

REPOA Brief



Repositioning Tanzania Through Foreign Direct Investment: Trends and Strategic Shifts

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Foreign Direct Investment (FDI) continues to shape Tanzania's development trajectory, with inflows rising by nearly 70% over the past five years from USD 971.6 million in 2018 to USD 1.649 billion in 2023.

While mining remains the most dominant FDI recipient, the investment portfolio has increasingly diversified with manufacturing, finance, and ICT sectors.

Financing patterns have also shifted toward reinvested earnings and intra-company loans, signaling deeper investor engagement.

Introduction

Despite global economic uncertainty and tightening financial conditions, Africa attracted USD 83 billion in FDI inflows in 2021, more than doubling from USD 39 billion in 2020 (UNCTAD, 2022). Within the East African Community (EAC), countries like Uganda, Kenya, and Rwanda have seen a rebound in FDI, driven by investments in energy, services, and manufacturing (EAC, 2023). However, regional performance remains uneven, with inflows concentrated in a few economies, and vulnerability to external shocks remains a concern.

A recent study by Nandwa and Kinyanjui (2024) underscores the importance of policy coherence, particularly the alignment of investment incentives, regulatory stability, and development goals as a decisive factor in attracting and sustaining FDI across Sub-Saharan Africa.

In Tanzania, FDI continues to be a cornerstone of economic development, offering critical financing, technology transfer, and access to global markets (Bank of Tanzania, 2024). Over the past decade, the

FDI landscape has evolved, shaped by global shifts, sectoral diversification, and domestic reforms aimed at improving the investment climate. According to the Tanzania Investment Reports (2024), FDI inflows rose from under USD 1 billion in the late 2010s to USD 1.649 billion in 2023, signaling a steady recovery and growing investor confidence.

Analyzing FDI trends in Tanzania is essential for drafting evidence-based policies that enhance the investment environment in line with national priorities such as industrialization, job creation, and export diversification. A deeper understanding of FDI patterns, sources, and impacts enables policymakers to design targeted strategies that foster sustainable and inclusive economic growth.

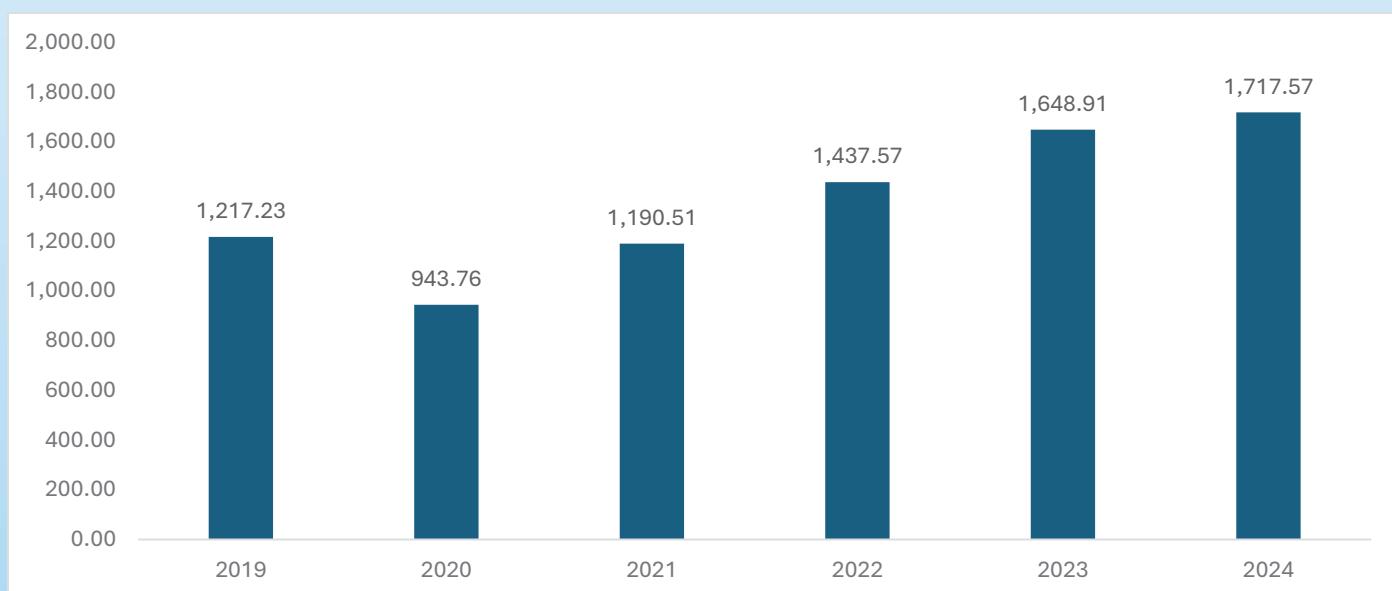
This brief examines the trends and direction of Foreign Direct Investment (FDI) in Tanzania, with a focus on financing structures, sectoral concentration, and sources.

Key Findings

FDI Inflows and Financing Structures in Tanzania

Tanzania's FDI inflows have shown notable fluctuations and gradual recovery over the past decade. Figure 1 shows that FDI inflows were around USD 1.22 billion in 2019 before declining to approximately USD 940 million in 2020 due to global shocks linked to the COVID-19 pandemic. Since then, FDI has shown a steady recovery to USD 1.19 billion in 2021, USD 1.26 billion in 2022, and USD 1.34 billion in 2023, reflecting renewed investor confidence, improved policy frameworks, and expanding opportunities in sectors such as mining, manufacturing, and energy. Beyond the headline figures, the structure of FDI financing in Tanzania has undergone a significant shift. In the early 2010s, equity capital dominated FDI inflows. However, from 2020 onwards, reinvested earnings emerged as the leading source, accounting for 57% of total FDI in 2022, a strong signal of investor confidence and long-term commitment. By 2023, intercompany loans also gained prominence, comprising over 43% of total FDI financing, indicating deeper internal capital flows within multinational enterprises.

Figure 1: Foreign direct investment Inflows 2019 – 2024 (Millions of USD)



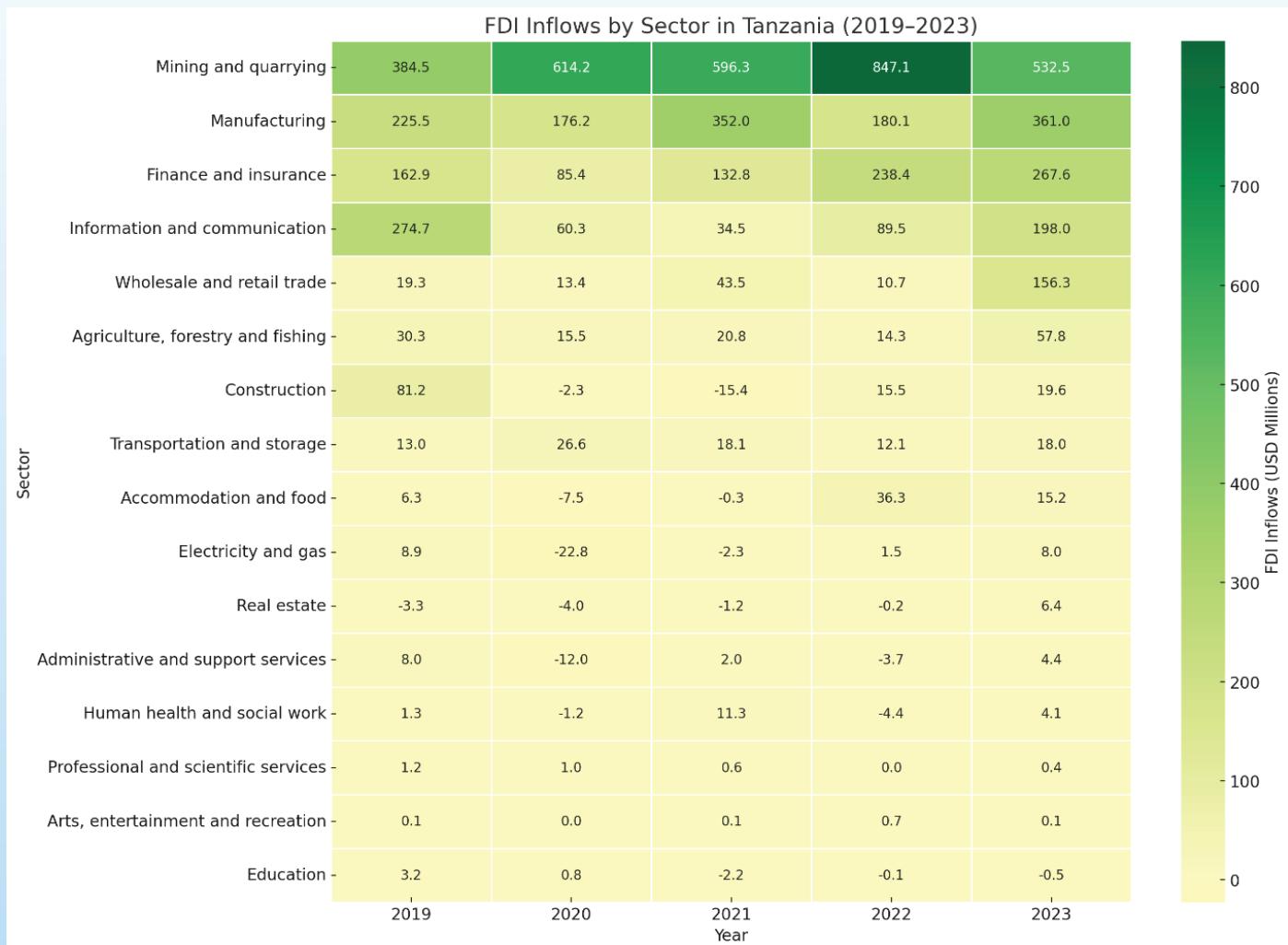
Source: Bank of Tanzania, 2024

Sectoral Distribution: Mining Dominates, but Diversification has Gained Ground

The mining and quarrying sector consistently attracted the highest inflows, attracting approximately USD 532.5 million in 2023, according to the Tanzania Investment Report 2024. This sustained investment is largely driven by Tanzania's rich endowment of mineral resources, particularly gold, natural gas, and other critical minerals that continue to be in high demand globally. The sector's attractiveness is further supported by Tanzania's ongoing efforts to formalize the mining industry and improve governance, which have enhanced investor confidence over the years (Bank of Tanzania, 2024).

Diversification is, however, gaining momentum. As shown in chart 1 below, manufacturing has attracted increased investment, supported by industrial policy, infrastructure expansion, and a more reliable power supply, notably from the Julius Nyerere Hydropower Project. The finance and insurance sectors are also growing, reflecting regulatory improvements and the expansion of financial services. The Information and Communication Technology (ICT) sector is also emerging as a key area of investment, aligned with Tanzania's digital transformation agenda. These shifts mark progress toward a more resilient and diversified economic base.

Chart 1: FDI Inflows by Sector in Tanzania (USD Million, 2019–2023)



Source: Tanzania Investment Report, 2024

Macroeconomic Stability and Policy Reforms Fueling FDI Attraction

Tanzania's sustained macroeconomic stability has been a key driver of rising Foreign Direct Investment (FDI) inflows. In 2023, real GDP growth accelerated to 5.1%, up from 4.7% in 2022, supported by resilient domestic demand and robust public investment in infrastructure. Inflation remained moderate, averaging 3.8%, while the current account deficit narrowed sharply from -7.4% to -3.7% of GDP, signaling improved external balances and stronger international liquidity. These indicators reflect a resilient and well-managed economy, reinforcing investor confidence and positioning Tanzania as an increasingly attractive destination for long-term foreign capital.

Large-scale infrastructure projects are further enhancing Tanzania's competitiveness. The Julius Nyerere Hydropower Station, expected to add over 2,000 MW to the national grid, is set to deliver stable, affordable energy critical for industrial growth. The Standard Gauge Railway (SGR) is expected to enhance regional trade efficiency, while the ongoing and planned port expansions and road improvements are continuing to strengthen logistics and market access across mainland Tanzania. Complementing these physical investments, the establishment of the Premier Investors Service Centre in May 2024 has simplified investment procedures and bolstered investor support.

Conclusion and Policy Recommendations

Tanzania's FDI landscape from 2019 to 2023 shows both stability and gradual transformation. Mining remains the leading sector, but foreign investors are steadily diversifying toward manufacturing, finance, and ICT. This

shift indicates growing investor confidence and a slow move away from overreliance on extractive industries. Financing patterns have also evolved, with reinvested earnings and intercompany loans now surpassing equity contributions, signaling deeper, long-term investor engagement.

To sustain these gains, it is recommended that the Government needs to continue with efforts to improve the business environment and the investment climate through targeted reforms aiming to achieve the following:

- **Scaling up support for emerging sectors:** Sectors like ICT and agro-processing still receive relatively low FDI despite their strong growth potential. Targeted incentives and investor outreach should focus on these key sectors.
- **Promoting profit reinvestment:** With reinvested earnings now among leading FDI financing, improving profit retention frameworks and corporate transparency is key to encouraging long-term capital accumulation.
- **Maintaining macroeconomic stability and closing infrastructure gap:** Continued investment in energy (e.g., JNHPP), transport (SGR), and logistics (ports and associated services) are critical for sustaining investor confidence and strengthening regional competitiveness.
- **Addressing regulatory bottlenecks:** Streamlining access to land, tax administration, and dispute resolution will reduce investment risks and further attract diverse investors.
- **Adopting a sector-focused FDI strategy, by** aligning investment promotion with national priorities like industrialization and export diversification, also targeting development-oriented partners.

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