TANZANIA

A chapter closes

African leaders rarely retire according to an agreed timetable. However, after 10 years in office, Tanzania's President Benjamin Mkapa recently stood down to pave the way for national elections. The date of the presidential election in this East African country of 37.5 million people, originally slated for October, was reset for December by the country's National Election Commission, following the death of one of the candidates.

Shortly after their independence from Great Britain in 1961, Tanganyika and Zanzibar merged to form the nation of Tanzania in 1964. The country was governed by an ideology based on centralized socialist economic policies and a single party government under the late President Julius Nyerere. His 1967 "Arusha Declaration" demanded greater self-reliance through the creation of cooperative farm villages and state ownership of manufacturing plants, plantations, banks and private companies.

Nyerere, generally seen as a father figure and revered by many of his citizens, left a legacy of unity and peace. Being surrounded by a diverse spread of countries that would have made ideal trading partners—including Burundi, Democratic Republic of Congo, Kenya, Malawi, Mozambique, Rwanda, Uganda and Zambia—could have secured a flourishing economy, but the potential of Tanzania as a gateway to East Africa was left largely unexploited for 40 years.

Benjamin Mkapa
President

Single-party rule ended in 1995 with the first democratic elections in the country since the 1970s. Zanzibar's semi-autonomous status has proved the only major constitutional challenge in a country characterized by political stability and the rule of law.

Tanzania has prospered under Mkapa. A decade ago, annual growth in gross domestic product (GDP) hovered around 2% a year. In 2004, it touched 6.7%. Annual inflation was roaring away at 32% in the early 1990s—it is now around 4%, even with crude oil price rises factored in.

Mkapa has become the idol of the international donor community. In 2000, he successfully secured a debt-relief package with the International Monetary Fund and World Bank, valued at U.S.$2 billion. It halved Tanzania's foreign debt at a stroke and was followed up at the recent G8 Summit when Tanzania achieved interest-relief reductions amounting to around U.S.$110 million a year.

The centralized mechanism of state control over the economy has also been broken. As Basil Mramba, Minister of Finance, says with the satisfaction of a job well done: "We've privatized more than 300 parastatals. We're now on the last leg of the journey with privatization of utilities."

The principal driver in economic success and inward flows of foreign direct investment has been Mkapa's insistence on macroeconomic stability. Minister Mramba has been a willing steward. "Don't give us food, give us investors," he says. "Don't give us ambassadors, give us investors. Pay us well for our crops and pay the workers well."

The macroeconomic indicators are indeed a source of satisfaction. Foreign reserves have risen to a level described as "comfortable" by the International Monetary Fund (IMF). Debt burdens have dropped and poverty is waning thanks to the successful Poverty Reduction Strategy adopted in 2000. Institutional capacity is also increasing.

Tanzania enjoys huge untapped potential for tourism. Mount Kilimanjaro is the highest point in Africa and bordered by three of the largest lakes on the continent: Lake Victoria, the world's second-largest freshwater lake, in the north; Lake Tanganyika, the world's second deepest, in the west; and Lake Nyasa in the south-west.

The Bank of Tanzania is widely seen as a model of efficiency in Africa. Having implemented some of the tightest monetary policies seen on the continent in recent years, the central bank has risen admirably to the challenge.

To achieve its principal objective of maintaining price stability, conducive to attaining a high, but sustainable, national growth rate, the Bank of Tanzania has made important changes. It has worked with the government to formulate and implement comprehensive economic and structural reforms, which, as well as restoring macroeconomic stability, have succeeded in creating an attractive environment for investment. This has led to increased employment and an improved quality of life for the people of Tanzania.

The results speak for themselves. The Bank of Tanzania has succeeded in attaining a rate of inflation consistent with that of its trading partners. At the end of last year, inflation was down to 4.2%, from 30% ten years ago. Real GDP growth was almost 6% in 2004, thanks to the Bank of Tanzania's solid macroeconomic policies and continued donor assistance. Real growth has averaged 4.4% over the last six years.

The main objective now is to increase GDP growth to at least 8% over the medium term, with a long-term aim of 10-13%. This will happen with a continued stabilization program, ongoing structural reforms (including the privatization of state-owned enterprises) and increased publicity of its investor-friendly policies.

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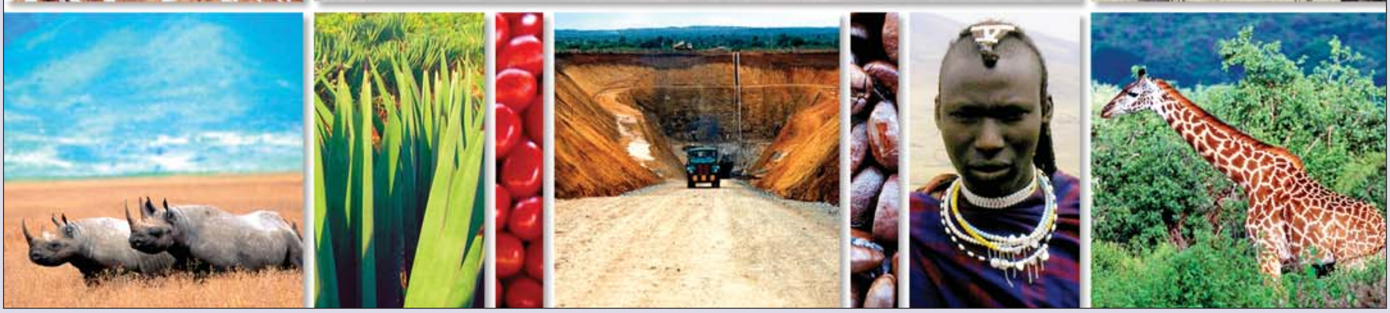


Daudi T.S. Ballali
Bank of Tanzania


Salim Msoma
Min. of Comms & Transport


Patrick Rutabanzibwa
Min. of Energy & Minerals

However, despite this vast tourism potential, per capita income remains low, aid dependency is high and basic infrastructure struggles to match economic growth.

Regulator Drives Banking Reform

The Bank of Tanzania (central bank) presides over the most transformed and modernized sector of the economy, as well as acting as watchdog over government macroeconomic policies. The respected governor, Daudi T. S. Ballali, is by temperament persuasive and firm. Reviewing the achievements of the Mkapa years, he recalls: "We had to reduce inflation from 32% to the 4% we have now. The other task was to liberalize the trading payments system."

Huge challenges remain, including implementing stronger structures for domestic revenue collection and expenditure management. Nevertheless, the 6.7% economic growth rate in 2004 was broad-based, with agriculture (nearly half of GDP) receiving a boost from a return to more stable weather conditions and better access to inputs.

The governor has no qualms about completing the privatization program. "We have no sacred cows in terms of public institutions," he says. "Everything in Tanzania is up for grabs. The government just wants to assume the role of regulator and provide a conducive environment for investment."

Ballali reels off a list of successful privatizations which include ABSA of South Africa and Rabobank of the Netherlands taking stakes in major local banks, and global player SABMiller acquiring equity in Tanzanian Breweries. The IMF recently claimed in its July 2005 review that banking was still only playing "a limited role in the economy." Ballali says: "In 1993, we had only two banks and the financial services sector was controlled by the government. In just 12 years, we have 28 commercial banks. It's not only the expansion of the sector, but the efficiency and new products that have been brought in, including new financial technology."

Indeed, Ballali is embarking on the second generation of financial reforms aimed at improving and activating the secondary market through the nascent stock exchange, where both private and government debt instruments have been issued. "We're seeing a lot of activity in the capital market through bond issues, syndications, equity transactions and corporations from countries such as Kenya using the equity marketplace here."

These themes are picked up by Gray S. Mgonja, Permanent Secretary to the Treasury at the Ministry of Finance. He is proud that Tanzania's economic stability has enabled it to ride out the impact of higher oil prices on inflation. "Our foreign exchange reserves have remained comfortable," he says. "We are able to cover seven months of imports of goods and manufacturing services."

The Permanent Secretary is of the strong conviction that economic liberalization was the key to creating an environment for investment in the financial sector. While agreeing that rural communities in particular are under-catered for in terms of banking, he points to other more positive trends. "Last year, credit to the private sector went up 30%," he says. "The insurance sector is booming. There are many new products in the capital markets, such as a recent initial public offering by the Unit Trust of Tanzania. We're still developing pension funds, small and medium scale enterprises, microfinance and leasing services."

To underpin economic growth, Mgonja is convinced that the new focus for the incoming president and his government will be infrastructure. "There is little we can achieve, if we do not put more resources into infrastructure by way of road, railroads, ports and air transportation, as well as energy and water. We want to be a middle-income country, however that is defined."

The Permanent Secretary shares the hope that Tanzania can become a gateway to the eight countries on its borders. "All of them can be supplied by Tanzania," he says. "We can provide a conduit for imports by those countries around us which are landlocked. If we improve our agricultural productivity we can supply all of them with food. We have the appropriate arable land and the rainfall. Financial services is another area where we can provide services for neighboring states."

Container Port Works for Customers

The role of government as a regulator after privatization is exemplified in the work done by the Surface and Marine Transport Regulatory Authority (SUMATRA). Established in 2004, it covers rail transport, ports, marine and road transport. Director general, Israel Z. Sekirasa, is proud of the success demonstrated by the privatized Tanzania International Container Terminal at Dar es Salaam, where traffic has already overtaken the installed capacity of 250,000 containers a year. However, he is also on the side of the customer. "Dar es Salaam is already part of the global marketplace," he says. "SUMATRA is, therefore, concerned that our ports remain competitive in terms of quality of service and in efficiency."

Ringing the Changes

Telecommunications has become a real success story for Tanzania, with almost two million cellphone subscribers and 10 Internet and data service providers, according to Salim Msoma, Permanent Secretary at the Ministry of Communications and Transport. The government has recently signaled a new phase in liberalizing the marketplace by ending the monopoly previously enjoyed by the Tanzania Communications Company.

Among the first to take advantage of this was Zanzibar Telecom (Zantel), which is now operating GSM services on the mainland. After entering an agreement with existing operator Vodacom, Zantel has been one of the principal backers of the East African Submarine Cable Consortium (EASSY).

The key to Zantel's success is operating as an international gateway provider, having established direct interconnected links with strategic operators in Africa, Europe, the Middle East and North America.

Noel Herrity is the newly appointed CEO of Zantel. He says: "The communications market in Tanzania is growing rapidly. Some sources estimate that the market for cellphones alone will reach up to 10 million over the next four to five years."

Mining Strikes Gold

The stellar performance of the Tanzanian mining sector since the early 1990s is a major achievement of the Mkapa presidency. Minerals now account for U.S.$672.5 million in exports—half of everything Tanzania sold abroad in 2004. The contribution to GDP is now 3.2% with a target of reaching 10% by 2025. "Tanzania's minerals were untouched 10 years ago," says Patrick Rutabanzibwa, Permanent Secretary at the Ministry of Energy and Minerals. "Gold is now the largest single commodity we export, overtaking cotton, coffee, tea and the main agricultural products we sell overseas."

The figures, if anything, understate the potential. Tanzania is Africa's third-largest gold producer and mining is the fastest-growing economic sector, with considerable scope for more value-added activities. "We have so many minerals that can be exploited," says Rutabanzibwa. "The gemstone tanzanite can be marketed very well. Right now, we've found a nickel deposit and there is also potential in platinum."

Tanzanite was first discovered in 1967 and was promoted by Tiffany & Co, but in the 1970s the market collapsed after nationalization. In 2000, the concession was acquired by TanzaniteOne, which markets its stones mainly in the U.S., under the jewelry brand Tanzanite Blue.

Dr. Peter D. Kafumu, Director of Communications at the Ministry of Energy and Minerals, estimates gemstone exports, including diamonds, at U.S.$60.7 million in 2004. By April 2005, there were 21 mining ventures in the country: six for gold, four for gemstones and the rest for industrial minerals. However, he points out there is considerable public concern about how the mining industry can work with other agencies against poverty in Tanzania.

Haven for Business Travelers

Tanzania is a land of idyllic islands, wide open spaces and magnificent wildlife. Sultans' palaces, game reserves, and national parks all contribute to a tourism industry that in 2005 was expected to generate U.S.$1,858.4 million of the country's economic activity this year, according to World Travel and Tourism Council predictions.

The 800km Swahili coastline offers an unforgettable insight into African and Arabian traditions, and luxury is never far away for the discerning traveler. The Golden Tulip in Dar es Salaam, for example, is a business hotel set on the Msasani peninsula. Opened in 2001, the family-owned hotel, part of Indian Ocean Hotels Limited, is already a must-stay among the business traveling community in East Africa.

Situated minutes from the financial and governmental center, it combines the comfort and standards of an international management chain with a unique local flavor. GM Herbert Friese says: "Tanzania is a marvelous country and Dar es Salaam has a lot to offer business people."

Tanzania's magnificent Mount Kilimanjaro.