



TANZANIA INVESTMENT REPORT 2012

FOREIGN PRIVATE INVESTMENT AND INVESTOR PERCEPTION

OVERVIEW



Introduction

Foreign private investment (FPI) which constitutes foreign direct investment (FDI), portfolio investment and other investment, has become an important source of investment financing and economic development, especially in emerging and developing countries. Due to its importance, it has been actively sought by virtually all emerging and developing countries.

Tanzania has made considerable efforts over the past three decades to improve investment climate with a view to attracting more FPI. Major policy and structural reforms were carried out since the mid-1980s targeting improvement of business and investment environment. These efforts have resulted into an increase in the inflows of FPI, particularly FDI.

The increase in FPI inflows brought in a need to monitor their magnitude, sources, direction and composition. The monitoring exercise was initiated in the year 2000 by three institutions namely: the Bank of Tanzania, the Tanzania Investment Centre and the National Bureau of Statistics. These institutions have collaboratively carried out surveys since the year 2000 and published Tanzania investment reports in 2001, 2004, 2006 and 2009.

The objectives of the surveys include to:

- i. Collect and analyze data on FPI in order to develop a basis for development of investment promotion strategies, improve balance of payments statistics and establish international investment position;

- ii. Capture private sector perceptions on Tanzania’s investment climate in order to enhance public-private sector dialogue; and
- iii. Recommend appropriate policies and strategies aimed at improving the country’s investment climate.

This booklet provides an overview of the key findings and recommendations, which are covered in more detail in the full report—Tanzania Investment Report 2012. The findings came from census survey, which covered 1,848 companies in Tanzania Mainland and 208 companies in Zanzibar and a sample survey which covered 350 companies in the Mainland and 380 in Zanzibar. The information covered by these surveys was for the period from 2008 to 2011. The response rate for the census survey was 84.1 percent in Tanzania Mainland and 99.1 percent in Zanzibar, while for the sample survey the response rate was 85.4 percent for Mainland and 89.5 percent for Zanzibar.

The full report can be accessed on the websites of the three institutions (addresses are provided at the end of this overview).

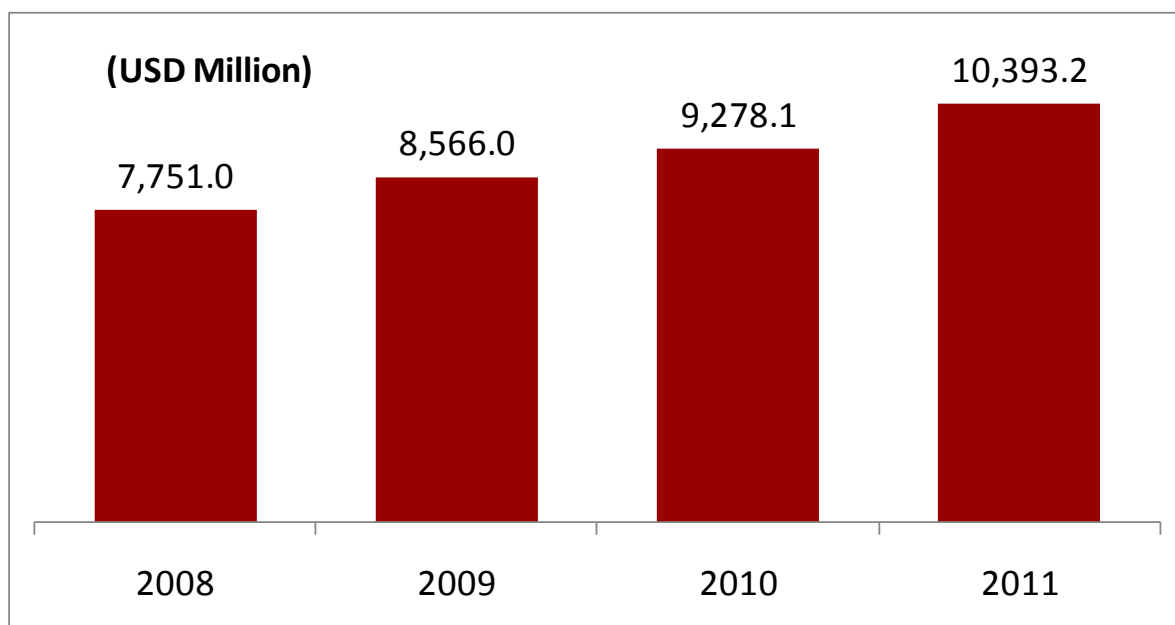
Key Findings

The stock of FPI increased steadily

The stock of FPI rose steadily at an annual average rate of 10.3 percent to USD 10,393 million in 2011 from USD 7,751 recorded in 2008 (**Chart 1**). FDI continued to dominate FPI

accounting for 89.3 percent of total stock in 2011, followed by other investments that accounted for 10.6 percent of the total.

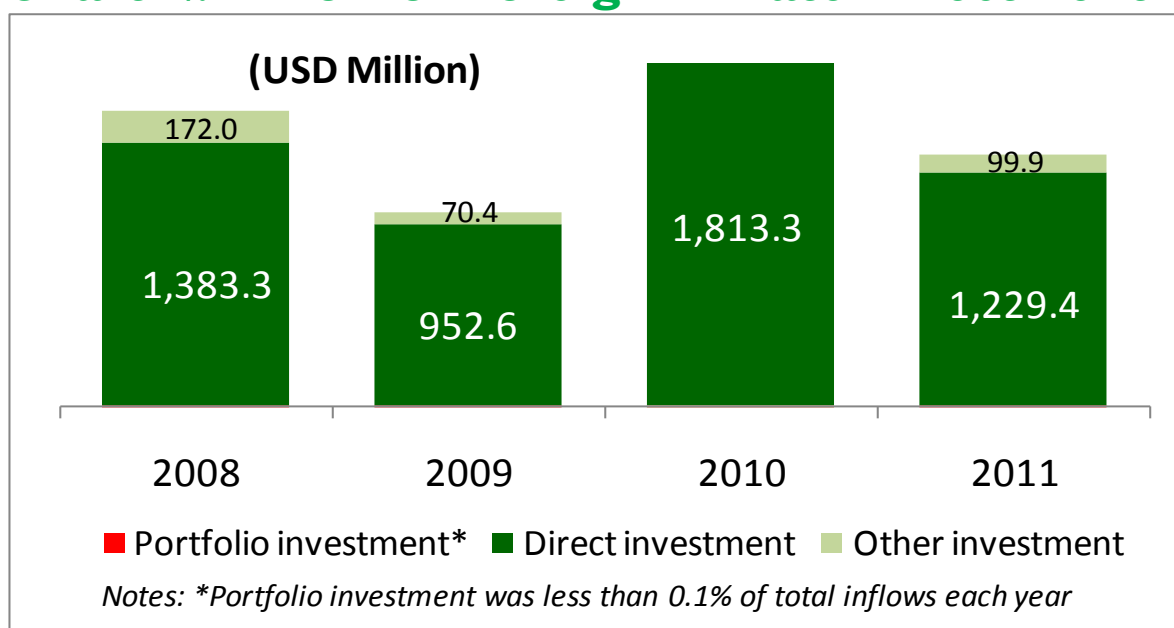
Chart 1: Stock of FPI



The inflow of FPI was impacted by the global financial crisis

A decline was observed in the inflow of FDI in 2009, as the impact of global financial crisis deepened. In 2010 the inflows bounced back but declined again in 2011 following large repayment of short and long-term loans (**Chart 2**). The inflows of FDI averaged USD 1,344.6 million per annum during the period covered and accounted for 94 percent of the total FPI inflows.

Chart 2: Inflow of Foreign Private Investment

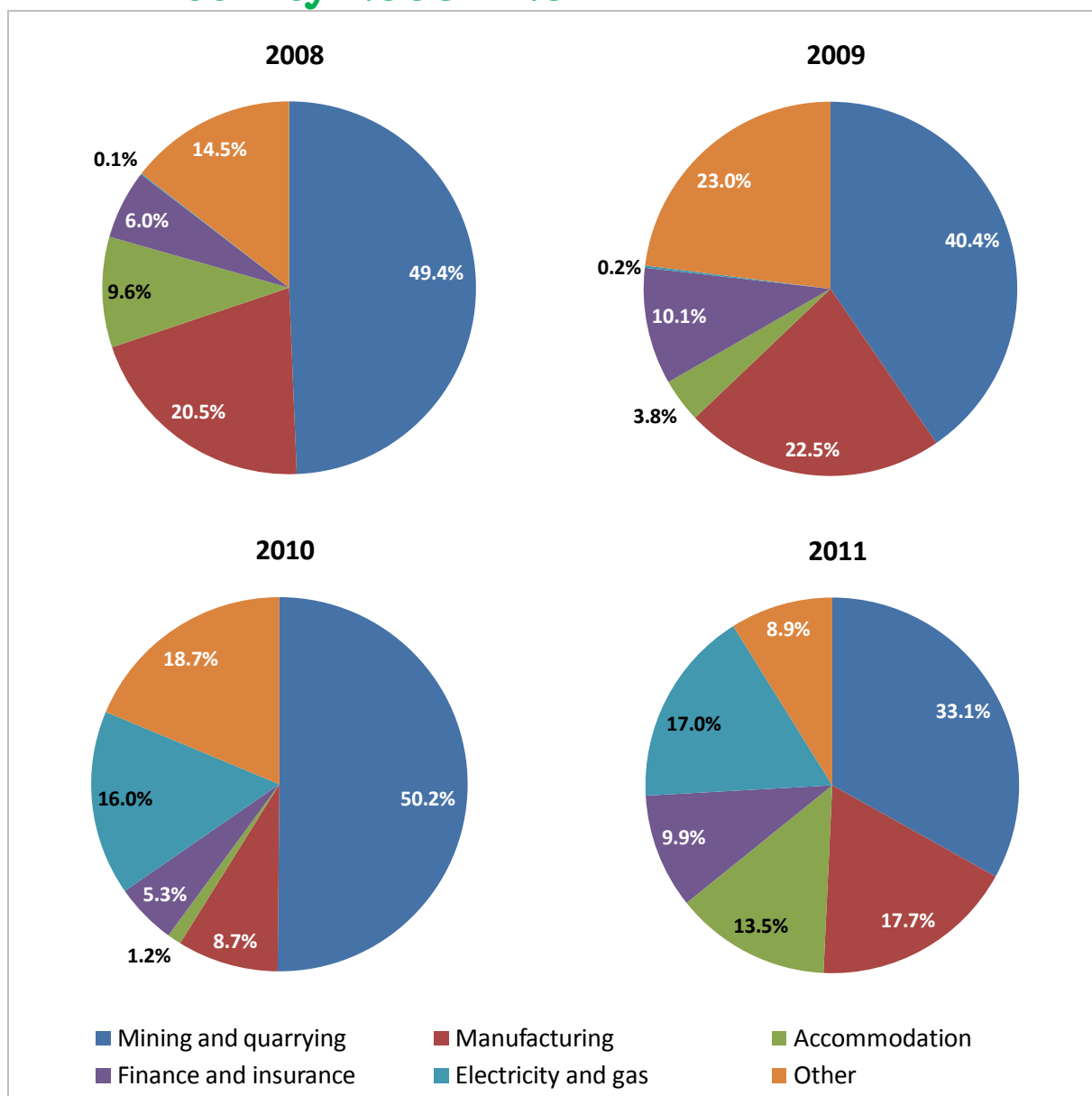


The share of portfolio investment remained low

The share of portfolio investments remained negligible as it accounted for less than one percent of the total FPI inflows and stocks during the period. This is partly explained by the low level of development of the capital market which is characterized by a small number of market participants (listed companies and investors), inadequate tradable securities and restrictions on capital account transactions.

The other investment category which includes loans from unrelated parties, currency and deposits and other equity was the second largest component of FPI after FDI. The stock of other investments increased to USD 1,097.5 million in 2011 compared to USD 798.5 million recorded in 2008. Large share of the investments under this category were directed to finance and insurance, manufacturing, and electricity and gas activities.

Chart 3: Composition of FDI Inflows by Activity 2008 – 2011

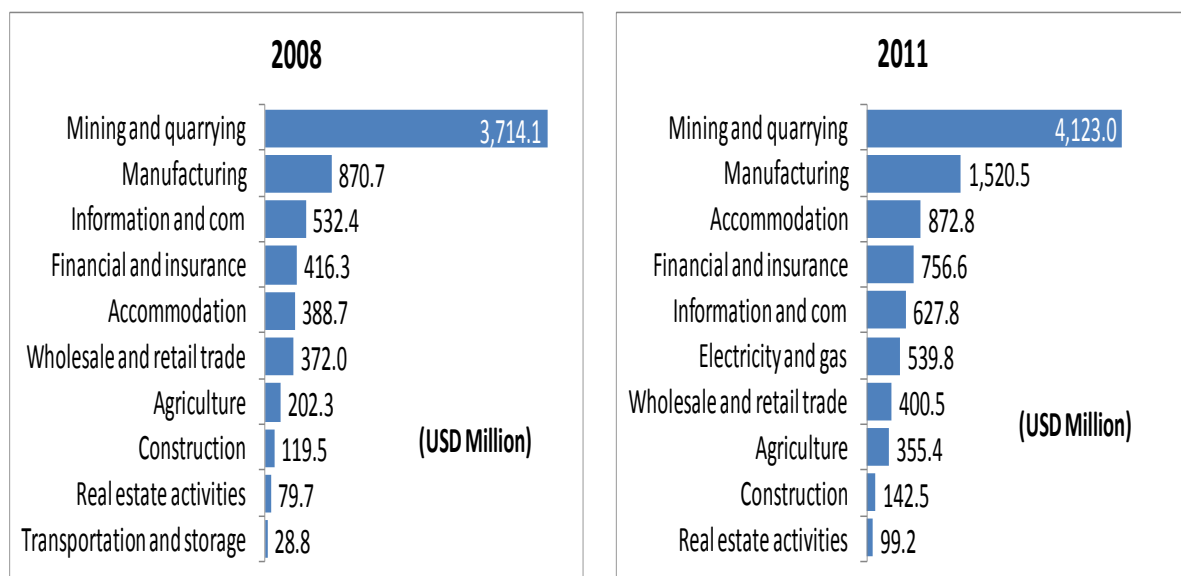


Inflows to electricity and gas activities increased substantially

Electricity and gas activity, which received less than USD 3.0 million in 2008 and 2009, experienced a sharp increase to USD 290.5 million in 2010 and USD 209.4 million in 2011. In the mean time, agriculture which accounts for the

largest share of GDP continued to record low levels of FDI. Despite the increase in the inflows to this activity by nearly 50 percent between 2008 and 2011, the annual inflows to this activity were lower than those of traditional recipients namely: mining and quarrying, manufacturing, finance and insurance, and information and communication (**Chart 3** and **Chart 4**).

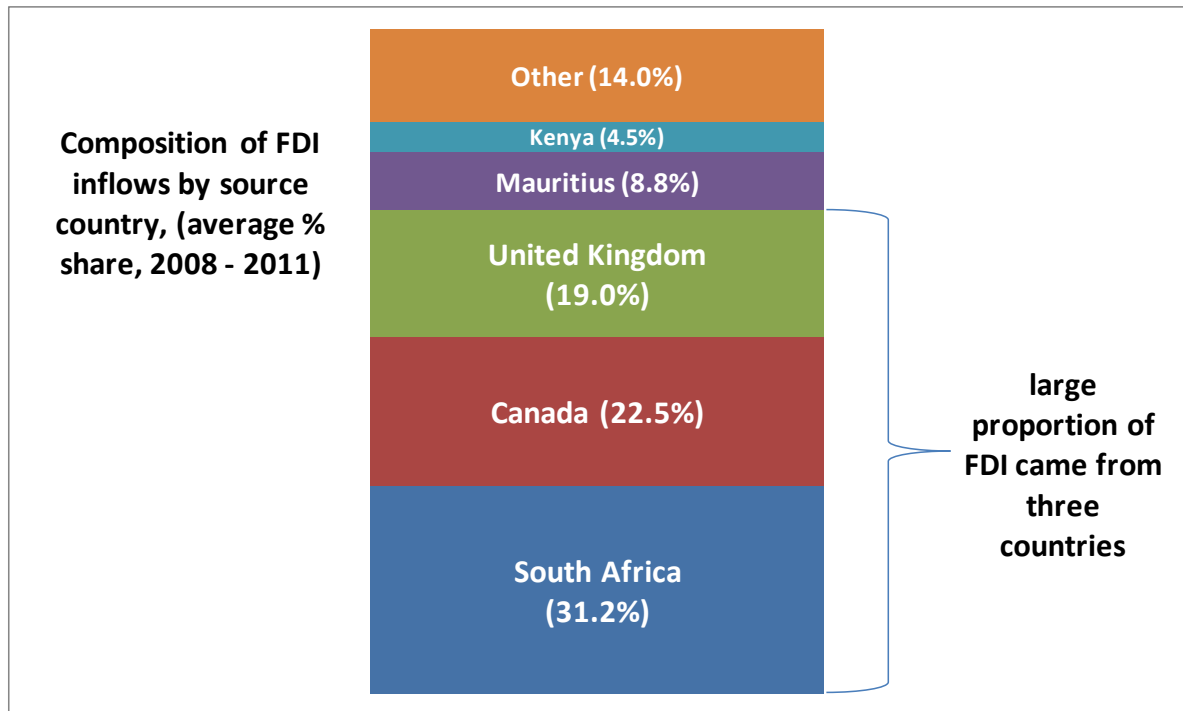
Chart 4: Stock of FDI – Top 10 Activities 2008 and 2011



Few countries continued to be dominant sources of FDI

South Africa, the United Kingdom and Canada accounted for an average of more than 70 percent of the total FDI inflows to Tanzania between 2008 and 2011 (**Chart 5**). Similar composition was observed in the period before 2008 implying that the sources of FDI inflows remained inadequately diversified thus, exposing the country to risks originating from external shocks.

Chart 5: Composition of FDI Inflows – Average 2008 to 2011



Profits increased substantially during the period

The overall net profits after tax increased consistently at an annual average rate of 79.3 percent from 2009 to 2011. The largest increase was recorded in 2011 when net profits after tax more than doubled from USD 679.0 million in 2010 to USD 1,492.7 million. Most of the increase in profits in 2011 occurred in mining and quarrying consistent with favourable developments in the price of gold in the world market that year.

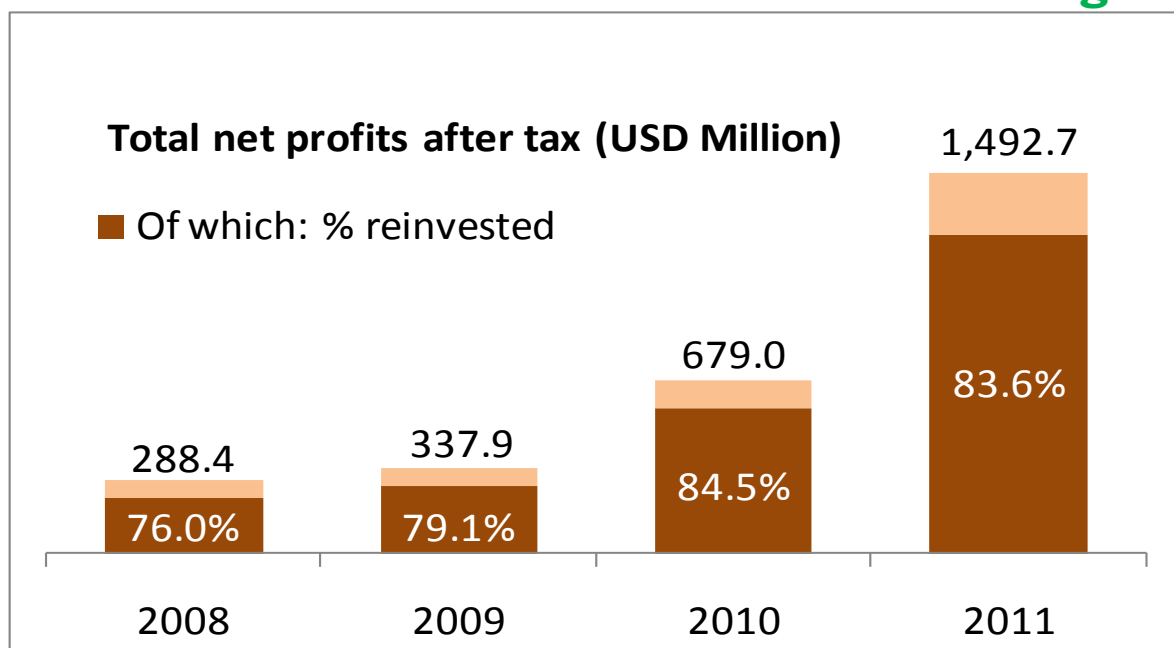
Large portion of net profits were reinvested

As profits increased, the portion that is reinvested also rose from 76.0 percent in 2008 to an average of 84 percent in 2010 and 2011. The average share of net profits

after tax reinvested for the period surveyed was 81 percent (**Chart 6**).

As a result of these developments retained earnings became the main source of FDI financing in 2011 compared to 2008 when loans (short and long term) were the main sources of FDI financing.

Chart 6: Net Profits and Reinvested Earnings



Investors' Perception and Linkages to the Economy

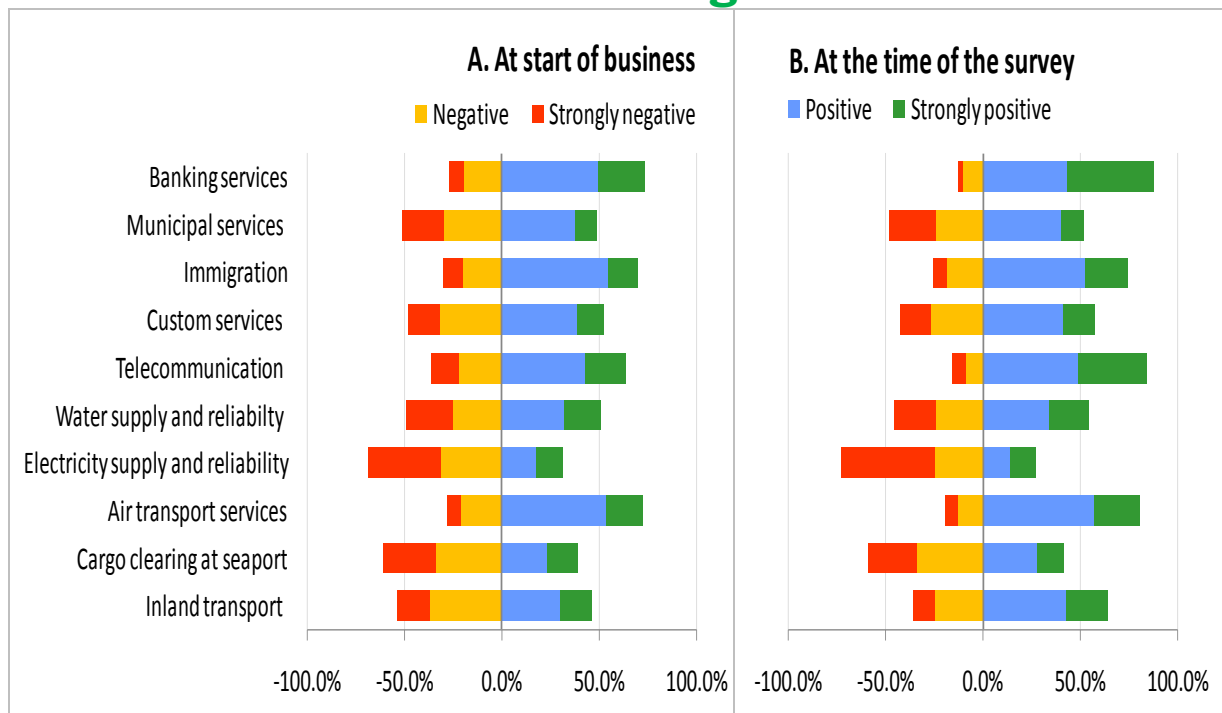
Investors' Perception

Investors' perceptions show the level of confidence they have in the economy and how various services affect their business operations. The assessment of investors' perceptions was based on information obtained from the qualitative questions on the impact of selected factors on the investments as part of the private capital flow census.

There was general improvement in investment climate

The results indicated that there was a general improvement in investment climate in the country relative to the period when the surveyed companies commenced business operations. Developments in banking, telecommunication, immigration, air and inland transport services were perceived by the investors to have positive effects on their business operation at the time of the survey (Chart 7).

Chart 7: Overall Investors' Perceptions on Main Factors Affecting Investment

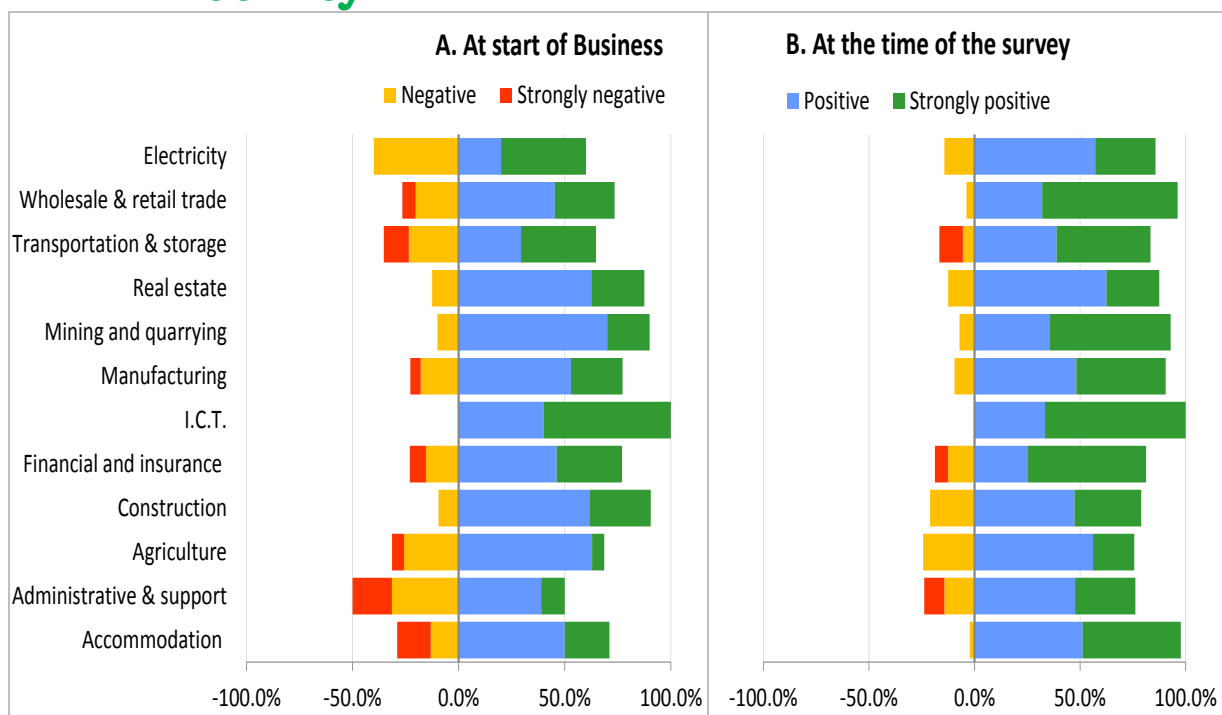


These findings are consistent with the expression of intension by large proportion of respondents to expand businesses in the medium-term.

Reforms in the banking sector impacted investment positively

The increase in the number of banks and associated facilities and products such as automated teller machines, mobile phone banking, mobile banking, and internet banking coupled with extended working hours impacted investment operations positively. The stronger positive impact was reported by companies operating in the mining and quarrying, information and communications, real estate and construction activities (**Chart 8**). Despite the improvements in the banking services investors complained about high cost of borrowing.

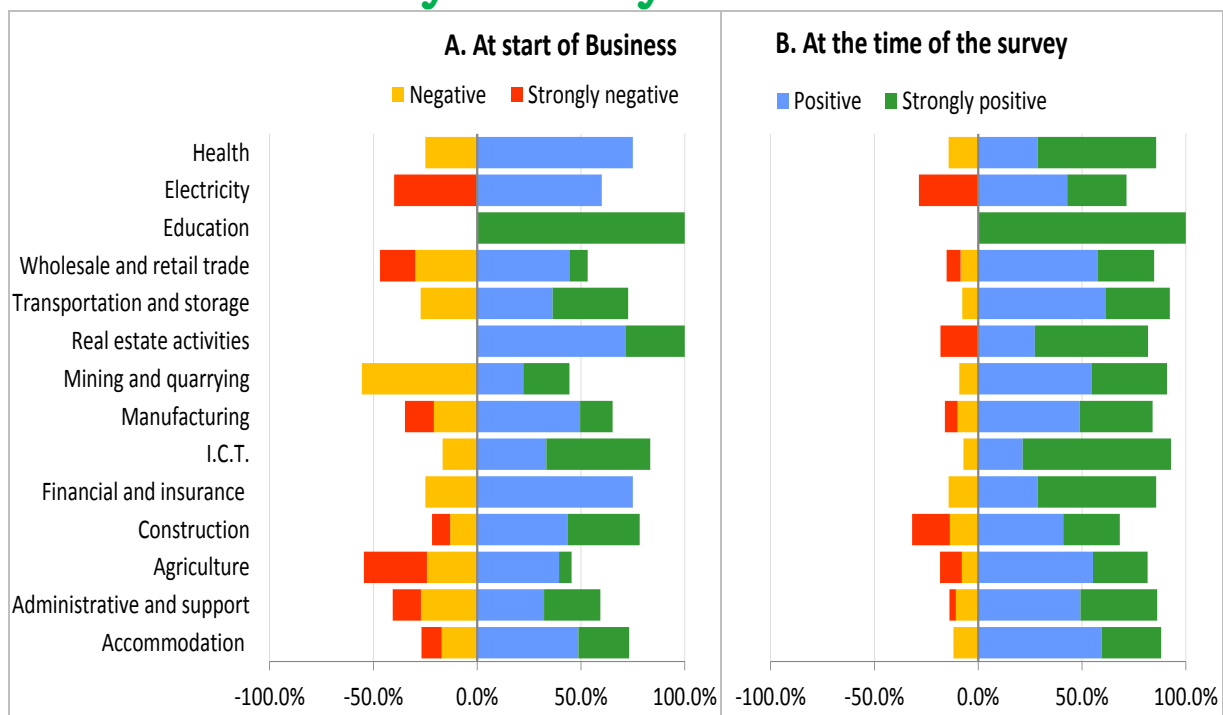
Chart 8: Impact of Banking Services by Activity



Developments in telecommunication services impacted investment positively

The increase in number of mobile phone service providers together with coverage and the availability of more products like internet access, were reported to have positive impact on investment operations at the time the survey was conducted compared to the time when they started business (Chart 9). Mining and quarrying, agriculture and wholesale and retail trade activities reported strong positive effects following developments in the telecommunication services.

Chart 9: Impact of Telecommunication Services by Activity

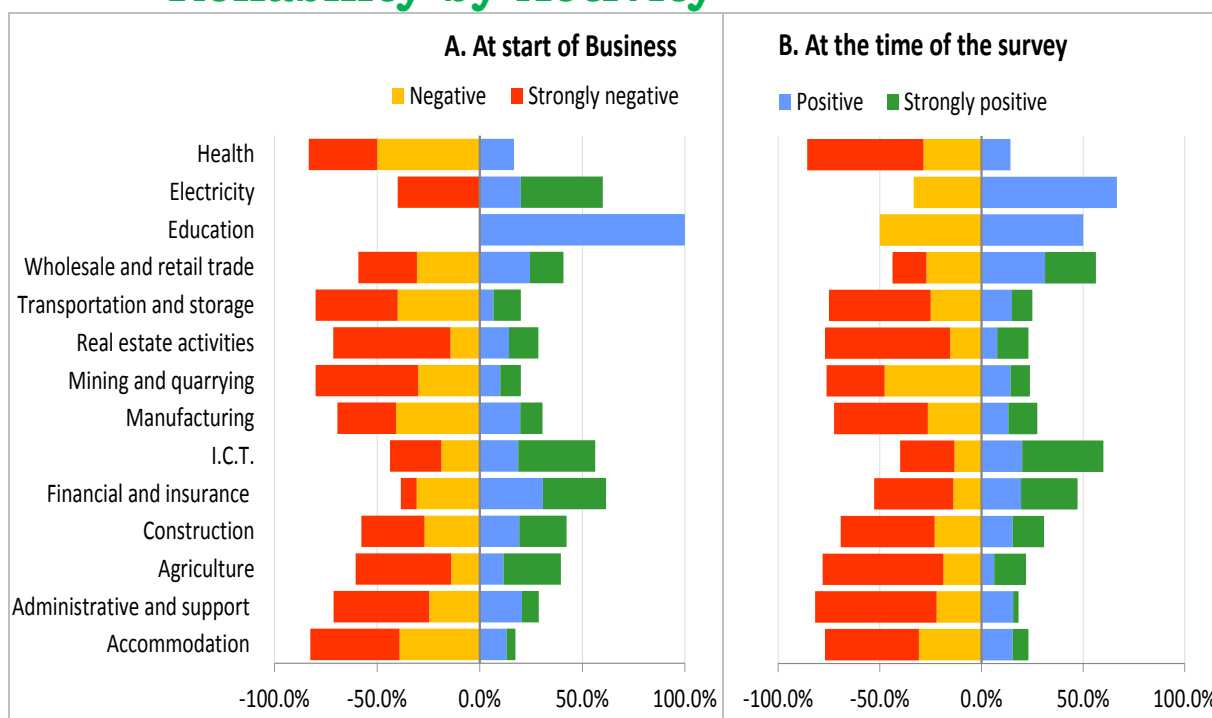


Unreliable electricity remained a challenge to investment

Investors indicated that poor and unreliable electricity supply affected their business negatively both at the time

when they started operations and at the time when the survey was conducted. Limited power supply, fluctuation and rationing compelled investors to use standby generators which increased their cost of operations. It is worth noting that, during the time when the survey was conducted (2010/11) the country was facing power supply shortage due to drought which had affected hydro power generation. Activities which reported strong negative impact were manufacturing, mining and quarrying, transportation and storage, and horticulture (**Chart 10**).

Chart 10: Impact of Electricity Supply and Reliability by Activity



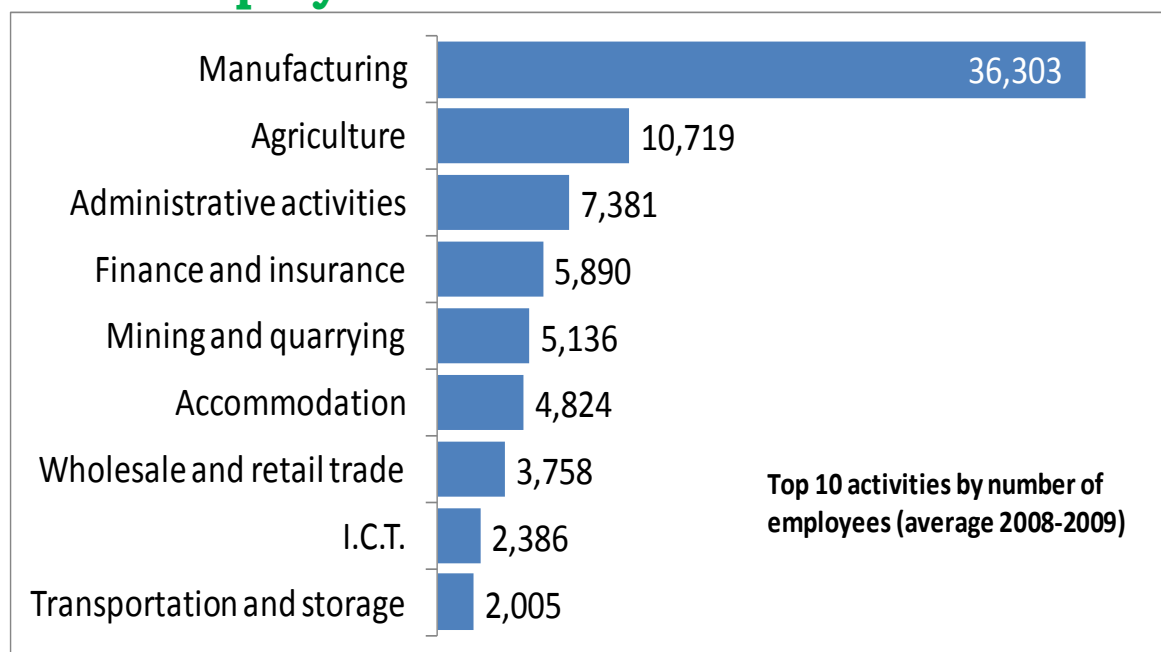
Linkages to Domestic Economy

Manufacturing and agriculture ranked high in employment

While mining and quarrying was by far the largest recipient of FPI (**Chart 3** and **Chart 4**) it came fifth in

employment (average for 2008 and 2009). The share of locals in total employment was 94.1 percent and foreigners were 5.9 percent. Manufacturing was the leading employer followed by agriculture (**Chart 11**). It is worth noting that while agriculture was second in employment it ranked much lower in the stock of FPI. In every category of employment locals exceeded foreigners with the largest concentration of locals being in the skilled and unskilled categories and lowest in management category. Foreigners on the other hand were concentrated in professional and management categories (**Chart 12**).

Chart 11: Top 10 Activities by Number of Employees



Manufacturing and trade led in contributing toward corporate social responsibility

The findings showed that manufacturing had the highest contribution to corporate social responsibility (CSR) followed by wholesale and retail trade industry,

construction and finance and insurance. Relatively lower amounts were spent by companies operating in the transport and mining and quarrying (**Chart 13**).

Chart 12: Total Employees by Category and Composition

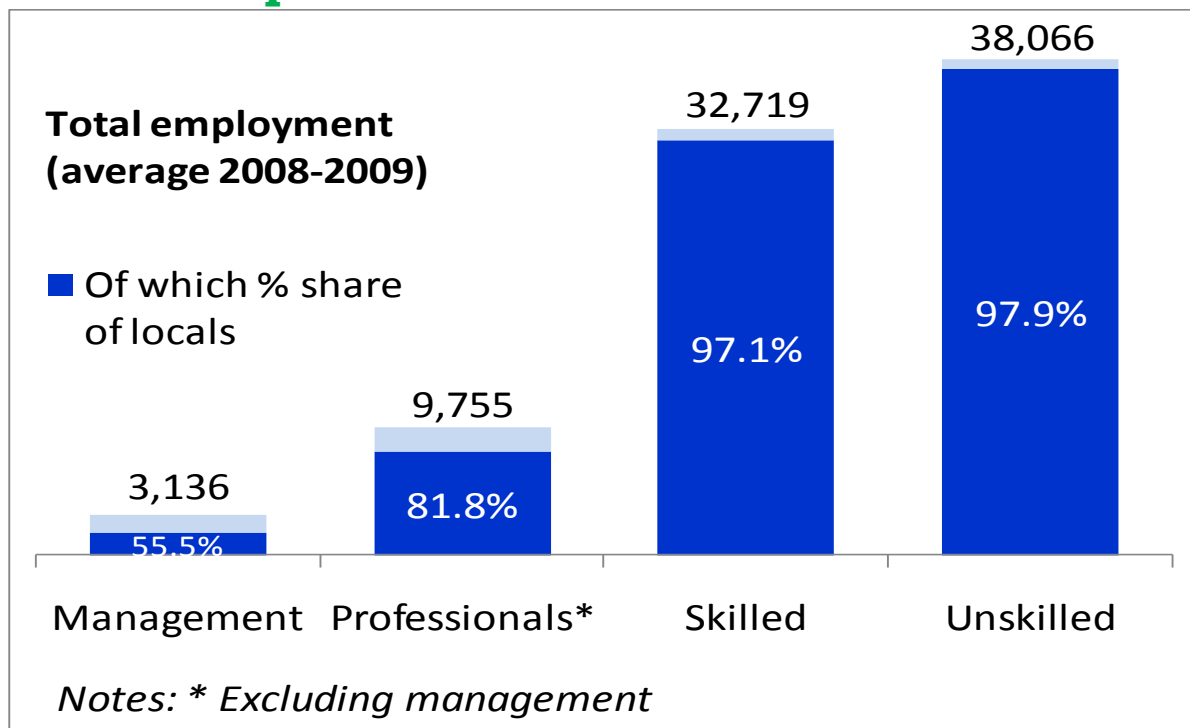
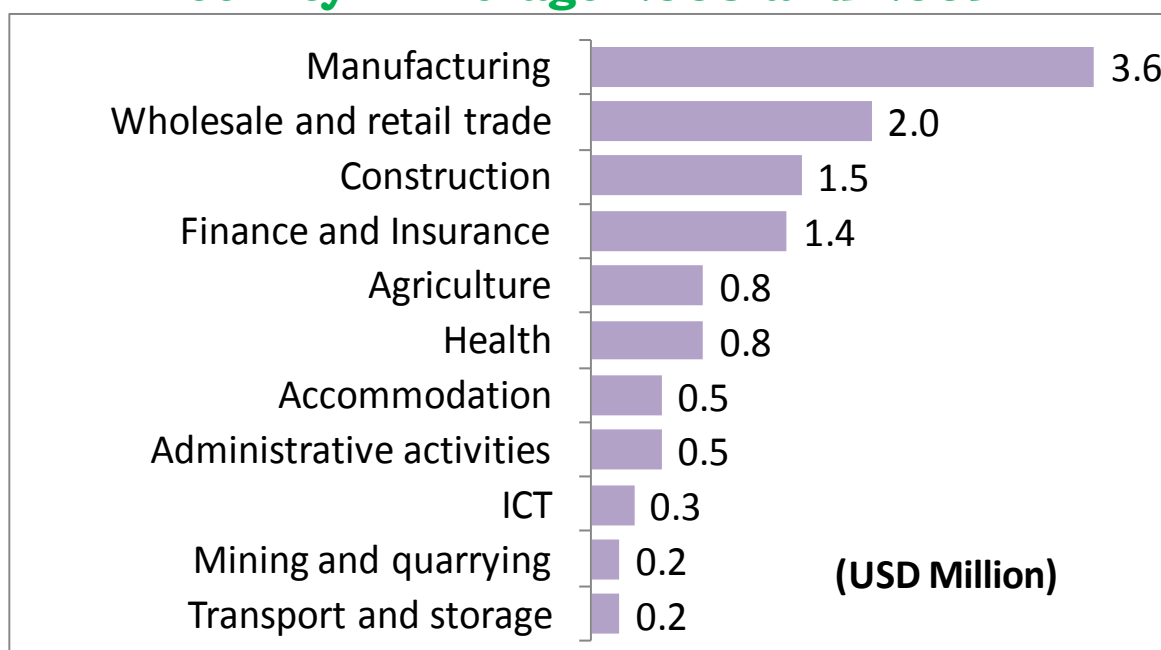


Chart 13: Corporate Social Responsibility by Activity – Average 2008 and 2009



Areas that were supported most under CSR were health and welfare, education, arts and culture, and roads (Chart 14)

Chart 14: Corporate Social Responsibility by Area of Support – Average 2008 and 2009

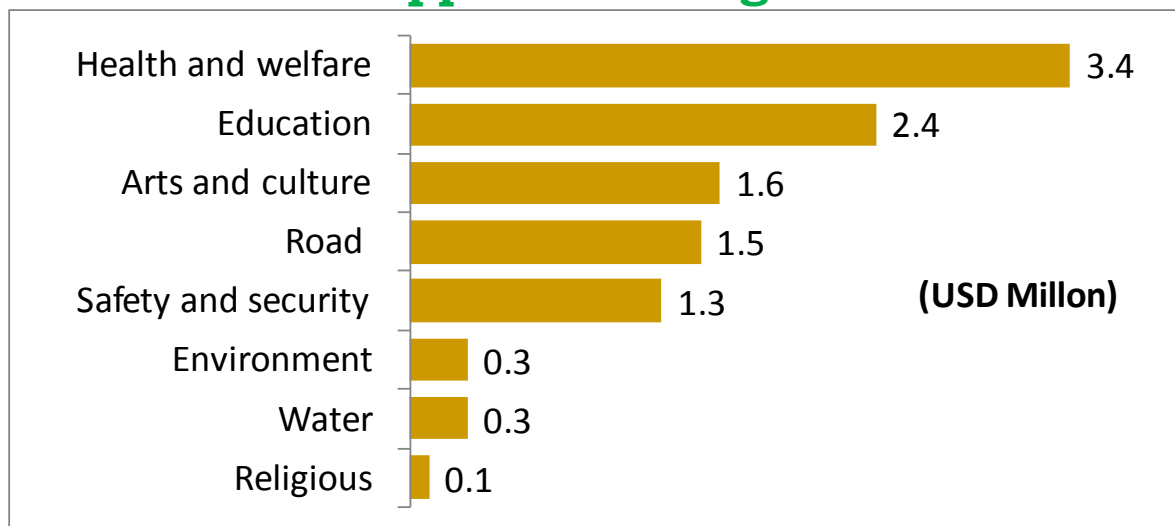
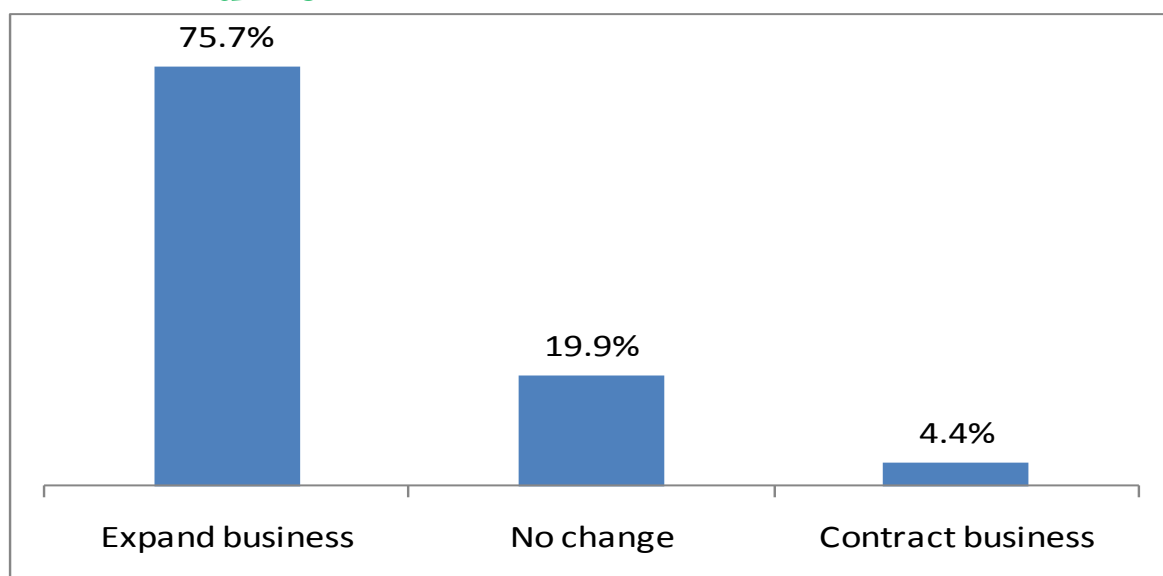


Chart 15: Likely Investment Direction in the Mid-Term



Most of the companies had plans to expand their businesses in Tanzania

Out of total respondents, 75.7 percent indicated that they were planning to expand their business in Tanzania in the

next three years, while 19.9 percent would maintain the same level of investments. Those who intended to reduce their businesses were 4.4 percent. This is an indication of investors' confidence in the country's investment climate (Chart 15).

Recommendations

- i. To consolidate the growth momentum of the private capital flows, the efforts to improve investment climate and to promote strategic investment need to be enhanced. Such measures include reducing the cost of doing business, expanding investment opportunities and promoting diversification of investments.
- ii. Following the sharp increase in inflows to electricity and gas, the on-going initiatives to put in place policy and regulatory framework for governing the electricity and gas activities need to be expedited in order to provide guidance and ensure adequate benefits to the country.
- iii. Efforts to make agriculture more attractive to investors need to be stepped up in order to boost inflows to agriculture, which have so far remained low compared to traditional recipients. Such efforts include investments in rural infrastructure, irrigation schemes, rural electrification to facilitate agro processing and the countrywide land mapping and categorization.

- iv. To diversify the sources of capital flows, promotional efforts need to be enhanced in other regions such as Asia and Latin America. This will help to reduce risks emanating from external shocks.
- v. Locally-owned companies need to be encouraged to list in the stock exchange in order to tap up more resources from the international markets. In addition, there is a need to expedite the on-going initiatives to liberalize the capital account.
- vi. The ongoing initiatives in electricity and gas industry need to be kept on track in order to sustainably address the problem of availability, reliability and affordability of electricity.
- vii. The implementation of the skills localization policy need to be strengthen, for instance through establishment of skills programs that will be aligned with skills required by investors with a view to speeding up the transfer of skills to locals.

The full report—Tanzania Investment Report 2012—can be accessed through the following addresses:

1. <http://www.bot.go.tz>
2. <http://www.tic.co.tz>
3. <http://www.nbs.go.tz>



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