ZANZIBAR INVESTMENT REPORT 2018

Foreign Private Investments

October, 2020

PREFACE

Zanzibar Investment and Promotion Authority in collaboration with the Bank of Tanzania and the Office of the Chief Government Statistician conducted the 11th cycle of the survey of companies with foreign assets and liabilities in Zanzibar. The cycle covered data for 2018 and also revised the data for 2015 through 2017 in terms of both stock and flows.

These surveys are very important source of information for formulating appropriate policies and strategies for further strengthening the investment climate and maximising gains from such investments.

The results show that Zanzibar has continued to do well as evidenced by the stock of Foreign Direct Investment (FDI), which increased by 16.1 percent to USD 1,004.9 million in 2018 from USD 865.4 million in 2017. Additionally, the inflows of FDI were four times the amount recorded in 2017 mainly driven by inflows to the new construction projects in accommodation and food services. These results are consistent with FDI inflows trajectory as reported by the World Investment Report of 2019 and reflect government efforts in strengthening the country's macroeconomic environment as well as creating a conducive investment climate.

Stakeholders and other interested parties are invited to utilise the information in this report for decision-making, research and other academic matters.

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ABBREVIATIONS

BOT	-	Bank of Tanzania
CPI	-	Consumer Price Index
CSR	-	Corporate Social Responsibility
EAC	-	East African Community
MEFMI	-	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
FDI	-	Foreign Direct Investment
FAL	-	Foreign Assets and Liabilities
FPI	-	Foreign Private Investment
GDP	-	Gross Domestic Product
ISIC	-	International Standard Industrial Classification
M&A	-	Mergers and Acquisitions
OCGS	-	Office of the Chief Government Statistician
OECD	-	Organisation for Economic Corporation and Development
OI	-	Other Investment
PI	-	Portfolio Investment
PCF	-	Private Capital Flow
RGoZ	-	Revolutionary Government of Zanzibar
SADC	-	Southern African Development Community
SDDS	-	Special Data Dissemination Standard
TZS	-	Tanzania Shillings
UAE	-	United Arab Emirates
UNCTAD	-	United Nations Conference on Trade and Development
USD	-	United States Dollar
ZATO	-	Zanzibar Association of Tour Operators
ZATI	-	Zanzibar Association of Tourism Investors
ZNBC	-	Zanzibar National Business Council
ZIPA	-	Zanzibar Investment Promotion Authority

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ACKNOWLEDGEMENTS

Various institutions and individuals provided immense support in the production of this report, to which the Private Capital Flow Survey team is greatly thankful. The team would like to express its appreciation to the institutions and individuals and appeal for their continued support in future surveys. The report was prepared under the overall diligent guidance of the Heads of the participating institutions, namely: Mr Salum K. Nassor, Executive Director – Zanzibar Investment Promotion Authority (ZIPA); Mr Yahya A. Mchujuko, Branch Director – Bank of Tanzania (BOT) – Zanzibar Branch, and Ms Mayasa M. Mwinyi, the Chief Government Statistician –Office of the Chief Government Statistician (OCGS), Zanzibar.

Survey administration was led by the Steering Committee whose members are Mr Moto N. Lugobi (BOT) – Zanzibar Branch, Mr Shariff A. Shariff, (ZIPA) and Mr Abdul R. Abeid (OCGS). The technical issues were handled by the technical team under the leadership of Mr Aziz B. Ali from ZIPA. Other members were Dr. Deogratias P. Macha from BOT – Zanzibar Branch; Ms Halima M. Suleiman, Mr Adam M. Juma and Ms Aisha A. Haji from OCGS; and Ms Maryam H. Maulid and Mr Othman M. Suleiman from ZIPA. The technical team benefited from Mr Philip Mboya — BOT staff and MEFMI Graduate Fellow for his guidance on data processing.

EXECUTIVE SUMMARY

The government has continued to undertake strategies and policy initiatives to improve the country's investment climate in order to continue attracting more foreign investments. The initiatives have resulted in strong economic performance with an average real GDP growth rate of 6.6 percent over the past five years, largely driven by services, particularly tourism and agriculture activities. Other drivers include strong monetary and fiscal policies leading to stable price movements with inflation rates below 10 percent over the last decade. The increasing FDI inflows to Zanzibar is a reflection that the above initiatives have paid off.

This report gives an account of the 11th cycle of the series of the surveys and covers data for 2018 while revising the data for 2015 through 2017 in terms of both stock and flows. The main findings of the survey are as follows:

- ***The stock of Foreign Private Investment (FPI)*** increased by 15.8 percent to USD 1,289.9 million in 2018 from USD 1,113.5 million in 2017 driven by equity and investment shares, reinvestment of earnings, trade credit and advances and other equity components. At the same time, inflows of FPI were 40.5 percent above the amount attracted in 2017.

- ***Inflows of FDI were mainly financed*** through long-term loans and owners' equity signifying investors' confidence in the government initiatives to strengthen the country's economy and improve the investment climate.

- ***Inflows of FDI continued to dominate in the accommodation and food service activities*** consistent with the country's endowment in tourism attractions. During 2018, FDI flows to this activity were four times the amount recorded in 2017 largely emanating from the ongoing construction of the new hotels and restaurants.

- ***FDI came from a few countries*** with the top ten countries accounting for 91.6 percent of the total stock in 2018. The United Arab Emirates alone accounted for close to half of the total stock both in 2017 and 2018.

- ***Participation of locals in FDI companies*** through equity and non-equity was less than one percent calling for deliberate efforts to spur local participation in these projects.

- ***Portfolio investments were very low*** at less than 0.5 percent of the total foreign private investments attributable to absence of the stock market in the Zanzibar and non-participation of Zanzibar registered companies in the Mainland capital markets.

- ***A significant share of the overall net profits after tax for 2018 (85.9 percent) was reinvestment of earnings*** reflecting a growing investors' confidence in the country's investment climate.

- ***FDI companies provided 11,090 jobs in 2018, an increase of 4.8 percent*** compared with 10,578 *jobs* in 2017. Most jobs are in accommodation and food service activities.

- ***Most jobs offered are in non-professional category*** (54.9 percent) with management positions dominated by male foreign nationals.

- ***The total amount donated in the form of corporate social responsibility was USD 3.9*** thousand, more than twice the amount donated in 2017.

The study makes the following recommendations, including the need to:

- Improve skills in the hospitality industry by undertaking skills audit to identify the skills gap and engage stakeholders and learning institutions to fill the gaps.

- Engage investors and identify priority areas for support under CSR to maximise benefits to local communities. This should go in tandem with enhancing the capacity of local communities in developing saleable project write-ups.

- Design strategies to encourage more local participation in FDI companies with a view to maximise benefits, including skills and technology transfer.

- Attract FDI to a wider range of economic activities by creating more awareness and special incentives in priority projects, including those related to the Blue economy.

- Promote and engage the private sector and local communities to enhance the linkage of FDI between sectors.

CHAPTER ONE

INTRODUCTION

1.1 Background

During 2018, Zanzibar Investment Promotion Authority (ZIPA) in collaboration with the Bank of Tanzania and the Office of the Government Chief Statistician (OCGS) continued to monitor foreign Private Investment in Zanzibar through surveys of companies with foreign assets and liabilities. The reports generated from the surveys are used for various purposes, including updating and improving statistics on foreign private investments in Zanzibar, designing investment promotion and facilitation strategies and providing input for the compilation of the Balance of Payments and International Investment Position for the United Republic of Tanzania.

This report contains findings of the 11th cycle of these surveys, which were conducted during January- February 2020 covering the data for 2018. The report also provides revised data for 2015 through 2017 for both stock and flows following additional information gathered during the 2018 Survey. This chapter, therefore, provides an overview of the global FDI performance during 2018. It highlights FDI inflow and outflow trends in various regions and the driving factors as reported by the World Investment Report 2019 with a view to gauge Zanzibar's performance against the global trajectory. An overview on private sector development in Zanzibar is also provided, focusing on the domestic macroeconomic developments, strategies and policy initiatives the Revolutionary Government of Zanzibar (RGoZ) undertook in 2018 to improve economic performance and consolidate gains from foreign private investment environment.

1.2 Global FDI Trends

According to the World Investment Report of 2019, the global FDI inflows declined by 13.4 percent to USD 1,297.2 billion in 2018 from USD 1,497.4 billion recorded in 2017 (**Table 1.1**). The report shows that this is a third consecutive year decline in FDI inflows mainly associated with large-scale repatriations of accumulated foreign earnings by the United States Multinational Enterprises (MNEs) in the first two quarters of 2018 as a result of tax reforms introduced in the US in 2017. The trend of the global FDI flows showed a mixed trend in 2018 with Developed countries and Transition economies, showing a downward trend while the Developing economies remained stable, rising by 2.0 percent. FDI inflows to the Developed economies fell by 27.0 percent to USD 556.9 billion in 2018, and much of the decline was recorded in Europe and North America. In the transition economies, inflows declined by 28.0 percent to USD 34.2 billion with much of the decrease recorded in Russian Federation. On the other hand, developing economies accounted for 54.0 percent of the total global FDI inflows in 2018 with much of the increase recorded in Asia and Africa.

Table 1.1: FDI Flows by region, 2016-2018 ***USD billion***

Region	FDI inflows			FDI outflows		
	2016	2017	2018	2016	2017	2018
World	1,918.7	1,497.4	1,297.2	1550.1	1425.4	1014.2
Developed economies	1197.7	759.3	556.9	1105.1	925.3	558.4
Europe	611.7	384.0	171.9	579.6	375.5	418.4
North America	507.8	302.1	291.4	359.2	380.2	-13.1
Developing economies	656.3	690.6	706	419.9	461.7	417.6
Africa	46.5	41.4	45.9	9.5	13.3	9.8
Asia	473.3	492.7	511.7	399.1	411.9	401.5
Latin America	135.3	155.4	146.7	11.1	36.4	6.5
Oceania	1.1	1.1	1.7	0.1	0.1	-0.2
Transition economies	64.7	47.5	34.2	25.2	38.5	38.2

Source: World Investment Report, 2018

In terms of FDI outflows, the Developed economies recorded a decline of 40.0 percent to USD 558.4 billion in 2018 and their global share dropped to 55.0 percent, being the lowest ever recorded. In the Developing economies, FDI outflows declined by 10.0 percent to USD 418.0 billion but remained almost unchanged at USD 38.2 billion in Transition economies. Activities that attracted largest share of FDI flows in 2018 were digital technology, professional services, finance and insurance and manufacturing.

1.3 FDI Flows in Africa

The report shows that generally, FDI inflows to Africa rose by 11 percent to USD 45.9 billion in 2018 from USD 41.4 billion in 2017 (**Table 1.3**). The performance was largely driven by inflows to Southern Africa particularly, South Africa on account of increase in investment and rising prices and demand for some commodities which led to the sustained resource-seeking investment. Inflows to specific countries were of different magnitudes depending on how countries responded to divergent macroeconomic conditions. Inflows to North and Southern Africa increased, declined in West Africa and remained broadly unchanged in Central, and East Africa (EAC). FDI inflows to East African Community member countries increased marginally to USD 9.0 million in 2018 from USD 8.7 million in 2017, and the leading recipients were Uganda, Kenya and Tanzania in that order.

Table 1.3: Africa's FDI flows 2016 – 2018 ***USD Billion***

Region	FDI Inflow			FDI Outflow		
	2016	2017	2018	2016	2017	2018
Africa	46.5	41.4	45.9	9.5	13.3	9.8
North Africa	13.8	13.4	14.3	1.5	1.4	2.2
West Africa	12.7	11.2	9.6	2.2	2.2	2.4
Central Africa	5.4	9.1	8.8	0.3	0.3	0.2
Southern Africa	6.8	-0.9	4.2	5.3	9.1	4.8
East Africa Community	7.7	8.7	9	0.2	0.3	0.3
Tanzania	0.9	0.9	1.1	0	0	0
Kenya	0.7	1.2	1.6	0.2	0.3	0.2
Uganda	0.6	0.8	1.3	0	0	0

Source: World Investment Report, 2019

1.4 Prospects of Global FDI Flows

The rebound in FDI flows is anticipated in 2019 in the Developed economies following the slow down of effects of the United States tax reform. The flows is projected to increase by around 10.0 percent to USD 1.5 trillion in which case, Developed and Transition economies would record an increase, but no change is projected in developing economies. A marginal increase of about 5.0 percent is projected for the Developing economies while developed economies are anticipated to record an increase of more than 60.0 percent. Transitional economies are likely to recover in 2019, reaching USD 50.0 billion due to more investment in agriculture, information and communication.

FDI inflows to Africa are projected to increase in 2019 in anticipation of the implementation of the African Continental Free Trade Area and the possibility of materialising of some large projects announced in 2018.

1.5 Private Sector Investment Development

1.5.1 Policies, Strategies and Plans

The RGoZ continued to implement measures to improve the investment climate to attract more foreign investments. The initiatives include the improvement of both physical and soft infrastructural facilities. In the same vein, a number of policy initiatives have been instituted, including:

- Formation of Small and Medium Industries Agency (SMIDA) to support entrepreneurs who are establishing small and medium industries in technology and innovation. This is aimed at enhancing linkage with the domestic economy and hence maximise the spillover effects of FDI.
- Establishment of Fair Competition Commission to ensure trade and business activities within the country are done fairly and competitively, a key element in instilling investors' confidence.
- Establishment of an online service system to facilitate business transactions and speeding up business services delivery. Some of the institutions already offering online services include Business and Property Registration Authority (BPRA) and Zanzibar Food and Drugs Agency (ZFDA).
- ZIPA continued with its role as one-stop facilitation centre where all key institutions dealing with basic services are stationed. During 2018, nine government institutions moved their senior officials to ZIPA to speed up the provision of services to investors. Consequently, services like issuance of permits and licenses to investors are done at a much shorter time.
- A new investment Act no. 14 of 2018 was enacted, among the key provisions being the reduction of time for approving project from 30 to seven working days. The Act also provides for the introduction of a category of Strategic Investors with specialised incentive packages to attract specific types of investments.

- Initiatives were also taken to attract investments in the Free Economic Zones at Fumba and Micheweni through the improvement of infrastructure. In this regard, the relevant stakeholders have been engaged in the discussions on the best way forward.

1.5.3 Investment Trend on FDI

During 2018, the number of approved projects was 482 up from 461 recorded in 2017. Most of the approved projects are in Mjini Magharibi and Kusini Unguja regions, while the least number of such projects was in Kaskazini Pemba and Kusini Pemba regions, both representing 5.6 percent only. Most of the registered projects were hotels and restaurants accounting for 61 percent of the total approved projects. Most of the projects situated in Kusini Unguja(**Table 1.4**).

Table 1.4: Approved Project by Industry and Region, 2018

Industry	Kaskazini Pemba	Kaskazini Unguja	Kusini Pemba	Kusini Unguja	Mjini Magharibi	Total
Agricuture hunting and forestry	2	1	3	8	5	**19**
Fishing	0	2	0	0	3	**5**
Manufacturing	2	2	0	2	26	**32**
Construction	0	0	0	0	4	**4**
Wholesale and retail trade	0	1	0	0	24	**25**
Hotel and restaurants	11	93	8	129	52	**293**
Transport, storage and communication	0	0	1	0	21	**22**
Financial intermediation	0	0	0	0	5	**5**
Real estate, renting and business services	0	3	0	3	25	**31**
Education	0	0	0	1	4	**5**
Health and social work	0	2	0	1	2	**5**
Recreation and sporting	0	19	0	7	6	**32**
Tour operation	0	1	0	0	3	**4**
Total	**15**	**124**	**12**	**151**	**180**	**482**

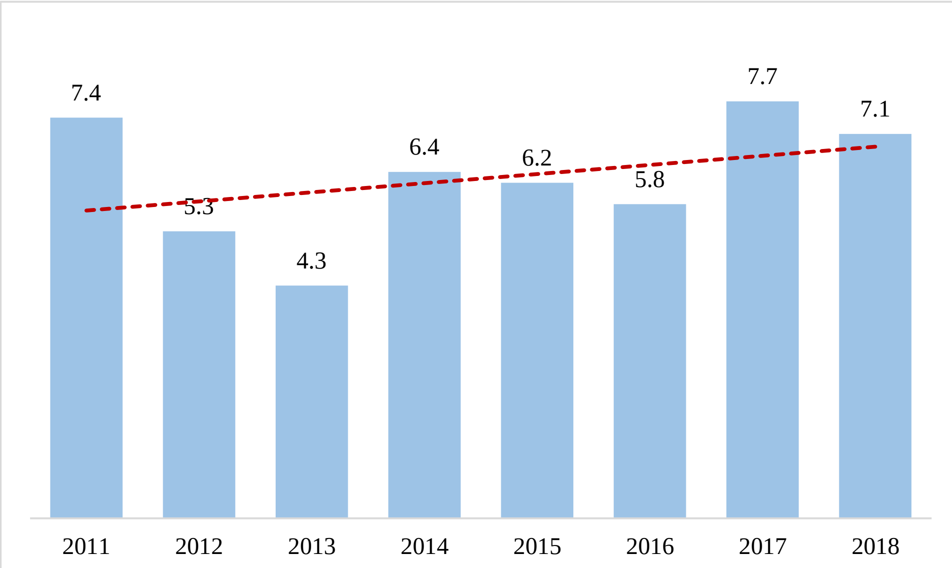
Source: ZIPA 2018

1.6 Macroeconomic Developments

1.6.1 Economic Performance

Zanzibar continues to register a strong economic performance with an average real GDP growth rate of 6.6 percent over the past five years largely driven by services, particularly accommodation and food services (tourism activities) (**Chart 1.1**). This activity accounted for about 31.3 percentage contribution to the growth in 2018. In 2018, the growth rate was 7.1 percent, slightly lower compared to 7.7 percent in 2017 following a decline in agricultural production and low performance in information and communication and finance and insurance activities. Meanwhile, GDP per capita increased by 10.0 percent from USD 946 in 2017 to USD 1,041 in 2018. The major macroeconomic indicators are summarised in **Table 1.5**.

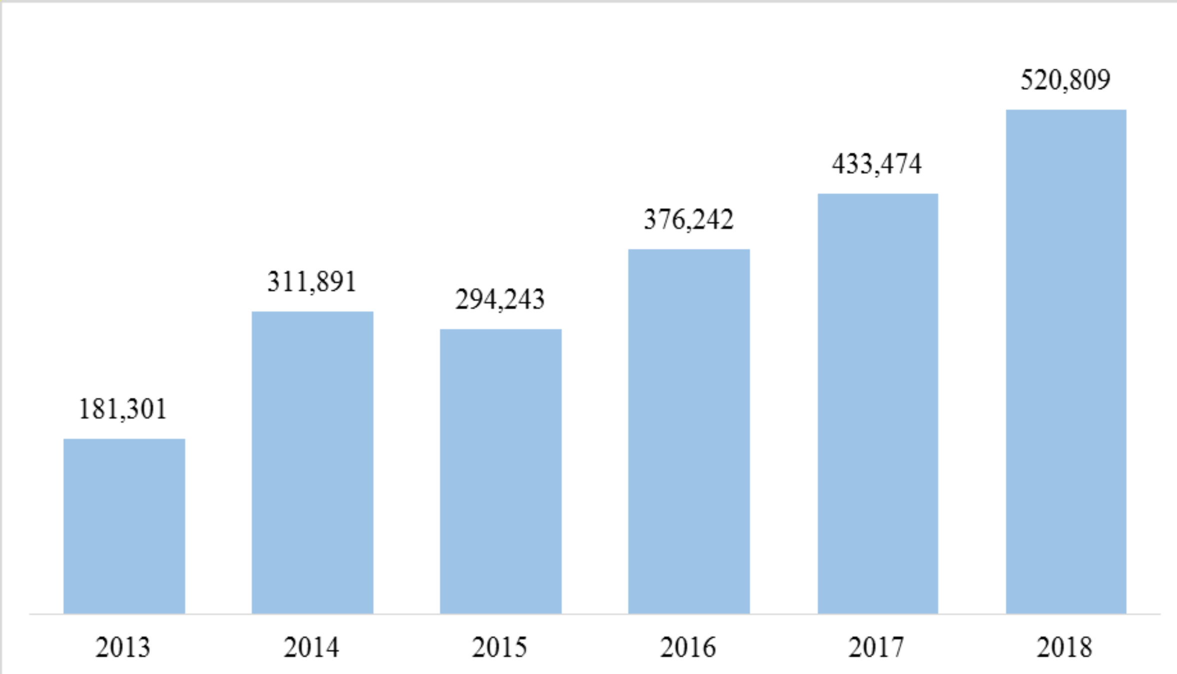
Chart 1.1: Zanzibar Economic Growth Rate (2011-2018)



Source: Zanzibar Statistical Abstract, 2019

Zanzibar is one of the world-famous tourism destinations with outstanding history and culture, beautiful white sand beaches and spices. During 2018, earnings from tourism increased by 3.8 percent to USD 507.5 million from USD 489.0 million in 2017 explained by an increase in visitors' average expenditure and international visitors' arrivals. The average expenditure per person per night was USD 199.0 in 2018 from USD 177.0 in 2017, while the number of tourist arrivals increased to 520,809 in 2018 from 433,474 in 2017 (**Chart 1.2**). Most visitors to Zanzibar were from the United States of America, the United Kingdom, Germany and Italy, and mainly came for leisure and holidays, particularly beach tourism.

Chart 1.2: Number of Tourist Arrivals 2013-2018



Source: Zanzibar Statistical Abstract, 2019

Table 1.5: Key Macroeconomic Statistics

Item	2012	2013	2014	2015	2016	2017	2018
GDP at current prices (Bill TZS)	1,594.0	1,836.0	2,147.0	2,357.0	2,748.0	3,234.0	3,717.0
GDP at costant prices (Bill TZS)	1,999.0	2,084.0	2,218.0	2,356.0	2,491.0	2,684.0	2,876.0
GDP growth rate at constant 2015 prices (%)	5.3	4.3	6.4	6.2	5.8	7.7	7.1
Average inflation rate (%)	9.4	5.0	5.6	5.7	6.7	5.6	3.9
GDP per capita (USD)	771.0	781.0	806.0	834.0	857.0	876.0	913.0
Population ('000)	1,299.0	1,336.0	1,379.0	1,414.0	1,455.0	1,534.0	1,577.0
Exchange rate (TZS/USD)	1,572.0	1,599.2	1,653.3	1,997.0	2,177.0	2,229.0	2,264.0
Exports of goods and services (Mil. TZS)	67,390.5	87,799.6	133,587.7	42,407.0	96,234.9	145,756.8	58,187.0
Imports of goods and services (Mil. TZS)	271,273.1	208,051.9	279,552.8	156,941.1	167,088.0	211,413.4	335,847.7
Trade balance (Mil. USD)	-203,882.5	-120,252.3	-145,965.1	-114,534.1	-70,853.1	-65,656.5	-277,660.7
Public finance	*2012/13*	*2013/14*	*2014/15*	*2015/16*	*2016/17*	*2017/18*	*2018/19*
Domestic revenue (tax and non-tax) to GDP ratio (%)	16.7	18.1	16.9	18.2	19.0	21.3	20.2
Total expenditure to GDP ratio (%)	27.6	29.5	22.3	22.1	21.5	27.8	30.4

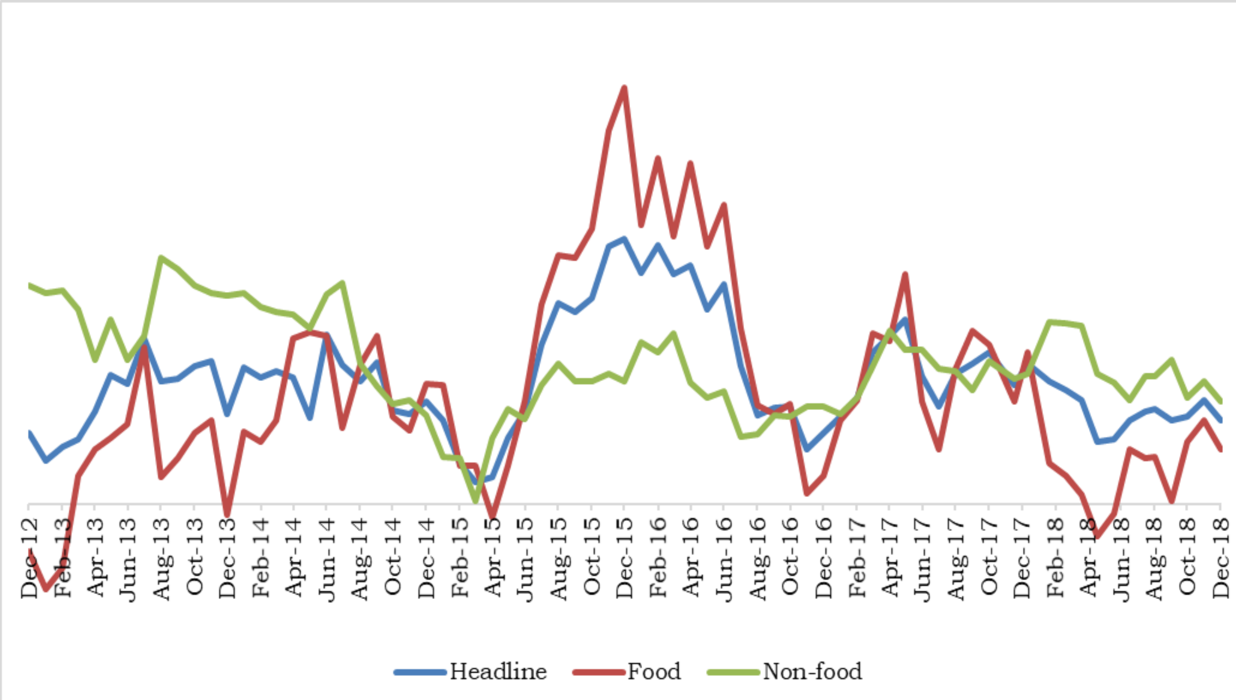
Source: Zanzibar Statistical Abstract, 2018

On the external sector, Zanzibar recorded a deficit of USD 49.4 million in the current account balance in 2018 compared to a surplus of USD 42.2 million in 2017 largely explained by a significant fall in the exports of goods to USD 23.0 million in 2018 from USD 66.2 in 2017. Goods exports in Zanzibar are driven by exports of cloves and seaweeds with cloves exports volumes affected by the cyclical nature of the crop. At the same time, imports of goods increased to USD 220.3 million in 2018 from USD 154.6 million in 2017. It is worth noting that receipts from services, income account and transfers recorded positive growths, but they were not sufficient to offset the decline in the imports of goods hence, the deficit in the current account. During 2018, all goods import categories recorded higher imports compared to the preceding year with major increases recorded in building and construction (78.1 percent), food and foodstuff (71.1 percent) and industrial raw materials (60.6). The prominence of building and construction materials in imports is consistent with the ongoing mega construction projects in the accommodation and food services activities.

1.6.2 Inflation and Exchange Rate Developments

The strong monetary and fiscal policies pursued by both the Union Government and RGoZ in the recent years have resulted in stable price movements as evidenced by inflation rates which have remained at single digits (**Chart 1.3**). During 2018, the headline inflation eased to 3.9 percent from 5.6 percent recorded in 2017, explained by the decline of the cost of food-related items. Food inflation slowed to 1.4 percent from 5.6 percent in 2017, while non-food inflation remained almost unchanged at 5.7 percent from 5.6 percent in 2017. The outturn in food inflation resulted from enough supply from farmers and importers. Food items account for about 40 percent of the total items in the consumer basket. Further, the value of shilling against the United States Dollar remained stable at TZS 2,264.0 per dollar in 2018 compared to TZS 2,229.0 per dollar in 2017. The stable exchange rate was attributable to, among others, the Governments initiatives to instil adherence to the existing exchange rate regulations.

Chart 1.3: Inflation Developments, December 2012 – December 2018



Source: Zanzibar Statistical Abstract, 2019

1.7 Structure of the Report

This report is organised into four chapters. Chapter one covers introduction, chapter two shows the approach used in implementing the survey, while chapter three provides a discussion of the survey results. The last chapter dwells on conclusion and recommendations.

CHAPTER TWO

METHODOLOGY

2.1 Introduction

This chapter provides details of the approach adopted in implementing the 2018 survey of companies with foreign assets and liabilities in Zanzibar. It entails institutional arrangement, survey framework, pre-survey arrangements, data collection, processing and analysis.

2.2 Organization of the Survey

2.2.1 Institutional Framework

The survey was jointly implemented by Zanzibar Investment Promotion Authority (ZIPA), the lead institution, in collaboration with the Bank of Tanzania (BOT), and the Office of the Chief Government Statistician (OCGS). The three institutions have a memorandum of understanding, which stipulates the roles and obligations of each on matters pertaining to Private Capital Flows surveys. The institutions also have legal mandates to undertake the surveys as stipulated in the Bank of Tanzania (BOT) Act 2006, section 57; Zanzibar Investment Promotion and Protection Act. No. 14 of 2018 and Statistical Act No. 7 of 2007 of the Office of the Chief Government Statistician (OCGS). These legislations make provisions for the confidentiality of the data collected and penalties involved in case of non-compliance. During the survey, participating companies are reminded to comply with the requirement of the law, and this has helped in increasing compliance and response rate.

2.2.2 Scope and Coverage

The survey covered all the companies known to have foreign assets and/or liabilities in both islands of Zanzibar – Unguja and Pemba. It utilised the existing register complemented by information from Zanzibar Investment Promotion Authority, media and the relevant line Ministries. In this regard, a total of 188 enterprises were covered. Given the small size of the Zanzibar economy, total coverage of the enterprises is always achieved. The survey revised transactions and positions from 2015 through 2017 and new data set for 2018.

2.2.3 Training of Researchers

Data collection exercise was preceded by a one-day training for researchers at Zanzibar Investment Promotion Authority (ZIPA) offices. The training was intended to impart a comprehensive understanding of the questionnaire and recap fieldwork techniques. The researchers had the opportunity to share experiences from the previous cycles. Onsite data editing and consistency checks were also emphasised to improve data accuracy.

2.2.4 Awareness Creation

Prior to the actual interviews, letters of introduction were sent out to the intended respondents, together with questionnaires and hard copies of the most recent reports. The letters provided brief information on the purposes of the survey, targeted respondents, confidentiality clause and the need to comply. These activities have been instrumental in creating awareness in which case respondents prepare in advance the necessary documents needed during filling in the questionnaires.

2.3 Field Work

The fieldwork was organised such that researchers started from the Mjini Magharibi region where headquarters of most of the companies are located. The other regions followed in order of intensity. Before actual field visits, phone calls were made to set appointments with the Executive Directors or Heads of Finance. Face-to-face interviews were conducted, and this approach was considered effective compared to others as it allowed field officers to clarify issues that were clear to the respondents. The completed questionnaires were verified against financial statements onsite to ensure data quality and consistency. In cases where face-to-face interviews were not possible, the help line was provided to assist in filling in the questionnaire and providing supplementary clarification as needed. Out of the 190 enterprises targeted, 164 responded, representing a response rate of 86.3 percent. Dummy questionnaires were created for the companies that for some reasons, did not respond with a view to attain full coverage. The distribution of these enterprises is illustrated in **Table 2.1**.

Table 2.1: Distribution of Enterprises by Industry

Industry	Coverage	Share %
Agriculture	4	2.4
Manufacturing	8	4.9
Construction	2	1.2
Wholesale and retail trade	6	3.7
Transportation and storage	6	3.7
Accommodation and food services	114	69.5
Information and communication	2	1.2
Finance and insurance services	4	2.4
Real estates	2	1.2
Administration and support services	2	1.2
Education	6	3.7
Arts, entertainment and recreation	8	4.9
Total	164	100.0

Source: PCF Survey 2019

2.4 Data Processing

Data processing was carried out using MEFMI PCMS version 3—web-based software developed by the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). This activity included data posting, consistency checks, generation of outputs tables for validation checks and cleaning for outliers.

2.5 Survey Challenges

A number of challenges were encountered during the survey. These included delayed response by some enterprises, reluctance in providing financial statements, particularly where the audited reports had not been approved by the relevant authorities for sharing, variation in accounting periods by few enterprises whose financial years were different from the calendar year. Despite the challenges, the survey was quite satisfactory resulting from cordial relationship established over years.

CHAPTER THREE

MAIN FINDINGS

3.1 Introduction

This chapter provides analysis of the 2018 Private Capital Flows survey in Zanzibar. In some cases, reference is made to the previous survey whose results have been revised. Three components of FPI namely Foreign Direct Investment (FDI), Portfolio Investment (PI) and Other Investments (OI) are discussed with focus on FDI due to its prominence in the total FPI.

3.2 Foreign Private Investment

The results show that the stock of FPI amounted to USD 1,289.9 million in 2018 an increase of 15.8 percent from USD 1,113.5 million in 2017 largely driven by equity and investment shares, reinvestment of earnings, trade credit and advances and other equity components (**Table 3.1**). Meanwhile, the FPI stock was 0.1 percent of Zanzibar GDP and 1.9 percent of exports. The flows of FPI during 2018 were USD 154.5 million, 40.5 percent higher compared to USD 109.9 million in 2017.

FDI continued to dominate FPI in terms of both stock and flows, accounting for about 79 percent of total in 2018. Other investments accounted for about 20 percent while the share of portfolio was less than 0.5 percent. It is worth noting that the data reported on portfolio investment for Zanzibar relates to proportionate share for companies listed on the Dar es Salaam Stock exchange that have branches in Zanzibar.

Table 3.1: Foreign Private Investments, 2015 - 2018 *Millions of USD*

Components	Flows			Stock			
	2016	2017	2018	2015	2016	2017	2018
Foreign Direct Investment (FDI)	**131.2**	**100.5**	**123.4**	**484.8**	**621.9**	**865.4**	**1,004.9**
Equity and Investment Fund Shares	18.9	21.9	41.7	254.8	280.9	292.6	359.0
Retained Earnings	3.5	-23.7	9.1	-172.4	-167.2	-67.6	-57.4
Debt Instruments	108.8	102.2	72.6	402.4	508.3	640.4	703.4
Long Term	105.3	103.5	63.5	343.6	446.2	633.1	687.2
Short Term	3.5	-1.3	9.1	58.8	62.1	7.3	16.2
Portfolio Investment	**10.3**	**0.1**	**0.2**	**5.6**	**16.3**	**7.2**	**6.9**
Other Investment	**-37.0**	**9.3**	**30.9**	**108.5**	**116.8**	**240.9**	**278.0**
Long Term loans	-31.3	3.4	1.7	53.3	68.3	64.9	74.4
Short Term loans	-0.1	-0.1	-3.9	2.0	1.5	4.9	0.9
Trade Credits and Advances	-3.3	3.7	11.0	21.9	18.3	32.5	42.9
Other non equity	-2.3	2.4	22.1	31.3	28.7	138.5	159.9
Foreign Private Investment	**104.5**	**109.9**	**154.5**	**598.8**	**755.0**	**1,113.5**	**1,289.9**

Source: PCF Survey 2019 and revised PCF Survey 2018
Note: Stocks are opening balances of the respective year.

3.3 Foreign Direct Investment in Zanzibar

Zanzibar attracted USD 123.4 million of FDI flows in 2018 compared to USD 100.5 million, being an increase of 22.8 percent. The outturn is consistent with the general performance in Africa as reported in the World Investment Report of 2019. The report shows that FDI flows to Africa increased in 2018 contrary to other parts of the world including developed and developing economies, which recorded a decline. The flows were 2.7 percent of Islands states flows which was USD 4,602 million in 2018 (World Investment Report 2019). The flows were however, lower compared to Mauritius whose flows USD 472 million—about four times of the amount recorded in Zanzibar.

3.3.1 Financing of FDI

Financing of FDI flows in Zanzibar in 2018 was mainly through long-term loans from affiliates followed by equity and investment fund shares (**Table 3.2**). Notable decline in financing of FDI through long term loans from affiliates is observed in 2018. However, the decline is offset by higher inflows of equity and investment fund shares, reinvestment of earnings, and short-term loans from affiliates which in aggregate contributed to higher flows of FDI in 2018 compared to 2017. Further, the observed negative stock of retained earnings reflects accumulation of losses by companies particularly during start up. Generally, the continued financing of FDI mainly through long term loans and owners' equity signals investors' confidence in the government initiatives to strengthen the country's economy and improve investment climate.

Table 3.2: Flows and Stocks of Foreign Direct Investment ***Millions of USD***

	Flows			Stock		
Financing of FDI	**2016**	**2017**	**2018**	**2016**	**2017**	**2018**
Equity and investment fund shares	18.9	21.9	41.7	280.9	292.6	359.0
Retained earnings	3.5	-23.7	9.1	-167.2	-67.6	-57.4
Long term loan	105.3	103.5	63.5	446.2	633.1	687.2
Short term loan	3.5	-1.3	9.1	62.1	7.3	16.2
Total FDI	**131.2**	**100.5**	**123.4**	**621.9**	**865.4**	**1,004.9**

Source: PCF Survey 2019 and revised PCF Survey 2018

3.3.2 Foreign Direct Investment by Activity

Both stock and flows of FDI continued to be concentrated in two main activities namely accommodation and food service activities and information and communication. The two sectors attracted USD 117.6 million of FDI flows and the stock amounted to USD 930.7 million and accounted for 95.3 percent of the total FDI flows and 92.6 percent of the total stock in 2018 (**Table 3.3**). The prominence of flows to the accommodation and food service activities is consistent of the Island's endowment in tourism attractions, particularly beach and historical sites. During 2018, FDI flows to the accommodation and food services activities were USD 91.8 million, almost four times the amount recorded in 2017. Given the ongoing construction of new and modern accommodation facilities in the Islands, the dominance of this activity is expected to remain unchanged in the near future. The concentration of FDI in the two activities poses a risk in the economy in event of a shock, thus calling for a deliberate effort to attract FDI to other economic activities to diversify the economy.

Table 3.3: Foreign Direct Investment Flow by Industry *Millions of USD*

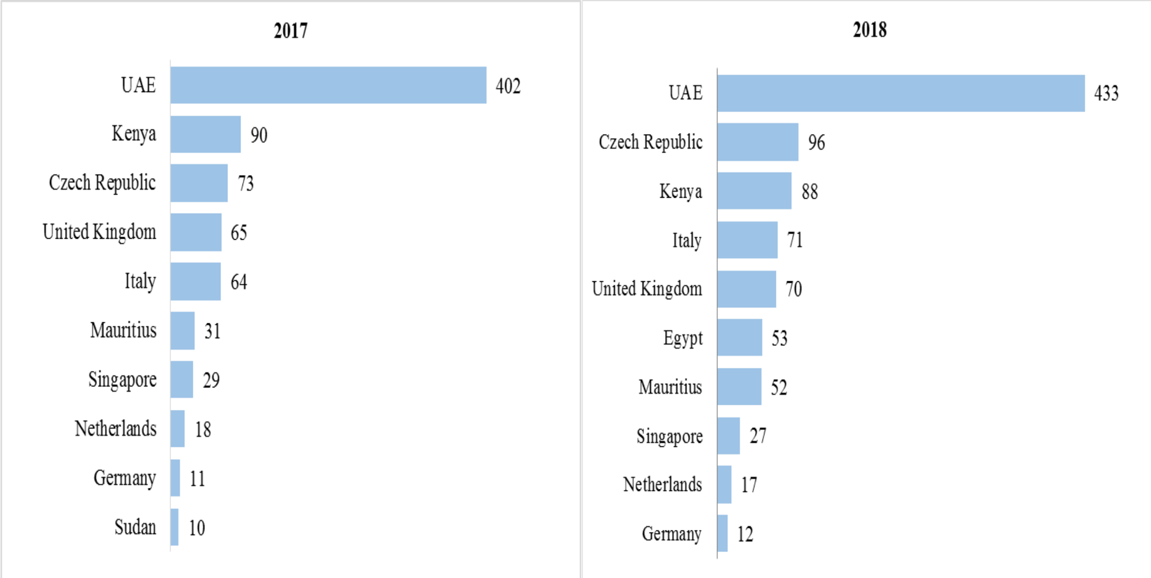
	Flows			Stock			
	2016	2017	2018	2015	2016	2017	2018
Accommodation and food services	19.6	25.1	91.8	457.8	473.1	491.0	601.3
Information and communication	97.7	75.8	25.8	-41.3	56.4	298.9	329.4
Finance and Insurance activities	3.2	0.9	1.6	29.2	32.0	22.2	21.8
Manufacturing	7.0	-1.9	3.9	10.0	26.9	21.2	20.4
Education	0.8	0.2	-0.5	10.7	12.7	13.9	13.3
Wholesale & retail trade	1.6	1.9	0.9	7.1	8.3	7.5	8.2
Transportation and Storage	0.4	0.7	0.3	3.4	3.8	3.5	3.8
Real estate activities	0.1	-1.8	-0.6	4.4	4.4	4.4	3.7
Arts, entertainment and recreation	-0.2	0.1	0.4	0.7	0.5	0.8	1.2
Construction	0.8	-0.6	-0.2	1.2	2.1	1.1	0.9
Agriculture, forestry and fishing	0.0	0.0	0.0	1.6	1.6	0.7	0.7
Administrative and support services	0.0	0.0	0.0	0.0	0.0	0.3	0.2
Professional, scientific and technical services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	**131.2**	**100.5**	**123.4**	**484.8**	**621.9**	**865.4**	**1,004.9**

Source: PCF Survey 2019 and revised PCF Survey 2018
Note: Stocks are opening balances of the respective year.

3.3.2 Foreign Direct Investment by Source Country

High concentration of FDI in few activities observed above is also portrayed in the source countries as the top ten countries account for 91.6 percent of the total stock of FDI in Zanzibar amounting to USD 921.0 million (**Chart 3.1**). The United Arab Emirates accounted close to a half of the total stock both in 2017 and 2018 with a big chunk (77.0 percent) being in information and telecommunication activities. The other prominent source countries are Czech Republic, Kenya, Italy and the United Kingdom.

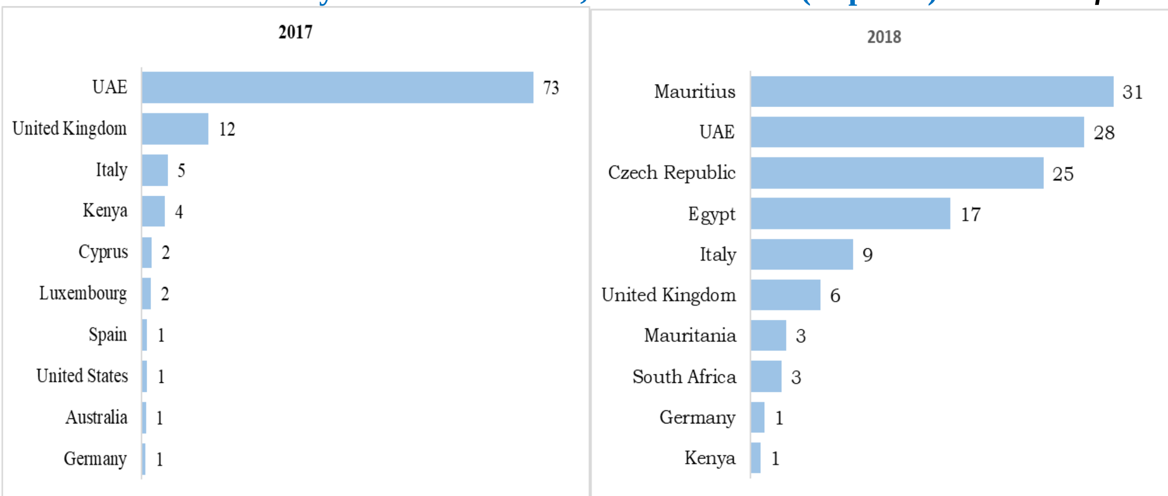
Chart 3.1: FDI Stock by Source Countries, 2017 and 2018 (Top Ten) ***Millions of USD***



Source: PCF Survey 2019 and revised PCF Survey 2018

The source countries for FDI flows show some diversification in 2018 compared to 2017 (**Chart 3.2**). Mauritius tops the list of the top ten countries replacing the United Arab Emirates. Investments from Mauritius were mainly directed to accommodation and food services and manufacturing of food products. South Africa is a new entrant in the list of top ten countries in 2018 with its investment mainly being in the wholesale and retail trade, and accommodation and food services activities.

Chart 3.2: FDI Flows by Source Countries, 2017 and 2018 (Top Ten) ***Millions of USD***



Source: PCF Survey 2019 and revised PCF Survey 2018

3.3.3 Investment by Regional Groupings

In terms of regional economic groupings, the Organization for Economic Co-operation and Development (OECD) is the major source of FDI for Zanzibar as it accounted for an average of 24.2 percent of the total flows during 2016 – 2018 and 29.8 percent of the total stock in 2018. In 2018, flows from OECD amounted to USD 42.5 million, which is almost, double the amount recorded in 2017 (**Table 3.4**). The major source of FDI for the Islands from OECD were Czech Republic, Italy and the United Kingdom. SADC was the second with the major sources being Mauritius and South Africa. Kenya was the major source in East Africa accounting for almost 100 percent of the total FDI flows from the region. Notable share of FDI from other regions originated from United Arab Emirates.

Table 3.4 FDI Inflows by Regional Grouping *Millions of USD*

	Flows			Stock			
	2016	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
OECD	**21.3**	**22.0**	**42.5**	**240.5**	**260.3**	**263.4**	**299.6**
Czech Republic	11.1	0.4	25.0	62.4	72.9	72.7	96.1
Italy	1.9	4.8	8.8	68.5	69.4	63.9	71.3
United Kingdom	5.5	12.4	6.0	42.7	50.4	64.7	69.7
Netherlands	1.4	-1.1	0.3	14.4	15.7	18.2	17.0
Germany	-0.4	0.6	1.2	11.5	11.0	11.4	12.3
Poland	0.6	0.4	0.5	5.6	6.1	6.2	6.6
Spain	0.6	1.0	-0.1	4.5	5.1	6.4	6.1
Switzerland	0.1	0.6	-0.2	5.1	5.1	5.4	5.1
United States	0.2	1.0	0.4	6.4	4.1	4.2	4.5
Turkey	-0.2	-0.4	0.0	2.6	3.5	3.1	3.1
Canada	0.0	0.0	0.3	0.2	0.2	2.6	2.8
France	-0.1	0.0	0.0	0.7	0.7	1.4	1.5
Other OECD	0.5	2.3	0.4	16.0	16.2	3.0	3.4
SADC	**6.5**	**-1.8**	**33.6**	**23.9**	**40.2**	**32.6**	**56.6**
Mauritius	6.0	-1.9	31.0	18.2	34.0	31.0	52.4
South Africa	0.6	0.2	2.7	3.1	3.6	1.6	4.2
Botswana	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other SADC	0.0	-0.1	0.0	2.6	2.6	0.0	0.0
EAC	**-2.9**	**4.3**	**0.8**	**90.2**	**86.5**	**89.7**	**88.1**
Kenya	-2.9	4.3	0.8	90.2	86.5	89.6	88.0
Uganda	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rwanda	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Sudan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other regions	**106.3**	**76.0**	**46.4**	**130.2**	**234.9**	**479.8**	**560.6**
UAE	98.2	72.9	28.5	60.9	157.9	402.4	432.9
Other countries	8.0	3.0	18.0	69.3	77.0	77.3	127.8
Total	**131.2**	**100.5**	**123.4**	**484.8**	**621.9**	**865.4**	**1,004.9**

Source: PCF Survey 2019 and revised PCF Survey 2018

3.4 Distribution of FDI by Country Regions

The survey results indicate that Kaskazini Unguja and Mjini Magharibi regions had the highest concentration of both stock and flows of FDI accounting for about 90 percent (**Table 3.5**)[1]. Kusini Pemba attracted the lowest of FDI both in terms of flows and stock.

[1] In interpreting this result, one must be cautious as most companies tend to locate their headquarters in commercial cities like Mjini Magharibi which may not necessarily mean that big share of investments is there.

Table 3.5: Distribution of FDI by Region *Millions of USD*

Region	Flows 2016	Flows 2017	Flows 2018	Stock 2015	Stock 2016	Stock 2017	Stock 2018
Kaskazini Unguja	24.0	14.5	89.9	305.9	337.2	362.3	469.2
Mjini Magharibi	103.3	84.7	32.6	60.2	162.0	377.0	411.1
Kusini Unguja	3.5	-1.0	2.0	103.5	107.3	109.5	109.5
Kaskazini Pemba	0.2	2.2	-1.4	15.2	15.2	16.2	14.5
Kusini Pemba	0.2	0.1	0.2	0.0	0.3	0.4	0.6
Total	**131.2**	**100.5**	**123.4**	**484.8**	**621.9**	**865.4**	**1,004.9**

Source: PCF Survey 2019 and revised PCF Survey 2018

3.5 Participation of Domestic Investors in FDI Companies

Participation of domestic institutional units in companies with foreign assets and liabilities in terms of equity shares, supply of financial services/resources and other inputs is key in creating linkage with the domestic economy and other spillover effects including skills and technology transfer. As shown in **Table 3.6**, participation of locals in these companies through equity and non-equity was USD 0.6 million only in 2018 (less than one percent), an improvement from USD -4.3 million in 2017 in terms of flows and USD 34.3 million in terms of stock in 2018 (about 2.7 percent). Although the government benefits from these activities in terms of tax revenue and employment, there is a need to design strategies to encourage local participation with a view to maximise benefits particularly those associated with equity and non-equity participation including skills and technology transfer.

Table 3.6: Participation of residents in FDI companies *Millions of USD*

	Flows 2016	Flows 2017	Flows 2018	Stock 2015	Stock 2016	Stock 2017	Stock 2018
Residents participation	7.9	-4.3	0.6	27.1	33.7	35.7	34.3
Foreign Liability	104.5	109.9	154.5	598.8	755.0	1,113.5	1,289.9
Local & Foreign Liability	**112.4**	**105.6**	**155.0**	**625.9**	**788.7**	**1,149.2**	**1,324.2**

Source: PCF Survey 2019 and revised PCF Survey 2018

3.6 Portfolio and Other Investments

Portfolio investment in Zanzibar is very low, accounting for less than 0.5 percent of the total foreign private investments, reflecting low share for companies listed in the Dar es Salaam Stock Exchange that have branches in Zanzibar[2]. On the other hand, other investments accounted for about 20 percent of the total foreign private investments in 2018. The flows of other investment in 2018 was about ten times the amount reported in 2017 (**Table 3.7**). Activities that attracted largest share of other investment were accommodation and food services, information and communication and finance and insurance.

Table 3.7: Flow and Stock of Other Investment ***Millions of USD***

	Flows			Stock			
Industry	**2016**	**2017**	**2018**	**2015**	**2016**	**2017**	**2018**
Accommodation and food services	0.7	3.0	30.4	57.2	56.8	69.3	107.6
Information and communication	0.0	0.0	-8.7	0.0	0.0	102.7	94.0
Finance and Insurance activities	-38.9	8.4	6.4	35.6	43.2	53.6	58.7
Transportation and Storage	0.0	-1.6	-0.5	7.3	7.3	6.3	5.6
Wholesale & retail trade	0.7	-2.9	1.1	6.9	7.6	4.5	5.5
Real estate activities	0.3	1.9	2.0	0.0	0.3	1.0	2.9
Manufacturing	-0.3	0.1	0.5	0.8	0.5	1.7	2.2
Education	0.6	0.1	-0.3	0.1	0.7	1.0	0.7
Agriculture, forestry and fishing	-0.1	0.2	0.0	0.4	0.3	0.5	0.5
Arts, entertainment and recreation	0.0	0.0	0.0	0.1	0.1	0.2	0.2
Construction	0.0	0.1	0.0	0.0	0.0	0.1	0.1
Administrative and support services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Professional and scientific services	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total other investment	**-37.0**	**9.3**	**30.9**	**108.5**	**116.8**	**240.9**	**278.0**

Source: PCF Survey 2019 and revised PCF Survey 2018

3.7 Income on Investment

The overall net profits after tax for 2018 was USD 21.9 million out of which USD 18.9 million was reinvested, an equivalent of 85.9 percent of the total profits (**Table 4.8**). The activities that reported most of the profits and reinvested earnings were accommodation and food services and

[2] Only 3 out of 164 surveyed companies were listed in Dar es Salaam Stock Exchange.

finance and insurance. The large share of the profits retained in the economy is a sign of investors' confidence in the investment climate in Zanzibar.

Table 4.8: Reinvestment of Earnings and Dividends Paid 2018 *Millions of USD*

Industry	Net Profit/Loss (After Tax)	Dividends declared	Dividends paid (profit remitted)	Reinvested Earnings
Accommodation and food services	11.5	1.1	0.0	10.4
Finance and Insurance activities	10.6	2.0	0.0	8.5
Wholesale and retail trade	0.9	0.0	0.0	0.9
Transportation and Storage	0.3	0.0	0.0	0.3
Arts, entertainment and recreation	0.1	0.0	0.0	0.1
Agriculture, forestry and fishing	0.0	0.0	0.0	0.0
Information and communication	0.0	0.0	0.0	0.0
Administrative and support services	0.0	0.0	0.0	0.0
Real estate activities	0.0	0.0	0.0	0.0
Construction	-0.2	0.0	0.0	-0.2
Manufacturing	-0.4	0.0	0.0	-0.4
Education	-0.8	0.0	0.0	-0.8
Total	**21.9**	**3.1**	**0.0**	**18.9**

Source: PCF Survey 2019 and revised PCF Survey 2018

3.8 Employment

The total number of jobs provided by companies with foreign assets and liabilities in 2018 was 11,090, an increase of 4.8 percent compared with 10,578 in 2017. Accommodation and food service activities remained the largest employer with 80.8 percent of the total jobs in 2018 up from 72.0 percent in 2017 (**Table 3.9**). The results are consistent with the dominance of the activity in FDI in Zanzibar—suggesting that a shock in the activity broadly affects employment levels. As pointed out earlier, attracting FDI in other sectors, especially labour-intensive ones such as textile, agriculture, and fishing may improve not only diversification of the economy but also employment generation.

Table 3.9: Employment by Industry

Industry	2016	% share	2017	% share	2018	%share
Accommodation	6,804	74.7	7,618	72.0	8,960	80.8
Education	417	4.6	483	4.6	474	4.3
Wholesale and retail trade	351	3.9	399	3.8	599	5.4
Construction	389	4.3	496	4.7	19	0.2
Information and communication	197	2.2	298	2.8	246	2.2
Manufacturing	181	2.0	384	3.6	125	1.1
Arts and intertainment	244	2.7	305	2.9	107	1.0
Transpport and storage	137	1.5	143	1.4	162	1.5
Real estate	142	1.6	192	1.8	89	0.8
Administrative and support services	113	1.2	126	1.2	129	1.2
Agriculture	62	0.7	62	0.6	103	0.9
Finance and insurance	70	0.8	72	0.7	77	0.7
Total	**9,107**	**100**	**10,578**	**100**	**11,090**	**100**

Source: PCF Survey 2019 and revised PCF Survey 2018

In terms of job positions and levels of the profession, the results show that in 2018, 10.9 percent of the jobs were in the Management positions, 34.2 in professional category and 54.9 percent in the non-professional category (**Table 3.10**). Within the Management positions, male foreign nationals were dominant (30.2 percent) followed by male Zanzibar nationals (21.4 percent), while within the professional categories Zanzibar males were dominant (39.3 percent) followed by Tanzania Mainland males (23.1 percent). It was further observed that 95.2 percent of the professional jobs were held by Tanzania residents, in which 54.5 percent were from Zanzibar and 40.7 percent from Tanzania Mainland. Non-professional jobs were also dominated by Zanzibar males, followed by Tanzania Mainland males. Foreign nationals were very few in the non-professional category, consistent with the government policy to restrict foreign national in non-professional jobs.

Table 3.10: Employment Position by Gender

Position	2016	2017	2018	% share (2018)
Management foreign nationals (F)	129	141	150	1.4
Management foreign nationals (M)	329	355	366	3.3
Management Zanzibaris (F)	82	102	86	0.8
Management Zanzibaris (M)	194	168	259	2.3
Management Tanzania Mainland (F)	148	180	168	1.5
Management Tanzania Mainland (M)	277	211	182	1.6
Professional (excluding mgt) foreign national (F)	62	151	56	0.5
Professional (excluding mgt) foreign national (M)	166	334	121	1.1
Professional (excluding mgt) Zanzibaris (F)	758	805	578	5.2
Professional (excluding mgt) Zanzibaris (M)	1467	1603	1,490	13.4
Professional (excluding mgt) Tanzania Mainland (F)	717	692	670	6.0
Professional (excluding mgt) Tanzania Mainland (M)	971	998	877	7.9
Non professionals foreign (M)	57	37	2	0.0
Non professional foreign (F)	11	35	1	0.0
Non professional Tanzania Mainland (M)	798	646	1,462	13.2
Non professional Tanzania Mainland (F)	524	693	1035	9.3
Non professionals Zanzibar (M)	1686	2375	2,481	22.4
Non professional Zanzibar (F)	731	1052	1106	10.0
Total	**9,107**	**10,578**	**11,090**	**100.0**

Source: PCF Survey 2019 and revised PCF Survey 2018

3.9 Corporate Social Responsibility

The total amount donated under corporate social responsibility in 2018 was USD 3,938.1 thousand, more than twice the amount donated in 2017 (**Table 3.11**). Most of these donations were directed into safety and security activities with an average of USD 379.4 thousand per annum between 2015 – 2018. The other activities that have mostly benefited from these donations are water, road, sports and entertainment, and education. It is worth noting that a substantial amount was donated to road construction in 2018, which amounted to USD 805.5 thousand up from USD 4.5 thousand in 2017. One would expect that the funds donated under corporate social responsibility are spent on social activities. This, therefore, raises a need to prioritise areas for CSR support and institutionalise the same for greater benefits to local communities.

Table 3.11: Corporate Social Responsibility Contribution *Thousands of USD*

	2015	2016	2017	2018	Average	% share
Safety and security	176.4	348.6	245.9	746.7	379.4	20.2
Water	89.9	393.2	383.7	505.2	343.0	18.3
Road	80.4	78.8	4.5	805.5	242.3	12.9
Sports and development	14.7	99.8	102.4	657.5	218.6	11.7
Education	48.0	128.7	416.7	277.8	217.8	11.6
Health and welfare	54.6	52.1	53.6	403.0	140.8	7.5
Environment	24.0	117.0	209.2	131.1	120.3	6.4
Arts and culture	81.6	83.4	67.9	188.1	105.3	5.6
Other	9.9	120.1	16.7	191.1	84.4	4.5
Religious	10.2	28.4	24.3	32.3	23.8	1.3
Total	**589.7**	**1,450.1**	**1,524.9**	**3,938.1**	**1,875.7**	**100.0**

Source: PCF Survey 2019 and revised PCF Survey 2018

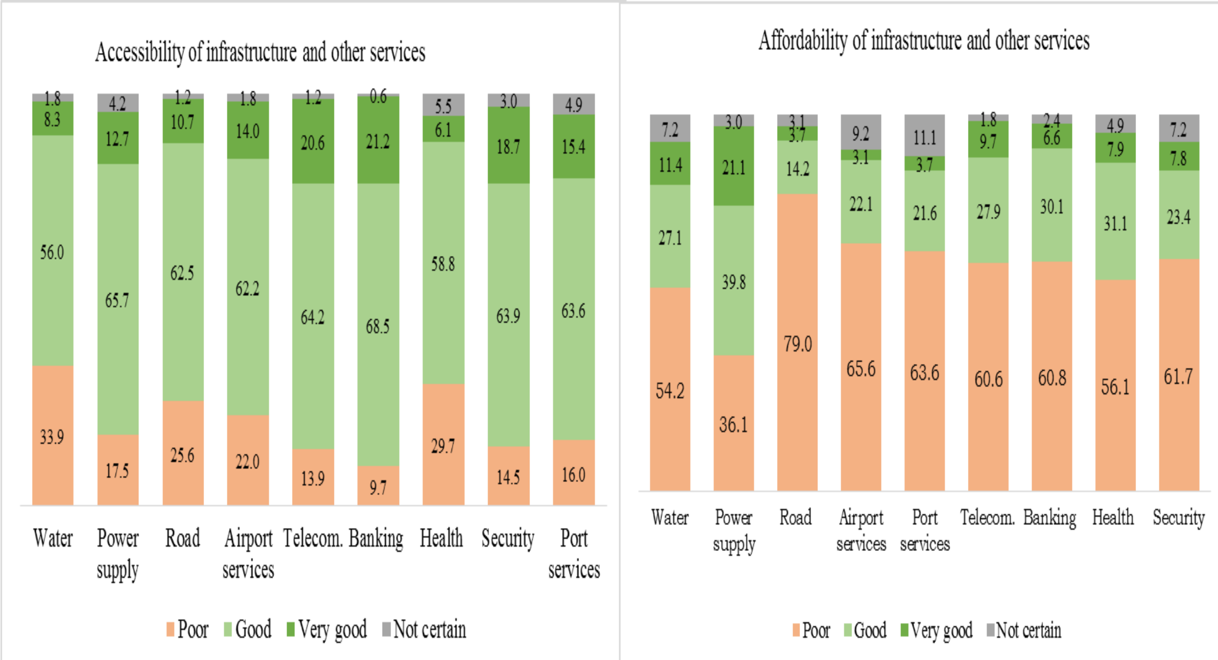
3.10 Affordability and Accessibility of Infrastructure and Other Services

Affordability and accessibility of infrastructural and related services is one of the key measures of the quality of the country's investment climate. As the government continues to improve the investment climate, the survey sought feedback from investors regarding their perception on accessing various services and affordability of such services. The results show that 63 percent of the respondents were satisfied with the accessibility of infrastructure and related services and 60 percent considered the services expensive (**Chart 3.3**). One of the unaffordable services was electricity, though analysis shows that Tanzania is one among the countries in Africa with the lowest tariff rates. As at December 2019, for instance, electricity tariffs for business users in Mozambique and Zambia stood at USD 0.06 kWh and USD 0.02 kWh, respectively, while in Tanzania it was USD 0.10kWh, same as China[3]. The ongoing efforts to increase electricity

[3] www.globalpetrolprices.com

generation capacity and distribution across the country are expected to scale down the rates to more competitive levels—less than those of developed economies.

Chart 3.3: Accessibility and Affordability of Infrastructure and Related Services



Source: PCF Survey 2019

CHAPTER FOUR

CONCLUSION AND POLICY RECOMMENDATIONS

The RGoZ has continued to design strategies and policies to further improve the country's investment climate to attract investments, in particular, FDI. This is in recognition of the fact that such investments are vital in augmenting domestic savings and stirring up skills transfer, employment generation, revenue collection and technology transfer.

The strong monetary and fiscal policies pursued by both the United Republic of Tanzania and Revolutionary Government of Zanzibar in the recent years have resulted in stable price movements with inflation settling below ten percent over the last decade. The value of shilling against the US dollar has also remained stable.

The foregoing efforts have contributed to the increase in investments in Zanzibar — both local and foreign. Foreign direct investment has dominated in terms of flows and stock. In 2018, FDI accounted for 79.0 percent of the total inflows. This result is consistent with the general trend in FDI flows to Africa (World Investment Report of 2019). The survey also established the concentration of FDI in Zanzibar in accommodation and food services, and information and communication with flows in other activities, including manufacturing and agriculture remaining relatively low. Distribution of employment by industry mirrors FDI distribution with employment in accommodation and food services activity dominating.

Further, investors were asked to reveal their opinion on access to various services and their affordability. The results show that 63 percent of the investors were satisfied with the accessibility of services while 60 percent indicated such services to be not affordable. These results call a need to make further improvement in the business environment to facilitate investments.

This report has identified several policy issues that need attention to further improve the investment climate and attract more investments as summarised in the following matrix.

Issue	Recommendation	Responsible
Lower skills in hospitality industry compared to counterparts in the East Africa region.	Improve skills in the hospitality industry by undertaking skills audit to identify the skills gap and engage stakeholders and learning institutions to fill the gaps.	Ministry of Education and Vocational Training; Ministry of Agriculture, Natural Resources, Livestock and Fisheries; and Ministry of Information, Tourism and Heritage.
Low ability of local communities to develop saleable project write-ups to benefit from Corporate Social Responsibility	Engage investors and identify priority areas for support under CSR with a view to maximise benefits to local communities. This should go in tandem with enhancing the capacity of local communities in developing saleable project write-ups.	President's Office- Regional Administration, Local Government and Special Departments; and Ministry of Information, Tourism and Heritage.
Low participation of locals in FDI companies in terms of equity and non-equity.	Design strategies to encourage more local participation in FDI companies with a view to maximise benefits including skills and technology transfer.	Ministry of Finance and Planning; Ministry of Trade and Industries; and Ministry of Information, Tourism and Heritage.
Low diversification of FDI	Attract FDI to a wider range of economic activities by creating more awareness and special incentives in priority projects, including those related to the Blue economy.	Ministry of Finance and Planning; Ministry of Trade and Industries; and Ministry of Information, Tourism and Heritage.
Low linkage between activities with a high concentration of FDI and the rest of the economy	Promote and engage the private sector and local communities to enhance the linkage of FDI between sectors.	Ministry of Trade and Industries; Ministry of Information, Tourism and Heritage; and Ministry of Agriculture, Natural Resources.

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5. _____Statistical Release: Zanzibar Consumer Price Index, Various Issues.
6. _____ Zanzibar Development Vision (ZDV) 2020, Zanzibar
7. UNCTAD (2019), World Investment Report, Geneva.
8. World Bank (2019), Global Investment Competitive Report, Washington.

Appendices

Appendix 1: Questionnaire

Bank of Tanzania
Zanzibar Branch
P.O. Box 568 – Zanzibar
Tel 255 24-2230803
Fax: 255 24-223 0415
E-mail: info@bot.go.tz
Website: www.bot-tz.org

Zanzibar Investment Promotion Authority
P. O. Box 2286 – Zanzibar
Tel: 255 24-2233026
Fax: 255 24-2232737
E-mail: info@zipa.co.tz
E-mail: zipaznz@zanzinet.com
Website: www.zanzibarinvest.org

Office of Chief Government Statistician
P. O. Box 2321 - Zanzibar
Tel: 255 24-2231869
Fax 255 24-2231742
E-mail: zanstat@zanlink.com
Website:www.ocgs.go.tz

QUESTIONNAIRE FOR THE SURVEY OF COMPANIES WITH FOREIGN ASSETS & LIABILITIES

SURVEY CODE: PCF/C11/2018

RESEARCHER …………………………………………….………………….

PART A: GENERAL INFORMATION (ALL RESPONDENTS SHOULD COMPLETE THIS PART)

A1: COMPANY DETAILS:

Company name: ……………………………………………………………………….		
Previous Name of the Company (if any): ………………………………………….....................................		
Date Completed :(*dd/mm/yyyy)*… … ..…………………………………………………………………..		
Company Address: P.O. Box …………………………………………………………………………………….. Tel:………………………………. Fax:…………..…………………….E-mail: ………………………… Website: ………………………………..		
District:	Area:	Street/Plot:
Date of Establishment: ……………………….………………………………………………………		Date of Commencing Operations: ………………………………………..

Particulars of the Person Completing this Questionnaire: Name: Position: …………………………………………………………………………………….. Mob: E-mail: ………………………………………………………………………………………
Particulars of an Alternative Person to be Contacted: Name: Position: ……………………………………………………………………………………………………….. Mob:…………………………………………………E-mail: …………………………………………………

A2: COMPANY AFFILIATES:

2.1 Does your company have any subsidiaries[4] within Tanzania? Yes ☐ No ☐
2.2 If yes, are you supplying consolidated information for all the companies within the group? Yes ☐ No ☐
2.3 If no, please fill separate questionnaires for each individual Company in the group.

A3: ACKNOWLEDGEMENT OF RECEIPT OF QUESTIONNAIRE

I, ______________________________ of ______________________________
(enter name of recipient) *(enter name of company)*

acknowledge receipt of the survey questionnaire.

Title:	
Signature:	
Date:	
Researcher:	Name:
	Mob:

Note: The due date for return of the completed questionnaire is **two *weeks after receipt of the questionnaire***. If you are having problems meeting the due date, please call us as soon as possible before the deadline, on one of the numbers indicated on the next page.

[4] A subsidiary is an enterprise whose more than 50% of voting right is controlled by another enterprise.

A4: IMPORTANT NOTICE(*Please read this first*)

Purpose of survey

This questionnaire collects information on assets, liabilities, and perception of your enterprise (or group) in Zanzibar. This information will be used by the Bank of Tanzania (BOT), Zanzibar Investment Promotion Authority (ZIPA), Office of the Chief Government Statistician (OCGS) and the Government in balance of payments compilation, investment promotion and national policy formulation.

Focus

You are required to complete this questionnaire from the point of view of your transactions as an investor with foreign assets and/or liabilities in Zanzibar regardless of your nationality.

Collection Authority

Completion of this questionnaire is compulsory under Act No. 14 of 2018 of the **Zanzibar Investment Promotion Authority (ZIPA)** Section 21(j); Act No 9 of 2007 of **Office of Chief Government Statistician (OCGS)**, and Act of 2006 of **Bank of Tanzania (BOT)** section 57. Failure to comply could result in legal and/or administrative action against your company.

Confidentiality

Information will be used only for statistical purposes, and be published in aggregated form. Data relating to individual organisations will not be made available to anyone outside the BOT, ZIPA or OCGS. Government officials failing to comply with confidentiality clause face severe penalties including summary dismissal. This is in accordance with the Acts that established BOT, ZIPA and OCGS.

Estimates

Where possible, please use figures from your accounts. *Un-audited data are perfectly acceptable for this purpose*. In cases where data is not readily available from your accounts, *please provide careful estimates*. We would rather have your best estimate than nothing.

Inapplicable questions

Please do not leave blank spaces even where the question does not apply to you as we do not need to follow up with you. *Please, enter **"N/A"** in the appropriate box, or at the start of the question*.

Due Date

Please complete this questionnaire and return the original to either research officer in contact with you (name on the first page) or ZIPA. Please keep the 'Respondent Copy' of the questionnaire for your own records.

Help Available

This questionnaire contains technical terms. If you have problems in completing this questionnaire, please refer to notes attached at the end. Alternatively, please contact BOT, ZIPA or OCGS through:

Shariff A. Shariff
Zanzibar Investment Promotion Authority
P. O. Box 2286
ZANZIBAR
Tel: 255 24-2233026
: 255 24-2237858
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E - mail: zipa@zipa.co.tz
: info@zipa.co.tz
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: 255 24-2232362
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255 24-2232140
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Abdulramadhan Abeid
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E-mail:zanstat@ zanlink.com
Website: www.ocgs.go.tz

THANK YOU IN ADVANCE FOR YOUR COOPERATION

SELECTED DEFINITIONS AND GUIDELINES

Residency: A company is a resident enterprise if it has been operating (or intends to operate) in the reporting economy for a year or more, regardless of its nationality. Non-resident individuals or enterprises constitute the rest of the world if they have lived or operated (or intend to live or operate) outside the reporting economy for a year or more (even if they hold nationality of the reporting economy). A special case of residency: international organisations

An enterprise is in a direct investment relationship with a ***Direct Investor (DI)*** if the investment is from a non-resident enterprise or individual that directly holds 10% or more of its equity or voting rights.

An enterprise is in a direct investment relationship with a ***Direct Investment Entity (DIE)*** if the investment is from its non-resident subsidiary or associate enterprise that directly holds 10% or more of its equity or voting rights (Reverse investment).

An enterprise is in a direct investment relationship with a ***Fellow Enterprise (FE)*** if the investment is from a non-resident enterprise that directly holds less than 10% of its equity but also has the same direct investor. The two enterprises must have the same controlling parent company to be fellows irrespective of the parent's residency.

Portfolio Investment (FPI) represents equity and non-equity investment in a company accounting for less than ten percent (10%) of that company's ordinary shares or voting rights and it's tradable**.**

Investment Fund Shares (IFS) are collective investment undertakings through which investors pool funds for investment in financial and/or non-financial assets. Investment funds include money market funds (MMF) and non-MMF investment funds.

Other investment relationship (Other) in this document refers to equity investment of less than 10% that is not tradable or borrowing/lending to non-affiliates.

Non-Affiliates (Non-related enterprises) are entities with which your enterprise has no equity, voting rights or equivalent and don't share a common parent

Life & Non-life Insurance Technical Reserves**-**consist of the reserves for unearned insurance premiums, which are prepayment of premiums and reserves against outstanding insurance claims, which are amounts identified by insurance corporations to cover what they expect to pay out arising from events that have occurred but for which the claims are not yet settled.

Pension Entitlements/Claims show the extent of financial claims both existing and future pensioners hold against either their employer or a fund designated by the employer to pay pensions earned as part of a compensation agreement between the employer and employee.

Standardised Guarantee are those guarantees that are not provided by means of a financial derivative (such as credit default swaps), but for which the probability of default can be well established. These Guarantees cover similar types of credit risk for a large number of cases *e.g.* include guarantees issued by governments on export credit or student loans.

Financial Derivatives
A financial derivative contract is a financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (*such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, and so on*) can be traded in their own right in financial markets.

Options**-**in an option contract (option), the purchaser acquires from the seller a right to buy or sell (depending on whether the option is a call (buy) or a put (sell)) a specified underlying item at a strike price on or before a specified date.

A forward-type contract (forward) is an unconditional contract by which two counterparties agree to exchange a specified quantity of an underlying item (real or financial) at an agreed-on contract price (the strike price) on a specified date. Forward type contracts include *futures* and *swaps*.

Ultimate controlling company - For direct investment, there can be chains of voting power, such as when a direct investor in economy A has a subsidiary in economy B, which in turn has a subsidiary in economy C. In this case, for the direct investment in economy C, (a) the economy of immediate ownership is Economy B; and (b) the ultimate controlling economy is economy A.

A5: INDUSTRIAL CLASSIFICATION

Please indicate the sectors of economic activity of your company and its subsidiaries based on total investment.

Sector/Industrial Classification	*Description of Economic Activity*	*Estimated Percentage Contribution to Company's Total Investment*
1		
2		
3		
4		
5		

A6: SUBSIDIARIES

Please list any subsidiaries (or sub-subsidiaries) your enterprise has in Tanzania:

S/N	*Name of subsidiary*	*Industrial Classification*	*Main activity*
1			
2			
3			
4			

A7: SHAREHOLDING STRUCTURE (*Please use backside of this page if the space provided is not enough*)

Year	Residency/Multilateral Organization	Shareholder's Name	Shareholding (%)	Investment Relationship: *DI, DIE, FE, FPI, IFS, Resident and Other*

PART B: EQUITY INVESTMENT IN YOUR COMPANY

Please report all values in TZS or USD, and in units (e.g. ten million units as 10,000,000 and **NOT** 10m). May you also support you responses with the recent Audited Financial Statement or Management Financial Report

Currency used (*ticks the relevant currency and refer to a table of exchange rates in the last page*):

TZS		**USD**	

B1. DIRECT INVESTMENT

TABLE B1: EQUITY & INVESTMENT FUND SHARES BY NON-RESIDENTS

Equity Type	**A** **Opening Balance January 1st 2018**	**B** **Purchase/ Increase**	**C** **Sales/ Decrease**	**D** **Other Changes Due to change in D1+D2+D3=E-(A+B+C):**			**E** **Closing Balance 31st December 2018**
				D1	**D2**	**D3**	
Paid-up Share Capital							
Share Premium							
Reserves(Capital, Statutory, revaluation, & Other**)**							
Other Equity (e.g. Equity Debt Swaps, Shareholders Deposits)							
Accumulated Retained Earnings/Loss							
Investment Fund Shares (Shares)							
Accumulated Retained Earnings							

B2: INCOME ON INVESTMENT

TABLE B2: PROFITS, DIVIDENDS, RETAINED EARNINGS AND HOLDING GAINS

F **Net Profit (or Loss) After Tax in 2018**	**G** **Dividends declared in 2018**	**H** **Dividends paid/profits remitted in 2018**	**I** **Official use only retained earnings = (F-G)**	**J** **Official use only (** *Retained earnings in 2018* **)** **= F-G**

PART C: NON EQUITY INVESTMENTS IN YOUR COMPANY

TABLE C1: NON EQUITY LIABILITIES

Type of loan	Source Country /Multilateral organisation	Relationships: DI, DIE, or FE, PI, Other, Resident	Original Maturity LT-12months or more ST-Less than 12 months (Indicate LT or ST)	A Opening Balance January 1, 2018	B Amount received 2018	C Principal Repayment 2018	D Official use only Other Changes Due to changes in D1+D2+D3=E-(A+B+C)			E Closing Balance 31 Dec 2018 (Including Accrued interest Not Paid)	F Interest Paid in 2018
							D1 Exchange Rate	D2 Price Changes	D3 Volume		
Loans (*Including Financial Leases, Repos*)	1.										
	2										
	Tanzania										
Debt securities (*Including Money Market Instruments, Bonds and notes*).	1.										
	2										
	Tanzania										
Suppliers/Trade Credits & Advances	1.										
	2										
	Tanzania										
Currency and Deposits	1.										
	2										
	Tanzania										
Life & Non-Life Insurance Technical Reserves	1.										
	2										
	Tanzania										
Pension Entitlements/Claims	1.										
	2										
	Tanzania										
Standardised Guarantees	1.										
	2										
	Tanzania										
Other Accounts Payable	1.										
	2										
	Tanzania										
TOTAL											

TABLE C2: EXCHANGE RATES (TZS/USD) 2018

	2017	2018
End of period	2,230.3	2,281.2
Annual average	2,228.9	2,263.8

D1: EMPLOYMENT

(a) Please indicate in the table below, number of employees in your company based on the following categories:

Nationality	Foreign Nationals		Tanzanians			
			Zanzibar		Tanzania Mainland	
Year	2018		2018		2018	
Sex	M	F	M	F	M	F
Management						
Professionals*						
Non-professional						
Total						

**Professional refers to employees (excluding Management) with specialised formal training at the level of at least First degree, advanced diploma or its equivalent.*

D2: CORPORATE SOCIAL RESPONSIBILITY

Please indicate the amount your company spent on the following activities in 2018.

No.	Item	2018
1	Education	
2	Health and welfare	
3	Safety and security	
4	Arts and culture	
5	Sports and development	
6	Environment	
7	Water	
8	Road	
9	Religious	
10	Other (specify)	

D3: ACCESS AND AFFORDABILITY OF INFRASTRUCTURE AND OTHER SERVICES

D3.1 In your opinion, rate the accessibility/availability of the following in support of your operations (*Tick appropriate responses*)

Utility/service	Poor	Good	Very good	Not certain
Water				
Electricity/power supply				
Roads				
Airport services				
Ports services				
Telecommunication				
Banking services				
Health services				
Security				

D3.2 In your opinion, rate the affordability of the following in support of your operations (*Tick appropriate responses*)

Utility/service	Affordable	Expensive	Very expensive	Not certain
Water				
Electricity/power supply				
Road transport				
Airport services				
Port services				
Telecommunication				
Banking services				
Health services				
Security				

Please elaborate your responses in **D3.1 and D3.2**

…………………………………………………………………………………………………

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Appendix 2: FDI by Source Country

	Flows			Stock			
	2016	2017	2018	2015	2016	2017	2018
United Arab Emirates	98.2	72.9	28.5	60.9	157.9	402.4	432.9
Czech Republic	11.1	0.4	25.0	62.4	72.9	72.7	96.1
Kenya	-2.9	4.3	0.8	90.2	86.5	89.6	88.0
Italy	1.9	4.8	8.8	68.5	69.4	63.9	71.3
United Kingdom	5.5	12.4	6.0	42.7	50.4	64.7	69.7
Egypt	0.1	0.3	17.1	0.0	0.1	7.5	53.4
Mauritius	6.0	-1.9	31.0	18.2	34.0	31.0	52.4
Singapore	0.1	0.1	-0.9	36.1	35.8	29.0	27.5
Netherlands	1.4	-1.1	0.3	14.4	15.7	18.2	17.0
Germany	-0.4	0.6	1.2	11.5	11.0	11.4	12.3
Sudan	0.6	0.4	-0.6	9.2	9.8	10.3	9.7
Iraq	4.8	0.0	-0.1	7.6	12.3	9.8	9.6
Cyprus	0.4	1.9	-1.3	6.5	6.8	10.0	8.4
Mauritania	0.0	0.0	3.0	0.0	0.1	0.0	8.0
Poland	0.6	0.4	0.5	5.6	6.1	6.2	6.6
Spain	0.6	1.0	-0.1	4.5	5.1	6.4	6.1
Switzerland	0.1	0.6	-0.2	5.1	5.1	5.4	5.1
United States	0.2	1.0	0.4	6.4	4.1	4.2	4.5
India	0.0	0.2	0.0	4.1	4.1	4.3	4.3
South Africa	0.6	0.2	2.7	3.1	3.6	1.6	4.2
Turkey	-0.2	-0.4	0.0	2.6	3.5	3.1	3.1
Canada	0.0	0.0	0.3	0.2	0.2	2.6	2.8
Kuwait	0.0	0.0	0.3	0.0	0.0	2.1	2.4
France	-0.1	0.0	0.0	0.7	0.7	1.4	1.5
Cayman Islands	0.5	0.0	0.1	1.0	1.3	1.3	1.4
Oman	-0.1	0.1	0.0	1.2	1.6	1.2	1.1
Sweden	-0.2	-0.2	0.0	3.0	2.8	0.9	0.9
Bahrain	0.0	0.0	0.2	0.0	0.0	0.5	0.7
Lebanon	0.0	0.0	0.1	0.0	0.0	0.6	0.6
Australia	0.0	0.8	0.4	0.4	0.4	0.1	0.6
Pakistan	0.0	0.0	0.0	0.5	0.5	0.5	0.6
Israel	0.0	0.0	0.0	0.3	0.3	0.5	0.5
Belgium	0.0	0.0	0.0	0.0	0.0	0.4	0.4
Austria	-0.3	-0.1	0.0	1.2	0.9	0.3	0.3
Finland	0.0	0.0	0.0	0.0	0.0	0.2	0.2
Japan	0.0	0.0	0.0	0.0	0.0	0.2	0.2

	Flows			Stock			
	2016	2017	2018	2015	2016	2017	2018
Ireland	-0.1	0.0	0.0	0.3	0.2	0.2	0.2
Norway	0.0	0.0	0.0	0.2	0.2	0.2	0.1
Serbia	0.0	0.0	0.0	0.2	0.2	0.1	0.1
Uganda	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ethiopia	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Slovenia	0.0	0.0	0.0	0.1	0.1	0.0	0.0
China	0.1	0.2	0.0	2.6	2.7	0.0	0.0
Denmark	0.5	0.2	0.0	6.7	6.9	0.0	0.0
Russian Federation	1.0	0.0	0.0	0.0	1.0	0.0	0.0
African Development Bank	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Botswana	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Croatia	0.0	0.0	0.0	0.1	0.1	0.0	0.0
DRC	0.0	-0.1	0.0	1.4	1.4	0.0	0.0
EIB	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Greece	0.0	0.0	0.0	0.0	0.0	0.0	0.0
IFC	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Luxembourg	0.6	1.7	0.0	3.8	4.4	0.0	0.0
Mexico	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Morocco	0.4	-0.2	0.0	0.0	0.4	0.0	0.0
Others	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Portugal	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reunion	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Rwanda	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	0.0	0.0	0.0	0.1	0.1	0.0	0.0
Seychelles	0.0	0.0	0.0	1.1	1.0	0.0	0.0
South Sudan	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Swaziland	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Zambia	0.0	0.0	0.0	0.2	0.2	0.0	0.0
Total	**131.2**	**100.5**	**123.4**	**484.8**	**621.9**	**865.4**	**1,004.9**

Source: PCF Survey 2019