# Foreign Direct Investment Entry Modes In Tanzania: Types, Driving Forces and Implications

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***Abstract:*** The paper aims to identify foreign direct investment mode(s) in Tanzania. The driving forces behind the identified entry mode(s) and possible development implications of the entry mode(s) to the country are presented. Foreign direct investment inflows into Tanzania are both by mergers and acquisitions and green-field investments. Among the major driving forces behind mergers and acquisitions include the ongoing privatisation programme in the country. Major driving forces behind green-field foreign direct investments include availability of untamed investment opportunities especially in the natural resources sector. The identified entry modes may have different positive and negative long-term and short-term implications or effects on financial resources and investments; technologies, employment, skills, export competitiveness and market structure and competitiveness.

## 1. Introduction.

Firms can serve their foreign markets in various ways. These include arm's-length strategies like exporting and various strategic arrangements like franchising and licensing. Firms can also engage themselves in international production of goods and services, which normally takes the form of foreign direct investment (FDI).

FDI is an investment made to acquire a long-term interest in a foreign enterprise with the purpose of having an effective voice in its management (Bjorvatn 2000). FDIs are mostly done by multinational enterprises (MNEs) also referred to as trans-national corporations (TNCs) or simply as multinationals. The contribution of FDI to development is widely recognized, especially in developing countries and economies in transition. The contributions include increase in employment opportunities, increased government revenues, transfer of technology, capital formation, introduction of advanced managerial and organization skills, and advanced state-of-the art technologies (Ngowi 2001; Blomstrøm and Kokko 1997; Bos et al (1994); and Dunning 1994). The section on entry mode implications shows that these contributions, however, may depend on FDI entry modes.

This work is mainly a review and analysis of literature on FDI. The section on FDI entry of modes in Tanzania draws much from data presented in Gibbon (1999). The sections on driving forces and implications of FDI entry modes borrow much from UNCTAD (2000). The paper concludes by providing policy recommendations as well as recommendations for further research on this topic.

**2. FDI entry modes.** Multinational enterprises engaging in FDIs have different entry modes into host countries. They may enter through expansion of existing enterprise by acquiring or merging with an existing local firm in the form of mergers and acquisitions (M&As). They may also enter through investments in new enterprises in the form of green-field investments. In addition, one can mention the concept of brown-field investments, which are hybrids between green-field and M&As (UNCTAD 2000).

**3. FDI entry modes in Tanzania.** FDI is still in its relative infancy in Tanzania. Generally, readily available data on FDI and their specific entry modes are rare. For example data on FDI in Tanzania that were availed to the author by Tanzania Investment Center (TIC) and Bank of Tanzania (BoT), do not categorize FDIs by their entry modes[1]. The entry modes identified here are based on the author's own analysis and interpretation of some data presented in various sources.

The main source of these data is Gibbon (1999). According to Gibbon (1999), the fullest currently available information on 83 of just over 100 real[2] privatisations occurred in Tanzania from January 1992 to June 1998. Some specific FDIs that used the identified entry modes in the period 1992 – 1998 inclusive are given. For the sake of simplicity no discussion is made about brown-field FDIs in Tanzania. This is because due to time and pecuniary limitations, it has not been possible for the author to sort out which FDIs are brown-field per se.

[1] The collected data categorizes FDIs in Tanzania in terms of, *inter-alia*, their sectoral and regional distribution and countries of origin. Nothing is said about their entry modes. This is a shortcoming since FDI entry mode matters for development.

[2] Gibbon (1999) does not explain what he means by the term "real privatisation"…he does not explain "real" as opposed to what other privatisation(s).

**3.1. Mergers and Acquisitions.** Merger and acquisition entry mode has been dominant in most of the traditional classic colonial/neo-colonial exportable raw materials. It is also dominant in import substituting or manufacturing goods that enjoy a high degree of natural protection like beer, cement and petrol products. The parastatals involved enjoyed natural monopolies. Available data show that Tanzania has experienced more acquisitions than mergers in its FDIs inflows. A rough sectoral presentation of some M&As is given in table 1[3].

**3.2. Green-field investments**

Green-field FDIs in Tanzania has been more marked in somehow non-traditional sectors like in fishing and mining where parastatal coverage was very limited. It is also a dominant entry mode in raw materials production where strategic decisions were made by the government not to privatise or at least not to privatise immediately as in cotton ginning and tourism. In what follows some green-field FDIs in Tanzania are presented. Like for M&As, FDIs the investments are presented sector by sector.

*3.2.1.* **Food, drink, agricultural, forestry and animal products**

There have been considerable green-field FDIs in this sector in the 1990s. The FDI's have especially been in fishing/fish farming and in cotton ginning. According to Gibbon (1999) approximately 11 fish processing plants have been opened on the Tanzanian part of Lake Victoria, all for exporting chilled or frozen Nile Perch. Kenyan Asians are the largest single group of investors in this sub-sector. The largest single investment however is by a Finnish controlled joint venture. Permission to construct a prawn farm in the Rufiji Delta, with an announced investment pledge of US$ 180million has been recently granted. The main investor in the project is J R Nolan of Ireland.

Approximately 15 cotton ginneries have been opened in Tanzania (Lake Victoria area). The largest single investment in the ginneries is by MNEs like Cargill, Nipha of India and Kenyan Asians. (Gibbon, 1999).

*3.2.2.* **Mining, Petroleum and Power**.

There have been a number of green-field investments in this sector too. At the end of 1998, there was one new mine in production. This is the US$ 48million Gold Pride gold project at Lusu (Nzega) by Resolute of Australia and Samax. It is jointly owned by UK and Swiss companies but listed in Canada.

Other mines were nearing or just entering their development stage in late 1998. They include the US$ 211million gold project at Bulyanhulu Kahama by Kahama Mining Co owned by Sutton Resources of Canada; a US$ 45 million nickel-cobalt project at Kabanga, Kagera by Anglo Ameri-can of South Africa and Sutton Resources of Canada; a US$ 5million gold project in Shinyanga by Rangold of South Africa and Pangea of Canada. Others are a project in Tarime by East Africa Mines/Afrika Mashariki Gold Mines by Portman Mining and Spinifer Gold of Australia but registered in Canada; large projects by Samax and Ashanti Gold Mines of Ghana on adjoining properties in Geita and other Anglo American projects at Buzwagi and Nyamulilima Hill. Placer Dome developed gold reserves at Rwamagaza and Buziba in 1992.

A Tanzanian state-based/private joint venture was created in early 1998 when a company called Meremeta was formed. The company is owned 50-50 by the government of Tanzania and Trennex of South Africa. It will buy gold from artisan miners, initially in Geita district and later in the other main artisan gold-producing areas.

There has been exploration for petroleum and gas for many years in the offshore Songo Songo field near Kilwa. There has so far not been a discovery of petroleum in commercially exploitable quantities, but natural gas has. A joint venture between the Tanzanian government and two Canadian companies, Trans Canada Pipelines and Ocelot was formed in 1994 for a US$ 300-350million gas-to-electricity project.

The South African former electricity generation parastatal, Engen now majority owned by Petronas of Malaysia, is investing US$ 22million in either building or renovating Tanzania's oil refinery capacity in Dar es Salaam. The deal includes a license to distribute petroleum products and an option to open a chain of petrol stations throughout the country.

El Paso Energy International of USA and a local company, Africommerce International announced in September 1998 a 50-50 joint venture to build a petrol pipeline from Dar es Salaam to the Lake Victoria port of Mwanza. The investment is claimed to be worth US$ 380million. Independent Power Tanzania (IPT) which is a joint venture between Mechmar Corporation of Malaysia (70%) and a local company, VIP Engineering and Marketing (30%) were approved by the government to build a new 100 MW diesel and gas thermal power station at Tegeta, Dar es Salaam. It will cost between US$ 150million and US$ 163million.

*3.2.3.* **Intermediate goods**.

The data that are being analysed show that there have not been green-field FDIs in this sector. It was also seen above that the sector received little M&As FDIs. It is possible that there are more of these investments in the sector but the data are not available. It is also possible that the classification criteria are a problem. It is also possible that investments belonging to this sector are classified under another sector e.g. manufacturing. It is also possible that for one or another reason there have not been so much investments in the sector.

[3] The term M&As is loosely used here to mean acquisitions.

*Table 1. Some mergers and acquisitions in Tanzania between 1992 and 1998.*

| SECTOR | COMPANY AQUIRED | NEW OWNER | YEAR AQUIRED | STAKE ( %) | PRICE IN MIL. US$ | PLEDGE IN US$ |
|---|---|---|---|---|---|---|
| Food, drink, agricultural, forestry and animal products. | Tanita II (Cashew Processing) | Oltremare of Italy | 1992 | 70% | 0.1 | 4 |
| | TBL (Brewing) | Indol of S. Africa | 1994 | 46% | 21 | 26 |
| | Kibaha and Masasi sisal processing | Singapore-Swiss-Kenya Joint Venture | 1996 | - | - | - |
| | Nachingwea Factory | Beachcomber | 1995 | - | - | - |
| | TTC (Cigarette) | R J Reynolds of USA | 1995 | 45% | 55 | 32 |
| | ” | ” | 1998 | 5% | - | - |
| | Mbagala Cashew Processing | Oltremare of Italy | 1996 | 70% | - | - |
| | Makuru Coffee Estate | N G Emmanuel of Italy | 1996 | 435 acres | - | - |
| | Coffee processing plant | CMP Ltd | 1998 | 100% | 0.4 | - |
| | Mnazi sisal estate | Le-Marsh Enterprises of Kenya | 1997 | 100% | - | 0.43 |
| | Tobacco Marketing Board | United Leaf Tobacco of USA | 1997 | 100% | 16.4 | - |
| | Mufindi pyrethrum extraction | International Chemical Products of South Africa | 1997 | 100% | 1 | - |
| | SPM Mgololo | ABD Inc of USA | 1997 | - | - | - |
| | Utegi and Musoma Diary farms | Tetrapack of Sweden | 1997 | 60% | - | - |
| | Mtibwa sugar factory | Tanzania Sugar Industries | 1997 | 75% | 21 | - |
| | Kibo Breweries | Kenya Breweries | 1997 | 80% | - | 1.5 Kenyan Shillings |
| | Kilombero Sugar | Illovo Sugar Ltd of S. Africa | 1998 | 75% | - | - |
| | ” | E D & Man of UK | 1998 | 20% | - | - |
| | Sao Hill saw mill | Escarpment Forestry of Norway | 1998 | 100% | 0.05 | - |
| Mining, Petroleum and Power | William Diamonds | De Beer of S. Africa | - | 30% | 1.2 | 7 |
| | TANALEC | ABB of Sweden and Switzerland | 1994 | - | - | 6 |
| | Tanzania Cable | Dae Sung Cable of Korea | 1996 | 51% | 1.1 | 12.5 |
| | Buckreef, Rwamangaza and Buziba gold reserves | East Africa Mines | 1992 | 100% | - | - |
| | Mwime reserve in Kahama | Madaba, Anglo-America and Pangea of Canada | - | 100% | - | - |

Table 1. Continued......

| SECTOR | COMPANY AQUIRED | NEW OWNER | YEAR AQUIRED | STAKE ( %) | PRICE IN MIL. US$ | PLEDGE IN US$ |
|---|---|---|---|---|---|---|
| | Samax | Ashanti Goldfields of Ghana | 1998 | 100% | 135 | - |
| | Maiden Gold of Australia | Anglogold of S.Africa | 1998 | 60% | 2 | - |
| | Sutton Resources | Barrick Gold | - | - | 120 | 600 |
| Intermediate goods | Saruji Industries-Wazo Hill | Scancerm of Norway | 1994 | - | - | 24 |
| | Tanga Cement Factory | Holderbank Financier Glaris of Switzerland | 1996 | 60% | - | 13.5 |
| | Mbeya Cement | CDC | 1998 | 75% | - | - |
| | ” | Chilanga Cement | 1998 | 11% | - | - |
| Manufacturing | Aluminium Africa | Chandaria group of Kenya | 1992 | 100% | - | - |
| | Tanzania Electric goods manufacturing | - | 1993 | 50% | - | 3 |
| | Light Source Manufacturing | Tata group of India | 1994 | - | - | - |
| | Tanzania Metal Box | Carnaud Metal Box International | 1994 | 57% | - | - |
| | General Tyres | Continental Ag. Of Germany | 1994 | - | - | - |
| | Keko Pharmaceuticals | Docare Ltd | 1995 | 60% | 1.1 | - |
| | Tanzania Pharmaceutical Industries | Pharmaceutical Investments | 1995 | 60% | 1 | - |
| | National Bicycles | Avon Cycles | 1996 | - | 2 | - |
| | Tanzania Liquid Storage | United Mosses Ltd | 1996 | - | 0.9 | - |
| | National engineering Company | Motor Trading Agencies | 1996 | - | 1.7 | - |
| | Urafiki Textile Mills | Diequi of China | 1996 | 51% | - | 11 |
| | Kibo Paper | Industrial Promotion Services of Kenya | 1997 | 100% | - | 4.8 |
| | Ubungo Spinning Mills | Raffia Bags of India | 1997 | 100% | 2.4 | 5 |
| | Ubungo Farm Implements | M/s Tianjin of China | 1997 | 70% | - | 3 |
| Banking & Insurance | Tanzania Postal Bank | - | 1994 | 19% | - | - |
| | National Bank of Commerce | ABSA of S. Africa | 1997 | 70% | 14 | - |
| Hotels and Tourism | New Africa Hotell | Hotel and Resort Investment of Switzerland | - | 77% | 1.2 | 16 |

Table 1. Continued....

| SECTOR | COMPANY AQUIRED | NEW OWNER | YEAR AQUIRED | STAKE ( %) | PRICE IN MIL. US$ | PLEDGE IN US$ |
|---|---|---|---|---|---|---|
| Banking & Insurance | Mount Meru Hotells and Serengeti Lodge Hotels | ACCOR-Novotel of France | 1996 | 100% | 0.5 | - |
| Hotels and Tourism | State Travel Service | - | 1996 | - | 0.3 | - |
| | Bahari Beach Hotels | Protea of S. Africa (Bushtrekker) | 1996 | - | - | - |
| Others | Kilimanjaro Airport Development Copany | Mott McDonald of UK | 1998 | - | 0.001 (lease fee per year) | - |

- Indicates that the new owner or figure (as the case may be) are not known.

*3.2.4.* **Manufacturing**.

The data analysed indicated that there has been insignificant green-field FDIs in the Tanzanian manufacturing sector compared to M&As. Possibly investors do not see Tanzania as good location for manufacturing. The country does not have what it takes for efficient manufacturing and is basically more suited for natural resources based economic activities. The only green-field investment in the sector is the new textile producer, Karibu Textile. Nash Holdings of Mauritania owns 80% of the textile and a local company, Shamsudin Jetha the remaining shares. It started production in July 1998 producing local favourites *khanga, vitenge* and bed-sheets for local and regional markets.

*3.2.4***. Banking and Insurance**

There has been a relatively high level of green-field FDIs in the banking and insurance sector. This can be partly attributed to the fact that the sector was not very well developed by the government. Therefore there were not so many public financial institutions to be let when the market was liberalized in 1992. MNEs in the sector that wanted to enter the Tanzanian market therefore, had to do so through green-field investments rather than by M&As.

Commercial banking has been a site of very considerable interest in Tanzania since 1992. The main foreign entrants have been Meridien BIAO (Zambia, since collapsed), Stanbic of South Africa, Citibank of USA, Euroafrican Bank of Belgium (but with participation from the French Proparco, TDFD and IFC), Standard Chartered, Kenya Commercial Bank, Trust Bank of Kenya and International Bank of Malaysia.

The Tanzania insurance industry was opened for foreign participation in 1998. Tanzindia Assurance was the first company to declare its intention to enter the market. This is a consortium of Indian, Kenyan and Tanzanian investors led by the major Indian players, General Insurance Corporation and Life Insurance Corporation. The second company was Jubilee Tanzania, already operating in Kenya with a majority share holding held by the Aga Khan. Other companies in the industries include Royal and Sun Alliance of UK and Heritage A. I. of Kenya.

*3.2.5.* **Hotels and tourism**

This sector has experienced more acquisitions in form of leases than green-field FDIs. FDIs in the sector are found mostly in the traditional northern tourist circuit and the major new hotels in Dar es Salaam. Serena Hotels owned by the Aga Khan is a good example. It has invested US$ 33million in three luxury lodges and a tented camp on the northern circuit as well as US$ 7million in the Zanzibar Serena Inn. Sopa Logdes of Kenya have built hotels in the Serengeti and Tarangire Parks. Skanska Jensen of Skandinavia, Russian and a local Greek consortium built a new Sheraton hotel for a claimed US$ 150million.

A number of long-term resident European expatriates have entered the camp/"farm-house"/hunting/eco-tourism markets both on the southern and northern circuits and on Mafia island.

*3.2.6.* **Other sectors**.

Green-field FDIs have also been noted in other than the sectors listed above. Among these is what can loosely be called communications. Alliance Airways was set up in 1993, as a joint venture between Uganda Airlines and South African Airways, under the latter's majority control. The Tanzanian government re-designated part of the property of Air Tanzania Corporation (ATC) to the joint venture.

ACCOR of France was the main investor in Inflight Catering Services Ltd at the Dar es Salaam airport. There is a plan by the Trans Africa Railway Corporation, majority ownership by Comazor of South Africa to create a rail link between the Lake Victoria region and Johannesburg. It anticipated that a container trans-shipment centre would be constructed between the Tanzania Railways Corporation systems to the Tanzania Zambia Railway (TAZARA) at Kidatu.

Mobile phone network players in Tanzania include Celtel, Datel, Vodacom, and Mobitel. They also operate as Internet Service Providers (ISP) in the country. Datel made investment pledge of US$ 10.5million. Private investment in urban land is often linked with investment in construction. There has been a sizeable increase in construction of expensive office and hotel buildings in Dar es Salaam in the second half of the 1990s. Among the largest of these is the "International House" whose construction costs are said to be US$9million. As in most other cases in this category, the International House investment takes the form of a joint venture between a Tanzanian parastatal (in this case Tanzania Telecommunications Ltd), a construction company (Mitsubishi/Konoike of Japan), a foreign investor (Murray and Roberts Holdings of South Africa) and a donor agency, IFC.

Table 2. A summary of the FDI entry modes in Tanzania

| Category/Sector | M&As | Green-field | Total |
|---|---|---|---|
| Food, drink, agricultural, forestry and animal products | 20 | 27 | 47 |
| Mining, petroleum and power | 9 | 15 | 24 |
| Intermediate goods | 3 | 0 | 3 |
| Manufacturing | 15 | 1 | 16 |
| Banking and insurance | 2 | 12 | 14 |
| Hotels and tourism | 10 | 5 | 15 |
| Others | 1 | 7 | 8 |
| TOTAL | 60 (47%) | 67 (53%) | 127 |

Table 2 indicates that green-field FDIs are more than M&As in Tanzania for the data under study. The food, drink, agricultural, forestry and animal products category has more FDIs than other categories. This category and mining, petroleum and power and the banking and insurance category are leading in having more green-field FDIs than M&As.

## 4. Driving forces

This section identifies the possible driving forces behind the FDI entry modes in Tanzania. By driving forces we mean the factors that lead/influence a firm to choose a particular entry mode instead of an alternative one.

### 4.1. Driving forces behind M&As in Tanzania

This sub-section identifies the possible driving forces behind M&As in Tanzania. It does so by analysing the general M&As driving forces given in the literature and sees the extent to which they are applicable/relevant in Tanzanian-specific situation.

The data presented on M&As in Tanzania indicate clearly that the country has experienced more acquisitions than mergers per se. The observation is explained by the fact that Tanzania did not have many strong private companies that could have merged with MNEs after the economic liberalization policy. The industrial and financial sectors in Tanzania are relatively poorly developed. This is explained by the country's role as a producer of exportable raw materials in the colonial era and its socialist orientation after independence. Before market liberalization most public companies were in a real verge of collapse and the government was downsizing. Currently the government seems to be committed to the principles of market economy and it is reducing, if not abandoning, its former dominant role as owner and operator of companies. Therefore it is not expected that it will merge the parastatals with foreign firms, but it is privatising them, mainly to MNEs. What is discussed here therefore are the possible driving forces behind the acquisitions[4].

The main reason why these acquisitions could take place is the change in policy and regulatory environment in Tanzania mainly from the mid-1980s. These changes include the liberalization of FDI and trade regimes. Deliberate economic liberalization policies have been initiated and are being implemented in Tanzania. Reforms in the financial institutions, public sector, civil service and other areas are made in efforts to fine-tune the system and attract FDI inflows. The country is in the midst of implementing some far-reaching reforms in its economic management. For example, not being able to cope with the ailing and ill-managed public enterprises and companies, Tanzania is now in a huge privatisation programme of these parastatals. This means parastatal organizations to be acquired are available to foreign (and local) investors. This is therefore among the major driving forces behind the acquisitions in Tanzania.

Acquisition of the privatised Tanzanian firms make it possible for acquirers to rapidly enter into both local and regional markets as opposed to entry through green-field investment. For example the acquisition of TBL makes it possible for the Indol of South Africa to rapidly enter the brewing market in Tanzania and possibly neighbouring countries of Kenya and Uganda. An alternative would be for the South African company to begin from scratch and construct a brewing plant in Tanzania. This would take longer time than the acquisition process. Rapid local and regional market entry therefore is a possible driving force for the acquisitions in Tanzania.

Immediate access to a local network of suppliers, clients and to some extent skills is also a likely driving force behind the acquisitions in Tanzania. When the privatised firms are acquired it is expected that the acquirers would continue to use the same network of suppliers and clients. These can however be changed over time. For example if and when local suppliers are unable to supply the demanded quantity and quality of goods and services to MNEs they may be changed.

Anticipated efficiency gains through synergies, (especially static more than dynamic synergies), can also be counted among the possible driving forces behind M&As in Tanzania. Through static synergies acquirers are able to

[4] The expression M&As will continue to be used in this sub-section but in actual sense it will represent acquisitions only unless otherwise specified.

reduce costs and enhance revenues. For example, they may pool management resources together; use existing marketing and distribution networks; enjoy purchasing synergies, economies of scale and avoid duplication of production and other activities. Dynamic synergies do not seem to be so applicable in the context of Tanzania. It involves innovation enhancing through, say, matching of complementary resources and skills. Tanzania does not seem to be so competent in this category.

M&As in Tanzania can also be attributed to changes in the capital markets. Such developments like liberalisation of capital movements; new information technology (IT) providing instant information across the globe; more active market intermediaries and new financial instruments have made M&As easier. For example new IT make it possible for MNEs wishing to acquire firms in Tanzania to be almost instantly informed about the firms that are to be let.

Other possible driving forces include desire for greater size of firms and risk reduction through product or geographical diversification; the rapid pace of technological change that has intensified the competitive pressure; and to some extent personal gains reasons.

Another likely driver behind the acquisitions in Tanzania is local market knowledge. The acquired firms have the advantage of possessing local market knowledge. This is of advantage to the acquirers who do not have the needed Tanzanian-specific market knowledge for their success.

The quest for strategic assets is not likely, if at all, to be a major driving force behind the acquisitions in Tanzania. It is unlikely that assets like R&D potentials, technical know how, patents, brand names, possession of local permits and licenses are major driving forces behind the acquisitions in Tanzania. This is because the country does not possess a superior calibre of these assets that can be readily accessible by MNEs. The possession of these assets is not among Tanzania's strengths in this context, but its weakness. For example, although short of figures, it is a fact that competitiveness of Tanzania for R&D activities globally is very low, if at all. The country does not have much of the knowledge-driven sectors of the economy and its R&D potentials in the context of attracting M&As FDIs are very low. It is also not expected that the technical know how, patents, brand names, local permits and licenses in Tanzania are of such superior quantity and quality that they can be counted among the major driving forces behind M&As in the country.

Lower cultural and economic distance between Tanzania and home countries for MNEs do not seem to be a major, if at all, driving force behind the observed M&As. Analysis show that firms from almost the same countries have entered Tanzania both though M&As and green-field FDIs. (See details on the same argument under driving forces behind green-field FDIs in Tanzania).

### 4.2. Driving forces behind green-field FDIs in Tanzania

Of the general driving forces behind green-field FDIs, some are likely to be applicable in the case of Tanzania and some are not. In what follows some of the general driving forces given in the literature are analysed to see the extent to which they are applicable to Tanzanian-specific situation. As for the section above, the unlikely driving forces in Tanzania are eliminated and we stress only the likely ones.

Tanzania has huge investment opportunities but there are few firms ready to be acquired. Among the most seen investment opportunities in Tanzania where we observe substantial green-field FDIs is in the natural resources sector generally and in the mining sub-sector specifically. For example, according to the Tanzania National Website (http://www.tanzania.go.tz/investment.html) the country has the following investment opportunities: mining, infrastructure (e.g. Road Construction, Bridges, Airports, generation of electricity, telecommunication, water services, back up services to mining and the like), and Export Processing Zones. These are categorized as lead sectors. Investment opportunities in the priority sectors include agriculture and livestock, air aviation, commercial buildings, commercial, development and micro-finance banks, export processing, geographical special development areas, human resources development, manufacturing, natural resources including fishing, rehabilitation and expansion, radio and television broadcasting, tourism and tour operations.

Examples of the mineral resources endowments in Tanzania include gold, base metals, diamonds, ferrous minerals and a wide variety of gemstones, some of, which are unique to Tanzania such as tanzanite. Coal, uranium and various industrial minerals such as soda, kaolin, tin, gypsum, phosphate and dimension stones are available at attractive economic rates (for details see Tanzanian National Website at http://www.tanzania.go.tz/mining.html). There has not been significant local parastatal involvement in the mining sector. Therefore when the policy environment changed and more FDI inflows were promoted there were no significant ready-to be-acquired mining companies in Tanzania. Most MNEs interested to enter the Tanzanian mining industry had to do so via organic green-field FDIs.

The liberalization of FDI policies in Tanzania applies for both M&As and green-field FDIs. Therefore the policy environment has improved not only for firms desiring to enter the country through M&As, but also for those considering green-field FDIs. This can be among the major driving forces behind the observed green-field FDIs in Tanzania.

Differences between Tanzania and countries of origin of the green-field FDIs do not seem to be a major driving force behind this entry mode. The differences here are the greater cultural and economic distance and some institutional frameworks like differences in corporate governance and ownership structure. A closer look at the countries of origin/nationality/ethnicity of the presented acquisitions and green-field FDIs show the same countries in both categories. For example some companies from Kenya, Malaysia, Ireland, Australia, Zambia, UK, South Africa, Scandinavia, Ghana and France have entered the Tanzanian market both through M&As and green-field FDIs. Only companies from

Mauritania, Canada and Belgium entered through green-field FDIs only and not through M&As. Companies from Italy, Singapore, Korea, Germany and China have only entered through M&As. When companies from the same country enter Tanzania both through M&As and green-field FDIs, *ceteris paribus*, it cannot confidently be said that differences between these countries and Tanzania are among the major driving forces for green-field FDIs in the country.

It is argued in the literature (UNCTAD 2000) that underdeveloped asset markets and poor accounting standards in developing countries may lead to firms choosing green-field FDIs rather than M&As. This is because accurate assessment of the value of corporations is difficult in these countries. In Tanzania however this does not seem to be the case.

Assets market in Tanzania is underdeveloped compared to western countries. But we have witnessed a divestiture and acquisition of well over 100 enterprises in Tanzania. Nothing indicates that foreign firms are unable to enter Tanzania through M&As due to its underdeveloped assets market, thereby being obliged to opt for green-field FDIs. There have been a substantial number of acquisitions in Tanzania (from 1992 in the examples provided here) well before the Dar es Salaam Stock Exchange (DSE) was opened in 1998. This is to say that there have been acquisitions in Tanzania even before assets and capital markets were in place. Causal-effect relationship between the presence of assets/capital markets and entry through M&As in Tanzania can therefore not be established. Underdeveloped assets/capital markets does not therefore seem in any way to be a driving force behind green-field FDIs in the country.

The argument of poor accounting standards too does not seem to apply in the case of Tanzania (and possibly other developing countries). It is most likely that international accounting standards are used when parastatals' assets are valued. Even if this is not the case, accounting standards do not seem to be a major, if at all driving force behind green-field FDIs in the country. In the many acquisitions identified in this paper there should have been huge asset valuation practices (Table 1). Nothing indicates that poor accounting standard in Tanzania has been a barrier to entry through M&As thereby forcing MNEs to opt for green-field FDIs[5]

Neither does the argument that large asset prices and perfections in capital markets encourage more green-field FDIs than M&As seem to be applicable in Tanzania. It is an undeniable fact that the capital market in Tanzania is imperfect. Asset prices for the parastatals that have been sold in Tanzania cannot be said to be large in this context. In fact there have been protests against privatisation of such parastatals as NBC on argument that the prices paid for them are take-away prices. Therefore there have been green-field FDIs in Tanzania despite imperfect capital market and asset prices being relatively low. This observation eliminates the possibility that capital market perfection and large asset prices in Tanzania are major driving forces behind green-field FDIs in the country.

Conclusively it can be said that no single factor is decisive when firms choose entry modes, but a combination of several factors. As for green-field FDIs in Tanzania the major driving forces seem to be availability of untamed investment opportunities and policy change that supports and promotes FDIs to exploit available opportunities in virtually all the sectors of the economy. The other driving forces mentioned in the literature may be applicable in Tanzanian-specific situation, but their roles would be very minimal.

## 5. Implications of FDI entry modes for the host economy

In this section general implications of M&As and green-field investment entry modes in host economies are identified and described. Then specific possible implications for Tanzania are identified and discussed.

### 5.1. General implications of FDI entry modes

Although the contribution of FDI to development is widely recognized, there are some concerns on their entry modes. There is a perception that this contribution may be affected by the way the investment enters a country. The entry modes above arouse varying degrees of concerns. The concerns become urgent when the host economy is a developing country (e.g. Tanzania). The balance of MNEs' benefits and costs for host economies is among the major concerns in this context.

Among the possible implications of M&As, as an entry mode, to a host economy include less economic benefit than in the case of green-field investment; do not add to the productive capacity at the time of entry; transfer ownership and control from domestic to foreign hands; lay-offs and/or the closing of some production or functional activities; servicing the new owner in foreign exchange; market dominance; reducing competition in domestic markets; strategic firms or even entire industries falling under foreign control; threatening local entrepreneurial and technological capacity-building; national culture, sovereignty and/or identity may be threatened and may amount to re-colonization; "fire sales" - companies in distress, are sold often at prices viewed as abnormally low.

M&As' impact on the development of the host economies however depends on such factors as: the type of investment made and the underlying motivation; the situation of the host-country enterprises acquired through M&As; the environment in which an investment through M&As is made and the time frame in which the effects are considered. All these factors may have different implications on financial resources and investment; technology; employment and skills; export competitiveness; market structure and competitiveness of the host country.

[5] According to Tanzania Investment Centre's web site (go to http://www.cats-net.com/tic/acqui.htm ) the pace of privatisation has been constrained by a number of factors, including non-resolution of the parastatal debt, issues about compensation for retrenched workers and an overly bureaucratic divestiture approval process.

**5.2. Entry modes implications for Tanzania**

Some of the FDI entry modes implications for Tanzanian-specific situation are identified in the following section. We will identify and analyse some of the general implications identified above and discuss their relevance to Tanzania.

It is argued in the literature that M&As do not add to the productive capacity at the time of entry as does green-field FDIs. This has not always been the case in Tanzania. Cases are known where after M&As production possibility frontiers (PPF) of the acquired firms have been expanded. For example, The Business Times (July 20 –July 26, 2001) reports that Tanzania Simba Plastics Company Ltd (SPCL) and South African DPI-International merged in July 2001. The deal brought together an investment of about US$ 2.6million (Tshs. 2.08billion). New machines will be installed to increase production so as to cater for increasing demand in Tanzania, where about 70 to 80% of plastic materials are currently being imported (Ngowi 2001).

Some acquisitions in Tanzania, if not all, have led to some lay-offs. Although short of figures, it is a fact that a good number of employees in the acquired parastatals have been retrenched in the name of effectiveness and efficiency. Among the pieces of evidence that these lay-offs have taken place include the fact that compensation of the retrenched workers has been among the major barriers in the divestiture process in Tanzania. Green-field FDIs on the other hand does not have this effect. It is likely that M&As will lead to closing of some production or functional activities like R&D. These may be shifted to the acquirers' home countries as most of them are more advanced and better suited for such activities. Most acquirers will be serviced in foreign exchange. This will increase their scarcity in the country*, ceteris paribus*.

The literature further indicates that M&As may be used to reduce competition in the domestic market. In the case of Tanzania this may not be applicable especially in the goods-producing sectors. On top of production by the acquired firms, Tanzania is supplied with a good number of imported goods. Typical examples include the brewing and clothing industries. Trade liberalisation has resulted to massive importation of beer and clothes. These compete by price and quality with the locally produced goods. Acquisitions by MNEs in Tanzania is likely to threaten local entrepreneurial and technological capacity building because most local firms are not well equipped with the needed resources to compete with foreign companies. These may easily collapse.

M&As may also threaten national culture and identity especially in the media and entertainment industries. Tanzanian national culture and identity may be in danger[6], but this may not be attributed to M&As in the above industries. There are significant M&As in the media and entertainment industries because these were among the poorly developed industries in Tanzania. Never the less the media is still dominated by the locals even after economic liberalisation.

There have been (and still many more privatisation deals are under way) a large number of foreign acquisitions in important Tanzanian enterprises. These include acquisitions in the banking, utility and infrastructure sectors. The trend may lead to erosion of national sovereignty and a feeling of re-colonization. Most of the privatised companies in Tanzania were ailing, non-performing, in distress and on the verge of collapse. It is possible that acquisitions of such companies involved "fire sales"- that they were sold at a give away price. This is because such companies are often sold at abnormally low prices and imply huge economic loss to the country. The author was not be able to get the "right" price of the acquired companies so as to compare it with the buying price and be able to determine whether "fire sales" were involved. It has however been observed that there have been some complaints from the general public that for some companies, like the NBC and airport services at KIA, given their assets, they were sold at a throw away prices.

It is predicted in the literature that there may be none or negative impact of transfer of resources to the acquired firms if the acquisitions are based on purely financial motivations. Based on the reported investment pledges for the acquired firms, this does not seem to be likely in Tanzania. The pledges are interpreted by the author as transfer of resources to these firms by the acquirers. The acquisitions do not seem to have been made with a view to exploit the acquired firm's resources. The reason for this argument is that most, if not all, of the acquired firms were not competitive. They were ailing, non-performing and on the virtual verge of collapse. This may imply that we should expect to see some significant additional resource transfers to these firms if they are to be competitive and their capabilities enhanced.

M&As in Tanzania seems to be in a position to bring in capital faster than green-field FDIs. It also seems to permit higher consumption with a possibility of potential inflationary pressure in the economy. For example, to partly finance its general elections in October 2000, the Tanzanian government sold more of its share in TBL to South African Breweries in May 2000. A total of 27,667 TBL shares were transacted at DSE on the 1st of June 2000, accruing a total turnover of 16,660,254,700 Tanzanian shillings. This type of expenditure is likely to contribute to inflationary pressure. It may be difficult to say what would have been the situation for the privatised Tanzanian firms if they were not acquired (a counter-factual situation). But given the conditions of most of the firms, it can be said that bankruptcy would be the result of most of these troubled parastatals. Therefore the acquisitions may entail economic gains to Tanzania.

The investment effects of the acquisitions in Tanzania will depend on how the obtained proceeds are used. If used productively it will be a contribution towards increasing investments in the country and vice versa if the opposite is the case. M&As is likely to take large investments in some of the acquired firms. This can be seen from, inter-alia, the

[6] The danger may generally be attributed to the globalisation process where Tanzanians come across many other cultural contexts in different other ways than through M&As.

investment pledges made and the bad conditions of the acquired firms at the time of acquisition.

On the question of technology transfer, it is not expected that M&As in Tanzania will rapidly contribute to a rapid build-up of technological competence. This is because most of the acquired firms do have relatively low technological strengths and capabilities.

The literature suggest that M&As is better at saving and upgrading existing capabilities in acquired firms than green-field FDIs. This is because the former may involve the acquired firms in soft technologies and managerial practices, a thing that the latter does not do. In some cases in Tanzania however, there have been involvement of locals in these issues in some green-field FDIs. For example the Standard Chartered Bank (green-field FDI) has several training programmes for local staffs so as to enhance their skills and enable them to take some managerial practices of the bank. According to The Express (March 15-20, 2001) the bank has a multi-million (Tshs. 350million in 2001) program to train its staff to meet international standards. According to the bank, training aims at enhancing skills so as to offer quality services and for local staffs to take the positions of expatriates.

As the literature predicts, some green-field FDIs in Tanzania are affecting local firms through linkages and spillovers. Among the examples for this include the Geita Gold Mine (GGM). According to The Express (August 30 – September 05, 2001), the company has contracted most jobs to local companies and it does only major production activities. Over 90 local firms are regularly doing business with GGM in different operations. These local companies include Kumikumi Garment; Kasso Earthworks and Transport; Pamba Industries; Royal Motors and Co; Sandhu Coach; Pran Pen Corner; Simba Enterprises; Tanzania Oxygen Ltd; Orion Holding; Tumaini Dispensary; Mwanza Fire and Fumigation and Geita Supplies.

It is not expected that M&As will significantly upgrade innovative activities in Tanzania. This is because the country is lagging behind the world frontiers and is inefficient. Moreover most of the acquired firms suffer from significant technological inertia. In Tanzania, as in many other places, green-field FDIs directly and immediately create new jobs as opposed to M&As. However in most of the acquisitions in Tanzania there has been substantial conservation of employment despite of the lay-offs. This is because had it not been for the acquisitions it is most likely that some of these firms would go bankrupt and employment lost.

It is argued that green-field FDIs may upgrade employment conditions more than M&As. This may be questionable in some cases in Tanzania. For example the Kahama Mining Corporation Limited (KMCL) at Bulyanhulu (green-field FDI) has been blamed for bad employment and working conditions. The East Africa (July 27, 2001) reports that at least 17 out of 26 (65.4%) qualified Tanzanian engineers have quit the mine due to bad working and employment conditions in the mine. The conditions include very low wages, discrimination and mistreatment of professionals. One does not need an example of a M&A FDI to compare with the case of KMC to conclude that the practices of this company can by no standard be said to be an upgrading of employment conditions.

There may be transfer of the best jobs abroad like R&D of the acquired Tanzanian firms. This is because the country is not sufficiently competitive for such jobs compared to most of the home countries of the acquirers (for example USA; UK; Germany; France; Sweden; Norway; Canada; Australia and even South Africa). However it is not likely that there will be transfer abroad of the most qualified Tanzanian employees of the acquired firms. It is expected that these locals will be used within the country to work in collaboration with new skills from parent MNEs that flow into the country. These are only some of the possible implications of FDI entry modes in Tanzania.

**6. Conclusions and policy recommendations**

From the findings of this work it can be concluded that FDIs have entered Tanzania through both major entry modes – M&As and green-field investments. Some of the driving forces behind the entry modes identified in the reviewed literature do not seem to apply to the Tanzanian-specific situation. It therefore seems that some driving forces behind entry modes are country-specific. Neither are all identified implications seemed to be applicable for Tanzania. They too, therefore seem to be country-specific.

The findings of this work may lead to various policy implications, some of which are presented here. The available data on FDI inflow into Tanzania do not categorically distinguish them on the basis of the mode of entry. Policy makers and practitioners concerned should make sure the distinction is done as FDI entry mode matters for the development of host economies. Knowledge of FDI entry modes can be a valuable input in formulating, implementing and evaluating appropriate policies on FDI.

The knowledge of FDI entry modes is important for the country in following up the developmental impact of different FDIs based on their mode(s) of entry; in making decisions on how to attract more specific FDIs basing on their driving forces and/or implications to the development of the country, among others.

Now that the two entry modes are relevant for Tanzania, concerned authorities should create/improve the enabling environment for these entry modes in order to attract more FDIs. Improving specific driving forces behind specific entry modes wherever possible and applicable can help in this regard (Ngowi (2001b).

It has been seen that the two entry modes may have different developmental effects in Tanzania. Concerned authorities should see to it that the positive effects of the entry modes are maximized accordingly while the negative ones are minimized as much as possible.

**7. Recommendation for further research**

This work has mainly limited itself to the analysis of some 127 FDIs in Tanzania for the time period 1992 to 1998 inclusive. Currently there may be more than a 1000 FDI projects in Tanzania[7]. The study can therefore be expanded to cover more FDI projects. The section on driving forces behind the various FDI entry modes in Tanzania is totally based on analysis of driving forces given in the literature. A further study of the same could be done by collecting empirical data/evidence from the foreign firms in Tanzania as to why they chose a specific entry mode for the Tanzanian market. This is however likely to be limited to some few firms depending on the pecuniary and time resources available.

Collecting more empirical data of the implications can extend the section on implications of the entry modes in Tanzania and possibly making econometric/statistical studies more accurately, precisely and confidently establish a causal-effect relationship between the entry modes and implications.

This work has made a general study of FDI entry modes, driving forces and their implications in Tanzania. While this general approach can be beneficial in giving a rough picture of the issues covered, it may have the disadvantage of not disclosing details. A more specific and focused study of the same or part of the issues covered here can therefore be made. For example, a similar study can be made but limiting itself to a specific FDI project in a specific sector of the economy. Readers can identify more implications for further research.

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[7] The data collected by the author in February 2001, show that there was a total of 854 approved FDI projects in Tanzania.