

**THE ROLE OF INVESTMENT IN ECONOMIC DEVELOPMENT AND GROWTH
STRATEGY OF TANZANIA: THE CASE OF THE LAKE TANGANYIKA ZONE**

by:

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THE LAKE TANGANYIKA INVESTMENT FORUM

September 9, 2015

1. INTRODUCTION:

I am really humbled by the organizers' kind invitation to address this august forum on the theme of "Linking Investment Opportunities and International Markets". Let me confess at the outset that I gladly accepted the invitation to present a paper on the topic "The Role of Investments in Economic Development and Growth Strategy of Tanzania: The Case of the Lake Tanganyika Zone". My acceptance was driven by three motivations. First, the mandate of the Planning Commission, which I am privileged to be leading for five years now, is all about growing the economy in order to reach the goals of the Tanzania Development Vision 2025. My hunch is that the organisers decided to invite me to this forum for this reason. Secondly, this topic is very close to my heart professionally. When I was initiated into the economics discipline, I learnt in the very first lecture that, an increase in a country's wealth over time (economic growth) critically depends on three key factors, namely *investment*, *technology*, and the *quality of entrepreneurship*. I therefore consider this opportunity to reflect on the role of investment in bringing about economic development in the Lake Tanganyika Zone as a refresher course. Besides, during my days as a lecturer at the Department of Economics University of Dar es Salaam, development economics and models was one of my dear subjects. Thirdly, the Lake Tanganyika Zone is, to say the least, my soul in the sense that I am a bona fide son of the Lake Tanganyika Zone. I was born in this region (Buhigwe district – the land of joy- to be specific) and spent my early formative years in Kigoma-Ujiji Municipality. As such, I am very passionate about the development of the virgin Lake Tanganyika zone and constantly haunted by the dream to see a prosperous Kigoma, Katavi and Rukwa during my lifetime. On account of all three reasons, you will agree with me why it was difficult for me to resist the temptation of accepting this noble request to share with you my thoughts on this critical subject.

Let me also join those who spoke before me to thank most sincerely H.E. Dr. Mohamed Gharib Bilal, Vice President of the United Republic of Tanzania, for honouring this forum with his presence. For me personally, it is a great privilege to be presenting a paper in front of a very humble statesman who is also a well accomplished scientist – a *nuclear physicist* to be specific. Very few people have such a combination of stature and traits. Excellency Vice President, I have great respect and admiration for you. As a person who has had the privilege of working in the corridors of power, I wish to confide that we have in the person of President Kikwete and his

Vice President, the greatest champions of the opening-up the Lake Tanganyika zone in the history of our country. You will all remember President Kikwete's inaugural address to Parliament in 2005 in which he stressed *the importance of linking the different parts of the country with reliable infrastructure and opening up new areas of economic activity*. His administration has lived up to that promise to the very end. I can testify that on Monday I drove from Dar es Salaam via the imposing Jakaya Kikwete bridge over the Malagarasi river and arrived here in the evening to enjoy the delicious fish 'mgebuka'! Mind you this is a journey that would have taken a minimum of two to three days in 2005. The same can be said of Tunduma - Sumbawanga road as well as Mpanda and Kigoma airports. Thank you Mr. Vice President for a job well done. The fourth-phase Government has definitely left a permanent mark and indeed a firm basis for investment and rapid development of this zone. We, the sons and daughters of this zone, will forever be grateful. We wish His Excellency President Kikwete and your Excellency Vice President, a happy and long life in retirement.

1.3 Investment, Growth and Transformation

Perhaps, I need to begin the gist of my address with the simple question: *What is investment?* I will not attempt here to deep-dive into the theory of investment. I hope it will suffice for the purposes of this forum only to note that investment connotes the production of goods that will be used to produce other goods. Furthermore, investment is a result of saving (foregone consumption) by individuals, private firms and governments. It includes real investment such as new plant and equipment, public utilities including schools, roads, railways, ports and pipelines as well as financial investment which entails buying financial instruments – shares, bonds and securities.

Let me share with you three stylized facts from the development literature:

- (a) Investment is one of the most important determinants of economic growth and development. The rule of the thumb is that while sluggish investment tends to undermine growth, robust investment boosts and accelerates growth;
- (b) The composition of investment matters for growth: A number of studies tend to suggest that public and private investments are complementary. In economic jargon, public

investment *crowds-in* private investment and that both types of investment have a significant impact on growth. This serves to underline the strategic role of public investment in the growth process. As a matter of fact, it is practically very difficult to see remarkable economic progress in the absence of adequate and quality infrastructure; and

- (c) External finance (FDI, borrowing, ODA) plays an important role in financing investment, complementing domestic resources. This calls for dedicated efforts to attract FDIs, borrow judiciously from concessional and commercial sources and promote local investments.

1.4 Drivers of Investment

Understanding the key drivers of investment is key to designing appropriate strategies for catalyzing and stimulating investment in a country or region. Specifically, clarity on the determinants of investment permits authorities to design policy interventions to unlock specific constraints to increasing investment as well as harness (control and use the strengths of) the drivers of investment. Economists in the room will remember that the fundamental drivers of investment are output prices, interest rates and taxes insofar as they affect profits. In simpler language the main determinants and constraints to investment in a country like Tanzania are the following:

- (i) Poor infrastructure, which serves to increase the cost of doing business and thereby reducing profits;
- (ii) Lack of access to affordable credit to the private sector for investment and high cost of finance especially the high lending rates charged by financial institutions. Some causal factors include low levels of financial intermediation. This is typically reflected in high interest rate spreads and margins due to factors like high inflation, treasury bill rates, market concentration as well as credit and liquidity risks such as an increase in non-performing loans and high overhead costs in the banking system; and low domestic savings relative to investment needs partly due to low levels of income, under developed financial sector and instruments, a large informal sector as well as weak tax administration. Indeed this seems to render credence to the joke: “*Investors are from Mars, Savers are from Venus. Can they work together?*”

(iii) High risk and uncertainty prompted by, among others, policy reversals and macroeconomic instability, insecurity of property rights, social and political conflicts as well as high volatility of private capital flows and resource in flows; and

(iv) Policy and investment environment – the main issue here is that this factor affects firm competitiveness especially as a result of poor quality of infrastructure and institutions, education and skills as well as predatory regulatory behavior and weak legal framework.

2. GROWTH STRATEGIES AND ROLE OF INVESTMENT IN ECONOMIC DEVELOPMENT OF TANZANIA

2.1 Framework of Tanzania's Growth Strategy

As most of you know, the remarkable record of high and sustained growth of South-east Asian countries (such as South Korea, Taiwan, Hong Kong, Singapore, Indonesia, Thailand, and Malaysia) starting the 1980s was attributable to (i) accumulation of physical and human capital especially through domestic and FDIs as well as investment in people –education and health - to bolster skills and productivity growth, and acquisition and mastery of technology through technological learning; and (ii) Good development policies in form of maintaining stable macroeconomic fundamentals (high growth, low inflation, stable exchange rates, low fiscal deficits etc.) as well as market orientation, and SMART cum systematic interventions by the state, including industrial targeting and export promotion, as well as reliable legal and regulatory framework.

Analogously, Tanzania's growth strategy as articulated in various plans and strategic documents (Mini-Tiger Plan, MKUKUTA, Long-term Perspective Plan, Five Year Development Plan, Annual Development Plans) is built on this realization that countries that directed their resources to carefully chosen growth drivers and put in place enabling policies especially aimed at stimulating private investment response (local and foreign) have achieved higher economic growth and development.

2.2 National Development Vision 2025

The National Development Vision 2025 provides a general direction to Tanzania's strategy for growth and development. The overriding aims of the Vision are to (i) achieve a high quality livelihood for the people of Tanzania, (ii) attain good governance through the rule of law, and (iii) develop a strong and competitive economy. For these targets to be realized, the Vision made clear the need to: unleash the power of the market and the dynamism of the private sector; investment in infrastructure development; as well as facilitating strategic investments and selective industrial support. Furthermore, Vision 2025 articulated the need to invest in human capital and development of science and technology to the extent that education is a strategic change agent that is key for producing the requisite skills needed for efficient operation in all sectors of the economy and buttressing transformation of the economy from a predominantly agricultural one into a strong, competitive semi-industrialised economy.

2.3 Institutional and Policy Framework for Promoting Investment

Tanzania has in place a fairly elaborate policy and institutional framework for promoting investment. There is a national investment promotion policy (1996) and the Tanzania Investment Act (1997) whose implementation is one of the mandates of the Prime Ministers Office and support institutions especially the Tanzania Investment Centre (TIC). The policy specifies the primary roles of the Government to include providing clear policy guidelines, promoting and facilitating local and foreign investment by putting in place a conducive macroeconomic environment, competitive fiscal regime, environmental protection standards and supportive regulatory framework to support private sector investment. In this regard, TIC is the focal point for promotion, facilitation, coordination and monitoring of investment in the country. Other investment support institutions include financial institutions, Ministry of Finance, Tanzania Revenue Authority, BRELA, Ministry of Lands and Development of Human Settlements, other sector ministries, as well as the judicial system.

2.4 MKUKUTA I & MKUKUTA II

Under the MKUKUTA framework, Tanzania's growth strategy and role of investment was particularly predicated on the goals of cluster I, namely: to achieve and sustain broad-based and equitable growth by ensuring sound macroeconomic management; promoting sustainable and

broad-based growth; improving food availability and access at household level; reducing income poverty; and provision of reliable and affordable energy to consumers. As such it was envisaged that investment will be directed toward poverty reducing sectors especially agriculture. However, as it turned out, the most dynamic sectors attracting most investment were mining, communications, construction, the financial sector and services especially tourism.

2.5 Five Year Development Plan 2011/12 – 2015/16

The growth strategy adopted under the Five Year Development Plan 2011/12 – 2015/16 was to execute with force strategic interventions that remove constraints on Tanzania's ability to exploit its growth potentials. The key priorities of the FYDP were to invest in (i) building power and transport infrastructure (roads, bridges, railway, ports and airports); (ii) transformation of agriculture through investment in irrigation, improving agricultural productivity and agro-processing and inviting private sector in the entire agricultural chain from supply of fertilisers and agro-inputs to marketing of produce; (iii) industrial development by giving focus on establishment of SEZs and new industries especially those that utilize locally produced raw materials; (iv) human capital development with particular emphasis on improving access to quality education, promoting science and technical education as well as uplifting the skills profile; and (v) improving financial, trade and tourism services.

2.6 Forthcoming Second Five-Year Development Plan (2016/17 – 2020/21)

The second Five Year Development plan, which is currently under preparation, will have the overriding theme of nurturing an industrial economy. The envisaged growth and industrial development strategy is to focus on harnessing the major opportunities of Tanzania, which include (i) abundant natural resources (arable land, water resources for irrigation, forests, wild animals, minerals of all kinds and recently discovered natural gas); (ii) Tanzania's unique geographical advantage that makes it the natural gateway to the Great Lakes Region; (iii) large and relatively cheap youthful labour; and (iv) national ICT backbone infrastructure which offers Tanzania the opportunity to become a regional hub for ICT related industries and spin-offs in terms of complementary industrial incubators, logistics, businesses and services and anchor of productivity improvement in all sectors; (v) Tanzania's membership in EAC and SADC as a large market opportunity for Tanzanian manufactures; and (vi) growing consumer market

resulting from the rapid expansion of towns and cities. Obviously, having sound policy, efficient regulatory regime and enabling environment will be critical in all these.

In addition, it is envisaged that in view of resource constraints, the second Five Year Development Plan will single out and fast track a few mega flagship projects deemed most potent to propel Tanzania to the next level. These may include development of core industries like LNG plant and petrochemical industry utilizing natural gas; development of iron and steel industry to harness the iron ore and coal reserves at Liganga and Mchuchuma; clustering of investments in specific geographical areas especially around comprehensive SEZs and modern ports at Bagamoyo, Mtwara and Kigoma to tap economies of agglomeration and attract sun-set industries from Asia; Development of the Kurasini trade and logistics hub; Investment in the construction of a new central railway line of standard gauge; and Establishment of a glass plant to utilize the massive soda ash deposits of Lake Natron and the Engaruka basin.

3. CATALYSING INVESTMENT FOR TRANSFORMATIVE GROWTH OF THE LTZ

3.1 Virginity of the Lake Tanganyika Zone (LTZ)

As you may know, the LTZ which consists of Kigoma, Katavi and Rukwa regions has a large and youthful population estimated to be about 3.6 million people. The zone offers a natural trading gateway for the eastern part of DRC, as well as land locked Burundi, and Zambia. This zone is also blessed with vast amounts of natural resources, including arable land, good weather and rainfall, pristine tropical forests, minerals such as gold, salt, copper, coal and hydrocarbons and tourist attractions as well as large water bodies (Lake Tanganyika, Lake Rukwa, rivers and wetlands). In spite of this gigantic potential and investment opportunities, this zone remains as one of the least developed zones of Tanzania Mainland mostly on account of historical factors (colonial labour reserve, limited access to education, absence of transport and power infrastructure and other impediments like tse-tse flies and some cultural practices such as witchcraft. Therefore, the prime importance of this forum that aims at catalysing investment for leap frogging and economic transformation of the Lake Tanganyika Zone cannot be over emphasized.

3.2 Public Investments to Crowd-in Private Investment

At the beginning of my address, I shared with you my dream and desire to see a prosperous Lake Tanganyika Zone in my lifetime. I hope current and prospective investors invited to this forum will not see me with the eyes of *the wife of a certain prominent economist, who expressed willingness to leave her husband on account that all he ever does is to stand at the end of the bed and tells her how good things are going to be!!* Let me therefore layout more concretely key interventions, already made and forthcoming, especially in the area of public investment aimed at crowding-in private investment, to back-up my optimism and urge the friends of the Lake Tanganyika Zone to come, stay and invest.

Public Investments in the Lake Tanganyika Zone to Crowd-in Private Investment

No.	Project name	Project description	Status
1	Road construction: Tunduma-Sumbawanga Road (223km)	The road connects Rukwa regions with the rest of the regions in Tanzania and the port of Dar es salaam. It is an essential road to influence economic growth to lake Tanganyika regions.	Completed to bitumen standard in 2014/15
2	Road construction: Sumbawanga–Mpanda-Nyakanazi (770.9 km)	The road is being constructed to bitumen standard. It connects the three regions of the Lake Tanganyika Zone that has great economic potential in agriculture, forestry, mining and fishing. The road is also connecting the regions of lake victoria via Ushiroambo.	Construction of these roads started in the financial year of 2014/2015 and work is ongoing. AfDB funding for this road has in principle been sealed
3	Road construction: Sumbawanga-Matai–Kasanga Port (112 km)	The road is being constructed to bitumen standard. It connects the three regions to the lake port of Kasanga in lake Tanganyika. The port is saving cargo between Tanzania and DRC.	Construction work is going on and has reached 47% as of June, 2015.
4	Road construction: Kigoma-Kidahwe-Uvinza-Tabora (505km)	The road is being constructed to bitumen standard. It connects the three regions of lake Tanganyika zone and the central regions of Tanzania via Tabora.	Some parts are completed such as Kigoma-Uvinza (100 km) and Ndono–Tabora (42km). Construction work is going on to other parts of the road.
5	Port development: Kigoma port	The project involves development of Kigoma port (which include the smaller ports of Karema, Lagosa, Sibwesa, and Kagunga). These ports will influence trade improvement in the lake zone as well as	Government is sourcing a consultant to undertake thoroughly investigation for developing the ports.

No.	Project name	Project description	Status
		neighboring countries of DRC, Rwanda and Burundi.	
6	Port development: Kasanga port	The project involves the development of the port by constructing new berths to increase cargo handling. The port is in a strategic geographic location to handle general and mineral cargo from DRC.	The Government is looking for a PPP stakeholder. Up to now there is no financing arrangement.
7	Construction of new railway line: Mpanda–Karema	The project involves construction of new railway line from Mpanda–Karema port. The railway is strategically important to the lake in order to facilitate easy movement of cargo between Tanzania’s side and DRC where there is huge potential of minerals.	Project has not yet started. Detail design and compensation of project areas will be completed in this financial year 2015/16.
8	Construction of new railway line: Dar-Isaka–Kigali/ Msongati	The project involves construction of new railway line to standard gauge in order to allow the trains to move faster to a speed of about 120km/hr and carrying more cargo. The railway line will be saving cargo for the East Africa Region.	Transaction Advisor has been procured and is preparing tender documents for PPP engagement.
9	Rehabilitation of Railway line: Tabora–Kigoma	The project involves rehabilitation of railways of Tabora–Kigoma and its branch from Kaliua–Mpanda to improve reliability and safety of the railway lines. The railway connects the three regions with the rest of Tanzania via intermodal network.	Redesigning work of the railways is on going for the segment of Tabora–Kigoma. For the case of Kaliua–Mpanda, the consultant has started the feasibility study.
10	Water projects	Project involves what is called <i>the ten villages water project in each ward</i> . These projects are financed by the Government of Tanzania and the World Bank and are implemented throughout the country including the three regions of Rukwa, Katavi and Kigoma.	The projects are successful and have gained popularity throughout the country. Implementation of the projects is on-going. The Ministry of Water in collaboration to the Rukwa Water Basin Authority are advised to update the Water System Master Plan and determine availability of industrial water in these regions. Industrial water availability is one of the key factors to investors.
11	Electrical Power: 45MW Malagarasi Hydro-power project, a substation plus a transmission line.	The project site is some 27 km south of the main Uvinza-Kigoma road and railway, is reached by a rough road. A hydro power plant will be constructed and a transmission line will be needed to connect the North-	The Government is looking for PPP stakeholders. Up to now there is no financing arrangement.

No.	Project name	Project description	Status
		<p>West grid network.</p> <p>The project will be financed under PPP arrangements and cost is estimated to USD150.2 million for generation and USD32.5 million for transmission line.</p> <p>The project will increase the availability of electricity in the regions, supports several economic and social development such as employment and will replace the thermal plants in the regions.</p>	
12	<p>Electrical Power:</p> <p>400kV North-West grid transmission line</p>	<p>The project involves construction of transmission line of 1,148km in three phases from Mbeya through Sumbawanga–Mpanda–Kigoma–Nyakanazi. Project will start with phase one (Mbeya–Sumbawanga about 340km) and construction of two sub-stations in Mbeya and Sumbawanga.</p> <p>This project will be implemented by the Government and it's cost is estimated at USD664 million for phase one.</p> <p>The project will connect the three regions to the national grid and hence will ensure adequate and reliable electricity supply.</p>	<p>Consultant is doing the detailed design of phase one of the project. The project has been scheduled to commence in this financial year 2015/16</p>
13	<p>Electrical Power:</p> <p>Rural electrification projects</p>	<p>Phase II of the project involves electrification of rural areas in various regions including those making the lake Tanganyika zone.</p> <p>Project is to be undertaken by the Government and cost is estimated to USD 107 million for the year 2015/16.</p> <p>The ongoing project will bring employment opportunities and improve standard of living of the rural population in Tanzania.</p>	<p>Project is ongoing and has raised household electricity connection rate to 24% in 2014 from 10% in 2005. Project implementation is ongoing.</p>

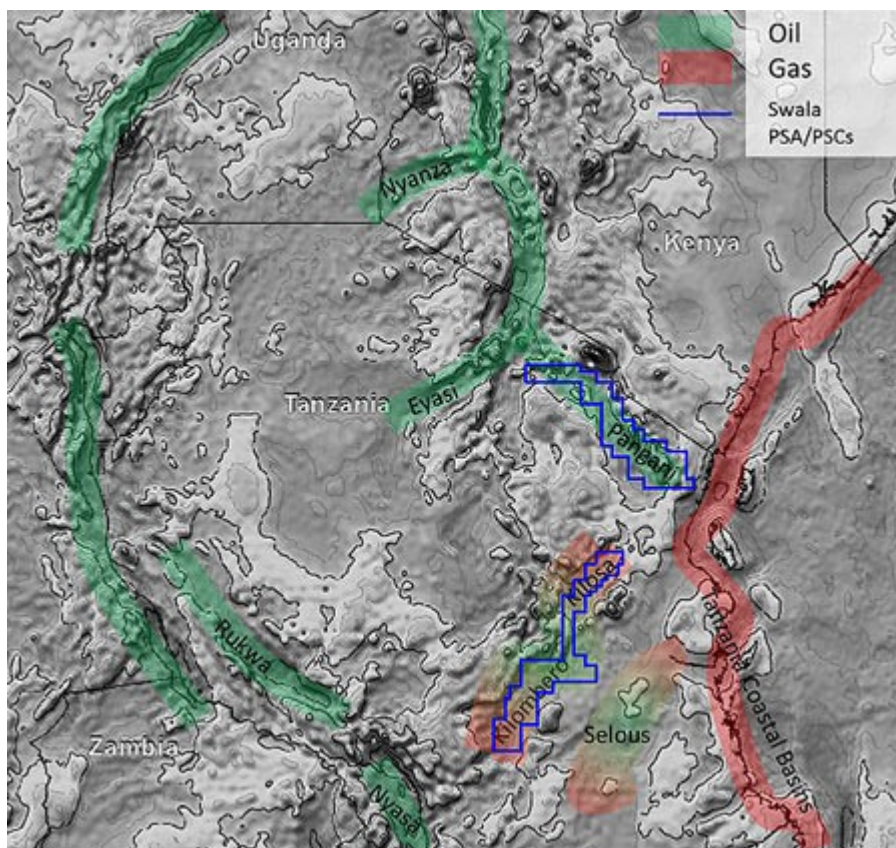
3.3 Some Hotspots for Private Investment and PPP in the Lake Tanganyika Zone

As already indicated, the LTZ offers a lot of investment potentials. Let me attempt to suggest a few sexy areas for private investment and PPP. *By the way, the LTZ is akin to a beautiful girl (handsome boy) in traditional attire. I encourage all potential investors present here today to act*

now before other fast movers approach, date and eventually transform her (him) into modernity. I am afraid the advantage of late-comers will be very limited in future!

Tourism: The LTZ has the potential for a flourishing tourism sector given its scenic beauty and biodiversity, large and highly diverse heritage of flora and fauna, large fresh water resources, making sure to invest in tourism infrastructure especially hotels, outdoor sports, camping, lodges, guesthouses of international standards, air charters and training of tour guides, diversifying the current wildlife based tourism (Gombe, Mahale and Katavi National Parks as well as Kalambo falls) to touring historical sites, game ranching, cultural heritage and community-based tourism as well as lake ferries for boating expeditions and cruising-tourism in the lakes.

Mining, Oil and Gas Exploration: Opportunities are also abound for mining and processing of mineral resources (salt, gold, copper, coal, etc) existing in the LTZ. Furthermore, the LTZ falls in the western arm of the rift valley, which is oil prone (shown in green colour in the map below) compared to the coastal basins which are more gas prone (in red colour). This hydrocarbon potential in both the Lake Tanganyika and Rukwa basins is surely an area for oil exploration and investment.



Finance and Trade: The Lake Tanganyika Zone has also a great potential to become the trade hub for Great Lakes Region. Evidence shows that during the 19 century, Ujiji was considered as the trading hub in Eastern and central Africa. The revival of such a hub will require, in addition to improving infrastructures, creating the environment for trade and investment through interventions to create vibrant financial and trade sectors. Other activities for investment include export of popular ornamental fish for aquariums and the like.

Agriculture and Agro-processing Industry: There is great potential to invest in the agriculture sector particularly in fruit and vegetable processing; sugarcane and rice production in Sumbawanga, Mpanda, Mlele, Kasulu and Kumsenga – Kibondo. It will entail developing or rehabilitation of existing irrigation schemes and construction of warehouses, while integrating outgrowers around the larger farms. The LTZ and especially Kigoma is reknowned for palm tree cultivation. The potential for the establishment of cooking oil processing plants and allied by-products remains wanting. Fishing is another potential for investment in the LTZ given its unique fresh water fishery resources of Lake Tanganyika and Lake Rukwa as well as for aquaculture. This could entail establishing a ship-landing site designated for fish as well as a fish finger lings production centre as well as fishery-related equipment and storage infrastructure. These types of investments can be made through PPP. Other potential activities for investment range from wood processing, honey & bee wax to agri-business.

Flagship Projects: One such project is the proposed Kigoma Special Economic Zone. The Government of Tanzania established Special Economic Zones (SEZs) in 2006 as strategy to achieve the Mini-Tiger Plan 2020, the objective being to promote quick and significant progress in economic growth, export earnings and employment creation as well as attracting private investment in the form of both Foreign Direct Investments (FDIs) and Domestic Investment in all sectors of the economy. It is envisaged that this ultramodern KiSEZ will include; tourist parks, warehouses, hotels, banks, schools, agro-processing industries, shopping malls, dry port and power generating projects and hospitals. Analogously, respective regional authorities in the LTZ have set aside land for development of similar SEZs, including 235 ha for Rukwa.

Other investment potentials: include, real estate development, building grain storage capacity, Transportation, logistics and trucking business as well as investment in transport and energy infrastructure (renewable energy – biogas, wind, solar).

4. CONCLUDING MESSAGES FOR CATALYSING INVESTMENT IN THE LTZ

Let me end my remarks by once again commending the authorities in the LTZ for forging synergies to jointly take the initiative to market and showcase the investment opportunities available. This is a very good example for other regions to emulate and for the LTZ to sustain. The Government is aware of key challenges that impede hastened transformation of the LTZ especially, transport and power infrastructure, need to uplift the skills profile, as well as lack of access to finance and has deliberately taken steps to tackle them. Going forward, while the central government continues to address the major impediments to growth and development of the LTZ, the Authorities in this zone will need on their part to:

- (i) Befriend, facilitate and support investors that are already here. They are your best ambassadors or promoters of investment in the LTZ;
- (ii) Do not attempt to attract investors everywhere or on everything. Instead, target as much as possible strategic activities and priority sectors within the zone;
- (iii) Demarcate, survey and allocate land for investment early enough;
- (iv) Foster the development of zonal community banks and other rural finance institutions to cater for access to finance for investment;
- (v) Reward exemplary public servants dedicated to and with proven record of being less bureaucratic in handling investors and facilitating them;
- (vi) Encourage & support local firms in the zone to forge linkages among themselves and with foreign enterprises to help in technology transfer and learning;

(vii) Begin focusing on the development and nurturing of ICT-related industries and allied services to harness the national ICT backbone infrastructure and thereby anchor productivity improvement;

(viii) Keep an eye on rehabilitation and maintenance of rural infrastructure that falls within the domain of local government authorities in the LTZ;

(ix) Reach out to potential investors via regional collaboration and partnerships with sister zones and municipalities in countries like China, Vietnam, Korea etc; and

(x) Maintain peace and security in this Zone

Once again, let me reiterate that the Lake Tanganyika Zone is virgin! I urge all potential investors to come now and reap high returns of the pioneers! The time to join the transformation of the Zone is now! You will not be disappointed. For the investors who are already here, my message to you is use your entrepreneurial acumen to expand your business and seek partners from other regions within and outside Tanzania.

Thank you for your kind attention.