

TANZANIA

New Vision, New Vigor

On December 21, 2005, Tanzania's newly elected President was sworn in for a five-year term. Jakaya Kikwete is the East African nation's fourth President since Tanzania's independence in 1961. He inherits a country that is reaping the benefits of political and economic stability, earning a reputation for peace, and establishing its credentials as the darling of the donor community. The former economist has shown clear insight into the country's opportunities, and that he intends to tackle poverty alleviation hands on. Tanzania looks set to become a model African nation with new vision, vigor, and strength.



President Jakaya Kikwete

During his first week in office, President Jakaya Kikwete made a strong point of not actually being in it. Too many government officials, so argued the local media, had become so comfortable in their leather chairs, that problems were only addressed if they physically appeared at their office doors. Kikwete's first actions were to visit each ministry in person to convey the message that Tanzania's prosperity lay in the hands of its entire people, including officials, and that problems should be dealt with at the source, anywhere where they presented themselves. "You are the eyes and ears of the people," the President reminded parliament members.

The baton of action was taken up en masse, instilling a new-found Tanzanian confidence in all layers of society to improve the quality of life and to work hard at overcoming challenges. In his inaugural speech, the President related to the legacy of modern Tanzania's founding father, Julius Nyerere, as the basis for his motivation.

"Africa does not need more exhortations. She needs concrete resources with which to pursue her course of action."

"Mwalimu (teacher) Julius Nyerere created unity. He inherited not a nation, but a collection of tribes; people of diverse religions, color, and creed. But thanks to his long-term vision, he decided to focus on developing a sense of nationhood. He realized that if Tanzania were to have a fast growing economy, it would unravel one day if it were not built on a strong foundation of national unity." It was Julius Nyerere's development philosophy of providing social services such as education and health to all citizens that still constitutes a working network today. Even if Nyerere's socialist ideals of a one-party state did not match the nation's economic expectations, his policies were the cornerstones of Tanzania's social stability. This

means that Tanzania is free of the tribal rivalries that beset other African nations. The following two phases of government – Nyerere's term was seen as the first phase in building an independent Tanzania – initiated far-reaching political and economic reforms. Kikwete's predecessor, President Benjamin Mkapa, enforced fiscal discipline, fighting judicial corruption, and creating a conducive environment for investment and growth.

All the while, frameworks were built for the empowerment of people through development under the umbrella of the Tanzania Growth and Poverty Reduction Strategy. "On the day I was sworn in," recalls President Kikwete, "the International Monetary Fund announced that Tanzania was one of the countries that had met all the criteria for getting a complete debt write-off, enabling the fourth phase government to begin with a clean slate."

The stronger Tanzania becomes as an economy through stable and open-minded politics, the more it can motivate other African nations to set aside their differences and conflicts, fight poverty, illiteracy and disease, and unify national interests towards rising out of the morass of a backward and dependent economy. However, Tanzania first needs to overcome challenges related to its own growth. A power crisis needs to be abated. The drought that caused hydropower plants to generate below capacity, also brought about a food shortage. Yet the government has seen the crisis as an opportunity to establish self-sufficiency in energy and agriculture. On the upside, efforts to breathe new life into the East African Community are finally taking shape. Having been Foreign Affairs Minister, Jakaya Kikwete knows that the benefits of international cooperation far outweigh the spoils of one government's or even one head of state's stranglehold on national resources. Hence the free and fair movement of people, goods, and services is becoming a reality for Tanzania, Uganda, and Kenya. "Africa does not need more exhortations," asserts Kikwete, "she needs support in strengthening her structures. She needs concrete resources with which to pursue her course of action." Accommodating this task has become Tanzania's acumen, and as Ministers leave their offices to get in touch with their people, the agreement is that this is a task shared by all.

On the Right Road to Infrastructure Maturity

At the World Economic Forum in Davos last January, the world's top business leaders and policy-makers identified poor infrastructure, or lack of it, as being at the core of Africa's challenges. With only 53,000 miles of road in Tanzania, approximately 6 percent of which are paved, the country is fully aware of what its greatest task towards achieving economic and social development is. President Kikwete's administration has created a dedicated Ministry of Infrastructure to deal with these issues. Basil Mramba, the former Finance Minister, is the head of this new ministry and oversees a budget that accounts for 35 percent of the state budget.

Even though Tanzania has been growing at reasonable levels, the Infrastructure Minister believes more is possible. "However good the macroeconomic parameters will be, the practical actions needed to get the economy moving must include decongesting the bottlenecks. The focus is on roads, railways, ports, and the airports. That will take care of the farmers, manufacturing, tourism, and mining, all major aspects of the economy." The country has been dependent on donor funding for its infrastructure development, mainly from the World Bank, but new inroads are being made to raise money internally through the Roads Fund, a special fuels and transit levy. Minister Mramba has also personally courted US firms resulting in concrete interest in investment. At the same time, Tanzania has become eligible for the Millennium Challenge Account, which is looking to invest into the country's infrastructure development.

At the turn of the Millennium, the new executive government agency Tanroads was set up to take charge of the nation's trunk and regional roads. When Tanroads started its operations, 50 percent of the roads under its responsibility were in poor condition. Now, five years on, that figure has fallen to 16 percent, but the immediate target is to reduce it even further to ten. The creation of Tanroads has also allowed a more commerce-minded approach in terms of swift decision-making, and earmarking potential toll roads. International corridors in particular could be of great interest to foreign investors. Dr. Addo-Abedi, the CEO of Tanroads, says that specific prospects exist in the Tanzam route. "It has abundant commercial traffic, and services Zambia, Malawi, and southern parts of the Democratic Republic of Congo. There's also the Northeastern corridor, running from Dar es Salaam to Tanga, Arusha, and continuing into Kenya. The idea is to relieve the government of some of its capital outlays which can be used for improving and expanding the network."

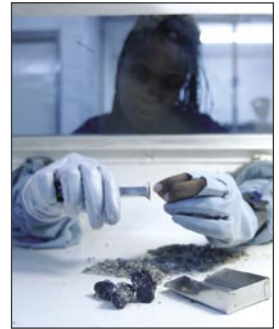
Apart from the American interest, Tanroads has also been receiving a lot of international support. "We currently have two major projects being funded by the EU for 103 miles of roads. Some are being funded by the World Bank, and one has just been completed by the African Development Bank, which is also supporting us in the rehabilitation of 123 regional roads. DANIDA, the Danish International Development Agency, is also helping us with 142 miles of the Tanzam highway." DANIDA signed a large-scale agreement with the Tanzanian government for support to the sector worth \$80 million over

the next five years, as part of the National Strategy for Growth and Reduction of Poverty (NSGRP). "Roads are such a powerful infrastructure tool for reducing poverty and generating economic growth," exclaims a passionate Addo-Abedi. "If you look at any developing country, the percentage of passengers carried by roads is very high. Most of them carry about 80 percent. For freight it can be about 75 percent. Only roads can reach a farm gate. If people can't get their produce to a market, then you are worsening poverty. Once you see the impact roads can have on a country, and what it can do to an individual's life, it is difficult not to be passionate."

Tanroads is made possible by the activities of the Roads Fund. Its board disburses 63 percent of revenues to Tanroads, 30 percent to local authorities under the President's Office for Regional Administration and Local Government (PORALG) and 7 percent to the Ministry of Infrastructure. There is, however, a large gap between the revenues collected by the Tanzania Revenue Agency and what is actually needed, a large part of which is supplied by donor agencies. "We reviewed the fuel levy, which is currently 9 cents per dollar," says Joseph Haule, Roads Fund Manager. "We asked the government to allocate revenue from motor vehicle fees. These are the sources we propose to bridge the gap with, within about seven years."

The development of Tanzania's roads is equally important for the port of Dar es Salaam, which serves as a transit hub for goods destined for an African hinterland of 150 million people. The port also handles more than 75 percent of the country's trade. Ongoing privatizations of various business units within the port will need to secure funds for the port's planned expansion, as it currently runs over capacity with 260,000 containers per year. "Any future developments definitely need public-private sector involvement," confirms Peter Mtandu, the Tanzania Ports Authority's Assistant Director General. "Our idea now is for the Port Authority to be a landlord. The government will still own the infrastructure, so on its behalf we will be sitting in and monitoring all the operational activities." The port's container terminal, its most profitable unit, was privatized in 2000. Infrastructure Minister Mramba believes that these cases prove there is a lot more in store for Tanzania and even likens the country to an Asian tiger economy. "The political climate continues to be good, without disruptions in past decisions or directions. I have every reason to believe that we will be at least a mini-tiger, if not a tiger."

Banking on a Mini Tiger Plan



2006 has been an exciting year for the Bank of Tanzania (BOT). Members of Parliament have been debating the passage of a Bill to provide for a more responsive regulatory role for the BOT that would herald a greater role for the Bank in the formulation and implementation of monetary policy as well as stronger powers for the supervision of banks and financial institutions.

The Bank of Tanzania's unassuming and diminutive governor is 64-year old Mr. Daudi Balali. Having worked for the IMF in Washington for 21 years and headed missions to Kenya, Ghana, Lesotho, Somalia, Swaziland, Ethiopia, Sierra Leone, and South Africa, Governor Balali was hand-picked for the job in 1998 by former President Benjamin Mkapa. Mkapa had watched the younger Balali achieve significant results in both Ghana and Ethiopia. The post represented a return to the BOT for Governor Balali, who had previously held the position of Director of Research at the Bank of Tanzania before he joined the IMF. However, whilst the Governor's experience on the continent has proved an invaluable resource for the Tanzanian government, it was his connections with the IMF and World Bank which tipped the scales in Tanzania's favor. Tanzania has not only shed the basket case image it was burdened with in the 1990's – it is now regarded as one of the best managed economies on the continent, and has excellent relations with the development partners, largely because of the relationships which the Governor has been leveraging during his tenure. The Governor's family has remained in Washington, a city to which he is a frequent visitor. All this is a very far cry from Mr. Balali's humble beginnings. The Governor was one of the first Tanzanians to win a scholarship to study in the United States, where he studied at Harvard, after making his first trip by boat across the Atlantic Ocean.

For many decades, Tanzania languished with anemic growth rates, low levels of FDI, and raging inflation. Today, however, Tanzanians can lay claim to East Africa's fastest growing economy. While Kenya, Uganda, and Ethiopia have fallen out of favor with the West, the country continues to build on the democratic gains of the last decades, improving its investment credentials. Due to an attractive investment environment, there are now 26 banks in Tanzania compared to only two in 1996. "We have been growing at a respectable rate of 6.7 to 7.1 percent and this is a good growth rate for Tanzania. We would have to go back to the 1950's and 1960's to see this kind of growth, so it is a record," says the Governor, explaining that the country is "coming from a rather low starting point, and

that while the Kenyan economy continued to expand from the 1950's, Tanzania had lost ground. "We have a long way to go to catch up with them, especially in terms of private sector participation." According to Balali, Tanzania needs growth rates of between 8-10 percent to win the battle against poverty, an ambitious target but still within the country's reach.

"We created the Mini Tiger 2020 plan which will grow our exports to 25 percent of GDP in the next 14 years. I think at this level our donor dependence will be considerably lower."

Daudi Balali, Governor of the Bank of Tanzania

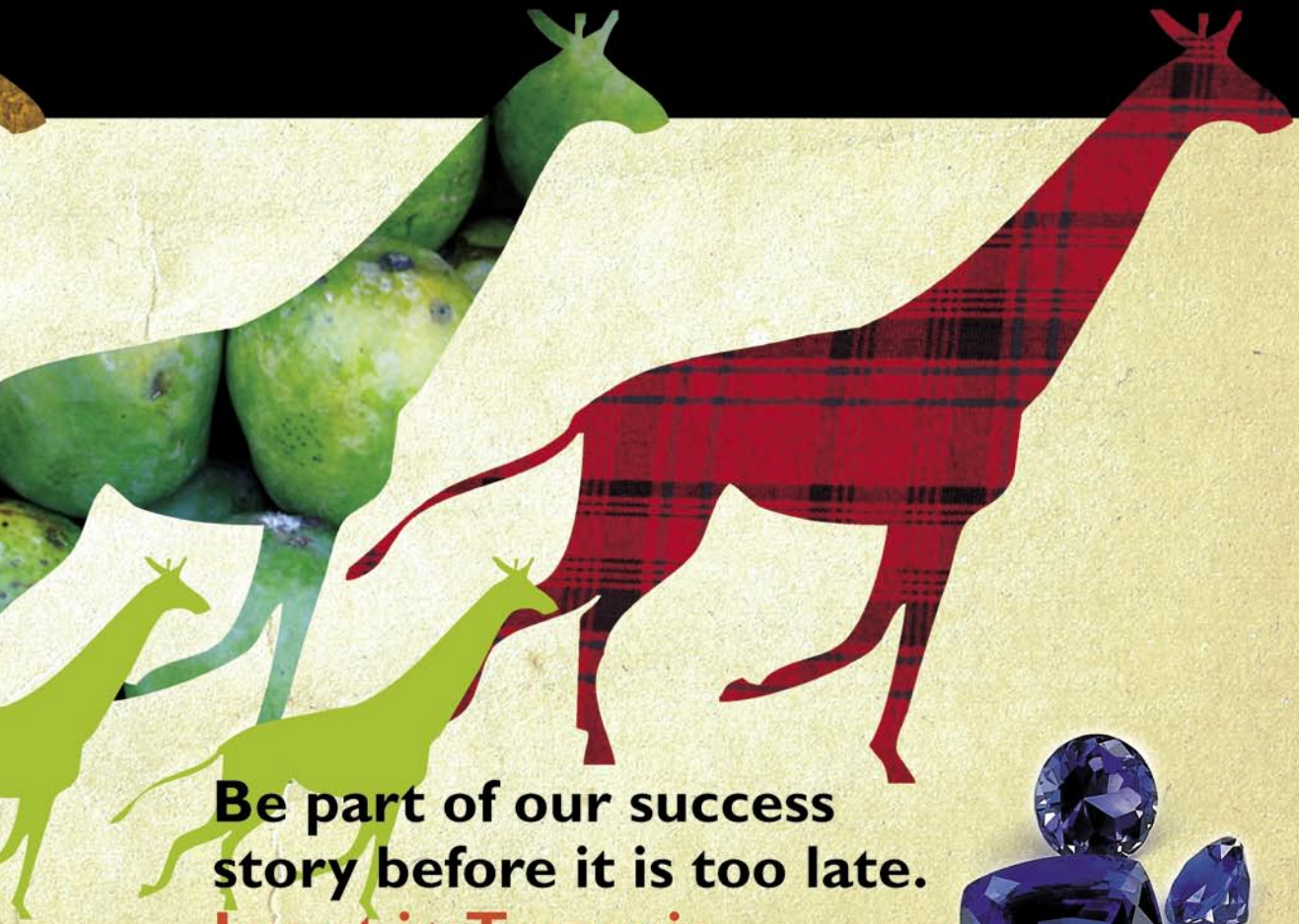
Much of Tanzania's success has been put down to the way in which the government has been able to engage her development partners. Last year Tanzania benefited from the G8 agreement on debt relief for 18 of the world's poorest countries, many in sub-Saharan Africa, when 100 percent of the \$40 billion they owed the World Bank, the International Monetary Fund, and the African Development Bank was written off. "The waiver is a message of hope and encouragement," says the Governor, whose country claims to be a model of what debt relief can achieve. Thanks to an earlier deal, the country abolished fees for primary schoolchildren, an action that has already increased enrolment by a whopping 66 percent. On the downside, because of continued high levels of donor inflows, the country is vulnerable to potential shifts in aid flows and external shocks. Governor Balali is sanguine about this and points to the government's efforts to wean the economy off aid and make it self-sufficient. "This is why we revised the Mining Law in 1998, because we did not want to be overly dependent on coffee, cotton and other such commodities. Gold now accounts for 45 percent of our exports and the mining sector still has a great deal of potential. Then came fisheries, which now brings in \$200 million per year, and we are now committed to addressing the manufacturing sector, which will create jobs and generate export revenue. This is why we created the Mini Tiger 2020 plan, which will increase our exports to 25 percent of GDP in the next 14 years, growing the country's economy fourfold from \$10 billion to \$40 billion. I think at this level our donor dependence will be considerably lower. And if we can reach 30 percent of GDP, we can win it."

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Providing the Power to Grow

In order to keep up the momentum of economic growth, Tanzania, which depends heavily on hydropower generation, needs to resolve its energy issues. The current crisis of power shortages is mainly caused by many years of decreased rainfall. The government has been hard-pressed to find alternative sources for its power supply, and the national grid of state power company TANESCO does not yet cover the whole country, nor does it link with neighboring countries' grids. The Minister of Energy and Minerals, Ibrahim Msabaha, outlines the challenges. "At the moment our current demand for electricity is about 550 MW. Tanzania's capacity for generating electricity is about 863 MW, but we have had continuous periods of drought for the last few years. As a result, the major dams that are used for generating electricity do not have sufficient water." Msabaha adds that hydropower is the cheapest and cleanest form of generation, but comes at a heavy dependence on the weather.

A lucky break presented itself in the form of gas that was discovered off the coast of Tanzania. In a joint venture with Songas, the government was able to generate an extra 190 MW and channel it through to TANESCO's national grid. "As a result of gas exploration, we were able to get gas from the Songo Songo fields by constructing a pipeline to Dar es Salaam, where we now have gas fired electricity. In terms of generation, we have IPTL, Tanzania's first independent power producer, which contributes about 100 MW." The IPTL solution is, however, a costly solution, as it uses fuel which, at today's prices, is not cost effective. According to Paul Kunert, Managing Director of Songas, part of Texas-based Globaleq, "the cost of the IPTL supply is about 10 cents per kilowatt/hour. On top of that you have the capacity charge. The cost of natural gas per kilowatt/hour is exactly half a cent."

Minister Msabaha says the government's main priority is to have sufficient energy for a stable supply of the country's needs, but through energy generation that takes environment preservation and sustainability into account. "Our priority is to ensure that every district in the country is connected with the national grid. We have an important program called Energizing for Rural Transformation. Energy is like blood in the human body, without it there is no life. We need to facilitate the lives of the rural areas through its electrification. In that regard, the government has established two important institutions, the Rural Energy Agency and the Rural Energy Fund, which are designed to oversee the implementation of the electrical grid." The percentage of people in Tanzania currently connected to the national grid is estimated at a meager 7-9 percent.

The Songas pipeline and infrastructure has the capacity to supply sufficient gas to run another 200 MW. Another project in Mnazi Bay, in the southern coastal region of Tanzania, is projected to provide gas-to-electricity for the Mtwara region. The Artumas Group has successfully drilled a gas reserve which has a big potential if further drilling programs are implemented, which can only be good news for Tanzania. "We are estimating the potential at up to 2 trillion c.f. of gas," explains Ian Horswill, Vice President and COO of Artumas Group. "We are starting our first phase with a very small 12 MW project, going upwards to 30 MW. For the

Mtwara-Lindi region this will constitute a total energy solution, a solution from well head to light bulb." Horswill sees grand opportunities should the initial project run smoothly. "It is a good paradigm when you have the reserves and are able to commercialize those reserves. You can step in with a small project and have a vision for the future, which is what we have. It is another way to monetize gas. We have already engaged consultants to study how we are going to connect to the national grid to get to 300 MW in power generation, because we know the reserves will be there."

"Our priority is to ensure that every district in the country is connected with the national grid. Energy is like blood in the human body, without it there is no life."

Ibrahim Msabaha, Minister of Energy and Minerals

The implementations are that such responsible projects can bring around a change in how energy and fuel provide prosperity in a natural way for developing nations. Paul Kunert of Songas says: "We can do good development and good business at the same time. The challenging part is putting together all the stakeholders for these projects. There are many objectives and goals. To somehow put together customers with shareholders, and the World Bank and other lenders." Ian Horswill's motivations for investing in Tanzania are similar. "I was captivated by the culture and the people, and the real desire to grow, to learn, and to go forward. Part of this project is about doing the right things as a stakeholder. A lot of companies do not realize the importance of that. Social consciousness is part of good business. We decided that we should set our corporate goals and corporate social responsibility on our foundation right from the start: community based, socially responsible, and environmentally conscientious." Should Artumas succeed in this brave new venture, the growth and returns will be exponential, for both the company and the country. "As this project goes forward," says Horswill, "we will provide gas to displace high-cost diesel in Mombassa and potentially all the way down to South Africa. It will turn Tanzania into a net exporter."

Tanzania At a Glance

| | |
|----------------------|--|
| President..... | Jakaya Kikwete |
| Prime Minister..... | Edward Lowassa |
| Area..... | 364,900 sq miles |
| Population..... | 37.4 million (2006) |
| Capital..... | Dar es Salaam |
| Religions..... | Christianity, Islam & Indigenous |
| Life expectancy..... | 46 years |
| GDP per capita..... | \$700 |
| Climate..... | tropical coast, temperate highlands |
| Languages..... | Kiswahili, English and Arabic (Zanzibar) |
| Currency..... | Tanzanian shilling (TZS) |
| Exchange rates..... | 100 shillings = 0.08 US dollars |

Taking Telecommunications to New Frontiers

It is a well-known fact that communication plays an important role in human development. It is no wonder that mobile telephony and information technology are spreading like wildfire across Africa, as they provide easy access to social connectivity, education and trade. Especially in Tanzania, telecommunication has the largest growth quota, with an average rate of 97.14 percent registered in the last five years for mobile subscribers alone.

Of the four mobile operators that are currently active in Tanzania, Vodacom is the market leader with a 52.7 percent share. Apart from offering a much sought-after service in its six years of being in the country, the South African company has set the standard for corporate social responsibility. Earlier this year, when the country was seriously affected by drought, Vodacom raised the bar by donating \$1 million. Romeo Kumalo, Managing Director of Vodacom Tanzania, says the social part of their investment is as important as the investment into its network. "We have to demonstrate to the Tanzanian people that we are part of them and that we contribute towards health, HIV/AIDS, and malaria. We see this as an imperative part of our business."

"We felt that as part of one of the leading companies in Tanzania we had to send out a strong message to the rest of the business community," attests Kumalo. "In South Africa we have invested in social programs, in HIV/AIDS, education, and mobile health clinics." Kumalo believes such activities form an inseparable element of a 'new capitalism'. "You can't simply take and take when there is so much poverty. You have to get involved. Last year we introduced the first mobile health clinic in Tanzania."

The returns of such a responsible profile are not only rewarding from a PR point of view, as Kumalo points out. "We did a brand survey last year and I was quite surprised that a lot of people think Vodacom has brought people together." This is a big step for a nation which up until recently looked upon foreign investors with Argus eyes. "South Africa is the biggest investor here. Tanzania is privatizing and South Africans will take on that opportunity. We will invest in infrastructure in new territories, as we see a lot of potential in this market." Vodacom believes Tanzania to be a ten million customer base market, which leaves a large portion to capture from its current 2 million subscribers. The company has the lion's share of the market.

Fixed line telephony on the other hand has seen its subscriptions drop in the wake of mobile telephony's entry into the market. Saidi Mkumba, CEO of the Tanzania Telecommunications Company Limited, indicates that before privatization in 2000, average revenue per line was \$70. "Many customers have chosen to take advantage of mobile services. That has resulted in our average per unit revenue falling to approximately \$26." The reason for this switch is time. Connecting a fixed line requires a series of extended procedures, whereas mobile phones are connected instantly by insertion of a SIM card, hence the disparity between TTCL's 160,000 fixed line subscribers and the 4 million mobile connections currently roaming Tanzania.

"When the first mobile service, Mobitel, came into

the country many people went to them. When the second service provider came in, Celtel, many people switched to them. The same scenario continued when the next two providers came into Tanzania." Mkumba points out that statistics may show that about 4 million people are connected to mobile operators, "but many people carry four sim cards in their pocket. It is a matter of flexibility. It is cheaper to call within networks than to cross networks, so they try to minimize costs." TTCL is trying to overcome these challenges by modernizing its infrastructure with a \$6.6 million investment, to provide other types of services such as CDMA technology. "That will allow us to provide fixed lines using wireless technology with better quality. We are in line with change in telecommunication technology," says Mkumba. TTCL is still owned by the government at 65 percent, while 35 percent is owned by Celtel International.

These developments, along with ADSL broadband and planned fibre-optic networks, will enable the national distribution of internet at much lower prices than mobile 3G could offer. Professor John S. Nkoma, Director General of the Tanzania Communications Regulatory Authority says that companies investing in this important field will be offered attractive incentives to increase the rate of coverage. "In recognition of the need to extend services to the underserved areas, charges to service provider licenses are kept to a minimum to encourage and allow as many investors as possible. Our great hope is that the operations of the Rural Communications Development Fund will greatly enhance growth of ICT in the country, thus ensuring an Tanzania becomes a full-fledged information society."

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The Essential Cloves of Zanzibar

An island's aromatic scent of investment

Zanzibar, Tanzania's union partner, is the most famous of the legendary spice islands. For over 150 years, one spice in particular has been the most important commodity in the island's agriculture and exports. Around 1818, when Zanzibar was still part of the Sultanate of Oman, cloves were introduced to the island and its warm climate proved to create an excellent environment for the clove tree to flourish. Plantations blossomed across the island and by 1856 Zanzibar began its long history of exporting the odorous spice.

As worldwide demand grew, Zanzibar's trade prospered and value-added production of clove oils started in 1936. Under British rule at the time, Zanzibar's cloves provided 80 percent of the government's income. Revolution progressed the island into independence in 1964, and the Republic's government renamed the Clove Grower's Association the Zanzibar State Trading Company (ZSTC). Today Zanzibar may no longer be the world's sole provider of cloves, but ZSTC's long experience in essential oils, with a modern stainless steel distillery built in 1982, still makes them the suppliers of the finest quality cloves and clove products.

Mr. AbdulRahman Rashid is the General Manager of the ZSTC, an esteemed position in one of Zanzibar's role model companies. After one and a half centuries of serving as a state company, it is now Mr. Rashid's task to prepare ZSTC and its various operations for privatization. "The average size of crops exported was somewhere around 9,000 tons," recalls Mr. Rashid. "Now it is around 3,000. The actual

amount of cloves harvested has dropped since 1964 by 30 percent. Our main aim now is to privatize without affecting the production of the farmers." Due to the decrease in trees being farmed, production can be obtained within 5 years and an economic yield within 10, but the quality of cloves means they can be kept in storage for up to five years.

In order to diversify the company's trade its investment in the distillery meant it could also produce organic oils from other spices and herbs like lemongrass, eucalyptus and sweet basil. Apart from medicinal purposes – you may recall Laurence Olivier soothing Dustin Hoffman's tooth pain with clove oil in the 1976 motion picture 'Marathon Man' – growth sectors for the spice can be found in parts of Asia, as ZSTC's General Manager points out. "Most of our clove crops are actually going to Singapore and Indonesia for the production of clove cigarettes." About 20 percent of the world's clove production is used in clove cigarettes. Mr. Rashid points out an opportunity for investors might be to start such a production in Zanzibar for export to Indonesia. "One could buy ZSTC's activities or various components thereof, like the export of cloves, the business of buying cloves from farmers, or the production of oils." Even though the price of cloves may vary on the world market between \$3,000 and \$9,500 per metric ton, Mr. Rashid is adamant that Zanzibar's reputation in quality makes it a prime choice for investment above other clove producing nations. "Zanzibar cloves will get about \$100 more per ton as opposed to Madagascar cloves. Our cloves are the best type for people interested in the best quality."

The Enchantment of Tanzanite

Its mesmerizing blue glow adorns the rings on Hollywood's finest fingers, crowns South Africa's most beautiful figures, and carries the name of its motherland to New York's most exclusive stores: Tanzanite. The exquisite gems are mined from a single source on earth, adding to its rare qualities, a thousand times rarer than diamonds. Born from a geologically complex part of Tanzania some 570 million years old, tanzanite is rapidly becoming the birthstone of choice.

Discovered in 1967 south of Mount Kilimanjaro, the gem, which also comes in hues of violet and burgundy depending on its crystallographic axis, found its first contact with American high society when it went on sale at Tiffany's in 1969. Tanzanite production was nationalized in 1972 and in the eighties the area was divided into four blocks of which block C was taken over in by AFGEM, the Johannesburg Stock Exchange listed Diamond Company. Since 2004, the mine is run by TanzaniteOne, the only Tanzanian enterprise listed on the London Stock Exchange.

"You'll find that Tanzanite is a very sexy business where the mining industry is usually extremely boring." Ian Harebottle, TanzaniteOne's Managing Director, explains that marketing the gem is integrated into the business. "It has to be, for if we were in the diamond game we would only be mining and not selling diamonds, because someone else is doing it for you. But in our industry no one else is. We are competing in the luxury goods market, with Louis Vuitton or Gucci." Even though Tanzanite is only a tenth of

the value of diamonds, Harebottle sees an opportunity for tanzanite to capture more imaginations now that diamonds are becoming more mainstream. "Think about production profile. Which single entity sells the most diamonds in the world by number of units? It is Walmart." Tanzanite's rarity can therefore create a gem genesis on the luxury market where other stones have gained household status. "We are positioning tanzanite as the birthstone with a campaign called 'Be Born to Tanzanite'."

The value of the gem has been increasing at an average of 30 percent year on year. For 2005, however, a commitment was made to keep the prices flat as they were escalating faster than could be communicated to high-end retailers. An estimated 63 to 83 million carats of tanzanite exist with an estimated value of \$5 billion. Tanzanite is also the only gem to bear the American State Department's stamp of approval.

The areas beside TanzaniteOne's block C are being operated by small-scale miners. There are now plans afoot to create an Export Processing Zone for developing the Tanzanian cutting, jewelry creation, and export trade. Whereas the EPZ would certainly benefit the Tanzanite business, creating employment and national revenue, the investments to build its infrastructure are considerable. Approximately 70 percent of all rough tanzanite is currently cut and polished in India. The worldwide market for rough tanzanite is estimated to be worth around \$100 million per year.



The Ministry for
East African Cooperation

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Minerals: Much More than Meets the Eye

There is gold in these grounds, and plenty of it. Tanzania is the third largest producer of gold in Africa, and might even outshine Ghana in future years. But there is much more to be unearthed from Tanzania's soil. Major international companies and small-scale miners are digging up diamonds, rubies, and the unique blue gem Tanzanite, named after the only country in which it is found. The sector contributes 2.3 percent of GDP, but is poised to rise to 10 percent by 2025. There is also great potential awaiting the sector offshore. Two gas fields have already been put to effective use, and 10 international firms have so far signed agreements with the government to search for gas, and ultimately oil, in the waters of Tanzania and Zanzibar. But important decisions in conjunction with the Mining Act need to be made, and all eyes are on President Kikwete to see how he capitalizes this potential.

When Mwalimu Julius Nyerere, the father of Tanzania's independence, advised the country to hold off developing the promising mineral sector, many did not clearly see his intentions. He felt his people were not ready to jump into the opportunities and gain maximum benefit. His concern was for the side effects which manifest themselves from a sudden gold rush. Too often in too many countries, the social and cultural environment had suffered, not to mention having rooted an aggressive hunger for profit and domination in the communities it affected.

Emmanuel D. Ole Naiko, Executive Director of the Tanzania Investment Centre (TIC) says Nyerere's decision to hold back on mining was, however, only limited to production. First of all, Nyerere wanted a clear overview of what his country's potentials were. "There is so much information about minerals in this country. Although Nyerere's government held back exploitation, what he managed to do was invest in exploration. There was a lot of ground-work done in the 70's and 80's, to such an extent that now we know where we stand." Ole Naiko adds that this created a very enticing reason for companies interested in mining opportunities, as the government was in a position to supply extensive geological data. At a recent workshop on Management of Geological Surveys, the Deputy Minister for Energy and Minerals, Lawrence Masha, said that new programs to boost the geological data have been embarked upon by President Kikwete's government, in order for Tanzania to make informed decisions crucial to the nation's development and industrialization.

■ Seeking A Fair Balance

The Minister of Industry, Trade and Marketing, Nazir Karagami, says the aim is to bring in companies with the technology and resources to start mining operations. There are incentives and exemptions, outlined in the 1998 Mining Act, particularly aimed at promoting the sector's development. These include exemption of import duty and VAT on equipment and essential materials up to a year after the start of production, depreciation allowances, and repatriation of capital and profits directly related to mining. Concerns have been voiced that some arrangements drawn up were disadvantageous to the country in

terms of royalties, leading the government to set up a task force responsible for reviewing the current legislation. President Kikwete has said he is seeking a fair balance in the benefits for both investors and the country. "We want to create a win-win situation. Tanzanians have the right to benefit from the natural resources of their country, which is endowed with vast minerals." Kikwete played a leading role as Minister of Energy and Minerals in the early 1990's in opening Tanzania to FDI in the mining sector, and encouraging international companies to make long-term investment commitments. These naturally included the payment of all appropriate taxes and adherence to local laws and responsibilities, which combined constitute good corporate citizenship.

Despite the sensitive nature of the issue, Tanzania's Minister of Energy and Minerals, Ibrahim Msabaha, does not foresee a drastic overhaul of the terms that make investment in the sector so attractive. "There is no intention to roll back the mining development agreement. The issue is to see how we can improve the cooperation between the large-scale mining companies and the small-scale miners. Unless you can improve that kind of relationship you will always have problems on both sides." Besides the major mining companies currently active in Tanzania, over one million people are estimated to be engaged in the industry.

The Tanzanian Ministry of Energy and Minerals has trained over 1000 small-scale miners over the past 3 years in order to equip them with the necessary skills and modern techniques applicable in the mining industry. Some of the courses offered in the program included; Understanding the Minerals Act of 1998 and 1999, Techniques of Finding Minerals, Minerals Business, and Safety Mining and Conservation. The Ministry has issued a total of 6,348 Primary Mining Licenses.

■ Corporate Coverage

Most major mining companies are currently operating in Tanzania, including De Beers through Williamson Diamonds, Barrick Gold, who recently bought up Placer Dome, Iamgold, after the acquisition of Gallery Gold Limited, and AngloShanti.

Gold was first discovered and mined in 1898, but the

real boost in mining has only been witnessed in the past decade. AngloShanti's Geita Gold Mine (GGM), which opened in 2000, is the leading producer with 650,000 ounces derived annually from its open cast mine. The Kahama Mining Corporation has an annual yield of 400,000 ounces, followed by the North Mara Gold Mine with 300,000. Both are owned by Barrick. Such yields would not have been possible without the grand investments made by these major companies, estimated at around \$1.3 billion. The State Mining Company (STAMICO), which was operative before from 1970 to 1980, was certainly never capable of such lofty resources. On the other hand, the Williamson diamond mine at Mwadui in northern Tanzania started operations in 1925, and is therefore known as 'the old lady' of the industry. Over the course of its history, it has extracted nearly 20 million carats worth of diamonds, a business contributing almost \$3 billion to the Tanzanian economy. While not as substantial as De Beers' operations in Botswana, which will produce 30 million carats this year alone, it is still a significant business, both for Williamson and Tanzania.

"We are in northern Tanzania," explains Managing Director, Tony Devlin. "It was an impoverished, arid region. By the mid 50's we had a significant township with a supply of clean, potable water piped to every resident, schools, and one of the biggest hospitals." The company has been a joint venture with the Tanzanian government for the past 50 years, in which it owns 25 percent. Devlin believes the mine still has 25 years of value to give, with an ongoing project that will see the mine produce 1 million carats per year. As for the mining sector as a whole, Devlin believes the industry will double in the next five years. "There is a great deal more in Tanzania than what we are seeing at the moment. Outside

our lease area there are mining blocks which are diamond bearing that have been allocated to the local community. What they don't have is access to capital and technology." If the cards are played right, Devlin views Tanzania's potentials to be far-reaching. "The Kikwete government has come in with huge energy. The issues of infrastructure, power, food security, water supply across the country and security itself are correct. If those issues are tackled with the energy being shown, the economy will continue to grow."

The trick is to ensure the power supply to feed this energy, as well as securing alternative options for the future. Over 10 foreign companies have signed agreements with Tanzania to search for fuel in allocated blocks off the coast of Tanzania. Among them Petrobras of Brazil, Orphir Energy Company and Ndovu Resources of Australia, France's Maurel et Prom, Antrim Resources and Artumas Group Inc of Canada. Notably, Shell has won two bids for prospecting on offshore blocks. Research has shown Tanzania to have a wealth of other minerals, such as base metals and ferrous metals, coal, uranium, soda, tin, gypsum, and phosphate. Value added production is another sector worth developing, especially in the lapidary and jewelry-manufacturing sector. The first gold refinery in the East African region was recently inaugurated in Dar es Salaam, which will buy gold directly from small-scale miners.

The decision is now up to Tanzania how best to apply its many opportunities. The government has made huge efforts to liberalize the sector and is starting to see the results. If it can overcome the challenges faced by mining communities in the spread of HIV/AIDS, and bring the nation's power supply to a stable capacity, there's nothing in its way to becoming a model economy for the region, if not the whole of Africa.

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Harvesting the Fruits of Agricultural Reforms

It is not often that one sees an Agriculture Minister aglow with prospects of prosperity, especially at a time when his country is stricken by natural hardships and food shortages. Tanzania has, for several years, been adversely affected by drought. The hardest hit sectors under these conditions are the farmers, most of which run small-scale farms or cooperatives. Several areas of the country only have uni-modal rains, or a once yearly rain season, while others are bi-modal, although the short spells only contribute 30 percent to production, and in some areas no rain has fallen for two years. But this has not dried out Joseph Mungai's hopes. Currently in his third stint as Minister – his first was as a 28-year old in 1972, at the time the youngest Minister ever appointed – the charismatic Colorado and Harvard graduate knows the great yields that his country's agriculture sector can harvest.

Coming in at a difficult time for his third run as Agriculture Minister, Mungai's experience served the nation when announcing that Tanzania would not immediately need to run to donors for aid. The country would be able to rely on its Strategic Grain Reserve, which at full capacity holds 150,000 tons of grain. Two distributions of approximately 35,000 tons each have thus far taken place, which has allowed Tanzania to avert wide spread hunger. It is indicative of a new determination amongst African nations to maintain independence and make their countries self-sufficient. Nevertheless, 40 percent of Tanzania's budget currently still hails from international support programs, and even part of the Agricultural Development Strategy would be hard served without structural donations.

"Part of the strategy is to introduce new crops that make a high profit," explains Mungai, referring to two USAID programs to bring in paprika and vanilla production. "We want to increase productivity of the small farmers." Tanzania has the relative luxury of space. 40 million hectares of land is arable, hence the absence of land pressure which has been a major problem in neighboring countries. However, only 10.2 million hectares are currently being cultivated, only 250,000 of which are under irrigation. 2.3 million hectares have been marked as having high potential for irrigation and the government would like to see the current amount quadrupled by 2010. In this respect, the Minister is inviting investors to participate in the sector and help Tanzania develop this underutilized resource.

■ Cash Crops

First of all, taking advantage of Tanzania's existing crop culture is vital to maintaining food security. Amongst these, Minister Mungai identifies four major crops which, if approached wisely, can be raised to higher profit margins. "Cotton, coffee, tea, and cashew nuts. We can achieve a lot with these crops, it's a matter of helping the farmers improve their yields. In certain places, higher yielding varieties have already been discovered by research. With cashews we are lucky, very lucky actually, as our researchers have come up with a variety that more than doubles the current yield!" Mr. Mungai mentions that the problem here is the fact that a previous priva-

tization obligation was not met. "We privatized the two cashew nut processing plants but the people who bought them closed them. They have not rehabilitated them as promised and are still exporting raw cashews." Processed cashew nuts sell for \$11 a pound, whereas raw they are only worth \$0.50 a pound. "I am in the process of consulting with my colleagues, the Minister of Industry and the Minister for Finance, to tax every export of raw nuts so that we can encourage added value."

Tanzania is among the world leaders in the production of higher quality coffee, Arabica. Although production is currently stagnant at 50,000 tons a year, higher yielding varieties could double this amount, possibly by 2015. According to Mungai, tea in Tanzania is now being grown at higher levels than Kenya, even though Kenya's production is ten times that of Tanzania. As for cotton, the country's production is well under capacity, and should it be able to double its current yield, the country could set the base for a textile industry.

Interestingly, there are new developments in the field that could potentially bring agriculture up to the level of importance enjoyed by tourism and mining. Out of nowhere, Tanzania has become an important exporter of fresh cut flowers. Then there is another flower that has proven to repel mosquitoes, but attract Americans, at least in Tanzania's case. The Pyrethrum daisy is used in the production of mosquito repellents and Tanzania currently has 20 percent of the market. Investor KMG has flown over from the United States and looks ready to take a bite. On the pharmaceutical side, Tanzania is growing rapidly with the cultivation of Artemisia. "This is to produce a recommended alternative to quinine, against malaria," says Agriculture Minister Mungai. "It is the crop for the next ten to twelve years. It's all private sector driven, with contract growers. There is a big future for this crop."

"Cotton, coffee, tea, and cashew nuts. We can achieve a lot with these crops, it's a matter of helping the farmers improve their yields."

Joseph Mungai, Minister of Agriculture

"There is another one though that is exciting me the most. It is not new but is being grown for a new purpose, namely palm oil for diesel use – bio-diesel. We have two major investors with whom we are conducting discussions. For one from Malaysia we have already allocated 5,000 hectares in Kigoma. That is the homeland of the palm plantation. The other is from Ireland, and we are looking for a plantation of 15,000 hectares in Lindi, which means real development for the South."

As far as models go, Mungai says the agriculture programs of Asian tiger economies have inspired Tanzania extensively. "I have instructions from my President to go and visit Vietnam and Indonesia, to see, act, and talk with them about how they have done it. We really want to learn from their experience, as a kind of road map. At the end of the day we want to emulate that success."

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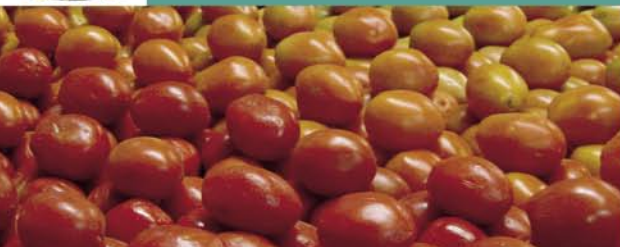
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Walking in Nyerere's Footsteps

Clearing the way for East African integration

Lake Victoria is Africa's largest body of fresh water. The 2138 miles of shoreline surrounding the great lake connects three countries, Tanzania, Uganda and Kenya. The lake's social, economical, and environmental factors inextricably link the lives of more than 30 million people. Every day it witnesses the free flow of fisheries, transport, communication, and agricultural activities of communities living in its three bordering countries. It is not inconceivable that these integrated lives inspired the founder of the Tanzanian independent state in his pursuit of African unity.



Sounding in a new era at Lake Victoria

The mindset behind Julius Nyerere's principle of solidarity and his commitment to Pan-Africanism would ostensibly lead to the creation of an East African Federation consisting of the same nations surrounding Lake Victoria. After having successfully brought together the sovereign states of Tanganyika and Zanzibar as the United Republic of Tanzania in 1964, the only remaining case of two African countries surviving as one entity, Nyerere set out to form an economic union with Uganda and Kenya. By 1967, the East African Community was a fact, with common services, railways, airlines, and harmonized university trainings working in unison. However, the socialist ideology fostered by Nyerere at the time differed too much from Kenya's drive towards a free market economy and by 1977, the first East African federation was dead in the water.

"We have found the way of reviving the cooperation," says Andrew Chenge, Tanzania's Minister for East African Cooperation. "In 1991, our presidents were at a meeting in Zimbabwe and chatted about the Union." A change in global economics, it seems, had brought about a new impetus for the idea of combining the three nations. A commission for East African Affairs was cautiously drawn up. "One of the recommendations was to transform the commission into something of a treaty, which would create a summit and a council, and we were mandated to start negotiating on a treaty. It took us almost four years because we did not want to make the same mistake again." Chenge confirms that the treaty for establishing the community was signed on the eve of the new millennium in November 1999, certified by the National Assemblies and adopted on July 7, 2000. Today, both the Parliament of East Africa and a Court of Justice are operational.

The difference this time round is that the entry point

for the East African Community is a trade regime which, as Andrew Chenge puts it, "simply lays down the conditions and tells you what needs to be done." Given the necessary confidence on all three sides, the EAC was able to move to the next step. "We are talking about the Customs Union. We borrowed the principle of asymmetry from the European Union because of the economic imbalance that exists between the countries." Kenya's economy is in real terms larger than Tanzania and Uganda's put together. Hence, for a transitional period of five years, cross border trade tariffs between Tanzania and Uganda are zero-rated, but several Kenyan goods entering either of the two countries incur a 10 percent duty, which will gradually drop to zero by 2010. Goods going from Tanzania and Uganda to Kenya are also free of taxes. On a wider scale, under the EACU (East African Customs Union) Common External Tariff regime, imported raw materials are free of duties, intermediate goods are taxed at 15 percent, and finished items 25 percent.

"The creation of a Customs Union needs some revenue, this is part of the give and take," admits Chenge. "If you look at the numbers, the country that has lost heavily is Kenya because of the trade impact. But you have to look at it in the long term, otherwise you will not be able to achieve economic cooperation. When we have a fairly functioning Customs Union it will give us the confidence to proceed into the common market, the right of establishment and investments. This would be the next logical step. Then we can talk about monetary union. And then political." For the time being, however, the politicians are satisfied with the opportunities provided by the EACU. Kenyan President Mwai Kibaki said that "regional integration combines markets, making it possible to reduce monopoly power as firms from the partner states are brought into more intense competition." This naturally benefits consumers as prices drop. Tanzania's former President Benjamin Mkapa did not diminish the role of entrepreneurs, saying that the success of the EAC hinges on the private sector.

"A fairly functioning Customs Union will give us the confidence to proceed into the common market, this would be the next logical step. Then we can talk about a monetary union."

Andrew Chenge, Minister for East African Cooperation

Not only has Julius Nyerere's original plan for an East African Union finally landed with both feet on the ground, but his vision of a wider unity is also seemingly coming into sight. By the end of 2006, Burundi and Rwanda are set to join the East African Community. The ripple effect has also harmonized the tourism authorities of the three founding nations. Tanzanian, Ugandan, and Kenyan national parks will soon charge tourists a common tariff. They will also start a marketing strategy at international trade fairs, promoting the EAC as the 'East African Village'. It only reaffirms what people living on the shores of the world's second largest fresh water biosphere have known for a long time, with the difference this time being that they are now officially united on and around Lake Victoria.

Getting On the Beaten Track

Tanzania is one of the unique destinations on the African continent that has yet to be discovered by the greater public. It is a land of many wonders. Permanent snow in Africa? Nowhere else but on mount Kilimanjaro, the highest freestanding mountain on the continent. The exotic islands of Zanzibar, the spectacular game sanctuaries of Tarangire, Lake Manyara and the Serengeti, Ngorongoro crater, and the Marine Park on Mafia Island are only but a few of the living testimonies to Tanzania's tourism potentials. Its stunning scenery and very friendly people all play a major part in the growth of cultural tourism, beach holidays, as well as historical and archeological ventures. Photographers have hailed Tanzania as the best experience for capturing wildlife in Africa.

"We are looking at encouraging low volume, up-market tourism in our country," says Saleh Pamba, Permanent Secretary for the Ministry of Natural Resources and Tourism. "We know that it's not the numbers which are important but the quality, and that's why our policy talks about sustainable tourism." Amongst its many unique assets Tanzania counts its political stability and peace as an important attraction factor. The Tanzania Tourist Board's efforts to draw in high-end visitors have so far paid off handsomely. The per capita spending of tourists is higher in Tanzania than almost anywhere else in Africa. According to the World Travel and Tourism Council, the sector contributed 9.3 percent to GDP in 2005, generating economic activity of \$1.8 billion. By 2010, Tanzania is expecting to reach one million tourist per year, bringing in an annual \$1.5 billion in revenue. "When we talk of tourism, it is a totality," says Anthony Diallo, Tanzania's Minister of Natural Resources and Tourism. "We are talking the complementary services offered alongside hotels, parks, restaurants, and many others. Over 60 percent of all tourists worldwide visit beach destinations. Wildlife and parks is their second priority. So while we are improving our wildlife and eco-tourism, we should also develop our beautiful coastline and Zanzibar. The totality of all these together will take us beyond the projected targets."

Markets which are being pursued are the United States and Europe, with upcoming promotions in South East Asia and China. America is currently one of Tanzania's largest sources of tourism, especially visitors from the Seattle area. The connection to Washington State can also be found at various Tanzanian hotels and lodges near West Coasters. Gibb's Farm near the magnificent Ngorongoro crater is one of them. An early 20th century farmhouse with suites set in the middle of a coffee plantation, the lodge is run by Bellingham's Dale Jensen and his wife Elena, who offer a taste of the good life and organic food served straight from the farm. It is an excellent base for safari excursions to the unique crater, whose interior is a contained wildlife environment, or the Serengeti National Park with its impressive annual migration of Wildebeest and Zebra.

The key to the country's potential lies in developing its infrastructure, service sector and direct connections with major international airports. The government is attracting investors with plans ranging from 5-star resorts to weekend breaks on a "safari island" off the coast from Dar es Salaam, and international hospitality groups have

already invested in the sector. A prime example is the Mövenpick Royal Palm Hotel, a premier 5-star accommodation amongst magnificent tropical gardens in Dar es Salaam which is host to most visiting Heads of State as well as corporate and international organizations. Its General Manager, Daniel Roche, says the hotel's facilities place it as the finest in the capital. An added attraction is the Skin Deep Spa, owned by Gita Shah. The Spa's wide array of treatments and massages are a favourite amongst First Ladies, ministers and royalty when they are in town. Shah is a skilled and licensed nurse and dermatologist whose services match international standards at very competitive prices.

Tanzania also offers the experience of personal interaction with its incredible tribal diversity, as Permanent Secretary Saleh Pamba describes. "We have established a Cultural Tourism Program accommodating tourists in the villages, to share the lifestyles of the local people." The country includes many of Africa's major ethnic and linguistic groups, a total of 120 tribes of which the Masai Mara are probably the most well known. Getting closer to Tanzania means getting closer to the source of life, and such an opportunity should never be missed.

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A Treasure Chest of Investment Opportunities

Find out why investors are flocking to Tanzania's dynamic mining sector where an important new mine has opened every year since 1998 and minerals now account for an impressive 52% of exports.



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