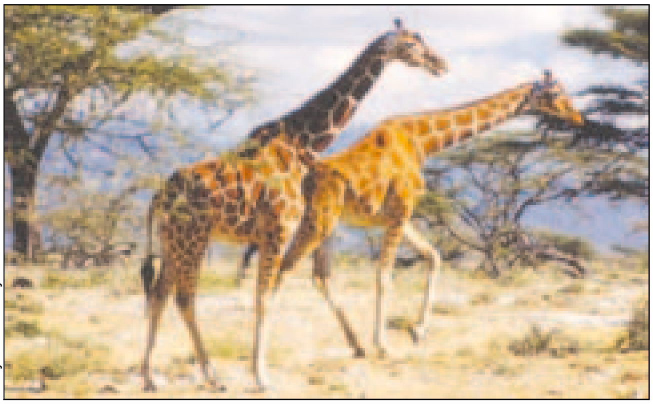

Kenyan Ministry of Tourism and Information

■ Africa's natural assets range from wildlife to mineral wealth

■ Kenya's leading indigenous bank shows the way – www.kcb.co.ke

African Economic Development and Finance Part 1

The African Development Bank Group is made up of three institutions: the African Development Bank (ADB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF). The Group forms part of the system of the five major multilateral development banks worldwide, which help their respective member countries achieve their development objectives. The Bank's current shareholding comprises 77 member countries including 53 African countries and 24 non-African countries.

Rating agencies working with the Bank have reconfirmed its 'AAA' rating – the highest possible rating in the market – enabling it to raise funds on very favorable terms on the international capital markets. The Bank's authorized capital currently amounts to about U.S.$30 billion, Regional Member Countries (RMCs) holding 60% and the Non Regional Member Countries the remaining 40%.

With poverty reduction being the main thrust of its activities, the Bank lends special attention to agriculture and related activities, the transport, industry, health and education sectors, as well as cross-cutting issues like environmental management and gender mainstreaming.

As world economic and finance leaders gather to take part in the ADB annual meetings in May 2004 in Kampala (Uganda), the question of deepening reforms in Africa and increasing the rate of growth to bring about significant reductions in poverty is high on the agenda. African countries have averaged economic growth of above 3% each year since 1995. However, rates of 7% to 8% are needed to achieve the Millennium Development Goals set in 2000 by the international community. These include halving the number of people living in absolute poverty by 2015.

"The Bank's strategy for enhancing its development effectiveness has for some time now rested on three elements: first, country ownership; second, the use of the participatory process at all stages of the project cycle; and third, enhanced collaboration with all our development partners," says Omar Kabbaj, President of the African Development Bank Group.

Strategic plan

The Group's Strategic Plan 2003–2007 provides a flexible framework for the ADB to clearly identify its operational, sectoral and thematic priorities. It aims to concentrate on a core set of activities identified by country, across countries and in the sub-regions. Resources will be directed to priority areas such as agriculture and sustainable rural development, with greater emphasis on water initiatives, and to human capital formation through primary education and basic health services. Selective support will also be given to the development of essential infrastructure where this is a vital component of rural development, or a priority factor of economic integration. This applies particularly to the Bank's support for initiatives from the New Partnership for Africa's Development (NEPAD).

■ Omar Kabbaj, President, African Development Bank Group

The plan also highlights the need for the ADB to contribute with key bilateral and multilateral donors in the fight against the HIV/AIDS epidemic that is most dramatic in sub-Saharan Africa.

Recent projects supported by ADB include road-building in Burkina Faso, Mali and Ghana, agricultural projects in Nigeria, and a water sector adjustment program in Morocco. The scale is enormous. For example, to date the ADB Group has committed around $753 million to 66 operations in Kenya and around $950 million to 65 operations in Tanzania.

"We have also proposed a framework for the implementation of banking and financial standards under NEPAD and have been given the lead role by NEPAD to promote regional integration through designing and implementing regional infrastructure development projects such as telecommunications, transportation, power generation and water supply," adds Kabbaj. "This will not only increase access to and reduce the cost of providing these facilities, but will also help to lower transaction costs, boost trade and increase the attraction of the continent to foreign investors."

■ The retail sector is growing fast in countries such as Kenya

Kenya

REFORMS TURN THE TIDE

PRESIDENT MWAI KIBAKI'S FIRST TERM IN POWER HAS SEEN GREAT ADVANCES IN THE EAST AFRICAN REPUBLIC'S FORTUNES.

The new government has been working tirelessly to put the safeguards in place to reaffirm Kenya's position as East Africa's commercial and manufacturing hub. Above all it is striving to combat the corruption which blighted business for so long under the rule of Daniel arap Moi.

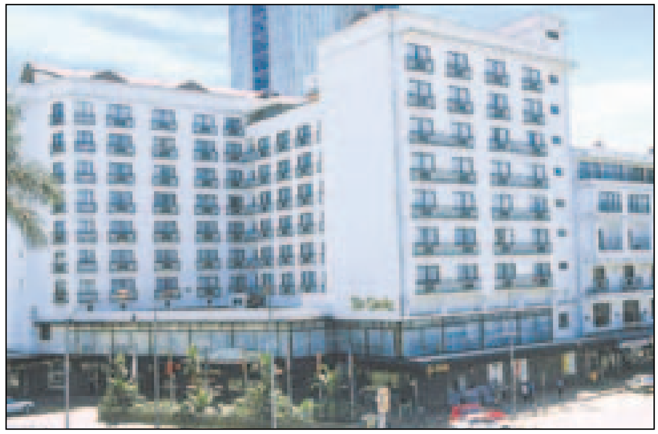
"Last year we started offering a number of incentives to both local and foreign investors such as tax holidays, manufacturing under bond status and export processing zones," says Minister for Finance, David Mwiraria. A privatization law should be passed in the summer and 170 companies are being considered for sale to the private sector.

Investors will be attracted by consolidating economic growth at 1.4% in 2003 and a projected 2.5% to 3% this year. Kenya also enjoys numerable trade agreements, notably with the U.S., through the African Growth and Opportunity Act (AGOA), the EU and regional partners.

Tackling poverty is a key priority, and central to this is support of rural populations. Lower interest rates will fuel economic growth and the Minister believes SMEs will help turn the economy round. "First, we want to improve the lives of farmers by making credit available to them and assisting them with financial as well as agricultural management. Second, we want to work with the private sector and they have our full support. This is the only way to keep the economy growing," he says.

Kenya Commercial Bank (KCB) is the leading indigenous bank with 113 branches – the largest network in the country. In 2003, the bank repositioned itself for growth, tackling the thorny problem of non-performing loans and rebranding itself for the future. "We are now a bank gearing ourselves up for increased competition," says CE Terry Davidson. "We are a broad-based investment and commercial bank, able to cater for all the needs of the foreign investor."

Both business and leisure travelers can certainly find luxury to meet their accommodation needs. The historical Stanley Hotel in Nairobi, for example, was founded in 1902 and has just undergone a 1.4 billion shilling ($18.1 million) refit. It is located right next to the Central Business District and has all the leisure amenities of a five-star hotel, together with extensive business and conference facilities.



■ If you haven't experienced The Stanley, you haven't experienced Nairobi www.sarovahotels.com

Role model

An ideal role model for growing businesses in Kenya is the supermarket chain Uchumi. Over the past three years it has designed and implemented a major restructuring and rebranding, integrating the business into one central headquarters and modernizing the IT system in preparation for expansion. Even with all this investment, the company grew by 14% in 2003 and opened new stores. It now has more than 25 outlets in Kenya which net a turnover of almost 9 billion Kenyan shillings ($116.4 million).

■ Kennedy Thairu, MD, Uchumi

"In retail you either grow or you perish," says Managing Director Kennedy Thairu. "After this year we have plans to expand into Tanzania and expand on what we already have in Uganda. We want to grow profitably, that's why we had to consolidate our position this year, so that when we expand we will already have the IT system in place."

Uchumi appreciates the value of its workforce and invests significantly in training, including visits to overseas partners such as Tesco in the UK. It also takes its social responsibilities very seriously. It works with local co-operatives of farmers to provide a reliable and regular income and contributes to conservation projects. It has also joined forces with an AIDS organization and collects around $1,800 a month for people living with the disease.

"I see us being a very popular brand in eastern Africa," concludes Thairu. "Uchumi will spread its wings into the rural areas and will be the supermarket of choice for many people."

Tanzania

SHOWING THE WAY

TANZANIA HAS WORKED HARD TO ENSURE THE MACROECONOMIC STABILITY IT ENJOYS TODAY. OTHER DEVELOPING NATIONS WOULD DO WELL TO FOLLOW ITS EXAMPLE.

The country richly deserves its economic success and this achievement has been recognized by the African Development Bank, which has commended Tanzania for its efforts to improve budgetary management and governance. In 2002, the ADB signed an agreement for a loan of approximately US$47 million to partially finance the Dar es Salaam water supply and sanitation project. In September 2003, it signed an agreement for $21.78 million to be provided by the African Development Fund (ADF) for the financing of a project in support of the Strategic Action Plan for Vocational Education and Training in Tanzania. This was followed in November 2003 by a $22.21 million ADF loan to finance the Monduli District water supply project.

Behind the achievements recognized by these loans lie the vision and determination of the Bank of Tanzania. Since the election of President Benjamin William Mkapa in 1995, the bank has focused, with great success, on the single monetary policy objective of achieving price stability through tight controls on money supply, interest rates, credit expansion, foreign reserves and the exchange rate.

Impressive growth

These prudent controls have paid off, with fiscal deficits kept within budget estimates and domestic arrears cleared. Inflation has fallen sharply, from 28.4% in 1995 to 4.6% in 2003, and the current account deficit has been declining. Between 1997–2002, despite engaging in extensive infrastructural projects, the country still managed to achieve an average growth rate of 4.8%. “The growth rate for 2003 has been affected by the climate, with agriculture hindered by a lack of rain, but forecasts are still good and we hope to maintain a rate of around 6.5%,” says Governor of the Bank of Tanzania, Daudi T. S. Ballali.

With economic and political stability established, the bank looked to improve the investment climate for domestic and international investors. Tanzania has a wealth of natural resources and is beginning to reap the benefits of their exploration.

In mining, for example, Tanzania has huge reserves of gold, nickel, copper, cobalt, iron, tin, gypsum, kaolin and phosphate. It also has significant resources of gemstones, including diamonds, rubies, sapphires, and the famous tanzanite, a purple semi-precious stone found only in Tanzania.

Investment incentives

“We revised our investment laws, saw that we had mineral potential, and studied the incentives that other countries give their investors in the mining sector,” says Ballali. “We offered a more competitive set of incentives and got a great response from foreign players. We started late, only in 1997, but are now vying for second place after South Africa in terms of production for the whole of Africa.”

Gold now accounts for 40% of the country’s exports, and mines are managed by major foreign groups from Canada, Australia and South Africa. Other exports include coffee, cotton, tea, cashew nuts, petroleum products, manufactured products and tobacco. 2003 was a record year for exports overall, with a rise in volume of 20% year on year, and Ballali hopes the momentum will keep going. Main markets are India, Germany, Japan, Belgium and the UK.

Tanzania has recently diversified into fish exports, a move welcomed by Ballali. “We were lucky to start up these new fish export ventures, as coffee and cotton prices are in decline due to overproduction on a worldwide scale,” he says. “We are also expanding our Export Processing Zones.”

Manufacturing is another growth area for foreign groups. It currently accounts for 8% of GDP and is mainly limited to processing agricultural products and light consumer goods. Far Eastern organizations are already present in the sector, but it is hoped to dramatically increase its labor-intensive activities and create jobs.

Meanwhile, 80% of the total workforce is still engaged in agriculture which accounts for 50% of GDP. However, only 4% of the arable land is currently cultivated.

Exports under AGOA

Exports to the U.S. under the preferential tariff terms of the African Growth and Opportunity Act (AGOA) will also begin this year, following Tanzania’s qualification for AGOA status at the end of 2002. The legislation requires that countries are only eligible for greater access to U.S. markets provided they have made continued progress towards a market-based economy, the rule of law, free trade, poverty reduction and the protection of workers’ rights.

■ Daudi T. S. Ballali, Governor Bank of Tanzania

Ballali says Tanzania has also benefited from being one of the 14 member states of the Southern African Development Community (SADC) which aims to overcome underdevelopment, exploitation, deprivation and backwardness in southern Africa through economic cooperation and integration. He is also a great supporter of the New Partnership for Africa’s Development (NEPAD), particularly the Peer Review it entails.

To take advantage of this regional integration, Tanzania hopes to develop its role as a transhipment hub, and is investing heavily in infrastructure, particularly roads. This will also help boost the tourism industry and attract large tour operators to set up in the country.

Biggest and best

There is certainly much to see – the biggest and best of many things. Tanzania boasts the largest crater in the world at Ngorongoro, the longest and deepest lake in the world, Lake Tanganyika, the highest mountain in Africa, Kilimanjaro, and the second largest lake in the world, Lake Victoria. Visitors can enjoy everything from safari to beach tourism with a warm welcome from a friendly people. Tanzania is also aiming at the conference and incentive travel market, and is encouraging investors to construct large-scale conference centers.

Security for investors is offered through a transformed financial sector, with a robust regulatory framework established by the Bank of Tanzania. Now the government is working to create a competitive banking environment in order to reduce interest rate spreads and increase the ability of financial institutions to lend to large and small borrowers. “The financial sector is the area where we have made the most changes,” says Ballali. “We have 23 commercial banks and there will be 24 established by the year-end. We have the potential to be a key player in the financial arena for the region, with key names present in financial circles and advanced technology.”

The successful privatization process is almost complete, with all the major entities privatized. Telecommunications was a particular success, with cellphone access changing the way the population communicates. The state electricity company TANESCO (Tanzania Electric Supply Company) is still available for bids.

“As Governor, I enjoy an extremely good dialogue with international development agencies, thanks in part to 23 years with the IMF in Washington,” says Ballali, who is now serving his second five-year term as Governor to 2008. “Key indicators are good and Tanzania will continue its development process in line with its 2025 vision to become a middle-income nation,” he advises. ■

The primary objective of the Bank shall be to formulate and implement monetary policy, directed to the economic objective of maintaining price stability, conducive to a balanced and sustainable growth of the national economy of Tanzania. In other words, it is the primary responsibility of the Bank to establish conditions conducive to price stability over time.

ONE OF AFRICA'S FASTEST GROWING ECONOMIES INVITES FOREIGN INVESTMENT

Now, we're focusing on investment. We are rich in natural resources, especially gold, that are just waiting to be exploited. And we're offering competitive incentives which have already attracted enough interest to make us Africa's second highest producer.

2003 was a good year for us. We increased exports by over 20% and this looks set to rise again as we begin to export to the U.S. under AGOA. It's time to invest in Tanzania. Opportunities lie in gold-mining and fish exports, manufacturing, tourism and finance.

Explore Africa's new frontiers. Come to Tanzania and we'll help you strike gold.

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