

CAPITALIZING ON AGRO PROCESSING IN TANZANIA THROUGH SINO AFRICA CO-OPERATION

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Abstract

The small-scale industries sector has a significant contribution in the growth of a country. Although Tanzania has over the years made some strides in promoting this sector through policy and deliberate initiatives such as establishment of the National Small-Scale Industries Corporation (NSCIC) in 1966 under the National Development Corporation (NDC) which was later on replaced by the Small-Scale Industries Development Organisation (SIDO) in 1973 due to inefficiencies in operation, planning and lack of an extension network, the rate of development of small scale industries is not up to expectations. This paper synthesizes the findings of over 50 research articles to identify the potential impact of agro processing industries in developing economies like Tanzania. Specifically, the study reviews on: -i) lessons on the contribution of agro processing industries in China's sustained growth under the rule of law ii) existing opportunities that both Tanzania and China can benefit from taking advantage of Sino-Africa cooperation to enhance growth through Agro processing in Tanzania under the rule of law.

Key words: *Agro processing, the rule of law, Sino-Africa Co-operation, economic growth, Tanzania*

1. INTRODUCTION

Small-scale agro processing industries in sub-Saharan Africa are such potential sources of livelihood for many poor people living in this region. The small and medium scale agro processing industries have a functional role of employing manpower at low capital cost, introducing innovation and entrepreneurship skills, generating higher production volumes, increasing exports and in distributing income across the country due to increased profit accrued from increased investment. Due to this, it is worldwide acceptable that, small and medium scale industries in general serve as engines of development of a nation (Kaldor, 1967; Mohamed and Mnguu, 2014).

Agro processing can be defined as set of techno-economic activities that are applied to all produces that originate from agricultural farm, aquacultural sources, livestock and forests for their conservation, handling and value-addition so as to make them usable as human food, animal feed, fuel, fibre, or raw materials for industries (Kachru, 2010). The International Standard Industrial Classification (ISIC) shows that, agro-industry consists of food and beverages, tobacco products, paper and wood products, leather products, rubber products as well as textiles, footwear and apparel (Wilkinson and Rudi, 2008). Agro processing industries have positive impacts on economic development and poverty reduction in both urban and rural communities (Augustino, 2017). They are potential source of livelihood for majority of poor people living in Sub-Saharan Africa. More specifically, small scale agro processing industries help in increasing the value of crops of poor farmers. They also expand marketing opportunities, extend shelf life of commodities, and improve palatability of commodities. In addition, small

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scale agro processing industries enhance food security, help to overcome food seasonality and empower women who are involved in agro processing (Mhazo et al, 2012).

The United Republic of Tanzania has socio-economic structures that are favourable for establishment of small-scale agro processing industries to help the country attain transformation in rural development. For instance, the country has less capital investment and shorter gestation period required to establish Small scale industries. The rural sector has a large number of people who can be employed in agro processing subsector. The rural areas also have resources and raw materials to feed the agro processing industries. Thus establishing small agro processing industries in rural areas will favour balanced development of the region by reducing income and other economic disparities (Mwan'gombola, 1990; Okpara and Koumbiadis, 2011).

Over the years Tanzania has made some efforts in promoting this sector through policy and deliberate initiatives such as creating of the National Small-Scale Industries Corporation (NSCIC) in 1966 under the National Development Corporation (NDC) which was then replaced by the Small-Scale Industries Development Organisation (SIDO) in 1973 due to problems of inefficiency in operation planning and lack of an extension network (Kipene *et.al*, 2015; Kumburu *et.al*, 2019). Despite the efforts, the performance of small scale industries still faces some challenges that limit growth and opportunities in the country. For instance, more than 70% of the existing small agro processing industries in Tanzania operate below their capacity thus generating low volumes, low employment and limiting employment (Tisimia, 2014; Tiisekwa et al. 2005; UNIDO 2004). This can be attributed to the fact that, Small scale agro processing industries in Tanzania were affected by severe economic problems that face developing countries which include challenges in having skilled manpower, lack of finance, lack of raw materials, shortages of machinery or spare parts and information lag (Osotimehin *et.al.*, 2012; UNIDO, 2013). Others were the long distances involved in distribution, exorbitant transport costs due to the very poor state of the roads, high fuel and spare part prices (partly caused by the then, poor state of the roads in the country) and inadequate coordination, weak synergy and weak compliance to the rule of law among stakeholders, to execute envisaged programmes (Kadete, 2014).

However, contrary to the situation in industrialized and some developing economies, the contribution of Small and Medium Enterprises (SME's) to the Tanzanian economy, in terms of output, exports and employment is relatively still low down (Morrissey, 2000). When compared to China for example, the significance of SMEs has been growing right after the private enterprises were allowed to enter the Chinese market during economic reforms. The country advocated agricultural industrialization since mid-1990s for promotion of rural development through integrating agriculture with the post-harvest sectors like agro processing and marketing (Lingohr-Wolf, 2011). SMEs in China today are essential for the Chinese economy. The Support for the agro-industrialization process has resulted into a shift of agricultural policy to a third wave of reform of the Chinese rural Economy since 1978 (Waldron, 1999).

Although the agro-processing sub-sector contributes significantly to the manufacturing output, employment and country export (Madhavi, 2017), Tanzania on her part has almost not translated the dominant agricultural sector into agro processing firms (Becker, 2004; Materu, 2010; Tisimia, 2014). This is because, most of the food crops, vegetables and fruit in the country are in their primary condition when consumed as they are not processed due to lack of effective preservation and processing technologies alongside with inadequate post-harvest storage facilities resulting in high food crop wastage. In addition to this, most food-processing industries are not located in agricultural settings in rural areas but in urban areas like Dar es Salaam and other major towns in the country (Kamuzora, 2013; Kweka, 2018; Tiisekwa *et al*, 2005).

While the role of agro processing industries in China cannot be overemphasized, little can be found in the literature that underpins the importance of encouraging investment in agro-processing industries in African countries like Tanzania under the rule of law. Evidence of studies showing the performance and contribution of foreign direct agro processing investors in Tanzania is almost non-existent. This paper explores the role of agro processing industries in economic transformation by drawing lessons from China's successful economy and sheds a light on opportunities available in investing in agro processing sub sector in Tanzania under the rule of law.

2. METHODOLOGY

This study uses the growing trend of interactions between China and Africa as a case study and investigates the role of agro processing industries in economic transformation and the opportunities available in investing in agro processing sub sector in Tanzania. A review of studies from previous research was done whereby scholarly studies from different sources such as researchers as well as authoritative reports were consulted. The study synthesizes over 50 research articles to identify the potential impact of agro processing by drawing lessons from China's successful agro processing subsector.

3. A SCHOLARLY REVIEW

Ndiaya and Lv (2018) examined the impact of industrialization on economic growth in Senegal using the World Bank (WDI 2015) dataset. Their work aimed at helping to better understand the Industrialization in Sub-Saharan African countries. The main finding was that industrial development has had significant effect on economic growth of Senegal from the period between 1960-2017 (Pacheco-López and Thirlwall, 2013). Their focus was not based specifically on agro processing but rather on the general role of industrial development on economic growth. Szirmai (2009) examined the emergence of manufacturing in developing countries during the period between 1950 and 2005. The author presented new data on structural change in a sample of 63 developing countries and 16 advanced economies. The paper argued that for developing countries to catch they must associate themselves with industrialization. There was no specific mention of the importance of investing in agro processing industries. Stiglitz (2018) presented his work and showed how China has transformed the Economy through industrialization. In this author's presentation, little was stated on agro processing but industrialization as a whole. Kinyondo and Yuda (2015) investigated the motive of China for its relations with Africa. The paper investigated the cooperation of China and Tanzania in the perspectives of economic and social development. This work analysed the Chinese Investment status and focused specifically on the increasing numbers of Chinese garages by assessing whether they had positive spill-over towards achieving sustainable development. Findings showed significant increase in garages with positive impact on technology spillover. Several scholars (Augustino, 2017; El-Enbaby *et al.*, 2016; Hinga *et al.*, 2013; Mhazo *et al.*, 2012; Wilkinson and Rudi, 2008;) have tried to establish the role of industrialization in economic development. However, what has been done to stress on the role of investing in agro processing subsector in compliance to the rule of law is still inadequate.

Much has been done by the government of Tanzania to lay grounds for the country's sustained growth including establishing of flagship infrastructure projects such as, upgrading the central railway line to a standard gauge railway (SGR), expanding the Dar Port, developing the Stigler's Gorge hydropower, Mchuchuma Iron Ore, and Liganga Coal projects. Also, sustained dialogue and traction with the private sector, commitment to strengthen the business environment, increased accountability and a crackdown on corruption are other key initiatives (Kweka, 2018). In addition, there has been an initiative by the Government of Tanzania to increase the number of industrial establishments. However, most of the currently established industries appear to exist in the cost region, and, it is not clear whether the number of agro processing industries is

currently promising. This study, therefore, shades light on the role of investing in agro processing subsector in Tanzania with strict adherence to the rule of law especially in this period of time where China's economy and industrial development has grown rapidly along with increased Chinese involvement in trade, investment and search of raw materials from African countries for her home industries.

4.0 FINDINGS

4.1 Sino-Africa cooperation

The cooperation between China and Africa "Sino-Africa cooperation" can be explained in two facets: The Ancient Sino-Africa Cooperation and the Contemporary Sino-Africa Cooperation (Jin, 2015). The former cooperation dates back during the Ming Dynastic in sixteenth century (1368-1644) when the East African Coast was visited by a famous Chinese navigator *Zheng He*, following a prior visit to China that was made by distinguished two African scholars namely *Ibn Buttatu* and *Sa'id Mogadishu* of Morocco and Somalia respectively (Hinga *et.al.*, 2013). Even if these navigations had no economic relevance, through these transcontinental voyages China and Africa started establishing socio-political corporations and cultural exchanges that have helped to forge the relationship between Africa and China. The contemporary Sino-Africa cooperation can be traced back from the beginning of the Chinese revolution around the mid twentieth century. This era required a closer cooperation in order to not only combat the humiliating effects of neo-colonialism but also to promote a shared economic growth and development (Hinga *et.al.*, 2013). In this era mutual bilateral and regional cooperation between China and Africa was established and paved a way for a stronger technical and military support that served to help Africa in some instances in her struggle to resist colonial rule. However, this era, had little motive on economic partnership. As China emerges to be a global super power today, the country is now engaging Africa on diplomatic, trade and economic forums because, it not only views Africa as a strategic partner in the race of natural resources but also as a ground for newer markets.

4.2 China's Reform Success

The magnitude of China's economy in many ways has been very successful despite the fact that no one knows exactly how to describe it (Stiglitz, 2018). In the past 40 years China has made enormous increase in GDP that increased from \$ 244.985 million in 1976 to 9.504 trillion in 2016. Within this period, their GDP increased 40 fold while the incomes of other developed countries remained almost stagnant. Other China's remarkable growth includes increase in the per capita income from \$ 263.231 in 1976 to \$ 6,893.77 in 2016. With regards to Purchasing Power Parity (PPP) China is now the world largest Economy. The country was 15% larger than US as of 2016 and had 3.6% of global total in 1990 against 17.7 % in 2016 (Stiglitz, 2018). Furthermore, China has turned out to become the largest source of global savings. In 1978, China contributed 32.4 % of GDP when the global average was 23 % (Stiglitz, 2018). But in 2017, the country increased even further as the share was 45% of GDP when the global average was just 25.8%. With regards to share of the largest global manufacturing as of end of 2017, China led by 27%, followed by Indonesia (22%), Japan (19%) and India (16%). Concerning the war against poverty, the country had 770 million people in poverty in 1978. But this number was reduced to 30 million in 2017. During this period, about 740 million people moved out of poverty in the past 40 years. In General, China has registered a successful transformation in many dimensions towards a social market economy with Chinese characteristics in education, innovation and in both physical and soft infrastructure (ibid).

4.3 Agro processing Value addition in developed countries

Agricultural industries in developed economies such as United States, Netherlands and other countries have played a crucial role in economic development after undergoing a transformation from traditional agriculture to modern agriculture (Qian *et.al.*, 2014). History from developed

countries proves that, there is large scale, higher efficiency and more contribution in agricultural products processing than agriculture alone. In developing countries, agro processing is a prior development of industrialization. Experience from developed economies show that, there is a lot of value addition in agro processing. By processing grains and cotton for example, value can increase up to four times. When processed, the value of potatoes can be added up to three times whereas that of fruits and vegetables value can be added up to 10 times after processing (Ruchun, 2009).

4.4 Agro processing in China

China has a long history of agro processing industries. The fast development in agro processing industry occurred since 1980s of the 20th century (Ying, 2000). From this time, thousands of new agricultural products processing industries sprang up. From that time, the government formulated a number of policies to support and cultivate the processing industry. With a support of strong leadership that is backed with commitment in the rule of law, formulation and implementation of these policies resulted into big achievement as was recorded in 2005 when the output value from agricultural products processing industries reached 3400 billion yuan (RMB)². The processing rate of agricultural products improved to 55% from 30% in 2000 whereas, in that same year, the deep processing rate improved to 35% from 20% in 2000 (Ruchun, 2009). Since then, agricultural products processing industry in China became one of the most essential industries, hence making the country's agricultural sector more market oriented. The China's reform and development caused the integrated capacity of China's agro processing industry to increasingly strengthen. It was at this time when fundamental changes took place in the supply situation of the agricultural products. The general balance of supply and demand was attained which replaced the previously persistent shortage of agricultural products (Ying, 2000). From 2003 to 2008, the agro-processing industry's competitiveness in China was very strong with significant contribution to China's growth (Li and Ri-hong, 2010).

4.5 The Contemporary Trade between Tanzania and China

The main exports of Tanzania to China include wooden handcrafts, raw leather, dry logs, coarse copper and seafood (Kinyondo and Chatama, 2015). Tanzania imports from China light industrial products, steel and electric appliances, vehicles, chemical products, mechanical equipment, foodstuffs and textiles. There has been a growing trend of the total trade value between China and Tanzania. China's total trade with Tanzania between 1996 and 2003 averaged US\$70 million and was dominated mainly by imports. Years between 2003 and 2006 saw a growth in trade that reached an average rate of 59 per cent, making China one of Tanzania's key trading partners. However, on the contrary the trade balances have been in favour of China leaving Tanzania as a net importer. The trade between China and Tanzania has rapidly increased over the past decade. Records show that China's exports to Tanzania are largely comprised of manufactured goods, garments, vehicles and electrical appliances (Kinyondo and Chatama, 2015). Specific studies revealing exports to China that emanate from agro processing industries remain unknown. There is therefore an opportunity in investing in agro processing sub sector in Tanzania that may not only result into increase in products exported from Tanzania to China market but also help increase the trade share between the two sides.

4.6 The rule of law

The rule of law entails a system of rules and regulations, the norms that influence them, and the means of adjusting and enforcing them. As Peerenboom (2002) puts it, "it is a system of rules and norms, a set of institutions, and an outcome of development, and a feature of the processes

² 1 RMB= 330.847 according to exchange rate in Tanzania as of 3/10/2020.

that cut across sectors to enable development, and a feature of the processes that enable development to advance” As previously stated, it is obvious today that the rule of law and its relationship to development is getting increasingly recognized. The core functions of the rule of law in relation to development, as depicted from a wide range of empirical literature includes: Citizenship and social and economic justice; Strengthening accountability and checks on power; Enabling economic development; Preventing, mitigating and deterring conflict, crime and violence and above all, reducing corruption, enhancing fair allocation of services and protecting the environment and natural resources (Berg and Desai, 2013; Ndiaya and Lv, 2018; Pacheco-López and Thirlwall, 2013).

4.7 The role of Law towards China’s rapid growth

There have been arguments from the rule of law advocates and neoclassical economists that the rule of law and clear and enforceable property rights in particular is required for sustainable economic development (Haggard, *et al.*, 2008; Peerenboom, 2002). Despite claims of existence of legal and market imperfections in China, the economists, political scientists and legal scholars altogether have not been puzzled over the success of China’s economy that seems to have had tremendously grown over the past four decades. This phenomenal growth of China has been attributed to factors mainly the Chinese culture, a guanxi-based rule of relationships, clientelism and corporatism and capitalism with Chinese characteristics (Huang, 2008; Peerenboom, 2002). Law has, in contrast, played a more significant role in China’s economic growth. It also has an essential contribution in the growth of those Asian countries that have been experiencing high growth rates over a long period of time, than it had been before. More so, law is expected to even play a greater role in China’s future. Even if there has been criticism from outside China, today, China’s economy functions under the rule of law. Most of what is done in China is guided by local and international laws. However, in the past decades, China involvement in Africa has vastly been increasing bringing to significant economic and political consequences (Tull, 2006). For Africa and Tanzania to continue enjoying the advantages of Sino-Africa cooperation, a full commitment of states in ensuring ethical leadership and compliance to the rule of law is necessary in order to create positive impacts on economic growth of Tanzania and Africa as a whole.

4.8 Sino Africa cooperation opportunities for enhanced growth through agro processing in Tanzania

The spearhead economic sector in Tanzania is Agricultural sector because it is one of the single biggest chunks of the nation’s GDP (Mkonda and He, 2017; Mufuruki *et al.*, 2017). However, for many years Tanzania has not done enough to modernize agriculture mainly due to lack of capital and technical knowhow as major impediment in maximizing benefits from her resources. In this aspect, China can be a starling model for Tanzania to consider it as the proper development partner that Tanzania can venture with in various sectors including leveraging investment in agro processing. In Agriculture, the country is endowed with resources that, when fully utilized can increase product volumes for local consumption and export through establishing agro processing industries.

Some of these resources and potentials in Tanzania include availability of large land area for agriculture. Tanzania has a total land area of 945,087 km² (Kimaro and Proches 2014). Out of this, the total land mass is 886,126 km² while water bodies occupy 58,961 km². The estimated total land suitable for agriculture (farming and Livestock) is 620,227 km² which is 70 % of the total land area. The Conserved and protected areas for forest, national parks and game reserves account for 248,091 km² (28 %) whereas, the total Urban Land is 17,208 km² (2%). It is estimated further that, out of 620,227 km² suitable for Agriculture, about 440,000 km² is arable land, whereby only close to 100,000 km² (23 %) is currently used for crop production. Concerning irrigation, Tanzania has a potential of 290,000 km² for irrigation farming, but only 1

% of this potential land is under irrigation. The Country has a rangeland area of 500,000 km² but only 48% of this area (about 240,000 961 km²) is used for grazing (Kimaro and Proches, 2014; Pinda, 2013).

Fishery business in Tanzania is another opportunity that Tanzania is endowed with. In the world, fish is the most lucrative animal product that can be made in forms of processed fish, fish fillets, non-fillet fresh fish and non-fillet frozen fish, trading at US\$ 69 billion about twice the value of beef/bovine meat, its nearest meat product competitor. Tanzania has tremendous fishing opportunity to enable processing of these products for domestic and foreign market. There is Lake Victoria, Lake Tanganyika and Lake Nyasa that the country shares with other neighbours and the Indian Ocean. When modern aquaculture techniques are adopted, Tanzania can also lead in the style of breeding within cages.

Another potentially enormous opportunity in the country is Soybeans. This crop is grown in countries around the world that have similar environments to Tanzania. The crop therefore can be adapted very easily since the soils in the country naturally support the crop growth. Mafuruki *et al.* (2017), for example, showed that Soybeans was the largest of all vegetable products in the global trade in 2017 which was valued at US\$ 58.9 billion that could be produced as meal and oil. There are abundant opportunities for increasing production and establishing industries that will process and add value to soya and other related agri-products. There is also opportunity in production of Palm Oil, Sunflower Oil and Cotton-seed Oil in Tanzania. Until 2017, the country's largest vegetable import was palm oil (at US\$ 354 million) while the global market stood at US\$ 35.4 billion. Investing in agro processing industries in this area can not only save Tanzania foreign currency but also it can potentially make the country become a major player in the world. Due to presence of large and fertile agricultural land Tanzania has the capacity to produce enough palm oil, sunflower oil, soybean oil and cotton seed oil to satisfy domestic demand and export the excess. Therefore there are opportunities in the country for supplying oil pressing and processing equipment.

Sugar is yet another opportunity available in Tanzania. Given the land endowment in the country, there are a lot of domestic sugar production potentials in Tanzania. Until 2017, the sugarcane importation in Tanzania was US\$ 300 million or more. But official statistics showed that only US\$ 62.6 million worth of sugar was imported into the country in 2016. On the other hand, there was about US\$ 120 billion global sugar market for raw and confectionery sugar combined. Zambia, for example, produces 420,000 tons of sugar per annum (domestic consumption is 280,000 tons for a population of 15 million) using only one plant—Zambia Sugar Company (Mufuruki *et al.*, 2017). Thus, because of its superior soils, abundance of land and a domestic market that is three times bigger than Zambia, Tanzania can produce much more. Hence, investing in sugar industries in Tanzania is lucrative.

Tanzania also has abundant opportunities for Wheat and Rice. The country has a large domestic consumption of wheat flour. With imports into Tanzania worth US\$ 247 million, it uses US\$ 28 million of imports on wheat flour Companies (Mufuruki *et al.*, 2017). Investment in wheat production in the country is substantial. Furthermore, the country has enormous opportunities for Fruit and Vegetable processing (Ruteri and Xu, 2009). This is because the country produces a large variety of fruits and vegetables that include pineapples, oranges, passion fruits, bananas, mangoes avocados, peaches jackfruits, pears, guavas, grapes and papayas. Vegetables mainly produced in Tanzania include okra, chillies and tomatoes. For example, Tanzania produces about 2.75 million tons of fruits and vegetables but only 4 per cent is amount is processed (Export.gov, 2019). Thus, heavy equipment provision for commercial farming and processing of fruits and vegetables for domestic and export markets is yet another significant potential that exists in the country.

Other opportunities in Tanzania include Textile and Apparel, Meat and Dairy and Leather sectors. For instance, Cotton production in Tanzania is abundant but only 20 percent is processed locally. Although Tanzania has some local ginneries, the sector still has huge investment potential that can be exploited in establishing fully integrated textile mills and plants for cotton ginning, yarn fabric production (weaving, spinning, and printing) and units of cut, make and trim (CMT). On the other hand, Tanzania has a large number of livestock population. This makes the country ideal for meat processing and packaging and in processing of dairy products. Investment opportunities are available in establishment of cattle ranches, meat processing plants and dairy products processing plants.

In addition to that, there is opportunity for the leather sector in Tanzania. This is because the country has a large livestock population of about 17.7 million cattle, 12.5 million goats and 3.5 million sheep, and produces about 2.6 million pieces of raw hides and skins annually. However, despite the large volume of skin and hide in the country, a large portion is exported as raw and only 10 percent is processed (Export.gov, 2019). There are investment opportunities therefore of establishing modern tanneries and units of producing leather finishing (Ndaro and China, 2016).

4.9 Climatic conditions and other factors favouring investment in agro processing in Tanzania

There is no doubt that Tanzania has very good conditions open for investment in agro processing industries. The good weather and climate for example supports agriculture (Temu *et al.*, 2005). The country has a tropical climate that is divided into four main climatic zones namely the high rainfall lake regions, the semi-arid central plateau, the temperate highlands and hot humid coastal plain. Given the numerous lakes, rivers and underground water resources, the country has huge potential to implement irrigated agriculture and invest in agro processing. On the other hand, China's development in industries can be a very good opportunity for Tanzania to improve the agro processing sector. The industrial sector in China has increased the value chain and the country's manufacturing is remarkably very strong. There is efficient agricultural machineries and equipment that give investors high chance for successful investment in Tanzania.

The rising domestic consumption in China can be another opportunity in developing countries like Tanzania to exploit it for improving agro processing. Given the population in China and the growth of Chinas middle class, demand for food and other agricultural products is also on the rise (Pison, 2019). Investment in agro processing industries in Tanzania can help increase volumes of these products. The rising domestic consumption in China provides an opportunity for trade since different selling channels including e-commerce can be established to supply agricultural machineries, implements and products in Tanzania. These in turn may increase volumes of supply of food and other agricultural products to China.

The role of leadership in effecting the agro processing policy cannot be overemphasized. The recent economic transformation success stories from countries like China, Malaysia, Vietnam and Brazil gives us a lesson that transformative economic change happens when the politically influential ruling elite make decisions to seriously commit to the development of the state and abide to this commitment with well thought-out long-term development plans and strategies, supported by adequate resources and political will from strong political leadership. The strong leadership under the rule of law particularly with a clear and enforceable property rights enhances sustainable economic development. While supervising the process of investment both leaders and investors have to observe laws and provisions to encourage investment in agro processing because practices of corruption and insecurities in property discourages investment because they refrain individuals and investors of their rights. Existence of policies, legislations and regulatory frameworks in Tanzania may encourage investment in agro processing. In

Tanzania, opportunities are available that investors can be granted with land through derived rights.

4.10 Investing in Tanzania: Do laws provide for FDI's?

The laws in Tanzania set very conducive environment to enable both local and Foreign Direct Investors (FDI's) to establish investments in the country (Muhanga and Urassa, 2018; Musiba, 2005). According to Tanzania Investment Act, 1997 (No. 26 of 1997), the law provide for Tanzania citizens that, the total capital investment needed (land, buildings, and machineries) should be at least \$100,000 plus 3 to 5 years to get to that accomplishment/implementation. This period is provided specifically to enable an investor get the business plan in place, make the feasibility study, and incorporate his/her business or company in Business Registrations and Licensing Agency (BRELA). In this endeavour, TIC can also provide an investor with the best support to get a Taxpayer Identification Number (TIN) that is registered and issued by Tanzania Revenue Authority (TRA). Upon compliance to these conditions, a certificate for incentives is granted to a Tanzanian investor by Tanzania Investment Centre (TIC).

Therefore, the law provides incentives for Tanzanians to be able to register their projects with TIC and access all those incentives provided under the law. Incentives are fiscal and non-fiscal. For example, under fiscal incentives, Tanzanians are given a period of 3 to 5 years for preparation of the investment. The government also grants exemption in import duty. For example, 25% of customs value exempted machines and equipment whose VAT value rises above TZS³15 million is defied whereby a Tanzanian citizen will not pay. The incentive for Tanzanian locals also provides that 37% to 50% of depreciation is exempted. In addition, for agricultural sector, most of agricultural equipment is tariff free to encourage investment in agriculture. For the case of foreigners, the law provides that, a foreigner investor should have a capital beginning \$ 500,000 or more. The law also provides for foreign investors a derived right to own land from Tanzania Investment Centre. Foreign investors are also given right for immigrant quota of about 5 expatriate. For Strategic investment status the investor may request up to 200 expatriate to work for a period of three years which can be extended to two and one (Mwaikugile, 2014).

5. CONCLUSION AND RECOMMENDATIONS

Investing in agro processing has greater potential for growth. Lessons from advanced and other successful economies have shown agro processing is a driver to industrialization and economic transformation. Tanzania has lucrative environment to invest in agriculture and agro processing. However, agro processing in Tanzania is still at a slower pace despite the fact that it is considered to have immense contribution in economic growth. More commitment by the government through formulation of relevant policies, managing good governance and the rule of law is key to transforming agriculture into market oriented industry through agro processing. With good governance, the rule of law, commitment and strong leadership, investment in agro processing subsector can help in economic transformation by increasing the share of trade between Tanzania and her trade partners.

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³ 1 USD =2,299.00 Tanzanian Shillings –TZS (Last updated: 2019-09-18 14:32 UTC
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