

ABBREVIATIONS AND ACRONYMS

AGOA	African Growth and Opportunity Act
AIDS	Acquired Immune Deficiency Syndrome
BOP	Balance of Payments
BoT	Bank of Tanzania
BPM5	Balance of Payments Manual, 5th Edition
DFI	Development Finance International
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
GDP	Gross Domestic Product
HIV	Human Immunodeficiency Virus
ICSID	International Centre for Settlement of Investment Disputes
ICT	Information and Communication Technology
IFC	International Finance Corporation
IIP	International Investment Position
ILO	International Labour Organization
IMF	International Monetary Fund
IPA	Investment Promotion Agency
ISIC	International Standard of Industrial Classification
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MIGA	Multilateral Investment Guarantee Agency
MW	Megawatts
NBC	National Bank of Commerce Ltd.
OCGS	Office of Chief Government Statistician
OECD	Organization of Economic Cooperation and Development
PBZ	People's Bank of Zanzibar
PI	Portfolio Investments
PPP	Public-Private Sector Partnership
PSED	Private Sector External Debt
RGZ	Revolutionary Government of Zanzibar
SADC	Southern African Development Community
SMEs	Small and Medium Enterprises
TIR01	Tanzania Investment Report of 2001
TIR04	Tanzania Investment Report of 2004
TPB	Tanzania Postal Bank
TRA	Tanzania Revenue Authority
TTCL	Tanzania Telecommunications Company Limited
TVZ	Television Zanzibar
TZS	Tanzanian Shilling
UAE	United Arab Emirates
UK	United Kingdom
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNIDO	United Nations 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
ZAC	Zanzibar AIDS Commission
ZAFREZA	Zanzibar Free Economic Zones Authority
ZFPA	Zanzibar Free Port Authority
ZIPA	Zanzibar Investment Promotion Agency
ZIR04	Zanzibar Investment Report of 2004
ZPRP	Zanzibar Poverty Reduction Plan
ZRB	Zanzibar Revenue Board
ZCT	Zanzibar Commission for Tourism

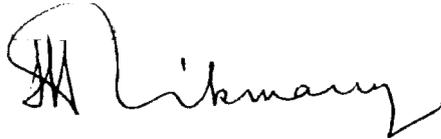
PREFACE

Foreign Private Capital (FPC) is a vital factor in the long-term economic development of Zanzibar. With its enormous potential to create jobs, raise productivity, enhance exports and transfer of technology, FPC also plays an important role in the country's economic progress. Moreover, attraction of FPC has become the central focus of the investment policy in developed and developing countries across the world.

Since the Government needs reliable data in its development programmes, Zanzibar Investment Promotion Agency (ZIPA) is increasingly being obliged to provide information on the status and performance of the approved projects in particular the FDI component of FPC. Similarly other stakeholders (researchers, investors and development partners) need investment data for various purposes. In response to this need and following the positive results of the same survey held in Tanzania Mainland, ZIPA collaborated with the Bank of Tanzania and the Office of the Government Chief Statistician to conduct this survey.

The Zanzibar Investment Report of 2004 examines in detail the magnitude of investments in terms of quality and quantity and how Zanzibar has attracted FDI in 2000 and 2001 and the trend of Private Capital Flows in general. The report also assesses the policy implications of FPC on national development.

Since there is no reliable data on the trend of FPC flows to Zanzibar, it is my pleasure and belief that the report will considerably cover this analytical gap. In this respect it is expected that all stakeholders will make extensive use of the findings of this survey.



Dr. Hamed R.H. Hikmany
Director General
ZANZIBAR INVESTMENT PROMOTION AGENCY
December 2004

ACKNOWLEDGEMENT

This report, which contains results and findings on the Zanzibar survey on Private Capital Flows, was prepared under the supervision of Dr. Hamed R. H. Hikmany (Director General-Zanzibar Investment Promotion Agency - ZIPA), Mr. Babu N. Msami (Branch Director-BOT Zanzibar) and Mr. Mohamed H. Rajab (Chief Government Statistician- Office of Chief Government Statistician). The Technical Team was led by Mr. Said M. Chiguma (Bank of Tanzania), Fatma A. Jumbe and Said H. Haji (ZIPA) and comprised Badru M. Masoud, Maduhu I. Kazi (Bank of Tanzania); Mohamed S. Mohamed, Bihindi N. Khatib, Yusuph I. Ali, Rashid A. Salim, Nasriya M. Nassor and Nana R. Mwanjisi (ZIPA); Azizi I. Hassan and Saleh S. Hamad (Zanzibar Free Economic Zones Authority - ZAFREZA) and Amour H. Bakari and Mashavu K. Omar (Office of Chief Government Statistician - OCGS). During data collection exercise, verification and inputting; the technical team was assisted by Haula K. Issa, Rashid A. Salim and Salum M. Salum (ZIPA), Miraji I. Usi (Zanzibar Commission for Tourism) and Maulid S. Kombo (OCGS).

The study would not have been successful without the cooperation of investors across sectors for providing information, which formed basis for the analysis and conclusions made in the study. In addition, the report benefited from close technical cooperation of S. Mrutu, F. Rutabanzibwa, Charles Assey, and Zabariah Kiwelu (Bank of Tanzania, Head Office).

Special gratitude is extended to Dr. Josephat Kweka and Mrs. B. Omari research fellow with the Economic and Social Research Foundation and consultant with EDEV respectively for their critical and valuable comments on the final draft that have enriched the quality of the final report.

Lastly, sincere appreciation is extended to the Development Finance International (DFI), UK in collaboration with Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI), for providing technical support.

TABLE OF CONTENTS

ABBREVIATIONS AND ACRONYMS	i
PREFACE	iii
ACKNOWLEDGEMENT	iv
LIST OF TABLES	viii
EXECUTIVE SUMMARY	ix
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background	1
1.2 Rationale of the Survey	2
1.3 Objectives of the Survey	2
1.4 Scope of the Study	2
1.5 Outline of the Report	2
CHAPTER TWO	3
MACROECONOMIC PERFORMANCE AND INVESTMENT ENVIRONMENT	3
2.1 Economic Overview	3
2.2 Investment Environment	5
2.2.1 Investment Policy	5
2.2.2 Trade Policy	6
2.2.3 Investment Opportunities	7
2.2.4 Legal Aspects	8
2.2.5 Investment Guarantee	9
2.2.6 Investment Oriented Forums	9
CHAPTER THREE	11
METHODOLOGY	11
3.1 Introduction	11
3.2 Institutional Arrangements	11
3.3 Awareness Campaign	11
3.4 Training Workshop	11
3.5 Compilation of Investors' Register	12
3.6 Survey Tools and Techniques	12
3.6.1 The Questionnaires	12
3.6.2 Administration of the Questionnaires	12
3.6.3 Survey Manual	12
3.7 Data Processing and Management	13
3.7.1 Software Development	13
3.7.2 Data Entry and Validation	13
3.7.3 Adherence to International Standards	13
CHAPTER FOUR	14
FOREIGN PRIVATE INVESTMENTS IN ZANZIBAR	14
4.1 Introduction	14
4.2 Foreign Private Capital - Magnitude and Composition	14
4.2.1 Stock of Foreign Private Capital	14
4.2.2 Flows of Foreign Private Capital	15

4.3	Analysis of FDI	16
4.3.1	FDI Stock by Mode of Financing	17
4.3.2	Flows of FDI by Mode of Financing	18
4.3.3	Stock of FDI by Sector	18
4.3.4	Analysis of FDI Flows by Sector	19
4.3.5	Stock of FDI by Region	19
4.3.6	Flow of FDI by Region	20
4.3.7	Stock of FDI by Country of Origin	20
4.3.8	Flows of FDI by Country of Origin	22
4.3.9	Debt to Equity Ratios	23
4.4	Analysis of Portfolio Investments	23
4.4.1	Stock of Portfolio Investments by Sector	23
4.4.2	Flows of Portfolio Investments by Sector	23
4.5	Other Investments	23
4.5.1	Stock of Other Foreign Investment by Sector	23
4.5.2	Flows of Other Foreign Investments by Sector	24
4.5.3	Stock of Other Foreign Investments by Region	24
4.5.4	Flows of Other Foreign Investments by Region	24
4.5.5	Stock of Other Foreign Investments by Country of Origin	25
4.5.6	Flows of Other Foreign Investments by Country of Origin	25
4.6	Income on Investments	26
4.6.1	Dividends	26
4.6.2	Interest	26
4.6.3	Rate of Return on Foreign Equity	26
CHAPTER FIVE		28
INVESTORS' PERCEPTION		28
5.1	Introduction	28
5.2	Overall Perception Results	28
5.3	Analysis of Group Factors	28
5.3.1	Macroeconomic Factors	28
5.3.2	Financial Factors	29
5.3.3	Governance and Political Factors	29
5.4	Labour Factors	31
5.5	Telecommunication and Utilities	32
5.6	Infrastructure	32
5.7	Other Diverse Factors	33
5.8	Other Investors' Perceptions on Improving Investment Climate	33
5.8.1	Investment Direction in Zanzibar Over the Next Three Years	34
5.8.2	Sources of Information	34
5.8.3	Promotion of Investment	34
5.8.4	Employment (Staff development plan and gender considerations)	35
5.8.5	Sourcing of Raw Materials	35
5.8.6	Other Government Policies	35
CHAPTER SIX		36
MAIN FINDINGS AND POLICY IMPLICATIONS		36
6.1	Introduction	36
6.2	Foreign Direct Investment (FDI) in Zanzibar	36
6.2.1	Magnitude of FDI	36
6.2.2	FDI by Sector	36

6.2.3 FDI by Country of Origin	36
6.2.4 FDI by Region	37
6.2.5 FDI by Mode of Financing	37
6.2.6 Rate of Returns on Foreign Equity	37
6.3 Investors' Perceptions	37
6.3.1 Macroeconomic and Financial Policies	37
6.3.2 Political and Governance Factors	37
6.3.3 Labour Factors	38
6.4 Other Corporate Social Responsibilities	38
CHAPTER SEVEN	39
ASSESSMENT OF THE SURVEY AND THE WAY FORWARD	39
7.1 Introduction	39
7.2 Assessment of the Results in Relation to the Objectives	39
7.3 Identified gaps	40
7.4 Lessons Learnt	40
7.5 The Way Forward	41
REFERENCES	42
APPENDIX 1 CONCEPTS AND DEFINITIONS	43
APPENDIX 2 STATISTICAL TABLES	47
APPENDIX 3 METHOD FOR CALCULATING WEIGHTED AVERAGE FOR INVESTORS' PERCEPTION	50
APPENDIX 4 QUESTIONNAIRES	51

LIST OF TABLES

TABLE 2.1A	SELECTED MACRO ECONOMIC INDICATORS 1998 - 2002	4
TABLE 2.1B	CLOVE EXPORT 1998 – 2002	4
TABLE 3.6.2.	DISTRIBUTION OF QUESTIONNAIRES IN ZANZIBAR, 2000 AND 2001	12
TABLE 4.2.1.1	STOCK OF FOREIGN PRIVATE CAPITAL IN ZANZIBAR, 2000 AND 2001	14
TABLE 4.2.2.2	FLOWS OF FOREIGN PRIVATE CAPITAL IN ZANZIBAR, 2000 AND 2001	16
TABLE 4.3.1.1	STOCK OF FDI BY MODE OF FINANCING, 2000 AND 2001	17
TABLE 4.3.2.1	FLOWS OF FDI BY MODE OF FINANCING, 2000 AND 2001	18
TABLE 4.3.3.1	STOCK OF FDI BY SECTOR FOR 2000 AND 2001	18
TABLE 4.3.4.1	FLOWS OF FDI BY SECTOR, 2000 AND 2001	19
TABLE 4.3.5.1	STOCK OF FDI BY REGION, 2000 AND 2001	20
TABLE 4.3.6.1	FLOW OF FDI BY REGION FOR 2000 AND 2001	20
TABLE 4.3.9.1	STOCK RATIOS TABLE 2000 AND 2001	23
TABLE 4.4.1.1	STOCK OF PORTFOLIO INVESTMENTS BY SECTOR, 2000 AND 2001	23
TABLE 4.4.2.1	FLOWS OF PORTFOLIO INVESTMENTS BY SECTOR, 2000 AND 2001	23
TABLE 4.5.1.1	STOCKS OF OTHER INVESTMENTS BY SECTOR, 2000 AND 2001	24
TABLE 4.5.2.1	FLOWS OF OTHER INVESTMENTS BY SECTOR, 2000 AND 2001	24
TABLE 4.5.3.1	STOCK OF OTHER INVESTMENTS BY REGION, 2000 AND 2001	24
TABLE 4.5.5.1	STOCK OF OTHER INVESTMENTS BY COUNTRY OF ORIGIN, 2000 AND 2001	25
TABLE 4.5.6.1	FLOWS OF OTHER INVESTMENTS BY COUNTRY OF ORIGIN, 2000 AND 2001	25
TABLE 4.6.1.1	DIVIDEND PAID-OUT BY SECTOR, 2000 AND 2001	26
TABLE 4.6.2.1	INTEREST PAYMENTS BY DEBT TYPE, 2000 AND 2001	26
TABLE 4.6.3.1	RATE OF RETURN ON FOREIGN EQUITY, 2000 AND 2001	27
TABLE 5.8.3	SOURCES OF INFORMATION FOR INVESTORS' INITIAL INVESTMENT DECISION	34
TABLE 5.8.7	SOURCING OF RAW MATERIALS FROM TANZANIA	35

EXECUTIVE SUMMARY

Rationale

Rapid changes in the world economy witnessed over the past few decades have induced many Governments to undertake major policy reforms in order to attract and involve the private sector to play a leading role in their economies. The challenges of globalization have necessitated reforms in economic and financial management. Such reforms include removing direct and indirect government interventions and distorting incentives, and improvements in corporate governance, which are important elements for efficient operation of market economy. With these reforms, capital movements have been able to cross borders freely to places where it can yield higher returns.

Consequently, with globalization, the concept of private capital flows has become common in developing countries. Foreign Direct Investment (FDI) has in turn become a vital compliment to national development. It adds to the country's gross capital formation with such benefits as transfer of technology and managerial expertise, improving the quality of human resources, creating jobs, boosting overall productivity, enhancing competitiveness and entrepreneurship as well as increasing knowledge, and access to global markets. Thus, FDI contributes towards sustained economic growth over the long term, which is important for poverty reduction. However, risks associated with FDI flows demonstrate the need for proper management and monitoring of private capital flows in order to maximize the benefits.

Macroeconomic and financial reforms have brought the need for a robust data management system in order to keep track of private capital flows and ascertain their nature, magnitude, quality, composition, sustainability and overall economic effect. Data collected in the survey on private capital flows for Zanzibar provides useful information for the country's balance of payments purposes, prudent economic policy making and are useful tools for promoting and facilitating public-private dialogue on investment matters.

It is against this background that the Government initiated a comprehensive survey on Foreign Private Capital Flows for Zanzibar. This initiative has benefited from technical support by DFI of UK in collaboration with MEFMI, and financial support from the Government of Denmark and the Bank of Tanzania (BOT). The survey was conducted under the auspices of Zanzibar Investment Promotion Agency (ZIPA), Office of Chief Government Statistician (OCGS) and BOT.

Objectives

The main objectives of carrying out this survey were to:

- Compile, design and maintain a comprehensive database on private capital flows so as to provide credible source of information for appropriate macroeconomic policy formulation and investment promotion purposes;
- Establish a sustainable institutional framework and capacity in undertaking regular private capital flows surveys by involving both private and public sectors; and
- Strengthen and foster public-private dialogue so that they can work together towards achieving private sector-led growth.

Findings on Investment Data

Stock of total investment surged in 2001 and FDI dominated foreign private capital stock...

Stock of total investments in Zanzibar surged from USD 159.6 million recorded in 2000 to USD 182.9 million at the end of 2001, an increase of 14.6 percent. Foreign Direct Investments (FDI) dominated the private capital stock both in 2000 and 2001, followed by Other Investments and Portfolio Investments. During 2000 FDI stock amounted to USD 151.5 million, being 94.9 percent and increased to USD 174.7 million in 2001 accounting for 95.5 percent of total foreign investments. Stock of Portfolio Investments remained constant at USD 0.3 million for both 2000 and 2001 accounting for only 0.2 percent of total stock of foreign investment. The stock of other investments amounted to USD 7.8 million in 2000 and 2001 and accounted for 4.9 percent and 4.3 percent respectively of total foreign investments.

..... foreign private capital flows declined in 2001 due to slow-down in FDI.

Private capital inflows decreased by 66.6 percent from USD 6.3 million recorded in 2000 to USD 2.1 million in 2001. The decline in capital flows was largely associated with decline in FDI partially attributed to uncertainty following the 2000 general elections and the consequent slow down in investment flows in Community, social and personal services and Transport and communications sectors. FDI was the largest component amounting to USD 5.7 million (91.0 percent) in 2000 and USD 1.4 million (67.8 percent) in 2001 respectively. The Portfolio equity investment remained constant with a share of 0.1 percent of total investments. Other investments increased marginally from USD 0.6 million in 2000 to USD 0.7 million in 2001, accounting for 8.9 percent and 32.5 percent of total investments respectively.

Equity forms the dominant component of FDI

The study revealed that equity investment was the dominant component of FDI at the end of 2000 and 2001. Stock of equity amounted to USD 104.4 million at the end of 2000 and USD 115.4 million at the end of 2001, being 68.9 percent and 66.0 percent of total investments respectively. The second major source of financing was long-term inter-company loans, which amounted to USD 38.7 million in 2000 and USD 42.8 million in 2001 representing 25.6 percent and 24.5 percent of total FDI respectively. Other financing sources are short-term inter-company loans and supplier's credit, which contributed to less than 10.0 percent.

Tourism sub-sector was the largest recipient of foreign private capital...

Distribution of FDI by sector revealed that Wholesale and Retail trade (which includes tourism) was the largest single recipient of foreign private capital for both years 2000 and 2001 by receiving USD 107.6 million and USD 122.2 million accounting for 71.0 percent and 69.9 percent respectively.

...followed by Transport and Manufacturing.

The second largest recipient sector was Transport, storage and communication, with a stock of USD 30.7 million by 2000 and USD 29.4 million by 2001, accounting for 20.3 percent and 16.8 percent of total investments respectively. Third largest recipient sector

was Manufacturing, which received USD 7.5 million in 2000, and USD 16.4 million in 2001 accounting for 4.9 percent and 9.4 percent of the total invested stock respectively.

FDI is most concentrated in Urban West region.

FDI by regional distribution revealed that Urban West dominated with a share of 49.2 percent of the total FDI for 2001, followed by North Unguja and South Unguja with a share of 31.3 percent and 18.9 percent respectively. North Pemba and South Pemba regions, each received less than one percent of the total FDI for 2001. This suggests an imbalanced regional distribution of FDI. There is a need for the Government to institute promotional strategies that will offer incentives for disadvantaged regions through improvement of basic economic and social infrastructure.

The bulk of FDI is coming from OECD countries, where the UK takes the lead...

FDI stock by country of origin, revealed that most of foreign direct investments in Zanzibar originated from Organization for Economic Co-operation and Development (OECD) countries amounting to USD 139.5 million, being 79.8 percent of the total FDI in 2001. Of these investments, United Kingdom dominated the share followed by Italy. This calls for the need to diversify investment by country of source to minimize possible risks associated with economic shocks in source countries.

Findings on Investors' Perceptions

Most investors were optimistic for the future and aim at further expansion.

Analysis of investor perceptions revealed that most of the investors were optimistic that opportunities exist including financial sector reforms which will avail better financial services and availability of loans for investments, natural beauty of the isles, conducive trade and investment policies and potential for tourism industry. Investors were therefore optimistic for future expansion. However, investors are looking forward to deliberate improvement of investment climate, including inter sectoral linkages.

Macroeconomic Factors were well perceived...

Most investors were of the opinion that macroeconomic factors were conducive for their investment in Zanzibar. Regional integration had an outstanding positive effect implying that investors were eager and prepared to maximize advantages of regional groupings. Other factors such as macroeconomic policies, monetary policies, trade liberalization, market expansion and inflation were perceived favourably. However, perception on fiscal policy deteriorated from a positive effect to a negative one. The Government is embarking on readdressing the fiscal policies to make them more attractive to investors.

...however, respondents feel that financial policies need to be improved...

The performance of financial policies involved the assessment of eight sub factors namely absence of credit rating, interest rates, exchange rates, availability of foreign finance, availability of local finance, banking services, financial sector stability and liberalization of capital account. Out of these, investors rated favourably two sub-factors namely financial sector stability and liberalization of capital account. Investors expressed some concerns on the remaining factors notably high lending rates, possibly due to high risks resulting from a high rate of default.

.....and they hailed investment facilitation by investment agencies....

Investors had positive perception on the current efforts of investment facilitation done by Zanzibar Investment Promotion Agency (ZIPA), Zanzibar Free Economic Zones Authority (ZAFREZA), and Zanzibar Free Port Authority (ZFPA). Investors were of the opinion that the Government should address governance issues such as corruption. It is also recommended for the Government to continue addressing issues of bureaucracy, smuggling, multiple licenses and tax collection inefficiency.

...but, labour factors including HIV/AIDS pandemic were a constraint to investors.

Respondents showed their concerns that labour factors such as labour legislation; work ethics, HIV/AIDS, and inadequate skilled manpower were undermining efficiency in their operations. Most of these factors have significantly improved during the current period due to concerted efforts by the Government that focused on social-economic development as per Vision 2020. Furthermore, the Government is taking measures to combat HIV/AIDS including establishment of Zanzibar AIDS Commission (ZAC).

Utilities and Communication were poorly rated but have shown some improvement.

Investors noted that the quality of utilities and telecommunication needed to be improved. Telecommunication and water tariffs were perceived as being very high. Measures taken by the Government to rectify the situation included reducing taxes on information and telecommunication imports to facilitate access and maximize advantage of Information and Communication Technology (ICT) in economic development.

Infrastructure had a positive effect to investing

On average, infrastructure was rated favourably. In the views of investors, air and sea transportation were positively rated. However, major concerns were on inland transport particularly rural and feeder roads.

CHAPTER ONE

INTRODUCTION

1.1 Background

Since 1980s, the world has witnessed rapid and widespread initiatives by governments to involve the private sector in the economy. Globalization has necessitated trade liberalization, that enhanced the growth of trade among nations. In addition, globalization process culminated into an urge for capital and expertise to meet huge and growing demands of contemporary economic activities. As such, the past two decades have evidenced a remarkable increase in the flows of Foreign Direct Investment (FDI) in the world economy. The driving forces behind an upsurge in FDI include general decline in the trade barriers, increased trade liberalization over the past 20 years, global political and economic reforms and increased interdependence and linkages across different firms and countries.

According to UNCTAD World Investment Report (2003), global FDI inflows declined in 2002 for the second consecutive year, falling by 20.0 percent to USD 651.0 billion from USD 813.75 billion in 2001, the lowest level since 1998. Flows declined in 108 economies out of 195 economies. The main factors behind the decline were slow economic growth in most parts of the world and dim prospects for recovery in the short-term. Also important were falling stock market valuations, lower corporate profitability, slow down in the pace of corporate restructuring in some industries and the dwindling down of privatization in some countries. Most of FDI inflows were concentrated on primary sectors such as oil and petroleum. However, FDI inflows into service industries (like banking and

finance, and transport) have also become of paramount importance in the past two years.

Africa's FDI inflows declined to USD 11.0 billion in 2002 after a surge to USD 19.0 billion in 2001, mainly from two cross-border mergers and acquisitions. As a result, the region's share in global FDI inflows fell from 2.3 percent in 2001 to 1.7 percent in 2002, highlighting the small volume of FDI flows to the region. This indicates that the continent's overall significance in the global system is remarkably low. Many African countries marginally sustained or increased their FDI inflows in 2002. Inflows to the region remained highly concentrated, with Algeria, Angola, Chad, Nigeria and Tunisia accounting for half of the total inflows. The distribution across sectors and industries remained largely unchanged. However, World Investment Report (2004) indicates that in 2003, FDI inflows to Africa grew by 28 percent. This calls for future research to establish whether Zanzibar is among those countries benefiting from the recent surge in investment to the region as indicated.

Zanzibar has been undertaking major economic reforms since mid 1980's, and has put in place long-term development plans including the Zanzibar Vision 2020 and the Zanzibar Poverty Reduction Plan (ZPRP). These plans encompass economic strategies for reviving the economy and reduction in the level of poverty. In addition, the economy has been remarkably liberalized. Among the initiatives used to promote FDI for Zanzibar include conducive macroeconomic environment - such as low and stable inflation, low fiscal deficit, trade and exchange liberalization, steady GDP

growth, and maintenance of peace and political stability. Consequently, Zanzibar has witnessed increased inflow of FDI in the past decades.

1.2 Rationale of the Survey

It is imperative for any country to comprehend the magnitude, quality and types of foreign capital for proper policy formulation and investment promotion. Lessons gathered from South East Asia on financial crisis in 1990s have provided a clear indication on the need to determine volume, identify type and nature of foreign capital inflows in an economy.

Since liberalization of financial sector, it has been difficult to compile vital statistics on private capital flows. Availability of foreign capital statistics enables the host country to put in place a mechanism of containing the vulnerable shocks that may be caused by internal or external forces. The survey avails vital information on foreign private investments such as magnitude, type, source, sectoral allocation and distribution across the country which are vital inputs for policy making.

Since the Zanzibar Revolution in 1964 and the subsequent economic reforms in early 1980s, there has been no comprehensive attempt to evaluate the flow and stock of foreign capital in Zanzibar. The survey therefore is intended to provide reasonable estimates of foreign private investments in the economy.

1.3 Objectives of the Survey

The Zanzibar survey is an extension of the one carried in Tanzania Mainland in 2001, which did not include Zanzibar. The main objectives of carrying out this survey were to:

- Compile, design and maintain a comprehensive database on private capital flows;
- Establish a sustainable institutional framework and capacity in undertaking regular private capital flows surveys by involving both private and public sectors;
- Provide information for appropriate macroeconomic policy formulation and investment promotion purposes.
- Strengthen and foster public-private dialogue so that they can work together towards achieving private sector-led growth.

1.4 Scope of the Study

The coverage of the survey include all five regions in the Islands, which are, three from Unguja and two from Pemba, all major sectors of the economy and all foreign and local companies with foreign assets and liabilities.

1.5 Outline of the Report

The report is organized into six chapters. Chapter two, reviews macroeconomic performance and investment environment, while Chapter three focuses on the Methodology. Chapters four and five describe quantitative and perception results of the study respectively. Chapter six summarizes major findings and their policy implications and finally, an assessment of the survey and the way forward are presented in chapter seven.

CHAPTER TWO

MACROECONOMIC PERFORMANCE AND INVESTMENT ENVIRONMENT

2.1 Economic Overview¹

The economy of Zanzibar made significant improvement in 2002 by recording a GDP growth rate of 5.6 percent compared to 4.0 percent in 2001 and 3.0 during 2000 due to sound implementation of economic reforms. Nevertheless, the economy is still highly dependent on agriculture, mainly production and exports of cloves. However, the share of agricultural sector in the overall output has been steadily declining from 41.0 percent in 1995 to around 38.2 percent in 1999 and to a record low of 34.0 percent in 2002. The latter has been attributed to increased share of other economic sectors particularly tourism. Despite the decline, over 80 percent of the population depend on agriculture for their livelihood.

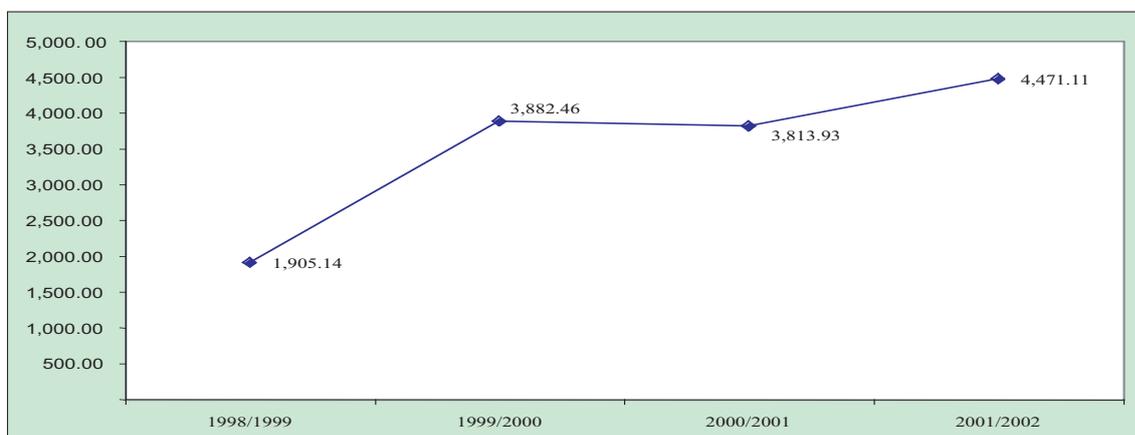
The Wholesale and retail trade, catering and accommodation services were dominated by tourism services. The share of this sector in GDP has gradually increased from 19.8 percent in 1995 to around 21.0 percent in 1999 before declining slightly to 20.3 percent

in 2002. The increase of share in Wholesale and retail trade sector was largely attributed to increase in earnings from tourism services. Tourism earnings increased from TZS 1,905.1 million in 1998/99 to TZS 3,882.5 million in 1999/2000 but declined to TZS 3,813.9 million in 2000/2001 before it improved again to TZS 4,471.1 million during 2001/2002 (**Chart 2.1**)

Contribution of all other sectors to the economy is less than 10.0 percent each. The per capita income is about USD 250, similar to that of the Tanzania Mainland. The rate of inflation declined from 14.1 percent in 1998 to 5.2 percent in 2002 before rising to 9.0 percent in 2003. The level of unemployment is estimated at around 17.0 percent.

Zanzibar imports (including from Tanzania Mainland) about 80.0 percent of her basic requirements. Nevertheless, implementation of sound monetary and fiscal policies for Tanzania has stabilized Zanzibar's inflation rate to a single digit since 1999 (Table 2.1a). On the export side, Zanzibar has a narrow basket constituting of few commodities

Chart 2.1 Tourism Revenue Trends (TZS Mill.), 1998/1999 - 2001/2002



Source: Zanzibar Revenue Board (ZRB)

¹ Analysis is based on 1991 prices

Table 2.1a Selected Macro Economic Indicators, 1998 - 2002

	Values in USD Million				
	1998	1999	2000	2001	2002
GDP Growth percent	3.8	8.6	3.0	4.0	5.6
GDP (Mill USD)	188.4	212.6	204.8	237.5	240.0
Per Capital Income (USD)	205.0	205.0	229.0	223.0	250.0
Inflation Rate (p.a) percent	14.1	10.5	6.5	3.5	5.2
Fiscal Deficit/GDP	0.1	-0.0	-0.1	-0.1	0.0
Fiscal Deficit/GDP (Exc Grants)	-0.0	-0.0	-0.0	-0.0	-0.0
Export/GDP	0.1	0.1	0.1	0.1	0.0
Import/GDP	0.5	0.6	0.5	0.3	0.3
FDI Flow*/GDP	-	-	0.0	0.0	-
Exchange Rate (p.a) (TZS/USD)	650.0	745.0	800.0	876.0	967.0
Exchange Rate (e.p) (TZS/USD)	697.4	797.3	803.3	916.3	976.3

Source: Office of Chief Government Statistician, *Zanzibar Foreign Private Capital Survey, 2004. p.a - period average., e.p - end of period.

and because import values are higher, Zanzibar has persistently recorded a negative trade balance.

Cloves and clove products dominate the agriculture sector, which accounts for more than 70.0 percent of export earnings and employs more than 60.0 percent of the labour force. However the dependence on clove exports is currently not very reliable due to fluctuating trend of both export volumes and unit price. Clove export value recorded in 1999 was USD 19.9 million from USD 0.4 million recorded in 1998, before it declined to USD 10.0 million in 2000 and slightly improved to USD 12.3 million in 2001. It declined again to USD 5.4 million in 2002 (**Table 2.1b**). Clove export unit price has shown fluctuating trend depending on the world market prices. The highest prices were recorded in 2001 at USD 4,989.3 per ton and in 2002 at USD 4,415.1 per ton. The least price was recorded during 1998 with unit price of USD 1,288.5 per ton (**Table 2.1b**).

economic activity in Zanzibar employs more than 25.0 percent of the working population especially those living near the coastal areas of the islands. Livestock keeping is also of subsistence level based on mostly local methods of breeding. The sub-sector constitutes an average of 10.0 percent of GDP. The production is low which necessitates the importation of cattle, eggs and chicken from Tanzania Mainland. In recent years seaweed has become a cash crop supplementing cloves.

Hotels and restaurants sub-sector is the second most important sector in the economy after clove. Zanzibar is well set to attract tourist-oriented projects. Prospects show that, hotels and restaurants sub-ector will continue to be the dominant sector in terms of attracting private capital flows. This is supported by survey findings which reveals that Wholesale and retail, trade, catering and accommodation services sector, which is dominated by tourism services, accounted for 71.0 percent and 69.9

Table 2.1b Clove Export, 1998 – 2002

	Values in USD Million				
	1998	1999	2000	2001	2002
Value	0.4	19.9	10.0	12.3	5.4
Volume	341.4	6,204.6	2,897.2	2,459.1	1,224.2
Unit Price	1,288.5	3,200.3	3,443.9	4,989.3	4,415.1

Note: Volume in Tons

Source: Tanzania Revenue Authority (TRA), Customs department.

Other cash crops include copra, seaweed, spices, fish products and some vegetables. Fishing is also an important

percent of total investments in 2000 and 2001 respectively (**Table 4.3.3**).

Zanzibar has small Manufacturing sector. Its share to the overall GDP is about 6.0 percent. The sector is almost stagnant, growing at a low rate of less than 1.0 percent annually. The sector is dominated by the production of chemical products, food and beverages. Exports of manufactured products contribute less than 5.0 percent of total export earnings. Prospects show that growth of the sector will largely depend on better utilization of Export Processing Zones (EPZ). However, manufacturing under EPZ strategies did not attain the desired achievements due lack of proper infrastructure and limited capacity in accessing the markets which in turn has resulted to limited credible investments in the sector.

Electric power, petroleum and petroleum products supplemented by firewood constitute the energy sector in Zanzibar. Coal and gas are rarely used. Zanzibar gets 70.0 percent of its electric power from Tanzania Mainland through submarine cables, while Pemba gets its power from thermal generated sources. Between 70.0 - 75.0 percent of the electricity generated is used for domestic purposes while less than 20.0 percent is consumed by industries.

Transport and communications sector provides important links in the economy for socio-economic development. Zanzibar has a total road network of about 900.0 kilometers, out of which 85.0 percent are tarmac or semi-tarmac. The remaining 15.0 percent of the road network is rehabilitated annually to make it passable throughout the year. Zanzibar has a thriving sea transport which serves the ports of Zanzibar, Dar es Salaam, Pemba, Tanga, and Mombasa. The two main airports of Unguja and Pemba, the newly restructured public telecommunication company (TTCL) and four private owned mobile systems, connect Zanzibar to the rest of the world.

2.2 Investment Environment

2.2.1 Investment Policy

The Government of Zanzibar is committed to promoting private sector development as an engine of economic growth and means to strengthen the country's investment environment. To attract FDI, the investment policy has been initiated with the main purpose of promoting and facilitating flow of FDI. The policy provides various incentives to investors supported by institutional and legal reforms (**Box 2.2.1**). The Government is planning to merge the existing three institutions (ZIPA, ZAFREZA and ZFPA) responsible for investments with the intention of having a one - stop centre. The relevant investment codes will be repealed to pave way for the establishment of the new Investment Promotion Authority (IPA).

The proposed IPA will be the focal point for the promotion, coordination and monitoring of local and foreign investments. The authority will also be mandated to oversee the implementation of the investment policy in Zanzibar. In an endeavour to promote public-private dialogue, several business organizations have emerged and have full government support. For instance, Zanzibar National Chamber of Commerce, Industry and Agriculture (ZNCCIA) links the private sector to the Government with a view of promoting the development of private enterprise. Other private organizations include; Zanzibar Tourism Investors, Exporters Association, Zanzibar Small Producer Association, Zanzibar Association of NGOs, Employers Association, Zanzibar Tour Operators and Guides Association.

Box 2.2.1 Fiscal Incentives

The Zanzibar Government has put in place several tax and non-tax investment incentives to encourage foreign and local investors to come and invest in Zanzibar. The incentives include:

- Waiver of land rent during construction period.
- Exemption from customs and import duties and other similar taxes on capital goods such as machinery, equipment, raw materials, fuel, vehicles and other goods necessary and exclusively required during construction period.
- Exemption from import duties on imported raw materials for trial operations provided that the quantity of such materials does not exceed eighteen months' supply for one shift production operation.
- Exemption of import duty on the goods for necessary use of the expatriate employees of an approved enterprise for a six months period commencing from the date of their first arrival in Zanzibar.
- Exemption from all export duties payable on finished export goods of the approved enterprise.
- Income-tax exemption for investors who have made a declaration for re-investments at the proposal stage up to the first three years.
- Permission to transfer foreign currency out of Zanzibar at the prevailing official exchange rates for holder of the Investment Certificate. However this provision has been superseded by the provision provided in the 1991 Banking and Finance Act, which allows remittance of funds.
- Consideration of Tax Holiday to approved projects.

Source: Ministry of Finance and Economic Affairs, Zanzibar
Contact email: zipaznz@zanzinet.com,

2.2.2 Trade Policy

The Government of Zanzibar has recently reviewed her trade policy with the intention of hastening trade liberalization, which is important for opening up trade and investment (**Box 2.2.2**). The primary objectives of the revision are to: -

- Create conducive environment for supporting sustainable growth of the economy;
- Create an environment that will allow greater private sector participation;
- Contribute directly to the social development through increased tax revenues and employment;

- Expand opportunities for all foreign investors and domestic entrepreneurs;
- Encourage Small and Medium Scale Enterprises (SMEs) to produce and export processed products with value added components.
- Make Zanzibar a Free Trade Zone;
- Protect Intellectual Property Rights including patent, trade mark and copyright;
- Enhance Fair Trade Practices and Consumer Protection and
- Attract Foreign Direct Investment to priority areas.

2.2.3 Investment Opportunities

Box 2.2.2 Trade Policy Strategies

The trade policy seeks to put in place a system needed to achieve the objective of the "Zanzibar Vision 2020". The primary objective of the policy is to create a conducive environment, which will be capable of supporting a sustainable growth in the economy in general and the trade sector in particular. The strategies at macro level, that would be utilized are:

- Strengthening trade liberalization policies: updating laws rules and regulations and procedures, consolidating and simplifying the functioning of different governmental authorities and taxation regimes
- Improving the quality of service rendered to the trading community, increasing the number of skilled and technically competent staff in trade promotion services and encourage use of ICT
- Aiding trade diversification by encouraging and promoting export of products with value added.
- Improving infrastructure and facilities at EPZs and free port in Zanzibar
- Creating a base of exportable services.
- Attracting Foreign Direct Investment to priority areas: Encouraging increased private sector investment in infrastructural projects including facilities for storage, handling, processing and packaging for export
- Utilizing opportunities offered by regional preferential trading agreements and complying with WTO obligations
- Liaising on regular basis with stakeholders and establishing effective consultative mechanism; institutions; assisting in establishing business associations and market research services; building a stronger partnership with other stakeholders

Source: Zanzibar Trade Policy (2004)

The Government of Zanzibar has been encouraging private investors to consider taking advantage of the unique investment opportunities for the development of her economy. The Government is promoting collective dialogue with investors on the basis of equality and mutual benefit for all. The Government is strongly advocating Public-Private Sector Partnership (PPP). The PPP strategy creates a forum where matters of mutual concern and interest are professionally and effectively deliberated. Zanzibar has potential and resourceful areas of private investments including tourism, spices, agro-industries, marine resources, garment etc.

2.2.3.1 Tourism

Tourism is the second most important sector after Agriculture in the Zanzibar economy. Tourism is regarded as new sector and there are efforts to further improve its status to match international standards (**Box 2.2.3.1**). During 2002, Zanzibar received 87,511 tourists and

earned a total of USD 4.5 million. There are currently 173 tourist accommodation establishments in Zanzibar, with a total of 3,089 rooms and 6,139 beds². The majority of these establishments are located in Unguja. Pemba has 8.1 percent of the total establishments (with a total of 110 rooms and 214 beds).

The majority of tourists come from Europe (e.g. Italy, France, Germany, Britain and Scandinavian), followed by USA, Canada, parts of Africa, and the newly emerging industrial countries of Asia.³

2.2.3.2 Spices

Zanzibar is also known as “The Island of Aromatic and Romantic Spices”. This means that Zanzibar is world renown for its exotic and various homegrown spices, which are mainly exported to the Gulf States, Far East and the European Union. Spices such as cloves, black pepper, cardamom and cinnamon have largely contributed to

Box 2.2.3.1 Quality Tourism

The Government has put emphasis on quality sustainable tourism with far reaching implications for the development and promotion of tourism. To attain this goal, the Government encourages investment in international standard tourism products and offers high quality facilities that support and attract visitors who are prepared to pay a premium price.

Source: Zanzibar Tourism Act (2004)

Box 2.2.3.2 Objectives of Fishing Industry

The Government is striving to promote a sustainable fish production for domestic consumption and export as a way of diversifying the economy and increasing fisheries contribution to GDP. The Vision 2020's fishing objectives include:

- Efficiency utilization of the existing fishing potential and ensure ecological balance
- Promote public awareness on scenic value of marine resources
- Establish aquaculture activities
- Improve international competitiveness by providing incentives, supportive market research and extension services to fishermen
- Prepare and disseminate a code of fishing practice and processing methods, which allow for health, safety handling, storage, marketing and environmental concerns
- Encourage foreign and domestic investors to establish large scale, deep-sea fishing business and fish processing factories.

Source: Zanzibar Vision 2020, Zanzibar Poverty Reduction Plan (ZPRP).

² Source: Zanzibar Commission for Tourism

³ Office of the Chief Government Statistician, 2004

the growth of the economy of the

Islands. Zanzibar intends to exploit these potentials through encouraging private investment.

2.2.3.3 Agro Industries

Zanzibar is rich in luscious indigenous fruits such as mangoes, paw paws and coconuts. In addition, Zanzibar has rubber plantations, special mushroom species and sugar. There is great potential for the establishment of agro-based industries in the areas of production, processing and canning.

2.2.3.4 Marine Resources

Zanzibar has great potential for the development of fishing industry, which can largely contribute to the growth of the country's GDP. This investment opportunity has not been fully exploited and is open for Foreign Direct Investment. The cluster islands of Zanzibar are surrounded by the Indian Ocean waters with ample marine resources including variety of species of fish and seafood such as tuna, snappers, groupers, rays, sharks, king fish, barracuda, shrimps, pelagic shrimp, lobsters, prawns, calamari, octopus, other deep water fish as well as sea weed. All these form solid basis for the development of fish processing industry for export market.

2.2.3.5 Garment Products

The Government is actively promoting foreign investments in the garments and apparel industries for export market. The market for garment products is assured within East Africa, SADC and African Growth and Opportunity Act (AGOA), Everything But Arms (EBA) and European Union.

2.2.3.6 Financial Intermediaries

The Government has created conducive environment for the growth of financial institutions and financial

intermediaries. Investment in the financial sector will bring about managerial skills, employment, technology transfer, marketing expertise and marketing link. As of end 2003, there were 7 commercial banks, 2 insurance companies, over 20 bureaux de change and several trust funds operating in Zanzibar.

2.2.4 Legal Aspects

Zanzibar is determined to continue instituting an acceptable legal and regulatory framework that will increase and sustain confidence of the business community. Below are relevant laws and policies pertaining to investments in Zanzibar.

2.2.4.1 Labour Laws

There is an on going process of reviewing Labour Laws which was initiated by the Government in 2002 in collaboration with the International Labour Organization (ILO) and the United Nations Development Programme (UNDP). The Labour Law Reform is intended to: -

- Achieve a coordinated and updated labour legislation in Zanzibar;
- Promote accelerated development for good governance;
- Promote sound labour relations between employers, employee and the Government;
- Promote labour productivity and job creation;
- Facilitate effective and expeditious resolutions of labour disputes.

2.2.4.2 Land Legislations

The Government has adequately addressed and reviewed the land legislations including Land Tribunal Act, Land Tenure Act, Land Survey Act and Land Transfer Act. The primary

objectives of reviewing these legislations are, among others, to create better investment environment. The Government offers generous terms of land lease to investors for 49 years with possibility of extension or renewal.

2.2.4.3 Taxation Policy

The tax system for Zanzibar has been improved overtime to create a better

The investment promotion strategies in Zanzibar have been improved by maintaining linkages with other international organizations such as Multilateral Investment Guarantee Agency (MIGA) and International Center for Settlement of Investment Disputes (ICSID) geared towards investment protection.

2.2.6 Investment Oriented Forums

Box 2.2.4.4 Environmental Conservation

The thrust of the Government is on ensuring conservation and protection of the environment for a sustainable use of available tourism resources. The Vision 2020 objectives on environmental protection are:

- Promoting life quality that is socially desirable, economically and environmentally sustainable
- Ensure that environmental resources and values are integrated with development objectives for maximum contribution to the long term social economic development
- Increase economic efficiency in environmental management and natural resources' use in a manner that ensure environmental sustainability
- Ensure that industries' effluent and other by-products do not cause unacceptable damage on natural resources
- Encourage sustainable and equitable use of natural resources for meeting the basic needs of the present and future generations without degrading the environment.

Sources: Zanzibar Vision 2020, Tourism Act (2004) and Trade Policy (2004)

trade and investment climate. It also takes into account harmonization of tax rates currently taking place within East Africa Community (EAC) and Southern African Development Community (SADC) of which Tanzania is a member.

2.2.4.4 Environmental Protection

The Government emphasizes the need to conserve and protect both natural and marine environment without ignoring the Rio Convention, which calls for all Governments in the world to balance between environmental conservation and development.

2.2.5 Investment Guarantee

2.2.6.1 World Association of Investment Promotion Agencies (WAIPA)

Zanzibar is a member of WAIPA, an international organ that acts as a forum for investment promotion agencies (IPAs). It provides networking opportunities and facilitates the exchange of best practices in investment promotion. WAIPA aims at improving cooperation amongst IPAs on a regional and global basis and facilitate the sharing of experiences for the purpose of attracting FDI. WAIPA also assists IPAs in advising their respective Government in the formulation of appropriate investment

Box 2.2.5: Guarantee to investors

The existing legal system for Zanzibar guarantees their rights of wealth possession and prevents confiscation of their properties. According to the 1984 Zanzibar Constitution, the Government will confiscate no property whatsoever without the relevant compensation to any investor. Moreover, Tanzania is a member of the Multilateral Investment Guarantee Agency (MIGA), which is under the World Bank, and safeguards properties of investors.

Source: Zanzibar Investment Act (2004)

Government website: www.tanzania.go.tz/zanzibar

promotion policies and strategies.

2.2.6.2 International Organizations Membership

Zanzibar is currently working in partnership with other international organizations including United Nations Industrial Development Organizations (UNIDO), United Nations Conference on Trade and Development (UNCTAD)

and United Nations Development Program (UNDP) to build entrepreneurial capacity. All these organizations provide training and technical assistance to both private and public sector stakeholders. They are also targeting the local entrepreneur seeking joint ventures with foreign partners and foreign investors seeking opportunities in Zanzibar.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

The survey on Private Capital Flows (PCFs) in Zanzibar was conducted by using questionnaires. The process involved establishment of the scope and coverage of the survey, institutional arrangements, preparatory activities including awareness campaign, training workshop and the establishment of the investor's register.

The survey was an extension of a similar one carried out in Tanzania Mainland in 2001. The methodology adopted took into account experience gained from the Mainland survey and was adopted to ensure that:

- Investors' register is correct and comprehensive;
- Survey tools are customized to suit Zanzibar environment;
- Good methodology is adopted to distribute/collect questionnaire and improve responsiveness and quality of collected data;
- There is adequate institutional coordination and technical capacity;
- There is commitment at institutional and researchers level;
- There is public awareness through media programmes.

3.2 Institutional Arrangements

The survey involved the Zanzibar Investment Promotion Agency (ZIPA), Office of Chief Government Statistician (OCGS) and the Bank of Tanzania (BOT). Other institutions involved include; the Registrar of Companies, Zanzibar Free Economic Zones Authority (ZAFREZA), Zanzibar Free Port Authority (ZFPA) and the Zanzibar Commission for Tourism (ZCT). The

reasons of involving these institutions were to ensure sharing of experience and expertise, efficient use of available manpower at ZIPA and other institutions, building capacity for this and future census and surveys, joint ownership of the PCFs project and the use of combined legal authority for the conduct of the survey with anticipation of improving compliance. The survey was coordinated by ZIPA with technical assistance from the Bank of Tanzania, DFI and MEFMI.

3.3 Awareness Campaign

Creation of awareness to investors and general public was done through the sensitization workshop. The objective of the awareness campaign was to demonstrate the purpose and importance of the study to Zanzibar investors and general public. The awareness campaign was done through advertisements on television, radio and newspapers. Investors were assured of confidentiality, which enhanced their cooperation in supplying correct information. They were also assured that information supplied would be exclusively used for statistical purposes and the results would be published in aggregated form. In addition to these campaigns there was a sensitization workshop, which involved 54 participants, of whom 29 were from the private sector and 25 from the public sector. The public sector participants were drawn mainly from ministries and Government institutions dealing with investment matters.

3.4 Training Workshop

A training workshop was conducted in February 2003 with the main objective

of introducing and enhancing the knowledge and skills of researchers and supervisors in comprehending the concepts and definitions used in the questionnaires and other field instruments. A technical team comprising four resource persons from the Bank of Tanzania (BOT) and DFI, of the UK presided over the training. A total of 20 researchers drawn from ZIPA, OCGS, ZCT, ZAFREZA, ZFPA and BOT were trained.

3.5 Compilation of Investors' Register

Identification of targeted investors for the survey was based on the investors' register that was prepared well in advance. The register was used to get such informations as establishment name, contact person, physical and postal address, type of business activity, shareholders particulars and initial capital investment. About 159 companies were identified for the survey in the form of fully owned and/or partnership with Zanzibaris. Several problems were encountered in the course of identifying companies for the survey including inability to obtain all investor's information from a single source; lack of proper records from the identified sources; and non compliance to regulations regarding reporting requirements.

3.6 Survey Tools and Techniques

Prior to the commencement of the survey, it was pertinent to establish a well-

programmed series of activities to facilitate its implementation. These included preparation of the Investor's Register; awareness campaign; training of researchers, designing of questionnaires; and preparation of survey manual.

3.6.1 The Questionnaires

Three different sets of questionnaires were designed and distributed to companies covered in the survey. The first questionnaire, in blue colour, was for the survey of Local and Foreign Assets and Liabilities (FAL) for 2000 and 2001. The second questionnaire, in green colour, was for the survey of Private Sector External Debt. The third questionnaire, in yellow colour, was for the investors' perception.

3.6.2 Administration of the Questionnaires

Due to easy geographical proximity of the registered companies in Zanzibar, all questionnaires were physically distributed. Response rate of the survey is shown in **Table 3.6.2**.

The overall results indicated a high response rate of 97.0 percent. This was largely attributed to good preparatory arrangements including awareness campaigns.

3.6.3 Survey Manual

Survey manual was used as a guide for researchers on all survey logistics. The manual provided highlights on key

Table 3.6.2 Distribution of Questionnaires in Zanzibar

Region	Number of researchers involved	Dates the Survey was done	Registered Companies	Companies served with questionnaires	Number of received questionnaires	Response Rate (Percent)
North Unguja	14	10/3-31/3/2003	25	23	23	100.0
South Unguja	14	10/3-31/3/2003	20	17	17	100.0
Urban West	14	10/3-31/3/2003	105	103	98	95.0
North Pemba	1	10/3-31/3/2003	3	1	1	100.0
South Pemba	1	10/3-31/3/2003	6	3	3	100.0
Total			159	147	142	97.0

issues in the survey such as major objectives of the survey, concepts and definitions, interview procedures and follow up visits.

3.7 Data Processing and Management

3.7.1 Software Development

The Bank of Tanzania developed a software package for capturing and processing survey data. The software was installed at the Bank of Tanzania –Zanzibar Branch offices in April 2003 for processing Zanzibar survey data.

3.7.2 Data Entry and Validation

Data entry exercise started in July 2003 and involved six staff from ZIPA and

BOT-Zanzibar Branch. Data validation and verification were done in August 2003.

3.7.3 Adherence to International Standards

Attempts were made to comply with internationally recognized and applied method of measuring and estimating Investment data. In this respect, sectors were classified according to International Standard Industrial Classification (ISIC) and private capital flows and stock data were presented according to the recommendations of the IMF Balance of Payments Manual, 5th edition. This will enable Zanzibar to prepare its International Investment Position (IIP) for the first time.

CHAPTER FOUR

FOREIGN PRIVATE INVESTMENTS IN ZANZIBAR

4.1 Introduction

This chapter presents findings from the survey on foreign private capital flows in Zanzibar. The study covers three main components of foreign private capital i.e. Foreign Direct Investment (FDI), Portfolio Investments and Other Investments. It gives an overview of the analysis and detailed description of the main components for stocks and flows for 2000 and 2001. The brief explanations of the components covered are as follows: -

- Foreign Direct Investment (equity holdings by non-residents of 10 percent or more of total equity, reinvested earnings attributable to FDI, long-term, short-term shareholder and inter-company debts) and related income items (profits, dividends and interest);
- Portfolio Equity (holdings of less than 10 percent of total equity) and related income, and Long-term and Short-term debt instruments;
- Other Investments: (long and short-term) from other sources unrelated to the borrower and suppliers credits (short-term only)

and their related interest payments.

4.2 Foreign Private Capital - Magnitude and Composition

Foreign private capital is analyzed in four levels namely (i) mode of financing (ii) source country of investments, (iii) sectoral distribution, and (iv) regional distribution.

4.2.1 Stock of Foreign Private Capital

The study has revealed that stock of total Foreign Private Capital in Zanzibar surged to USD 182.9 million at the end of 2001, from USD 159.6 million recorded in 2000 implying an increase of 14.6 percent (**Table 4.2.1.1, Charts 4.2.1a and 4.2.1b**). The study further reveals that Foreign Direct Investments (FDI) dominated the private capital stock both in 2000 and 2001, followed by Other Investments and Portfolio Investments. During 2000 FDI stock amounted to USD 151.5 million accounting for 94.9 percent of total investments, and increased to USD 174.7 million in 2001 accounting for 95.5 percent of total

Table 4.2.1.1 Stock of Foreign Private Capital in Zanzibar, 2000 and 2001

Components	2000		2001	
	Amount	Percent	Amount	Percent
Foreign Direct Investment	151.5	94.9	174.7	95.5
Equity investment	104.4	65.4	115.4	63.1
Long-term intra-company loans	38.7	24.3	42.8	23.4
Short-term intra-company loans	6.9	4.3	5.9	3.2
Suppliers credits from related companies	1.4	0.9	10.7	5.8
Portfolio equity investment	0.3	0.2	0.3	0.2
Other Investments	7.8	4.9	7.8	4.3
Long-term loans from unrelated companies	4.7	3.0	5.1	2.8
Suppliers credits from unrelated companies	3.0	1.9	2.7	1.5
Short-term loans from unrelated companies	0.0	0.0	0.0	0.0
Total	159.6	100.0	182.9	100.0

Chart 4.2.1a: Stock of Foreign Private Capital for 2000

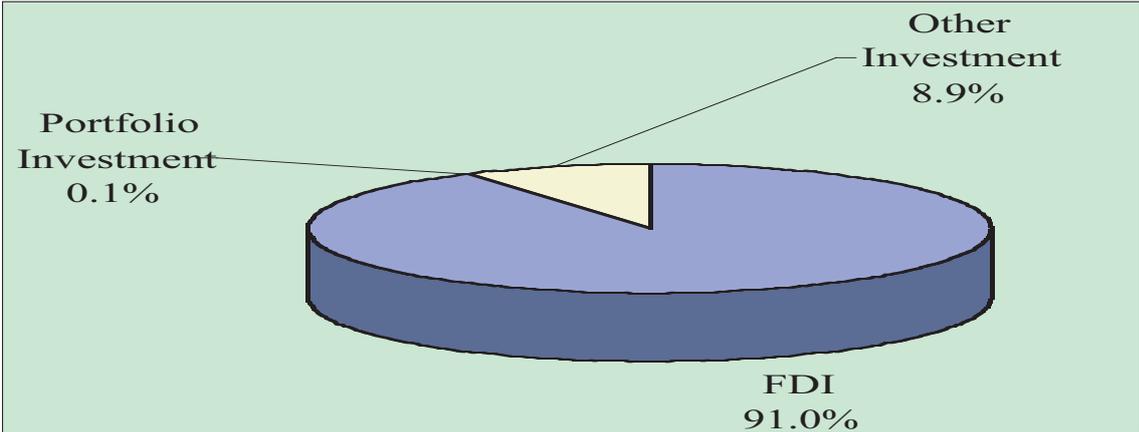
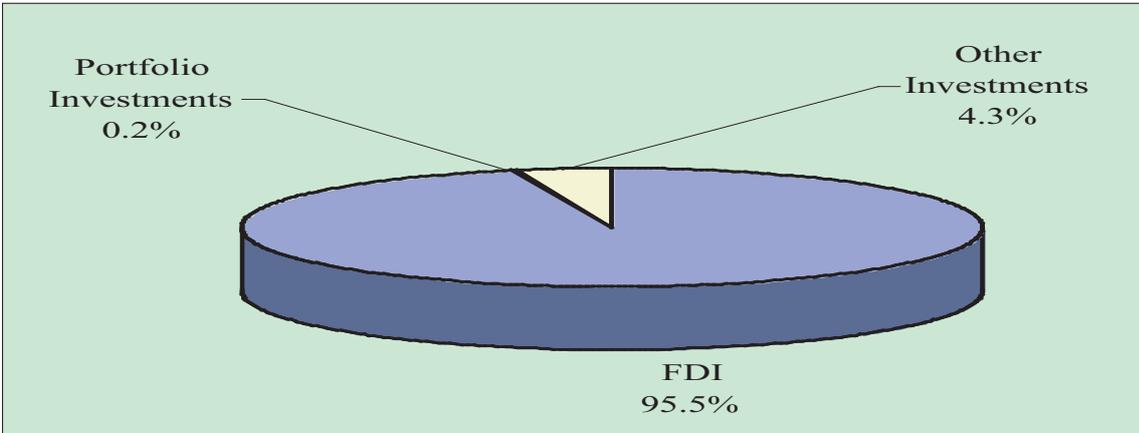


Chart 4.2.1b: Stock of Foreign Private Capital for 2001



foreign investment. The large share of FDI has important implications for domestic investment in the economy. It means that an additional dollar of FDI is associated with a greater increase in domestic investment than a dollar of Portfolio investment would bring forth (Obwona and Lucie, 2000).

Stock of Portfolio investments remained constant at USD 0.3 million for both 2000 and 2001 accounting for 0.2 percent of total stock of foreign investment. Stock of Other Investments amounted to USD 7.8 million in 2000 and 2001 and accounted for 4.9 percent and 4.3 percent of total foreign investments respectively.

4.2.2 Flows of Foreign Private Capital

The survey revealed that trend of Private Capital inflows decreased by 66.6 percent from USD 6.3 million

recorded in 2000 to USD 2.1 million in 2001 (Table 4.2.2.2, Charts 4.2.2a and 4.2.2b). The decline was largely associated with decline in Foreign Direct Investment. This was partially attributed to uncertainty of the 2000 general elections.

During the two years, foreign direct investments declined from USD 5.7 million recorded in 2000 to USD 1.4 million in 2001. It was further noted that Foreign Direct Investment was the largest in both periods accounting for 91.0 percent in 2000 and 67.8 percent in 2001. The share of Portfolio equity investment remained constant at 0.1 percent of total investments in both periods, while the share of Other Investments increased marginally from USD 0.6 million in 2000 to USD 0.7 million in 2001. Other Investments accounted for 8.9 percent and 32.5 percent of total investments for 2000

and 2001 respectively. The study also revealed that long-term borrowing (both from related and unrelated sources) was the most important source of financing in 2001. In 2000, the most important source of borrowing was direct equity and long term borrowing from related companies while no long-

term borrowing from unrelated companies was reported.

4.3 Analysis of FDI

The analysis of FDI includes both stock and flows for 2000 and 2001, and gives the details on mode of financing,

Table 4.2.2.2 Flows of Foreign Private Capital in Zanzibar, 2000 and 2001

Components	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Foreign Direct Investment	5.7	91.0	1.4	67.8
Equity investment	2.8	44.9	0.5	23.8
Reinvested earnings	0.0	0.7	-0.1	-5.3
Long-term intra-company loans	2.5	40.1	0.8	35.7
Short-term intra-company loans	0.3	5.2	0.2	10.3
Suppliers credits from related companies	0.0	0.0	0.1	3.1
Portfolio equity investment	0.0	0.1	0.0	0.0
Other Investments	0.6	8.9	0.7	32.5
Long-term loans from unrelated companies	0.0	0.0	0.6	26.0
Suppliers credits from unrelated companies	0.6	8.9	0.1	6.5
Short-term loans from unrelated companies	0.0	0.0	0.0	0.0
Total Flows	6.3	100.0	2.1	100.0

Chart 4.2.2a: Flow of Foreign Private Capital for 2000

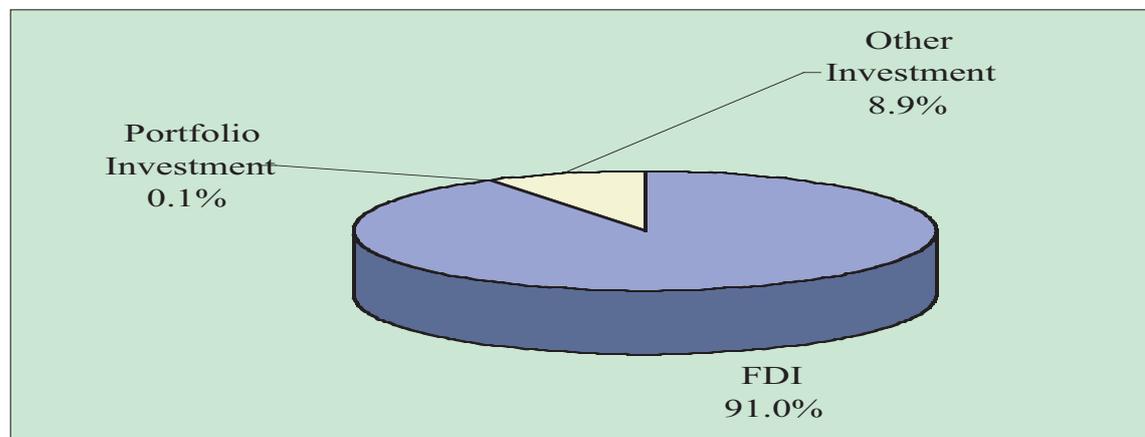
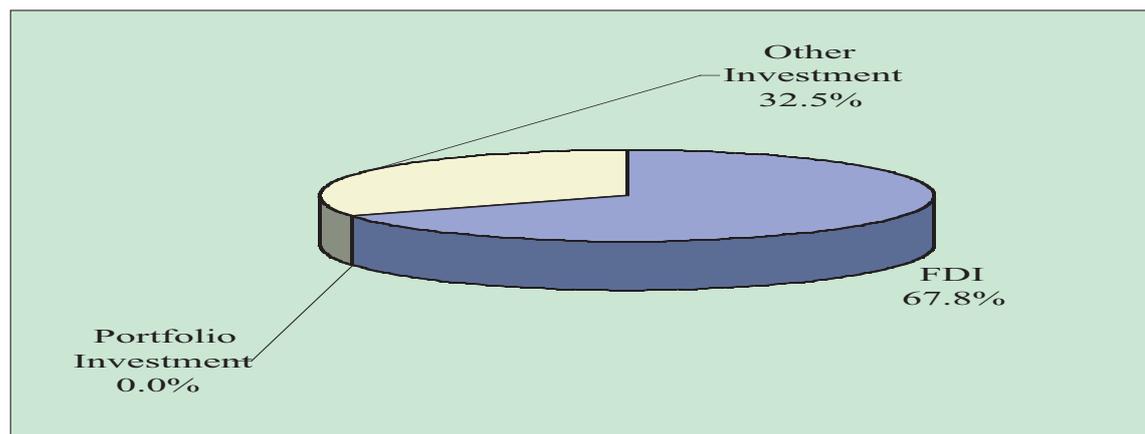


Chart 4.2.2b: Flow of Foreign Private Capital for 2001



distribution by sector, distribution by region and country of origin.

4.3.1 FDI Stock by Mode of Financing

FDI in Zanzibar is categorized into equity, long-term intra-company loans,

115.4 million in 2001 accounting for 68.9 percent and 66.0 percent of total FDI respectively (Table 4.3.1.1, Charts 4.3.1a and 4.3.1b). The second major source of financing was long-term intra-company loans, which amounted to USD 38.7 million by end 2000 and USD 42.8 million at end 2001 representing 25.6

Table 4.3.1.1 Stock of FDI by Mode of Financing, 2000 and 2001

Type	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Equity	104.4	68.9	115.4	66.0
Long-term (intra-company)	38.7	25.6	42.8	24.5
Short-term (intra-company)	6.9	4.6	5.9	3.4
Suppliers credit	1.4	0.9	10.7	6.1
Total	151.5	100.0	174.7	100.0

short-term intra-company loans and supplier’s credit. The study reveals that equity investments were the dominant source of funds for 2000 and 2001. The stock of equity investments amounted to USD 104.4 million in 2000 and USD

percent and 24.5 percent of total stock of FDI respectively. Short-term intra-company loans were the third source in 2000 amounting to USD 6.9 million or 4.6 percent of the total stock of FDI. Suppliers credit from related companies

Chart 4.3.1a. Stock of FDI by Mode of Financing for Zanzibar for 2000

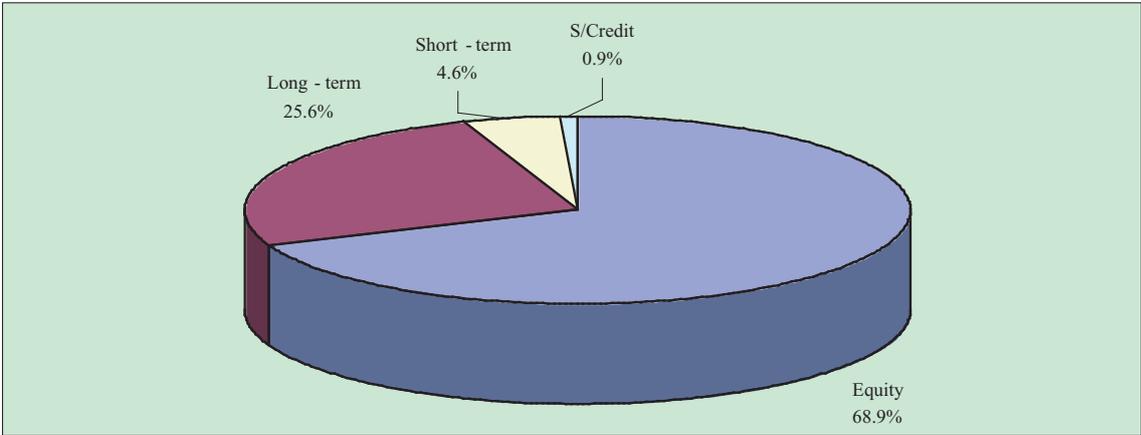
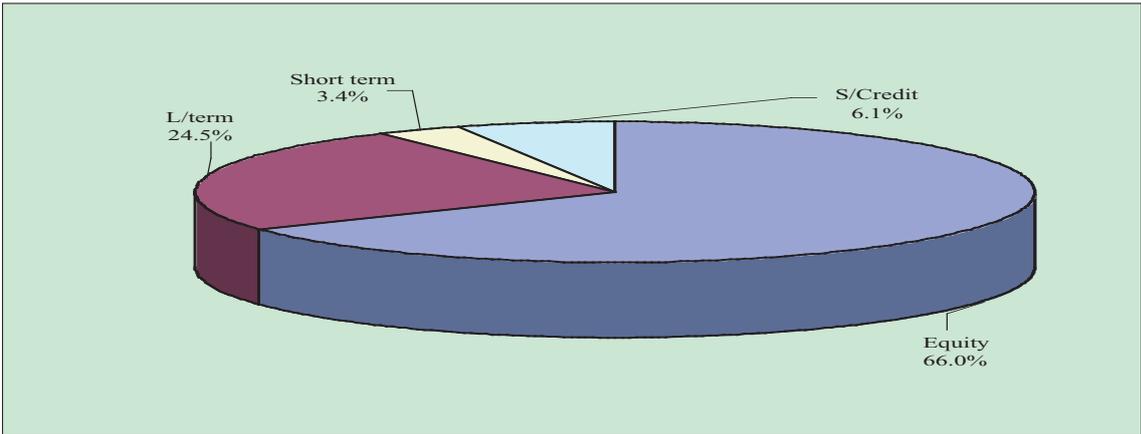


Chart 4.3.1b. Stock of FDI by Mode of Financing Types for Zanzibar for 2001



amounted to USD 10.7 million or 6.1 percent of the total FDI stock. The short-term loans from intra-company sources were the least source in 2001, amounting to USD 5.9 million or 3.4 percent of the total. The analysis therefore shows that FDI appears to be quite sustainable, as it

second. The top source of financing during 2001 was long-term intra-company loans despite its decline to USD 0.8 million from USD 2.5 million in 2000. Short-term intra-company loans were only USD 0.2 million in 2001 showing a decline of USD 0.1

Table 4.3.2.1 Flows of FDI by Mode of Financing, 2000 and 2001

Financing	2000		2001	
	Amount	Percent	Amount	Percent
Equity investment	2.8	49.1	0.5	33.3
Reinvested earnings	0.0	0.0	-0.1	-6.7
Long-term intra-company loans	2.5	44.6	0.8	53.3
Short-term intra-company loans	0.3	5.4	0.2	13.3
Suppliers credits from related companies	0.0	0.0	0.1	6.7
Total FDI flows	5.7	100.0	1.4	100.0

comprises mainly of equity and long-term borrowing. However suppliers credit appears to be very volatile.

4.3.2 Flows of FDI by Mode of Financing

The study shows that in 2000, flows of FDI amounted to USD 5.7 million before declining substantially to USD 1.4 million in 2001. Further, FDI flows in 2000 were dominated by equity that amounted to USD 2.8 million, being 49.1 percent of total. This was followed by long-term intra-company loans which amounted to USD 2.5 million or 44.6 percent in 2000, while short-term intra-company loans amounted to USD 0.3 million or 5.4 percent of the total.

The order of ranking was reversed in 2001 where equity financing ranked

million from USD 0.3 million in 2000.

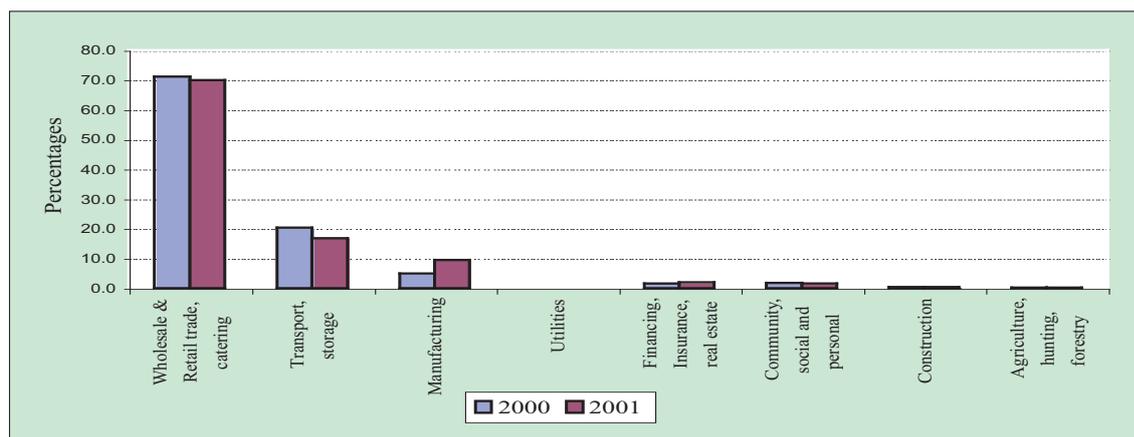
4.3.3 Stock of FDI by Sector

The study reveals that sectoral distribution of FDI stocks was in favour of Wholesale and retail trade sector, of which tourism services sub-sector accounted for over 80.0 percent for 2000 and 2001 due to huge investments in tourist hotels and restaurants. The share of the sector was 71.0 percent and 69.9 percent in 2000 and 2001 respectively. The second sector with high FDI stock was Transport, storage and communication that accounted for 16.8 percent in 2001, followed by Manufacturing with a share of 9.4 percent in 2001. The share of Agriculture was the lowest averaging 0.2 percent during 2000-01. Although Agriculture is the dominant sector, it

Table 4.3.3.1 Stock of FDI by Sector for 2000 and 2001

Sector	2000		2001	
	Amount	Percent	Amount	Percent
Wholesale and retail trade, catering	107.6	71.0	122.2	69.9
Transport, storage	30.7	20.3	29.4	16.8
Manufacturing	7.5	4.9	16.4	9.4
Utilities	0.0	0.0	0.0	0.0
Financing, insurance, real estate	2.5	1.6	3.4	1.9
Community, social and personal services	2.6	1.7	2.6	1.5
Construction	0.4	0.3	0.5	0.3
Agriculture, hunting, forestry	0.3	0.2	0.3	0.2
Total	151.5	100.0	174.7	100.0

Chart 4.3.3 Stock of FDI by Sector, 2000 and 2001



has not adequately attracted FDI (Table 4.3.3.1 and Chart 4.3.3).

4.3.4 Analysis of FDI Flows by Sector

FDI flows by sector are different from stocks. While for the case of FDI stocks Wholesale and retail trade was the dominant sector, Community, social and personal services sector was leading in term of FDI flows. The latter was attributed to the surge of investments in education and health sector, which received USD 2.5 million in 2000 but recorded an insignificant amount of flows in 2001. Wholesale and retail trade was however, the leading sector in terms of FDI flows in 2001. The sector recorded FDI inflow of USD 1.5 million in 2001, which was about the same level when compared with 2000. The rest of the sectors recorded insignificant amounts of FDI inflows during 2001 (Table 4.3.4.1).

4.3.5 Stock of FDI by Region

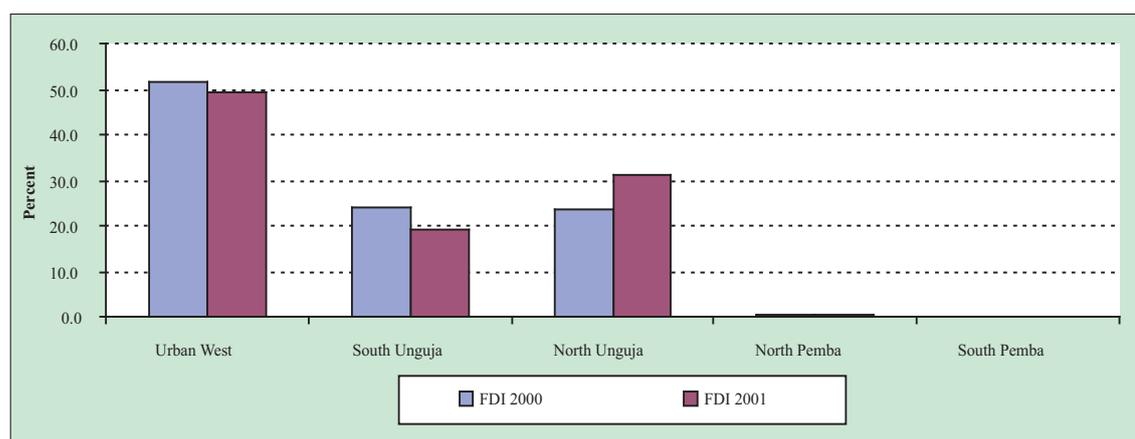
The study revealed that, stock of FDI were concentrated in Urban West and North Unguja regions. Urban West region had the highest stock of FDI amounting to USD 85.9 million by the end of 2001, being 49.2 percent of the total stock. This is an increase of 9.6 percent from USD 78.4 million as at the end of 2000 (Table 4.3.5.1 and Chart 4.3.5). North Unguja was second with a stock of USD 54.7 million in 2001, being an increase of 4.2 percent from USD 35.9 million in 2000. It can be noted that in 2000, South Unguja region was second largest recipient of FDI but in 2001. North and South Pemba regions were the fourth and fifth in FDI stock in 2001 respectively. Both regions received less than one percent of the total stock of FDI.

Table 4.3.4.1 Flows of FDI by Sector, 2000 and 2001

Sector	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Agriculture, hunting, forestry	0.0	0.0	0.0	0.1
Community, social and personal	2.5	44.0	0.0	-1.2
Construction	0.0	0.0	0.0	0.0
Financing, insurance, real estate	0.0	0.1	0.0	0.2
Manufacturing	0.0	0.0	0.0	-0.1
Transport, storage	1.6	27.5	0.0	-3.2
Utilities	0.0	0.0	0.0	0.0
Wholesale and retail trade, catering	1.6	28.4	1.5	104.2
Total	5.7	100.0	1.4	100.0

Table 4.3.5.1 Stock of FDI by Region, 2000 and 2001

Region	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Urban West	78.4	51.8	85.9	49.2
South Unguja	36.1	23.8	33.1	18.9
North Unguja	35.9	23.7	54.7	31.3
North Pemba	1.0	0.7	1.0	0.6
South Pemba	0.1	0.0	0.1	0.0
Total	151.5	100.0	174.7	100.0

Chart 4.3.5 Stock of FDI by Region, 2000 and 2001

Source: Tanzania Investment Report 2004

4.3.6 Flow of FDI by Region

Regional distribution of FDI flows corresponds with that of stocks. The largest recipients are the same regions on both stocks and flows. Urban West region was the largest recipient of FDI in both 2000 and 2001 receiving USD 2.9 million and USD 1.1 million respectively. South Unguja and North Unguja followed in that order recording USD 0.3 million and USD 0.1 million respectively in 2001. North Pemba and South Pemba regions did not receive any FDI inflows during 2000 and 2001 (Table 4.3.6.1 and Chart 4.3.6).

4.3.7 Stock of FDI by Country of Origin

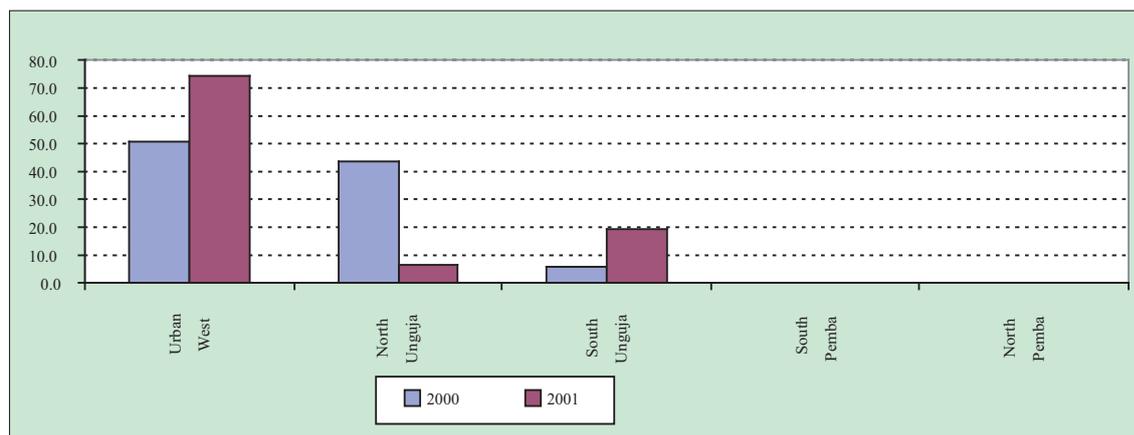
FDI in Zanzibar originate mainly from the Organization for Economic Co-operation and Development (OECD) countries, the Middle East and six African countries namely Ethiopia, Kenya, Mauritius, Rwanda, South Africa and Zambia.

The survey shows that in 2000 most of FDI stock in Zanzibar originated from the OECD countries and amounted to USD 118.3 million, being 78.0 percent of total stock. Investments from non-OECD countries amounted to USD 33.0

Table 4.3.6.1 Flow of FDI by Region, 2000 and 2001

Region	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Urban West	2.9	50.8	1.1	74.4
North Unguja	2.5	43.3	0.1	6.4
South Unguja	0.3	6.0	0.3	19.2
South Pemba	0.0	0.0	0.0	0.0
North Pemba	0.0	0.0	0.0	0.0
Total	5.7	100.0	1.4	100.0

Chart 4.3.6 Flows of FDI by Region, 2000 and 2001



Source: Tanzania Investment Report 2004

million, or 22.0 percent of total FDI stock in Zanzibar (**Appendix 1, Table 5**). In 2001, OECD also dominated FDI stocks contributing USD 139.5 million (79.8 percent) while non-OECD countries had a stock of USD 35.3 million (20.2 percent) of the total.

In 2000, United Kingdom was the dominant source of FDI from OECD countries having invested USD 59.8 million in Zanzibar, which is 39.5 percent of the total stock (**Chart 4.3.7a**). Italy and Switzerland were the second and third largest investors in Zanzibar with 27.5 percent and 6.1 percent of total FDI stock respectively. Investments from USA amounted to USD 2.2 million, accounting for 1.5 percent of total FDI stock.

For non-OECD countries, United Arab Emirates was a dominant source in 2000 with FDI stock worth USD 13.9 million accounting for 9.2 percent followed by South Africa, with USD 9.2 million accounting for 6.1 percent of total FDI (**Chart 4.3.7b**). During the same period, FDI stock originating from Bahamas and Oman amounted to USD 4.1 million and USD 3.2 million accounting for 2.7 percent and 2.1 percent respectively. The contribution of other countries (Ethiopia, Kenya, Rwanda, Zambia and Mauritius) was less than one percent of the total FDI stocks in 2000.

During 2001, the United Kingdom and Italy continued to dominate FDI stock from the OECD countries with USD 56.6 million and USD 36.2 million,

Chart 4.3.7a Top Ten OECD Countries with high FDI Stock, 2000 and 2001

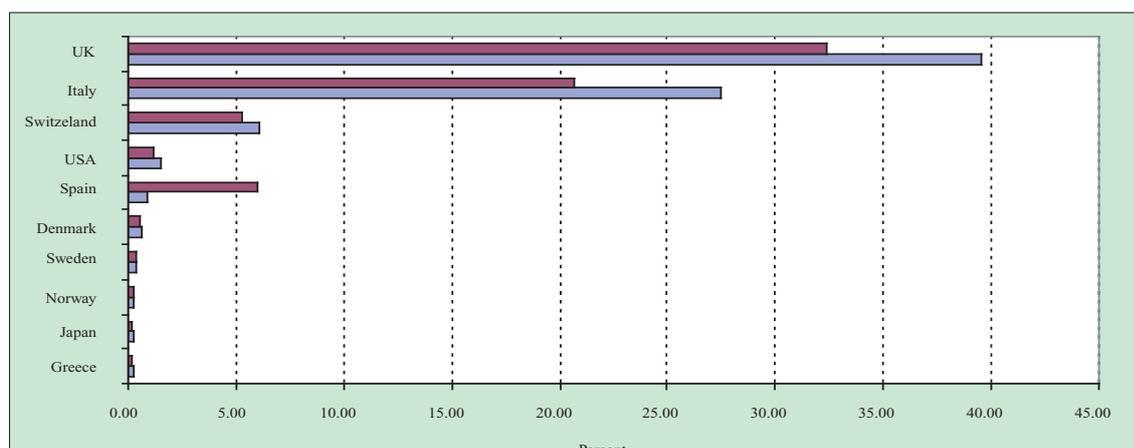
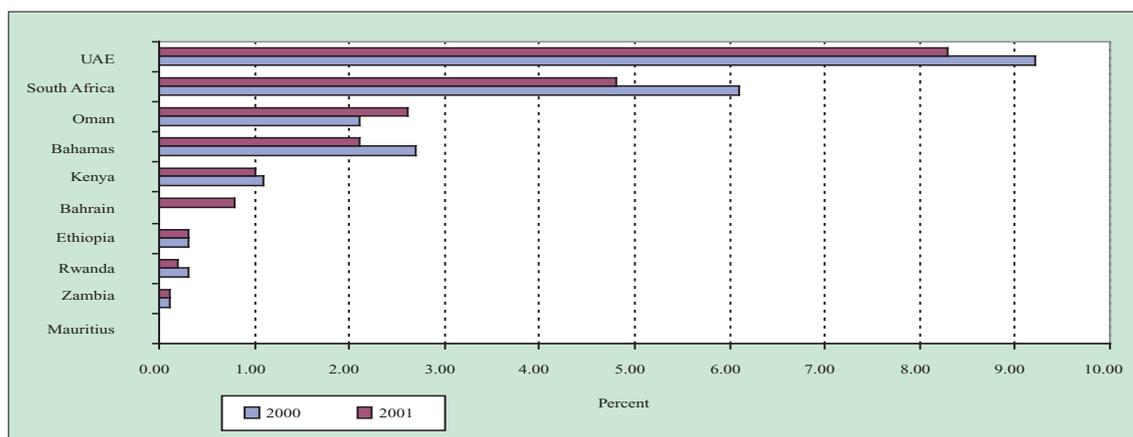


Chart 4.3.7b FDI Stock From Non-OECD Countries, 2000 and 2001



accounting for 32.4 percent and 20.7 percent respectively. Spain, EU countries and Switzerland were the other key sources of FDI for Zanzibar. Investments from USA amounted to USD 2.2 million accounting for only 1.2 percent of total stock.

For non-OECD countries, the study reveals that in 2001, United Arab Emirates (UAE) and South Africa continued to dominate having invested USD 14.5 million and USD 8.3 million stock of FDI respectively. Investments from Oman, Bahamas and Kenya amounted to USD 9.9 million in 2001. Other countries such as Bahrain, Ethiopia, Rwanda and Zambia invested below 1.0 percent of total FDI each.

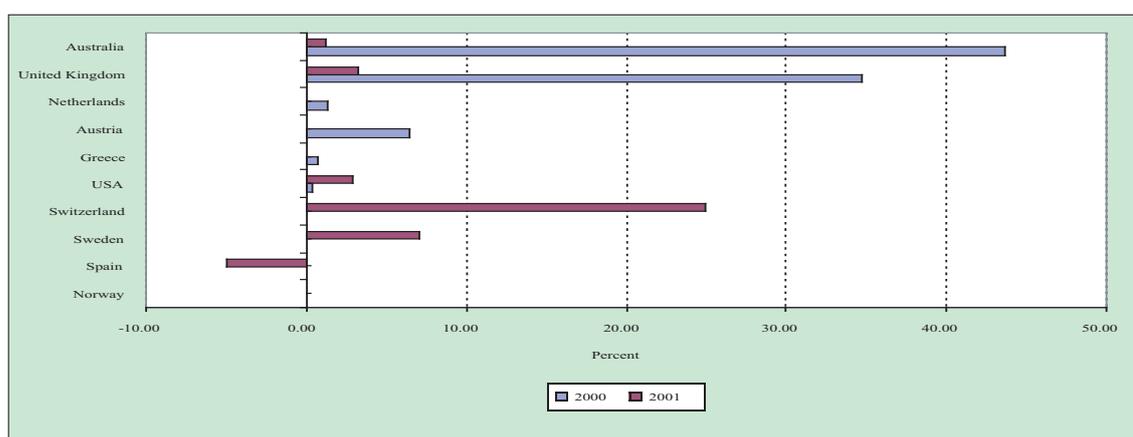
mainly from the OECD countries, the Middle East (Oman, United Arab Emirates) and five African countries (South Africa, Kenya, Ethiopia, Rwanda and Zambia). During 2000, FDI flows from OECD countries amounted to USD 5.65 million representing 99.0 percent of total FDI inflows. During 2001, FDI flow from OECD countries declined to USD 0.8 million from USD 5.7 million in 2000. Lower inflows came from Australia, Austria, Netherlands, and United Kingdom. In contrast, FDI inflows from non-OECD countries increased from USD 0.1 million in 2000 to USD 0.7 million in 2001 mostly from Oman and United Arab Emirates (**Chart 4.3.8** and **Table 6** in **Appendix 1**)

4.3.8 Flows of FDI by Country of Origin

FDI inflows in Zanzibar originate

The study shows further that during 2000, Australia dominated FDI inflows from the OECD countries by accounting for 43.7 percent of total

Chart 4.3.8 FDI Flows, Top Ten OECD Countries, 2000 and 2001



inflows while the UK contributed 34.7 percent and the Netherlands 13.0 percent. During 2001, the trend changed significantly whereby Switzerland and Italy invested USD 0.35 million (24.9 percent) and USD 0.27 million (19.2 percent) respectively.

4.3.9 Debt to Equity Ratios

Analysis of debt-equity ratio of FDI averaged 36.2 percent in 2000 before declining to 34.3 percent in 2001. This signifies that debt financing is relatively low compared to equity financing (Table 4.3.9.1).

Table 4.3.9.1 Debt Equity ratio (percentage), 2000 and 2001

	2000	2001
Debt/Equity Ratio (FDI stock Components only)	36.2	34.3

4.4 Analysis of Portfolio Investments

4.4.1 Stock of Portfolio Investments by Sector

The study reveals that the stock of Portfolio Investments is relatively small when compared with that of FDI. The stock of Portfolio Investments increased marginally from USD 0.3

million in 2000 to USD 0.4 million in 2001. Wholesale and retail trade sector received 95.1 percent of the total stock of Portfolio Investments by the end of 2000 while Transport, storage and communications sector attracted 4.9 percent. (Table 4.4.1.1).

4.4.2 Flows of Portfolio Investments by Sector

The study reveals that Wholesale and retail trade and catering (dominated by tourist hotels) absorbed all Portfolio Investments flows during 2000. During 2001 the same sector dominated by

attracting 93.8 percent of the total Portfolio investment flows. The manufacturing sector accounted for 6.2 percent of the total flows (Table 4.4.2.1).

4.5 Other Investments

4.5.1 Stock of Other Foreign Investment by Sector

Other Foreign Investments include long and short-term loans from unrelated

Table 4.4.1.1 Stock of Portfolio Investments by Sector, 2000 and 2001

Sector	Values in USD Million			
	2000	Percent	2001	Percent
Wholesale and retail trade, catering	0.3	95.1	0.3	92.8
Transport, storage	0.0	4.9	0.0	7.2
Manufacturing	0.0	0.0	0.0	0.0
Total	0.3	100.0	0.4	100.0

Table 4.4.2.1 Flows of Portfolio Investments by sector, 2000 and 2001

Sector	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Manufacturing	0.0	100.0	0.0	6.2
Transport, storage	0.0	0.0	0.0	0.0
Wholesale and retail trade	0.0	0.0	0.5	93.8
Total	0.0	100.0	0.6	100.0

companies. Stock of Other Foreign Investments was USD 7.8 million in 2000 and remained the same in 2001. Only Wholesale and retail trade, Transport, storage and communication, and Manufacturing sectors borrowed abroad. In 2001, the Wholesale and retail trade sector borrowed USD 4.7 million compared to USD 4.5 million in 2000. The stock of Other Foreign Investments that was absorbed in the Transport, storage and communication sector amounted to USD 2.7 million, accounting for 34.7 percent while the Manufacturing sector absorbed USD 0.4 million or 4.9 percent of the total stock of Other Foreign Investments in

by accounting for 65.2 percent of total Other Foreign Investment flows while the remaining 34.8 percent was absorbed in the Wholesale and retail trade sector (Table 4.5.2.1).

4.5.3 Stock of Other Foreign Investments by Region

The study reveals that only the companies in Unguja borrowed from abroad. Companies in Urban West region borrowed USD 5.3 million representing 68.1 percent of the total Other Foreign Investments. North Unguja region was second with a stock of USD 1.5 million accounting for 19.3

Table 4.5.1.1 Stocks of Other Investments by Sector, 2000 and 2001

Sector	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Wholesale and retail trade	4.5	57.2	4.7	60.5
Transport, storage and communication	3.0	38.2	2.7	34.7
Manufacturing	0.4	4.5	0.4	4.9
Total	7.8	100.0	7.8	100.0

2001 (Table 4.5.1.1).

4.5.2 Flows of Other Foreign Investments by Sector

Sectoral distribution of Other Foreign Investments Flows shows that Transport, storage and communication sector was the sole beneficiary during 2000. The same sector continued to dominate during 2001

percent, while South Unguja absorbed USD 1.0 million equivalent to 12.6 percent of the total stock of Other Investments (Table 4.5.3.1).

4.5.4 Flows of Other Foreign Investments by Region

Regional Distribution of Other Foreign

Table 4.5.2.1 Flows of Other Foreign Investments by Sector, 2000 and 2001

Sector	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
Manufacturing	0.0	0.0	0.0	0.0
Transport, storage	0.6	100.0	0.1	65.2
Wholesale and retail trade	0.0	0.0	0.1	34.8
Total	0.6	100.0	0.2	100.0

Table 4.5.3.1 Stock of Other Foreign Investments by Region, 2000 and 2001

Sector	Values in USD Million			
	2000		2001	
	Amount	Percent	Amount	Percent
South Unguja	1.0	12.6	1.0	12.6
North Unguja	1.5	19.3	1.5	19.3
Urban West	5.3	68.1	5.3	68.1
South Pemba	0.0	0.0	0.0	0.0
North Pemba	0.0	0.0	0.0	0.0
Total	7.8	100.0	7.8	100.0

Table 4.5.5.1 Stock of Other Foreign Investments by Country of Origin

Country	2000		Country	2001	
	Amount	Percentage		Amount	Percentage
Italy	0.5	5.8	Italy	0.6	7.8
United Kingdom	3.8	48.5	United Kingdom	3.6	46.1
Spain	0.1	0.9	Japan	0.0	0.2
USA	0.8	10.4	Spain	0.1	1.3
			USA	0.9	12.1
OECD Countries	5.1	65.6	Non-OECD Countries	5.3	67.5
China	0.1	0.7	China	0.1	0.6
Non-OECD Countries	0.1	0.7	Non-OECD Countries	0.1	0.6
International organization	2.5	31.9	International organization	2.5	31.9
Other countries	0.1	1.8			
Total Stock	7.8	100.0	Total Stock	7.8	100.0

Investments show that Urban West received the entire flows both in 2000 and 2001 which was USD 0.6 million and 0.7 million respectively.

4.5.5 Stock of Other Foreign Investments by Country of Origin

The study shows that by the end of 2000, OECD countries invested USD 5.1 million accounting for 65.6 percent of the total stock of Other Foreign Investments, out of which United Kingdom dominated by investing USD 3.8 million (48.5 percent). The second and third largest sources were USA and Italy with USD 0.8 million (10.4 percent) and USD 0.5 million (5.8 percent) respectively (**Table 4.5.5.1**).

China was the only non-OECD country with Other Foreign Investments stock of USD 0.1 million in both 2000 and 2001, accounting for 0.7 percent and 0.6 percent respectively. International organizations availed USD 2.5 million, accounting for 31.9 of total stock of Other Foreign Investments for 2000 and 2001. During 2001, OECD countries

continued to dominate the stock of Other Foreign Investments with slight improvement to USD 5.3 million from USD 5.1 million registered in 2000 representing 67.5 percent of total stock of Other Investments. Most of these investments were from the United Kingdom which invested USD 3.59 million (46.1 percent), USA with USD 0.9 million (12.1 percent) and Italy with USD 0.6 million (7.8 percent).

4.5.6 Flows of Other Foreign Investments by Country of Origin

The survey results show that Other Foreign Investments flows which originated from OECD countries for 2000 and 2001 were from the United Kingdom only and amounted to USD 0.7 million. However, these inflows declined to USD 0.4 million (54.9 percent) in 2001. The second largest source in 2001 was USA with USD 0.3 million (38.1 percent) followed by Spain and Japan with 5.0 percent and 2.0 percent of the total Other Foreign Investments respectively (**Table 4.5.6.1**).

Table 4.5.6.1 Flows of Other Investments by Country of Origin

Country	2000		Country	2001	
	Amount	Percentage		Amount	Percentage
UK	0.6	100.0	Japan	0.0	2.0
			Spain	0.0	5.0
			USA	0.3	38.1
			UK	0.4	54.9
OECD countries	0.6	100.0	OECD countries	0.7	100.0
Non-OECD countries	0.0	0.0	Non-OECD countries	0.0	0.0
Total Flows	0.6	100.0	Total Flows	0.7	100.0

4.6 Income on Investments

Foreign direct investments are associated with returns that are paid out as dividends and interest on equity and foreign borrowings respectively.

4.6.1 Dividends

The study reveals that during 2000 and 2001, a sum of USD 1.4 million was paid out as dividends to non-resident shareholders. Out of this, USD 0.6 million was paid out in 2000 and USD 0.8 million in 2001. The study revealed that, all payments were only from the Transport, storage and communications sector, most of which originated from telecommunications sub-sector (**Table 4.6.1.1**).

Table 4.6.1.1 Dividend paid-out by Sector, 2000 and 2001

Sector	Values in USD Million		
	2000	2001	Total
Transport, storage and communication	0.6	0.8	1.4
Utilities	0.0	0.0	0.0
Wholesale and Retail trade	0.0	0.0	0.0
Total	0.6	0.8	1.4

4.6.2 Interest

During the survey period, debt-servicing (interest on loans) amounting to USD 1.8 million was paid out. Long-term shareholding related interests amounted to USD 0.8 million while interest on other long-term borrowings from unrelated companies amounted to USD 1.0 million (**Table 4.6.2.1**).

Table 4.6.2.1 Interest Payment by Debt Type, 2000 and 2001

Debt Type	2000	2001
Share Holder and Inter-company borrowing	0.4	0.4
Other long-term borrowing from unrelated companies	0.5	0.5
Total	0.9	0.9

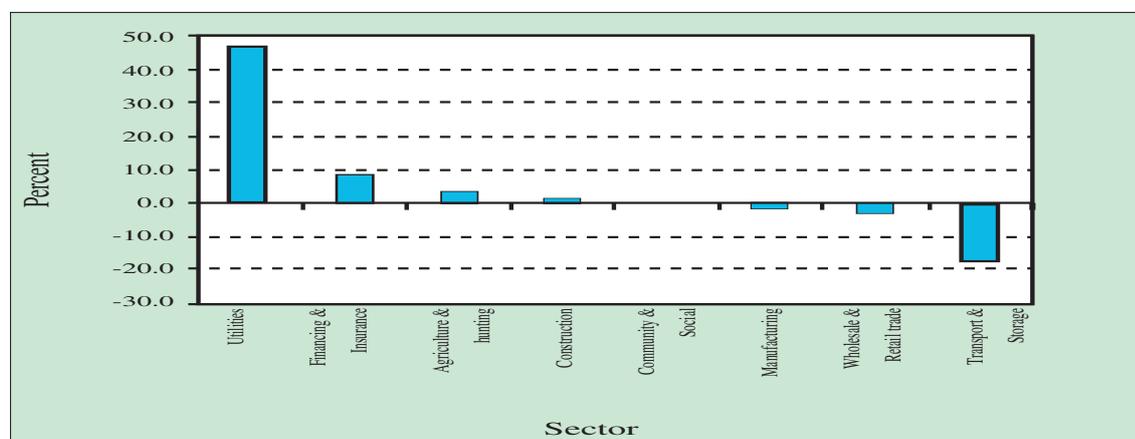
Table 4.6.3.1 Rate of Return on Foreign Equity, 2000 and 2001

Sector	Total Foreign Equity	Values in USD Million			
		2000		2001	
		Net Profit/loss	Return on Foreign Equity (percentage)	Net Profit/loss	Return on Foreign Equity (percentage)
Profit Making Sectors	92.4	5.9	6.4	0.3	0.3
Wholesale and retail trade, catering	88.3	5.7	6.5	0.0	0.0
Agriculture, hunting, forestry and fishing	0.2	0.0	0.0	0.0	0.0
Construction	0.5	0.0	0.0	0.0	0.0
Finance, insurance, real estate	3.4	0.2	5.9	0.3	8.8
Loss making sectors	23.1	-2.9	-12.6	-2.1	-9.1
Community, social and personal services	2.6	0.0	0.0	-0.6	-23.1
Manufacturing	5.2	-0.1	-1.9	0.0	0.0
Transport, storage and communication	15.3	-2.8	-18.3	-1.5	-9.8
Total	115.5	3.0	2.6	-1.8	-1.6

4.6.3 Rate of Return on Foreign

registered 6.5 percent. The second

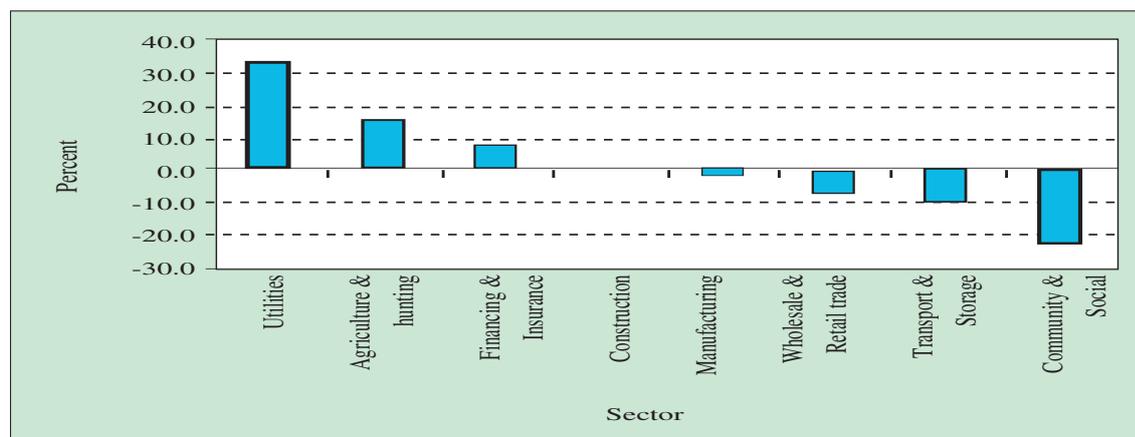
Chart 4.6.3a Rate of Return by Sector, 2000



Equity

sector was Finance, insurance and real

Chart 4.6.3b Rate of Return by Sector, 2001



The survey revealed that during 2000, returns on foreign equity (net profit/equity) was highest in the Wholesale and retail trade sector which

estate, which recorded 5.9 percent while Agriculture, Community, social and personal services and Construction sectors recorded zero returns. The loss making sectors in 2000 were

CHAPTER FIVE

INVESTORS' PERCEPTION

5.1 Introduction

This chapter evaluates investors' perception on how various social and economic factors have influenced their investment decisions and business operations in Zanzibar. During the survey, investors were requested to provide their views on factors influencing their business and investment decisions in Zanzibar. The factors that were considered include economic policies, financial policies, political and governance issues, labour laws, utilities and infrastructure. These factors were subdivided into 50 sub factors reflecting specific aspects under each factor (See Appendix 4). Investors were asked to rank each sub-sector from 1 to 5 in a descending pattern reflecting its strength i.e., 1 for strong positive effect; 2 for positive effect, 3 for no effect, 4 for negative effect, and 5 for strong negative effect. Investors were also required to give opinion on their future investment plans over the next 3 years, source of information that help them make investment decision, initiatives by the Government on investment promotion

and any other comments related to Government policies.

5.2 Overall Perception Results

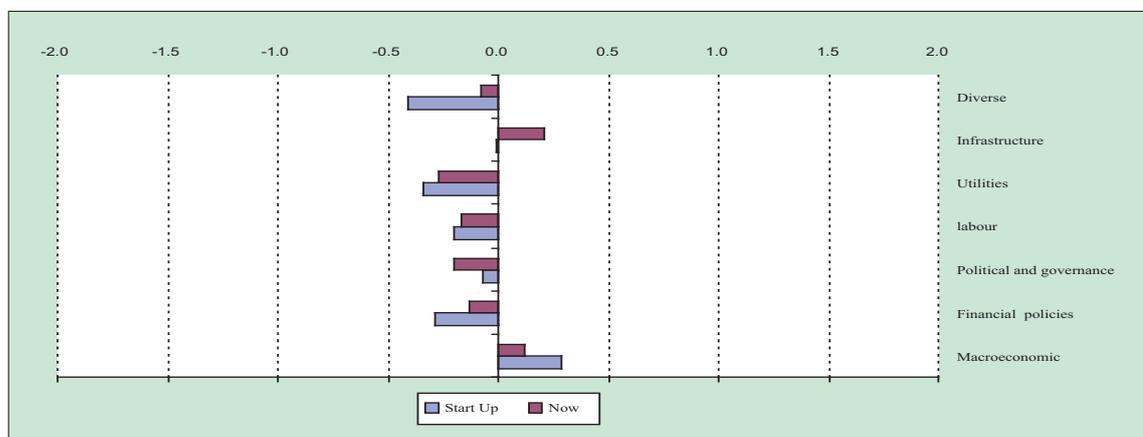
The survey results revealed that, generally, all factors, with the exception of macroeconomic policies, were rated negative during start up and now⁴ periods. Infrastructure factor improved during 2003 from a negative effect at "start-up". Other factors namely financial, political and governance, labour, utilities, and diverse factors were rated negative during both periods. However, there has been some improvement on most of these factors over time. The improvement is a result of reform measures the Zanzibar Government has been undertaking in order to, *intra alia*, create a conducive investment climate (Chart 5.2).

5.3 Analysis of Group Factors

5.3.1 Macroeconomic Factors

Macroeconomic factors are categorized into eight sub factors. The results reveal

Chart 5.2: Investors' Perception During Start up and Now Periods



⁴ Start up refers to the period when an establishment commenced business whereas 'now' refers to year 2003, when the survey was conducted.

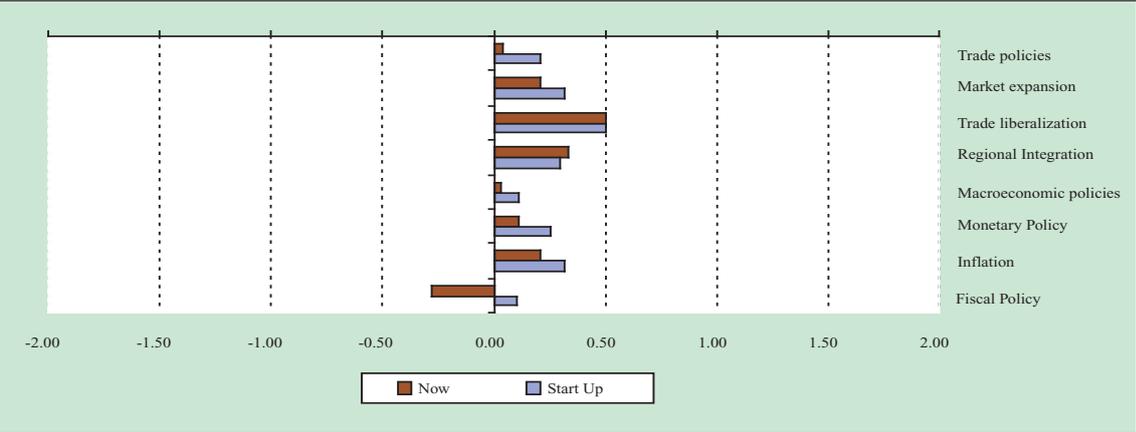
that trade related factors such as trade policies, market expansion, trade liberalization, and regional integration were

rated strong positive implying that investors had favourable perceptions on these sub factors. Trade liberalization policies were rated most positive (Chart 5.3.1).

The observed investors' strong positive perceptions on trade related factors are a result of the country's initiatives to promote trade since it has limited

also high in Zanzibar partly due to high rate of default. The latter has hindered potential investors to access loans for further investments. However, Zanzibar has undergone substantial financial sector reforms and a number of financial institutions have been established. Currently there are six commercial banks, 23 bureaux de

Chart 5.3.1 Investors' Perceptions on Macroeconomic Factors During Start up Period and Now Period



natural resources. It also indicates that investors are eager to take advantage of Tanzania's involvement in regional integration and other bilateral and multilateral trade initiatives including the East African Customs Union (EACU), SADC, AGOA and EBA. The prudent monetary policy, which the government has been pursuing, culminated into single digit level of inflation since 1999 hence creating a favourable investment environment.

5.3.2 Financial Factors

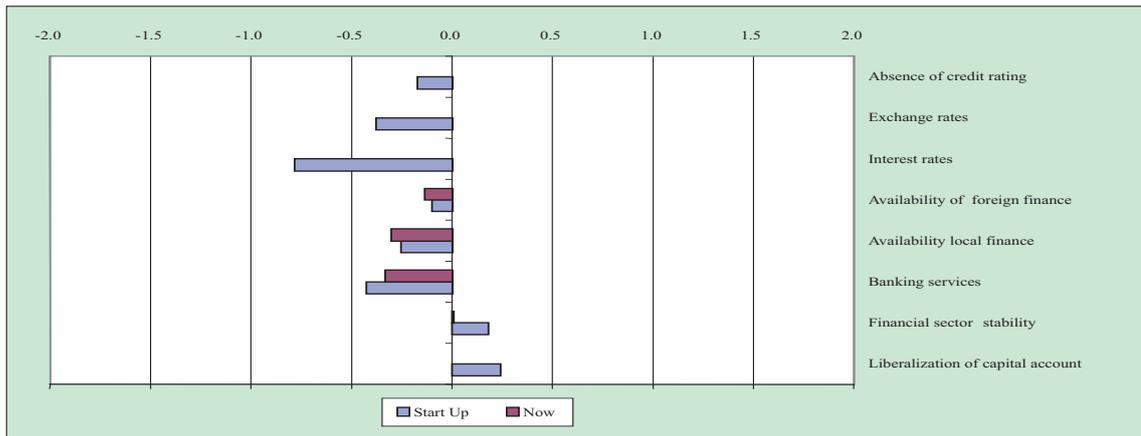
Investors' perceptions on all financial factors were negative except financial sector stability and liberalization of capital account. This is largely due to the absence of credit rating, limited availability of long-term credit particularly from the local financial institutions, few specialized financial intermediaries as well as inadequate financial instruments. Lending rates are

change, 2 insurance companies 3 trust fund institutions and several micro finance institutions.

The depreciation of Tanzanian Shilling had negative effect in the start up period for most investors but improved in 2003. The Tanzania Shilling depreciated against the US Dollar from TZS 803.3 by the end of December 2000 to TZS 916.3 the same period in 2001. Depreciation of the currency was caused by, among others, increased demand for foreign currency to facilitate importation of materials during the initial stage of establishing the business.

The capital account which has been partially liberalized had positive effect. Full liberalization will have more positive impact on investors.

Fig 5.3.2: Financial Factors as Perceived by Investors During Start up and Now Periods



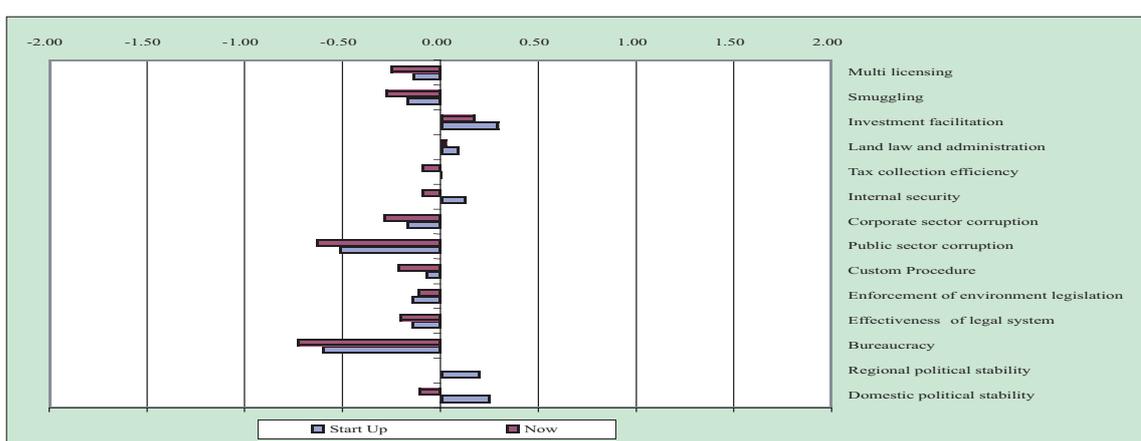
5.3.3 Governance and Political Factors

Investors’ perceptions on governance and political factors revealed mixed results. Internal security, land law and administration, and investment facilitation were rated positive during the “start-up” while tax collection efficiency had no effect. In 2003, only investment facilitation, land law and administration factors maintained a positive status. Regional stability, which was rated positive during start up, deteriorated to no effect status, implying that it is not one of the crucial determining factors for investment in Zanzibar.

Domestic political stability was negative at start up but improved to positive in 2003 largely due to reconciliation of political differences

among the two major political parties. The governance factors namely multi licensing, smuggling, corporate sector corruption, customs procedures, enforcement of environment legislation, bureaucracy, effectiveness of legal system and public sector corruption were all negative in the “start-up”. Tax collection efficiency factor showed little improvement in 2003 though still negative. This improvement is attributed to the enforcement of investment environment legislation, anti smuggling measures and establishment of the Ministry of Constitutional Affairs and Good Governance. Customs procedures were reviewed and the Tanzania Revenue Authority strengthened tax administration with the view of enhancing tax collections efficiency. The legal system has been strengthened following the establishment the Office

Chart 5.3.3 Investors’ Perceptions on Government and Political Factors During Start up and Now Periods



of Public Prosecution with autonomy to pursue legal issues in courts of law with minimal delays (Chart 5.3.3).

5.3.4 Speed of Decision Making by Government Institutions

The analysis of the ‘Speed of Decision Making’ factor involved assessment of eleven Government institutions. The speed of decision-making was impressive in both periods except Zanzibar Revenue Board, which was rated negative during 2003 (Chart 5.3.4).

Speed of decision-making at Zanzibar Investment Promotion Agency (ZIPA) was rated favourable and improving. The other institutions that showed improvement include Department of Environment, Tourism Commission,

Labour Commission, Migration Department and the Bank of Tanzania. The institutions that were perceived positive but decreasing are Tanzania Revenue Authority (TRA), Zanzibar Free Port Authority (ZFPA), Zanzibar Free Zones Authority (ZAFREZA) and People’s Bank of Zanzibar (PBZ).

5.4 Labour Factors

The study revealed that labour factors with exception of wage level had negative effect on investment decisions. (Chart 5.4).

The wage level was found to be positive and maintained the same position in both periods implying that labour cost is not an inhibiting factor to investors. Wage levels in Zanzibar are generally

Chart 5.3.4: Government institutions’ Speed of Decision as Perceived by Investors During Start up and Now Periods

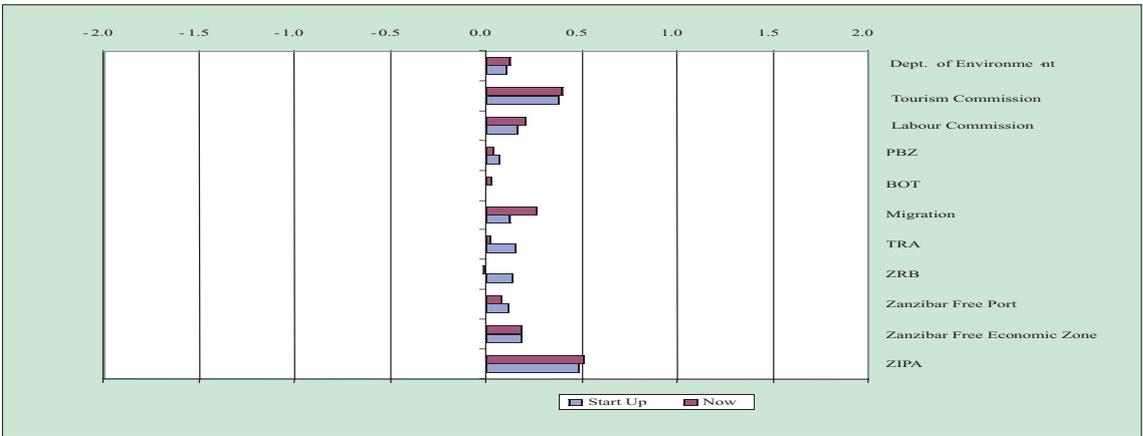
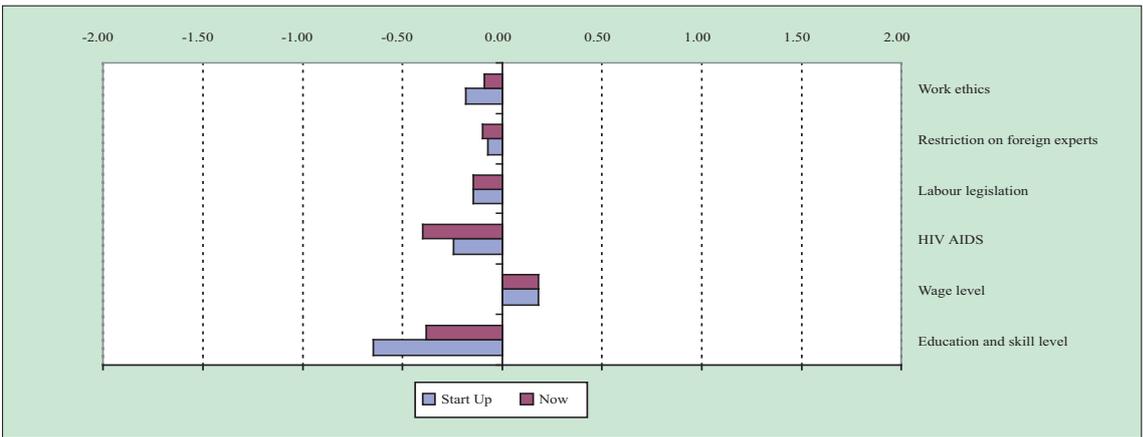


Chart 5.4: Investors’ Perceptions on Labour Factors During Start up and Now Periods



low compared with Tanzania Mainland. The education and skill level sub-factor had a negative effect during “start-up” but improved during 2003. This implies that the standard of education and skills is low but improving as a result of concerted efforts by the Government to improve the standard of education. Work ethics also improved from the ‘start- up’ period to 2003 although it still remained negative. Labour legislation was negative during ‘start-up’ and maintained the same position in 2003. HIV/AIDS remained in the negative position during ‘start-up’ and 2003 and remains a threat to the human resource in Zanzibar.

5.5 Telecommunication and

improvement in the supply of water and electricity between the ‘start-up’ and 2003 (**Chart 5.5**).

Availability of telecommunication service, which improved significantly from negative to positive, was rated positive as a result of private sector participation in the provision of telecommunication services.

5.6 Infrastructure

Factors assessed under infrastructure are inland transport, access to seaport, air transportation, and port operation. Perceptions on all infrastructure factors were favourable except for port

Box 5.4: Role of the Government in HIV/AIDS Control

The Government through the Ministry of Health has been combating HIV/AIDS through AIDS Commission. The commission is charged with the task of laying out strategies for combating HIV/AIDS, to control and reduce its effects, to undertake advocacy on the causes and effects of HIV/AIDS as well as extending treatment and care to people suffering from HIV/AIDS related diseases. Zanzibar received a total of USD 4.0 million grant from the World Bank for the period 2002/03 for combating HIV/AIDS. Website: www.tanzania.go.tz/zanzibar

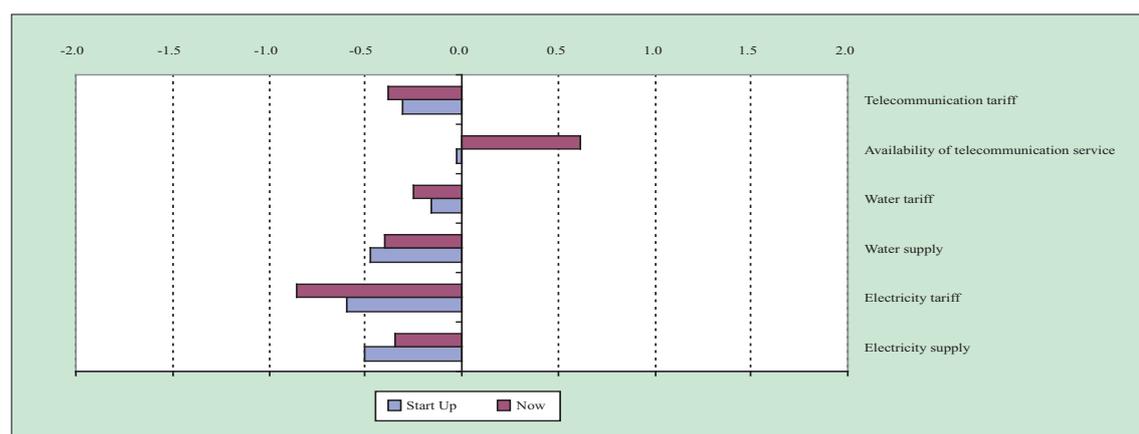
Utilities

The study revealed that electricity and water supply had negative effects on investments. Unreliability of electricity supply and its higher tariff are the main problems that have been facing Zanzibar for a long time. The main source of water in Zanzibar is ground water. However there has been

operations, which remained unchanged. Although investors’ perceptions on inland transport show improvement, there is a need for more improvements particularly on the rural and feeder roads. These improvements were due to Government’s efforts in constructing new roads and undertaking road maintenance and repairs (**Box 5.6**).

5.7 Other Diverse Factors

Chart 5.5: Investors' Perceptions on Utility and Telecommunication Factors During Start up and Now Periods

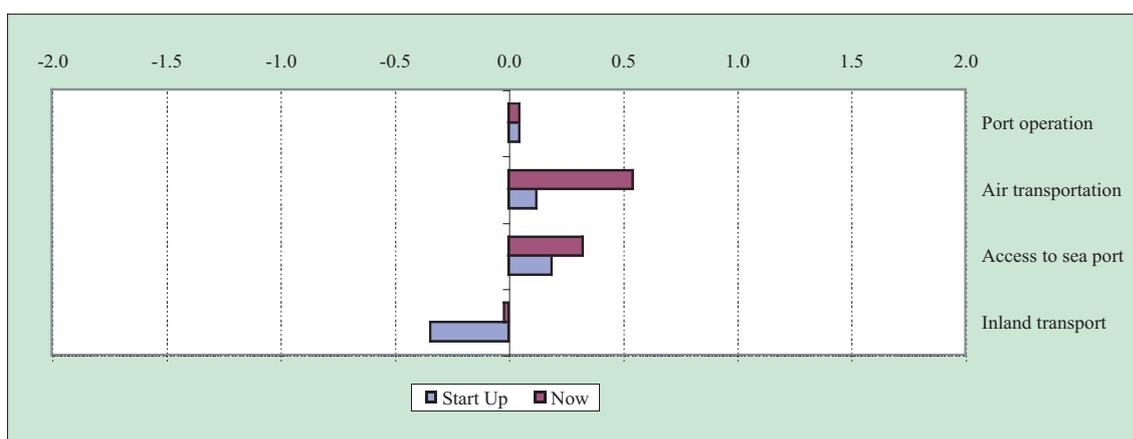


Box 5.6: Incentive Package for Infrastructure Development

The Government of Zanzibar has put in place special package of fiscal incentive in the area of infrastructure development. Recognizing the importance of infrastructure in the economy, the Government has offered tax relief to all private expenditure directed towards infrastructure expenditure in order to lure investors into this sector. According to the Zanzibar Investment Policy (ZIP), a 100 percent tax relief has been offered to all expenses directed into this sector.

Source: Zanzibar Investment Policy (2004), Zanzibar Vision 2020

Chart 5.6: Infrastructural Factors as Perceived by Investors During Start-up and Now Periods

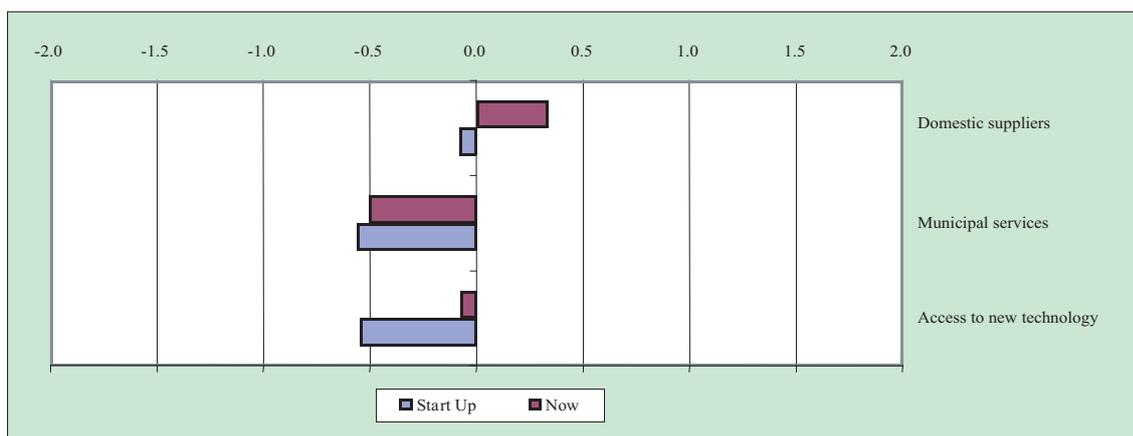


Other diverse factors had 3 sub factors i.e. access to new technology, municipal services, and domestic suppliers. All the three factors were perceived to have improved but many investors have indicated that municipal services are still inadequate (**Chart 5.7**).

5.8 Other Investors’ Perceptions on Improving Investment Climate

Investors were also asked to cite their perceptions on other issues related to their investment decisions. These perceptions are important in determining future direction of foreign investment in Zanzibar as they are based on experience during investors actual operations. The issues that are

Chart 5.7 Diverse Factors as Perceived by Investors During Start up and Now Periods



considered in this section include; investment direction in Zanzibar over the next three years, sources of information, promotion of investment, employment, sources of raw materials and other Government policies.

5.8.1 Investment Direction in Zanzibar Over the Next Three Years

Most investors are optimistic on future investment in Zanzibar. The findings show that 67.0 percent of investors were optimistic on future expansion of their investments while 29.0 percent do not expect any change and the remaining 4.0 percent expect a contraction. Those who indicated that they would contract their investments were of the view that future investments will be unfavourable due to environmental degradation, limited land for expansion, terrorist threats and unfavorable fiscal policies.

It was also revealed that majority of investors who are optimistic argue that

inter-sectoral linkages, which is likely to have multiplier effects in the economy and attract private capital inflows into various sectors.

The study revealed that investors who expect neither expansion nor contraction of their investments had the following reasons:

- There are no opportunities to attract more investments in Zanzibar hence do not expect improvement on the existing investment environment.
- Both economic and social infrastructures are not yet adequately developed.
- There is lack of robust financial sector to support the expansion programs of the existing investments.

5.8.2 Sources of Information

The study reveals that most investors were informed on investment opportunities in Zanzibar through Government agencies such as ZIPA,

Table 5.8.3 Sources of Information for Investors Initial Investment Decision

Source of Information	Number of respondents	Percentage
Government	69	34.0
Word of mouth	36	18.0
Business associates	34	17.0
Competitors	13	6.5
Local media	13	6.5
Donor community	6	3.0
Others	30	15.0
Total	201	100.0

opportunities do exist for financial sector reform, which avail better services and increase credit supply to investments. In addition, Zanzibar’s potential, as a tourist destination is harnessed to facilitate more investments. However investors expressed the need to put in place deliberate policy measures to improve

ZAFREZA and ZFPA (34.0 percent), word of mouth (18.0 percent), business associates (17.0 percent), local media and competitors (13.0 percent), donor community (3.0 percent), and other means (15.0 percent) (Table 5.8.3). Since government information sources are mostly used by investors, it is important for Government to ensure

availability of investment data and information to potential investors.

5.8.3 Promotion of Investment

Despite the fact that here have been improvements in the investment environment in Zanzibar, the following are areas identified by investors that need further attention;

- The Government to aggressively market Zanzibar as a prime tourist destination. Promotion is costly thus the Government should set aside funds to undertake this vital task. The private sector is not

compelling investors to recruit labour from other countries. However, the government has undertaken various education programs that aim at improving the level and quality of education in Zanzibar. In the case of gender consideration, there was no priority on gender for most investors covered in the survey when they recruit new staff. In this respect, much is needed to be done to improve gender balance in the employment sector.

5.8.5 Sourcing of Raw Materials

The study attempted to identify source

Table 5.8.7 Sourcing of Raw Materials from Tanzania (Percentage of total)

	0 – 25 percent	26 – 50 percent	51 – 74 percent	> 75percent
No of Respondents	41	6	6	55
Percent of Respondents	37.0	6.0	6.0	51.0

efficient enough to intensify promotional activities partly due to lack of resources. Thus there is a need to enhance the private-public partnership in order to market investment opportunities available in Zanzibar.

- Weaknesses in the taxation system that include multiplicity of licenses, corruption and few fiscal incentives.
- The banking system is not developed enough to support financial needs for investments, which are vital to spur more investments.

5.8.4 Employment (Staff Development Plan and Gender Considerations)

The study observed that most of the companies have staff development plans for local employees. Out of 126 respondents, 60.0 percent have staff development plans and the remaining 40.0 percent have none. Low level of education among the employees has been cited to be a problem and thus,

of inputs in order to establish linkages investors create to the Zanzibar economy (**Table 5.8.7**).

It was revealed that about 51.0 percent of investors obtain more than 75.0 percent of their raw materials from domestic sources, while 12.0 percent obtain between 26.0 and 74.0 percent and 37.0 percent of investors source between 0.0 and 25.0 percent. This indicates that consumption of domestic raw materials is higher than those imported from abroad.

5.8.6 Other Government Policies

The study identified other impediments to investments in Zanzibar. These include multiplicity of taxing authorities namely the Zanzibar Revenue Board (ZRB), Tanzania Revenue Authority (TRA) and local Government authorities. Thus, investors call for clear demarcation of the roles of each of the licensing authorities and harmonize licenses they issue.

CHAPTER SIX

MAIN FINDINGS AND POLICY IMPLICATIONS

6.1 Introduction

This chapter addresses fundamental issues raised in the survey and highlights policy implications, which may serve as a challenge to policy makers, researchers and the academic community.

6.2 Foreign Direct Investment (FDI) in Zanzibar

6.2.1 Magnitude of FDI

The total FDI in Zanzibar increased by 14.6 percent to USD 182.9 million in 2001 from USD 159.6 million recorded in 2000. This was result of government's efforts to put in place an enabling and conducive investment environment by pursuing sound economic policies. To increase the flow of FDI, the Government is urged to:

- Speed up the establishment of a single autonomous investment organ that will provide all investors' necessary requirements including issues related to land, immigration, business licenses, exemptions, and other investment related services. Such measures will get rid of unnecessary bureaucratic procedures.
- Provide more incentives for

private investments.

- Establish legal framework that will guarantee protection of investor's properties and interests.
- Improve the quality of economic and social infrastructure.
- Promote growth of exports through establishment of EPZ.

6.2.2 FDI by Sector

The survey results show that 60.0 percent of foreign private investments are concentrated in the Wholesale and retail trade sector which is largely dominated by tourism sub-sector. This is however a very fragile sub-sector whose earnings are affected by adverse events such as terrorist threats. The Government thus needs to concentrate on attracting foreign private investments to other areas such as agro-based processing industries, fishing and extraction of oil. Further, there is a need for the Government to identify areas of investment that have higher multiplier effect and also emulate from successful countries such as Mauritius (**Box 6.2.2**).

6.2.3 FDI by Country of Origin

The survey revealed that investments from United Kingdom, Italy, and Spain, all being OECD countries, dominated

Box 6.2.2 Mauritius Best Practice in Diversification

Mauritius has had a wealthy class of sugar plantation owners who eventually wanted to diversify their investments after ten years of independence. In 1970s, the country established export processing zone but had little effect on the level of foreign private investments largely due to strict exchange controls, protective tariffs, deficit spending and political instability. In the early 1980s Mauritius implemented macroeconomic reforms by removing currency controls and other hindrances. This led to influx of investors from Hong Kong, Taiwan and South Africa who invested heavily in international hotels and tourist facilities of international standards. The Mauritius people managed to emulate entrepreneurial and other skills from foreign investors, which they then used to boost their tourism industry.

As a result the Mauritius economy was transformed from sugar dependent to a balanced economy in which textiles, tourism and sugar became the pillars of the economy.

Source: Adopted from Obwona et al (2002)

FDI stock in Zanzibar. On average investments from these three countries accounted for 65.0 percent of the total stock compared with investments from non-OECD countries, which on average accounted for only 1.6 percent of total FDI stock each. The dominance of the three countries (geographical concentration) calls for the need to adopt diversification measures in order to minimize risks associated with possible shocks that may emanate from the few countries investing in Zanzibar.

6.2.4 FDI by Region

The survey has revealed that 49.2 percent of total stock in 2001 was concentrated in Urban West and 31.3 percent in North Unguja region. South Unguja region absorbed 18.9 percent while North and South Pemba regions together had less than 1.0 percent of the total stock. The Government should adopt promotion strategies and provide more incentives for investments into the disadvantaged regions. However, these should be supported by improvement of basic economic and social infrastructures in these regions.

6.2.5 FDI by Mode of Financing

The study revealed that equity was the dominant source of investment financing in 2000 and 2001. The stock of equity investments amounted to USD 104.4 million in 2000 and USD 115.4 million in 2001 accounting for 68.9 percent and 66.0 percent of total FDI respectively. In 2001 long-term inter-company loans accounted for 24.5 percent of total stock, while supplier's credit and short-term inter-company loans accounted for 6.1 percent and 4.6 percent respectively. The use of more equity than debt to finance investment is highly recommended as it implies that foreign private companies finance most of their assets using their own resources and thus the level of

private external debt is low.

6.2.6 Rate of Returns on Foreign Equity

The survey reveals that with the exception of Wholesale and retail trade, and Finance, insurance and real estate sector all other sectors recorded either zero or negative rate of return. Transport, storage and communication sector was the worst which registered negative returns for 2000 and 2001.

6.3 Investors' Perceptions

6.3.1 Macroeconomic and Financial Policies

Macroeconomic factors were generally rated favourable. However, the Government needs to improve the performance of macroeconomic fundamentals especially trade related policies. On the other hand, the Government should address investors' concerns regarding to fiscal policy particularly the multiplicity of taxes. Also, the Government needs to address the issue of non-availability of long-term financing for investors and also encourage establishment of specialized financial institutions for housing (mortgages), micro-financing, and rural finance.

6.3.2 Political and Governance Factors

Political stability was noted to be improving especially after the signing of political accord (MUAFAKA) between the ruling party (CCM) and the main opposition party (CUF). In addition, the areas that need further attention include bureaucracy, transparency in the legal system and corruption. The Government's initiative

to establish one-stop investment centre will be a solution to these concerns.

6.3.3 Labour Factors

Investors were concerned with inadequate availability of skilled labour. The Government is advised to put more efforts on the provision and improvement of technical education and vocational training programmes and allocate adequate resources for such programmes. However, the Government is challenged to consider introducing specific policies that will motivate investments in local human

resource development.

6.4 Other Corporate Social Responsibilities

The presence of superior professional services is important for creating conducive environment for investment. The Government is advised to put in place policies that will encourage private sector to invest in various services such as insurance, accounting firms, legal support and other social services.

CHAPTER SEVEN

ASSESSMENT OF THE SURVEY AND THE WAY FORWARD

7.1 Introduction

This chapter examines the implementation of the Private Capital Flows project and assesses the extent to which the objectives have been met and identifies implementation gaps (methodological and analytical) that were observed and provides some lessons learnt from the survey. It also proposes a strategy for the way forward.

7.2 Assessment of the Results in Relation to the Objectives

7.2.1 Objective One

Compile, design and maintain a comprehensive database on private capital flows.

The following have been achieved:

- A computer Oracle-based software, which is more user-friendly and capable of handling larger volume of data, was installed and used in compiling data for Zanzibar.
- Database capable of storing and facilitating the processing and analysis of data on private capital flows has been established.
- A more realistic baseline data on Foreign Direct Investment and Portfolio Investment stocks for 2000 and 2001 and flows for 2001 has been established.
- A reliable investors' register has been put in place comprising of basic and fundamental information on investors.

7.2.2 Objective Two

Establish a sustainable institutional framework and capacity in undertaking

regular private capital flows surveys by involving both private and public sectors:

The following have been achieved:

- Putting in place a system and institutional framework by involving institutions such as the Zanzibar Investment Promotion Agency (ZIPA), the Office of the Chief Government Statistician (OCGS) and the Bank of Tanzania, which monitors foreign private capital flows in Zanzibar.
- Building capacity of the participating institutions by exchanging experiences and use of teamwork approach. Zanzibar has now a reliable capacity that will undertake future annual surveys with a view of updating data base on private foreign capital flows.
- Information gathering system and instruments that facilitate gathering of vital information and factors related to investments in Zanzibar and Tanzania in general has been established.

7.2.3 Objective Three

Provide information for appropriate macroeconomic policy formulation and investment promotion purposes.

The following have been achieved:

- The survey results have provided information, which are vital input for reviewing and formulation of macroeconomic, investment promotion and social policies.
- The report provides a reliable source of information to prospective investors, and other stakeholders in need of investment information in Zanzibar.

7.2.4 Objective Four

Strengthen and foster public-private dialogue so that they can work together towards achieving private sector-led growth for mutual benefit.

The following have been achieved:

- Sensitization workshop, which was conducted in February 2003, prompted dialogue between the public and private sectors on issues of investment policy and enhanced the awareness of the private sector on usefulness and need of having information on investments.
- Cooperation with private sector has been enhanced by ensuring that privacy of information is maintained and hence minimized the fear of passing over the information collected from the surveyed companies to their business competitors.
- Survey tools or instruments are now in place to cater for investors' perception on various economic and social aspects.
- The survey and methodology employed deepened closer ties between public sector officials and private investors.

7.3 Identified gaps

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

- Private sector external debt was not covered due to lack of data. Much of the information needed was not obtained and the available data was fragment hence the magnitude and type of external debt position for Zanzibar could not be established.
- Information on outflows of private capital could not be obtained due to lack of data.
- It was observed that when

analyzing investment data by sectors, regions, mode of financing and country source, there were notable statistical discrepancy between change in stock and actual inflows.

7.4 Lessons Learnt

The following are lessons learnt from implementation of the project.

- Institutional coordination was established between the institutions that participated in Zanzibar and Tanzania Mainland, and DFI and MEFMI, which enhanced sharing of technical expertise and resources.
- The top management of ZIPA, OCGS and BOT showed strong commitment during the implementation of the project.
- Creating awareness through sensitization workshop and media publicity enhanced co-operation with the private sector. As a result the response rate in Zanzibar, although the survey was being carried out for the first time, was 95.0 percent.
- Physical visits and direct interviews in conducting the survey enhanced co-operation with the private sector and improved quality of reporting as well as compliance.
- Technical support received from DFI, MEFMI and the Bank of Tanzania at the designing and implementation stages of the project helped to build local capacity and improved the quality of analysis.
- Financial support from the Government of Denmark supplemented the domestic resources and enabled smooth implementation of the project.

7.5 The Way Forward

The following strategies are recommended as a way forward:

- Ensure that the Government provides adequate funding, to ZIPA and OCGS to facilitate undertaking of annual foreign private capital flows survey and that donor funding should only supplement shortfalls in local resources.
- Undertake sample surveys that target both locally and foreign owned private companies to collect data/information on private capital flows for years 2002 through 2004.
- Ensure availability of information on private sector external debt.
- Enhance partnership between private and public through a continuous process of dialogue and information sharing.
- Strengthen institutional participation and coordination for future monitoring of private capital flows.
- Ensure sustainability of human capacity within respective institutions to monitor private capital flows in Zanzibar.
- Review and updating the current investors' register to include new foreign and local investments.
- Review the questionnaire to encompass new features and add perception questions particularly on domestic linkages.
- Integrate the developed monitoring system for private capital flows in the national monitoring framework so that the system can be streamlined and become part and parcel of the data compilations of ZIPA and OCGS.
- There is a need of enhancing awareness to stakeholders in providing reliable statistical information.
- There is need to enhance technical capacity of the staff who are involved in the survey.
- There is also a need of establishing a system of obtaining data directly from investors (non survey methodology), which may reduce cost and time of survey.
- There is a need to ensure that the results of the survey are disseminated to a wide range of stakeholders to encourage sharing of information.

REFERENCE

Bank of Tanzania (1998), Foreign Exchange Circular no. 6000/DEM/EX.RE/58, September 1998.

Bank of Tanzania (Various), Economic and Operations Report, Dar es Salaam.

Bank of Tanzania (Various), Quarterly Economic Bulletin, Dar es Salaam

Mbekeani, K and J. Salinger (1999), Promoting Foreign Direct Investment in Labour Intensive and Manufacturing Exports in Developing Countries, CAER Discussion Paper No. 42. Harvard Institute for International Development, July 1999.

Obwona, M. and P. Lucie (2000), Foreign and Local Investment in east Africa: Interactions and Policy Implications". African Economic Policy Discussion Paper no. 67, December 2000.

RGZ (2002), The Zanzibar Government Budget Speech.

RGZ (2002), Zanzibar 2020 Vision.

RGZ (2002), Zanzibar Poverty Reduction Plan, 2002.

RGZ (2003), Agricultural sector policy.

RGZ (2003). Public Expenditure Review.

RGZ (2004), Zanzibar Trade Policy, 2004.

RGZ (2004), The Challenges of Globalization and Poverty Reduction.

RGZ (Various), Zanzibar Economic Bulletin.

RGZ (2003), Zanzibar Investment Policy, 2003.

RGZ (1986), Zanzibar Investment Act, 1998.

Rodrik, Dani (1995), Trade Strategy, Investment and Exports: Another Look at East Asia, Columbia University, May 1995.

UNCTAD (2003), World Investment Report.

URT (2001), Tanzania Investment Report, 2001.

APPENDICES

APPENDIX 1: CONCEPTS AND DEFINITIONS

It is important to be familiar with the following list of terminologies and the relationship between the terms for better understanding of the report.

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

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

Dividends are income on equity.

Equity means shares in companies, and equivalent ownership interest in unincorporated enterprises. Foreign Direct Equity Investment denotes ownership of 10% or more of the ordinary shares, voting power, or

equivalent in an enterprise, by someone resident in another economy.

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

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

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

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

Foreign Direct Equity Investment (FDEI) denotes ownership of 10% 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% of equities in an enterprise.

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

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

Net asset values are the difference between assets and liabilities.

Non-equity means all other financial instruments including loans, trade credit and supplier's 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% of ordinary shares) are subsidiaries (a non-resident owner owns more than 50% of the shares) and associates (50% 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 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 per cent); associates (enterprises in which a non-resident investor owns between 10 and 50 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

Table 1 Stock of FDI by Sector and Mode of Financing for 2000

Sector	Values in USD Million				
	Equity	Long-term	Short-term	Suppliers credit	Total
Wholesale and retail trade and catering	77.8	22.8	6.9	0.1	107.6
Utilities	0.0	0.0	0.0	0.0	0.0
Transport, storage	15.6	15.1	0.0	0.0	30.7
Manufacturing	5.5	0.7	0.0	1.3	7.5
Financing, insurance, real estate	2.6	0.0	0.0	0.0	2.6
Community, social and personal services	2.5	0.0	0.0	0.0	2.5
Construction	0.4	0.0	0.0	0.0	0.4
Agriculture, hunting, forestry	0.2	0.1	0.0	0.0	0.3
Total	104.4	38.7	6.9	1.4	151.5

Table 2 Stock of FDI by Sector and Mode of Financing for 2001

Sector	Values in USD Million				
	Equity	Long-term	Short-term	Suppliers credit	Total
Wholesale and retail trade and catering	88.3	27.9	5.9	0.2	122.3
Utilities	0.0	0.0	0.0	0.0	0.0
Transport, storage	15.3	14.1	0.0	0.0	29.4
Manufacturing	5.2	0.7	0.0	10.5	16.4
Financing, insurance and real estate	3.4	0.0	0.0	0.0	3.4
Community, social and personal services	2.6	0.0	0.0	0.0	2.6
Construction	0.5	0.0	0.0	0.0	0.5
Agriculture, hunting, forestry	0.2	0.1	0.0	0.0	0.3
Total	115.4	42.8	5.9	10.7	174.7

Table 3 Flows of FDI by Sector and Mode of Financing for 2001

Sector	Values in USD Million					
	Equity	Long-term related company	Short-term related company	Suppliers credit related company	Retained earnings	Total
Wholesale and retail trade and catering	0.5	0.8	0.2	0.1	-0.1	1.5
Agriculture, hunting, forestry	0.0	0.0	0.0	0.0	0.0	0.0
Community, social and personal	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
Financing, insurance, real estate	0.0	0.0	0.0	0.0	0.0	0.0
Manufacturing	0.0	0.0	0.0	0.0	0.0	0.0
Transport, storage	0.0	0.0	0.0	0.0	0.0	0.0
Utilities	0.0	0.0	0.0	0.0	0.0	0.0
Total	0.5	0.8	0.2	0.1	-0.1	1.5

Table 4 Stocks of Portfolio Investments by Country of Origin, 2000 and 2001

Country	2000		Country	2001	
	Amount	Percent		Amount	Percent
Italy	0.2	55.3	Italy	0.2	45.8
Sweden	0.1	24.9	Thailand	0.1	20.7
United Kingdom	0.0	10.7	United Kingdom	0.0	10.1
Germany	0.0	2.4	Sweden	0.0	6.9
Switzerland	0.0	0.0	Switzerland	0.0	0.1
Spain	0.0	0.0	Germany	0.0	2.3
USA	0.0	0.0	Belgium	0.0	0.9
OECD Countries	0.3	93.3	OECD Countries	0.3	86.8
Kenya	0.0	6.7	China	0.0	0.0
			Kenya	0.0	8.9
			Bahrain	0.0	4.3
Non-OECD Countries	0.0	6.7	Non-OECD Countries	0.1	13.2
Total	0.3	100.0	Total Stock	0.4	100.0

Table 5 Stock of FDI by OECD and Non-OECD Countries, 2000 and 2001

Country	2000		2001	
	Amount	Percentage	Amount	Percentage
OECD countries	118.3	78.3	139.5	79.8
Australia	0.1	0.1	0.0	0.0
Austria	0.1	0.1	0.1	0.1
Belgium	0.2	0.2	0.3	0.2
Denmark	0.9	0.6	0.9	0.5
France	0.3	0.2	0.4	0.2
Germany	0.4	0.2	0.3	0.2
Greece	0.4	0.3	0.4	0.2
Italy	41.7	27.5	36.2	20.7
Japan	0.4	0.3	0.4	0.2
EU	1.3	0.9	10.5	6.0
Netherlands	0.1	0.1	0.1	0.1
Norway	0.5	0.3	0.5	0.3
Spain	0	0.0	20.6	11.8
Sweden	0.6	0.4	0.7	0.4
Switzerland	9.3	6.1	9.3	5.3
United Kingdom	59.8	39.5	56.6	32.4
USA	2.2	1.5	2.2	1.2
Non-OECD countries	33.0	21.9	35.3	20.2
Bahamas	4.1	2.7	3.6	2.1
Bahrain	0	0.0	1.5	0.8
Ethiopia	0.4	0.3	0.5	0.3
Kenya	1.6	1.1	1.7	1.0
Mauritius	0	0.0	0	0.0
Oman	3.2	2.1	4.6	2.6
Rwanda	0.4	0.3	0.4	0.2
South Africa	9.2	6.1	8.3	4.8
United Arab Emirates	13.9	9.2	14.5	8.3
Zambia	0.2	0.1	0.2	0.1
Total	151.3	100.0	174.8	100.0

Table 6 Flows of FDI by OECD and non-OECD Countries, 2000 and 2001

Country	Values in USD Million			
	2000		2001	
	Amount	Percentage	Amount	Percentage
Total OECD countries	5.6	99.0	0.8	53.5
Australia	2.5	43.7	0.0	1.2
Austria	0.4	6.5	0.0	0.0
Belgium	0.0	0.0	0.0	0.0
Denmark	0.0	0.0	0.0	0.0
Germany	0.0	0.0	0.0	0.0
Greece	0.0	0.7	0.0	0.0
Italy	0.0	0.0	0.3	19.2
Japan	0.0	0.0	0.0	0.1
Netherlands	0.5	13.0	0.0	0.0
Norway	0.0	0.0	0.0	0.0
Spain	0.0	0.0	-0.1	-5.0
Sweden	0.0	0.0	0.1	7.0
Switzerland	0.0	0.0	0.4	24.9
United Kingdom	2.0	34.7	0.0	3.2
USA	0.0	0.4	0.0	2.9
Total Non-OECD countries	0.1	1.0	0.7	46.5
Bahamas	0.0	0.3	0.0	-0.1
Ethiopia	0.0	0.0	0.0	0.0
Kenya	0.0	0.0	0.0	0.2
Oman	0.0	0.1	0.3	22.3
Rwanda	0.0	0.0	0.0	0.0
South Africa	0.0	0.0	-0.0	-2.5
United Arab Emirates	0.0	0.7	0.4	26.5
Zambia	0.0	0.0	0.00	0.0
Grand Total	5.7	100.0	1.40	100.0

Table 7 Flows of Portfolio Investments by Country of Origin, 2000 and 2001

Country	Values in USD Million				
	2000		Country	2001	
	Amount	Percentage		Amount	Percentage
Oman	0.01	100.0			
Total	0.01	100.0	Total	0.0	

APPENDIX 3

METHOD FOR CALCULATING WEIGHTED AVERAGE FOR INVESTORS' PERCEPTION

This method entails the use of weighted average mean to ascertain where the majority of opinions lie. This involved assigning weights as follows: -2 for “most negative”, 0 for “no effect” and 2 for “most positive”. Weighted averages were then multiplied by -1 and added to 3 to make the graph easy to read and interpret.

Calculating weighted averages

Weighted average/mean

If the sample of respondents can be grouped into clear categories [such as IP respondents who identified positive effect, no effect, negative effect] then weighted average of response was used to get where the majority of opinion lies.

Weighted averages for presentation of survey data entails categorization as shown below.

Category	Identity	Number of respondents
Strong positive effect	1	x ₁
Positive effect	2	x ₂
No effect	3	x ₃
Negative effect	4	x ₄
Strong negative effect	5	x ₅

$$\text{Weighted average} = (1 \cdot x_1 + 2 \cdot x_2 + 3 \cdot x_3 + 4 \cdot x_4 + 5 \cdot x_5) / (x_1 + x_2 + x_3 + x_4 + x_5)$$

Then the weighted averaged are consolidated for all sub factors to arrive at the weighted average means by multiplying by -1 and adding to 3.

Economic and Financial Factors	Weighted Average	(Weighted Average *-1) + 3
Interest rates	U	u ₁
Inflation	V	v ₁
Depreciation of the domestic currency	W	w ₁
Corporate/ other tax burden	X	x ₁
Fiscal policy	Y	y ₁
Composition of Government spending	Z	z ₁

APPENDIX 4:
QUESTIONNAIRE

Confidential



Office of Chief Government Statistician
P.O.Box 2321
Zanzibar
Tel: 255 24-2231869
Fax: 255 24-2231742
E - mail: zanstat@zanlink.com



Bank of Tanzania
Zanzibar branch
P.O.Box 568, Zanzibar
Tel: 255 24-2230803
255 24-2232362
Fax: 255 24-223 0415
255 24-2232140
Website: www.bot-tz.org



Zanzibar Investment Promotion Agency
P. O. Box 2286, Zanzibar
Tel: 255 24-2233026
255 24-2237858
Fax: 255 24-2232737
E - mail: zipa@zanzinet.com
zipanz@zanzinet.com
Website: www.investzanzibar.com

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

FORM TYPE: BOPZ/1/2002

COMPANY REFERENCE NUMBER:..... (for internal use only)

DUE DATE FOR RETURN: ___ / ___ / _____

PART A: GENERAL INFORMATION

ALL RESPONDENTS MUST COMPLETE THIS PART.

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

PLEASE READ THIS FIRST

Purpose of survey

This form collects information on assets and liabilities of your enterprise (or group) in the Republic of Tanzania. This information will be used by the Bank of Tanzania (BOT), Zanzibar

Investment Promotion Agency (ZIPA), Office of the Chief Government Statistician (OCGS) and the Government in balance of payments compilation, investment promotion and national policy formulation.

Focus

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

Collection Authority

Completion of this form is compulsory under section 22 Sub-section (1) and (2) of the Zanzibar Investment Protection Act No. 9 of 1999 and section 47 sub-sections (1), (2) and (4), 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 organisations will not be made available to anybody 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. So we know we do not need to follow up with you, please enter "n/a" in the appropriate box, or at the start of the question.

Due Date

Please complete this Questionnaire and return the original to BOT Zanzibar Branch, ZIPA or OCGS. Please keep the 'Respondent Copy' of the questionnaire for your own records.

Help Available

By its nature, this form must contain technical terms. If you have problems in completing this form, please refer to notes attached at the end. Alternatively, contact BOT, ZIPA or OCGS officials indicated below:

Amour Hamil
Office of Chief Government Statistician
P.O. Box 2321, Zanzibar
Tel: 255 24-2231869
Fax: 255 24-2231742
E - mail: zanstat@zanlink.co

Said Chiguma
Bank of Tanzania, Zanzibar branch
P.O. Box 568, Zanzibar
Tel: 255 24-2230803 / 255 24-2232362
Fax: 255 24-223 0415 / 255 24-2232140
E-mail: info@hq.bot-tz.org
Website: www.bot-tz.org
Fatma A. Jumbe

Fatma A. Jumbe
Zanzibar Investment
Promotion Agency
P. O. Box 2286, Zanzibar
Tel: 255 24-2233026
255 24-2237858
Fax: 255 24-2232737
E - mail: zipa@zanzinet.com
zipaznz@zanzinet.com
Website: www.investzanzibar.com

THANK YOU IN ADVANCE FOR YOUR COOPERATION.

1. INDUSTRIAL CLASSIFICATION

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

Industrial Classification	Tick activities relevant for your company
Agriculture, hunting, forestry and fishing	
<i>1a. Agriculture (Crops)</i>	
<i>1b. Agriculture (Livestock)</i>	
<i>1c. Hunting and forestry</i>	
<i>1d. Fishing</i>	
Mining and quarrying	
Manufacturing	
<i>3a. Agro-industry</i>	
<i>3b. Food and beverages</i>	
<i>3c. Machinery, motors and equipment</i>	
<i>3d. Chemicals and petroleum</i>	
<i>3e. Other manufacturing (specify)</i>	
Utilities	
<i>4a. Electricity</i>	
<i>4b. Gas</i>	
<i>4c. Water</i>	
Construction	
Wholesale and retail trade, catering and accommodation services	
<i>6a. Accommodation, tourism and Catering</i>	
<i>6b. Wholesale and retail trade</i>	
Transport, storage and communication	
<i>7a. Transport and storage</i>	
<i>7b. Communication</i>	
Financing, insurance, real estate, and business services	
<i>8a. Financing, insurance</i>	
<i>8b. Real estate</i>	
<i>8c. Other Business Services</i>	
Community, social and personal services	
<i>9a. Education</i>	
<i>9b. Health</i>	
<i>9c. Media</i>	
<i>9d. Other Community, social and personal services</i>	
Activities not adequately defined (specify)	

2 (a) SUBSIDIARIES

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

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

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

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

--

FILTERING FOR RELEVANT QUESTIONS TO YOUR ENTERPRISE.

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

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

PART B: INVESTMENT IN THIS ENTERPRISE DURING 2000 AND 2001

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

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

TZS USD

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

4. STOCK OF EQUITY IN YOUR COMPANY

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

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

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

	<i>Book Value</i>	<i>% of total shareholding</i>	<i>Book Value</i>	<i>% of total shareholding</i>
1.				
2.				
3.				
4.				
5.				
Tanzania				
Total		100%		100%

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

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

5. ESTIMATED MARKET VALUE OF YOUR COMPANY

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

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

	<i>As at 31 Dec 2000</i>	<i>As at 31 Dec 2001</i>
Estimated Market Value		

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

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

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

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

7. INCOME ON EQUITY FOR YOUR COMPANY

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

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

8. YOUR BORROWING

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

8(a) STOCK OF BORROWING EXCLUDING ARREARS

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

8(b) DISBURSEMENTS DURING THE YEAR

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

8(c) PRINCIPAL REPAYMENT DURING THE YEAR

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

8(d) INTEREST PAYMENT DURING THE YEAR

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

8(e) OTHER PAYMENT DURING THE YEAR

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

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

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

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

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

10. International transactions in services and income

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

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

PART C: PERCEPTIONS QUESTIONS

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

Strong Positive Effect	Positive Effect	No Effect	Negative Effect	Strong Negative Effect
1	2	3	4	5
Factor	Rating	Factor	Rating	
Economic Policies		Political and Governance Factors		
Monetary Policy		Domestic Political Stability		
		Regional Political Stability		
Fiscal Policy		Bureaucracy		
Inflation		Effectiveness of the Legal System		
General macroeconomic policy		Speed of Government Decision Making		
Trade Policies		Customs Procedures		
Regional Economic integration		Public sector corruption		
		Corporate corruption		
Market Expansion		Internal Security		
Trade Liberalization				
		Tax Collection Efficiency		
Financial Policies		Land law and administration		
Financial Sector Stability		Investment facilitation		
Banking Services				
Availability of local finance		Utilities		
Availability of foreign finance				
Interest Rates		Electricity Supply		
Exchange Rate		Electricity Tariff		
Liberalization of Capital Account		Water Supply		
Financial Sector Stability		Water Tariff		
		Availability of Telecommunication services		
Labour Factors		Telecommunication tariff		
Shortage of Skills				
Wage Levels		Infrastructure		
HIV/Aids		Inland transport		
Labour Legislation		Access to sea port		
Accessibility to New Technology		Air transportation		
Enforcement of Environmental Legislation		Port operation efficiency		
Local Supplier' Efficiency				

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

--

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

Expansion	No Change	Contraction
-----------	-----------	-------------

Please explain which factors would influence such decision.

--

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

	<i>Foreign nationals</i>			<i>Tanzanian nationals</i>		
	Management	Non-Management Skilled	Non-Management Other	Management	Non-Management Skilled	Non-Management Other
Female						
Male						

Do you have a staff development plan with respect to:

a. Tanzanian nationals? Yes..... No.....

b. Gender balance? Yes..... No.....

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

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

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

.....%

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

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

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

15. Product Type and Destination Market

15a. Please approximate the proportion of your total output by type:	PERCENT
TYPE	
i. Final products	
ii. Intermediate products	

TOTAL

100%

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

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

ANNEX QUESTIONS FOR COMPANIES WITH PRINCIPAL, INTEREST AND/OR OTHER PAYMENTS IN ARREARS

NOTE: Only for Loans from Non-Resident

8(f) ARREAS ON FOREIGN BORROWING (stock for year end 1999 and 2000;

transactions during 2000)	Stock as at 31 Dec 1999	Arrears Created During 1 Jan – 31 Dec 2000			Payments of Arrears During 1 Jan – 31 Dec 2000			Stock as at 31 Dec 2000
		Principal	Interest	Other	Principal	Interest	Other	
Long-term borrowing (original maturity greater than 12 months)								
Shareholder & Inter-Company borrowing								
Other with Unrelated companies								
Short-term borrowing (original maturity 12 months or less)								
Shareholder and Inter-Company borrowing								
Supplier credits from Related companies								
Supplier credits from Unrelated companies								
Other from unrelated								

8(g) ARREAS ON FOREIGN BORROWING (stock for year end 2000 and 2001;

transactions during 2001)	Stock as at 31 Dec 2000	Arrears Created During 1 Jan – 31 Dec 2001			Payments of Arrears During 1 Jan – 31 Dec 2001			Stock as at 31 Dec 2001
		Principal	Interest	Other	Principal	Interest	Other	
Long-term borrowing (original maturity greater than 12 months)								
Shareholder & Inter-Company borrowing								
Other with Unrelated companies								
Short-term borrowing (original maturity 12 months or less)								
Shareholder and Inter-Company borrowing								
Supplier credits from Related companies								
Supplier credits from Unrelated companies								
Other from unrelated								

THANK YOU FOR YOUR COOPERATION

Confidential



Office of Chief Government Statistician
P.O.Box 2321
Zanzibar
Tel: 255 24-2231869
Fax: 255 24-2231742
E - mail: zanstat@zanlink.com



Bank of Tanzania
Zanzibar branch
P.O.Box 568, Zanzibar
Tel: 255 24-2230803
255 24-2232362
Fax: 255 24-223 0415
255 24-2232140
Website: www.bot-tz.org



Zanzibar Investment Promotion Agency
P. O. Box 2286, Zanzibar
Tel: 255 24-2233026
255 24-2237858
Fax: 255 24-2232737
E - mail: zipa@zanzinet.com
zipanz@zanzinet.com
Website: www.investzanzibar.com

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

FORM TYPE: BOPZ /3/2002

COMPANY REFERENCE NUMBER:..... (for internal use only)

REPORTING PERIOD: Year-ends 2002

DUE DATE FOR RETURN:.....

PART A: GENERAL INFORMATION

ALL RESPONDENTS MUST COMPLETE THIS PART.

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

PLEASE READ THIS FIRST

This form collects information to be used by the Republic of Tanzania to improve national and international economic policy formulation and for investment promotion purposes. As such, it is a means to improve dialogue between government and the private sector. Please answer all the questions. It complements the Assets and Liabilities questionnaire, which also has been distributed to you to capture and classify balance of payments statistics and international investment position.

Please note that the legal mandate pertaining to collection and confidentiality apply a for form BOPZ/1/2002 and BOPZ/2/2002 and the forms should be submitted together. If you need help, please contact:

Amour Hamil
Office of Chief Government Statistician
P.O. Box 2321, Zanzibar
Tel: 255 24-2231869
Fax: 255 24-2231742
E - mail: zanstat@zanlink.co

Said Chiguma
Bank of Tanzania, Zanzibar branch
P.O. Box 568, Zanzibar
Tel: 255 24-2230803 / 255 24-2232362
Fax: 255 24-223 0415 / 255 24-2232140
E-mail: info@hq.bot-tz.org
Website: www.bot-tz.org
Fatma A. Jumbe

Fatma A. Jumbe
Zanzibar Investment
Promotion Agency
P. O. Box 2286, Zanzibar
Tel: 255 24-2233026
255 24-2237858
Fax: 255 24-2232737
E - mail: zipa@zanzinet.com
zipanz@zanzinet.com
Website: www.investzanzibar.com

THANK YOU IN ADVANCE FOR YOUR COOPERATION.

PART B:

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

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

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

Please add any additional Information

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

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

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

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

Please add any additional Information

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

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

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

Please add any additional Information

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

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

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

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

Please add any additional Information

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

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

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

Please add any additional Information

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

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

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

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

Please add any additional Information

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

8. *What is the likely direction of your investment in Tanzania over the next 3 years?*

Please tick appropriate box

Expansion	No change	Contraction
<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Please explain which factors would influence such decision.

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

--

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

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

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

--

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

--

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

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

Do you have a staff development plan with respect to:

Please tick as appropriate

a. Tanzanian nationals? Yes..... No.....

b. Gender balance? Yes..... No.....

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

--

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

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

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

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

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

--

15. Product Type and Destination Market

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

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

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

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

Confidential



Office of Chief Government Statistician
P.O.Box 2321
Zanzibar
Tel: 255 24-2231869
Fax: 255 24-2231742
E - mail: zanstat@zanlink.com



Bank of Tanzania
Zanzibar branch
P.O.Box 568, Zanzibar
Tel: 255 24-2230803
255 24-2232362
Fax: 255 24-223 0415
255 24-2232140
Website: www.bot-tz.org



Zanzibar Investment Promotion Agency
P. O. Box 2286, Zanzibar
Tel: 255 24-2233026
255 24-2237858
Fax: 255 24-2232737
E - mail: zipa@zanzinet.com
zipaznz@zanzinet.com
Website: www.investzanzibar.com

**QUESTIONNAIRE FOR THE SURVEY OF PRIVATE SECTOR
EXTERNAL DEBT (PSED) UP TO YEAR 2002**

FORM TYPE: BOPZ/2/2002

COMPANY REFERENCE NUMBER:..... (for internal use only)

DUE DATE FOR RETURN: ___/___/___

RESEARCH OFFICER:.....

Date completed:
Company name:
Name and position of person completing this return:

PLEASE READ THIS FIRST

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

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

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

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

S. Chiguma
Bank of Tanzania
Zanzibar Branch
Tel: (255)-24- 2230803 Fax: (255)-24 2231411

THANK YOU IN ADVANCE FOR YOUR COOPERATION.

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

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

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

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

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

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

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

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

NOTES/CONCEPTS

Supplier's Credits: A loan (export credit) extended by an exporter to finance the purchase of that exporter's goods or contractual service.

Buyer's Credit: An export credit extended by the exporter's bank whereby exporter gets paid immediately against shipping documents, and payments to the exporter by the bank are treated as disbursement under the credit (buyer's credit) to the importer.

Official Export Credits; Export credit extended by specialized agencies of the exporter's government

Revolving credit: Loan agreement which makes repaid amounts available to be redrawn at the borrower's discretion

Bill of exchange: An unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a stated future date a sum of money to a certain person or to the order of that person or to bearer. Most of the bills of exchange are drawn for three months after date.

Working capital loan: Loan specifically meant for financing day to day running operations of a business/company, used to pay such expenses as salaries, purchases etc. The level of the working capital requirement is determined by deducting the current liabilities from the current assets.

Fixed Interest Rate: A rate of interest that is defined in absolute terms at the time of loan agreement e.g. 10%.

Variable Interest Rate: A rate of interest that is computed by adding a spread to a predetermined base rate e.g. LIBOR + 1.5.

Disbursed Outstanding Debt (DOD): The amount that has been disbursed from a loan commitment but has not yet been repaid or forgiven.

Service Charges: All charges that must be paid as price of the loan such as interest, commitment fees, management fees etc.

Penalty (late Interest Charges): Additional interest that may be levied on obligations overdue beyond a specified time.

Loans write – Off: The reduction of the disbursed and outstanding debt or payments due through forgiveness of the amounts by the creditor.

Loan Cancellation: An agreed reduction in the undisbursed balance of the loan commitment

THANK YOU FOR YOUR COOPERATION