How Tanzania's government can promote Domestic Direct Investment (DDI)

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Tanzania has wide business opportunities in agriculture, tourism, mining, forestry, services and a large potential for attracting more DDI. Despite the wide endowment, statistics and practice shows that great attention has been on promoting and attraction of Foreign Direct Investment (FDI). FDI is viewed as the engine of growth and development and attracting it forms the tenor of Tanzania's economic diplomacy.

Domestic Direct Investment (DDI) can be generically defined as the total movement of capital and assets from within the Country. Domestic direct investment can in simple parlance be described as an act of local or resident entrepreneur or producer placing capital within a country into a project or business enterprise or assets with the intent of making a profit. DDI has an opposite meaning of Foreign Direct Investment which is defined by the World Bank as the movement of private assets and capital across borders.

According to the Bank of Tanzania and Tanzania Investment Centre (TIC), the total stock of Foreign Private Investments in 2013 amounted to USD15,969.5 million, which was 15.8% higher than what was recorded in 2012 (Tanzania Investment Report 2014: Foreign Private Investment). The UN Conference on Trade and Development (UNCTAD) reported that Tanzania attracted USD2, 142billion of FDI inflows in 2014, which was 14.5% increase from the previous years. With an accumulated stock of USD14.86billion, Tanzania was the highest in the East African Region (World Investment Report 2015) and came in the 10th position in Africa, ahead of all its East African neighbors (World Bank 16th Economic Outlook Report, 2015)[1].

Despite performing well on the external foreign front, the figures for DDI are largely unknown and yet domestically owned enterprises are said to have a larger trickle economic down effect on the Country and the population (UNIDO, 2014). The role of DDI in building an 'in-house' national economic base and its associate benefits such as employment creation is significant. This therefore suggests that there is need for concerted government efforts to attract more

[1] http://www.thecitizen.co.tz/News/Tanzania--leads-regional-peers-in-foreign-direct-investment/1840340-3939402-apuu0t/index.html

DDI. The Indonesian and Malaysian governments have been pragmatic on this front and their experience can be drawn for learning. According to available data the Indonesian government registered approximately USD13.2Million in DDI in 2017 (*Indonesian Investment Coordinating Board: Domestic and Foreign Direct Investment Realization in Quarter II and January-June, 2017).* This therefore demonstrates that is possible to build a national economic architecture which attracts DDI.

The following could be potential strategies to promote DDI in Tanzania. Collectively these would contribute to a good business environment for domestic direct investors and significantly spur DDI flows.

There is need to **develop a Domestic Direct Investment Attraction strategy and policy document** to guide Tanzania's priorities and intentions to encourage, attract and regulate DDI. The strategy and policy should be informed by a comprehensive analysis of the Country's domestic investment needs and priorities. It should identify the challenges, opportunities and incentives for Domestic Direct Investors. Currently, the government investment is within the broad economic development program mirrored under the Tanzania Five Year Development Plan II 2016/17-2020/21 (FYDP II). Investment attraction has been described in general terms and has an inclination towards emphasis on attracting FDI to support government's development ambitions. The FYDP II under its salient features asserts that policy and institutional reforms have been entrenched and private sector 'will be called forth' to lead in investment in industrialization but does not expound on how this will be achieved. It is for this reason that DDI investment portfolio within the country has remained low and largely unknown.

Engage in wide campaigns and about existing opportunities for domestic investment. Currently, major government efforts have been in promoting investment opportunities abroad with the intention of attracting FDI. The outlook would be equally shifted to promoting opportunities for domestic investment. The extensive use of public advertisement and public diplomacy materials such as procurements on the existing opportunities for Domestic Direct Investment would boost local motivation to invest and extent the frontiers of DDI.

Facilitate domestic investors to access to finance and Capital mobilization to invest. This strategy has been adopted with some level of success by some Countries such as Malaysia. According to the Malaysian Investment authorities (MIDA, 2013), in an effort to promote DDI, the government in 2012 introduced a Domestic Investment Strategic Fund (DISF). The DISF is not a grant but provided on contingent on the investment of the applicant. It is provided in the form of matching funds which are reimbursable after a given period and granted on negotiated terms. Recipients of DISFs are determined on cases by case basis depending on merits, proposals and plans provided. The DISF is also restricted to investment in specific sectors of the economy and high end projects with good economic value to the Malaysian economy. In 2006 Tanzania government introduced a fund to support small enterprises. The fund was also famously known as the ‘ Kikwete 1bln fund’ was disbursed through the selected banks such as the NMB and CRDB. The weakness of this fund was that it had political inclinations, the criterion for beneficiaries and loan repayment requirements were weak. The fund was subject to abuse and as consequence; its benefits were largely unfelt. Review of this initiative based on lessons from the previous scheme and other countries such as Malaysia would inform a new strategy for funding domestic entrepreneurs.

The Tanzanian government should **provide Incentives for domestic investors** such as tax incentives, incentives for acquiring foreign companies for high technology, incentives for companies in production and mergers among domestic service providers or firms. According to the Malaysian investment Development Authority, a Malaysian owned company ac acquiring a foreign owned company is eligible for an annual deduction of 20% of the acquisition costs for 5 years. The acquirer must be a locally owned company with at least 60% Malaysian equity ownership involved in manufacturing and service activity.

This incentive is aimed at increasing local ownership portfolios in high end technology firms in the Country. Small firms under a specified share capital value are given tax incentives and firms which participate or are desirous to engage in production of promoted products are incentivized. Currently, Tanzania’s domestic or resident investors can only access government incentives if they registered their projects with the Tanzania Investment Center (TIC) The minimum capital base required to qualify for an Investment Certificate and incentives is high and exorbitant for domestic direct investors.

Ring fencing of economic opportunities and sectors for domestic investors and allowing requiring joint investment ventures in some specific sectors. There have been efforts to ring fence the tourism sector. However these efforts in Tanzania are not widely extended to other sectors. Other Countries have this approach successfully to attract DDI in specific sectors.

Need to **establish a dedicated Domestic Direct Investment agency or department** within the Tanzania Investment Center, specializing and focusing in DDI promotion, attraction, facilitation and documentation**.** Currently, Tanzania’s investment attraction agenda is coordinated by Tanzania Investment Center. The centre is one stop center with all major government functions such as business and company registration, immigration and taxation. However, the focus of TIC is on attracting FDI. Yet domestic investors have peculiar needs and thus attracting DDI would benefit from a specialized department.

Make more efficient use of the business incubator model to facilitate the establishment and growth of small and medium enterprises (SMEs). Business incubators are dedicated and well equipped centers which identify nascent entrepreneurs with innovative ideas with a potential for growth to test their and develop their ideas into functional enterprises. Where necessary, they provide the nascent entrepreneurs with start-up capital and equipment for growth. It is well established that SMEs play a key role in creating employment, developing a skilled workforce and responding to various market demands. Business incubators have been instrumental in developing the United States Computer and high-tech software industry. California's Silicon Valley is home to many business incubators providing to young innovative software and hi-tech developers to juggle their ideas into big business. Many computer applications run by computer programs such as Microsoft and Apple are products of business incubators. In Tanzania, so far there is one known incubator hosted at Commission for Science and Technology (Costech). From this incubator innovative software ideas were developed and grew into a leading Tanzanian multinational company called Maxicom Africa. There is need to expand public knowledge and this incubator's services and so as to encourage new ideas for innovation, technology and investment.

There is need to review the policy and operations of Export Processing Zones (EPZ) and Special Economic Zones (SEZ) with a view of encouraging true domestic investors. Export processing zones and Special Economic Zones are specialized areas gazette by the government allowing investors and companies to produce manufactured goods in a controlled secure environment for export. Both schemes provide facilitative environment for profitable operations. Export Processing Zones (EPZ) objectives include; attraction and encouragement of new technology, attraction and promotion of investment for export-led industrialization, employment and promotion of processing of local raw materials for export. **Special Economic Zones (SEZ)** have an objective of promoting quick and significant progress in economic growth, export earnings and employment creation as well as attracting private investment from all productive and service sectors.

They provide generous incentives such as tax holidays and tax breaks to investors and companies using the EPZs to manufacture goods for export. Examples in Tanzania include the Benjamin Mkapa Export Processing Zone at Mabibo Dar es Salaam and Zanzibar Special Economic Zones. Despite their existence, the volume of DDI investments attracted to these zones is still low and the generous incentives offered by the EPZ and SEZ's have been abused by the foreign firms operating the EPZ's. Already manufactured goods from outside the Country are smuggled into the EPZs for label and exported as Tanzanian manufactured goods. Foreign firms have set up subsidiaries in Tanzania's EPZ so as to benefit from the generous incentives. The net beneficiaries from the EPZ and SEZ are therefore foreign firms and not domestic investors. A through mapping and review has to be done.

There is need to **address nuisances such as corruption, bureaucracy, nuisance taxes and non tariff barriers restrictions** which make local investment cumbersome to domestic Investors. According to the World Bank Report Tanzania was ranked 139 out of 189 on the Ease of doing business index in 2015 (*World Bank: Ease of Doing Business Report 2015*). The report suggests that the business environment in Tanzania is still unfavorable and acts as a disincentive to invest. Tanzania compares badly with its neighbors such as Rwanda and Uganda. The government has strived to improve Dar es Salaam port handling and establishment of 'One stop borders' at major customs points to facilitate trade but other non tariff barriers exist and these have to be dealt with conclusively.

Deliberately **pursuing a broad based economic growth strategy** to allow the economy to expand and create more opportunities for local investment. These are key factors in determining investment decisions. Despite registering a fast paced economic growth of 6-7% in the past years, the drivers of economic growth has been limited to specific sectors such as telecommunications, mining and construction. These sectors require large volumes of capital and specialized high skills. This can be restrictive to Domestic Direct Investors, whose capital base and technological advancement may be limited. It is important to open up economic growth and investment potentials to other sector.

As stated by Mairo Pezinni, director of OECD Development Center, "Extractives are no longer the main driver to investment. The Continent (Tanzania) is open for new investment fueled by unprecedented domestic demand" (Africa Investment Report 2016). The government should see this as an opportunity to drive Domestic Direct investment into other sectors.

In Conclusion, over the past years Tanzania has committed itself towards building a robust economy through investment. The current government industrialization agenda is based on securing more investment into the manufacturing sector. From the policy and practice it is evident that the government's focus has been anchored towards attracting FDI. The volume of FDI inflows into the country as recorded by TIC has increased over the past five years. However, experiences in countries such as Malaysia show that Countries cannot build their economic muscle by depending exclusively on FDI. The challenge of relying on FDI is linked to its characteristics.

FDI is sensitive and subject to cyclical factors such as global economic down turns, global stock and capital market instabilities ,changes in national policy or political environment and foreign investor interests. It can therefore be erratic unreliable as a platform for building an economy. It is for this reason that the governments appetite needs to be shifted towards DDI. The absence of current figures and a systematic and well articulate government policy on DDI is a major flaw in national development planning. Tanzania is an endowed with vast resources, a large population and strategically placed as country. Therefore potential for attracting more DDI is evident. To achieve this potential a number of strategies have to be implemented and other existing ones reviewed as suggested in this paper.

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