


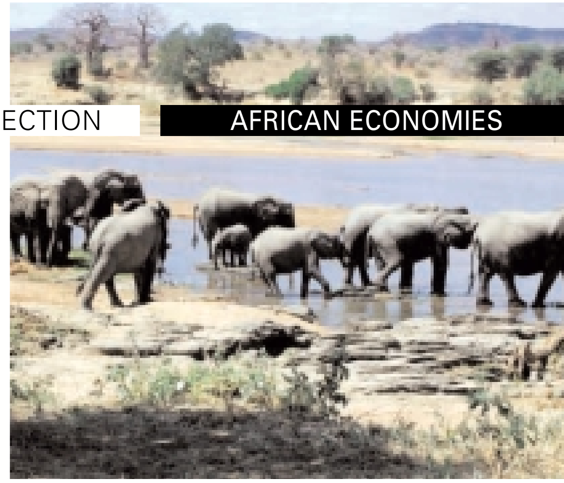

Photos courtesy of Ministry of Tourism

African Economic Development and Finance Part III

Reform, results and responsibility: the changing context of Africa's economic development.

The year 2005 has proven to be a milestone for raising Africa's profile and development issues within the international mindset. After decades of negative media coverage and unsatisfactory attempts to rescue the continent from further decline, African countries are being given a fairer platform to stand on globally and the opportunity to prove they are up to responsible governance and ownership.

The Commission for Africa, launched by British Prime Minister Tony Blair in February 2004, issued its widely-anticipated report, which made strong recommendations as to how Africa and the international community could help the continent grow. Building on the positive work already done by the African Union and Nepad (the New Partnership for Africa's Development), the report coincided with the UK's chairmanship of the G8 summit in Gleneagles in July and its presidency of the European Union in the second half of the year. Mr Blair has kept Africa high on the agenda of both.

One of the Commission's recommendations is to increase the annual growth rate to 7% by the end of the decade. Last year, overall growth was strong, thanks to high oil prices and a recovery in agricultural products. Countries like Tanzania showed that net oil importers can also do well. Most African economies have got to grips with inflation, with the average inflation rate now expected to remain below 10% for the third year running.

The results show how ground-breaking internal reforms are replacing corruption with good governance, maintaining financial stability and making firm strides towards peace. It is now imperative that sustained growth is achieved, through these reforms and through investment. Global financial institutions, such as the IMF and the World Bank – who hold their annual summit in Washington this week – and the African Development Bank, which has been supporting Africa for more than 40 years – have all played a crucial role in supporting these changes. This report focuses on three of the African countries already committed to free market economies which have made, or are currently implementing, the fiscal policies conducive to attracting foreign direct investment.

Overall growth has been strong, thanks to high oil prices and agricultural recovery.

Tanzania has consistently raised productivity over the past 20 years by liberalizing its economy. Swaziland, with its settled government and low inflation rate of just over 2%, is currently expanding its tourism sector and offering tempting incentives. Rwanda, while still recovering from one of the most devastating civil wars in recent history, is nonetheless able to boast a stable, post-transition government that is pushing through important private sector reforms and reorienting to a fully liberal private economy.

Turning the corner

Africa is once again on the global leaders' agenda, but this time with mutual respect and accountability.

Following the much heralded G8 summit in July of this year, focus is shifting to the 2005 Annual Meetings of the World Bank Group and International Monetary Fund in Washington, D.C. on the 25th of September. It is here that the New Partnership for Africa's Development (NEPAD), the driving force behind Africa's recent arrival on the world stage, hopes once again to get its message across: that Africa has turned a corner.

Born out of a summit of the Organization of African Unity (OAU) in July 2001, NEPAD is the reason for the Developed World's new understanding of the needs and aims of Africa after years of conflict, poverty and countless faltering aid programs. "Things have changed for the better and we want to harness the momentum to continue this change," says Professor Wiseman Nkuhlu, former chairman of the NEPAD Steering Committee. "Previously, aid was based on a one-sided relationship but now it is built on a two-way partnership of mutual respect and accountability."

This shift from aid packages to a process of active investment is supplemented by the spotlight shifting to specific needs for Africa's future. "Looking at Africa's long term needs, we must focus on the people and enable them to be generators of wealth themselves," Professor Nkuhlu continues, "to improve the conditions in rural areas, where the majority of the population live, and to give them scientific and technological support." Centers of excellence are planned to train people to offset this science and technology shortfall and support the goal of profit generation.

Identifying the key needs for Africa's development is one aspect of implementing change but addressing tough realities is also proving to be equally significant. As Professor Nkuhlu says: "The recent communication. A commitment to good governance has engendered trust in potential investors and also, in the recent Economic Outlook Report by the Organization for Economic Cooperation and Development, the fiscal deficit average for the continent for 2004 was almost zero which means that African countries are learning to live within their means. Likewise, in the support South Africa gave Mozambique, they can ably demonstrate their aim to stop wars and then stabilize the peace afterwards.

Professor Nkuhlu goes on to explain how there are other factors that have previously discouraged international private investors which in turn have created vicious circles: "Because there is little infrastructure in Africa, if you manufacture you might be discouraged because you would need your own electricity generator and, before NEPAD, if you were thinking of investing in building a power station in Botswana, because of a lack of internal communications, you could only serve that country. Now you could serve the millions in Botswana and other markets beside. NEPAD has given greater scale to investments. So, using this example, if we can encourage investment in infrastructure, we can also encourage investment in manufacturing."

By breaking vicious circles in this way and aspiring to achievable aims, NEPAD is having greater and greater results when it comes to promoting Africa's needs. This year's Annual Peer Review Mechanism was a landmark event where specific reports on Ghana and Rwanda illustrated Africa's commitment to good governance by illustrating past failures. It is through this commitment to delivering open and honest reports that NEPAD is striving to show how Africa is facing up to the past rather than succumbing to it again and again. The next step is to get the message across. As Professor Nkuhlu sums up: "Communicating

"Things have changed for the better and we want to harness the momentum to continue this change." **Professor Wiseman Nkuhlu,** former Chairman of the NEPAD Steering Committee

Commission for Africa report has developed a new approach for us when addressing the G8, who we meet with twice a year. In the past we have not been detailed enough to get action on G8 commitments but we now communicate much more clearly.

"Now we can say how the NEPAD infrastructure plan works and that it will cost this much, or that a health system will cost this much and so on. It's much more transparent than before."

Clear communication is a must for all business proposals and as well as working for NEPAD on an international level with the G8, it is working on a national and regional level as well: "However, following the war in Mozambique, South Africa developed a special relationship with their neighbor as a response and contribution to stabilizing the country. The creation of good governance is vital to attract investors, and as the pipeline involved both the public and the private sectors, it appears to be working. It is also a model we will be taking elsewhere across the continent."

Trying to convince outside investors has not been easy, but NEPAD is beginning to make headway, again by using clear our message to key stakeholders and outside investors is a huge task. There are 53 countries in Africa and a host of languages and dialects but we have a highly motivated communications team and through our website (www.nepad.org) you can subscribe free to our newsletter. Externally we work with the G8; the Commonwealth Business Council, who host NEPAD conferences for investing in Africa two or three times a year and the American-based Corporate Council for Africa, who have one conference per year focusing on NEPAD, as does the Corporate Council of Canada. Yes, it's a big task but through perseverance, we are very confident of achieving it."

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SWAZILAND - Sitting pretty

The strong and scenic arm of African trade moves towards tourism and manufacturing.

Nestled between South Africa and Mozambique, the colorful Kingdom of Swaziland boasts mountain ranges, world-leading game reserves and a temperate climate that is attracting an increasing number of tourists. According to the Minister for Finance Majozi Sithole, a growing number of investors are also being drawn to the destination - the smallest country in the southern hemisphere - in search of big opportunities. “We have a stable economy where inflation is currently just over 2%, a settled government with no corruption and business opportunities enhanced by international trade agreements,” he says.

Majozi Sithole Minister for Finance

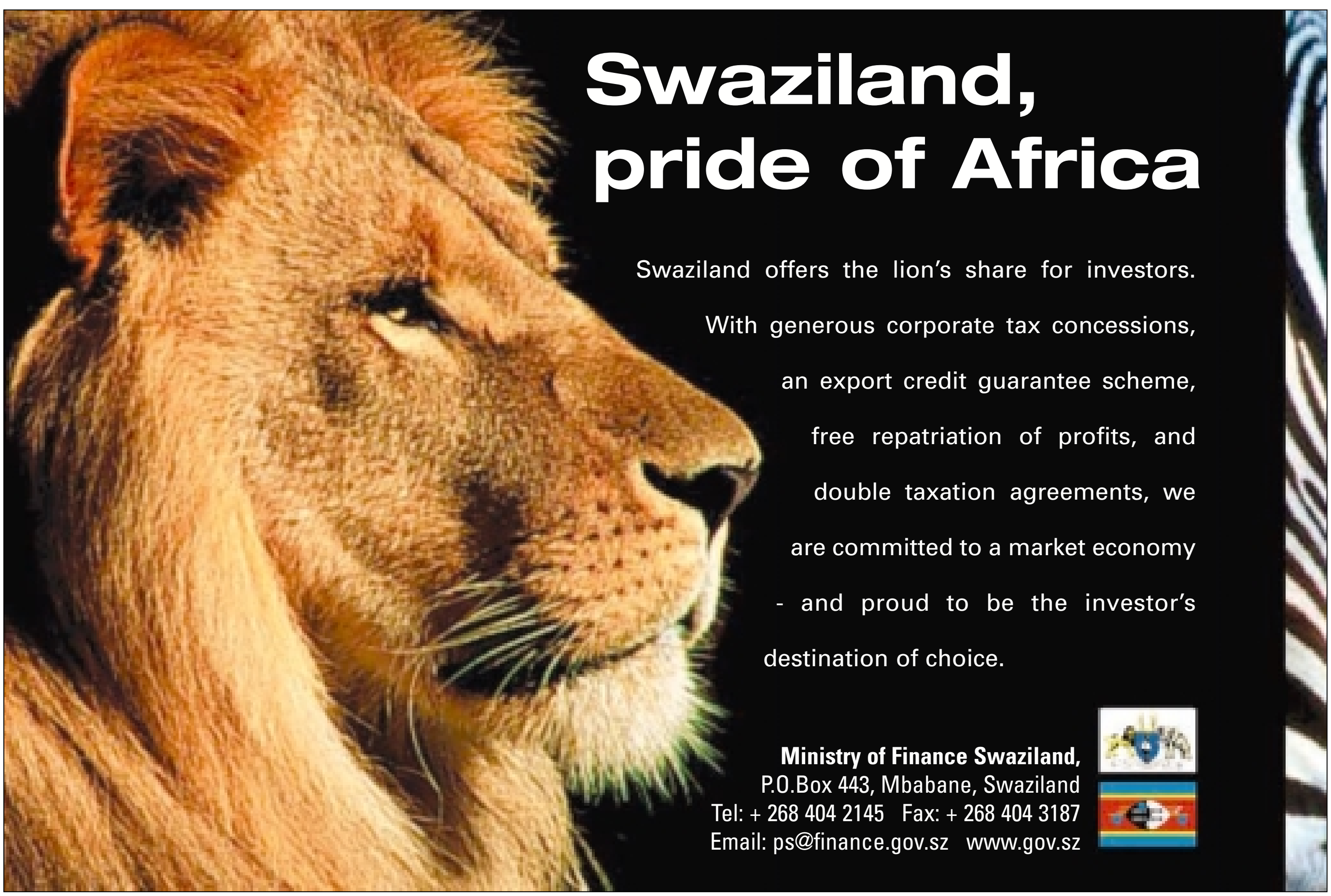
The biggest potential for investors is the country’s booming tourism sector which, due to South Africa’s popularity as a holiday spot, has benefited from increased interest in the region. Impressive projects such as the $US240 million Josini Big 6 Game Resort under development in the south of the country indicate the high level of confidence that exists in the sector. Swaziland’s tourism industry is expected to generate US$340 million of economic activity in 2005 and grow 3.8% per annum for the next ten years.

Other major industries in Swaziland include textile manufacturing, mining, and cotton and fruit agriculture where Sithole says the country is keen to attract investors who can offer expertise in the mechanization and assembly of agri-equipment.

Since the establishment of the Central Bank in 1974, a stable and profitable banking industry has also evolved and, according to governor M.G. Dlamini, new legislation has enabled Swaziland to open up for investment in the area of financial services. “All these industries are populated by a cost-effective and highly-trained labor force,” says Sithole, “which we believe is an attractive source for investors coming here.”

As the Minister of Economic Planning and Development Dr. Absalom Dlamini points out, Swaziland appeals to small and medium-sized investors as well as the larger companies. He is keen to highlight Swaziland’s many trade agreements, such as the African Growth and Opportunity Act, U.S. import duty concessions and a free trade deal with the EU as additional incentives for investors.

The government-funded Swaziland Investment Promotion Authority was created in 1998 to “promote and facilitate foreign direct and local investment in Swaziland,” according to CEO, Bhekie Dlamini. “We provide a one-stop information and support facility which has proved a huge success in making life easier for all investors.”



TANZANIA - Riding high

A buoyant economy in the home of Africa's highest mountain offers viable incentives for foreign investors.

A country of vast plains and magnificent wildlife on the east coast of Africa, Tanzania assumed its present form in 1964 after a merger between the mainland Tanganyika and the island of Zanzibar. While the economy still depends heavily on agriculture, employing around 80% of the 36 million population, the country has drastically increased its funding of education and has had some success in wooing donors and investors to its growing finance, mining and tourism sectors. Over the past 20 years the country has raised productivity and attracted foreign investment and loans by dismantling government control of the economy.

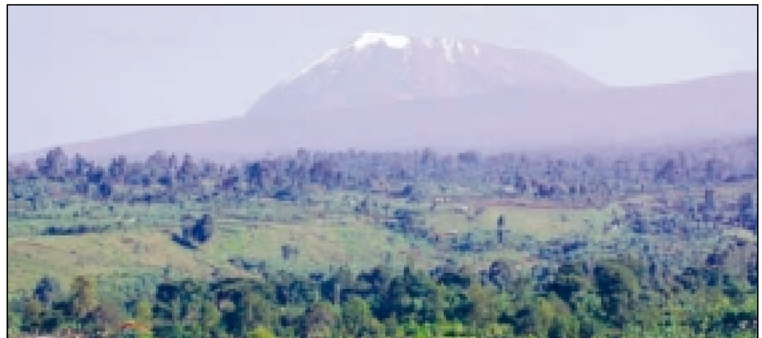
The current president, Benjamin Mkapa, has continued this policy and has been credited with being the driving force behind Tanzania's extensive economic liberalization, which has been well received by the IMF and World Bank. While still a poor country, economic growth is now at 6%, and as one would expect in the home of Mount Kilimanjaro, Africa's tallest mountain, there are high expectations that the country can build on these recent successes.

Daudi T.S. Ballali Governor of The Bank of Tanzania

Instrumental to the country's changing fortunes has been the role played by the Central Bank of Tanzania. Not only has it overseen the reform of Tanzania's banking system, it has also acted as adviser to the government on its overall economic policy. And whereas 10 years ago deficits were extremely high, today, according to the bank's governor Mr Daudi Ballali, the country boasts a balanced budget. "We attach great importance to macroeconomic stability as everything else rests on that," he says.

The bank's pivotal role is set to be formalized in a new law, the Bank of Tanzania Act 2005, due to come into force later this year. The Act guarantees the bank's independence from government and cements its position as a crucial intermediary bestriding the interests of government and business. Ballali says compared to the early 1990's when Tanzania only had one nationalized bank, the country's financial sector has been transformed. Today, there are 23 commercial banks operating in Tanzania, 13 of which are foreign and many of which have extended their operations out from the capital Dar-Es-Salaam to service the smaller cities and rural areas.

This year, the last remaining state-owned bank, the National Microfinance Bank, will be sold off, signaling the tail end of privatization of the sector in the country. The development of the industry has brought with it increased efficiencies, much of which has been enabled through investment in technology. ATMs can now be found across the country, while a payments platform based on SWIFT has been introduced, meaning many wages can be paid straight into the banking system. The Bank of Tanzania has also implemented a real-time settlement system, the Tanzania Inter-Bank Settlement System (TISS), which has been adopted by all banks in the country. "It enables us to instantaneously balance our books and produce a balance sheet every day," say Ballali. Increased participation from foreign banks has also led to an expansion in the number of financial products being offered. Ballali says there has been a move towards institutions offering longer-term loans and over the next two years, he predicts a rapid growth in the distribution of mortgage services.



Mount Kilimanjaro – Africa´s highest peak

Foreign involvement in Tanzania's financial sector has also increased the level of activity on the country's stock exchange. "They used to trade once or twice a week. Now they trade everyday except Monday," says Ballali. According to Ballali, "the first generation of reforms" of the financial sector are almost complete. Privately run and attracting foreign capital, the industry is now working with the IMF to build on the progress made over the past decade.

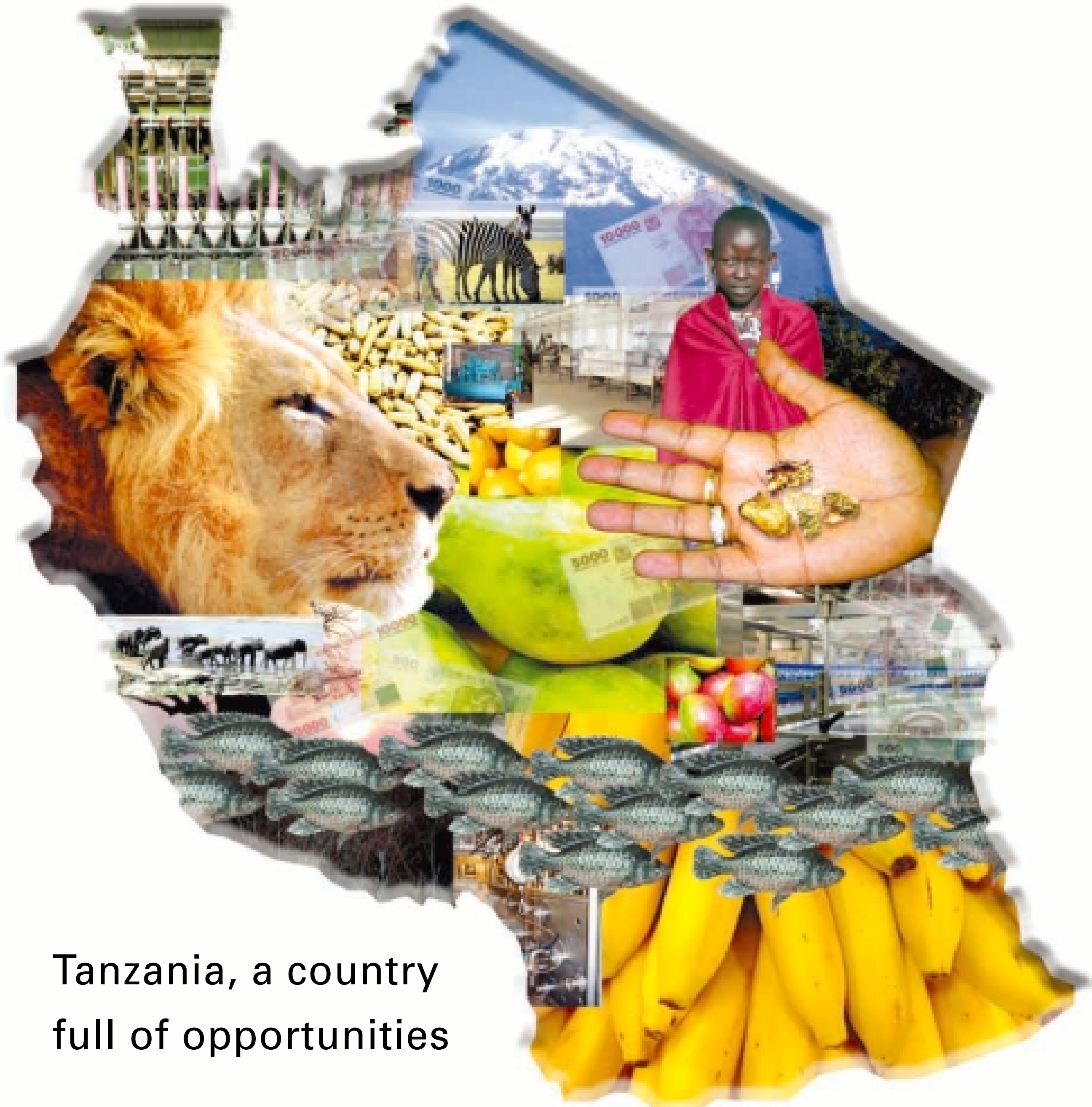
Alongside the burgeoning financial sector, mining and tourism are Tanzania's prime industries. Gold is the country's biggest export while the World Travel and Tourism Council (WTTC) calculates tourism will grow over 12% in 2005 as increasing numbers of visitors are drawn to the country's big game reserves. Overall, the WTTC says tourism contributes almost US$2 billion to the Tanzanian economy.

> **"We attach great importance to macroeconomic stability because everything else rests on that."** **Daudi T.S. Ballali** Governor of The Bank of Tanzania

Traditional exports industries such as tea, coffee, cotton farming and fishing, mostly drawn from Lake Victoria, are also benefiting from newly created Export Processing Zones (EPZs), which have been set up to encourage growth in these sectors.

Tanzania benefits from a number of trade agreements such as the African Growth and Opportunity Act (AGOA) which offers incentives for developing free markets and the EBA (Everything but Arms) agreement which has opened up potential avenues of trade with Europe.

According to Ballali, Tanzania still requires further investment if it to exploit these markets fully. "Investors should take a look at what's happening in Tanzania – what we are doing and where we are going," he says. "So much has changed in a short time. It is a completely different place from what people may have heard in the past."



Tanzania, a country full of opportunities

With sound financial polices creating steady growth, Tanzania has all the conditions in place for an investor-friendly climate. Opportunities exist in gold, diamonds, tanzanite and other gems, plus the tourism, manufacturing and technology sectors. For more information, contact The Bank of Tanzania.

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RWANDA - Preserving assets

New private sector initiatives are helping rebuild the fabric of Rwanda.

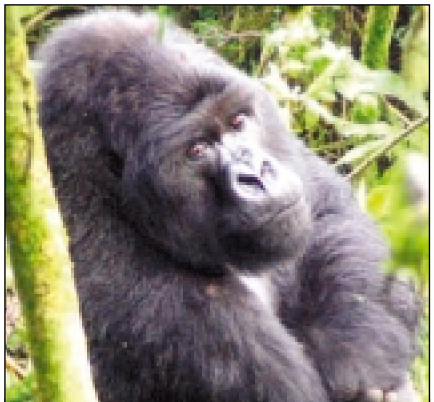
Rwanda, a land-locked country of 8.5 million in Central East Africa, experienced the worst genocide in modern times in the 1990s, but is making a sustained re-covery under President Paul Kagame. The former military commander is building national unity and presents himself as a Rwandan and not a Tutsi. His government, led by PM Bernard Makuza, has established improved peace and security and a new constitution that underpins democracy.

Bernard Makuza
Prime Minister

The post-transition government's political vi-sion is based on the pi-llars of good governance, a restructured judicial system, economic de-velopment and health. "We are also giving more weight to the private sector and have moved to a fully liberal market economy," says Makuza. Other initiatives include a new in-vestment code to encourage inflows of foreign investment and a one-stop shop to reduce barriers for prospective investors and promote Rwanda as a hub for exports.

Another architect for Rwanda's recovery is Claver Gatete, Secretary General and Secretary to the Treasury at the Ministry of Finance and former Personal Representative of the President to the New Partnership for Africa's Development (NEPAD) Steering Committee. He says: "The economy is growing at 6%, with inflation contained at 3-5%. We are providing a conducive environment for investors."

Rwanda is benefiting from the U.S. African Growth and Opportunity Act (AGOA) and NEPAD initiatives, especially its flagship East Africa telecoms project to link the region with a cable system. Gatete is keen to exploit the potential of agriculture through diversification into new crops, including cut flowers, fruit and vegetables and coffee and tea products. He also wants to improve the energy sector, given the vast reserves of gas in Rwanda's Lake Kivu.



Mountain gorillas are still the main attraction

Minister of Infrastructure, Eng. Evariste Bizimana has many poverty-reducing solutions, including privatization of state-owned properties. He is promoting plans for a railroad to link Kigali with the Isaka dry port in Tanzania and for roads linking Rwanda to Uganda and Burundi. The most pressing need, however, is for investors. "We are trying to get back on track," he says, "but we need to tell people what opportunites we can offer."

One attraction is its location. "Rwanda is at the heart of a market of 60 million people," says Prof. Paul Nshuti, new Minister of Finance and former Minister of Commerce, who points out: "You can reach Uganda, Tanzania and DRC in 12 hours." Reconstruction of the highway system is imperative, however, as only one kilometer in 10 is tarmacked. The Rwandan Road Maintenance Fund (RRMF) is only able to meet 30% of the annual maintenance costs, so government subsidies and external funding are urgently needed. "Rwanda was not named "the land of a thousand hills" for no reason," says the RRMF´s managing director, Soteri Gatera, who is only too aware of the need to lower transport costs to make Rwandan exports more competitive.

U.S.-owned Terracom is the newest entrant to the Rwandan telecoms industry. The company officially took over the former state-owned Rwandatel in June 2005, after signing a share purchase agreement which gave Terracom 99% shares of Rwandatel. The company is to pay US$20 million for the stake. Terracom considers itself very much a Rwandan company, however. Greg Wyler, CEO, says: "We are staffed by Rwandan people who are dedicated to providng our services and work 24/7 to ensure the quality of the network." Dr. Donald Kaberuka, Rwanda´s former Finance Minister, endorsed the takeover, saying: "I am optimistic that Terracom will expand telecoms and reduce prices to its res-pective customers and Rwandans at large." The company is currently involved in building one of the largest and fastest fiber optics networks in central Africa. It will span the entire country from end to end, providing telephone, Internet and TV to all. Dr. Kaberuka says: "Rwanda is one of the regional leaders in innovative tech-nology and has staked much of its attraction to investors by aiming for a knowledge-based economy. Its ICT policy is considered the most advanced in the region."

Claver Gatete
Secretary General &
Secretary to the Treasury

Finally, the Rwandan Office of Tourism and National Parks is creating a sustainable, high-end eco-tourism industry, aimed at annual revenues of US$100 million by 2010. Under director general Rosette Chantal Rugamba, the strategy is to seek investors to expand beyond "gorilla tourism," to include all primates as well as national parks, volcanoes and lakes.