

Infrastructure, the key to growth

INTERVIEW WITH PROF BENNO J NDULU

GOVERNOR OF THE BANK OF TANZANIA



BENNO J NDULU took over as Governor of the Bank of Tanzania in January 2008. Prior to that he had been the bank's First Deputy Governor, a post he assumed in July 2007. An internationally recognized expert on African Economics and finance, he founded the African Economic Research Consortium, becoming its Executive Director. He then worked for the World Bank between 1993 and 2007, as its Africa region's Lead Economist—acting as Tanzania Country Manager between 2002 and 2003—and was also Vice President of the Manager Partnership Group Africa Region.

From the perspective of the central bank, what is your assessment of Tanzania's macroeconomic situation?

In recent years, Tanzania has sustained annual growth rates of more than 6 per cent. The country has come a long way. Barely a decade ago, inflation was above 30 per cent, but for more than five years now we have been able to keep it in single figures. Even with the recent global pressures on oil and food prices, we have managed to hold inflation down to around 7 per cent.

At the same time, we have significantly lowered interest rates, notably the base rate on treasury bills, which at one time had risen to a weighted average of about 18 per cent, but which are now at about 7.5 per cent. Even inter-bank borrowing rates have dropped sharply, from about 26 per cent to less than 5 per cent at present.

By borrowing less and repaying its debts, the government has been freeing up money for the private sector to use. We have also sent a clear signal to the foreign exchange markets that we do not want a low shilling. We have stemmed the depreciation of the national currency, and it has begun rising. This means that people are feeling more confident about holding local currency.

We are creating a good cost base for borrowers and for the banks, which are now competing for deposits from Tanzanians, thus raising their deposit rates.

The banking sector reflects broader changes in Tanzania, and has been growing very rapidly. Many banks are now expanding from purely corporate banking into the retail sector. The confidence of players like Barclays in the system can be seen by the expansion of their branch network. Private sector credit is growing at an average of 40 per cent a year.

Looking ahead, what would you say are the main areas that need to be addressed to boost economic growth in the coming years?

There are two important areas that we need to address if we are to attract more foreign investment and create a sound domestic market.

Infrastructure is the major constraint on growth. But this is not an issue that Tanzania can tackle alone. The regional economy is being held back by poor infrastructure. Tanzania's potential to further service its landlocked neighbours like Rwanda, Burundi, and the

Democratic Republic of Congo is huge. As result, the Government has particularly focused on this regional context of infrastructure investment.

At the same time, we need to work on the legal system. Adjudication of commercial disputes needs to be speeded up: we have made some progress in this area through the introduction of commercial and land courts, but we need to work more on this.

We need to make better use of our natural resources. We are only earning a fraction of what we could if we added value to what we produce. This applies to mining, and certainly to agriculture.

Infrastructure offers tremendous opportunities for investment. We have to create a regional transport hub, linking up railways and ports with our neighbours. With the appropriate investment and right regulatory environment, the growth potential of a privatised port of Dar es Salaam is enormous.

I also believe that Tanzania must diversify into manufacturing and related activities. Asian companies that are facing costs bottlenecks at home should look at Africa. This is the last frontier for low-cost manufacturing. But we need investment in property to take advantage of those opportunities.

Which areas can the Bank of Tanzania help with?

I see two areas where the bank must play a role. The first is transparency. The key stakeholders must know what is going on at all times. Transparency is the best way to minimise opportunities for corruption.

Secondly, the Bank of Tanzania needs to refocus on the core functions it was set up to deal with.

What opportunities are there here for the Tanzanian diaspora?

I believe that many Tanzanians want to make a positive contribution to the country, which is a powerful incentive for either returning, or doing something from abroad.

Tanzania has really changed, and the quality of life, particularly in Dar es Salaam, has improved enormously. But just as importantly, there are so many opportunities now, particularly for those with high-tech skills, and who are able to network with other key players globally.

Anybody thinking of coming back should also remember that investment returns here are significantly

higher than in many other markets. I see no reason why a Tanzanian with a good network and local knowledge shouldn't be able to make money here.

And related to my first point, Tanzanians who have left still care about their extended families that remained in the country, and most will have been sending money back here over the years. If they knew that by investing here they were able to help their family, I believe we would see an increase in investment by overseas Tanzanians.

What opportunities await the foreign investor in Tanzania?

There are several areas that offer a good deal. We are only earning a fraction of what we could from the natural resource base of this country. We need to exploit mining and agricultural processing and that line of activities more. I think that Tanzania needs to move up the value chain and add value to its goods. It used to be that natural resources were a curse, but these days, one can see that even Nigeria is taking a more prudent position in terms of the exploitation of resources, using income from it more wisely.

Secondly, on the services side, and particularly infrastructure services, there are good opportunities to exploit the regional aspect. If it is done properly then the port, railways, and highways could offer a lot of business in terms of creating connectivity, and then exploiting flows. This is an important opportunity for Tanzania, and with the appropriate investment and regulatory environment, it should be possible to exploit trade flows through the sale of the port of Dar es Salaam.

The third aspect is to simply diversify more into manufacturing and related activities, and not just through export processing zones. I believe that the African set of costs can be the last frontier for the Asian economies looking west. They face a cost bottleneck at home, and maybe with property investment here we can take advantage of that opportunity and become a low-cost manufacturing centre.

What is your opinion of China's role in Africa?

There are different aspects to this, some more positive than others. China's strong growth and demand for commodities have boosted trade and sent prices up, which has been good for the region.

Then there is the question of access to finance. The West has not always kept its promises of development aid to Africa. There is a huge demand here for investment, and as this demand has not been met, we have looked elsewhere: to the countries with the largest national reserves, which are in big emerging economies like China. So China has taken advantage of the opportunities here in Africa.

At the same time, the question we have to ask ourselves is the cost of China's involvement here. I would ask whether we are negotiating from a position of strength. Are the terms right for us? There are environmental issues as well. We have to think about the future. Are these projects environmentally sustainable? In the past, Africa has been desperate for investment, and we have not negotiated properly. But we have things that the world wants, and we should be aware of our position.

How can the problem of corruption in Tanzania best be tackled?

This is an issue that affects all countries. Therefore, the real test is how a government deals with corruption. We have had problems here regarding corruption recently, and I think that the government dealt with them decisively. This reflected the importance of good governance on its agenda and a recognition that it is accountable to the electorate, to the tax-payer, who ultimately has to pay for corruption. This is the best way of guaranteeing investors that their money is being well spent.

Bearing in mind the unrest in the region, what differentiates Tanzania from its neighbours, notably Kenya?

One of the key factors here is that our leadership has never had to buy allegiances based on tribal interests, or give in to the needs of a special group. Tanzanian voters have always been able to hold the leadership to account, and this has produced enlightened governments that have shown their dedication to the democratic process by spelling out their agenda and then sticking to it. This is something that requires a strong and committed president.

The turnover of politicians here is much higher than in other African countries. A lot of MPs don't even survive one term in Parliament. Voters will kick them out if they don't think that they are doing their job.

What do you think will be the impact of the global downturn on Tanzania?

In the longer term, Tanzania cannot totally isolate itself from the global credit crunch. That said, there are mitigating factors. We have not been directly involved with the financial entities that started the crisis. Then there is the question of demand for our commodities. This is not driven by the developed economies, but by China and India largely.

If the developed world goes into recession, the price of commodities like gold and other minerals will continue to rise: these are the best alternative to a range of assets that have not been performing well lately. E

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