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## **Building on Success: Achieving Tanzania's Goal of Middle-Income Status**

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### **Introduction**

Thank you, Governor, for your kind introduction. I would also like to offer my appreciation to the Bank of Tanzania for hosting this event. This conference center has played an important role in Africa's relations with the IMF: the first event held here, in 2009, was a joint Tanzania-IMF conference. An event that marked an important positive turning point in our work with this region.

This is my first visit to your country in my current capacity, and I have been deeply impressed by all that I have seen and by all the people I have had the pleasure to meet. I greatly appreciate the opportunity to learn about Tanzania's achievements—and your determination to tackle the challenges ahead.

As many of you know, Tanzania is one of the countries in sub-Saharan Africa that has sustained high levels of growth despite the sharp economic slowdown that has affected so much of the region. Your growth has been about 7 percent in recent years. This continues two decades of impressive growth that have led to a six-fold increase in per capita GDP in US\$ over that period. There have also been significant improvements in social indicators,

like a 60 percent reduction in infant mortality and a 36 percentage points increase in primary education enrollment.

This performance is the result of hard work and sound economic policies that have encouraged growth and built defenses against the problems affecting other countries. And you have become an attractive destination for foreign investment.

This is an impressive achievement. I congratulate you on all you have achieved over the past 20 years. Tanzania also has great potential to achieve continued success—including *Development Vision 2025* goal of achieving middle-income status.

So, the question is how you get to the next level.

There are many things working to your advantage, such as your membership in the rapidly integrating East African Community, the natural resources that could come on line in the coming years, and your large and increasingly well-educated labor force.

But what is crucial is to continue the sound economic management that has brought your country so far—and a commitment to economic reforms that can unlock Tanzania's potential. Other countries have made this leap, and I am confident that you can, too.

In the time I have today, I would like to explore three areas that can make a big difference in the next stage of development:

- First, it is essential to increase investment in an effective way to address key bottlenecks in the economy and create more jobs;
- Second, take concrete steps to strengthen the role of the private sector in the economy to help drive future growth; and

- Third, ensure that all Tanzanians can share in the benefits of development through better access to education, health care and access to finance. This means creating inclusive growth that lifts all living standards.

### **Global and Regional Outlook**

Before exploring these topics, allow me to offer an overview of the global and regional economic setting that has such an important influence on Tanzania's prospects. The outlook for the world economy is better than we have seen for a while. Global growth is gaining momentum because of a broad-based recovery in which trade, manufacturing and investment all are rebounding.

The IMF is projecting 3.5 percent growth this year and 3.6 percent next year. This is all good news. But that growth is still too slow compared to where we were before the 2008 Global Financial Crisis. There also are some significant risks. These include worries about political uncertainty and inward-looking policies in some advanced economies, as well as low productivity.

At the same time, all countries are watching the U.S. Federal Reserve's normalization of interest rates. This process has been smooth so far, but any unexpected shifts would be felt around the world.

The emerging markets also are adjusting to a lower-growth environment—something that Africa has been feeling since 2015. The emerging markets continue to supply about three-quarters of global growth, but in some of them growth has slowed from the levels before 2015.

Growth in sub-Saharan Africa hit its lowest level in two decades last year. While we expect a modest recovery in 2017, growth is expected to remain well below the levels enjoyed over the past two decades.

The slowdown has been felt the most by commodity exporters, who have faced sharply lower prices. Oil producers are especially hard hit. The commodity exporters have experienced

widening current account and fiscal deficits and, in some cases, significant depreciations of their currencies and rising inflation. The pain caused by falling commodity prices is real.

The Fund's latest Regional Economic Outlook for Sub-Saharan Africa calls on commodity exporters to take urgent action to adjust to the reality of lower prices. Too many have relied on stop-gap measures like central bank financing and the rapid accumulation of debt—and even nonpayment of debts. In these countries, restarting growth requires immediate steps to stabilize their economies. This needs to be accompanied by reforms that reduce their dependence on commodity revenues.

At the same time, many African countries continue to enjoy solid growth. I'm pleased to say that East Africa has remained one of the fastest-growing regions in sub-Saharan Africa. They have diversified economies that rely less on a single commodity. Their policies remain strong, and prospects are good. Here, the priority is to ensure that growth is maintained, including by reducing risks and vulnerabilities. Moreover, it is essential that this growth is better shared among the population. This is a point I will return to in a moment.

### **Tanzania's Development Challenges**

That brings me back to Tanzania. As I said in my introduction, your country remains a strong performer in terms of growth and macroeconomic stability.

Let's take a closer look at the challenges that can make a big difference for Tanzania going forward. Let me begin with investment. The second Five-Year Development Plan is centered on the theme of "Nurturing Industrialization for Economic Transformation and Human Development." The strategy relies on Tanzania's comparative advantages, particularly the potential from agricultural and mining, and the possibilities of becoming a trading and logistics hub for East Africa.

To facilitate private sector-led growth, the plan targets the infrastructure gap with scaled-up investment in transportation, logistics and energy generation and distribution. This is crucial.

How to obtain the needed financing is a big challenge. Foreign borrowing by the public sector has a role to play. But past experience has shown that it is always important to maintain debt sustainability and to contain government dependence on foreign capital.

So, it is crucial to mobilize more private and public resources within Tanzania, especially by strengthening tax collection under a fair and predictable tax regime. This is an area where Tanzania has fallen behind its neighbors. Other financing options involve setting up public-private partnerships and expanding the reach of the banking system to mobilize more savings.

### **Stronger Institutions and Governance**

But money for investment is only one part of the story. Any country undertaking a major investment program needs to ensure that each project is well planned and executed. This requires improvements in public investment management that can ensure efficient use of public resources. This means strong institutions to manage and monitor projects with the goal of ensuring maximum value for the money. Tanzania has taken steps in this area, but much more progress is needed.

Strong institutions also are important if corruption is to be contained and taxes paid. I understand this is a sensitive topic in any country. But I think all of us also understand how bribery and failure to pay taxes can drain the vitality from any economy.

That is why we welcome President Magufuli's strong drive against corruption and tax evasion. This signals the government's firm commitment to a development path that benefits all Tanzanians.

Another important signal can come from efforts to strengthen the business climate for local and foreign businesses. Tanzania, like many other countries, has learned the limits on the statist impulse to lead development. Governments have a key role to play providing stable policy and regulatory frameworks for development. But it is ultimately the private sector that is the engine of growth—creating employment and opportunities.

A strong private sector can foster economic diversification, expand trade and deepen Tanzania's integration into global value chains. So, government policy is most effective when its objective is to cultivate the private sector.

Many African countries are addressing the same issue. And our advice includes the following steps that we believe to be useful for Tanzania:

- Make the government decision-making process more transparent and predictable across a range of rules and regulations.
- One area where cutting red tape can make a big difference is to focus on simplifying the procedures for opening new businesses.
- Business thrives when the judicial system is seen as fair. So, strengthening the framework for resolving legal disputes is key.
- Finally, it is important for business to feel it has a say in policy. It is useful to broaden consultations with the private sector on planned reforms, including changes to legislation.

These are measures that would be greatly supportive of economic growth. And they would expand the tax base and help fund development.

### **Balancing Public and Private Sector Priorities**

My point here is not to minimize the importance of government. Rather, it is a question of finding the right balance between the public and private sectors. In fact, there are many areas in which the government plays a fundamental role in encouraging development.

For example, the government can lead the way in deepening the economic integration of the East African Community. This ambitious project can encourage the dynamism of over 150 million people across East Africa. It opens the door to expanded trade and investment.

Last October, the IMF co-hosted a conference in Arusha to take stock of the EAC's progress and to discuss how to realize the full potential of a united bloc. The Single Customs Territory has been established, and the Common Market is advancing.

But underdeveloped infrastructure continues to constrain progress. In addition, more work remains to be done in several areas, including:

- non-tariff barriers;
- rules of origin;
- tax administration and harmonization;
- automation of trade procedures;
- and labor mobility.

If these issues can be addressed, the EAC can emerge as a true source of economic dynamism. The IMF is firmly committed to helping Tanzania and its neighbors advance this project.

### **Tackling Poverty**

So, that is the big picture of the Tanzanian economy. But you and I know that the real measure of progress is found in cities, towns and villages; in the dreams of people from all walks of life. That means a long-term effort to tackle poverty.

Your country has made great progress reducing poverty. It declined from 33 percent to about 28 percent of the population between 2007 and 2012 and it should have continued to fall since then.

There also have been achievements in providing access to education, health, and other social services. Many Tanzanians still live outside the formal economy, with limited access to banks and other financial services.

But there have been some real advances in financial inclusion. Mobile banking has been a game changer for many Tanzanians. Recent developments in mobile money have lowered transaction costs, shortened payment time, and made banking services available to many who were never able to access financial services before.

The number of mobile bank accounts has doubled in the last few years, while the value of mobile transactions has almost tripled. In fact, there are 17 countries in sub-Saharan Africa where the number of mobile bank accounts exceeds the number of bank accounts. Tanzania is among leaders in this area, with over 17 million active users of mobile financial services. This is an impressive achievement.

But Tanzania still has room for improvement if it is going to bring change across its population. Half of the UN Millennium Development Goals remain to be achieved, including in the crucial area of reducing maternal mortality.

Moreover, a large share of your young people remains unemployed or underemployed. Meeting the expectations of the younger generation ranks among the prime challenges of the 21<sup>st</sup> century. By 2035, half of the people entering the global labor market will be from sub-Saharan Africa.

It is essential that Africa takes advantage of this demographic dividend. By doing so, it has the potential to emerge as a source of growth for the global economy in the coming decades. This will not be easy. It requires not just good economic policies, but also effective social policies. A growing labor force must be healthy and well-educated. Investment in education is a must.

## **Conclusion**

The upside for Tanzania is virtually unlimited: real development, sustainable economic growth, and measurable improvements in the lives of all Tanzanians.

The IMF is prepared to work with you to achieve this—with our policy advice and through capacity building support. We believe that the non-financial Policy Support



Instrument in place over the last decade has helped to signal to all stakeholders your government's commitment to sound macro-economic policies.

Your country has achieved so much in recent years. And it has great potential to accomplish even more in the future. You can continue to count on the IMF to help Tanzania reach its goal of middle-income status. I thank you for your time today and wish you every success.