

# Tanzania – A country poised for a big Growth

Saugata Banerji

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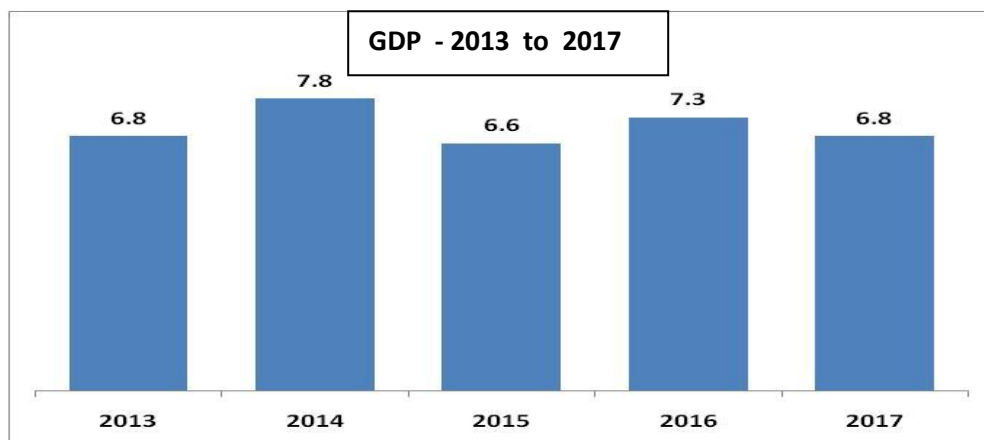
## Tanzania – A country poised for big growth

Tanzania started with socialistic economy with the founding father of the Nation Julius K Nyerere. The subsequent three presidents (HEs Ally H Mwinyi, William B Mkapa and Jakaya M Kikwete) gradually shifted from that trend with a bend towards free market economy. However, the underline sentiment is hard to go away. The present Government under President John P Magufuli has started looking inward and Government role has been more dominant than in the past two decades. According to the current global trend this is the “new normal” pattern of looking inward of this decade (post 2015) when USA, Britain, China, Russia, India every country behaving in the same manner. The only difference is that these countries have not tried to come out of their journey towards the market economy, hopefully, Tanzania will also not leave the path.

### Top 10 reasons to Invest in Tanzania ?

We believe, Tanzania has strong points in favour of investment in the country that Investors need to note in the long term.

1. **Stable Political Environment** : One of the best stable Governments in Africa with almost one party ruling since independence and democratically elected President every 5 years with no exception. Oppositions are not strong and get accommodated by ruling party. Current Government has taken drastic measure to cut corruption, to bring fiscal discipline and to increase domestic revenue. This has ensured a comparative peaceful social environment, which is pre-requisite for growth & development.
2. **Strong GDP Growth** in the last decade since 2008 above 6.5% growth every year with a high of 7.8% in 2014. The next 5 year projection is around 7% which will be one of the top fastest going economy. The economy size is estimated to be around USD 54 billion in the end of 2017. This shows that inspite of many ups and downs there has been an internal buoyancy in the economy, the X factor.



3. **Abundant Natural Resources** which are yet to be commercially exploited fully or at all - provides huge opportunity - The main ones are :
- Gold (4<sup>th</sup> Largest Gold Producer in Africa – 50 T per year with 1600 m Tonnes reserves)
  - Diamond (50 K CA per year) (10<sup>th</sup> Largest producer in Africa) Reserves of 38.1 m CA)
  - Tanzanite ( 900 tonnes per year with 500 m carats reserve)
  - Uranium (huge deposit around 200 m lb U<sub>3</sub>O<sub>8</sub>)
  - Iron Ore (126 million tonne – production not yet started )
  - Graphite (1.2 million tonnes – Production not yet started)
  - Limestone (very high quality deposits attracted many players to create a cement manufacturing hub
4. **Natural Gas Discovery** Huge discovery of offshore Natural Gas Reserve (57 trillion cubic feet). However the same is 7-10 years down the line from full commercial exploitation. This could provide the economy an annual export revenue of USD 5 billion per annum in addition to utilizing major portion for domestic consumption with LNG plant by 2024. **This is the biggest economic moat.**
5. **Tourism is the key** : Tanzania is one of the best destination for real wildlife Safari. 16 National Parks, Ngorngoro, Kilimanjaro, Serengeti and Zanzibar are world famous destinations with Wildlife, Beaches, Adventure sports like Hiking, Climbing and Diving. 1.1 million Tourists visited in 2017 but still only 7<sup>th</sup> most visited country in Africa. A lot of opportunity exists in the space. Room nights doubled in the last 5 years but still there are huge opportunities. 52% of Tanzania is covered by Forest, it provides a real sanctuary to wild life while it provides a great opportunities with a scope of monetizing Forest Economy. This will be actually all time economic moat for Tanzania if properly strategized by International consultant. Plus tourism generates lot of employment direct and indirect.
- Just consider Morrocco with more than 10 million tourists visit a year, so Government needs to take note of the opportunities and make all initiatives to tap them.
6. **Agriculture Opportunity**: Tanzania could be bread basket for Africa with a large Agricultural land of 396500 sq km (45% of the Total land area) as per GOT . Plus Agriculture is contributing 30% of GDP and 67% of the total employment. Irrigation, Power and Mechanization are main areas to work upon by the Government. Main Export crops : Cotton, Coffee, Tea, Cashew, Sugar Rice, Maize, Sisal and Tobacco are all having ready International Markets. However, most are exported at basic raw forms without adding any value to reap higher price from the international market.

- 7. Regional Trade Advantage** with Five 6 Land locked neighboring Countries - Uganda, Zambia, Burundi, Rwanda Eastern DRC, Malawi. And also two Neighbouring countries - Kenya and Mozambique sharing Indian Ocean. Access to a large market with good business and cultural relations through EAC and COMESA. This is a significant advantage for Regional Trade as a corridor and captive market of over 150 million people. This must be taken full advantage of by creating conducive business environment and overhauling port infrastructure. This is the biggest safety net Tanzania enjoys.
- 8. Strong Financial Infrastructure:** Strong Central Bank with a robust monetary policy, 56 Banks(17% penetration) and 24 Insurance companies(less than 10% penetration). Total banking Assets is around USD 15 billion (28% of the GDP which is considered a very small percentage). Functional Capital Markets with 24 listed shares, corporate bond and active treasury bills and bond markets. These are like tick marks for an emerging economy but must be properly supported. All these sectors are poised for a quadruplet growth by 2028.
- 9. Good Physical Infrastructure** - Tanzania developed a very good Road network in the last 10 years. Getting ready for a new terminal 3 and upgrading other 3 major Airports. Functional Ocean Ports - Main Dar, Mtwara and Tanga. Real Estate both commercial and residential have seen a boom in all major cities Dar, Mwanza, Arusha and Dodoma. And a 300 km Gas pipeline from Mtwara Gas basin to Dar Es Salaam ensured a major economic heartline. Further with Uganda crude oil Pipelines passing through Tanzania to Port Tanga for over 1445 kilometer will consolidate the Uganda/Tanzania relationship and make Tanga a major Petroleum hub. In the next 10 years, all borders will be connected through high speed railways to various ports. This would increase regional Trade through DAR corridor. Tanzania is ranked 61st in the World Bank survey with regard to the quality of logistics, well above the average for Africa and neighboring countries with similar performances.
- 10. Mobile Money Revolution :** This is the biggest tipping point for Tanzania's Financial inclusion. As per the last FSDT study Financial inclusion reached over 75% of the population which is a big plus. This was made possible by a very good telecom policy which embedded competitions in the segment between 4 top players, Vodacom, airtel, Tigo and Zantel and a regulation friendly Central Bank. Agent Banking and Mobile money operators are creating more financially included population which is good for social net and development. Also, competition from the neighbor Kenya and later Uganda.

## What Can derail Tanzania from the ambitious journey?

1. Tanzania is still a **low-income country** with less than USD 1000 GDP per capita. The income inequality is highest among countries in East Africa with a GINI coefficient of 38. This needs to be addressed by proper land distribution, continuous poverty alleviation, creating job opportunities in rural Tanzania. It cannot be done only by the Government with limited resources, it requires participation of NGOs, development funds, private sector otherwise it will be very difficult to maintain peace and development
2. **Growing Fiscal and Current Account Deficits** with deficit funding through high cost domestic borrowing. Current Government focused on the same with great fiscal discipline, treasury single account and Growth in tax collection, reducing import and increasing export. However, it is still more than half way to go.
3. **Energy Deficiencies** - Tanzania only have around 1500 MW of power generation capacity. To be industrialized the country urgently requires minimum 4000 MW to 5000 MW of capacity as of yesterday. The pipelines of energy projects are only 900 MW and a mega hydro electricity project of 2.5 GW at Stigler Gorge on drawing board. If you do not have energy you cannot achieve productivity in Agriculture, process your minerals, or manufacture goods at competitive costs. Full stop. The soon the Government can achieve this in warfooting.
4. **Bottleneck and development of Fast and Functional ports** with atleast 95% efficiencies. This is one of the major bottlenecks for trade and cost of doing business in Tanzania. Preference is given to Mombasa port of Kenya, huge cost in Port handling and clearing both in terms of time and cost.
5. **Delay in Signing Natural Gas exploration contracts.** The Natural Gas is in the deep Ocean, so it requires sound commercial agreement for the investors to put in funding for a costly proposition. It would normally take minimum 5 years to go into commercial production
6. **Weak Pro - Private Sector Climate and Continuity in legislation:**

Approximately 60% of the business in Tanzania is done with Government. It is increasing day by day. Instead of privatizing the business and welcoming foreign capital participation and private capital inflow to push for the growth and development and subsequent employment generation in the economy, the policies and business environment is becoming more inward looking. This is a big area of improvement for Tanzania Government to reestablish good relationships with foreign Counties, welcoming foreign investors warmly and to promote a regulation openness and continuity. This is a game changer, if Tanzanian Government remains inward looking then Tanzania will surely lose its

track as foreign fund or good capital will flight to other destinations in Africa. And the country will be leaving with bad capital(originating from erstwhile Soviet states, Turkey, Libya, Somalia)

## 7. Foreign Exchange Fluctuations

Tanzania's infamous Tshilling Fluctuations against US Dollar over the last 10 years the Tshilling depreciated heavily from TZS 1225 on May 5, 2008 to TZS 2283 as on April 24, 2018 (to 1 USD) recorded 86% fall or on an average 8.7% pa (point to point basis) and 7.6% (on end of year to end of year basis). This implies that the monetary policy adjustments failed to rectify the fluctuation allowed this free fall.

Further there has been two major shocks in Tshilling in November 2011 (19.9% fall) and in January 2015 (31.4% fall) but could not be corrected.

A country which grew during the same period over 6.5% p.a, and heavily importing capital goods/consumption goods for development/necessities, the free-fall depreciation of Tshilling for making agriculture/ mineral import cheaper is a poor policy choice.

In comparison Kenya Tshilling (KES) depreciated 61% against US dollar implying 6.3%(point to point basis) and only 3.8% (on end of year to end of year basis). Kenya has three similar currency shocks 28.7% (2008), 26.5% (2011) and 16.5%(2015) but with good monetary policy corrected the position and smoothened the depreciation. This is more palatable to investors for capital markets and projects.

Thus, the biggest question mark on the growth is how will the foreign exchange policy behave going forward. Whether the Tshilling will hold its value against US dollar or will giveaway most of the gains and will never achieve promise it could have achieved.

## DIGITIAN Outlook

**Tanzania has already created a stable economic foundation and has a very stable Government with a strong Head of state.** The corruption stigma has been largely tackled in the first two years of the new Government and domestic revenue generation is back. Given the political trend, the current Government may continue upto 2026, this will provide fiscal, monetary and legislative continuity as well.

Tanzania fared very well in terms of achieving Millenium Development Goals and we are hopeful that the Sustainable Development Goal milestones will also be achieved. One key achievement of the Government is the technological component of growth-

e-governance and e- revenue collection has pushed the economy in the front gear of digital journey. The country is in the right track.

As per Euler Hermes research, annual investment reached about 30% of GDP per year during the last decade, and the capital stock is now among the best in the continent. It is 460% of GDP, above Chinese levels and about two times the common figure for African peers with comparable income levels such as Côte d'Ivoire and Senegal.

Chinese Investors have significant influence in Tanzania and East Africa. With Chinese One Belt One Road strategy to develop new trade routes Tanzania would benefit. In addition there has been considerable interests from India, UK and other traditional partners as well.

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Broad Money, M3 (% of GDP)	13.1	12.5	12.3	13.9	13.6	13.4
Average reserve money ( % of GDP)	10.8	7.2	12	12.2	12	11.8
Credit to nongovernment sector (% of GDP)	21	19.1	10.5	12.2	13.1	14.2
GDP at current market price (TZS Bn)	85,291	96,794	109,006	122,547	137,676	154,185
Population (Millions)	47	48	49	50	51	52
GDP at current market price (USD mn)	48,353	44,891	49,084	53,354	58,195	63,285
Exchange rate, computed (TZS/USD)	1,763.92	2,156.20	2,220.81	2,296.87	2,365.77	2,436.36
Tax Revenue (% of GDP)	11.6	12.8	13.2	13.4	13.6	13.8
Real GDP growth (%)	7.0	7.0	6.9	7.0	6.9	6.7
Inflation (yoy, %, end-period)	6.1	5.5	5.0	5.0	5.0	5.0
Overall fiscal balance (cash basis, % of GDP)	-3.3	-3.5	-4.6	-4.6	-4.5	-4.5
Government capital spending (% of GDP)	4.4	4.5	9.7	8.8	8.7	8.9
External current account balance (% of GDP)	-9.8	-5.6	-7.5	-7.5	-7.4	-7.4
Gross international reserves (months of next year's import)	4.5	3.5	3.8	3.9	4.1	4.2

**Source: Compiled from IMF staff estimates and projections, IMF Country Report No. 17/13 – Jan 2017**

## **DIGITIAN Prediction 2028 next 10 years**

As per our econometric model if the Tanzanian Economy stays in the similar course of GDP Growth then by 2028 it will be reaching US \$ 100 billion subject to it makes all effort to arrest depreciation of Tshilling at maximum 20% upto 2028, which is a major task for the central bank and Government or there will be a case for redomination of Tshilling like Zambia did it in 2013 with Kwacha.

**DIGITIAN** is a neologism and refers to a Digital generation in particular those who born in or after 2000. The first version of this generation is completely different and they will rule the world from 2018 – 2075. Be ready for them.

**Saugata Banerji** (Bandyopadhyay) is a Financial Guru and Governance and Strategic Expert. Has worked in the C suite role in large banks including Tanzania and has developed specific market knowledge on East Africa. Through DIGITIAN Capital publishes research work and invest through DIGITIAN Investment Inc. in Frontier Markets mainly in Africa apart from India and USA. with his friend **Debashish Neogi** , (Dubai Top 100 list) a capital market wizard and other like minded Investors. He can be reached at [saugatab@mydigitian.com](mailto:saugatab@mydigitian.com)

**For private Investment Queries please write to :**

**DIGITIAN Investment Incorporated**  
Bur Juman Business Tower, 18<sup>th</sup> Floor  
Sheikh Khalid Bin Zayed Road  
PO Box 121828  
DUBAI, UAE  
+971 52 975 1111

[contact-dii@mydigitian.com](mailto:contact-dii@mydigitian.com)

**DIGITIAN Capital**  
1300, I Street Suit 400E Washington DC 20005

+ 1 202 749 8346  
+1 346 319 1053  
+1 346 319 0234

[contact-dc@mydigitian.com](mailto:contact-dc@mydigitian.com)

**DIGITIAN Capital Pvt Ltd**  
BF 153 Sector 1 Saltlake  
Kolkata 700064

+91 9987683915  
+91 9831245532

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