UNCTAD/ITE/IPC/Misc. 9

United Nations Conference on Trade and Development

Investment Policy Review

The United Republic of Tanzania

CHAPTER 5

UNITED NATIONS

CHAPTER V. CONCLUSIONS AND RECOMMENDATIONS

Tanzania has emerged from a lengthy period during which state ownership and control dominated most aspects of economy and society. After a hesitant start, the reform process quickened in the late 1990s, characterized by, for example, improvements in the investment framework, successful privatization and an upturn in economic growth and other macroeconomic indicators. The new investment climate is attractive to foreign investors, as evidenced by increased FDI inflows. But these inflows have not yet reached the levels satisfying Tanzania's needs and expectations and, most importantly, potential.

Tanzania's long-term FDI goal should be to develop from its present "trickle-in" phase to achieve a position as an attractive FDI location in East and Southern Africa. There is a need to sustain current inflows and attract new FDI, which will be a particular challenge at a time of global slowdown. At the same time, with sustained flows of FDI, the economic contribution should be planned to expand and widen, from its limited capital investment and employment effects at present, to include a substantial export contribution and a significant level of technology transfer to the indigenous sector through the creation of local linkages and other mechanisms.

Thus, the strategy for FDI and the expected benefits from FDI must distinguish issues of investment attraction and economic contribution. In the short term, levels of FDI inflows can be increased by further improvement in the investment framework and by imparting a select number of strategic thrusts. In the medium and long term, a range of economic contributions will be enhanced as broader policy initiatives are put in place and the market economy develops.

Objective 1: Strengthening the investment framework

Over the past decade Tanzania has, with some rapidity, been moving from the constraints of a centrally planned economy to a more open, market-based regime for investors both local and foreign. The continuing process of change has outpaced reform of the statute book. There is a need to enact new legislation:

- Laws and regulations from the time of the centrally planned economy should be replaced by laws and regulations compatible with the requirements of the market economy and Tanzania's competitiveness. These include in particular employment and labour laws, commercial and contract law (including a new companies Act) and tourism and fishing industry regulations, as well as a new arbitration Act.
- The Competition Act of 1994 should be reviewed and amended if necessary, to reflect, *inter alia*, the implications of the increased presence of foreign companies in Tanzania. Moreover, the Tanzania Fair Trade Practices Commission should be strengthened.
- The existing law embodied in the 1997 Investment Act has become increasingly dysfunctional. The Act should be replaced by a new, modern Act reflecting current conditions inside and outside Tanzania.

- The network of BITs and DTTs should be expanded, particularly to include actual and potential home countries, including dynamic developing countries from Asia and the African region.

Objective 2: Reducing the cost of doing business

To stimulate both foreign and domestic investment, policy emphasis must continue to be placed on reducing the high costs of doing business. The analysis and recommendations of the BEST Programme provide a clear pathway for achieving these aims, pointing clearly to the need for creating an enabling environment for investment. While the implementation of all the components of the programme is essential, priority from an FDI perspective should be given to the following:

- Regulatory improvements in the areas of central and local taxation, land planning, allocation and site development, labour laws, business licensing and registration, and import/export procedures, as well as sector-specific regulations. The establishment of a Better Regulation Unit within the Civil Service Department is important for ensuring implementation.
- Improving commercial dispute resolution. This will include enhancing the accessibility of the Commercial Court, simplifying court procedures; and designing an anti-corruption strategy for the Courts.
- In addition, the recently launched Tanzanian National Business Council (TNBC) has an important role to play in the efforts to remove barriers to efficient business operations. It should meet regularly, with identified problems being followed up vigorously. By the same token, the National Investment Steering Committee (NISC) as the mechanism for resolving problems and removing blockages, should maintain strong links with the business community and actively monitor the business climate.

Objective 3: Ensuring continued success of privatization

The Tanzanian privatization programme has been successful to date. It has been a major source of FDI; it is helping to build the market economy and investor confidence; and it has encouraged sequential FDI in, for example, services. Critical issues are the following:

- The privatization of utilities needs to proceed as rapidly as possible in order to reduce costs and improve services to businesses and consumers. The time scales currently in place need to be adhered to.
- The National Development Corporation (NDC) has an important role in developing power and associated infrastructure, but it needs resources and capabilities. The secondment of private sector executives to NDC should be investigated. Links with the TIC should be enhanced.
- Privatization policies need to be matched by policies to deal with redundancies/retrenchments associated with rationalization or the closure of non-viable enterprises. Such policies could include encouragement of small business start-ups to create jobs and a fund to temporarily support and retrain displaced workers.

- The countries in the Far East, over the last two decades, have undertaken successful privatisation of public utilities (roads, electricity, water, sewerage, ports etc). The Asia Africa Investment Technology Promotion Centre (AAITPC) could help build a bridge between Asia investors and Tanzania.

Box V.1. The Multi-facility Economic Zone concept

Creation of a conducive investment environment --- physical, legal and administrative --- all over the country will take years of effort. These efforts should not be put off. But in the short term it may also be desirable to selectively create "Engines of Growth" areas within Tanzania, i.e. limited areas of dynamic economic activity that can be "fast tracked" for take-off, and which will create positive multiplier effects and a positive image for Tanzania as an economy that can sustain modern economic activity.

The concept in summary is as follows: identify a substantial area, e.g. 1000 hectares. In this area create a MFEZ Authority and suspend all outdated national laws, rules and regulations. Create best practice rules/laws for investors in this area at all levels – from project approval to production. Create world-class infrastructure – electricity, water, roads etc. in this area. Cater for housing for executives, workers, hotel, a small township and recreation areas if these are not available nearby. Promote this MFEZ as a hassle-free, efficient investment location. Train local government officials on best practices from other IPAs around the world.

The MFEZ should cater for both export-oriented and domestic-oriented industries and thus save valuable land lying idle if the country is unable to attract 80 per cent export-oriented industries. Every investor located within the MFEZ should be given a special "Certificate of Privileges" that will ensure a series of guaranteed privileges and incentives.

Multiple MFEZs can be created in different parts of the country and can also be privately operated. The initial MFEZ should ideally be a government effort or a joint effort with the private sector. If the private sector is involved, the project should be offered a special package of incentives, including a 10-year tax holiday.

Objective 4: Implementing effective infrastructure development

Infrastructure offers opportunities for foreign investment and other forms of foreign involvement, including roads, airports and ports:

- In airports, the experience gained with Kilimanjaro International Airport should be used to develop a partnership model that is attractive to foreign investors and beneficial for the country.
- Dar-es-Salaam Port's full potential as a major shipping and cargo centre should be explored. Among the possibilities are for DAR Port to become a centre of excellence for port services, by either joint venture or hiring the appropriate expertise and full government commitment. In addition, the DFZA authority, or the DAR Port Authority (DPA) itself, could create a “Trade Corridor of Excellence” between Tanzania and neighbouring landlocked nations that utilize DAR Port as one of their import or export channels. This could be initiated through “inland ports” within these countries, either fully owned by the DFZA or DPA or in joint venture with domestic agencies. If this is

done efficiently and helps to accelerate the movement of goods and reduces costs, DAR Port could emerge as a major hub for trade in the region.

- Instead of pursuing the path of creating separate industrial parks and export processing zones (EPZs) in mainland Tanzania, consideration should be given to a Multi-Facility Economic Zone to cater for domestic production and partial export- and fully export-oriented industries. The MFEZ concept (see box V.1) is to provide the best possible business environment within a limited geographical area, including infrastructure, a regulatory regime as envisaged in the BEST Programme and efficient administration. The cost can be shared with the private sector, particularly if the project is offered a special package of incentives, including a 10-year tax holiday.
- In the medium and long term, if the initial MFEZ proves successful, a number of MFEZs should be encouraged at different strategic, geographical locations to create multiple "Engines of Growth." MFEZ status/facilities can also be extended to other areas of large-scale economic activity that could include the creation of townships, e.g. large mining areas.

Objective 5: Stimulating human resource development and linkages

Human resource development, and policies to encourage the transfer and diffusion of technology, and linkages and partnerships with foreign investors are essential. Lack of vocational and technical skills places Tanzania in an uncompetitive position compared with its neighbours. The private sector can be encouraged to play a proactive role through training. Actions required include:

- Expanding the provision of higher education and technical training, and revising the curricula to meet the needs of the market economy.
- Integrating human resource development into programmes for the support of priority sectors (including those with FDI potential, particularly mining, tourism and even banking). This means determining the skill needs of priority sectors, and developing funding systems for training, in partnership with the private sector.
- Developing sectoral programmes in, for example, energy and minerals, agribusiness and tourism not only to improve their attractiveness to foreign investors but also to encourage linkages with local enterprises, including technological linkages. These sectors are of fundamental importance for FDI attraction, but the conditions are not in place to fully exploit their potential. Tourism is the easiest to develop in the short term, and should be the initial emphasis.
- Encouraging existing companies to undertake greater "in-house" training for their own staff and possibly offer training opportunities for those outside their direct staff requirements. The experience of other countries suggests that tax deductions for training expenses can be an effective incentive.

Objective 6: Building a dynamic enterprise sector

In the medium to long term, the most effective way in which Tanzania can maximize its gains from FDI, especially in technological development, is to improve the capacity of its domestic enterprises to learn, adapt and assimilate technology. Indeed, the existence of dynamic domestic enterprise by itself can be an important investment promotion tool, as international investors are increasingly seeking investment locations with a high-level skills base and partnership-ready enterprises.

The skills and technological capabilities and investment capacity of domestic enterprises are key determinants of their ability to qualify as suppliers to foreign affiliates operating in an increasingly competitive market environment. More and more foreign affiliates demand that their suppliers comply with quality standards such as ISO 9000. Tanzania needs to adjust its technology policy framework and make its relatively extensive technology infrastructure responsive to the technology- and quality-related problems currently facing most domestic enterprises, particularly SMEs. Actions include:

- Modernizing the present National Science and Technology Policy to bring it into line with policy changes in other economic areas, particularly investment policy.
- Undertaking a major restructuring and overhaul of the existing technology infrastructure with a view to identifying those technology-related institutions that provide essential services and need strengthening and those that are ineffective and should cease to operate. At the same time, private sector involvement in technology-related support services should be actively encouraged.

Objective 7: Enlarging markets through regional integration

Tanzania should continue efforts to build a stronger East African Community (EAC) and Southern African Development Community (SADC). A larger market size ensures stronger commitment by investors and leads to a greater level of strategic investment. The following issues are important:

- In order to obtain gains from the EAC, Tanzania requires a sustained effort to improve its cost competitiveness, and to focus on areas of actual or potential competitive advantage. Greater attention needs to be paid to encouraging export orientation in indigenous industry and attracting export-oriented FDI to exploit the larger EAC market. To facilitate this, export and import procedures must be improved and streamlined. Implementing the recommendations of the BEST Programme is important in this respect.
- In the short term, Tanzania needs to recognize the problems faced by foreign and indigenous producers in manufacturing in competing with Kenya. Moves to eliminate tariffs and non-tariff barriers need to be made cautiously to avoid a surge of imports, but it is important to resist demands for continuing protection.
- In respect of SADC, foreign investors are unlikely to see significant opportunities for intraregional FDI in the short to medium term, but if Tanzania improves its transport (road, rail and port) infrastructure in the south of the country, it could achieve its

potential as a gateway to the region in the longer term.

- Tanzania should take the initiative in encouraging regional FDI promotion events, particularly for East Africa.
- Tanzania should take full advantage of the "window of opportunity" that WTO offers for tariff protection, to encourage import substitution industries, but with the full understanding that these are strictly short-term "booster" measures to help incipient manufacturers.

Objective 8: Imparting a new strategic thrust to investment promotion

At a time of global slowdown, Tanzania cannot reasonably expect waves of FDI into its economy, which is yet to show its resilience and ability to attract and sustain FDI. Investment promotion will require strategic thrusts in selected areas driven as a "Sustained Programme of Action" and aimed at yielding positive results on the ground in two to five years.

Earlier discussions have highlighted three strategic thrust prospects: the Multi-facility Economic Zone, Dar Port and privatization. Education is another factor. Three additional areas are:

- Agriculture. The irony of a country with abundant land and yet land not easily available for large-scale agricultural investments appears a major bottleneck. Tanzania's abundant land should be translated into investment opportunities, starting with five large areas of land that can offer potential for large-scale commercial farms/plantations. It can be envisaged that such investments will help develop smallholder farms and facilitate quality control, production support, marketing and distribution.
- Manufacturing. Given the country's present development stage, the domestic market is limited but could attract investors who are "pioneers" who identify opportunities and because of their smaller size or experience in other emerging markets can gain "first-mover" advantages by moving quickly to enter and consolidate their position in the Tanzanian market (see box III.3 for an example). Such "second-tier" investors should be targets for TIC. However, there are also major TNCs, especially in the consumer goods sector, which historically have been pioneers in emerging markets. Targeted investment promotion at the firm level may be a precursor of wider investments in manufacturing as other big foreign players in food and pharmaceuticals, for example, may follow.
- Existing investors. Already established foreign and domestic enterprises should be given every encouragement and support to reinvest in the domestic economy. Box III.3 presented the case of an investor in Tanzania from colonial times, now transformed into a venture capital company with 42 investments throughout the country. Its importance for FDI potential lies in the long-term commitment to partnership investments in Tanzania, and in encouraging foreign and indigenous companies in Kenya to expand into Tanzania. Although small in number, there may be other similar types of companies which offer opportunities and with which the TIC should develop alliance relationships.

This Review has not assessed Tanzania's investment prospects in the above areas. For that, the Government should establish separate National Task Forces appointed with experienced members drawn from the private and public sectors to work out the feasibility and detailed implementation steps necessary for promoting each area as a strategic thrust. TIC and ZIPA are well positioned to lead the effort and the National Investment Steering Committee is the right body to sanction and receive it.