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Incentive Package for Foreign Direct Investment (FDI) In Tanzania

Views Synthesized by Festo Maro[1]

INTRODUCTION

Foreign Direct Investment (FDI) concept as advocated by the Breton institutes is considered necessary for economic growth in developing countries. The concept was tied to overarching goal of poverty reduction hence justification for poor countries including Tanzania to implement the policy. Subsequently, the engineers of FDI insisted on creation of conducive environment for investors including the removal of nuisance taxes. This brief presents ideas from contributors through the Tanzania Knowledge Network (www.taknet.or.tz) on the incentive packages offered to FDIs investing in Tanzania. This topic was moderated for three months from January to April 2009.

Achievements of the incentive package

Incentive packages were introduced during the economic liberalization era and instituted by then the Investment Promotion Agency (IPA). During that time of promoting FDI through tax holidays FDIs increased from USD 150 millions in 1995 to USD 516.7 million in 1999. Reformation of IPA to Tanzania Investment Center (TIC) as one stopping center for investors gained the center many awards for simplifying the bureaucracy of investments which partly reduced the transaction costs. Land and migration officers were stationed at TIC offices for easing clearance processes for land lease and working permits. However, total FDI stock from 2000 declined to USD 463.4 millions and slightly rose to USD 474.5 millions in 2006.

According to the 2007 Economic Survey, the TIC registered FDI projects worth more than USD 11,908.49 millions during the period 2005 to 2007 in all sectors. These projects provided job opportunities to 234,537 nationals which is equivalent to 0.67% of the entire population. The TIC also registered many projects undertaken by indigenous entrepreneurs whose capital and which sectors of the economy were not detailed and consequently whose multiplier effects could not be determined as the FDI ones.

During the period of high FDI inflows the economy at macro level was performing well showing positive results of liberalization policies; while at micro level using Household level data from Household Budget Survey (2007) indicate 37.6% of the rural population in 2007 falls below the 'basic needs' poverty line, compared to 38.7% in 2000/1 and 40.8% in 1991/2.The decline is also experienced in urban dwellers.

The mismatch between the macroeconomic and microeconomic performance levels coupled with generous tax incentives in the form of tax holidays to large foreign companies has brought about public outcry against the policy. This dilemma is partly associated with FDIs' failure to contribute to poverty reduction efforts caused by poor management of FDIs and weak regulatory mechanisms.

Objective of the discussion

The objective of the topic on incentive package to FDIs was to provide a virtual space for the public to share and express their views, ideas and opinion on the role of FDIs to development. The discussion intends to reform the policy in order to attain the primary goal of poverty reduction through FDIs.

The opinions from contributors were overlapping and spread in various thematic areas. The subsequent sections grouped the opinions from contributors in thematic categories as follows

1. A Research Assistant at the Economic and Social Research Foundation. Mr. Maro Moderated this forum in collaboration with Deus Kibamba the then Assistant Research Fellow with the Economic and Social Research Foundation. The Moderators would like to acknowledge with thanks the general public specifically those who contributed to this discussion forum. Names of contributors are listed at the end of this brief..

General view of the incentive package

In spite of the fact that from contributions under review one can see varying degrees of depth and understanding of the issue at hand; the notion that FDIs create employment, impart skills, bring in technology, expand tax collection base and bring in capital has been met with divergent views from the contributors. This is partly due to individual understanding of the subject concerned. That notwithstanding, contributions have been generally constructive. In some cases, thought provoking.

It is an open view from contributors that incentives given to FDIs are generous, wide open-ended and the government is deemed not to have put in place strategic regulatory laws, rules and procedures to control and monitor operations of FDIs in terms of what they are supposed to do, what they are doing and what they are not allowed to do.

According to Emanuel, P.J Tanzania needed: First to solicit local funds for investing in various innervations by use the available resources and expertise, Second is to make systems and structure to favor the local investors and thirdly to set systems free from corruption that has setback local investment"

The notions from the proponents of FDIs that they bring in technology and impart technical know-how to local economies are debatable. Instances pointed out include that of FDIs coming in with their skilled laborers to protect technology leakage, employees locally recruited are unskilled laborers who are needed for their physical rather than their intellectual capabilities and investments made are in sectors of FDIs' choice.

Attracting FDI with generous incentives as a vector for economic development is good but it should be a short term strategy. Overdependence on FDI for development can expose the country to global economic turbulences as is the case of global financial meltdown in many parts of the world. Locally it has also caused some undesirable effects as expressed by Justin Martin in text box below.

."Does the incentive have the direct relationship with the type of investors we source around e.g. the TRL, TTCL etc.... What I see is trying to please everyone who claims to be an investor regardless of the capacity. Encouraging investor is a good thing BUT we have to do it with a target which must as well be achieved".

FDIs and domestic economic linkages

Products they manufacture comparatively consume less of local raw materials and are costly, and sometimes sub standard. Transfer pricing and repatriation of profits or capital flight are a case in point. Also is the sourcing of consumables which are locally produced.

Is our government doing enough to develop local investors? Is government engagement with FDIs very strategic to develop important local economic sectors that will increase domestic saving needed to develop local manufacturing capability? These were questions participants of the virtual policy dialogue frequently discussed.

Some were of the opinion that incentives to FDIs should be short term measures. In the mean time government should encourage (in some cases guarantee) local investors' internal financial needs, build permanent infrastructures that will connect the country with the neighbors, put in place systems that together with the latter will reduce local manufacturing costs. In so doing, in the long run, create an even ground for both local and FDIs to operate competitively.

Linkage of FDIs and local economy development was viewed through the lenses of Corporate Social Responsibility (CSR). However care should be taken as one of the contributors highlighted. These CSR programmes have view of increasing sales and publicity. One sample was contributed by participant that while Tanzania Communication Regulatory Authority (TCRA) try to lower exorbitant tariff rates, some mobile companies still have high charges. Those companies lure citizen with CSR activities still have high charges. Those activities to maintain customers's loyalty. Effective. Effective price regulation to end consumers should be properly instituted to allow free and fair competition and consumer protection

Nils Jansen warns us that we " shouldn't expect players in the private sector to have social ambitions... even if some of them like to appear as nice guys and may have some form of social programmes with the purpose of selling more.."

Doing Business Report (2008) insists that sustainable economic development needs FDIs that do not exploit consumers, but ones which have greater linkages with the domestic economy activities and fair competition regulations.

The idea that developing countries are competing for FDIs has been met with constructive criticism in that incentives are temporary measures which may work or not depending on the seriousness of the investor. Businessmen (investor) will come to

invest in an economy where making of profits is assured in conditions of stability of the leadership but not primarily on the basis of incentives. Some contributor's emphasized the consideration of employment for Tanzanians in every sense of economic planning and development including designing of strategies that attract FDIs inflows.
What is needed is to have well developed and permanent infrastructure, including technical/ skilled personnel that will continue to attract FDIs and local investors alike without the need for discriminatory incentives. Lowering cost of doing business should be the driving force of the government to attract FDI. A concise summary on shift of focus from generous incentive toward environment for doing business was neatly narrated by Joseph Abila on the text box below

"Therefore, I would argue we need to pursue the incentive policy as a short term measure while focusing more on rebuilding fundamentals that lower the costs of doing business. It is only through this approach we will remain attractive for generations"

Investment opportunities and Information dissemination

In the interim there must be efforts to develop local capacities to invest and to do business as well. There is need for the local public to be regularly up-dated on investment opportunities that are open to them and to be encouraged to exploit them. On the same token local investors should be made aware of regulatory mechanism that governs FDIs to allow them an opportunity to assist the government in enforcing them. Otherwise Tanzania will continue to lose a lot of economic benefits to FDIs apparently because of generous incentives, supportive systems and structures that do not favor local investors in general.

In contrast some had opinion that both local and foreign investors should be equally treated on the pretext of market economy. Where by everyone should have free access to information and treatment.

"We are in the era of market economy, in which only smart competitors will survive. Let us leave the incentives open to anyone wishing to enter the market, be he a black, white or yellow, provided he is able to positively move the economic ship forward. Indeed, laws regulating unfair business practices are already in place to foster healthy business competition" lamented Jacob Jaconiah.

Theoretically it was agreed market economy need unbiased information dissemination. However, consensus was to give priority to local investors and example of Export Processing Zones (EPZ) for promoting exporting local produces was cited as excellent modal.
A case in point is a general feeling that at present foreign mining investors are sending the profits outside Tanzania. Royalties being received by government are not enough to make an impact in the fight against poverty. This is the capital flight the nation can ill-afford but cannot prevent. The government knows well about the drain of national resources but cannot change the situation because of contractual agreements.

What is actually needed is to develop local mining investors. The government has to encourage and/or assist small scale local miners to acquire appropriate modern mining technology, equipment expertise.

FDI versus Tanzanian Diaspora

Role of remittances from Tanzanians living abroad was well discussed in the forum. It was regarded to have less ill effects to domestic economy compared to FDIs where money laundering is uncontrollable, with our present regulatory and monitoring systems.
Constructive opinions were made regarding the long term role of remittances from Tanzanian Diaspora in increasing the local investment base that is crucial for poverty reduction.

Temu suggest that "Tanzanians living abroad, with small scale cash access who can be encouraged and facilitated as a strategic approach at national level, with full support from the central bank, and hopefully coordinating with friendly western governments and or banks, such that it becomes easier for Tanzanian Diaspora to do regular monthly remittances home to build an investment fund, that can be extended on commercial basis, to local miners (and to other sectors) so that they can turn to large scale mining, e.g. in gold mining. These small transfers have direct impact to the development activities at the grassroots level with lesser involvements with any bureaucratic issues experienced in other initiatives."

FDIs yes, but the country needs to give remittances equal if not more weight. Remittances are in fact in line with self reliance principles the country so desires to achieve, and have been trying for years to facilitate this strategic arrangement the government through institutions, from within and from without, should encourage nationals to channel their savings through government organs, build an investment fund, that can be extended on commercial basis to local manufacturers/investors in competition with FDIs.

Conclusion and Recommendations

From the contributions, there is substantial evidence that FDIs can have impact to economic growth and poverty reduction. In order to channel the benefits of FDIs to the country, the government has a key role to play particularly on the designing of incentive packages and related regulatory mechanisms. To accelerate economic growth and poverty reduction from the FDIs the following policy recommendations were drawn from the discussion:

- There is need for the general public to be made aware of the incentives given to FDIs and those given to local investors. In order to make use of the incentives for the locals, deliberate measures should be taken to develop the local entrepreneur's capacity to absorb the incentives.

- Incentives should be a short term strategy expertly designed for specific industries to attract FDIs. The long term strategy should be to improve the environment for doing business to cut down the cost of doing business. Improvement of energy sector, port and road and railway network connecting to neighboring countries should be given the deserved weight in economic planning and development.

- Corporate Social Responsibilities programmes by investors should be well coordinated with government development plan to ensure they contribute to long term development agenda of the respective communities.

- There should be a law enforcement unit or within the structures of Fair Competition Commission to be earmarked for enforcing fair play by FDIs in terms of observing sectors set aside for FDIs vis those for local investors.

- Establish a Development Fund-through private savings contributions (from Tanzanians living within and out of the coutry) specifically set aside for the development of rural investors. if possible government should guarantee loan facilities to develop local investors in rural areas in order to put them on equal competitieve footing. Emphasis should be given to agricalture and mining sectors.

- There is need for reducing the costs of sending remittances from Tanzanian Diaspora who wished to invest in the country. In resonating with this option, there should be an institution which coordinates remittances sent from Tanzanian Diaspora for investment and development purposes.

The views expressed in this briefs have been synthesized from the contributions of the following participants through online forum: Petro J. Emmanuel, Justin Martin , Salum Awadh , Joseph Michael Abila , Jacob Jaconiah , Nils Jensen , Peter Nyanje , Omari Mwinyi Khamis, Temu, ABS, Festo Maro and Deus Kibamba. However the author is responsible for the omission and recommendation expressed and not the contributors and donors.

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