

**PROCEEDINGS OF THE 5TH INTERNATIONAL INVESTORS' ROUND TABLE MEETING HELD
ON 10 MAY 2005, MOVENPICK ROYAL PALM HOTEL, DAR ES SALAAM.**

1.0. ATTENDANCE.

List attached

2.0. OPENING.

2.1. Hon. Abdallah Kigoda (MP) Minister of State, President's Office Planning and Privatization welcomed IRT

Members and Observers to the meeting remarking that:

- The meeting was a historic event as it will be the last meeting to be chaired by HE President Benjamin William Mkapa.
- The presence of both President Amani Abeid Karume of Zanzibar and Hon. Jakaya Mrisho Kikwete (MP) Minister for Foreign Affairs and International Cooperation and CCM Presidential Candidate for the forthcoming elections was a deliberate move to assure continuity of the IRT process .

2.2. **Hon. Abdallah Kigoda invited HE President Benjamin William Mkapa to officially open the meeting.**

3.0. OPENING STATEMENT BY H.E. PRESIDENT BENJAMIN WILLIAM MKAPA.

Introductory Remarks

- Welcomed all IRT Members and Observers to the 5th International Investors' Round Table meeting acknowledging the presence of HE Aman Abeid Karume, President of Zanzibar and His Highness the Aga Khan, among others.
- Thanked the new and old members for accepting to serve the Tanzania IRT process which has emerged as a prominent forum for public-private sector dialogue accounting for the improved investment climate, business environment and faster economic growth in Tanzania.
- Assured members of CCM winning the next general election and that the public and private sector consultative mechanism under TNBC will continue since the CCM Party Manifesto recognizes the private sector as the engine of economic growth. The Fourth Phase Government will not change policy but build on the current policies guided by the slogan "New Zeal, New Vigour and New Speed".
- Emphasized the five challenges for the forthcoming leadership in Tanzania as:
 - **Exports:** The survival of the economy hinges on major export drive. In this respect the promulgation of the Tanzania Mini Tiger Plan 2020 is an initial step for the rapid expansion of exports.
 - **Agriculture:** The next ten years should engender an agricultural revolution that will assure sustainable rural incomes, food security and contribute to exports.
 - **Industrialization:** Should be anchored in a growing agricultural sector for adding value to agricultural exports.
 - **Mining, Tourism, Fisheries and Other Natural Resources Industries:** New drive to exploit these sectors given their high foreign exchange earnings and employment creation potential,
 - **Infrastructure:** Given the geographical location advantage, infrastructural developments should target Tanzania to become hub for the neighboring countries and sub-region.

4.0. PRIVATE SECTOR PRESENTATION ON GROWTH.

4.1 Main Highlights:

The private sector acknowledges the successful reforms undertaken by the Government over the past 10 years leading to setting the macro-economic fundamentals ideal for rapid economic growth. Major achievements include:

- Growth of Gross Domestic Product (GDP) from 3.6% in 1995 to 6.3% in 2004 as one of the fastest in sub Sahara Africa. Mining has attained the fastest growth followed by Manufacturing, Tourism and Agriculture.
- Sustained role of Agriculture as the leading contributor to GDP (47%) followed by Tourism (17%), Manufacturing (9%), and Mining (3%).
- Declining inflation from 27.4% in 1995 to 4.1% in 2004, .

4.2 Sectoral Performance and Comparison:

Assigning green, orange and red colours to excelling sectors, performing and under-performing sectors respectively, the private sector opinion on contribution to growth by main sectors and key enablers was as follows:

- **Agriculture**
The largest GDP contributor recorded very low growth and poor investment level earning a red card to imply the need for concerted efforts to revolutionize the sector.
- **Mining**
Mining was the fastest growing sector over the past decade hence assigned green card suggesting that the sector lessons can be learned and applied to other sectors.
- **Tourism**
The sector scored orange card signaling that although some progress is registered, its real potential is yet to be exploited.
- **Manufacturing**
Assigned orange card also signaling for concerted efforts to realize the potential of the sector
- **Export Development:**
Assigned red card calling for quick measures to improve export performance for the survival of the economy.
- **Macro Economic Environment.**
Assigned green card as Tanzania has made significant progress in achieving stable macro economic fundamentals.
- **Infrastructure.**
Assigned orange card in recognition of good work done particularly in telecommunication but calling for concerted effort in revamping railways, ports, roads, energy and water sub-sectors.
- **ICT.**
Assigned orange card recognizing progress made over the last few years in ICT sub sectors urging for efforts towards ICT training.
- **Legal System.**
Assigned red card in light of the fact that legal reforms were lagging behind economic reforms.

- **Security.**
Assigned green card as a key asset that Tanzania continued to enjoy over the past decade .
- **Governance.**
Assigned orange card to signify that while Tanzania was on the right track in dealing with governance issues, major challenge ahead lies in the fight against bureaucratic red tape and corruption.
- **Business Environment (Licensing, Tax, Regulation etc.).**
Assigned orange card recognizing progress made but calling for further steps to remove remaining impediments in business environment.
- **Financial Sector.**
Assigned orange card signifying that although a number of banks and financial institutions are in operation, access to credit by SMEs and long term lending remain major challenges.
- **Human Capital**
Assigned red card signifying that Tanzania lacks ideal human capital for growth and wealth creation although it has trainable labour force.

4.3 Summary of Indicators of Growth and Key Recommendations

Together with privatization process, growth of banking sector, establishment of stock exchange, remarkable investment promotion drive, the private sector assessment of growth and confidence gained is summarized as follows:

	1995	2004	% Change
1. Gross Domestic Product (GDP)	\$5.6 billion	\$ 9.8 billion	+75%
2. Per Capacity Income	\$ 160	\$260	+62.5%
3. GDP growth	2.8%	6.3%	+125%
4. Inflation rate	27.4%	4.1%	7times
5. Foreign reserves to meet Import Bill	2 months	9 months	+350%
6. Contribution of Industrial sector to GDP	4.5%	8.7%	+93%
7. Contribution of Mining sector to GDP	0.1%	3.0%	+3000%
8. Contribution of Trading sector to GDP	7.4%	16.8%	+127%
9. Contribution of Financial sector to GD	5.9%	12.1%	+105%
10. Foreign Direct Investment to Tanzania	\$50.2 million	\$247.8 m	+394%
11. Total Exports	\$500 million	\$1142.4 m	+228.5%
12. Total Tourism Earnings	\$258.1million	\$731m	+183%
13. Average Monthly Tax Revenue collection	Tshs 25 b	Tshs 160 b	+540%
14. People living below \$1 US Dollar per day	About 50%	Less than 20%	+60%

Based on above, private sector recommendations for the future include action on:

Finance:

- Provide effective development finance.
- Establish agricultural finance and housing finance institutions
- Channel excess liquidity from investment in government stocks to the productive and wealth creation sectors of the economy.
- Operationalise SME Credit Guarantee and Development Finance Guarantee Schemes
- Measures to widen the tax base and development of realistic -

incentives to support growth without negatively effecting business and new investments.

Infrastructure:

Railways:

- TAZARA: - immediate assessment of position and propose viable solution
- TRC: - expedite concessioning in so far as concessioning meets country's requirements

Roads:

- Public private partnership – it is time for BOTs in road construction

Power Supply:

- **TANESCO**
quickly decide if concessioning is the answer Develop other least cost options/alternatives such as gas, coal, wind and hydro.
Develop a national strategy for best use of gas resources.

Water:

- Challenge is to ensure sustainable clean supply for industrial and domestic consumption particularly in Dar es Salaam from alternative sources

Agriculture:

Establish stable and predictable tax regime to attract agricultural investments addressing also following issues:

- Predictable land ownership
- Price stabilisation funds
- Irrigation schemes
- Special livestock sub-sector incentives

Agribusiness:

- Provide incentives to challenge local processing and value addition particularly in following sub-sectors with high employment creation potential:
- Textile industry
- Cashewnuts
- Leather

Manufacturing:

- Provide reliable infrastructure particularly power and railways
- Develop power, iron ore and coal mining as a single project for Mtwara Corridor
- Enhance power generation from Songosongo and exploit Mnazi Bay and other gas fields.

Tourism and Image:

- expansion of hotel accommodation capacity, conference capacity and SMEsin tourism along with opening of new products, new attractions and destinations.

Legal and Regulatory Framework.

- accomplish Land law reform to make land a desirable collateral for raising funds from financial institutions.
- accomplish Labour reforms to promote better and more efficient labour market
- Judicial reforms should now focus on capacity and efficiency of the judiciary following the successful reforms carried out so far.
- On going reforms should have a serious time plan and clear distribution of responsibilities to facilitate monitoring and accountability.

Concluded that the private sector was confident that all the achievements of the past 10 years would be sustainable and optimistic that they will be enhanced during the next 10 years.

5.0. PRESENTATION BY THE TECHNOLOGY AND HUMAN CAPITAL DEVELOPMENT WORKING GROUP.

- 5.1 Noted progress made in implementation of Technology Working Group recommendations submitted to the Government in December 2004 as follows:
endorsement of the concept that TTCL should be transformed into the carrier's carrier company responsible for construction of national ICT infrastructure for high-speed connection for the country and neighborhood. TTCL has now joined the East African submarine fibre-optic cable consortium.
endorsement of the idea of establishing technology parks
drive to increase ICT scholarship
creation of National ICT Infrastructure Steering Committee, chaired by the Permanent Secretary, Ministry of Communication and Transport, bringing together the public and private sector, with the purpose of coordinating ICT infrastructure development by the various stakeholders including, TAZARA, TRC, TANESCO, TTCL, VODACOM, and others, the intention being to form a homogenous high speed fibre-optic network throughout the country using existing infrastructure.
a meeting between the Government, Development partners and the private sector is to be held before the end of May 2005 with the purpose of streamlining the Government budget for ICT development on agreed projects.
discussions with Microsoft on how best to promote ICT development in the country are advanced.
The World Bank has approved funding for carrying out of feasibility study for the Computing Centre of the University of Dar es Salaam to open multimedia centers covering all districts.
- 5.2 **Reported** that the Technology and Human Capital Working Group is focusing at assisting the Government to achieve the following goals:
provision of broadband connectivity to every district and village throughout the country.
setting up multimedia training centers in the 142 districts once the infrastructure is in place with the Computing Centre hubs in Dar es Salaam, Arusha, Dodoma, and Mwanza offering the basic entry points.
reforming primary school curriculum to ensure that primary school leavers can pur-

sue technical education to achieve CISCO and MICROSOFT TEST just like other trade test e.g. carpentry, tailoring, plumber etc. establishment of technology parks like in Malaysia, India, Korea, Taiwan and working closely with technical university colleges. accomplish harmonization of the legal and regulatory framework on the use of ICT.

6.0. OPEN DISCUSSION BY MEMBERS.

6.1. Infrastructure.

Reported that Barrick Gold would invest US \$50.0million in the Kabanga Nickle deposit over the next 2 years, with a possibility of adding another US\$ 95.0 million later in order to exploit deposit estimated at 200.0 million tons of nickle. Success of the project hinges on reliable and ample supply of electricity from the national grid and improvement of the Central railway line.

Recommended that Tanzania should implement decisions made at recent workshop chaired by Hon. Frederick Tulway Sumaye bringing stakeholders in transport sector (ports, shippers, railways, roads, logistics, transporters) to review the state of the sector and to work with other countries and private sector for the establishment of regional infrastructure so as to take advantage of economies of scale while making Tanzania a regional hub for the sector.

Reported that while concessioning of Tanzania Railways Corporation (TRC) was in progress the World Bank has extended US\$ 33.0 million credit for maintenance purposes to raise carrying capacity from the present 1.4 million tons of cargo and 750,000 passengers annually.

Recommended that there should be a quick review of privatization strategy of utilities while drawing experiences of other countries such as UK in the case of railways.

6.2. Manufacturing.

Recommended that in order to stimulate the manufacturing sector it is imperative to stimulate local consumption (citing Coca-Cola experience), examine the value chain for promotion of efficiency, provide incentives to the manufacturing sector to stimulate growth and not protect inefficient operations and to address the alarming problem of counterfeit products and their packaging.

6.3. Technology and Human Capital Development.

Reported that during the World Development Forum in Davos Switzerland early this year, Microsoft Corporation pledged to include Tanzania in their Global Strategy for engaging with emerging markets, the idea being to enable Governments of developing countries understand challenges and limitations they were facing and ICT could mitigate them. To that effect, a memorandum of understanding with the Ministry of Communication and Transport would be signed to promote e-Government, e-Education (under NEPAD e-School project) and e-Tourism..

Reported further that the Government is implementing e- Government measures co- ordinated by the President's Office Public Service Management, whereby the

first stage will be connecting all Ministries and Agencies in Dar es Salaam by building fibre optic network around the city focusing on:

- Information System Management.
- Human Resource Management and Payroll.
- Tanzania Revenue Authority Monitoring management.

that the second stage will involve connecting Dar es Salaam with regions and districts via ITN system operated by the Ministry of Defence which has surplus capacity that can be used by the public and private sector.

that training of public servants through Global Learning Centre is proving successful as it exposes public servants to international systems of managing Governments.

Noted that the Government has allocated Tsh 200.0 million towards the CEO Scholarship fund and challenged the private sector to follow suit. In order to provide quality education and more enrollments the Government has established the Tanzania Education Authority, Students Loan Board and Higher Education Act.

6.4. **Business Environment.**

Mining.

Observed that success of mining sector was attributable to the favorable Mining Act 1998 and Development Agreements between the Government and the Mining Companies. However, the future of the sector was threatened by the imposition of Stamp Duty on transactions carried outside the country and the excess assessment of Fuel Duty by the Tanzania Revenue Authority.

6.5 **Investment Climate.**

Observed that although the Government in collaboration with the private sector and four development partners (DFID, SIDA, DENMARK, NETHERLANDS) have launched the Business Environment Strengthening for Tanzania (BEST) Programme, investors were like birds and will settle and build nests where trees are friendly, calling for drastic measures to ensure following key elements:

- predictable tax regime,
- competitive electricity tariff rates and reliable power supply,
- competitive international calls charges,
- speedy processing of work permits , and
- predictable land ownership for commercial farming

Referred to the case of Mlimani City Project which was supposed to start in August 2004 and be completed in 2 years but site operations were suspended in November 2004, after spending US \$ 6.0 million, because of failure to resolve:-

- provision of power to site,
- up grading of roads.

Emphasized need to expedite judicial reforms particularly strengthening the operations of primary courts which serve the bulk rural communities and the majority of Tanzanians

Observed that trademark protection in Tanzania was weak and that a company can produce brands without permission from owners thus promoting the production of counterfeit products. Owing to the slow judicial system, it can take 2 to 5 years to stop the company from producing counterfeits, an aspect deterring investors from locating in Tanzania.

6.6. **Agriculture.**

Reported that to mitigate the overburdening of consumers with imposed expenses by regulatory bodies particularly Crop Bodies burden to farmers, the Government will begin to finance the operations of Crop Boards commencing from 2005/06 budget.

6.7. **Tourism.**

Reported that in the bid to promote “Low Volume High Yield” tourism product that takes care of the environment while raising money to support local communities around national parks, the Board of Trustee of Tanzania National Parks (TANAPA) intends to raise park fees starting with Serengeti and Mount Kilimanjaro National Parks from US\$ 35 to US\$ 75 per person commencing from January 2006.

Requested that VAT exemptions on aviation fuel enjoyed by some tour operators was distorting the market and hence should be abolished or applied across board for all operators in order to ensure level play field.

Agreed that a stakeholders meeting should be convened by the Ministry of Natural Resources and Tourism involving TANAPA, TRA, tourism associations and operators to resolve the matter.

6.8. **Finance:**

Reported that in 2004, total bank deposits stood at US\$2.5 billion against lending of US\$ 1.0 billion, a lending to deposit ratio of 40% indicating that banks have been investing in Government securities than in productive sectors.

Proposed that drastic measures for pro-growth lending should implemented and these should include housing, agriculture, microfinance and SMEs which have been crowded out of bank lending. Specific interventions were proposed as follows:

Agriculture sector.

- Promote commercial agriculture supported by specialized long term lending institutions
- Encourage growth of credible middle class as intermediate to link between the banks and the borrowers.

SMEs.

- Operationalize the SME Credit Guarantee Scheme.

Microfinance.

- Encourage creation of credible intermediaries to link sources of credit with borrowers emulating operations of NGOs such PRIDE Tanzania, FINCA and others in the provision of microfinance.

Housing and Development Finance.

- Commercial banks that have already shown interest to provide housing finance to be encouraged.
- To work out a plan of channeling long term savings from pension funds, insurance industry to long term financing.

7.0. REPORT ON ZANZIBAR

Reported that the Government was committed to promote a vibrant private sector in Zanzibar and in this spirit, the Investment Policy framework adopted in 2003 has enabled the enactment of a new Investment code paving way to the following major landmarks:

- establishment of Zanzibar Investment Promotion Authority as a one stop centre.
- Implementation of Tourism Master Plan
- Setting Statistical data base and Tourism Satellite Accounts.
- Training of 150 tour guides
- Up grading Zanzibar Airport and roads leading to tourist resorts.
- Carried out capital flows survey jointly by the Bank of Tanzania, Government Chief Statistician and development partners and the report would be published soon.
- Zanzibar Business Council, a forum for dialogue between the public and private sector is in the process of being established.
- Business Environment Strengthening for Tanzania (BEST) Programme aiming at improving the legal and regulatory framework is to be rolled over to Zanzibar in due course.
- SME Policy is at Cabinet level for approval.
- Labour law reforms are being carried out to promote efficient labour markets. The House of Representatives has passed five bills namely Employment Occupational Safety, Labour Relations, Workman's Compensation and Social Security. The bills are awaiting Presidential Assent.

8.0. REMARKS BY HON. JAKAYA MRISHO KIKWETE

Acknowledged that the IRT process was a good learning ground for public private sector consultations given its openness and seriousness.

Remarked that all Governments need the private sector as a strong partner in development process hence the value of a dialogue mechanism

Concluded that the Investor's Round Table process under TNBC in Tanzania will continue and once elected to President, will endeavor to make TNBC a more formal institution as it has a crucial role to play in the development of the Tanzanian economy.

9.0. SUMMARY OF PROCEEDING.

9.1 Secretariat's Report

Presented summary of proceedings emphasizing also challenges ahead as follows:

Modernization of the agricultural sector for more production and agro processing for value addition. Agriculture and Agri-Business working groups to come-up with

practical proposals and action plans for modernization of the sector.

Priority be given to Manufacturing sector which not only creates wealth and jobs but also contributes 60% to 70% of world trade particularly when we are emphasizing exports for growth.

Drastic measures for Export Promotion for foreign exchange earnings and economic growth.

Working group on Technology and Human Capital Development to continue with practical proposals for creation of a learned economy and market oriented human capital base for wealth creation

More effort and vigor needed for completion of reforms, regulatory framework, private sector development and remaining investment impediments. Strengthen the TNBC consultative mechanism particularly the working committees and working groups urging members to participate freely in the working groups

Special drive to infrastructure as a catalyst to economic development.

Proposed as way forward that:

Next phase Government should also concentrate not only on poverty alleviation but also wealth creation.

Employment creation should override all investment promotion initiatives.

ICT development as recommended by the IRT should be given priority and implementation of the carrier's carrier back-borne infrastructure to promote high speed connectivity leading to opening of technology parks, e-government, e-education and e-tourism should be implemented immediately. Kiswahili Version of Microsoft Window operating system to be launched in September 2005 in Tanzania will provide a valuable window for expanding ICT and computer literacy.

In order to finalize the ongoing reform process, there should be clear and strict tasking of responsibilities, timelines and accountability.

9.2 Open Discussion on Summary and Way Forward:

Approved the summary and recommendations and contributed the following key suggestions:

Concentrate effort in resolving all remaining investment impediments.

Expedite decision making in the Government machinery for private sector development.

Expedite judicial reforms particularly commercial justice system.

Operationalize SME Policy supported by drastic measures to improve access to credit and financial services

Empowerment of Tanzanians for creation of a key middle class essential for wealth creation and poverty reduction.

Drastic measures towards image building locally and internationally.

10.0 CLOSING:

10.1 Summary of Chairman's Closing Remarks.

Remarkd that satisfied with the level of economic reforms, which has translated to better investment climate for private sector growth, the challenge ahead:

together to speed up the rate of economic growth for wealth and job creation and poverty reduction;

together to undertake major investments in utilities for improved availability, affordability and quality;

for a poor country like Tanzania, it was necessary for the Government to take a leading role in investing in infrastructure but also allowing private sector participation.

the relevant Ministries and Departments responsible for housing finance and SMEs to report on what has been done and what is to be done to realize housing finance and a healthy SME sub sector

the private sector should provide concrete proposals on how best to tap the huge resources from the pension funds and insurance industry for development finance.

to work together to inform the public on the benefits derived from the reform process and to provide a balanced image of economic reforms for political sustainability.

tax regime favoring ICT including removal of taxes on newsprint should feature highly when reviewing future tax reforms and the tax regime under the East African Customs Union.

Concluded with the remark that the statement by CCM Presidential Candidate-Hon Jakaya Kikwete MP that the next phase Government under CCM will continue with the IRT process and formalize it in the Government system was comforting and was an assurance that the process will continue.

10.2 **Vote of Thanks**

Moving a Vote of Thanks on behalf of other IRT members, Mr Andy Chande congratulated President Mkapa for establishing Tanzania National Business Council (TNBC) and the Investors Round Table process and accepting to chair their meetings. Mr Chande welcomed remarks by the CCM Presidential Candidate, Hon Jakaya Kikwete (MP), that the remarks were key in promoting continuity and winning investors' confidence.

Concluded that the consultative mechanism between the public and private sector has contributed to the reform process and promoted better investment climate in Tanzania and on behalf of IRT members wished the President a "Happy Retirement".

The meeting was closed at 17:00 Hrs

Chairman

**H.E. President Benjamin William Mkapa
President of the United Republic of Tanzania**

Secretary

**Dunstan Gideon Mrutu
Executive Secretary
Tanzania National Business Council**