



# CEO Roundtable of Tanzania

Ethical Leadership for Growth and Prosperity

## **Summary of Points Raised by the Chairman of the CEO Roundtable, Mr. Ali. A. Mufuruki during his Keynote Speech at the 8<sup>th</sup> Annual Gala Dinner held on Saturday, 3<sup>rd</sup> December at the Hyatt Regency Kilimanjaro in Dar es Salaam**

The Board of Directors and Members of the CEO Roundtable recognize the good work that H.E. President Magufuli is doing in tackling corruption, abuse of power, misuse of public resources and helping level the playing field for the honest private sector in Tanzania.

However, we believe that this is the right time for government and private sector to come together to speak in a more meaningful way about the kind of partnership we want to have between the government and private sector of this country.

Whilst the topic of Public Private Dialogue (PPD) and Public Private Partnership (PPP) has been a highly debated issue over the last 20 years, it appears that this concept is still not well understood and there is a lot of work that needs to be done to ensure that the government and private sector are actually talking about the same thing.

Highlighted below are areas where had the government engaged the private sector in meaningful dialogue, at the right time, the country could have greatly benefited.

### **Five Year Development Plan II (FYDP II)**

Earlier this year, the government launched the FYDP II with a huge emphasis on industrialization. The private sector greatly supports this plan but feels the preparation of the plan did not involve the private sector in a serious way.

Concerns raised through a high level steering committee tasked with reviewing the FYDP II about the lack of meaningful and effective private sector involvement and participation early in the plan's preparations were brushed aside which was unfortunate because a more collaborative approach would have ensured:

- A higher level of private sector preparedness to participate in the implementation of the plan (mobilization of finances, sourcing of partnership with foreign investors, technology, training of competent human resources, etc)
- Wider contribution of ideas, technical capabilities and expertise to assess the viability of the projects envisaged in the plan
- A more effective allocation of responsibilities for the implementation of the plan between the private sector and state institutions
- A better understanding of the full range of issues that need to be tackled in order for the plan to succeed, including but limited to infrastructure, financial resources, technology, people and policies

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Recognizing that FYDP II is a very ambitious plan with TZS 107 Trillion planned to be spent on development projects over a five-year period between 2016-2021, we are concerned that the private sector, who will be largely responsible for the implementation of the plan is only now playing catch up, having been caught unprepared by the announcement of the plan in May this year. Upon review of the plan, we found that there are numerous significant omissions and areas of strategic weakness in the plan that could have been avoided had the private sector been engaged at the right time.

A critical example is the existing electricity shortage in the country. We have 1,400 MW today for a population of 50 million people and the plan aims to get to 4,000 MW in five years' time. This is not sufficient however. We cannot power current and new industries whilst we experience shortages and electricity that is frequently unavailable, never of the right quality or that is hugely expensive. The GOT is of the view that additional electricity should be generated when it is needed. We in the private sector however, believe that investors will not come until they know we have surplus electricity that is not only of good quality but also it is very cheap. This is a very important difference in opinion between the GOT and the private sector. We need to sit down to discuss this important matter and come to an understanding otherwise we risk losing valuable time and precious money.

Lack of electricity however is both a problem and a huge business opportunity. We believe that for us as a nation to have a fighting chance as an industrializing country, we need at a minimum 10,000MW of electricity within the next 5-10 years; a significant part of this capacity will need to be made available to industrial users at globally competitive (possibly subsidized) tariffs.

Had we had time to engage earlier on, we may have found solutions to providing high quality, cheap and abundant electricity thus giving Tanzania a better chance of starting our Industrialization journey on the correct footing. In the partnership that we are calling for with the government in the coming year, we would like to talk about electricity in a serious way so that we can plan together and have a better chance of success.

### **Economic Partnership Agreement between the EAC and EU**

Recently, the government made a very important strategic decision to desist at this point in time from appending its signature on the EPA agreement with the EU. The government was justified in its decision as the ground on which the negotiations have been taking place over the last 10 years has shifted following BREXIT.

With the UK being our single biggest trading partner in the EU, if they are no longer part of the EU, it is important to understand what has changed and what the implications are going to be. However, the government did not engage the private sector in any type of dialogue despite the fact that it is primarily the private companies that are trading with the UK and the EU. Therefore, the policies that are formulated directly affect those companies trading with the UK and EU and who now have businesses that are at risk.

### **Agreeing new rules of engagement between the GOT and the private sector**

It is important to note that the private sector in Tanzania has grown significantly in the last two decades. The key sectors of our economy (mining, tourism, oil & gas, ICT/media, financial services, real estate, construction, manufacturing, retail) have grown tremendously. They are involved in big trades and with that the associated risks are significant. In light of the above, we may well be at a point in time where we urgently need

to re-examine the effectiveness of the institutions that have been put in place to steer the partnership between the government and private sector and if necessary to make changes to the rules of engagement.

In this regard, whilst the TNBC dialogue platform has been very useful for the last 16 years, we believe that time has come for changes to be made to the content of its work, its modus operandi and the nature of private sector participation in policy formulation, the objective being that policies should be more effective, the private sector and GOT should work together in harmony and not against each other, understanding all the while that neither can succeed if the other fails.

### **Financial Sector needs urgent attention**

For the first time in our history of commercial banking, we are seeing banks reporting losses whilst some banks are being threatened with bankruptcy within this last quarter. We understand where these shocks are coming from but the government and private sector should work together to ensure the financial sector does not continue to be de-stabilized.

The financial sector was just beginning to make a huge contribution to this country's economic growth, financial inclusion of millions of Tanzanians and modernization of our payment systems. As one of the fastest growing sectors, and together with telecommunications, the two leading sectors in terms of GDP growth contribution, we cannot allow this sector to become unstable.

However, attempts made by our members within the financial sector to engage with the government in these conversations are not having much success. Therefore, we appeal to the government to engage with us in serious conversation on this important issue.

### **Mandatory IPO Listing on the Dar es Salaam Stock Exchange for Communications companies**

On 1<sup>st</sup> January 2017, companies within certain sectors of the economy will be required by law to list 25% of their stock on the Dar es Salaam Stock Exchange (DSE). However, markets have a tendency of not responding well to political instruction, this is a fact. It is important to note that some companies that have branches operating in Tanzania are also listed in various stock exchanges around the world and every time there is bad news in Tanzania, it adversely affects their stock performance elsewhere. This type of information is directly linked to the policy environment and can deter new investment into the country.

We are of the view that while the intent of the (EPOCA) law is noble and deserves our support, the manner of its implementation as currently proposed can easily spell disaster not only for the stocks of these companies but for the entire financial market within which the DSE plays a key role as a public capital raising platform.

For example, it would not be a very smart decision to ask a company that has been making losses for the last five years and has no prospects of making profits (and issuing dividends) in the near future, to list its stock on the stock exchange. Nor can you expect people to invest in stock that is worth nothing. It will be a big mistake to instruct public institutions such as pension funds to buy such stocks. But if nobody buys the stocks after listing, serious harm will be done to our capital markets, both physically and in terms of branding and country risk rating.

We believe that if the private sector had been engaged in the preparation of this policy, not only would it be very different but also it would have been better designed and would have a higher probability of succeeding in the attainment of the goals for which it is intended.

### **Without a better form of partnership we will fail together**

The government by law is a shareholder of every for-profit company registered in this country. In addition, the Government is a super shareholder in every private company because it has the pre-emptive right to 30% of every single shilling of profit declared by a company in this country even before shareholders have access to dividends from the profits made by a company. Even in a year when the company doesn't declare dividends and ordinary shareholders go empty, the Government collects its share, namely 30% of profits.

This arrangement makes the government not only a super shareholder of every company in Tanzania but also possibly the most important stakeholder and contributor to the success of each and every company in this country. The government should therefore work hard to ensure that the pool of companies from which it collects its share from every year, grows. When this pool grows and expands, the government will make more money.

The government has no other source of revenue than from taxes, loans and grants. However, grants have become unpopular and we believe that our country can actually generate the money we need to develop internally and thus we need to grow our private sector. We recognize that the government and private sector are inextricably connected in that one cannot succeed without support from the other.

### **Conclusion**

In conclusion, members of the private sector possess the qualifications, expertise as well as the technical, financial and strategic competences to engage with their counterparts in government in a very productive and meaningful way. Even in matters that are considered very technical, the private sector players can make useful contributions.

Through serious dialogue and gaining a deeper understanding of the government's plans well in advance, the private sector can ensure preparedness by acquiring the necessary resource and capacity to support the government's long-term plans.

In light of this, we implore to the government to engage in serious dialogue with the private sector based on genuine partnership. We need a new and higher level of inclusion in matters of policy formulation and decision making through by sharing information and harnessing the vast expertise and resources that exist within the private sector in Tanzania.