
ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
BOP	Balance of Payment
BoT	Bank of Tanzania
BPM5	Balance of Payment Manual Version 5
EAC	East African Community
EBA	Everything But Arms
EPZ	Export Processing Zone
EU	European Union
FAL	Foreign Assets and Liabilities
FDI	Foreign Direct Investment
FPC	Foreign Private Capital
GoZ	Government of Zanzibar
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ICSID	International Centre for Settlement of International Disputes
ICT	Information and Communication Technology
IFC	International Finance Corporation
IIP	International Investment Position
ILO	International Labour Organization
IMF	International Monetary Fund
ISIC	International Standard of Industrial Classification
MDG	Millennium Development Goals
MEFMI	Macroeconomic and Financial Management Institute
MIGA	Multilateral Investment Guarantee Agency
MW	Megawatts
NBC	National Bank of Commerce
OCGS	Office of the Chief Government Statistician
OECD	Organization of Economic Cooperation and Development
PBZ	People's Bank of Zanzibar
PCFS	Private Capital Flows Survey
PPP	Public-Private sector Partnership
PSED	Private Sector External Debt
SADC	Southern African Development Community
SME	Small and Medium Enterprises
TPB	Tanzania Postal Bank
TRA	Tanzania Revenue Authority
TTCL	Tanzania Telecommunications Company Limited
TVZ	Television Zanzibar
TZS	Tanzanian Shillings
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United National Industrial Development Organization
URT	United Republic of Tanzania

USA	United States of America
USD	United States Dollar
WAIPA	World Association of Investment Promotion Agencies
WTO	World Trade Organization
ZAFREZA	Zanzibar Free Economic Zones Authority
ZFPA	Zanzibar Free Port Authority
ZIP	Zanzibar Investment Policy
ZIPA	Zanzibar Investment Promotion Authority
ZPRP	Zanzibar Poverty Reduction Plan
ZRB	Zanzibar Revenue Board
ZTC	Zanzibar Tourism Commission

PREFACE

Foreign Private Capital (FPC) is among the pillars of long-term economic development of Zanzibar; hence attraction of FPC remains the focus of the country's investment policy. In this regards, Zanzibar Investment Promotion Authority (ZIPA) is increasingly being obliged to provide information on the status and performance of the approved foreign investments. The Zanzibar Investment Report 2006 (ZIR 06) is the outcome of collaborative efforts involving ZIPA, Bank of Tanzania and Office of Chief Government Statistician.

ZIR06 is a second in series of reports on foreign private investments in Zanzibar covering period of 2002 to 2005. It contains findings, policy implications and way forward. The main objectives of the report are inter-alia to have updated FPC data base and monitor all types of foreign private investments. The report avails vital inputs for balance of payments, international investment position, investment promotion and facilitation, and macroeconomic policy formulation.

This report, unlike the previous one, has encompassed longer period of 4 years (2002-2005) instead of two years (2000-2001). Furthermore, the analysis has incorporated corporate Social responsibility issues. Fundamentally, the report has built up comprehensive Zanzibar's FPC database. ZIR 06 will be usefull to various stakeholders in both private and public sector, specifically policy makers, policy analysts, development partners, academia and the general public .



Executive Director

ZANZIBAR INVESTMENT PROMOTION AUTHORITY

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EXECUTIVE SUMMARY

The Foreign Private Capital (FPC) Survey 2006 is the second in a series, the survey updates data collected from the first survey conducted in 2004. It was conducted between March 2006 and December 2006, collecting data on stocks and flows of FPC for the years 2002, 2003, 2004 and 2005. It has been a joint survey involving ZIPA, OCGS and BOT.

In practice the objective of the 2006 survey, inter alia was geared towards consolidating and updating the Zanzibar database for Foreign Private Capital from the previous survey in line with meeting international statistical standards. Specific objectives included updating information on foreign private capital inflows, gather investors perceptions with regard to government reform efforts and to ascertain socioeconomic impact of foreign investments to domestic economy. Finally, to have policy recommendations to stakeholders in investments; and having credible investment information with view of promoting, attracting and sustain foreign capital investments.

The survey methodology observed international best practices on compilation of investors' register, questionnaire design, enumerators' manual, questionnaire administration, data editing, PCF software and data processing, data uprating and time series analysis. Questionnaires were distributed to a population of 158 entities. A total of 142 questionnaires were collected marking an overall response rate of 89.9 percent.

Major Quantitative Findings:

The flow of Foreign Private Capital (FPC) into Zanzibar for the period 2002 to 2005 increased, on average 38.0 percent; largely driven by Foreign Direct Investment (FDI).

Foreign Private Capital flows surged by 76.7 percent in 2003 to USD 45.6 million from USD 25.8 million registered in 2002; thereafter marked marginal declined of 6.0 percent to USD 42.9 million in 2004. FPC increased by 32.6 percent to USD 56.9 million in 2005. Bulk of FPC flows was in form of FDI, on average accounted for 88.1 percent of total FPC. The trend reveals that the Zanzibar has been attracting resilient and stable foreign private investments since 2002. For Zanzibar to remain attractive to FDI, the government is challenged to strengthen and sustain macroeconomic stability and further improve infrastructure.

Inflows of FDI were largely financed by direct equity investments and inter-company long term loans.

Direct equity and inter-company long term loans accounted for 88.8 percent of total FDI inflows over the period under review.

Other major source of finance of FPC is the long-term and short term loans from unrelated companies borrowed from abroad. This imply that the local commercial banks are not source to finance Foreign Private Investments or may not be offering conducive debt terms compared to external sources.

However over dependence on external sources of finance; if not well managed may culminate into financial crisis leading to BOP problems associated with high foreign interest payments; external liabilities overshoot; and high out flows in terms of dividend foreign remittances.

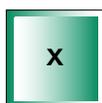
Wholesale & retail trade, catering and accommodation services sector led by hotel investments has been favorite sector of FDI and the overall FPC.

FDI were largely concentrated in the services sub- sector led by hotel investments within Wholesale & retail trade, catering and accommodation sector. On average the said sector accounted for more than 77.6 percent of total FDI stock. Agricultural sector, the mainstay of the economy performed poorly, attracting a mere 0.4 percent of total FDI stock. This was mainly due to limited domestic market, difficulties in accessing foreign markets, lack of incentives to invest in agriculture, unclear policy guidance in agricultural investment and other factors such as outdated Land Tenure Act which limits private land ownership.

The Government is challenged to put in place special incentives to attract FDI into fishing industry within agriculture sector. With regard to agro-processing industries, emphasis is to focus review of cloves production, marketing systems and value addition processes- encourage spices and seaweed processing industries.

Despite measures to promote manufacturing sector through EPZ, the sector attracted 3.6 percent of total FDI stock during the period under review.

Major factors for low FDI stock and flows into manufacturing are lack of well established industrial investment infrastructure, low industrial skills, administrative constraints including legal and regulatory framework and weak law enforcement. The Government is advised to put in place deliberate measures to promote and attract investment in manufacturing sector.



The bulk of FDI inflows concentrated in North and Urban West Regions in Unguja, the respective regions have relatively better investments attractions.

The Government is challenged to put in place the basic and necessary socioeconomic infrastructures to attract investors in disadvantaged regions.

Major sources of foreign investment originated from OECD countries -specifically Italy, UK and Spain.

On average the three countries accounted for 56.4 percent of the total FDI. Dominance of the trio call for diversifying markets to mitigate unforeseen political and adverse economic risks which may spill over and affect Zanzibar investments. The government, through ZIPA, is challenged to have promotion strategies for new sources; preferably Asian markets (China, Korea, India, Japan and Malaysia), Russia, USA and the Latin America.

FDI performance in terms of profitability and rate of return is relatively poor.

The survey revealed that, for period of 4 years; with the exception of year 2004 the FDIs recorded losses and had negative returns. The results are contrary to reality; FDI grew on average of 37.9 percent. The tourism sub-sector the main driver of FDI has been growing in terms of number of visitors and quality of visitors- high quality tourism; investments in hotels increased on average by 34.6 percent over the period under review.

The Wholesale & retail trade, catering & accommodation services is the leading sector in attracting FDI. However, over 90.0 percent of loss making FDIs originate from this sector.

Wholesale & retail trade, catering & accommodation services sector; dominated by tourist hotels sub sector; on average account for more than 75.0 percent of FDI. The sector reported persistent and fluctuating losses to the tune of USD 10.0 million in 2002, USD 6.2 million in 2003, USD 1.1 million in 2004 and increased to USD 7.4 million in 2005. However the sector grew on average of 34.6 percent during 4 years under review;. and investors' perceptions show that more than 50.0 percent of respondents expect to expand their businesses; this suggests that the sector is lucrative and still attracts more investors.

The reported losses may be associated with under reporting business reality by some of the investors.

Recommended policy and operational interventions

- The tax authorities and ZIPA are advised to ascertain investment costs and actual earnings from operations; review incentives packages with a view of having a win- win situation.

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- Tax authorities and ZIPA are advised to strengthen and improve tax tracking system in business operations to enhance tax compliance.

In comparison to the level of employment, contribution of FDI to job creation is relatively low.

FDI created 6,620 employment opportunities out of 589,276 labor force; accounting for a mere 1.1 percent; this is relatively low considering the role of FDI in the economy. The survey further revealed that; the Wholesale & retail trade, catering and accommodation services sector dominated the workforce. Employment in hotels sub sector accounted for an average of 74.0 percent of all employees in the sector. It was further revealed that on average, Zanzibaris accounted for 70.0 percent of total employees and Tanzania Mainlanders represented 23.4 percent while foreigners accounted for 6.1 percent of total employees.

In an endeavor to create more jobs to locals it is advised that; the government and investors collaborate to ensure that local people are equipped with requisite expertise to meet investors needs.

Main Findings on Investors' Perceptions

Accessing funds from local sources was perceived by investors to be difficult.

The possible constraints of accessing local funds include, high interest rates, lack of flexible mortgage laws, absence of credit agencies and stringent collateral requirements by banks. The governments have initiated the Second Generation of Financial Sector Reforms. The reforms are geared to improve monetary policy framework; the legal and regulatory infrastructure to improve access to financial services; and promote efficient and harmonious legal and judicial infrastructure for collateralization of land and settlement of land disputes.

Macroeconomic factors were generally well perceived by investors but proposed more effort in curbing high inflation and strengthen the performance of Tax Authorities.

Low inflation was perceived to be fundamental for business planning purposes and business expansion. Inflation is both monetary phenomenon and have supply oriented factors. In an endeavor to address inflation the BOT as monetary authority is challenged to ensure that there is effective monetary policy geared to have low inflation and stable inflation. On the other hand, GoZ is challenged to address supply bottlenecks in food supply; which is main driver of inflation.

The investors expressed raised concern on high taxation rates and that the efficiency of tax authorities is to be enhanced. Furthermore investors were of the opinion that the Government should encourage public – private partnerships when preparing and discussing annual budgets.

Corruption, bureaucracy, multi licensing factors was not favorable to investment environment.

The study revealed that, bureaucracy, corruption multi licensing increase operational costs and act as disincentive to investments. This may discourage investors to invest in Zanzibar. GoZ is challenged to address the raised investment hurdles.

Investors complained on poor municipal services; high costs and quality of availability of electricity and water.

Availability, prompt attention, adequate and reliable utilities- such as water, electricity, waste management are vital for investments attractions.

Investors were concerned with the quality of local labor force that most employees lack skills expected by investors in their operations.

The survey revealed that generally investors were positive with most factors within the ambit of labor factors. However, concerns on quality of labour need attention; that most employees lack adequate training and skills expected by investors. The Government of Zanzibar and private sector need to take initiatives to ensure the quality of local labor force meets the required skills.

Based on investors perception weak economic linkages exist between FDI and agricultural sector as most of the domestic agricultural produce is not used by hotels and restaurants with the exception of fish.

- To enhance linkage between FDI and other domestic sectors is vital for multiplier effects hence; GOZ is advised that, local producers especially in agriculture sector are challenged to promote modern farming to meet international standards of agricultural produce, mainly quantity, quality and packaging to sell to tourist hotels.

Chapter 1

Introduction

1.1 Background

Zanzibar economic growth has been led by Zanzibar Development Vision 2020 which has main objective of eradicating absolute poverty in the society by the year 2020. Poverty eradication efforts will be reflected by enhanced ability of the people to get necessities - food, better housing, adequate clothing, improving democracy and social security. Based on this backdrop, formulations of economic policies have been geared to address the objectives of the Vision 2020. These included the Poverty Reduction Plan (2002 – 2005) and the Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP) 2006-2010 and the Zanzibar Growth Strategy (2006 – 2015). The above plan and strategies are medium term implementation measures in tandem with investment policy geared to emphasize promotion of investments- both domestic and foreign. Investments are vital pre-requisites to attain remarkable economic growth rate that will facilitate profound impact on poverty reduction efforts.

1.2 Macroeconomic Developments

During the period between 2002 and 2005, Zanzibar has strived to implement and sustain macroeconomic reforms to support economic growth. Consequently, the country has maintained favorable economic performance, registering a growth rate of 8.6 percent in 2002, growth slowed down to 5.9 percent achieved in 2003. The relatively lower growth rate down to 5.5 percent in 2005 was on account of unfavorable weather conditions leading to drought, which resulted into lower agricultural output coupled with rising fuel prices and declining world prices of traditional exports. (Table 1.1).

The performance of external sector showed that the current account has been negative mainly due to hike in imports bill responding to rising world oil prices. Current account deficit as ratio of GDP has generally been marginally declining from as high as 9.8 percent in 2002 to 8.4 percent in 2003 stood at 8.7 percent in 2004 but slumped to 3.4 percent in 2005 largely to increase in donor grants. (Table 1.1).

Table 1.1 Macroeconomic Indicators

Indicator/Year	2002	2003	2004	2005
GDP Nominal Price (TZS 000' million)	256.0	286.6	344.3	395.6
GDP Constant 2001 Price (TZS 000' million)	241.4	255.7	272.3	287.4
GDP Annual Growth Rate (Percent)	8.6	5.9	6.5	5.5
GDP per Capita (in USD)	276.0	273.0	303.0	327.0
Inflation Trend	5.2	9.0	8.1	9.7
Capital Formation (TZS 000' million)	35.3	42.5	56.6	70.8
Capital Formation (% of GDP)	13.8	14.8	16.4	17.5
Exports (TZS 000' million)	16.3	26.4	30.1	28.0
Imports (TZS 000' million)	66.0	84.8	87.0	88.0
Overall Trade Balance (TZS 000' million)	-49.7	-58.4	-56.9	-60.0
Overall Trade Balance (% of GDP)	-19.4	-20.4	-16.5	-15.2
Current Account Balance (% of GDP)	-9.8	-8.4	-8.7	-3.4
Total Debt/GDP (%)	37.2	36.1	50.3	44.3
Budget Deficit/GDP (%)	-2.2	-2.5	-2.3	-2.9

Source: Ministry of Finance and Economic Affairs, 2006

The export performance indicates that the economy has consistently been relying on export of cloves and earnings from tourism related activities. The share of export of cloves in total exports has been declining; due to rise in new export commodities' such as seaweed and spices. However, the potential of the latter non-traditional exports has yet to be exploited in terms of increased production and processing (value addition).

Other economic indicators were satisfactory; per capita income recorded an improvement from USD 276 in 2002 to USD 327 in 2005 recording an increase of 18.5 percent mainly on account of increase in economic activities. Capital formation derived from public and private investment increased from 13.8 percent of total GDP in 2002 to 17.5 percent in 2005. Public debt to GDP has remained moderate at average of 36.3 percent during the period of 2001 – 2003 increased to 50.3 percent in 2004 stood at 44.3 percent in 2005 mainly due to increase in domestic borrowing. (Table 1.1).

1.3 Investments in Perspective

The investments in Zanzibar are guided by the Zanzibar Investment Policy (ZIP 2004) which is in line with the Zanzibar Vision 2020. The implementation of medium term efforts as enshrined in the Zanzibar Strategy for Growth and Reduction of Poverty support the said policy by putting emphasis on growth, sectoral linkages, collaboration and synergies aligned with Millennium Development Goals (MDGs).

The Zanzibar Growth Strategy (2006- 2015) targets high growth rate in the context of pro-poor; and emphasize investments in lead sectors: trade and tourism supported by agriculture and industry sectors.

The ZIP identified priority sectors for investments to include tourism, financial and business services (Offshore and Freeport activities), agriculture (crops, livestock, fishing and marine products), manufacturing, trade and transportation. ZIP further states that “Zanzibar wants to shift more forcefully into high value sectors including financial services, business services, information technology and tourism.” Finally it emphasizes Foreign Direct Investments that can help Zanzibar establish attributes needed to compete globally in high value sectors. To achieve the objectives of ZIP it is recommended that Zanzibar should draw promotional strategies that are in line with best practices (Box 1.1).

Coordination of investments in the country under one stop center is paramount. In recognizing this, the Government merged three investment agencies and established Zanzibar Investment Promotion Authority (ZIPA).

The main objective of ZIPA is to be a focal point for the promotion, coordination and monitoring of domestic and foreign investments. It is also a custodian to oversee the implementation of Investment Policy. Investment Act empowers ZIPA to approve investment projects (Box 1.2)

Box 1.1 Zanzibar Investment Objectives

- Promotion of domestic production of goods and services for export.
- Attraction and optimization of FDIs to complement local private efforts.
- Mobilize investments that are economically and socially beneficial as well as environmentally sound in order to protect Zanzibar's natural heritage.
- Encourage and facilitate the adoption of new technologies that have direct bearing on productivity, quality and increased competitiveness.
- Develop transparent legal framework which facilitate and gives guarantee of protection to all investors.
- Deregulate and speed up investment approval process.
- Improve linkages among various economic sectors.
- Empower women by encouraging investments in areas of comparative advantage.
- Encourage investment in Research and Development.
- Promote training and skills development for empowerment opportunities.

Source: Zanzibar Investment Policy, 2004

According to World Investment Report 2006 (WIR 2006) **global** foreign direct investments (FDI) inflows rose substantially in 2005, the second rise in two consecutive years. The attained growth was spurred by cross-border mergers and acquisitions (M& As), which reflected strategic choices by transnational corporations (TNCs); following increased corporate profits and the recovery of stock markets. Global FDI inflows amounted to USD 916.0 billion, which were higher by 29 percent in 2004. Flows in 2005 to developed countries rose by 37 percent to USD 542.0 billion; while to developing countries increased by 22 percent to a record USD 334.0 billion. Among developing countries, the highest growth rate in inward FDI was seen in West Asia (85%), followed by Africa (78%) both

sectors, while services remained the dominant sector, and primary sector gained importance in 2005. Cross border M & As involving companies in mining and oil accounted for the bulk of the primary sector FDI. By contrast the share of manufacturing sector in the total fell in 2005.

Africa received record FDI inflows to the tune of USD 31.0 billion but was mostly concentrated in a few countries and industries. This was attributed to a sharp rise in corporate profitability and high commodity prices over the past 2 years which helped to produce growth rate of 78 percent in FDI inflows to the region. FDI continued to be a major source of investment for Africa as its share in gross fixed capital formation increased to 19 percent

Box 1.2 Main Responsibilities of ZIPA

- Undertaking promotional activities, which include dissemination of information to investors on investment opportunities in Zanzibar.
- Establishing and administering simplified investment procedures.
- Facilitating investment through provision of assistance in the sourcing of finance and in forming joint ventures.
- Assisting acquiring land for investment purposes.
- Facilitating speedy acquisition of all due incentives, necessary authorization and decisions required by investors.
- Playing advisory role to the government in all investment matters.
- Promoting entrepreneurial function in the local private sector through training and facilitating contracts.
- Promoting close working relationship with international investment organizations such as WAIPA, EAFAIPA, and AFRIIPA for investment guidance and facilitation.
- Seeking advice from experienced international organizations to assist in negotiations.
- Establishing links with experienced investors.

Source: Zanzibar Investment Policy, 2004

regions experienced record inflows of USD 34 billion and USD 31.0 billion respectively.

Developing countries, as emerging sources of FDI, strengthened their global position in 2005 investing USD 117.0 billion. A number of TNCs from developing economies are emerging as major players on the world stage. Higher prices for many commodities have stimulated FDI in developing countries rich in natural resources; a trend likely to continue. The most notable growth in developing country FDI outflows was from China and West Asia. FDI grew in all

in 2005. South Africa was the largest FDI recipient in the region in 2005, accounted for 21 percent of region's total and experienced a sharp jump in inflows to USD 6.4 billion from a mere USD 0.8 billion in 2004. This was mainly due to the acquisition of Amalgamated Bank of South Africa by Barclays Bank of UK for USD 5.5 billion. Africa's top ten recipients accounted for 86 percent of the region's FDI; this included South Africa, Egypt, Nigeria, Morocco, Sudan, Equatorial Guinea, the Democratic Republic of Congo, Algeria, Tunisia and Chad.

At the other extreme, FDI inflows remained below USD 100.0 million in 34 African countries. Many of the low FDI recipients in the region have limited natural resources, lack the capacity to engage in significant manufacturing, and, as a result are among the least integrated into the global production system. Some countries experienced political instability or civil war in the recent past, which destroyed much of the already limited production capacity. FDI inflows were concentrated in a few industries, oil, gas and mining. Six oil producing countries accounted for 48 percent of the inflows in the region – Algeria, Chad, Egypt, Equatorial Guinea, Nigeria and Sudan.

FDI outflows from Africa in 2005 remained small and originated from few countries; out of which six countries accounted for over 80 percent of outflows – Egypt, Liberia, Libya, Morocco, Nigeria and South Africa.

1.4 Rationale of the Survey

Understanding and comprehension on matters and trends relating to Foreign Direct Investments (FDI) is imperative. This is more pressing to developing countries to attract and benefit from FDI and in building their productive capacities and international competitiveness. The emphasis to developing countries should be on integrated policy approach to investment, technological transfer and enterprise development.

Zanzibar has attempted to keep abreast with efforts of ensuring that it has position of foreign capital inflows and outflows to facilitate assessment of economic implications and determination of appropriate investment policies and other economic policies. In essence the policies pursued need to be part of a broad strategy aimed at fostering competitiveness and development. The first survey was conducted in 2004 covering investment data for 2000 and 2001. It was seen necessary to conduct another survey with a view to update investment data on continuous assessment and establish reference data base. It is envisaged in future surveys will be conducted on annual basis.

1.5 Objectives of the Survey

The main objective of the survey was consolidating Zanzibar database pertaining to Foreign Private Capital position from the previous survey and in the context of international statistical standards. The FPC data is prerequisite and vital widely for formulation of macroeconomic policies; for investment promotion and facilitation.

Specific objectives include:

- Update information on foreign private capital inflows and stocks to cover 2002 – 2005 which form a basis of financial account for Balance of Payments compilation.
- To ascertain economic linkages and assess impact of foreign investments to domestic economy.
- To gather investors perceptions with regard to government reform efforts; efficiency of policies and institutions and other investment issues.

1.6 Scope of the Survey

This survey covered the period of 2002 to 2005, focusing on magnitude of inflows and trends by source country, sectoral and regional distributions. Survey covered projects with a minimum investment capital of US\$ 150,000.

1.7 Outline of the Report

The report is organized as follows; Chapter 1 marks the introduction which entails background and macroeconomic developments. Chapter 2 discusses methodological approaches; assesses data quality, data coverage and organization of the project. Chapter 3 presents quantitative findings; focusing on magnitude, composition of both flow and stock in sectors and other indicators. Chapter 4 summarizes investor's perception for several factors. Chapter 5 discusses the main findings and policy implications. Chapter 6 presents lessons learnt and the way forward.

Chapter 2

Methodology

2.1 Introduction

This chapter describes and discusses schedule of activities performed in conducting survey on Private Capital Flows in Zanzibar. It dwells on practical issues pertaining to organization of the project; methodological considerations; survey techniques and methodology. Finally it evaluates the response rate, coverage, as well as non-survey methods that were employed in perfecting the data.

2.2 Assessment of Data Quality

2.2.1 Reference Period, Timeliness and General Data Dissemination Practices

The first survey covered a period of 2000 and 2001. This was published in Zanzibar Investment Report (ZIR 2004), which covered both flows and stock. This second survey has been conducted with a view of building the existing data base and current trend.

The survey reference period covered a period from 2002 to 2005. Respective annual flows were compiled and culminated into having respective stock data for periods in consideration. The reference period (start) was year 2002 for both data and investors' perception and year 2005 served as present position or termed 'now'. The data was released during January 2007, the thirteenth month of the reference period.

The survey report was disseminated through stakeholders' workshop; the target participants were investors, government representatives and targeted members from the public and the private sector. After dissemination, future surveys and pertaining data base

will be within the regional General Data Dissemination System (GDDS) after having data series for six years from 2000 to 2005.

2.2.2 Data coverage

The survey covered data on Foreign Private Capital, both flows and stocks as per mentioned reference period. The main data components were Foreign Direct Investments (FDI), Portfolio Investments (PI) and Other Investments (OI). FDI and Portfolio Investments were further analyzed with detail components such as paid up capital, retained earnings, revaluation reserves and share premium, and inter-company loans. Other Investments covered short term and long term unrelated loans.

Besides statistics the survey was extended to get the perceptions of investors with regard to investments operations in Zanzibar. Their positions are imperative to enlighten all stakeholders of what is happening in investments scenarios. The questionnaires were geared to focus on macro economic performance; legal, socio and political factors. Other factors included evaluation of macroeconomic policies, infrastructure and public services, financial services, governance and labour factors.

2.2.3 Adherence to international standards

The survey was conducted and used techniques which are in line with international codes and standards to facilitate comparison and consistency with other countries undertaking similar surveys. In this regard the data collected and allied information has international credibility and this was done in collaboration with MEFMI. The economic

sectors used in the questionnaire were classified according to International Standard Industrial Classification (ISIC). Investments from Private Capital Flows and stock data are presented according to the recommendations of IMF's Balance of Payments Manuals 5th Edition.

2.3 Organization of the Project

2.3.1 Institutional Setup and Coordination

The survey was conducted jointly by three institutions which are main stakeholders of statistics related to investments. The Zanzibar Investment Promotion Authority (ZIPA), is the overall overseer of investments in Zanzibar; while the Office of Chief Government Statistician (OCGS) is the central source of all statistics pertaining to Zanzibar socio-politico-economy. The Bank of Tanzania is charged with pursuing monetary policy which entails maintaining price stability and support to overall economic performance. In this regard the Bank advises the GoZ and that of United Republic of Tanzania on all economic matters. The Bank of Tanzania is also responsible with compilation of Balance of Payment statistics. With the support of the GoZ, the three institutions shared experience, knowledge and expertise.

2.3.2 Legal Mandate

The survey was undertaken in consideration with mandates enshrined in each of the respective legal instruments. The fundamental aspect besides right to access information, is secrecy with regard to disclosure of information acquired in the course of the survey. The relevant mandates are enshrined in the Zanzibar Investment Protection Act no. 11 of 2004; in the Act No. 9 of 1999 of the Office of Government Statistician; and that of the Bank of Tanzania Act, 2006.

2.3.3 Sensitization and Awareness

Dissemination workshops for the first phase report, Zanzibar Investment Report of 2004 was used as platform to inform investors on the second phase survey. Special television and radio programmes involving the heads of the three collaborating institutions were prepared when launching the second phase survey. Newspapers advertisements were also issued to publicize the survey.

2.3.4 Technical Assistance and Project Funding

The Zanzibar Survey Team received technical support from Macroeconomic and Financial Management Institute (MEFMI)-Zimbabwe which availed training on report writing and conceptualization of concepts pertaining to foreign investments. The said support was availed in tandem with constant consultations and technical systems support from staff of the Department of Trade, Finance and Investments Policies of the Bank of Tanzania.

The project was funded jointly by the Government of Zanzibar and the Bank of Tanzania. The funding catered for fieldwork expenses, report writing and dissemination. Training costs were borne by the Development Finance International (DFI) of United Kingdom, and Macroeconomic and Financial Management Institute (MEFMI) - Zimbabwe.

2.3.5 Training Workshop and External support

Two training workshops were conducted in Tanzania Mainland with a view of enhancing researcher's capability to work on details contained in the questionnaires. The first workshop specifically dealt with ensuring comprehension of technical concepts with regard to Private Capital Flows, Balance of Payment concepts and research methodologies and techniques. The second workshop

focused at ensuring that the obtained data is of high quality in line with international best practices. It covered data cleaning, editing, compilation and report writing and analysis. The workshops involved researchers from ZIPA, Office of the Chief Government Statistician, Zanzibar; The Tanzania Investment Centre (TIC); The National Bureau of Statistics (NBS) and the Bank of Tanzania staff.

2.4 Methodology

The research and survey methodologies used to undertake the study were in conformity with the international best practices.

2.4.1 Compilation of Investor Register

The investors register was updated to ensure that the survey covered existing investors to determine new, ceased and mergers.

The main sources of investors' register were Zanzibar Investment Promotion Authority (ZIPA), Zanzibar Tourism Commission (ZTC) and the Registrar of Companies. The updated register provided names of companies, physical location, postal addresses, telephones and e-mails. Other data include date of establishment, country of investor's origin and the share capital. The register facilitated easy identification of the investors during the survey.

2.4.2 Questionnaire Design

Survey questionnaire was duly designed for field work. The structure of the questionnaire was in four main parts. Part A covered general information, Part B covered Foreign Assets and Liabilities (FAL) while Part C captured information on employment and labor productivity. Part D of the questionnaire was on investors' perceptions. (**Refer Annex 3**).

2.4.3 Enumerator's Manual

The survey manual was updated to guide the researchers during the survey exercise. The manual provided explanations of technical

terminologies used in the questionnaire and highlighted operational modalities of questionnaire administration.

2.4.4 Questionnaire Administration

Most of the questionnaires were physically distributed by the researchers. The distribution was easy as the investor's register covered detailed particulars of the investment location. The close geographical proximity of Zanzibar also facilitated easy distribution of the survey questionnaires.

Experience showed that most of the questionnaires were attended to after physical visits by researchers; less than 4 percent of the respondents managed to respond by filling the questionnaire at the first visit. There were delays in responses from a number of questionnaires posted through e-mail.

There was very close consultations between researchers and supervisors; researchers were reporting to their respective supervisors on a regular basis, while supervisors made closer follow up to the reluctant investors. At the end all filled questionnaires were submitted to ZIPA for custody waiting for data entry exercise.

2.4.5 Data Editing

In an endeavor of obtaining credible database, data editing was imperative to ensure accuracy. Editing was effected immediately after submission and later counter checked by supervisors for consistency. The researchers and supervisors were equipped with editing techniques to facilitate verification of financial statements, periodic reports, memorandum of understanding and article of associations. Previously survey data were also used during editing exercise to ascertain authenticity. Audited and certified financial statements were the most used during data editing, however, some of the companies failed to submit the same timely.

2.4.6 Software and Data Processing

The Private Capital Flow (PCF) system using oracle operating system developed in-house was used. The PCF system was installed at the Bank of Tanzania, Zanzibar Branch offices and data entry was effected after completion of the data editing exercise. Data entry was done by researchers from the three institutions for three weeks. Thereafter data entry checking was done to ensure that the inputted data was correct as reflected in the questionnaires. All identified discrepancies were corrected and counter checked to ascertain authenticity. Data processing, data cleaning and data up-rating exercise were necessary to ensure consistency. The said activities were done in consultation with the Bank of Tanzania MIS staff.

2.4.7 Data Up-rating and Time Series

Data up-rating and time series techniques were used in arriving to credible and reliable information. In the first place Market Value to Book Value factors of the previous cycle (2000 and 2001) was used to up-rate the market value figures for the current survey period of 2002 to 2003. The PCF software was used to generate time series data.

2.5 Survey Response Rates

This section presents the results of survey response analyzed sector wise and according to geographical location.

Out of the 158 questionnaires distributed to companies with Foreign Assets and

Liabilities, 142 questionnaires were returned marking an overall response rate of 89.9 percent. This is slightly low compared to the response rate of 97.0 percent realized in the Survey of 2004. In absolute term, the number of questionnaires received in this Survey and the Survey of 2004 is the same (that is 142 questionnaires). Nevertheless, this suggests need for more awareness and sensitization efforts (**Table 2.1A**).

Response by sector shows that Wholesale & retail trade, catering & accommodation services registered the highest response rate of 93.3 percent and accounted for 68.3 percent of the returned questionnaires. Financing, insurance, real estate, and business services sector was the second marking response rate of 91.7 percent, followed by manufacturing and transport, storage & communication with response rate of 87.5 percent and 80.0 percent respectively. Agriculture registered the poorest response of 25.0 percent, which may be due to nascent FDI in the sector (**Table 2.1A**).

Response by geographical location revealed impressive responsiveness from South Pemba (100 percent), followed by South Unguja (93.3 percent), Urban West (89.2 percent) and North Unguja (88.9 percent). North Pemba was on the lowest side marking response rate of 50.0 percent. In absolute term, Urban West had the highest number of returned questionnaire accounting for 58.4 percent of the total collected questionnaires. South Pemba and North Pemba were the least representing 4.2 percent and 0.7 percent of total returned questionnaires respectively,

Table 2.1A: Response Rate of the Foreign Direct Investment Survey by Sector

Sectors	Distributed Questionnaires	Received questionnaires	Response rate (%)
Agriculture, hunting, forestry and fishing	4	1	25.0
Financing, insurance, real estate, and business services	24	22	91.7
Manufacturing	16	14	87.5
Transport, storage & communication	10	8	80.0
Wholesale & retail trade, catering & accommodation services	104	97	93.3
TOTAL	158	142	89.9

Source: Zanzibar Foreign Private Capital Survey, 2006

Note: All qualified companies were covered

mainly due to few FDI in the regions (**Table 2.1B**).

2.6 Limitation of the Study

The survey experienced a number of limitations during data collection process. Below is the major one:

- **Reliability and accuracy of investment data:** The survey exclusively relied

on the information from investors. This exposed the study findings to the errors of overstating and understating of data. To ensure credible and consistent analysis, survey data were compared with secondary information from other different sources, including Zanzibar Commission for Tourism and Tanzania Revenue Authority (TRA).

Table 2.1B: Response Rate of the Foreign Direct Investment Survey by Region

Regions	Distributed Questionnaires	Received Questionnaires	Response rate (%)
North Pemba	2	1	50.0
North Unguja	27	24	88.9
South Pemba	6	6	100.0
South Unguja	30	28	93.3
Urban West	93	83	89.2
TOTAL	158	142	89.9

Source: Zanzibar Foreign Private Capital Survey, 2006

Note: All qualified companies were covered

Chapter 3

Quantitative Findings

3.1 Introduction

This chapter presents the results of the survey conducted in 2006 covering the period 2002 to 2005. The structure of presentation, basic concepts and definitions are in line with IMF Balance of Payments Manual Version 5 (BPM5). The latter groups the financial account components into Foreign Direct Investment (FDI), Foreign Portfolio Investments (FPI) and Other Foreign Investments (OFI). In order to ascertain standards, consistency and allied report analysis, the questionnaires were designed to avail disaggregated information in terms of magnitude and composition of Foreign Private Capital; including source and mode of financing, investment by country; end use by sector and geographical locations.

The main components in Foreign Private Capital are:

- Foreign Direct Investment; comprised

the equity shareholdings of 10.0 percent and above, reinvested earnings attributable to FDI, long-term, short-term shareholder and inter-company debts; also the related income items (profits, dividends and interest) and suppliers credit from related sources,

- Portfolio Equity; refers to shareholdings of less than 10.0 percent of total equity and related income, and long-term and short-term debt,
- Other Investments refer to both long and short-term credit and supplier credit from unrelated companies.

3.2 Magnitude and Composition of FPC in Zanzibar

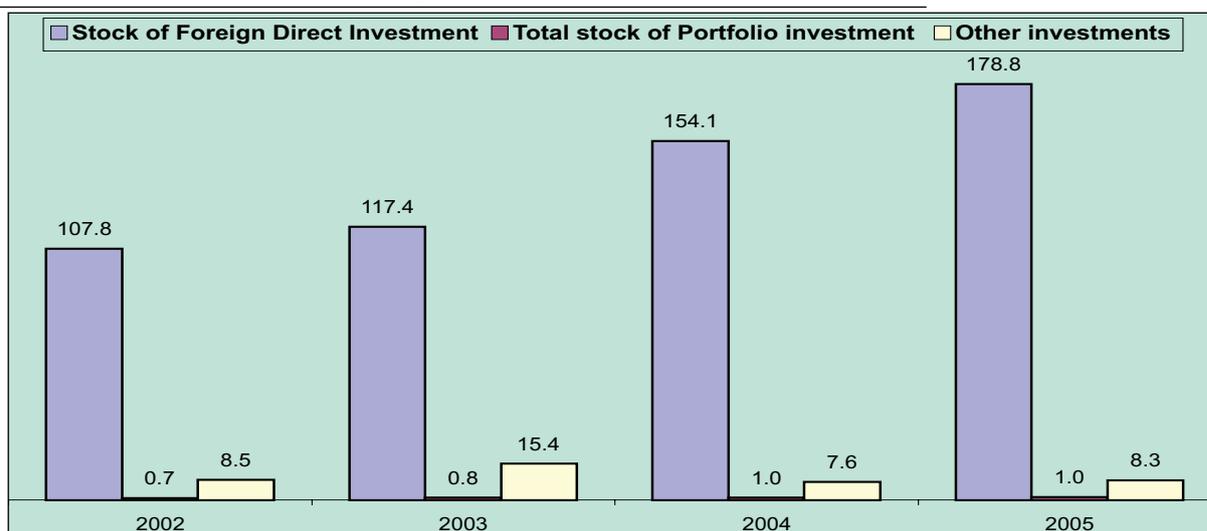
The analysis was affected at four levels. Firstly, it examined FPC by mode of financing. Secondly, it analyzed FPC by source country to identify the main source country. Thirdly, is sectoral composition to identify preferred end use of the flows and consequent stock

Table 3.1: Stock of Foreign Private Capital (2002– 2005), in USD Million

	2002	%	2003	%	2004	%	2005	%	Average	%
Stock of Foreign Direct Investment	107.8	92.2	117.4	87.8	154.1	94.7	178.7	95.1	139.5	92.5
Direct equity investment at year end	53.5	45.8	59	44.2	81	49.8	84.1	44.7	69.4	46.1
Long-term shareholder and inter-company loans	52.2	44.6	51.6	38.7	66.1	40.6	88.1	46.8	64.5	42.7
Short-term shareholder and inter company loans	0.3	0.3	4.2	3.2	5.2	3.2	4.8	2.6	3.6	2.3
Supplier credits from related companies	1.8	1.5	2.4	1.8	1.8	1.1	1.7	0.9	1.9	1.3
Total stock of Portfolio Investment	0.7	0.6	0.8	0.6	1	0.6	1	0.6	0.9	0.6
Other Investments	8.5	7.3	15.4	11.6	7.6	4.7	8.2	4.4	9.9	7.0
Other long term Borrowing with Unrelated Companies	4.5	3.9	11.9	8.9	6.5	4	7.2	3.8	7.5	5.2
Supplier Credits from Unrelated Companies	0.2	0.2	0.4	0.3	0.9	0.6	0.9	0.5	0.6	0.4
Other with Unrelated Companies	3.8	3.1	4.1	2.3	0.2	0.1	0.1	0.1	2.1	1.4
Total Private Capital Stock	117	100	133.6	100	162.7	100	188	100	150.3	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

Chart 3.1 Stock of Private Capital (2002– 2005), in USD Million 6



Source: Zanzibar Foreign Private Capital Survey, 2006

in economic sectors. Lastly, analysis was based on regional distribution of investments to determine localization of investments in administrative regions.

3.2.1 Stock of Foreign Private Capital

The survey revealed that stock of Foreign Private Capital (FPC) to Zanzibar on average increased by 17.7 percent over the period 2002 to 2005. The FPC investment increased by 14.2 percent from USD 117.0 millions in 2002 to USD 133.6 millions in 2003. Thereafter FPC increased by 21.8 percent to USD 162.7 million in 2004. The stock

The trend showed that FDI registered an increasing trend on annual average of 16.0 percent during period under review. FDI increased marginally by less than 1.0 percent from USD 107.8 million to USD 117.4 million in 2003. Thereafter FDI surged by 31.2 percent to USD 154.1 million in 2004; then the increase slumped by 16.0 percent to USD 178.8 million in 2005 (**Table 3.1 & Chart 3.1**).

Portfolio investment has not been significant investment in Zanzibar; accounting for less than 1.0 percent of total Foreign Private

Table 3.2 Flows of Foreign Private Capital (2002– 2005), in USD Million

	2002	%	2003	%	2004	%	2005	%	Average	%
Foreign Direct Investment	21.3	82.3	40.6	89.0	40.8	95.2	49.0	86.1	37.9	88.7
Portfolio Investments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	4.5	17.6	5.0	11.0	2.0	4.8	7.9	13.9	4.9	11.3
Total Flows	25.8	100.0	45.6	100.0	42.9	100.0	56.9	100.0	42.8	100.0

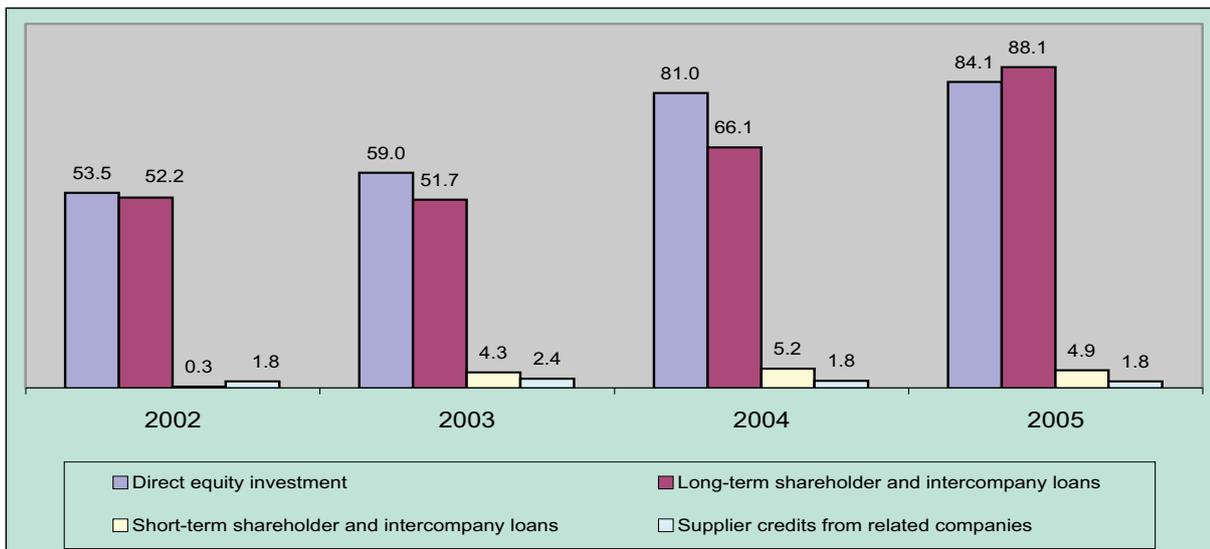
Source: Zanzibar Foreign Private Capital Survey, 2006

reached USD 188.1 million in 2005 marking an increase of 15.6 percent (Table 3.1).

The study further revealed that Foreign Direct Investments (FDIs) continued to be dominant; accounting for 92.4 percent of total Foreign Private Capital stock. The increase was mainly driven by direct equity investments; long term shareholder and inter-company loans which accounted for 88.8 percent on average of total FDI (**Table 3.1 & Chart 3.1**).

Capital. This was mainly attributed to absence of stock exchange. The Portfolio Stock have been remarkably low; amounted to USD 0.7 million, USD 0.8 million, USD 1.0 million and USD 1.0 million in 2002, 2003, 2004 and 2005 respectively (**Table 3.1 & Chart 3.1**). Other Investments are second source of FPC in Zanzibar but its magnitude has been increasing at fluctuating trend; stock surged to USD 15.4 million in 2003 from USD 8.5 million registered in 2002. Thereafter

Chart 3.2 Annual Composition of FDI Stock (2002 – 2005), in USD Million



Source: Zanzibar Foreign Private Capital Survey, 2006

slumped to USD 7.6 million in 2004 but increased marginally to USD 8.2 million in 2005. The increase was spurred by long term borrowing with unrelated companies which accounted for over 60.0 percent of total Other Investments (Table 3.1 & Chart 3.1)

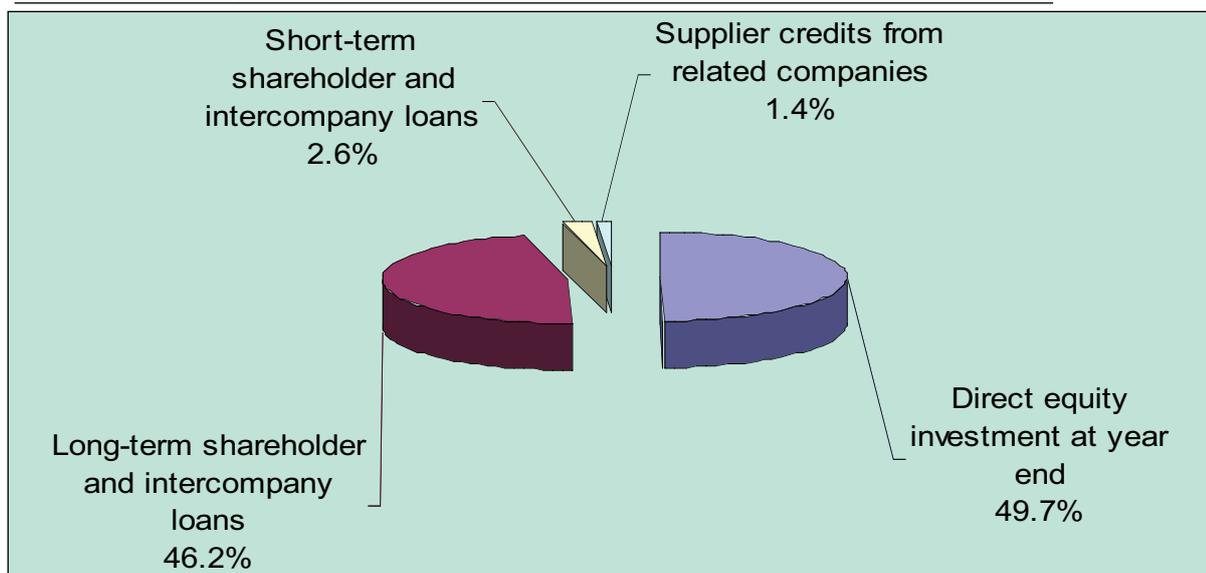
3.2.2 Flows of Foreign Private Capital

The study revealed that flows of Foreign Private Capital have been fluctuating and showed mixed performance. The magnitude analysis reflected that FDI were dominant; on average accounting for 88.7 percent of total

FPC during the period under review.

The inflows surged by 76.7 percent to USD 45.6 million in 2003 from USD 25.8 million registered in 2002. However, the inflows decreased by 6.0 percent to USD 42.9 million in 2004 but rebounded by 32.8 percent to USD 57.0 million in 2005. Other investments flows were the second largest source of PCF accounting for 11.3 percent of total during the period under review. Portfolio inflows were negligible and insignificant (Table 3.2).

Chart 3.3 Average Composition of FDI Stock (2002 - 2005), in USD Million



Source: Zanzibar Foreign Private Capital Survey 2006

3.3 Foreign Direct Investment (FDI)

Credits from related companies accounted for 1.4 percent of total FDI financing.

3.3.1 Stock of FDI by Financing Type

FDI stock is composed of Direct Equity Investments (DEI), Long-term and Short term Shareholder & Inter-company Loans and Suppliers Credits from Related Companies. The study revealed that, during the period under review DEI and Long-term and Inter-company Loans were dominant source of FDI; on average financed 96.1 percent of total FDI. Short Term Shareholder & Inter Company Loans on average accounted for 2.5 percent of total FDI while the Suppliers

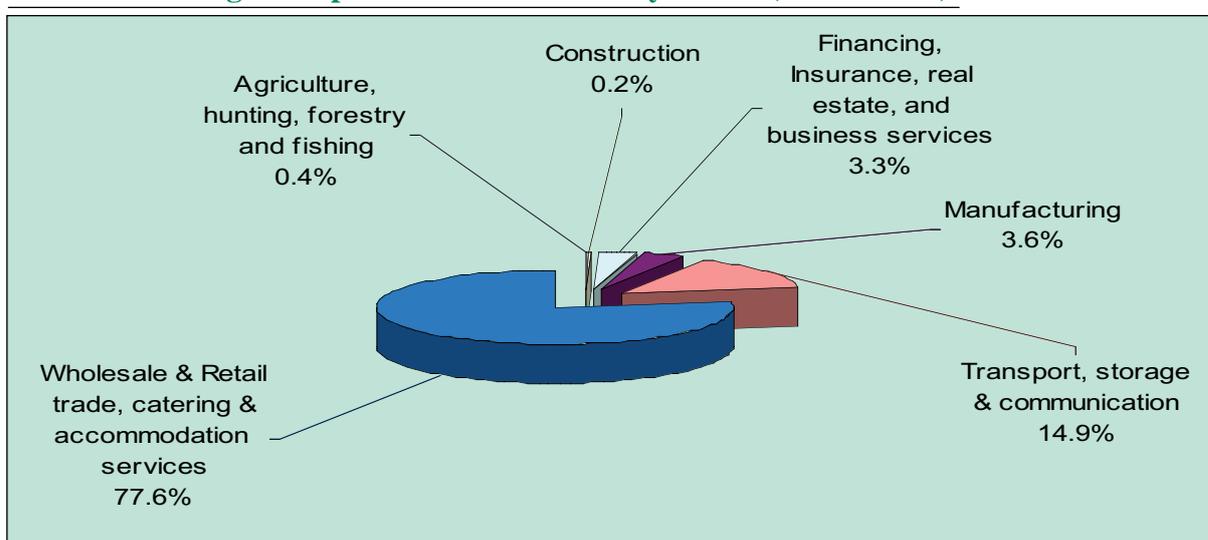
Annual composition showed that in 2002 DEI and Long-term and Short term Shareholder & Inter-company Loans amounted to USD 105.8 million which accounted for 98.1 percent of total FDI financing. In 2003 the same amounted to USD 110.7 million or 94.4 percent of total FDI financing. In 2004 the same sources amounted to USD 147.1 million accounted for 95.5 percent of total FDI financing while in 2005 summed to USD 172.2 million or 96.2 percent of total FDI financing (**Chart 3.2**).

Table 3.3: FDI Stock by Sector (2002-2005), in USD Million

Sector	2002	%	2003	%	2004	%	2005	%	Average	%
Agriculture, hunting, forestry and fishing	0.5	0.4	0.4	0.4	0.6	0.4	0.6	0.3	0.5	0.4
Construction	0.0	0.0	0.0	0.0	0.0	0.0	1.0	0.6	0.3	0.2
Financing, Insurance, real estate, and business services	0.0	0.0	6.3	5.4	6.5	4.2	5.7	3.2	4.6	3.3
Manufacturing	4.6	4.3	5.1	4.4	5.2	3.3	4.9	2.8	5.0	3.5
Transport, storage & communication	18.9	17.5	19.1	16.2	18.3	11.9	26.9	15.1	20.8	14.9
Wholesale & Retail trade, catering & accommodation services	83.9	77.8	86.4	73.6	123.5	80.1	139.5	78.1	108.3	77.7
Total	107.8	100.0	117.4	100.0	154.1	100.0	178.7	100.0	139.5	100.0

Source: Zanzibar Foreign Private Capital Survey 2006

Chart 3.4 Average Composition of FDI Stock by Sector (2002 – 2005)



Source: Zanzibar Foreign Private Capital Survey 2006

Table 3.4: FDI Flows by Sector (2002 – 2005), in USD Million

Sectors	2002	%	2003	%	2004	%	2005	%	Average	%
Agriculture, hunting, forestry and fishing	0.10	0.3	0.00	0.0	0.20	0.4	0.00	0.0	0.08	0.2
Community, social and personal services	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
Construction	0.00	0.0	0.00	0.0	0.00	0.0	2.00	4.1	0.50	1.3
Financing, Insurance, real estate, and business services	0.00	0.0	8.80	21.8	0.00	0.0	0.00	0.0	2.20	5.8
Manufacturing	0.20	1.0	0.90	2.2	0.10	0.2	0.00	0.0	0.30	0.8
Transport, storage & communication	0.10	0.5	0.50	1.1	0.10	0.3	0.10	0.2	0.20	0.5
Wholesale & retail trade, catering & accommodation services	20.90	98.2	30.40	74.8	40.50	99.1	46.90	95.7	34.68	91.4
Total	21.30	100.0	40.60	100.0	40.85	100.0	49.00	100.0	37.94	100.0

Source: Zanzibar Foreign Private Capital Survey 2006

Similarly, average composition of FDI stock by financing type showed that DEI and Long Term Inter-Company Loans were dominant; accounting for 50.0 percent and 46.0 percent of total average FDI stock respectively (Chart 3.3).

3.3.2 FDI Stock by Sector

The study revealed that, in terms of sub sectors the Wholesale & retail trade, catering and accommodation services dominated since 2002 to 2005 accounting for 77.8 percent, 73.6 percent, 80.1 percent and 78.1 percent of total FDI stock respectively. The main driver was investments in tourism, especially tourist hotels.

The second preferred end-use of FDI stock was transport, storage and communication sectors accounted for 17.5 percent, 16.2 percent, 11.9 percent and 15.1 percent of total

FDI stock respectively. The least recipients of FDI stock were agriculture, construction and manufacturing; their total share was around 7.2 percent of total FDI stock (Table 3.3).



Fast Ferries are among the growing Sub-sector in transport sector - Zanzibar

The four years average revealed that Wholesale & retail trade, catering & accommodation services accounted for highest share of 77.6 percent of total FDI stock. Transport, storage & communication had share of 14.9 percent

Table 3.5: FDI Stock by Regional Distribution (2002 – 2005), in USD Million

Regions	2002	%	2003	%	2004	%	2005	%	Average	%
North Pemba	1.2	1.1	1.2	1	1.2	0.8	1.1	0.6	1.2	0.9
North Unguja	38.9	36.1	43.5	37.1	75.8	49.2	92.3	51.6	62.6	43.5
South Pemba	0.1	0.1	1.1	0.9	1.2	0.8	1.3	0.7	0.9	0.6
South Unguja	27.3	25.4	24	20.4	23.5	15.2	22.5	12.6	24.3	18.4
Urban West	40.3	37.3	47.5	40.5	52.4	34	61.4	34.4	50.4	36.6
Total	107.8	100	117.4	100	154.1	100	178.7	100	139.5	100.0

Source: Zanzibar Foreign Private Capital Survey 2006

of FDI stock. Manufacturing and Financing, Insurance, Real Estate, and Business Services accounted for 3.6 percent and 3.3 percent respectively. Agriculture sub sector had share of 0.4 percent while construction had 0.2 percent of total FDI stock (**Chart 3.4**).

3.3.3 FDI Flows by Sector

The survey further revealed that Wholesale & retail trade, catering and accommodation services remained the largest recipient of FDI inflows in conformity with its dominance in FDI stock. FDI inflows amounted to USD 20.9 million, USD 30.4 million, USD 40.5 million and USD 47.0 million in 2002 to 2005 respectively. Agriculture, manufacturing and construction sectors were the least recipients of FDI (**Table 3.4**).

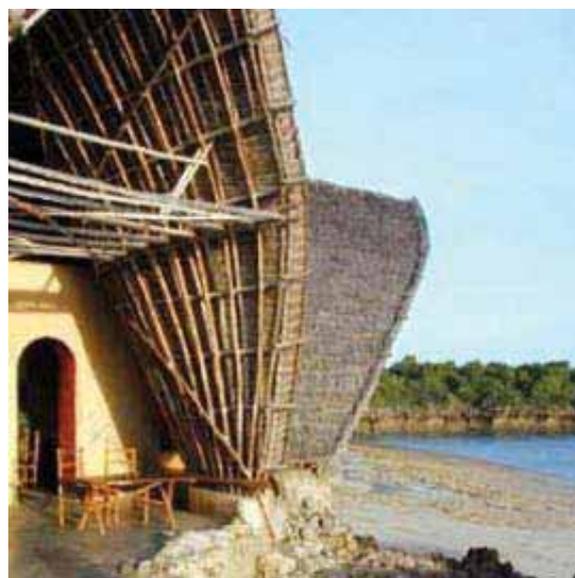


A small holder farmer drying cloves; Cloves is a major cash crop in Zanzibar



Banana Farm –Pemba: Zanzibar is endowed with land conducive for horticulture.

In totality on average the Wholesale, retail trade, catering and accommodation was the leading sector, recorded 91.4 percent of the total FDI flows, followed by Financing, Insurance, Real Estate and Business and Services which accounted for 5.8 percent of total FDI flows. The remaining sectors Transport and storage, manufacturing, construction and agriculture received insignificant inflows (**Chart 3.5**).



Chumbe Island Coral Park: A tiny coral-ringed island off Zanzibar, with beautifully-designed thatch bungalows, genuinely ecological aims and some of the world's best snorkelling

3.3.4 FDI Stock by Regional Distribution

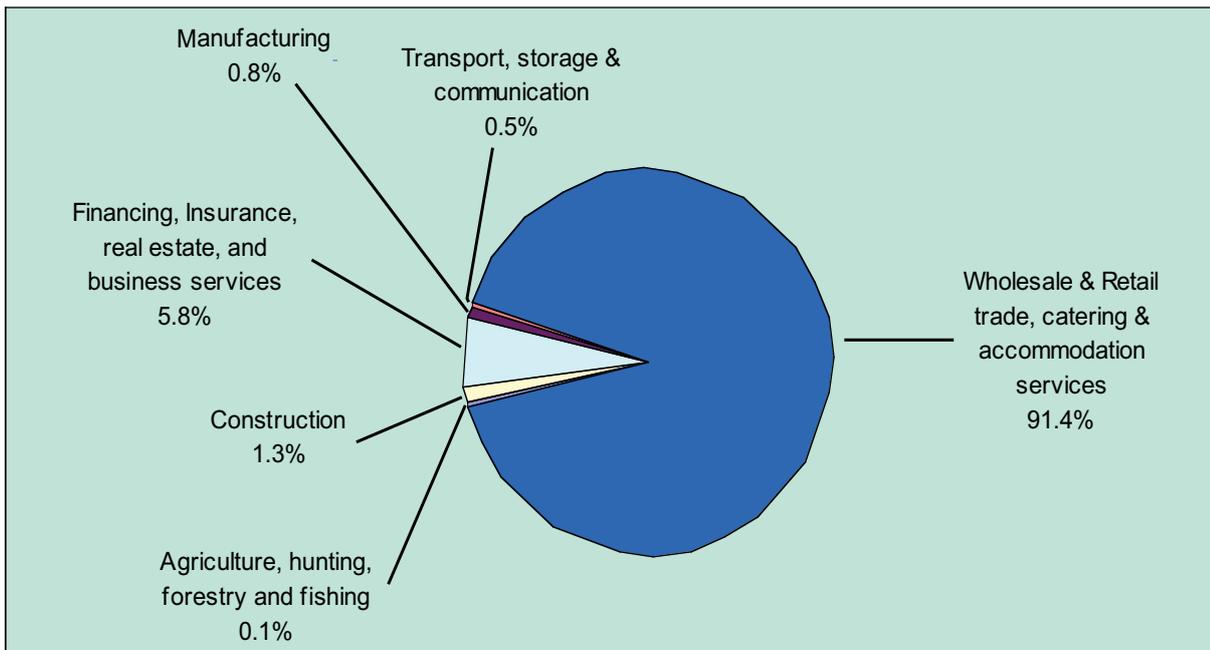
The survey analyzed the distribution of FDI across the two islands by focusing on administrative regions with a view of assessing concentration of FDI investments.

Table 3.6: FDI Flows by Regional Distribution (2002-2005), in USD Million

Region	2002	%	2003	%	2004	%	2005	%
North Pemba	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
North Unguja	12.63	59.4	20.55	50.6	30.21	74.0	39.85	81.3
South Pemba	0.00	0.0	1.88	4.6	0.09	0.2	0.01	0.0
South Unguja	3.71	17.4	3.76	9.3	1.92	4.7	4.01	8.2
Urban West	4.92	23.2	14.42	35.5	8.63	21.1	5.15	10.5
Total	21.27	100.0	40.61	100.0	40.84	100.0	49.02	100.0

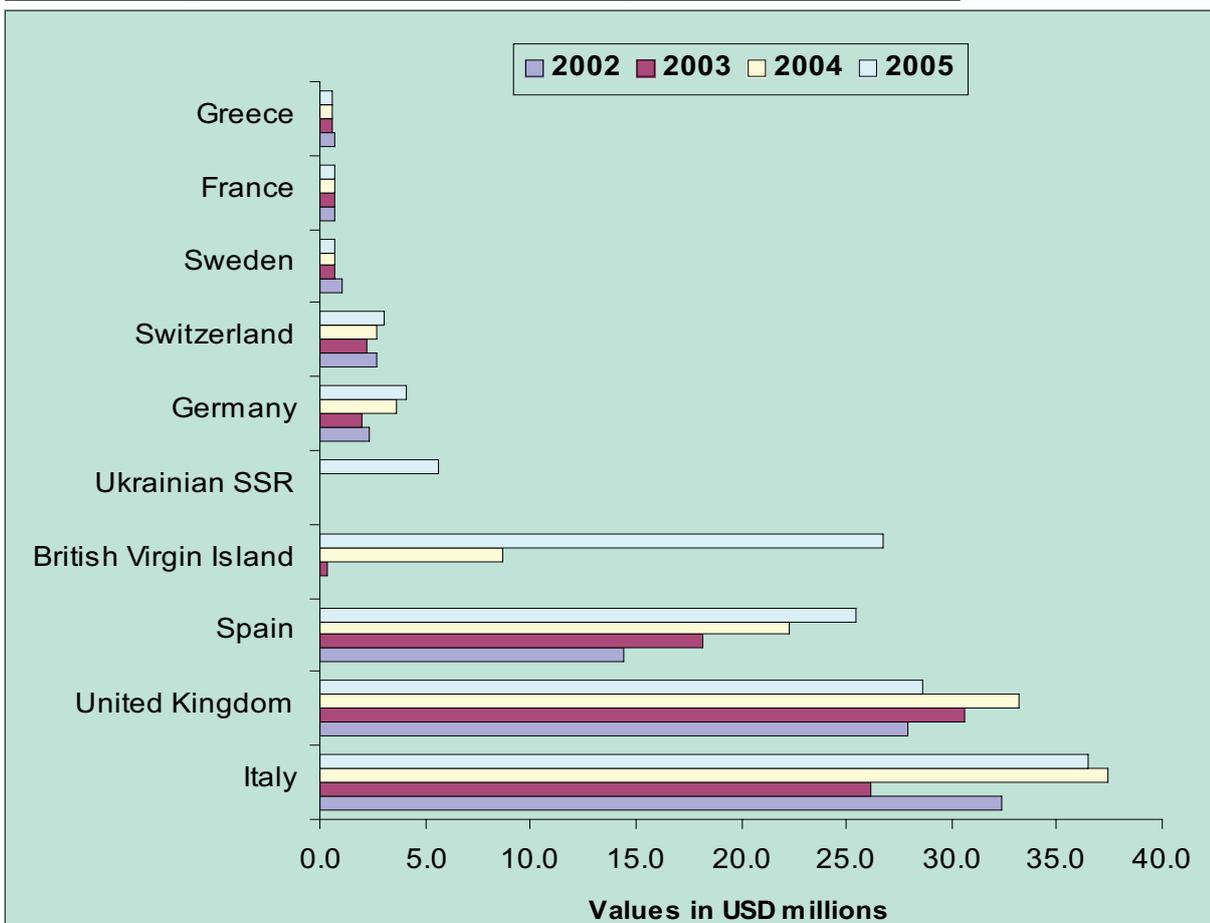
Source: Zanzibar Foreign Private Capital Survey 2006

Chart 3.5 Average Composition of FDI Flows by Sector (2002 - 2005)



Source: Zanzibar Foreign Private Capital Survey 2006

Chart 3.6: Top Ten OECD Countries with High FDI Stock 2002-2005



Source: Zanzibar Foreign Private Capital Survey 2006

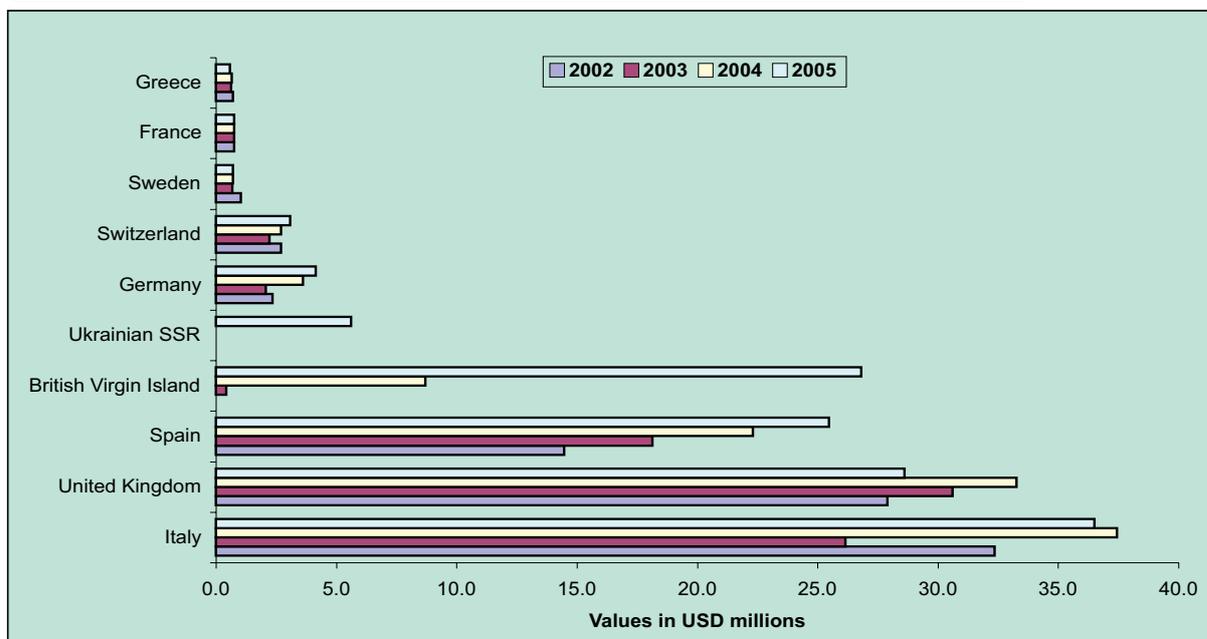
The survey revealed that overall for the period under review, the North Unguja region

dominated FDI investments accounting for 44.9 percent of total FDI stock. This

was attributed to relocation of most of high class tourist hotels along its beaches. The second beneficiary was Urban West region accounting for 36.1 percent of total FDI. The third recipient was South Unguja which represented 17.4 percent of total FDI stock. The three regions accounted for 98.5 percent of the total FDI stock in Zanzibar.

remarkably by 62.7 percent from USD 12.6 million in 2002 to USD 20.6 million in 2003. The inflows sustained a lower increase of 46.6 percent to USD 30.2 million in 2004 and by 31.9 percent to USD 39.8 million in 2005. The increase was partially associated to availability of better beaches which was made accessible by good infrastructures.

Chart 3.7 Top ten Non OECD Countries with high FDI stock 2002-2005



Source: Zanzibar Foreign Private Capital Survey, 2006

Further analysis showed that the Urban West region was leading in 2002 and 2003, by attracting FDI stock of USD 40.3 million, and 47.5 million respectively. The North Unguja region took the upper hand from 2004 by attracting FDI stock of USD 75.9 million and USD 92.3 million in 2005. The remaining three regions were at lower end; for period under review South Unguja attracted FDI averaging USD 24.3 million per annum while North Pemba and South Pemba on average attracted USD 1.2 million and USD 0.9 million per annum, respectively (Table 3.5).

3.3.5 FDI Flows by Regional Distribution

The survey revealed that in terms of regional concentration of FDI inflows as it was in the case of stock, were dominated by North Unguja region followed by Urban West region and third was the South Unguja region. FDI inflows to North Unguja increased

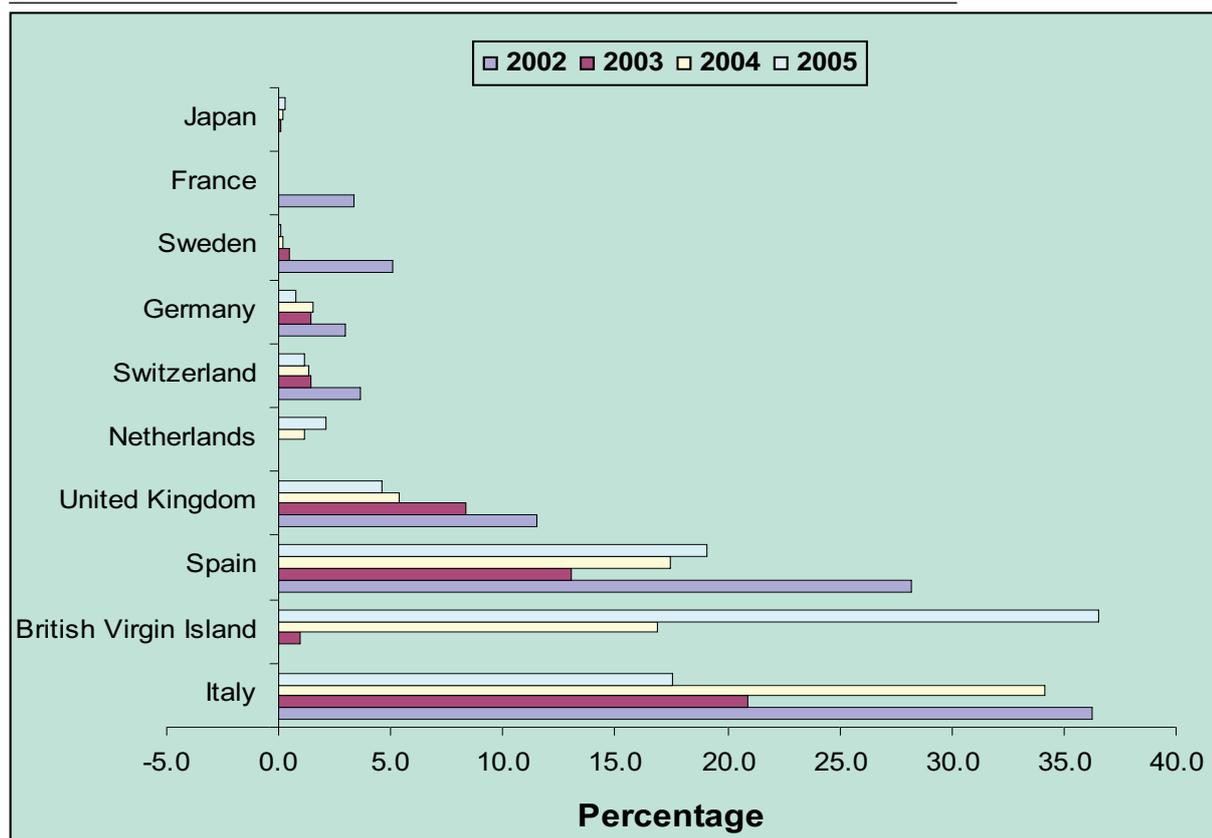
Urban West registered increase in FDI by 193.0 percent from a mere USD 4.9 million to USD 14.4 million in 2003. In contrast there was considerable slump in consequent years by 40.0 percent to USD 8.6 million in 2004 and USD 5.2 million in 2005. This could suggest a period of consolidation.

South Unguja region was third recipient registered fluctuating FDI flows, amounting to USD 3.7 million in 2002, USD 3.8 million in 2003, USD 1.9 million in 2004 and USD 4.0 million in 2005. South Pemba and North Pemba attracted insignificant FDI flows during the period under review (Table 3.6).

3.3.6 FDI Stock by Source Country

The identification of sources of FDI into Zanzibar is imperative for promotion purposes and other socio-economic incentives. The survey revealed that most investments originate from OECD which had

Chart 3.8 Top Ten OECD Countries with High FDI Flows 2002-2005



Source: Zanzibar Foreign Private Capital Survey, 2006

nine countries out of top 10 investors in Zanzibar. Italy, United Kingdom and Spain accounted for 56.4 percent of total FDI stock. Italy was the leading investor accounting for 22.4 percent, followed by UK 20.4 percent and Spain 13.6 percent of total FDI stock (Chart 3.6 and Appendix Table 3.1).

British Virgin Island showed serious commitment from the stock of USD 0.4 million in 2003 to USD 26.8 million in 2005 accounting for 8.1 percent of the average stock. Ukraine emerged in 2005 by recording USD 5.6 million; while Germany is on improving trend, on average ranked fifth and sixth of OECD countries respectively (Chart 3.6 and Appendix Table 3.1).

Investors from non OECD countries accounted for only 24.6 percent on average of FDI stock. UAE maintained dominance since 2002 to 2005; on average accounting for 9.4 percent of total FDI stock. Kuwait ranked second non OECD country accounting for 4.0 percent. South Africa investments were declining; while investments from Kenya were improving. Investment from Bahrain

stagnated at USD 3.3 million since 2002 to date (Chart 3.7 and Appendix Table 3.1).

3.3.7 FDI Flows by Source Country

The study revealed that for the period 2002 – 2005, OECD countries dominated FDI flows on average accounting for 82.8 percent of FDI flows. The leading country was Italy accounting for 27.0 percent of the total flows; while British Virgin Island accounted for average of 22.4 percent of total FDI flows. British Virgin Island’s profound impact was seen in 2004 and 2005 when appeared to be the dominant; when its share accounted for 16.9 percent in 2004 and 36.6 percent in 2005. Spain was the third source accounting for 19.2 percent of total FDI flows within 4 years. United Kingdom ranked the fourth investor accounting for a mere 7.3 percent of total Zanzibar FDI inflows over the 4 years (Chart 3.8 and Appendix Table 3.2).

FDI flows from non OECD countries accounted for only 17.2 percent on average for the four years. The leading countries were

a UAE, Kuwait and Kenya accounting for 5.5 percent 3.8 percent and 2.2 percent of FDI flows respectively (**Chart 3.9 and Appendix Table 3.2**).

3.3.8 Foreign Direct Equity Investment (FDEI) Stocks by Sector

The survey revealed that FDEI by sectors was dominated by Wholesale & retail trade, catering & accommodation services; which accounted for the largest share. On average over the four years period the above sub sector absorbed 74.4 percent of total FDEI stock. However, the magnitude and trend within the sector for the period ending 2002, 2003, 2004 and 2005 have been fluctuating; accounting for 84.0 percent, 69.3 percent, 75.6 percent and 68.5 percent of the total FDEI stock respectively.

The second beneficiary sub sector was Transport, storage & communication which accounted for 13.8 percent of the total FDEI on average over the four years. The third beneficiary sub sector was Financing, Insurance, Real Estate, and Business Services on average accounted for 6.4 percent of total FDEI stock. Manufacturing sub sector absorbed 4.8 percent of total FDEI stock. Other sub sectors agriculture, hunting, forestry and fishing and construction accounted for less

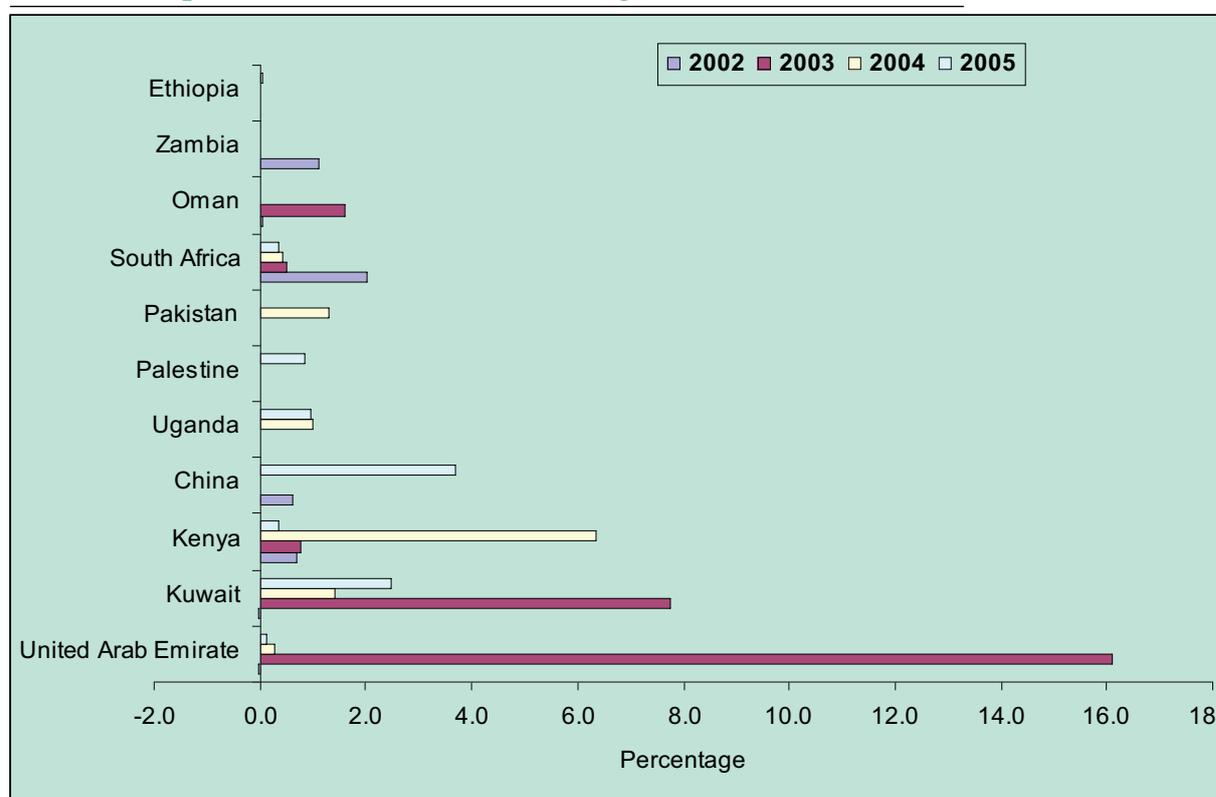
than 1.0 percent each of FDEI stock (**Table 3.7**).

3.3.9 FDEI Stock by Source Country

The study showed that on average the main source of FDEI were OECD countries accounting for 67.6 percent of FDI. Italy had the largest share of 38.7 percent of FDEI, followed UK which accounted for 18.2 percent of FDEI. Other sources included, Switzerland, Germany and France accounted for 1.9 percent, 1.8 percent and 1.1 percent of FDEI in average of total FDI stock respectively. Other sources accounted for less than 1.0 percent each of the total FDEI stock (**Chart 3.10 and Appendix Table 3.3**).

The survey further showed that, on average during the period under review contribution of Non OECD accounted for 32.4 percent of total FDI. The major source was from UAE accounting for 12.6 percent of FDI, followed by Bahrain, South Africa, Oman, Kuwait and Kenya representing 4.9 percent, 3.6 percent, 3.4 percent, 3.1 percent and 2.9 percent respectively. Contributions of the remaining sources were insignificant with less than 1.0 percent each of FDEI stock (**Chart 3.11 and Appendix Table 3.3**).

Chart 3.9 Top Ten-Non-OECD Countries with High FDI Flows 2002-2005



Source: Zanzibar Foreign Private Capital Survey, 2006

Table 3.7 Rate of Returns on Investments (2002-2005), in USD Million

Sectors	2002	%	2003	%	2004	%	2005	%	Average	%
Agriculture, hunting, forestry and fishing	0.3	0.5	0.3	0.5	0.3	0.4	0.2	0.3	0.3	0.4
Community, social and personal services	0.0	0.0	0.0	0.0	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	1.0	1.2	0.3	0.3
Financing, insurance, real estate, and business services	0.0	0.0	6.3	10.8	6.5	8.0	5.8	6.8	4.6	6.4
Manufacturing	2.8	5.1	3.3	5.6	3.5	4.3	3.5	4.1	3.2	4.8
Transport, storage & communication	5.5	10.3	8.2	13.9	9.5	11.7	16.0	19.0	9.8	13.8
Wholesale & retail trade, catering & accommodation services	45.0	84.0	40.9	69.3	61.2	75.6	57.6	68.5	51.2	74.4
Total	53.5	100.0	59.0	100.0	81.0	100.0	84.0	100.0	69.4	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

3.3.10 Foreign Portfolio Investment (FPI)

Foreign Portfolio Investments refer to non resident shareholding of less than 10.0 percent. The trend of FPI during the period under review indicated insignificant change, recording USD 0.7 million, USD 0.8 million, USD 1.0 million and USD 1.0 million for 2002 to 2005 respectively.

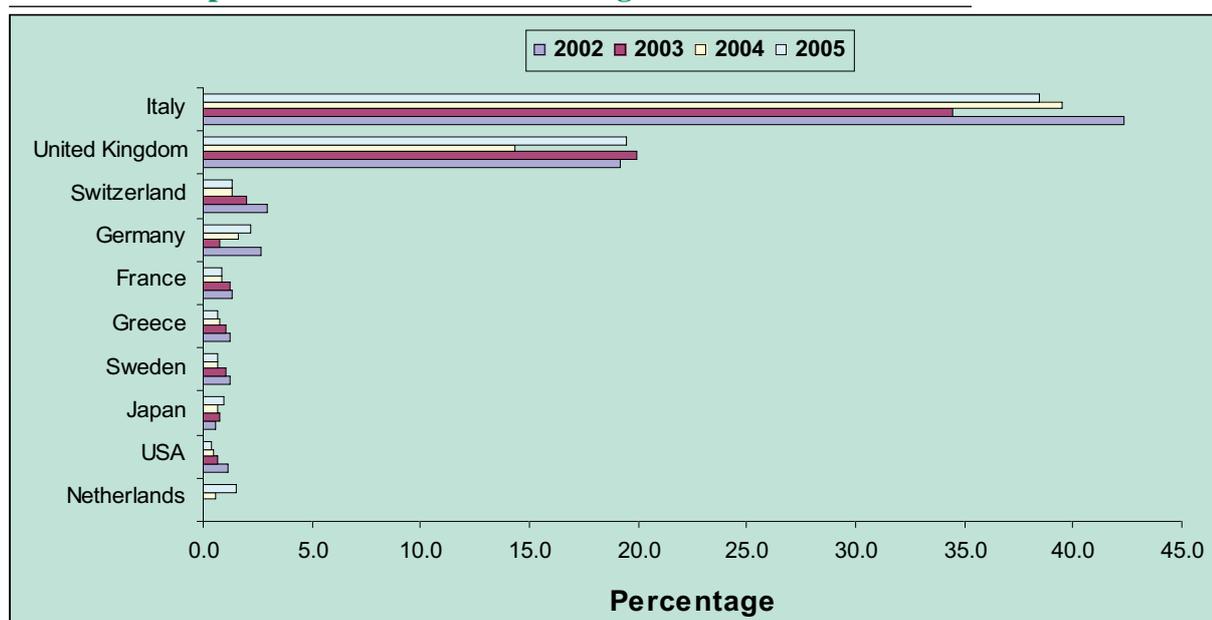
The analysis mainly covered FPI stock by sector, by region and by source country. FPI flows were found very insignificant. The study revealed that FPI stock is relatively small when compared with FDI.

3.3.11 Foreign Portfolio Investment (FPI) Stock by Sector

The survey revealed that during the period under review, FPI stock was mainly concentrated within Wholesale & retail trade, catering and accommodation services accounting for 100.0 percent for 2002 to 2005 (Chart 3.8).

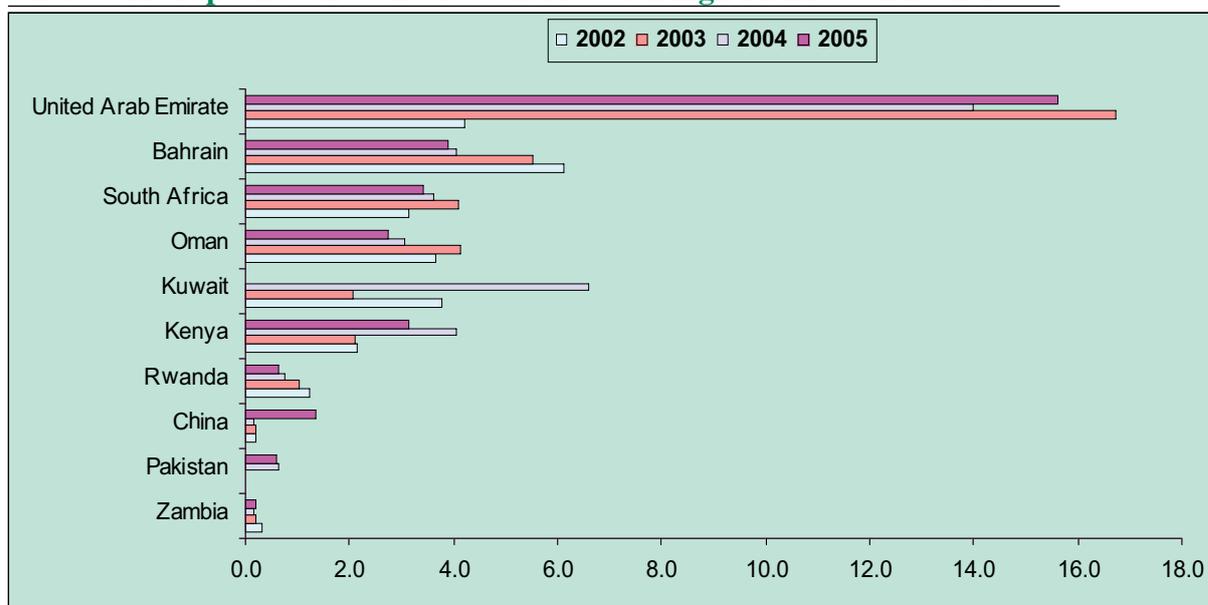
3.3.12 Foreign Portfolio Investment (FPI) Stock by Region

The survey showed that on average South Unguja region absorbed 79.5 percent of

Chart 3.10: Top ten OECD countries with high FDEI stock 2002-2005

Source: Zanzibar Foreign Private Capital Survey, 2006

Chart 3.11: Top ten Non - OECD countries with high FDEI stock 2002-2005



Source: Zanzibar Foreign Private Capital Survey 2006

FPI stock during 2002 to 2005, while North Unguja region ranked second accounted for 19.1 percent of FPI stock. Urban West region was the third recipient, accounted for 1.5 percent of total FPI stock (Table 3.9).

3.3.13 Foreign Portfolio Investment Stock by Country

The study revealed that Italy dominated FPI stock, on average accounting for 87.0 percent for the period of 2002 to 2005. Bahrain and South Africa ranked second and third, accounting for 3.9 percent and 3.8 percent

respectively. Other countries with significant FPI stock were United Kingdom, Sweden and Germany. The remaining countries registered insignificant FPI stock (Table 3.10).

3.4 Other Investments

Besides FDIs and portfolio investment, financing of private capital included Other Investments which comprised Long-term Loans, Short-term Loans and Supplier Credit from unrelated companies.

Table 3.8: FPI Stock by Sector (2002-2005), in USD Million

Sector	2002	%	2003	%	2004	%	2005	%
Manufacturing	0.0	0.0	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	0.0	0.0
Wholesale & retail trade, catering & accommodation services	0.7	100.0	0.8	100.0	1.0	100.0	1.0	100.0
Total	0.7	100.0	0.8	100.0	1.0	100.0	1.0	100.0

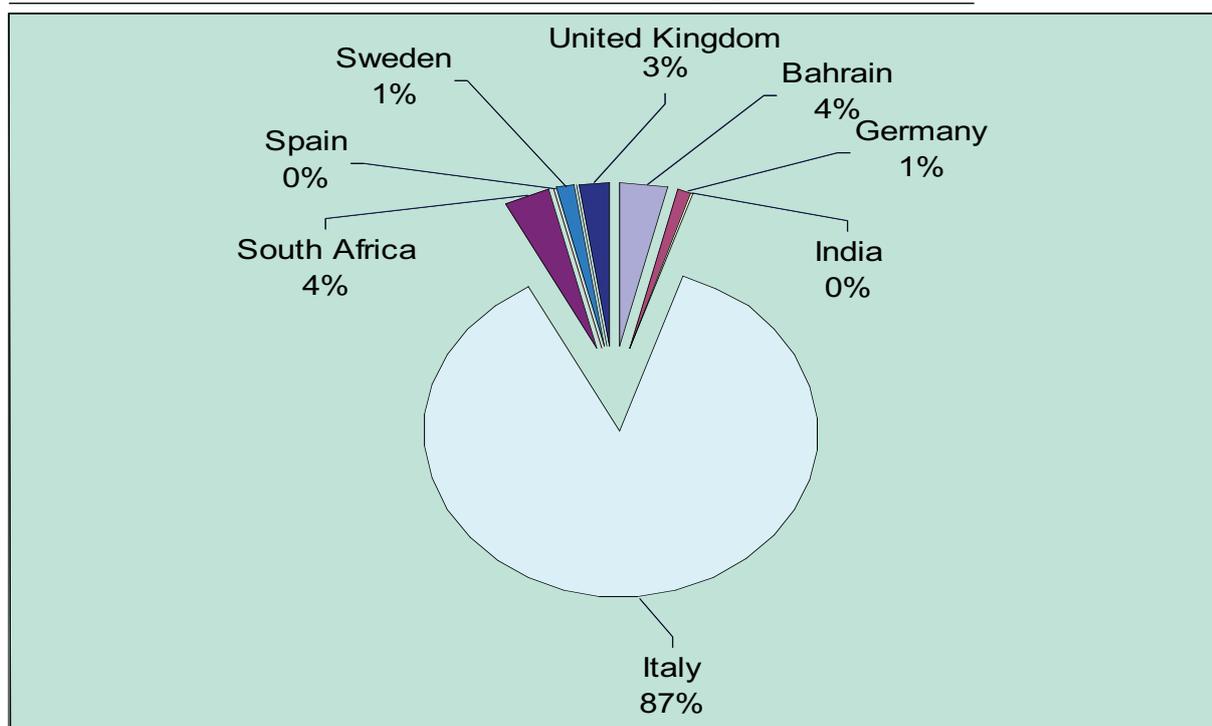
Source: Zanzibar Foreign Private Capital Survey 2006

Table 3.9: FPI Stock by Region (2002-2005), in USD Million

Regions	2002	%	2003	%	2004	%	2005	%	Average	%
North Unguja	0.1	13.6	0.1	15.9	0.2	24.3	0.2	22.5	0.2	19.1
South Unguja	0.6	84.8	0.7	82.6	0.7	74.3	0.8	76.2	0.7	79.5
Urban West	0.01	1.6	0.01	1.5	0.01	1.4	0.01	1.3	0.0	1.5
Total	0.7	100	0.8	100	0.9	100	1	100	0.9	100.0

Source: Zanzibar Foreign Private Capital Survey 2006

Chart 3.12 FPI Stock by Country (2002-2005 average) in Million USD



Source: Zanzibar Foreign Private Capital Survey, 2006

3.4.1 Stock of Other Investments (OI) by Sector

The survey revealed that most of OI stock ended in Wholesale & retail trade, catering & accommodation services; on average accounted for 78.8 percent over the four years under review. Transport and communication was the second accounting for 16.3 percent of the total OI stock. The rest ended in agriculture and manufacturing sub sectors (Table 3.11).

3.4.2 Stock of Other Investments by Region

The study showed that South Unguja absorbed more stock of Other Investment during 2002 and 2003; while Urban West was the largest recipient in 2004 and 2005. On average during 2002 to 2005, Urban West region accounted for 47.9 percent of total stock, while South Unguja and North Unguja regions represented 39.1 and 13.0 percent of stock of Other Investments respectively (Table 3.12).

3.4.3 Stock of Other Investments by Country

The study revealed that by the end of 2002, OECD countries were main sources of OI in Zanzibar. On average leading source countries were United Kingdom, USA, Italy and Norway contributing 27.6 percent, 19.4 percent, 16.8 percent and 12.1 percent of total OI stock, respectively.

On average OECD accounted for 91.8 percent of the totals stock of other investments. Non-OECD accounted for 8.2 percent of the total stock of Other Investments and experienced declining trend, by the end of 2002 registering USD 1.4 million and further declined to USD 0.4 million in 2005 (Table 3.13).

3.4.4 Flows of Other Investments by Sector

During the period under review the study showed that pattern of OI inflows were reversed from absolute dominance of Wholesale & retail trade, catering & accommodation services in 2002 to other sectors. In 2003, its dominance was reduced to 58.1 percent and the remainder 41.9 percent ended in Transport, storage & communication sub sector. In 2004 there was more sectoral

Table 3.10: FPI Stock by Country (2002-2005), in USD Million

Country	2002	%	2003	%	2004	%	2005	%	Average	%
Bahrain	0.03	4.7	0.03	4.1	0.03	3.4	0.03	3.2	0.03	3.9
Germany	0.01	1.5	0.01	1.3	0.01	1.1	0.01	1.0	0.01	1.2
India	0.00	0.2	0.00	0.2	0.00	0.1	0.00	0.1	0.00	0.2
Italy	0.61	86.5	0.70	88.2	0.83	85.0	0.92	88.3	0.77	87.0
South Africa	0.02	2.9	0.02	2.4	0.06	6.2	0.04	3.8	0.04	3.8
Spain	0.00	0.0	0.00	0.0	0.00	0.1	0.00	0.1	0.00	0.1
Sweden	0.01	1.5	0.01	1.4	0.01	1.3	0.01	1.3	0.01	1.4
United Arab Emirate	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0	0.00	0.0
United Kingdom	0.02	2.8	0.02	2.3	0.03	2.8	0.02	2.1	0.02	2.5
Total	0.7	100.0	0.8	100.0	1.0	100.0	1.0	100.0	0.9	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

diversification, Wholesale & retail trade, catering & accommodation services absorbed 59.1 percent; Manufacturing absorbed 17.1 percent, Agriculture 14.6 percent and Transport, storage and communication 9.2 percent. However, in 2005 the flows ended in only two sectors; transport dominated by 83.5 percent and the remaining 16.5 percent directed to Wholesale & retail trade, catering & accommodation services (Table 3.14).

3.4.5 Flows of Other Investments by Region

The study showed that Other Investments by region in 2002 were concentrated in South Unguja accounting for 83.8 percent. However, the dominance was in favour of Urban West region in 2003 accounted for 80.9 percent of total flows. In 2004 there were relative even distribution; whereby North Unguja accounted for 46.6 percent and Urban West

Region 36.3 percent while the balance 17.1 percent ended in South Unguja. However, in 2005 the pattern changed and was in favour of Urban West region which absorbed 87.8 percent of the total flows and the remainder 12.2 percent ended in North Unguja (Table 3.15).

3.4.6 Flows of Other Investments by Country

The survey showed on average for period under review; Italy was leading as source of OI flows in Zanzibar. Annual average inflows were USD 4.9 million with highest inflows in 2005. Italy flows accounted for 24.0 percent of the total flows of Other Investments. Norway, UK, Spain and USA accounted for 18.2 percent, 16.3 percent, 15.1 percent and 10.1 percent respectively. In 2002 Italy registered highest share of 76.8 percent of the

Table 3.11: Stock of Other Investments by Sector (2002-2005), in USD Million

Sector	2002	%	2003	%	2004	%	2005	%	Average	%
Agriculture, hunting, forestry and fishing	0.1	1.1	0.1	0.5	0.4	5.1	0.3	4.2	0.2	2.7
Manufacturing	0	0	0	0	0.4	4.6	0.3	3.8	0.2	2.1
Transport, storage & communication	0	0	1.8	11.9	1.4	18.2	2.9	35.1	1.5	16.3
Wholesale & retail trade, catering & accommodation services	8.4	98.9	13.5	87.5	5.5	72.1	4.7	56.8	8.0	78.8
Total	8.5	100	15.4	100	7.6	100	8.3	100	10.0	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

Table 3.12: Stock of Other Investments by Region (2002-2005), in USD Million

Regions	2002	%	2003	%	2004	%	2005	%	Average
North Unguja	1.6	18.6	1.5	9.5	1.0	12.6	0.9	11.3	13.0
South Unguja	4.8	56.7	8.6	55.5	2.0	25.8	1.5	18.4	39.1
Urban West	2.1	24.7	5.4	35.0	4.7	61.6	5.8	70.3	47.9
Total	8.5	100.0	15.4	100.0	7.6	100.0	8.3	100.0	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

flows. In 2003 UK was leading with the share of 41.9 percent of the flows followed by USA. Norway dominated in 2004 accounting for 46.6 percent of the flows followed by UAE. The flows pattern in 2005 changed in favor of Spain with the share of 60.2 percent followed by UK (**Table 3.16**).

3.5 Income on Investments

3.5.1 Profitability and Rate of Return

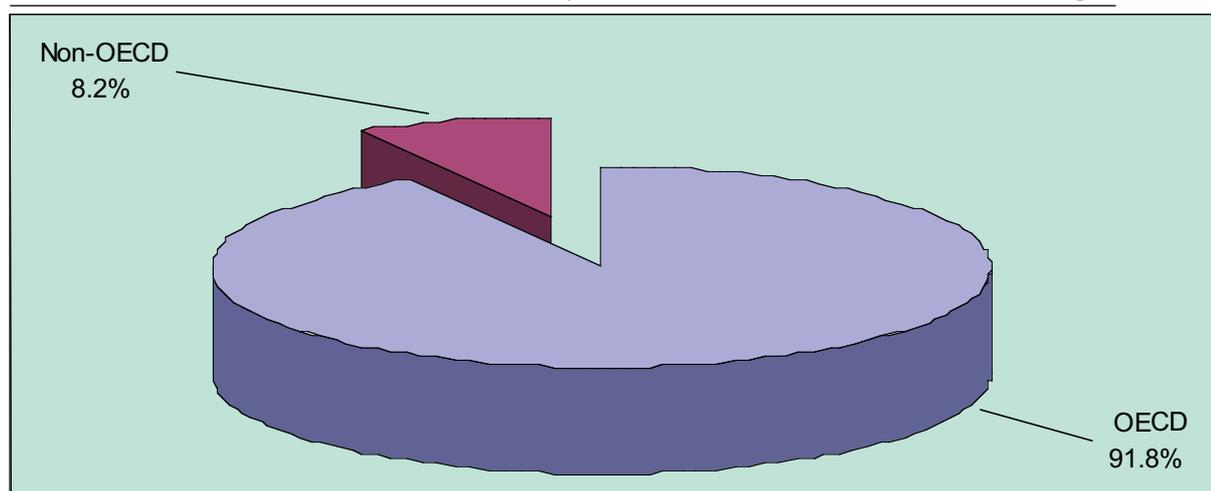
The survey revealed that performance of investments measured by rate of return for the whole period under review was poor. Investments registered negative returns with exception of year 2004 which registered

Table 3.13: Stock of Other Investments by OECD and Non OECD (2002-2005), in USD Million

Country	2002	%	2003	%	2004	%	2005	%	Average	%
OECD										
United Kingdom	1.7	19.9	6.3	40.8	2.3	30.8	1.6	19.0	3.0	27.6
USA	0.7	8.4	2.5	15.9	1.4	18.2	2.9	35.1	1.9	19.4
Italy	3.7	43.3	3.1	20.1	0.1	1.9	0.2	1.8	1.8	16.8
Norway	0.0	0.0	1.3	8.4	1.6	21.0	1.6	19.0	1.1	12.1
IFC	0.7	8.3	0.7	4.5	0.7	9.2	0.7	8.5	0.7	7.6
Spain	0.2	2.9	0.4	2.7	1.0	12.6	0.9	11.3	0.6	7.4
Denmark	0.1	1.1	0.1	0.5	0.1	1.1	0.1	0.9	0.1	0.9
Sub Total	7.1	83.8	14.4	93.0	7.2	94.8	7.9	95.7	9.2	91.8
Non-OECD										
Kenya	1.3	15.7	1.0	6.7	0.0	0.0	0.0	0.0	0.6	5.6
United Arab Emirate	0.0	0.0	0.0	0.0	0.4	4.6	0.3	3.8	0.2	2.1
China	0.0	0.5	0.0	0.3	0.0	0.5	0.0	0.4	0.0	0.4
Sub-Total	1.4	16.2	1.1	7.0	0.4	5.2	0.4	4.3	0.8	8.2
TOTAL	8.5	100.0	15.4	100.0	7.6	100.0	8.3	100.0	10.0	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

Chart 3.13 Stock of Other Investments by OECD and Non OECD in Percentage



Source: Zanzibar Foreign Private Capital Survey, 2006

positive return of 1.7 percent. The year 2002 recorded the highest negative figure of 19.4 percent while 2003 and 2005 registered negative return of 4.4 percent each. It was revealed that investments in Wholesale & retail trade, catering and accommodation services sector which is predominantly tourist hotel

investments were leading to register losses and negative returns on investments.

The rate of return by sector showed that during 2002 manufacturing sector reported high rate of return of 12.6 percent, while all the remaining sectors recorded negative returns. Agriculture registered negative rate of return

Table 3.14 Flows of Other Investments by Sector (2002-2005), in USD Million

Sectors	2002	%	2003	%	2004	%	2005	%
Agriculture, hunting, forestry and fishing	0.0	0.0	0.0	0.0	0.3	14.6	0.0	0.0
Manufacturing	0.0	0.0	0.0	0.0	0.4	17.1	0.0	0.0
Transport, storage & communication	0.0	0.0	2.1	41.9	0.2	9.2	6.6	83.5
Wholesale & retail trade, catering & accommodation services	4.6	100.0	2.9	58.1	1.2	59.1	1.3	16.5
Total	4.6	100.0	5.0	100.0	2.1	100.0	7.9	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

Table 3.15: Flows of Other Investments by Region (2002-2005), in USD Million

Region	2002	%	2003	%	2004	%	2005	%
North Unguja	0.3	5.4	0.4	8.6	1.0	46.6	1.0	12.2
South Unguja	3.8	83.8	0.5	10.4	0.4	17.1	0.0	0.0
Urban West	0.5	10.8	4.1	81.0	0.7	36.3	7.0	87.8
Total	4.6	100.0	5.0	100.0	2.1	100.0	7.9	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

Table 3.16 Flows of Other Investments by Country (2002-2005), in USD Million

Country	2002	%	2003	%	2004	%	2005	%	Average	%
Italy	3.5	76.8	0.2	3.8	0.3	12.5	0.2	3.1	1.0	24.0
Norway	0.2	5.4	0.4	8.6	1.0	46.6	1.0	12.2	0.7	18.2
United Kingdom	0.0	0.0	2.1	41.9	0.0	0.0	1.8	23.2	1.0	16.3
Spain	0.0	0.0	0.0	0.0	0.0	0.0	4.8	60.2	1.2	15.1
USA	0.0	0.0	1.3	25.9	0.3	14.6	0.0	0.0	0.4	10.1
Panama	0.8	17.8	1.0	19.8	0.0	0.0	0.1	1.2	0.5	9.7
United Arab Emirate	0.0	0.0	0.0	0.0	0.3	17.1	0.0	0.0	0.1	4.3
Kenya	0.0	0.0	0.0	0.0	0.2	9.2	0.0	0.0	0.0	2.3
Total	4.6	100.0	5.0	100.0	2.0	100.0	7.9	100.0	4.9	100.0

Source: Zanzibar Foreign Private Capital Survey, 2006

of 71.9 percent, while Wholesale & retail trade, catering and accommodation services recorded negative 21.9 percent. During 2003 Transport, storage & communication sector led in terms of return on investments by recording remarkable positive rate of return of 42.8 percent; followed by agriculture and manufacturing sectors registering 9.9 percent and 3.4 percent respectively. During 2004 and 2005, Transport, storage and communication sector maintained dominance by reporting rate of return of 28.1 percent and 23.7 respectively. The remaining sectors registered negative returns in 2004. However, manufacturing and construction sectors recovered in 2005 by reporting positive returns of 3.4 percent and 1.1 percent respectively. Agriculture sector registered negative return of 46.7 percent in 2005 while Wholesale & retail trade, catering and accommodation services recorded negative rate of return of 12.6 percent (Table 3.17).

3.5.2 Dividend Remittances

Annual dividend remittances to non-residents with shareholding of more than 10% during 2002 to 2005 showed very low figures and were declining up to 2005 when there was marginal increase. In 2002 the remittance amounted to USD 0.015 million declined to USD 0.012 million in 2003 and further to USD 0.007 million in 2004. There was slight increase to USD 0.05 million in 2005.

Sectoral distribution showed that Transport, storage & communication sector reported the highest dividend payment of USD 0.01 million each year from 2002 to 2004. Manufacturing sector reported the highest dividend payments in 2005 to the tune of USD 0.04 million followed by Transport, storage & communication sector which paid out USD 0.01 million (Table 3.18).

Table 3.17 Rate of Returns on Investments (2002-2005), in USD Million

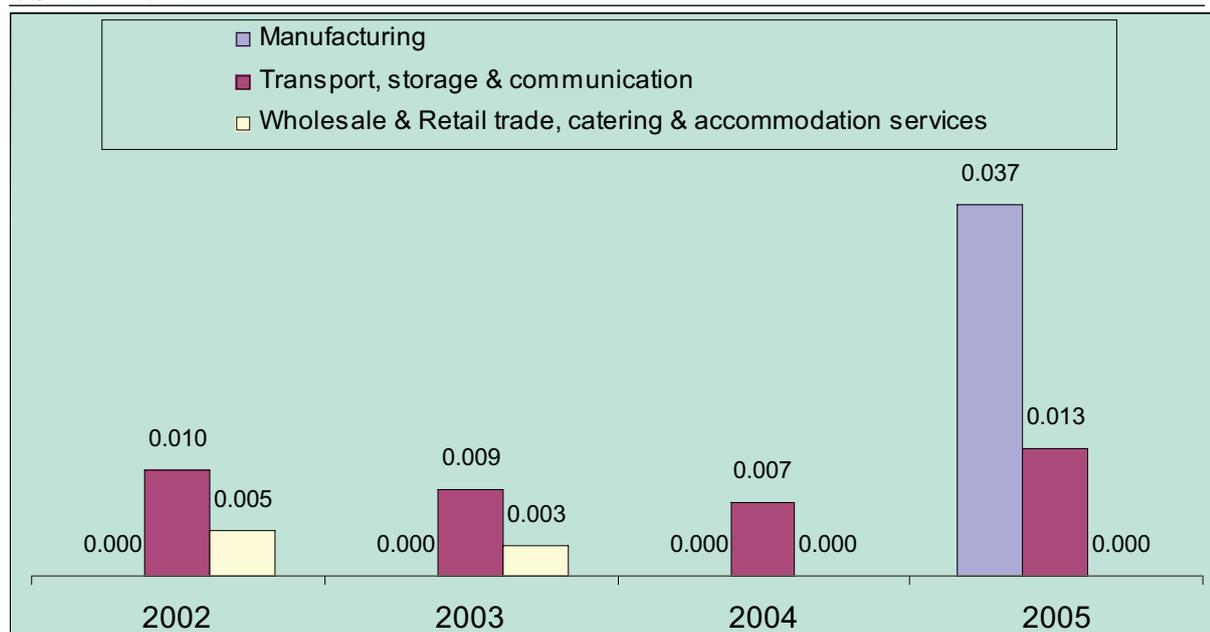
Sectors	Net Profit/Loss (Millions USD)				Foreign Equity (Millions USD)				Rate of Returns on Investments (In Percentage)			
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005
Agriculture, hunting, forestry and fishing	-0.2	0.0	-0.1	-0.1	0.3	0.3	0.3	0.2	-71.9	9.9	-18.4	-46.7
Community, social and personal services	0.0	0.0	0.0	0.0	0.0	0.0	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	0.0	1.0	0.0	0.0	0.0	1.1
Financing, Insurance, real estate, and business services	0.0	-0.1	-0.1	-0.2	0.0	6.4	6.5	5.8	0.0	-1.9	-1.9	-3.5
Manufacturing	0.4	0.1	-0.1	0.1	2.8	3.3	3.5	3.5	12.6	3.4	-1.9	3.4
Transport, storage & communication	-0.7	3.5	2.7	3.8	5.5	8.2	9.5	16.0	-11.9	42.8	28.1	23.7
Wholesale & retail trade, catering & accommodation services	-10.0	-6.2	-1.1	-7.4	45.7	41.7	62.2	58.7	-21.9	-14.8	-1.7	-12.6
Total	-10.5	-2.7	1.4	-3.8	54.3	59.8	82.0	85.1	-19.4	-4.4	1.7	-4.4

Source: Zanzibar Foreign Private Capital Survey, 2006

Table 3.18 Dividends to Non-Residents with Shareholding of more than 10% by Sector (2002-2005), in USD Million

Sectors	2002	2003	2004	2005
Manufacturing	0.00	0.00	0.00	0.04
Transport, storage & communication	0.01	0.01	0.01	0.01
Wholesale & retail trade, catering & accommodation services	0.01	0.00	0.00	0.00
Total	0.02	0.01	0.01	0.05

Source: Zanzibar Foreign Private Capital Survey, 2006

Chart 3.14: Dividends to Non-Residents with Shareholding of more than 10% by Sector in USD Million.

Source: Zanzibar Foreign Private Capital Survey 2006

Chapter 4

Investors' Perceptions

4.1 Introduction

Foreign private investments are undertaken mainly by transnational companies (TNCs) within their home countries and abroad and most of them come from developed countries. There is an increasing competition among developing countries to attract foreign private capital investments from the TNCs. The decision to undertake investments abroad depends upon perception of the TNCs in different countries. The perception will either attract new entrants or lead to increase investments or to slowdown investments in a particular country.

The investors' perceptions have been gauged on various social, political and economic factors that influence or can affect investment climate in Zanzibar. On top of assessing investors' perceptions the concerns serve as feedback and will be used to formulate policies and regulations to attract more investments.

The investors were also requested to identify the key issues pertaining to macroeconomic policies, infrastructure and public services, financial services, governance and labour factors that affect/influence their investment and business operations. Furthermore investors were asked to avail opinions on factors such as direction of their investments and source of information for the initial decisions.

During the survey, investors were requested to compare the investment environment during the start up¹ period and now. The investors were required to rank the impact of each of these factors ranged from 1 for "positive effect" to 5 for "negative effect". Rank 3 was given "no effect". Rank 2 and 4 were earmarked fairly positive and fairly negative respectively.

¹ The start up period was 2002; in the event that business started later than 2002, the investors gave their views based on the starting period.

4.2 General Perception Results

Out of 53 sub factors which affect investment, the survey revealed that 40 factors (76 %) were positively rated. However, Investors appeared to have negative perception on the remaining factors; these include; inflation, exchange rates, taxation, corruption, bureaucracy and smuggling. Other included high costs and non-availability of basic utilities, access to finance.

In an endeavor to have comparative perceptions between local and foreign investors; the survey included local investors to have synergy of responses to investment climate. Local investors' main concerns were on the availability of short and long term financing to facilitate expansion of the investments; and be competitive with foreign investors and also reduce unruly competition tendencies or behaviors. Most of foreign investors raised concerns on the speed of decision making, bureaucracy and corruption in some government institutions.

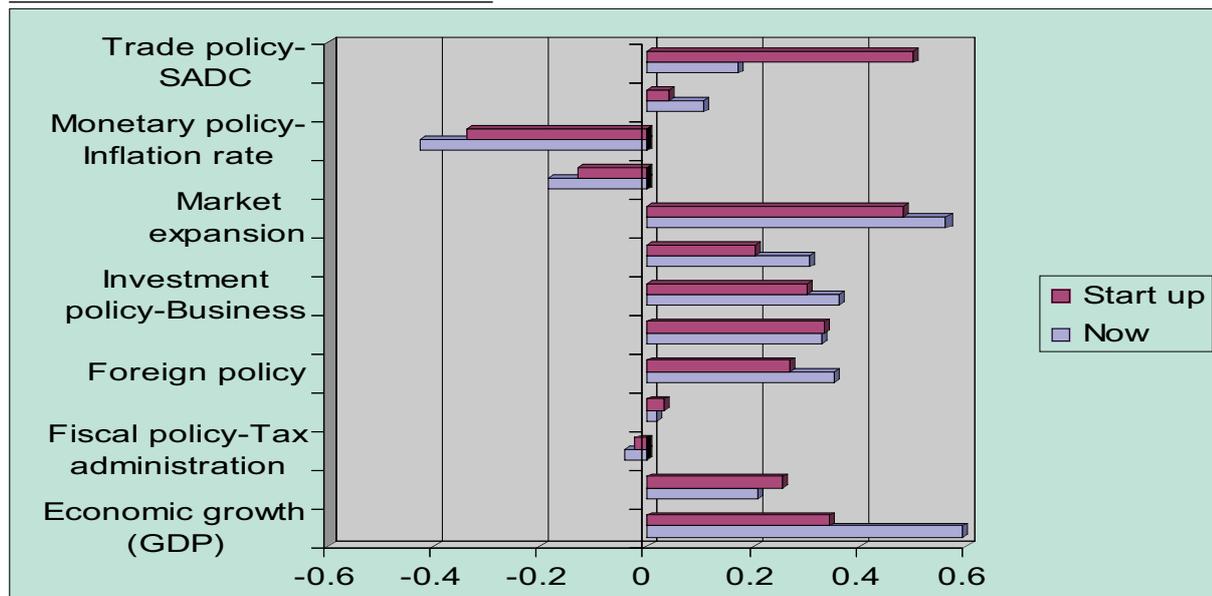
4.3 Findings on Investors' Perceptions

4.3.1 Macroeconomic Factors

The survey asked investors to assess efficacy of macroeconomic factors with regard to their investment operations, investment decisions and impact on their performance. The focus was on evaluation of the prevailing macroeconomic policies. Macroeconomic factors were further divided into sub categories including economic growth (GDP), Fiscal policy, Monetary policy, Trade policy, Market expansion, Environmental policy, Foreign policy and Investment policy.

Chart 4.1 below illustrates the result of the survey.

Chart 4.1 Macroeconomic Factors



Source: Zanzibar Foreign Private Capital Survey 2006

The survey revealed that investors were satisfied with the status quo for most of factors pertaining to investments, with exception of efficacy of monetary policy and level of inflation and slightly tax administration. However, the satisfaction was of different degrees.

The investors were satisfied with the prevailing rate of economic growth (GDP) hence, was ranked positively during both periods. This showed confidence and support to economic reforms being undertaken by the Government of Zanzibar. The latter is supported by consistently increase in growth rate from as low as 3.6 percent in 2000 and then surged to 9.3 percent in 2001, thereafter declined marginally to 8.6 percent in 2002 but maintained positive growth to 5.9, 6.4 and 5.6 percent in 2003, 2004 and 2005 respectively. The increase was in tandem with per capita income from USD 303 in 2004 to USD 327 in 2005 representing an increase of 7.9 percent. The investors were more optimistic now than it was before 2001.

Economic growth was supported by increase in capital formation derived from public and private investments, which increased from 13.8 percent of total GDP in 2002 to 15.5 percent in 2005. The confidence of investors enhanced, this was reflected by witnessing

increase in foreign capital investments; which increased remarkably by 61.0 percent from USD 117.02 million in 2002 to USD 188.5 million in 2005. Domestic investments increased by 5.0 percent from USD 39.17 in 2002 to USD 41.12 in 2005.

The investors in Zanzibar were satisfied with market expansion; this was backed up by future enlargement of market by having opportunity to serve more than 100 million people for East Africa alone. In consideration to the SADC region, in totality the market will widen to more than 360 million people.

Another favorable factor was trade policy which, to investors, although was still favorable, needed review as scale of preference showed decline from that of start up to present. This could be due to uncertainty around future tax administration and the implementation of the EAC Customs Treaty and the Union.

With regard to investment policy there was an increase in satisfaction related to previous period likely due to substantial reviews undertaken at latter period.

Monetary policy and inflation were perceived negatively by most investors; showed that there are no commendable efforts towards said factors. The fundamental issues were that monetary policy failed to lower inflation

rates hence affected business plans. Although the inflation rate remains at single digit (5.2 in 2002 to 9.7 in 2005) for the last four years, the level was still high compared to rate of returns to realise positive returns. The lending rates remained to be very high at double digit while saving rates were below 5.0 percent hence discouraging saving and discouraging borrowing. The high inflation and interest spread is a challenge to monetary policies which should strive to tame and remove obstacles in the lending to business so as to stimulate economic activities.

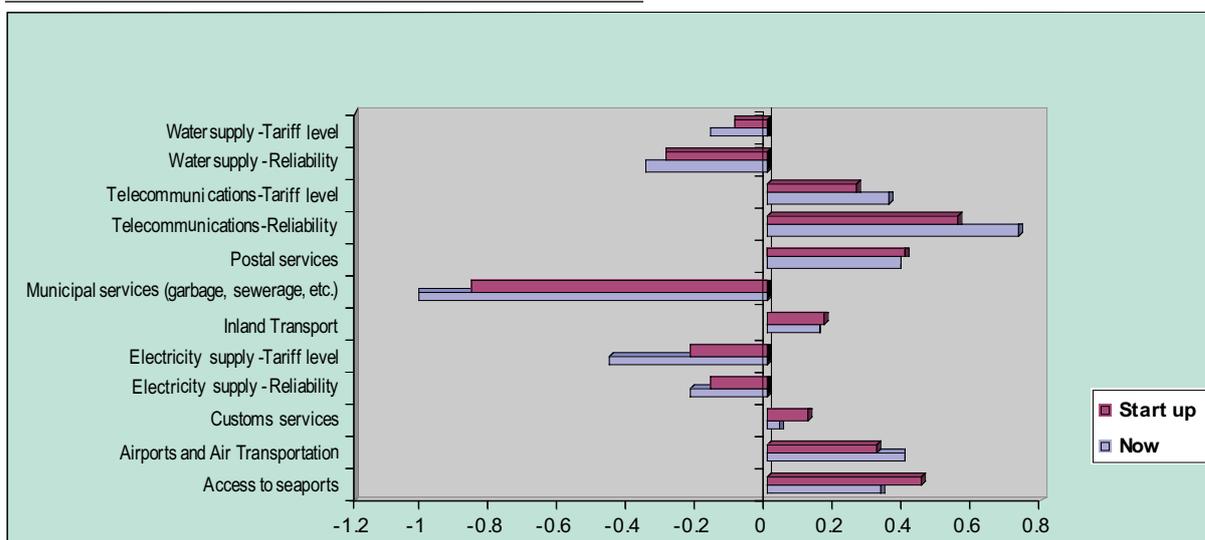
Exchange rate was negatively perceived during both periods. This stems from the fact that the Tanzanian shilling has been consistently depreciating against other foreign currencies, hence its affect in raising costs of imports and operations to investors. Since most foreign investors do not raise funds from local markets, they stand to gain on transactions at the local money markets. However, for long term sustainability of FDI, the challenge is to reduce volatility and hence implement export promotion strategies for local products. This will enhance foreign reserves and a safeguard or support to the Tanzanian shilling.

Factors assessed under the infrastructure were inland transport, access to sea port, air port and air transportation, electricity supply, water supply, postal services, telecommunications, customs services and municipal services. General perception showed out of twelve factors, seven factors or 58.0 percent were rated as favorable or fairly positive while five were unfavorable during the start up and the current period (**Chart 4.2**).

The survey showed that the investors have favorable perception of reliability of tariff on telecommunications, postal services, inland transport, customs services, airports and air transportation and access to seaports. However, satisfaction with regard to access to seaport relatively declined compared with start up level; this was largely influenced by ongoing rehabilitation work at Malindi port.

Investors rated negative perception for water supply - tariffs level in the sense that tariffs are still relatively high for business. With regard to water supply- reliability; the services are still far from satisfaction as the supply is not only reliable but water infrastructures are non existent to some areas potential for investments. The investors raised serious concern with regard to municipal services (i.e.

Chart 4.2 Infrastructure and Utility Services



Source: Zanzibar Foreign Private Capital Survey 2006

4.3.2 Infrastructure and Utility Services

The survey revealed that there was mixed perceptions with regard to availability, efficiency and quality of infrastructure services which are vital for investments operations.

solid and liquid waste management). These services have not improved as reflected at start up and now. The government is challenged to take drastic measures on the management and controlling of waste. This implies to put in

place measures to develop garbage disposal units and introduce recycling of the solid, liquid, plastics and other organic waste. The investors were not satisfied with electricity supply and tariffs. They argued that electric tariff are relatively high and power supply is not reliable.

4.3.3 Financial Factors

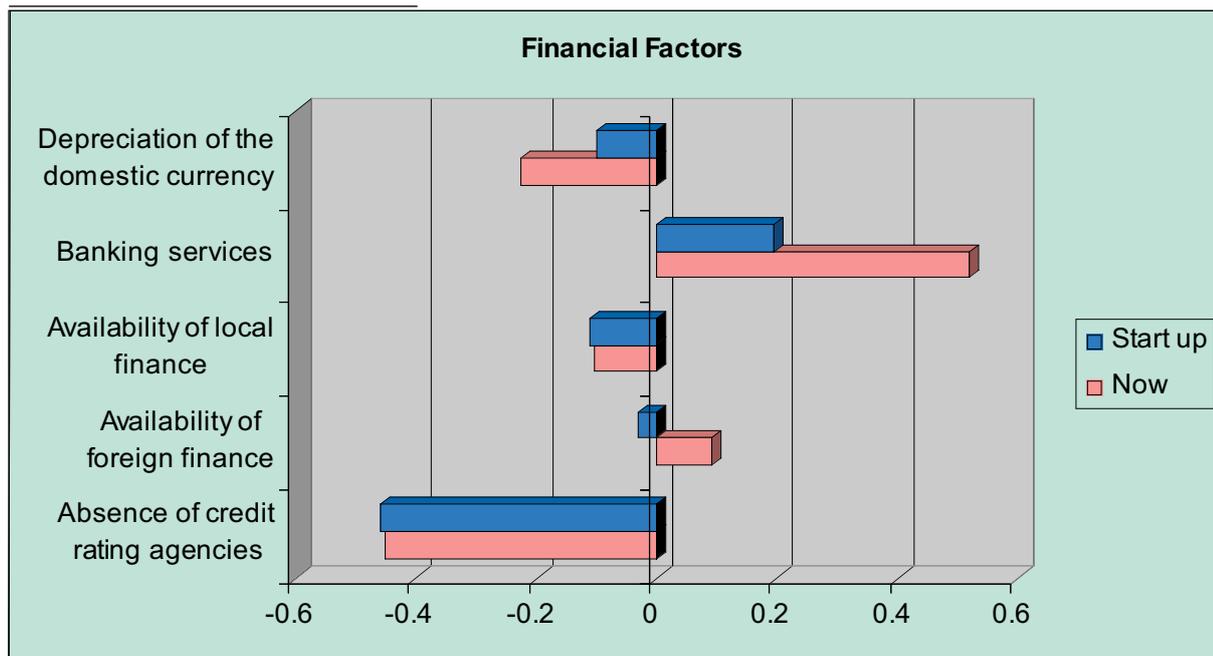
The investors were asked to evaluate financial factors which have influence and impact on their operations; these included banking services, depreciation of domestic currency, and availability of local finance, availability of foreign finance and absence of credit rating agencies. The general impression was that with the exception of banking services other financial factors were rated negatively.

The banking services were well perceived as provision of the same during the current period improved. Financial reforms and in particular revision of banking and financial institutions laws was the driving factor. The reforms led to increased number of local and foreign banks operating in Zanzibar creating competition and increasing the quality of bank services. This is collaborated by expansion of bank branch network and the introduction of new financial products such as ATM services, efficient money transfer

services, credit and debit cards services thus increasing competition and efficiency in the banking sector. The lack of credit rating agencies were negatively perceived by almost all investors during these periods as it did slow down lending process to investors on account of banks being risk averse. Availability of foreign finance improved from negative during start up to positive now partially due to availability of loans from some international banks with branches in Zanzibar like Barclays Bank. **Chart 4.3** illustrates the results of the survey.

The investor's registered negative perception with regard to depreciation of local currency within both periods and the concern worsened now compared with start up period. Depreciation of the domestic currency increases costs of investment operations in local terms especially when imports are on high side during construction and/or during operations. Although depreciation has negative impact on business operations, the fact cannot, however, be generalized. For those investors who raise capital in foreign exchange, higher tariffs on the hard currency are advantageous as domestic merchandise are relatively cheaper. Further more, foreign investors do their most of their purchases overseas and hence are not directly affected by the exchange rate fluctuations. However, for those investors

Chart 4.3 Financial Factors



Source: Zanzibar Foreign Private Capital Survey 2006

raising capital in domestic money markets, the impact of reducing investment profits and the services or products is evident and hence the business becomes uncompetitive compared to countries with stable currency. The Government and Bank of Tanzania is challenged to address this concern.

The availability of local finance was also negatively perceived showing slight improvement compared with start up and now period. The concerns evolved around high lending rates and stringent collateral conditions, which are aggravated by lack of credit rating agencies. The challenge is to review land and mortgage laws and establish and strengthen commercial courts which fast track business oriented disputes. The Second Generation Financial Sector Reform Programme will address the hurdles.

4.3.4 Political and Governance Factors

The factors examined include political stability, corruption, investment incentives and facilitation, bureaucracy, customs procedure and tax collection efficiency.

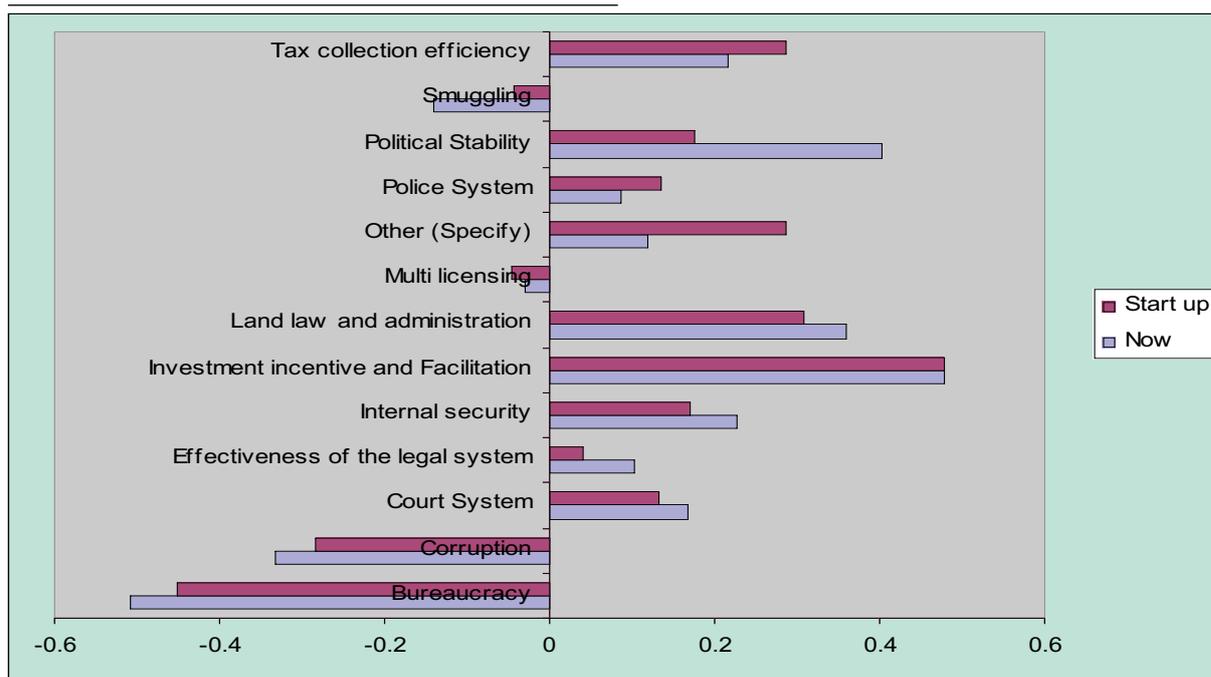
In general, the investors were satisfied with most of evaluated factors with the exception of bureaucracy, corruption, multi licensing and smuggling. With regard to bureaucracy and

corruption it was perceived to most investors that both vices are on the increasing trend. The survey revealed that investors were comfortable and optimistic with performance of tax administration and political stability, which has improved considerably. Considerable comfort was noted with regard to investment incentives and facilitation. Improvements were also reported in internal security and there is effectiveness of both the legal and court systems (**Chart 4.4**).

4.3.5 Speed on Decision Making on Government Institutions

The survey revealed that investors generally were comfortable with efficiency of ten institutions servicing or facilitating investments in Zanzibar. That the speed of the decision making which is imperative to investors as it saves time and reduces operations costs were highly rated. Most of the investors are impressed with the speed of decision making at Zanzibar Investment Promotion Authority. However the concept of one stop center is expected to be effected after harmonization of laws of other stakeholders in investment issues. Other institutions which showed improvement include Commercial Banks, Commission of Labor, Tanzania Revenue Authority, Immigration and Commission for Tourism.

Chart 4.4 Political and Governance Factors



Source: Zanzibar Foreign Private Flow Survey 2006

However, there is need of expediting decision making process by the Department of Environment, the Zanzibar Revenue Board and Land Registration (**Chart 4.5**).

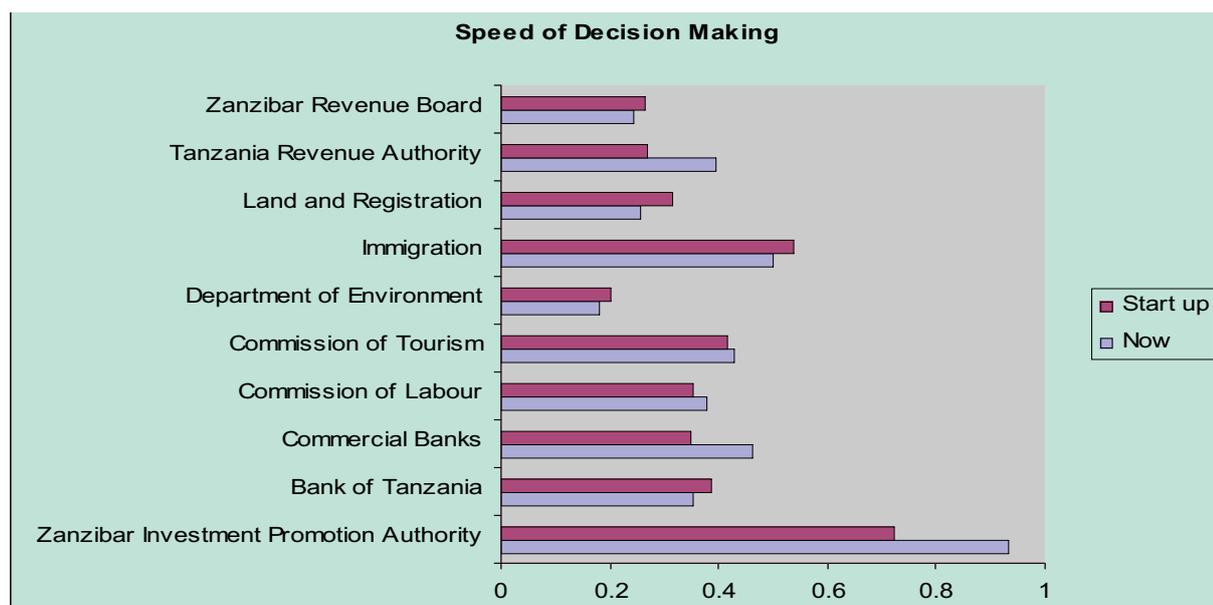
It was further revealed that, some investors raised concern to improve relationship between tax payers and tax administrators. Despite the improvement of decision making institutions, bureaucracy was perceived negatively by majority of investors.

4.3.6 Labour Factors

The labour factors include Labour legislation, restrictions regarding bringing in expatriates, education and skill levels, wage levels, working ethics/culture and HIV / AIDS.

The survey revealed that labor factors were perceived positive with exception of HIV/AIDS, education and skill levels. It is likely that HIV/AIDs will affect operations and

Chart 4.5 Speed of Decision Making



Source: Zanzibar Foreign Private Capital Survey, 2006

reduce productivity due to absenteeism and inefficiency. Similarly low levels of education and low skills have impact on the quality of services and productivity. The Labour Legislation and Restrictions with regard to employing expatriates were found to be positive and increased during the current period. This implies that the labour laws and procedures for bringing expatriates are favorable to investors.

4.3.7 Diverse Factors

The analysis of diverse factors had three sub sectors; the accessibility to new technology, global economic situation and having Dar es Salaam port of transit.

The study revealed that perception of investors on global economic situation improved considerably to match with investment climate. With regard to accessibility to new technology (such as ICT), investors showed remarkable improvements implying it was favorable and they do not affect their investment.

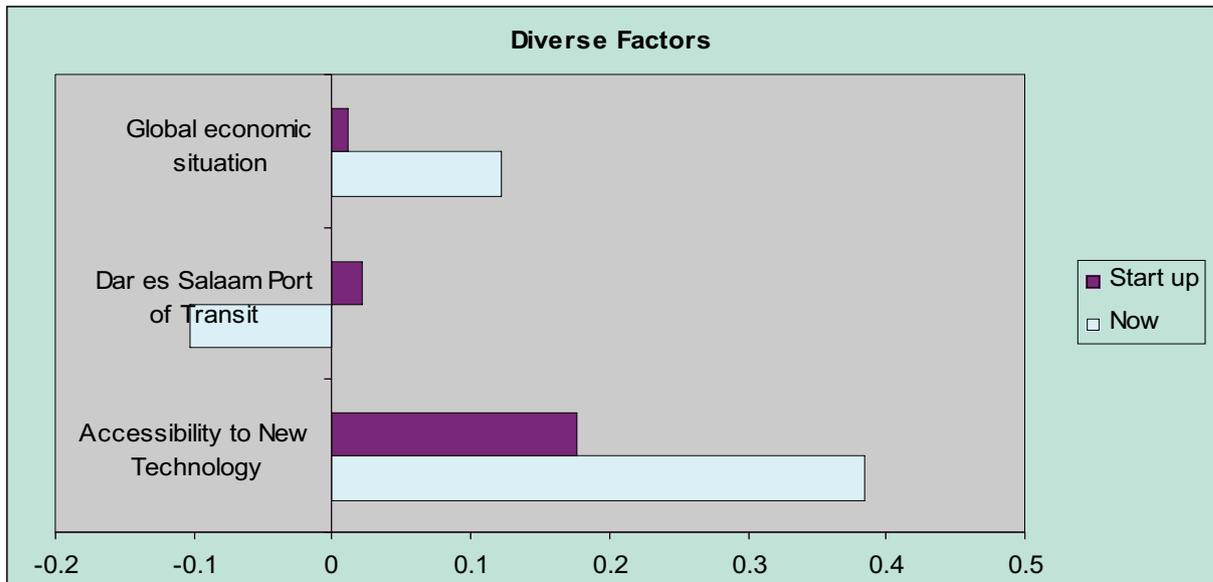
However, the study revealed that the Dar es Salaam port of transit was ranked fairly positive during the start up but perception reversed to negative during the current period. The main concerns were treatment of business cargo at Dar es Salaam port, specifically goods on transit to/from Zanzibar to /from other countries. It was observed that the main problem was lack of clarity with or conflict of office practice and custom procedures (**Chart 4.6**).

4.3.8 Factors Influencing Initial Investors' Decision

Investors were asked to rate the important factors which influence their initial decision to invest in Zanzibar. The main factors include market access, political stability, investment environment, credit facility and geographical location (**Table 4.1 and Chart 4.7**).

The study revealed that political stability, foreign market access, investment policy,

Chart 4.6 Diverse Factors



Source: Zanzibar Foreign Private Capital Survey, 2006

geographical location, Rule of Law/ Governance and investment incentives were considered very important factors influencing their decision to invest in the country. Other fairly important factors included labour cost and productivity, good governance and rule of law, low corruption and domestic market access.

4.3.9 Direction on Future Investment in Zanzibar

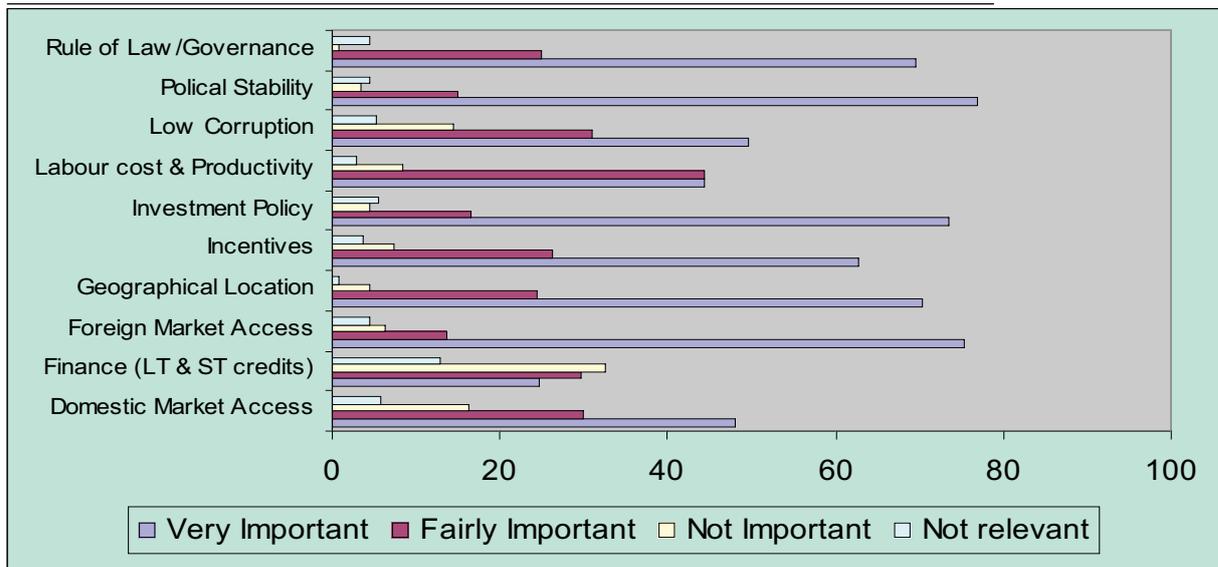
Investors were asked to indicate their investment direction if they intend to expand, maintain or contract over the next three years. The study revealed that most investors

are optimistic on future expansion on their investment in Zanzibar. The findings showed that 75.5 percent of investors are willing to expand their business and improve existing facilities. Also 69.1 percent undertake staff training while 68.5 percent ready to recruit nationals. The study further revealed that 42.0 percent of the investors are willing to maintain the recruitment of expatriates in future and 38.2 percent maintain gender balance (Table 4.2).

4.3.10 Sources of Information

Generally investors used different sources of information which influenced their

Chart 4.7 Factors Influencing Initial Investment Decision in Percentage



Source: Zanzibar Foreign Private Capital Survey 2006

initial investment decision in the country. Zanzibar has been marketing its investment opportunities through different sources such as annual reports, news letter, websites, forums, missions, other publications and other sources through different government institutions (**Chart 4.8**). Further studies are required to assess the impact of different investment marketing tools.

The study reveals that most investors are informed through ZIPA and other sources such as investors' forum, media, business associates and word of mouth. Furthermore, it was noted that different sources of information are responsible for supplying investment and business information to potential investors.

The survey revealed that total direct employment declined by 6.9 percent in

percent of total employees and Tanzania Mainlanders represented 23.4 percent while foreigners accounted for 6.1 percent of total employees (**Table 4.3 & Chart 4.9**).

4.4.1 Employment by Sector

The survey revealed that on average between 2002 and 2005, Wholesale & retail trade, catering and accommodation services sub sector was the largest employer during the period under review accounting for 75.0 percent of total employment. The second sector was transport, storage and communication which employed 12.6 percent of total employees and third sector agriculture accounting for 5.1 percent followed by manufacturing accounting for 3.6 percent of total employment. Other remaining sectors had 4.0 percent of the total employment (**Table 4.4 & Chart 4.10**).

Table 4.2 Direction on Future Investment in Zanzibar

	Expand	Maintain	Contract	Not relevant	Total
Construction of new building	54.7	24.5	2.8	17.9	106
Diversify in other sectors	36.3	32.4	1.0	30.4	102
Diversification of product/services	56.9	25.5	1.0	16.7	102
Export of the products	31.0	13.1	3.6	52.4	84
Gender balance	43.1	38.2	1.0	17.6	102
Import of capital goods	41.2	23.7	3.1	32.0	97
Improvement of existing facilities	75.5	19.4	2.0	3.1	98
Investment in technology	56.9	27.5	2.0	13.7	102
Mergers and acquisition	24.2	16.8	2.1	56.8	95
Recruitment of expatriates	23.1	42.3	14.4	20.2	104
Recruitment of nationals	68.5	28.7	0.0	2.8	108
Staff training	69.1	20.9	4.5	5.5	110

Source: Zanzibar Foreign Private Capital Survey, 2006

4.4 Employment

Table 4.3 Employment Category

Employment Category	2002	%	2003	%	2004	%	2005	%	Average	%
Foreign Nationals	221	6.1	226	6.7	275	4.9	441	6.7	290.8	6.1
Tanzania Mainland	1,003	27.8	374	11.1	1,489	26.5	1,864	28.2	1182.5	23.4
Tanzania Zanzibar	2,384	66.1	2,757	82.1	3,864	68.7	4,315	65.2	3330.0	70.5
Total	3,608	100	3,357	100	5,628	100	6,620	100	4803.3	100.0

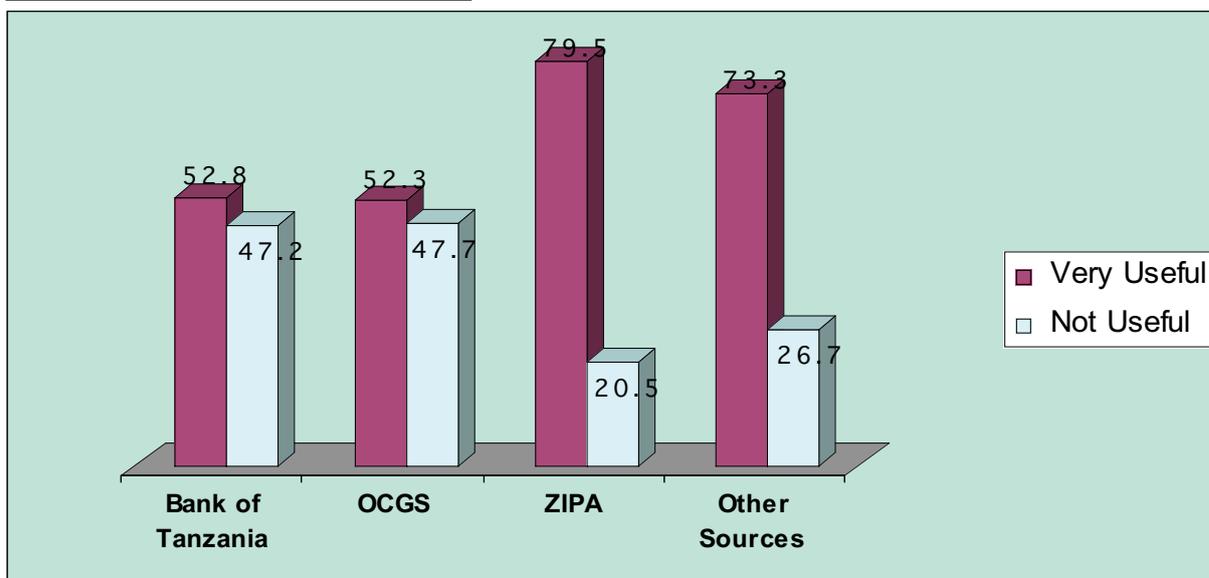
Source: Zanzibar Foreign Private Capital Survey, 2006

2003 to 3,357 people from 3,608 registered in 2002. Moreover, employment increased substantially by 68.0 percent to 5,628 in 2004, thereafter the increasing rate declined to 17.6 percent registering 6,620 employees. It was further revealed that on average during the four years Zanzibaris accounted for 70.5

4.4.2 Employment by Region

The study revealed that employment opportunities were concentrated into Urban West and North Unguja regions; on average accounting for 45.1 percent and 42.5 percent respectively. This was in line with

Chart 4.8 Sources of Information



Source: Zanzibar Foreign Private Capital Survey, 2006

concentration of investments particularly tourist hotels in the two regions. Employment in North Pemba and South Pemba regions had least percentage of recruits reflecting inadequate foreign investments. (Chart 4.11).

4.4.3 Staff Development Plan

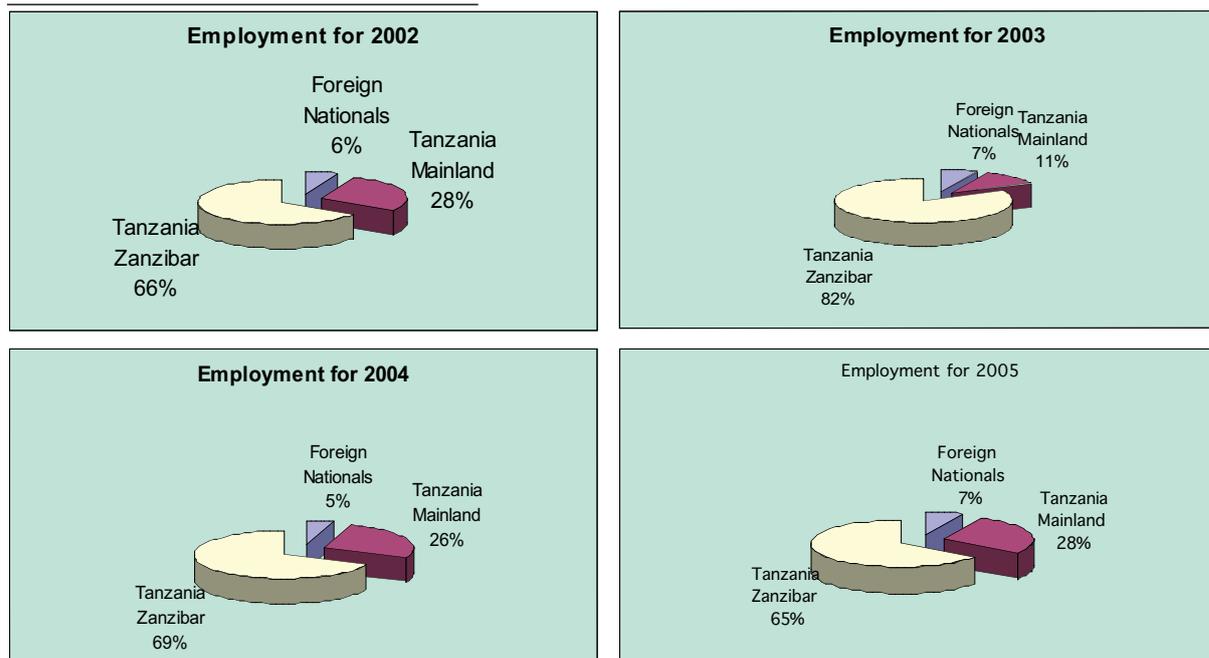
The study observed that most companies have staff development plans for their local employees. Out of 142 respondents, 104 companies or 73.0 percent confirmed having the staff development plans with a view of enhancing staff efficiency. The study further

revealed that there is gender consideration for most investors in training the staff, females accounted for 47.0 percent in the said plans (Table 4.5).

The number of female and male staff who have undergone training from 2002 to 2005 increased from 49 to 78 staff respectively.

The survey also revealed that, investors had concerns on low level of education among the local employees and lack of advanced training in tourism management. Furthermore,

Chart 4.9 Employment Category



Source: Zanzibar Foreign Private Capital Survey 2006

Table 4.4 Employment by Sector

	2002	%	2003	%	2004	%	2005	%	Average	%
Agriculture, hunting, forestry and fishing	38	1.1	88	2.2	482	8.6	550	8.3	289.5	5.1
Community, social and personal services	50	1.4	43	1.1	38	0.7	47	0.7	44.5	1.0
Construction	43	1.2	43	1.1	43	0.8	494	7.5	155.8	2.7
Financing, Insurance, R/estate, and business services	5	0.1	16	0.4	17	0.3	18	0.3	14.0	0.3
Manufacturing	111	3.1	159	3.9	198	3.5	243	3.7	177.8	3.6
Transport, storage & communication	492	13.7	583	14.3	644	11.4	733	11.1	613.0	12.6
W/sale & Retail trade, catering & acco. services	2,865	79.5	3145	77.1	4206	74.7	4535	68.5	3688	75.0
Total	3,604	100.0	4077	100.0	5628	100.0	6620	100.0	4982	100.0

Source: Zanzibar Foreign Private Capital Survey 2006

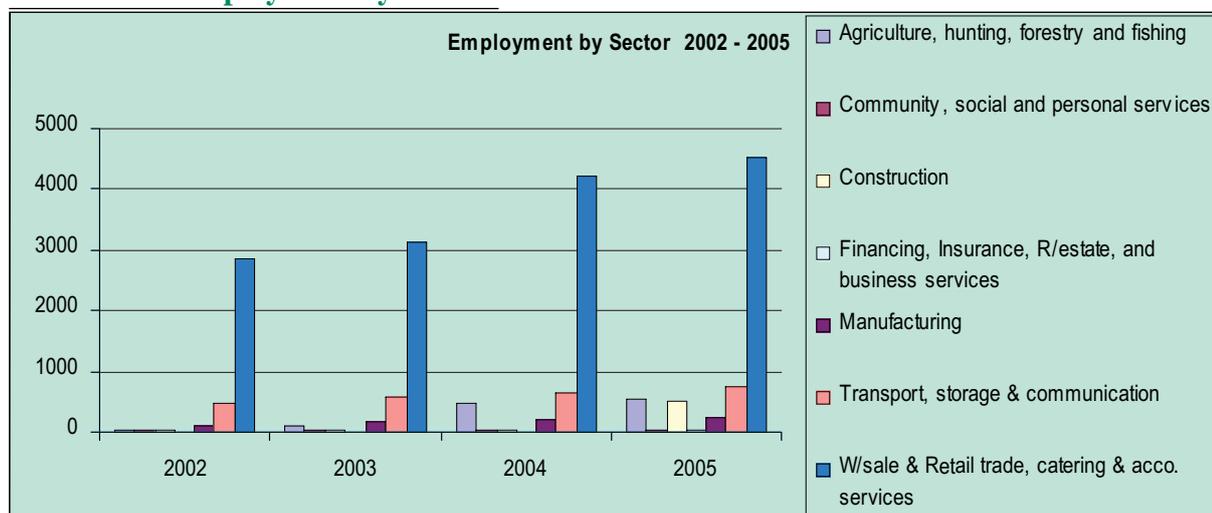
work ethics did not conform to international standards and that there was competition among investors scouting for trained employees. In an endeavor to address the said concerns investors are compelled to recruit labour from foreign countries. In response, the Government has been undertaking education programmes and vocational training that aim at improving the level and the quality of education in Zanzibar. However, these efforts need to be collaborative by involving the private sector. Importantly, there is a need to implement the New Education Policy which includes, among other issues, the review of school curriculum to conform to best practices and imparting the new generation on work ethics (**Chart 4.12**).

4.5 Sources of Raw Materials

The study identified that, most investments sourced their raw materials from domestic sources. This is vital in establishing linkages with the domestic economy. With regard to manufacturing sector; the survey showed that manufacturers obtained 61.8 percent of their raw materials from domestic sources (including Tanzania Mainland) while 31.2 percent were imported. This indicates that consumption of domestic raw materials from the manufacturers is high. However, some manufacturing companies prefer imported raw materials citing availability and special quality

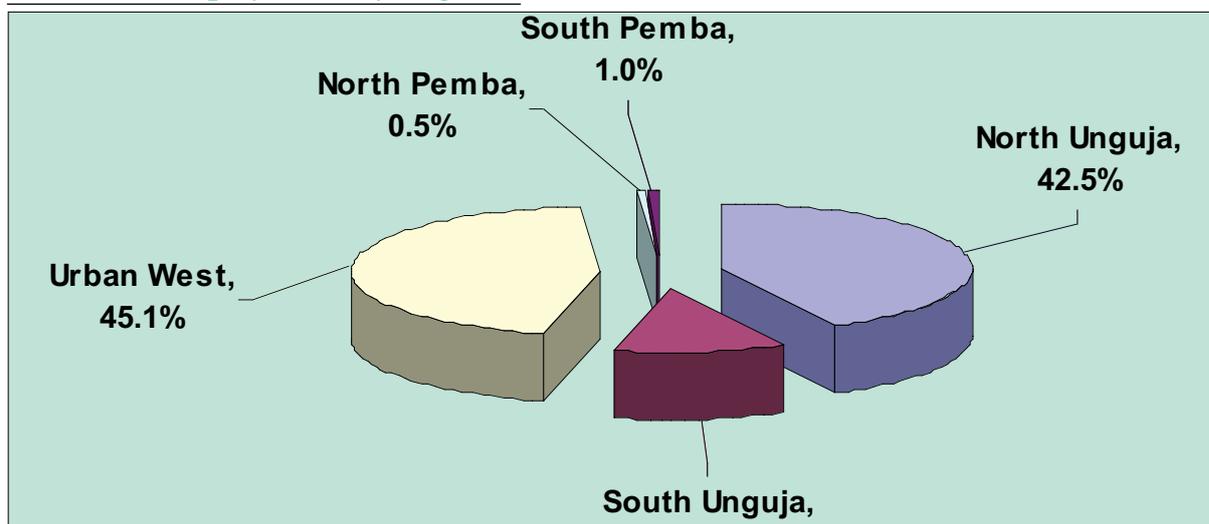
4.6 Corporate Social Responsibilities

During the survey, the investors were requested to indicate their contribution on the corporate social responsibility. The survey showed that investors' total contributions on social activities

Chart 4.10: Employment by Sector

Source: Zanzibar Foreign Private Flow Survey, 2006

Chart 4.11 Employments by Region

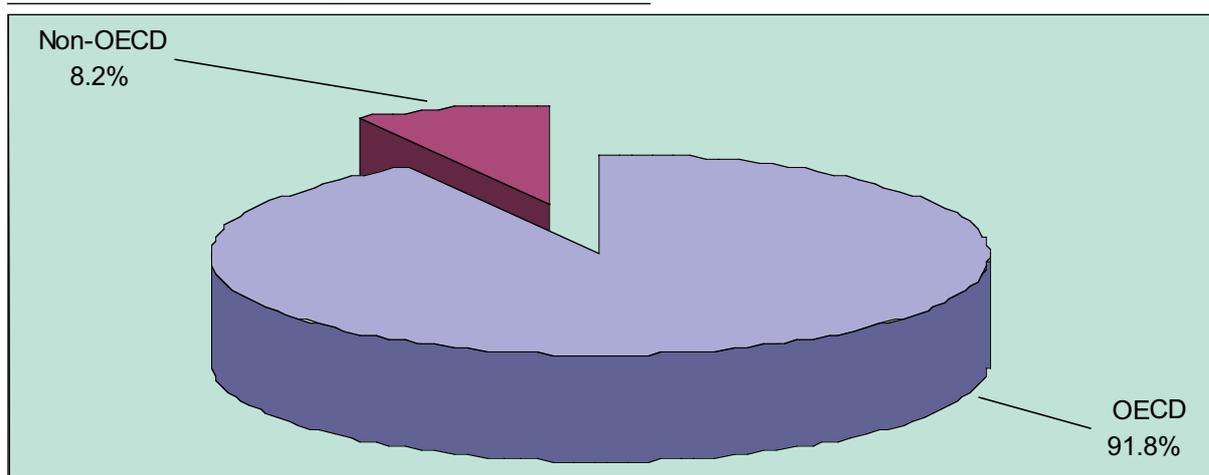


Source: Zanzibar Foreign Private Capital Survey 2006

have been declining from USD 0.48 million in 2002 to US D 0.17 million in 2003, then slightly increase to USD 0.28 million in 2004, and tremendous increase to US D 8.92 million in 2005. The highest contributions were on

Other Investments (e.g. Religious activities), Sports, Environment and Education for 2002, 2003 and 2004. While in 2005, Environment, Education and Sports were highly contributed by investors (Table 4.6).

Chart 4.12 Staff Development Plan 2002-2005



Source: Zanzibar Foreign Private Capital Survey 2006

Table 4.6 Corporate Social Responsibilities

Social Activity	2002	%	2003	%	2004	%	2005	%	Average	%
Arts and Culture	0.002	0.5	0.003	1.6	0.003	1.2	0.004	0.0	0.003	0.1
Education	0.011	2.2	0.011	6.6	0.014	4.8	1.534	17.2	0.392	15.9
Environment	0.017	3.6	0.017	10.0	0.021	7.4	3.275	36.7	0.833	33.8
Health and Welfare	0.007	1.5	0.009	5.3	0.012	4.2	0.010	0.1	0.010	0.4
Others	0.432	90.3	0.081	49.0	0.149	52.0	0.823	9.2	0.371	15.1
Road	0.001	0.2	0.002	1.0	0.027	9.5	0.759	8.5	0.197	8.0
Safety and Security	0.001	0.1	0.001	0.7	0.006	2.1	0.752	8.4	0.190	7.7
Sports Development	0.002	0.5	0.038	23.0	0.044	15.3	1.006	11.3	0.273	11.1
Water	0.005	1.0	0.005	2.9	0.010	3.5	0.755	8.5	0.194	7.9
Total	0.479	100.0	0.166	100.0	0.287	100.0	8.918	100.0	2.462	100.0

Source: Zanzibar Foreign Private Capital Survey 2006

Chapter 5

Main findings and policy implications

5.1 Introduction

The survey identified main findings across several areas and aspects pertaining to investments in Zanzibar. The findings are geared to avail fundamental inputs for what is entailed in foreign private capital investments operations in relation to domestic economy and evaluate efficacy of prevailing policies. The aim is to call upon policy interventions by public and private sectors. This chapter summarizes possible remedial measures for consideration.

5.2 Magnitude and Composition of Foreign Private Capital (FPC)

The study revealed that, during the period under review foreign private capital flows to Zanzibar was largely driven by Foreign Direct Investment (FDI) which accounted for 88.1 percent of total, while Other Investments accounted for 11.8 percent and Portfolio Investments accounted for 0.1 percent. FPC flows surged by 76.7 percent in 2003 to USD 45.6 million from USD 25.8 million registered in 2002; thereafter FPC declined by 6.0 percent to USD 42.9 million in 2004 and increased by 32.6 percent to USD 56.9 million in 2005.

When considering FDI as prime mover of FPC, the survey revealed that, in comparison to world context, Africa and neighboring island economies, Zanzibar FDI inflows registered relatively low growth.

Zanzibar's FDI growth rate increased by 1.0 percent in 2004 by attracting USD 40.8 million from USD 40.6 million in 2003 and thereafter FDI growth increased by 20.0 percent in 2005 by absorbing USD 49.0 million. In contrast, world FDI inflows grew by 27.4 percent to USD 710.7 billion in

2004 from USD 557.8 billion registered in 2003 and further increased by 28.9 percent to USD 916.3 billion from USD 710.7 billion recorded in 2004. FDI inflows in developing countries for 2004 increased by 57 percent to USD 275.0 billion in 2004 from USD 175.1 billion in 2003 and further increased by 21.5 percent to USD 334.3 billion in 2005. In Africa, FDI inflows for 2004, slightly declined by 7.0 percent to USD 17.2 billion from USD 18.5 billion realized in 2003 before it surged by 78.5 percent to USD 30.7 billion in 2005. In comparison with neighboring island economies, in 2004 Mauritius experienced decline in FDI inflows by 77.7 percent to USD 14.0 million from USD 63.0 million in 2003 before increasing by 71.4 percent to USD 24.0 million in 2005. Seychelles registered FDI inflows amounting to USD 37.0 million 2004 down by 36.2 percent from USD 58.0 million in 2003 and remarkably increased by 121.6 percent to USD 82.0 million in 2005 (World Investment Report, WIR 2006).

Reasons attributed to low growth in FDI inflows in Zanzibar include slow progress in increasing production capacity and lack of robust diversification measures. In this regard Zanzibar is challenged to put in place policy and programmes to attract investments in unexploited sectors potential for FDI such as fishing and agro-processing industries. This include skills enhancement programme to ensure adequate supply of skilled labor (Mauritius and South Africa have been very successful in lowering labor cost through aggressive training programmes). The other factor contributing to lack of investments in fishing is legal and technical framework for the exploitation and export of marine products, while in agro-processing it is basically the stringent institutional and legal structures in allocating farming land for investment and encouragement by relevant sectors.

5.3 Foreign Direct Investment

5.3.1 Foreign Direct Investment by Financing Type

The survey further revealed that inflows of FDI were dominated by direct equity investments and inter-company long term loans; the two accounted for 88.8 percent of total FDI inflows over the period under review. This shows that the FDI financing pattern relies mainly on own fund and long term borrowings, which implies relative sustainability compared to short term borrowings.

However, some studies on FDI further suggest that:

- Despite substantial benefits of FDIs such as its ability to bring new capital for investments, raise exports and promote higher productivity through new investments in physical and human capital; FDIs are not panacea. They may be associated with threats due to market failure resulting into suffocation of nascent industries in host countries,
- Furthermore, FDIs may not be sufficient enough to raise the relevant capabilities and that weak bargaining and regulatory capabilities by the host government often leads to the unequal distribution of benefits or abuse of market power by the foreign companies. In the long run, FDIs could result into capital repatriation in the form of dividends remittance.

Thus, measures to promote FDIs should go together with promotion of domestic investments. For the meantime local investors stand little chance to compete with foreign investors as they lack adequate capital. The financial sector in Zanzibar has not yet played its role to finance investments. Statistics shows that lending to deposit ratio is extremely low; on average for the period of seven years (2000-2006) the ratio stood at 20.3 percent of GDP against desirable level of above 40.0 percent. The possible constraints of accessing local funds include absence of credit agencies, high interest rates, lack of flexible mortgage

laws and stringent collateral requirements. However, the Governments have put in place the Second Generation Financial Sector Reforms Programme to address constraints relating to finance. The programme intends to put in place legal, judicial and institutional reforms that would remove obstacles to lending, deepen financial intermediation and help develop financial system with a view to attaining financial stability and support economic development.

5.3.2 Foreign Direct Investment by Sector

During the survey period, it was revealed that, Wholesale & retail trade, catering and accommodation services sector led by hotel investments has been dominant recipient of FDI. On average it accounted for more than 77.6 percent of total FDI stock. Agricultural sector attracted a mere 0.4 percent of total FDI stock.

Agriculture sector is not attracting substantial FDI. Various reasons could attribute to this, for instance: unclear land policy; the existing land tenure systems do not clearly state the assurance of user rights, a situation which discourages long-term investments in land improvements¹. Furthermore, the agriculture sector policy lacks clear priorities leading into an ad hoc implementation and institutional vacuum. Small domestic market coupled with difficulties in accessing foreign market is another bottleneck inhibiting FDI in agriculture.



Small scale fisherman along Zanzibar coast. Zanzibar is enriched with fisheries resources which remain unexploited

¹ Zanzibar Food Security & nutrition Situation Analysis June 2006 Page 5

Zanzibar has abundance marine resources for fisheries; however, fishing sector has remained unexploited. This is attributed to number of basic factors including unclear licensing procedures on foreign deep sea investments, the sector also lack well defined incentive package to attract prominent investors. Lack of fisheries laws and regulations to preserve marine ecosystem and safeguard quality of fishes is also a problem in the fishing industry. The government through the Ministry of Agriculture, Livestock and Environment



Reef Fish at Mnemba: Nearly 600 types of species of brilliantly coloured reef fish occur around Mnemba and the surrounding reefs. Among the most striking are moorish idol, palette surgeonfish and clown triggerfish.

is challenged to address the aforementioned impediments to facilitate creation of conducive investment environment in the fishing sector.

Despite low FDI into agricultural sector, it remains a dominant sector of the economy as 40.0 percent of the population of Zanzibar depends on it for their livelihood. On average it accounts for 23.0 percent of total GDP and more than 60.0 percent of employment.

Based on afore, agricultural sector should have been vital to link the domestic economy and the foreign investments. It was further observed that there is very low forward and backward economic linkages between FDI and agricultural sector as most of the agricultural produce are not used by hotels and restaurants with the exception of fish. The Government, producers and other stakeholders are challenged to promote modern farming to meet international standards of agricultural

produce, mainly quantity, quality and packaging.

ZIPA in collaboration with respective ministries are challenged to undertake aggressive promotional campaign to sell opportunities which are available in the fishing sector, agro processing and cultivation of spices. Investments in these areas will generate more revenue to the government, will increase foreign exchange earnings and will create employment opportunities (BOT Study – Prospects and Problems of Fishing; The Case of Zanzibar – 2005). The Government is challenged to put in place special incentives to attract FDI into fishing industry. As for agro-processing industries emphasis should be on reviving cloves and spices processing industries.

Manufacturing sector accounted for 3.6 percent of total FDI stock during the period under review. Major factors for low FDI into manufacturing are lack of well established industrial investment infrastructure, low industrial skills, cumbersome licensing and investment approval procedures, administrative constraints including legal and regulatory framework and weak enforcement of the laws. These observations call for enhancement in linkage between FDI and SMEs by promoting SMEs competitiveness through ensuring access to capital and non financial services. Priority by the Government and private sector should be on competitive industries that add value to agriculture and tourism sectors. Furthermore, the Government and the private sector need to upgrade technical training colleges and vocational training centers. The Government also needs to simplify and enhance transparency by establishing centralized licensing board and lengthening expiry period of licenses.

Transport, storage and communication had average share of 14.9 percent of the total FDI stock. To attract more FDI in this sector, transportation policy and procedures should clearly elaborate the involvement of private sector in management and operations of transport and communication infrastructures. Potential areas of FDI in this sector include

operations of sea and air ports activities, transshipment trade and modern servicing facility for sea vessels (dry dock).

The survey revealed that there is no FDI in Community, social and personal services mainly because the sector has not been adequately promoted. Potential areas of FDI in this sector include hospital and educational facilities, conference centers and sports.

5.3.3 Foreign Direct Investment by Region

FDI inflows showed investments are concentrated in North and Urban West Regions in Unguja, which implies that the referred regions have relatively requisite investments attractions and facilities. The Government is hence challenged to upgrade the socioeconomic infrastructures such as seaport, airport, power and financial services to attract investors in disadvantaged regions specifically in Pemba. There is also need for the Government to provide specific incentives for investments in disadvantaged regions. This should go together with community awareness, sensitization and promotion of new tourism attraction.

5.3.4 Foreign Direct Investment by Source Country

The Survey revealed that investments from OECD countries (specifically Italy, UK and Spain) dominated FDI inflows into Zanzibar. On average these three countries accounted for 56.4 percent of the total FDI. Geographical concentration of these three countries call for diversifying measures to attract other countries in order to minimize risks associated with political and adverse economic factors. Specific measures are as well required to attract more investments from non-OECD countries and other emerging economies. Special attention should focus on Gulf States, particularly Oman, as the country has special historical relationship. The Government through ZIPA and other ministries are challenged to enhance investment promotion strategies taking into account diversification of countries from over dependency of OECD to other regions

such as the Asian markets (China, Korea, India, Japan, Malaysia, Russia), USA and the Latin America.

5.4 Other Investments

The survey also revealed that besides FDI inflows the second major source of foreign investments are Other Investments, accounting for 11.3 percent of total foreign private capital flows. Other Investments comprise long-term and short term loans from unrelated companies, largely borrowed from abroad. This confirms the finding that there are difficulties in accessing credits from local commercial banks. However, such external sources could create other financial problems such as the external liabilities, which, if not well managed may result into financial crisis, BOP problem attributed to interest payment and remittance of dividends.

The Government is challenged to ensure that increase in foreign borrowing should be closely monitored to deter financial crisis as was evidenced in 1990s in the Far East Countries; Indonesia, Malaysia, Thailand and latter in Mexico. This could be implemented by formulating Debt Management Strategy to monitor all foreign borrowings as well as speculative investments.

5.5 Profitability and Rate of Return

The survey revealed that:

- During the 2002 to 2005; with the exception of year 2004 the FDIs recorded losses. The profit earned in 2004 was a mere USD 1.4 million on all investments.
- Overall rates of return were negative during the period under review with exception of 2004 which was 1.7 percent.
- The Wholesale & retail trade, catering & accommodation services sector which is led by tourist hotels and accounted for highest share of FDI stock of more than 75.0 percent. However, Wholesale & retail trade, catering & accommodation services sector reported loss throughout the

survey period; fluctuating from USD 10.0 million in 2002, USD 6.2 million in 2003, USD 1.1 million in 2004 and increased to USD 7.4 million in 2005. For the period 2002 to 2005 it accounted for more than 90.0 percent of total loss. However, from the Survey of 2000 to 2001, the sector reported profit of USD 5.7 million in 2000 and breakeven in 2001.

- Commission for Tourism reported significant growth in the number of visitors for the period 2002 to 2005. The number of visitors inflow were 87,511 in 2002 decline by 28.0 percent to, 68,365 in 2003 increased thereafter by 35.0 percent to 92,161 in 2004 and surged by 36.1 percent to 125,443 in 2005.. Hence it should be expected that the hotel and restaurant sector should have experienced strong growth and profitability over this same period.
- The fact that the Survey statistics do not seem to indicate any profitability growth in the sector could stem from underreporting by some of the investors. This is corroborated by the perceptions which revealed that there was no complains on high operation costs which could erode profits. Furthermore, more than 50.0 percent of respondents are of the opinion to expand their businesses, this suggests that the sector is lucrative and still attracts more investors. For the period under review FDI inflows into Wholesale & retail trade, catering & accommodation services grew by 45.4 percent in 2003 representing 74.8 percent of the total FDI inflows before slowing down to the growth rate of 33.2 percent in 2004 accounting for 99.1 percent of total FDI and the growth rate of 15.8 percent or 95.7 percent of total FDI respectively.

The afore observations culminate into below policy and operational issues;

- There is a need to review impact of the investors who are enjoying tax holiday and reporting losses due to recovering of initial investment costs.
- There is also need of reviewing incentives packages especially ascertaining investment costs and actual earnings from operations with a view of having a win- win situation; the package should not be over generous and deny economic and social benefits accruing from investments.
- There is need to strengthen tracking system from the entry point of visitors to exit with a view to enhance tax compliance. This should go in tandem with effective use of ICT and improving business operations and marketing by stakeholders in the tourism sector.
- The ‘underreporting’ is presumed to result from non adherence to international financial reporting standards or tax concerns and confidentiality. It is envisaged that investors will be consistently sensitized to enhance their compliance and that investment surveys are crucial for economic polices per se and that total disclosure of information is paramount for credible final report.

5.6 Other Observations

5.6.1 Employment

Creation of 6,620 direct employment opportunities by FDI out of labor force of 589,276 equivalent to 1.1 percent of total labor force; this could corroborate with the fact that bulk of investments are capital intensive.

The survey further revealed that, the Wholesale & retail trade, catering and accommodation services sector dominated the workforce; and mostly working in tourist hotels; on average of 74.0 percent over the period under review. The results further indicated that males were the most

employed accounting for 70.0 percent while women accounted for 30 percent of the total employment.

It was further revealed that on average during 2002-2005 Zanzibaris accounted for 70.0 percent of total employees mainly engaged in semiskilled positions and Tanzania Mainlanders represented 23.4 percent while foreigners accounted for 6.1 percent of total employees. However indirect employment is estimated to exceed the above figure of direct employees. Hence, to have clear picture of employment issues calls for separate survey.

In an endeavor to create more professional jobs to locals it is advised that:

- The Government and investors need to collaborate on empowering locals to have requisite expertise; this should be done such that the locals will be able to take over from foreigners.
- Investors should make sure that locals with requisite qualifications are employed and only when cannot be available will allow recruitment of foreigners.

5.7 Investors Perceptions

5.7.1 Macroeconomic Factors

Macroeconomic factors were generally well perceived by investors but proposed attention to be put on measures to curb high inflation rates, fluctuation of exchange rate, fiscal policy and strengthen the performance of Tax Authorities.

Policy interventions are imperative to work on negative perceptions:

- Low and stable inflation to investors is fundamental for business planning purposes and is among the attractions to new investors and encourage the existing ones to expand their businesses. Inflation rate is both monetary phenomenon and a supply related factors. The Bank of Tanzania as monetary authority is challenged to ensure that there is effective monetary policy geared to have low and stable

inflation. Low inflation allows the economy to function more effectively, thereby contributing to better economic performance overtime and supporting economic policies geared to increase economic growth. Furthermore, inflation in Zanzibar is largely driven by food prices as food accounts for 57.4 percent of Consumer Price Index (CPI) basket; hence having sufficient local production of food will have profound impact to dampen the inflation. The Government is challenged to ensure the agriculture sector is revamped and be availed with adequate technical support and extension services.

- Exchange rate fluctuations are not desirable to investors because increases operational costs for imports and foreign payments abroad. The misalignment of demand and supply of foreign exchange is a main cause of depreciation of Tanzanian shilling against foreign currencies. The challenge is to ensure that there are policies and strategies geared to increase exports and promote tourism to have more foreign exchange. The governments and the Bank Tanzania are to work in tandem to ensure that the Tanzania shilling stabilize and have appropriate market determined rates.
- The investors raised concern on fiscal policy by referring to high taxation rates (such as VAT, import duty and corporate tax) and that efficiency of tax authorities is to be enhanced. The Government should encourage public – private partnerships in addressing business related issues and when preparing and discussing annual budgets. The public and private business interests of both parties are to be discussed openly to iron out differences. Hence, Zanzibar National Chamber of Commerce, Agriculture and Industries and all business oriented forums are to be accorded chances to air their positions in budgets: specifically trade and tax issues.

5.7.2 Political and Governance Factors

The perception results showed that corruption, bureaucracy, multi licensing and smuggling factors were not favorable to investment environment. The said vices increase operational costs; are disincentive to investments as investors prefer less bureaucracy and time savings; as countries compete to attract investors the Government is challenged to address the investment hurdles. It is advised that:

- The Government should take institutional and administrative reforms geared at defining public and private sector responsibilities with a view of reducing the cost of doing business.
- The Government should speed up the reform in the judiciary, the civil services, regional administration, public expenditure management and implementation of anti-corruption strategy.
- Though ZIPA by mandate is one stop centre; it should be strengthened by improving coordination with other institutions serving investors to reduce bureaucracy.

5.7.3 Infrastructure and Services

Investors complained on poor municipal services; high costs and quality of availability of electricity and water. The prompt, adequate and reliability of utilities such as water and electricity are vital for investments and that wastage management for environment and operational are to be accorded attention. Hence it is advised that:

- Environment management policy should be accorded priority and be supported financially and technically by having sewerage systems, requisite equipments and use of update technology coupled with having trained manpower. There is also need to include private sector to share experience on environmental issues.
- Electricity availability and rates and their impact to investors are issues to be handled between Tanzania Electric Corporation(TANESCO) and the Zanzibar Electricity Company (ZECO) with a view of

addressing concerns of investors. The afore institutions can also work on possibilities of having alternative cheap sources of power to reduce financial burden and improve reliability culminating into lower production costs to investors.

- There is need of developing public –private partnership in infrastructure development.

5.7.4 Labor Factors

The survey revealed that generally investors were positive with most factors within the ambit of labour factors. However, they raised concerns on quality of labour that most employees lack adequate training and skills expected by investors in their operations. Below are efforts to be undertaken by Government and private sector to enhance quality of labour force and meet standards.

- The Government is advised to formulate specific policies that will motivate investment in human resources development in different sectors.
- To put more emphasis on the provision and improvement of vocational training programmes and allocates resources for such programmes.
- Zanzibar Tourism Management Institute should be improved by having adequate trained staff, focused programs, requisite teaching facilities and equipments and exposures to meet standards. This should work in tandem with having more advanced training in tourism management.
- To impart the local employees with working attitude and adhere to work ethics.
- To manage free movement of labour to protect domestic labour force from being marginalized in the labour market.

5.7.5 Diverse factors

Investors were concerned with the efficiency of Dar es Salaam port of transit especially on the implementation of regulations and other administrative arrangements. This calls for transparency and further harmonization of procedures.

Chapter 6

Lessons learnt and the way forward

6.1 Lessons Learnt from the Survey

The below experiences cum lessons were learnt:

- Coordination among institutions which were involved in the survey facilitated exchange in experiences and knowledge culminating into having professional inputs. The ZIPA staff dealing with investments both local and foreign had first hand information which is not easily obtained by other stakeholders in the project. The Office of Chief Government Statistician has information which enriched corroboration of field results while the Bank of Tanzania is the main compiler of the balance of payment statistics of which FDI is crucial for financial account. The synergy is also essential in inculcating ownership of the data and improving credibility to investors.
- Adequate funding is pre requisite to facilitate field surveys. Equally important are training programmes that will enhance capacity of researchers.
- Annual monitoring is essential to track and mitigate negative impact of FDI on the economy through policy interventions.
- FPC is volatile and has wider and profound socio-economic implications hence calls for very close monitoring and necessitates need of evaluating efficacies of economic policies to support the Zanzibar's Vision of 2020.
- Expansion of FPC is hindered inter alia by lack of clear country land use plan and land bank for investment.
- FDI inflow concentrated in two leading sectors; tourism and trade as provided in the Zanzibar Growth Strategy. However, agriculture besides being the backbone of the economy has not attracted considerable FDI. In an endeavor to realize Vision 2020 objective of eradication of absolute poverty and attain sustainable development through Zanzibar Strategy for Growth and Reduction of Poverty (ZSGRP), there is an imperative need to boost FDI in agriculture. Therefore reforms in agricultural sectors are indispensable.
- It was observed that some investors were not keeping financial records in conformity with financial reporting standards. This impairs credibility of data for analysis purposes.
- Some perceptions responses tended not to originate from the bonafide owners cum investors as were responded by management staff.
- There was slippage to respond to the questionnaire, culminate into delay to finalize report.

6.2 Way Forward

The Private Capital Flow Survey Report facilitates compilation of fundamental macro economic variables on external sector performance. The current account is in place but data pertaining to financial and capital accounts were lacking to have complete balance of payment position and international investment position. The said inputs are vital for evaluation and updating of existing policies and formulation of new policies. The report serves as feedback and inputs in policies formulation.

- FPC surveys are to be conducted timely

on annual basis to determine inflows and update stock positions and will also serve as monitoring mechanism.

- There is a need to educate investors the advantage of having credible and comparable statistics on foreign investments. In endeavor to encourage investors to fully disclose their operations, researchers maintain confidentiality and reports are published in aggregate form. Involvement of apex bodies such as Business Council, Chamber of Commerce and Zanzibar Commission for Tourism is crucial in this regard.
- There is need to enhance reporting

compliance by strengthening mandatory reporting requirements to ensure that investors keep their financial records in conformity with international acceptable standards. This can only be achieved by enforcing accounting standards that conform to international practices.

- The Government is advised to enhance and sustain partnership between public and private sectors by having several and frequent forums such as Business Council with a view of developing trust and comprehension of teamwork spirit.
- There is a need of establishing common database that will be shared among FPC coordinating institutions (that is ZIPA, OCGS, BOT, and MOFEA).

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APPENDICES

Appendix 1: Concepts and Definitions

13. UNIDO (2006) “Africa Foreign Investor Survey 2005” Vienna , Austria

The following are some of important terminologies used in 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 & 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.

Flows: Flow is a change in stock position and it takes place during a period of time. Private Capital Inflows can be seen as an increase in international indebtedness (liabilities) to a country’s private sector during a specified period of time. This constitutes foreign investment in an enterprise. Capital Outflows can similarly be seen as an increase in country’s Investment (Assets) abroad. This also implies Investments abroad by a domestic enterprise. **Categories:** Flows

fall under three major categories namely, transactions, holding gains or losses 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 losses (also known as valuation changes or capital gain/losses) are those types of flows that involve change in stock position that is due to price changes of an asset, but not a result of economic interactions. These are types of flows which are not transactions thus not recorded in BOP.

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

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

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

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

International Standard Industrial Classification (ISIC) is a 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 consistent with international norms.

Net asset values (the difference between assets and liabilities)

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

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

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

Related Companies: Related companies with a direct investment enterprise (10 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.

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

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

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: Statistical Tables

Appendix Table 3.1: Stock of FDI by OECD and non OECD countries in USD millions.

Country	2002	%	2003	%	2004	%	2005	%	Average	%
OECD Countries										
Italy	32.3	30.0	26.1	22.3	37.4	24.3	36.5	20.4	33.1	22.4
United Kingdom	27.9	25.8	30.6	26.1	33.3	21.6	28.6	16.0	30.1	20.4
Spain	14.5	13.4	18.1	15.4	22.3	14.5	25.5	14.2	20.1	13.6
British Virgin Island	0.0	0.0	0.4	0.3	8.7	5.6	26.8	15.0	12.0	8.1
Ukrainian SSR	0.0	0.0	0.0	0.0	0.0	0.0	5.6	3.1	5.6	3.8
Germany	2.3	2.1	2.0	1.7	3.6	2.3	4.1	2.3	3.0	2.0
Switzerland	2.7	2.5	2.2	1.9	2.7	1.7	3.1	1.7	2.7	1.8
Sweden	1.0	0.9	0.7	0.6	0.7	0.4	0.7	0.4	0.8	0.5
France	0.7	0.7	0.7	0.6	0.7	0.5	0.7	0.4	0.7	0.5
Greece	0.7	0.6	0.6	0.5	0.6	0.4	0.6	0.3	0.6	0.4
Netherlands	0.0	0.0	0.0	0.0	0.5	0.3	1.7	1.0	0.6	0.4
Japan	0.3	0.3	0.4	0.4	0.6	0.4	0.8	0.4	0.5	0.4
USA	0.6	0.6	0.4	0.3	0.4	0.3	0.3	0.2	0.4	0.3
Norway	0.3	0.3	0.3	0.3	0.5	0.3	0.4	0.3	0.4	0.3
Belgium	0.4	0.4	0.4	0.3	0.3	0.2	0.3	0.1	0.3	0.2
Denmark	0.4	0.3	0.3	0.3	0.3	0.2	0.3	0.1	0.3	0.2
Australia	0.2	0.2	0.2	0.2	0.2	0.1	0.2	0.1	0.2	0.1
Sub Total	84	78.2	84	71.2	113	73.1	136	76.1	111	75.4
Non-OECD Countries										
United Arab Emirate	10.2	9.5	15.8	13.5	14.8	9.6	14.7	8.2	13.9	9.4
Kuwait	2.0	1.9	5.5	4.6	10.3	6.7	5.8	3.2	5.9	4.0
South Africa	3.6	3.3	4.1	3.5	4.6	3.0	4.5	2.5	4.2	2.8
Kenya	1.3	1.2	1.8	1.5	4.2	2.7	8.4	4.7	3.9	2.7
Bahrain	3.3	3.0	3.3	2.8	3.3	2.1	3.3	1.8	3.3	2.2
Oman	2.0	1.8	2.5	2.2	2.6	1.7	2.4	1.3	2.4	1.6
Rwanda	0.7	0.6	0.6	0.5	0.6	0.4	0.5	0.3	0.6	0.4
Pakistan	0.0	0.0		0.0	0.5	0.3	0.5	0.3	0.5	0.3
Palestine	0.0	0.0		0.0	0.0	0.0	0.4	0.2	0.4	0.3
Uganda	0.0	0.0		0.0	0.1	0.1	0.6	0.4	0.4	0.3
China	0.1	0.1	0.1	0.1	0.1	0.1	1.1	0.6	0.4	0.3
Zambia	0.4	0.4	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.1
Panama	0.0	0.0		0.0	0.2	0.1	0.2	0.1	0.2	0.1
Ethiopia	0.0	0.0		0.0		0.0	0.0	0.0	0.0	0.0
Sub Total	23.6	21.8	33.8	28.8	41.4	26.9	42.7	23.9	36.3	24.6
TOTAL	107.8	100.0	117.4	100.0	154.1	100.0	178.8	100.0	147.6	100.0

Appendix Table 3.2: Flows of FDI by OECD and non OECD countries in USD millions.

OECD	2002	%	2003	%	2004	%	2005	%	Average	%
Italy	8.13	36.3	11.60	20.9	15.67	34.1	9.45	17.5	11.21	27.0
British Virgin Island	-	0.0	0.50	0.9	7.74	16.9	19.75	36.6	9.33	22.4
Spain	6.33	28.2	7.26	13.1	8.00	17.4	10.28	19.1	7.97	19.2
United Kingdom	2.59	11.5	4.62	8.3	2.46	5.4	2.48	4.6	3.04	7.3
Netherlands	-	0.0	-	0.0	0.51	1.1	1.15	2.1	0.83	2.0
Switzerland	0.83	3.7	0.77	1.4	0.60	1.3	0.64	1.2	0.71	1.7
Germany	0.67	3.0	0.79	1.4	0.70	1.5	0.40	0.7	0.64	1.5
Sweden	1.14	5.1	0.25	0.4	0.07	0.1	0.03	0.1	0.37	0.9
France	0.75	3.4	(0.00)	0.0	0.00	0.0	0.00	0.0	0.19	0.5
Japan	-	0.0	0.04	0.1	0.08	0.2	0.13	0.2	0.08	0.2
Norway	0.00	0.0	(0.00)	0.0	0.17	0.4	0.00	0.0	0.04	0.1
Belgium	0.03	0.1	0.00	0.0	0.00	0.0	(0.00)	0.0	0.01	0.0
Australia	(0.00)	0.0	0.00	0.0	0.00	0.0	(0.00)	0.0	0.00	0.0
Denmark	0.00	0.0	0.00	0.0	0.00	0.0	(0.00)	0.0	(0.00)	0.0
USA	(0.01)	0.0	(0.03)	0.0	0.00	0.0	0.00	0.0	(0.01)	0.0
Sub total	21.44	95.6	40.66	73.2	40.96	89.2	49.15	91.1	34.41	82.8
Non OECD										
United Arab Emirate	(0.01)	0.0	8.95	16.1	0.13	0.3	0.08	0.1	2.29	5.5
Kuwait	(0.01)	0.0	4.31	7.8	0.65	1.4	1.34	2.5	1.57	3.8
Kenya	0.15	0.7	0.43	0.8	2.92	6.4	0.20	0.4	0.93	2.2
China	0.14	0.6	0.00	0.0	0.00	0.0	2.00	3.7	0.53	1.3
Uganda	-	0.0	-	0.0	0.46	1.0	0.52	1.0	0.49	1.2
Palestine	-	0.0	-	0.0	-	0.0	0.46	0.8	0.46	1.1
Pakistan	-	0.0	-	0.0	0.60	1.3	0.00	0.0	0.30	0.7
South Africa	0.45	2.0	0.28	0.5	0.19	0.4	0.19	0.4	0.28	0.7
Oman	0.01	0.0	0.89	1.6	0.01	0.0	0.01	0.0	0.23	0.6
Zambia	0.25	1.1	(0.00)	0.0	(0.00)	0.0	0.00	0.0	0.06	0.2
Ethiopia	-	0.0	-	0.0	-	0.0	0.03	0.1	0.03	0.1
Sub total	0.99	4.4	14.86	26.8	4.96	10.8	4.83	8.9	7.17	17.2
TOTAL	22.43	100.0	55.53	100.0	45.93	100.0	53.98	100.0	41.59	100.0

Appendix Table 3.3: FDEI stock by OECD and non OECD countries in USD millions.

Country	2002	%	2003	%	2004	%	2005	%	Average	%
OECD Countries										
Italy	22.7	42.4	20.4	34.5	32.0	39.5	32.3	38.5	26.8	38.7
United Kingdom	10.3	19.2	11.7	19.9	11.6	14.4	16.3	19.4	12.5	18.2
Germany	1.4	2.6	0.5	0.8	1.3	1.6	1.9	2.2	1.3	1.8
Switzerland	1.6	3.0	1.2	2.0	1.1	1.3	1.1	1.3	1.2	1.9
France	0.7	1.4	0.7	1.2	0.7	0.9	0.7	0.9	0.7	1.1
Greece	0.7	1.3	0.6	1.0	0.6	0.8	0.6	0.7	0.6	0.9
Sweden	0.7	1.3	0.6	1.0	0.5	0.7	0.6	0.7	0.6	0.9
Japan	0.3	0.6	0.4	0.7	0.6	0.7	0.8	0.9	0.5	0.7
Netherlands	0.0	0.1	0.0	0.1	0.5	0.6	1.3	1.5	0.5	0.6
USA	0.6	1.2	0.4	0.6	0.4	0.5	0.3	0.4	0.4	0.7
Denmark	0.4	0.7	0.3	0.5	0.3	0.4	0.3	0.3	0.3	0.5
Belgium	0.4	0.7	0.3	0.6	0.3	0.3	0.2	0.3	0.3	0.5
Norway	0.3	0.5	0.3	0.5	0.3	0.4	0.3	0.4	0.3	0.4
British Virgin Island	0.0	0.0	0.0	0.0	0.5	0.6	0.4	0.5	0.2	0.3
Australia	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.2	0.1	0.2
Spain	0.1	0.2	0.1	0.1	0.1	0.1	0.2	0.2	0.1	0.2
	40.3	75.2	37.7	63.9	51.0	62.9	57.4	68.3	46.6	67.6
Non-OECD Countries										
United Arab Emirate	2.3	4.2	9.9	16.7	11.3	14.0	13.1	15.6	9.2	12.6
Bahrain	3.3	6.1	3.3	5.5	3.3	4.0	3.3	3.9	3.3	4.9
South Africa	1.7	3.1	2.4	4.1	2.9	3.6	2.9	3.4	2.5	3.6
Oman	2.0	3.7	2.4	4.1	2.5	3.1	2.3	2.7	2.3	3.4
Kuwait	2.0	3.8	1.2	2.1	5.3	6.6	0.0	0.0	2.1	3.1
Kenya	1.1	2.1	1.2	2.1	3.3	4.0	2.6	3.1	2.1	2.9
Rwanda	0.7	1.2	0.6	1.0	0.6	0.8	0.5	0.6	0.6	0.9
China	0.1	0.2	0.1	0.2	0.1	0.2	1.1	1.3	0.4	0.5
Pakistan	0.0	0.0	0.0	0.0	0.5	0.6	0.5	0.6	0.3	0.3
Zambia	0.2	0.3	0.1	0.2	0.1	0.2	0.2	0.2	0.1	0.2
	13.3	24.8	21.3	36.1	30.0	37.1	26.6	31.6	22.8	32.4
Total	53.5	100.0	59.0	100.0	81.0	100.0	84.1	100.0	69.4	100.0

Appendix 3

Questionnaire

Confidential



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 P. O. Box 2321 - Zanzibar
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Bank of Tanzania
 Zanzibar branch
 P.O. Box 568 - Zanzibar
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E-mail: info@hq.bot-tz.org
 Website: www.bot-tz.org

<h3>QUESTIONNAIRE FOR THE SURVEY OF COMPANIES WITH LOCAL AND FOREIGN ASSETS AND LIABILITIES</h3>

QUESTIONNAIRE TYPE: PCFZ/1/2006

COMPANY REFERENCE NUMBER: *(For internal use only)*

DUE DATE FOR RETURN: ___ / ___ / ___ *(dd/mm/yyyy)* **RESEARCH OFFICER.....**

PART A: GENERAL INFORMATION

ALL RESPONDENTS SHOULD COMPLETE THIS PART

Company name:		
Previous name of the Company (if any):		
Date completed: <i>(dd/mm/yyyy)</i>		
Name and position of person completing this questionnaire:		
Name:		Position:
Company Address: P.O. Box		
Tel:		Fax: E-mail: Website:
District:	Area:	Street/Plot:
Please give details of an alternative person to be contacted in case we need further clarifications:		
Name:		Position:
Tel:		Fax: Mob: E-mail:
Date of Establishment:	Date of Commencing Operations:	
.....	

Collection Authority

Completion of this questionnaire is compulsory under section 31 of the **Zanzibar Investment Promotion Authority (ZIPA)** Act No. 11 of 2004; section 47 sub-sections (1), (2) and (4), Act No 9 of 1999 of **Office of Chief Government Statistician (OCGS)** and section 49 of **Bank of Tanzania (BOT)** 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 organizations will not be made available to anyone outside the BOT, ZIPA or OCGS. Government officials failing to comply with confidentiality clause face severe penalties including summary dismissal. This is in accordance with the Acts that established BOT, ZIPA and OCGS.

Estimates

Where possible, please use figures from your accounts. *Un-audited 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 as 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 either research officer in contact with you (name on the first page) or ZIPA. Please keep the 'Respondent Copy' of the questionnaire for your own records.

Help Available

This questionnaire contains technical terms. If you have problems in completing this questionnaire, please refer to notes attached at the end. Alternatively, please contact BOT, ZIPA or OCGS through:

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THANK YOU IN ADVANCE FOR YOUR COOPERATION

(Footnotes)

1 If the investment started later than 2002, give your views based on the starting time.

1. INDUSTRIAL CLASSIFICATION

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

Industrial Classification	Tick relevant activity	Estimated percentage share contribution to company's total investments
1. Agriculture, hunting, forestry and fishing		
1.1 Agriculture		
1.2 Livestock		
1.3 Fishing		
2. Mining and quarrying		
2.1 Quarrying		
3. Manufacturing		
3.1 Edible oil		
3.2 Grain milling		
3.3 Cotton and Textile		
3.4 Beverages		
3.5 Metal and metal products		
3.6 Soaps		
3.7 Publishing and Printing		
3.8 Rubber and Plastic products		
3.9 Furniture and fittings		
3.10 Other (Specify)		
4. Utilities		
5. Construction		
5.1 Building and construction		
5.2 Others (specify)		
6. Wholesale & retail trade, catering & accommodation services		
6.1 Wholesale and retail trade		
6.2 Hotels , Tour operators, Restaurants and Other related services		
7. Transport, storage & communication		
7.1 Sea transport		
7.2 Air transport		
7.3 Data communication		
7.4 Telecommunication		
7.5 Storage		

8. Financing, insurance, real estate, & business services		
8.1 Bank and non-banks		
8.2 Micro-finance		
8.3 Insurance		
8.4 Real estate and property services		
8.5 Other business services		
9. Community, social and personal services		
9.1 Education		
9.2 Health		
9.3 Other (Specify)		
10. Activities not covered above (specify)		

1.2 COMPANY'S MAIN ACTIVITY IN DETAIL:

2. SUBSIDIARIES

2(a) Please list any subsidiaries (or sub-subsidiaries) your enterprise has in Tanzania:

S/N	Name of subsidiary	Sector	Main activity (Product)	Percentage share to company's total investments
1				
2				
3				
4				
Total				100

PART B

INVESTMENT IN YOUR ENTERPRISE DURING 2002 - 2005

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 at the end of questionnaire 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)

3. FOREIGN EQUITY INVESTMENT IN YOUR ENTERPRISE

3 (a) Please enter aggregate data by country, for resident and non-resident entities each owning 10% or more of the equity and enter N/A where the question is not applicable.

- NB:**
1. If there are more than three source countries, fill the two major source countries and aggregate the rest and fill as Others under number 3.
 2. Source country refers to the immediate country from which the investment funds came from.

TABLE 1: FOREIGN DIRECT EQUITY INVESTMENT

2002		Shares held in your entity by Resident and Non-Residents (each holding 10% or more)				
1	Source country of shareholder/ Organisation	1	2	3	4. Tanzania	Total
2	Book value of equity shares as at 1 st January 2002					
3	New equity received during 2002					
4	Equity reduction during 2002					
5	Valuation change during 2002 (<i>derived</i>)					
6	Book value of equity shares as at 31 st December 2002 of which:					
7	<i>Paid-up Capital:</i>					
8	<i>Accumulated Retained Earnings:</i>					
9	Estimated market value of equity shares as at 31 st December 2002					
10	Percentage shareholding					

To the respondent/data checker: Please check the figures using the following formulae:

$$6=2+3-4+5$$

2003		Shares held in your entity by Resident and Non-Residents (each holding 10% or more)				
11	Source country of shareholder/ Multilateral Organisation	1	2	3	4. Tanzania	Total
12	New equity received during 2003					
13	Equity reduction during 2003					
14	Valuation change during 2003 (<i>derived</i>)					
15	Book value of equity shares as at 31 st December 2003 of which:					
16	<i>Paid-up Capital:</i>					
17	<i>Accumulated Retained Earnings:</i>					
18	Estimated market value of equity shares as at 31 st December 2003					
19	Percentage shareholding					

To the respondent/data checker: Please check the figures using the following formulae:

$$15=6+12-13+14$$

2004		Shares held in your entity by Resident and Non-Residents (each holding 10% or more)				
20	Source country of shareholder/ Multilateral Organisation	1	2	3	4. Tanzania	Total
21	New equity received during 2004					
22	Equity reduction during 2004					
23	Valuation change during 2004 (<i>derived</i>)					
24	Book value of equity shares as at 31st December 2004 of which:					
25	<i>Paid-up Capital:</i>					
26	<i>Accumulated Retained Earnings:</i>					
27	Estimated market value of equity shares as at 31 st December 2004					
28	Percentage shareholding					
To the respondent/data checker: Please check the figures using the following formulae: 24=15+21-22+23						

2005		Shares held in your entity by Resident and Non-Residents (each holding 10% or more)				
29	Source country of shareholder/ Multilateral Organisation	1	2	3	4. Tanzania	Total
30	New equity received during 2005					
31	Equity reduction during 2005					
32	Valuation change during 2005 (<i>derived</i>)					
33	Book value of equity shares as at 31st December 2005 of which:					
34	<i>Paid-up Capital:</i>					
35	<i>Accumulated Retained Earnings:</i>					
36	Estimated market value of equity shares as at 31 st December 2005					
37	Percentage shareholding					
To the respondent/data checker: Please check the figures using the following formulae: 33=24+30-31+32						

FOREIGN PORTFOLIO INVESTMENT IN YOUR ENTERPRISE

3b) Please enter aggregate data by country, for residents and non-resident entities each owning less than 10% of the equity and enter N/A where the question is not applicable.

NB: 1. If there are more than three source countries, fill the two major source countries and aggregate the rest and fill as Others under number 3.

2. Source country refers to the immediate country from which the investment funds came from.

TABLE 2: FOREIGN PORTFOLIO EQUITY INVESTMENT

2002		Shares held in your entity by Resident and Non-Residents (each holding less than 10%)				
1	Source country of shareholder/ Organisation	1	2	3	4. Tanzania	Total
2	Book value of equity shares as at 1 st January 2002					
3	New equity received during 2002					
4	Equity reduction during 2002					

5	Valuation change during 2002 (<i>derived</i>)					
6	Book value of equity shares as at 31 st December 2002 of which:					
7	Paid-up Capital:					
8	Accumulated Retained Earnings:					
9	Estimate market value of equity shares as at 31 st December 2002					
10	Percentage shareholding					
To the respondent/data checker: Please check the figures using the following formulae:						
6=2+3-4+5						

2003		Shares held in your entity by Resident and Non-Residents (each holding less than 10%)				
	Source country of shareholder/ Multilateral Organisation	1	2	3	4. Tanzania	Total
11	New equity received during 2003					
12	Equity reduction during 2003					
13	Valuation change during 2003 (<i>derived</i>)					
14	Book value of equity shares as at 31st December 2003 of which:					
15	<i>Paid-up Capital:</i>					
16	<i>Accumulated Retained Earnings:</i>					
17	Estimate market value of equity shares as at 31 st December 2003					
18	Percentage shareholding					
19	To the respondent/data checker: Please check the figures using the following formulae: 15=6+12-13+14					

2004		Shares held in your entity by Resident and Non-Residents (each holding less than 10%)				
	Source country of shareholder/ Multilateral Organisation	1	2	3	4. Tanzania	Total
20	New equity received during 2004					
21	Equity reduction during 2004					
22	Valuation change during 2004 (<i>derived</i>)					
23	Book value of equity shares as at 31st December 2004 of which:					
24	<i>Paid-up Capital:</i>					
25	<i>Accumulated Retained Earnings:</i>					
26	Estimate market value of equity shares as at 31 st December 2004					
27	Percentage shareholding					
28	To the respondent/data checker: Please check the figures using the following formulae: 24=15+21-22+23					

2005		Shares held in your entity by Resident and Non-Residents (each holding 10% or more)				
29	Source country of shareholder/ Organisation	1	2	3	4. Tanzania	Total
30	New equity received during 2005					
31	Equity reduction during 2005					
32	Valuation change during 2005 (<i>derived</i>)					
33	Book value of equity shares as at 31st December 2005 of which:					
34	<i>Paid-up Capital:</i>					
35	<i>Accumulated Retained Earnings:</i>					
36	Estimated market value of equity shares as at 31 st December 2005					
37	Percentage shareholding					

**To the respondent/data checker: Please check the figures using the following formulae:
33=24+30-31+32**

4. INCOME ON EQUITY FOR YOUR COMPANY

Please estimate income on equity for your enterprise in Zanzibar, by working through the following table:

Type of Income	During 2002	During 2003	During 2004	During 2005
4.1. Net Profit/loss (after taxes)				
4.2. Dividends paid to non-resident investors each with shareholdings of 10% or more				
4.3. Dividends paid to non-resident investors each with shareholding of less than 10%				
4.4. Dividends or profits paid to residents shareholders				
4.5. Total retained earnings (4.5 = 4.1 – 4.2 – 4.3 – 4.4)				

5. LOANS FOR YOUR ENTERPRISE

Please complete **Tables 3** through **8** if you have any active loans (**Domestic or Foreign**).

NB: 1. If there are more than three source countries, fill the two major source countries and aggregate the rest and fill as Others under number 3
2. Source country refers to the immediate country from which the investment funds came from.

TABLE 3: TOTAL STOCK OF LOANS AT:

	31 st Dec 2002	31 st Dec 2003	31 st Dec 2004	31 st Dec 2005				
Long-term loan (original maturity greater than 12 months)								
Source country/ Multilateral	1	2	3	Tanzania	1	2	3	Tanzania
Shareholder & Inter-company loan								
Other loans with Unrelated companies								
Short-term loan (original maturity 12 months or less)								
Source Country/ Multilateral Organization	1	2	3	Tanzania	1	2	3	Tanzania
Shareholder & Inter-company loan								
Suppliers' credit from Related companies								
Suppliers' credit from Unrelated companies								
Other loans from unrelated companies								

TABLE 5: PRINCIPAL REPAYMENTS DURING THE YEAR:

		2002			2003			2004			2005					
		Long-term loan (original maturity greater than 12 months)														
Source country/																
Multilateral	1	2	3	Tanzania	1	2	3	Tanzania	1	2	3	Tanzania	1	2	3	Tanzania
Shareholder & Inter-company loan																
Other loans with Unrelated companies																
		Short-term loan (original maturity 12 months or less)														
Source country/ Multilateral																
Organization	1	2	3	Tanzania	1	2	3	Tanzania	1	2	3	Tanzania	1	2	3	Tanzania
Shareholder & Inter-company loan																
Suppliers' credit from Related companies																
Suppliers' credit from Unrelated companies																
Other loans from unrelated companies																

TABLE 7: OTHER PAYMENTS (Commissions, Royalties, Penalties, etc) DURING THE YEAR:

		2002		2003		2004		2005				
Long-term loan (original maturity greater than 12 months)												
Source country/ Multilateral Organization	1	2	3	Tanzania	1	2	3	Tanzania	1	2	3	Tanzania
Shareholder & Inter-company loan												
Other loans with Unrelated companies												
Short-term loan (original maturity 12 months or less)												
Source country/ Multilateral Organization	1	2	3	Tanzania	1	2	3	Tanzania	1	2	3	Tanzania
Shareholder & Inter-company loan												
Suppliers' credit from Related companies												
Suppliers' credit from Unrelated companies												
Other loans from Unrelated companies												

TABLE 8: ACCUMULATED ARREARS OF FOREIGN BORROWING:

Maturity	2002			2003			2004			2005		
	Principal	Interest	Other									
Long-term												
Short-term												

6. INTERNATIONAL TRANSACTIONS IN SERVICES AND INCOME

a) Please indicate in the table below how much your enterprise paid for services provided by non-residents:

Item	Amount Paid During			
	2002	2003	2004	2005
Royalties and License fees				
Salaries and Wages				
Consultancy and Technical services				
Insurance claims/premiums				
Other services (please specify)				
Total				

b) Please indicate in the table below how much your enterprise received for services it rendered to non-residents:

Item	Amount Received During			
	2002	2003	2004	2005
Royalties and License fees				
Salaries and Wages				
Consultancy and Technical services				
Insurance claims/premiums				
Other services (please specify)				
Total				

PART C: ECONOMIC AND SOCIAL LINKAGES

7. USES OF FOREIGN EQUITY AND FOREIGN BORROWINGS

Please approximate the uses of your new **foreign** equity and **foreign** borrowing during the following periods:

Uses	2004	2005
(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)		
Total Foreign Equity and Foreign Borrowings		

8. EMPLOYMENT AND LABOUR PRODUCTIVITY

(a) Please indicate in the table below, number of employees in your company based on the following categories:

	Foreign Nationals				Tanzanian Nationals															
	Foreign Nationals				Zanzibaris						Tanzania Mainland									
	2002	2003	2004	2005	2002	2003	2004	2005	2002	2003	2004	2005								
	M	F	M	F	M	F	M	F	M	F	M	F	M	F						
Management																				
Professionals* (excluding Management)																				
Skilled																				
Unskilled																				
Total																				

*Professionals refer to employees with specialized formal training at the level of at least first degree or its equivalent.

(b) Does your company have staff development plan (e.g., transfer of technology to local employees etc)?

Yes No

If yes,

(i) How has your company benefited from such plan?

(ii) What problems (if any) does your company encounter in the implementation of the plan and how do you address them?

(c) Please indicate the number of staff who have undergone training between 2002 and 2005:

2002		2003		2004		2005	
Male	Female	Male	Female	Male	Female	Male	Female

(d) Are the local staff able to adopt and learn new technologies within the company?

If yes, please explain _____

If no, why and what is your suggestion _____

9. SOURCING OF RAW MATERIALS

a). Where applicable, please approximate the proportion of your raw materials sourced from Tanzania as a share of the total _____%.

b). If you are not sourcing 100% of raw materials domestically, what are the reasons?

	Reason	Assign numbers from 1-5 in order of importance
1	Limited Access	
2	Availability	
3	Poor Quality	
4	High Price	
5	Other (please specify)	

c). Where relevant, please suggest measures that can be taken to encourage you to source more of your raw materials domestically.

10. PRODUCT TYPE AND MARKET

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

Type	Percent
i. Final products	
ii. Intermediate (semi-finished) products	
Total	100

b) Please approximate the proportion of your total output by domestic and foreign markets:

Type	Domestic (%)	Foreign (%)	Total (%)
i. Final products			100
ii. Intermediate (semi-finished) products			100

11. CORPORATE SOCIAL RESPONSIBILITY

a) Does your company have a corporate social responsibility policy/plan?

Yes No

b) If yes, what kind of activities have you performed (fill where applicable):

S/N	Social Activity	Amount Spent			
		2002	2003	2004	2005
1	Education				
2	Health and welfare				
3	Safety and Security				
4	Arts and Culture				
5	Sports Development				
6	Environment				
7	Water				
8	Road				
9	Religious				
10	Other (Specify)				
	Total Amount Spent				

c) Please provide brief description of the activities done:

d) What factors influence your decision to engage in the activities indicated in (b) above?

PART D: INVESTOR'S PERCEPTION

From the following questions please rate your perception for each aspect by filling in the relevant number on the bracket reflecting the level they affect your business as indicated in the table below:

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

12. MACROECONOMIC FACTORS

To what extent have the following macroeconomic factors affected your investment?

	2002 ¹	Now
Economic growth (GDP)	()	()
Fiscal policy		
<i>Tax level</i>	()	()
<i>Tax administration</i>	()	()
Monetary policy		
<i>Inflation rate levels</i>	()	()
<i>Exchange rates</i>	()	()
Trade policy		
Regional Economic Integration		
<i>East African Community</i>	()	()
<i>SADC</i>	()	()
Market expansion	()	()
Environmental policy	()	()
Foreign policy	()	()
Investment policy		
<i>Business facilitation</i>	()	()
<i>Transfer of profits/dividends</i>	()	()
<i>Business environment</i>	()	()

Please add any other information

13. INFRASTRUCTURES AND SERVICES

To what extent have the availability and condition of the following infrastructures and services affected your investment?

	2002 ²	Now
Inland Transport	()	()
Access to seaports	()	()
Airports and Air Transportation	()	()
Electricity supply		
<i>Reliability</i>	()	()
<i>Tariff level</i>	()	()
Water supply		
<i>Reliability</i>	()	()
<i>Tariff level</i>	()	()
Postal services	()	()
Telecommunications		
<i>Reliability</i>	()	()
<i>Tariff level</i>	()	()
Customs services	()	()
Municipal services (garbage, sewerage, etc.)	()	()

Please add any other information

14. FINANCIAL FACTORS

To what extent have the following financial factors affected your investment?

	2002 ²	Now
Banking services	()	()
Depreciation of the domestic currency	()	()
Availability of local finance	()	()
Availability of foreign finance	()	()
Absence of credit agencies.	()	()

Please add any other information

15. POLITICAL AND GOVERNANCE FACTORS

To what extent have the following political and governance factors affected your investment?

	2002 ²	Now
Political Stability	()	()
Corruption	()	()
Investment incentives and Facilitation	()	()
Bureaucracy	()	()
Tax collection efficiency	()	()
Effectiveness of the legal system	()	()
Internal Security	()	()
Land law and administration	()	()
Smuggling	()	()
Multi licensing	()	()
Speed of decision making in the following institutions		
<i>Zanzibar Investment Promotion Authority</i>	()	()
<i>Bank of Tanzania</i>	()	()
<i>Zanzibar Revenue Board</i>	()	()
<i>Tanzania Revenue Authority</i>	()	()
<i>Immigration</i>	()	()
<i>Commercial Banks</i>	()	()
<i>Commission of Labour</i>	()	()
<i>Commission of Tourism</i>	()	()
<i>Department of Environment</i>	()	()
<i>Department of Land and Registration</i>	()	()
<i>Court System</i>	()	()
<i>Police System</i>	()	()
<i>Other (specify)</i>	()	()

Please add any other information

16. LABOUR FACTORS

To what extent have the following labour factors affected your investment?

	2002 ²	Now
Labour legislation	()	()
Restrictions regarding bringing in expatriates	()	()
Education and skill levels	()	()
Wage levels	()	()
Working ethics/culture	()	()
HIV / AIDS	()	()

Please add any other information

17. DIVERSE FACTORS

To what extent have the diverse factors presented below affected your investment?

	2002 ²	Now
Accessibility to new technology	()	()
Global economic situation	()	()
Dar es Salaam Port of Transit	()	()

Please add any other information

18. INVESTMENT DECISION

Please rate the most important factors that influenced your initial decision to invest in Zanzibar:

Factors	Very important 1	Fairly important 2	Not important 3	Not relevant 4
Domestic Market Access				
Foreign Market Access				
Political Stability				
Rule of Law/Governance				
Low Corruption				
Incentives				
Investment Policy				
Finance (long & short term credits)				
Labour cost & Productivity				
Geographical Location				
Others (specify)				

19. DIRECTION OF FUTURE INVESTMENT

What is the likely direction of your investment in Zanzibar over the next 3 years? Please indicate under the following categories:

(Please tick in appropriate box)

Direction	Expand 1	Maintain 2	Contract 3	Not relevant 4
Diversify in other sectors				
Diversify range of product and services				
Staff training				
Recruitment of nationals				
Recruitment of expatriates				
Gender balance				
Investment in technology				
Import of capital goods				
Export of the products				
Improvement of existing facilities				
Mergers and Acquisition				
Construction of new building/structure				
Others (specify)				

Please add any other information.

20. SOURCES OF INFORMATION

Please identify or tick the most reliable sources of information for your initial investment decisions:

Source of Information	Very Useful 1	Not useful 2
Bank of Tanzania		
<i>Quarterly / Annual Reports</i>		
<i>Other publications</i>		
<i>Website</i>		
Zanzibar Investment Promotion Authority		
<i>Newsletter</i>		
<i>Other publications</i>		
<i>Website</i>		
<i>Trade and Investment Mission</i>		
Office of Chief Government Statistician		
<i>Quarterly / Annual Reports</i>		
<i>Other publications</i>		
Other Sources		
<i>Other Government sources</i>		
<i>Local Media</i>		
<i>Regional Media</i>		
<i>International Media</i>		
<i>Donor publications</i>		
<i>Business associates / Competitors</i>		
<i>Investors' Forum</i>		
<i>Word of mouth</i>		
<i>Others (specify)</i>		

THANK YOU IN ADVANCE FOR YOUR COOPERATION