

# Introduction

- Tanzania is a resource rich economy
- Objective: to turn sub-soil assets into productive surface assets – that will create jobs and a lasting flow of income.
- Potential for transformation:
  - In history: Industrial revolution
  - More recently: Botswana, Malaysia
- Potential for damage:
  - 'Resource curse': Nigeria, Ghana (?)
- A 'weakest link' problem
  - Many stages in going from sub-soil to surface assets
  - Failure at any one stage can mean poor outcome
  - Inherently difficult.... e.g. volatility

# Introduction

Three broad areas where things have to be done right

I: Attracting investment and capturing revenue

- Contracts, fiscal regimes.

II: Managing revenues

- Saving and investment
- Volatility

III: Economic response

- Bottlenecks, inflation and output growth

Make some remarks on each of these:

Draw conclusions for a country facing major delays in resource projects.

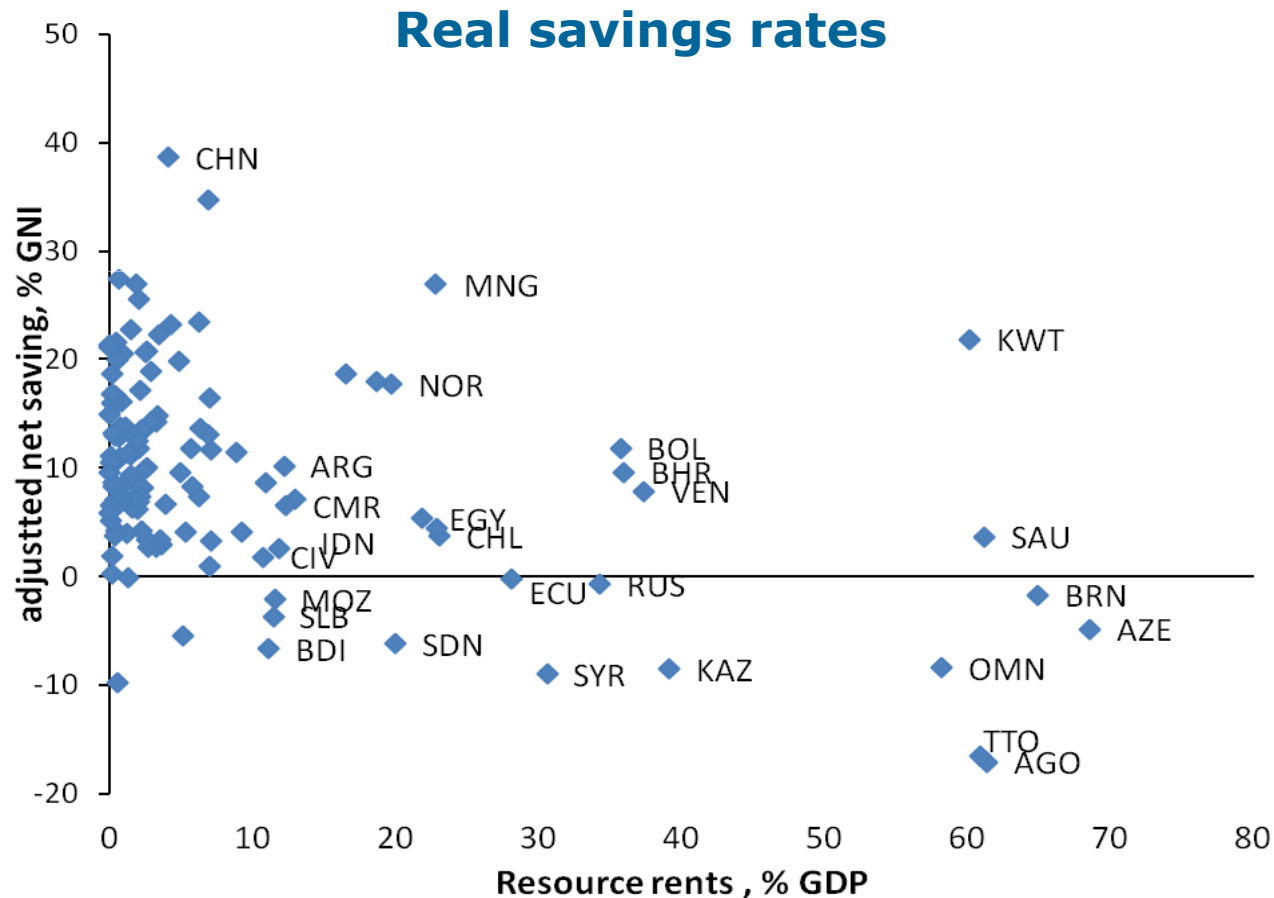
## I: Attracting investment and capturing revenue

- Need to attract investors to handle resource extraction
- Need for government (& society) to capture the 'rent'
- Inherent tension over \$
  - Ways of allocating licenses: auctions
- Facilitate by supportive institutions/ business environment:
  - Reduce risk:
    - Political
    - Regulatory
    - Tax
    - Economic
  - Communication channels & transparency
- Takes time: multiple changes to regulations etc may be needed

## II: Managing revenues

Importance of using resource revenues to build assets

- Many resource rich economies have failed to do this



Adjusted net savings, excluding particulate emission damage (% of GNI)

## II: Managing revenue

What assets should be accumulated?

- Domestic assets – human capital, infrastructure capital, private capital: *high priority*
- Foreign assets (sovereign wealth funds)
  - Stabilisation fund: *yes... how big?*
  - Intergenerational savings fund: *low priority*
  - 'Parking fund' *if necessary*
    - Put wealth offshore until efficient domestic investments can be made
    - Efficient domestic investment path never perfectly aligned with revenue path

Takes time to be able to invest efficiently

- Need good projects
- Need government capacity to appraise projects
- Need to be confident of economy's capacity to deliver project efficiently

### III: Economic response

- A booming resource sector creates new demands on the economy.
  - Building the resource sector
  - Public spending
  - Structural change in the economy
    - Some sectors will expand, others will contract
- How to meet these new demands?
  - Imports.....e.g. Gulf states
  - Domestic production and employment

### III: Economic response

- How to meet these new demands?
  - Imports
  - Domestic production and employment
- What are the likely bottlenecks?
  - Skilled labour
  - Infrastructure capacity
    - Road congestion
    - Power supply
  - Capacity of private sector firms
    - Engineering
    - Cement
    - 'Home-grown capital'  
(it takes teachers to produce teachers.....or construction sector capacity to build construction sector capacity)
- Addressing these bottlenecks takes time

### III: Economic response

Choices for the resource boom.... Either I or II

I: Economy has lack of capacity and hits bottlenecks

- Economy hits supply constraints
- Inflation
- Dutch disease and imports

II: Flatten the supply curve

- Economy has supply response, drawing more people into jobs
- How to achieve II?: 'investing-in-investing'
  - Develop labour skills
  - Infrastructure investment
  - Flexible business environment – easy for new firms to become established
- All these measures take a *long* time



## Concluding comments

Tanzanian gas:

- Long and disappointing delays
- Use the time available:
  - Get the business/ regulatory environment such that Tanzania is high up the investors' priorities
  - Build the public institutions to handle revenue
    - Regimes to ensure a high proportion goes into building assets
    - Projects and project selection capacity
  - Make sure the economy does not hit bottlenecks
    - Work with investors in building skills: labour, firms
    - Anticipate congestion, new demands
- Be *very* cautious about financing this through borrowing