)	0.12	0.11	0.11	0.09	0.08	0.07

Source: Ministry of Finance, TANESCO and DAWASA, 2004.

2.5 Regional and International Developments

Most of the African countries as destinations for FPC are less competitive compared to other developing countries outside Africa because it is habitually associated with factors that discourage foreign investment such as civil wars, deadly diseases, natural hazards and other economic difficulties. This has provided a challenge for African countries to support initiatives at regional level that tame such negative portrayal and promote intra-regional private capital. Consequently, most

-Box 2.2: Regional, Multilateral and International Developments

The East African Community (EAC)

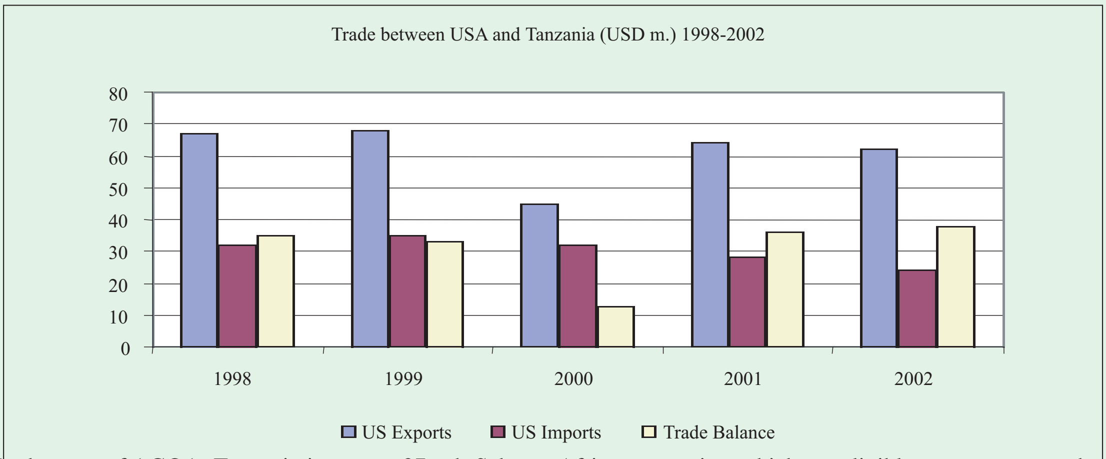
The establishment of the Customs Union Protocol, which was signed on 2nd March 2004, is one of the greatest achievements of the new EAC. The Protocol, inter alia, aims at enhancing domestic, cross border and foreign investment in the region. In this respect, several initiatives have been undertaken including the establishment of the EAC Model Investment Code-2002. The Code, which complements the respective national investment centres/agencies, outlines important benefits of establishing regional investment agency which include improving investment climate in the region by advocating policies and regulations that are favourable to foreign investment; harmonising national investment policies in order to achieve the regional development goals; and providing the international best practices in investment promotion and practices that will augment bigger flow and impact of foreign private capital in the region. The development of EAC capital market is a vital strategy for achieving higher rates of investment and key incentives for attracting foreign private capital. Efforts to develop regional capital markets have included harmonization of regulatory and legislative framework, promotion of cross-border listings, and development of a regional rating system for securities. Regional capital market will enable companies in the region to diversify their funding sources for investment while savers will benefit from a diversity of investment opportunities.

South African Development Community (SADC)

SADC encourages intra-SADC cross-border flow of investment that will result in diversification and industrialization in the region. The member states are executing macroeconomic policies that stimulate investment flows, technology transfer and innovation. Efforts are being made to ensure that national investment policies facilitate foreign private capital in the region and promote free movement of capital. A network of Development Finance Institutions (DFIs) has been created to mobilize resources for financing development projects in the region. A feasibility study is underway for the establishment of a SADC Development Fund (SDF) for mobilizing domestic and international resources for investment. The fund will play a significant role in promoting and raising confidence of potential investors in the region. EU/SADC Investment Promotion Programme (ESIPP), worth Euro 18 million has been established for improving the regional investment climate. The programme will carry out sectoral studies and organize forums at which the project promoters from SADC will meet potential investors from the EU and other third world countries. Further, four SADC countries i.e. Tanzania, Malawi, Zambia and Mozambique in Lilongwe signed agreement on the Mtwara Development Corridor in December 2004. This is a multi-billion US$ project intended to boost economic cooperation and develop jointly the cross-border resources and infrastructure of these countries. The corridor covers southern Tanzania, northern Mozambique, northern and central Malawi and eastern and northern Zambia. It is envisaged that the corridor will provide these regions with easier access to the port of Mtwara in south eastern Tanzania and attract export-driven investment all over the region.

Multilateral and International Developments.

Tanzania receives numerous trade preferences in the current Multilateral Trading System (MTS) under WTO in the form of GSP. The country also benefits from specific bilateral initiatives particularly USA, under the familiar AGOA program, and the EU under EBA. Other ongoing bilateral arrangements include Canada, China, Australia and Korea. However, the coverage of these initiatives is rather limited given the focus of this report.



In the case of AGOA, Tanzania is among 37 sub-Saharan African countries, which are eligible to export more than 6,000 items to the US duty-free under AGOA. The list of these items includes agricultural commodities, handicrafts, manufactured goods, etc. So far Tanzania has managed to export small quantities of textiles, handicrafts, seaweed, tea, coffee, pigeon peas, and non-processed cashews. In 2002, Tanzania's exports to the US under AGOA more than doubled to 1.3b/- from 500/- recorded in 2001. In 2003, the country's exports under AGOA were also expected to double to about 3b/-. Although a small trade, the value of bi-lateral trade flows between Tanzania and the United States has remained fairly constant in recent years. For instance, as shown in the figure above (www.agoa.inf), in 2002, Tanzania recorded a trade deficit of $ 37 million with the United States. Several initiatives have been made in promoting exports under AGOA including seminars and conferences. Tanzania has the potentials to do more, especially in agro-business but a lot more has to be done to raise the quality of exported goods to the American standards.

African countries have formed regional integration schemes and liberalized their investment regimes in order to attract more intra as well as extra-regional private capital. Box 2.2 provides a summary of EAC, SADC, Multilateral and International initiatives that affect FPC in Tanzania.

2.6 Summary

Stable macroeconomic fundamentals including low inflation and sustained economic growth rate are the key instruments in attracting both domestic and foreign private capital. Programmes such as Business Environment Strengthening for Tanzania (BEST), Export Processing Zone (EPZ), Special Economic Zones (SEZ), Spatial Development Initiatives (SDIs) and Tanzania National Business Council (TNBC), among others, are manifestations of the government's commitment towards establishing a private sector-led economic growth. The country has also joined regional and international bodies with the view to attract intra and extra-regional as well as international flow of FPC.

CHAPTER THREE

FOREIGN PRIVATE INVESTMENTS IN TANZANIA

3.1 Introduction

This chapter presents and analyses foreign investments by the private sector in Tanzania for the 1998-2001 period in the case of stocks and 1999-2001 for flows. The analysis also consolidates results for Tanzania Mainland and Zanzibar. The data series used in the analysis builds from two different surveys conducted separately in 2000 (Tanzania Mainland) and 2002/03 (both Tanzania Mainland and Zanzibar). To ensure that the data for the 2000 survey that covered 1998 and 1999 was current, the results had to be revised and re-processed together with the second phase survey data[6] . Further, a separate analysis has been added for investment data estimates covering the period 2002 to 2004 based on approval data from TIC, Ministry of Energy and Minerals (MEM) and Parastatal Sector Reform Commission (PSRC).

The structure of presentations and basic definitions to a great extent adopt international standards outlined in the IMF Balance of Payments Manual Version 5 (BPM5). The manual requires grouping of financial account components into Foreign Direct Investment (FDI), Foreign Portfolio Investments and Other Foreign Investments. In conformity to these standards and other analytical considerations, surveyed companies were asked to provide disaggregated information to facilitate classification of each financing component by source country, economic sectors and by geographical region in which investment is located in Tanzania. A distinction was also made between stocks and flows, as well as income related transactions.

For convenience of analysis, all monetary values in this report are expressed in United States Dollar (USD) although investors reported values in both Tanzania Shillings (TZS) and USD using appropriate end of period exchange rate for stocks and annual average exchange rate for flows. The analysis of this report is based on market value figures.

Foreign investments in Tanzania are analyzed at three levels. The first part looks at the overall magnitude and composition of Foreign Private Capital (FPC) based on survey results. The second part analyses the survey results grouped by financing components according to BPM5 recommendations. It also focuses on the distribution of stocks and flows for each of these financing components by sector, region and country of origin and analyses income on FPC in relation to profitability and dividends. The third part provides estimates[7] of FPC for the period 2002-2004 to ensure that the FPC data provided is of current analytical value by both private and public sector.

3.2 Magnitude and Composition of FPC in Tanzania

Survey results for 2000 and 2001 on foreign investment activities in Tanzania show that, on average, Zanzibar accounts for about 5 percent of total FPC stock and about 1 percent of the total foreign investment flows while Tanzania Mainland accounts for the rest.

Foreign Private Capital (FPC) Stock

According to the survey, the overall stock of FPC for the period between 1998 and 2001 increased by almost 111

[6] See detail explanations on methodologies employed covered in Appendix 2

[7] The estimates referred to are from non-survey sources

Table 3.1: Stock of FPC in Tanzania, 1998-2001

Values in USD Million

	1998	%	1999	%	2000	%	2001	%
Foreign Direct Investment	**1,714.7**	**84.7**	**2,418.7**	**83.3**	**3,038.3**	**84.3**	**3,776.6**	**88.6**
Direct Equity Investment	1,246.7	61.6	1,608.0	55.4	2,358.3	65.4	2,883.2	67.6
Long-Term Intra-Company Loans	390.3	19.3	679.2	23.4	543.5	15.1	753.5	17.7
Short-Term Intra-Company Loans	77.7	3.8	131.5	4.5	136.6	3.8	139.9	3.3
O/w Suppliers Credits	36.2	46.6	55.0	41.9	79.2	58.0	94.2	67.3
Foreign Portfolio investment	**28.2**	**1.4**	**29.0**	**1.0**	**80.1**	**2.2**	**75.5**	**1.8**
Portfolio Equity Investment	28.2	1.4	29.0	1.0	80.1	2.2	75.5	1.8
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Foreign Investment	**281.6**	**13.9**	**498.6**	**16.9**	**485.4**	**13.5**	**394.3**	**9.2**
Long-Term Loans	178.8	8.8	295.2	10.0	430.1	11.9	343.5	8.1
Short-Term Loans	102.8	5.1	203.4	6.9	55.3	1.5	48.8	1.1
O/w Suppliers Credits	53.3	51.8	62.2	30.6	13.5	24.4	16.5	33.8
Total Stock of Private Capital	**2,024.5**	**100.0**	**2,946.3**	**100.0**	**3,603.8**	**100.0**	**4,264.4**	**100.0**

percent, with an average growth of above 30 percent per annum.

The survey results, which consolidate findings from the previous one show that FDI is the major source of FPC. On average, FDI stock constituted about 85.0 percent of total FPC between 1998 and 2001 (**Figures 3.1** and **3.2**).

Figure 3.1: Annual Composition of FPC, 1998-2001

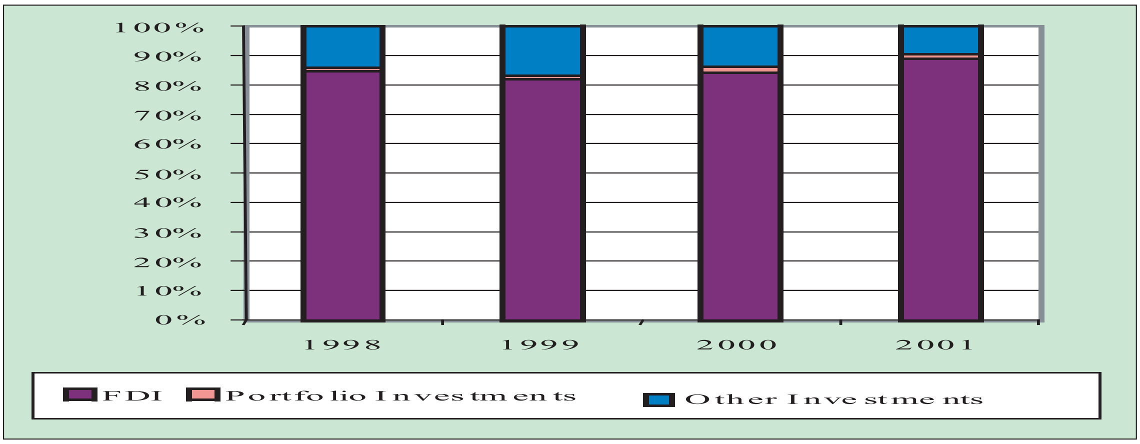
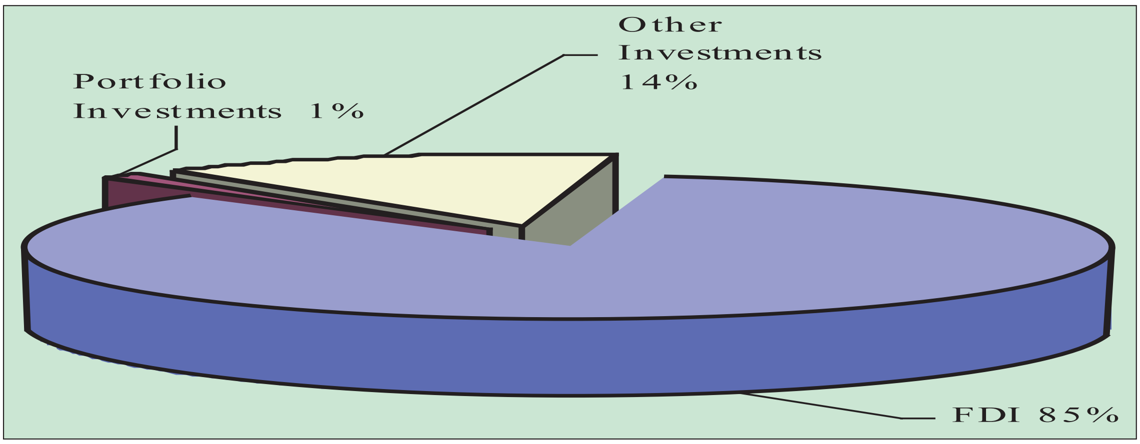


Figure 3.2: Average Composition of FPC, 1998-2001



Conversely, the contribution of Foreign Portfolio Investments was insignificant at about 1 percent of total FPC stocks over the period under study. This is particularly so, because over the survey period foreign investors' participation to the capital market was still restricted[8]. There are, however, encouraging signals that the investor's interest to invest through portfolios may grow following a decision by the government to allow foreign investors' participation in the stock market. The contribution of Other Investments, such as loans from unrelated companies was, however, larger averaging about 14.0 percent over the survey period (**Figures 3.1** and **3.2**).

On aggregate, the financing structure of FPC in Tanzania reveals a bias towards equity financing. Overall, foreign equity alone constituted 65.0 percent of total foreign investment finance during 1998-2001 period and the remaining 35.0 percent is accounted for by foreign debt financing (**Figures 3.3** and **3.4**).

This implies that foreign investors have confidence with the investment climate and are willing to undertake long-term business in Tanzania. **Table 3.2** indicates that debt-equity ratios[9] for FPC decreased by almost 50.0 percent between 1999 and 2001. This implies that the use of foreign debt in financing investment in Tanzania has been declining against the use of equity financing between 1999 and 2001. Measured by FDI components alone, debt-equity ratio has also declined from 0.5 in 1999 to 0.3 in 2001. On average, debt-equity ratios for the 1998 to 2001 period stood at 0.3. This also shows that foreign investors had increased interest in investing in the country by use of equity rather than debt and confirms their longterm commitment.

Figure 3.3: Annual Foreign Debt and Equity Stock, 1998 - 2001

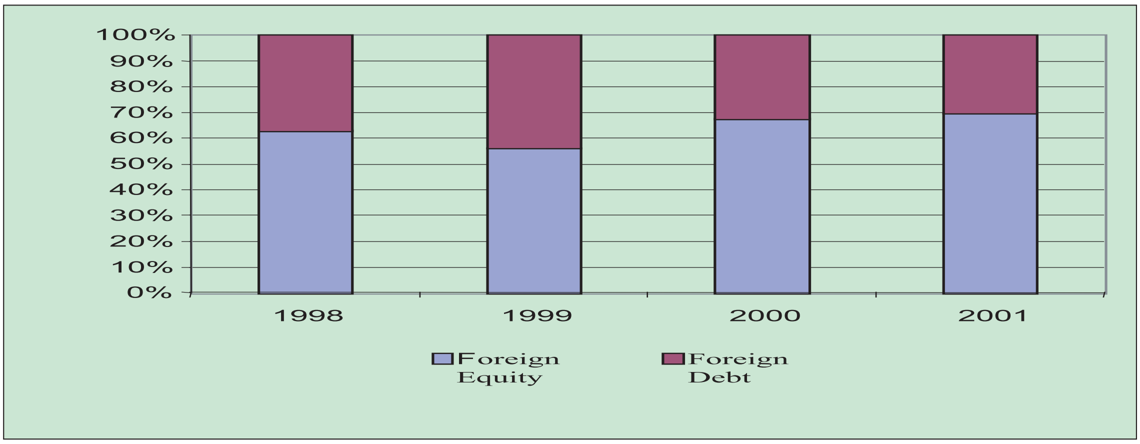
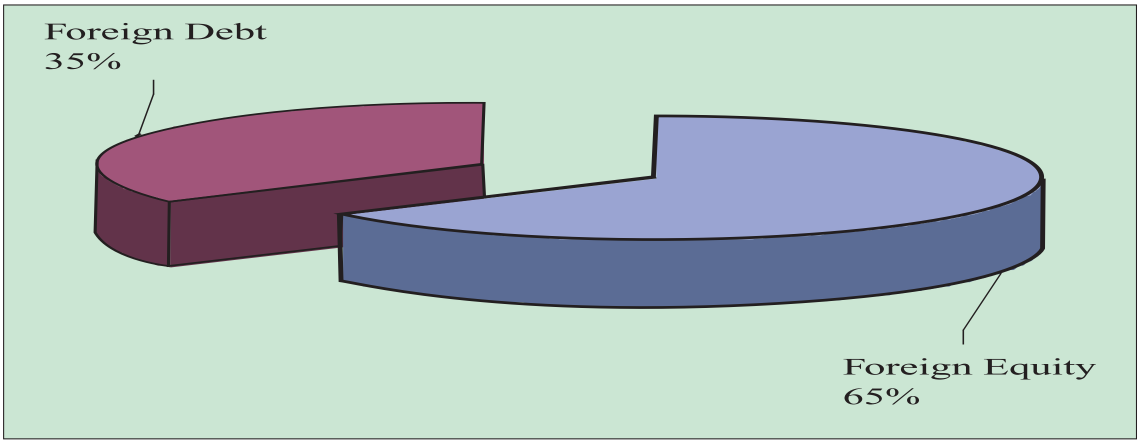


Figure 3.4: Average Foreign Debt and Equity Stock, 1998 - 2001



[8] See section 2.4 in Chapter 2 of this report.

Foreign Private Capital Flows

Contrary to the increasing trend of FPC stocks shown in the previous sub-section, survey results indicate a general decline in gross private capital inflows; from as high as USD 731.6 million in 1999 to USD 604.4 million in 2001. The trend in PCF inflows appears to suggest that there exist some inconsistencies between change in stocks and annual inflows in the data presented (see **Table 3.3**).

Given the opening stock of USD 2,024.4 million and a closing stock of USD 2,946.3 million for 1999, total transactions and valuation effects for the year (change in stock) amounted to USD 921.9 million. This implies that with the total inflows of USD 731.6 million recorded during the year, valuation effects were USD 190.3 million representing about 6 percent of the closing stock of FPC for 1999.

Similar analysis for 2000 and 2001 indicates low valuation effects of about 5.0 percent and 1.0 percent of the corresponding year-end stock. This analysis, therefore, shows that the inconsistencies between stocks and flows are explained by the valuation effects (exchange rate, interest rate, prices, etc). In terms of the composition of FPC flows, **Figures 3.5, 3.6** and **Table 3.4** show that, on average, FDI flows were dominant accounting for 70.0 percent of the overall transactions over the survey period.

The survey results also show that FDI flows increased from 74.0 percent of total FPC flows in 1999 to 77.0 percent in 2001. In absolute terms, FDI inflows declined by 48.0 percent in 2000. In 2001 the inflows increased by almost 66.0 percent to USD 467.2 million although this was still lower than the peak in FDI inflows reached in 1999. This pattern is explained by major inflows to finance mining activities during 1999 as a result of attractive incentives for the sector and the positive effect of privatization activities

Table 3.2: Debt-Equity Ratios (Stock Concept), 1999-2001

	1998	1999	2000	2001
Debt/Equity Ratio (FPC)[9]	0.59	0.80	0.48	0.44
Debt/Equity Ratio (FDI only)	0.38	0.50	0.29	0.31

Table 3.3: Change in Stocks, Flows and Valuation Effects, 1998-2001

Values in USD Million

	Year end Stocks	Annual Inflows	Change in Stock	Valuation Effects*	Valuation as % of Stocks
1998	2,024.4	-	-	-	-
1999	2,946.3	731.6	921.9	190.3	6
2000	3,603.8	657.7	657.5	182.8	5
2001	4,264.4	604.4	660.6	56.2	1

Note: *Valuation effects = change in stock less annual inflows.

[9] Debt-equity ratio is a measure of company's leverage and indicates what proportion of equity and debt the company is using to finance its assets. A higher ratio implies a company has been financing its growth with debt, which can result in volatile earnings due to additional interest expense. A ratio above 2.0 suggests an urgent need to reduce the company's debt load. The closer the ratio to zero the better for a company as it shows its strength in financing its own assets.

particularly of Tanzania Telecommunications Company Limited (TTCL) in 2001.

FPC flows over the period between 1999 and 2001. Other investments, which relate to borrowings from unrelated companies accounted for an annual average of 29.0

Figure 3.5: Annual Composition of FPC Flows, 1999 - 2001

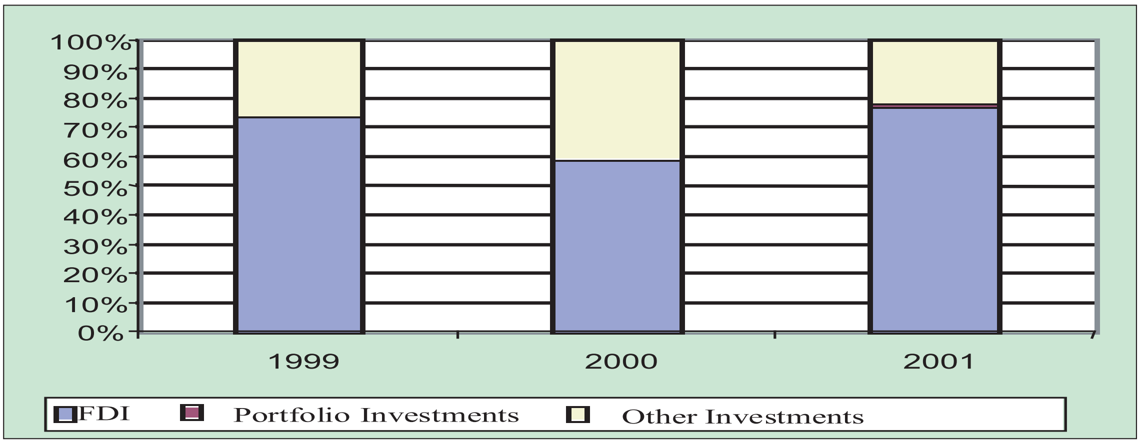
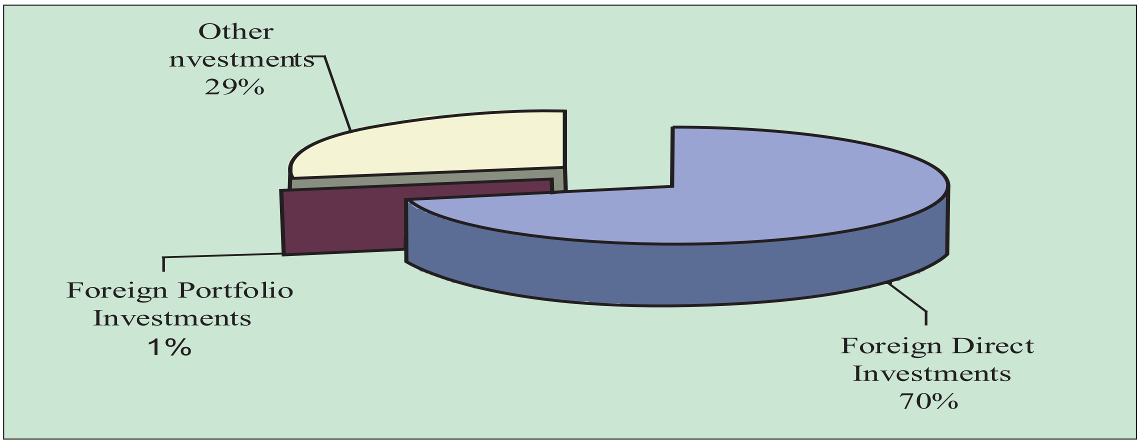


Figure 3.6: Average Composition of FPC Flows, 1999 - 2001



On the other hand, Foreign Portfolio Investments was only 1.0 percent of total

percent from 1999-2001. The debt-equity ratios under flows concept as opposed to

Table 3.4: Foreign Private Capital Flows, 1999-2001

Values in USD Million

FPC	1999	%	2000	%	2001	%
Foreign Direct Investments	**541.7**	**74.0**	**282**	**59.4**	**467.2**	**77.3**
Direct Equity Investment	202.5	27.7	85.2	17.9	236.9	39.2
Reinvested Earnings	1.7	0.2	1.6	0.3	0.3	0.0
Long-Term Intra-Company Loans	237.2	32.4	37.8	8.0	107.7	17.8
Short-term Intra-Company Loans	100.2	13.7	157.4	33.2	122.3	20.2
o/w Suppliers Credits	55.0	54.9	94.1	59.8	75.3	61.6
Foreign Portfolio investments	**1.2**	**0.2**	**0.0**	**0.0**	**8.2**	**1.4**
Portfolio equity investment	1.2	0.2	0.0	0.0	8.2	1.4
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0
Other Foreign Investments	**188.7**	**25.8**	**192.7**	**40.6**	**129.0**	**21.3**
Long-Term Loans	98.8	13.5	159.0	33.5	74.7	12.4
Short-Term Loans	89.9	12.3	33.7	7.1	54.3	9.0
o/w Suppliers Credits	26.6	26.9	9.4	27.9	13.2	24.3
Total Flows of Private Capital	**731.6**	**100.0**	**474.7**	**100.0**	**604.4**	**100.0**

debt-equity under stock concept, show that foreign debt flows were significantly higher than foreign equity injection over the survey period (**Figures 3.7** and **3.8**). Foreign debt inflows were on average 70.0 percent of the total FPC financing from 1999 to 2001.

Debt-equity ratio is also shown in **Table 3.5** to be above 2.0 on average for the entire FPC flows and around 1.6 when FDI components are considered separately. This shows that for the period under review, FPC flows havebeen highly financed by debt.
The debt-equity ratio almost doubled from 2.6 in 1999 to 4.6 in 2000 before declining to 1.4 in 2001. The dominance of debt inflows indicates that the foreign equity stock, which is significantly higher than the foreign debt stock was, accumulated over the long period prior to the survey. Most of the debt resulting in higher debt-equity ratios under the flow concept is largely a result of long-term borrowings by the Mining sector from both related and unrelated sources. The reported flows of FPC recorded since 1999 is substantially high if measured against historical performance. Unlike the previous non-survey estimates, FPC flows recorded in this survey represent a relatively significant increase[10] and performs better compared to other

Figure 3.7: Annual Foreign Debt and Equity Flows, 1999 - 2001

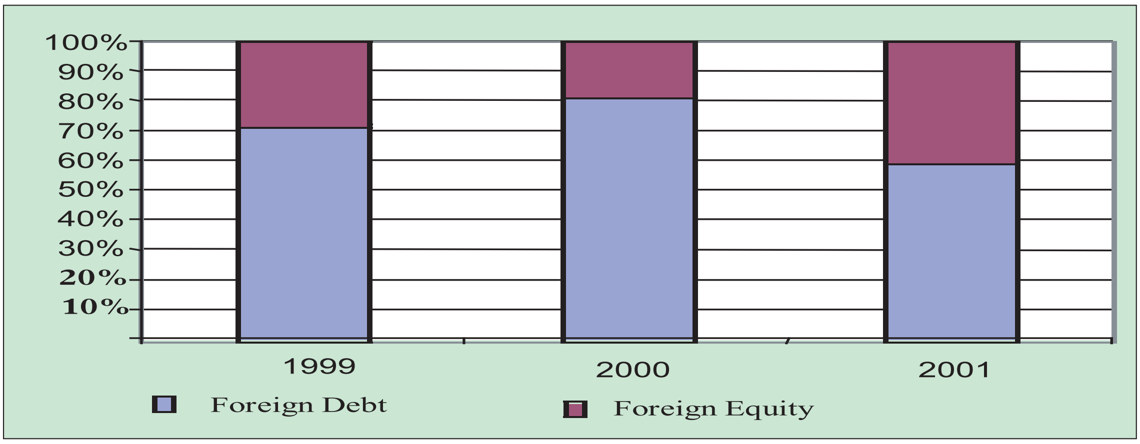


Figure 3.8: Average Foreign Debt and Equity Flows, 1999-2001

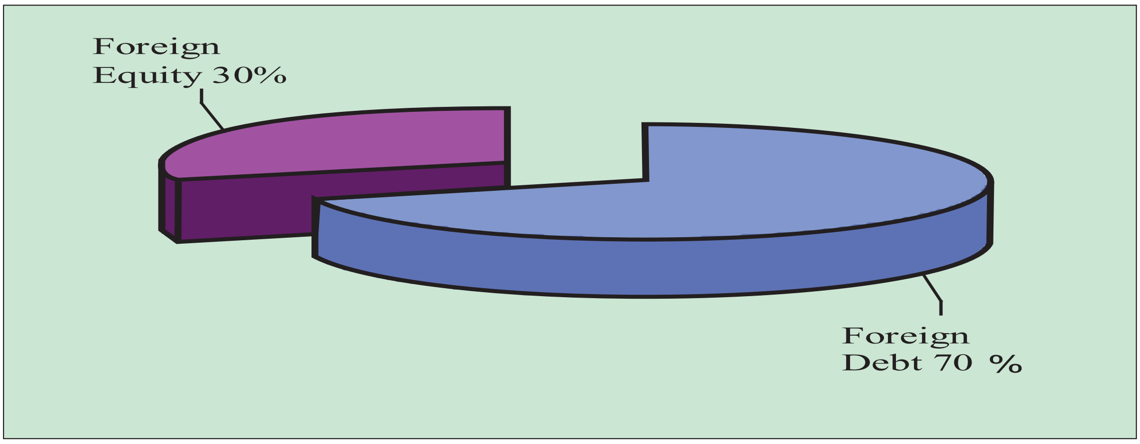


Table 3.5: Debt - Equity Ratio (Flow Concept), 1999-2001.

	1999	2000	2001
Debt/Equity Ratio (FPC flows)	2.6	4.6	1.4
Debt/Equity Ratio (FDI flows only)	1.6	2.2	1.0

countries in the region. **Figure 3.9** shows that FPC flows in relation to GDP in 1999 was 9.0 percent, it declined to 5.0 percent in 2000 but improved marginally to 6 percent in 2001. Based on phase one survey conducted separately in seven selected African countries[11], Matthew and Innes (2004) reveal that in relation to GDP, both stocks and flows of FPC in Tanzania do match and at times surpass the scale of FPC stocks and flows of most other African countries[12]. **Figure 3.10** adopted from the same study, shows that Tanzania was ranked first in attracting FPC flows.

3.2.1 Foreign Direct Investment (FDI)

According to BPM5, FDI is subdivided into four categories namely;

- Foreign Direct Equity Investment (FDEI)
- Reinvested Earnings (earnings from existing equity which are reinvested in the company instead of being expatriated)
- Long-term intra-company loans (from parent or affiliated companies)
- Short-term intra-company loans (from parents or affiliated companies, including suppliers credit from related companies)

Figure 3.9: Foreign Private Capital Flows 1999-2001 (percentage of GDP)

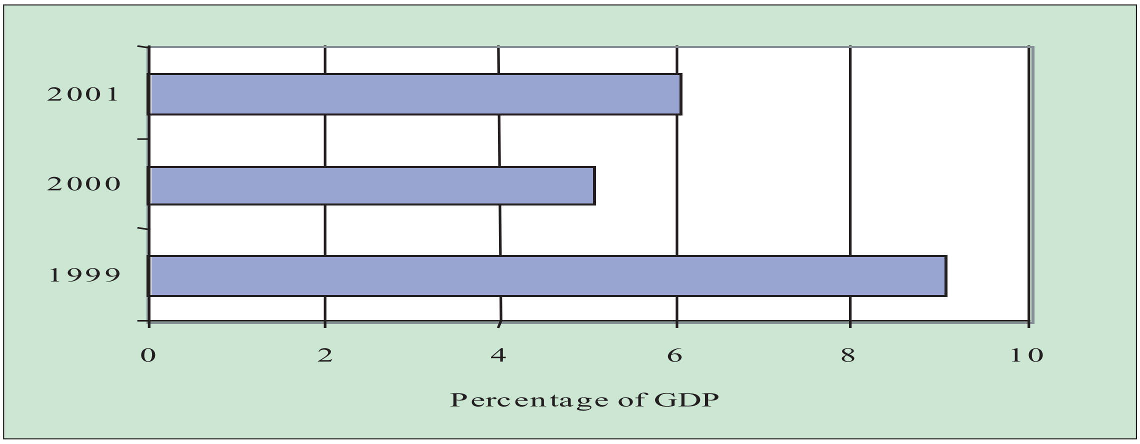
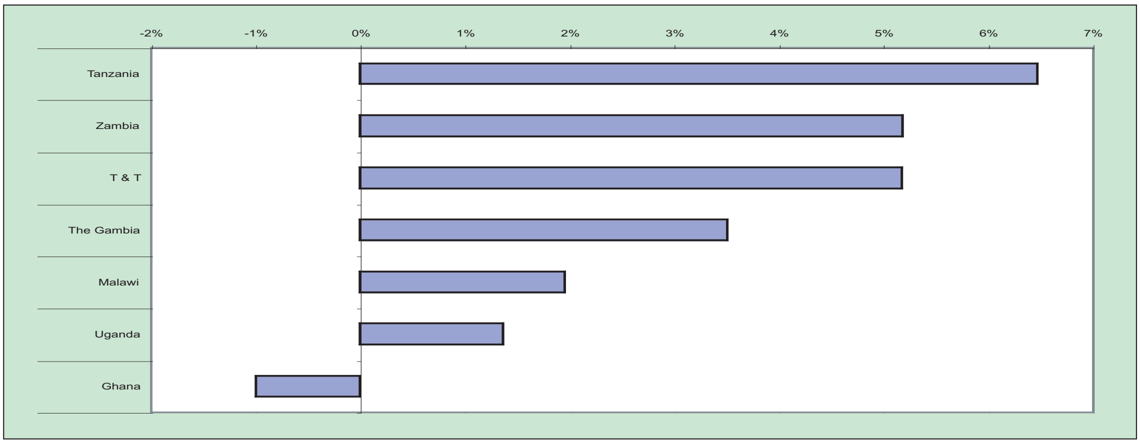


Figure 3.10: Foreign Private Capital Flows in Some Selected Countries, 2000-2002 (percentage of GDP)



Source: Adopted from Mathew and Innes, 2004

[10] Up to 1998, available official data provides estimate for FDI flows only, which has shown an increase from USD 12 million in 1992 to USD 172.20 million in 1998.

[11] Surveys conducted by seven individual countries namely, Trinidad and Tobago (T&T), Ghana, Malawi, Zambia, Uganda, The Gambia, and Tanzania between 2000 and 2001.

[12] See Matthew, M. and Cleo Rose-Innes, Canadian Development Report (2004) and also PCF Phase one reports for Ghana, Malawi, Zambia, and The Gambia.

Each of these categories has different implications in the domestic economy. FDEI and reinvested earnings are generally more desirable to domestic economies as they are considered less volatile and have a more long-term bearing. They mostly constitute fixed capital investment and, therefore, not easily expatriated. Loans are generally less desirable to the domestic economy as they increase debt burden. Long-term loans are however more preferred than short-term ones because the latter are more volatile.

The survey results show that the stocks and flows of FDI have been increasing and dominate other components of FPC. The stock of FDI increased from USD 1.7 billion to USD 3.8 billion between 1998 and 2001 and accounts for an average of 85.0 percent of total FPC stocks. In terms of flows, FDI accounted for an average of 70.0 percent in between 1999 and 2001. In the following sub-sections a detailed analysis of FDI in terms of its magnitude and composition, sectoral contribution, regional distribution and source country is provided.

Table 3.6: Stock of FDI by Financing Type, 1998-2001.

Values in USD Million

Foreign Direct Investment	1998	%	1999	%	2000	%	2001	%
Direct Equity Investment	1,246.7	72.7	1,608.0	66.5	2,358.3	77.6	2,883.2	76.3
L/T Intra-Company Loans	390.3	22.8	679.2	8.1	543.5	17.9	753.5	20.0
S/T Intra-Company Loans	77.7	4.5	131.5	5.4	136.6	4.5	139.9	3.7
o/w Supplier s Credits	36.2	46.6	55.0	41.8	79.2	58.0	94.2	67.3
Total FDI Stocks	**1,714.7**	**100.0**	**2,418.7**	**100.0**	**3,038.3**	**100.0**	**3,776.6**	**100.0**

3.2.1.1 Magnitude and Composition of FDI Stock in Tanzania

Table 3.6 and **Figures 3.11** and **3.12** show the magnitude and proportion of major components of FDI stocks. The stock of FDI is dominated by FDEI, which constituted on average about 74.0 percent between 1998 and 2001. The proportion of FDEI in total FDI grew from 72.0 percent in 1998 to 76.0 percent in 2001. The stock of long-term intra-company loans also increased in absolute terms. However, in relation to other forms of FDI inflows it decreased from 23 percent in 1998 to 20 percent in 2001. The stock of short-term intra-company loans has not been significant for the entire survey period as it accounted for an average of only 4.0 percent, of which suppliers credit contributed more than half of total short-term borrowings.

Since the magnitude and composition of FDI stocks portrayed in **Table 3.6** and **Figures 3.11** and **12** indicate that most of the stocks are financed in the form of foreign direct equity, it implies that foreign investors have a long-term interest in Tanzania.

FDI Flows in Tanzania

FDI inflows form an important part of financing of investments in Tanzania. In 1999, total FDI inflows was recorded at USD 541.7 million (**Table 3.7**) of which the most part was directed to the Mining sector following attractive investment incentives stipulated in the Mining Policy (1997). In 2001, FDI inflows decreased to USD 467.2 million as a result of reduced inflows to the Mining sector,

Figure 3.11: Annual Composition of FDI Stocks, 1998 - 2001

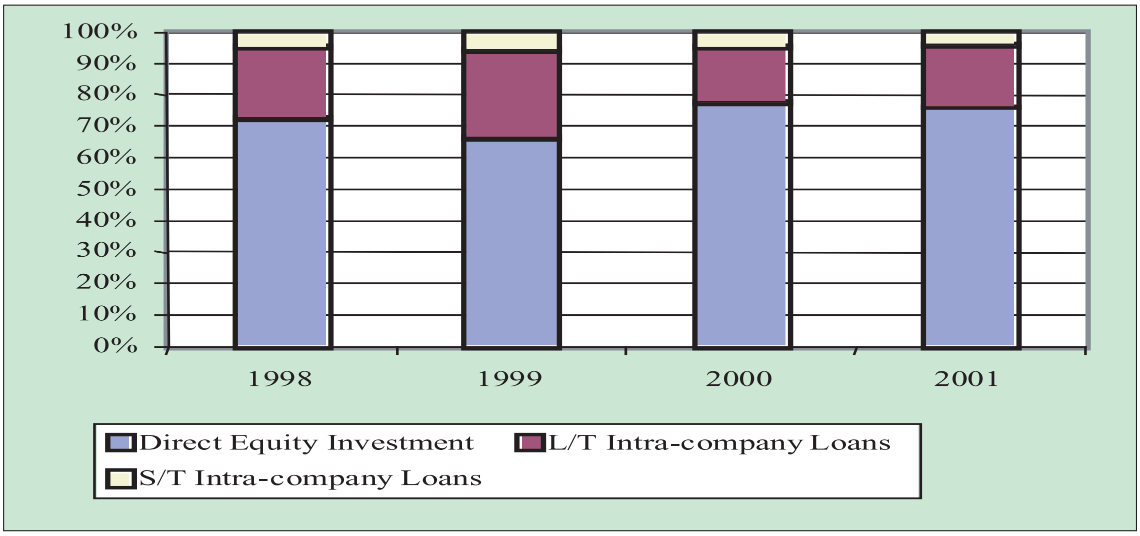
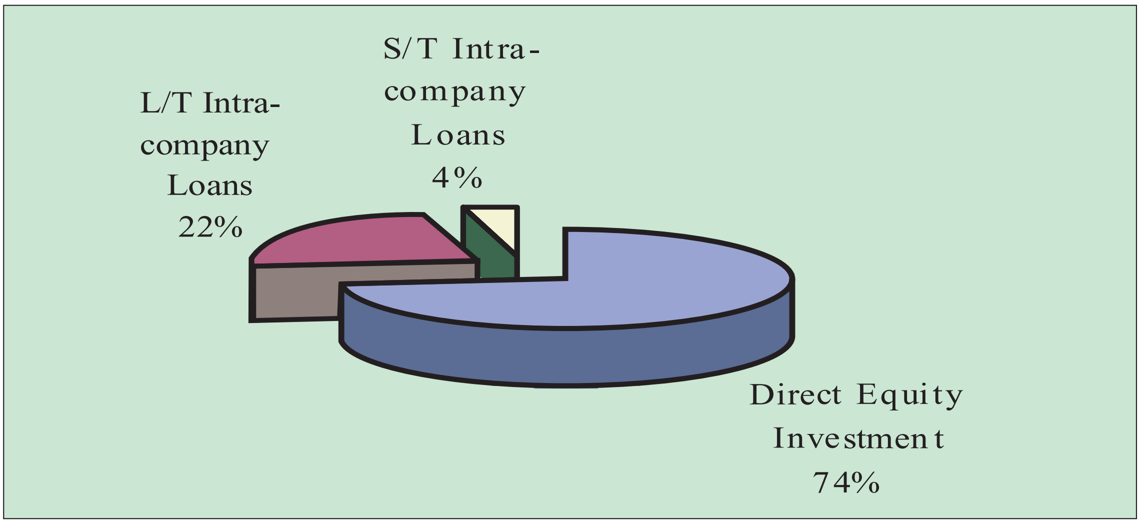


Figure 3.12: Average Composition of FDI Stock, 1998 - 2001



as major mines were in full operation by 2000[13]. **Figures 3.11** and **3.12** indicate that most of the stocks are financed in the form of foreign direct equity, it implies that foreign investors have a long-term interest in Tanzania.

Direct equity remained dominant over the survey period, accounting for on average 41 percent of total FDI inflows. The average share of the foreign debt components in Tanzania's FDI inflows is almost equal to short-term and long-term intra-company loans averaging at 29 and 30 percent, respectively (**Figure 3.13** and **3.14**). It may be noted that, short-term intra-company loans are largely made-up of suppliers' credits from related companies. The general trend shows that suppliers' credit in Tanzania is a dominant source of financing the short-term intra-company loans (i.e., investment by shareholders). The reinvested earnings, as a source of capital are very low, at the average of 0.3 percent between 1999 and 2001. This is possibly due to underreporting and also the fact that some companies were at initial stages of operation (especially the mining companies) and the little profit realised was being used for debt servicing.

3.2.1.2 Sectoral Distribution of Foreign

13 The following are major mining companies in Tanzania and their date of commencement: Kahama Mining Corporation (2000), Resolute (April 2001), Geita-Ashanti/Anglogold (February 1998), Africa Mashariki (August 2000), Mererani-AFGEM (August 2000). For Details see URT, Tanzania Investor's Guide 2002 and Beyond.

Table 3.7: Flow of FDI by Financing Type, 1999-2001

Values in USD Million

Foreign Direct Investment	1999	%	2000	%	2001	%
Direct Equity Investment	202.5	37.4	85.2	30.2	236.9	50.7
Reinvested Earnings	1.7	0.3	1.6	0.6	0.3	0.1
Long-Term Intra-Company Loans	237.2	43.8	37.8	13.4	107.7	23.1
Short-term Intra-Company Loans	100.2	18.5	157.4	55.8	122.3	26.2
o/w Suppliers Credits	55.0	54.9	94.1	59.8	75.3	61.6
Total Foreign Direct Investments Flows	**541.7**	**100.0**	**282.0**	**100.0**	**467.2**	**100.0**

Direct Investment

Sectoral distribution of FDI in Tanzania mirrors, in general, policy measures implemented by the governments in attracting FDI. High concentrations are in such sectors as Manufacturing, Mining and quarrying, and Wholesale and retail trade, catering and accommodation services. Agriculture that contributed about 48.0 percent of GDP in Tanzania (in 2001) accounted for an average of 7.0 percent of FDI between 1999-2001.

Stock of FDI by Sector

Survey results show that between 1999 and 2001, FDI stocks were concentrated in Manufacturing and Mining and quarrying sectors which accounted for an average of about 31.0 and 30.0 percent, respectively. The remaining 39.0 percent of FDI stock was shared by

Figure 3.13: Annual Composition of FDI Flows, 1999 - 2001

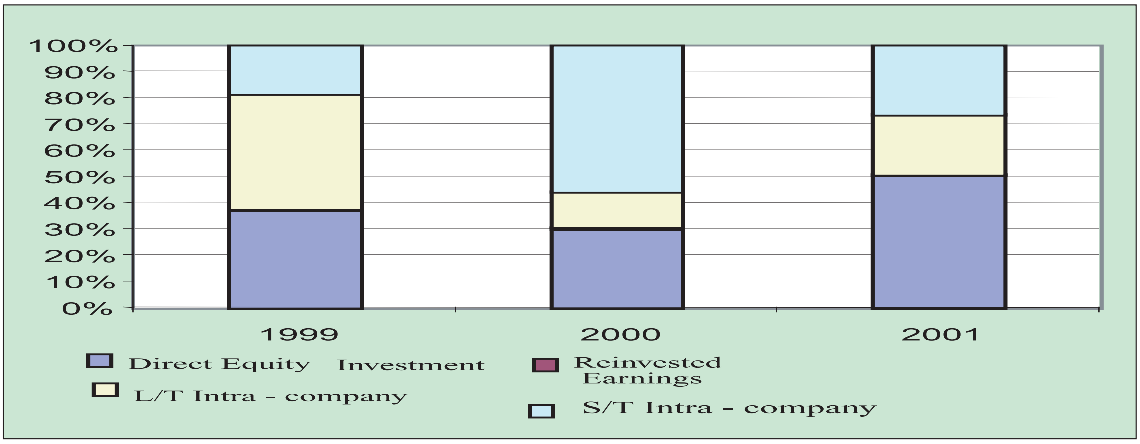
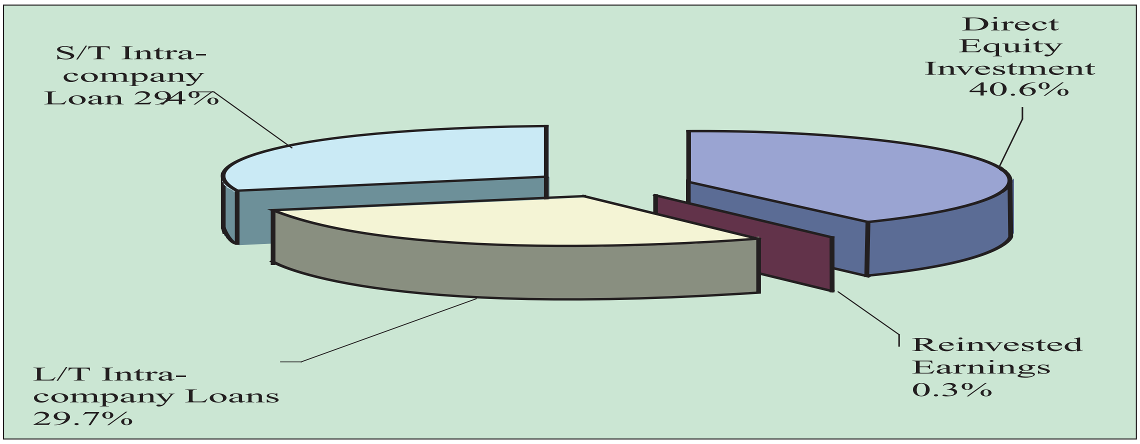


Figure 3.14: Average Composition of FDI Flows, 1999 - 2001



the other sectors, more significantly, by Wholesale and retail trade, catering and accommodation services, Agriculture, hunting, forestry and fishing and Financing, insurance, real estate, and business services (**Figure 3.15**).

FDI stocks in the Manufacturing sector increased from about 20.7 percent in 1999 to about 33.5 percent in 2001. However, **Figure 3.17** show that much of investments in the manufacturing sector went to food and beverage and in other Manufacturing sub-sectors (together constituting over 65.0 percent of stock of FDI in the sub-sector). FDI stocks in chemical and petroleum sub-sector have increased over-time, but agro-industry sub-sector has, in contrast, fallen consecutively from 1999 to 2001.

The share of Mining sector in total FDI stocks declined to 26.8 percent in 2000 from about 33.8 percent in 1999 but slightly improved to 28.0 percent of total FDI in 2001.

The absolute values of FDI stock in the Mining sector have registered a general increase from USD 818.0 million in 1999 to USD 1,057.0 million in 2001.
FDI stock during 1999-2001 in Transport, storage and communication sector increased from 2.1 percent (USD 50.2 million) in 1999 but increased its share to 7.5 percent (USD 284.8 million) in 2001. The increase in FDI stock in this sector is largely attributed to increasing FDI activities in communication sub-sector, partly, due to positive effects of liberalization and privatization of Tanzania Telecommunications Company Limited (TTCL) (**Figure 3.18**). **Table 3.8** shows that the share of FDI in Wholesale and retail trade, catering and accommodation services sector declined (both in absolute and relative terms) from 21.4 percent in 1999 to only 10.6 percent in 2001. **Figure 3.19** shows sub-components of this sector falling throughout the period.

A machine operator at work in a newly installed textile plant at Blanket and Textile Manufatures (1998) Ltd.

Flows of FDI by Sector

Figure 3.15: Average Distribution of FDI by Sector, 1999 - 2001

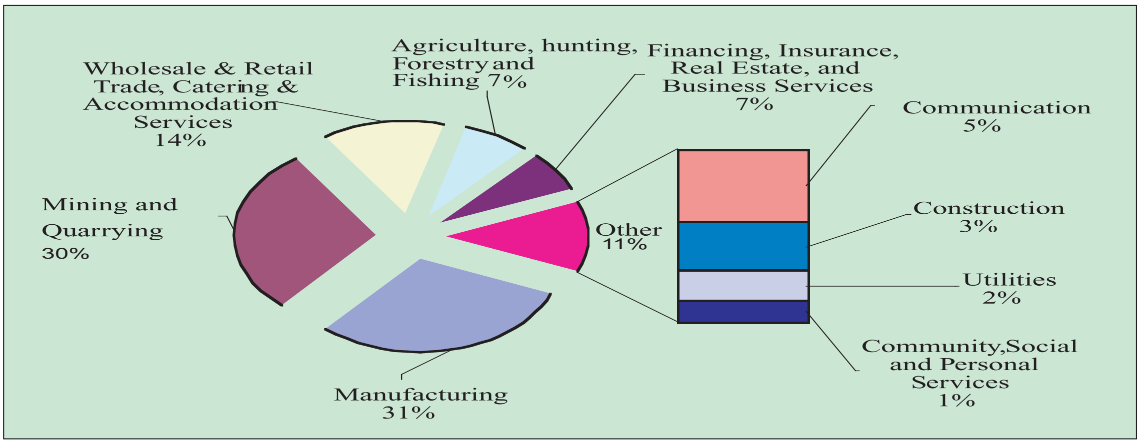
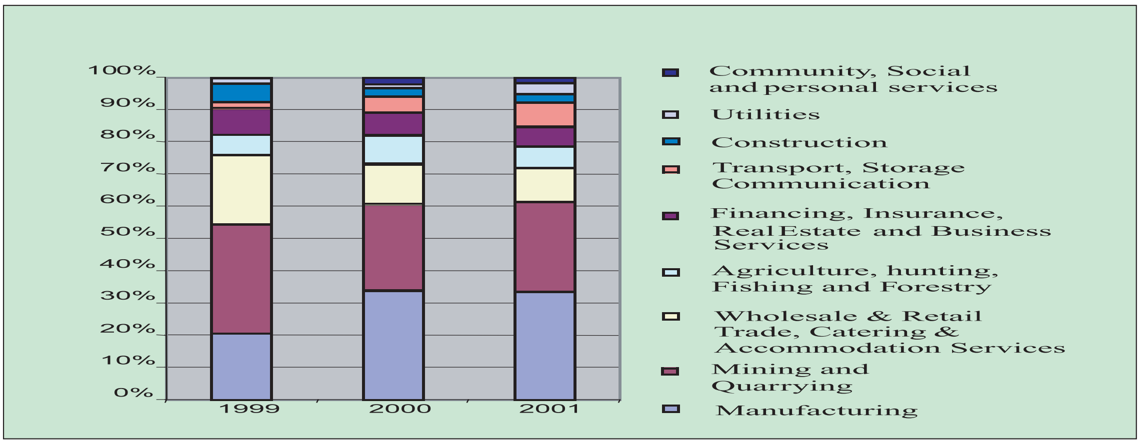


Figure 3.16: Annual Distribution of FDI by Sector, 1999-2001



As shown in **Figure 3.20**, the Manufacturing sector dropped to third position (16 percent) with Transport, storage and communication sector rising to the second position (21 percent) and Mining and quarrying sector taking the lead (27 percent) between 1999-2001. This represents a significant change since, on average, Transport, storage and communication sector contributed only 5.0 percent of the total stock of FDI between 1999-2001 indicating that investments in the sector increased only recently. **Figure 3.21** and **Table 3.9** illustrate the sectoral composition of FDI flows over the 1999-2001 period and dynamics within sectors. The contribution of Mining sector was predominant up to 1999 where the inflows are concentrated. For 2000 and 2001, FDI inflows to the

Table 3.8: Sectoral Distribution of FDI Stocks, 1999-2001

Values in USD Million

Sector and Sub-sector	1999	Percentage	2000	Percentage	2001	Percentage
Agriculture, hunting, forestry and fishing	**154.1**	**6.4**	**272.6**	**9.0**	**252.4**	**6.7**
Crops	140.6	5.8	223.1	7.3	216.7	5.7
Hunting and forestry	5.3	0.2	36.7	1.2	23.1	0.6
Livestock	0.4	0.0	9.8	0.3	8.5	0.2
Fishing	7.8	0.3	2.9	0.1	4.1	0.1
Mining and quarrying	**817.8**	**33.8**	**814.2**	**26.8**	**1,056.9**	**28.0**
Manufacturing	**501.6**	**20.7**	**1,031.8**	**34.0**	**1,264.6**	**33.5**
Other Manufacturing	151.1	6.2	449.7	14.8	574.0	15.2
Food and beverages	168.7	7.0	298.8	9.8	413.1	10.9
Chemicals and petroleum	31.8	1.3	154.4	5.1	162.7	4.3
Agro-industry	133.5	5.5	125.6	4.1	111.0	2.9
Machinery, motors and equipment	16.5	0.7	3.4	0.1	3.8	0.1
Utilities	**37.1**	**1.5**	**36.7**	**1.2**	**127.4**	**3.4**
Gas	0.0	0.0	0.0	0.0	90.1	2.4
Electricity	37.1	1.5	36.7	1.2	37.3	1.0
Water	0.0	0.0	0.0	0.0	0.0	0.0
Construction	**136.9**	**5.7**	**79.2**	**2.6**	**100.5**	**2.7**
Wholesale & retail trade, catering & accomodation services	**518.1**	**21.4**	**378.0**	**12.4**	**400.3**	**10.6**
Accommodation, tourism and catering	352.4	14.6	275.1	9.1	306.9	8.1
Wholesale and retail trade	165.7	6.9	102.9	3.4	93.4	2.5
Transport, storage and communication	**50.2**	**2.1**	**145.4**	**4.8**	**284.8**	**7.5**
Communication	27.2	1.1	92.0	3.0	238.5	6.3
Transport and storage	23.0	1.0	53.4	1.8	46.3	1.2
Finance, insurance, real estate, and business services	**197.4**	**8.2**	**219.0**	**7.2**	**225.2**	**6.0**
Finance, insurance	172.5	7.1	177.0	5.8	179.7	4.8
Other business services	21.8	0.9	22.2	0.7	24.5	0.6
Real estate	3.2	0.1	19.7	0.6	20.9	0.6
Community, social and						

personal services	**5.6**	**0.2**	**61.4**	**2.0**	**63.6**	**1.7**
Health	1.4	0.1	53.6	1.8	54.0	1.4
Other Community, social and personal services	2.0	0.1	5.2	0.2	5.5	0.1
Media	1.7	0.1	1.5	0.0	2.9	0.1
Education	0.4	0.0	1.1	0.0	1.2	0.0
Total	**2,418.7**	**100.0**	**3,038.3**	**100.0**	**3,776.6**	**100.0**

sector declined both in absolute and relative terms from 54.8 percent of total FDI flows in 1999 to only 2.0 percent in 2000 before rising to 8.9 percent in 2001. The reasons being that the major mining companies had commenced their operations by 2000 and therefore did not

communication sector received the largest share of total FDI inflows for both 2000 and 2001 with USD 100.7 million (35.7 percent) and USD 158.3 million (33.9 percent) respectively compared to only USD 15.8 millions (2.9 percent) in 1999.

Figure 3.17: Annual Composition of Manufacturing Sector, 1999 - 2001

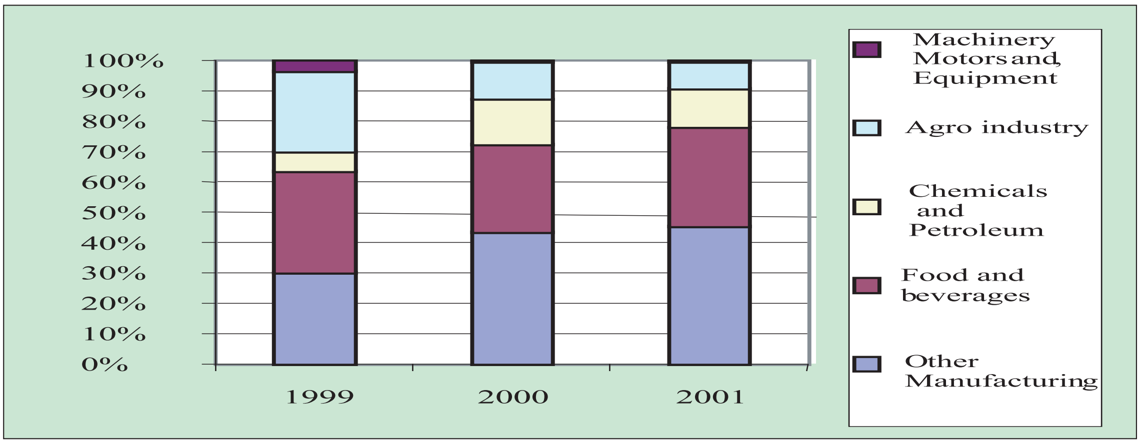
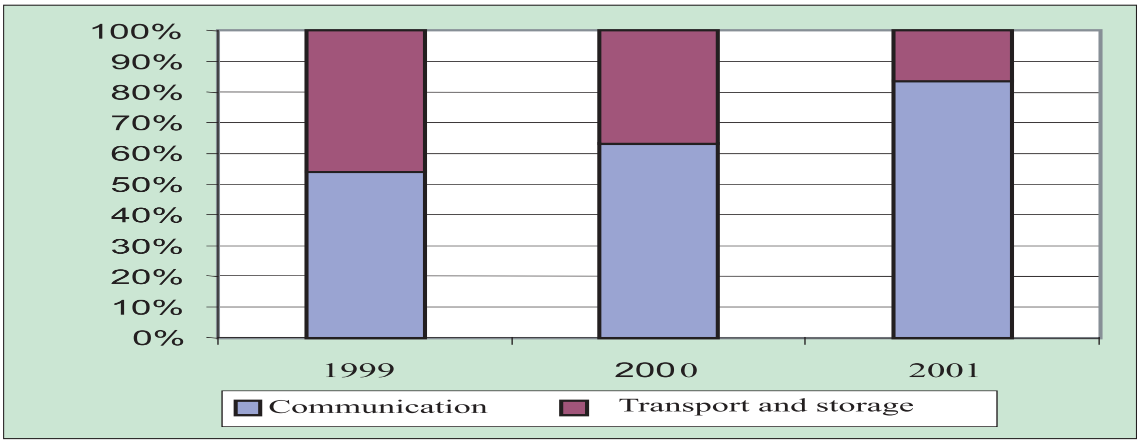


Figure 3.18: Annual Composition of Transport, Storage and Communication Sector, 1999 - 2001



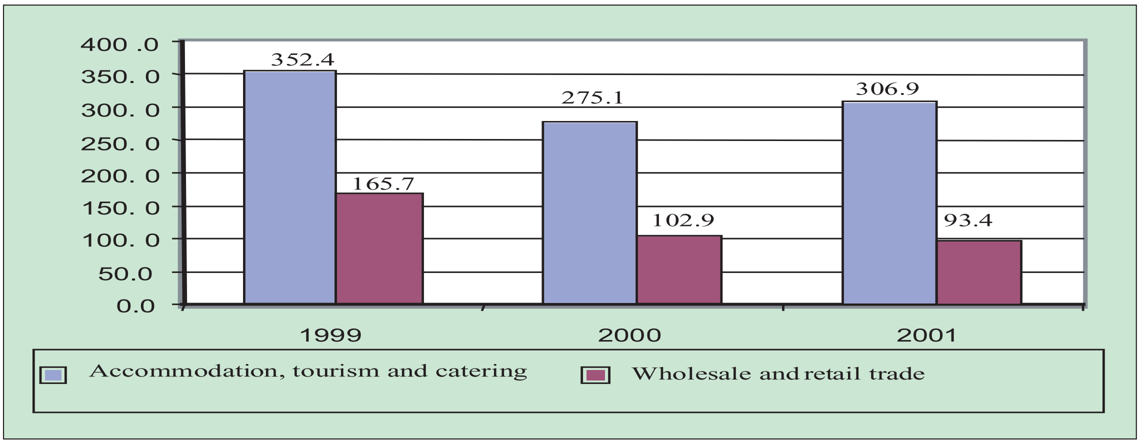
require substantial inflows of new capital. The future of FDI flows to this sector is promising given the vast mineral potential existing in the country and increasing exploration works and favourable operating environment being created.

The Transport, storage and

The increase is attributed by major FDI investments in telecommunications sub-sector during 2000 and 2001 particularly after the government sold 30.0 percent TTCL share to a foreign company and a stepped-up investment across the country

by cellular phone companies (such as

Figure 3.19: FDI Stocks in Wholesale & Retail Trade, Catering and Accommodation Services, 1999-2001



Vodacom). The survey results show that Utilities is another growing sector which emerged second after transport during 2001 with a record of USD 83 million (17.8 percent) of the total FDI inflows as a result of FDI investment in the Songosongo gas project.

Agriculture was among the sectors that attracted lowest FDI (about 4 percent) despite the fact that it contributed about 48.0 percent of GDP in 1999. However, its share of total FDI inflows improved to 18.0 percent in 2000 but declined to 10.0 percent in 2001. About 95.0 percent of these inflows went to agriculture crops sub-sector, mainly to sugar production. The dismal performance of the Agriculture sector is linked to poor infrastructure (transport,

Figure 3.20: Average Sectoral Distribution of FDI Flows, 1999 - 2001

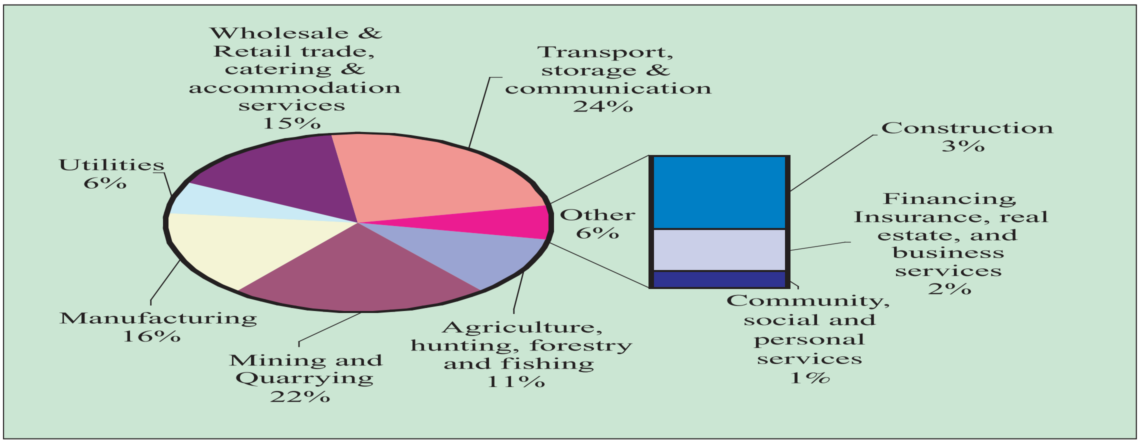
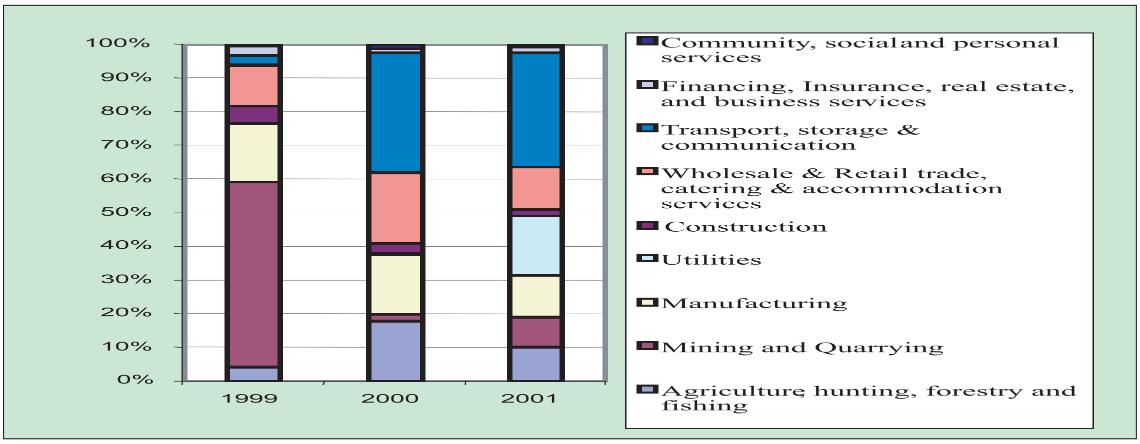


Figure 3.21: Annual Sectoral Distribution of FDI Flows, 1999 - 2001



Tanzania is the third largest flower producer in Africa after Kenya and Zimbabwe; producing over 45,000 tones of fresh cut roses each year.

utilities, etc), insufficient policy incentives, limited financing and marketing arrangements. The government has however made major strides by adopting economic reforms that have led to the opening up of the

Table 3.9: Sectoral Distribution of FDI Flows, 1999-2001

Values in USD Million

Sector and Sub-sector	1999	Percentage	2000	Percentage	2001	Percentage
Agriculture, hunting, forestry and fishing	**23.4**	**4.3**	**50.4**	**17.9**	**47.7**	**10.2**
Hunting and forestry	1.3	0.2	0.1	0.0	-0.1	0.0
Livestock	0.2	0.0	0.4	0.1	0.6	0.1
Fishing	0.7	0.1	0.0	0.0	0.7	0.1
Crops	21.2	3.9	50.0	17.7	46.5	9.9
Mining and Quarrying	**296.5**	**54.8**	**5.6**	**2.0**	**41.6**	**8.9**
Manufacturing	**94.9**	**17.5**	**50.4**	**17.9**	**57.5**	**12.3**
Machinery, motors and equipment	2.4	0.4	0.1	0.0	0.5	0.1
Other Manufacturing	18.7	3.5	20.0	7.1	7.3	1.6
Agro-industry	16.4	3.0	19.4	6.9	15.7	3.4
Chemicals and petroleum	14.3	2.6	4.2	1.5	16.0	3.4
Food and beverages	43.1	8.0	6.7	2.4	18.1	3.9
Utilities	**0.0**	**0.0**	**0.2**	**0.1**	**83**	**17.8**
Electricity	0.0	0.0	0.0	0.0	0.5	0.1
Gas	0.0	0.0	0.2	0.1	82.5	17.7
Water	0.0	0.0	0.0	0.0	0.0	0.0
Construction	**28.4**	**5.2**	**8.7**	**3.1**	**8.9**	**1.9**
Wholesale & Retail trade, catering & accomm.	**65.3**	**12.1**	**59.2**	**21.0**	**59.0**	**12.6**
Accommodation, tourism and catering	21.0	3.9.0	11.5	4.1	26.0	5.6
Wholesale and retail trade	44.3	8.2	47.7	16.9	33.1	7.1
Transport, storage & communication	**15.8**	**2.9**	**100.7**	**35.7**	**158.3**	**33.9**
Transport and storage	6.4	1.2	0.6	0.2	1.5	0.3
Communication	9.4	1.7	100.0	35.5	156.8	33.6
Financing, Insurance, real estate, and business services	**15.1**	**2.8**	**3.5**	**1.2**	**8.9**	**1.9**
Other business services	4.3	0.8	0.4	0.1	0.8	0.2
Real estate	3.6	0.7	0.1	0.0	1.2	0.3
Financing, insurance	7.2	1.3	3.0	1.1	7.0	1.5
Community, social and personal services	**2.1**	**0.4**	**3.5**	**1.2**	**2.2**	**0.5**
Education	0.0	0.0	0.1	0.0	0.0	0.0
Other Community, social and personal services	0.4	0.1	2.8	1.0	0.2	0.0
Health	0.5	0.1	0.6	0.2	0.8	0.2
Media	1.2	0.2	0.0	0.0	1.2	0.3
Total FDI Flows	**541.5**	**100.0**	**282**	**100.0**	**467.2**	**100.0**

sector to private investment in production and processing, marketing, importation and distribution of agriculture inputs. Consequently, farmers are now free to sell their crops to cooperatives or private traders and due to competition; normal producer prices have increased and they can sell their produce much faster.

The government continues to pursue macroeconomic policies that will motivate investment in agriculture by small and large-scale commercial farmers through creation of enabling environment and provision of proactive support to private operators, farmers organizations and other stakeholders and by ensuring a strong regulatory mechanism. There have been substantial improvements in road infrastructure through TANROADS whereby roads connecting major regional centres and to neighboring countries have been improve to tarmac level. Also, TIC in collaboration with the Ministry of Lands and Human Settlement Development have been mandated to establish land bank for investors. In this regard, 4.0 million acres of land have been identified and modalities for ownership are underway. The Land (Amendment) Act (2004) has also been amended to allow land to be used as capital for investment.

3.2.1.3 Regional Distribution of Foreign Direct Investment

The United Republic of Tanzania (URT) comprises of Tanzania Mainland and Tanzania Zanzibar. Tanzania Mainland is administratively divided into 21 regions, while Tanzania Zanzibar has 5 regions. In the Mainland, the few companies identified in four regions namely Kigoma, Mtwara, Rukwa and Lindi did not respond to the questionnaires, therefore there are no records on FDI from these regions. In Dodoma, the companies that responded did not report any FDI. There is a need to pay more attention to these regions in order to fully capture FDI inflows to them in the next survey. In Zanzibar, all the five regions reported a sizeable amount of FDI inflows, which are mainly concentrated in the tourism sub-sector.

Figure 3.22: Annual Distribution of FDI Stock in Tanzania Mainland and Zanzibar, 1999 - 2001

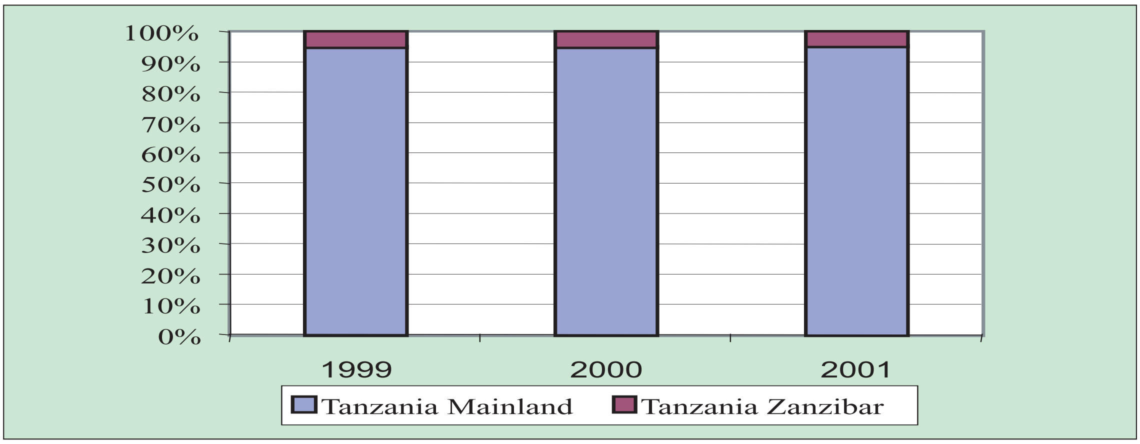
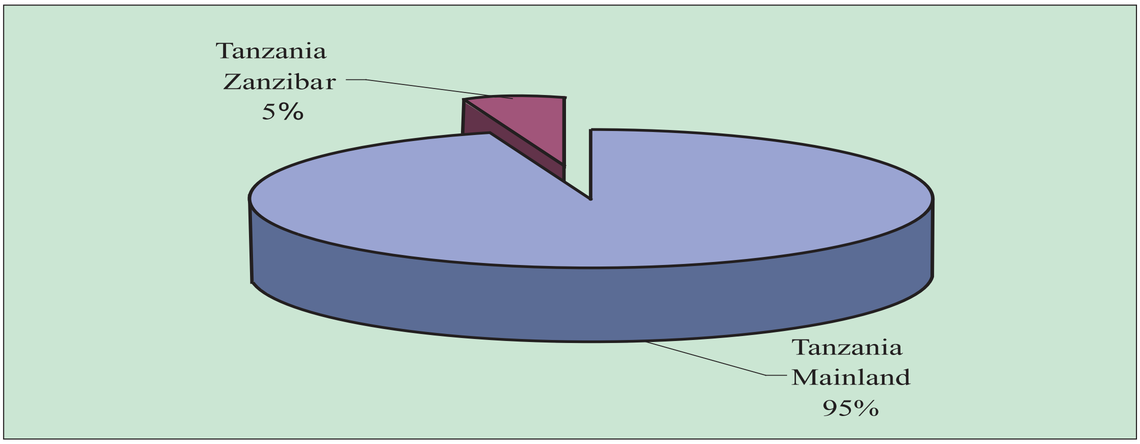


Figure 3.23: Average Distribution of FDI Stock in Tanzania Mainland and Zanzibar, 1999 -2001



Figures 3.22 and **3.23** show that Tanzania Mainland accounted for about 96.0 percent of the stock of FDI and Zanzibar accounted for 5.0 percent of FDI stocks during 1999-2001. In terms of FDI inflows, **Figures 3.24** and **3.25** show that on average, Tanzania Mainland account for 99.0 percent while Zanzibar account for only 1.0 percent of total FDI inflows in Tanzania over the survey period.

Despite a relatively low share of FDI to Zanzibar, **Figure 3.26** and **Table 3.11** show that Zanzibar is a significant recipient of FDI destined for Tanzania

Figure 3.24: Annual Distribution of FDI Flows in Tanzania Mainland and Zanzibar, 1999 - 2001

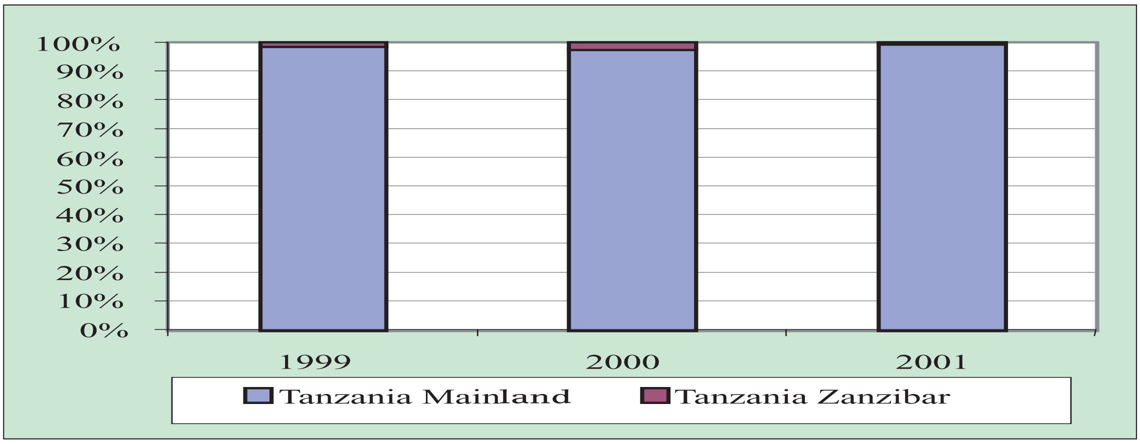
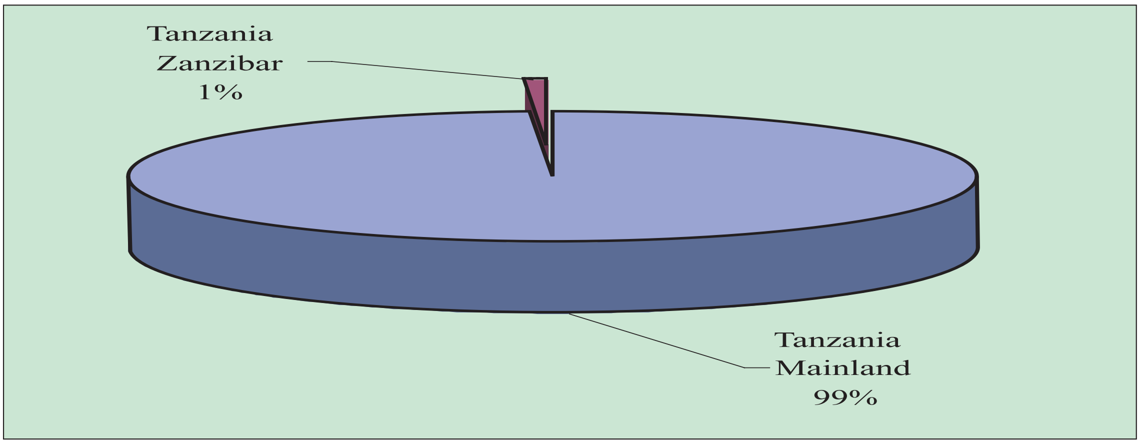


Figure 3.25: Average Distribution of FDI Flows in Tanzania Mainland and Zanzibar, 1999 -2001



in per-capita terms[14]. In terms of FDI per person, Zanzibar received on average about twice the amount Tanzania Mainland received during the survey period.

Regional Distribution of FDI Stocks

The survey shows that FDI stock is concentrated in Dar-es-Salaam region, which accounted for 55.9 percent (1999), 49.7 percent (2000) and 49.5 percent (2001) of total FDI stock in the country. Most foreign investments are located in Dar es Salaam because it is the country's business and financial hub, and has a relatively well-developed infrastructure that support a wide range of economic activities. Mwanza and Shinyanga regions are also

Figure 3.26: Average Per capita FDI Stocks and Flows, 1999-2001

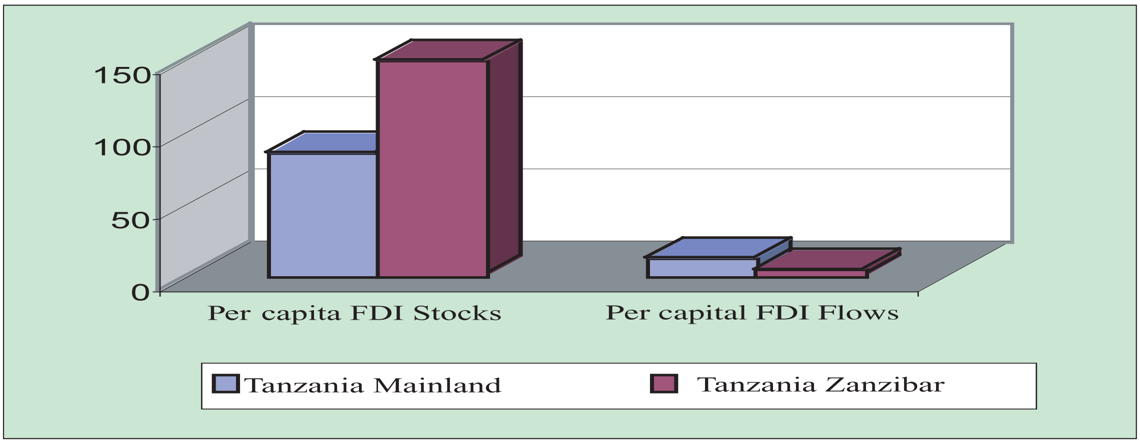


Table 3.10: Average Per-capita FDI Stocks and Flows, 1999-2001

	Average FDI Stocks (in USD Mill)	Per-capita FDI Stock	Average FDI Flows (in USD Mill)	Per-capita FDI Flows
Tanzania Mainland	2,978.1	85.1	426.1	12.2
Tanzania Zanzibar	146.5	148.7	4.2	4.3

among top recipients of FDI mainly because they are endowed with

14 According to 2002 population surveys Tanzania Mainland has a total of about 35 million people while Zanzibar has about 0.9 million.

abundant natural resources, especially minerals. In addition, Mwanza has the biggest fishing industries and resources, which have attracted foreign investors.

Arusha has also attracted substantial amount of FDI flows due to its commercial and tourist activities. The region's favourable weather and creates an added advantage for a wide range of agricultural activities. Arusha is also the Headquarters of the East African Community (EAC), which has raised the profile of the region in attracting foreign investments. Morogoro region with its 6.0 percent of total FDI flows is also important in attracting FDI mainly because most tobacco processing companies are located there and the region also hosts sugar plantations and sugar manufacturing plants.

The Urban West region of Zanzibar recorded 2.4 percent in 1999, 2.6 percent in 2000 and 2.3 percent in 2001 of the total FDI stock in the country. This, therefore, places Urban West region in the sixth position in FDI recipient regions in Tanzania (**Table 3.11**).

Regional Distribution of FDI Flows

The survey results show a similar pattern of distribution between FDI flows and stock across regions in Tanzania. In 2001, Dar-es-Salaam had about 76.0 percent of total FDI flows. Other regions with high FDI inflows in 2001 were Morogoro, Shinyanga, Mwanza, Arusha and Kilimanjaro

Table 3.12 shows that some regions like Ruvuma, Kagera, Coast, Mara, Mbeya, South Pemba, North and South Unguja received negligible amounts of FDI flows. The regions are however endowed with natural resources and have a large potential for attracting FDI flows. For instance there exists iron and coal deposits at Liganga and Mchuchuma in Iringa, vast arable

Table 3.11: Regional Distribution of FDI Stock, 1999 – 2001

Values in USD Million

A: Mainland						
Region	**1999**	**Percentage**	**2000**	**Percentage**	**2001**	**Percentage**
Dar es Salaam	1,353.2	55.9	1,508.6	49.7	1,870.2	49.5
Mwanza	165.6	6.8	346.0	11.4	534.6	14.2
Shinyanga	180.1	7.4	433.4	14.3	479.9	12.7
Arusha	216.2	8.9	199.2	6.6	353.6	9.4
Morogoro	128.5	5.3	203.8	6.7	170.7	4.5
Iringa	83.2	3.4	72.5	2.4	64.6	1.7
Tanga	51.2	2.1	25.6	0.8	38.0	1.0
Kilimanjaro	35.3	1.5	49.2	1.6	37.1	1.0
Mbeya	7.6	0.3	25.2	0.8	23.1	0.6
Manyara	0.0	0.0	10.2	0.3	16.5	0.4
Coast	1.8	0.1	7.1	0.2	6.8	0.2
Mara	78.3	3.2	5.1	0.2	5.8	0.2
Ruvuma	0.0	0.0	0.7	0.0	0.6	0.0
Kagera	0.1	0.0	0.3	0.0	0.3	0.0
Singida	0.1	0.0	0.0	0.0	0.0	0.0
Tabora	2.2	0.1	0.0	0.0	0.0	0.0
Sub-total	**2,303.5**	**95.2**	**2,886.8**	**95.0**	**3,601.9**	**95.4**
B: Zanzibar						
Region	**1999**	**Percentage**	**2000**	**Percentage**	**2001**	**Percentage**
Urban West	58.0	2.4	78.4	2.6	85.9	2.3
North Unguja	32.0	1.3	35.9	1.2	54.7	1.4
South Unguja	24.4	1.0	36.1	1.2	33.1	0.9
North Pemba	0.7	0.0	1.0	0.0	1.0	0.0
South Pemba	0.0	0.0	0.1	0.0	0.1	0.0
Sub-total	**115.2**	**4.8**	**151.5**	**5.0**	**174.7**	**4.6**
Grand-total	**2,418.7**	**100.0**	**3,038.3**	**100.0**	**3,776.6**	**100.0**

Table 3.12: Regional Distribution of FDI Flows, 1999 – 2001

Values in USD Million

A: Mainland						
Region	**1999**	**Percentage**	**2000**	**Percentage**	**2001**	**Percentage**
Dar es Salaam	358.3	66.2	182.5	64.7	353.9	75.7
Morogoro	12.0	2.2	31.9	11.3	30.7	6.6
Shinyanga	84.5	15.6	0.0	0.0	24.2	5.2
Mwanza	21.4	3.9	5.0	1.8	15.5	3.3
Arusha	23.6	4.4	12.2	4.3	12.8	2.7
Kilimanjaro	13.9	2.6	42.4	15.0	12.4	2.7
Tanga	5.8	1.1	0.7	0.2	10.8	2.3
Manyara	0.0	0.0	0.0	0.0	4.9	1.0
Iringa	4.7	0.9	0.1	0.0	0.5	0.1
Coast	0.1	0.0	0.3	0.1	0.1	0.0
Mbeya	0.3	0.1	0.0	0.0	0.1	0.0
Mara	11.5	2.1	1.2	0.4	0.0	0.0
Kagera	0.0	0.0	0.0	0.0	0.0	0.0
Ruvuma	0.0	0.0	0.0	0.0	0.0	0.0
Sub-total	**536.2**	**99.0**	**276.3**	**98.0**	**465.8**	**99.7**
B: Zanzibar						
Region	**1999**	**Percentage**	**2000**	**Percentage**	**2001**	**Percentage**
Urban West	2.8	0.5	2.9	1.0	1.1	0.2
South Unguja	0.4	0.1	0.3	0.1	0.3	0.1
North Unguja	1.8	0.3	2.5	0.9	0.1	0.0
South Pemba	0.3	0.1	0.0	0.0	0.0	0.0
Sub-total	5.4	1.0	5.7	2.0	1.4	0.3
Grand-total	**541.6**	**100.0**	**282.0**	**100.0**	**467.2**	**100.0**

agricultural land in Mbeya and Ruvuma, mineral deposits in Mara and tourist attractive sites in North and South Unguja, Kagera and Coast regions. Both the governments of Tanzania Mainland and Zanzibar need to address the impediments that hinder FDI flows to these regions.

As observed, the distribution of FDI flows in Tanzania is skewed towards few regions with Dar es Salaam and Mwanza attracting the highest level, about 89.0 percent of the flow of FDI in 2001 leaving only 11.0 percent for the remaining regions. Regions with better investment climate such as infrastructure and natural resource endowments have performed better in terms of investment. With this kind of distribution, a very small section of the country has benefited directly from the improved performance in FDI inflows. There is a need for the government to earmark potential areas of investment and improve social and economic infrastructure in the regions with less FDI inflows.

3.2.1.4 Foreign Direct Investments by Country Groupings

FDI in Tanzania originates from a wide range of countries and continues to flow from both traditional and new sources. While FDI from OECD countries[15] dominate, those from intra-regional sources have also been increasing. **Figures 3.27** and **3.28** show that OECD countries were major sources of FDI for Tanzania between 1999 to 2001 accounting for an average of 60.0 percent of the total stock. SADC countries contributed about 19.0 percent of the stock of FDI while EAC countries contributed only 5.0 percent.

Table 3.13 shows that during this period while the stock of FDI originating from OECD countries

[15] Countries that fall under OECD are: Australia, Austria, Belgium, Canada, Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Korea, Luxembourg, Mexico, Netherlands, New Zealand, Norway, Poland, Portugal, Slovak Republic, Spain, Sweden, Switzerland, Turkey, United Kingdom and United States of America.

Figure 3.27: Annual Composition of FDI Stocks by Regional Groupings, 1999 - 2001

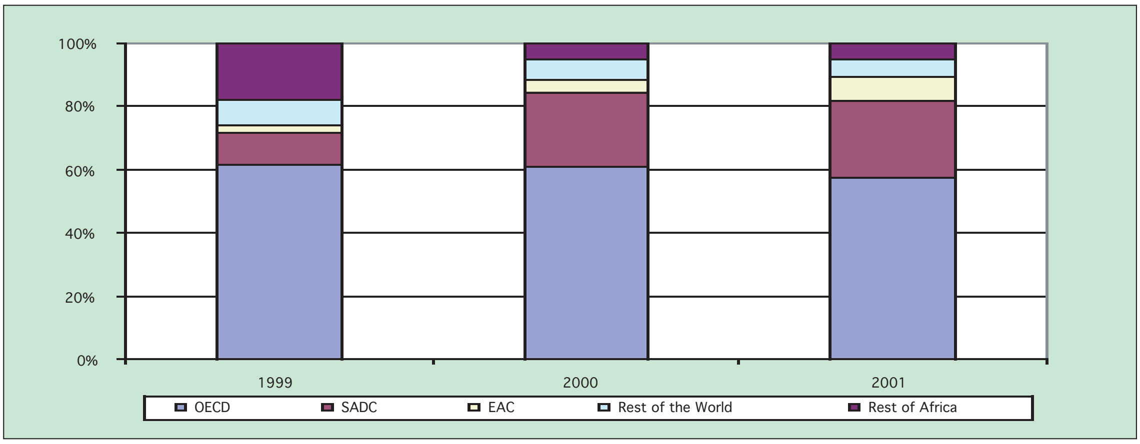
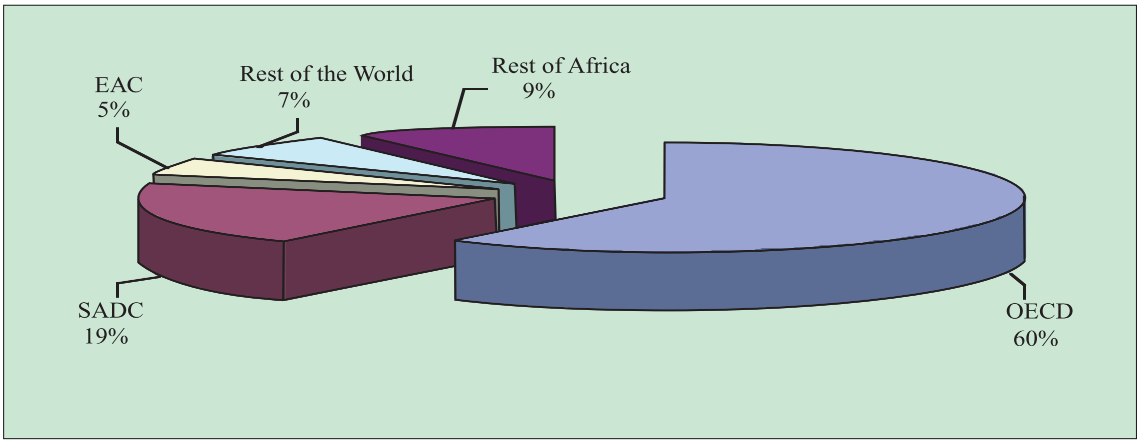


Figure 3.28: Average Composition of FDI Stocks by Regional Groupings, 1999 - 2001



increased at an annual average rate above 15.0 percent that of SADC and EAC countries increased at an annual average above 140.0 percent and 110.0 percent, respectively. However, FDI stock originating from African countries other than SADC and EAC (and that from the rest of the world) was declining during the survey period.

FDI Stocks by Country of Origin

A country-by-country analysis of the stock of FDI to Tanzania shows that new sources are emerging **(Figure 3.30).** Countries such as Ghana, UK, Canada, USA and Australia were the main source of FDI for Tanzania at least up to year 2000 because of their large investments mostly in the Mining sector. In year 2001, Tanzania witnessed a surge in investment originating from other countries, including South Africa. Investments from South Africa are not only in the Mining sector but also in other sectors

Table 3.13: Distribution of FDI Stocks by Regional Groupings, 1999-2001

Values in USD Million

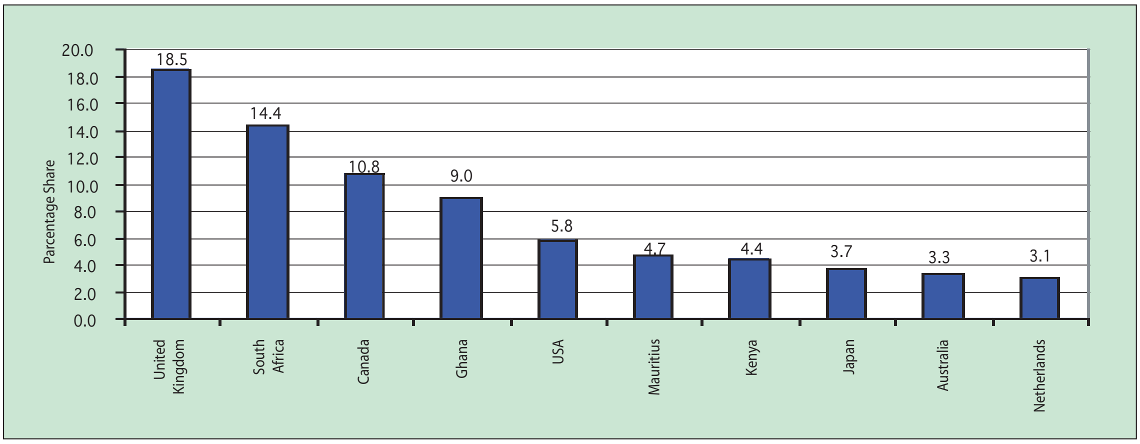
Country Group	1999	Percentage	2000	Percentage	2001	Percentage
OECD	1,487.3	61.5	1,847.4	60.8	2,161.9	57.2
SADC	244.7	10.1	716.7	23.6	926.8	24.5
EAC	61.2	2.5	115.2	3.8	277.1	7.3
Rest of the World	194.0	8.0	201.5	6.6	228.6	6.1
Rest of Africa	431.7	17.8	157.5	5.2	182.4	4.8
Total	**2,418.9**	**100.0**	**3,038.3**	**100.0**	**3,776.8**	**100.0**

such as Manufacturing, Finance and insurance (especially in banking activities), and Transport and communication. Investments from South Africa increased from about 5.8 percent of the total FDI stock in 1999 to 19.8 percent in 2001. **Table 3.15** shows that despite the surge in investments originating from South Africa in 2001, the OECD countries remained major investors in Tanzania.

During the period up to 2001, United Kingdom was the leading investor in Tanzania with an average of 18.5 percent of total stock of FDI, followed by South Africa (14.4 percent), Canada (10.8 percent), Ghana (8.9 percent) USA (5.8 percent) and Mauritius (4.4 percent) (**Figure 3.29).** The top ten source countries accounted for an average of 77.7 percent of the total stock of FDI between 1999 and 2001. While investments from Ghana are characterized by a single investment i.e. M/S Ashanti Goldfields, other countries have a wide range of investments across various sectors of the economy. It is however important to note that the stock of FDI from Ghana dropped from 17.3 percent in 1999 to 4.6 percent in 2001 as a result of a sell-off of some of the M/S Ashanti Goldfields shares to M/S Anglo American Inc. in year 2000. This has led into a big fall in FDI from the rest of Africa between 1999 and 2001.

On the other hand, investments originating from South Africa and Kenya largely reflect investment overflows from other countries or Multinational companies. It is important to note that for Balance of Payments (BOP) and International Investment Position (IIP) purposes, FDI stocks and flows originating from any economy such as South Africa and Kenya are classified to have been sourced from those countries because investment flows was between South African and Kenyan economies on one hand and Tanzania on the other hand. However, for investment promotion purposes, it is necessary to look into not only the residence of the investor but also where the decision to invest is made. The aspect of determination of source country of investment is a methodological challenge currently facing researchers and analysts of private capital flows world-wide due to complexity of ownership pattern that at times involves a long chain of ownership and overflows. (**see Box 3.1**)

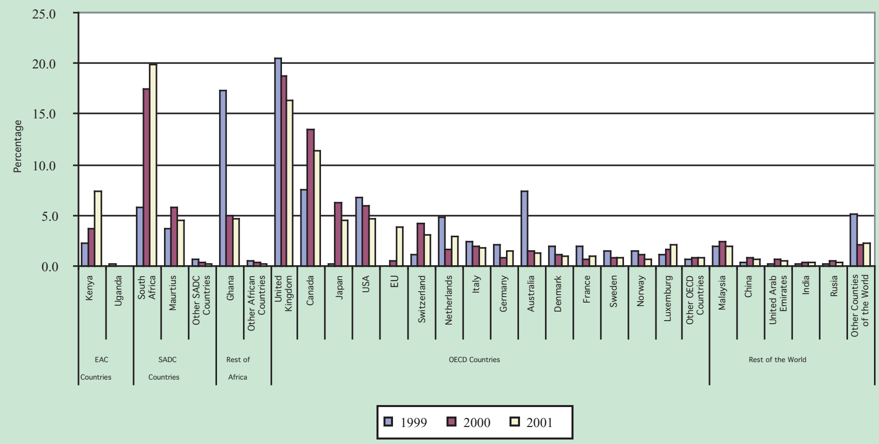
Figure 3.29: Average FDI Stock for the Top Ten Countries, 1999 - 2001



Box 3.1: Residency

The methodology used in this survey for identifying source country is in line with the IMF Balance of Payments Manual 5th edition (BPM5) in which case the source country is based on the residency of the investor. Evidence from other countries participating in the compilation of foreign private capital data shows that residency may sometimes be a misleading concept in the sense that it does not necessarily equate with the location of the decision to invest. One country can appear as a major source of investment while in fact those investments are overflows from some other countries or multinational companies with numerous shareholders who reside in a third country. For instance, an investor into Tanzania may be a resident in country A, but its investment is located and registered in country B. For BOP purposes, the transaction between Tanzania and Country B is recorded and therefore country B is regarded as the source of investment. However, for investment promotion purposes, it may be important also to establish the ownership pattern of that investment located in country B. Long chain of ownership pattern and investment overflows pose a methodological challenge to analysts/researchers in the determination of source country of investment and is one of the issues that is hotly debated in the review of the current IMF Balance of Payments Manual.

Figure 3.30: Distribution of FDI Stock by Country, 1999- 2001



FDI Flows by Regional Groupings

With regard to FDI flows during the period 1999 - 2001, OECD countries were dominant averaging 48.0 percent of the total FDI flows while SADC countries accounted for 33.0 percent and rest of Africa (i.e. Africa other than SADC and EAC) accounted for 11.0 percent (**Figures 3.29** and **3.30**). Survey results also show that SADC countries are increasingly gaining significance as sources of FDI flows to Tanzania. **Table 3.14** shows that inflows from OECD countries declined slightly in absolute terms from USD 245.3 million in 1999 to USD 243.8 million in 2001 but its share remained relatively higher compared to other groups.

Table 3.14: Distribution of FDI Flows Regional Groupings, 1999-2001

Values in USD Million

Country Group	1999	Percentage	2000	Percentage	2001	Percentage
OECD	245.3	45.3	128.1	45.4	243.8	52.2
SADC	63.1	11.7	137.0	48.6	182.9	39.2
Rest of the World	34.6	6.4	8.8	3.1	21.8	4.7
EAC	23.1	4.3	6.8	2.4	14.2	3.0
Rest of Africa	175.4	32.4	1.2	0.4	4.3	0.9
Total	**541.5**	**100.0**	**282**	**100.0**	**467**	**100.0**

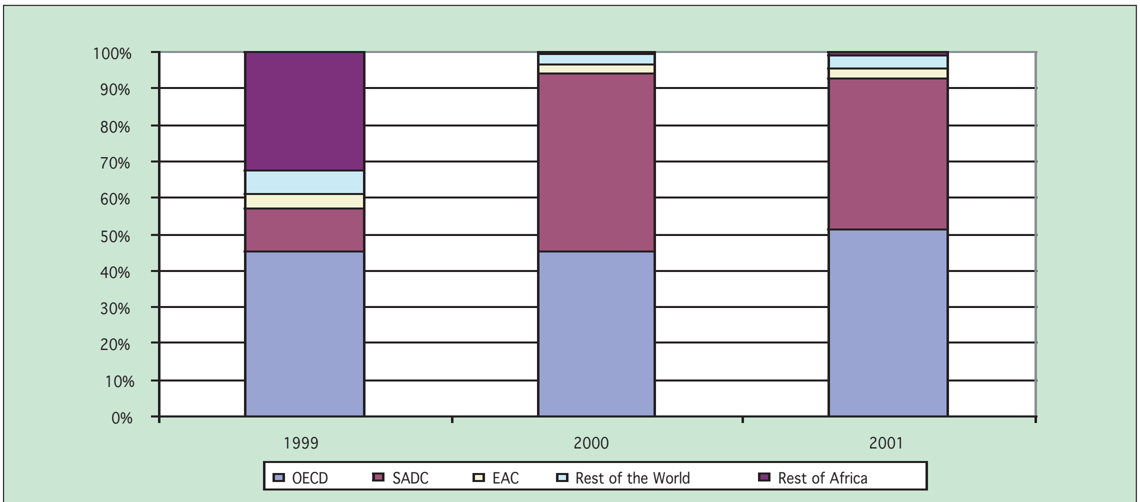
Table 3.15: FDI Stock by Country of Origin, 1999-2001

Values in USD Million

Country/Country Group	1999	Percentage	2000	Percentage	2001	Percentage
EAC Countries	**61.2**	**2.5**	**115.2**	**3.8**	**277.1**	**7.3**
Kenya	55.8	2.3	113.7	3.7	275.5	7.3
Uganda	5.4	0.2	1.5	0.0	1.6	0.0
SADC Countries	**244.7**	**10.1**	**716.7**	**23.6**	**926.8**	**24.5**
South Africa	140.3	5.8	529.4	17.4	749.2	19.8
Mauritius	89.0	3.7	175.8	5.8	171.4	4.5
Other SADC Countries	15.4	0.6	11.5	0.4	6.2	0.2
Rest of Africa	**431.7**	**17.8**	**157.5**	**5.2**	**182.4**	**4.8**
Ghana	418.7	17.3	149.9	4.9	174.9	4.6
Other Rest of Africa	13.0	0.5	7.6	0.3	7.5	0.2
OECD Countries	**1,487.3**	**61.5**	**1,847.4**	**60.8**	**2,161.9**	**57.2**
United Kingdom	495.4	20.5	569.1	18.7	615.4	16.3
Canada	184.0	7.6	406.7	13.4	430.6	11.4
Japan	3.7	0.2	190.9	6.3	172.2	4.6
USA	161.7	6.7	182.0	6.0	174.1	4.6
EU[16]	0.0	0.0	14.8	0.5	146.9	3.9
Switzerland	30.1	1.2	127.5	4.2	115.5	3.1
Netherlands	117.2	4.8	47.1	1.6	105.4	2.8
Italy	57.9	2.4	57.5	1.9	63.6	1.7
Germany	51.0	2.1	22.4	0.7	52.6	1.4
Australia	177.7	7.3	43.4	1.4	49.8	1.3
Denmark	47.6	2.0	36.3	1.2	35.5	0.9
France	47.1	1.9	20.5	0.7	33.6	0.9
Sweden	34.2	1.4	24.6	0.8	29.7	0.8
Norway	36.9	1.5	31.7	1.0	26.2	0.7
Luxembourg	27.3	1.1	48.5	1.6	80.1	2.1
Other OECD Countries	15.5	0.6	24.4	0.8	30.7	0.8
Rest of the World	**194.0**	**8.0**	**201.5**	**6.6**	**228.6**	**6.1**
Malaysia	48.5	2.0	71.9	2.4	72.1	1.9
China	10.6	0.4	23.0	0.8	23.7	0.6
United Arab Emirates	3.0	0.1	17.7	0.6	17.0	0.5
India	5.6	0.2	11.1	0.4	15.0	0.4
Russia	2.1	0.1	16.7	0.5	14.3	0.4
Other Rest of the World	124.2	5.1	58.6	1.9	84.0	2.2
Grand Total	**2,418.9**	**100.0**	**3,038.3**	**100.0**	**3,776.8**	**100.0**

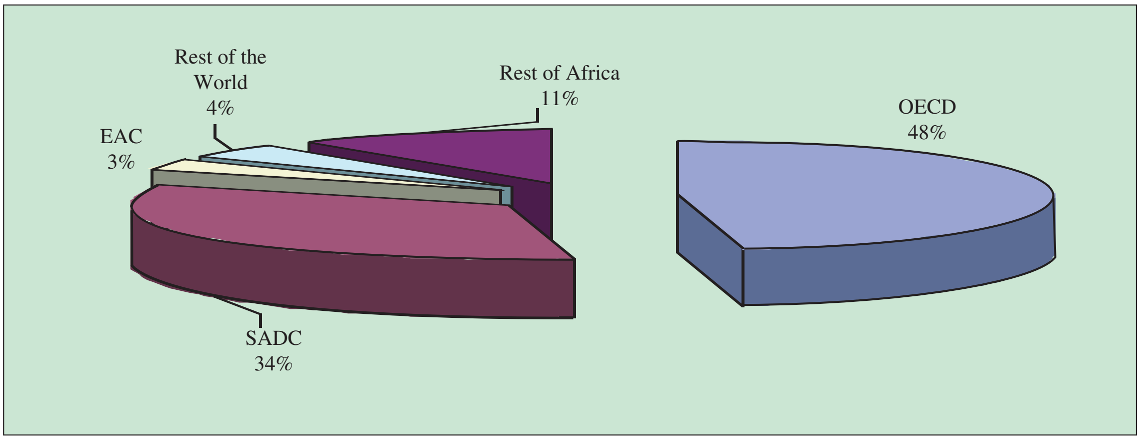
Survey results presented in **Table 3.16** shows that inflows of FDI from OECD countries declined by 47.7 percent between 1999 and 2000 but later increased by about 87.7 percent in 2001. In the case of SADC countries,

Figure 3.31: Annual Composition of FDI Flows by Regional Grouping, 1999 - 2001



16 FDI from EU as an Institution

Figure 3.32: Average Composition of FDI Flows by Regional Grouping, 1999 - 2001



FDI inflows increased dramatically by about 189.9 percent from USD 63.1 million in 1999 to USD 182.9 million in 2001. FDI inflows from countries other than OECD countries continued to increase with SADC countries contributing the majority share.

FDI Flows by Country of Origin

A country-by-country analysis of the flow of FDI to Tanzania shows a similar pattern to that of stocks where new sources are emerging and regional flows increasing. However, FDI inflows portray a slight divergence in top ranking countries when compared to that of FDI stock. Most of the country's

Figure 3.33: Average FDI Flows for the Top Ten Countries, 1999 - 2001

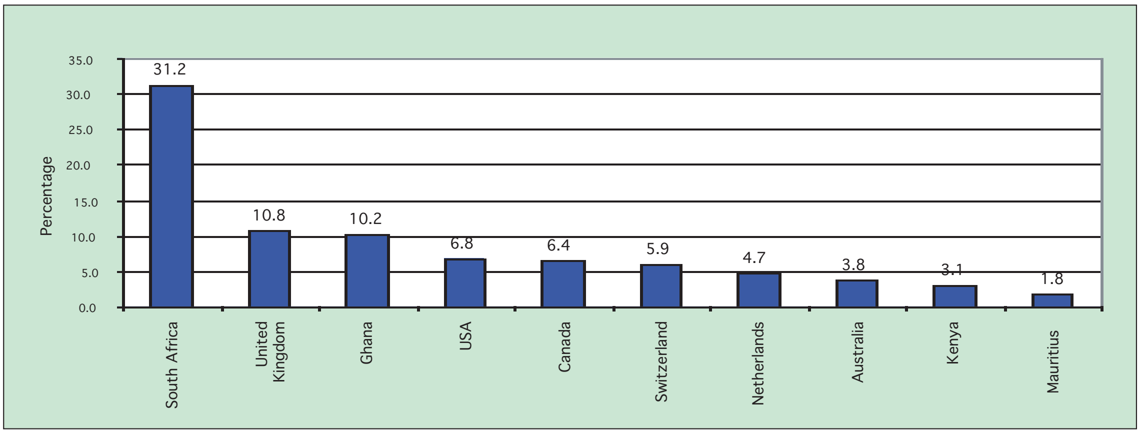


Figure 3.34: Distribution of FDI Flows by Country, 1999- 2001

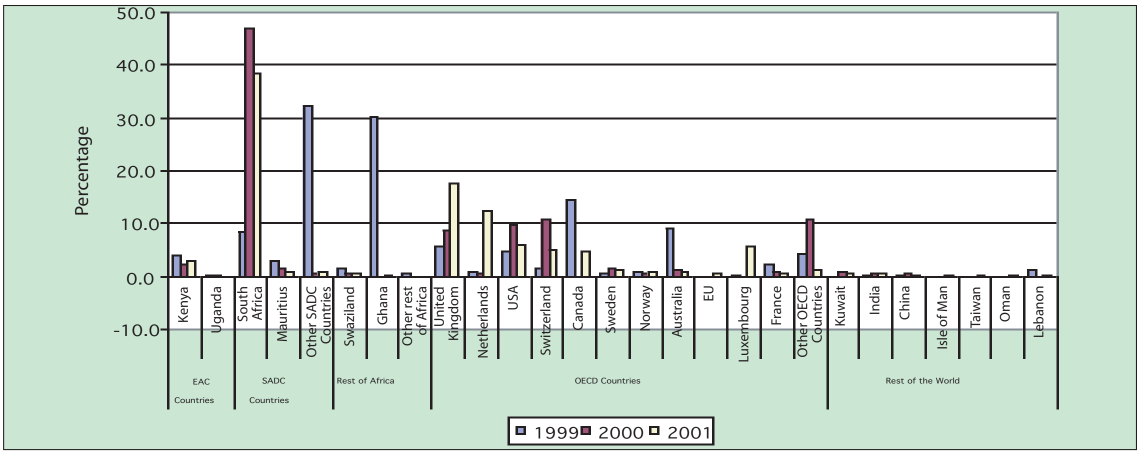


Table 3.16: FDI Flow by Country of Origin, 1999-2001

Values in USD Million

Country/Country Group	1999	Percentage	2000	Percentage	2001	Percentage
EAC Countries	23.1	4.3	6.8	2.4	14.2	3.0
Kenya	21.3	3.9	6.5	2.3	14.2	3.0
Uganda	1.8	0.3	0.3	0.1	0.0	0.0
SADC Countries	63.1	11.7	137.0	48.6	182.9	39.2
South Africa	44.7	8.3	132.4	47.0	179.3	38.4
Mauritius	16.7	3.1	4.6	1.6	3.7	0.8
Other SADC	1.7	0.3	0.0	0.0	-0.1	0.0
Rest of Africa	175.4	32.4	1.2	0.4	4.3	0.9
Swaziland	8.1	1.5	1.2	0.4	2.8	0.6
Ghana	164.3	30.3	0.0	0.0	1.5	0.3
Other Rest of Africa	3.0	0.6	0.0	0.0	0.0	0.0
OECD Countries	245.3	45.3	128.1	45.4	243.8	52.2
United Kingdom	31.0	5.7	25.0	8.9	82.8	17.7
Netherlands	5.6	1.0	1.6	0.6	58.5	12.5
USA	24.2	4.5	27.8	9.9	27.8	6.0
Switzerland	9.0	1.7	30.8	10.9	23.8	5.1
Canada	79.7	14.7	0.0	0.0	21.5	4.6
Sweden	3.5	0.6	4.1	1.5	5.4	1.2
Norway	5.6	1.0	1.7	0.6	4.7	1.0
Australia	49.0	9.0	4.0	1.4	3.9	0.8
EU[17]	0.0	0.0	0.0	0.0	2.4	0.5
Luxembourg	0.6	0.1	-0.1	0.0	5.7	1.2
France	13.2	2.4	2.3	0.8	2.2	0.5
Other OECD	23.9	4.4	30.9	11.0	5.1	1.1
Rest of the World	34.6	6.4	8.8	3.1	21.8	4.7
Kuwait	0.0	0.0	2.7	1.0	2.7	0.6
India	0.5	0.1	1.5	0.5	1.9	0.4
China	0.9	0.2	1.9	0.7	1.8	0.4
Isle of Man	0.1	0.0	0.0	0.0	1.6	0.3
Taiwan	0.0	0.0	0.0	0.0	1.4	0.3
Oman	0.0	0.0	0.0	0.0	1.3	0.3
Lebanon	6.4	1.2	0.0	0.0	1.0	0.2
Other Rest of the World	26.7	4.9	2.7	1.0	10.1	2.2
Total	**541.5**	**100.0**	**282.0**	**100.0**	**467.0**	**100.0**

FDI flows originate from few countries. For instance, on average, 84.7 percent of the total FDI flows during 1999 – 2001 originated from ten countries **(Figure 3.33)**

As opposed to stocks where the leading country was the United Kingdom, South Africa leads in the case of flows mainly due to a surge of its investment into Tanzania in 2000 and 2001 especially in the Mining, Manufacturing and Telecommunications sectors. Ghana remained in the top ten list of investors mainly due to its on-time huge investment in 1999 in the Ashanti Goldfields Company Ltd. The Netherlands is one of the new countries that emerged into the top ten list. Huge FDI inflows from the Netherlands during the period were attributed to increased shareholding in TTCL (a formerly government owned telecommunication company acquired through privatization). Other countries that also invested substantially during the period were Australia and Kenya. Detailed information of FDI flows by country of origin is shown in **Figure 3.34** and **Table 3.16.**

3.2.2 Foreign Portfolio Investments (FPI)

Foreign portfolio investment is comprised of three categories namely;

[17] FDI from EU as an institution

Table 3.17: Stock of Foreign Portfolio Investment by Financing Type, 1998-2001

Values in USD Million

Financing Type	1998	1999	2000	2001
Portfolio Equity Investment	28.2	29.0	80.1	75.5
Debt Securities	na	na	na	na
Foreign Portfolio Investments	28.2	29.0	80.1	75.5

Foreign Portfolio Equity Investment (FPEI), Debt Securities and Financial Derivatives. The survey did not cover the Financial Derivatives because currently they are not available in Tanzania. FPEI is, in this report, defined to include equity (and/or re-invested earnings on existing equity), which is less than 10.0 percent of the equity value of a company. Debt securities are not analysed in the report, as they were non-existent during the survey period due to policy restrictions that do not allow foreign investors' participation in the Dar es Salaam Stock Exchange (DSE). However, the government's decision to allow foreign investors' participation in the stock market in May 2003 is expected to prompt foreign investors' interest to also invest through debt securities.

As shown in **Table 3.17**, the stock of FPI initially increased from USD 29.0 million in 1999 to about USD 80.0 million in 2000 before falling to USD 75.0 million in 2001. Despite the FPI increase, its share in total FPC remained insignificant at an average of 2.0 percent.

Most of the investments in the form of FPI were recorded in the Manufacturing and Finance, insurance, real estate and

Table 3.18: Stock of Other Foreign Investments by Financing Type, 1998-2001

Values in USD Million

Other Investment Stocks	1998	%	1999	%	2000	%	2001	%
Long-Term Loans	178.8	63.5	295.2	59.2	430.1	88.6	345.5	87.6
Short-Term Loans	102.8	36.5	203.4	40.8	55.3	11.4	48.8	12.4
O/w Supplier Credits	53.3	51.8	62.2	30.6	13.5	24.4	16.5	33.8
Total Other Investment Stocks	**281.6**	**100.0**	**498.6**	**100.0**	**485.4**	**100.0**	**394.3**	**100.0**

Figure 3.35: Annual Composition of the Stock of Other Foreign Investments, 1998 - 2001

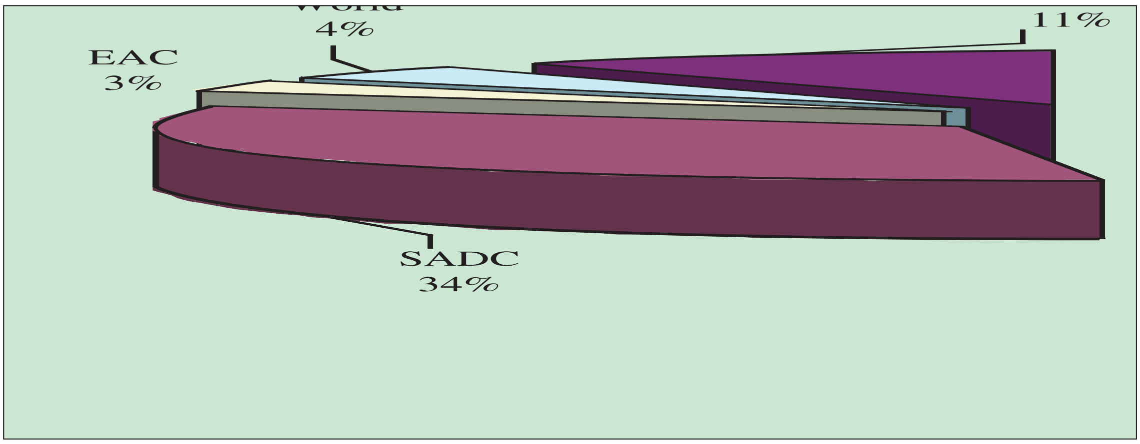
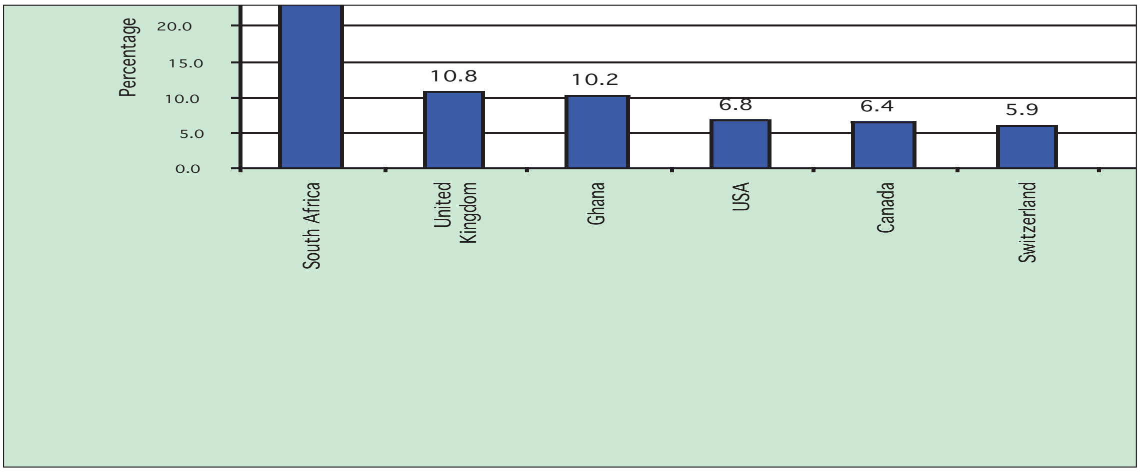


Figure 3.36: Average Composition of the Stock of Other Foreign Investments, 1998-2001



business services sectors, probably, a reflection of quick returns that these sectors offer to investments. For instance, while in 2000 and 2001 the Manufacturing sector attracted USD 57.0 million and USD 44.0 million of FPI, respectively, the Finance, insurance, real estate and business sector received USD 12.0 million in both years. On average, about 65.0 percent and 16.0 percent of the total FPI were channelled to the Manufacturing and Finance and insurance sectors, respectively. The two sectors in total constituted 81.0 percent of the total FPI in between 2000 and 2001.

According to the survey, FPI inflows were insignificant, contributing an average of only 1 percent and almost all of them were channeled to Wholesale, retail and accommodation sector (94.0 percent of the total FPI) in 1999, Manufacturing (97.0 percent) in 2000 and Utilities (98.0 percent) in 2001 **(Appendix 3 Tables 10** and **11).**

3.2.3 Other Foreign Investments

According to BPM5, Other Foreign Investments are considered as a residual item that includes all financial transactions not covered under FDI and Foreign Portfolio Investments. In relation to FPC, they include long and short-term borrowings that have been contracted from sources other than related companies as well as short-term trade and services payments (suppliers credits) that are also from unrelated sources. It is important to monitor the Other Foreign Investments item because it defines the country's level of exposure to other sources of foreign debt.

The magnitude of the stock of Other Foreign Investments in Tanzania has been relatively low compared to the stock of FDI. It constituted only 9.2 percent of total FPC in 2001, which is far below the contribution of FDI that was 88.6 percent in that year. In absolute terms however the contribution of Other Foreign Investments in total FPC was generally

Table 3.19: Flows of Other Foreign Investments by Financing Type, 1999-2001

Values in USD Million

Other Investments Flows	1999	%	2000	%	2001	%
Long-Term Loans	98.8	52.4	159.0	82.5	74.7	57.9
Short-Term Loans	89.9	47.6	33.7	17.5	54.3	42.1
O/w Supplier Credits	26.6	26.9	9.4	27.9	13.2	24.3
Total Other Investment Flows	**188.7**	**100.0**	**192.7**	**100.0**	**129.0**	**100.0**

Figure 3.37: Annual Composition of the Flows of Other Foreign Investments, 1999-2001

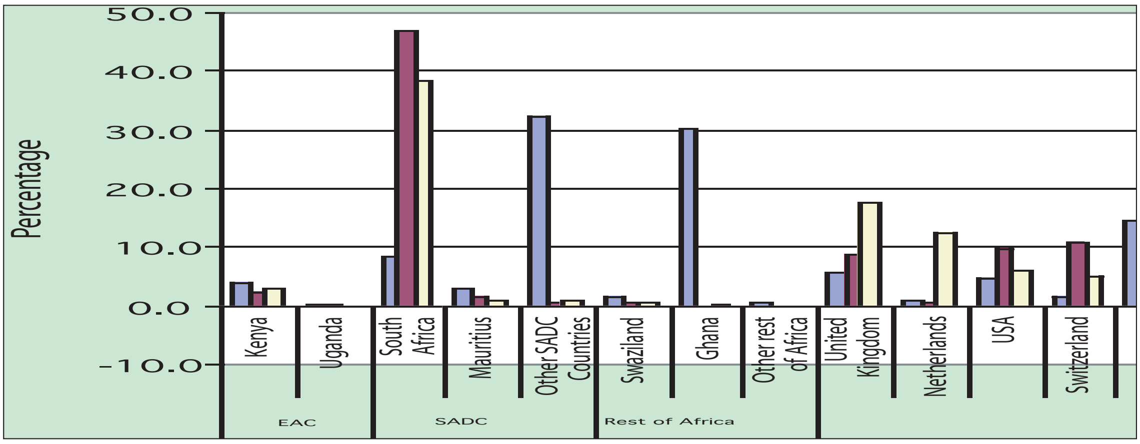


Figure 3.38 : Average Composition of Flows of Other Foreign Investments, 1999 -2001

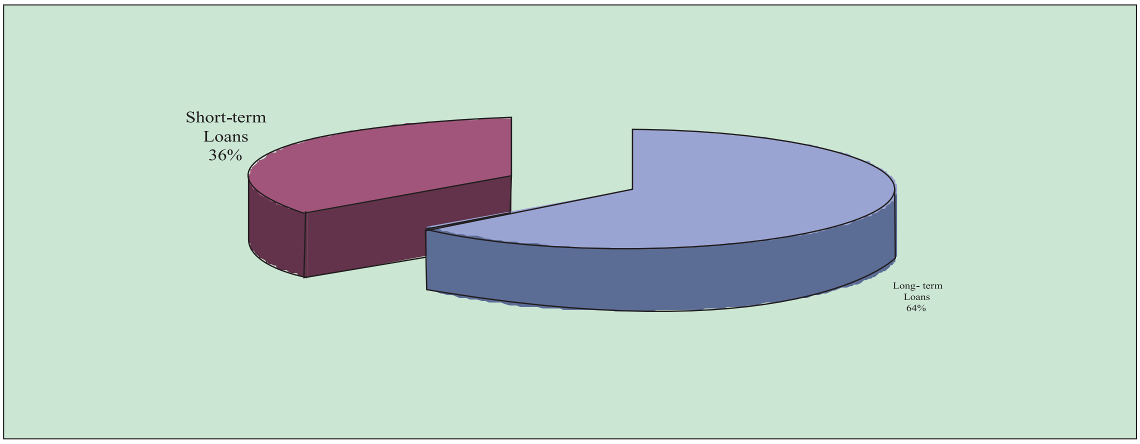


Table 3.20: Stock of Other Foreign Investments by Sector, 1999-2001

Values in USD Million

Sector	1999		2000		2001	
	Amount	Percentage	Amount	Percentage	Amount	Percentage
Mining and Quarrying	100.8	20.2	323.8	66.7	212.6	53.9
Utilities	85.9	17.2	85.9	17.7	85.9	21.8
Manufacturing	134.3	26.9	42.5	8.8	45.1	11.4
Agriculture, hunting, forestry	6.3	1.3	7.5	1.5	13.2	3.3
Wholesale & Retail trade, catering	62.9	12.6	7.6	1.6	11.4	2.9
Financing, Insurance, real estate	8.0	1.6	6.8	1.4	8.3	2.1
Construction	25.5	5.1	1.6	0.3	8.0	2.0
Transport, storage	74.7	15.0	7.1	1.5	6.0	1.5
Community, social and personal	0.4	0.1	2.6	0.5	3.8	1.0
Total	**498.6**	**100.0**	**485.4**	**100.0**	**394.3**	**100.0**

growing between 1999 and 2001.

Table 3.18 and **Figure 3.35** show that the annual composition of the stock of Other Foreign Investments was dominated by long-term loans from unrelated companies, which increased from USD 178.8 millions (63.5 percent of total Other Foreign Investments) in 1998 to USD 345.5 million (87.6 percent) in 2001. Short-term loans from unrelated companies declined by 76.0 percent from USD 203.4 million in 1999 to only USD 48.8 million in 2001. Suppliers' credits accounted for a significant proportion of short-term loans in 1998 and 1999 but only marginally in 2000 and 2001. The composition of Other Foreign Investments was dominated by long-term loans from unrelated companies, which accounted for an average of

Table 3.21: Flows of Other Foreign Investments by Sector, 1999-2001

Values in USD Million

Sector	1999	Percentage	2000	Percentage	2001	Percentage
Mining and Quarrying	60.7	32.0	170.5	88.5	55.3	42.9
Manufacturing	48.1	25.3	11.0	5.7	43.8	33.9
Financing, Insurance, real estate, and business services	4.3	2.3	2.4	1.2	10.9	8.4
Agriculture, hunting, forestry and fishing	1.7	0.9	3.5	1.8	8.7	6.8
Construction	4.7	2.5	1.3	0.7	4.4	3.4
Community, social and personal services	0.2	0.1	0.4	0.2	2.4	1.9
Wholesale & Retail trade, catering & accommodation services	6.7	4.1	1.9	1.0	2.3	1.8
Transport, storage & communication	62.2	32.8	1.7	0.9	1.2	0.9
Utilities	0.0	0.0	0.0	0.0	0.0	0.0
Total	188.6	100.0	192.7	100.0	129.0	100.0

about 75.0 percent of total Other Foreign Investments between 1998 and 2001.

Transactions in the form of Other Foreign Investments constitute part of current financing in Tanzania that add to what comes in the form of FDI and Portfolio investments. Other Foreign Investments constituted about 21.3 percent of total FPC inflows during

Table 3.22: Regional Distribution of Other Foreign Investment Stock, 1999-2001

Values in USD Million

A: Mainland						
Region	**1999**	**Percentage**	**2000**	**Percentage**	**2001**	**Percentage**
Arusha	62.5	12.5	15.5	3.2	19.9	5.0
Dar es Salaam	327.9	65.8	166.4	34.3	155.6	39.5
Iringa	2.2	0.4	3.9	0.8	1.8	0.5
Kagera	1.0	0.2	0.1	0.0	0.1	0.0
Kilimanjaro	7.1	1.4	0.2	0.0	2.4	0.6
Mara	7.2	1.4	3	0.6	2.7	0.7
Mbeya	0.0	0.0	0.0	0.0	0.0	0.0
Morogoro	37.2	7.5	0.2	0.0	0.3	0.1
Mwanza	9.7	1.9	135.8	28.0	1.1	0.3
Coast	0.0	0.0	0.1	0.0	0.1	0.0
Ruvuma	0.1	0.0	0.0	0.0	0.0	0.0
Shinyanga	14	2.8	151.3	31.2	200.0	50.7
Tabora	3.7	0.7	0.0	0.0	0.0	0.0
Tanga	2.3	0.5	1.0	0.2	2.5	0.6
Sub-Total	**474.9**	**95.2**	**477.6**	**98.4**	**386.5**	**98.0**
B: Zanzibar						
North Unguja	7.5	1.5	1.5	0.3	1.5	0.4
South Unguja	4.9	1.0	1.0	0.2	1.0	0.2
Urban West	11.2	2.3	5.3	1.1	5.3	1.3
Sub-Total	**23.7**	**4.8**	**7.8**	**1.6**	**7.8**	**2.0**
Grand Total	**498.6**	**100.0**	**485.4**	**100.0**	**394.3**	**100.0**

Table 3.23: Regional Distribution of Other Foreign Investment Flows, 1999-2001

Values in USD Million

Region	1999	Percentage	2000	Percentage	2001	Percentage
Dar es Salaam	130.3	68.7	46.9	24.4	64.1	49.7
Shinyanga	2.3	1.2	0.0	0.0	48.7	37.8
Arusha	44.6	24.0	7.3	3.8	9.0	7.0
Tanga	1.2	0.7	0.7	0.4	2.3	1.8
Kilimanjaro	0.5	0.3	0.0	0.0	2.2	1.7
Iringa	0.0	0.0	0.9	0.5	1.6	1.2
Zanzibar Urban West	0.0	0.0	0.6	0.3	0.7	0.5
Mwanza	1.9	1.0	135	70.1	0.3	0.2
Morogoro	4.9	2.6	0.1	0.1	0.1	0.1

Mara	2.9	1.5	1.0	0.5	0.0	0.0
Ruvuma	0.0	0.0	0.0	0.0	0.0	0.0
Coast	0.0	0.0	0.1	0.1	0.0	0.0
Total	**188.6**	**100.0**	**192.7**	**100.0**	**129.0**	**100.0**

2001, which was lower compared to about 40.6 percent in 2000. The magnitude of Other Foreign Investments had generally been declining from USD 189.0 million in 1999 to USD 129.0 million in 2001, a decline of about 45.0 percent **(Table 3.20).**

Foreign investments inflows in the form of long-term loans from unrelated companies remained dominant, accounting for 524 percent, 82.5 percent and 57.9 percent in 1999, 2000 and 2001, respectively (**Table 3.19** and **Figure 3.37**). **Figure 3.38** also expresses the significant contribution of long-term loans in total Other Foreign Investments, which accounted for an average of 64.2 percent of total flows between 1999 and 2001.

Sectoral Distribution of Other Foreign Investments

Table 3.21 shows the stocks of Other Foreign Investments over the survey period in which Mining and quarrying, Utilities and Manufacturing sectors attracted most of the loans and suppliers credit from unrelated companies. On average, the Mining sector constituted about 46.9 percent of the total stock of Other Foreign Investments which was financed by loans and suppliers' credit from unrelated companies. This is

Table 3.24: Stock of Other Foreign Investments, Top Ten Countries, 1999-2001

Values in USD Million

Country	**1999**	**Percentage**	**2000**	**Percentage**	**2001**	**Percentage**
USA	35.2	7.1	157.3	32.4	207.7	52.7
Malaysia	117.8	23.6	85.9	17.7	85.9	21.8
United Kingdom	84.5	17.0	26.3	5.4	30.1	7.6
Australia	36.7	7.4	35.5	7.3	8.5	2.2
IFC	6.9	1.4	8.4	1.7	7.4	1.9
South Africa	18.6	3.7	3.4	0.7	6.6	1.7
Norway	2.2	0.4	1.4	0.3	5.5	1.4
United Arab Emirate	0.0	0.0	4.0	0.8	5.5	1.4
EU	0.0	0.0	135.3	27.9	4.4	1.1
Liechtenstein	0.0	0.0	4.0	0.8	4.1	1.0
Others	196.6	39.4	24.0	4.9	28.6	7.3
Total	**498.6**	**100.0**	**485.4**	**100.0**	**394.3**	**100.0**

Table 3.25: Country of Origin of Other Foreign Investment Flows, 1999-2001

Values in USD Million

Country	**1999**	**Percentage**	**2000**	**Percentage**	**2001**	**Percentage**
USA	4.1	2.1	4.3	2.2	55.0	42.6
United Kingdom	60.5	31.9	2.8	1.5	33.9	26.3
Australia	6.2	3.3	35.5	18.4	6.6	5.1
United Arab Emirates	0.0	0.0	2.2	1.1	3.8	3.0
Germany	43	22.6	0.9	0.4	3.6	2.8
EADB	0.0	0.0	0.4	0.2	3.3	2.6
Norway	0.0	0.0	0.5	0.2	2.5	2.0
Kenya	2.2	1.2	0.9	0.5	2.3	1.8
Netherlands	2.0	1.1	2.1	1.1	2.3	1.8
Mauritius	2.0	1.1	0.0	0.0	2.2	1.7
Others	68.6	36.8	143.1	74.3	13.3	10.3
Total	**188.6**	**100.0**	**192.7**	**100.0**	**129.0**	**100.0**

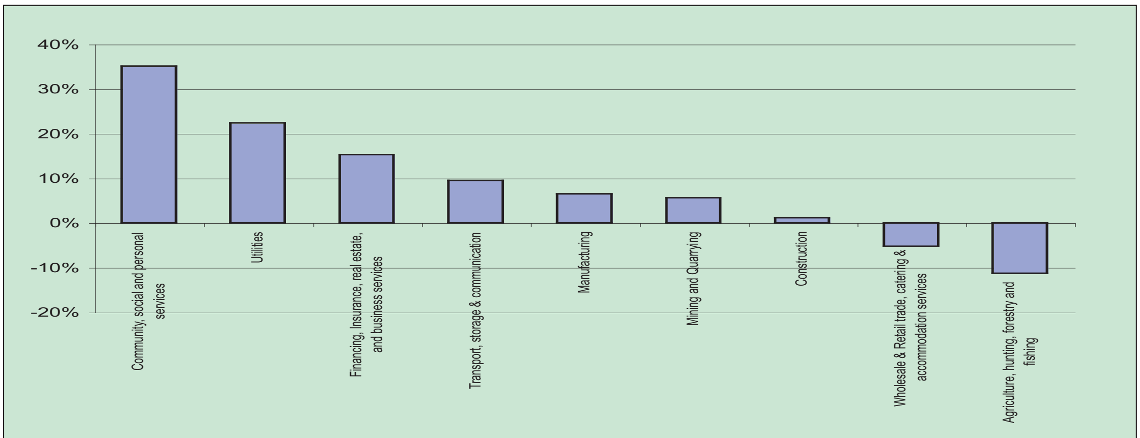
possibly due to the nature of financing in the Mining sector which is non-equity and more often syndicated loans. The high exposure of this sector to foreign debt necessitates the need for close monitoring.

In terms of flows, only Manufacturing and Mining and quarrying sectors were more exposed to loans (including suppliers' credits) from unrelated companies. The two sectors attracted about 95.0 percent of the loans in 2000 and about 77.0 percent in 2001. There

Table 3.26: Net Profit/Loss and Rate of Return on Foreign Equity

Sector	2000		2001	
	Net Profit (Loss)	**Return on Foreign Equity (%)**	**Net Profit (Loss)**	**Return on Foreign Equity (%)**
Profit Making Sectors	151.7	7.9	133.4	5.5
Manufacturing	70.9	7.6	60.8	5.3
Financing, Insurance, real estate, and business services	35.6	17.6	26.6	12.9
Community, social and personal services	19.7	32.9	23.0	37.3
Transport, storage & communication	9.2	11.4	14.5	7.6
Mining and Quarrying	8.4	1.4	4.1	9.9
Utilities	7.0	41.2	3.9	3.6
Construction	0.9	2.1	0.6	0.1
Loss Making Sectors	-23.7	-5.5	-43.0	-9.7
Wholesale & Retail trade, catering & accommodation services	-11.8	-4.5	-16.7	-6.0
Agriculture, hunting, forestry and fishing	-11.9	-7.0	-26.3	-15.7
Total	**128.0**	**5.4**	**90.4**	**3.1**

Figure 3.39: Rate of Return by Sector, 2000-2001



was no transaction flows recorded for the Utilities sector during the survey period. This implies that the stock of USD 85.9 million that was reported under the sector throughout the 1999-2001 periods was accumulated over the period prior to the survey.

Regional Distribution of Other Foreign Investments

The distribution of Other Foreign Investments over the survey period was skewed in favour of three main regions namely Dar es Salaam, Shinyanga and Mwanza, which together accounted for an average of about 83.0 percent. As explained earlier, the reasons for such skewness were better business environment for Dar es Salaam and proximity to abundant mineral deposits for Mwanza and Shinyanga.

As shown in **Table 3.22**, Zanzibar did not attract much Other Foreign Investments.

Stock of Other Foreign Investments by Country of Origin

In terms of stock, Tanzania contracted more private debt from USA and Malaysia during 2001, which accounted for cumulative total of 74.5 percent of loans and suppliers' credit from unrelated sources.

During 2001, USA dominated Other Foreign Investment flows by 42.6 percent followed by UK with 26.3

Table 3.27 Dividend to Non-Residents Holding 10 Percent or above of Equity Shares by Sector, 2000-2001

Values in USD Million

Sector	2000	2001	Total
Manufacturing	31.9	44.4	76.3
Financing, Insurance, real estate, and business services	16.6	12.1	28.6
Wholesale and Retail trade, catering and accommodation services	0.8	0.0	0.8
Agriculture, hunting, forestry and fishing	0.7	0.0	0.7
Transport, storage & communication	0.7	0.6	1.3
Utilities	0.6	0.8	1.5
Community, social and personal services	0.0	0.0	0.0
Construction	0.0	0.0	0.0
Mining and Quarrying	0.0	0.1	0.1
Total	**51.3**	**58.0**	**109.3**

Table 3.28: Dividend to Non-Residents Holding Less than 10 Percent of Equity Shares by Sector, 2000-2001

Values in USD Million

Sector	2000	2001	Total
Manufacturing	2.7	8.6	11.3
Financing, Insurance, real estate, and business services	0.2	0.1	0.2
Construction	0.0	0.0	0.0
Wholesale and Retail trade, catering and accommodation services	0.0	0.0	0.0
Total	**2.9**	**8.6**	**11.6**

percent. Although Malaysia had a substantial stock of Other Foreign Investments, the reported flows were low because the loans from this country were contracted before the survey period.

3.3 Income on Investments

3.3.1 Sectoral Profitability and Rate of Return

Profitability and rate of return[18] on investments varies enormously across sectors. Table 3.27 shows that in absolute values, Manufacturing was the most profitable sector in 2000 and 2001, with profits amounting to about USD 70.9 million and USD 60.8 million respectively. Other sectors were less profitable with some such as Wholesale and retail trade, catering and accommodation services; and Agriculture, hunting, forestry and fishing sectors, reporting loses during the period. The rate of return on foreign equity also varies much across sectors. **Table 3.26** and **Figure 3.39** show that on average, Community, social and personal services sector had the highest rate of return of over 30 percent between 2000 and 2001. Returns in the Utilities sector averaged over 20.0 percent and that of Finance and insurance was over 15.0 percent.

The rates of return presented in this section are less related to performance of sectors explained earlier. Underreporting is the main reason for the reported low return in well performing sectors such as Manufacturing. This justifies the need for paying more attention to this aspect in the next survey.

[18] Rate of return on foreign equity is derived by dividing total sector net profit by total sector foreign equity

Wholesale and retail trade and Agriculture sectors recorded negative rates of return consistent with the loss that these sectors made during the period. However, further research is required to verify these results.

3.3.2 Dividends

Table 3.28 provides data on dividends payable by sector for 2000 and 2001. For the two years, a total of USD 109.3 million was paid to foreign investors holding shares of 10 percent and/or above, whereas a total of USD 11.6 million was paid to foreign investors holding shares less than 10 percent (Table 3.29). Larger shares of the dividends were paid to the investors in the Manufacturing and Financial sectors. Small shares of dividends were paid to the investors in the remaining sectors, which probably reflects the low level of profitability in these sectors or decision of the companies to increase re-invested earnings.

The Mining sector did not register significant dividends partly because most of the mining projects were new, not yet fully operational or concentrated on servicing debts. In some cases, outflows were higher than inflows due to accumulated dividends.

3.4 Estimates of PCF 2002 – 2004 and Future Outlook

This section presents non-survey estimates for 2002-2004, an extension of the actual survey data for 1998-2001 for stocks and 1999-2001 for inflows. The aim of incorporating these estimates is to ensure that the provided data is current and can be used in policy making. The main sources of data for the estimates are TIC, PSRC, NDC and MEM and were estimated at two levels. To get estimates of FDI for 2002-2004, each project approval data from the

Table 3.29: Flows of Foreign Private Capital in Tanzania, 1999-2004

Values in USD Million

Foreign Private Capital Flows	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Foreign Direct Investments	541.7	74.0	282.0	59.4	467.2	77.3	429.8	77.7	526.8	77.7	469.9	77.7
Direct Equity Investment	202.5	27.7	85.2	17.9	236.9	39.2	174.7	31.6	214.1	31.6	191.0	31.6
Reinvested Earnings	1.7	0.2	1.6	0.3	0.3	0.0	1.2	0.2	1.5	0.2	1.3	0.2
Long-Term Intra-Company Loans	237.2	32.4	37.8	8.0	107.7	17.8	127.4	23.0	156.2	23.0	139.3	23.0
Short-term Intra-Company Loans	100.2	13.7	157.4	33.2	122.3	20.2	126.5	22.9	155.0	22.9	138.3	22.9
O/w Suppliers Credits	55.0	54.9	94.1	59.8	75.3	61.6	53.3	42.1	65.3	42.1	58.2	42.1
Foreign Portfolio investments	**1.2**	**0.2**	**0.0**	**0.0**	**8.2**	**1.4**	**2.2**	**0.4**	**2.7**	**0.4**	**2.4**	**0.4**
Portfolio equity investment	1.2	0.2	0.0	0.0	8.2	1.4	2.2	0.4	2.7	0.4	2.4	0.4
Debt Securities	na	na	na	na	na	na	na	na	na	na	na	na
Other Investments	**188.7**	**25.8**	**192.7**	**40.6**	**129.0**	**21.3**	**121.1**	**21.9**	**148.5**	**21.9**	**132.5**	**21.9**
Long-Term Loans	98.8	13.5	159.0	33.5	74.7	12.4	78.9	14.3	96.7	14.3	86.3	14.3
Short-Term Loans	89.9	12.3	33.7	7.1	54.3	9.0	42.2	7.6	51.8	7.6	46.2	7.6
O/w Suppliers Credits	26.6	26.9	9.4	27.9	13.2	24.3	11.7	27.2	14.3	27.6	12.8	27.7
Total Flows of Private Capital	**731.6**	**100.0**	**474.7**	**100.0**	**604.4**	**100.0**	**553.1**	**100.0**	**678.0**	**100.0**	**604.8**	**100.0**

n.a = not applicable.
* Estimates based on approval records from TIC, MEM and PSRC.

sources was evenly distributed across the entire project implementation period. The average FDI per project so obtained constituted FDI inflow that a particular project was estimated to have invested in the country during a particular year. The averages were summed to obtain total FDI figure for that year. In estimating Portfolio and Other Foreign Investments, historical relationship recorded for FDI, FPI and Other Foreign Investments between 1999-2001 were used as basis.

This procedure is an alternative way of producing estimates for FPC whenever survey returns are unavailable. However, these estimates are only indicative and are not as accurate as those collected from the survey since there is little methodological conviction to support their accuracy. This is because firstly, the estimates are made as a derivative of the investments approval process that is not in-line with BPM5 standards. Secondly, there may be a significant time lag between approval and actual investment or some of the approved investments may never actually take place. Lastly, some information particular to an enterprise such as type of financing, retained earnings and interests, cannot be obtained from approval records.

Table 3.30 presents estimates for 2002 – 2004 and actual survey data for 1999-2001. Total PCF flow figures for 2002 to 2004 presented in Table 3.30 were derived by flow figure from previous year's stock. Estimates indicate generally that the stock of FPC is increasing and reached USD 4.7 billion in 2003 and USD 5.2 billion in 2004.
The future of FPC in the country is quite promising given the recent multi-million projects involving Barrick Goldmine, Kagera Sugar, Kilimanjaro hotel, the recently inaugurated Songas project, the ongoing Mlimani City complex, and cellular phone companies.

Based on the survey results, 72.0 percent of foreign investors indicated intention to expand their business in the next three years. About 23.0 percent of them showed intention to remain at the current level of investment while only 5.0 percent indicated that they would contract their businesses.
The future of FPC also hinges on the general international reputation that Tanzania has acquired. For instance, in

Table 3.30: Stock of Foreign Private Capital in Tanzania, 1998-2004

Values in USD Million

Foreign Private Capital Stock	1998	%	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Foreign Direct Investments	1,714.7	84.7	2,418.7	83.3	3,038.3	84.3	3,776.6	88.6	4,206.4	87.3	4,733.2	87.3	5,203.3	87.3
Direct Equity Investment	1,246.7	61.6	1,608.0	55.4	2,358.3	65.4	2,883.2	67.6	2,656.3	55.1	2,988.9	55.1	3,285.8	55.1
Long-Term Intra-Company Loans	390.3	19.3	679.2	23.4	543.5	15.1	753.5	17.7	776.4	16.1	873.7	16.1	960.4	16.1
Short-term Intra-Company Loans	77.7	3.8	131.5	4.5	136.6	3.8	139.9	3.3	159.3	3.3	179.3	3.3	197.1	3.3
O/w Suppliers' Credits	36.2	46.6	55.0	41.9	79.2	58.0	94.2	67.3	86.8	54.5	97.7	54.5	107.4	54.5
Foreign Portfolio investments	**28.2**	**1.4**	**29.0**	**1.0**	**80.1**	**2.2**	**75.5**	**1.8**	**69.8**	**1.4**	**78.6**	**1.4**	**86.4**	**1.4**
Portfolio equity investment	28.2	1.4	29.0	1.0	80.1	2.2	75.5	1.8	69.8	1.4	78.6	1.4	86.4	1.4
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Foreign Investments	**281.6**	**13.9**	**498.6**	**16.9**	**485.4**	**13.5**	**394.3**	**9.2**	**544.6**	**11.3**	**612.8**	**11.3**	**673.7**	**11.3**
Long-Term Loans	178.8	8.8	295.2	10.0	430.1	11.9	343.5	8.1	409.3	8.5	460.6	8.5	506.3	8.5
Short-Term Loans	102.8	5.1	203.4	6.9	55.3	1.5	48.8	1.1	134.6	2.8	151.5	2.8	166.5	2.8
O/w Suppliers' Credits	53.3	51.8	62.2	30.6	13.5	24.4	16.5	33.8	47.7	35.4	53.7	35.5	59.1	35.5
Total Stock of Private Capital	2,024.5	100.0	2,946.3	100.0	3,603.8	100.0	4,264.4	100.0	4,820.8	100.0	5,424.6	100.0	5,963.3	100.0

* Estimates based on approval records from TIC, MEM and PSRC.

April 2004, Tanzania was rated the 2nd most attractive investment destination in Africa by UNCTAD survey on international firms. South Africa was rated first by the survey. In November 2004 TIC was picked as Africa's best Investment Promotion Agency (IPA) for the year[19]. All these achievements have major bearing on future investment flows into Tanzania.

CHAPTER FOUR

PRIVATE SECTOR EXTERNAL DEBT

4.1 Tanzania's Private Sector External Debt

The need for stepped-up monitoring of Private Sector External Debt (PSED) in Tanzania originated from Tanzania Investment Report of 2001 (TIR01). The report pointed out the presence of substantial PSED, which accounted for 44 percent of total stock of foreign private capital in Tanzania and strongly recommended for its close monitoring.

The growing need for monitoring of PSED in developing economies cannot be overstated particularly after the financial crisis that hit the South East Asian countries in the mid 1990s. PSED is contracted under agreements made between private companies and external creditors, and governments do not assume any direct responsibility. This is therefore different from the public guaranteed debt or public debt per se, in which case the entire liabilities fall on the government. PSED is beneficial to the economy as it supplements the domestic public and private capital. However, PSED can be harmful to the economy if not monitored closely by the recipient countries. The importance of monitoring PSED is among the main objectives of the current survey.

This chapter reviews PSED component of foreign private capital in Tanzania. It summarizes gross external debt in Tanzania, including public sector external debt as a way of building a comparative framework. It also reviews total PSED as well as the sectors of the economy that are mostly exposed to it and major source countries of PSED. Lastly, it summarizes the main results and implication of PSED on national debt policy and monitoring.

4.2 Gross External Debt in Tanzania

4.2.1 Monitoring of External Debt

Total external debt in Tanzania is a sum of the external debt contracted by the government and the foreign debt that private sector obtains from different sources without any government guarantee. The government's portion of external debt is a total of direct credits from international financial institutions as well as from bilateral sources plus some commercial credits borrowed by the government or its agencies.

The Bank of Tanzania on behalf of the Government uses the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) to record external debts. The system was developed as a standard tool for monitoring and analyzing foreign debt. However, the system captures only long-term PSED. Each foreign loan is assigned a loan identification number, a unique reference that traces loans from agreement to repayment.

Public loans are easily captured from official sources i.e., loan agreements. PSED statistics are collected through commercial bank reports. This is considered to be a convenient way of monitoring PSED. PSED can escape the official debt recording system in other ways;

- inter-company borrowings especially short-term loans which are usually not recorded in official external debt monitoring framework,
- some companied may have borrowed offshore directly, particularly long-term loans, and
- omissions or inaccurate data recording by some commercial banks.

All these factors lead to an

underestimation of the magnitude and composition of PSED and distortion of debt analysis. This can be ascertained by a comparison of existing PSED with survey results in section 4.2.3.

4.2.2 Magnitude and Composition of External Debt by Debtor Category

Tanzania's total stock of external debt remained above USD 7.5 billion for the period 1999-2000 before it dropped to USD 6.5 billion in 2001 as a result of debt relief given under HIPC initiative. However, the debt stock has kept on increasing due to accumulating arrears on un-serviced Non-Paris Club bilateral loans and new borrowings from Multilateral creditors (**Table 4.1**). Moreover, there is little impact on the current stock of debt because debt relief from multilateral creditors is given in flow terms.

Figures 4.1 and **4.2** indicate dominance of public foreign debt relative to the private debt. However, the share of

Table 4.1: External Debt By Debtor Category: CS-DRMS Records, 1999-2001

Values in USD Million

Debt Stock (DOD+Interest Arrears):	1999	2000	2001
Central Government	6,938.3	6,565.8	5,550.6
Government Guarantee	331.1	379.0	301.8
Long-term PSED	529.6	556.5	599.4
Total Debt Stock	**7,799.0**	**7,501.3**	**6,451.8**

NB: DOD means Disbursed Outstanding Debt

Figure 4.1: Structure of External Debt by Type of Borrowing 1999 - 2001

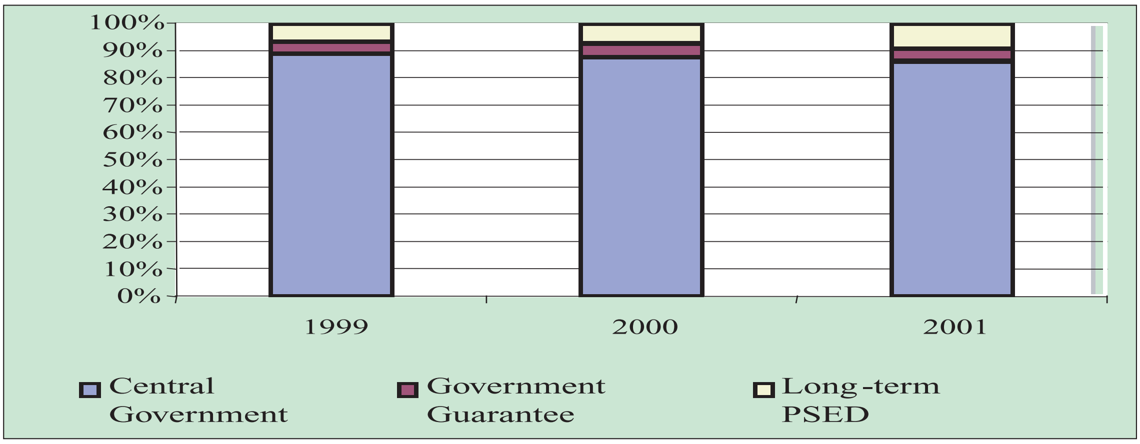
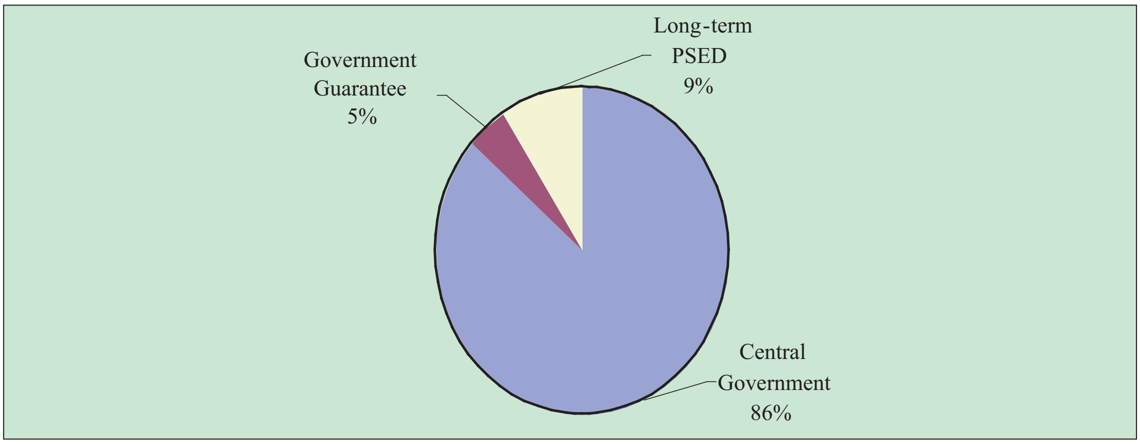


Figure 4.2: Average Structure of External Debt by Type of Borrowing, 1999-2001



PSED in total foreign debt has been increasing overtime.

4.3 Private Sector External Debt in Tanzania

For analysis purpose PSED is disaggregated as follows;

- long-term loans consisting of intra-company loans and loans from other sources,
- short-term loans made up of intra-company loans and suppliers' credit from related sources, and loans and suppliers credits from other sources.

4.3.1 PSED in Tanzania: Overall Trends

Survey results show that the total stock of external debt for the surveyed companies slightly decreased from USD 1,309.3 million in 1999 to USD 1,285.7 million in 2001. This represents a marginal decrease of about 2.0 percent over the two years.

Table 4.2 confirms that long-term PSED data from the survey results are higher than those compiled by the Bank of Tanzania. In terms of year-end stocks, survey results are almost double the amount of long-term PSED that is officially recorded by BOT. Disbursements and repayment records from the survey also indicate growing PSED transactions against low transactions recorded from commercial banks. Figure 4.3 shows that long-term PSED is more significant and accounts for an average of 14.0 percent between 1999-2001 when compared with 9.0 percent based on commercial banks' records (**Figure 4.2**). The discrepancy between the two sources justifies the need for reviewing the mechanism of collecting long-term PSED statistics through commercial banks.

4.3.2 Composition by Financing Types

Nearly 80.0 percent of the stock of PSED is on long-term basis most of

Table 4.2: PSED Official and Survey data, 1999-2001

Values in USD Million

PSED	Stock	Disburs-	Repayments			Stock	Disburs-	Repayments			Stock
	1999	ement	Principle	Interest	Other	2000	ement	Principle	Interest	Other	2001
Survey results	1,309.3	387.9	481.1	25.9	-24.7	1,165.5	358.9	192.8	36.0	9.9	1,285.7
O/w Long-term	974.4	196.8	212.8	22.5	-38.7	974.6	182.4	92.3	32.0	-64.3	1,097.0
Official statistics (Long-term)	525.2	6.6	13.4	1.0	0.0	550.6	44.2	13.9	0.2	0.0	592.9
Difference	449.2	190.2	199.4	21.5	-38.7	424.0	138.2	78.4	31.8	-64.3	504.1

Figure 4.3: Average Structure of External Debt by Type of Borrowing including Survey Data, 1999-2001

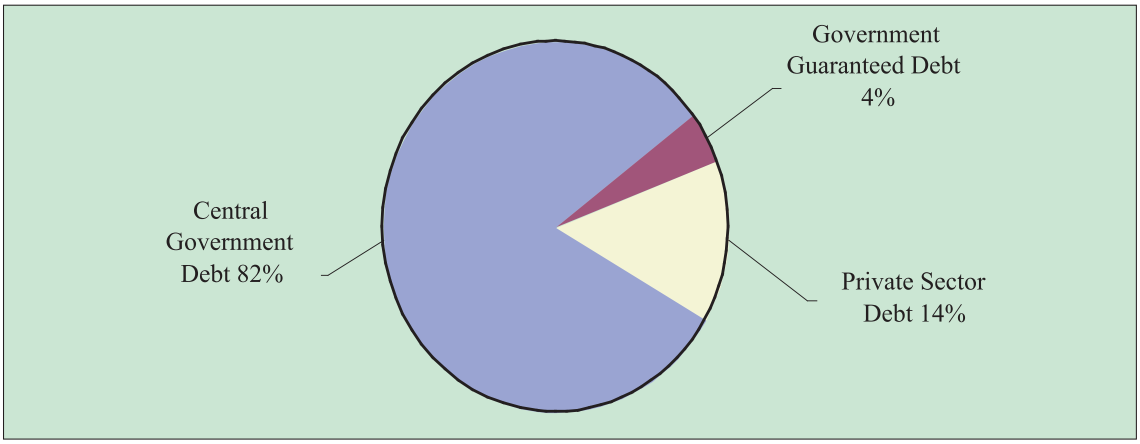


Figure 4.4: Trends in the Composition of the Stock of PSED, 1999 - 2001

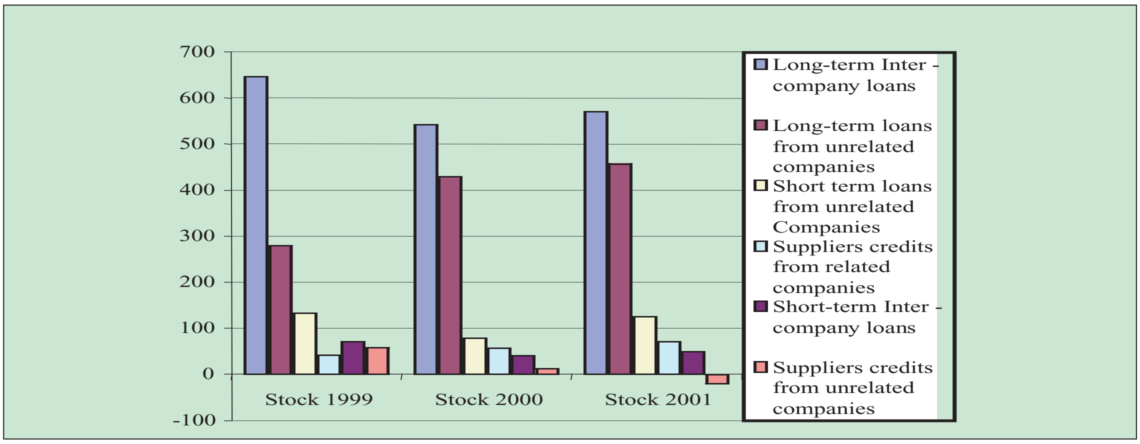
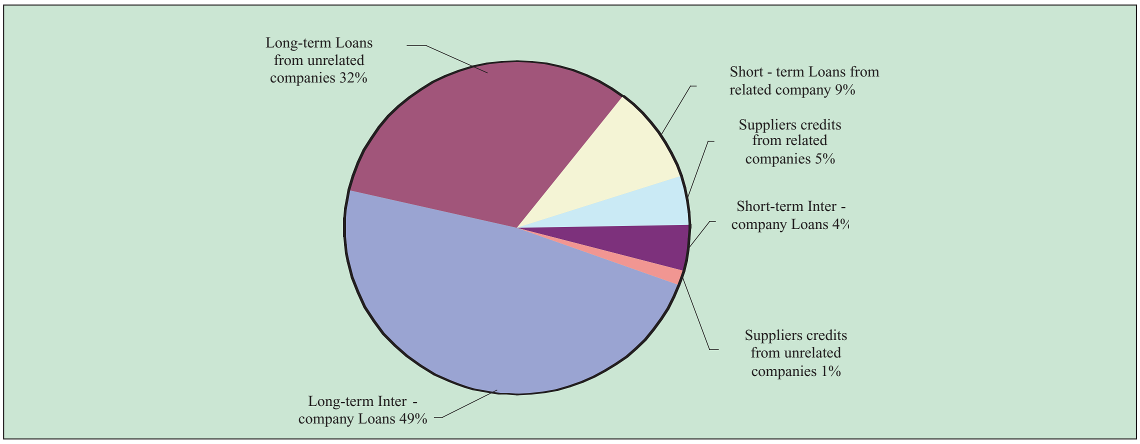


Figure 4.5: Average composition of the Stock of PSED by Lines of Financing, 1999-2001



which (average 49.0 percent between 1999-2001) is intra-company loans (**Figures 4.4** and **4.5**).

Similarly, as shown in **Tables 4.3** and **4.4,** about 50.0 percent of the flow of PSED during 2000 and 2001 was in the form of long-term loan implying that short and long-term loans during this period accounted for almost the same weight.

Debt service by the surveyed companies in 2000 was USD 481.1 million for principal re-payment and USD 25.9

Table 4.3: PSED by Lines of Financing, 1999 and 2000

Values in USD Million

Debt Type	Stock 1999	Disbur-sement	Principal Repayment		Interest Payments		Other including valuation	Stock 2000
			Current Maturity	Arrears	Current maturity	Arrears		
Long-term intra-company loans	679.2	37.8	54.1	165.1	8.5	1.1	- 55.4	543.5
Long-term loans from unrelated companies	295.5	159.0	5.2	153.5	4.8	8.0	- 147.1	430.1
Short-term loans from unrelated companies	141.2	24.3	35.1	0.3	1.9	-	86.4	41.8
Suppliers credits from related companies	55.0	94.1	19.5	5.0	-	0.0	45.4	79.2
Short-term intra-company loans	76.4	63.3	35.5	0.9	0.2	0.0	45.7	57.4
Suppliers credits from unrelated companies	62.2	9.4	6.2	0.7	1.3	-	50.0	13.5
Total	**1,309.5**	**387.9**	**155.6**	**325.5**	**16.7**	**9.2**	**24.9**	**1,165.5**

million for interest payments. In 2001 the corresponding amounts were USD 192.8 million and USD 36.0 million. Higher principal re-payments in 2000 was due to unprecedented level of principal arrears payments amounting to USD 325.5 million compared to only USD 9.1 million in 2001. With increasing repayments and decreasing disbursements in 2001, net inflows have been small thus causing a slight change in PSED stock between 2000 and 2001. The stock of PSED therefore grew by only 2.0 percent between the two years.

4.3.3 Composition of PSED by Sector

Tables 4.5 and 4.6 show PSED by sector for the survey period. The stock of PSED is skewed in favour of the Mining and quarrying sector, which accounted for nearly 50.0 percent of the stock of PSED in 2000 and 2001. This scenario is attributable to the growing exploration and mineral extraction operations in Tanzania as a result of attractive Mining policy of 1997. Owing to the huge initial investment requirements, mining activities require borrowing particularly from big foreign banks. This is partly due to the fact that Tanzania's Financial sector is still developing and credit to the private sector remains small and mostly short-term. Debt service for the surveyed companies

Table 4.4: PSED by Lines of Financing, 2000 and 2001

Values in USD Million

Debt Type	Stock 1999	Disbur-sement	Principal Repayment		Interest Payments		Other including valuation	Stock 2000
			Current Maturity	Arrears	Current maturity	Arrears		
Long-term Intra-company loans	543.5	107.7	62.7	5.0	11.5	0.6	-182.1	753.5
Long-term loans from unrelated companies	430.1	74.7	21.6	3.0	12.4	7.5	116.8	343.5
Short term loans from unrelated companies	41.8	75.3	28.0	0.3	0.0	0.0	56.5	32.3
Suppliers credits from related companies	79.2	47.0	31.5	0.4	0.5	0.0	-0.4	94.2
Short-term Intra-company loans	57.4	41.1	31.8	0.0	1.4	0.0	19.6	45.7
Suppliers credits from unrelated companies	13.5	13.2	8.2	0.4	2.1	0.0	-0.5	16.5
Total	**1,165.5**	**358.9**	**183.7**	**9.1**	**27.9**	**8.1**	**9.9**	**1,285.7**

Table 4.5: PSED by Sector, 1999 and 2000

Values in USD Million

Debt Type	Stock 1999	Disbur-sement	Principal Repayment		Interest Payments		Other including valuation	Stock 2000
			Current Maturity	Arrears	Current maturity	Arrears		
Mining and Quarrying	425.7	175.2	43.9	15.5	6.0	0.0	-8.4	543.9
Manufacturing	226.4	42.9	22.1	5.1	4.4	0.1	93.7	143.9
Utilities	121.2	0.0	0.0	0.7	0.0	0.0	-1.5	121.9
Agriculture, hunting, forestry and fishing	91.8	52.4	34.9	0.0	1.5	0.0	-1.8	109.6
Wholesale & Retail trade, catering & accommodation services	211.6	56.7	39.3	0.9	3.3	0.0	118.2	106.6
Transport, storage & communication	87.3	47.8	1.2	0.0	0.3	0.0	62.1	71.5
Construction	95.7	7.6	5.7	2.7	0.2	0.0	54.4	40.4
Financing, Insurance, real estate, and business services	47.4	4.9	8.5	0.0	0.8	0.2	19.1	23.7
Community, social and personal services	2.1	0.5	0.0	0.9	0.1	0.0	-2.5	4.1
Total	**1,309.5**	**387.9**	**155.6**	**25.8**	**16.7**	**0.3**	**-658.1**	**1,165.5**

increased in 2000 with interest payments rising from zero in 2000 to USD 7.1 million in 2001.

Other sectors that have significant amount of PSED are Manufacturing, Utilities and Wholesale, retail trade and accommodation services.

4.3.4 Composition of PSED by Country of Origin

Tables 4.7 and 4.8 show that in 2000 and 2001, Tanzania's private sector had borrowed heavily, having contracted a debt stock of over USD 100.0 million from each of the three OECD creditors namely UK, USA and the EU. Within Africa, substantial borrowing was from South Africa, which also had a stock of above USD 100.0 million. Borrowing from Ghana and Australia was also significant in 1999 with over USD 100.0 million of stock of PSED each but the stock declined sharply to less than USD 50.0 million each in 2001 due to loan repayments.

Table 4.6: PSED by Sector, 2000 and 2001

Values in USD Million

Debt Type	Stock 2000	Disbur-sement	Principal Repayment		Interest Payments		Other including valuation	Stock 2001
			Current Maturity	Arrears	Current maturity	Arrears		
Mining and quarrying	543.9	95.2	46.0	0.1	16.8	7.1	9.6	559.5
Manufacturing	143.9	97.5	46.4	1.7	5.1	0.1	0.0	188.0
Utilities	121.9	0.5	0.0	0.0	0.0	0.0	0.0	122.4
Agriculture, hunting, forestry and fishing	109.6	55.0	53.9	0.6	1.3	0.0	0.3	108.5
Wholesale & retail trade, catering & accommodation services	106.6	46.3	14.6	2.1	3.2	0.6	0.0	132.4
Transport, storage & communication	71.5	34.0	1.6	0.0	0.3	0.0	0.0	103.5
Construction	40.4	12.9	12.4	1.8	0.3	0.0	0.0	38.8
Financing, insurance, real estate, and business services	23.7	14.8	8.5	2.8	0.8	0.3	0.0	26.0
Community, social and personal services	4.1	2.8	0.3	0.0	0.1	0.0	0.0	6.5
Total	**1,165.5**	**358.9**	**183.7**	**9.1**	**27.9**	**8.1**	**38.0**	**1,285.7**

Table 4.7: PSED by Country of Origin, 1999 and 2000

Values in USD Million

Country	Stock 1999	Disbursement	Principal Current Maturity	Interest Current Maturity	Other including valuation	Stock 2000
EAC Countries	26.4	7.2	0.5	0.1	25.0	8.0
Kenya	26.4	7.2	0.5	0.1	25.0	8.0
SADC countries	129.2	79.2	4.3	1.0	55.3	147.8
South Africa	103.3	76.1	4.3	0.9	29.5	144.6
Mauritius	25.9	3.1	0.0	0.1	25.8	3.2
Rest of Africa	158.7	0.0	40.2	3.6	65.0	49.9
Ghana	158.7	0.0	40.2	3.6	65.0	49.9
OECD Countries	775.6	281.2	99.8	9.6	191.7	755.6
USA	159.5	32.0	20.9	2.8	-23.5	191.2
United Kingdom	235.6	23.4	22.4	1.8	73.1	161.8
EU	0.0	135.2	5.1	0.4	-18.8	148.4
Canada	19.0	0.1	0.0	0.0	-73.9	93.0
Switzerland	17.2	31.8	35.9	0.4	-45.8	58.6
Italy	38.9	1.3	0.0	0.0	12.4	27.8
Denmark	16.4	0.5	1.1	0.6	-7.8	22.9
Germany	68.3	13.1	10.3	0.2	59.8	11.1

Australia	110.1	39.1	0.0	1.3	137.9	10.0
IFC	29.3	0.0	0.5	1.3	19.0	8.4
Norway	12.1	2.2	2.2	0.0	4.8	7.3
France	17.3	1.9	0.8	0.3	11.2	7.0
Luxembourg	20.3	0.0	0.0	0.0	15.2	5.1
Foreign-Not Specified	31.6	0.6	0.6	0.5	28.1	3.0
Rest of the World	219.6	20.2	10.7	2.3	22.7	204.2
Malaysia	152.3	0.0	0.0	0.0	30.4	121.9
Others combined	67.3	20.2	10.7	2.3	-7.7	82.3
Total	1,309.5	387.8	155.5	16.6	359.7	1,165.5

Table 4.8: PSED by Country of Origin, 2000 and 2001

Values in USD Million

Country	Stock 2000	Disbursement	Principal Current Maturity	Interest Current Maturity	Other including valuation	Stock 2001
EAC Countries	8.0	11.5	2.7	0.5	0.3	16.2
Kenya	8.0	11.5	2.7	0.5	0.3	16.2
SADC countries	147.8	52.9	24.3	4.3	0.0	172.2
South Africa	144.6	47.9	24.2	4.1	0.0	164.2
Mauritius	3.2	5.0	0.1	0.2	0.0	8.0
Rest of Africa	49.9	0.7	0.7	3.2	0.0	46.7
Ghana	49.9	0.7	0.7	3.2	0.0	46.7
OECD Countries	749.5	250.3	114.9	16.6	-9.5	877.9
USA	191.2	82.8	0.6	2.8	17.2	253.4
United Kingdom	161.8	96.1	44.2	1.9	-28.1	239.9
EU	148.4	2.5	14.0	8.4	1.3	127.2
Canada	93.0	21.9	0.2	0.0	0.0	114.7
Switzerland	58.6	23.8	40.2	0.7	0.1	41.5
Italy	27.8	0.4	2.5	0.0	0.0	25.6
Denmark	22.9	0.0	2.0	0.7	0.0	20.2
United Arab Emirate	12.4	4.3	1.8	0.5	0.0	14.5
Germany	11.1	4.8	1.2	0.3	0.0	14.4
IFC	8.4	0.8	0.2	1.3	0.0	7.7
Norway	7.3	6.8	6.8	0.0	0.0	7.3
Sweden	6.6	6.1	1.2	0.0	0.0	11.5
Rest of the World	210.4	43.5	41.1	3.5	36.4	172.9
Malaysia	121.9	0.7	0.0	0.0	0.0	122.6
Isle of Man	3.2	1.6	0.0	0.0	0.0	4.8
Foreign-Not Specified	3.0	6.1	0.7	0.5	0.0	7.9
Others combined	82.3	35.1	40.4	3.0	36.4	37.6
Total	**1,165.5**	**358.9**	**183.7**	**27.9**	**27.1**	**1,285.7**

CHAPTER FIVE

LINKAGES OF FOREIGN INVESTMENTS TO THE DOMESTIC ECONOMY

5.1 Introduction

This chapter examines various links of foreign investments (which is largely dominated by FDI component) to the domestic economy. Specifically, it explains the extent to which the growing FDI activities in the country have influenced domestic direct investments, borrowing behaviour, human resource development and domestic market. Firstly, it reviews the magnitude and composition of domestic component in foreign owned companies; secondly, it establishes the extent to which residents participate in equity composition of FDI and lastly, it examines the sectors in which FDI is more receptive to the domestic investors. The review of the linkage between FDI and different economic sectors will provide basis for policy recommendations on how best to attract FDI to priority sectors.

5.2 Domestic Direct Investment in Foreign Owned Companies

Survey results have revealed that there is a substantial amount of domestic equity in foreign owned companies. Out of a total of 943 companies surveyed, 295 indicated some form of Domestic Direct Investments (DDI) in the foreign owned companies. The proportion of DDI[19] in foreign owned companies increased from 10.0 percent in 1999 to 13.0 percent in 2001 indicating a growing influence of domestic investors in the foreign owned companies. The proportion of equity

Figure 5.1: Proportion of FDI and DDI in Foreign Owned Companies, 1999-2001.

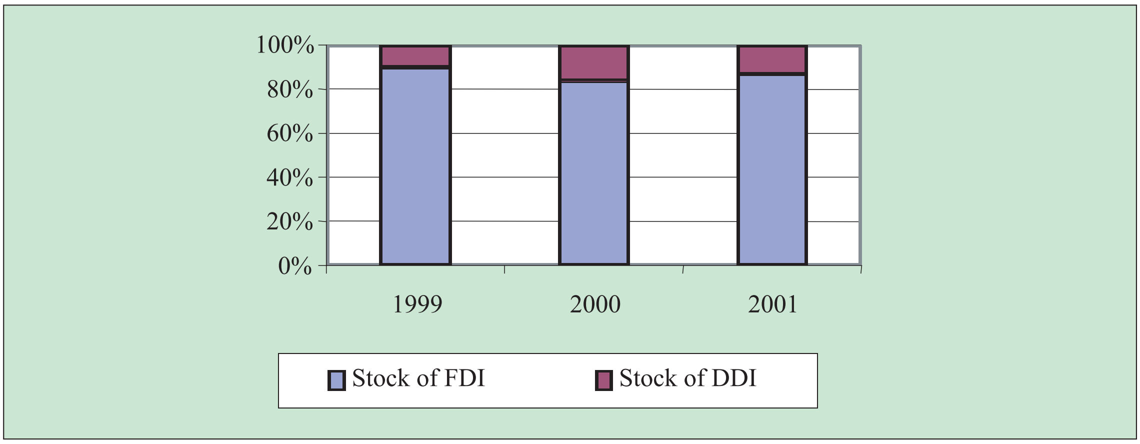


Table 5.1: Magnitude of FDI and DDI Stocks in Foreign Owned Companies, 1999–2001

Values in USD Million

Particulars	1999		2000		2001		Annual Average	Average
	Amount	%	Amount	%	Amount	%	Amount	%
Stock of FDI	2,419.0	90.0	3,038.0	84.0	3,777.0	87.0	3,078.0	87.0
Stock of DDI	277.0	10.0	562.0	16.0	557.0	13.0	465.0	13.0
Total	**2,695.0**	**100.0**	**3,601.0**	**100.0**	**4,334.0**	**100.0**	**3,543.0**	**100.0**

[19] Domestic Direct Investments (DDI) refers to equity shares owned by local investors in foreign owned companies.

share of domestic investors in foreign owned companies reached a record of 16.0 percent in 2000 but declined to an average of 13.0 percent thereafter (**Table 5.1**).

The increasing proportion of companies with foreign participation has not been homogeneously shared across sectors. Survey results show that the most accommodative sector to domestic investors was Manufacturing that accounted for about 55.0 percent of the total DDI in foreign owned companies. Finance and insurance, Transport, storage and communication sectors attracted an average of 10.0 percent each. Mining sector that has flourished in recent years has not been attractive to domestic investors mainly because it requires substantial initial investment, and associated risks can only be borne by large multinational companies.

5.3 Link Between FDI and Various Sectors of the Economy

Good performance of various sectors in the economy can be associated with increasing FDI inflows to the country. For instance, FDI inflows stimulate economic activities in various sectors and where local inputs substitute imported ones, the balance of payments of the country improves. Increased FDI inflows result into increased activities of foreign owned companies and hence increase demand for additional capital that can be acquired from domestic sources, manpower from the domestic labour market, raw materials from domestic sources and market for their products. To enhance this linkage, the government needs to revisit the existing investment policies in order to promote partnership between domestic and foreign affiliates. These policies should emphasize on increase in the willingness of foreign investors to closely cooperate with domestic investors.

Table 5.2: Distribution of Stock of DDI in Foreign Owned Companies by Sector, 1999 – 2001

Values in USD Million

Sector	1999		2000		2001		Annual Average	
	Amount	%	Amount	%	Amount	%	Amount	%
Manufacturing	140.3	50.7	331.1	58.9	290.3	52.1	253.9	53.9
Finance and insurance	49.4	17.9	45.8	8.1	49.1	8.8	48.1	11.6
Transport, storage and communications	11.3	4.1	59.2	10.5	71.2	12.8	47.2	9.1
Wholesale and retail trade	57.5	20.8	25.1	4.5	30.7	5.5	37.8	10.3
Agriculture and hunting	12.0	4.4	41.3	7.3	40.2	7.2	31.2	6.3
Mining and quarrying	1.4	0.5	22.1	3.9	32.2	5.8	18.6	3.4
Construction	0.9	0.3	17.6	3.1	22.2	4.0	13.6	2.5
Utilities	0.0	0.0	16.5	2.9	16.4	2.9	11.0	1.9
Community and social services	3.7	1.3	3.7	0.7	4.9	0.9	4.1	1.0
Total	**276.5**	**100.0**	**562.4**	**100.0**	**557.2**	**100.0**	**465.4**	**100.0**

Regional concentration of DDI is mainly in urban areas, particularly, Dar es salaam where most of FDI are also concentrated. Dar es Salaam accounts for over two thirds of DDI in foreign companies mainly because it is the main commercial centre, where there is potential market for manufactured goods, improved infrastructure and availability of skilled human resource. In addition, most of the privatised firms are found in the region. (**Appendix 2, Table 15**).

5.3.1 Increase in Borrowing from Domestic Sources

FDI inflows have influenced the increase in Financial sector activities in the country. For instance, between 2000 and 2001 an average of 14.0 percent of the total borrowing by foreign companies was from domestic sources.

However, this share is small and therefore foreign investors should be encouraged to increase their borrowing from domestic sources in order to boost Tanzania's Financial sector development. The reliance of the companies with foreign investments on borrowing from external sources is partly attributed to:

- limited financial products in the domestic financial system.
- limited lending capacity for big projects;
- high cost of borrowing at the domestic sources compared to the external sources;
- the fact that most domestic financial institutions offer short-term facilities and very few long-term facilities and;
- bureaucracy and long procedures involved in borrowing at domestic sources.

foreign affiliated companies have created 101,423 jobs to Tanzanians in 2002, which represent 97.0 percent of all the employees in the surveyed companies.

Tanzania's labour law limits the number of expatriates a foreign company can employ. According to the law, foreign companies holding certificate of incentive from TIC are allowed to employ up to five non-Tanzanians in key positions during the start-up period. However, in cases where extra expatriates are needed, TIC in consultation with the Immigration Department and Ministry of Labour authorize any extra person which it shall deem necessary taking into consideration the availability of qualified Tanzanians and complexity of the technology employed by the business enterprise. Apart from employment creation, companies with foreign investments have accelerated human resource development in the country through on the job training and/or short and long-term courses. For instance, 72.7 percent of the surveyed firms indicated that they have development plans for Tanzanian nationals.

Table 5.3: External and Domestic Borrowing by Companies with Foreign Investments, 2000 and 2001

Values in USD Million

Particulars	2000	%	2001	%	Average Amount	% Average
External borrowing	1,165.5	86.7	1,285.7	85.2	1,225.6	86.0
Domestic borrowing	178.7	13.3	224.2	14.8	201.5	14.0
Total	1,344.20	100.0	1,509.90	100.0	1,427.1	100.0

5.3.2 Linkage to Domestic Labour Market

One of the benefits of FDI is the generation of employment to the local residents. Information from the surveyed companies reveals that FDI has created additional employment opportunities. As Table 5.4 indicates,

Table 5.4: Structure of Employees in Surveyed Companies with Foreign Investments in 2002

	Employees				
Type	Management	Non-Management		Total	% Average
		Skilled	Other		
Foreigners	1,995	955	49	2,999	3.0
Tanzanians	5,268	38,186	57,969	101,423	97.0
Total	**7,263**	**39,141**	**58,018**	**104,422**	**100.0**

5.3.3 Market Linkage

Companies with foreign investments provide a challenge to the domestic producers especially those who produce the same products since their products are, in most cases, of higher quality. This challenges the domestic producers to seek out for foreign partners to take advantage of their technical expertise if they are to survive in the business. The survey results show that only 15.0 percent of the surveyed firms sold 100.0 percent of their products abroad in 2003 (**Table 5.5**). About 51.0 percent sold their products to the domestic market while 34.0 percent sold to both domestic and foreign markets. This shows a fairly strong link between companies with foreign investments and the domestic market.

The survey shows further that while only 8.0 percent of the surveyed firms sourced 100.0 percent of raw materials from abroad, about 31.0 percent sourced 100.0 percent of raw materials from the domestic market and about 61.0 percent sourced from both domestic and foreign markets (**Table 5.6**).

Table 5.5: Product Destination for the Surveyed Companies with Foreign Investments in 2003

Country	Number of Companies that Responded			Total Response
	100 % Domestic	Domestic and Foreign	100 % Foreign	
Tanzania Mainland	350.0	219.0	91.0	660.0
Zanzibar	15.0	31.0	13.0	59.0
Total for Tanzania	365.0	250.0	104.0	719.0
Percentage of Total	**51.0**	**34.0**	**15.0**	**100.0**

Table 5.6: Sourcing of Raw Materials for the Surveyed Companies in 2003

Country	Number of Companies that Responded			Total Response
	100 % Domestic	Domestic and Foreign	100 % Foreign	
Mainland	197.0	411.0	57.0	665.0
Zanzibar	31.0	47.0	1.0	79.0
Total for Tanzania	228.0	458.0	58.0	744.0
Percentage of Total	**31.0**	**61.0**	**8.0**	**100.0**

CHAPTER SIX

INVESTORS PERCEPTIONS

6.1 Introduction

This chapter analyses investors' perceptions on various key factors that determine investors' decisions in undertaking investment operations in Tanzania Mainland[20]. Information on investors' perception was collected as part of the current survey.

The survey on investors' perception required investors to evaluate the extent to which they think a given list of factors have influenced their decision to invest in Tanzania by ranking the effects perceived negative, neutral or positive. In the survey, ranking levels ranged between 1 and 5, where the values attached were 1 for ''strong positive effect," 5 for "strong negative effect" and 3 for neutral or 'no effect'. Face-to-face interviews were also conducted to capture information that could not be captured by the questionnaire. This information includes sources of information guiding investors to invest in Tanzania, factors that influence future direction of investments and investors' general feeling on the Government efforts in promoting investments in Tanzania. The procedure for calculating the weighted mean value for a single factor in start-up year and in 2000 and 2003 is indicated in **Table 6.1.** The results from the survey are presented in bar charts and line graphs in which the bar charts show the level of effect of each factor as perceived by investors in different periods i.e. at "start-up", 2000 and 2003, while the line graphs show the trends of perceptions by investors on various factors. The analysis of investors' perceptions is based on their computed weighted mean values of the factors.

Table 6.1. Computation of Perception Values

	Raw Data				
Monetary Policy	**Levels (A)**	**Start-up (B)**	**Factor (A*B)**	**Weighted mean (sum A*B)/ (sum B)**	**Calculated weighted mean ((weighted mean * -1) + 3)**
Strong positive effect	1	79	79	Not applicable	Not applicable
Positive effect	2	87	174	Not applicable	Not applicable
No effect	3	114	342	Not applicable	Not applicable
Negative effect	4	50	200	Not applicable	Not applicable
Strong negative effect	5	34	170	Not applicable	Not applicable
Total		**364**	**965**	**2.65**	**0.35**

6.2 Findings on Investors' Perceptions

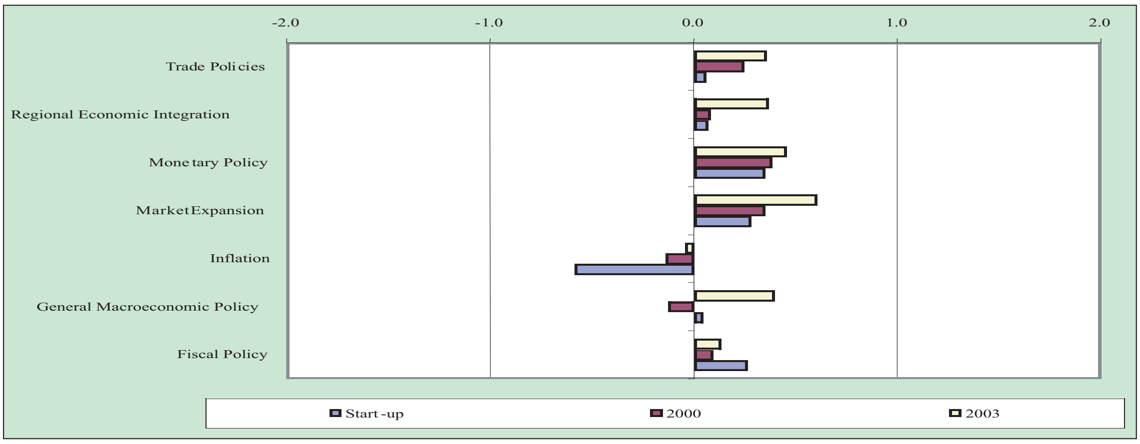
The analysis of investors' perceptions focuses on five major factors i.e. economic, financial, infrastructure, political and governance and utilities factors. Investors had favourable perceptions on most of the main factors and sub-factors especially after 2000. This is a reflection of improved investment climate resulting from various reforms undertaken since 1995.

6.2.1 Economic Factors

The economic factors include the general macroeconomic policy, inflation, fiscal policy, monetary policy, market expansion, regional economic integration and trade policies.

20 Perceptions results for Zanzibar are analysed in Zanzibar Investment Report, 2004.

Figure 6.1a: Economic Factors as Perceived by Investors Since Start-up to Year 2003



The results show that all the economic factors were perceived favourable except for inflation, at the "start-up" which however, improved significantly towards no effect levels by 2003. Negative perceptions on inflation rate at start-up were due to high rate of inflation that prevailed during early 1990s. However, the level of inflation has gone down to a single digit level since 1999 and kept under 5.0 percent since 2001. Low inflation is conducive for investment for both local and foreign investors. Investors' perceptions on inflation are consistent with those on monetary policy.

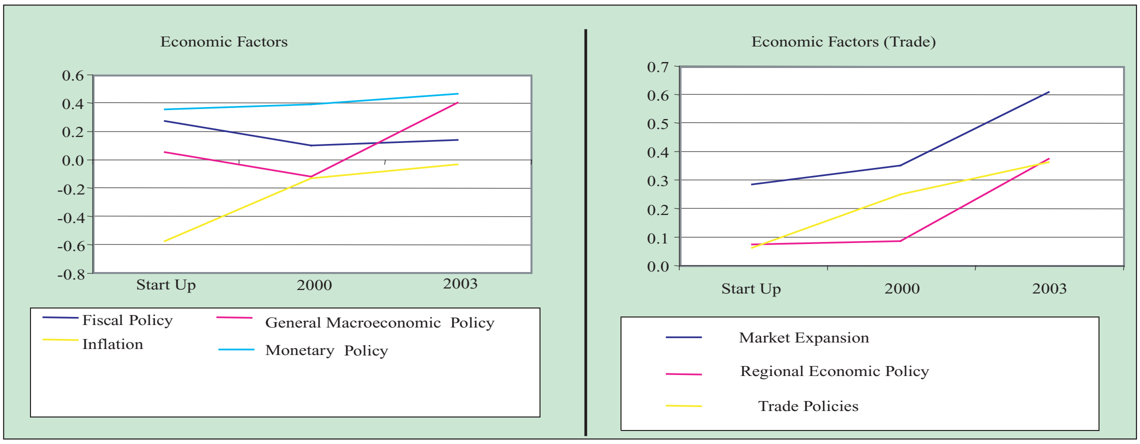
Favourable perceptions on trade policies result from liberalisation measures implemented in the 1990's that have continued to be hailed by majority of the investors. Further measures that Tanzania has taken in order to exploit market opportunities such as AGOA and EBA (ACP/EU Cotonou agreement) include the enactment of Export Processing Zones Act (2002).

Market expansion was perceived favourable due to the existence of a population of about 35 million which constitutes a large market for domestically produced goods. This is consistent with the findings in chapter five where 51.0 percent of the surveyed companies indicated that the domestic market is a destination of their products. Similarly, the per-capita GDP has increased from USD 281.2 during 1999 to USD 289.5 in 2002 hence an increase in purchasing power. In addition, favourable perceptions on market expansion are due to Tanzania's geographical location and its access to SADC (population of more than 200 million) and EAC (population of more than 90 million) markets. Overall, the perception on general macroeconomic factors improved from neutral (no effect level) before year 2000 to a very favourable in 2003 (Figure 6.1a).

The trends of investors' perception on the economic policies (Figure 6.1b) are generally positive but the perception on fiscal policy has been quite unpredictable. Just like in the 2001 survey (TIR01), value added tax (VAT) rate of 20 percent is still considered too high compared to rates in other EAC member states. VAT rates in Kenya and Uganda are 16 percent and 17 percent, respectively as of 2004. The overall favourable perception on economic factors is a reflection of the impact of various measures taken by the government to make the investment climate more favourable.

Apart from the measures that were reported in the Tanzania Investment Report of 2001 (TIR01), other measures undertaken by the

Figure 6.1b: Level of Perceptions on Fconomic Factors



Government include the Land Act (1999), enactment of Export Processing Zone Act No. 11 of 2002, Land (Amendments) Act (2004) and Income Tax Act (2004).

6.2.2 Financial Factors

The financial factors considered in the survey were the availability of foreign finance, financial sector stability, interest rates and liberalization of capital account **(Figure 6.2a)**. Among those rated favourable is the provision of banking services. Perceptions on the banking system were favourable partly due to increase in the number of banks (local and foreign owned) that has widened and deepened the level of provision of financial services. Until December 2004, there were 25 banks (and 6 non-bank financial institutions) operating in the country. The expansion of banks branch network in the country and introduction of new financial products has increased competition in the banking sector and hence improved the efficiency in the provisions of financial services. Consequently, the availability of local finance to the business community has improved.

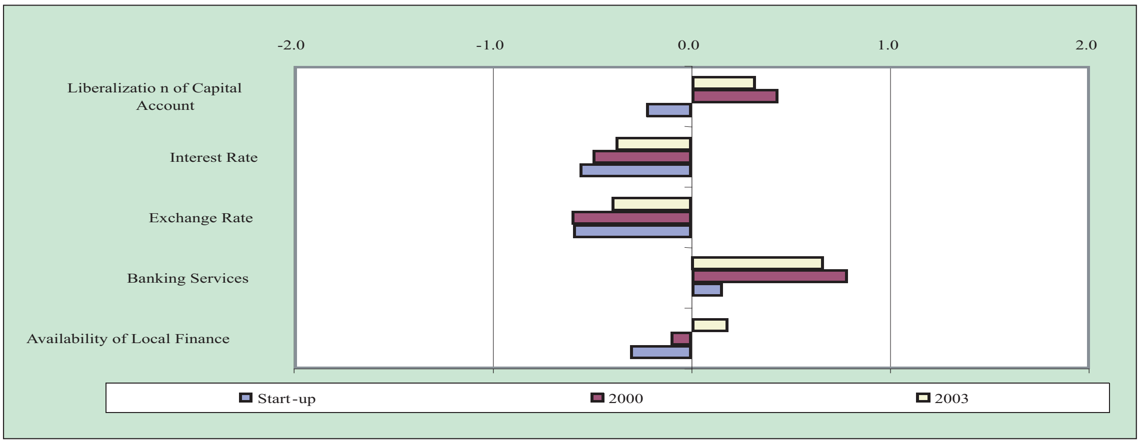
Findings from the Financial System Stability Assessment (FSSA) by the IMF and the World Bank mission in Tanzania also reveal that,

"The banking system in Tanzania which dominates the financial system, is liquid, well capitalized, and resilient to most shocks; however, it performs only a very limited role in the economy, even by Sub-Saharan Africa standards. Despite some indications of progress following the recent extensive policy reforms, the current depth and efficiency of the financial system fall well short of what is needed to help support economic growth. Credit to the private sector remains very small and mostly short-term. Interest rate spreads, though declining, are high and banks accumulates extensive holdings of government paper and sizeable offshore dollar placements. Non-bank financial institutions have been still too small to be of much systemic concern"[21] .

In addition, the mission report provides some recommendations to include legal, judicial, and institutional reforms that would remove the main obstacles to lending, deepen financial intermediation and help develop the financial system, such as; reform of government-owned financial institutions, legal and judicial reforms, enhancing access to financial services, including the promotion of micro finance and the creation of credit registry, long-term investment by

[21]Http://www.imf.org/external/pubs/ft/scr/2003/cr03241.pdf

Figure 6.2a: Financial Factors as Perceived by Investors Since Start-up to 2003



insurance companies and pension funds, bank regulation and supervision, and crisis preparedness. It also recommends strengthening monetary management, including market intervention policies, transparency, and payment and securities settlement systems in light of the continuing strong aid inflows.

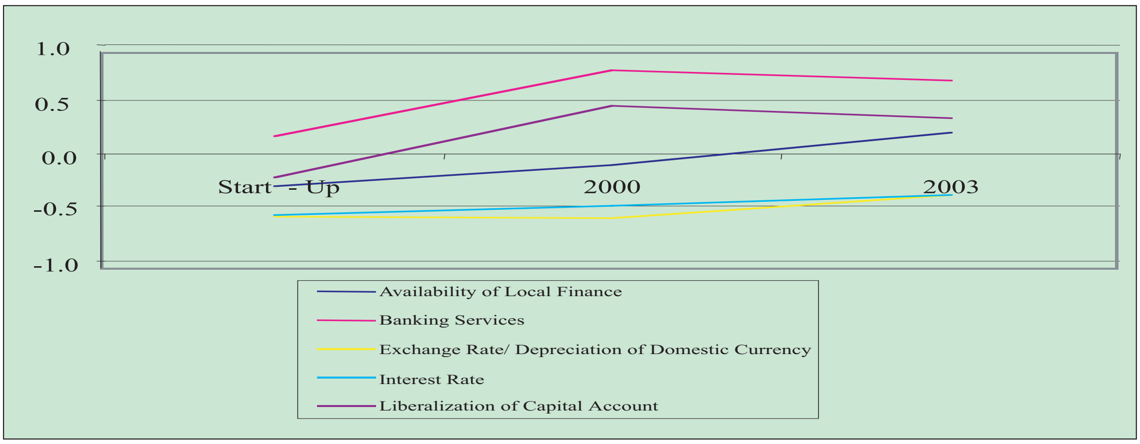
Another area that was accorded positive rating was capital account liberalisation. Liberalization of capital account was perceived negatively at “start-up”, due to slow pace of the liberalization process. Measures taken by the Government in May 2003 to allow foreigners to participate in the Dar es Salaam Stock Exchange (DSE) has contributed to investors’ favourable perceptions. However, investors were of the opinion that the Government should take further measures that will allow more openness and broadened scope of capital mobility.

Perceptions on interest rates and exchange rate were rated negatively though improving. The level of interest rates especially the lending rates for long-term loans (5 years and above) were as high as 31.5 percent in 1999. Though they have fallen to 13.3 percent in 2003, they are still considered too high. On the other hand, exchange rate has been depreciating from an average of TZS 744.9 per US dollar in 1999 to TZS 1,038.2 per US dollar in 2003. This has negatively affected import-dependant investments.

6.2.3 Infrastructural Factors

The factors that were considered under infrastructure are access to seaports, air

Figure 6.2b: Trends of Perceptions in Financial Factors



transport, inland transport (roads and rails) and port operation efficiency. Seaports and air transport were rated


All major roads in Tanzania have been improved to tarmac level

favourable. Rehabilitation of Dar es Salaam, Mtwara and Tanga ports and improvement in marine transport services have enhanced efficiency in the movement of goods (capital and consumer goods) from the ports to various parts of the country. Likewise, the rehabilitation of various airports including Dar es Salaam (DIA) and Kilimanjaro (KIA) international airports and improved charter flight

services has enhanced air transport services and thus contributed to investors' favourable perceptions on airport and air transport **(Figure 6.3a)**.

On the other hand, inland transport and port operation efficiency had been rated negatively though improving. These improvements resulted from current government's effort in building new bridges and roads to connect all regions and neighbouring countries **(Figures 6.3a** and **6.3b)**.

6.2.4 Labour Factors

Labour factors considered were HIV/AIDS, access to new technology, environmental policy, labour registration, local supplier efficiency

Figure 6.3a: Infrastructural Factors as Perceived by Investors Since Start-up to 2003

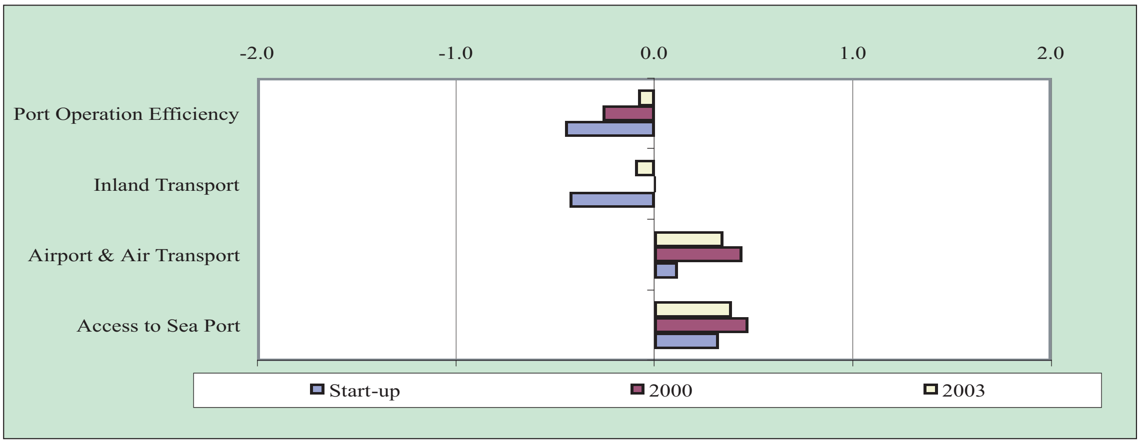
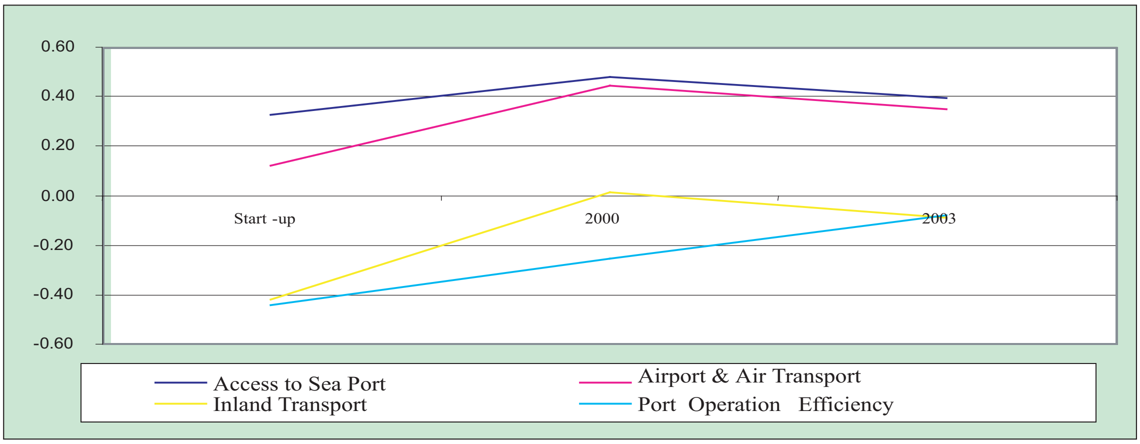


Figure 6.3b: Trends of Investors Perception on Infrastructure



and shortage of skills. Investors had increasing negative perception on HIV/AIDS pandemic from start-up onwards. This indicates that HIV/AIDS has continued to be among the biggest problems affecting not only investors but also the entire community. HIV/AIDS has negative impacts on labour productivity, health care costs (treatment of employees and funeral expenses), loss of skilled manpower, etc. However several measures have been taken by the government to control its spread and persistence. These measures include the establishment of the Tanzania Commission for AIDS (TACAIDS) and the National AIDS Control Programme. These institutions have been involved on training of HIV/AIDS patients in medical care, conducting anti-HIV/AIDS researches, organizing campaigns and collaborating with other stakeholders on activities related to HIV/AIDS.

Availability of skilled labour and labour legislation were also perceived negative. Several initiatives have been undertaken by the government to address the shortage of skilled labour. Such efforts include increasing the number and enrolment rate in higher learning institutions. Some private higher learning institutions have also been established. Parallel to this are the government plans to revise the schools and colleges curriculum to include training in special skills. The Government has set aside special fund for skills improvement programme with an initial amount of USD 0.2 million to be increased to USD 5.0 million of which USD 1.0 million will be raised by the business community.

6.2.5 Political and Governance

Figure 6.4a: Labour Factors as Perceived by Investors Since Start-up to 2003

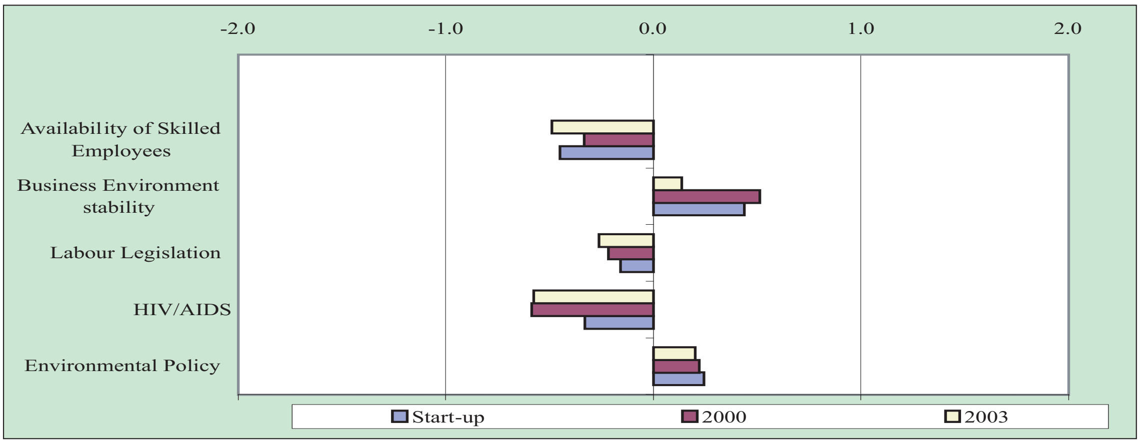


Figure 6.4b: Trends of Perceptions on Labour Factors

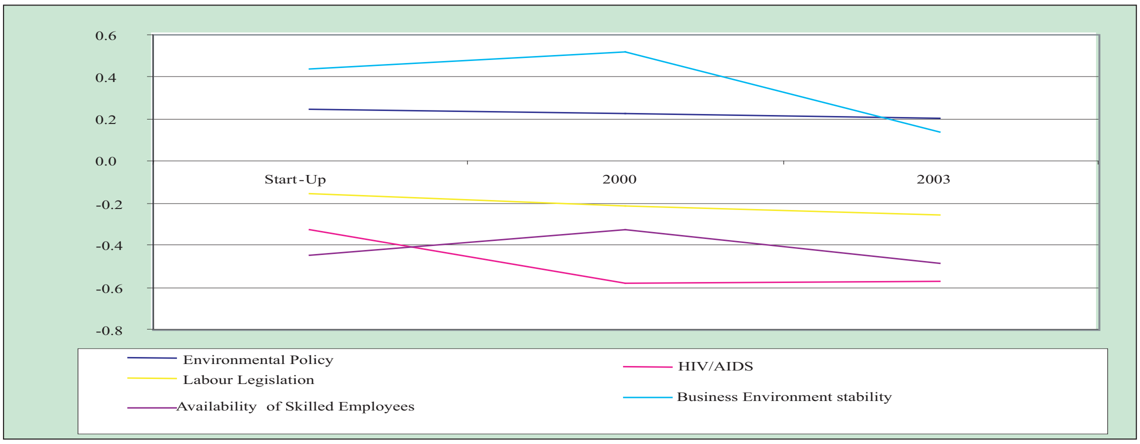
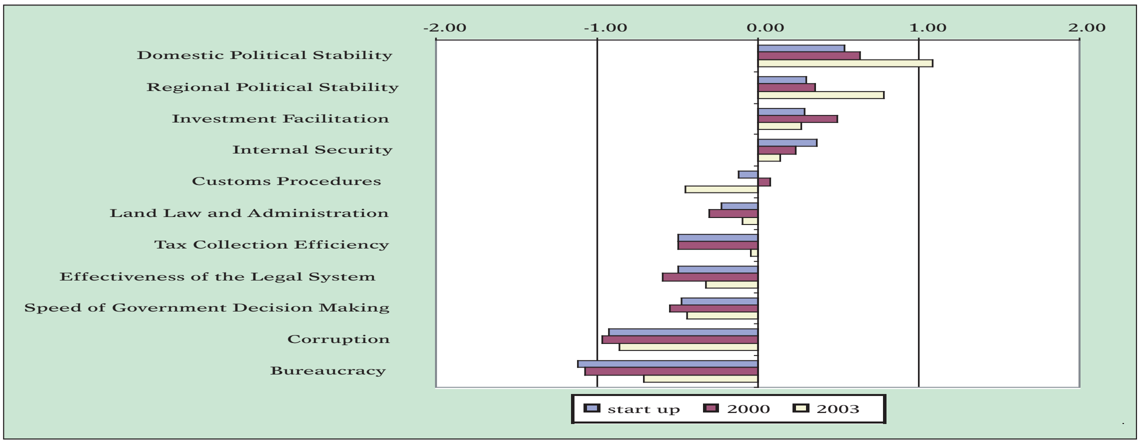


Figure 6.5: Investors' Perception on Political and Governance Factors



Factors

The factors considered under political and governance include bureaucracy, corruption, custom procedures, domestic political stability, regional political stability, legal system, internal security, investment facilitation, speed of government decision-making and tax collection efficiency. Results show that seven out of eleven factors had negative perception during the start-up and 2000 period but improved (with the exception of customs procedures) in 2003. Regional political stability, investment facilitation, internal security and domestic political stability were rated positive (**Figure 6.5**).

With regard to investment facilitation,

Figure 6.6a: Utility Factors as Perceived by Investors Since Start-up to 2003

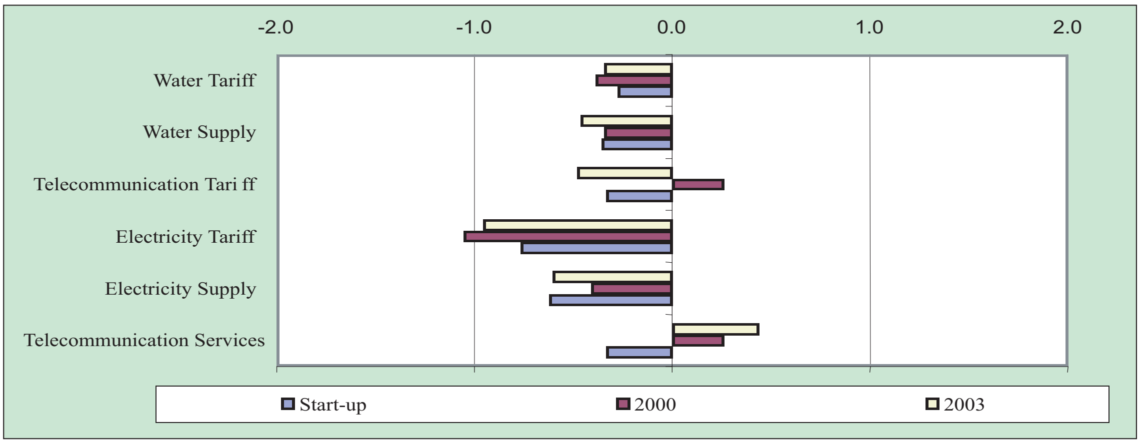
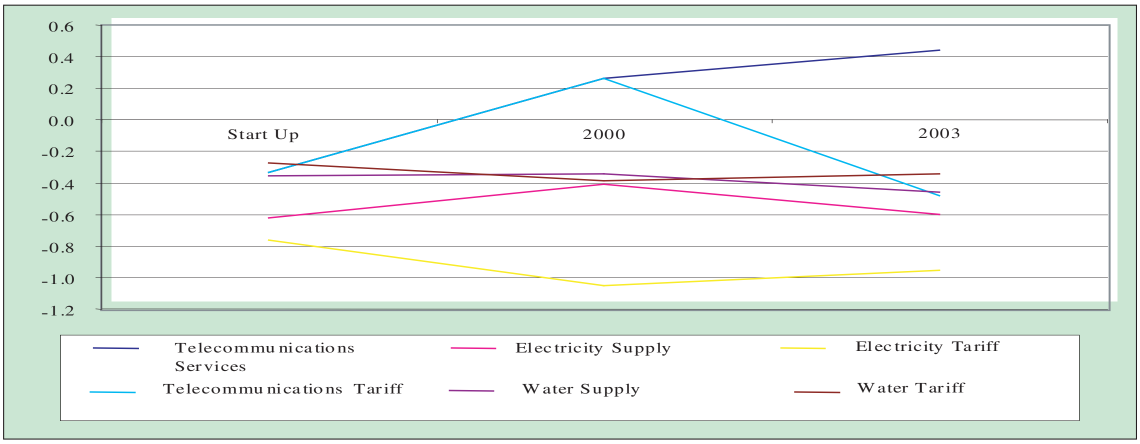


Figure 6.6b: Trends of Perceptions on Utility Factors

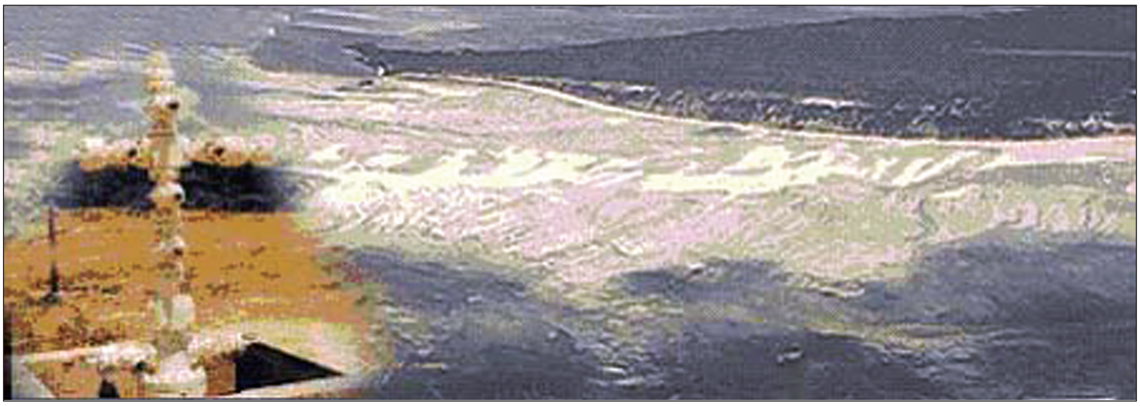


efforts have been made by the Tanzania Investment Centre to establish regional offices to facilitate regional investments. In August 2004, H.E. Benjamin William Mkapa, the President of the United Republic of Tanzania inaugurated the first Regional Investment Office in Kilimanjaro region. This shows the governments' commitment to improving the investment environment and registration procedures.

6.2.6 Utilities Factors

Telecommunications services, electricity and water supply and their respective tariffs were considered under utilities factors. With the exception of telecommunication services, all other factors were perceived negative (**Figure 6.6a**). Telecommunication services was rated negative at "start-up" but improved to favourable from 2000 through 2003. This is due to increase in network coverage by the four mobile phone operators in the country and divestiture of the Tanzania Telecommunications Company Ltd (TTCL). The government is planning for further liberalization of the telecommunications sub-sector in order to improve its efficiency in service delivery.

Investors were concerned with unreliable supply of electricity and water; and high tariffs for water, electricity and telecommunications services. Electricity and water tariffs are considered the highest when compared with other countries in the East African region. For example, electricity tariffs range between 0.09 – 1.12 kWh/USD for Tanzania, while in Kenya and Uganda they range between 0.065 – 0.085 kWh/USD and 0.05 – 1.07 kWh/USD respectively. The Government's initiatives to improve efficiency and reliability in the provision of water and electricity services include the placing of Dar es Salaam Water and Sewage Authority (DAWASA) and Tanzania National Electric Supply Company (TANESCO) under management contracts of foreign companies. In addition, a gas-operated plant has been constructed (Songas) and to a greater extent improved power supply and reliability in the country.



Songosongo gas field in Kilwa expected to provide Tanzanians with a reliable source of low cost electricity

General Perceptions on Investment Climate

Investors were requested to respond to some open-ended questions that sought to solicit their opinion on the direction of their investments in the short to medium term, and important factors that influenced their decision to invest in Tanzania.

6.3 Direction of Investments in Tanzania

Out of 1,242 companies that were surveyed, 72.2 percent indicated that they are willing to expand their

Table 6.2 Direction of Investment in Tanzania

Direction	Respondents	Percentages
Expansion	665	72.7
No change	215	23.5
Contraction	35	3.8
Total	**915**	**100.0**

investments in Tanzania, while 22.5 percent said they would maintain the present levels of their investment. Only 5.3 percent indicated their intension to withdraw some of their investments from Tanzania (**Table 6.2**). This gives a clear indication of high confidence investors have on the state of investment climate in the country.

6.4 Factors Influencing Investors' Decisions to Invest in Tanzania.

The companies that indicated they wish to expand (or maintain) their investments had indicated the following factors to be the most influential in their initial decision to invest in Tanzania:

- Domestic and regional political stability.
- Conducive macroeconomic conditions.
    - o trade and exchange liberalisation,
    - o market expansion in the wake of accessing EAC and SADC markets,
    - o financial sector stability, particularly the banking services, and
    - o abundant natural resource endowments.

The five percent of the investors who intend to scale down their investment levels cited the following reasons:

- Negative impacts of trade liberalisation on imports of cheap products that affect their competitiveness in the domestic market.
- Global insecurity especially in the tourist industry that is affecting smooth flow of tourists.
- Poor transport infrastructure within the country.
- Unreliable supply of electricity and water and their tariffs
- Corruption.
- Inadequate supply of skilled labour.

Domestic and regional political stability is the factor considered by investors to be most important in influencing their decisions to invest in the country. Tanzania has since independence in 1961, remained a peaceful and politically stable country. The country has so far held two multi-party elections, the first in 1995 and the second in 2000 while the next is scheduled for October 2005. Sustained peace and political stability has remained Tanzania's strongest factor in creating conducive trade and investment climate for both local and foreign investors. Tanzania has also actively participated in efforts to bring about political stability in the neighboring countries including Rwanda, Burundi and DRC.

CHAPTER SEVEN

MAIN FINDINGS AND POLICY IMPLICATIONS

This chapter provides highlights of the main findings and policy implications with the view to identifying areas requiring policy intervention by the public and private sectors and suggest possible remedial measures for consideration.

7.1 Magnitudes and Composition of FPC in Tanzania

Flow of Foreign Private Capital (FPC) into Tanzania has been on the increase over the past decade and has increasingly contributed to high GDP growth. The stock of FPC increased substantially from USD 2,024.5 million in 1999 to an estimated level of USD 5,963.0 million by 2004, suggesting that foreign investors have identified many investment opportunities in the country. Limited access to domestic credit has constrained domestic investment in these opportunities thus giving the rationale for government decision to engage in liberalisation and increased inflow of foreign capital. These flows go into the private sector that is generally considered to be more dynamic and efficient in resource allocation relative to the public sector. Thus, the role of the Government is to strengthen policy environment that promotes private sector, which is considered the new engine of growth.

Much of FPC is in the form of FDI, which is primarily intended to add to the economy's capital formation, hence creating potentials for expanded production capacity. These FDIs are essential for Tanzania to grow fast and meet the targets outlined in the Vision 2025 and the Millennium Development Goals (MDGs) to have poverty reduced by 50.0 percent by 2015. FDI is the most superior type of FPC because it contributes directly into the country's capital formation. Survey results have shown that FDI has accounted for an average of about 85.0 percent of total stock of FPC in Tanzania during 1998 – 2001 period.

7.2 Financing Pattern of FDI

Direct equity has featured as the most dominant form of financing for companies with foreign investments. Survey results show that direct equity accounted for an average of 74.0 percent of the total stock of FDI during 1998 – 2001 period while short and long-term borrowing from related companies abroad accounted for 27.0 percent. The pattern of financing indicates a debt-equity ratio of 0.4 (based on the stock of FDI), higher equity component in the FDI stock reflects high level of confidence investors have on the investment climate in the country.

The financing components of FPC show a debt-equity ratio of 0.6. However, the debt-equity ratio for FDI was 0.4. The higher debt-equity ratio on total stock of foreign capital results from additional borrowing from unrelated companies implying that assets for the companies are highly financed by debt. This calls for concerted efforts by the Government to closely monitor such debts.

7.3 Sectoral Distribution of FDI

The observed increase in FDI in Tanzania has not benefited all sectors equally. Instead, like in TIR01, the flows are concentrated in some sectors including Mining, Manufacturing, and Wholesale and retail trade. The same sectors dominate the flows in this survey but Mining has been overtaken by the Manufacturing sector for the first position. Investment in the Mining sector has declined but is still substantial, accounting for 28.0 percent of total FDI stock in 2001 from as high as 34.0 percent in 1999. The trend shows that major mining companies have now entered a stage of commencement of operations after passing through the initial investment stage in the second half of 1990s. The surge of investments in the Manufacturing sector reflects general Government policy of privatisation in which most of the former publicly owned parastatals belong. Also, there have been new investments in the sector especially under the Export Processing Zone (EPZ) programme.

Agriculture sector has attracted least FDI flows apart from the sector being the largest employer in the economy and largest contributor to GDP and the fact that it is a major source of export earnings and the key target sector in the fight against poverty. The sector is still characterised by smallholders' peasant farming in the production of both food and cash crops. Mechanisation and large scale commercial farming is limited despite the existence of great potentials and the presence of good weather and vast fertile land that supports production of a wide range of commodities.

The limited investment in the agriculture sector is, partly, caused by lack of specific incentives addressing the peculiar nature of the sector, and limited promotional efforts that would reinforce the comparative advantage Tanzania has on agriculture sector. An important policy intervention by the Government would be to put more efforts on promoting and facilitating investments in the agriculture sector, particularly, after the enactment of Land (Amendment) Act (2004). Thus, the following activities related to agriculture sector development are recommended:

- Identifying all potentials in the agriculture sector for new investment programmes;
- Identifying specific areas for new investment that would create maximum linkages with the rest of the economy particularly with the Manufacturing sector (in form of agro-processing);
- Extensive promotion of the agriculture sector in the country and abroad;
- Improving incentive package for investors in the agriculture sector; and
- Improving infrastructure facilities such as roads, railways, and utilities such as water, electricity, telecommunications, etc. in areas potential for commercial agriculture.

7.4 Regional Distribution of FDI

Regional distribution of FDI shows that while Tanzania Mainland accounted for an average of 96.0 percent of the FDI stock during 1999 – 2001, Zanzibar accounted for only 4.0 percent. The smaller share of FDI stock in Zanzibar is, partly, due to lack of investment policy, outdated investment code (1986) and too many institutions dealing with investments. However, these deficiencies have been addressed in which a new investment policy is now in place, the cabinet has approved the new investment code and all the investment promotion agencies are in the process of merging. These efforts are expected to attract more investments to Zanzibar.

Regional distribution of FDI that considers all the 26 regions in the country (21 in Tanzania Mainland and 5 in Zanzibar) shows high concentration is in Dar es Salaam with 51.7 percent of total FDI stock during 1999 – 2001 followed by Shinyanga (11.5 percent), Mwanza (10.8 percent) and Arusha – including Manyara (8.3 percent). Others are Morogoro (5.5 percent) and Urban West – Zanzibar (2.4 percent). The rest of the regions have low FDI, each accounting for between 0 – 2 percent. Low levels of FDI are noted in Ruvuma, Kagera, Singida, Lindi and Rukwa regions on the Mainland and North and South Pemba regions in Zanzibar.

The survey results have shown that the distribution of FDI in Tanzania is skewed towards few regions, especially, those with both better infrastructure and natural resource endowments. With this kind of distribution, a small part of the country has benefited directly from the improved performance in FDI inflows. Therefore, the Government needs to earmark potential areas for investment and improve social and infrastructure services in the regions that have attracted less FDI inflows. In addition, the regions themselves need to play a pro-active role in identifying and promoting investment potentials available in their areas and where possible provide additional incentives that are regional specific. Recent initiatives undertaken by Kilimanjaro, Mtwara and Mwanza regions to organize "Investment Promotion Forum" for their respective regions are moves that need to be emulated by other regions.

7.5 FDI by Source Country

FDI flows into Tanzania originate mainly from OECD countries especially UK, Canada, Japan and USA. OECD countries as a group accounted for 57.2 percent of the total stock of FDI in 2001, followed by SADC (24.5 percent) and EAC (7.3 percent). However, their share fell from 61.5 percent in 1999 to 57.2 percent in 2001. Similarly, the share of FDI from all other countries (including the rest of Africa) declined substantially from 25.9 percent in 1999 to 11.0 percent in 2001. The share of FDI stock from SADC and EAC countries, on the other hand, increased from 10.1 percent and 2.5 percent in 1999 to 24.5 percent and 7.3 percent in 2001, respectively. In total, SADC and EAC combined have increased their share of FDI stock from 12.6 percent in 1999 to 31.8 percent in 2001. For the case of FDI flows, in 2001, regional investors accounted for 42.2 percent of total FDI flows while the OECD countries accounted for 52.2 percent.

A key observation from the above findings is the increasing FDI from the regional blocs namely SADC and EAC, with South Africa and Kenya dominating. This shows that the ongoing regional integration initiatives provide potential for Tanzania to attract more FPC flows.

Although there has been a surge in investments from South Africa during 2000 - 2001, sustainability of their top position in the long term cannot be acertained given increasing inflows from other coutries in 2002 - 2004. In addition, most of the investments from South Africa are overflows from other countries and mutinationals. However, the long chain of ownership parttern and investment overflows pose a methodological challenge to analylists and researchers in the determination of source country of investment.

7.6 PSED Implications on PCF

The debt component of PCF as noted earlier is quite substantial as reflected by their high debt-equity ratios analysed in part 7.2 above. Survey results have revealed that:

- PSED (both disbursements and repayments) are higher when compared with official debt statistics. The revelation reflects existence of under-coverage of PSED by the official CS-DRMS possibly due to short-term loans not being captured by the system and non-adherence by Companies with foreign investments (and commercial banks) of the reporting requirements for external borrowing, hence escaping the official monitoring framework. The existence of large discrepancy between survey results and official debt statistics implies:

- o The need for the Bank of Tanzania to put in place additional measures to ensure comprehensive monitoring of both short and long-term PSED, including reviewing the regulations governing the reporting of external borrowing by the private sector.
- o Existence of large PSED that are outside the official monitoring framework poses a serious challenge for effective implementation of the national debt policy due to the fact that vital information on the debts is not known. Such information includes terms of borrowing like currency, interest rate, and repayment schedules, and their further implications to monetary, fiscal and exchange rate policies.
- o The possibility for Tanzania being susceptible to transfer pricing is a matter of concern and needs to be followed-up in future surveys.
- o The share of short-term debt though not a big problem at the moment should be noted in view of the envisaged financial deepening following the opening up of DSE to foreign participation and its associated increase in inflow of debt securities. This requires close monitoring of their volatility.

- Investments in the Mining sector are largely debt financed due to the large size of the investments and their associated risks.
- Short and long-term debt account for almost the same weight (during 2000 – 2001) in terms of their magnitudes.

7.7 FDI Linkages to the Domestic Economy

Survey results show that companies with foreign investments have created several links to the domestic economy including:

- Creating avenues for domestic investors to enter into partnership with foreigners in the ownership and management of companies. Although the share of FDI owned by Tanzanians is growing, it is still low. It is shown that during 1999 – 2001, about 13.0 percent of the total stock of FDI was owned by domestic investors from as low as below 10.0 percent prior to 1999. The challenge, however, is how to increase participation by domestic investors in foreign owned companies.
- Linking the financial sector, in particular, banking sub-sector to domestic credit. An average of 14.0 percent of total borrowing by Companies with foreign investments during 1999 – 2001 was sourced from domestic banks. The low level of borrowing reflects:
  - o High cost of borrowing

relative to external sources;
    - Limited availability of long-term credit facilities;
    - Large amount of funds needed especially by big investors is beyond available resources by any single bank;
    - Rigid borrowing terms such as requirement for fixed assets as collateral
- Market links are for both domestic consumers as well as to foreign consumers. Commodities produced by foreign owned companies which were meant for domestic consumers have positive import substitution effect by saving foreign exchange that would have otherwise been used to finance imports. On the other hand, export of such commodities generates foreign exchange for the economy. More specifically, FDI engaged in the production of exports leads into:
    - Enhancement of overall domestic production capacity,
    - Effective utilisation of global trading opportunities like AGOA, and EBA,
    - Enhancement of Tanzania's participation in regional trading arrangements such as EAC-CU and SADC,
    - Creation of additional links to producers of raw materials in the domestic economy.
- Market links to domestic producers of raw materials and other support services are fairly strong. There are instances where some companies prefer imported products and services, citing quality of domestically produced products and services as the main reason. This is a challenge for domestic producers to meet required quality standards and become the principle source of raw materials and support services and reduce imports of these raw materials from abroad.

7.8 Investors' Perceptions

Generally, the investors' perceptions on domestic investment climate have been positive where 72.2 percent indicated their willingness to expand their investments in Tanzania, while 22.5 percent said they would maintain the present levels of their investments. Survey results show that most of the investors who had favourable perceptions on the investment climate in Tanzania mentioned the following:
Strong positive opinions were on:

- Economic factors, especially, general conduct of trade policies including market expansion and regional economic integration. Favourable opinion was also expressed in the general conduct of macroeconomic policy that has led into sustained and steady economic growth and appropriate conduct of monetary policy that has led to low inflation rate.
- Domestic political stability and prospects for stability in the Great Lakes region.
- Banking services, liberalisation of the capital account and telecommunication services.

7.9 Areas of major concern that need policy intervention

- Bureaucracy and corruption: Though there are some improvements in this regard there are still some concerns. Slow pace of implementing legal reforms, government decision-making processes and tax collection efficiency are governance factors negatively affecting investors.
- Access to credit and capital was identified as another area of

concern. Though results from the survey show that the level of interest rates especially the lending rates have fallen from as high as 31.5 percent for long-term loans (maturity of 5 years and above) in 1999 to 13.3 percent in 2003, they are still considered too high for most investors. The Land (Amendment) Act (2004) that allows land to be used as a collateral will lessen the lending risks. In addition, Credit Reference Bureau (CRB) has been established to provide banks with information regarding financial position of the prospective borrowers in order to minimise losses arising from bad borrowers. Additional measures need to be taken to address this problem more comprehensively.

- On the Utilities sector, major concerns have been unreliable supply and high tariffs of electricity and water and telecommunications services. Water and electricity tariffs are among the highest in the EAC and SADC region, thereby undermining Tanzania's production competitiveness. Apart from high tariffs, only the urban areas have relatively reliable supply of water and electricity. Implementation of programmes on rural water and electricity supply and improvements in rural roads and telecommunication infrastructure would be a catalyst for more investments (especially by domestic investors) in the countryside.
- Regarding the labour factors, investors were concerned with the limited availability of skilled labour. This calls for human resource development policies and programmes that will encourage the transfer and diffusion of technology to the local labour. Possible solutions include increasing the quantity and quality of vocational and technical colleges, revising the curricula to meet the needs of the market economy and encourage the private sector to also play a proactive role through training and providing higher education.

CHAPTER EIGHT

ASSESSMENT OF THE SURVEY AND THE WAY FORWARD

This chapter examines the implementation of the second phase Private Capital Flows Project and assesses the extent to which the objectives have been met. It also identifies implementation gaps (methodological and analytical) that were observed and provide some lessons learnt. Lastly, it proposes a strategy for the way forward.

8.1 Assessment of the Results in Relation to the Objectives

8.1.1 Objective one: Updating the information for 2000 and 2001, and providing basis for projections and further policy analysis.

The following have been achieved:

- Information obtained from the current survey, and the revised data from the previous survey have facilitated generation of actual time series data for the period 1998-2001 relevant for compilation of Tanzania's Balance of Payments (BOP) and International Investment Position (IIP), investment promotion and macroeconomic policy formulation.
- Based on these series and other sources of approved foreign private capital data, estimates for 2002-2004 were generated thus availing for the first time a reliable foreign private capital data series that cover over 5 years.
- BOP data shows that, in terms of GDDS standards, Tanzania is moving towards achieving international best practices in PCF data dissemination. PCF data necessary for compilation of BOP and IIP are now available with a 36 months lag for survey data and current for non-survey estimates. However, by December 2005, survey data dissemination time lag is expected to be reduced to a maximum of twelve months.

8.1.2 Objective two: Extension of the survey to include Zanzibar.

The following have been achieved:

- The survey was extended to Zanzibar as planned and the results have been impressive. A separate report "Zanzibar Investment Report" has been prepared alongside TIR04 that provides detailed investment information that are specific for Zanzibar situation.
- Institutional framework involving Bank of Tanzania (Zanzibar Branch), Zanzibar Investment Promotion Agency (ZIPA) and the Office of the Chief Government Statistician (OCGS) for monitoring private capital flows data; in particular foreign direct investment has been established.
- Zanzibar has built technical capacity across the three institutions for organizing and conducting surveys on private capital flows.

8.1.3 Objective three: Collecting information on Private Sector External Debt (PSED) data to facilitate future debt data monitoring.

The following have been achieved:

- PSED, which was less emphasized in the first phase survey, was confirmed to be substantial. Short-term debt, which is not captured by non-survey official statistics in the Bank of Tanzania, was found to be high. Long-term PSED accounted for almost the same weight as short term PSED during 2000 and 2001.

8.1.4 Objective five: Examining some aspects of economic linkages to the domestic economy.

The following have been achieved:

- In this survey, perception results have incorporated information on linkages into the economy and the related corporate social responsibility issues although not adequately explored.
- Data series on investors perceptions can now be used to assess perception results since information for three periods in a row are available (i.e. start-up, 2000 and 2001).

8.2 Identified gaps

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

- Survey of Foreign Portfolio Investment (FPI) through the stock exchange could not be conducted on account of policy restrictions that still prevailed at the time the survey was conducted.
- Information on outward private capital flows could not be surveyed due to capital account restrictions.
- According to General Data Dissemination Standard (GDDS), Tanzania is still lagging behind in collecting PCF data, which at the moment is 36 months as opposed to the recommended international standard of between 6 - 9 months.

8.3 Lessons Learnt

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

- Institutional coordination in Tanzania Mainland and Zanzibar has continued to improve in terms of sharing resources, technical expertise and capacity building.
- 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 increasingly enhanced co-operation with the private sector. As a result, the response rate in the Mainland improved to 87.0 percent in the second phase from 81.5 percent recorded in the first phase. In Zanzibar, although the survey was carried out for the first time, the response rate was 95.0 percent.
- Physical visits and direct interviews have enhanced co-operation with the private sector and improved quality of reporting.
- Technical support received from DFI and MEFMI has enhanced the quality of analysis.
- The report has incorporated new chapters on domestic linkages and private sector external debt.
- Financial support from the Government of Denmark supplemented the domestic resources and enabled smooth implementation of the project.
- The Ms Access software that was used in capturing and analyzing FDI data in the first phase could not handle large volume of data. Accordingly, it was deemed necessary to use Oracle-based software, which is more user friendly and capable of handling large volume of data.

8.4 The Way Forward

The following strategies are recommended as a way forward:

- Reviewing and updating the current investors' register to include new foreign and local investors.
- Reviewing the questionnaire to encompass new features and add perception questions particularly on corporate social responsibility and economic linkages to the domestic economy.
- Undertaking sample surveys, targeting both locally and foreign owned private companies to collect data/information on private capital flows for the years 2002 through 2004.
- Provision of adequate funding for future surveys by collaborating institutions in Tanzania Mainland and Zanzibar. This is possible if each institution incorporates in their budgets some funds for the survey. Donor funds should only supplement local resources.
- Integrating the developed monitoring system for private capital flows in the national monitoring framework so that the system is streamlined and becomes part and parcel of the data compilations of ZIPA, OCGS, TIC and NBS.
- Deciding on how private capital flows data should be collected more sustainably.
- Change the current Private Capital Flows System from instrument based to concept based in order to conform to international standards.
- Develop a system of capturing, monitoring and analyzing foreign portfolio investments in the country.

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APPENDICES

APPENDIX 1: CONCEPTS AND DEFINITIONS

The following terminologies and relationships are important for a better understanding of the 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 and 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% 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.

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) 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 standardized way of disaggregating economic activities for international data comparison purposes. For the current census, this has been modified with further disaggregation 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 with a direct investment enterprise (10 percentage of ordinary shares) are subsidiaries (a non-resident owner owns more than 50 percentage of the shares) and associates (50 percentage 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.

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.

Voting (Powers) rights: This relates to the objective of obtaining a lasting interest in an enterprise resident in another economy. In the case of direct investment, a 10% or more ownership of the ordinary shares or voting rights in an enterprise is considered sufficient to empower the direct investor to have a significant influence over the key policies and management of the direct investment enterprise.

Direct Investment (Foreign Direct Investment) is defined as international investment by a resident entity in one economy ("direct investor") in an enterprise resident in another economy ("direct investment enterprise"), made with the objective of obtaining a lasting interest in the direct investment enterprise. The lasting interest implies the existence of a long-term relationship between the direct investor and the direct investment enterprise and a significant degree of influence by the direct investor on the management of the enterprise. Direct investment involves both the initial transaction between the two entities and all subsequent capital transactions between them and among affiliated enterprises, both incorporated and unincorporated.

Direct Investor is an individual, an incorporated or unincorporated private or public enterprise, a government, or a group of related enterprises (incorporated or unincorporated) or individuals, that has a direct investment enterprise (that is, a subsidiary, associate or branch) operating in economy other than the economy of residence of the direct investor.

Direct Investment Enterprise is an incorporated enterprise in which a direct investor owns 10 per cent or more of the ordinary shares or voting power, or an unincorporated enterprise in which a direct investor has equivalent ownership.

Direct investment enterprises comprise:

- Subsidiaries (enterprises in which a non-resident investor owns more than 50.0 per cent).
- Associates (enterprises in which a non-resident investor owns between 10.0 and 50.0 per cent).
- Branches (unincorporated enterprises wholly or jointly owned by a non-resident investor) that are either directly or indirectly owned by the direct investor.

APPENDIX 2

METHODOLOGY

1. Introduction

This chapter provides the schedule of activities undertaken in conducting the second phase survey on private capital flows in Tanzania. It highlights the assessment of the General Data Dissemination System (GDDS) before the implementation of the private capital flows project, the organisation of the survey methodology and an assessment of the GDDS after the implementation of the PCF project.

2. Assessment of GDDS Status Pre-Private Capital Flows Project

Monitoring of private capital flows in Tanzania before the implementation of the first phase private capital flows project experienced serious problems especially after the liberalization of the external sector and removal of exchange control regime in 1993. There were difficulties in obtaining data on private capital flows because the institutional arrangement for collecting, compiling and analysing the information was removed. As a result, private capital data was estimated using some information provided by commercial banks, investment approval and privatisation records. The collected information though valuable was limited in use due to methodological flaws associated with its sources. The data could only give an indication of trends and not the actual magnitude and composition of private capital flowing into the country. Therefore, GDDS standards could only be employed after the implementation of the first phase survey in 2000.

3. Organisation of the Project

3.1 Institutional Set-up

Six institutions were involved in conducting the survey. These are the Bank of Tanzania (BOT), Tanzania Investment Centre (TIC) and the National Bureau of Statistics (NBS) in Tanzania Mainland; and the Zanzibar Investment Promotion Agency (ZIPA), the Office of the Chief Government Statistician (OCGS) and BOT (Zanzibar Branch) in Zanzibar. In addition, in Zanzibar, institutions like the Registrar of Companies, Zanzibar Free Zone Authority (ZAFREZA), Zanzibar Free Port Authority (ZFPA) and the Zanzibar Tourism Commission (ZTC) were also involved. Close institutional collaboration enabled collective use of the legal mandates and sharing of staff, offices (including computers) and vehicles. However, the budget for conducting the surveys in both Tanzania Mainland and Zanzibar was provided by the Bank of Tanzania and the Government of Denmark.

3.2 Sensitization Seminar and Awareness Campaigns

In Tanzania Mainland, only awareness campaigns were conducted because sensitization seminars were adequately conducted during the first phase. In Zanzibar however, it was necessary to conduct a sensitisation seminar since the survey was being done for the first time. These campaigns were conducted through the media before and after the sensitisation seminar.

3.3 Training Workshop

Training workshops were conducted in both Zanzibar and Tanzania Mainland. The training in Zanzibar involved researchers from ZIPA, OCGS, BOT-ZNZ, ZAFREZA, ZFPA and ZTC, whereas, in Tanzania Mainland it involved researchers from BOT, TIC and NBS.

4. Survey methodology

4.1 Scope and Coverage

The second phase survey covers 2000 and 2001. However, for the purpose of enriching the analysis, estimated data for 2002 through 2004 have been incorporated using information obtained from approval records maintained by TIC, PSRC and the Ministry of Minerals and Energy. The estimated data was obtained by taking the aggregates of the approved foreign equity and loans as provided by the companies. The aggregated figures were then spread evenly over the years of the implementation of the investments to obtain the total estimated figures for years 2002 through 2004.

The survey involved all companies in the United Republic of Tanzania with substantial amounts of local and foreign investments (i.e. one hundred percent local or foreign or joint venture). The survey covers also Private Sector External Debt (PSED) in which both quantitative and qualitative aspects were explored. It draws the list of investors from an official register of about 1,500 and 150 in Tanzania Mainland and Zanzibar, respectively. In addition, it covers all the major sectors of the economy.

4.2 Type of Data and Sources

The survey uses data on foreign private capital for both stocks and flows. In particular, the survey uses data on equity, reinvested earnings, long and short-term shareholder intra-company loans, long and short-term loans from unrelated companies, suppliers' credit from related and unrelated companies, portfolio and other investments. Furthermore, the study incorporates data on types of financing and countries of origin of the investments.

4.3 Instruments

The survey used both questionnaire and face-to-face interviews to capture data and obtained additional information that could not be easily availed by the questionnaire. Two sets of questionnaires were used in Tanzania Mainland to capture information on investment (and perception), and private sector external debt, while in Zanzibar three sets of questionnaires were used to capture information on investment, private sector external debt and investors' perception. For successful implementation of the survey, the questionnaires used in the first survey were redesigned to incorporate new features to address the shortcomings of the previous survey as well as accommodate new analytical concerns. Administration of questionnaire involved physical visits and where the companies could not be easily located physically, the questionnaires were sent by post.

4.4 Tools and Techniques

To ensure high and quality response, there was maximum cooperation and effective administration of the survey instruments and activities organized to facilitate implementation. The activities included preparation of investors' register, awareness campaigns through media, training of researchers and preparation of survey manuals.

4.5 Compilation of Investors Register

The investor's registers were prepared to facilitate the location of the companies by researchers during the actual distribution of the questionnaires, which had all the vital information in respect of the targeted companies . The main sources of company's information in the preparation of the investors register in Tanzania Mainland were BOT, Ministry of Minerals and Energy, Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), Tanzania Investment Centre (TIC), Tanzania Revenue Authority (TRA) and the phase one survey list. In Zanzibar the sources of information were ZIPA, ZAFREZA, ZFPA, ZTC and the Office of the Registrar of Companies.

4.6 Preparation of Survey Manual

Two sets of survey manuals for Tanzania Mainland and Zanzibar were prepared to ensure effective conduct of the survey. The manuals enabled researchers to understand the meaning of different terminologies that were employed in the questionnaires. In addition, the manuals acted as an aid kit in assisting to explain difficult terminologies to respondents. The manuals were sufficiently detailed in operational modalities of questionnaire's administration and were important sources of information to researchers.

4.7 Data Up-rating

The 1998 and 1999 data were revised and reprocessed along side the second phase data for consistency. Also, in the process of data up-rating, Zanzibar data for 1998 and 1999 was estimated by using proportions of the results for years 2000 and 2001. In this regard, foreign private capital figures for Tanzania Mainland were adjusted upward by 5.0 percent for stocks and 1.0 percent for flows to incorporate Zanzibar in the 1998 and 1999 figures since Zanzibar was not covered in the first phase survey. In addition, book value figures were used to assist in estimating market value figures in cases where market value figures were not provided. Furthermore, all market value figures above USD 10.0 million were cross-checked with the company's respective executives for their correctness and also those below, were verified with those that were supplied in the first phase survey. The investors imputed reinvested earnings in most of the cases as part of market value of stock. It was also evident that some few investors did not report the correct countries of origin of the investors but reported the currency centers instead. For example, Bermuda was reported as a country of origin of a particular investor, but when clarification was sought it was revealed that South Africa was basically the country of origin necessitating the changing of records to reflect the appropriate source country.

4.8 Surveyed Companies

The survey covered all the companies listed in the investor's registers for both Tanzania Mainland and Zanzibar. The surveyed companies fall under five categories namely; major commercial banks, all DSE listed companies, active mining companies, all non-bank financial and insurance institutions and divested companies.

4.9 Response rate

A total of 801 and 142 questionnaires were received in Tanzania Mainland and Zanzibar, being 87.1 percent and 96.7 percent of all questionnaires distributed. **Table 1** provides a summary of response rate by region for both Mainland and Zanzibar. As shown, the response rate was very high.

Table 1: Questionnaire Distribution and Response Rate in Mainland and Zanzibar

Region/Zone	Registered Companies	Companies served with questionnaires	Number of received questionnaires	Response Rate
A: Physical Visits				
Dar-es-Salaam	944	502	430	86%
Southern-Zone (Mbeya, Iringa, Ruvuma and Rukwa	44	26	26	100%
Lake-zone (Mwanza, Mara, Shinyanga,Tabora, Kagera, Kigoma)	158	110	103	94%
Coast Region	25	12	9	75%
Morogoro Region	46	30	26	87%
Tanga Region	57	32	28	88%
Kilimanjaro Region	61	26	24	92%
Arusha Region	182	170	153	90%
B: By Post				
Lindi	5	5	-	-
Mtwara	3	3	-	-
Dodoma	2	2	2	100%
Singida	2	2	-	-
Sub-total Mainland	1,329	920	801	87%
Unguja North	25	23	23	100%
Unguja South	20	17	17	100%
Urban West	105	103	98	95%
Pemba North	3	1	1	100%
Pemba South	6	3	3	100%
Sub-total Zanzibar	159	147	142	97%
Grand Total	**1,488**	**1,067**	**943**	**88%**

4.10 Software Development and Data Migration

Data were analysed using a new system built on Oracle Software that replaced the country software in ACCESS, which was used to process first phase survey data. The change of the software was necessary to be consistent with other systems within BOT. The phase one and two data sets were synchronized using the data migration tool to ensure data consistence and continuity. Data entry exercise was implemented in three stages as follows:

- Recording and updating particulars of surveyed companies as contained in returned questionnaires.
- Data cleaning using inbuilt checks in the forms and checking of questionnaires against external sources like financial statements and general knowledge of investments.
- Inputting the actual data into the database

5 Analytical Methods

5.1 Adherence to International Standards

The compilation of the survey data was based mostly on standards outlined in the IMF Balance of Payments Manual 5 (BPM5) in which foreign investment financing components are grouped into Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Other Foreign Investments.

5.2 Computation of Foreign Private Capital

All the computations in this report are based on market values. Book values were only used in the data up-rating exercise in cases where market value figures could not be provided or were considered exaggerated. The calculation of FDI involved aggregation of equity capital, reinvested earnings and other capital (i.e. non-equity FDI comprising of shareholder and inter-company loans both long and short-term as well as suppliers credit from related companies). However, foreign private capital was obtained by adding FDI to non-FDI (i.e. foreign portfolio equity and debt, long and short-term loans from unrelated companies and suppliers credit from unrelated companies).

5.3 Computation of Flows

The stock approach was employed in calculating flow figures in the first phase survey while in phase two, the transactions approach was adopted. While stock approach takes the change in value of stock between successive years as a proxy for flows, the transactions approach considers the sum of flows realized during the year. Thus the computation of flows for this survey were obtained by aggregating the net equity flows, reinvested earnings and net debt flows.

5.4 Market Value of Equity Stock

As most companies are not listed on the DSE a number of respondents did not comprehend well the equity stock concept. However, a high proportion of respondents in most sectors attempted to respond to this question using estimates made by either their directors or chief accountants. In some cases the researchers had to ask and also provide further clarifications and examples where this was required by respondents for an improved understanding of the concept.

5.5 Book Value of Equity Stock (Shareholders' funds)

No major problems were encountered with book value data because as a concept most business community are familiar with and it is also available in the books of account. The book value data assisted in the data up-rating exercise but were not used in the analysis. Market to book value ratios by sector were used for up-rating because most of the surveyed companies were established long before, and had not experienced recent equity flows. Thus their book value figures might be low, which could lead to data under-statement.

5.6 Coverage of Assets and Liabilities

International methodological standard require private capital survey to cover both assets and liabilities. However, the second phase survey, just like it was the case in the first phase, did not cover foreign assets because the present policy governing capital account transactions restricts outward flow of foreign direct investment. This does not however imply that assets have zero values but rather insignificant in magnitude where specific approval was granted for outward investment.

5.7 Data Estimation and Revision

Data series used in this report builds from two different surveys conducted separately in 2000 (for Tanzania Mainland) and 2002/03 (for both Tanzania Mainland and Zanzibar). For purposes of consistency, data for 1998 and 1999 was revised and reprocessed along side that of phase two survey. Also, in order to have series of data for 1998 through 2004, estimates have been incorporated to give provisional data for year 2002 through 2004. The incorporation of estimated data for 2002 – 2004 was necessary in order to update the results and give the direction of investment up to 2004 since the current survey results could only provide actual information up to 2001.

5.8 Analysis of Perception Results

The second phase survey analysis technique for perception results differs from that of the first phase. Perception question required investors to rank the impact of factors on their investment decisions and on day-to-day operations. Ranking levels ranged from 1 for "Strong Positive Effect" to 5 for "Strong Negative Effect". Rank 3 was given a "No Effect" status. In the second phase survey analysis of factors were based on their computed weighted mean values. Comparison was made between start-up, 2000 and 2003 for every factor. Open-ended questions were analyzed separately.

6. Assessment of GDDS Status Post-PCF Project

6.1 Overview

Foreign private capital compilation methodology in Tanzania is now compatible with international codes and standards as provided under the General Data Dissemination Standards (GDDS) following the implementation of the private capital flows project in 2000.

6.2 Data Coverage

Private capital flows data coverage is currently within BOPM-5 requirements. IIP information is to be prepared based on results reported in chapter 4, 5 and 6 of this report. Data estimates and projections are based on approval data that are available with Tanzania Investment Centre, Parastatal Sector Reform Commission (PSRC) and the Ministry of Energy and Minerals.

6.3 Data Timeliness

The data reference period for the second phase survey is end-2000 and end-2001 for both stocks and flows giving the lag of data publication 36 months. This compares unfavourable with General Data Dissemination Standards (GDDS) of 6 months. However, with sample surveys expected to start July – December 2005, the desirable PCF data time lag of 6 to 9 months can be achieved before the end of 2005.

6.4 Period of collection

Collection and publication of PCF data is annual. Major surveys are planned after every five years while sample surveys are annual. This is intended to facilitate continuous monitoring, and to satisfy the need for policy and decision makers in the public and sectors, donors and the international organizations to have the most current data with minimal time lag.

6.5 Data Integrity and Access by the Public

In Tanzania, relevant authorities scrutinize private capital flows data before it becomes public. However, Tanzania is yet to reach a stage where it can publish advance release calendars that indicate timetables for data collection and results dissemination as required by GDDS.

6.6 Data Dissemination Practices

Data is normally released to various stakeholders through workshops or disseminated through the media and finally posted on BOT, TIC and NBS websites for wider circulation. Also, after being published some of the reports are kept at BOT library for public consumption and the rest are distributed through post or physically to various readers such as academic institutions, National Parliamentary Assembly, Government Ministries, Development Partners, the survey Companies, public and private institutions, individuals etc.

APPENDIX 3

STATISTICAL TABLES

Table 1: Stock of Foreign Private Capital in Tanzania, 1998-2004

Values in USD Million

Foreign Private Capital Stock	1998	%	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Foreign Direct Investments	1,714.7	84.7	2,418.7	83.3	3,038.3	84.3	3,776.6	88.6	4,206.4	87.3	4,733.2	87.3	5,203.3	87.3
Direct Equity Investment	1,246.7	61.6	1,608.0	55.4	2,358.3	65.4	2,883.2	67.6	2,656.3	55.1	2,988.9	55.1	3,285.8	55.1
Long-term Intra-company Loans	390.3	19.3	679.2	23.4	543.5	15.1	753.5	17.7	776.4	16.1	873.7	16.1	960.4	16.1
Short-term Intra-company Loans	77.7	3.8	131.5	4.5	136.6	3.8	139.9	3.3	159.3	3.3	179.3	3.3	197.1	3.3
o/w Suppliers Credits	36.2	46.6	55.0	41.9	79.2	58.0	94.2	67.3	86.8	54.5	97.7	54.5	107.4	54.5
Foreign Portfolio Investments	**28.2**	**1.4**	**29.0**	**1.0**	**80.1**	**2.2**	**75.5**	**1.8**	**69.8**	**1.4**	**78.6**	**1.4**	**86.4**	**1.4**
Portfolio Equity Investment	28.2	1.4	29.0	1.0	80.1	2.2	75.5	1.8	69.8	1.4	78.6	1.4	86.4	1.4
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Foreign Investments	**281.6**	**13.9**	**498.6**	**16.9**	**485.4**	**13.5**	**394.3**	**9.2**	**544.6**	**11.3**	**612.8**	**11.3**	**673.7**	**11.3**
Long-term Loans	178.8	8.8	295.2	10.0	430.1	11.9	343.5	8.1	409.3	8.5	460.6	8.5	506.3	8.5
Short-term Loans	102.8	5.1	203.4	6.9	55.3	1.5	48.8	1.1	134.6	2.8	151.5	2.8	166.5	2.8
o/w Suppliers Credits	53.3	51.8	62.2	30.6	13.5	24.4	16.5	33.8	47.7	35.4	53.7	35.5	59.1	35.5
Total Stock of Private Capital	**2,024.5**	**100.0**	**2,946.3**	**100.0**	**3,603.8**	**100.0**	**4,264.4**	**100.0**	**4,820.8**	**100.0**	**5,424.6**	**100.0**	**5,963.3**	**100.0**

* Estimates based on TIC approval records.

Table 2: FDI Flows by Country by Lines of Financing, 2001

Values in USD Million

Country	Direct Equity	L/T Intra-company Loans	S/T Intra-company Loans	S/T o/w Suppliers Credit	Retained Earnings	Total
South Africa	139.2	26.0	15.5	7.8	1.0	189.5
United Kingdom	20.8	38.2	9.8	14.1	-0.1	82.8
Netherlands	58.9	0.1	0.0	0.0	-0.5	58.5
USA	0.0	0.6	0.0	27.2	0.0	27.8
Switzerland	0.1	0.8	7.6	15.3	0.0	23.8
Canada	0.5	21.9	0.0	0.0	-0.9	21.5
Kenya	4.3	4.0	0.0	5.2	0.7	14.2
Sweden	0.4	0.1	4.7	0.0	0.1	5.4
Norway	0.3	0.2	4.1	0.0	0.1	4.7
Australia	0.4	3.4	0.0	0.0	0.1	3.9
Others Combined	12.0	12.3	4.0	5.7	1.0	34.9
Total	**236.9**	**107.7**	**45.7**	**75.3**	**1.6**	**467.2**

Table 3: Debt-Equity Ratios (Stock Concept), 1998-2004

	1998	1999	2000	2001	2002*	2003*	2004*
Debt/Equity Ratio (FPC)	0.59	0.80	0.48	0.44	0.54	0.54	0.54
Debt/Equity Ratio (FDI Only)	0.38	0.50	0.29	0.31	0.35	0.35	0.35

Note: * Estimates based on TIC approval records.

Table 4: Foreign Private Capital Flows, 1999-2004

Values in USD Million

Foreign Private Capital Flows	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Foreign Direct Investments	**541.7**	**74.0**	**282**	**59.4**	**467.2**	**77.3**	**429.8**	**77.7**	**526.8**	**77.7**	**469.9**	**77.7**
Direct Equity Investment	202.5	27.7	85.2	17.9	236.9	39.2	174.7	31.6	214.1	31.6	191.0	31.6
Reinvested Earnings	1.7	0.2	1.6	0.3	0.3	0.0	1.2	0.2	1.5	0.2	1.3	0.2
Long-term Intra-Company Loans	237.2	32.4	37.8	8.0	107.7	17.8	127.4	23.0	156.2	23.0	139.3	23.0
Short-term Intra-Company Loans	100.2	13.7	157.4	33.2	122.3	20.2	126.5	22.9	155.0	22.9	138.3	22.9
o/w Suppliers Credits	55.0	54.9	94.1	59.8	75.3	61.6	53.3	42.1	65.3	42.1	58.2	42.1
Foreign Portfolio investments	**1.2**	**0.2**	**0.0**	**0.0**	**8.2**	**1.4**	**2.2**	**0.4**	**2.7**	**0.4**	**2.4**	**0.4**
Portfolio Equity Investment	1.2	0.2	0.0	0.0	8.2	1.4	2.2	0.4	2.7	0.4	2.4	0.4
Debt Securities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Foreign Investments	**188.7**	**25.8**	**192.7**	**40.6**	**129**	**21.3**	**121.1**	**21.9**	**148.5**	**21.9**	**132.5**	**21.9**
Long-term Loans	98.8	13.5	159	33.5	74.7	12.4	78.9	14.3	96.7	14.3	86.3	14.3
Short-term Loans	89.9	12.3	33.7	7.1	54.3	9.0	42.2	7.6	51.8	7.6	46.2	7.6
o/w Suppliers Credits	26.6	26.9	9.4	27.9	13.2	24.3	11.7	27.2	14.3	27.6	12.8	27.7
Total Flows of Private Capital	**731.6**	**100.0**	**474.7**	**100.0**	**604.4**	**100.0**	**553.1**	**100.0**	**678.0**	**100.0**	**604.8**	**100.0**

* Estimates based on TIC approval records

Table 5: Debt - Equity Ratio (Flow Concept), 1999-2004

Values in USD Million

	1999	2000	2001	2002*	2003*	2004*
Debt/Equity Ratio (FPC)	2.6	1.8	1.4	1.9	2.1	2.1
Debt/Equity Ratio (FDI Flows Only)	1.6	2.2	1.0	1.4	1.4	1.4

* Estimates based on TIC approval records

Table 6: Stock of FDI by Financing Type, 1998-2004

Values in USD Million

Financing Type	1998	%	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Direct Equity Investment	1,246.7	72.7	1,608.0	66.5	2,358.3	77.6	2,883.2	76.3	2,656.3	63.1	2,988.9	63.1	3,285.8	63.1
L/T Intra-Company Loans	390.3	22.8	679.2	28.1	543.5	17.9	753.5	20.0	776.4	18.5	873.7	18.5	960.4	18.5
S/T Intra-Company Loans	77.7	4.5	131.5	5.4	136.6	4.5	139.9	3.7	159.3	3.8	179.3	3.8	197.1	3.8
o/w Suppliers Credits	36.2	46.6	55.0	41.8	79.2	58.0	94.2	67.3	86.8	54.5	97.7	54.5	107.4	54.6
Total FDI Stocks	**1,714.7**	**100.0**	**2,418.7**	**100.0**	**3,038.3**	**100.0**	**3,776.6**	**100.0**	**4,206.4**	**100.0**	**4,733.2**	**100.0**	**5,203.3**	**100.0**

* Estimates based on TIC approval records

Table 7: Flows of FDI by Financing Type, 1999-2004

Values in USD Million

Financing Type	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Direct Equity Investment	202.5	37.4	85.2	30.2	236.9	50.7	174.7	40.6	214.1	40.6	191.0	40.6
Reinvested Earnings	1.7	0.3	1.6	0.6	0.3	0.1	1.2	0.3	1.5	0.3	1.3	0.3
Long-term Intra-Company Loans	237.2	43.8	37.8	13.4	107.7	23.1	127.4	29.6	156.2	29.6	139.3	29.6
Short-term Intra-Company Loans	100.2	18.5	157.4	55.8	122.3	26.2	126.5	29.4	155.0	29.4	138.3	29.4
o/w Suppliers Credits	55.0	54.9	94.1	59.8	75.3	61.6	53.3	42.1	65.3	42.1	58.2	42.1
Foreign Direct Investments	541.7	100.0	282.0	100.0	467.2	100.0	429.8	100.0	526.8	100.0	469.9	100.0

* Estimates based on TIC approval records.

Table 8: Sectoral Distribution of FDI Stocks By Financing Type, 1999-2001.

Values in USD Million

Sector	Equity			Long-term			Short-term			Suppliers Credit			Total		
	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001
Manufacturing	398.5	930.4	1,158.16	62.1	66.0	71.19	16.2	23.8	4.83	24.8	11.5	30.42	501.6	1,031.8	1,264.6
Mining and Quarrying	536.5	594.1	675.07	265.2	220.1	365.54	13.8	0.0	16.32	2.2	0.0	0.0	817.8	814.2	1,056.9
Wholesale & Retail trade, catering & accommodation services	354.6	279.0	292.81	120.8	77.1	91.30	29.7	12.6	6.72	13.1	9.3	9.47	518.1	378.0	400.3
Transport, storage & communication	33.2	81.1	189.11	4.4	26.6	48.70	7.6	0.0	0.0	5.1	37.8	46.99	50.2	145.4	284.8
Agriculture, hunting, forestry and fishing	64.0	170.5	167.69	80.9	71.7	65.60	4.2	9.8	12.24	4.9	20.6	6.86	154.1	272.6	252.4
Financing, Insurance, real estate, and business services	155.6	202.1	205.77	40.1	15.4	18.02	0.1	1.5	1.04	1.6	0.0	0.37	197.4	219.0	225.2
Utilities	0.1	0.7	91.68	37.1	36.0	36.56	0.0	0.0	0.0	0.0	0.0	0.0	37.1	36.7	128.2
Construction	61.8	40.4	41.18	66.9	29.2	54.84	4.7	9.6	4.50	3.4	0.0	0.0	136.9	79.2	100.5
Community, social and personal services	3.7	59.9	61.73	1.8	1.4	1.76	0.0	0.1	0.04	0.0	0.0	0.11	5.6	61.4	63.6
Total	**1,608.0**	**2,358.3**	**2,883.2**	**679.2**	**543.5**	**753.5**	**76.4**	**57.4**	**45.7**	**55.0**	**79.2**	**94.2**	**2,418.7**	**3,038.3**	**3,776.6**

Table 9: Sectoral Distribution of FDI Stocks By Financing Type, 1999-2001.

Values in USD Million

Sector	Equity			Long-term			Short-term			Suppliers Credit			Retained earning			Total		
	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001	1999	2000	2001
Transport, storage & communication	6.6	54.4	125.1	3.4	8.3	23.6	2.8	0.0	0.0	2.3	37.8	9.2	0.7	0.2	0.4	15.8	100.7	158.3
Utilities	0.0	0.0	82.4	0.0	0.0	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.1	0.0	0.2	83.0
Wholesale & Retail trade, catering & accommodation services	20.8	4.8	15.6	11.2	11.7	12.9	22.6	15.9	3.8	10.6	27.2	27.3	0.1	-0.4	-0.5	65.3	59.2	59.0
Manufacturing	34.6	17.9	3.9	13.4	4.3	18.4	11.9	17.4	16.7	34.2	10.2	18.6	0.8	0.6	-0.1	94.9	50.4	57.5
Agriculture, hunting, forestry and fishing	6.8	1.9	2.2	10.5	5.7	11.7	2.2	24.2	14.3	4.0	19.0	20.2	-0.2	-0.4	-0.8	23.4	50.4	47.7
Mining and Quarrying	118.4	0.6	1.7	175.5	4.7	35.2	1.0	0.0	4.7	1.8	0.0	0.0	-0.1	0.3	0.0	296.5	5.6	41.6
Financing, Insurance, real estate, and business services	7.1	0.4	4.7	6.2	1.2	3.2	0.2	1.4	0.7	1.1	0.0	0.0	0.5	0.5	0.4	15.1	3.5	8.9
Construction	7.2	2.4	0.2	15.8	1.8	1.8	4.3	4.5	6.8	1.0	0.0	0.0	0.0	0.0	0.1	28.4	8.7	8.9
Community, social and personal services	0.9	2.9	1.1	1.2	0.0	0.4	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.6	0.7	2.1	3.5	2.2
Total	**202.5**	**85.2**	**236.9**	**237.3**	**37.8**	**107.7**	**45.1**	**63.3**	**47.0**	**55.0**	**94.1**	**75.3**	**1.7**	**1.6**	**0.3**	**541.5**	**282.0**	**467.2**

Table 10: Sectoral Composition of FPI Stock, 2000-2001

Values in USD Million

Sector	2000	Percentage	2001	Percentage
Manufacturing	57.0	71.1	43.7	57.9
Financing, Insurance, real estate and business services	11.9	14.8	12.3	16.3
Utilities	0.0	0.0	8.8	11.7
Wholesale & Retail trade, catering and accommodation services	4.9	6.1	4.3	5.7
Mining and Quarrying	3.1	3.8	3.1	4.2
Agriculture, hunting, forestry and fishing	1.5	1.9	1.6	2.1
Transport, storage & communication	0.6	0.8	0.9	1.2
Community, social and personal services	1.0	1.3	0.7	0.9
Construction	0.2	0.2	0.1	0.2
Total	**80.1**	**100.0**	**75.5**	**100.0**

Table 11. Sectoral Distribution of Foreign Portfolio Investment, 1999-2001

Values in USD Million

Sector	1999	Percentage	2000	Percentage	2001	Percentage
Utilities	0.0	0.0	0.0	0.0	8.0	97.5
Financing, Insurance, real estate, and business services	0.0	0.0	0.0	0.0	0.2	2.1
Mining and Quarrying	0.0	2.6	0.0	0.2	0.0	0.4
Agriculture, hunting, forestry and fishing	0.0	0.0	0.0	0.0	0.0	0.1
Wholesale & Retail trade, catering & accommodation services	1.0	94.2	0.0	2.4	0.0	0.0
Community, social and personal services	0.0	0.0	0.0	0.0	0.0	0.0
Construction	0.0	0.0	0.0	0.0	0.0	0.0
Transport, storage & communication	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.0	3.2	0.0	97.3	-0.0	-0.1
Total	**1.1**	**100.00**	**0.0**	**100.0**	**8.2**	**100.0**

Table 12: Stock of Other Foreign Investments by Financing Type, 1998 - 2004

Values in USD Million

Other Investment Stocks	1998	%	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Long-term Loans	178.8	63.5	295.2	59.2	430.1	88.6	345.5	87.6	409.3	75.2	460.6	75.2	506.3	75.2
Short-term Loans	102.8	36.5	203.4	40.8	55.3	11.4	48.8	12.4	134.6	24.7	151.5	24.7	166.5	24.7
o/w Suppliers Credits	53.3	51.8	62.2	30.6	13.5	24.4	16.5	33.8	47.7	35.4	53.7	35.5	59.1	35.5
Total Other Investments Stocks	281.6	100.0	498.6	100.0	485.4	100.0	394.3	100.0	544.6	100.0	612.8	100.0	673.7	100.0

* Estimates based on TIC approval records

Table 13: Flows of Other Foreign Investment by Financing Type, 1999-2001

Values in USD Million

Other Investments Flows	1999	%	2000	%	2001	%	2002*	%	2003*	%	2004*	%
Long-term Loans	98.8	52.4	159.0	82.5	74.7	57.9	78.9	65.1	96.7	65.1	86.3	65.1
Short-term Loans	89.9	47.6	33.7	17.5	54.3	42.1	42.2	34.9	51.8	34.9	46.2	34.9
o/w Suppliers Credits	26.6	26.9	9.4	27.9	13.2	24.3	11.7	27.2	14.3	27.6	12.8	27.7
Total Other Investments Flows	**188.7**	**100.0**	**192.7**	**100.0**	**129.0**	**100.0**	**121.1**	**100.0**	**148.5**	**100.0**	**132.5**	**100.0**

* Estimates based on TIC approval records

Table 14: External Debt By Debtor Category: CS-DRMS Records

Values in USD Million

A: Central Government:	1999	2000	2001	2002	2003	2004*
Disbursed Outstanding Debt	6,425.1	6,075.5	5,020.2	5,481.7	6,079.8	6,216.3
Disbursements	340.7	332.9	199.1	310.2	420.3	117.1
Principal Repayments	137.1	156.3	129.4	112.2	100.9	74.6
Interest Payments	73.0	36.9	29.3	33.1	34.5	36.7
Arrears-Principal	583.1	550.1	548.4	621.7	665.2	717.3
Interest	513.2	490.3	530.4	609.1	693.8	703.5
B: Government Guarantee:						
Disbursed Outstanding Debt	174.6	167.2	152.6	152.9	150.6	150.4
Disbursements	0.0	0.0	0.0	0.0	0.0	0.0
Principal Repayments	1.8	0.9	1.6	1.0	1.4	2.7
Interest Payments	0.7	0.4	0.7	0.2	13.0	5.0
Arrears-Principal	156.5	153.5	144.3	147.7	148.1	148.8
Interest	156.5	211.8	149.2	169.8	190.0	203.7
C: Private:						
Disbursed Outstanding Debt	390.7	383.1	409.7	477.0	448.3	461.3
Disbursements	22.1	12.6	46.2	64.4	14.5	17.2
Principal Repayments	14.0	13.6	14.3	4.2	51.7	9.9
Interest Payments	5.8	1.0	0.5	1.7	60.7	8.7
Arrears-Principal	109.2	134.0	166.9	220.5	238.7	283.1
Interest	138.9	173.4	189.7	240.0	233.8	263.4
Total (A+B+C)						
Disbursed Outstanding Debt	6,990.4	6,625.8	5,582.5	6,111.6	6,678.7	6,828.0
Disbursements	362.8	345.5	245.3	374.6	434.8	134.3
Principal Repayments	152.9	170.8	145.3	117.4	154.0	87.2
Interest Payments	84.6	38.9	30.3	36.5	155.9	54.1
Arrears-Principal	848.8	837.6	859.6	989.9	1,052.0	1,149.2
Interest	808.6	875.5	869.3	1,018.9	1,117.6	1,170.6
Debt Stock (DOD+Int. Arrears)						
Central Government	6,938.3	6,565.8	5,550.6	6,090.8	6,773.6	6,919.8
Government Guarantee	331.1	379.0	301.8	322.7	340.6	354.1
Private Sector	529.6	556.5	599.4	717.0	682.1	724.7
Total Debt Stock	**7,799.0**	**7,501.3**	**6,451.8**	**7,130.5**	**7,796.3**	**7,998.6**

* Estimates based on TIC approval records

Table 15: Stock of LDI By Region, 1999 – 2001

Values in USD Million

Region	1999	% of total	2000	% of total	2001	% of total
Dar es Salaam	212.1	76.7	396.5	70.5	368.9	66.2
Mwanza	9.3	3.4	22.4	4.0	29.3	5.3
Arusha	21.9	7.9	23.8	4.2	27.9	5.0
Shinyanga	0.1	0.0	12.3	2.2	22.9	4.1
Tanga	11.8	4.3	25.1	4.5	20.9	3.8
Morogoro	8.3	3.0	18.4	3.3	18.9	3.4
Mbeya	2.9	1.0	10.5	1.9	12.2	2.2
Kigoma	0.0	0.0	7.8	1.4	6.9	1.2
Kilimanjaro	7.7	2.8	7.4	1.3	6.7	1.2
Iringa	0.5	0.2	1.9	0.3	5.0	0.9
Ruvuma	0.0	0.0	2.4	0.4	1.9	0.3
Pwani	0.9	0.3	1.6	0.3	1.6	0.3
Kagera	0.0	0.0	1.1	0.2	1.0	0.2
Mara	0.7	0.3	1.7	0.3	0.6	0.1
Singida	0.3	0.1	0.0	0.0	0.0	0.0
Sub-Total	276.5	100.0	532.9	94.8	524.7	94.2
B: Zanzibar						
Urban West	0.0	0.0	28.8	5.1	31.5	5.7
South Unguja	0.0	0.0	0.6	0.1	0.7	0.1
North Unguja	0.1	0.0	0.1	0.0	0.2	0.0
Pemba South	0.0	0.0	0.0	0.0	0.0	0.0
Sub-Total	0.1	0.0	29.5	5.2	32.5	5.8
Grand Total	**276.5**	**100.0**	**562.4**	**100.0**	**557.2**	**100.0**

Investment Facilitation

The Tanzania Investment Act No. 26 of 1997 to be “the primary agency of Government to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the government on investment related matters” established Tanzania Investment Centre (TIC) in 1997. It is a one stop facilitative center for all investors. Specific functions include:

- Assist in establishment of enterprises e.g. incorporation and registration of enterprises;
- Obtain necessary licenses, work permits, visas, approvals, facilities or services;
- Promote both local and foreign investments;
- Secure investment sites and assist investors to establish EPZ projects;
- Grant certificates of incentives, investments guarantees and register technology agreements for all investments, which are over and above USD 300,000 and USD 100,000 for foreign and local investments respectively;
- Provide and disseminate up to date information on existing investment opportunities, benefits or incentives available to investors; and
- Assist all investors whether or not registered by TIC.

In order to strengthen and expedite facilitation services, seven senior officers from Government or its executive agencies have been permanently stationed at TIC to serve investors under the general direction of the TIC Executive director. They are: Lands department, Tanzania Revenue Authority (TRA), Immigration department, Labor division, Directorate of Trade and Business Registration & Licensing Agency (BRELA).

Land Law and Administration

Several changes have taken place to create better investment environment.

- 1999 Enactment of the Land Act 1999
- 2000/1 Operationalization of the Act
- 2002/3 Amendments in the Land Act 1999 in favour of the Investors Roundtable and bankers’ association (following the drawbacks noticed during the act oprationalization).

Tax Collection and Tax Incentives

Taxation forms an important part of the fiscal policy of any government. This is because it is through taxation that the government can raise its revenue required for both recurrent and development expenditures.

Tanzania Revenue Authority (TRA) is a semi-autonomous agent of the government responsible for the administration of the Central Government taxes as well as several non-tax revenues. Some of the tax laws administered by TRA are:

- The Income Tax Act, 1973
- The Custom Tariff Act, 1976
- The East African Customs Management Act, 1970
- The Value Added Tax Act, 1997
- The Stamp Duty Act, 1972
- The Excise Tariff Ordinance (Cap. 332)
- The Road and Fuel Toll Act, 1985
- The Customs and Excise Management act, 1977, etc.
- The Income Tax Act 2004.

The major functions of the authority are to:

- assess, collect and account for all Central Government Revenue.
- administer efficiently and effectively all the revenue laws of the central government
- advise the government on all matters related to fiscal policy
- promote voluntary tax compliance
- Improve the quality of services provided to tax payers
- counteract fraud and other forms of tax and fiscal evasion
- produce trade statistics and publications.

Tax Structure in Tanzania

The tax structure in Tanzania is basically made up of direct and indirect taxes. The direct taxes are those on income and property, while the indirect taxes are on consumption and international trade.

Tax Incentives

It is the policy of the government to encourage investments in all sectors of the economy. A number of tax incentives are granted to both local and foreign investors as a way of encouraging investments in Tanzania. Provided the investor satisfies certain conditions. The incentives are given only to the holders a valid certificate of incentives i.e. duty and VAT exemption on capital goods, plants, machinery, building/construction materials, etc., and deemed capital goods – one non-utility vehicles e.g. 4WD for administration/management and utility vehicles e.g. lorry, tipper, pick-ups, cranes, bulldozers, loaders, generators 15KVA and above, etc.

Import Duty Drawbacks

Import duty charged on imported inputs used for producing goods for export and goods sold to foreign institutions operating in Tanzania is refunded under the duty drawback scheme.

Under the income tax amendment, all holders of the Tanzania Investment Centre certificates are allowed to write off 50% of the capital cost incurred in respect of assets acquired during the first year of use in the business, and the other years;

CLASS I: Earth moving equipment and other heavy machinery 37.5%
CLASS II: Self propelling machinery and aircrafts 25%
CLASS III: Plant and other non-self propelling machinery and ship 12.5%

- farm works20%
- Hotel and industrial buildings 5%
- Ship (first year) 40%
- Mining capital expenditure (first year) 100%
- Investment deduction (first year) 20%

Other deductible capital expenditure, loss carried forward, bad debts, pre operation expenses, stamp duty and legal costs, specific research (capital or revenue expenditure), advertising, contributions to NSSF or other retirement benefit scheme established in the United Republic of Tanzania, interest paid on money borrowed for the business, skills and development levy, transport of employees between home and work places, etc.

Under VAT;

The importers of capital goods for investment in priority sectors do not pay VAT (i.e. VAT deferment). This is open to all VAT registered investors. This means VAT registration is the main pre-condition for any investment to enjoy the deferment. And for a VAT registered trader will be able to deduct or claim input tax.

APPENDIX 4:

QUESTIONNAIRE FOR TANZANIA MAINLAND

Confidential

National Bureau of Statistics
P.O.Box 796
DAR ES SALAAM
Tel: (255)-22-2122722-3
(255)-22-2111634
Fax: (255)-22-2112352/2135601
Website: www.nbs.go.tz

Bank of Tanzania
P. O. BOX 2939
DAR ES SALAAM
Tel: (255)-22- 2110946-52,
(255)-22-2110977-79
Fax: (255-22) 22112573/2113325
Website: www.bot-tz.org

Tanzania Investment Centre
P. O. Box 938
DAR ES SALAAM
Tel: (255)-22-2116328-32
(255)-22-234200
Fax: (255-22) 2118253
Website: www.tic.co.tz

QUESTIONNAIRE FOR THE SURVEY OF COMPANIES WITH LOCAL AND FOREIGN ASSETS AND LIABILITIES

FORM TYPE: BOP/1/2002
COMPANY REFERENCE NUMBER:……………………….. ***(for internal use only)***
DUE DATE FOR RETURN: ____/_____/________

PART A: GENERAL INFORMATION
ALL RESPONDENTS MUST COMPLETE THIS PART.

Date completed:

Company name:		
Name and position of person completing this return:		
Company Address: P. O. Box		
District	Area	Street/Plot
Tel:	Fax:	E-mail: Website:
Please give details of an alternative person whom we may contact in case we have any questions.		
Date of Establishment	Date of Commencing Operations	
PLEASE READ THIS FIRST		

Purpose of survey
This form collects information on assets and liabilities and perceptions of your enterprise (or group) in Tanzania. This information will be used by the Bank of Tanzania (BOT), Tanzania Investment Centre (TIC), National Bureau of Statistics (NBS) and the Government in balance of payments compilation, investment promotion and national policy formulation.

Focus

You are required to complete this form from the point of view of your transactions as a resident of Tanzania with other Tanzanian residents, or with non-residents (regardless of your or their nationality, or currency of transaction). **A resident** individual, enterprise (whether incorporated or a branch), or other organisation has its centre of economic activity in Tanzania for at least 1 year (or with the intention of staying at least 1 year). All other entities are **non-resident**.

Collection Authority

Completion of this form is compulsory under section 6(b) of the **Tanzania Investment Act No. 26 of 1997,** part II of **the Statistics Act 2002** of 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.

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 BOT, TIC or NBS. Government officials failing to comply with confidentiality clause face severe penalties including summary dismissal. This is in accordance with the acts establishing BOT, TIC, and NBS.

Estimates

Where possible, please use figures from your accounts. Unaudited data are perfectly acceptable for this purpose. In cases where data is not readily available from your accounts, please provide careful estimates. We would rather have your best estimate than nothing!

Inapplicable questions

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.

Due Date

Please complete this Questionnaire and return the original to BOT, TIC or NBS. Please keep the 'Respondent Copy' of the questionnaire for your own records.

Help Available

By its nature, this form must contain technical terms. If you have problems in completing this form, please refer to notes in the questions or at the end. Alternatively, please contact BOT, NBS or TIC through the details given below:

M. Masuka
S. Maganda
National Bureau of Statistics
Tel: (255)-22-2122722-3
(255)-22-2111634
Fax: (255)-22-2112352/2135601

F. Rutabanzibwa
D.Kileng'a
Bank of Tanzania
Tel: (255)-22- 2110946-52,
(255)-22-2110977-79
Fax: (255)-22 22112573/2113325

Phina Lyimo
S. Kuwite
Tanzania Investment Centre
Tel: (255)-22-2116328-32
(255)-22-234200
Fax:(255-22) 118253

1. INDUSTRIAL CLASSIFICATION

Please tick the main area(s) of economic activity of your enterprise and its subsidiaries in Tanzania based on gross receipts. Wherever possible, companies are requested to complete and submit a separate questionnaire for each individual company within a group.

Industrial Classification	Tick activities relevant for your company
1. Agriculture, hunting, forestry and fishing	
1a. Agriculture (Crops)	
1b. Agriculture (Livestock)	
1c. Hunting and forestry	
1d. 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. Utilities	
4a. Electricity	
4b. Gas	
4c. Water	
5. Construction	
6. Wholesale & retail trade, catering & accommodation services	
6a. Accommodation, tourism and Catering	
6b. Wholesale and retail trade	
7. Transport, storage & communication	
7a. Transport and storage	
7b. Communication	
8. Financing, insurance, real estate, & business services	
8a. Financing, insurance	
8b. Real estate	
8c. Other Business Services	
9. Community, social and personal services	
9a. Education	
9b. Health	
9c. Media	
9d. Other Community, social and personal services	
10. Activities not adequately defined (specify)	

2 (a) SUBSIDIARIES

Please list any subsidiaries (or sub-subsidiaries) your enterprise has in Tanzania.

2(b). If possible, please supply data for each company in your group individually (i.e. Unconsolidated)

EITHER: I am supplying unconsolidated data for individual companies within the group	
OR: I am supplying consolidated data for the whole group of companies listed in Question 2 (a)	

3. BRIEFLY DESCRIBE YOUR ENTERPRISE'S MAIN ACTIVITY AND PRODUCTS.

FILTERING FOR RELEVANT QUESTIONS TO YOUR ENTERPRISE.

The chances are that not all questions on this form will be relevant to you. To help you decide which parts you need to fill-in, please answer the following filtering questions. Please note that **ALL RESPONDENTS MUST COMPLETE PART C.**

	Filtering Question	Yes	No
1	Do **resident and Non-Resident** enterprise or individuals hold shares (equity) in your enterprise? **If Yes, Please complete PART B questions 4 through 7 as relevant.**		
3	Does your enterprise borrow from **Resident and/or Non-Resident** enterprise or individual? **If Yes, please complete PART B question 8.** Please complete **Annex Tables** with respect to any Arrears ONLY if applicable.		
4	Is your Enterprise involved in any international transaction in services and income with **Non-Resident** (e.g. through wage, salaries). **If Yes, please complete PART B question 10.**		

PART B: INVESTMENT IN THIS ENTERPRISE DURING 2000 AND 2001

FOR PART B, PLEASE REPORT ALL VALUES IN TZS OR USD, AND IN UNITS

Please TICK one currency you will use in completing this part, and refer to the attached table of exchange rates to assist with your calculations.

TZS ☐ USD ☐

E.g. please report TEN MILLION IN UNITS, AS 10,000,000 rather than as 10, or 10m.

4. STOCK OF EQUITY IN YOUR COMPANY

For each group below, please list ownership stake in terms of book value (shareholder funds) of shares or voting rights, grouped by the country of residence/multilateral organisation. (Data on authorized and issued shares at historical cost plus share premium reserves, retained earnings, and any other reserves should be readily available from company financial statements):

4a. Resident and Non-resident investors each owning 10% or more of the total equity in your company

Country of residence/ Multilateral Organisation	Ownership stake (shareholding)	
	As at 31 Dec 2000	*As at 31 Dec 2001*

	Book Value	% of total shareholding	Book Value	% of total shareholding
1.				
2.				
3.				
4.				
5.				
Tanzania				
Total		100%		100%

4(b) Resident and Non-resident investors each owning less than 10% of the total equity in your company

Country of residence/ Multilateral Organisation	*Ownership stake (shareholding)*			
	As at 31 Dec 2000		*As at 31 Dec 2001*	
	Book Value	***% of total shareholding***	***Book Value***	***% of total shareholding***
1.				
2.				
3.				
4.				
5.				
Tanzania				
Total		100%		100%

5. ESTIMATED MARKET VALUE OF YOUR COMPANY

If you were to sell your company on the market for commercial considerations only, how much would you estimate its value to have been at 31 December 2000, and at 31 December 2001?

(There are several methods for approximation. If you have an auditor, you can base it on your auditor's estimate. If you do not have an auditor, ask your accountant or financial manager, or use a director's estimate. You may base it on a commercially motivated sale between company directors as close as possible to the reference period. Alternatively, you could compare it to a trade for a similar sized company in a similar region or line of business.)

	As at 31 Dec 2000	*As at 31 Dec 2001*
Estimated Market Value		

6 (a). PURCHASE AND/OR SALES OF YOUR COMPANY'S SHARES BY RESIDENTS AND NON-RESIDENTS WITH EQUITY HOLDINGS OF 10 % OR MORE DURING 2000 and 2001

Country of residence/ Multilateral Organisation	*Transactions in shares by non-residents in your company*			
	During 1 Jan to 31 Dec 2000		*During 1 Jan to 31 Dec 2001*	
	Purchases	***Sales***	***Purchases***	***Sales***
1.				
2.				
3.				
4.				
5.				
Tanzania				

6 (b). PURCHASE AND/OR SALES OF YOUR COMPANY'S SHARES BY RESIDENTS AND NON-RESIDENTS WITH EQUITY HOLDINGS OF LESS THAN 10% DURING 2000 AND 2001

Country of residence/ Multilateral Organisation	*Transactions in shares by non-residents in your company*			
	During 1 Jan to 31 Dec 2000		*During 1 Jan to 31 Dec 2001*	
	Purchases	*Sales*	*Purchases*	*Sales*
1.				
2.				
3.				
4.				
5.				
Tanzania				

7. INCOME ON EQUITY FOR YOUR COMPANY

For Balance of Payments compilation purposes, please estimate income on equity for your enterprises in Tanzania, by working through the following table.

		During 1 Jan – 31 Dec 2000	During 1 Jan – 31 Dec 2001
7.1.	Net Profit/loss (After taxes)		
7.2.	Dividends or profits paid to non-resident investors each with shareholdings of 10% or more		
7.3.	Dividends or profits paid to non-resident investors each with shareholding of less than 10		
7.4.	Dividends or profits paid to residents		
7.5.	Total retained earnings (= 7.1 – 7.2 – 7.3 – 7.4)		

8. YOUR BORROWING

Please complete Tables 8a through 8e if you have any active loans (local or foreign). If you have created any Arrears, please complete Annex Tables with respect ONLY to foreign Loans.

8(a) STOCK OF BORROWING EXCLUDING ARREARS

	TOTAL STOCK as at 31 Dec 2000				**TOTAL STOCK as at 31 Dec 2001**			
Long-term borrowing (original maturity greater than 12 months)								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder & Inter-Company borrowing								
Other with Unrelated companies								
Short-term borrowing *(original maturity 12 months or less)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder and Inter-Company borrowing								
Supplier credits from Related companies								
Supplier credits from Unrelated companies								
Other from unrelated								

8(b) DISBURSEMENTS DURING THE YEAR

	During 1 Jan – 31 Dec 2000				*During 1 Jan – 31 Dec 2001*			
Long-term borrowing *(original maturity greater than 12 months)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder & Inter-Company borrowing								
Other with Unrelated companies								
Short-term borrowing *(original maturity 12 months or less)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder and Inter-Company borrowing								
Supplier credits from Related companies								
Supplier credits from Unrelated companies								
Other from unrelated								

8(c) PRINCIPAL REPAYMENT DURING THE YEAR

	During 1 Jan – 31 Dec 2000				*During 1 Jan – 31 Dec 2001*			
Long-term borrowing *(original maturity greater than 12 months)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder & Inter-Company borrowing								
Other with Unrelated companies								
Short-term borrowing *(original maturity 12 months or less)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder and Inter-Company borrowing								
Supplier credits from Related companies								
Supplier credits from Unrelated companies								
Other from unrelated								

8(d) INTEREST PAYMENT DURING THE YEAR

	During 1 Jan – 31 Dec 2000				*During 1 Jan – 31 Dec 2001*			
Long-term borrowing *(original maturity greater than 12 months)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder & Inter-Company borrowing								
Other long-term Borrowing with Unrelated companies								
Short-term borrowing *(original maturity 12 months or less)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder and Inter-Company borrowing								
Supplier credits from Related companies								
Supplier credits from Unrelated companies								
Other short-term Financing								

8(e) OTHER PAYMENT DURING THE YEAR

	During 1 Jan – 31 Dec 2000				During 1 Jan – 31 Dec 2001			
Long-term borrowing *(original maturity greater than 12 months)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder & Inter-Company borrowing								
Other with Unrelated companies								
Short-term borrowing *(original maturity 12 months or less)*								
Country/Multilateral Organisation.	***1.***	***2.***	***3.***	***Tanzania***	***1.***	***2.***	***3.***	***Tanzania***
Shareholder and Inter-Company borrowing								
Supplier credits from Related companies								
Supplier credits from Unrelated companies								
Other from unrelated								

9 (a) Please approximate the proportion of equity and debt inflows that was in the form of Cash during the following periods

	1 Jan – 31 Dec 1999	***1 Jan – 31 Dec 2000***	***1 Jan – 31 Dec 2001***
Percent			

9(b) Please approximate the intended uses of your total equity and debt inflows during the following periods.

Intended Use	***Inflows during***		
	1 Jan – 31 Dec 1999	***1 Jan – 31 Dec 2000***	***1 Jan – 31 Dec 2001***
(a) Import of goods			
(b) Import of services			
(c) Locally sourced goods			
(d) Locally sourced services			
(e) Wages and salaries			
(d) Debt service principal			
(e) Debt service interest			
(f) Unallocated / reserves			
(g) Other – please specify:			

10. International transactions in services and income

Please indicate in the table below how much your enterprise (a) received for services it rendered to non-residents (amount received) and/or (b) paid for services provided by non-residents (amount paid).

Item	Amount Received		Amount Paid	
	2000	2001	2000	2001
Royalties and License Fees				
Salaries and Wages				
Consultancy and Technical Services				
Insurance claims/premiums				
Other Services (Please Specify)				

PART C: PERCEPTIONS QUESTIONS

11. Based on your perception of the present situation in Tanzania, how do the following factors affect your decision to invest?

Strong Positive Effect	Positive Effect	No Effect	Negative Effect	Strong Negative Effect
1	2	3	4	5

Factor	Rating	Factor	Rating
Economic Policies		**Political and Governance Factors**	
Monetary Policy		Domestic Political Stability	
		Regional Political Stability	
Fiscal Policy		Bureaucracy	
Inflation		Effectiveness of the Legal System	
General macroeconomic policy		Speed of Government Decision Making	
Trade Policies		Customs Procedures	
Regional Economic integration		Public sector corruption	
		Corporate corruption	
Market Expansion		Internal Security	
Trade Liberalization			
		Tax Collection Efficiency	
Financial Policies		Land law and administration	
Financial Sector Stability		Investment facilitation	
Banking Services			
Availability of local finance		**Utilities**	
Availability of foreign finance			
Interest Rates		Electricity Supply	
Exchange Rate		Electricity Tariff	
Liberalization of Capital Account		Water Supply	
Financial Sector Stability		Water Tariff	
		Availability of Telecommunication services	
Labour Factors		Telecommunication tariff	
Shortage of Skills			
Wage Levels		Infrastructure	
HIV/Aids		Inland transport	
Labour Legislation		Access to sea port	
Accessibility to New Technology		Air transportation	
Enforcement of Environmental Legislation		Port operation efficiency	
Local Supplier' Efficiency			

Please comment on the most important issues highlighted above, and continue on a separate page as necessary:

12. What is the likely Direction of your Investment in Tanzania over the next 3 years? Please tick appropriate box

Expansion	No Change	Contraction

Please explain which factors would influence such decision.

13. *Please indicate in the Table below the current number of employees in your company based on the following categorization.*

	Foreign nationals			Tanzanian nationals		
	Management	Non-Management Skilled	Other	Management	Non-Management Skilled	Other
Female						
Male						

Do you have a staff development plan with respect to:
a. Tanzanian nationals? Yes….. No…..
b. Gender balance? Yes….. No…..

c. If yes, what problems do you encounter in implementation, and how may these be addressed (please continue on a separate page if necessary)?

14. Sourcing of inputs of goods and services / raw materials

14a. Where applicable, please approximate the proportion of your inputs of goods and services / raw materials sourced from Tanzania as a share of the total?

…………………%

14b. If you source inputs of goods and services / raw materials from abroad rather than Tanzania, what factors determine your decision (tick as appropriate)?

i. Access and availability ii. Quality iii. Price iv. Other (please specify):

14c. Where applicable, what measures can be taken to encourage you to source more of your inputs of goods and services/ raw materials locally (please continue on a separate page if necessary)?

15. Product Type and Destination Market

15a. Please approximate the proportion of your total output by type:

TYPE	PERCENT
i. Final products	
ii. Intermediate products	
TOTAL	100%

15b. Please approximate the proportion of your total output by type intended for local and foreign markets

TYPE	Local (%)	Foreign (%)	TOTAL
i. Final products			100%
ii. Intermediate products			100%

Confidential

National Bureau of Statistics
P.O.Box 796
DAR ES SALAAM
Tel: (255)-22-2122722-3
(255)-22-2111634
Fax: (255)-22-2112352/2135601
Website: www.nbs.go.tz

Bank of Tanzania
P. O. BOX 2939
DAR ES SALAAM
Tel: (255)-22- 2110946-52,
(255)-22-2110977-79
Fax: (255-22) 22112573/2113325
Website: www.bot-tz.org

Tanzania Investment Centre
P. O. Box 938
DAR ES SALAAM
Tel: (255)-22-2116328-32
(255)-22-234200
Fax: (255-22) 2118253
Website: www.tic.co.tz

QUESTIONNAIRE FOR THE SURVEY OF PRIVATE SECTOR EXTERNAL DEBT

FORM TYPE: BOP/1/2002
COMPANY REFERENCE NUMBER:…………………….. ***(for internal use only)***
DUE DATE FOR RETURN: ____/_____/________
RESEARCH OFFICER:………………………………………..

Date completed:

Company name:

Name and position of person completing this return:

PLEASE READ THIS FIRST

This form collects information on external borrowings by enterprises in Tanzania Zanzibar.

In this questionnaire you are required to provide details of each individual loan that your entity has contracted with a non-resident individual or organisation. Such detailed information is vital for proper debt recording, and will assist to assess and formulate policy advice on nature, composition and type of the country external indebtedness.

Please note that the legal mandate pertaining to collection authority and confidentiality apply as for Form BOP/1/2002 and both forms should be submitted together.

If you have problems in completing this form, please refer to notes. Alternatively, please contact BOT through the details given below:

D. Killeng'a
Bank of Tanzania
P.O.Box 2939
Tel: (255)-22- 2110945-52 Fax: (255)-22 2231411

THANK YOU IN ADVANCE FOR YOUR COOPERATION.

Please SKIP question 1A, for ALL long-term loans that are already registered with the Bank of Tanzania.

1A: Long Term Loans (Maturity greater than 12 months)

Please complete this question OR Supply a copy of loan agreement ONLY for New Borrowings or Amendments or for Borrowings which have NOT YET been reported to Bank of Tanzania.

In case you have contracted more than 3 loans, please give similar information on a separate sheet.

Item No.	Loan Particulars	Explanations	Example	Loan No. 1	Loan No. 2	Loan No. 3
1	Loan Registration Number	BOT Reg. No	xxxxxxxx			
2	Creditor Institution/Group (Financing Source)	Commercial Banks, Individual, Parent Company, Inter-company (Others Specify)	Commercial Bank			
3	Loan Title/ Purpose of borrowing	Project Financing, Working Capital, Import of raw material/machinery, Others (Please specify.)	Working Capital			
4	Creditor Particulars: (a) Name (b) Country	 Specify Creditor name Specify creditor country	 Coy Ltd USA			
5	Original Loan Amount	Specify amount in units	100.00			
6	Loan currency	Indicate original Loan currency	USD			
7	Agreement date	DD/MM/YYYY	01/01/2000			
8	Principal repayment (a) First repayment date (b) Final repayment date (c) Repayments method (d) Number of payments per year (frequency) and dates	 DD/MM/YYYY DD/MM/YYYY Equal Principal repayments, Lump sum, annuity, Others (Please specify) Indicate frequency and dates of payments	 30/06/2002 31/12/2004 Equal Principal Repayments Semi annually-June & Dec			
9	Interest payment (a) Terms of interest (b) Number of payments per year (c) Days in interest year	 Fixed, (state rate), Variable (state rate & margin), zero interest Indicate frequency and dates of payment 360 or 365	 5%, LIBOR +1% Monthly-January, Feb …Dec 360			
10	Other fees Service Fees	 State rate (commitment fees, Legal Fees etc)	 Commitment fee 1%			

1B: Actual Transactions on Long Term Loans (Maturity greater than 12 months)

BOT Reg. No	Original Loan Amount	Currency	Amount Cancelled (if any)	Enhancement (if any)	Transactions					Position as of Todate		
					Date of Transaction	Disbursements	Repayments			Principal Arrears	Interest Arrears	Disbursed Outstanding Debt (DOD)
							Principal	Interest	Other			

2A: Short Term Loans (Maturity of 12 months or less)

Please provide details of short-term loans OR Supply a copy of loan agreement for loans contracted to non-resident individuals or organisation during 2002. DO NOT include domestic borrowings. In case you have contracted more than 3 short-term loans, give similar information on a separate sheet.

No	Particulars	Explanations	Example	Loan No.1	Loan No.2	Loan No.3
1	Creditor Name	State name of creditor	Bank/ Co			
2	Creditor Country	State creditor country	USA			
3	Type of credit/loan	Letters of credit, Bill of exchange, Pre-export Finance, Suppliers Credits (any other specify)	S. Credit			
4	Date of Agreement	DD/MM/YYYY	May 2002			
5	Total Loan Amount	Specify amount in units	600,000			
6	Loan Currency	Indicate the loan currency	USD			
7	Duration of Loan in months	Indicate duration of the loan in months	12			
8	Maturity Date	DD/MM/YYYY	July 2002			
9	Purpose of Borrowing	Import of Machinery/raw materials, Working Capital, (Others specify)	Working capital			
10	Projected. Repayment Dates	DD/MM/YYYY	Jan /June			
11	Estimated Interest payment per month	State amounts	10,000			
12	Estimated Principal					
	Repayments per month	State amounts	50,000			

2B: Actual Transactions on Short Term Loans (Maturity of 12 months or less)

BOT Reg. No	Original Loan Amount	Currency	Amount Cancelled (if any)	Enhancement (if any)	Transactions					Position as of Todate		
					Date of Transaction	Disbursements	Repayments			Principal Arrears	Interest Arrears	Disbursed Outstanding Debt (DOD)
							Principal	Interest	Other			