4TH ANNUAL **SADC** INDUSTRIALISATION WEEK

Challenges in Financing Industrialization and the Role of Local DFIs

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Outline

- Introduction
- Economic Development Phases
- Overall Tanzania Economy
- Challenges of Industrial Sector
- Role of Local DFI
- Conclusion

Introduction

TIB Development Bank

- One of the two DFIs in Tanzania
- Mandated to catalyse economic development, through provision of medium and long term finance towards implementation of infrastructure, mining projects, industrialization with specific emphasis on agro-processing.
- Provide technical assistance and advice for the purpose of promoting industrial development.
- Administer funds as may be placed at the disposal of the bank by the Government or other stake holders earmarked for specific projects or interventions.

TIB DEVELOPMENT BANK AND ITS SUBSIDIARIES

TIB DFI

- Responsible for long term financing,
- Provide expertise to different investment projects,
- Partnership with other Regional financial institution in fostering investment within the region.

TIB Corporate Bank

- Responsible for short term lending, branch operations, etc.
- Provide commercial banking services to Dfi and its clients
- Support Rasilimali and TADB banking services

TIB Rasilimali

- Responsible for capital market activities,
- Compliment TIB Dfi the long term finance,
- Complement with TIB Dfi in financial products that might be relied within the long term strategic finance.

Economic Development features – Structural transformation

0 to $1,025 | **$1,026 to $12,375** | **Above $12,375**

Agriculture

- Income per capita rises
- Main product has reached its natural limit
- Agr. Product relatively less expensive
- Technology; labor productivity increase
- ↑diminish the need for Agr. workers

Industrial

- Employment opportunity growth
- Faster growth of Income per capita
- people’s needs become less “material” and they begin to demand more services
- Share to GDP increase, relative to Agriculture

Services

- Services become more expensive, relative to Agr. & Industrial
- Progressive Increase of GDP share
- Fewer public resources, relative to Agr. & Industry-more private
- **DEVEL**

- Graduating from least poor economy LDC with GDP per capita above US$ 1,025

Overall Tanzania Economy

- The performance is within the SADC- Primary convergence indicators

	Inflation			Fiscal Balance			Public Debt			Real GDP Growth		
	2016	**2017 (Revised)**	**2018 (Provisional)**	**2016**	**2017 (Revised)**	**2018 (Provisional)**	**2016**	**2017 (Revised)**	**2018 (Provisional)**	**2016**	**2017 (Revised)**	**2018 (Provisional)**
Tanzania	5.2	5.3%	3.5%	-1.4%	-1.9%	-2.0%	42.8%	38.3%	37.5%	6.9%	6.8%	7.0%
SADC	3-7 %	3-7 %	3-7 %	3% of GDP	3% of GDP	3% of GDP	60% of GDP	60% of GDP	60% of GDP	7%	7%	7%

Source: Member States Authority (2019)

Overall Economy

- **The government is committed to achieve its target of becoming a solid middle income country by 2025**
  - Massive investment in infrastructure; Gas pipeline, bridges, regional roads, power plants, aviation
  - Vibrant financial markets; DSE,CMSA,DFI's, commercial banks, pension sector
  - Regional integration; SADC, COMESA, EAC. etc.

With massive Investment in Infrastructure projects the Government is aiming at propelling industrial led Economy and achieve the vision 2025…

Challenges of Industrial Sector

- Access to good and supportive infrastructure
- Slow rate of transition from informality to formality of many businesses/undertakings.
- Access to markets, substandard products and unfair competition from imported goods and services
- Access to raw material, skilled manpower (knowledge) and talented entrepreneurs
- Weak projects planning and implementation

Challenges of Industrial Sector (cntd…)

- Weak project preparation to determine viability (Absence of Project Preparation Funds)
- Inappropriate financing for development-dependence on short term financing
- Legal and regulatory framework which in some areas is not supportive

Outcomes of low levels of industrialization

- **Capital Flight**
  - More than 40% of commodities are exported as raw…a minimal is realized in the economy
- **Diminishing Employment Creation**
  - Decrease in the real income of the government through Tax and nationals' wealth
- **Uncertainty in commodity prices**
  - Loss of price control over commodity produce
- **Hinder/retard innovation for more productivity**
  - Uncertainty in price slows innovation for more production

Unlocking the Regional's development potential through the industrial financing……

The Role of Local DFIs …

Uniqueness of Industrial Financing

- Direct payoffs might not cover costs early but indirect externalities, especially for infrastructure projects which cannot be charged for to revenues at once, can be extremely beneficial to the larger economy
- Projects are complex and might need large financial resources and calls for number of parties to participate in the execution.
- Might be political sensitive product (e.g. sugar processing plant, oil processing plant, etc.) and governments might want to exercise control to prevent abuse occasioned by monopoly.
- Have three elements: time profile of cashflows, high initial risk, and illiquidity

Sources of Industrial Financing

- **Private**
  - Capital Markets
  - DFI's
  - Equity and Wealth Funds, etc
- **Public**
  - DFI's
  - Government collections and borrowings (Government Balance Sheet)
  - Pension Funds, etc
  - Development partners
- **However there are limitation**
  - Public financing is not sufficient
  - Private financing too cautious/risk averse

Challenges in obtaining of Industrial Financing

- Illiquid and shallow capital markets
- Private sector mainly interested in profit maximization
- Government collections through various taxes still weak- low tax base.
- Pension and Insurance Companies' policies not yet properly aligned to support industrialization
- Underdeveloped capital markets
- Conflicting priorities with external financiers

Strategy I:

Centralization of sector projects under one roof with the aim of broadening financing options to ease the pressure on government balance by bringing in other local financiers… commercial bank and introduction of other financial instruments…

- Prioritise projects based on the country's comparative advantage
  - Abundant raw material e.g. cashew-nuts, grapes, cotton etc.
  - Link projects to upcoming national infrastructure projects e.g. central railway, Dar es Salaam port, LNG plant, Rufiji power plant
  - Availability of labour e.g. regional population growth, graduates etc.
- Capitalize DFI's to enhance their Balance Sheet to be able to contract large tickets and fast track the operationalization of the SADC Regional Development Fund.
- Enhance coordination to ensure pooling of commercial resources from both public and private investors

Realising the economies of scale and economies of scope based on local DFIs' experience and knowledge

Selection criteria..

- **Development of key infrastructure in tandem with the forecasted industrial projects is vital**
  - Investment in infrastructure should lower the cost of doing business
  - Priority should be given to the development of power plants, industrial parks and transport infrastructure
- **Making room for Local DFIs' to finance infrastructure projects and the Government to focus on key infrastructure and service prioritised projects**
  - Separation of revenue generating projects and service oriented projects e.g. power plant vs. hospital infrastructure

Why Financing through the Local DFIs'

- They have the local knowledge and can offer technical assistance and provide capacity building
- Easing pressure on government balance sheet and allowing governments to manage borrowing limits/ceilings.
- They can and are best placed to provide financing in greenfield projects in their localities.
  - They can play an important monitoring role in the project; and tend to have the necessary expertise
  - The projects need a gradual disbursement of funds and DFIs' loans are sufficiently flexible
  - Industrial projects are more likely to require restructuring in unforeseen events; and banks can quickly negotiate restructuring.

Issues with Local DFIs'

- Undercapitalization
- Narrow mandate for most DFI's
- Regional Development Fund to support preparation of projects and funding
- Inexistence of regional guarantee scheme
- Most DFI's are yet to be accredited making it difficult to access cheap funds.

What should be done

- Capital injection and/or allow like minded institutions to inject capital
- Streamline/align mandates to go hand in hand with regional industrialization strategy
- Develop regional guarantee scheme
- Promote and integrate capital markets within the Region
- Enhance PSGRS for African Development Banks and Finance Institutions
- Expedite establishment of Regional Development Fund
- Broaden mandate of DFI's to allow Cross Boarder Funding

Strategy II

Encouraging Linkages between SMEs and Large Industries for Increased Markets,technology transfer and Trade…………

Current Structure Setup

Issues with Industries

- Weak governance structures at grassroots level to get advantages of mass production
- Isolated SMEs' making it difficult to graduate and link them up with large industries

What should be done

- Enabling environment for cooperatives structure (AMCOS, SACCOS, Individual producers etc.)
- Organized SMEs' platform agenda through the interlinkages of financing, infrastructure, → Industrial parks
- Implement viable strategies for financial inclusion and access to finance for SMME's

Strategy III

Innovation through the Value Chain Financing… the role of DFI's would be to finance infrastructure along the value chain i.e. processing, transport and storage facilities.

Understanding of Value Chain Financing

- **Direct value chain finance**
  - Actors to cater for financial shortages by entering the into non-financial transactions to better manage the VC transaction **e.g.** Buyer to advance credit to producers for input suppliers and these credit are recovered once the produce are sold.
- **Indirect value chain finance**
  - Financial institutions to develop financial credit products and de-risking mechanisms to support small holder farmers as their produce gains value along the value chain.
- **Enhance the performance of commodity exchange markets and linkages with Warehouse receipt systems(WRS)**

Strategy IV

- Create conducive business environment for inclusive and sustainable development
  - Enhance Intra regional and Intra African trade taking advantage of recently launched African continental Free Trade Area.
  - Actualization of Regional integration agenda
    - Financial market deepening and integration
    - Harmonization of tax regimes within the region
    - Curb Illicitly capital flows
    - Harmonization of pension, insurance and capital markets
    - Strengthen development finance institution network

- Nurture Regional value chains
- Regional resource mobilization to finance inter regional projects and operationalization of SADC Regional Development Fund
- Manage/Reduce debt vulnerabilities

Execution of strategies through the SADC Regional Integration

- Syndication on regional projects through the local DFIs and and take advantage of economies of scale
- FastTrack establishment of the Regional Development Fund which must set up the project preparation fund
- Allow cross border financing through the local DFIs particularly on industrial projects and value chain financing

Conclusions

- With the long term nature of industrial projects, local DFIs' should play a key role in promoting industries through innovative long term financing
- Setting up an Investment Platform through local DFIs and Leverage the available resources for industrial financing
- Capitalizing Local DFIs to enable them occupy their rightful space in industrialization

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