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**South African FDI in East Africa:  
The Case of Tanzania**

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# **South African FDI in East Africa: The Case of Tanzania**

**By**

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## 1. Background

Until the end of Apartheid, there was almost no presence of South African investment in East Africa. In Tanzania, for example, although there had been an ongoing involvement of de Beers in the Williamson Diamond Mine, there was no other significant investment. During that period, the main South African presence had been members of the South African opposition in exile.

Over the past decade, this has changed dramatically. South African companies have become the most noticeable foreign investors in Tanzania (See Table 1). The pace of their investment inflow increased during the second half of 1990s and in less than a decade, South Africa has become one of the top five investors in Tanzania<sup>2</sup>, gradually displacing United Kingdom, which traditionally held the high ground because of being the former colonial power.

**Table 1: Major Foreign Affiliates in Tanzania, 2001**

Company name	Home Country	Investment (Mill US\$)	FDI form and Industry
Kahama Mining	Canada	610	New, gold mining
Geita	Ghana/ <b>South Africa</b>	400	M&A, gold mining
Tanzanian Telecommunications Company	Netherlands/France	120	Privatization., jv., telecom
Vodacom	United States/ <b>South Africa</b>	120	New, telecommunication
Tanzania Breweries	<b>South Africa</b>	120	Privatization, jv, manufacturing
Tanzania Cigarette Company	Japan	80	Privatization, jv, manufacturing
Golden Pride	Australia	77	New, gold mining
Afrika Mashariki	Australia	72	New gold mining
Mtibwa Sugar	Mauritius	48	Privatization, jv, Manufacturing
Kilombero Sugar Co.	UK/ <b>South Africa</b>	40	Privatization, manufacturing
Serena Hotels	Pakistan	33	New, tourism
Mic Tanzania	United Kingdom	27	New, telecommunication, jv.
Merelani	<b>South Africa</b>	20	New, mining
National Bank of Commerce	<b>South Africa</b>	15	Privatization, banking
Indian Ocean Hotels	United Kingdom	15	New, jv, Tourism
Holiday Inn	<b>South Africa</b>	13	New, Tourism

Source: UNCTAD, 2001.

Note: "jv" means joint venture.

It is argued that this inflow has not been equally experienced in all East African countries<sup>3</sup>. There have been different trends of South African direct investment into these countries with Tanzania receiving a much greater flow than Kenya and Uganda.

According to the Johannesburg Chamber of Commerce (2000) Tanzania held more promise as a market compared to other East African countries. This is despite the fact that Uganda was ranked as one of the top ten foreign direct investment (FDI) recipients in Africa, and Kenya had an established role as the leading destination of FDI in East Africa before 1990.

<sup>2</sup> TIC estimates a value of US\$ 145 million by September 2001 for South Africa, although some FDI projects from South Africa are undertaken by foreign affiliates with headquarters in developed countries (e.g., Holiday Inn).

<sup>3</sup> See <http://www.hartford-hwp.com/archives/36/371.html>

While Tanzania has received more than US\$850 million of South African investment since 1994 creating about 44559 jobs (See Appendix 1), Kenya has received approximately US\$450 million creating over 4000 employment opportunities<sup>4</sup>. In Uganda, South African companies have total planned investments amounting to US\$227.79 million and have created 3,583 jobs. Out of 32 South African companies in Uganda, 13 were licensed between 2000 and 2003 (Games, D. 2003).

Tanzania's remarkable achievement in terms of South African direct investment inflow in the late 1990s was not only relative to her East African neighbours but also relative to the entire SADC area. Tanzania became the leading recipient of South African investment capital in 1998, with FDI topping about US\$443 million (See Table 2). The country received slightly higher than 10 per cent of the total flow of South African investment capital in the SADC area from 1996 through to 1998.

**Table 2: SA FDI in SADC 1996-1998 (US\$ m)**

<b>Target country</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>Total</b>
Angola	...	0.78	103.00	103.78
Botswana	8.35	9.99	57.25	75.59
Lesotho	...	2.43	...	2.43
Malawi	1.62	...	41.30	42.92
Mauritius	...	...	7.30	7.30
Mozambique	126.03	1 380.89	393.21	1 900.13
Namibia	5.81	15.39	124.45	145.65
Swaziland	...	32.61	48.77	81.38
Tanzania	0.83	26.30	443.29	470.42
Zambia	4.50	186.24	212.39	403.13
Zimbabwe	...	586.52	340.24	926.76
<b>Total</b>	<b>147.14</b>	<b>2 241.15</b>	<b>1 771.19</b>	<b>4 159.49</b>

**Source:** Brenda, V (2002)

The BusinessMap database also reports outward investment by South African companies totalling about US\$10 billion between 1994 and 1998 and arising from a total of 313 deals. Interesting to note is that Tanzania was among the top ten recipient countries in the world in terms of South African investment deals during the period (See Table 3).

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<sup>4</sup> These investment figures for Kenya are from the address by Deputy Minister, Department of Trade and Industry, South Africa, Mr. Lindiwe Hendricks during the Kenya Week Exhibition at Cape of Good Hope Castle on 12 November 2002

**Table 3: Number of South African Investment (1994-1998)**

Country	Number of Investment	Country	Number of Investment
United Kingdom	35	Zambia	13
Australia	26	Ghana	11
Namibia	16	Zimbabwe	11
Mozambique	14	Germany	10
Tanzania	14	Botswana	9
United States	14		

**Source:** BusinessMap (1999)

The main purpose of this background paper is to address the questions “how” and “why” this happened. It sets out to describe the process whereby the South African stake in the Tanzanian economy has increased so dramatically and explore possible explanations for the phenomenon. The analysis of the consequences (effects) of this development and implications for future policy are left for a subsequent stage of the study.

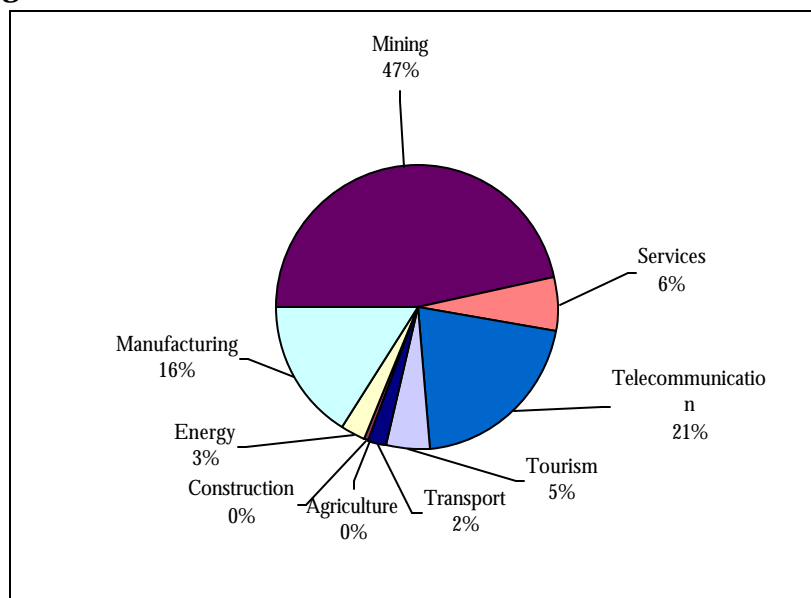
## **2 How South African Companies Entered the Country: Sectoral Experiences**

The flow of South African investment into Tanzania dates back to 1993. This was a year before the historic event in 1994 that resulted into South Africa becoming a democratic country. Prior to 1994, South Africa operated under the apartheid regime. Sanctions against this regime prevented South African companies from investing their profits abroad. The adoption of a democratic regime in 1994, however, released this previously dormant investment capacity. Since then, South Africa became the major source of foreign direct investment (FDI) in many African countries. In Tanzania, South African investors have directed their interests towards all the economic sectors, particularly in breweries, mining, hotels, transport, and the financial sector. This section therefore presents a sectoral discussion of the entry of South African Companies in Tanzania.

### (i) Mining and Mineral Exploration

About half of the South African Investment in Tanzania since 1994 went in the mining sector (see Figure 1). This is partly due to the fact that South African involvement in the mining sector has a long history in the country. It dates back to 1940s when the De Beers Centenary AG had been operating a joint venture with the Government (latterly through the State Mining Corporation) in the diamond mining. In 1994, Wilcroft Co., a subsidiary of the De Beers was granted an additional 30 percent of Williamsons Diamonds Ltd. As a result of the 30 percent addition, De Beers’s overall share rose to 75 percent. The company paid US\$1.2 million plus a US\$7.5 million investment pledge to rehabilitate and modernize the Mwadui Mine.

**Figure 1: Sectoral Distribution of South African Investment, 1993-2002**



**Source:** See Appendix 1

Since 1994, South African companies engaging in mining and mineral exploration activities have flocked the mining sector. Most of the South African investment in the mining sector in general and gold mining in particular came from Anglo -Gold Company. The company spent about US\$362 million between 1998 and 1999, out of which US\$2 million was paid for a 60 percent share of 11 licenses for the areas covering south of Lake Victoria belonging to Maiden Gold of Australia; US\$205 million plus US\$65 million for the 50 percent share and for the financing of the Geita project, respectively; and US\$90 for the share of North Mara project belonging to the East Africa Gold Mines Ltd. (EAGM) of Australia.

South African Anglo American Corporation was another gold mining company and operated a joint venture with the Canadian Pangea Goldfields Inc. The company had a two-year commitment to spend US\$2 million in the exploration of Tanganyika Gold's Lupa Goldfields in 1997. In July 1997, Anglo American Corp. entered a new joint venture agreement with Sutton Resources Ltd. of Canada. As a result, Anglo was granted the right to acquire a 60 percent interest in the separate Kabanga property by committing to spend US\$27 million.

In cement, Alpha, in July 1996, acquired 60 percent shares in the Tanga Cement Company. Over the past few years, the company has invested about US\$12 million in improving operational efficiency, reducing costs and maintaining high and consistent product quality. It has also invested in a human resource development programme, which aimed at improving the skills level of Tanga Cement's workforce of 325.

Between 2000 and 2003, the South African Afgem invested about US\$20 million in the tanzanite fields in Merelani, northern Tanzania. The company also succeeded in pioneering a branding and certification process for its gem quality tanzanite production – a widely accepted approach to the business, which even the large diamond producers have not managed to follow through on.

Other mining companies from South Africa, which conducted mining and mineral exploration activities included Rand Gold resources, JCI Ltd., Iscor Ltd., and AvGold. There were also a number of South African companies providing back-up services to the mining sector including the Consolidated African Diamond (T) Ltd., Harwood International Ltd., Karibu Mining Services Ltd., the Sandrive Tamrock, Krone Capital Corp. Ltd., Dalnik Metal Ltd (leasing of mining equipment), and Drill Master.

#### (ii) Telecommunication

In the telecommunication sector, Vodacom – a mobile operator company – is arguably one of the most successful South African companies to enter the country. Since its establishment in 2000 it has invested about US\$142 million. According to TIC database, Vodacom's investment had a significant impact on the sectoral distribution of South African investment, which enabled the telecommunication sector (a new sector in terms of foreign investment) to receive about 21 percent of South African investment in the country (See Figure 1 above). Probably this is due to the start-up growth, which was well beyond the company's expectations. For example, Vodacom projected 36,000 subscribers in the first year of its operation in Tanzania. However after only eight weeks the company had about 38,000 subscribers and by mid-2003 the company had more than 50 percent market share in the mobile operation industry.

#### (iii) Manufacturing

Manufacturing is among the sectors, which received large amount of South African investment and created many jobs in Tanzania since early 1990s. Most of the investment in this sector went in the acquisition of the already-established companies, such as Tanzania Breweries Ltd., by South African Breweries; Kwanza Bottlers Ltd. by South African Bottling Company and the Kilombero Sugar Company by the Illovo Sugar Ltd.

South African involvement in the manufacturing sector started in November 1993, when South African Breweries acquired 46 percent of Tanzania Breweries Ltd. (TBL) for US\$21 million. As part of its achievements, in September 1998, TBL became the Dar es Salaam Stock Exchange's second company to acquire a listing and South African Breweries had its share increased to 50.5

percent. Since the joint venture agreement with Government, the company has increased its interest in Tanzania Distilleries Ltd to 100 percent and its interest in Darbrew Ltd – a sorghum beer producer – to 60 percent.

Another successful company was South Africa Bottling Company (SABCO), which in 1994 acquired shares of the Kwanza Bottlers Ltd. (a soft drink manufacturing company) from the former Tanganyika Bottlers. A total of US\$35 million was invested for construction of the Mikocheni plant, which was opened in 1997 and renamed Coca-Cola Kwanza Limited. The firm also owns Afri Bottlers located in Mbeya and Zanzibar Bottlers located in Zanzibar.

Newly established South African companies, which invested in the sector include the Megapack (T) Ltd in Dar es Salaam for the production of beer and soda plastic crates; the Bahati Holding Ltd. in Arusha for the production of mineral water; and the Karibu Food Ltd in Dar es Salaam for the production of food products.

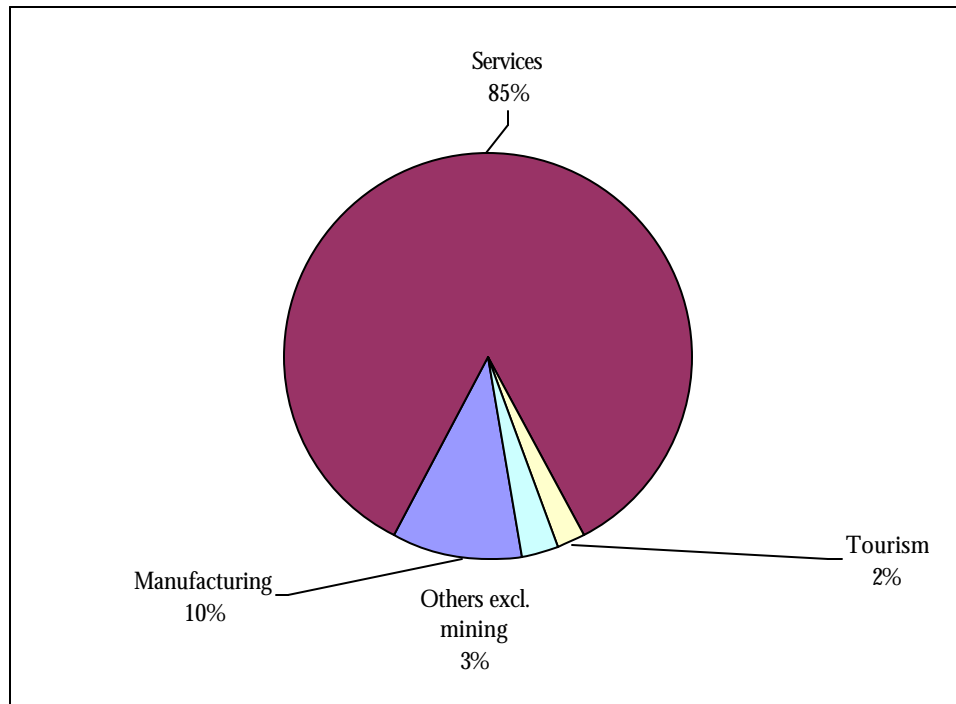
Others include Inter-Africa Outdoor Advertising Co. specializing in the manufacturing outdoor displays; Afrigavix Ltd. in Dar es Salaam for the production of all types of sign boards advertisement and related products; Linlan (T) Ltd in Dar es Salaam, for the production of confectioneries, sweets and cool drink powder; Seounguk Trading Co. Ltd. in Dar es Salaam, for processing and canning of fruits for export and local market; Global Outdoor Systems Ltd. for the production of outdoor advertising facilities; and tredcor (T) Ltd. engaging in tyre retreading activities.

#### (iv) Financial and Security Services

The influx of South African companies was also significant in the financial and business services. By the year 2002 the sector provided much of the employment among South African companies (See Figure 2 below) largely attributable to the privatization of NBC (1997) Ltd – the bank, which has branches throughout the country. It is noteworthy that in this sector, other new services, such as security services were introduced in the country.

Among the South African companies providing financial and banking services include the International Trade Finance & Commodity Co. Ltd. in Dar es Salaam and the Amalgamated Banks of South Africa Group Limited (ABSA), which in 2000 acquired 70 percent of the shares of NBC (1997) Ltd. ABSA paid a total of US\$18.75 million for the 70 percent share.

**Figure 2: Sectoral Distribution of Employment from South African Businesses Excluding Mining, 1993-2002**



Source: See Appendix 1

As regards security services, Seraceb (T) Ltd., Coin Security (T) and Gray Security Services Ltd. were established. In food and retail business services, South African investors, which operate in the country, include the Score supermarket, Nandos (Restaurant), and Shoprite (Supermarket). Others include Woolworths (Clothes), MultiChoice in Dar es Salaam (Television entertainment services), TV Burudani Ltd. (the Africa Pay TV (APT)) in Arusha (Television entertainment services), and Dispositiek Africa Ltd. in Dar es Salaam (Sanitary services).

(v) Tourism

Tourism is among the sectors, which were given more emphasis since the early 1990s as having potential to stimulate the country's economic growth. Consequently the Government attracted much more foreign investment in this sector and many tourist hotels were established. Among the South African companies, which established many hotels in Tanzania were Conservation Corporation Africa (Conscorp) and Protea Hotels.

The Conscorp, for example, established a circuit of tourist hotels in Tanzania with Ngorongoro Crater Lodge being its flagship. The circuit also include hotels such as Grumeti River Camp, Maji

Moto tented Camp, Mnemba Island Lodge and the Klein's Camp. The Klein's camp follows the concept of Kenya's private game ranches, the first of its kind in Tanzania. Protea Hotels include Mbweni Ruins, Zanzibar Beach Resort, Pangani River, Aishi Machame, Amani Beach, and Dar es Salaam Apartments.

Many other tourist hotels were established since 1999. These included the Theatre Square Ltd., in which South African investors have about 13 percent share; the Triangle Tourist Resort Ltd. in Zanzibar; Chole Mjini Conservation Development Co. Ltd in Mafia; Kilwa ruins Ltd. in Kilwa; and the Southern Sun Hotels, which in 2000 launched a US\$13 million project to establish the Holiday Inn in Dar es Salaam.

Besides tourist hotels there were tour operator companies established by the South African investors. These included the Kumbuka Safaris and Kubwa 5 Safaris companies. Other businesses were established to provide services in the tourism sector. These included the Sea Breeze Marine Ltd. in Dar es Salaam, which operates a business for scuba diving and fishing charter to tourist; Cape Holding Ltd. in Mwanza, which operates a modern international restaurant; and Cynics Ltd. in Dar es Salaam, which operates a chain of continental style café and wine bars using franchise concept.

#### (vi) Energy

In the energy sector, many South African investors established petroleum companies. Only one investor company was interested in electricity – the Net Group Solutions, which was allowed to manage TANESCO in preparation for the privatization of the latter company.

Among the petroleum companies, which started operations in the country, included the Jovenna Tanzania (JT). Among its achievements during the two years of its operations, the company signed an agreement with Agip Tanzania that enabled JT to either import refined product or buy it from Tanzania Petroleum Development Corporation (TPDC). The company also purchased an existing station in Singida (Central Tanzania) on the main route between Dar es Salaam and Rwanda. Recently, the company has commenced construction of a second station at Kunduchi just north of Dar es Salaam. The company has also supplied tanks, pumps and equipment to a number of bulk consumers.

Other petroleum companies that invested in the country were the Oryx Oil Co and the Engen – the former electricity generation SA State Corporation. Engen invested US\$ 22 million in building and renovating Tanzania's oil refining capacity in Dar es Salaam.

#### (vii) Transport

The transport sector was the first to receive South African investment in 1990s when the Alliance Airways – a joint venture between Air Tanzania, Uganda Airlines and South African Airways under the latter's majority control – was established in 1993. The new company took over some of the assets of Air Tanzania, when the Government re-designated part of Air Tanzania property, including licenses for certain routes, to the joint venture.

The Trans Africa Railway Corporation – whose main shareholder is a company called Comazor – followed suit in 1998 to invest in the sector. The company constructed a container trans-shipment centre between the Tanzania Railways Corporation system and the TAZARA railway at Kidatu.<sup>5</sup>

In December 2002, SA Airways (SAA) and Air Tanzania signed a deal whereby the South African national carrier acquired a 49 percent stake in Air Tanzania. SAA paid about US\$20 million out of which, US\$10 million covered the cost of acquiring the 49 percent stake while US\$10 million would be used to recapitalise the new company.

#### (viii) Agriculture and Agro-Processing

The agricultural sector, which is the mainstay of Tanzania's economy, has attracted very low South African FDI over the past decade. Between 1993 and 2002, South African companies have invested less than 1 percent in agriculture and agro-processing business out of their total investment in the country (see Figure 2).

South African companies started to invest in agro-processing in 1997 when the Government sold the Mufindi Pyrethrum Extraction Plant to South African International Chemical Products Ltd for about US\$ 1 million. In the following year a new agro-processing, namely Wonder Foods Tanzania Ltd was established to pack, market and distribute milk powder in the country. Since 1998, the company has expanded its operations into tea processing, blending, packaging and distribution.

Only one South African company engaged exclusively in agriculture, namely, the Golden Leaf Growers Co. Ltd. The company was established in 2002 in Morogoro to grow flue cured tobacco.

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<sup>5</sup> Two reports give varying reports of the size of this project, one valuing it at US\$ 2.5 million, the other at US\$ 20 million. This discrepancy has still to be resolved.

### (ix) Construction

Together with mining, South African investment in the construction sector has a long history in Africa (Games D., 2003). However, in Tanzania South African investment in the sector has been very low and construction companies started to invest in 1997, when the International House Properties Ltd. was established in Dar es Salaam. The company now holds about 630 square meter of lettable space and a 160-car parking facility.

Other construction companies include the Mirambo Street Properties Ltd. (an ANC venture), Siemens Ltd. and Hydromulch East Africa Ltd. (environment restoration and landscaping for construction industry). Mirambo Street Properties Ltd. since 1995, invested about US\$6.5 million and built properties, which provide about 3300 square meters of rentable space.

In brief the sectoral discussion of South African investment in Tanzania reveals that South African companies have invested in all the sectors of the economy since early 1990s. Much of this investment went to the mining, telecommunication and manufacturing sectors and much of this was received between 1998 and 1999 (See Appendix 1).

### **3 Why South African Companies Entered the Country**

The influx of South African investment from the early 1990s was propelled by the confluence of crucial political changes in South Africa with important changes in Tanzanian economic policy.

The process that led to the end of the Apartheid regime in South Africa also involved the end of the economic boycott of South Africa, which had been maintained by most African countries. In Tanzania, this had the somewhat paradoxical result of replacing the political activists and refugees, who had received solid support from the Tanzanian government over three decades, by South African business people, who in some cases had presumably been supporters of the discredited regime.

On the Tanzanian side there were four policy changes, which set the stage for the expansion in South African investment. These were:

- The political shift from hostility to the South African political regime to positive co-operation with the accession to power of the ANC government;
- The introduction of a series of measures to encourage private foreign investment – the Tanzanian receptivity to South African investment was part of a more general shift in government policy towards foreign investment;

- The introduction of a new regulatory and incentive framework for the mining sector, an important sector in the South African economy; and
- The program for the privatisation of State owned (parastatal) enterprises, which provided some attractive investment opportunities for South African firms.

On the South African side, part of the explanation for South African interest in outward investment was simply the opportunity to penetrate a market, which had previously been inaccessible due to economic sanctions.

However, it would be interesting to explore whether the end of Apartheid not only provided the opportunity but also increased the interest in South African firms diversifying internationally. Also, it would be interesting to understand the role of African investment in the international strategies of South African business. For example, do South African firms see themselves as having a potential competitive advantage in the region?

According to BusinessMap (2000) the presence of an increasingly saturated domestic market in South Africa with high costs of production and low rates of return relative to most other countries in the SADC region were among the reasons that South African investors became more outward oriented.

In addition, reforms by the South African Department of Trade and Industry (DTI) made it easier for South African companies to invest into the SADC. For example, the limit of SA foreign exchange investment into the region was lifted from approximately US\$6.5 million to US\$34 million in 1998.

Other factors include, the collapse of markets in East Asia, the failure of most African countries to develop, South Africa's economic dominance and growing pressures from globalization and world market competition, that have led some South African firms 'to look at their own backyard for friendlier, more accessible markets and production facilities which can be managed or supervised from home'.

The focus of this paper, however, is to explain why South African companies came into the country basing on factors originating in Tanzania.

#### (i) Political Shift towards a Cooperative Relationship with South Africa

As mentioned before, one of the factors that triggered South African investment into Tanzania is the shift towards cooperative relationship between the two countries. Tanzania's political hostility towards South African Apartheid regime dates back to 1959, when Tanzania's former President Nyerere pioneered a movement against the South African Apartheid regime. Mr. Nyerere and Mr. Huddleston were principal speakers at a meeting in London to launch the Boycott Movement in June 1959. In 1960, the movement was renamed Anti-Apartheid Movement.

Subsequently, Tanzania was one of the leading campaigners against the apartheid regime. In 1961, Tanzania together with other countries prompted a decision to exclude South Africa from the Commonwealth in light of South Africa's apartheid policies. For three decades before South Africa's first universal suffrage elections in 1994, Tanzania was host to many political exiles and was one of the main centres for ANC activity outside of South Africa.

The change in political relationship between Tanzania and South African Government occurred in 1994 when the formal diplomatic relations between the two countries were established. Upon South Africa's return to the Commonwealth, diplomatic relations have been conducted at the level of High Commission not only with Tanzania but also with many other African countries.

Under the multilateral relationship and particularly being both members of SADC, probably explains why South African investors were more attracted into Tanzania than into other East African countries. After becoming a member of the SADC in 1994, South Africa was assigned the responsibility of monitoring financial and investment issues in the SADC region. Given this responsibility and its vast investment potential, South African Government had been playing a leading role in encouraging its local companies in investing in the SADC region. Consequently, Tanzania directly benefited from these efforts as compared to other East African countries (Kenya and Uganda), which currently are not members of the SADC.

#### (ii) Policy Shift towards Promotion of Private Investment

The shift towards political cooperation between the two countries coincided with the shift towards the private sector as the engine of growth in the early 1990s. Previously, the Government through the 1967 Arusha Declaration adopted economic interventions and state entrepreneurship policies, which were regarded as critical for fast economic development. The main objective was to ensure that the corporate sector of the economy was in the national hands

rather than being controlled by either foreign investors or the local minority that enjoyed business dominance upon independence.

However, by the early 1980s, it proved almost impossible for the Government to manage its investments in State Corporations without difficulties. The Government was not getting proper returns from past investments and assets were being misused. In addition, consumers, farmers and manufacturers were being poorly served by most of these State Corporations.

Consequently, from the mid 1980s, Tanzania embarked on wide ranging liberalisation policies and economic reforms. The objectives of these efforts, among others, were to turn the country into an economy, which is open, market oriented and dependent on the private investment.

In an effort to promote private investment, both local and foreign, the Government introduced the 1990 investment code and established the Investment Promotion Centre (IPC) under the 1990 Investment Act. In August 1997, the National Investment (Promotion and Protection) Act of 1990 was repealed, and a new Tanzania Investment Act was enacted, creating the Tanzania Investment Centre, a one-stop centre that would promote, coordinate, and facilitate investment. The Act identified investment priorities and introduced a number of investment incentives that attracted foreign investments not only from South Africa but also from all over the world.

### (iii) New Regulatory and Incentive Framework for the Mining Sector

Tanzania's ability to attract mineral explorations and investment has been highly dependent on the country's abundance of mineral resources. However, during 1990s this was boosted by the revised, investor-friendly investment and mining code, which was well received by international investors. The new Mining Act<sup>6</sup> was introduced in 1998. Given the abundance of mineral resources in Tanzania and the investor friendly environment, companies from South Africa, which is one of the world's major mining and mineral processing nations, were easily attracted into the country.

There has been a dramatic growth in the mining sector during the 1990s. For example, annual exploration expenditures are reported to have increased from less than US\$ 1 million in 1990 to about US\$ 96 million in 1997 (see Table 4). During the 1990s, the country has also experienced a 'gold rush' particularly in the greenstone belts at the southern end of Lake Victoria despite the

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<sup>6</sup> During 1998, the Government passed a new Mining Act of 1998 to replace the old Mining Act of 1979. The Ministry of Energy and Minerals administers the new Act through a new office of the Commissioner for Minerals.

gold's low lingering price. In 1998, Tanzania was the leading country in Africa in terms of the number of exploration activities above traditional mining countries of South Africa and Ghana.

**Table 4: Tanzania Exploration Spending in the 1990s (US\$ Million)**

1990	1991	1992	1993	1994	1995	1996	1997	1998	Totals
0.68	1.98	26.19	33.65	77.27	21.07	56.89	95.89	57.7	371.27

**Note:** These figures indicate commitments by the companies as per their work programmes

**Source:** Ministry of Minerals.

Some of the South African mining companies that have operated in Tanzania include the de Beers Centenary AG, Skeat Mining Company, RandGold Resources, JCI Ltd., Anglo American Corp, Alpha (Pty) Ltd., and Avgold Ltd. Besides South Africa, exploration companies from Australia, Canada, Japan, the United Kingdom, and the United States have been very active in Tanzania since the early 1990s, from which the country claims credit for the development of a number of world-class mining operations such as Ashanti's Geita mine, the resolute's Golden Pride mine and Barrick Gold's Bulyanhulu project.

**Table 5: Mining Exploration Expenditure in Southern Africa, 1995-1997 (US\$ Million)**

Country	1995	1996	1997
Angola	0.9	1.5	2.3
Botswana	12.1	10.6	10.8
Lesotho	0.05	4.4	6.6
Mozambique	4	10.2	13.2
Namibia	9.1	11.3	9.3
Tanzania	21.07	56.89	95.89
Zambia	26	32	45
Zimbabwe	1.7	1.7	1.7

**Source:** BusinessMap (1999)

#### (iv) Privatization of the State-Owned Corporations

The program for privatization of State Corporation was another factor for the attraction of foreign investors in general and South African investors in particular. The program dates back to 1992 when, under the Public Corporations Act, 1992 (later amended in 1993 and 1999) the Presidential Parastatal Sector Reform Commission (PSRC) was established. The PSRC was established in order to drive the process of privatisation and create a competitive economy, which will operate successfully at international, regional and domestic levels.

Prior to 1996, privatization did not involve the major utility companies and the Government's resurgent strategy towards the poorly performing national Utilities had been to restructure and subject the Utilities to Management Performance Contracts. However, the Government had to

revise this strategy after discovering that it could not cover the huge costs required for rehabilitation and restoration of operational capacity of the Utilities.

Beginning in 1996, the Government opted to allow private capital to contribute in covering these costs. As a result, the Government included Utilities and infrastructure ventures in the privatization agenda. By mid-2002, many utilities had been subject to privatization.

South Africans involvement in privatisation has included investing more than US\$150 million only in Tanzania Breweries, Kilombero Sugar Company, National Bank of Commerce and Air Tanzania Company Ltd (see Table 6). Currently, more than 15 national Utilities and major transactions have been earmarked for privatization<sup>7</sup>.

**Table 6: Major Companies Involved in Privatization in Tanzania, 2003**

Company name	Home Country	Investment (Mill US\$)	Sector
Tanzanian Telecommunications Company	Netherlands/France	120	Telecommunication
Tanzania Breweries	<b>South Africa</b>	120	Manufacturing
Tanzania Cigarette Company	Japan	80	Manufacturing
Mtibwa Sugar	Mauritius	48	Manufacturing
Kilombero Sugar Co.	UK/ <b>South Africa</b>	40	Manufacturing
Air Tanzania	Tanzania/ <b>South Africa</b>	20	Transport
National Bank of Commerce	<b>South Africa</b>	15	Banking Services

Sources: PSRC and UNCTAD, 2001.

#### **4 New Challenges and Areas for Further Research**

Although this background paper focuses on what steps were necessary to get more South Africa companies, benefits and costs of this investment should also be analysed. There are a number of questions arising from the presence of South African companies in Tanzania, which remain to be answered. In addition, there are challenges drawn from the experiences of South African investors, which can be directed to the policymakers. This section attempts to cite a few of these challenges and new research areas.

##### (i) The Privatization Process

The privatization process of the national Utilities has not been without controversy. To-date South African investors have been involved in two of the major controversies surrounding the privatization of the national Utilities. These were during the privatization processes of the National Bank of Commerce (NBC – 1997) Limited and the Tanzania Electricity Supply

<sup>7</sup> The Utilities and major transactions processed by the PSRC include Dar es Salaam Water Supply Authority, Tanzania Telecommunication Company, Tanzania Railway Corporation, Tanzania Harbors Authority, Tanzania Electric Supply Company, Southern Paper Mills, Seven Prime Hotels and Lodges (Mount Meru Hotel, Lake Manyara Hotel, Ngorongoro Wildlife Lodge, Lobo Wildlife Lodge, Mafia Island Lodge and Hotel Seventy Seven), National Micro finance Bank Limited, National Insurance Company Limited and Kagera Sugar Company Limited.

Corporation (TANESCO). Although all the rules required for the two privatization processes were followed, the public was not well informed about the good Government's intentions. Consequently, this provides a challenge to the Government as far as transparency of the privatization exercise is concerned.

#### (ii) Technology Transfer

Technology transfer is regarded as a key means of bridging the gap between the world's rich and poor countries. At the core of the developmental challenges in this era of globalization is the ability of the poor countries to participate in and benefit from the rapid advances in scientific research and technological innovations that now drive economic and social development. These powerful forces are largely controlled by industrialized countries in the North and are mostly directed to address the problems and needs of rich countries.

The South, as a whole, contributes little to modern science and technology. For example, developing countries account for only 4 per cent of world research and development expenditures and lag behind the developed countries in the generation and application of appropriate and modern technologies. While North-South cooperation is vital to enable the developing nations gain techno-managerial capabilities, it should be complemented by South-South cooperation to enhance its indigenous capacity to generate, manage and utilize science and technology in ways that address its own basic needs including poverty alleviation.

One way in which technology can be internationally disseminated is through foreign direct investment. As mentioned earlier, Tanzania has attracted a considerable amount of South African investment. Whether or not the enlarged South African presence in the Tanzanian economy significantly improves the low Tanzanian technological base and complements technology transfer from the North Industrialized countries remains a mystery and needs to be researched.

#### (iii) Competition

It can be observed that the entry of South African firms has provided a vivid example of the benefits from competition. Competition from South African companies has resulted into the improvement of product quality, the availability of additional products in the market, and expansion of the product market. In addition, Tanzania has manifested a large spending on advertisement in the form of sponsorship by South African companies (e.g., Tanzania Breweries and Vodacom).

However, by the same token, competition from South African firms, which benefits consumers, may be providing difficult competitive challenges to established Tanzanian producers. Smaller retailers, for example, can find themselves unable to compete with the bulk supplies and more competitive prices brought in by South African competitors. In addition, some South African retailers have failed to source locally, increasing resentment and the perception that South African investors are self-serving. Analysis should therefore be done to see whether for example, the benefits from competition to the consumers outweigh the costs to the producers.

#### (iv) Employment Generation

South African companies are becoming important employers in Tanzania through the generation of new jobs in their new projects. However, one expected outcome of privatisation is the rationalisation of work force of the previous parastatals. Therefore, the net employment effect of South African investment has to be analysed with some care.

#### (v) Investment in Agricultural Activities

South African investors have basically concentrated their attention on sectors of the economy other than agriculture, which is the backbone of our economy (See Figure 2). Their interests have been directed towards breweries, mining, hotels, transport, and the financial sector. The government should also attract not only South African investors but also other foreign investors who may have competitive advantage in the sector and particularly in the agro-processing industry.

### **5 Conclusion**

This paper has attempted to stress the issue of South-South cooperation in terms of foreign direct investment because it is argued that this kind of investment better addresses the needs of people in the host countries. South Africa is an economic powerhouse in the South, and Tanzania, being a developing country has made commendable efforts to attract this investment. The paper has identified good investment policies as among the factors that have attracted South African investment.

However, debate on foreign investment in Tanzania has somehow neglected the role of foreign investment in the country. That is, whether foreign investment has met the country's expectations and what impact it has on Tanzania's economic development. The challenge that

lies ahead is to ensure that the issue of attracting more foreign direct investment goes in tandem with the analysis of costs and benefits of this investment.

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## Appendix 1: Some of Investments With South African Interests From 1994 To 2002

S. No	Name of Project	Shareholding	Sector	Location	Employment (No)	Investment (Tsh M)	Year of Entry
1	De Beers Centenary AG	75%	Mining	Shinyanga	...	4554*	1994
2	Mirambo Street Properties Ltd.	100%	Construction	Dar es Salaam	31	2370	1995
3	Kwanza Bottlers Ltd.	100%	Manufacturing	Dar es Salaam	100	19162	1995
4	RandGold	65%	Mining	Shinyanga	...	2791	1995
5	Theatre Square Ltd.	13%	Tourism	Dar es Salaam	33	2700	1996
6	Anglo American Corp.	60%	Mining	Shinyanga	...	19303*	1996
7	Alpha	60%	Mining	Tanga	325	7157*	1996
8	Bahati Holdings Ltd.	100%	Manufacturing	Arusha	20	354	1997
9	Conscorp (T) Ltd.	100%	Tourism	Arusha	238	5606	1997
10	Megapack (T) Ltd.	100%	Manufacturing	Dar es Salaam	19	325	1997
11	Jovenna (T) Ltd.	100%	Petroleum	Dar es Salaam	110	2041	1997
12	International Trade Finance and Commodity Co. Ltd	15%	Services	Dar es Salaam	18	3653	1997
13	Seraceb (T) Ltd.	70%	Services	Dar es Salaam	35	830	1997
14	International House Properties Ltd.	13%	Tourism	Dar es Salaam	56	5400	1997
15	Inter-Africa Outdoor Advertising Co. Ltd	100%	Manufacturing	Dar es Salaam	36	987	1998
16	Karibu Food Ltd.	100%	Manufacturing	Dar es Salaam	97	853	1998
17	Wonder Foods Ltd.	100%	Agro-business	Dar es Salaam	120	966	1998
18	Engen Petroleum (T) Ltd.	100%	Petroleum	Dar es Salaam	40	15600	1998
19	Afri- Bottlers Ltd.	56%	Manufacturing	Mbeya	390	1247	1998
20	Kilombero Sugar Co. Ltd.	55%	Manufacturing	Morogoro	3500	80400	1998
21	Kumbuka Safaris Ltd.	90%	Tourism	Morogoro	49	292	1998
22	Trans-Africa Railways Corp.	100%	Transport	Morogoro	60	3699	1998
23	Harwood International Ltd.	33%	Mining Service	Mwanza	20	536	1998
24	Karibu Mining Services Limited	70%	Mining Service	Mwanza	16	183	1998
25	Consolidated Africa Diamond Ltd.	0%	Mining Service	Shinyanga	50	966	1998
26	Usa Managed Resources Ltd.	90%	Timber	Arusha	56	282	1999
27	Hydromulch East Africa Ltd.	49%	Construction	Dar es Salaam	162	256	1999
28	Siemens Ltd.	80%	Construction	Dar es Salaam	43	400	1999
29	NBC (1997)	70%	Services	Throughout TZ	34000	17906*	1999
30	Dalnik Metal Ltd.	76%	Mining Service	Dar es Salaam	20	832	1999
31	Gray Security Services Ltd.	66%	Services	Dar es Salaam	50	555	1999
32	Medical Express (I) Ltd.	100%	Services	Dar es Salaam	9	800	1999
33	Sandrive Tamrock (T) Ltd.	100%	Services	Dar es Salaam	30	1040	1999
34	Coin Securities (T) Ltd.	50%	Services	Dar es Salaam	35	2665	1999
35	Chole Mjini Conservation Dev. Co.	49%	Tourism	Mafia	63	366	1999
36	Unitrans Tanzania Ltd.	50%	Services	Morogoro	100	1790	1999
37	Kubwa 5 Safaris (T) Ltd.	20%	Tourism	Moro/ Arusha	25	2625	1999
38	AngloGold	50%	Mining	Shinyanga	...	268590*	1999
39	Krone Capital Corp. Ltd.	100%	Mining Service	Shinyanga	58	458	1999
40	Triangle Tourist Resort Ltd.	100%	Tourism	Zanzibar/ Mafia	114	3501	1999
41	TV Burudani Ltd.	48%	Services	Arusha	96	4456	2000
42	Oryx Oil Co. Ltd.	50%	Petroleum	Dar es Salaam	56	1520	2000
43	Score Supermarkets	100%	Services	Dar es Salaam	3000	9520	2000
44	Vodacom (T) Ltd	51%	Telecomm	Dar es Salaam	588	406800	2000
45	Southern Sun Hotels	100%	Tourism	Dar es Salaam	200	10500*	2000
46	Afrigrafix Ltd.	100%	Manufacturing	Dar es Salaam	25	279	2001
47	Linlan (I) Ltd.	99%	Manufacturing	Dar es Salaam	120	735	2001
48	Seounguk Trading Co. Ltd.	95%	Manufacturing	Dar es Salaam	24	346	2001
49	Dispositiek Africa Ltd.	69%	Services	Dar es Salaam	40	437	2001
50	Sea Breeze Marine Ltd.	100%	Tourism	Dar es Salaam	8	492	2001
51	Kilwa Ruins Ltd.	5%	Tourism	Kilwa	100	468	2001
52	East African Drilling Ltd.	100%	Manufacturing	Musoma	25	4263	2001
53	Cape Holdings Ltd.	66.60%	Tourism	Mwanza	70	1197	2001
54	Corstor (T) Ltd.	10%	Transport	Mwanza	7	276	2001
55	Global Outdoor Systems Ltd.	1%	Manufacturing	Dar es Salaam	15	423	2002
56	Tredcor (Tanzania) Ltd.	10%	Manufacturing	Dar es Salaam	9	346	2002
57	Cynics Ltd.	50%	Tourism	Dar es Salaam	24	346	2002
58	Golden Leaf Growers Co. Ltd.	100%	Agriculture	Morogoro	10	49	2002
59	Drill Master	100%	Mining Service	Shinyanga	14	536	2002

Sources: 1. TIC and 2. Figures with \* are estimated from US Geological Surveys (<http://minerals.usgs.gov/minerals>)

**Appendix 2: East African Comparisons: Selected Competitive Factors  
(Ranking 24 African Countries)<sup>8</sup>**

Factors	Tanzania		Kenya		Uganda	
	Ranking	Quantity	Ranking	Quantity	Ranking	Quantity
<b>Openness/1</b>						
Hidden import barriers	12	3.72	15	3.51	18	3.10
Export position	16	3.45	20	3.03	17	3.33
Real exchange rate	7	4.37	19	3.73	16	4.00
Exchange rate policy	4	4.74	19	3.68	17	3.96
<b>Government</b>						
Corporate tax (rate)	4	30.00	6	32.50	5	30.00
Enforced Government regulations/1	13	3.72	22	3.34	16	3.66
Tax evasion /1	18	2.42	22	2.23	14	2.78
Time for permits (percentage of time)	15	14.4	9	10.47	18	14.77
Government officials /1	10	3.20	19	3.74	16	3.56
Business /1	16	3.70	2	4.61	11	3.81
<b>Finance</b>						
Confidence in System /1	20	4.12	15	3.88	21	4.29
Time to transfer money (average no. of days)	11	21.20	14	23.00	13	22.20
<b>Infrastructure</b>						
Quality of road infrastructure/1	16	3.52	24	5.44	12	3.36
Total railways (country average)	9	0.11	11	0.09	16	0.06
Telephones (country average)	17	0.00	12	0.01	21	0.00
Electric power supply /2	17	0.67	22	0.76	16	0.62
Clear customs time (clearance time)	17	18.60	18	19.90	21	24.90
Telephone price /1	12	3.13	24	4.73	8	2.91
Internet access /1	9	2.17	20	3.12	13	2.76
Air transport, quality/1	15	2.80	9	2.34	13	2.70
Port facilities, quality /1	12	2.95	23	4.58	21	4.18
<b>Labor/1</b>						
Local labour market	7	2.85	10	3.00	6	2.80
Hiring Practices	15	3.36	6	4.49	1	5.20
Working hours	8	4.10	5	4.30	2	4.80
Organized labour	5	4.94	18	4.24	7	4.73
<b>Institutions</b>						
Legal system	14	3.51	22	4.13	13	3.49
Quick legal system	11	4.62	22	5.12	18	4.83
Enforced court system	8	3.19	22	3.93	21	3.78
Certainty of rules and laws	18	2.42	22	2.25	20	2.37
Public Security	11	3.61	24	4.78	14	3.99
Organized crime	8	4.09	21	2.69	19	2.96
Civil Service stability	4	2.88	22	4.66	15	3.96

Source: World Economic Forum, 2000

Notes: The 'best situation' is ranked 1 whereas 'the worst situation' is ranked 24

<sup>8</sup> The countries are Nigeria, South Africa, Ethiopia, Eritrea, Democratic Republic of Congo, Angola, Zimbabwe, Tunisia, Mauritius, Botswana, Cote d'Ivoire, Tanzania, Malawi, Kenya, Madagascar, Senegal, Cameroon, Burkina Faso, Morocco, Mozambique, Uganda, Morocco, Ghana and Egypt.

**Appendix 3: SOUTH AFRICAN TRADE WITH EAST AFRICA**  
(Imports from, and export to an East African Country)

<b>Summary Tanzania</b>										
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Imports R million constant 2000 prices</b>	18	37	24	22	18	23	29	27	24	36
Imports - annual growth		105.22	-34.65	-8.06	-18.4	27.13	26.19	-8.87	-9.61	47.32
<b>Imports R million constant 2000 prices - SA total</b>	<b>82936</b>	<b>97773</b>	<b>115032</b>	<b>135922</b>	<b>145471</b>	<b>150983</b>	<b>159474</b>	<b>155183</b>	<b>187113</b>	<b>204369</b>
Imports SA total - annual growth		17.89	17.65	18.16	7.03	3.79	5.62	-2.69	20.58	9.22
TANZANIA's share of total SA imports	0.02	0.04	0.02	0.02	0.01	0.02	0.02	0.02	0.01	0.02
<b>Export R million constant 2000 prices</b>	<b>48</b>	<b>160</b>	<b>527</b>	<b>857</b>	<b>664</b>	<b>1062</b>	<b>1150</b>	<b>1105</b>	<b>1345</b>	<b>1441</b>
Export - annual growth		231.04	229.18	62.54	-22.48	59.85	8.29	-3.89	21.56	7.26
<b>Export R million constant 2000 prices - SA total</b>	<b>122598</b>	<b>122347</b>	<b>135310</b>	<b>140746</b>	<b>147883</b>	<b>155675</b>	<b>160530</b>	<b>174377</b>	<b>209705</b>	<b>237780</b>
Export SA total - annual growth		-0.2	10.6	4.02	5.07	5.27	3.12	8.63	20.26	13.39
TANZANIA's share of total SA export	0.04	0.13	0.39	0.61	0.45	0.68	0.72	0.63	0.64	0.61
<b>Trade Balance R million constant 2000 prices</b>	<b>29</b>	<b>122</b>	<b>502</b>	<b>834</b>	<b>645</b>	<b>1038</b>	<b>1120</b>	<b>1078</b>	<b>1319</b>	<b>1405</b>
<b>Summary Kenya</b>										
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Imports R million constant 2000 prices</b>	42	50	42	153	160	107	71	40	43	84
Imports - annual growth		18.93	-16.23	260.41	4.6	-33.2	-33.77	-42.99	8.14	92.98
<b>Imports R million constant 2000 prices - SA total</b>	<b>82936</b>	<b>97773</b>	<b>115032</b>	<b>135922</b>	<b>145471</b>	<b>150983</b>	<b>159474</b>	<b>155183</b>	<b>187113</b>	<b>204369</b>
Imports SA total - annual growth		17.89	17.65	18.16	7.03	3.79	5.62	-2.69	20.58	9.22
KENYA's share of total SA imports	0.05	0.05	0.04	0.11	0.11	0.07	0.04	0.03	0.02	0.04
<b>Export R million constant 2000 prices</b>	<b>259</b>	<b>381</b>	<b>1072</b>	<b>1213</b>	<b>1216</b>	<b>1871</b>	<b>1395</b>	<b>1310</b>	<b>1533</b>	<b>1707</b>
Export - annual growth		47.41	180.8	13.18	0.23	53.92	-25.46	-6.11	17.07	11.32
<b>Export R million constant 2000 prices - SA total</b>	<b>122598</b>	<b>122347</b>	<b>135310</b>	<b>140746</b>	<b>147883</b>	<b>155675</b>	<b>160530</b>	<b>174377</b>	<b>209705</b>	<b>237780</b>
Export SA total - annual growth		-0.2	10.6	4.02	5.07	5.27	3.12	8.63	20.26	13.39
KENYA's share of total SA export	0.21	0.31	0.79	0.86	0.82	1.2	0.87	0.75	0.73	0.72
<b>Trade Balance R million constant 2000 prices</b>	<b>216</b>	<b>330</b>	<b>1029</b>	<b>1059</b>	<b>1055</b>	<b>1764</b>	<b>1324</b>	<b>1269</b>	<b>1489</b>	<b>1622</b>
<b>Summary Uganda</b>										
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
<b>Imports R million constant 2000 prices</b>	0	1	2	4	2	5	12	22	4	17
Imports - annual growth		1701.43	43.48	83.71	-50.03	59.75	227.86	85.92	-79.22	263.68
<b>Imports R million constant 2000 prices - SA total</b>	<b>82936</b>	<b>97773</b>	<b>115032</b>	<b>135922</b>	<b>145471</b>	<b>150983</b>	<b>159474</b>	<b>155183</b>	<b>187113</b>	<b>204369</b>
Imports SA total - annual growth		17.89	17.65	18.16	7.03	3.79	5.62	-2.69	20.58	9.22
UGANDA's share of total SA imports	0	0	0	0	0	0	0.01	0.01	0	0.01
<b>Export R million constant 2000 prices</b>	<b>5</b>	<b>14</b>	<b>34</b>	<b>153</b>	<b>153</b>	<b>205</b>	<b>334</b>	<b>271</b>	<b>347</b>	<b>466</b>
Export - annual growth		151.84	133.24	338.02	0.3	34.11	62.31	-18.6	27.7	34.44
<b>Export R million constant 2000 prices - SA total</b>	<b>122598</b>	<b>122347</b>	<b>135310</b>	<b>140746</b>	<b>147883</b>	<b>155675</b>	<b>160530</b>	<b>174377</b>	<b>209705</b>	<b>237780</b>
Export SA total - annual growth		-0.2	10.6	4.02	5.07	5.27	3.12	8.63	20.26	13.39
UGANDA's share of total SA export	0	0.01	0.03	0.11	0.1	0.13	0.21	0.16	0.17	0.2
<b>Trade Balance R million constant 2000 prices</b>	<b>5</b>	<b>13</b>	<b>32</b>	<b>149</b>	<b>151</b>	<b>202</b>	<b>321</b>	<b>249</b>	<b>342</b>	<b>449</b>

Source: <http://www.dti.gov.za/econdb/raportt/biltrad.html>