

GUATEMALA

Investment and environment outlook

This Outlook has been produced by the United Nations Environment Programme, Division of Technology, Industry and Economics (UNEP/DTIE). It is one of the publications realised within the framework of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries” funded by the Government of Norway and implemented by UNEP/DTIE.

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1. Foreword

This Outlook has been prepared in the context of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries”, financed by the government of Norway and implemented by the Division of Technology, Industry and Economics of UNEP. The project has a global component and demonstration activities are carried out in five pilot countries : Guatemala, Nicaragua, Tanzania, Vietnam and Zimbabwe.

The aim of the project is to encourage financing towards cleaner production investments, by demonstrating how these can be economically viable and financially attractive, in addition to being environmentally beneficial. One of the real challenges of this project is thus to contribute to bridging the gap between the financial community and the industrial world.

One major output of the project is a “Study on past investment practices” which has been conducted at both global and national levels. This Outlook is an integral part of the Study and forms an annex to its main volume.

2 Purpose

This publication, following the demonstration approach guiding the whole project, is designed to give an overview of the country with respect to investment flows and activities, financial institutions' strategies and initiatives, business activities related to environmental issues, and touching upon external development assistance. The Outlook thus results in a slender resource document which, unlike country profiles by other publishers, focuses uniquely on the main features of the financial and capital markets.

The information gathering process was at times not an easy one; some countries are relatively new to a market-based economy, so institutions such as the stock exchange are still in their infancy with little or non-existent data memory. In this respect, this Outlook is not meant to provide an exhaustive picture of the country.



3. Country Profile

GUATEMALA



<p>Country MAP</p>	<p>Economy</p> <p><i>GDP-per capita PPP:</i> US\$3,800 (1998) <i>GDP real growth rate:</i> 5% (1998 estimates) <i>Currency:</i> Quetzal <i>Exchange rate (Q:US\$):</i> 7,9 (1999) <i>Inflation rate (%year-end):</i> 7,5 (1998) <i>Exports (Main partners):</i> US, El Salvador, Honduras, Costa Rica, Germany <i>Imports (Main partners):</i> US, Mexico, Japan, El Salvador <i>Economic aid recipient:</i> US\$597 million (1998) <i>Industry sectors:</i> food processing (sugar, coffee), textile&garments, metal-mechanics, electricity <i>Total FDI:</i> US\$584 million (1998) <i>Agriculture:</i> sugarcane, corn, banana, coffee <i>Stock exchange capitalisation:</i> US\$57 million (1999)</p>
<p>People</p> <p><i>Population:</i> 10,8 million (official Government estimates 1998) <i>Language:</i> official: Spanish; different Mayan indigenous languages <i>Life expectancy at birth:</i> 66,45 <i>Population below the poverty line:</i> not available <i>Labour Force:</i> 3,32 million (1997 estimates) <i>Unemployment rate:</i> 5,2%(1997) <i>Religion:</i> Roman Catholic (majority) <i>Literacy:</i> 55,6%</p>	<p>Government</p> <p><i>Type:</i> Republic <i>Independence:</i> 1821 (from Spain) <i>Political parties:</i> National Centrist Union, Christian Democratic Party, National Advancement Party, Guatemalan Republican Front <i>International Organisations' Membership:</i> BCIE, FAO, G-77, IAEA, IBRD, ICAO, IFAD, ILO, IMF, UN, UNESCO, UNCTAD, UNIDO, WHO, WTO</p>
<p>Geography</p> <p><i>Land Area:</i> 108,889 km² <i>Main Towns:</i> Guatemala City (1,731,970 inhabitants), Quetzaltenango (128,556), Escuintla (105,974), Puerto Barrios (80,723) <i>Natural resources:</i> petroleum, nickel, rare wood, fish, chicle <i>Climate:</i> tropical, hot humid in lowlands, cooler in highlands</p>	<p>Environment</p> <p><i>Main issues:</i> deforestation, soil erosion, loss of biodiversity, water pollution <i>International Agreements' Membership:</i> Biodiversity, Climate Change, Endangered Species, Hazardous Waste, Law of the Sea, Ozone Layer Protection, Montreal Protocol.</p>

4. Environment

Focus Area of Degradation

Guatemala and surrounding countries, commonly referred to as Meso-America, are home to some of the world's richest eco-systems with a particular abundance of bird and higher plant species found within the dry forest systems. Countries that make up Meso-America also include Belize, Costa Rica, El Salvador, Honduras, Mexico, Nicaragua and Panama. The most serious evidence of environmental degradation in this area includes deforestation, soil erosion, loss of biodiversity and increasing pollution.

Within Guatemala, 16.8% of its land is nationally protected. These include: scientific reserves and strict nature reserves with limited public access, national parks, natural monuments and natural landscapes, managed nature reserves and wildlife sanctuaries and protected landscapes and seascapes¹. However, protected areas within the mountainous regions are not strictly regulated.

Sixty-three million hectares within Meso-American countries has been significantly affected by land degradation, mostly due to poor agricultural management and techniques.

The rate of deforestation in Guatemala is alarmingly high. Between 1990-1995, Guatemala experienced an average annual deforestation rate (% change) of 2.0%, considered the 10th highest in the world. As parts of the country became more accessible due to the peace accord in 1996, it is anticipated that deforestation will rise even further.

Industrial activity in Guatemala is the main culprit for the degradation of water quality. In particular, the food and beverages sectors accounted for 71.4% of emissions of organic water pollutants between 1993-1996.

Whilst gradual environmental degradation continues, the arrival of Hurricane Mitch in 1998, brought on by El Nino, had devastating affects on the environment, as well as the economy. The EIU estimates that the direct cost for environment cleanup was US\$5.1 million, which is a small proportion of the overall direct costs to the nation.

Environmental Treaties and Conventions

In 1994, Guatemala adopted a national environmental strategy, which was set up to provide a comprehensive, cross-sector analysis of conservation and resource management issues.

On an international level, Guatemala has become a signatory of a majority of the environmental conventions. These include the Convention on Climate Change in 1996, the Vienna Convention for the Protection of the Ozone Layer in 1988, the Montreal Protocol for CFC Control in 1990 and the Convention on Biological Diversity in 1995.

Regional treaties highlight some of the more local environmental concerns, help to reflect the degree of development and the instruments used by the countries affected. Listed below are regional treaties in which Guatemala is a participant.

1. World Bank, World Development Indicators, 1999.

Guatemalan Participation in Regional Environmental Treaties	
Treaty	Place and date of adoption
Convention on Nature Protection and Wildlife Preservation in the Western Hemisphere	Washington DC, 1940. (1): 28.07.1941
Treaty for the Proscription of Nuclear Weapons in Latin America and the Caribbean (Tlatelolco Treaty)	Mexico City, 1967. (1): 19.12.1969
River Plate Basin Treaty	Brasilia, 1969 (4)
Convention of the Defense of the Archaeological, Historical and Artistic Heritage of the American Nations (Convention of San Salvador)	Santiago, 1976. (1): 24.10.1979
Treaty for Amazonian Co-operation	Brasilia, 1978 (4)
Convention of the Conservation and Management of the Vicuna	Lima, 1979 (4)
Convention for the Protection of the Marine Environment and Coastal Area of the South-East Pacific	Lima, 1981 (4)
Agreement on Regional Co-operation in Combating Pollution of the South-East Pacific by Hydrocarbons and Other Harmful Substances in Cases of Emergency	Lima, 1981 (4)
Supplementary Protocol to the Agreement on Regional Co-operation in Combating Pollution of the South-East Pacific by Hydrocarbons and Other Harmful Substances in Cases of Emergency	Quito, 1983 (4)
Protocol for the Protection of the South-East Pacific against Pollution from Land-Based Sources	Quito, 1983 (4)
Convention for the Protection and Development of the Marine Environment in the Wider Caribbean Region	Cartagena de Indias, 1983. (1): 20.06.1989
Protocol Concerning Co-operation in Combating Oil Spills in the Wider Caribbean Region	Cartagena de Indias, 1983. (1): 20.06.1989
Central American Convention for the Protection of the Environment	San Jose, 1989. (1): 19.03.1990
Protocol Concerning Specially Protected Areas and Wildlife to the Convention for the Protection and Development of the Marine Environment in the Wider Caribbean Region	Kingston, 1990. (3): 18.01.1990
Convention for the Conservation of the Biological Diversity and the Protection of the Priority Wilderness Areas in Central America	Managua, 1992. (1): 10.09.1993; (2): 22.10.1993
Regional Agreement on the Trans-boundary Movement of Hazardous Wastes	Panama, 1992. (1): 24.02.1994
Regional Convention for the Management and Conservation of Natural Forest Ecosystems and the Development of Forest Plantations	Guatemala City, 1993. (1): 02.02.1994

(Source: UNEP, Global Environment Outlook 2000, 1999.)

(1) Ratified; (2) Deposited; (3) Protocol signed; (4) Information not available.

In 1994, Guatemala and its Central American neighbours signed the Alliance for Sustainable Development, which provides a framework for countries to achieve regional and national strategies.

Environmental Law and Regulation

Concerns for the environment are beginning to permeate into the way in which companies conduct business, particularly foreign companies. Increasingly, environmental credentials are required and impact studies must be conducted when seeking investment approval or licence for new projects. However, environmental regulations have proven difficult to enforce.

For instance, the Mayan Biosphere in the northern jungle of Guatemala has recently been declared a protected area. However, depending on the environmental impacts, foreign companies have been able to obtain approval for projects, which exploit this environmentally diverse area. Whilst these conservation plans have been put in place, approval for projects is considered easy to acquire.

Regulation is still the core instrument of environmental policy in Guatemala. A Co-ordinating Commission was set up to form Guatemala's Environment Ministry. It is still unknown how effective the Commission is at providing adequate control, monitoring and enforcement mechanisms. Without costly monitoring and enforcement, improvement in environmental conditions is not realised. In June 1998, a new law was introduced to reduce carbon emissions. Plans for enforcing the law have not yet been made public.

It is expected that Guatemala's environmental laws and institutions will probably strengthen over the next few years as a result of international demands, which are tied to aid and/or trade.

High on the political agenda is forest conservation. Recent policy reforms in Guatemala are expected to stimulate the reforestation of thousands of hectares. Special incentives are being offered to companies engaging in reforestation projects of more than 2 hectares.

Nevertheless, future outlook for deforestation is likely to continue to be driven by the expansion of the agricultural sector, logging and inequitable land distribution. The use of economic instruments for forest conservation is gaining acceptance, albeit slowly. Options available to Guatemala include: further use of indirect control using fiscal incentives, direct control of government-owned forests, market reforms, the introduction of community forestry schemes and granting of private property rights².

With regard to the latter, land reforms, including resolutions over property ownership, have been built into the peace accord but have been slow to implement. Currently, 65% of agricultural land is controlled by 2.5% of Guatemala's farms. As long as conflict over land ownership continues to exist, land management and forest conservation will be difficult to execute.

5. Financial Markets and Investment

General Market Conditions

Business confidence dampened in 1999. The crisis in the banking system has contributed to the lingering financial problems in the coffee industry, compounded by the effects of Hurricane Mitch. In late 1998 and early 1999, two leading coffee exporters collapsed.

A squeeze in private sector credit, weak exports performance, a rise in inflation rates and continued currency instability were partly to blame for this.

2. UNEP, *Global Environmental Outlook 2000*, September 1999.

The restriction in credit to the private sector has had a significant effect on the private sector growth. During 1999, commercial banks were reluctant to make loans. The level of outstanding loans to the private sector was partly to blame for this. By September 1999, the stock of outstanding loans increased by Q1.77 billion, an increase of 9.4% since January 1999.

The Economist Intelligent Unit (EIU) predicts that growth will be moderate during 2000 due to expected weak export activity, high interest rates and spending restraint. Inflation is expected to remain stable, forecast at remaining below 10% in 2000 and 2001.

Dynamic industries are likely to be transportation, mining, construction and electricity.

Financial Sector

The Junta Monetaria (JM)³ and its Central Bank, Banco de Guatemala⁴, regulate the banking and financial sector. Liberalisation of the sector throughout the 1990's has led to an increase in the number of banks and other financial institutions. With the backing of Guatemala's Bankers Association, JM has begun to introduce banking reforms. The reforms include⁵:

- An insurance protection scheme for deposits of less than Q20,000 (which make up about 95% of total deposits).
- Tighter regulations covering in-house loans by commercial banks.
- An increase in the capital requirement of Q20 million to Q106 million for existing and new banks. Banks will be given a grace period of 2 years to comply with the new regulations.
- Increased powers for the banking superintendent to intervene in banks that begin to show problems.

A range of fines have been established, ranging from Q50,000 to Q1 million (\$6,330-130,000) for those breaking the new regulations.

One of the most important steps in modernising the country's financial sector is the introduction of an inter-bank electronic board (or Mesa Electronica Interbancaria), modelled after a similar scheme in Mexico. The Mesa Electronica was approved in January 1999 to facilitate the flow of short-term funds between banks. The new system eliminates the need to cover shortfalls by turning to repurchase agreements on the Bolsa de Valores (Guatemala's stock exchange). This in turn will motivate investors to keep their deposits in the bank rather than withdrawing to seek higher returns by trading repurchase agreements.

The insurance industry is relatively small. Laws in Guatemala allow only national insurance companies with foreign companies providing reinsurance. Building and motor insurance makes up approximately 60% of the market. Life, marine and aviation insurance represents a small portion of the total market.

3. The Junta Monetaria is the banking and financial sector highest authority.

4. The "Banco de Guatemala" is the country's Central Bank responsible for carrying out monetary, foreign exchange and credit policies of the JM.

5. EIU, *Guatemala Finance: Banking Reform on the Horizon*, March 1999.

Bilateral and Multilateral Funding

Since 1997, official aid disbursements to Guatemala have focussed primarily on progress of the peace accord and alleviation from Hurricane Mitch. During 1997-1998, aid disbursements totalled \$597 million⁶.

Guatemala Official Aid Disbursement 1997-98 (\$ millions)				
	Peace Process	Other Government Programmes	Hurricane Mitch Alleviation	TOTAL
Bilateral aid	283.9	25.4	19.8	329.2
Multilateral aid	203.9	62.9	1.0	267.8
Total	487.8	88.3	20.8	597.0

Source: EIU, *Guatemala: Country Profile 1999-2000*, 1999.

Prior to the devastation by Hurricane Mitch, a majority of aid commitments focussed on water supply and sanitation, transport and communications, agriculture and health. In 1997 (the most recent year of official aid statistics available), countries which disbursed the largest sums of aid to Guatemala included Japan, Germany and the Netherlands. Almost 75% of multilateral aid originated from the World Bank's IDA programme.

Stock Market

Guatemala's stock exchange, the Bolsa Nacional de Valores (BVN), was set up in April 1987. An additional exchange, the Corporacion Bursatil, was set up in 1994. There is also an agricultural stock exchange called Bolsa Agricola Nacional.

The exchanges trade mainly in government bonds and debt. Few private stocks were traded until the privatisation of state-owned assets was initiated.

In 1992, the BVN created an electronic system for foreign currency transactions called SINEDI, designed for selling and buying of currency. Also, the electronic programme INFOBOL was incorporated into the national stock market. The programme, with its many options for operating, allows users to check the negotiations on the stock market, to check available titles and historical details and to query operations running in real time and the buy/sell offers.

In 1999, the BVN faced a number of challenges with regard to the nation's financial and economic setbacks, which generated a lack of confidence in the investment community. For instance, in mid-November 1999 due to a minor liquidity crisis, the rate of repurchase agreements rose to 57%, compared to 28% at the beginning of November.

Measures were taken to provide assurances to investors, such as raising the level of control and security in the market, promote the development of new products and offer more information to the stock market participants.

The value of shares traded on the BVN, which is raised in both US dollars and quetzals, reached Q937 million and US\$57 million by November 1999. Monthly volume traded between Q1,500 and Q2,300 million during 1999.

6. EIU, *Guatemala: Country Profile 1999-2000*, 1999.

Foreign Investment Opportunities and Restrictions

Guatemala offers fiscal and other incentives to attract private investment. These incentives were created mostly for key industries, such as forestry, hydrocarbons, mining and tourism. For example, investors in hydrocarbon projects enjoy tax deductible exploration and related-expenses, while those involved in petroleum projects qualify for a 5-year, tax-free importation of certain goods. Investors in mining projects are also eligible for tax-free imports.

In 1989, Guatemala set up special export incentives and zones. These mostly concentrate on investments in non-traditional export industries. The incentive offers exemption of VAT and tariffs on imported raw items intended for processing of re-export products, such as raw materials, machinery and equipment.

In an attempt to draw investments into Guatemala's rural areas, the government has set up duty-free industrial parks. In more urban areas, Guatemala also set up designated free-trade zones within industrial parks. The establishment of the parks has generated growth and provided infrastructure, free-trade status and commercial services to companies.

Corporate taxes in Guatemala are charged at a flat rate of 27.5%, reduced from 30% in 1999. This rate is expected to reduce even further to 25% by the end of 2000.

Taxation	
Corporation	27.5 %
Withholding tax	20 % on interest; 12.5 % on dividends; 30 % on royalties from patents, know-how, etc ^a
Individual	Maximum 27.5 %
Surtax	Increased from 7 % to 10 %
Double taxation agreements	none

^a World of Information: Business Intelligence Report, 1999.
(Source: EIU, *Investing, Licensing & Trading in Central America*, 1999).

In order to set up operations in Guatemala, foreign entities must obtain permission by registering with the Registro Mercantil (Mercantile Registry) and with the Guatemalan Internal Revenue Service. There are no requirements as to minimum ownership by local Guatemalan partners. Foreigners enjoy the same rights and restrictions as nationals.

Promising opportunities identified for exports in Guatemala are fertilisers and pesticides, foods, textiles, furniture, shoes, plastics and equipment for the sugar industry.

Foreign Direct Investment (FDI)

The extent of FDI has varied throughout the 1990's. The early 1990's averaged \$370 million annually until 1993, when business confidence weakened due to the coup staged by Jorge Serrano Elias⁷. Between 1993-97, FDI decreased to a modest level and was short-term driven.

7. World of Information Business Intelligence Report: Guatemala, September 1999.

In the late 1990's, the government's privatisation policies have helped to attract important long-term investment. For instance, the privatisation of Guatemala's electricity distribution network attracted significant investment in 1998.

In addition to Guatemala's privatisation programme, a bilateral agreement was finalised with the US Overseas Private Investment Corporation (OPIC) at the end of 1997. The aim of the agreement is to encourage more investment by US businesses in Guatemala.

Guatemala FDI inflows (US dollars, million)				
1994	1995	1996	1997	1998
60	70	71	78	584

Source: UNCTAD, *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, 1999.

FDI inflows do not always necessarily add to the development of host countries. There can sometimes be negative impacts, such as crowding out of domestic investors and the shifting of funds outside of the country. This was particularly true in the case of Guatemala and the surrounding Latin American region between 1970-96⁸.

Quality of FDI will increasingly become important to Guatemala. By ensuring that the local economy benefits from FDI, Guatemala and other developing countries will look to maximise the non-capital components of investment, such as:

- Technology transfer, diffusion and generation
- Export development
- Job- and skill-creation
- Environmental sustainability⁹.

Guatemala Development Foundation (FUNDESA) is an investment promotion agency founded in 1984. It is a non-governmental organisation set up to promote development in Guatemala through increased trade and investment. FUNDESA recently set up the Guatemala Business Centre which targets viable projects and potential investors mainly in the US and Asia.

FDI and the role of Cleaner Production

In recent years, the environment has moved beyond a public affairs issue to a source of competitive advantage. It is now considered one of many key factors in technological, economic and managerial decisions. The costs of natural resources degradation and pollution is also becoming apparent and a critical issue in developing countries.

The main positive reason for bringing environmental factors into investment decisions in countries, such as Guatemala, is the potential for cost savings. These can result from more efficient use of water, energy and other resources inputs through to better product design and cleaner production processes and technologies.

Investment mechanisms to assist the promotion of environmental projects are beginning to emerge from Guatemala. The Guatemala Office for Activities Implemented Jointly (OGIC) was established

8. UNCTAD, *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, 1999.

9. UNCTAD, *World Investment Report 1999: Foreign Direct Investment and the Challenge of Development*, 1999.

in 1996 to identify investment opportunities in environmental projects. OGIC is technically supported by the Centre for Sustainable Development in the America (CSDA) to propose policies, criteria and formulating mechanisms, evaluate and approve projects and market projects to potential investors.

OPIC, a US independent government agency, has recently become active in Guatemala (*Refer to Foreign Direct Investment*). While OPIC assists in directing US private investment into developing countries, such as Guatemala, it also applies screening of environmental and management criteria for all its projects. The criteria are based on World Bank environmental guidelines and other applicable standards.

Since 1996, OPIC has either financed or provided insurance for seven projects in Guatemala. The projects have ranged from the provision of insurance for the construction of a new hotel and financial services projects, to the provision of finance for power generation projects.

OPIC also provides finance for the US\$80 million Global Environmental Services Fund. As well as this fund, Guatemala is also eligible to tap into a new credit facility set up by OPIC and Citibank. The US\$200 million credit facility has been set up to assist small to medium sized enterprises to gain access to finance for projects.

The activities and environmental procedures of OPIC, and similar organisations, have the potential to act as a catalyst for change. Guatemala's need for economic growth within the boundaries of sustainable development is increasingly possible through these types of financial mechanisms. Industries, such as food processing of sugar and coffee, textiles and the metal mechanics sector, all have the potential to tap into these types of existing financial programmes, which will increasingly consider a project's environmental footprint.

ANNEX

Guatemalan Financial Institutions and Banks

Company Name Fax	Address	City	Postal	Telephone
Argentaria Banco Exterior	7a Avenida 5-10 502 2 32 1678 Zona 4 Edificio Centro Financiero Industrial Torre 1 7 Nivel	Guatemala City	1130	502 2 31 1735
Banco Agrícola Mercantil	7a Avenida 9-11 502 2 51 0780 Zona 1	Guatemala City		502 2 21 601
Banco Continental	5a Avenida 12-38 Zona 1	Guatemala City		502 2 510 909
Banco Corporativo	6a Avenida 4-38 502 2 331 910 Zona 9	Guatemala City		502 2 334 346
Banco de Exportacion	Avenida de la Reforma 502 2 32 2879 11-49 Zona 10	Guatemala City	01909	502 2 31 9861
Banco de Guatemala	7th Avenue 22-01 502 2 53 4035 Zona 1	Guatemala City	01001	502 2 30 6222
Banco de los Trabajadores	8a Avenida 9-41 Zona 1	Guatemala City		502 2 24341
Banco de Occidente	4a Calle 11-38 Zona 1	Quetzaltenango		502 2 961 286
Banco del Agro	9a Calle 5-39 Zona 1	Guatemala City		502 2 51 4026
Banco del Café	Avenida Reforma 9-00 Zona 9	Guatemala City		502 2 311 131

Banco del Ejercito	5a Avenida 6-06 502 2 51 9105 Zona 1	Guatemala City	010001	502 2 519105
Banco G&T	7a Avenida 1-86 502 2 32 9083 Zona 4	Guatemala City	01004	502 2 31 2333
Banco Industrial	7a Avenida 5-10 Zona 4	Guatemala City		502 2 31 2323
Banco Inmobiliario	8 Avenida 10-57 502 2 84842 Zona 1	Guatemala City		502 2 50 9022
Banco Internacional	7a Avenida 11-20 502 2 32 7390 Zona 1	Guatemala City	2588	502 2 51 8066
Banco Metropolitano	5a Avenida 8-24 Zona 1	Guatemala City		502 2 25 360
Banco Nacional de Desarro	9a Calle 9-47 Zona 1	Guatemala City		502 2 22 641
Banco Nacional de la Viven	6a Avenida 1-22 Zona 4	Guatemala City		502 2 325 777
Banco Promotor	10a Calle 6-47 502 2 51 3387 Zona 1	Guatemala City		502 2 51 2928
Banco Reformador	7 Avenida 1-24 Zona 9	Guatemala City		502 2 362 086
Banco Uno	11 Calle 5-07 502 2 51 6296 Zona 1	Guatemala City		502 2 51 2266
Construbanco	12 Calle 4-17 502 1 53 6042 Zona 1	Guatemala City		502 1 53 9827

Dresdner Bank

Piso 10	Guatemala	502 2 333 720
Oficina 100-4	City	
Torre 2		
Edificio Centro Empresarial		
5a Avenida 15-45		
Zona 10		

Dresdner Bank Lateinameri

Piso 10	Guatemala	502 2 333 720
502 2 33 3720	City	
Oficina 1001-4		
Torre 11		
Edificio Centro Empresarial		
5a Avenida 15-45		
Zona 10		

El Credito Hipotecario Naci

7a Avenida 22-77	Guatemala	502 2 50 0112
502 2 51 2692	City	
Zona 1		

Ibero Platina Bank

Edificio Centre Internaciones	Guatemala	502 2 362 175
502 2 362 175	City	
Diagonal 6		
11-97 Zona 10		
5 to Nivel		
Ofic. 501		

Inter-American Development Bank

Edificio Geminis 10	Guatemala	502 3 35 265
502 3 35 3319	City	
12 Calle 1-25		
Zona 10		
Nivel 19		

Lloyds Bank

6a Avenida 9-51	Guatemala	502 2 332 758
502 2 332 764	City	
Zona 9		
Edificio		
Gran Via		

Multibanco

7a Avenida 6-17	Guatemala	502 2 32 7474
Zona 9	City	

World Bank

14th Level	Guatemala
Edificio Atlantis	City
13 Calle 3-40	
Zona 10	

NICARAGUA

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The information gathering process was at times not an easy one; some countries are relatively new to a market-based economy, so institutions such as the stock exchange are still in their infancy with little or non-existent data memory. In this respect, this Outlook is not meant to provide an exhaustive picture of the country.



3. Country Profile

NICARAGUA



Country map



People

Population: 4,78 million (1998)
Language: Spanish, Miskito, Sumo and English (Atlantic Coast)
Life expectancy at birth: 67,08 years
Population below the poverty line: 50,3% (1993)
Labour Force: 1,5 million
Unemployment rate: 14% (1997)
Religion: Roman Catholic, Protestant and Evangelic groups (20%)
Literacy: 65,7%

Geography

Land Area: 128,875 km²
Main Towns: Managua (capital), Matagalpa, Chinandega, Leon
Natural resources: gold, silver, copper, tungsten, lead, zinc, calcium, antimony, fish
Climate: tropical in lowlands, cooler in highlands

Economy

GDP per capita (PPP): US\$ 2,500 (1998)
GDP real growth rate: 6,0% (1999)
Currency: Cordoba (C)
Exchange rate (US\$): C10,581:US\$1 (1998)
Inflation rate: 7,2%(1998)
Exports (Main partners): USA, Germany, Costa Rica, Spain, El Salvador
Imports (Main partners): USA, Guatemala, Japan, Netherlands Antilles, Mexico
Economic aid reciepts: US\$839,9 million (1995)
Industry sectors: Food processing, Leather, Wooden products
Total FDI: US\$184 million (1998)
Agriculture: coffee, bananas, cotton, rice, corn, poultry

Government

Type: Republic *Independence:*1838 (from Spain)
Political parties: Partido Liberal Constitucionalista (PLC), Frente Sandinista de Liberacion Nacional (FSLN), Social Democratic Party, Independent Liberal Party, Nicaragua Party of the Christian Road, others
International Organisations' Membership: BCIE, FAO, G-77, IADB, IAEA, IBRD, ICAO, IFAD, IFC, ILO, IMF, IMO, Interpol, ITU, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UPU, WHO, WMO, WTO

Environment

Main Issues: deforestation, soil erosion, water pollution, damage from hurricane Mitch
International Agreements' Membership: Biodiversity, Climate Change, Desertification, Endangered Species, Hazardous Waste, Nuclear Test Ban, Ozone Layer Protection, River Plate Basin Treaty, Treaty for Amazonian Cooperation, Central America Convention for the protection and Development of the Marine Environment in the Wider Caribbean Region

4. Environment

Focus Area of Degradation

Nicaragua's economic recovery is partly based on the exploitation of the country's natural resources, such as mining, forestry and aquaculture. Environmental issues which Nicaragua face includes damage from Hurricane Mitch, deforestation, soil erosion and water pollution.

The rural population turn more and more to forests for fuel wood and supplemental food, caused mostly by poverty. Expanding agricultural development into previously undeveloped, rain forest areas is having a significant affect on the environment. Nicaragua's rain forests are disappearing at a rate of ten times faster than those of the Amazon. Experts estimate that if deforestation continues at that rate, the rain forests in Nicaragua will disappear by 2010.

As agricultural activity expands, the process of soil erosion accelerates. Mismanagement of agricultural land has also led to damage in the soil structure.

Environmental Treaties and Conventions

Nicaragua's participation in environmental treaties includes both regional and international arenas. In 1993, Nicaragua was a signatory of the Vienna Convention for the Protection of the Ozone Layer and the Montreal Protocol for CFC Control. The Convention on Biological Diversity and the Convention on Climate Change were signed in 1996.

In 1981, Nicaragua conducted a Country Environmental Profile, which identified economic and development issues relating to the conservation of natural resources. Nicaragua adopted a National Environmental Action Plan in 1994. The Plan provides a comprehensive analysis of Nicaragua's conservation and resources management issues.

The emergence of regional treaties highlights the need to address environmental problems across the various national boundaries. Listed below are regional treaties in which Nicaragua is a participant.

Nicaragua Participation in Regional Environmental Treaties (tbc by UNEP staff in Nicaragua)	
Treaty	Place and date of adoption
Convention on Nature Protection and Wildlife Preservation in the Western Hemisphere	Washington DC, 1940
River Plate Basin Treaty	Brasilia, 1969
Convention of the Defense of the Archaeological, Historical and Artistic Heritage of the American Nations (Convention of San Salvador)	Santiago, 1976
Treaty for Amazonian Co-operation	Brasilia, 1978
Convention of the Conservation and Management of the Vicuna	Lima, 1979
Convention for the Protection of the Marine Environment and Coastal Area of the South-East Pacific	Lima, 1981
Agreement on Regional Co-operation in Combating Pollution of the South-East Pacific by Hydrocarbons and Other Harmful Substances in Cases of Emergency	Lima, 1981
Supplementary Protocol to the Agreement on Regional Co-operation in Combating Pollution of the South-East Pacific by Hydrocarbons and Other Harmful Substances in Cases of Emergency	Quito, 1983
Protocol for the Protection of the South-East Pacific against Pollution from Land-Based Sources	Quito, 1983
Convention for the Protection and Development of the Marine Environment in the Wider Caribbean Region	Cartagena de Indias, 1983
Protocol Concerning Co-operation in Combating Oil Spills in the Wider Caribbean Region	Cartagena de Indias, 1983
Central American Convention for the Protection of the Environment	San Jose, 1989
Protocol Concerning Specially Protected Areas and Wildlife to the Convention for the Protection and Development of the Marine Environment in the Wider Caribbean Region	Kingston, 1990
Convention for the Conservation of the Biological Diversity and the Protection of the Priority Wilderness Areas in Central America	Managua, 1992
Regional Agreement on the Trans-boundary Movement of Hazardous Wastes	Panama, 1992
Regional Convention for the Management and Conservation of Natural Forest Ecosystems and the Development of Forest Plantations	Guatemala City, 1993

(Source: UNEP, Global Environment Outlook 2000, 1999.)

In 1994, the Central American governments signed the Alliance for Sustainable Development, which has moved up the regional agenda.

Environmental Law and Regulation

In the 1980's the Sandinista government established the Instituto de Recursos Naturales (Irena) to manage environmental conservation programmes on a national scale. The programmes included management of watersheds, conservation of rainforests and the establishment of windbreaks.

In 1992, Irena established a new institute to regulate and control the use of forests. One project involved the creation the Indio-Maiz, a 4,500 km² biological reserve in the south-east region. The project received funding and support from international donors.

In 1998, the government has responded to the alarming rate of deforestation by passing an amendment to ban the logging of cedar, pochote and mahogany. In the same year, a new directive was issued for shrimp fishing, which requires all shrimp boats to be fitted with special nets that prevent to the capture of green sea tortoises.

Nicaragua is one of six Latin American countries that have incorporated the right to a healthy environment as a constitutional right. Nicaragua also restricts imports of toxic waste, including incinerator ash and heavy-metal residues.

5. Financial Markets and Investment

General Market Conditions

Relative peace and measures aimed at developing a market economy have not brought all the economic benefits that were expected in 1990's. Foreign debt is still a heavy burden, which was compounded by the devastation of Hurricane Mitch. Nicaragua continues to call for substantial aid and debt relief in the wake of the hurricane damage.

The reconstruction programme has sparked public spending on the construction of roads, bridges and buildings, which has contributed partly to a 6% growth in GNP in 1999. Growth in 2000 is expected to remain relatively strong, attributed to investment in infrastructure projects.

Recent trade and tax reforms are expected to help stimulate FDI. Privatisation is a cornerstone of Nicaragua's economic strategy – yet progress has been slow. Sectors that have attracted foreign investment include the tourism, commerce and energy generation sectors.

Financial Sector

Nicaragua has the smallest financial sector in Central America, consisting of \$1.8 billion in assets, as of June 1999¹.

During the Sandinista government in 1979, the banking system was nationalised. In the 1990's, the new government overhauled the financial system. This resulted in the role of the government diminishing considerably, particularly due to the relatively recent privatisation of several financial institutions and the establishment of the Superintendencia, which oversees and regulates the financial sector independently of the government.

1. EIU, *Nicaragua Country Finance*, 1999.

The country has 12 commercial banks, with 11 privately owned and 1 in state-ownership, although privatisation is expected. Two finance companies, Financiera Internacional (Interfin) and Financiera Delta, provide medium- to long-term loans. Two domestic development banks, Fondo de Credito Rural (FCR) and Financiera Nicaraguense de Inversiones (FNI), provide short-term loans. Various multilateral financial institutions, including the World Bank and the Inter-American Development Bank, provide development finance.

Nicaragua has two leasing companies, Financiera Arrendadora Centroamericana (Finarca) and Arrendadora Financiera LAFISE, which lease industrial, communications and construction equipment for terms of 3-5 years.

The government's insurance monopoly ended in 1996 and now there are five insurance companies, four of which are privately-owned. The market is dominated mostly by the publicly-owned Instituto Nicaraguense de Seguros y Reaseguros (Iniser), with assets of C505.4 million.

Bilateral and Multilateral Funding

According to the World Bank, Nicaragua is considered to be one of the top ten most aid-dependent countries in the world. Based on 1997 figures, the ratio of aid to GNP was 22.7 %, compared to 49 % in 1992. The total external debt to GDP ratio stood at 305.6 % in 1997.

Since 1995, Nicaragua has negotiated with the IMF, World Bank, the Inter-American Development Bank (IDB) and the Paris Club to restructure the country's debt. As a result, total debt fell substantially between 1996-98.

In the aftermath of Hurricane Mitch, Nicaragua has become even more dependent on aid and development grants. In 1998, Nicaragua received pledges of \$1.8 billion from international donors over three years. The aid has enabled Nicaragua to resume economic reforms and improve levels of social welfare. Programmes have concentrated on tourism and agriculture.

The same year the IMF programmes were revised to include reconstruction work and further debt rescheduling took place. This included an agreement with the Paris Club to relieve interest on debt worth \$200 million until 2001. France, Austria and Cuba also pardoned a total of \$157 million in debt.

As part of the IMF-World Bank heavily indebted poor countries (HIPC) scheme, the IMF is insisting that Nicaragua must fulfil the current ESAF as a condition of reducing any remaining debt. If Nicaragua is eventually admitted into HIPC, up to 90 % of net present-value debt stock could be written off. Approval of the HIPC debt relief is not expected until after 2001.

Nicaragua Official Development Assistance Major Bilateral Donors (US\$ million)			
	1995	1996	1997
Total, of which:	492.1	764.0	258.3
Japan	51.9	70.5	49.0
US	29.0	30.0	41.0
Germany	174.6	403.0	29.0
Denmark	26.8	33.6	25.8

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

Nicaragua Official Development Assistance Major Multilateral Donors (US\$ million)			
	1995	1996	1997
Total, of which:	170.7	190.0	162.4
IDB	80.1	47.5	58.7
IDA	17.3	67.4	49.4
CEC	31.8	43.9	30.2

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

In terms of development assistance programmes, a majority of aid (\$120.1 million) to Nicaragua in 1998 concentrated on the financial sector. Social and production programmes received \$95.6 and \$85.7, respectively².

Nicaragua receives a significant amount of aid from the IDB. In 1999, the Bank approved six loans and provided technical co-operation support. Cumulatively, it has provided 96 loans totalling \$1.56 billion and disbursements totalling \$1.2 billion. Examples of programmes include a Pan-American Highway Rehabilitation project, the Atlantic Coast Development project and Sustainable Services to Micro, Small and Medium Enterprises.

Stock Market

The Bolsa de Valores de Nicaragua (BVN) is Nicaragua's stock exchange, which began operating in 1993. The stock exchange provides little in the way of an equity market, as it is considered small and under-developed. Traditional equity finance on the BVN was non-existent until 1999, when the first private issue was registered.

In 1997, a total of C6.6 billion was traded, with 60% made up of government bonds. In 1998, trading totalled C6.1 billion, with, again, over 60% accounting for government bonds.

Foreign Investment Opportunities and Restrictions

Nicaragua's Foreign Investment Committee, an agency of the Central Bank, administers and regulates foreign investment and authorises specific investment projects. The Committee oversee the following:

- The entry of foreign capital within a legal framework.
- Terms and conditions of investment contracts.
- Monitor compliance with legal and contractual provisions.
- The transfer of stock certificates.
- Amendments to corporate by-laws.
- Reinvestment of retained earnings.
- The terms and amounts under which investors obtain external resources.
- Duty exemptions and other benefits.

² EIU, *Nicaragua Country Profile 1999-2000*, 1999.

Nicaragua has recently undergone a number of reforms to provide a basis for a more open economy. In particular, the country's aim is to attract investment in the export of non-traditional products.

In 1991, the Foreign Investment Law was passed, which includes:

- The right to remit 100% of profits through the official exchange rate market three years after the initial investment.
- Repatriation of the original capital.
- Allows 100% foreign ownership in all sectors³.

Subsequently, the Law created a number of incentives for both traditional and non-traditional products traded outside the Central American region, including:

- Exemption from import taxes and duties levied on machinery and spare parts, raw materials, semi-finished products and supplies and bottling materials.
- Exemption from the VAT on purchases of supplies and other local raw materials acquired for the production of exportable goods.
- Access to the foreign currency generated by the exports to pay for imports, according to the mechanisms established by the Central Bank.
- No fees are to be paid to obtain export licenses⁴.

Traditional goods include cotton and its derivatives, coffee beans, sugar cane molasses, sesame seeds, bananas, non-processed wood, beef, lobster and non-farmed shrimp, salted rawhide, gold and silver. Non-traditional exports include agriculture, agro-industrial products, industrial products and handicrafts.

Later in 1997, a more comprehensive set of tax reforms was introduced as a way on opening up Nicaragua's economy to investment. The reforms:

- Banned most non-trade barriers on imports
- Eliminated discretion of government officials to exonerate tariffs
- Repealed the restrictive law on agents, representatives or distributors of foreign firms
- Established a rebate of 1.5% of fob value for all exports
- Eliminated payments for permits and licenses related to export activities
- Eliminated value-added tax (VAT) on several activities
- Reduced municipal taxes from 2% to 1.5% in 1998 and 1% in 2000
- Eliminated income tax on interest and capital gains stemming from transactions on the local stock exchange
- Set a schedule of progressive import-tax reductions through the year 2002⁵.

3. EIU, *Country Finance 1999*, 1999.

4. American Chamber of Commerce of Nicaragua, *Doing Business in Nicaragua*, 1998.

5. EIU, *Investing, Licensing and Trading*, 1999.

Nicaragua also recently adopted investment incentives, which relate to specific sectors, such as:

Investment Incentives	
Incentive	Tax/investment benefit relating to project(s)
Tourism Investment Incentive Law	Tax benefit for projects relating to: <ul style="list-style-type: none"> ➤ Lodging ➤ Air transport ➤ Water transport ➤ Tour operations ➤ Food ➤ Beverage and entertainment services ➤ Film production ➤ Car rentals ➤ Tourism infrastructure ➤ Eco-tourism ➤ Arts and crafts and the preservation of folkloric activities
April 1999 Tax Reform	Exemption on import duty and VAT for any company which uses: <ul style="list-style-type: none"> ➤ telecommunications equipment, including: <ul style="list-style-type: none"> • Lighting systems • Electronics equipment • Mobile telecom units ➤ Collective transport vehicles (such as buses and airplanes) ➤ Transport cargo equipment ➤ Medical equipment ➤ Agricultural equipment ➤ Crude and partially refined petroleum ➤ Butane gas ➤ Propane. Tax benefits for projects relating to: <ul style="list-style-type: none"> ➤ electricity ➤ potable-water distribution.

Source: EIU, *Investing, financing & Trading*, 1999.

No industries are closed to the private sector. There are also no restrictions on the type of enterprise open to foreign investment. Government policy allows 100% foreign ownership and it is not necessary to have a local partner.

Taxation	
Corporation	25 %
Individual	30 %
Surtax	15 %
Double taxation agreements	Nicaragua has no tax treaties with other countries.

Foreign Direct Investment (FDI)

The Centre of Export and Investment (CEI) is Nicaragua's investment promotion agency. It was established in 1992 to increase investment and joint ventures as well as promote and diversify exports. The CEI is a joint venture between the Nicaraguan government and the private sector. The

Swedish Agency for International Development (ASDI), UNDP and the Nicaraguan government support the Centre.

In 1998, foreign direct investment reached \$184 million, of which 30% came from the US. Sectors that attracted the most investment include agriculture, construction, services, industry, tourism, mining and energy. It is estimated that FDI in 1999 reached \$300 million.

Recent trade and tax reforms are expected to help stimulate FDI. Nevertheless, FDI levels in 2000-01 are forecast to decrease on account of the forthcoming national elections in 2001 and the completion of most major hotel and tourism projects.

Nicaragua FDI inflows (US dollars, million)					
1993	1994	1995	1996	1997	1998
39	40	75	97	173	184

(Source: UNCTAD, *World Investment Report*, 1999.)

Nicaragua is beginning to open up to private investment. Since 1990, all state monopolies have been privatised, with the exception of the public utilities. The government's efforts to privatise power production and the telecommunications has faced some hurdles.

Empresa Nicaraguense de Telefonos (Enitel), the state telecommunications company, failed to attract investors (There is already private investment in mobile telephones, beepers and public phone booths). The highway system and rail-link system has also been earmarked for privatisation.

Investment in power generation has begun, with Coastal Power (US), Enron (US) and Ormat (Israel) obtaining purchasing agreements from the state. Privatisation of the generation and distribution services is expected to begin in 2000. Two private power plants began operations between 1997-99.

The insurance company Iniser, which dominates the market, is due to be privatised shortly. In addition to Nicaragua's privatisation programme, a bilateral agreement was reached with the US Overseas Private Investment Corporation (OPIC). The agreement is part of OPIC's Central America & Caribbean Initiative (CACI), which was established to increase private sector investment for long-term growth and economic development projects in the region.

So far, OPIC has provided finance and insurance for Nicaraguan projects equalling \$73.2 million. Projects include the provision of insurance to the Coastal Power Nicaragua Ltd for power services totalling \$54 million in 1999. In 1997, OPIC also provided \$1.0 million in insurance and finance for a paging system project involving Intertel Nicaragua. In the pipeline, US companies are currently showing interest in 18 projects representing \$430.4 million in potential investment in Nicaragua.

FDI and the role of Cleaner Production

The Nicaraguan economy was significantly affected by the nationalisation of industry by the Sandinista government in the 1980's. During the 1990's, the private sector struggled due to the severe deterioration of factories and machinery, with some even beyond repair.

In the aftermath of Hurricane Mitch, Nicaragua has found itself simultaneously rebuilding its infrastructure while embarking on a modernisation programme. The country has been placed in a difficult position of importing all equipment for development and reconstruction. The need for foreign techno-

logy, equipment and expertise has never been greater. Unfortunately, the financial resources needed to fulfil those needs will only be forthcoming once the nation recovers from the disaster of Hurricane Mitch.

There is potential for foreign investment to close the technology gap that exists in Nicaragua today. Currently, state-run companies are operating with obsolete technology, outdated work methods, inefficient energy use and limited capital. Progress in the privatisation programme will, in part, provide greater access to financial resources for the investment in technologies and equipment, including cleaner production technologies.

The challenge for Nicaragua's Foreign Investment Committee will be to promote the take up of cleaner production techniques and technologies among both local and foreign industrialists. Existing laws and investment incentives may provide an adequate foundation for achieving this.

In terms of availability of finance for the take-up of CP measures, Nicaragua's financial system is considered under-developed and small. Medium- to long-term loans are difficult to obtain in Nicaragua, which prevents local firms from investing in CP options. The greatest potential for CP in Nicaragua is the inflow of new foreign investment into projects that lead to enhanced environmental protection.

ANNEX

Nicaraguan Financial Institutions and Banks

Company Name	Address	City	P.O. Box	Web and/or E-Mail	Telephone
Banco Central de Nicaragua					
		Managua	2252 y 2253	www.bcn.gob.ni	505 265 5000 505 265 0562
Superintendencia de Bancos y de otras Instituciones Financieras					
	Edificio SIB-Km 7 Carretera Sur	Managua	788	www.superintendencia.gob.ni	505 165 1555 505 265 1555
Financiera Nicaragüense de Inversiones, S. A. (FNI, SA)					
	Rotonda Rubén Darío 800 metros al Este	Managua		www.fni.com.ni	505 278 5810 505 278 5800
Banco Nicaragüense de Industria y Comercio, S. A. (BANIC)					
	Centro BANIC	Managua		www.banic.com.ni	505 267 2730 505 267 4937
Banco de Crédito Centroamericano, S. A. (BANCENTRO)					
	Edificio Bancentro	Managua		www.bancentro.com.ni	505 278 2777 505 278 6001
Banco Caley Dagnall, S. A. (CALEY DAGNALL)					
	Km 3 Carretera Sur	Managua		bancaley@ibw.com.ni	505 268 0068 505 268 0069
Banco de la Exportación, S. A. (BANEXPO)					
	Rotonda El Güegüense 20 metros al Oeste	Managua		www.banexpo.com.ni	505 268 6818 505 266 4347
Banco Intercontinental, S. A. (INTERBANK)					
	Frente a la Lotería Nacional	Managua		www.interbank.com.ni	505 278 5959 505 278 3535
Banco de la Producción, S. A. (BANPRO)					
	Frente a Plaza El Sol	Managua	MR-80	ejg@banpro.com.ni	505 278 2508 505 278 4113
Banco del Café, S. A. (BANCAFE)					
	Plaza del Café	Managua		www.bancafe.com.ni	505 278 4478
Banco Mercantil, S. A. (BAMER)					
	Rotonda El Güegüense, 1 cuadra al Sur	Managua	3522		505 266 8228 505 266 8024

Banco de América Central, S. A (BAC)

Frente a la Lotería Nacional	Managua	2304	www.grupopellas.com/bac	505 267 0220
				505 267 0224

Banco de Finanzas, S. A. (BDF)

Costado opuesto al Hotel Intercontinental	Managua	6020	www.bdfnet.com	505 222 2444
				505 228 3056

Financiera Internacional, S. A. (INTERFIN)

Centro Comercial El Retiro	Managua		www.interfin.com.ni	505 268 1626
				505 268 1630

Primer Banco Inmobiliario, S. A (PRIBANCO)

Managua

Financiera Delta, S. A. (DELTA)

Rotonda El Güegüense	Managua			505 2682977
200 metros al Sur				505 266 0516

Financiera Arrendadora Centroamericana, S. A. (FINARCA)

Sandy's de la Carretera a Masaya, 1 cuadra al Oeste	Managua	2431		505 278 8203
				505 278 8184

Arrendadora Financiera La Fise, S. A. (LAFISE)

Banco Centroamericano de Integración Económica (BCIE)

Rotonda El Güegüense	Managua	2099	www.bcie.hn	
50 metros la Oeste				
			WebMail-ni@bcie.hn	
			becienic@ibw.com.ni	505 266 4120
				505 266 4143

Inter-American Development Bank

Km 4 1/2 Carretera a Masaya	Managua	PO Box 2512	www.iadb.org	505 267 0831
				505 267 3469

TANZANIA

Investment and environment outlook

This Outlook has been produced by the United Nations Environment Programme, Division of Technology, Industry and Economics (UNEP/DTIE). It is one of the publications realised within the framework of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries” funded by the Government of Norway and implemented by UNEP/DTIE.

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1. Foreword

This Outlook has been prepared in the context of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries”, financed by the government of Norway and implemented by the Division of Technology, Industry and Economics of UNEP. The project has a global component and demonstration activities are carried out in five pilot countries : Guatemala, Nicaragua, Tanzania, Vietnam and Zimbabwe.

The aim of the project is to encourage financing towards cleaner production investments, by demonstrating how these can be economically viable and financially attractive, in addition to being environmentally beneficial. One of the real challenges of this project is thus to contribute to bridging the gap between the financial community and the industrial world.

One major output of the project is a “Study on past investment practices” which has been conducted at both global and national levels. This Outlook is an integral part of the Study and forms an annex to its main volume.

2. Purpose

This publication, following the demonstration approach guiding the whole project, is designed to give an overview of the country with respect to investment flows and activities, financial institutions' strategies and initiatives, business activities related to environmental issues, and touching upon external development assistance. The Outlook thus results in a slender resource document which, unlike country profiles by other publishers, focuses uniquely on the main features of the financial and capital markets.

The information gathering process was at times not an easy one; some countries are relatively new to a market-based economy, so institutions such as the stock exchange are still in their infancy with little or non-existent data memory. In this respect, this Outlook is not meant to provide either an exact or an exhaustive picture of the country.



3. Country Profile

TANZANIA



Country map



People

Population: 32,3 million
Language: Ki-swahili, English
Life expectancy at birth: 46,17 years
Population below the poverty line: 51,1% (1991)
Labour force: 13,495 million
Unemployment rate: Not available
Religion: Christian, Muslim, indigenous beliefs
Literacy (total population): 67,8%

Geography

Land Area: 886,040 sq. km
Main Towns: Dar-es-Salaam, Mwanza, Tanga
Natural resources: phosphates, tin, iron ore, coal, natural gas, nickel, diamonds
Climate: tropical along the coast, temperate in highlands

Economy

GDP per capita (PPP): US\$210 (1998)
GDP real growth rate: 3,8% (1998)
Currency: Shilling (TSh.)
Exchange rate (TSh.: US\$): 750,0 (1999)
Inflation rate : 13,5% (1998), 6,6% (1999)
Central Bank interest rate : 17,6% (1998)
Exports (Main partners): India, Japan, Germany, Rwanda, UK
Imports (Main partners): South Africa, Kenya, UK, Saudi Arabia, China, Japan
Economic aid-recipient: US\$860,9 million (1995)
Industry sectors: agricultural processing (sugar, tobacco, beer), oil refining, shoes, textiles, mining, fertilisers
Total FDI: US\$ 172 million (1998)
Agriculture: coffee, sisal, tea, cashew nuts, cloves, bananas, corn, cassava

Government

Type: Republic *Independence:* 09 December 1961
Political parties: ChamaCha Mapinduzi, Civic United Front, National Convention for Construction and Reform, United Democratic Party, Chama Cha Demokrasia na Maendeleo
International Organisations' Membership: AfDB, ECA, FAO, G-77, IAEA, ICAO, ISO, ITU, SADC, UN, UNCTAD, UNESCO, UNHCR, UNIDO, UPU, WHO, WMO

Environment

Main issues: land degradation, loss of wildlife habitats and biodiversity, deforestation, deterioration of marine ecosystems
International Agreements' Membership: Biodiversity, Climate Change, Desertification, Endangered Species, Hazardous Waste, Law of the Sea, Nuclear Test Ban, Ozone Layer Protection

4. Environment

Focus Area of Degradation

The Tanzanian Government has identified six major environmental problems for urgent attention. They include:

- **Land degradation** – Soil productivity has been reduced dramatically in many parts of Tanzania.
- **Accessibility to quality water** – Despite considerable national effort, over half the people in towns and countryside do not have access to good quality water for drinking, washing, cooking and bathing.
- **Environmental pollution** – Health of the people in the towns and countryside is being affected.
- **Loss of wildlife habitats and biodiversity** – The national heritage of Tanzania is under threat and has begun to create an uncertain future for the tourist industry.
- **Deterioration of marine ecosystems** – Pollution and poor management has threatened the productivity of lakes, rivers, and coastal and marine waters.
- **Deforestation** – Tanzanian forest and woodland heritage is being reduced through clearance for wood for fuel, agriculture and other demands.

In mid-1994, the Rwandan refugee crisis compounded Tanzania's environmental troubles. Damage caused by an influx of 600,000 refugees included poaching in the Burigi and Biharamulo Game Reserves, the use of cheap labour in charcoal and timber operations and harvesting of firewood.

International donors and development agencies, including UNHCR and the Tanzanian district authorities and government, established an environmental task force and development programmes. Lessons learnt from the crisis include: pre-emptive site planning, establishing inter-agency coordination from the start and promoting better cooking techniques to reduce demand for fuel wood¹.

Environmental Treaties and Conventions

Since 1988, Tanzania has embarked on the adoption of national action plans covering various issues, which integrate environmental concerns with the development process. A Biodiversity Strategy was adopted in 1988. This was later followed in 1989 by a Country Environmental Profile, which identifies economic activities relative to conservation of natural resources. In 1994, an Environmental Action Plan was identified, which builds on the previous Biodiversity Strategy and Country Environmental Profile. The Action Plan provides a comprehensive analysis of conservation and resources management.

International and regional treaties that Tanzania has participated in include:

1. UNEP, *Global Environment Outlook*, 1999.

Tanzania Participation in Regional Environmental Treaties	
Treaty	Place and date of adoption
Convention of the African Migratory Locust	Kano, 1962
Convention and Statute Relating to the Development of the Chad Basin	Fort-Lamy, 1964
Phyto-Sanitary Convention for Africa	Kinshasa, 1967
African Convention on the Conservation of Nature and Natural Resources	Algiers, 1968
Convention Creating the Niger Basin	Faranah, 1980
Convention for Co-operation in the Protection and Development of the Marine and Coastal Environment of the West and Central African Region	Abidjan, 1981
Regional Convention for the Conservation of the Red Sea and Gulf of Aden Environment	Jeddah, 1982
Convention for the Protection, Management and Development of the Marine and Coastal Environment of the Eastern African Region	Nairobi, 1985 Ratified: 1 st March 1993
Protocol Concerning Protected Areas and Wild Fauna and Flora in the Eastern African Region	Nairobi, 1985 Ratified: 1 st March 1996
Agreement on the Action Plan for Environmentally Sound Management of the Common Zambezi River System	Harare, 1987
Bamako Convention on the Bank of the Import into Africa and the Control of Trans-boundary Movement and Management of Hazardous Wastes Within Africa	Bamako, 1991 Ratified: April 1993
Lusaka Agreement on Co-operative Enforcement Operations Directed at Illegal Trade in Wild Fauna and Flora	Lusaka, 1994 Ratified: 8 th September 1994
Treaty Establishing the Lake Victoria Fishing Organisation	Kisumu, 1994
SADC Protocol on Shared Watercourse Systems	Johannesburg, 1995

(Source: UNEP, *Global Environment Outlook 2000*, 1999).

Environmental Law and Regulation

Environmental responsibility falls under the Division of Environment (DOE) in the Vice-President's Office. The government has promoted both primary and sector-specific policy objectives. Sector-specific policies concentrate on agriculture, energy and fisheries.

Whilst policies exist, there is no comprehensive environmental legislative framework in place. Only sectoral acts, regulations and ordinances exist.

Science and technology has been built into the government's aims in the exploitation, processing and utilisation of natural resources. The government promotes environmentally sound technologies, using the principle 'best achievable technology' applied in all cases where possible.

The Tanzanian Government is working closely with donor countries to advance environmental policies, legislation and improved natural resource management practices. Specific programmes in selected areas include:

- establish management systems for the network of national parks
- establish a national system of game reserves as a second and more widespread network of protected areas
- community-based approaches in areas adjacent to protected areas on lands owned by communities and supported by districts
- establish management systems for coastal resources at both national and local levels.

5. Financial Markets and Investment

General Market Conditions

During the mid-1990's, Tanzania embarked on a macroeconomic stabilisation and liberalisation programme in the hope of developing the private sector. In late October 1999, the government announced further measures to strengthen the development of the private sector.

By the end of 1998, 222 companies out of 401 earmarked, had been privatised. Examples of companies currently up for sale include 12 factories of the Cashew Nut Board of Tanzania, 7 tea processing factories, 8 regional transportation companies and a number of hotels and lodges.

The liberalisation programme is also supported by a \$25 million loan from the World Bank to strengthen the capital markets and to create a privatisation Trust unit. The Trust will control the government's remaining stake in divested companies and will also enable the general public to participate in divestitures of parastatals.

The recent announcement of Tanzania being admitted into the World Bank/IMF's Heavily Indebted Poor Countries (HIPC) initiative is also expected to free up resources, which are expected to be channelled to priority sectors and infrastructure projects. (Refer to *Bilateral and Multilateral Funding* for further information about HIPC.)

Financial Market Forecasts			
	1998	1999	2000
Exchange rate TSh:US\$ (average)	664.67	750.0	830.0
91-day T-bill rate (%; period average)	12-15	7-10	–
Stockmarket index (end-period)	–	–	–
Change in \$ value of stockmarket index (%)	–	–	–

Financial Sector

In August 1991, the Tanzanian government passed legislation, which allowed private banks back into Tanzania. By June 1998, several private banks registered with the central Bank of Tanzania. Prior to

the financial sector reforms, the institutions operated as state-owned monopolies. The major institutions included:

- The National Bank of Commerce (NBC), which used to account for over 75% of the country's transactions for commercial lending. It provided both short and medium term credit facilities. NBC was later split in 1997 into NBC-1997 and the National Microfinance Bank (NMB). The NBC-1997 caters to corporate clients while the NMB targets smaller customers. As a result of privatisation, the government sold 70% of the shares in (NMB) to Amalgamated Banks of South Africa (ABSA) in early 2000.
- Tanzania Cooperative and Rural Development Bank (TCRDB), which provided financing the agricultural and rural sector. Later TCRDB became Co-operative and Rural Development Bank (1996) which has now been restructured as a commercial bank and renamed CRDB Bank Ltd.
- Tanzania Housing Bank (THB) was established in 1973 to finance housing development. In 1995, THB was put under liquidation.
- Tanzania Investment Bank (TIB) was established in 1971 to provide medium- and long-term finance to industrial development in both the public and private sectors. TIB is now in the final stages of restructuring to comply with the Banking and Financial Institutions Act (BFIA) of 1991, which allows licensing of private banks under the supervision of Bank of Tanzania.
- Other institutions include a hire purchase company known as KARADHA, Post Office Savings Bank (TPSB) and Diamond Jubilee Investment Trust (DJIT).

Project financing is available from Tanzania Development Finance Co. Ltd, Tanzania Investment Bank, Tanzania Venture Capital Fund, East African Development Bank, African Development Bank and International Finance Corporation.

The International Bank for Reconstruction and Development (IBRD), a member of the World Bank group, makes long-term loans at market-related rates primarily to developing nations. The International Development Agency (IDA), the soft loan window of the World Bank, lends to the poorest of the developing countries. Both the IBRD and IDA work to promote broadly based economic growth and frequently focus on structural adjustment, sectoral reform and individual project lending.

Bilateral and Multilateral Funding

Tanzania is dependent on foreign aid disbursements, which totalled \$963 million in 1997 within the Union.

Following a brief suspension of multilateral aid in 1994, Tanzania embarked on a new \$1 billion programme in 1995-96, supported by international donors. The programme was designed to assist Tanzania to exercise greater fiscal discipline and speedier privatisation of the country's parastatal sector.

The programme was extended by the IMF in November 1997 with a three-year \$234 million Enhanced Structural Adjustment Facility (ESAF). The announcement of ESAF coincided in the same year with the decrease of bilateral aid from Japan by 48%.

The adoption of the ESAF prompted the Paris Club of government creditors to cancel \$1 billion of Tanzania's debt and reschedule an additional \$700 million over 23 years. Even taking into account the Paris Club initiative, serving Tanzania's debt remained high.

In early September 1999, the World Bank and IMF announced that Tanzania had been admitted into the Heavily Indebted Poor Countries (HIPC) initiative. This has effectively wiped out 80% of Tanzania's total external debt, reducing it to \$1.6 billion by 2004.

Other multilateral development aid programmes include the European Investment Bank, which recently agreed to provide \$9.5 million over six years for venture capital schemes for private sector institutions. The programme is part of an effort to boost domestic investment among small to medium sized enterprises. The loan will focus on agro-industry, horticulture, mining and tourism sectors.

A majority of Tanzania's bilateral aid comes from Norway, Denmark, France, Japan, the UK and the Netherlands. Aid development projects supported by bilateral aid concentrate mostly on social infrastructure and services (i.e. education, health and water supply) and economic infrastructure and services (i.e. energy and transportation). A major project includes the announcement in late October 1999 that Norway has agreed to continue a 4-year (1999-2002) road transportation rehabilitation programme costing \$21.3 million.

Tanzania Official Development Assistance Major Bilateral Donors (US\$ million)			
	1995	1996	1997
Total, of which:	586.7	605.4	569.1
France	20.2	3.5	79.6
UK	31.2	67.3	67.6
Denmark	59.6	91.2	64.0
Germany	67.2	58.7	59.3
Japan	124.3	105.7	55.4
Netherlands	77.4	74.9	52.4
Norway	52.2	54.4	50.9

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

Tanzania Official Development Assistance Major Multilateral Donors (US\$ million)			
	1995	1996	1997
Total, of which:	291.0	291.2	392.2
CEC	63.8	44.3	63.9
IDA	147.8	120.5	169.0
IMF	-19.4	15.5	53.5
AfDF	23.1	54.4	47.8

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

Stock Market

Capital Markets and Securities Authority (CMSA) was established in 1994 to develop rules, regulations and launch Tanzania's stock exchange market. Although the Dar es Salaam Stock Exchange was incorporated in 1996, it didn't open for business until March 1998 and began its first day of trading in April 1998. First day of trading on the Dar es Salaam Stock Exchange was at 7.1 billion Shillings (\$10.15 million) – making it the smallest in the world.

Activity on the stock exchange is limited due to a combination of the lack of participation by foreign investors (foreign investors are barred from trading) and by a local investor community which lacks sufficient surplus funds.

Five companies have been licensed as stockbrokers by CMSA. Trading takes place twice a week.

The exchange operates on a three-tier system. The first tier includes listed shares that meet international listing requirements. The second tier has less stringent requirements and the third is an over-the-counter system for those companies which fail to meet the conditions of the first two segments. Primary trading of government securities was introduced in January 1999.

Dar es Salaam Stock Exchange (US \$ million)	
	1998
Number of listed companies	2
Market capitalisation	236.4
No. of companies making issues (including new, rights and bonus issues)	0
Value of new issues including rights issues	–
Volume of shares traded (million)	340,000
Value of shares traded	306,902
Average price-earning ration of all listed companies (%)	7.6
Average dividend yield (annual average, %)	11.9
Industrial index (overall)	–

(Source: SADC, 1999.)

Foreign Investment Opportunities and Restrictions

In 1991, the Tanzania Investment Centre (TIC) was established to co-ordinate and monitor domestic and foreign investments. In particular, the Centre was set up to:

- Co-ordinate and facilitate investments.
- Initiate measures that will enhance investment climate in Tanzania for both local and foreign investors.
- Assist investors.
- Provide investment sites for investors.
- Promote local investors.

The TIC was governed by the National Investment Policy of 1990 until it was later replaced by the Tanzanian Investment Act in 1997. As part of the new Act of 1997, incentives were created to promote inward investment, which are focus areas of national priority. These incentives include:

General Investment Incentives

- > Favourable investment allowances and deductions on industrial buildings, plant and machinery and on agricultural expenditure.
- > Total exemption from import duty and sales tax on imported capital assets for projects relating to mining, infrastructure (i.e. road construction, bridges, railways, airports, generation of electricity, water services, back-up services to mining) and EPZs.
- > Import duty for investment in other sectors of the economy is 15 % on the project's imported capital assets.
- > Straight line accelerated depreciation is allowed on capital goods.
- > Unlimited/indefinite carry-over of all business losses against future profits.
- > Investors can repatriate capital and profits.

(Source: SADC, 1999.)

Incentives have also been created for specific sectors, such as oil exploration and mining.

Investment Incentives in Oil Exploration

- > Long exploration periods of four (initial), four (first extension) and three (second extension) years.
- > Relatively large exploration areas.
- > Tanzania Petroleum Development Corporation (TPDC) participation is capped at 20 %.
- > Corporate income tax and royalties paid for by TPDC.
- > Threshold rates of return for Additional Profit Tax at 20 % for the first tranche and 30 % for the second tranche.
- > No front-end bonuses.
- > Separate incentives for deep sea exploration (greater than 200m water depth) are being considered by the government and TPDC.

(Source: SADC, 1999.)

Investment Incentives in Mining

- > 30 % tax rate for both resident and non-resident companies.
- > Royalties: 3 % of net-back value, 5 % for diamonds, 0 % for cut and polished gemstones. Royalties are tax deductible.
- > 100 % depreciation allowances on all mining capital expenditure.
- > At the end of each tax year the balance of un-recovered development expenditure in respect of a mining license receives an additional 15 % capital allowance each year.
- > There is no concessional state participation.
- > No withholding tax on interest.

(Source: SADC, 1999.)

As a way of providing further incentives, a Certificate of Approval scheme was set up to provide extensive guarantees with regard to ownership of properties, dispensation of assets and repatriation of income.

Under Tanzania's corporate tax system, incentives mostly relate to capital overlays, such as full write-off for clearing and planting of agricultural land in the year of investment and extensive depreciation allowances.

In the study Road Map of 1996, the acquisition of land was singled out as the most difficult problem encountered by foreign investors. The Land Act of 1999 was enacted to provide a solution to the problem. The Act states, "Land to be designated for investment purposes shall be identified, gazetted and allocated to the Tanzania Investment Centre which shall give derivative rights to investors".

A separate Investment Promotion Agency was set up in Zanzibar in 1991. The investments are regulated by the National Investment Promotion Act of 1986, which outlines the incentives in areas of national priority. These incentives to investors are generally the same as mainland Tanzania.

In addition, Zanzibar has set up EPZs which offer companies a 10 year corporate tax holiday (conditional on 40% value added) and duty exemptions on imports of raw materials and capital equipment. Also, under the provisions of EPZs, enterprises that export more than 80% of their products and services qualify for EPZ status even if they operate outside of the designated zones.

Taxation	
Corporation	30 %
Withholding tax	10 % on dividends and profit-sharing tax for non-residents
Individual	35 % maximum
Surtax	20 %
Double taxation agreements	Canada

(Source: SADC, 1999.)

Listed below are just some of the investment opportunities that the Tanzanian Government has identified.

Investment Opportunities	
Manufacturing	Animal-feed processing, agro-based industries, beverages, textiles and leather goods, steel and metal engineering, cement and ceramics, fish processing and canning, fishnets, packaging, general processing and canning, bottles and glassware.
Agriculture	Tea, sisal and sisal products, coconuts, wheat, cashew nuts, palm oil, vegetables and fruits for export.
Petroleum and Mining	Exploration and production of oil and gas, diamonds, gemstones and other minerals, metallic and non-metallic.
Construction	Hotels and other tourist accommodation, residential homes, commercial buildings, warehouses and other industrial sheds, estates and factory buildings.
Transport	Road and haulage, coastal shipping, air charters and airlines.
Livestock Development	Heifer breeding, dairy farming, sheep and goat keeping and beef ranching.
Natural Resources	Forestry, fishing and fish farming, game cropping for commercial purposes, wildlife ranching.
Tourism	Operation of tourist hotels and accommodation, tourist transport (road, air, ocean and inland waterways), restaurants and photographic services.

Investment opportunities in Zanzibar include: labour-intensive industries and assembly plants, construction and housing, hotel and tourism, agriculture, fisheries, financial services, sea and air transport, communications, power, human resources development schemes, transit trade and warehousing and off-shore activities.

Foreign Direct Investment (FDI)

Over recent years, Tanzania has taken measures to improve the investment climate. These measures include:²

- Adoption of structural adjustment credit facilities with the IMF and the World Bank
- Integrated road rehabilitation programme with the World Bank
- Government commitment to the privatisation of Tanzania's major public utilities, e.g. Telephone Co., Harbours Authority, National Bank of Commerce and Water Supply Co.
- Liberalisation of the insurance industry
- Macroeconomic policies prompting positive results, e.g. declining inflation reaching single digit.

Consequently, the level of foreign direct investment has increased approximately 9% in 1998, compared to the previous year. According to the Tanzanian Investment Centre, an estimated 1,086 commercial ventures have been established during the 1990's.

In terms of TIC approved project ownership, between September 1990 to June 1999, 47% the projects were joint ventures between local and foreign investors. Projects that were solely local or foreign-owned were 34 % and 19%, respectively.

Most FDI into Tanzania has been attracted to the mining sector. This has been helped by the government's move to take positive steps towards promoting investment in this sector, the 1998 Mining Act.

According to UNCTAD, however, FDI does not necessarily always have a profound effect on the domestic economy³. For instance, investment in the mining sector is considered to have little or negligible impact due to few linkages with domestic suppliers and inputs and its inability to supplement domestic financial resources for development. In the case of Tanzania, where the required skill and access to capital does not readily exist, FDI has potential to stimulate domestic investment, albeit at extremely low levels.

Companies from Canada and Australia have together invested \$50 million in the Golden Pride Mine, a gold mining project, which opened in February 1999. Another gold mining project in Bulyanhulu has attracted at least \$200 million before going into production. Four other mines are expected to be in full operation by the end of 2000.

The oil industry has also attracted investors from Canada, Australia and the US. Tour operators in the tourism sector include European, Australian, South African, Japanese and American companies.

2. Tanzania Investment Centre, *Promoting Cleaner Production Investment Workshop*, Dar es Salaam, December 1999.

3. UNCTAD, *World Investment Report 1999 : Foreign Direct Investment and the Challenge of Development*, 1999.

Privatisation has opened up opportunities for investors. The government has sold its interests in the beer industry to South African Breweries and its cigarette industry to RJ Reynolds. The cement industry has also been sold. Other industries due to be privatised include the railway network, water and sewage services, electricity, harbours and telecommunications.

According to an UNCTAD survey of African investment promotion agencies (1999), the table below outlines investment opportunities by industrial sector.

Tanzania ^a FDI Inflows and Investment Opportunities		
	Considerable FDI Inflows during 1996-1998	Offer the best investment opportunities in 2000-2003
Agriculture	X	✓
Fishing & aquaculture	X	✓
Forestry	X	✓
Mining and quarrying	✓	✓
Petroleum, gas & related products	✓	X
Food and beverages	✓	X
Tobacco	✓	X
Textiles, leather, clothing	✓	X
Mechanical & electrical equipment	✓	X
Non-metallic mineral products	✓	X
Telecommunications	✓	X
Tourism	✓	✓

^a Includes a response from the Zanzibar Investment Agency.

^b Defined as a share of ten percent or more in total accumulated FDI inflows into the country in 1996-1998. (Source: UNCTAD, 1999).

Tanzania FDI inflows (US dollars, million)					
1993	1994	1995	1996	1997	1998
20	50	120	150	158	172

(Source: UNCTAD, *World Investment Report*, 1999.)

FDI and the role of Cleaner Production

A relatively new relationship is the existence of investment which offers new opportunities for environmental protection. Through the diffusion of advanced technologies and management systems, the business community has witnessed new environmentally friendly patterns.

Cleaner production activities in Tanzania started in 1994. As a result of a one year feasibility phase, the Cleaner Production Centre of Tanzania (CPCT) was established. The Centre acts as a coordinator and a catalyst for cleaner production activities by providing policy advice on environmental

management, conducting in-plant demonstrations and assessments of techniques and technologies, training industry and being a source of information.

There are, however, barriers which exist in Tanzania that prevent the promotion of cleaner production. These include⁴:

- Lack of enforceable legislation
- Absence of agreed environmental standards
- Low level of appropriate environmental education at managerial level
- Low level of awareness about cleaner production and environmental issues, in general
- Lack of financing mechanisms for environmental and cleaner production investments
- Lack of accurate collection processes for input and output data
- Lack of transparency
- Underpricing of resources.

It is now generally accepted that environmental protection and economic efficiency can be achieved simultaneously. The scope of defining environmental protection is changing within the context of business.

Due the low level of industrial development in Tanzania to date, environmental impacts have been considered relatively low and sometimes tolerable. Inevitably, this will change as more economic growth is brought to the country and development is left unchecked. It will be necessary for the Tanzania government to give high priority to investors that apply appropriate technology, uphold environmental regulation and demonstrate sufficient assurances that environmental risk is minimised.

Collaboration is taking place with the CPCT and various industries to build capacity in cleaner production and other environmental management tools, including manufacturing, textiles and the motor services. Capacity building will be particularly pertinent to industries which have been identified as 'best investment opportunities' in 2000-2003, according to an UNCTAD survey of African investment promotion agencies. (*See above table*)

However, according to an UNCTAD report, these same sectors are deemed 'highly polluting'⁵. Those identified, such as mining and quarrying, fishing and aquaculture, agriculture and forestry, all have substantive environmental footprints and yet CPCT could play a important role in the sustainable development of these industries.

The tourism industry offers potential for growth with tourist numbers increasing from 401,331 in 1998, compared to 201,744 in 1992. As the sector begins to develop, it could potentially provide a platform leveraging the further adoption of cleaner production techniques and throughout industries associated with tourism.

4. Migiro, Cleophas. *Cleaner Production Status in Tanzania*, Promoting Cleaner Production Investment Workshop, UNEP, Dar es Salaam, December 1999.

5. UNCTAD, 1999.

Annex

Tanzanian Financial Institutions and Banks

Company Name	Address	City	Telephone	Fax
Stanbic Bank (T) Ltd.				
	Sukari House Ohio Street/Sokoine Drive PO Box 72647	Dar es Salaam	255 51 112196	255 51 113742
Standard Chartered Bank (T) Limited				
	International House Shaaban Robert St./Garden Avenue PO Box 9011	Dar es Salaam	255-51-122160/2 122140/1	255 51 113783 117776
World Bank Resident Mission				
	International House Shaaban Robert St./Garden Avenue PO Box 2054	Dar es Salaam	255 51 362403	255 51 6410
Citi Bank (T) Ltd				
	Peugeot House 36 Upanga Road PO Box 71625	Dar es Salaam	255 51 117601 255 51 117575	255 51 113910 117576
Bank of Tanzania				
	10 Mirambo Street PO Box 2939	Dar es Salaam	255 51 110945-7 110976/9	255 51 112573 113325
CRDB Bank Ltd.				
	Office Accommodation Scheme Building Azikiwe Street PO Box 268	Dar es Salaam	255 51 117441/7	255 51 113341
NBC (1997) Ltd.				
	NBC City Drive Building Sokoine Drive PO Box 18863	Dar es Salaam	255 51 113914 112082	–
People's Bank of Zanzibar				
	Forodhani PO Box 1173	Zanzibar	255 54 231118/9	255 54 231121
Tanzania Investment Bank				
	TIB Investment House Samora Avenue/Zanaki Street PO Box 93738	Dar es Salaam	255 51 115909-9	255-51-11343

Other Tanzanian Banks include:

Diamond Trust Bank
Eurafrican Bank Ltd
Trust Bank Ltd
Greenland Bank Ltd
Bank of Malaysia Ltd
Exim Bank Ltd
Kenya Commercial Bank
Habib African Bank Ltd
Natonal Microfinance Bank
Tanzania Postal Bank
East African Development Bank - Tanzania Branch
First Adili Bancorp
National Bureau de Change
Savings and Finance Ltd
Furaha Finance Ltd
Crown Finance and Leasing Co.
ULC
KARADHA
Tanzania Development Finance Co. Ltd
Kilimanjaro Co-operative Bank
Akiba Commercial Bank

VIETNAM

Investment and environment outlook

This Outlook has been produced by the United Nations Environment Programme, Division of Technology, Industry and Economics (UNEP/DTIE). It is one of the publications realised within the framework of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries” funded by the Government of Norway and implemented by UNEP/DTIE.

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1. Foreword

This Outlook has been prepared in the context of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries”, financed by the government of Norway and implemented by the Division of Technology, Industry and Economics of UNEP. The project has a global component and demonstration activities are carried out in five pilot countries : Guatemala, Nicaragua, Tanzania, Vietnam and Zimbabwe.

The aim of the project is to encourage financing towards cleaner production investments, by demonstrating how these can be economically viable and financially attractive, in addition to being environmentally beneficial. One of the real challenges of this project is thus to contribute to bridging the gap between the financial community and the industrial world.

One major output of the project is a “Study on past investment practices” which has been conducted at both global and national levels. This Outlook is an integral part of the Study and forms an annex to its main volume.

2. Purpose

This publication, following the demonstration approach guiding the whole project, is designed to give an overview of the country with respect to investment flows and activities, financial institutions' strategies and initiatives, business activities related to environmental issues, and touching upon external development assistance. The Outlook thus results in a slender resource document which, unlike country profiles by other publishers, focuses uniquely on the main features of the financial and capital markets.

The information gathering process was at times not an easy one; some countries are relatively new to a market-based economy, so institutions such as the stock exchange are still in their infancy with little or non-existent data memory. In this respect, this Outlook is not meant to provide an exhaustive picture of the country.



3. Country Profile

VIETNAM



Country MAP



People

Population: 77,311,210 million (1999 estimates)
Language: Vietnamese
Life expectancy at birth: 68,1 years
Population below the poverty line: 50,9% (1993)
Labour Force: 32,7 million (1998)
Unemployment rate: 25% (1995)
Religion: Buddhist, Taoist, Roman Catholics, Indigenous Beliefs
Literacy: 93,7% (total population)

Geography

Land Area: 330,363 sq. Km.
Main Towns: Ho Chi Minh, Hanoi (capital)
Natural resources: phosphates, coal, manganese, bauxite, offshore oil and gas deposits, forests
Climate: Tropical in south, monsoonal in north

Economy

GDP per capita (PPP): US\$350 (1998)
GDP real growth rate: 4.97% (1998)
Currency: 1 new Dong (D) = 100 Xu
Average exchange rate (US\$): D13,922 :US\$1 (1999)
Inflation rate: 9% (1998)
Central Bank interest rate :
Exports (Main partners): Japan, Germany, Singapore, Taiwan, US, France, China
Imports (Main partners): Singapore, South Korea, Japan, Taiwan, France, China
Economic aid receipts: US\$2,2 billion (pledged 1999)
Industry sectors: food processing, garments, cement, paper, chemical fertilisers, oil
Total FDI: US\$1,3 billion (1999 approved); \$0.7 billion (1999 disbursed)
Agriculture: paddy rice, corn, potatoes, rubber, tea, soybeans, poultry, pigs

Government

Type: Socialist Republic
Independence: 2 September 1945
Political parties: Communist Party
International Organisations'
Membership: ADB, APEC, ASEAN, ESCAP, FAO, G-77, IAEA, IBRD, ICAO, IDA, IFAD, IFC, ILO, IMF, IMO, ISO, ITU, UN, UNCTAD, UNESCO, UNIDO, UPU, WHO, WMO

Environment

Main issues: deforestation, coastal wetland degradation, water pollution
International Agreements' Membership: Biodiversity, Climate Change, Desertification, Endangered Species, Environmental Modification, Hazardous Waste, Law of the Sea, Ozone Layer Protection.

4. Environment

Focus Areas of Degradation

While Vietnam's economy expands, environmental degradation increases. The frequency and scale of environmental disturbances has begun to escalate at alarming rates, which has now been recognised by both government agencies and international aid donors. These disturbances include droughts, floods, pests and disease attacks, erosion and soil quality loss, reduced water quality, mangrove deforestation and pollution.

Deforestation: Statistics from Vietnam's Department of Forestry Development, under the Ministry of Agriculture and Rural Development, show that more than half of the country's 19.08 million hectares of mapped forested land has now been identified as bare hills and wasteland. Some 60,000 to 70,000 hectares of the nation's forests are destroyed every year¹. Some of the main causes include some coffee industry practices, illegal loggers and the practitioners of slash-and-burn agriculture.

Coastal wetland degradation: Over the past 15 years, Vietnam's Mekong Delta coastal wetland, comprising of the provinces Ca Mau, Bac Lieu, Soc Trang and Tra Vinh, has lost well over half its cover due to unsustainable logging and failed shrimp farm development. The rural population in this area, who are highly dependent on exploiting coastal resources to generate income, has been affected by the economic consequences of the resources depletion.

Industrial pollution: Growth of 14% per year in industrial activities, with some sectors growing by 100% in the last few years, is requiring increased extraction of natural resources, increased production and use of energy, and more transportation and other infrastructure services, all of which result in more waste and pollution².

Land use is being altered in major cities and on their peripheries as rural land is converted to industrial use.

In the past eight years, 67 industrial zones (IZs) have been mapped out, with 48 now operational³. Among the 48 operational IZs, only 12 have their own wastewater treatment plants. Other identified types of pollution resulting from IZs include air, solid waste, noise, radiation and toxic chemical pollution.

In recent years, the Vietnamese government and international aid community have begun to respond to the increasing pressures regarding the state of the country's natural environment.

Statistics released by the Ministry of Planning and Investment showed that environmental aid commitments between 1985-2000 totalled \$2 billion. During the period 1992-1996, disbursements were said to have risen by 65%.

Over the past 15 years, 408 environmental projects valued at \$1.028 billion have been registered in Vietnam, excluding water resource development projects. Of that total, 252 projects commenced between 1985-95 and 156 projects between 1996-2000⁴.

1. Vietnam Investment Review, No. 428 / 27 December 1999 - 2 January 2000.

2. Vietnam Investment Review, No. 428 / 27 December 1999 - 2 January 2000.

3. Vietnam Investment Review, No. 430 / 10-16 January 2000.

4. Vietnam Investment Review, No. 430 / 10-16 January 2000.

The leading donors include Asian Development Bank (ADB), the World Bank and the World Food Programme. The natural resource sector received 80% of all environmental overseas development aid (ODA) (excluding large water resources development projects) with the remainder earmarked for industrial sectors, as well as related education, research and training.

At the end of 1999, a multilateral agreement was reached to help restore the Mekong Delta's depleted coastal mangrove swamps. The Coastal Wetlands Protection and Development Project is aimed to link environmental conservation with poverty alleviation, benefitting up to 600,000 people. The Danish International Development Agency, the International Development Association (IDA) under the World Bank and the Vietnamese government financially backed the \$65.6 million project.

A Memorandum of Agreement was signed in late 1999 with 14 leading international donors to support the national re-greening programme. The reforestation project aims to plant 5 million hectares of forests beginning immediately and continuing towards 2010. The donors include the ADB, the World Bank, the European Union, Japan International Cooperation Agency, World Conservation Union, World Wide Fund for Nature, Food and Agriculture Organisation and UNDP.

Environmental Treaties and Conventions

Vietnam's participation in international treaties began in 1993. Although it has not compiled a national environmental strategy and action plan (in preparation) or a country profile, Vietnam has compiled a biodiversity assessment and strategy. Vietnam is a signatory to a number of international treaties, which include, *inter alia*, the Convention on Climate Change (1995), the Vienna Convention for the Protection of the Ozone Layer (1994), the Montreal Protocol for CFC Control (1994), the UN Convention on the Law of the Sea (1994), the Convention on Biological Diversity (1995), Convention on International Trade in Endangered Species of Wild Fauna & Flora (1994) and the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal (1995), (see table below).

Vietnam Participation in Regional Environmental Treaties
Treaty
Convention for the Conservation of the Biological Diversity
Convention on Desertification
Convention on Endangered Species of wild fauna and flora
Kyoto Protocol on Climate Change
Environmental modification
Basel Convention on the control of transboundary movements of hazardous waste and their disposal
Law of the Sea
Ozone Layer Protection
Ship Pollution
Wetlands
Nuclear test ban

(Source: UNEP, *Global Environment Outlook 2000*, 1999.)

Environmental Law and Regulation

Vietnam's Central Committee recently issued a new Directive relating to the Law of Environmental Protection. The new Directive, which aims at improving current environmental policies and measures, issued recommendations on ways in which environmental protection could be strengthened in conjunction with the national industrial and modernisation programmes. These recommendations include:

- The national educational system must build formal environmental criteria into the curricula in order to improve the accessibility of environmental information.
- Funding for environmental protection must be institutionalised. This can include the adoption of cleaner production technologies through the creation of tax incentives and credit policies.
- Environmental impact assessment (EIA) procedures must be implemented when reviewing and licensing any investment plan and projects. Plans and projects, which fail the terms of an EIA, could result in suspension or relocation.
- Priority should be given to the adoption of technologies, which are considered cleaner or require low or no waste raw material and are energy efficient.
- Extraction and utilisation of natural resources must be rationalised, and biodiversity and nature conservation must be improved.
- The government should determine rates of environmental investment by state owned businesses.
- The government management of environmental protection at both central and local levels must be strengthened in terms of institutional arrangements, human resources as well as physical and technical infrastructures.
- A system of scientific research and environmental technology institutions must be established with a training system of specialised environmental disciplines developed to support environmental experts and managers on environmental protection.
- International cooperation in the field of environmental protection should be extended to regional and international organisations.

5. Financial Markets and Investment

General Market Conditions

The effects of the Asian financial crisis in 1997 were not felt immediately by Vietnam's domestic economy. By 1998-99, the regional economic slowdown did contribute to Vietnam's falling exports and decreasing foreign direct investment. This coincided with economic reforms, which intensified bureaucracy and increased costs for foreign-owned companies.

Vietnam's commitment to privatise approximately 5,700 of its state enterprises has proceeded with some delays. One delay has been due to a shortage of public companies to list on the planned stock exchange. In 1998, only 98 companies were privatised, compared to the expected 150 companies. Plans for a further 400 companies to be privatised in 1999 had not been realised. The Asian financial crisis has also prejudiced Vietnam into re-examining the appropriate checks and balances built into the future stock market (see *Stock Market*).

Financial Sector

Prior to 1988, the banking system was made up of three main entities: the State Bank of Vietnam (which acted as both the central bank and main commercial bank), the Bank for Foreign Trade and the Construction and Investment Bank (which managed the government's capital budget).

In July 1988, the government reorganised the banking system to give the central bank more power while diversifying the system and providing services to a broader customer base. Within the same year, foreign banks were permitted to operate in Vietnam and by late 1995, 95 foreign representative offices existed within the country.

Listed below are the different types of financial institutions that now operate within Vietnam, under the jurisdiction of the State Bank.

Vietnamese Financial Institutions	
Institution	Activity and General Description
Commercial Bank	Commercial banking activities.
Joint-Stock Commercial Bank	Issues shares on an individual or group basis. The State Bank determines the conditions under which these shares shall be issued. Foreign-invested entities have been granted the right to buy shares in Vietnamese joint-stock commercial banks, up to a maximum of 30 % of the issued capital.
Investment and Development Banks	Lend state money to state economic and technological development projects.
Credit Co-operatives	Lend money that they collect from their members although ultimately controlled by the State Bank.
Private/Public Finance Companies	Provide loans to companies wishing to trade in commodities or to regulate capital supply and demand within a State Corporation.
Foreign Banks	Are allowed to establish branches but must receive licences from the State Bank. These banks are entitled to repatriate profits. They must adhere to the Foreign Investment Law, Banking regulations and other regulations pertaining to their activities.
Joint-venture Banks	Are partnerships whose capital is contributed by both foreign and Vietnamese Banks. Joint Venture Banks must adhere to the Foreign Investment Law, Banking regulations and other regulations pertaining to their activities.
Finance Leasing Companies	A type of medium and long term credit for buying equipment, machinery and other movable assets. Their activities are specified in the licence issued by the State Bank. Imported leased assets are nominated in foreign currency and settled payment in Vietnam Dong at the foreign exchange rate on the payment date. Local leased assets are nominated and paid in Vietnam Dong.
Stock Exchange	The State Stock Exchange Commission was established on 28 November 1996, which will control the country's proposed stock exchange. Government policy indicates that the market will initially be for domestic bond issues and after a period of time for domestic share issues.

(Source: Grant Thornton International, *Doing Business in Vietnam*, October 1999.)

Commercial banks are finding difficulty in attracting deposits due to interest ceiling rate controls imposed by the State Bank in 1999. The State Bank has also placed a nominal cap on the interest rates applicable to medium- and long-term foreign loans.

In 1996, there were 52 joint-stock banks, most of which had large amounts of non-performing loans. In recent years, the State Bank has been forced to either close or consolidate many of the joint-stock banks. Foreign banks continue to be active in Vietnam, with most activity focussing on the provision of syndicated loans and credit lines.

The level of deposits currently in the banking system is considered small – 20% of GDP (13% in Dong and 7% in dollars) – with large amounts of non-performing loans⁵.

Increasing pressure has been placed on Vietnam's banking system to segregate activity between the state-owned enterprises, the government and the state-owned banks.

State-owned companies consume fifty percent of all the country's credit, although many are unable to repay, through state owned commercial banks. This practice continues, however, due to past convention of the government wiping out bad debts. This has prompted international donors to call for the state owned banks to cease the provision of loans and credit lines to state-owned enterprises. It is expected that Vietnam's privatisation programme would help in the cessation of this activity.

Reforms in the banking system continue with the latest round of measures in 1999 listed below⁶.

- International consultants complete independent diagnostic audits of four large state-owned commercial banks.
- State Bank completes financial assessment of all 52 joint-stock banks. Plans for reconstructing state-owned commercial banks and joint-stock banks are drawn up.
- Regulations improving bank supervision are issued.
- Development of legal framework for removing non-commercial lending activity from state-owned commercial banks and issue of a decree establishing a Development Support Fund to provide loan guarantees and interest subsidies for strategic purposes.
- Prudential regulations issued, covering, among other things, asset classification, loan-loss provisioning, financial ratios, deposit insurance and rules on collateral.
- Deadline for closing four joint-stock banks, placing six more under direct control of the State Bank and merging two others.

Other outstanding issues for the banking sector, which are expected to be dealt with over the next few years, include weak deposit bases (as described above), enforcement of legislation relating to foreclosure and requirements relating to collateral.

Bilateral and Multilateral Funding

A majority of Vietnam's bilateral aid comes from Japan and France (*see table below*). Commitments have focussed mainly on economic infrastructure and services, with aid levels at \$537.9 million in 1995, \$740.2 million in 1996 and \$563.6 million in 1997. Of the projects within economic infrastructure and services, energy projects received a majority of the funds.

5. EIU, *Country Profile: Vietnam 1999-2000*, 1999.

6. EIU, *Country Report 1st quarter 2000*, 2000.

Environmental projects have also received the lion's share of ODA (*see Focus Area of Degradation*).

A long-term economic goal set out in 1986 is the alleviation of poverty amongst the Vietnamese population. According to the World Bank, the levels of poverty fell from 55 % in 1993 to less than 33 % in 1998. Eighty percent of Vietnam's population live in rural areas, 90 % of which are considered to live at poverty levels. Multilateral aid agency programmes, such as those of the UN and the World Bank, share a common priority to focus on empowering the poor with the main geographical emphasis on rural areas.

Vietnam Official Development Assistance Major Bilateral Donors (US\$ million)			
	1995	1996	1997
Total, of which:	549.7	469.5	585.5
Japan	170.2	120.9	232.5
France	94.1	67.3	63.9
US	1.0	–	48.0
Australia	39.8	47.5	41.3
Sweden	34.0	46.2	35.7
Denmark	13.7	34.6	34.3

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

Vietnam Official Development Assistance Major Multilateral Donors (US\$ million)			
	1995	1996	1997
Total, of which:	279.7	458.6	410.7
IDA	46.5	188.0	180.2
AsDB	56.8	26.9	147.5
CEC	23.0	19.9	23.6

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

Projects in the pipeline account for \$6.6 billion, of which project agreements have been signed to cover \$4.2 billion.

The Consultative Group on Vietnam, which is chaired by the World Bank, pledged \$2.1 billion, with an additional \$700 million of conditional aid to support an accelerated reform programme, in mid-December 1999. The World Bank also stressed that the pace of economic reform must improve in order to maintain necessary growth and reduce urban poverty.

Stock Market

Since the early 1990's, plans have been in place to establish a stock market in Vietnam. With the establishment of the State Securities Commission (SSC) in 1997, it appears to be realistic that a stock market and a secondary market for bonds and bills will be opened sometime in 2000. The

Vietnamese government sees the establishment of a stock exchange as an important step to winning back foreign investor confidence (see *Foreign Direct Investment*).

The stock market is expected to trade bonds and bills in the first instance and will remain a minor source of capital for the next few years. Plans are also in place to establish a Securities Trading Centre (STC) as an intermediate step towards forming a stock market proper. The STC will be linked to securities firms by a computerised network, therefore eliminating manual trading. The SSC will oversee the STC.

Listing requirements for companies include⁷:

- Minimum legal capital of VND 10 billion.
- Operating profitably for the past two years.
- At least 20% of the issued shares must be sold to over 100 investors outside the issuing organisation, falling to 15% if the issued shares value over VND 100 billion.
- The founders of the issuing organisation must hold at least 20% of the organisation's shares for at least three years from when the shares are issued, and where the value of the shares issued exceed VND 10 billion, it is necessary that the issue be guaranteed by another organisation.
- The company's board of management and directors must have 'adequate' business experience and have a 'feasible' plan for how the capital raised from the share is to be used.

The privatisation programme is set to boost the volume of the trade on the stock exchange. However, the programme has proceeded slowly and as stated above few of the newly privatised companies are expected to meet the listing requirement immediately.

Foreign owned companies will not be permitted to participate on the exchange, although a foreign joint venture with a Vietnamese partner is acceptable. Newly privatised companies active on the market will have a ceiling of 30% foreign ownership.

Foreign Investment Opportunities and Restrictions

Throughout the 1990's Vietnam's national economy has been in transition, with the taxation policies playing a key role in the move towards a market economy. New tax laws were introduced between 1987-1997 (see *Economic and Monetary Policy*). The tax system is based on 10 types of taxes, namely⁸:

- | | |
|-------------------------|-------------------------------|
| • License tax | • Value-added tax |
| • Special sales tax | • Export tax |
| • Import tax | • Corporate income tax |
| • Agricultural land tax | • Tax on land transfers |
| • Natural resources tax | • Tax on high personal income |

7. Business Monitor International, *Vietnam 1999*, 1999.

8. UNIDO, *Improving Macroeconomic Policy and Reforming Administrative Procedures to Promote Development of Small and Medium Enterprises in Vietnam*, January 1999.

Taxation	
Corporation	25-33 %
Withholding tax	5-10 %
Individual	Up to 50 %
Surtax	10-20 %
Double taxation agreements	Finland, New Zealand, Philippines, Slovakia and Taiwan. (Agreement with Belgium, Bulgaria, Canada, Indonesia, Italy, Luxembourg and Mauritius to be ratified.)

In 1999, Vietnam passed further reforms relating to private investment. The reforms are aimed to assist in boosting confidence of the foreign investment community. These reforms include:

- Vietnamese private firms permitted to contribute their land use rights as equity in joint ventures.
- Private Sector Forum set up to meet once a quarter to discuss matters of concern to the domestic and foreign private sector.
- Steering Committee set up to develop a five-year strategy for private sector development.
- New incentives for foreign investors announced.
- Enterprise Law approved, eliminating discretionary regulations on the right to set up private businesses, simplifying registration procedures and creating the basis for unified legislation covering all kinds of enterprises. Detailed private-sector action plan Miyazawa Initiative announced.

Recent foreign investment law, which came into effect in 1998, offers the following exemptions:

Investment Incentives
<ul style="list-style-type: none"> > Investment projects licensed before November 1996 are to enjoy preferential tax rates and extended exemptions and reductions on corporate income (profits) tax. > Wholly foreign-owned enterprises will be allowed to carry forward losses, as joint ventures may. > Investments will enjoy a 4-year corporate tax (profits) tax exemption, starting from the first profit-making year. Companies also will enjoy a 50 % reduction for a further 4 years. (Corporate tax in the past was valid for only 1-4 years.) > For BOT in transport, power, water, drainage, waste treatment and other industries, there will be a 4-year tax exemption and a 50 % tax break in the following 4 years. If BOT projects are in specified locales, developers will receive even more generous benefits, such as exemption from tax on profits for 8 years. After 8 years, tax will be paid on only 10 % profit until the project is completed. > Enterprises engaged in hotels, offices and apartments for lease, commercial centres, supermarkets, sports facilities, hospitals, clinics, banking, insurance and consultancy services are eligible for a one-off exemption from import duties. Such items include: office furniture, kitchen equipment, audio-visual equipment, water pumps, air conditioners, electrical lighting systems and an array of specialist machinery and spare parts needed to run a business. > Enterprises making goods or selling goods to another company in Vietnam that are destined for export are entitled to exemption from import and turnover (value-added) tax.

(Source: EIU, *Investing, Licensing and Trading in Vietnam*, 1999.)

The Vietnamese government offers tax breaks to foreign investors, which mostly relate to industries that are of national economic importance. In an effort to encourage investment, the government has exempted foreign investors from a variety of import duties and has signalled that corporate income (profits) tax may be reduced to 10% in priority sectors, which currently stands at a flat 32%.

However, it should be noted that there are hidden costs for foreign investors – high salaries for expatriates, a dual pricing system whereby foreigners pay higher running costs – which have to be measured against the lower corporate income tax.

Vietnam does not offer special loans, grants or guarantees to foreign investors. There are also no personal tax incentives, which could be a concern due to expatriate staff being subject to tax rates of up to 50% which may be applied to worldwide income.

Vietnam favours export-oriented projects. For instance, the government does not charge export tax on most goods from Vietnam and offers import tax rebates on goods used to process goods destined for export. Exporters can also recover VAT tax, introduced in 1999, or have their goods grouped within the 0% VAT tax bracket. Enterprises within export-processing zones and industrial zones can receive reduced land rents. Customs clearance can also be made inside the zones to speed up the export process.

Land policy

Land reform presents a significant challenge for the development of the private sector due to the fact that formal ownership of all land is subject to the State. Individuals, households, domestic and foreign organisations can obtain land use rights but can never own it.

The procedure of gaining land use is based on the acquisition of a land use right certificate, which can be used as collateral for loans and credit.

The value of the land use rights is determined by the provincial People's Committees rather than market mechanisms. A centrally administered register of land use rights is not available.

Foreign Direct Investment (FDI)

Policy reforms relating to FDI have contributed significantly to the rapid development of Vietnam's economy. In addition, Vietnam's 'open door' trade policy and other reforms have increased inflows of FDI throughout the 1990's (see *Trade Relations and Statistics*). During the early part of the 1990's, in particular, Vietnam began to attract greater levels of FDI.

By 1996, investment approvals peaked (see table below). Soon after, foreign investor interest began to wane and a substantial downturn in FDI occurred from 1997 and on. This has been mostly attributed to the Asian financial crisis and the slow progress in the liberalisation of Vietnam's economy. By 1998, foreign investment plummeted with approvals falling by 60% and disbursement falling by 75%.

It is against this backdrop that the Vietnamese government, leading up to 1996, began to adopt reforms to continue encouraging high levels FDI. Listed below is an over view of some of the policy reforms relating specifically to FDI, leading up to 1996⁹:

- Promulgation of the Law on foreign direct investment whereby the 'open door' policy was introduced. (1987)

9. UNIDO, *Improving Macroeconomic Policy and Reforming Administrative Procedures to Promote Development of Small and Medium Enterprises in Vietnam*, January 1999.

- Foreign exchange control decree liberalises retention of foreign exchange, opening of foreign currency accounts, use of transfers to pay for imports and repay foreign loans. (1988)
- Law on FDI revised. (1990)
- Law on FDI amended to reduce discrimination between joint ventures and 100% foreign owned enterprises and to introduce the build-operate-transfer mechanism for infrastructure projects. (1992)
- Interbank foreign exchange market created. (1994)
- Major government reorganisation reduces the number of ministries and establishes the principal role of the Ministry of Planning and Investment in approval and regulation of FDI. (1995)
- New law on FDI reduces the range of import duty exemptions for FDI projects. (1996)
- The 5% tax on inward foreign exchange remittance removed. (1996)

In response to the downturn of FDI levels, the government introduced a number of further measures to promote FDI in January 1998 (see *Foreign Investment Opportunities and Restriction: Investment Incentives*).

Foreign Direct Investment (US\$billion)							
	1995	1996	1997	1998	1999 ^f	2000 ^f	2001 ^f
Approvals	6.6	8.5	4.5	1.8	1.3	1.5	1.8
Disbursed	1.8	2.3	2.4	0.6	0.7	1.0	1.3

^f Business Monitor International forecast.
(Source: Business Monitor International.)

Investment by Country [*]		
Country	No. of Projects	Total Capital (US\$bn)
Singapore	176	6.5
Taiwan	314	4.5
Japan	212	3.7
South Korea	189	3.3
Hong Kong	184	2.6
British Virgin Islands	54	1.7
France	89	1.5
Russia	28	1.4
Malaysia	61	1.3
US	71	1.1

^{*} Cumulative figures to 19 April 1999.
(Source: Business Monitor International.)

A majority of FDI in the early 1990's concentrated mostly on hotels, tourism and the oil and gas industries.

Since 1996, however, the importance of these industries has declined. The largest share of foreign investment has been directed at heavy industry, which includes steel, cement, plastics, textiles, garments and electronics. Investment in agriculture and forestry accounted for 3% of the total, while telecommunications received 8.5% and food processing accounted for 6%.

Investment by Sector*		
Sector	Projects	Total Capital (US\$bn)
Heavy Industry	467	5.4
Hotels and Tourism	191	4.9
Light Industry	641	3.6
Urban Infrastructure	3	3.3
Construction	250	3.3
Office, Property	104	2.9
Post and Telecommunications	128	2.8
Food Processing	154	1.9
Oil and Gas	52	1.7
Agriculture and Forestry	228	1.0
Services	103	0.58
Health Services	80	0.45
Maritime Products	87	0.33
Industrial Zones, Export Processing Zones	5	0.30
Banking and Finance	29	0.19
Other	4	0.02
Total	2526	32.6

* Cumulative figures to 15 December 1998.
(Source: Business Monitor International.)

FDI and the role of Cleaner Production

The Vietnamese government regulations on environmental protection have often been aimed at imposing obligations or fines rather than encouraging businesses to apply CP right at the business start-up. However, recent attempts to liberalise their economy and implement privatisation programmes could provide opportunities for change. Certainly the influx of capital suggests that there is scope to enhance and optimise both production efficiency as well as good environmental performance.

Growth of 14% per year in industrial activities, with some sectors growing by 100% in the last few years, is requiring increased extraction of natural resources and production and use of energy. The

government has signalled that priority will be given to cleaner energy efficient technologies and waste treatment options, especially for toxic and hospital waste.

New environmental directives, which were issued recently by the Vietnamese government, specifically identified the adoption of CP technologies as a way of strengthening environmental protection in the process of national industrialisation and modernisation. The directives illustrate the government's attempt to 'leapfrog' some of the more unsavoury phases of industrialisation.

But the financial side of CP must not be overlooked. The new environmental directives stipulate that the adoption of CP must be encouraged through taxation and credit policies and that the funding of environmental protection should almost become 'institutionalised'. Vietnam's implementation of a privatisation programme while adopting a new environmental policy framework reinforce the positive economic relationship that can exist between attracting greater levels of FDI for stimulating industrial growth and using resources more efficiently.

Developing countries have the opportunity to take advantage of CP technical advancements through linkages with FDI. Increasingly, inward capital investments can mean stimulated economic growth without degrading the environment.

In 1998, the government clarified that tax breaks and incentives would be provided for foreign investors who invest in national priority sectors. Examining FDI flows between 1987-1998 in Vietnam shows sectors that received the highest level of investment include heavy industry, hotel and tourism, light industry and urban infrastructure sectors (refer to above table).

Vietnam's need for economic growth in these priority sectors within the boundaries of sustainable development is increasingly possible through the establishment of financial mechanisms. The activities and environmental procedures of US Overseas Private Investment Corporation (OPIC), a US independent government agency, and similar organisations, has the potential to act as a catalyst for change.

OPIC recently become active in Vietnam, by pledging \$2.3 million to bolster an American-backed heavy industry company. The loan will help to create 122 jobs in Vietnam by procuring \$1.8 million in domestic goods. While OPIC assists in directing US private investment into developing countries, it also applies screening of environmental and management criteria for all its projects. The criteria are based on World Bank environmental guidelines and other applicable standards.

Annex

Vietnamese Financial Institutions and Banks

Company Name	Address	City	Telephone	Fax
ABN AMRO Bank				
8315275	24B Lt Thai To Street Hoan Kiem District	Hanoi	(84 4) 8315250	(84 4)
ANZ				
8258188	14 Le Thai To	Hanoi		(84 4)
Bank for Foreign Trade of				
824 0876	47-49 Ly Thai To Boulevard	Hanoi	(84 4) 8269067	(84 4)
Bank of America				
8249322	27 Ly Thuong Kiet Street Hoan Kiem District	Hanoi	(84 4) 8249316	(84 4)
Bank of Tokyo-Mitsubishi				
8231559	8th Floor The Landmark 5B Ton Duc Thang Street District 1	Ho Chi Minh City	(84 8) 8231560	(84 8)
Banque Nationale De Paris				
8299486	2 Thi Sach 3rd Floor 1st District	Ho Chi Minh City	(84 8) 8299504	(84 8)
Chase Manhattan Overseas				
8229603	Suites 203B-204 Central Building 31 Hai Ba Trung Street	Hanoi	(84 4) 8229533	(84 4)
Citibank				
243960	Unit 01 1st Floor 17 Ngo Quyen Street	Hanoi	(84 4) 251949	(84 4)
Commercial Bank of Korea				
8315434	7th Floor Office Tower The Daehe Business Centre Ngoc Khanh Lui Giai Street Thu Le	Hanoi	(84 4) 8315101	(84 4)
Credit Agricole Indosuez				
8296065	4th Floor Regency Chancellor Court 21-23 Nguyen Thi Minh Khai Street District 1	Ho Chi Minh City	(84 8) 8295048	(84 8)

Credit Lyonnais

8266945	10 rue Trang Thi	Hanoi	(84 4) 8258101	(84 4)
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Deutsche Bank

	174 Nguyen Dinh Chieu Street	Ho Chi Minh City 8293865	(84 8) 8221133	(84 8)
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Dresdner Bank

8240318	Suites 207/208 Central Building 31 Hai Ba Trung	Hanoi	(84 4) 8240317	(84 4)
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8258979	The Landmark Unit 8 6th Floor 5B Ton Duc Thang Street, D1	Ho Chi Minh City	(84 8) 825 8980	(84 8)
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Fuji Bank

8243194	Suite D 4th Floor OSIC Building No 1 Nguyen Hue Street District 1	Ho Chi Minh City	84 8 824 3195	(84 8)
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8266665	Unit 04/05 5th Floor International Centre 17 Ngo Quyen Street	Hanoi	(84 4) 826 6553	(84 4)
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HSBC

230530	New World Bulding 75 Pham Hong Thai Street District 1	Ho Chi Minh City	(84 8) 8292288	(84 8)
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Industrial and Commercial

233452	16 Phan Dinh Phung Street	Hanoi	(84 4) 432994	(84 4)
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Industrial Bank of Japan

8249334	503 Metropole Centre 56 Ly Thai To Street	Hanoi	(84 4) 8249333	(84 4)
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ING Barings

8269216	Units 3, 4, 5 &6 17 Ngo Quyen Street	Hanoi	(84 4) 8246888	(84 4)
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8241502	International Centre 5th Floor The Metropolotan 235 Dong Khoi Street District 1	Ho Chi Minh City	(84 8) 8241500	(84 8)
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International Commercial

	No 8 2nd Floor Nguyen Hue Street District 1	Ho Chi Minh City 48225697	(84 8) 48225698	(84 8)
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International Finance Corp

8247898	Suite 706 Metropole Center 56 Ly Thai To	Hanoi	(84 4) 8247892	(84 4)
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Keppel Bank of Singapore

8220181	Unit S4 2nd Floor #2 Phung Khac Khoan Street District 1	Ho Chi Minh City	(84 8) 8234722	(84 8)
4857440	Ward 1 1st & 2nd Floor 40/5 Thu Khoa Huan Street	Vung Tau City	84 6 485 7438	(84 6)

Nomura Securities

8250250	International Centre 17 Ngo Quyen Street	Hanoi	(84 4) 8250209	(84 4)
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Paribas

8259784	Unit 604-1 Metropole Centre 56 Ly Thai To Street Hoan Kiem District	Hanoi	(84 4) 8259909	(84 4)
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Société Générale

9719823	40 Tang Bat Ho	Hanoi	(84 4) 9719822	(84 4)
290685	2-4 Rue Dong Khoi Quan 1	Ho Chi Minh City	(84 8) 290691	(84 8)

Standard Chartered Bank

8258880	27 Ly Thai To	Hanoi	(84 4) 8258970	(84 4)
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State Bank of the Socialist Republic of Vietnam

	47-49 Ly Thai To Street	Hanoi	(84 4) 52831	
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Sumitomo Bank

8231241	Unit C 4th Floor OSIC Building 8 Nguyen Hue Street District 1	Ho Chi Minh City	(84 8) 8231244	(84 8)
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Vietnam Bank of Agriculture

525376	4 Trung Tu Street	Hanoi	(84 4) 521814	(84 4)
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World Bank

	53 Tran Phu Street	Hanoi		
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ZIMBABWE

Investment and environment outlook

This Outlook has been produced by the United Nations Environment Programme, Division of Technology, Industry and Economics (UNEP/DTIE). It is one of the publications realised within the framework of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries” funded by the Government of Norway and implemented by UNEP/DTIE.

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1. Foreword

This Outlook has been prepared in the context of the project “Strategies and mechanisms for promoting cleaner production investments in developing countries”, financed by the government of Norway and implemented by the Division of Technology, Industry and Economics of UNEP. The project has a global component and demonstration activities are carried out in five pilot countries : Guatemala, Nicaragua, Tanzania, Vietnam and Zimbabwe.

The aim of the project is to encourage financing towards cleaner production investments, by demonstrating how these can be economically viable and financially attractive, in addition to being environmentally beneficial. One of the real challenges of this project is thus to contribute to bridging the gap between the financial community and the industrial world.

One major output of the project is a “Study on past investment practices” which has been conducted at both global and national levels. This Outlook is an integral part of the Study and forms an annex to its main volume.

2. Purpose

This publication, following the demonstration approach guiding the whole project, is designed to give an overview of the country with respect to investment flows and activities, financial institutions' strategies and initiatives, business activities related to environmental issues, and touching upon external development assistance. The Outlook thus results in a slender resource document which, unlike country profiles by other publishers, focuses uniquely on the main features of the financial and capital markets.

The information gathering process was at times not an easy one; some countries are relatively new to a market-based economy, so institutions such as the stock exchange are still in their infancy with little or non-existent data memory. In this respect, this Outlook is not meant to provide either an exact or an exhaustive picture of the country.



3. Country Profile

ZIMBABWE



Country MAP



Economy

GDP per capita (PPP): US\$2,800 (1998)
GDP real growth rate: 1,6% (1998)
Currency: Zimbabwean Dollar (Z\$)
Exchange rate (US\$): Z\$21,41:US\$1 (1998)
Inflation rate: 60% (1999)
Central Bank Interest rate (average): 42,1% (1998)
Exports (Main Partners): South Africa, UK, Malawi, Japan, Germany, US
Imports (Main partners): South Africa, UK, US, Germany, Japan
Economic Aid (recipient): US\$437,6 million (1995)
Industry Sectors: mining, cement, chemicals, fertilizers, wood products
Total FDI Inflows: US\$444 million (1998)
Agriculture: corn, cotton, tobacco, sugar

People

Population: 11.9 million (1998)
Language: English, ChiShona, Sindebele
Life expectancy at birth: 38,36 years (total population)
Population below the poverty line: 84% (in communal areas) and 70% in resettlement areas
Labour Force: 5 million (1997)
Unemployment rate: 45% (1994)
Religion: 50% Syncretic (part christian part indigenous beliefs), Christians, Indigenous Beliefs, Muslims, others
Literacy: 85% (total population)

Geography

Land Area: 391,109 km²
Main Towns: Harare (capital), Bulawayo, Chitungwiza
Natural resources: coal, chromium ore, asbestos, gold, copper, iron ore, nickel, platinum
Climate: trop species of wild fauna and flora ical, moderated by altitude

Government

Type: Parliamentary Democracy *Independence:* 18 April 1980
Political parties: Zimbabwe African National Union Patriotic Front, Zimbabwe African National Union
International Organisations' Membership: ACP, AfDB, CCC, ECA, FAO, G-77, IAEA, IBRD, ICAO, IFAD, IFC, ILO, IMF, Interpol, ISO, ITU, MONUA, NAM, OAU, PCA, SADC, UN, UNCTAD, UNESCO, UNIDO, UPU, WCL, WHO, WIPO, WMO, WtoO, WTrO.

Environment

Main Issues: deforestation, soil erosion, air and water pollution, declining biodiversity, poaching
International Agreements' Membership: Biodiversity, Climate Change, Desertification, Endangered Species, law of the Sea, Ozone Layer Protection

4. Environment

Focus Area of Degradation

Poverty is a major cause and consequence of resource depletion and environmental degradation. Major environmental challenges facing Zimbabwe include soil degradation, over dependence on pesticides, deforestation, desertification, declining biodiversity and water scarcity and deteriorating quality.

In Zimbabwe, escalating land degradation, especially over the past decade, has been caused by overgrazing of livestock, slash-and-burn agriculture and deforestation for firewood. In communal areas, over 40 tonnes of soil per hectare are lost each year and 25% of land is already considered degraded. The average annual rate of deforestation in Zimbabwe was approximately 0.6% during 1990-95. This rate is substantially higher than the world average of 0.3% and marginally lower than the sub-Saharan Africa average of 0.7%, during the same period.

Industrial waste, intensive energy use and soil erosion from business activity, such as mining, has had an adverse effect on the environment. As well as implementation of Zimbabwe's National Action Plan to address the ways in which business affects the environment, some multinational corporations are beginning to adopt precautionary environmental standards for large-scale mining projects.

Environmental Treaties and Conventions

Although there are many obstacles for effective implementation of environmental policies, Zimbabwe has embarked on a number of international, national and regional environmental treaties and conventions. By doing so, they provide evidence of government commitment to sound environmental management.

Zimbabwe has ratified leading international conventions, such as the Convention on Climate Change (1994), the Vienna Convention for the Protection of the Ozone Layer (1993), the Montreal Protocol for CFC Control (1993), the United Nations Convention on the Law of the Sea (1994) and the Convention on Biological Diversity (1995). Zimbabwe's involvement in the Convention on Climate Change has since strengthened the relevance of SADC's Drought Monitoring Centre, based in Harare.

The Convention on International Trade in Endangered Species (CITES) has supported national projects in Zimbabwe, such as Communal Areas Management Programme for Indigenous Resources (CAMPFIRE). The main thrust of this initiative has been to protect Zimbabwe's elephant population through control of the ivory trade.

In 1987, Zimbabwe adopted a National Environmental Action Plan. The plan provides a comprehensive, cross-sectoral analysis of conservation and resources management to help integrate environmental concerns with the development process. The plan is still at the preparatory stage and has not yet been completed.

In 1982, Zimbabwe completed a Country Environmental Profile which identifies the ways in which national economic activities can stay within the constraints imposed, such as equity, justice and fairness, by the need to conserve natural resources.

In December 1996, Zimbabwe adopted the Convention to Combat Desertification. Complementing this convention, the Desert Margins Initiative was also implemented to enforce food security for rural populations. The approach focuses on rain-fed crops, trees and livestock production systems in dry-land areas receiving 100-600 mm of rainfall annually.

Regional treaties are also effective in facilitating joint action and mutual understanding in environmental policies and management through broad-based agreements with other countries in the sub-Saharan region.

Zimbabwe Participation in Regional Environmental Treaties <i>(list below tbc by Zimbabwe UNEP colleagues)</i>	
Treaty	Place and date of adoption
Convention of the African Migratory Locust	Kano, 1962
Convention and Statute Relating to the Development of the Chad Basin	Fort-Lamy, 1964
Phyto-Sanitary Convention for Africa	Kinshasa, 1967
African Convention on the Conservation of Nature and Natural Resources	Algiers, 1968
Convention Concerning the Status of the Senegal River	Nuakchott, 1972
Convention Establishing a Permanent Inter-State Drought Control Committee for the Sahel	Ouagadougou, 1973
Convention for the Protection of the Mediterranean Sea against Pollution	Barcelona, 1976
Convention Creating the Niger Basin	Faranah, 1980
Convention for Co-operation in the Protection and Development of the Marine and Coastal Environment of the West and Central African Region	Abidjan, 1981
Regional Convention for the Conservation of the Red Sea and Gulf of Aden Environment	Jeddah, 1982
Convention for the Protection, Management and Development of the Marine and Coastal Environment of the Eastern African Region	Nairobi, 1985
Protocol Concerning Protected Areas and Wild Fauna and Flora in the Eastern African Region	Nairobi, 1985
Agreement on the Action Plan for Environmentally Sound Management of the Common Zambezi River System	Harare, 1987
Bamako Convention on the Bank of the Import into Africa and the Control of Trans-boundary Movement and Management of Hazardous Wastes Within Africa	Bamako, 1991
Lusaka Agreement on Co-operative Enforcement Operations Directed at Illegal Trade in Wild Fauna and Flora	Lusaka, 1994
Treaty Establishing the Lake Victoria Fishing Organisation	Kisumu, 1994
SADC Protocol on Shared Watercourse Systems	Johannesburg, 1995

(Source: UNEP, *Global Environment Outlook 2000*, 1999.)

Environmental Law and Regulation

Although Zimbabwe and other developing countries are implementing national environmental policies and legislation, they are often seen as ineffective due to lack of adequate staff, expertise and resources to implement and enforce them. A wide new range of environmental laws has been put in place in order to achieve their National Environmental Action Plan.

Unfortunately, attempts to implement effective environmental measures are ensued in a duplication and fragmentation of authority and responsibilities. Although the Ministry of Mines, Environment and Tourism manages the bulk of environmental regulation and the District Environmental Action Plans, the Zimbabwean Government has 10 different ministries which also administer an estimated 20 environmentally-related laws.

5. Financial Markets and Investment

General Market Conditions

The return of the IMF has renewed confidence, which has contributed to the improved performance of the Zimbabwe Stock Exchange (ZSE), shown prospects of continued economic reforms and, in the short term, added some stability of the Zimbabwean dollar. There is, however, overall concern for the currency. The EIU predict that the Zimbabwean dollar will depreciate significantly in the last quarter of 1999.

Financial Market Forecasts			
	1998	1999	2000
Exchange rate Z\$:US\$ (end-price)	37.30	46.73	58.00
91-day T-bill rate (%; period average)	32.8	44.5	29.0
Stockmarket index (end-period)	6.408	12.000	14.500
Change in \$ value of stockmarket index (%)	- 67	49	- 3

(Source: EIU, Country Risk Service, 3rd quarter 1999.)

Financial Sector

As a result of the liberalisation of the financial sector in 1991, the establishment of local banks has grown considerably. The RBZ expect that this is likely to improve efficiency and lead to an expansion of a range of financial sector products available on the market.

Zimbabwe's financial system came under great stress in 1998 with the collapse on the United Merchant Bank. One response by RBZ was to increase the capital adequacy requirement for banks, compared to the internationally accepted minimum ratio of 8%.

The EIU rates Zimbabwe's banking sector as high risk, which they attribute to Government intervention during the past two years.

Bi-lateral and Multi-lateral Funding

Since 1990, Zimbabwe embarked on a five-year economic structural adjustment programme (ESAP) with the support of the IMF and the World Bank. Implementation of the ESAP was interrupted on a number of occasions due to severe drought, economic crisis and disputes over Zimbabwe's commitment to economic reform. The ESAP has not yet been fully achieved and only recently did the IMF balance-of-payments support resume.

A majority of Zimbabwe's bi-lateral aid comes from Japan, Germany and the Netherlands (*refer to table below*). Commitments to social infrastructure and services (totalling \$68.7 million) have focused mostly on water supply and sanitation (\$20.8 million). Within production sectors (totalling \$30.9 million), agriculture has received the lion's share of aid, equalling \$23.6 million. As part of economic infrastructure and services (totalling \$24.1 million), \$19.2 million was committed for transportation and communications.

Zimbabwe Official Development Assistance Major Bi-lateral Donors (US\$ million)			
	1995	1996	1997
Total , of which:	347.7	280.8	222.5
Japan	65.6	46.7	38.7
Germany	42.1	30.5	38.4
Netherlands	35.7	32.4	24.1
Sweden	29.0	35.9	22.9
UK	45.9	25.2	22.3
Denmark	18.9	20.5	19.8
US	29.0	17.0	19.0

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

Zimbabwe Official Development Assistance Major Multi-lateral Donors (US\$ million)			
	1995	1996	1997
Total , of which:	148.6	96.1	107.7
IDA	14.6	11.0	82.7
CEC	60.3	60.3	17.3
AfDB	2.1	- 0.3	4.4

(Source: OECD, *Geographic Distribution of Financial Flow to Aid Recipients*, 1999.)

Stock Market

There are 70 companies listed on the Zimbabwe Stock Exchange (ZSE), which was first opened to foreign investors in June 1993. Five of these companies, which are predominately mining companies, account for 53% of total market capitalisation, with foreign companies owning 22%¹.

1. SADC, 1999.

The overall performance of the ZSE in 1998 was considered disappointing, much of which was attributed to the on-going controversy over land reform, involvement in DR Congo, devaluation of the Zimbabwean dollar, depressed tobacco export sales and overall political tensions. Market capitalisation fell by almost 59% from 2,284 in 1997 to 954 in 1998. The market was also characterised by strong non-liquidity due to a decrease in the volume of share transactions.

In 1999, the ZSE is showing signs of recovery, in terms of its industrial index up to 10,700 by mid-August and increasing market capitalisation. The ZSE has introduced new listing requirements, which are based on the same principles used in both the London Stock Exchange and the Johannesburg Stock Exchange. By the end of 1999 a central depository system is expected to be in place.

Zimbabwe Stock Exchange (ZSE) (US \$ million)				
	1995	1996	1997	1998
Number of listed companies	65	65	67	70
Market capitalisation	2,105.0	4,830.4	2,283.7	953.6
No. of companies making issues (including new, rights and bonus issues)	1	6	9	6
Value of new issues including rights issues	1.6	62.4	129.6	22.6
Volume of shares traded (million)	431.2	722.7	1,197.2	1,110.0
Value of shares traded	150.0	257.5	350.7	105.3
Average price-earning ration of all listed companies (%)	7.4	14.6	9.6	7.1
Average dividend yield (annual average, %)	5.2	2.9	4.4	4.1
Industrial index (overall)	—	—	—	6,408.4

(Source: SADC, 1999)

Foreign Investment Opportunities and Restrictions

The Zimbabwean Government identifies banking, resource-intensive industries, agriculture and the value-adding industries as opportunities for investment. The Government also looks preferably on companies which will further their Policy Framework for Industrial Development, Trade and Investment, which looks to increase export capacity, reduce employment and improve technological applications (*refer to Trade Relations and Statistics*). Some examples of projects include:

- Upgrading and construction of the road network system valued at US\$688 million.
- Enhancement of capacity for platinum production valued at US\$220 million.
- Rural resources and water production development valued at US\$1,263 million.
- Electrification project valued at US\$1.5 million.

Investment incentives provided to attract FDI include:

Investment Incentives

- > An investment allowance of 15 % in the year of purchase for industrial and commercial buildings, staff housing and articles, implements and machinery.
- > An investment allowance of 50 % in the year of purchase for training buildings and equipment.
- > A duty drawback and inward processing rebate for exporters of manufactured goods.
- > Exemptions from import tax (sales tax), surtax and customs duty on equipment and machinery imported for productive purposes.
- > A 25 % Special Initial Allowance on cost of industrial buildings, and commercial buildings in growth point areas, with rebates on machinery for first four years.

(Source: SADC, 1999.)

Export Incentives for Export Processing Zones (EPZs)

- > Exemption from withholding taxes on dividends, royalties fees, etc.
- > Exemption of duty for goods imported into EPZs.
- > Exemption from capital gains tax, surtax and sales tax on goods and services.
- > Exemption from fringe benefits tax for employees of EPZ's companies.
- > A five-year tax holiday and 15 % corporate tax thereafter.
- > Permission for foreign companies to borrow locally.
- > Reimbursement of import duties upon exportation of the qualifying goods in an unused state or as inputs in export goods.

(Source: SADC, 1999.)

Exchange Controls

- > Restrictions on the repatriation of dis-investment proceeds apply only to capital introduced in Zimbabwe prior to the 1st September 1979. No restrictions on the repatriation of proceeds arise out of investment made after May 1993.
- > Credit terms on exports are now 90 days and all the proceeds realised from exports must be sold to the market immediately upon receipt unless specific dispensation has been granted.
- > No restrictions on local borrowing by foreign owned companies registered and operating in Zimbabwe.
- > Purchase of shares on the ZSE by foreign investors is limited to 40 % of total equity, with a single foreign investor allowed to acquire a maximum of 10 % of the shares.
- > Dividend and profits remittance for all foreign investors is now 100 % and payment is effected through the inter-bank market.
- > Foreign investors may hold up to 100 % equity in companies operating in priority sectors of the economy. These priority areas include manufacturing, mining and quarrying, mineral exploration and the development of hotels for tourism.
- > All companies operating within Zimbabwe are limited to borrow up to US\$5 million from offshore without government approval for export-related businesses.

(Source: SADC, 1999.)

Taxation	
Corporation	35 %
Withholding tax	15 % for companies listed on ZSE; 20 % for others
Individual	Maximum 45 %
Surtax	Reduced from 15 % to 10 %
Double taxation agreements	Bulgaria, Canada, Germany, Mauritius, Netherlands, Norway, Poland, Romania, South Africa, Sweden and the UK. (Agreement with France and Malaysia to be ratified.)

(Source: SADC, 1999)

Foreign Direct Investment

In 1989, the Zimbabwe Investment Centre (ZIC) was set up to act as a clearing agency for foreign direct investment (FDI). All investment proposals with a foreign share holding are submitted to ZIC for approval and registration.

Although there remain to be many uncertainties about the domestic Zimbabwean markets, total foreign investments approved in 1998 equalled US\$2,567.4 million, a rise of 269% compared to 1997. Most of the approved projects originated from OECD countries and, in particular, the US, UK, Germany and Ireland.

In spite of economic difficulties in Zimbabwe, two projects were approved by ZIC in 1998. This included a joint venture between Zimbabwe Electricity Supply Authority and the UK's National Power, which is considered the largest privately run power project on Southern Africa. ZIC also approved the Hyatt Hotel project valued at US\$430 million.

According to an UNCTAD survey of African investment promotion agencies (1999), Zimbabwe is considered to have the least business-friendly environment anticipated for 2000-2003. It's ranking according to their attractiveness for FDI in 2000-2003 is equally low².

The mining sector in Zimbabwe has traditionally attracted FDI. However, the affects of FDI has polarised the domestic companies operating in Zimbabwe and the national economy. Between 1970-1996, FDI has contributed to Zimbabwe's capital formation and job creation, thus impacting positively on the national economy. Conversely, the domestic companies operating in the same industry have found that their opportunities and ability to compete have diminished, with the overall effect of being of being "crowded out" of the market³.

2. UNCTAD, *World Investment Report: Foreign Direct Investment and the Challenge of Development*, 1999.

3. UNCTAD, 1999.

Zimbabwe FDI Inflows and Investment Opportunities		
	Considerable ^a FDI Inflows during 1996-1998	Offer the best investment opportunities in 2000-2003
Agriculture	✓	x
Forestry	✓	✓
Mining and quarrying	✓	✓
Food and beverages	✓	✓
Textiles, leather, clothing	✓	✓
Pharmaceuticals and chemical products	✓	x
Metals and metal products	✓	✓
Telecommunications	✓	✓
Finance and insurance	x	✓

a. Defined as a share of ten percent or more in total accumulated FDI inflows into the country in 1996-1998. (Source: UNCTAD, 1999.)

Zimbabwe FDI inflows (US dollars, million)					
1993	1994	1995	1996	1997	1998
38	41	118	81	135	444

(Source: UNCTAD, *World Investment Report*, 1999.)

FDI and the role of Cleaner Production

FDI presents investment opportunities for cleaner production in developing countries. Multi-national companies are increasingly becoming aware that environmental protection and economic efficiency can be achieved in parallel. Companies are also adopting environmental management as an integral part of risk management, regardless of the country in which they operate. As companies become globalised, increasingly, so do their corporate policies.

Countries such as Zimbabwe are dependent on FDI. Attempts to liberalise their economy and implement privatisation programmes have been used to encourage further new investments for new projects. Certainly the influx of capital suggests that there is scope and opportunity to enhance and optimise both production efficiency as well as good environmental performance.

Examining FDI flows between 1996-1998 in Zimbabwe shows that sectors which have received investment include mining and quarrying, metals and metal products, and textiles, leather and clothing (*refer to above table*). These same sectors have also been considered to offer the best investment opportunities in 2000-2003⁴. According to an UNCTAD report, these same sectors are deemed 'highly polluting'⁵.

4. UNCTAD, 1999.

5. UNCTAD, 1999.

Targeting FDI inflows is not just about stimulating national economies. It can also play a significant role in building environmental solutions into the national environmental framework. Multi-national companies have begun to pursue improved environmental standards and cleaner production, such as management systems, research and development, technology transfer, product and process redesign. This presents developing countries with an opportunity to take advantage of these advancements through linkages with FDI. Increasingly, inward capital investments means stimulated economic growth without degrading the environment.

For instance, in the mining sector, large multi-national companies have achieved innovative ways of improving industrial production coupled with enhanced environmental performance. These innovations include energy-efficient “flash” smelters, biotechnology-based leaching alternatives to smelting and continuous-concentrate processes⁶.

Ideally, national governments can create incentives for FDI, which can be matched with incentives for the adoption and implementation of cleaner production. Opportunities to use the inflow of FDI as a vehicle for improving domestic environmental performance are increasingly coming into reach for developing countries.

6. UNCTAD, 1999.

Annex

Zimbabwean Financial Institutions and Banks

Company Name	Address	City	Telephone	Fax
African Development Bank				
	2nd Floor Batanai Gardens 57 Jason Moyo Ave	Harare	(263) 479 4391	(263) 4728480
Barclays Bank of Zimbabwe				
	1st Street Jason Moyo Ave	Harare	(263) 4758280	(263) 4752913
Barclays Zimbabwe Nominees (PVT)				
	Corner Third Street Union Ave Ground Floor Tanganyika House	Harare	(263) 4738611	(263) 4727736
Barclaytrust (PVT)				
	PO Box 1279	Harare	(263) 4738611	(263) 4727736
Bard Discount House				
	Club House 47 Samora Machel Ave	Harare	(263) 4752756	(263) 4750192
Bard Group of Companies				
	Bard House 69 Samora Machel Ave	Harare	(263) 4752756	(263) 4750192
Beverley Building Society				
	Beverley Place Selous Ave	Harare	(263) 4792631	(263) 4792635
CABS				
	Northridge Park Northend Close Borrowdale	Harare	(263) 4883823	(263) 4883804
Commercial Bank of Zimbabwe				
	60 Union Ave	Harare	(263) 4758081	(263) 4758077
Discount Co of Zimbabwe				
	70 Park Lane	Harare	(263) 4708945	(263) 4731670
Fincor Finance				
	PO Box 937	Harare	(263) 4780610	(263) 4752506
Fincor Finance Group				
	Eagle House 10 Avenue Jason Moyo Street	Bulawayo	(263) 969161	(263) 974620

First Banking Corp

76 Samora Machel Ave Old Reserve Bank Building	Harare	(263) 4702334	(263) 4700761
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First Merchant Bank of Zimbabwe

FMB House 67 Samora Machel Ave	Harare	(263) 4703071	(263) 4738810
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First National Building Society

1st Floor Royal Mutual House 45 Baker Ave	Harare		
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Founders Building Society

7th Floor Finsure House Union Ave	Harare	(263) 4704264	(263) 4704269
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Heritage Merchant Bank

6th Floor Karigamombe Centre Causeway	Harare	(263) 4794750	(263) 4749413
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IFC – Africa Project Development Facility (APDF)

5th Floor Southampton House 68-70 Union Ave	Harare	(263) 4730967	(263) 4730959
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Industrial Development Corp of Zimbabwe

93 Park Lane	Harare	(263) 4706971	(263) 4796028
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ING Barings

8th Floor Pegasus House 52-54 Samora Machel Ave	Harare	(263) 4727308	(263) 4727307
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Intermarket Discount House

5th Floor Unity Court Union Ave	Harare	(263) 4758145	(263) 4759679
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International Finance Corp (IFC)

7th Floor 101 Union Ave	Harare	263 4794 860	(263) 4793805
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Kingdom Securities

12th Floor Karigamombe Centre	Harare	(263) 4799948	(263) 4758228
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Leasing Co of Zimbabwe

10th Floor Old Mutual Centre Corner Third Street/Jason Moyo Ave	Harare	(263) 4704685	(263) 4708767
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Merchant Bank of Central Africa

14th Floor Old Mutual Centre Third Street	Harare	(263) 4738081	(263) 4708005
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Meridien International Bank

5th Floor Cabs Centre Jason Noyo Ave	Harare	(263) 4790495	(263) 4705764
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National Discount House

10th Floor Chancellor House Samora Machel Ave	Harare	(263) 4739697	
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POSB

POSB House 3rd Street/Central Ave	Harare		
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Reserve Bank of Zimbabwe

76 Samora Machel Ave	Harare	(263) 4790731	(263) 4726672
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Scotfin

Finance House 62 Speke Ave	Harare	(263) 4738734	(263) 4727329
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Sedgwick Insurance Brokers Private

4th & 5th Floors Beverley 100 Baker Ave	Harare	(263) 4706391	(263) 4727530
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Stanbic Bank

59 Samora Machel Ave	Harare	(263) 4759471	(263) 4751324
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Standard Chartered Bank

John Boyne House 28 Speke Ave	Harare	(263) 4752852	(263) 4758076
Standard Chartered Bank Building 2nd Street/Nelson Mandela Ave	Harare	(263) 4708585	(263) 4725667

Standard Chartered Finance Zimbabwe

Karigamombe Centre 53 Samora Machel Ave	Harare	(263) 4751530	(263) 4751420
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State Bank of India

101 Union Ave	Harare	(263) 4727755	(263) 4727755
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Syfrets Merchant Bank

46 Speke Ave	Harare	(263) 4757535	(263) 4751741
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Tetrad Securities

14th Floor Livingstone House Samora Machel Ave	Harare	(263) 4704145	(263) 4737621
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Time Bank

5th Floor Three Anchor House Jason Moyo/First Street Causeway	Harare	(263) 4792058	(263) 4796650
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Trade and Investment Bank

10th Floor CABS Centre Jason Moyo Ave	Harare	(263) 4703791	(263) 4705491
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Trust Merchant Bank

7th Floor Blue Bridge Eastgate 2nd Street Causeway	Harare	(263) 4708353	(263) 4702066
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UDC

UDC Centre Corner 1st Street/Union Ave	Harare	(263) 4759339	(263) 47581779
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United Merchant Bank

Boka House 32 Robson Manyika Ave	Harare	(263) 4752250	(263) 4753251
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Universal Merchant Bank

8th Floor Karigamonbe Centre 53 Samora Machel Ave	Harare	(263) 4750811	(263) 4750528
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World Bank

5th Floor Finsure House 84-86 Union Ave	Harare	(263) 4729612	(263) 4708659
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Zimbabwe Banking Corp

Zimbank House First Street	Harare	(263) 4757471	(263) 4757497
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Zimbabwe Building Society

5th Floor Fidelity Towers Harare
66 Julius Nyerere Way

Zimbabwe Development Bank

ZDB House 99 Rotten Row	Harare	(263) 4721000	(263) 4720723
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Zimbabwe Financial Holdings

Zimbank House 46 Speke Ave	Harare	(263) 4751168	
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Zimbabwe Stock Exchange

5th Floor Southampton House Corner Union Ave/1st Street	Harare	(263) 4736861	(263) 4791045
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