

How has Tanzania strategically used FDI for the development of the sectors: What Policy lessons from the past experience?

Round table discussion on *“FDI and local technological and innovation capability building*

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outline

- Definition
- Roles of FDI in the country
- Conditions for FDI to benefit any Country
- How TZ Strategically positioned to develop its sector from FDI
- Policy Lessons learned from the past experience

Definition, and Motives

- The literature provides Several FDI definitions but all point to more or less the same message. Rutherford (1992: 178; 1995: 178-179) who defines FDI as business investment in another country,
- Normally FDI takes the form of setting up local production facilities or purchase of an existing business (through merger and acquisitions (M&As))

Definition and Motives

- FDI types include inward-FDI and outward
- In-ward FDI have different motives to locate production in a foreign country.

FDI Motives

- Resource seeking; MNEs aim at acquiring particular types of resources that are not available at home (like natural resources or raw materials) or that are available at a lower cost (such as unskilled labor that is offered at a cheaper price with respect to the home country).

Definition and Motives

- market seeking; MNEs invest in a foreign country to exploit the new markets of greater dimensions.
- Other reasons may include: following suppliers or customers that have built foreign production facilities, to adapt goods to local needs or tastes and saving the cost of serving a market from distance.
- In recent times; FDI locate in a market to discourage potential competitors from occupying that market.

Definition and Motives

- Efficiency seeking: MNE may take advantage of different factor endowments, cultures, institutional arrangements, economic systems and policies, and market structures that are amenable to efficient production.
- However, it is worth noting that, many of the larger MNEs are pursuing pluralistic objectives and most engage in FDI that combines the characteristics of each of the above and sometimes motives change overtime

Roles of FDI in the country

- FDI is external resources that are needed to fill the saving, foreign exchange and investment gaps.
- The capital and foreign exchange are important for the rapid rate of capital accumulation and growth needed for poverty reduction in Tanzania and other developing countries.
- The domestic income levels in most developing countries like Tz are too low to generate adequate domestic resources for modest rates of investments and growth

Roles of FDI in the country

- **Theories** inform us that FDIs are capable of facilitate economic growth through employment generation; technology transfers; increasing government revenues; creating linkages with the rest of the economy and contributing positively to the capital formation process in host economies (Dunning 1993,Lall,1996 etc)
- As a result of the above FDI positive roles that FDIs can play in host economies, the investments are said to be engines of growth, especially for developing countries.
- **Therefore** many countries are **competing to attract FDI inflows into their economies.**

Roles of FDI in the country

- However, it is noted that the employment objective for attracting FDIs is highly debated in the Tanzanian context. Among the issues associated with it is the extent to which FDI add to new employment in the economy. This because many FDIs that have entered the country through M&As have resulted into retrenchment of former employees and created less employment compared to the past enterprises (Ngowi 2007)

Role of FDI in the economy

- The other areas in which the country doesn't seem to benefit substantially from FDI include: on technology transfers (b'se of low backward and forward linkages)- STIPRO study. E.g mining, EPZ (textiles) noted in the country, espec. In mining sector (Bitrina, Ngowi and Musambya)
- However, higher benefit in sectors such as **pharmaceuticals, Radio, TV, and ICT**. Medium benefits noted in sectors such as: **metals, chemical and electronics** while **textiles, assembly, leather, beverages and agriculture** had less benefits from Tech, transfer from FDI

Conditions for FDI to benefit any Country

- As FDI's investment motives include seeking: markets, resources, or efficiency, or competition reasons backward, countries need to strategically forge for forward, backward and horizontal linkages in its sectors
- Conducive government policies, strategies, rules and conditions
- The quality of human resources
- Adequate infrastructure (e.g power, water,)
- Vibrant private sector

How TZ Strategically positioned to benefit its sectors from FDI?

Various countries use various approaches to attract FDI inflows in various sectors. For TZ's strategies were:

- Instituting various reforms and offering various kinds of incentives to investors.
- the reform elements include: *privatization and liberalization of the economy, political reforms, trade regime reforms, exchange and interest rates reforms, public sector service reforms and establishment of special*

Strategies to attract investors

- Formulation of Institutions to facilitate FDI (one stop centre-TIC)
- Reform in the legal systems so that FDI work smoothly (tax laws and investment regulations)

Strategies to attract investors

- Tanzania, like other countries that bid to attract more FDI inflows, offered a number of **tax and non tax incentives**. E.g using the Tanzania Investment Act. 1997 (3) TZ offered *tax relief and concessional tax rates which were accessed by an investor under the Income Tax Act,*
- Under the Investors' Road Map 2003, Tanzania offers flat rate tax incentives to all (17) sector of the economy. E.g Postponing a 30 per cent corporate tax payments (tax holidays; Zero (0) per cent customs duty on capital goods; Zero (0) per cent Value Added Tax (VAT) on capital goods; 50 per cent capital allowance deduction and a 10 per cent withholding tax on dividends.

Strategies to attract FDI

- Other FDI incentives include entitlement to employ up to five (5) expatriates automatically
- unconditional transferability of net profits or dividends,
- Payment in respect to loan servicing; low royalties, fees, and charges related to a technology transfer agreement; the remittance of proceeds if a business is liquidated; and emoluments
- Formulation of the EPZ: whose objective was for skills development, techn. transfers, create linkage with the local economy and international markets, create market for local raw materials and increase export and forex. However, believed that TZ benefits less from EPZ(STIPRO study)

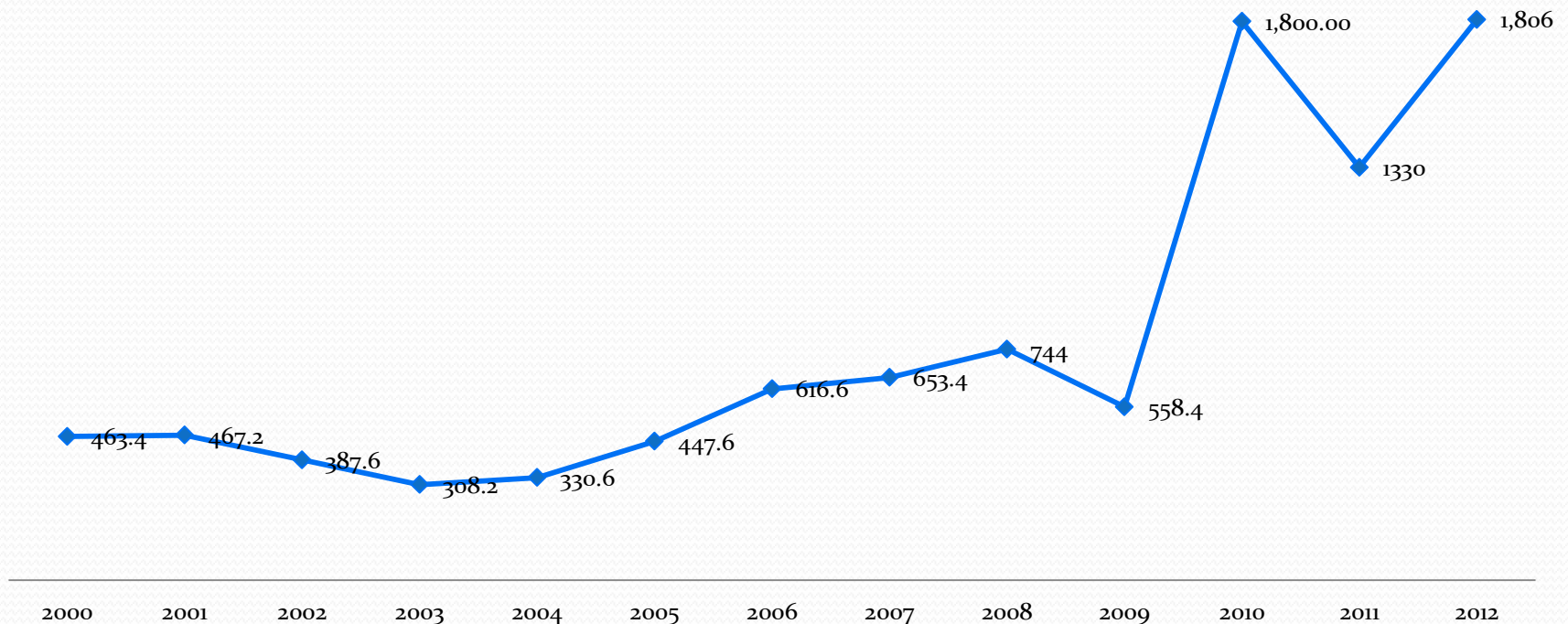
Strategies to attract FDI

- Again the investment law allows for enhanced incentives in case of investments that are of strategic importance or are of significant impact on the economy. E.g agriculture
- **However, there is a growing debate on FDI incentives: whether the incentives in some sectors (e.g mining) are extra-generous or not. Incentives would be extra-generous if the FDIs would have flown into the host economy even without them. Extra-generous incentives compensate and reward investors more than what they deserve**
- **Effects:** Mining, manufacturing, tourism and ICT responded by recording higher growth (led to GDP growth) but low growth for agriculture leading to low poverty reduction contributions as the growth sector employ few Tanzanians

Effect of FDI attractions

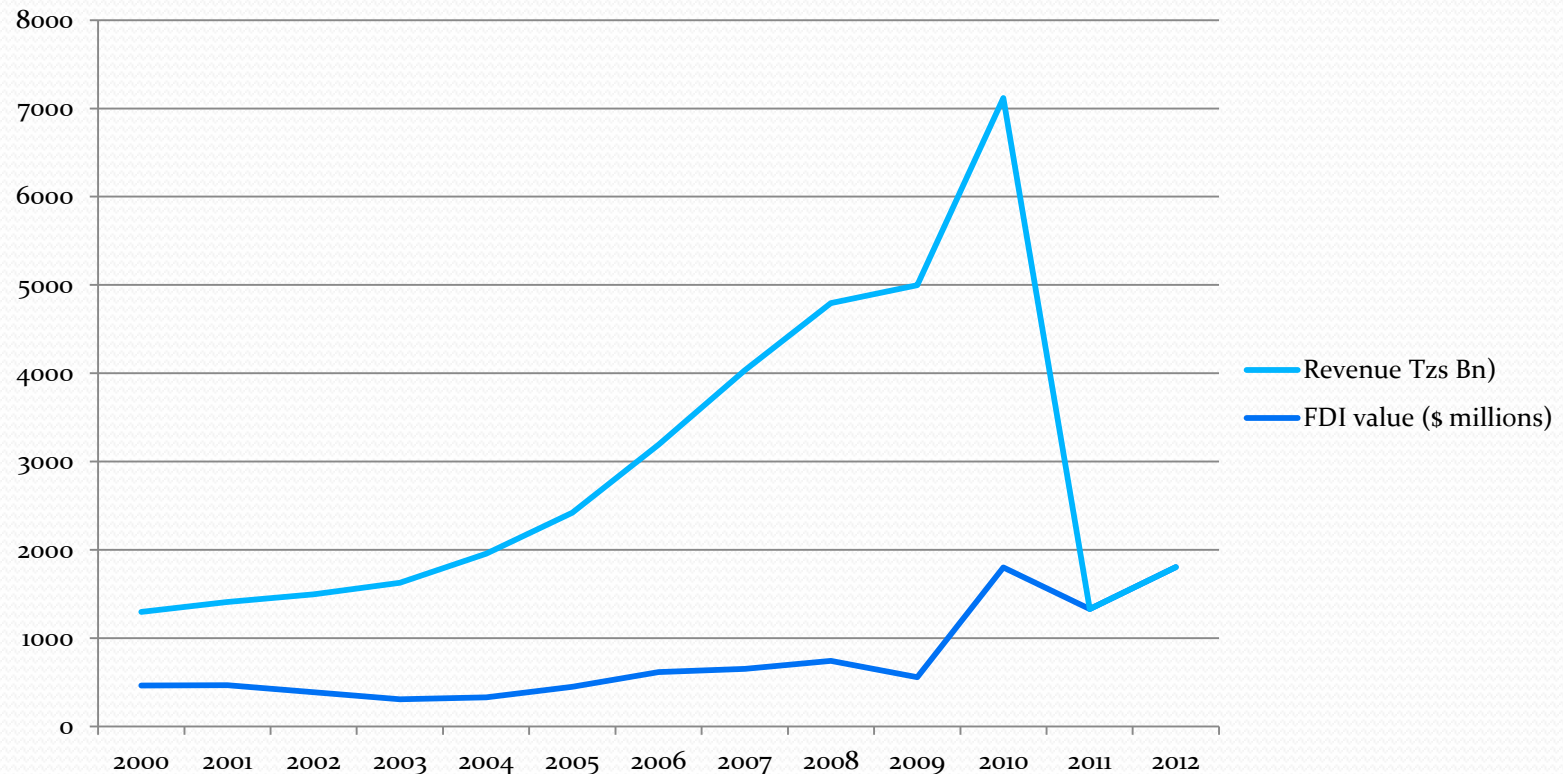
FDI value (\$ millions): source BOT, 2014

◆ FDI value (\$ millions)



Effect of FDI attractions

- FDI and Government revenue collections (TRA)

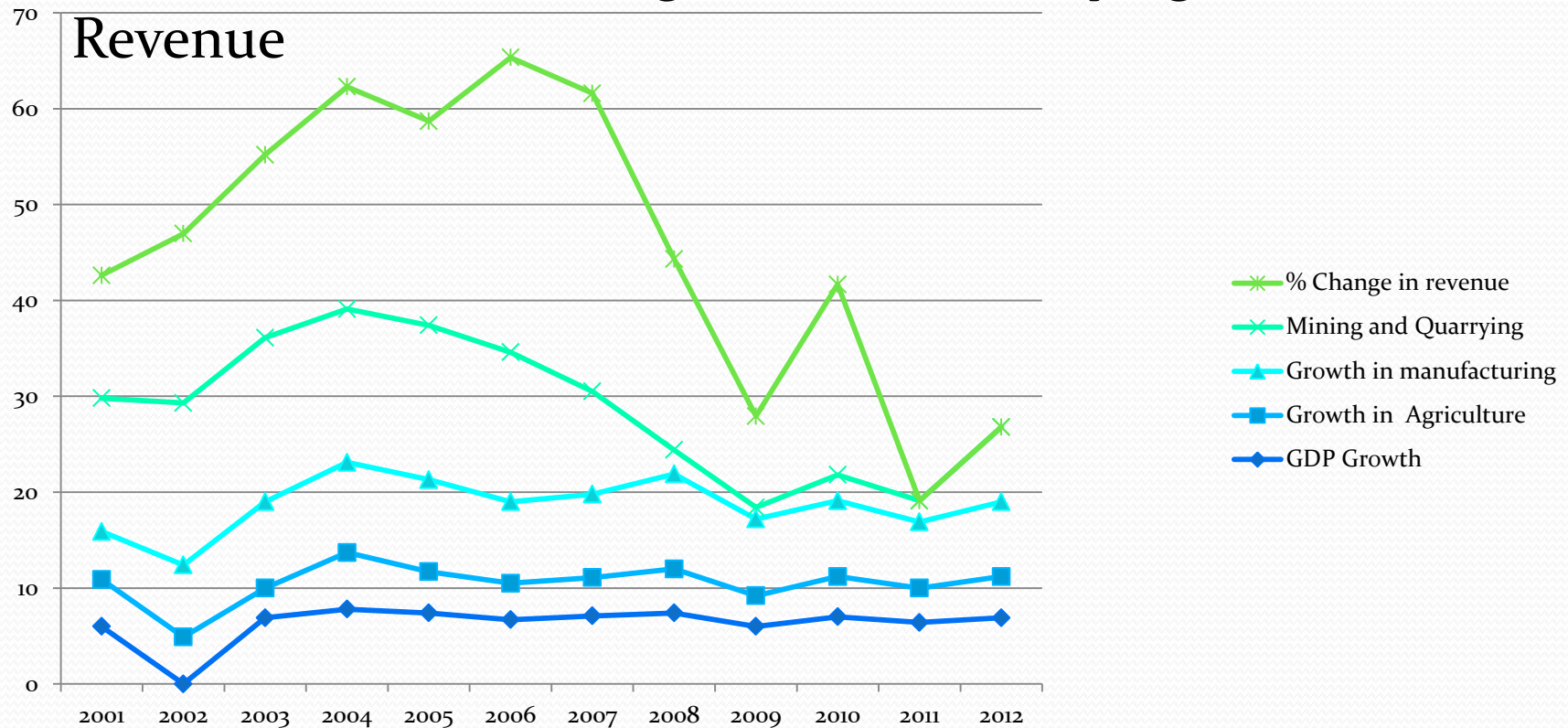


Effect of FDI attractions

- FDI's have contributed to government coffers in various ways. These include through tax payment, payment of royalties, payment for licenses and fees and payments in the acquisition process of the former SOEs in the divestiture exercise. Specific FDI projects in Tanzania are having impacts on the rest of the economy by being
- Although low FDI Linkage with various local firms. Over 200 local firms in TZ are believed to be regularly doing business with the 8 Big mines in Tz e.g Geita Gold Mine (GGM), African Barrick Gold, Tulawaka, Nzega, Williamson diamond, Tanzania one and Gas firms etc

Effect of FDI Attractions

- Growth rates in GDP, Agriculture, Quarrying and Tax



Effect of FDI attractions:

- **Was TZ overgenerous to FDIs?**
- The flat rate tax incentives offered by Tanzania raises questions on whether all the sectors are equally profitable, thus deserving this “blanket approach” of homogeneous incentives.
- Arguments- More profitable and attractive sectors, like mining, should have fewer and lesser incentives. Even within a sector, the more profitable and attractive sub-sectors- like the Tanzanite mineral sub-sector – should offer fewer and lesser incentives.
- In the interest of sustainable development, it would have been better to offer lesser and fewer tax incentives to lucrative sector such as mining . This argument following general complaints that the incentives in the mining sector are highly extra-generous and a row deal to the country.
- For minerals like Tanzanite that are only found in Tanzania and are in high demand in the international market it may not be necessary to offer incentive as investors are desperate for the rare gemstones.

Effect of FDI attractions: negative effects

- *FDI negative effects : bad working conditions; environmental destruction and conflicts with local communities; racial and gender discrimination; unfavorable balance of payments*
- *Various kinds of malpractices. by some MNEs in Tanzania include tax evasion, fraudulently selling of tax-exempted goods and preparing false tax accounting, importation of junk spares, cheap and sub-standard industrial parts, expired chemicals and machines; seeking investment permits for certain projects abandoning them and do retail or any other business not connected to permits given*
- *Bad labour practices like stifling the freedom of employees to start and/or join trade union branches at work places; perpetuating harsh working conditions, which include sacking, poor pay and no pension benefits; employing foreign staff at the expense of local trained ones; lack of training programmes for local employees; racial discrimination in form of unequal pay and privileges,*

Policy Lesson learned:

- Tz instituted new policies and strategies to attract FDIs but the strategies were not well implemented (implementation gap problem). **i.e. What is important is not having a Policy but Implementing it (some laws are not enforced) and be strategic to achieve the intended goals for FDI attraction.**
- FDI benefit (e.g. employment and technology transfer) to the country is not automatic depends on strategies and policy implementations and not
- Need to have sector specific FDI tax incentives 'not blanket' flat rates
- Revenues accruing from the high tax rates should be used to improve the general investment climate (infrastructure and human resources).

Policy Lesson learned:

- A need to build capacity/empower local enterprises who can link with FDI and absorb technologies from foreign investors
- Create linkages between FDI and economic sectors

Thank you for listening

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