

## **Fiscal incentives and private investment behavior in Tanzania**

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The unfavourable macroeconomic environment and policy during the late 1970s early 1980s led to low and fluctuating level of private investment in Tanzania. The low rate of economic growth and high rate of unemployment experienced in Tanzania is a consequence of among other things, insufficient private investment. The government has since mid-1980s [provided several incentives (particularly fiscal) to encourage local and foreign private investors. However, the response of private investment has been low despite the government efforts to create a conducive environment for this sector. The study used a neo-classical model and employed the Ordinary Least Squares (OLS) technique to investigate the relationship between fiscal incentives and private investment for the period 1970-98. Corporate tax, interest rate and domestic infrastructures were also included in the model. The results show that private investment is positively related to fiscal incentives and corporate tax rate while poor domestic infrastructure is negatively related to private investment. Moreover, in the short run the real interest rate has a negative impact on private investment though in the long-run (due to accumulation of savings which increase funds for investment) private investment increases. The policy implication is that fiscal incentives will be more effective if it is well administered and targeted in recognizing the vital role played by other factors such as positive interest rates infrastructural rehabilitation and maintenance.