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Factors Influencing the Inflows of Foreign Direct Investment in Tanzania: A Case of Selected Foreign Investment Companies in Dar es Salaam and Iringa

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Abstract

The main objective of this study was to assess the significant factors that influence the inflows of FDI in Tanzania: A case of selected foreign investments companies in Dar es Salaam and Iringa. The specific research objectives of the study were to assess the effect of regulations on natural resources towards inflows of FDI in Tanzania, to examine the effect of Inflation on inflows of FDI in Tanzania, and to examine the effect of economic-political stability on inflows of FDI in Tanzania. Relevant empirical and theoretical literature was reviewed to support the objectives of the study and to form a basis for discussion of results. The study employed a quantitative research design. Structured questionnaires were used to collect data from169 investors and employees of foreign investment companies and tourism enterprises in Iringa and Dar es Salaam. Data analysis was done using multiple regression analysis and correlation analysis by the use of software programs statistical package for social science (SPSS). Findings of Cronbach alpha indicated that all variables which were included in this study had achieved an accepted range of internal consistent by yielding a Cronbach alpha p-value greater than 0.6. Using multiple regression analysis findings revealed that regulations on natural resources, inflation and economic-political stability are significant factors that influencing the inflows of FDI. From the finding the study concludes regulations on natural resources had a positive significant effect on inflows of FDI, Inflation had a positive significant effect on inflows of FDI and economic-political stability had a positive significant effect on inflows of FDI in Tanzania. From the conclusions the study recommends that with regard to regulations on natural resources government should make more efforts to ensure that the all regulations related with natural resources are fairly so as to attract more FDI inflows to Tanzanian economy. Additionally, policy makers should continue to adopt the effective policy measures so as to attract more foreign investors for generating new employment for the people in the country. On the second conclusion government of Tanzania should put in place policies to control corruptions, to improve democracy and accountability to make it more attractive to potential investors in order to attract more FDI.

Key words: Inflows of FDI, Regulations on natural resources, Inflation, Economic-political stability

Introduction

Foreign direct investment has an important role in supporting a country's development, especially for developing and emerging market countries. It is one of the key drivers of the economic growth of a country as it can assist the transfer of new technology and also increase domestic capital formation (Mfinanga, 2018). If the FDI is allocated to productive assets and is well-managed, countries can get many benefits, such as the provision of capital, generation of employment, enhanced market access and competition, and contributions to technology transfer, good governance and raising the welfare of people as well as improvement of managerial skills.

As a result, the Tanzania Arusha declaration was abandoned in the mid-1980s, and the government started to initiate and implement policies for economic liberalization. These reforms resulted into a rise of FDI inflow in Tanzania. As well as in 1997 Tanzania Investment Centre was established by the government basically to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the Government on investment policy and related matters. Those efforts were done for the purpose of attracting and encouraging inflows of FDI (UNCTAD, 2012).

However, despite all these, Tanzania still does not have enough foreign investors who come to invest. Senkunku, (2015) concluded that the reasons were lack of adequate and reliable electric power, poor infrastructure, lack of designated areas for investment projects which investors may acquire for investment purposes, and negative image of Africa propagated by western media about the continent.

The reason for stagnation of FDI was lack of adequate and reliable electric power, poor infrastructure, lack of designated areas for investment projects which investors may acquire for investment purposes, and negative image of Africa propagated by western media about the continent. These obstacles tend to delay the rapid movement of investors in Tanzania compared to its expectation (Senkunku, 2015).

There are different reasons for studying the factors influencing FDI inflows in Tanzania. First, businesses operating in developing countries have seen a dramatic shift in the business environment since the 1980s as a result of technology transfer and reforms that brought about market liberalization (Ullah and Khan, 2017). Second, Tanzania is one of the most peaceful and political stable countries in Africa and has never experienced a civil war or any major internal strife. Citizens continue to live in peace and with a sense of a common national identity without ethnic division. Third, Tanzania enjoys an abundance of natural wealth, which offers fabulous investment opportunities for investors. So, the researcher wanted to prove whether the regulations on natural resources, inflation, and economic-political stability are significant in attracting FDI in Tanzania or not.

The above past studies showed the obstacles on inflows of FDI in Tanzania but no one discussed factors that may hinder like, regulations on natural resources, inflation and economic-political stability. In this study, the researcher wanted to know given the political stability and the economic growth experienced that has improved the living standard of citizens why are foreigners not coming in growing numbers to invest in Tanzania or are government regulations too restrict for foreign investors. This study fills that research gap by using the theory of Institutional FDI fitness, Entry Mode Theory and Capital Market Theory to assess and examine the effect of regulations on natural resources, inflation and economic-political stability on inflow of FDI in Tanzania

General Objective

The general objective of this study was to assess the significant factors that influence the inflows of Foreign Direct Investment in Tanzania

Specific Objectives

i) To assess the effect of Regulations on Natural Resources towards inflows of Foreign Direct Investment in Tanzania.

ii) To examine the effect of Inflation on inflows of Foreign Direct Investment in Tanzania.

iii) To examine the effect of economic-political stability on inflows of Foreign Direct Investment in Tanzania.

Literature Review

The theory that guided the study was the Entry Mode Theory, Capital Market Theory, Institutional FDI fitness.

Entry Mode Theory

This theory was extended to the eclectic paradigm by Dunning (1993). In this theory he categorizes multinational enterprise activities according to their motives into four types of FDI but here the focus is on "Resource-seeking FDI". This type of FDI aimed mainly at obtaining raw materials from the host countries in order to use them as inputs in the industry. This type of FDI is mostly done in countries that have abundant physical natural resources at the lower cost that could not be obtained in their home country. Moreover, the resource - seeker firms expand their activities abroad to take advantage of low labor costs particularly in the sectors that depend on labor-intensive processed like manufacturing and services sector (Kang and Lui, 2016). According to Kalyvas and Webster (2011) the activities of foreign firms that work in developing countries have been determined mainly by this type of FDI, especially when the country is rich in natural resources.

Capital Market Theory

The capital market theory was put forward by Aliber (1971) who argued that firms are more likely to expand abroad when their currency value in the home country is strong. While, firms that are hosted by countries with have a weak currency avoid investing abroad (Moosa, 2002, Faeth, 2009). Moreover, higher currency fluctuations in the host countries encourage foreign firms to borrow money at lower interest rate than domestic companies.

According to Boddewyn (1985), the capital market theory explained the reasons behind firms' investment abroad, where he mentioned three situations which encourage firms to expand their activities overseas. One of them is lower (undervalued) exchange rate in the host country, which allows lower production costs in the host countries. That is why it favors FDI which allows control of host country assets (Hennart, 2015).

Institutional FDI fitness

The theory of institutional FDI fitness was developed by Wilhelms and Witter (1998), the term FDI Fitness refers to a country's ability to attract, absorb and retain FDI by reacting swiftly to dangers and opportunities, creativity and flexibility in carving out a niche in which a country can survive against competitors. According to this theory countries with high Institutional Fitness experience higher inflows of foreign direct investment than countries with low Institutional Fitness. High Institutional Fitness means that a country's institutions are transparent, well-functioning, reliable and predictable. It is country's ability to adapt, or to fit to the internal and external expectations of its investors, which gives countries the upper-hand in harnessing FDI inflows. Basically, this theory states that; A country's ability to attract, absorb, and retain foreign investments is based on its ability to create an environment that attracts investors when their requirements and expectations are met (Makoni, 2015).

Empirical Literature Review Influence of Natural Resources Regulations on inflows of FDI

Sekunku (2015), focused on Factors Influencing Foreign Direct Investment Inflow in Tanzania. This study had three major objectives. The first objective was to investigate whether the government terms and regulations can affect the inflow of foreign direct investment in Tanzania. Whereby the result showed that there is no relationship between these two variables. Second objective was to find out whether the abundant of natural resources can affect the inflow of foreign direct investment in Tanzania. The result showed that there is a relationship between FDI and natural resources. Peprah et al, (2019) on their study explored connections between FDI inflows and natural resource. The paper was an effort to investigate a sample of 10 most resourced SSA and examine the influence of natural resources on FDI inflow. Further, natural resource wealth is reflected to weaken the FDI inflow. This study discovered if the natural resource overflow affects the FDI inflows, the paper employed fixed effects method and settles that natural resource slows down FDI inflow of the host nation. The results indicate that economic growth, labor force, trade openness and financial development framework promote FDI inflow in SSA.

Influence of Inflation on inflows of FDI

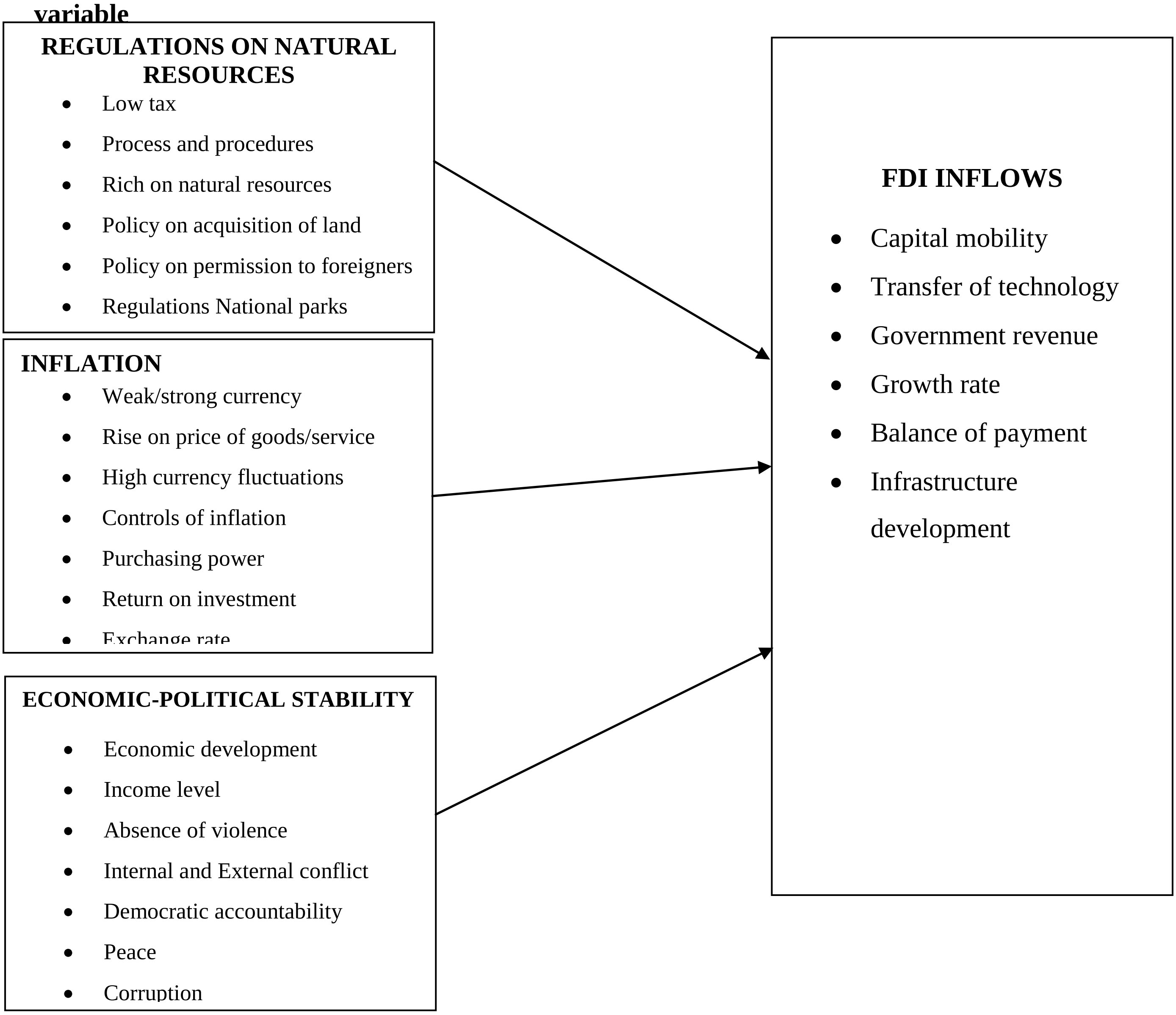
Mustafa, (2019) the main objective of this study was to examine the linkages between FDI and inflation in Sri Lanka for the time periods from year 1978 to year 2017. The findings showed the causal relationship between the inflation and FDI is significant because the rate of high inflation affects the inflows of FDI into the economy of Sri Lanka and slows down the process of economic growth and development. Hong, et al (2020) examined the effect of inflation towards the foreign direct investment in Malaysia and Iran. The testing period ranged from year 1986 to 2016. The findings of this study showed that the inflation rate have negative effects on the foreign direct investment in the long run. Elar, (2015) the study sought to determine the effect of inflation on FDI in Kenya. The results revealed that the individually interest rates, economic growth and exchange rates are not significant determiners of FDI inflows in Kenya while inflation is a significant determiner. The researcher recommended that there is need for policy makers to regulate inflation levels prevailing in the country bearing in mind that they significantly influence FDI inflows in the country.

Conceptual Framework

The conceptual framework composed of three independent variables namely Regulations on Natural Resources, Inflation, and Economic-Political stability, and one dependent variable namely factors influencing the inflows of FDI as discussed in the empirical literature in the section above and diagrammatically described below;

Fig 2.1 Conceptual Framework: Factors Influencing the Inflows of Foreign Direct Investment

Independent Variables **Dependent variable**



Source: Researcher (2022)
Source: constructed by researcher from the literature review (2022)

Hypothesis

From the above conceptual frame work the following hypothesis were formulated:

H1: Regulations on natural resources have a positive significant influence on the inflows of Foreign Direct Investment

H2: Inflation have a positive significant influence on the inflows of Foreign Direct Investment

H3: Economic-political stability has a positive significant influence on the inflows of Foreign Direct Investment.

Methodology

In this study, the positivism paradigm was selected because it tests the theories and hypothesis after which principle is confirmed, refuted or modified whether is valid or invalid. The current study had many previous empirical studies and theories from different contexts which were used in explaining the reality and in guiding knowledge acquisition about factors influencing the inflows of foreign direct investment. This means that through positivism a researcher understood the reality and acquired knowledge about factors influencing the inflows of FDI in Tanzania.

This study used a quantitative approach in order to test the hypothesis on the factors that influence the inflows of foreign direct investment in Tanzania. This enabled the researcher to establish the relationship among variables; regulations on natural resources, inflation and economic-political stability toward the inflows of FDI in Tanzania.

In this study, both explanatory research design descriptive research design was used because the researcher employed questionnaire when collecting data in the field and systematic measurements involving numbers. Descriptive research design was used to profile respondents' characteristics of the study. This study comprised the citizens of Tanzania and foreigners in Iringa and Dare es salaam were chosen. The reason of choosing this was due to the fact that, in Iringa there are many attractions for tourists like Ruaha National Park, vast arable land suitable for commercial farming as well as good weather which attracts tourists and in Dare es salaam there are many investment companies. From this population, the researcher was got the required data to understand the factors influencing the inflows of foreign direct investment in Tanzania.

The study employed probability sampling via a stratified random sampling which was used to ensure a fair representative of respondents across the identified area. The reason for choosing stratified sampling was that the target group comprised of citizens and foreigners, and therefore it was assumed that they have an idea about inflows of FDI and hence citizens were chosen randomly and foreigners as well. Table 3.1 below shows sample size:

Table 3. 1 Sample Size Based on Iringa and Dar es salaam

Area	**Population**	**Sample size**
Iringa – 5 Tourism Enterprises	100	56
Dar es salaam – 10 Foreign Investment Companies	200	113
Total	**300**	**169**

According to Krejcie and Morgan (1970), their table showed sample size estimation methods provided a given number of populations (N) and its sample size (S). Respondents were citizens and foreigners, with a population of 300, and a sample size of 169.

The study used a questionnaire to collect data. Quantitative data analysis was performed by using multiple regression analysis and correlation analysis was involved in determining the extent of relationship between the study variables while regression analysis was involved in establishing the cause and effect between independent and dependent variables.

Data Analysis, Interpretation and discussion of Findings

Reliability

In this study reliability tested by using Cronbach's alpha, customarily values above 0.5 of Cronbach's alpha coefficients were considered significant even through Cronbach's alpha coefficients that range from 0.6 and above were considered more acceptable in scientific research although lower values were used as well as accepted (Kothari 2004). Table 4.1 below shows the value of the coefficient Cronbach's alpha for the indicator variables used in this study.

Table 4. 1 Reliability Test

Variables	No of Items	Items	Cronbach's Alpha
Regulation on Natural Resources	7	Tax policies, process and procedure, rich of natural resources, acquisition of land, permission to foreigners, natural attractions, policy on profit repatriation	0.619
Inflation	7	Weak currency, high price, currency fluctuation, controls of inflation, purchasing power, returns on investment, exchange rate	0.709
Economic-political stability	7	Living standard, peace, corruptions, conflicts, democracy and accountability, absence of violence, economic development	0.730
Inflows of Foreign Direct Investment	7	Government revenue, capital inflow, transfer of knowledge, employment, growth rate, balance of payment, infrastructure development	0.884

Source: Field data, (2022)

Validity

From table 4.2 above, the researcher found a sample sufficiency index of KMO by Kaiser-Meyer-Olkin, which compares the sizes of the observed correlation coefficients to the sizes of the partial correlation coefficients for the sum of analysis variables, is 0.682 or 68.2%. It is valid since it is above 0.5 or 50% which is the cut-off. In addition, supposition test of sphericity by the Bartlett test (Ho: All correlation coefficients are not quite far from zero) is rejected on a level of statistical significance $p<0.0005$ for Approx., therefore, the second acceptance of factor analysis is satisfied (Golafashani, 2003).

Table 4. 2 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.682
Bartlett's Test of Sphericity	Approx. Chi-Square	145.054
	Df	6
	Sig.	.000

Source: Field data, (2022)

Findings according to Objectives

In these sections, findings have been interpreted in light of literature reviewed and data collected from field. The objectives were centered in establishing the perception of the respondents about the factors influencing the inflows of foreign direct investment in Tanzania.

Table 4.2 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.630[a]	.397	.386	4.97124

Source: Field data (2022)

a. Predictors: (Constant), Economic-Political Stability, Inflation, Regulation on Natural Resources

This table provides the R and R^2value. The R value represent the simple correlation which is 0.630 as well as R^2value represent the simple correlation and is 0.397. Also, it showed that dependent variable “inflows of foreign direct investment” is explained by independent variables; regulations on natural resources, inflation and economic-political stability go well with users” to a small extent as demonstrated by R2 of 39.7% which is low percent and is below 0.5 (50%) as required by first assumption.

Table 4.3 ANOVA[a]

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	2682.551	3	894.184	36.182	.000[b]
	Residual	4077.686	165	24.713		
	Total	6760.237	168			

Source: Field data (2022)

a. Dependent Variable: Inflows of Foreign Direct Investment

b. Predictors: (Constant), Economic-Political Stability, Inflation, Regulation on Natural Resources

The results provided in table 4.3 ANOVA above showed that overall, the model applied in this study statistically significantly predict the outcome variable of relationship between dependent variable" inflows of foreign direct investment" and independent variable" regulations on natural resources, inflation and economic-political stability" to a large extent as demonstrated by p-value less than 0.05 in ANOVA table above. This indicate that the overall hypothesis which states the strongly significant relationship between independent variables and dependent variable is well accepted.

Further analysis of the individual indicators on predicting inflows of foreign direct investment is described in the table below:

Table 4.4 Coefficients

Model		**Unstandardized Coefficients**		**Standardized Coefficients**	**t**	**Sig.**
		B	Std. Error	Beta		
1	(Constant)	.358	2.902		.123	.902
	Regulation on Natural Resources	.162	.107	.107	1.511	.133
	Inflation	.409	.090	.289	4.571	.000
	Economic-Political Stability	.540	.088	.429	6.129	.000

Source: Field data (2022)

a. Dependent Variable: Inflows of Foreign Direct Investment

At 5% level of significant and 95% confident level, the value of predictions or independent variables should be $P \leq 0.000 - 0.05$. Coefficients above showed that out of three variables, two variables (Inflation and economic-political stability) were significant at 0.05 confidence level. According to the data analyzed and per Table 4.4 above it can be found that regulations on natural resources such as policy on tax, policy on profit repatriation, policy on acquisition of land and permission to foreigners are considered to be not supportive to inflows of foreign direct investment by most respondents.

Implications of Findings

Implication to the Government

Findings from this study will be beneficial to the government of Tanzania especially Tanzania Investment Center (TIC) since it will see how to review policies dealing with foreign investors also information, process and procedures on permission to foreigners. This on the other hand will help them improve on how to attract foreign investors in order to increase inflows of FDI.

Investors

Foreign investors may also find this study useful as it intends to examine the economic condition and political stability of Tanzania. This study may assist investors in decision making with regard to invest in Tanzania. Findings of the study may also contribute to the body of knowledge on the variables under study and Foreign Direct Investments in Tanzania.

Another researcher

The framework of this study was developed based on the modified entry mode theory developed by Dunning (1993), capital market theory developed by Aliber (1971) and institutional FDI fitness Wilhelms and Witter (1998). Each theory was explained one objective, regulations on natural resources, inflation and economic-political were found to have a strongly predictive power on influence on inflows of FDI. These implied that any theory that was developed from different context when modified can be used in other context and become applicable. Hence, this data will serve as a data base to support future studies providing evidence on the same context.

The researcher

Will receive her master degree of finance and international investment management having completed conducting the study and having contributed a body of knowledge that scholars will use when researching on the subject of influence of regulations on natural resources towards inflows of FDI.

Recommendations for action

This part focuses on the major recommendations for action in lieu of the research objectives:

Influence of Regulations on Natural Resources towards inflows of FDI

In this specific objective, it was found out that regulations on natural resources was significant relationship with factor influencing inflows of FDI in Tanzania. Based on these findings it is recommended that since the results found regulations on natural resources to be significant with inflows of foreign direct investment to Tanzania, it indicates that regulations on natural resources discourage the inflows of foreign direct investment into the country, therefore, the government should make more efforts to ensure that the all regulations related with natural resources are fairly so as to attract more FDI inflows to Tanzanian economy.

Influence of Inflation on inflows of FDI

Based on the survey data of this study, it was found that inflation strongly influenced inflows of FDI in Tanzania. After seen the inflation to have a positive impact on foreign direct investment inflow into the country, it indicates that fluctuated exchange rate policy adopted by the government increases the inflow of foreign direct investment for the period of the study. Therefore, to improve the inflows of FDI, this study recommended that the policy makers should continue to adopt the effective policy measures so as to attract more foreign investors for generating new employment for the people in the country.

Influence of economic-political stability towards inflows of FDI

In this study economic-political stability was found to be one of the factors that strongly influence the inflows of FDI, it is therefore recommended that government of Tanzania should put in place policies to control corruptions, to improve democracy and accountability to make it more attractive to potential investors in order to attract more FDI.

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