

European Investment in Tanzania:

How European investment contributes to industrialisation and development in Tanzania



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Written by Ashley Elliot

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Foreword by Ambassador Roeland van de Geer, Head of the Delegation of the European Union to Tanzania and the East African Community

As the Government of Tanzania and international partners join forces to lift millions of Tanzanians out of poverty, the role of trade and investment in the fight against poverty is increasingly recognised. In the Sustainable Development Goals, the private sector has been given a prominent place as a key partner to create a better life for those currently still living in poverty.

Europe remains fully committed to close cooperation with Africa and in line with this commitment the European Commission has, on the 14th of September 2016, presented an ambitious 'External Investment Plan for Africa' to support investment on the African continent, to strengthen our partnerships, to promote a new model of participation of the private sector and to contribute to achieve the Sustainable Development Goals. To this end, the European Fund for Sustainable Development will be set up which is expected to trigger a total investment of EUR 44 billion – mobilising public and private investments in Africa.

Today we are proud to say that the European Union remains Tanzania's largest trading partners with a total of USD 2 billion in trade in 2015. European firms also represent 68% of total Foreign Direct Investment flows in Tanzania (USD 1.2 billion). European companies which are large taxpayers paid USD 1.1 billion in domestic taxes in 2014, accounting for 25% of the taxes paid by large taxpayers in Tanzania that year. This goes to show that the over 1000 European companies and individuals, from large multinational corporations to small individual tourism ventures play a significant part in the development of the Tanzanian economy. This study shows the diversity of investment, jobs, and economic growth that European companies bring to Tanzania. It includes a number of exemplary case studies which show how the best of European technology and industrial development is supporting Tanzanian growth in almost all sectors of the economy. European innovation and capital is connecting people to mobile networks, building key infrastructure in Tanzania, and investing in mining, retail, tourism, oil and gas and so much more. All of these activities generate jobs and revenue for the people of Tanzania – well above what is provided in development financing from the EU.

This publication discusses the competitive edge that Tanzania has in trade, investment and production and the challenges that it currently faces. It also contains clear recommendations on the way forward.

The EU is committed to continue working with Tanzania and the East African Community and to strengthen the ties between our regions.

Roeland van de Geer

Head of the Delegation of the European Union to Tanzania and the East African Community



Foreword by EU Business Group Chairman Mr Morten Juul

At a time in which Tanzania looks towards its next period of growth we are proud to be a partner of the Tanzanian Government in their work to improve the Tanzanian economy.

The European Union Business Group was established to provide a united voice for the European private sector in Tanzania in their interaction with the Government of Tanzania, to act as a focal point of support and information for companies to understand legislation and policy change, and to support and improve trade between Europe and Tanzania.

Tanzania offers a peaceful and stable environment, abundant natural resources and a favorable geographical location. There are ample opportunities for European investors to work alongside local investors to create an active and successful private sector and continue to build the economy. We hope that through continued dialogue we can build an environment which supports further EU investment in the country and we are ready and willing to share our skills and experience in order to resolve challenges within the current business environment.

This publication showcases the value of European investors in Tanzania and the potential for further trade and investment between Tanzania and Europe. We are encouraged by the steps that are being already taken and are committed to continuing our relationship with the new Government as we go into the next phase of development for Tanzania.

Mr Morten Juul

European Union Business Group Chairman

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Executive Summary

Overview

This investment study¹ draws on available data to showcase the number, nationality and location of European companies invested across all key sectors of the Tanzanian economy. As the study's findings reveal, EU^{+SN}² investors have made a transformational impact in Tanzania in terms of job creation, innovation and their contribution to tax revenue and economic growth. The study not only maps existing European investment in Tanzania but also provides a baseline to support future investment by EU^{+SN} companies and to measure progress in addressing business environment challenges going forward.³

Historically, the EU^{+SN} and the United Republic of Tanzania have enjoyed a robust economic relationship based upon steadily growing investment and trade, and strong diplomatic ties. The EU^{+SN} is a preeminent trading partner as European markets are increasingly open to Tanzanian produce, and as this study demonstrates, jointly, EU^{+SN} trading partners account for a larger share of foreign direct investment in Tanzania than any other trade group. The total flow and stock of European FDI is rising consistently year-on-year as a wide range of EU^{+SN} companies choose to start or expand new business operations in the country.

Key figures

The EU's 28 member states are Tanzania's primary export destination and the country's single most important source of foreign direct investment and bilateral trade. 16% of Tanzania's global exports are destined for the EU's 28 member states, and the total value of these exports to Europe – which averaged USD 650 million per year from 2008-2013 – is growing at a rate of 10% annually.⁴ Imports into Tanzania from EU countries (third import partner after China and India) averaged a substantial USD 1.4 billion per annum between 2008 and 2013, with the total amount rising by an average of 8% each year. **Total trade between Tanzania and the EU today stands at more than USD 2 billion in 2015.**

Approximately 1000 EU companies from 26 different EU^{+SN} countries have invested in Tanzania. Taken together, from

2008-2014, the **total amount of FDI inflow by the top ten by EU^{+SN} countries to Tanzania was estimated up to USD 4.5 billion.** FDI inflows from EU^{+SN} countries exceed that from any other trading partners: inflows from the top ten European countries in 2012 stood at USD 1.08 billion, compared to USD 507 million from North America (US and Canada), USD 108 million from the East African Community and USD -20.7 million from the top five Asian countries, for example.⁵

EU^{+SN} companies are significant employers in Tanzania. **In total, the TIC attributes the creation of approximately 95,000 jobs to EU^{+SN} companies in Tanzania⁶.** European companies are also among those that have been most proactive in partnering with government and educational institutions to develop and train the Tanzanian workforce. European companies are the most significant tax contributors in Tanzania. In 2014, **EU^{+SN} companies classified by the Tanzania Revenue Authority (TRA) as Large Taxpayers contributed USD 813 million in taxes, which represent approximately ¼ of all the taxes paid by all the Large Taxpayers.** This figure has been rising consistently by 15%-20% each year since 2010.⁷

Key findings

In the agricultural sector, the 'sleeping giant' of the economy, which employs more than 75% of Tanzanians, European firms are active across the entire value chain. 92 EU^{+SN} companies have invested in the sector, originating from 13 different European countries, with the UK and the Netherlands accounting for the largest share. **Many of these firms are leading players in their sub-sector in terms of both innovation and investment size, and they are widely dispersed across every region of Tanzania.** As an example, in the sugar sector, where EU^{+SN} investor Kilombero Sugar Company is the largest player, producing 130,000 tonnes of sugar annually and employing 105,000 people directly and indirectly in the Kilombero Valley area. In the agro-input sector (seeds, fertiliser and pesticides), three European firms – Yara, Syngenta and Bayer CropScience AG – account for the majority of all investment and sales.

1 Note: the research for the report was completed in February 2016

2 EU+SN refers to all 28 member states to the European Union with the EFTA countries Sweden (S) and Norway (N) which have companies active in Tanzania.

3 A full explanation of how this report defines and categorises European investment in Tanzania is provided in the Annex to this report.

4 Tanzanian imports into the EU in 2014 (the latest year for which data is available) were 10.5% higher than in 2013.

5 2012 is the latest year for which data is available. The figure for the top five Asian countries (China, Japan, India, Malaysia and Pakistan) is an average for the period 2008-2013 and the figure for 2012 was negative. Source: Tanzania Investment Report 2013

6 Estimated data for period 2008-2012

7 Payments are spread evenly by tax type as follows: VAT (15% of the total), income tax (15%), excise duty (14%), P.A.Y.E (14%), rental tax (14%), Skills Development Levy (14%) and other taxes (14%).

In the mining sector, which is focused on Tanzania's underdeveloped western and north-western interior, EU^{+SN} **investors have played a central role in the industry's development.** As of 2014, some 61.6% of all gold production in the country came from European companies, with Acacia Mining and Shanta Gold as the leading firms. Total tax and royalty payments contributed by European gold mining companies to date are in excess of USD 452 million. Across the sector, some 22 EU^{+SN} mining and mining services companies from eight different European countries have active operations, of which five are classified as Large Taxpayers.

In the onshore oil and gas sector, two European investors have led the industry's development: UK-based Songas and France-based Maurel & Prom. Songas transports gas from Songo Songo Island in Lindi region via a 225-kilometer pipeline to Dar es Salaam; while Maurel & Prom operates five wells in the Mnazi Bay gas field in Mtwara region that will deliver up to 130 million CF of gas per day to the Dar es Salaam region. **Taken together, this gas infrastructure holds the key to solving Tanzania's rumbling power crisis and to unleashing the country's economic potential.**

In the offshore oil and gas sector, investment from Europe's leading International Oil Companies (IOCs) has catapulted Tanzania to the front rank of global oil and gas exploration since 2010. EU+SN investors BGG⁸, Ophir Energy and Statoil and their partners in offshore blocks 1 to 4, have discovered approximately 57 trillion cubic feet of gas. These companies are also spearheading development of Tanzania's flagship USD 15- 25 billion Liquid Natural Gas (LNG) export project in Lindi region, which is expected to generate at least 1,000 specialist oil and gas services jobs and more than 20,000 engineering and support jobs over the next ten years. **Overall, 18 EU^{+SN} companies are active in Tanzania's upstream oil and gas sector, representing approximately 70% of the total.** Seven are classified as Large Taxpayers.

Tanzania's manufacturing sector contributes 8.6% to GDP, though President Magufuli's government is targeting a more ambitious figure of 15% by 2020. The sector reached an important tipping point in 2014/2015 with manufacturing exports having expanded to USD 1.4 billion, overtaking gold as the largest contributor to exports in the process. **TIC data indicates that 169 European companies from 20**

countries have invested in the manufacturing industry, seven of which are Large Taxpayers. Examples of sub-sectors in which European firms predominate include cement manufacturing, where two companies – France-Swiss based Lafarge-Holcim and Germany-based Heidelberg Cement Group – account for more than 35% of the market, and the beverage industry, where EU^{+SN} investors account for more than 90% of market share.

Tanzania's construction sector is set to enjoy growth of 8.3% on average between 2015 and 2020. Infrastructure is the largest sub-sector but the real estate industry alone has the potential to generate USD 2 billion each year, equivalent to more than 6% of the country's GDP, driven by demand for affordable housing complexes, modern office buildings and shopping centres. **In total, 38 EU^{+SN} companies are active in the construction industry, originating from eight different European countries.** Examples of EU^{+SN} market leadership in construction include UK-based Helios Towers, the first independent mobile network tower construction company in Africa, which is working with all major mobile network operators in Tanzania; BAM International, which is leading upgrade work in the aviation sector with projects at Julius Nyerere and Kilimanjaro international airports; and France-based Sogea-Satom and Germany-based Strabag Group in the roads sub-sector, where the latter is constructing the flagship Bus Rapid Transit (BRT) Infrastructure project in Dar Es Salaam.

In the power sector, Tanzania is gifted with an array of unexploited energy sources, from biomass, natural gas, and hydro, through to uranium, coal, geo-thermal, solar and wind. The country's power-generation potential is among the highest in Africa, and the diversity of its energy mix is almost unrivalled. The challenge facing the power sector is daunting – a massive 9 GW of additional power will be needed by 2035 to meet new demand and to replace older facilities – but credible plans and policies are in place to increase installed generation capacity to match demand growth. **European investors are playing a leading role.** The Ubungo plant owned and operated by UK-based Songas alone generates 180 MW of electricity or roughly 20% of Tanzania's electricity supply. In the renewables sector, a cluster of European firms have developed a market leading position, including Denmark-based Wind East Africa (developing a USD 285 million, 100 MW wind farm in Singida) and German

8 BGG Group was acquired by Anglo-Dutch firm Royal Dutch Shell in early 2016.

companies SolarGrid Tanzania Ltd, Forsera and Mobisol, which serves over 30,000 customers in Tanzania with household solar energy products.

The Information, Communications and Technology (ICT) sector is both the fastest-growing industry in the country – expanding at 20% per annum – and **the most salient example of the positive impact of European investment in Tanzania**. In the space of a decade, two EU^{+SN} investors in particular – Vodacom and Tigo – have transformed the country’s mobile telephony and financial services sectors, breaking down traditional industry boundaries and making Tanzania the global leader in innovative pro-poor mobile financial services. Together, these two European investors accounted for 69% of all telecommunications service revenue in Tanzania in 2015.⁹

In the fast-growing financial services sector, UK-based investors Barclays, Standard Chartered, National Bank of Commerce (NBC) and National Microfinance Bank (NMB) are all among the top seven universal banks by asset base. NBC and NMB, which emerged in their current form following state privatisations mid-1990s, are model examples of the value of co-ownership between a European investor with world class banking expertise and Tanzanian partners. **The efforts of these banks have contributed significantly to the increase in the share of the population with access to financial services from 27% to 50% between 2008 and 2013.**

Activity in Tanzania’s transport and logistics sector is driven by the country’s status as a regional trade gateway and by government-led efforts to address the country’s infrastructure deficit via a pipeline of transport and utilities infrastructure projects worth in excess of USD 19 billion. **EU^{+SN} trading partners account for some 132 transportation companies originating from 15 different European countries.** In the shipping sub-sector, EU^{+SN} firms Maersk Group and Mediterranean Shipping Company are examples of market leadership; while France-based Africa Bolloré Logistics is an example of a market-leading firm offering full spectrum logistics services.

Tanzania’s tourism sector has witnessed double-digit growth for more than a decade, but this robust performance provides only a hint of the scale and breadth of the future opportunities available across the industry. The Tanzania Tourist Board aims to multiply tourism revenues eight-fold by 2025 to produce USD 16 billion in earnings per year. An impressive range of EU^{+SN} companies – more than 200 firms from 19 different countries – are active in the sector. The UK has the largest number of tourism investments at 115, followed by Italy with 75, and Germany with 30. **As these tallies indicate, European businesses account for the majority of all tourism investment in the country.** None rank among Tanzania’s Large Tax-payers, but together they represent the backbone of the industry and have been responsible for the sector’s recent growth and diversification.¹⁰

Business environment

As one of the fastest-growing and most stable emerging markets globally, Tanzania’s overall macro-economic outlook is positive. The economy is projected by the African Development Bank (AfDB), the World Bank and the International Monetary Fund (IMF) to grow by 6-8% in the medium-term, underpinned by continuing foreign investment, strong private consumption, and robust growth across all of the sectors highlighted above. This forecast growth trajectory places Tanzania in the world’s top five fastest-growing economies for the seven-year period to 2023.

There is no doubt that with an increasing population, valuable natural resources, vast arable land and a strategic location in East Africa, Tanzania will continue to attract further investments from Europe. However, this attraction could be even higher if a number of obstacles to doing business, already revealed in the latest World Bank’s Ease of Doing Business Report (2016) and reprised in this report, could be efficiently tackled by the Government of Tanzania. **Issues such as trading across borders, paying taxes, contract enforcement and immigration continue to be the main obstacles for European businesses to grow in Tanzania.** Other matters such as policies and institutional constraints, energy generation, shortage of skills and corruption are another source of concern.

⁹ The next phase of this on-going revolution will be the repositioning of Vodacom and Tigo as the country’s largest internet service providers – a move that will allow the mobile data services market to flourish.

¹⁰ These European tourism ventures are spread across the country. However, three main clusters of EU+ investment stand out: the Zanzibar archipelago; the northern circuit (taking in Arusha, the Serengeti, Lake Manyara, Tarangire National Park and the Ngorongoro Conservation Area) and the southern circuit (including the coastline around Dar es Salaam, Selous game reserve and Mikumi and Ruaha national parks).

Looking ahead

The concrete cases of European businesses described in the study, in sectors as different as tourism, construction, mining and other sectors, present successful stories of positive contribution to Tanzania by European investors. **The study demonstrates, with facts and figures, that the role of European investment to Tanzania's growth over the past years is substantial.**

It is now established that the European private sector, present in all sectors of the Tanzania's economy, has a crucial impact on revenue collection, and on employment creation. These are the best long-term solutions for poverty reduction. European investments have also contributed to open the door to multiple partnerships between businesses across borders, stimulated other investments in the supply chain and provided citizens with new services and technology.

The Tanzania's Five Year Development Plan II (FYDP II) embodies a "business unusual" approach for embracing strategic partnership with the private sector and facilitating its development and competitiveness. The European private sector, with capital, know-how and technology would like to reinforce its partnership with the Government for an effective dialogue on the implementation of the FYDP II.

Within this framework, creating a conducive environment for the private sector to thrive is a priority. As often highlighted in numerous economic analyses, the private sector is the engine of growth, poverty reduction and the driver of economic transformation. With appropriate policy measures to generate an attractive business and investment environment, the engine could be boosted.

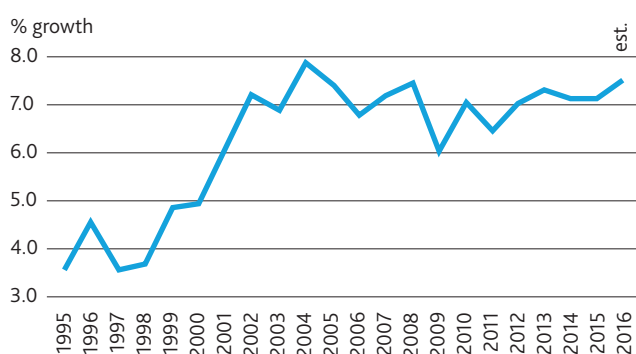
European investors hope that this study, by demonstrating the value of their contribution to the Tanzanian economy, will open the floor to an enhanced partnership with the Government of Tanzania and other Tanzanian private sector stakeholders. **European investors stand ready to play their role of international investor reference partner in a dedicated forum for dialogue** between the Government of Tanzania and the overall private sector in Tanzania.

1 Overview of the Tanzanian Business Environment

Macro-Economic Overview

As one of the fastest-growing and most stable emerging markets globally, Tanzania's macro-economic outlook is positive. The economy is projected by the African Development Bank (AfDB), the World Bank and the International Monetary Fund (IMF) to grow by 6-8% in the medium-term, underpinned by continuing foreign investment, strong private consumption, and robust growth in sectors such as communications, services, transport, banking, retail, construction, infrastructure, agriculture, energy and manufacturing. This forecast growth trajectory – which is in line with the 7% average GDP growth achieved over the past five years – places Tanzania in the world's top five fastest-growing economies for the seven-year period to 2023. (see Figure 1.1)¹

Figure 1.1 Annual GDP growth, 1995-2016



Source: World DataBank, 2013.
Economist Intelligence Unit and African Development Bank

The country's key economic indicators point to a stable macroeconomic environment, free of the volatility experienced by more natural resource-dependent regional neighbours. As shown in Table 1.1, inflation is broadly stable at 6-7%; and while the Tanzanian Shilling (TSh) is weakening – it has lost a third of its value over mid 2015-2016 against the US dollar – the risk of a currency crisis is low.² Bank of Tanzania (BoT) benchmark interest rates have remained stable in recent years, moving within a 7%-12% band since 2010.

The current-account deficit, a traditional weak spot, improved in the 2015 financial year. Historically, Tanzania has always imported more goods than are exported, but this merchandising trade gap was reduced by 44% in the second half of 2015 thanks to a rebound in gold exports, higher tourism revenues and – crucially – a dramatic fall in the cost of imported oil, which accounts for more than 30% of the country's total import bill.³

Access to credit in the private sector continues to expand against a backdrop of financial system stability. The rate of growth of credit to the private sector remains strong at 15% year-on-year, and credit to the private sector as a share of GDP stands at a healthy 18%.⁴

Table 1.1 Macroeconomic projections
(% of revised GDP unless otherwise indicated)

	2012/13	2013/14	2014/15	2015/16	2016/17
			(p)	(p)	(p)
Inflation (CPI, %)	7.6	6.3	5.0	5.0	5.0
Overall fiscal balance	-5.0	-3.4	-3.7	-2.9	-3.1
Current account balance	-10.3	-10.9	-9.5	-8.3	-8.0
Gross official reserves (US\$mn)	4,357	4,634	5,143	5,692	6,350

Source: World Bank Group, 'Tanzania Economic Update: The Elephant in the Room Unlocking the potential of the tourism industry for Tanzanians', 2015.

Sectoral growth

The International Monetary Fund (IMF's) Article IV Consultation report for Tanzania notes the broad-based nature of growth in the country, which has contributed to the economy's resilience.⁵ Rather than relying on a single industry or commodity, the drivers of growth in Tanzania's economy are to be found across a range of different sectors.

Growth in the industrial mining sector – formerly the country's leading source of hard currency – is likely to remain slower than in the previous decade until the global commodity cycle returns to an upward trajectory (see Chapter 4).⁶ The recent fall in export receipts from lower

1 Authors, John 'Diversity drives Indian Ocean region' Financial Times, May 2015

2 As of late February, the exchange rate was USD \$1 : TZS 2,200, down from USD \$1 : TZS 1,800 one year ago.

3 According to the Bank of Tanzania, the current account deficit narrowed to \$1.16 billion in the second half of 2015 compared with the shortfall of \$2.08 billion in the corresponding period in 2014. See The Citizen, 'Current Account gap narrows' February 2016

4 These figures are year-on-year through to December 2013. See International Monetary Fund (IMF), 'Article IV Consultation: Tanzania' May 2014

5 International Monetary Fund (IMF), 'Article IV Consultation: Tanzania' May 2014

6 Exports of gold are significant but declining, largely due to a lower world prices in recent years. According to the Bank of Tanzania (BoT), gold exports dropped from US \$1.64 billion from 2013-2014 to US \$1.31 billion in 2014-2015, reflecting a drop in both national exports and the global commodity price.

mining revenues has placed pressure on the government's external account, a trend that is exacerbated by strong demand for the importation of capital goods in the oil and gas sector. However, solid growth in the tourism sector (Chapter 12) has partially offset this, and tourism is now the country's leading source of export receipts.

Several other sectors are expected to grow at a robust pace in the medium term including the services industry, which will benefit from innovation in telecommunications and banking; the real estate sector, which is burgeoning on the back of rapid urbanisation; and manufacturing, which will benefit from greater local processing of commodities. These and other sectors will also benefit from a more affordable and reliable electricity supply from 2016 onward following the completion in 2015 of a new natural gas pipeline and the development of a flagship gas-fuelled power plant complex at Kinyerezi, near Dar es Salaam (Chapter 8).

Meanwhile, the pivotal agricultural sector – on which 75% of Tanzanian households depend – has yet to realise its vast potential due to historic under-investment and lacklustre land reform efforts (Chapter 3). The sector has grown annually at a rate of 6% in recent years but has the potential to grow at a faster rate. Agriculture accounts for nearly half of the nation's GDP and 70% of rural household income, and employs roughly 75% of the national workforce.⁷ Tobacco, coffee, cotton, cashew nuts, tea, and, cloves are all significant sub-sectors. The related natural resources sector includes significant production of fisheries, forestry, and livestock. With the right enabling policies and investment in supporting infrastructure, agriculture – the 'sleeping giant' of the Tanzanian economy – is well-placed to awaken in the coming years.

The most significant recent change in Tanzania's economic landscape is the discovery of more than 57 trillion cubic feet of offshore natural gas since 2010 (see Chapter 5). During the next decade, Tanzania is likely to become a major producer and exporter of natural gas. As much as USD 25 billion in foreign investment in the construction of gas export infrastructure and associated services can be expected.

The transport and infrastructure industries will each provide a further engine of growth, and these sectors will benefit from the consolidation of Tanzania's role as a regional trade and logistics hub both for east Africa and for parts of central and southern Africa (Chapter 11) – including, especially, for landlocked neighbouring economies such as DR Congo, Rwanda, Burundi, Malawi, Uganda and Zambia. Tanzania's medium term pipeline for road and rail projects alone stands at more than USD 19 billion, and this injection of private and public capital into the country's backbone infrastructure will strengthen competitiveness and remove growth bottlenecks across all sectors.

Tanzania's external economic relations

Tanzania enjoys superior access to major world markets through preferential bilateral trade and investment agreements. For instance, the GoT is a signatory to the Africa Growth Opportunity Act (AGOA), which offers African countries privileged access to the U.S. market for approximately 6,500 products. The country has similar access to European markets through the Everything but Arms trade agreement with the European Union and European Partnership Agreements (EPAs) when ratified.⁸

Of all trading blocs worldwide, the European Union is the single most important source of foreign direct investment and bilateral trade for Tanzania. FDI inflows from EU countries exceed that from any other trading partners or individual country.

Total imports into Tanzania from EU countries averaged USD 1.4 billion per annum between 2008 and 2013, while total exports from Tanzania to the EU 28 states averaged USD 650 million per year over the same period. Belgium, France, Netherlands and United Kingdom are the largest individual trading partners for Tanzania within the EU+SN trading partners. Total trade between Tanzania and the EU today stands at more than \$2bn each year.⁹

The European Unions' position as Tanzania's leading trading partner is set to strengthen. European markets are increasingly open to Tanzanian produce, and as this study

⁷ Tanzania Investment Center, 2014, Investors Guide to Tanzania - 2014-15, pg. 22

⁸ A full explanation of the purpose and benefits of EPAs is available here: http://eeas.europa.eu/delegations/tanzania/eu_tanzania/trade_relation/economic_partnership_agreement/index_en.htm; see here for the full text of the EPA between the East African Community and the EU: trade.ec.europa.eu/doclib/docs/2015/october/tradoc_153845.compressed.pdf

⁹ Source: USAID East Africa Trade Hub, EAC Statistics Reports (Tanzania)

demonstrates in detail, EU investors have an advantage in starting and expanding business operations in Tanzania thanks to robust diplomatic support and a strong existing ecosystem of European investment across a range of sectors. China is another key trading partner for Tanzania. Chinese private and state-directed investment in Tanzania focuses on construction activities, road, rail, port infrastructure, mining, agriculture, and energy.¹⁰ Other significant trading partners include South Africa, India, Japan, United Arab Emirates, and the United States.

According to World Bank figures, the overall value of Tanzanian exports grew by 9.4% from 2012 through 2014, while imports expanded at a rate of 9.2% in the same period. This continues a decade-long trend of greater openness to global trade.¹¹ The structure of Tanzania’s external sector has also become more diversified since 2000. Agricultural commodities were formerly the main source of foreign exchange earnings but today the leading sources include a mix of non-traditional exports such as tourism, transportation, minerals and manufacturing products.¹²

Structural economic risks

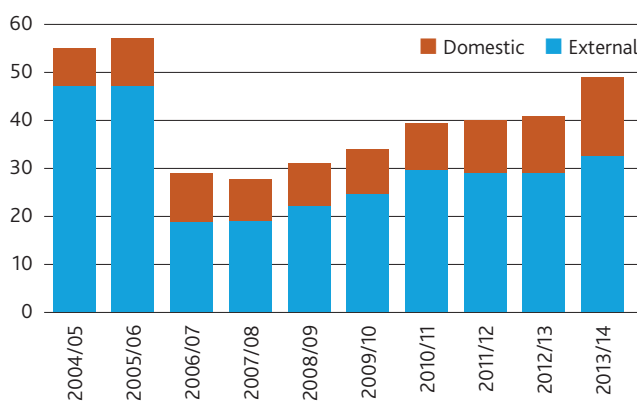
Tanzania’s economy is growing from a small base – total annual GDP is just USD 43 billion – and the country faces certain structural economic weaknesses, including:

- Widespread poverty and high levels of formal sector unemployment
- Infrastructure deficiencies that curtail economic dynamism
- Weak revenue-raising ability (Tanzania’s tax-to-GDP ratio is below 15%)
- A significant and long-running fiscal deficit (despite debt relief through the HIPC and G8 initiatives, the country’s debt to GDP ratio is 33%). This deficit results from high recurrent government expenditure and weak revenue collection. Tanzania’s collection of VAT, for example, produces value equivalent to only 3% of GDP – one of the lowest ratios worldwide.¹³

- Dependence on concessional lending from external donors to manage external imbalances, which leaves Tanzania with a high external-to-internal public debt ratio (see Figure 1.2).
- Dependence on expensive oil imports for power generation (more than 300,000 tonnes of oil are imported each month to fuel oil- and diesel-powered electricity generators)¹⁴

These economic vulnerabilities leave Tanzania somewhat exposed to adverse external events such as a sudden rise in global food or fuel prices. Overall, however, the country is better positioned to withstand external economic shocks than many of its regional peers, given the relatively strong diversification of the Tanzanian economy and the country’s multiple sources of growth. Moreover, as an oil importer, the recent fall in world oil prices from over USD 120 per barrel to under USD 40 has benefitted Tanzania considerably.

Figure 1.2 Tanzania: Public debt (percent of GDP)



Source: International Monetary Fund (IMF), 'Article IV Consultation: Tanzania' May 2014

Economic outlook

Buoyed by some of the world’s fastest-growing and most innovative industries – from cutting edge mobile financial services to large-scale investments in upstream oil and gas – the Tanzanian economy is set to grow by at least 6.5% on average per year between 2015 and 2023 (see Figure 1.3). As

10 Chinese influence in Tanzania stems from historical factors: political ties between the Chinese Communist Party and Tanzania’s ruling Chama Cha Mapinduzi (CCM) party date back to the first phase government of Julius Nyerere. Former President Hu Jintao visited Tanzania in 2009 and his successor Xi Jinping visited Tanzania in 2013.

11 International Monetary Fund (IMF), 'Article IV Consultation: Tanzania' May 2014. In the period 2009 – 2013, for instance, the sum of exports and imports in Tanzania rose from 45% of GDP to 59%, according to IMF figures.

12 Ibid. Cash crops continue to account for roughly a quarter of total exports, but export volumes for the major crops such as coffee, tobacco, cashew nuts and cotton have remained broadly constant since the 1990s.

13 World Bank Group, 'Tanzania Economic Update: The Elephant in the Room Unlocking the potential of the tourism industry for Tanzanians', 2015. In 2013/14 the government reduced the fiscal deficit from 5% of GDP to 3.4% but a side effect of this belt-tightening was the accumulation of significant arrears with contractors, pension funds and government-owned companies. Concerns about the sustainability of the GoT’s fiscal position remain.

14 However, this pressure will ease slightly from 2015 onward once new and cheaper domestic gas-to-power projects such as the Kinyerezi I plant come online.

with all emerging markets, structural weaknesses and pockets of sluggish performance exist in the Tanzanian economy, but these are more than offset by areas of economic dynamism, investment and innovation.

In a flagship 2015 study on global economic growth undertaken by the Centre for International Development at Harvard University, Tanzania's projected long-term GDP growth placed the country 5th out of more than 200 countries worldwide. The study's prediction – which makes Tanzania one of the most exciting economic hot spots for investment not just in Africa but globally – is underpinned by the diversity of Tanzania's growth drivers. This distinguishes Tanzania from many emerging market peers whose economies are more dependent on raw commodities.

Figure 1.3 Projections of GDP growth to 2023



Source: Harvard Centre for International Development, 2015

Political Context

Tanzania has an unusual administrative structure in that since 1964 a voluntary union has existed between the mainland territory, Tanganyika, and the islands of Zanzibar. The smaller of the two states, Zanzibar (population 1 million), maintains parallel government institutions, including a semi-autonomous administration and legislature. Tanzania attained independence from colonial rule in 1961. Since the transition to multi-party rule in 1992, the country has had five democratic election cycles. In the latest election in October 2015, John Pombe Magufuli was elected with 58.5% of the national vote. His party, Chama Cha Mapinduzi (CCM), has dominated the political landscape for half a

century, though electoral competition is more intense today than at any time in the country's history. More than 17 opposition parties are active across the country, of which half a dozen have achieved representation in parliament where they maintain a vocal stance on issues such as transparency and accountability. The most prominent opposition party, Chadema, made significant strides in the last election, with 70 seats in the new Parliament, up from just five seats a decade ago.

The President of Tanzania is the Head of State and Head of Government, is elected every 5 years and may serve a maximum of two terms. Parliamentary elections take place concurrently every 5 years. The National Assembly comprises 295 members and legislates on union matters, while Zanzibar's House of Representatives has 59 members and legislates on matters internal to the archipelago. The next general elections (presidential and parliamentary) will take place in 2020.

The country's legal system is based upon English common law, the 1977 union constitution and the 1985 Zanzibar constitution. Between 2012 and 2015, the constitution of the United Republic of Tanzania underwent a lengthy review process overseen by a 'Constitutional Review Commission'. This was intended to culminate in a constitutional referendum in July 2015, but the vote was postponed in part due to logistical issues with the voter register. It is assumed that the process will resume in 2016, though time-lines remain unclear.

President John Pombe Magufuli

In the wake of John Magufuli's October 2015 election victory, the President's new administration has already signalled its reformist intent. For example, the government intends to increase revenue collection and capital spending on infrastructure and industrial projects in the 2016/2017 budget while reducing the budget deficit by cutting recurrent expenditure.

In line with this aim, the president has enacted a series of high profile moves to slash wasteful government spending, including cancelling official functions and removing under-performing officials. This decisive action has been well received by the Tanzania electorate, as demonstrated by

Magufuli's 90.4% approval rating in a February 2016 poll conducted by the Citizen, an independently owned Tanzanian newspaper.¹⁵

Medium term outlook

Since independence, Tanzania has been an island of stability in a region periodically marred by conflict and political instability. This is partly due to the resilience of the state structure developed by Tanzania's first president, Julius Nyerere (1964-85), who presided over a one-party system with a strong socialist vision. The country lacks any serious tribal or ethnic divisions, largely because of the linguistic unity and sense of ethnic, religious and cultural tolerance created under Nyerere. In contrast to some regional neighbours, ethnic identities and religious divisions between Christians and Muslims, while sometimes apparent, do not form a significant political division in the country.

As noted by the African Development Bank, "Tanzania continues to be politically stable and peaceful; free of ethnic cleavages and labour unrest."¹⁶ There is no precedent for civil conflict, sustained religious unrest or social division in Tanzania and the country's political landscape has remained broadly stable since independence in 1961, and this record of national stability is set to continue.

Investment Climate

As a young, fast-growing and politically stable country, Tanzania enjoys numerous advantages as a destination for foreign direct investment. The country's 53 million population is growing at an annual rate of nearly 3%; and 44% of Tanzanians are below the age of 15.¹⁷ Tanzania remains a low-income country – the World Bank estimates that the country's GNI per capita is US \$920 – but poverty rates are declining and a significant middle class of consumers with disposable income is emerging.¹⁸

Transition to a market-oriented economy

Since the mid-1990s, Tanzania has undergone a steady transformation from a centrally planned economy to a

market economy, through successful implementation of a far-reaching policy reform and modernisation program. The National Investment Promotion Policy of 1996 opened virtually all sectors to foreign and private participation. A year later, the Tanzania Investment Act provided a core legal investment regime with provisions for the establishment of enterprises, investment benefits and guarantees, movement of capital, dispute settlement and employment of foreign staff. The Act also established the Tanzania Investment Centre (TIC) as a "one-stop" office for new investors seeking information on land acquisition, taxes, and investment incentives. Further legislation covering Export Processing and Special Economic Zones (EPZs and SEZs) was also introduced.

State companies have steadily been privatised and the government has adopted an enabling role, encouraging – rather than crowding out – private sector investment. Between the mid-1990s and 2010, the government's Privatisation Master Plan resulted in the divestiture of no fewer than 336 public enterprises.¹⁹ Today, the GoT's market-oriented approach is best illustrated in its focus on improving infrastructure through Public-Private Partnerships (PPPs) rather than state-directed investment alone.²⁰ This transition has unleashed growth across a range of sectors, thus reducing dependence on agriculture.

In the long run, however, Tanzania's ability to capitalise on the reforms of the past two decades will hinge on the government's willingness to further streamline the business climate. Many of the requisite laws and policies are now in place, but the institutional arrangements and political will to enact them are often lacking. In the 2015 survey of the World Bank Group's 'Doing Business' indicators, Tanzania ranked a lowly 139 out of 189 countries, well behind regional EAC peers such as Kenya, Rwanda, and Uganda.

As the following section outlines, major bottlenecks include: the slow speed of commercial dispute resolution; unnecessary trade restrictions (especially in agriculture); the

¹⁵ See <http://www.thecitizen.co.tz/>

¹⁶ African Development Bank, 2011, United Republic of Tanzania Country Strategy Paper 2011-2015, pg. 1.

¹⁷ Tanzania Investment Center, 2014, Investors Guide to Tanzania - 2014-15, pg. 13

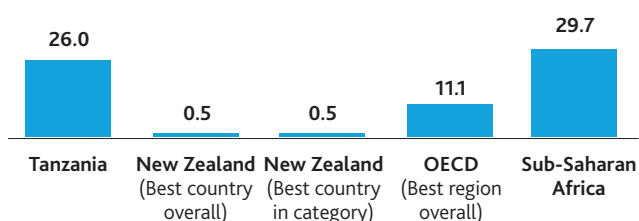
¹⁸ The NBS's 2012 Populations and Housing Census suggests that poverty is declining in Tanzania. The official poverty rate declined from 34 per cent to 28 per cent between 2007 to 2012. However, approximately 40 per cent of Tanzania's adult population still earns less than \$1.25 per day, while nine out of 10 Tanzanians earn less than \$3 per day.

¹⁹ Ibid. However, more than 150 major enterprises remain government-owned and some privatization efforts have stalled or been rescinded in recent years.

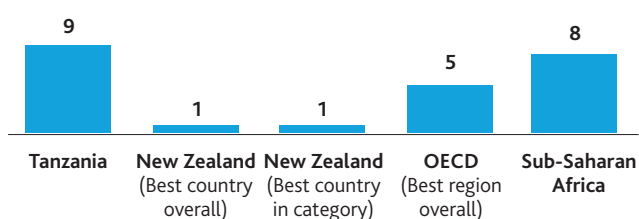
²⁰ Tanzania Investment Centre (TIC), 'Investors Guide to Tanzania - 2014-15' 2014

unpredictability of tax policy; government corruption; confusing and overlapping levies, taxes and fees; a failure to evaluate the impact of investment incentives; shortcomings in the mandate of the TIC (which does not have the power to approve investment permits, for example); and generally weak contract enforcement.

Figure 1.4 Time (days) to incorporate a business



Number of procedures



Source: The World Bank – Doing Business Report 2014

Key constraints

In discussions with EU^{+SN} company representatives, the following emerged as the highest priority cross-sectoral business environment constraints:

- **Corruption:** Of the five EAC countries (Burundi, Kenya, Rwanda, Tanzania, and Uganda), Transparency International (TI) ranks Tanzania second worst after Burundi with regard to corruption. Interviews with business owners also suggest anecdotally that the level of corruption in Tanzania worsened in the second term of the Kikwete presidency (2010–2015).

According to TI, the police in Tanzania rank among the most bribery prone institutions in East Africa (police reportedly account for 25.6% of all bribes in the country). Bribe demands largely relate to the 'need' to expedite service delivery, for instance in receiving a permit to operate, to clear a shipment through customs, or to pass an inspection. 38% of respondents to TI's latest survey in

Tanzania reported that they had paid a bribe because it was the only way to access the services that they were seeking. Even more concerning, 28% of survey respondents said that they felt that no action would be taken to resolve a complaint over bribery or extortion.

Real and perceived threats of corruption can lead EU^{+SN} investors to withdraw from investments in Tanzania for fear of encountering an unfair playing field. However, during his opening months in office, President Magufuli has taken positive steps to address endemic corruption, and European investors will hope that the new government can build on these early successes.²¹

- **Tax administration:** Burdensome tax administration is a priority concern for EU^{+SN} business leaders in Tanzania. The Tanzania Revenue Authority (TRA) pays particular attention to large EU^{+SN} companies because they tend to be highly visible. This is reasonable, but several EU^{+SN} investors suggest that as a foreign company they receive far more attention from Tanzanian tax authorities than local and Asian and Tanzanian competitors, seemingly because they are more likely to comply with tax laws. EU^{+SN} investors reported that they are more than willing to pay the requisite taxes, but they would implore the government to eliminate the uncertainty and disruption created by frequent rule changes, tax audits and low-tech tax administration systems.

There are also complaints about the length of time required – and the complexity involved – to receive VAT refunds. One EU^{+SN} investor in the agriculture sector stated that refunds for VAT equipment are generally one year delayed, tying up capital that could otherwise be productively deployed. Other investors who import VAT-exempt or VAT-reduced goods shared this view.

- **Immigration regime:** The issuance of work and resident permits in Tanzania is beset by challenges and uncertainty. There is an arbitrary limit on expatriate work permits, so that regardless of the size and complexity of a foreign investment, only five expatriate work permits are assured for companies registering through TIC. Furthermore, there are restrictions on where an

²¹ See, for example, The Washington Post 'Tanzania loves its new anti-corruption president. Why is he shutting down media outlets?' January 2016

expatriate can be located within Tanzania. Investors also complain about the timeliness, cost, and transparency of the process of receiving work permits.

In January and February 2016, a series of government directives on work permits, residents' permits and visas created confusion in the business community and led some companies to suspend operations until the situation for expatriate workers was clarified. Among the changes abruptly introduced, the GoT announced that work and resident permits must now be applied for separately, with the process for the work permit overseen by the Department at Labour and the process for the resident permit controlled by the Ministry for Immigration (to whom a fee of USD 2,050 must be paid).

Meanwhile, the longstanding Carrying on Temporary Assignment (CTA) visa has been withdrawn completely and replaced by the Short Term Work Permit (STP). Unlike the CTA, the STP must be applied for before entering Tanzania. The application process for the STP is burdensome (equivalent to that for a full work permit) and costs at least USD 500. Like the Work Permit, a separate Resident's Permit is required with the STP (creating an additional cost of USD \$2,000).

These changes have created significant challenges for new and existing investors, in particular because government communications regarding these changes have been limited.

- Customs procedures:** Complaints about customs administration are common, often relating to slow and non-transparent clearance procedures and poor coordination among the various agencies involved. There are also allegations that clearing imports in Tanzania presents opportunities for rent seeking among some officials. EU^{+SN} investors note that it is common for customs officials to find minor irregularities in paperwork prompting a delay in clearance of a shipment, thereby incurring demurrage charges for the importer.

- Human resources:** Participants in every sector studied for this report cited the availability of qualified labour as a significant problem. Lack of technical skill levels, English language fluency, and adoption of a results-driven private sector work ethic were the most commonly cited shortfalls.

A recent independent assessment of learning outcomes paints a bleak picture of educational preparedness in Tanzania, despite high enrolment rates. According to Uwezo/Tanzania, "Among children in Standard 3 only one in five (19%) were able to read a Standard 2 story in English. Just over 3 out of 10 (31%) were able to do Standard 2 level multiplication problems."²² The United Nations Children's Fund's latest statistics on Tanzania's performance in education is summarized in Table 1.2 shown below.

Table 1.2 Tanzania's Educational Profile

Education	%
Primary school participation, Survival rate to last primary grade (%), 2008-2012	81.4
Primary school participation, Survival rate to last primary grade (%), 2008-2012	91.2
Secondary school participation, Net attendance ratio (%) 2008-2012, male	26.2
Secondary school participation, Net attendance ratio (%) 2008-2012, female	24.4

Source: http://www.unicef.org/infobycountry/tanzania_statistics.html

Almost every EU^{+SN} investor interviewed also noted that retrenching under-performing employees in Tanzania is difficult and fraught with legal risks, including being sued on spurious grounds. Several EU^{+SN} investors shared examples of having extreme difficulty firing employees who were, in their view, clearly caught undertaking theft, violations of company policy, or similar malfeasance. Investors indicate that the courts are sometimes biased toward local employees, seemingly regardless of the circumstances, and almost all courts are extremely slow to render judgment.²³ These uncertainties act as a disincentive to hiring new staff and creating further employment.

²² Are Our Children Learning: Literacy and Numeracy in Tanzania | 2014. Uwezo/Tanzania, 2015, pg. 3

²³ Furthermore, employers note that countersuits by former employees are extremely common. Even if not successful, these can prove costly to defend.

²⁴ Doing Business 2015: Going Beyond Efficiency – Economy Profile 2015 Tanzania. The World Bank, pg. 11

²⁵ Ibid.

- **Bureaucracy:** Across all layers of government, overly bureaucratic processes increase the time and cost of doing business. According to the World Bank, starting a local business in Tanzania requires on average 26 days and 9 procedures and exceeds by far the world's average in time and cost of doing business (see Table 1.4). Specific sectors fare even more poorly in the World Bank's global survey – in construction, for example, Tanzania ranks 169th among countries surveyed, requiring 205 days and 18 distinct procedures to commence a new project. Specific causes of red tape include GoT agencies that lack transparency and consistency in decision-making, slow processing times, poor coordination among agencies where a multi-agency decision is required, and a multitude of overlapping regulators – at the national, regional, and municipal levels.
- **Land tenure:** As outlined in Chapter 3: Agriculture, Tanzania maintains a leasehold system whereby investors can obtain a long-term lease (in theory, up to 99 years, renewable) but cannot own land outright in perpetuity. Technically, all land is owned by the state though user rights may be transferred to local communities, regions, municipalities, or Tanzanian nationals. Several investors, notably those in the agricultural sector, have complained about land tenure issues. The land registration process is, in practice, complex, long and costly, and the end result is often not recognised as valid by some government bodies, especially at the local or regional level. Problems with Tanzanian squatters occupying, squatting on, or trespassing on commercially leased land are also common.
- **Infrastructure shortfalls:** Weak infrastructure continues to hold back investment and business operations across all sectors. A critical test of President Magufuli's first term in office will therefore be his administration's ability to address this by encouraging private investment in public infrastructure, by making infrastructure markets more efficient and attractive, and by unbundling underperforming state utilities effectively.

Annex 1: Examples of over-regulation can be found on page 165

2 European Investment In Figures

Snapshot: key data

- The EU remains the largest trading partners of Tanzania with total trade (exports and imports) totalling USD 2 billion in 2013.
- EU^{+SN} represented 68% of total FDI flows into Tanzania in 2012, with a total of USD 1.2 billion invested.
- EU^{+SN} companies classified as 'Large Taxpayers' paid USD 813 million of domestic taxes in 2014, accounting for 25% of taxes paid by large taxpayers in Tanzania.
- The Tanzania Investment Centre attributes the creation of approximately 95,000 direct jobs to EU^{+SN} companies in Tanzania from 2007 to 2014.
- There are an estimated 1000 EU^{+SN} companies in Tanzania, mainly located in Dar es Salaam, Arusha and Zanzibar. Half of them are British companies. The main sectors for investment are Mining, Financial Services, Energy, Agriculture and ICT.

1. Overview

This study profiles EU^{+SN} business activity in Tanzania in several ways.¹ The study draws on available data to showcase the number, nationality and location of EU^{+SN} companies invested across all key sectors of the economy, as well as highlighting the positive impact made by EU^{+SN} investors in terms of job creation, innovation and their contribution to tax revenue and economic growth in Tanzania.

Each industry is examined in turn, with an emphasis on the sectors and sub-sectors in which clusters of EU^{+SN} firms have driven significant growth and market transformation. With profiles of more than 50 European companies incorporated into the narrative, the study illustrates the pattern of European investment in Tanzania in unprecedented detail and breadth. Ultimately, this study will serve to map and showcase existing European investment in Tanzania, to provide a baseline to support further investment by EU^{+SN} companies into Tanzania and to measure progress in addressing business environment challenges.

EU – Tanzania economic ties

Historically, the EU and the United Republic of Tanzania have had a robust economic relationship based upon steadily growing investment and trade, and strong diplomatic ties. An example of this closeness is the superior access that Tanzania enjoys to European markets. Currently, as a "least developed country", Tanzania has been granted by the EU a unilateral trade regime under the "Everything but Arms" arrangement which gives quota free and duty free access to

the EU Market. A bilateral trade agreement - the Economic Partnership Agreement has been initialled between the EU and the East African Community. It is now going through a process of signature and ratification by the signatories before implementation.

As a bloc, the EU is Tanzania's primary export destination and the country's single most important source of foreign direct investment and bilateral trade, as the charts below demonstrate. Roughly 16% of Tanzania's global exports are destined for the EU's 28 member states, and in 2014 Tanzanian imports into the EU grew by 10.5%.²

Imports into Tanzania from EU countries averaged USD 1.4 billion per annum between 2008 and 2013, with the total amount rising by roughly 8% each year. Despite this regular increase the EU is since 2012 no longer the main exporter to Tanzania. EU is in the 3rd position with 9.5% of total imports by value in 2015 (USD 1,298 million) behind China with 34.7% (USD 4,785 million) and India with 13.5% (USD 1,856 million) respectively³.

Whilst no longer being the main importer to Tanzania, the EU presents one of the biggest export markets for Tanzanian products. As shown in Table 2.1, exports entering the EU amount to USD 710 million in 2015 which represents 16.7% of total trade value. Tanzanian exports to China, in contrast, account for only USD 347 million in the same year⁴. Tanzania therefore receives the smallest trade deficit by partnering with EU countries (see Figure 2.1).

1 For the purposes of this study, the European countries reviewed include EU member states plus Switzerland (S) and Norway (N) (EU^{+SN} each of which has significant investment in Tanzania and collaborates closely with European Union Delegation to Tanzania.

2 http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc_147401.pdf, pg. 9

3 Figures taken from http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc_147401.pdf, p.8 (converted into USD)

4 http://trade.ec.europa.eu/doclib/docs/2011/january/tradoc_147401.pdf, p.8

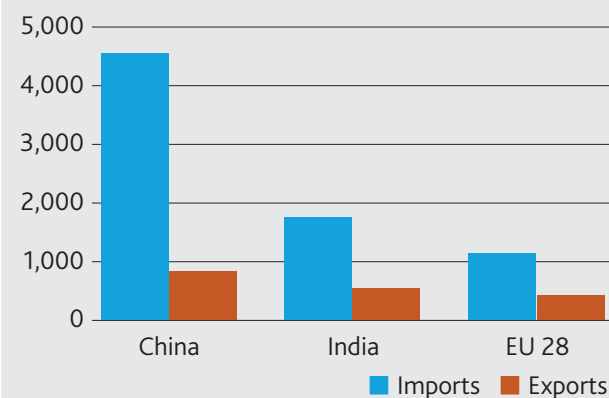
Total trade between Tanzania and the EU today stands at around USD 2 billion each year.⁵ The total value of Indian-Tanzanian trade amounts to USD 2,765 million and trade exchanges between Tanzania and China reach USD 5,104 million in 2015.

Table 2.1

Top trading partners	Imports (USD Mio)	Exports (USD Mio)	Balance (USD Mio)	Total trade (% World)
China	4,758	347	-4,411	28.4
India	1,856	910	-946	15.4
EU 28	1,298	710	-588	11.2

Source: EC, 'European Union, Trade with Tanzania', June 2016

Figure 2.1 Trade flows between Tanzania and top trading partners 2015 (in USD Million)



2. EU^{+SN} contribution to Foreign Direct Investment in Tanzania

As Table 2.2 below illustrates, overall FDI inflows into Tanzania grew by some 120% over the five year period to 2013. FDI flows were USD 2.2 billion in 2013 (the latest year for which data is available), up from just USD 1 billion in 2009.

This increase is primarily due to a combination of new equity investment and reinvested earnings in the mining, manufacturing, oil and gas, power and finance sectors.

Table 2.2 Flow of Foreign Direct Investment (FDI) and share of FDI inflows

FDI flows	2009	2010	2011	2012	2013
Global (Billions of USD)	1,221.8	1,422.3	1,700.1	1,330.3	1,452.0
Africa (Billions of USD)	56.0	47.0	48.0	55.2	57.2
Tanzania (Billions of USD)	1.0	1.8	1.3	1.9	2.2
Tanzania's share in Global (%)	0.1	0.1	0.1	0.1	0.2
Tanzania's share in Africa (%)	1.8	3.8	2.7	3.4	3.8

Source: World Investment Report 2014

⁵ Source: USAID East Africa Trade Hub, EAC Statistics Reports (Tanzania). This figure does not include EFTA states.

Table 2.3 Tanzania Stock and Flows of FDI by economic sector, 2009-2013 (USD million)

FDI flows	Inflows					Stock				
	2009	2010	2011	2012	2013	2009	2010	2011	2012	2013
Mining and quarrying	385.1	909.9	406.5	889.3	520.4	4,099.2	5,009.1	5,415.5	6,304.8	6,825.1
Manufacturing	214.5	157.1	217.3	563.7	386.6	1,085.2	1,242.3	1,459.5	2,023.3	2,409.9
Financial and insurance	95.9	95.5	121.1	148.1	752.2	512.2	607.6	728.7	876.8	1,629.0
Electricity and gas	2.1	290.5	209.4	618.3	37.3	26.8	317.3	526.7	1,145.0	1,182.3
Accommodation	35.9	21.1	165.6	5.4	474.0	424.6	445.7	611.3	616.8	663.8
Wholesale and retail trade	-16.9	36.9	114.5	-35.2	123.5	355.1	392.0	506.5	471.3	594.8
Information and communication	185.1	83.5	-98.3	-420.1	195.9	717.4	801.0	702.7	282.6	478.5
Agriculture	29.0	22.9	31.4	11.2	10.3	231.3	254.2	285.6	296.8	307.1
Professional activities	0.5	213.0	6.1	0.1	-0.1	1.6	214.6	220.6	240.7	240.6
Construction	14.9	-23.5	30.7	-28.1	13.8	134.4	110.9	141.5	113.4	127.2
Real estate activities	1.5	1.5	12.0	23.4	-0.6	81.2	82.8	94.7	118.1	117.5
Transportation and storage	3.9	4.0	10.4	-1.0	19.5	32.7	36.7	47.1	46.1	65.6
Other service activities	1.4	-0.8	1.1	3.9	22.9	5.2	4.4	5.5	9.4	32.3
Education	0.3	1.6	1.8	0.5	2.2	2.3	3.9	5.7	6.2	8.4
Grand Total	953.1	1,813.3	1,229.0	1,799.0	2,130.0	7,898.0	9,711.0	10,941.0	12,740.9	14,871.8

Source: Tanzania Investment Report 2013

European FDI

According to Tanzania Investment Centre (TIC) data, companies from 26 different EU^{+SN} countries have invested in Tanzania. The United Kingdom (U.K.) leads among EU^{+SN} countries with 544 companies registered with TIC. Italy is another leading source of investment, with many Italian companies focusing on tourism-related ventures, particularly in Zanzibar. Investment from the Netherlands is also significant and is largely concentrated in agriculture and agro-processing. Other EU^{+SN} investors are widely distributed at the sectoral level, including in manufacturing, services, and trade, energy, infrastructure, banking, retail and logistics. Table 2.3 shows stock and flow of FDI in Tanzania by economic sector.⁶

FDI inflows from EU^{+SN} countries exceed that from any other trading partners, as the Table 2.4 below demonstrates.⁷

⁶ See: <http://www.tic.co.tz/>

⁷ Note that these figures do not include any donor or aid funding. Aid funds from the EU to Tanzania are considerable but are excluded from this analysis. Also note that the majority of the FDI inflows from Canada in this series relate to the activities of Canada-listed African Barrick Gold, which was previously Tanzania's largest single foreign investor. However, African Barrick Gold demerged and in 2015 changed its name to Acacia Mining; it is now listed on the London Stock Exchange and is UK-headquartered, hence the equivalent figures for 2015 would show higher UK/ EU^{+SN} levels of FDI. The substantial investments made by EU Oil and Gas companies are also not well reported as high level of investments should be accounted for 2014 & 2015.

Table 2.4 FDI Inflows to Tanzania by leading regional groupings (millions of USD)

Top 10 EU ^{+SN} countries ¹	2008	2009	2010	2011	2012	Average
United Kingdom	241.3	45.9	282.1	451.8	786.9	361.6
Switzerland	16.3	11.1	10.5	153.4	219.4	82.1
Netherlands	24.3	22.1	110.0	14.5	1.7	34.5
Norway	41.3	-0.5	21.2	66.3	-0.6	25.5
Denmark	10.4	9.3	49.3	7.6	10.9	17.5
Sweden	10.7	5.1	16.4	0.8	0.7	6.7
France	6.2	2.6	2.4	13.7	-15.1	2.0
Luxembourg	0.8	10.1	3.0	3.5	72.1	17.9
Italy & Vatican City	3.6	12.7	-0.3	-0.3	0.0	3.1
Germany	-	-	5.7	-3.3	5.4	2.6
Top 10 EU^{+SN} states	354.9*	118.4*	500.3	708	1081.4	553.6
Top 5 Asian sources of FDI	2008	2009	2010	2011	2012	Average
China	-	-	1.4	5.6	3.3	3.4
Japan	-11.6	5.3	32.7	31.3	-28.9	5.8
India	-	-	2.3	4.9	5.1	4.1
Malaysia	-	-	2.0	0.3	0.4	0.9
Pakistan	-	-	-0.6	2.3	0	0.6
Top 5 Asian sources of FDI	n/a	n/a	37.8	44.4	-20.1	20.7
North America	2008	2009	2010	2011	2012	Average
USA	33.9	8.7	-2.1	1.2	198.9	48.1
Canada	199.7	269.3	342.6	392.2	308.8	302.5
North America	233.6	278	340.5	393.4	507.7	350.64

Source: 'Tanzania Investment Report 2013 – Foreign Private Investment'; access at: <https://www.bottz.org/Publications/TZInvestmentReports/TIR2013%20FINAL%20PUBLISHED%20REPORT.pdf>
¹ Excludes figures for Germany, hence the average for these years is taken from 9 rather than 10 countries

Figure 2.2 Average FDI Inflow by Regional Groupings (between 2008-2012, in USD Millions)

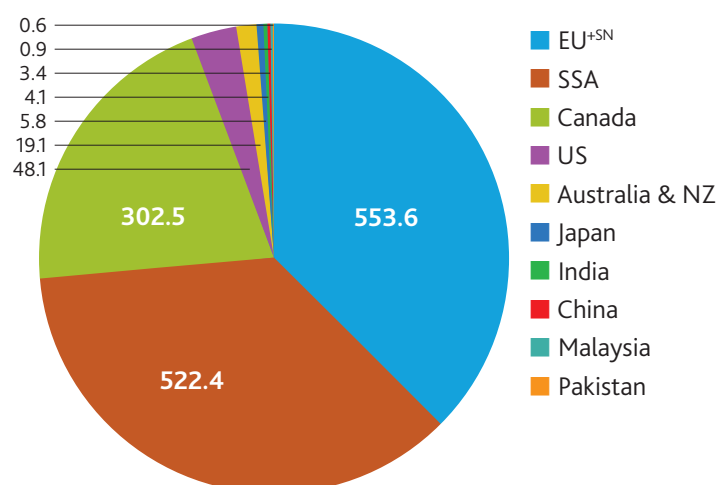


Figure 2.2 summarizes FDI by regional origin. As the figures demonstrate, the EU^{+SN} bloc is the largest foreign investor in Tanzania followed by Sub-Saharan Africa, led by South Africa. Other leading non-European investors include Canada, the United States, China, Iran, Malaysia, India, and Pakistan.

Note: Figures reflect FDI inflows rather than level of investment.

3. EU^{+SN} contribution to National-level Tax Contributions

While it is prohibitively difficult to account for all of the taxes paid by the hundreds of EU^{+SN} companies active in Tanzania, the Study Team selected a definable sub-set of companies to represent the overall contribution that European companies make to Tanzania’s national budget and economic development. Our chosen subset is the community of EU^{+SN} taxpayers classified as Large Taxpayers, to whom a bespoke Large-Taxpayer Department (LTD) is dedicated within the Tanzania Revenue Authority (TRA). Of the 137 foreign companies listed by TRA as Large Taxpayers, 55 or approximately 40% are of EU^{+SN} origin; while of all large tax payers (domestic and foreign investors combined), the 55 EU^{+SN} companies registered as large tax payers make up 23% of the total that is TSh 1,8 trillion equivalent to USD 813 million, thus illustrating the substantial contribution made by EU^{+SN} companies to the Tanzanian tax base and economy (see Figure 2.3).

As a whole, Large Taxpayers account for 43% of direct tax revenues in Tanzania. Direct taxes paid by foreign companies in Tanzania include corporate tax, employment tax on workers, skills development levy, excise tax for manufacturers, withholding tax, and Value Added Tax (VAT), which firms must collect from customers and pass through to TRA. However, customs duties, which remain quite high in Tanzania and account for a sizeable share of the TRA’s tax take, are exempted from this 43% figure. As a result, the true aggregate contribution by EU^{+SN} Large Taxpayers is likely to

be significantly higher than the available data suggests. Figure 2.3 below illustrates the percentage of taxes paid by Tanzania’s large taxpayers versus all others.⁸

EU Large Taxpayers

Eleven EU^{+SN} countries have Large Taxpayers in Tanzania. These are shown by national investment origin and the number of Large Taxpayers in Figure 2.4 below. The United Kingdom accounts for 42% of the EU^{+SN} Large Taxpayers, with France and Switzerland as the next largest contributors.

Figure 2.4 Number of Large Taxpayers by EU Origin

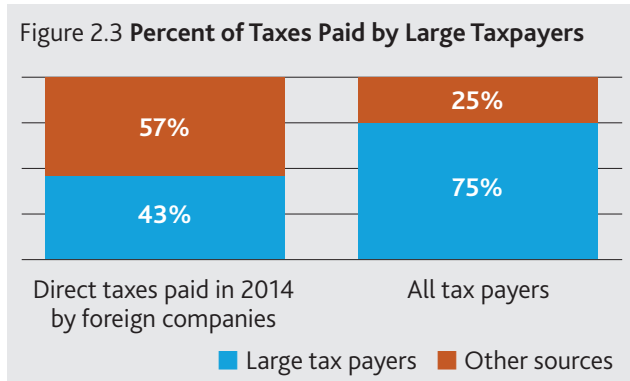
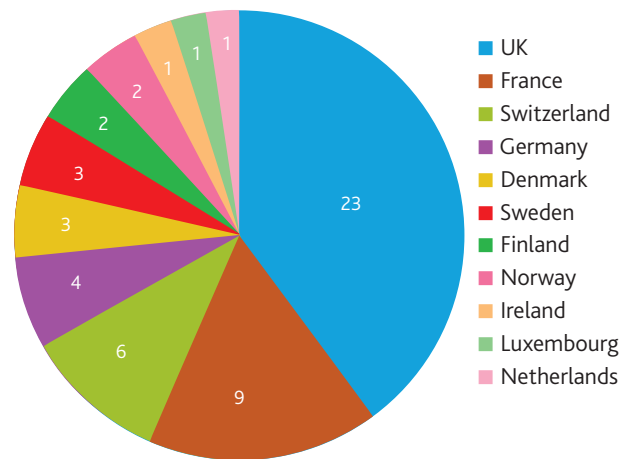
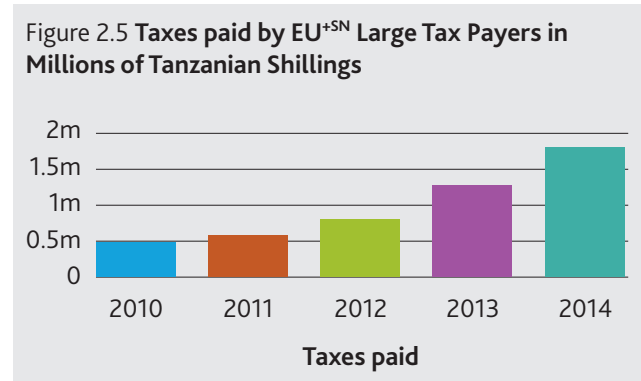


Figure 2.5 below, illustrates EU^{+SN} taxes paid by large taxpayers in Tanzanian Shillings (TSh) from 2010-2014. As this graph demonstrates, the total amount of tax paid is increasing significantly year-on-year.⁹



8 TRA’s Fourth Corporate Development Plan, launched in 2013, aspires to have 19.9% of national GDP come from overall tax revenues. The target date to achieve this goal is June 2018. According to the TRA, this will be achieved through improving efficiency in tax administration and widening the tax net in order to collect more revenue from specialised sectors such as mining, oil and gas, telecommunication, tourism, construction, real estate and the financial sector, as well as from high net worth individuals (HNWI) and the informal sector. See: <http://www.tra.go.tz/index.php/about-tra/corporate-news>.

9 It should be noted that TRA, where this data is generated, tracks foreign companies by their locally registered corporate name and its specific TRA-generated Tax Identification number. As such, an EU^{+SN} company that has multiple subsidiaries will be counted as an investor for each subsidiary that has invested in Tanzania and is considered a Large Taxpayer. For example, the Swiss Aga Khan group owns four locally registered companies; parent company Deutsche Post AG (Germany) operates two DHL-affiliated companies; Unilever (U.K.) owns two Large Taxpayers; Fam. Massey of Switzerland owns two locally registered companies, and the U.K.’s Glencore PLC operates two locally registered Large Taxpayer companies. TRA data also assumes that the companies on the list below are at least 25% foreign owned, as indicated by official filing documents related to shareholding of a firm.

Figure 2.6 right, summarizes the percentage of taxes paid by EU^{+SN} large taxpayers by the type of tax from 2010-2014.¹⁰

Figure 2.6 **Percentage of Taxes Paid by EU^{+SN} Companies by Type, 2010 - 2014**

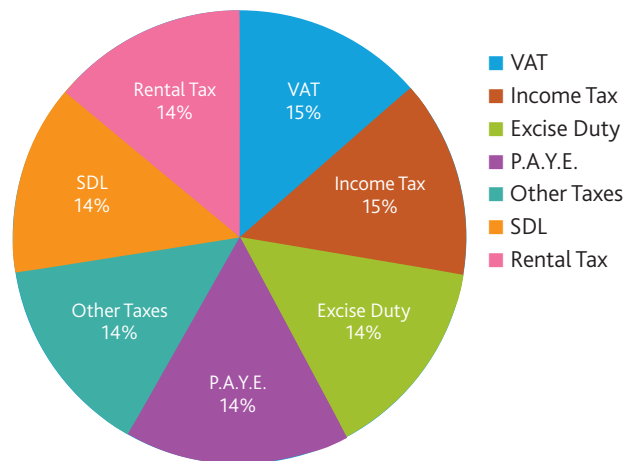
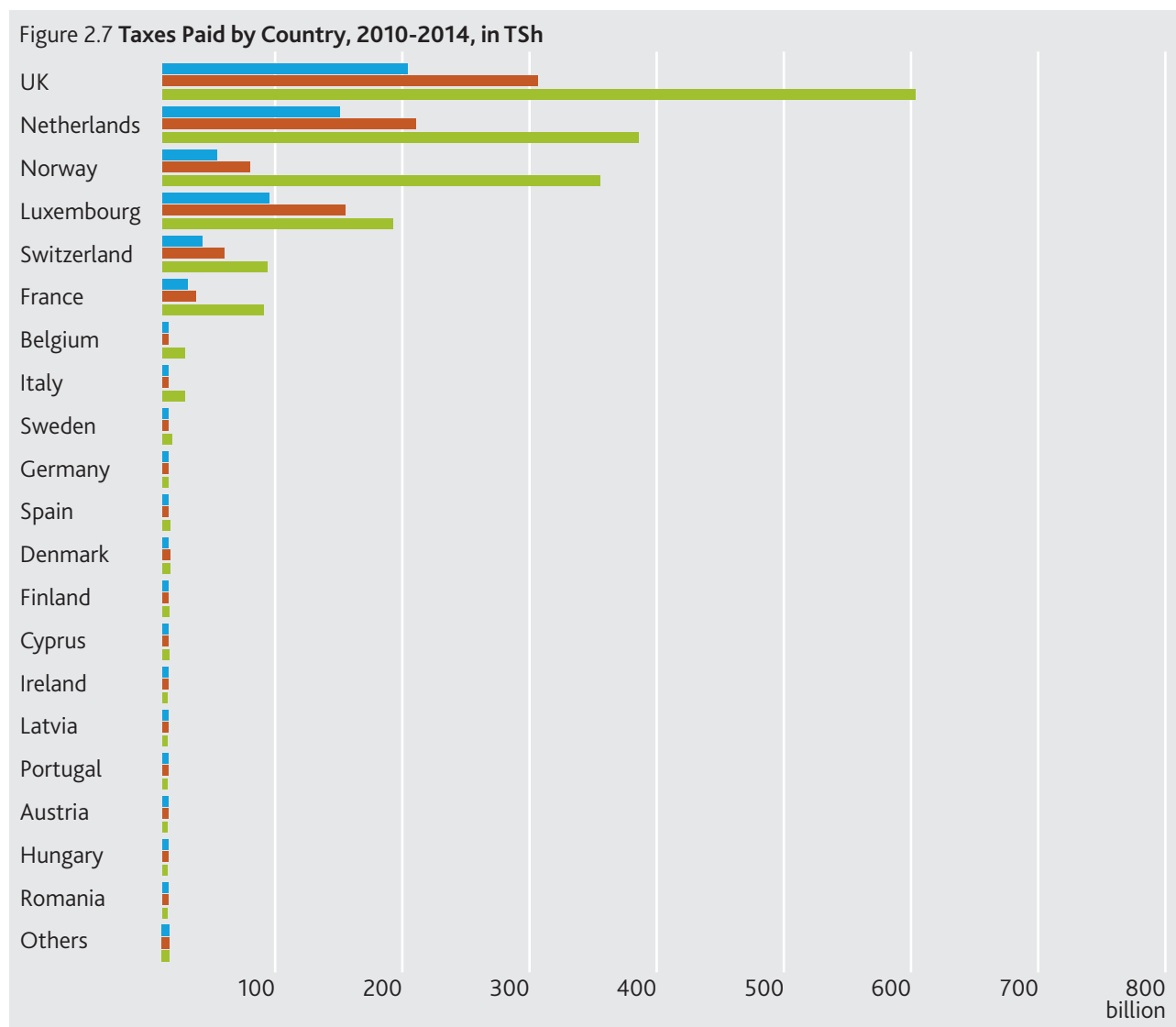
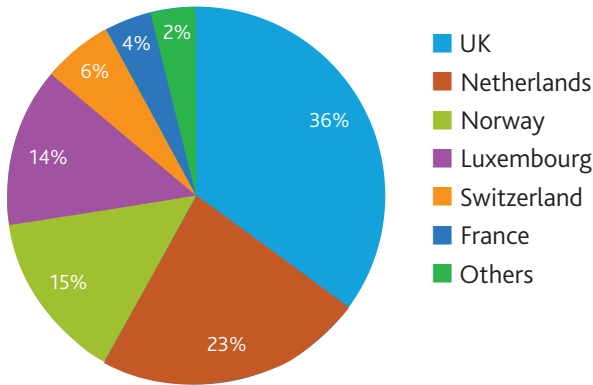


Figure 2.7 below summarizes EU^{+SN} tax payments by nationality, ranked by the top contributor to the smallest; while Figure 2.8 overleaf illustrates the taxes paid by the top EU^{+SN} contributors to Tanzania's tax base.



¹⁰ "SDL" in the figure below is short for the Skills Development Levy.

Figure 2.8 **Total Taxes Paid by Top 10 EU^{+SN} Nationalities, 2010 - 2014**



4. EU^{+SN} Contribution to Employment in Tanzania

EU^{+SN} companies are significant employers in Tanzania, creating new employment opportunities for local citizens across a wide range of sectors, including agriculture, mining, manufacturing, tourism, construction and several others.

In many cases, an EU^{+SN} company will maintain a lean expatriate management group. Typically, in accordance with Tanzanian immigration policy and investment legislation and as administered by TIC, foreign labour is capped at the five expatriate employees. Additional foreign employees may be permitted after a justification process administered by TIC, the Ministry of Immigration, and the Department of Labour.

Notwithstanding, European investors have contributed substantially to the boosting of the Tanzanian labour market. The TIC attributes the creation of 93,826 direct jobs to EU^{+SN} companies in Tanzania. But in many cases job creation reaches beyond direct employment. Whilst the UK-based Tanzania Breweries Ltd (TBL) directly employs around 1,650 people within the manufacturing sector, the company's operational activity has created an additional 84,000 indirect jobs for Tanzanians in the wider industry. Likewise, Unilever's contracting of more than 120 local distributors frees up resources for the further development of, and additional job creation within, Tanzania's retail and trade sector. In the mining industry, the 22 EU^{+SN} investors active

throughout the industry's supply chain contribute heavily to the total direct employment of 15,000 people. In telecommunications, the Swedish-based mobile company, Tigo accounts for 25% of the total mobile market share alone, and has offered direct and indirect employment to over 300,000 Tanzanian citizens. Within the retail and trade sector, the UK-based consumer goods producer, Unilever, has created 26,500 additional jobs.

Overall, the employment figures gathered in this study, albeit not exhaustive, point to a higher aggregate contribution by EU^{+SN} companies to Tanzania's labour market than reported by the TIC data. Partial information presented in the different sector reports below suggest that direct and indirect employment created by EU^{+SN} investors amounts to 560,000 additional jobs.

EU^{+SN} companies also pay a skills development levy and employment tax, and invest heavily in worker training, including on-the-job training as well as funding for additional formal education. For instance, European investors in the mining industry support the development of talent through the Integrated Mining Technical Training programme. In the oil and gas industry, one of the biggest company in the field, the UK-based BG Group, has awarded more than 10 Tanzanian students with scholarships to study at UK universities.¹¹ And the Dutch-based construction company BAM International actively supports the training of Tanzanian engineering graduates within its own structures.

The following example showcased opposite in Box 2.1 illustrates how EU^{+SN} companies are among those that have been most proactive in partnering with government and educational institutions to develop and train the Tanzanian workforce.

5. European Companies: numbers, nationalities, location and sectors

The position of EU^{+SN} countries as Tanzania's leading trading partners is set to continue in the medium term. European markets are increasingly open to Tanzanian produce, and as this study demonstrates in detail, EU^{+SN} investors are

¹¹ Further information here: <https://www.rgu.ac.uk/news/bg-supports-tanzanian-students-with-rgu-scholarships>

Box 2.1 Workforce Development in Mining

Recognising the lack of skilled workers in the mining industry, the private sector and Tanzanian government institutions created a specialized training program for the sector. Acacia Mining and AngloGold Ashanti, among others, partnered with the Tanzanian Chamber of Minerals and Energy (TCME) and Vocational Education and Training Authority (VETA) to design a technical training project for artisans and tradesmen in the mining sector. The Integrated Mining Technical Training (IMTT) program seeks to achieve the following outcomes, to:

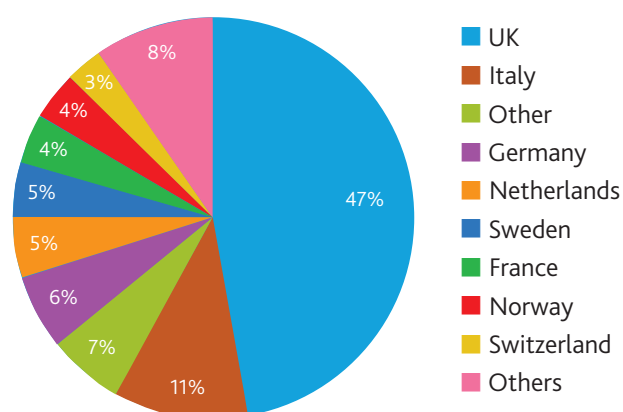
- Establish and maintain high technical training standards for mining and related sectors;
- Achieve national and international recognition for IMTT qualifications;
- Align IMTT qualifications with existing mining and related sector employee development initiatives and programs;
- Integrate the IMTT curriculum with the national technical education framework;
- Reach out to those seeking qualifications leading to possible employment within mining and related sectors; and
- Develop technical skills that can contribute to the development and growth of the Tanzanian economy.

UK-based Acacia reports that in 2013, the company employed 37 graduates from the IMTT program and currently sponsors a further 126 participants in ongoing training. Acacia notes that 61% of its employees participated in technical training courses managed by the IMTT program during 2013.

interested in starting and expanding business operations in Tanzania as highlighted by the strong existing European commercial presence across a diverse range of sectors.

Table 2.9 below shows the wide diversity of EU^{+SN} nationalities represented in Tanzania's investment landscape. As a unified group, EU^{+SN} investors are significant sources of employment, tax revenue, and commercial activity.

Figure 2.9 EU^{+SN} Investors by Nationality



Figures reflect headcount of EU^{+SN} investors

European companies are well distributed across Tanzania. There are an estimated¹² 1000 EU^{+SN} companies in Tanzania,

mainly located in Dar es Salaam, Arusha and Zanzibar. The main sectors for investment are Mining, Financial Services, Energy, Agriculture and ICT.

While many European companies have their base of operations in Dar es Salaam, Tanzania's commercial capital and the location of its major seaport and airport, EU^{+SN} companies are located in all of Tanzania's major cities and regions, as well as on Zanzibar. This is important to note, as EU^{+SN} investment has assisted Tanzania's development goal of providing employment, training, and skills development throughout the country and to rural communities. The figure below illustrates this wide distribution.

European Union companies are also well distributed across a variety of sectors. As expected, EU^{+SN} companies with world class technological expertise are particularly well represented in such sectors as information and communications technology, oil and gas, retail/trade, and transport and logistics. As can be seen in Figure 2.10 over, there is also strong presence of EU^{+SN} companies in the tourism, manufacturing and agriculture sectors, among others. The geographical distribution of EU^{+SN} companies per sector is illustrated in the map over.

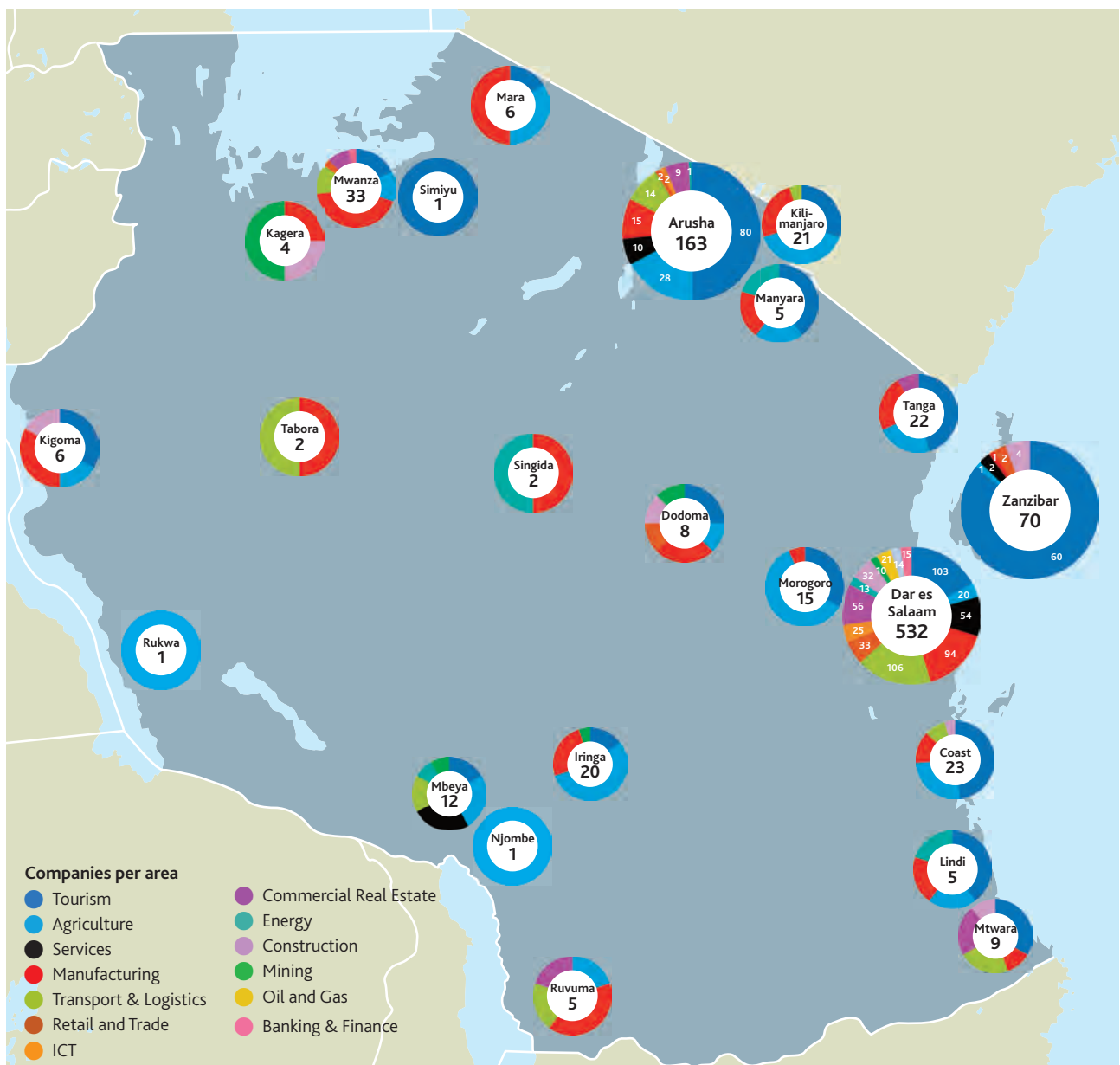
¹² TIC data, using the EU^{+SN} definition

Figure 2.10 EU^{+SN} Investors by Sector



Figures reflect headcount of EU^{+SN} investors

Map 2.1 Locations of European investments in the United Republic of Tanzania



Source: original research building on information from the Tanzanian Investment Centre 2016

3 Agriculture

Sector Snapshot

- Agriculture is the 'sleeping giant' of the Tanzanian economy and employs roughly 75% of Tanzanians. European firms are active across the entire value chain. 92 EU^{+SN} companies are invested in the sector, originating from 13 different European countries, with the UK and the Netherlands accounting for the largest share. Many of these firms are leading players in their sub-sector in terms of both innovation and investment size, and they are widely dispersed across every region of Tanzania.
- In the sugar sector, EU investor Kilombero Sugar Company is the largest player, producing 130,000 tonnes of sugar annually and employing 105,000 people directly and indirectly in the Kilombero Valley area.
- Yara, Syngenta and Bayer CropScience AG account for the majority of all investment and sales in the agro-input sector (seeds, fertiliser and pesticides). Syngenta's operations in Tanzania reach a total of 9,000 smallholders, while Yara's new fertilizer terminal in Dar es Salaam provides up to 350,000 tonnes of fertiliser annually to Tanzanian farmers.
- The Dutch flower floriculture and horticulture sector centred on the Arusha and Kilimanjaro regions is dominated by roughly 10 Dutch firms, which employ over 5,000 workers and represents a notable 'island of effectiveness': a model for world class production and supply chain arrangements. As of 2012, Tanzania exported 3,634 tonnes of flowers – the vast majority produced by European investors – for a total value of USD 33,613,000.
- EU^{+SN} firms also predominate in the coffee and tea sub-sectors, with Unilever's latest tea estate investment at Mufindi creating 5,000 jobs directly and 30,000 indirectly.

1. Sector Outlook

At present, commercial agriculture remains well below potential. Tanzania has an estimated 1,000 - 2,000 large-scale farms and estates with an average size of 1,100 ha, but in a country with 29 million hectares of irrigable land available this is barely scratching the surface.¹ This point is underscored by the fact that agriculture accounts for less than 3% of the country's total Foreign Direct Investment stock, despite employing more than 75% of Tanzanians.

Recognising this unrealised potential, the GoT has placed greater emphasis on the link between agriculture and economic growth, and on the corresponding need to develop a strong enabling environment for commercial agricultural investment. Globally, few countries have achieved rapid economic growth without agricultural growth, and Tanzania – with its almost unrivalled endowment of land area, favourable soils and water access – will be no different.

Against this backdrop, opportunities for EU^{+SN} investment in Tanzanian agriculture abound. Strategic opportunities – backed by supportive government measures – exist across a number of value chains, including in horticulture (fruit,

vegetables, oils and flowers); traditional crops such as tea, coffee, barley, maize, cocoa, and cotton; commercial livestock farming; and inputs such as seed, fertilizer and pesticides; among others. The export potential for such produce is significant, and added to this is the growing potential of the domestic market, where urbanisation and population growth are driving demand higher.²

Bordering on eight neighbouring countries, Tanzania is well placed to become a breadbasket for the East and Central African region in addition to having easy access to global export markets via the country's deep sea ports. All this makes a doubling of agricultural yields achievable within a short time-frame provided that agricultural policies are streamlined.³ The investor appetite for new agribusiness projects is not in doubt – it is now over to the new government of President John Magufuli to unleash this potential by strengthening the policy environment and enabling modern commercial farming to flourish in Tanzania.

2. Sector Profile

Farming is central to the Tanzanian economy, with more than three quarters of the labour force employed in agriculture.

1 Booth, D., Cooksey, B., Golooba-Mutebi, F. & Kanyinga, K. 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania and Uganda' Overseas Development Institute (ODI), May 2014

2 Tanzania's population is forecast to surpass 100mn by 2050.

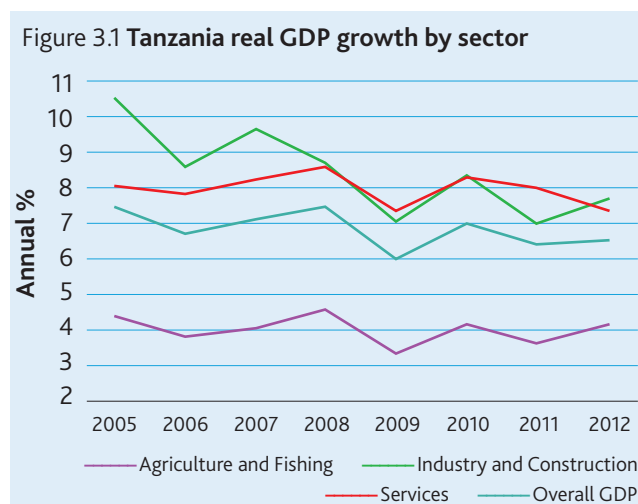
3 UK Department for International Development (DFID), 'Business Case and Intervention Summary Intervention Summary: Southern Agricultural Growth Corridor in Tanzania (SAGCOT)' [date unknown]; access at: iati.dfid.gov.uk/iati_documents/3756479.docx

According to government figures, the agricultural sector accounts for 25% of exports, nearly 50% of GDP and more than 70% of all rural household income.⁴

Yet agriculture remains the sleeping giant of the Tanzanian economy. Productivity is exceptionally low by global standards as smallholder crop farmers have little access to modern farm technologies and inputs, relying instead on rain-fed farming. Only 280,000 of an available 29 million hectares of irrigable land are currently being farmed, and only 2% of land can be commercially accessed by investors.⁵ At 5% per year, the sector’s modest growth rate lags behind other economic sectors and is failing to provide enough income for farmers and their families to escape poverty (see Figure 3.1).

However, the potential for Tanzanian agriculture to grow at a faster, more transformative rate is palpable and even today several sub-sectors are outperforming – islands of effectiveness that demonstrate the sector’s underlying potential.⁶

As in many developing countries, productivity among Tanzania’s rural small-holder farmers is held back by a range of structural limitations including limited access to finance; inadequate storage infrastructure; high transport and marketing costs; low technology adoption; a lack of affordable inputs such as improved seed and quality fertiliser; weak government-provided extension services; an absence of accurate market information; and a failure to commercialise at scale.



The Government of Tanzania (GoT), together with development partners and commercial agribusiness investors, is working to address these challenges by creating stronger links between commercial and small-holder farming, and by developing more accessible routes to market for agribusinesses. The GoT’s newly established Agricultural Development Bank, whose mission is to increase farmers’ access to credit, embodies this approach. A further example is the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Programme (SP) which aims to triple the agricultural output of Tanzania’s main food surplus regions by catalysing USD 2.1 billion of private investment, and by bringing an additional 350,000 hectares into profitable production.

Box 3.1 The Southern Agricultural Growth Corridor

The Southern Agricultural Growth Corridor of Tanzania (SAGCOT) Programme (SP) is an agricultural public-private partnership programme, launched at the World Economic Forum Africa summit in May 2010 that brings together smallholder farmers, agribusinesses and development donors to pool resources and raise investment for commonly identified objectives showcased in the investor blueprint. Besides increasing agricultural productivity at large, SAGCOT is meant to improve the infrastructure, policy environment and transfer of knowledge within Tanzania’s agricultural sector to create new investment opportunities in a well-functioning agricultural value chain.

On March 10, 2016, additional USD 70 million were granted to the GoT by the World Bank, launching the SAGCOT Investment Project (SIP). The three pillars of the project include (1) institutional support for the improved planning and guidance of agricultural investments; (2) strengthening of smallholder business linkages to enhance the development of successful commercial partnerships and their integration into valuable agricultural value chains; (3) establishment of project management and M&E systems.

It is estimated that the SIP will boost income opportunities for 100,000 smallholder farming households and directly benefit over half a million people.

Source: SAGCOT; World Bank

4 Tanzania Investment Center, 2014, 'Investors Guide to Tanzania - 2014-15', pg. 23

5 Big Result Now 'Business Environment – Access to Land and Security of Tenure', PowerPoint Presentation for Development Partner Dialogue; and Tanzania Investment Center, 2014, 'Investors Guide to Tanzania - 2014-15', pg. 23

6 Tanzania Budget Insight 2015: Diving Deep. Deloitte, 2015, pages 3-8

Map 3.1 The Southern Agricultural Growth Corridor



Source: SAGOT: <http://www.sagcot.com/who-we-are/what-is-sagcot/>

2.1 Sub-sectors

Tanzania hosts seven different agro-ecological (land resource) zones, each with different soils and topography, altitude, rainfall regimes, and growing seasons. This variety underpins a wide range of farming practices. Aside from livestock farming, the most popular domestic crops (see Figure 3.2) have traditionally included millet, sorghum, sisal, sugarcane and banana-based systems, though in recent years farmers have shifted towards greater maize, cassava, rice and vegetable production (see Figure 3.3).

Mixed maize production predominates in the central semi-arid regions – though many other crops, including cocoa, are also grown – while in the north conditions are more suitable for coffee, maize, barley, tea and horticulture. In the south and west of the country, coffee and tobacco are the major

crops; whereas in the Lake Zone surrounding the shores of Lake Victoria, cotton remains the traditional crop.⁷ Finally, the coastal zone and Lake Victoria itself present unrivalled opportunities for the marine and freshwater fishery sectors respectively.⁸

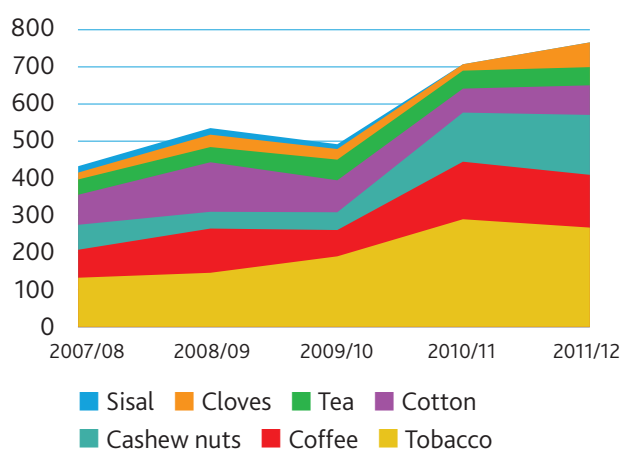
In summary, Tanzania's agricultural sector has a strong competitive advantage in the production of crops for domestic and regional consumption such as maize, rice and sugar, in addition to a diversified basket of agricultural crops for global export – including cashews, groundnuts, coffee, cocoa, cotton, tea, tobacco, spices, forestry, livestock, horticultural products and others – all of which represent important sources of export earnings for the country.⁹ Table 3.1 and 3.2 below provide a snapshot of current production and export volumes for the country's main produce:

7 This section draws on Arce, C. & Caballero, J 'Tanzania: Agricultural Sector Risk Assessment' World Bank Group Report No. 94883-TZ, June 2015; access at: <https://openknowledge.worldbank.org/bitstream/handle/10986/22277/Tanzania000Agr0ctor0risk0assessment.pdf?sequence=5>

8 The country's other freshwater lakes, such as Lake Tanganyika, also support fishing industries.

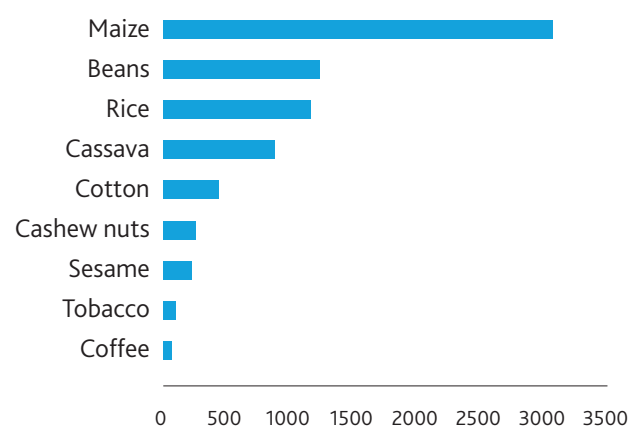
9 Arce, C. & Caballero, J 'Tanzania: Agricultural Sector Risk Assessment' World Bank Group Report No. 94883-TZ, June 2015

Figure 3.2 Traditional export crops (million US\$)



Source: Bank of Tanzania

Figure 3.3 Planted area (000ha) by main crops for 2010



Source: MAFC

Table 3.1

Annual smallholder production (2009)	Hectares (ha)	Volumes (mt)	Value (US\$'000)
Maize	1,000,000	1,835,000	195,000
Cassava	200,000	385,000	12,000
Paddy rice	100,000	280,000	84,000
Pulses	300,000	260,000	27,000
Beef	n.a.	5,000	25,000
Tea	8,000	8,000	10,000

Sources: Regional DADPs, Ministry of Agriculture Food Security and Cooperatives, and SAGCOT technical team estimates

Table 3.2

Annual commercial production (2009)	Hectares (ha)	Volumes (mt)	Value (US\$'000)
Sugar	10,000	300,000	6,000
Tea	8,000	18,000	22,500
Rice	12,500	45,000	15,000

Sources: Regional DADPs, Ministry of Agriculture Food Security and Cooperatives, and SAGCOT technical team estimates

The country's relative abundance of natural resources – including both arable and range land – illustrates that market opportunities exist for EU^{+SN} investment in a much greater range of crops than those listed above. The business case for new European investment in export agriculture is boosted further by Tanzania's signatory status to international trade protocols and the country's membership in not one but two regional trade groups – the East African Community and Southern African Development Community.

3. Sector-wide policy context

The liberalization of the agricultural markets in the 1980s and early 1990s removed state monopolies and crop marketing

boards and paved the way for competitive prices and the free entry of private producers, traders, processors, and exporters.

More recently, during the second half of President Jakaya Kikwete's presidency (2005–2015), agricultural policy has been developed via a series of flagship national programs. The first of these was the "Kilimo Kwanza" (Agriculture First) strategy, launched in 2009 under the auspices of the Tanzania National Business Council (TNBC), which set out a number of policy instruments and government interventions designed to modernise and commercialise agriculture in Tanzania. Rather than being centrally planned and government-implemented, Kilimo Kwanza represented a

new chapter in agricultural policy as a public-private initiative aimed at boosting private sector participation.¹⁰

Meanwhile, the GoT and its development partners continue to implement the Agricultural Sector Development Strategy (ASDS), a sector-wide approach first introduced in 2001 whose objective is to achieve agricultural growth via transformation from subsistence to commercial agriculture. Key areas of intervention under the ASDS include irrigation development, technology generation and adoption, agricultural services (research and extension), marketing and institutional capacity building.¹¹

More recently, in 2013, the GoT launched its Big Results Now (BRN) initiative as part of Tanzania's Vision 2025, with agriculture as one of six National Key Results Areas.¹² Under BRN, the government is focusing on key value chains such as rice, maize and sugar, as well as on improvement of irrigation infrastructure and management in order to increase productivity. Other value chains given priority under BRN include horticulture, oil seeds, potatoes and tea.¹³

Crucially, the BRN initiative is fast-tracking the land acquisition process, with a total of 80,000 hectares entrusted to the Tanzania Investment Centre (TIC) to date for fielding expressions of interest from investors for land grants. Surrounding smallholders that are potential out-growers adjacent to the identified land parcels have been trained and sensitized and are ready to engage and work with investors.¹⁴

3.1 Policy challenges

However, despite the sector-wide approach represented by Kilimo Kwanza and the ASDS, agricultural policies in Tanzania are still subject to overlap and confusion. It remains unclear

how BRN relates, for instance, to earlier initiatives. As a direct result, difficulties have been encountered in the implementation phase of BRN in the agricultural sector. Major European players have delayed new investment and the BRN target of 25 new commercial farms for increased sugarcane production by 800,000 hectare fields by 2016 has to date not been achieved.

Moreover, policy decisions on agricultural trade, in particular relating to export bans and import tariff waivers, frequently contradict the government's publicly-stated investor friendly policy objectives. These arbitrary trade policy actions penalise domestic producers and exporters. For example, on several occasions during the Kikwete presidency, fixed import tariffs were undermined by waivers that allowed cheap imported produce to flood the domestic market. The GoT would award local trading companies with permits to import massive volumes of sugar, rice and maize duty free, leaving domestic producers with large surplus stocks and consequent cash-flow shortfalls.¹⁵ (The trading firms benefitting from these waivers and special permits also provide substantial funding to Tanzania's ruling Chama Cha Mapinduzi (CCM) party).

The agricultural sector is also still subject to export taxation, domestic taxes and direct state intervention in pricing – for example, through bulk purchases of food commodities by the National Food Reserve Authority at non-market prices.

Together, these regulatory issues – combined with declining government spending to support agricultural marketing, storage and processing – have depressed prices and production volumes for export commodities such as cotton, tea, coffee and cashews.¹⁶

10 Kilimo Kwanza's main objectives included: increasing concessionary lending to agriculture, empowering agricultural cooperatives, creating commodity exchanges, removing market barriers to agricultural commodities, enhancing trade integration and promoting public-private partnerships for investment in agriculture-related infrastructure and delivery, and accelerating land reform.

11 ASDS is implemented through the Agricultural Sector Development Program (ASDP), a sector-wide investment program launched in 2006 and sponsored by the World Bank and bilateral donors. ASDS is accompanied by a set of sub-sectoral policies, including: the Cooperative Development Policy, established in 1997 and reviewed in 2002; the National Livestock Policy of 2006; the Agricultural Marketing Policy of 2008; the National Irrigation Policy of 2010; the National Agricultural Policy of 2011; and the Horticultural Development Strategy 2012–2021.

12 As part of the BRN process, the government has established an Agricultural Delivery Division (ADD) within the Presidential Delivery Bureau to streamline agricultural programming and to improve policy analysis and monitoring.

13 As part of these initiatives, GoT has promoted 25 commercial farming deals. The government is also enhancing 78 smallholder rice irrigation and marketing schemes through professional management (using private sector service providers) and is developing 275 collective warehouse-based marketing schemes to link maize and rice farmers to the market.

14 New Alliance Technical Report for Tanzania (Draft) 'Tanzania: Progress in Public Private Partnership in Agriculture Transformation' June 2014

15 Often these permits are awarded ostensibly to make up for shortfalls in local production; but whether this is actually the case is in doubt. See Booth, D., Cooksey, B., Golooba-Mutebi, F. & Kanyinga, K. 'East African prospects: An update on the political economy of Kenya, Rwanda, Tanzania and Uganda' Overseas Development Institute (ODI), May 2014

16 This section draws on Food & Agriculture Organisation (FAO), 'Monitoring African Food and Agricultural Policies (MAFAP) Review of Food and Agricultural Policies in the United Republic of Tanzania' July 2013

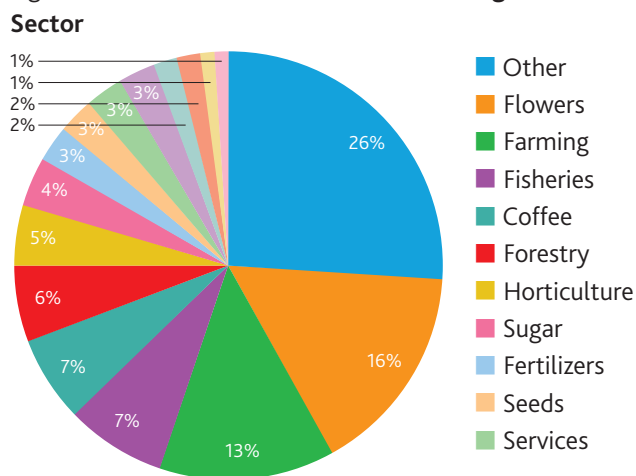
Yet these disincentives to investment in commercial agriculture in Tanzania can easily be eliminated. The new administration of President John Magufuli has an opportunity to do so by resisting narrow commercial lobbying and by taking steps such as guaranteeing a reduction in import tariff waivers; avoiding market-constricting price interventions; lifting cooperative monopolies in purchasing for crops such as cashew and sesame; and eliminating unnecessary fees, lengthy procedures and district taxes for agricultural products.

These steps would reassure investors that they do not stand to be undercut by cheap, subsidised imports; instead, investors would be able to plan and invest for the long-term on the basis of a consistent regulatory framework.

4. Supply and Marketing Chain

From commercial farmers and growers to agricultural processors and input providers, European investors are present throughout the country's agricultural value chain. Figure 3.4 illustrates the wide range of sub-sectors in which EU^{+SN} investors are active:

Figure 3.4 EU + Investors in the Tanzanian Agriculture



Note: Under the category definitions used for this chart, commercial crop farming sub-sectors – such as maize, cassava, rice, cotton and tobacco – fall either under ‘farming’ or ‘other.’

The Percentage splits are based on headcount numbers rather than investment size.

The data collected for this report reveals 92 EU^{+SN} investments in the Tanzanian agriculture sector originating from 13 different European countries, with the United Kingdom and the

Netherlands accounting for the largest share of companies. Many of these investors are leading players in their sub-sector, in terms of both innovation and investment size.

These European agribusiness investors are notable for their wide geographic dispersion. For instance, input providers such as Norway-based Yara and Switzerland-based Syngenta have representatives across every region of Tanzania, providing farmers and farmer groups with fertiliser, seeds and pesticides through unrivalled extension networks that reach the vast majority of towns and villages. Syngenta's operations in Tanzania reach a total of 9,000 smallholders, while Yara's new fertilizer terminal in Dar es Salaam, opened in 2015, provides up to 350,000 tonnes of fertiliser annually to Tanzanian farmers growing cereals, tea, coffee, sugar, tobacco, sunflower, potatoes and vegetables nationwide.

A further example of EU^{+SN} investment in the input supply sub-sector is Bayer CropScience AG Tanzania, a subsidiary of the German multinational chemical and pharmaceutical company whose strategy is to sell seeds, pesticides and other inputs in Tanzania. Together, these three firms account for a majority of the overall market share for agro-inputs in Tanzania.¹⁷

4.1 Coffee and tea

Similarly, EU^{+SN} investors in the coffee and tea sectors engage with farmer groups right across Tanzania's coffee and tea growing regions, which include the Lake Zone (Kagera, Mwanza and Mara regions), the north (Arusha, Manyara and Kilimanjaro regions), the lakeshore of Lake Tanganyika, the southern highlands and the south-west (Mbeya and Songea regions).

Examples include Tropical Farm Management (T) Ltd, a coffee growing and trading firm owned by Switzerland-based NKG Tropical Farm Management GmbH; UK-based Taylor Winch (Tanzania) Ltd, the largest coffee trader in Tanzania, which has operated in the country under the ‘Volcafe’ brand since 1993 and buys coffee at auction from coffee farming cooperatives based across the country;¹⁸ Tembo Coffee Company, a sustainable coffee growing and trading company focused on Mbeya region and owned by UK-based Falcon Coffee; and finally, Louis Dreyfus Commodities Tanzania Ltd, a subsidiary of the global agro-commodity trading house based in Switzerland.

¹⁷ Syngenta and Yara are well established in the market, whereas Bayer is a new entrant.

¹⁸ Taylor Winch is owned by ED&F Man, the UK-based agro-commodities firm.

4.2 Coastal regions

Tanzania's coastal region also hosts a number of European commercial agriculture projects, including Agro EcoEnergy (T) Ltd.'s large-scale sugar project at Bagamoyo, north of Dar es Salaam. Further north, towards the Kenya border, EU^{+SN} investor Tanga Fresh operates an industry leading dairy operation (see Case Studies), while EU^{+SN} investor Sandali Wood Industries Ltd operates a saw milling project in the same region.¹⁹ Meanwhile, to the south of Dar es Salaam, EU^{+SN} investor Mtanga Farms operates a farming project in at Mtanga in Lindi Region focused on certified clean seed potatoes, maize, soya and barley crops, and cattle and sheep farming.

4.3 Morogoro region and the southern highlands

Further inland, Kilombero Sugar Company is the leading provider of jobs and income in the Kilombero Valley in Morogoro region (see Case Studies); while in the fertile Southern Highlands a cluster of EU^{+SN} investors operate large-scale projects, including UK-headquartered Unilever's tea estates at Mufindi (Iringa region), which are expected to create 5,000 jobs and, by developing 6,000 ha of smallholder tea, to improve the lives of around 30,000 people economically dependent on those smallholdings.

A further EU^{+SN} company with a long track record in the southern highlands is Sandali Wood Industries Ltd, a subsidiary company of Green Resources AS of Norway, which utilizes high quality timber to operates the largest sawmill in East Africa to produce high quality sawn timber as well as pallets, doors and other value added products.

4.4 Northern cluster

In addition to the coast and the southern highlands, a cluster of European agricultural investors has coalesced around the towns of Arusha and Moshi in Tanzania's northern zone. One example is Africado Ltd, a 130 hectare avocado plantation at the foot of Mount Kilimanjaro – funded by Norfund in Norway, among others – with the first crop harvested in 2010. Africado engages a large number of independent farmers as vendors of avocados; employs around 300 people, and provides a market for the production of several thousand independent farmers. The farm also generates significant export revenues to Tanzania. A further example is EU^{+SN} investor Quality Food Products

Ltd (QFP), a farming services, crop processing and marketing company started in 2002 in Arusha. QFP is an innovative agribusiness that offers a variety of farmer services, including access to credit, quality inputs, and mechanization. The company also provides innovative marketing services for its clients. It contracts farmers to produce crops, such as maize and beans, with the contracts clearly stating the price of each crop QFP purchases and the prices of the inputs they can provide. Each farmer has an individual account with the company and the harvest of each farmer is entered in the account and balance paid out in cash. With this off take contract from the company, farmers can for the first time go to the bank to access input finance for agricultural inputs against agreed budgets.²⁰

However, the most significant cluster of European agricultural investment in the north of Tanzania is unquestionably the Dutch flower floriculture and horticulture sector, centred on the Arusha and Kilimanjaro regions. These regions are ideal for flower and vegetable production/export thanks to their favourable climatic conditions and nearness to the Kilimanjaro International Airport. The history of the area's floriculture industry can be traced back to 1992, when cut flowers were first introduced in Tanzania. Forced to look beyond Europe due to high costs in the Netherlands, Dutch flower farmers selected northern Tanzania as an alternative and in the mid-1990s more than 10 Dutch firms set up in the area.

These Dutch entrepreneurs arranged a daily flight to Amsterdam so that cut flowers could proceed directly to auction in Amsterdam within 36 hours and from there to customers all over the world. Today, the Netherlands absorbs more than 80% of all cut flowers produced in Tanzania, with roses comprising 70% of total production. The sub-sector employs over 5,000 workers and represents an 'island of effectiveness' in Tanzania's agricultural sector: a model for world class production and supply chain arrangements. As of 2012, Tanzania exported 3,634 tonnes of flowers – the vast majority produced by European investors – for a total value of USD 33,613,000.²¹

19 This sawmilling project has been operational since 1983. In 2009 it achieved the world's first Forest Stewardship Council (FSC) certificate to process and trade in hardwood and in conjunction with its FSC certified village partners has secured a new market in FSC certified products.

20 This section draws on the following article: <http://www.ontariograinfarmer.ca/MAGAZINE.aspx?aid=1085>

21 See: <http://oaji.net/articles/2015/800-1427941332.pdf>

Examples of Dutch flower companies around Arusha include Mount Meru Flowers, funded by OeEB, the Development Bank of Austria, whose rose farm is situated near Mount Meru at an altitude of 1300M. The company uses the most advanced equipment and technology and invests significantly in staff training for its 300 employees to ensure quality, production and reliable delivery to its end clients.

Further examples include Arusha-based Vasso Agroventure, which produces a range of flower cuttings and seeds, in addition to coffee and vegetable seeds and natural oils; Dekker Bruins Tanzania, a chrysanthemum cuttings company; and Fides Tanzania Ltd, whose farm is the biggest in the country for producing cut Chrysanthemum, Kalanchoe and decorative Kalanchoe cuttings.

In the horticulture sub-sector, leading Dutch players in the north include Enza Zaden, which produces hybrid seed for cucumbers, tomatoes, sweet peppers and melons; Rijk Zwaan Afrisem, which breeds African Eggplant, Chinese pepper and African Kale; Kilihortex, a raspberry-growing nursery and farm; and Sluis Brothers (EA) Limited, which operates a bean farm in Monduli District, Arusha Region. The sub-sector is another bright spot for Tanzanian agribusiness and is growing at an impressive 9%-12% a year, according to the Tanzania Horticulture Association (TAHA).

5. Key Sub-Sectors

5.1 Coffee

Overview

After tobacco, coffee is the Tanzania's second largest export crop, accounting for one fifth of all agricultural exports by value (or 3.6% of the country's total export proceeds). Most coffee farming is done by small-holder farmers with an average area under cultivation of just 0.75 hectares.²² Further up the supply chain, traders and primary cooperative societies collate roughly three quarters of all production from smallholders, with privately held estates accounting for the remainder.

Coffee harvested by farmer cooperatives is processed using the wet method (Arabica coffee) to produce parchment coffee. Primary cooperative societies sell to cooperative

unions, which in turn arrange for hulling and grading and then either sell the beans at auction or export them directly (though this requires government authorisation).²³ A number of global trading companies – including EU^{+SN} investors such as UK-based ED&F Man and Switzerland-based Ecom Agro-industrial Corporation – also operate in this segment of the value chain, buying from farmers before processing and selling via auction or through the export window. The auction mechanism itself is theoretically efficient in that realized prices move in accordance with the New York Board of Trade futures price, but in practice the auction's mandatory nature makes it costly and cumbersome.

Policy context

The modern era for coffee production in Tanzania was kick-started by the government's decision to privatize state-run coffee estates and to relax controls on coffee prices in the early 1990s.²⁴ In the subsequent decades, the private sector has taken centre stage and coffee production has increased significantly, though export volumes remain low relative to their potential and the quality of coffee produced has declined. Lower world prices have contributed to the sector's recent sluggish growth, but the high costs of getting to market resulting from over-regulation represent the main cause.

Outlook

Today, however, the coffee sector appears revitalised. Tanzania's coffee production is set to increase by a quarter in 2016, reaching a record 1.2 million 60 kg bags in the marketing year 2015/2016. This forecast increase is the result of improved husbandry practices and favourable weather. Meanwhile the GoT continues to implement its strategic plan (2011-2021) for the sector, whose objective is to expand production significantly over the next half decade. The expansion program involves increasing productivity in existing farms and promoting investment to develop new farms.

Japan, Italy, Belgium and the US remain the principle destinations for coffee exports from Tanzania.²⁵ Coffee consumption in Tanzania itself remains negligible and accounts for just 7% of total national production, but this is likely to increase as attitudes and tastes change, and urbanisation accelerates.

²² Arce, C. & Caballero, J 'Tanzania: Agricultural Sector Risk Assessment' World Bank Group Report No. 94883-TZ, June 2015

²³ Ibid.

²⁴ Ibid.

5.2 Tea

Overview

Like coffee, tea is a major export crop and source of employment and government revenue. More than 30,000 farmers work in tea, producing what has become Tanzania's fourth largest export crop. The crop is harvested all year round, making it less vulnerable to weather shocks.

A key challenge, however, is the sub-scale nature of most smallholder tea production. Existing tea factories lack sufficient volumes of green leaf tea throughput to operate profitably, which leads to low prices for farmers and, in turn, low farmer investment in inputs such as fertiliser.²⁶

One solution is to establish larger-scale integrated commercial tea operations into which out-growers can sell

produce at a reliable price. The Unilever Tea Tanzania Limited (UTT) case study below embodies this approach, and a further example of EU^{+SN} investment in this model is provided by Rift Valley Tea Solutions (RVTS), formed in 2013 to establish the largest integrated tea-growing, tea-trading and tea-blending business in Tanzania.²⁷

RVTS owns and operates three tea estates near Mufindi in the southern highlands of Tanzania, all of which have achieved international Fairtrade accreditation, and the company has recently established a new smallholder factory at Njombe. RVTS's objective is to develop a shorter market chain to vertically integrate tea purchases by eliminating intermediary brokers, thereby allowing the company to pay higher prices to smallholder farmers.²⁸

Case Study 3.1 Unilever Tea Tanzania Limited (UTT)

Basic details: UTT, a subsidiary of Unilever, employs 7,000 workers at the peak tea harvesting season. In 2010 its turnover was over US\$16 million, with almost all revenue coming from exports. UTT's annual production of about 9,000 tonnes of tea accounts for almost 40% of Tanzania's tea output.

History: Unilever, a UK-based multinational company with a presence in many areas of the food and drinks industry, acquired tea estates in Mufindi in the southern highlands in 1984.

Current activities and products: UTT grows and processes black and green tea used in various global brands, including Lipton, PG Tips and Brooke Bond. The tea is grown and processed in three factories located in Lugoda, Kilima and Kimwele. The company also processes about 300 tonnes of tea per annum from nearby smallholders.

Firm capabilities: Mufindi is 1,800–2,000 metres above sea level, an ideal altitude for tea production. The tea plantations cover 3,030 hectares. Some 1,405 hectares are reserved for eucalyptus trees, which are cut on an eight year rotation and used as firewood at the factories. About 6,000 hectares are covered with grass and other vegetation, swamps and steep land, and more than 7,000 hectares are natural forest. Most of UTT's area under tea is irrigated. Its average yield exceeds 3 tonnes per hectare, far higher than the national estate average of 2.2 tonnes per hectare. According to the company's management, UTT's Mufindi project 'represents the largest known area of tea under overhead irrigation anywhere in the world'. Unilever has developed an innovative lightning detection system that allows viewing of thunder storm activity as far as 1,000km away. This not only increases employees' safety, but also reduces unnecessary evacuations of estates and improves productive efficiency.

Exports: More than 98% of UTT's tea production is exported – either directly or via the Mombasa tea auction.

Recent developments: Unilever is doubling the size of its investment at Mufindi, developing a further 6,000 hectares of smallholder tea. The newly added tea estates are expected to create 5,000 jobs and to improve the lives of around 30,000 people economically dependent on those smallholdings.²⁹

UTT has also developed a biodiversity action plan to help preserve ecosystems in the country's Eastern Arc region. It is actively engaged in measures to improve the security of its employees, to conserve the ecological environment, and to impact local communities positively, most notably through its efforts to address sanitation issues.

25 TanzanianInvest, 'Tanzania Coffee Production To Increase By 25% in 2016' May 2015

26 See <http://www.gatsby.org.uk/africa/programmes/tanzanian-tea-sector> for a useful overview.

27 See <http://www.riftvalley.com/rift-valley-tea-solutions/>

28 See <http://www.riftvalley.com/mufindi-tea/>

29 Grow Africa Forum 'Grow Africa - Annual Report 2014 - Chapter 2.10 – Tanzania' 2015

5.3 Horticulture

Overview

A beneficiary of Tanzania's wide range of climatic conditions, horticulture represents one of the country's most promising opportunities for transformative investment. EU^{+SN} companies are already highly active in horticulture, which is the fastest growing of all agricultural sub-sectors in Tanzania (according to Tanzania Investment Centre figures, the horticulture industry has been growing by 9%-12% annually since 2009).³⁰

Horticulture has been a vibrant sector for foreign direct investment since the 1970s, when European investors – often with existing operations in neighbouring Kenya – sought to expand into northern Tanzania. For instance, by the 1980s a growing flower export market was developed, led by Dutch investors and focusing on roses and chrysanthemums.³¹ Today, European firms in Tanzania produce a wide range of horticultural products for the domestic and export market including vegetables, fruits, flowers, spices, and seeds.

Policy context

The 2014 VAT Act, whose enforcement began in mid-2015, has proven disruptive for the horticulture sector. The Act failed to accommodate a range of modern horticultural inputs and equipment in its list of exemptions, meaning that horticulture investors – often small and medium sized enterprises – are forced to pay full VAT on essential items. Examples of non-exempt items include dam liners for irrigation technology, spare parts for greenhouses, biological control agents, agro-nets, plant protection substances, and storage, post-harvest and cooling equipment. According to the Tanzania Horticulture Association (TAHA), the horticultural industry loses between 30% and 60% of its potential yield due to a lack of reliable collection, grading and cold storage equipment, so these facilities are essential.³²

A further challenge for the commercial horticulture sector is the limited availability of specialty agro-chemicals. The list of allowable chemicals set by Tanzania's Tropical Pesticides Research Institute (TPRI) is restrictive and does not reflect the global shift away from blanket pesticides and insecticides

towards 'softer' and more modern pest-specific products. At present, the TPRI list of approved pesticides is dominated by old-fashioned chemicals, and registration for newer, safer products – including Biological Control Agents (BCAs) – is expensive and unduly long (three seasons of trials are required for what in most cases are standardised global products).

In the case of BCAs, international regulators have begun to encourage their use in pest and disease control as a safer alternative to chemical agents. Yet in Tanzania, where demand for BCAs is growing, the process for registration is so long and its requirements so unclear that registrants have struggled over the past half-decade to introduce these products to the market.

These barriers render it challenging for EU^{+SN} investors such as Bayer CropScience, which has an ambitious investment program for Tanzania, to deliver the latest and best products to commercial farmers.

5.4 Fisheries

Overview

According to the Food and Agriculture Organization (FAO), Tanzania is one of the leading countries in Africa for fishing and fish processing. The sector employs more than 177,527 Tanzanians full time, while four million others earn part or all of their livelihoods from fishing. The TIC cites annual production of 341,065 tonnes of fish products, equivalent to 1.4% of national GDP and 10% of national foreign exchange earnings.³³

Approximately 12 fish processing factories exist along Tanzania's Indian Ocean coast, while a further 14 are located on Lake Victoria. The principle species of fish processed for export are Nile perch, tilapia and sardines.³⁴ The European Union is the leading destination for these exports, followed by the United States. Nile perch production on Lake Victoria alone supports an export industry worth in excess of US\$ 150 million per year with the EU as the major market destination. Overall, between 2005 and 2010 fishery exports earned Tanzania a total of approximately \$200 million annually.³⁵

However, the country's total fisheries potential is estimated

30 Tanzania Investment Center, 2014, *Investors Guide to Tanzania - 2014-15*, pg. 27

31 An Enterprise Map of Tanzania. International Growth Centre, 2012, pg. 53

32 Ihucha, Adam 'VAT Act 2014 harms horticulture' *The Citizen*, January 2016; access at: <http://www.thecitizen.co.tz/magazine/businessweek/VAT-Act-2014-harms-horticulture/-/1843772/3024448/-/6v0rqq/-/index.html>

33 Tanzania Investment Center, 2014, *Investors Guide to Tanzania - 2014-15*, pg. 28

34 Kweka, J et al 'The Linkages Between Trade, Development and Poverty reduction: Case Study of Fisheries Sub Sector in Tanzania' Economic and Social Research Council, 2006

to be 2,665,360 tonnes per annum, implying that the sector has vast scope for greater commercialisation and growth. The current lack of commercial-scale investment is underscored by the fact that artisanal or small-scale fisheries account for 98% of all production, according to the Ministry of Livestock and Fisheries Development.

Tanzania's marine Exclusive Economic Zone (EEZ) covers about 223,000 square kilometres of the Indian Ocean and the country enjoys a coastline 1,424 km long. Major inland water bodies include Lake Victoria (shared with Kenya and Uganda), Lake Tanganyika (shared with Burundi, DRC and Zambia), and Lake Nyasa (shared with Malawi and Mozambique). 85% percent of all freshwater fishery production comes from two inland water bodies, Lake Tanganyika and Lake Victoria. In addition, the country is endowed with a large number of smaller natural and man-made lakes, rivers systems and wetlands.

Policy context

Fisheries management in mainland Tanzania is governed by the Fisheries Act 2003, while policy in is guided by the more recent Fisheries Sector Development Strategy (FSDS) of 2010. Tanzania is part of the East African Community negotiating group for Economic Partnership Agreements with the European Union (EU) but does not have a Fisheries Partnership Agreement with the EU.³⁶

Management of fishery resources on the Tanzanian mainland is the responsibility of the Department of fisheries under the Ministry of Natural Resources and Tourism. In the semi-autonomous Zanzibar archipelago, the fisheries sector is regulated by the Department of Fisheries and Marine Resources of the Ministry of Agriculture, Natural Resources, Environment and Cooperatives. Tanzania's marine Exclusive Economic Zone (EEZ) is regulated by the Deep Fishing Authority on behalf of the Tanzanian Union. It grants fishing licenses to international fishing companies notably French and Spanish companies specialised in Tuna fishing. These departments, in collaboration with Local Government Authorities, are responsible for the collection and allocation

of fishery sector revenue.³⁷

In 2015, Tanzania received USD 36 million from the World Bank to improve the country's fishing industry by increasing private investment and strengthening sectoral institutions. The project aims to promote sustainable use of fisheries, linking smaller operators to new value chains and improving regional cooperation over shared resources. Sustainable fishing management in the Indian Ocean region is also encouraged by the EU-funded SmartFish project through which Tanzania receives support as an adhering beneficiary country³⁸.

A key challenge holding back growth in the sector is poor storage and transport infrastructure, which undermines efforts to add value to fish products before export, given their perishable nature. Meanwhile the biggest policy barrier facing fish processors is the fish export royalty. This undermines the competitiveness of Tanzanian fish exporters compared to Kenya and Uganda, which have no comparable royalty. Duplication of surcharges and levies on fish by local, regional and national government agencies is a further challenge.

The industry's main issue, however, remains the lack of access to modern technology. This is an area where EU^{+SN} investment could unleash the sector's vast potential by delivering modern techniques, equipment and economies of scale to a disaggregated industry that has evolved little in decades.

5.5 Forestry

Overview

According to the National Forest Monitoring and Assessment conducted between 2009 and 2014, the Tanzanian mainland has 48.1 million hectares of forest representing 55% of total land area.³⁹ The country has a number of different forestry ecosystems including lowland rainforests in the north-west, mountain forests, scattered across the higher altitude portions of the country, extensive areas of miombo woodlands in the south and Acacia savannah woodlands in the north.⁴⁰ Of this coverage, 13.5 million hectares are reserved for public preservation, either as national or local forest.

³⁵ Tanzania Investment Center, 2014, Investors Guide to Tanzania - 2014-15, pg. 28

³⁶ Though in 2014 an ex ante evaluation of a possible Fisheries Partnership Agreement between the European Union and Tanzania was conducted, following communication between the EU's Directorate-General for Maritime Affairs and Fisheries (DG MARE) and officials from Tanzania. See: http://ec.europa.eu/fisheries/documentation/studies/tanzania/doc/ex-ante-evaluation-tanzania_en.pdf

³⁷ Kweka, J et al 'The Linkages Between Trade, Development and Poverty reduction: Case Study of Fisheries Sub Sector in Tanzania' Economic and Social Research Council, 2006

³⁸ Food and Agriculture Organisation (FAO), 'Programme for the Implementation of a Regional Fisheries Strategy for Eastern and Southern Africa – Indian Ocean (IOC – SmartFish', 2016

The country's principal indigenous tree varieties include cedar, African rosewood, podocarpus, and mahogany; while varieties of timber grown commercially include eucalyptus, pine and teak, among others.

Existing forestry policy, laws and regulations are broadly supportive of private, commercial investment in the sector. The government's Tanzania Forest Fund, for example, supports private sector plantations directly. A large amount of land is now owned privately for forestry product production and the list of foreign investors active in Tanzanian forestry includes Green Resources, Kilombero Valley Teak Company (KVTC), New Forest and Tanganyika Wattle Company. For its part, the government also owns over 16 large-scale forest plantations.

Policy context

For EU^{+SN} investors in commercial forestry, Tanzania's rising population, economic growth, industrialisation and access to a wider regional export market together provide exciting market potential. However, the sector faces several

challenges. Private forestry is currently unable to meet domestic demand for timber and fuel-wood, leading to a major supply deficit and the consequent informal mining of natural forests. Indeed, deforestation is proceeding at an alarming 400,000 ha per year, enabled by weak regulation and unfair competition from the unsustainable exploitation of natural forests.⁴¹ According to the United Nations, deforestation in Tanzania could cost the national economy US\$3.5 billion between 2013 and 2033 on current trends, thus underlining the importance of investment in commercial forestry to reduce demand for informal and illegal logging.

Resolving these issues by strengthening the policy environment could transform the commercial forestry industry. The GoT should support the planting of newly introduced or adapted local species of trees in addition to the development of a critical mass of growers, alongside commercially-oriented research, training and extension services. With these changes, Tanzania has the potential to become the major supplier of paper and paper-products across East and Central Africa, and beyond.⁴²

Case Study 3.2 Sao Hills Industries

Basic details: Sao Hills Industries makes use of high quality timber from the southern highlands of Tanzania to operate the largest sawmill in East Africa.

History: The company is a subsidiary of Green Resources AS of Norway and has been active in Tanzania since 1995. It is the primary supplier of transmission poles in the country. The firm's saw mill was originally built by Norwegian development aid in the mid-1970s. In addition to Sao Hill Industries' wood processing operations, Green Resources owns 17,000 ha of FSC certified eucalyptus and pine forest in the Southern Highlands, the largest private forest operation in East Africa.

Current activities and products: Sao Hills produces high quality sawn timber (treated and planed), finished electrical transmission poles, fencing poles, as well as pallets, doors and other value added products. Sawn material is produced from pine, while poles are produced from eucalyptus.

Firm capabilities: Sao Hills operates two state of the art timber treatment plants. Unlike other producers (some of whom use highly toxic arsenic based CCA treatment) the company uses vacuum pump technology to insert the chemical Tanalith E into the core of the timber, thus protecting it from termites, moisture and sun.

Recent developments: In 2012, the company started up a new HewSaw sawmill following a four-year, USD \$10 million investment project. In 2015, the harvesting was mechanised to improve quality and yield and reduce health and safety risks and a \$2m wood briquetting plant was completed. More than three quarters of the 30 year-old sawmill has been renewed, increasing sawing, treatment and kiln drying capacity. As a result, production capacity has tripled. The state of the art mill is budgeted to produce 60,000 m³ of timber annually, or more than twice the record production at the old sawmill which still is operating sawing large logs. The mill is believed to be Africa's most modern sawmill.

39 According to TIC figures.

40 See 'An Overview of the Forestry and Beekeeping sub-sector: Achievements, Challenges and Priorities for Financial Year 2014/15' Tanzania Ministry of Natural Resources and Tourism

41 This section draws on the overview provide by the Gatsby Charitable Foundation at <http://www.gatsby.org.uk/africa/programmes/tanzanian-forestry-sector>

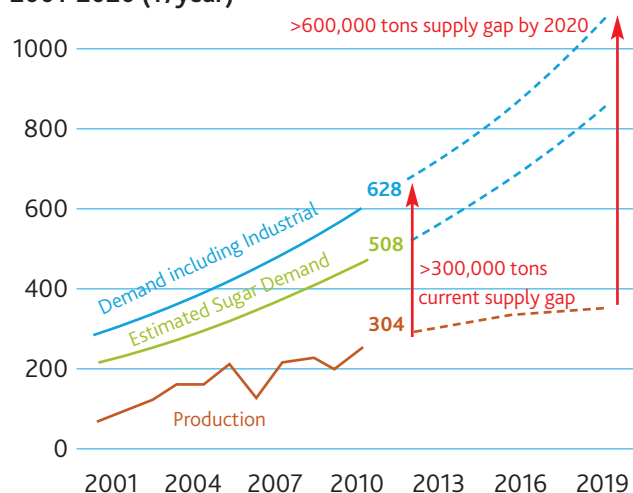
42 Ibid.

5.6 Sugar

Overview

Tanzania's sugar sector is divided between domestic producers and importers. Existing estates produce a total of 300,000 tons of sugar per year, while EcoEnergy of Sweden is in the final stages of obtaining a land lease to produce an additional 120,000 tons near Bagamoyo. Figures for imported sugar are lower but still significant, with 182,765 tonnes of industrial sugar imported between July 2014 and June 2015.⁴³

Figure 3.5 Tanzania sugar demand and production, 2001-2020 (T/year)



As domestic and regional demand for sugar is increasing rapidly, the GoT is looking to develop an additional 3 to 5

large-scale sugar projects. Two local consortia, together with international partners, are in the process of acquiring project sites, and two priority sites – at Ruipa and Mkulazi – are in the final stages of preparation to be tendered to investors. The GoT's decision to earmark sites for sugar investors, with support from SAGCOT, combined with strong local and regional sugar demand (growing at 6% and 10% annually), presents a clear investment opportunity for EU^{+SN} companies in the sector. The current and future supply gap of over 300,000 and 600,000 tons of sugar respectively is illustrated in Figure 3.5. Furthermore, cane producers in Tanzania can supply power into the local grid or convert sugar into ethanol for fuel to generate additional income.

However, prospective investors should be aware of the sector's challenges. Land title issues have delayed Eco Energy's project at Bagamoyo by several years, highlighting the project development risks for new market entrants. For existing domestic producers, the 'dumping' of subsidised Asian sugar imports by politically-connected firms on the Tanzanian market represents a major risk to market share and margins.

Overall, the regulatory framework for domestic sugar production is sound and up-to-date,⁴⁴ though this is undermined by the GoT's ad hoc approach to allowing cheap sugar imports into the country.

Case study 3.3 Kilombero Sugar Company

Since privatisation in 1998, the Kilombero Sugar Company has provided a leading example of partnership between the Government of Tanzania and European investors. The GoT retains 25% of Kilombero Sugar's equity; Illovo Sugar – a subsidiary of UK-based Associated British Foods – controls 55%; while UK-based ED&F Man owns a 20% shareholding.



As part of the Illovo Sugar Group, Africa's leading and largest sugar producer, Kilombero Sugar has become Tanzania's biggest integrated sugar estate, covering some 26,000 hectares. The company has invested TSh 240 billion to date, including the launch of a TSh 78 billion portable alcohol distillery in 2013, and produces over 130,000 tons of sugar annually (equivalent to 42% of Tanzania's sugar supply), up from just 29,000 tons at the time of privatisation.

Kilombero Sugar's two factories together crush 1.3 million tons of cane annually. This cane is farmed by a workforce of more than 5,000 people at peak season and the company supports a further 100,000 people directly and indirectly in the Kilombero Valley area.

Since privatization in 1998, the company has grown robustly. The area under sugarcane cultivation by out growers has tripled in size from 3500 ha to over 16,800 ha today. This has taken the local community annual income from TSh 1 billion

⁴³ Tanzania Daily News, 'Tanzania: Over 100,000 Tonnes of Sugar Imported to Bridge Production Gap' June 2015

⁴⁴ Several institutes are involved in sugar production and processing, including the Sokoine University of Agriculture in Morogoro, the country's Zonal Agricultural Institutes and the National Sugar Institute (NSI) which focuses on technical training in sugarcane production and processing. Meanwhile, the Sugar Board of Tanzania provides overall leadership for the industry.

in 1998 to almost 40 billion today. Meanwhile, annual tax contributions paid to the government have increased from TSh 1 billion to 26 billion currently – excluding GoT dividends. By sourcing procurement needs from local suppliers (TSh 15 billion), the company also supports local entrepreneurs from over 1,700 small businesses.

The company's commitment to the communities that surround and support it is substantial. Since privatisation, Kilombero Sugar has invested over TSh 6.5 billion directly and through Kilombero Community Charitable Trust (KCCT) for social development projects covering education, health, and infrastructure, and to enhance out growers' cane farming activities. More than 1,500 housing units accommodating nearly 9,500 people have been provided, for example, in addition to an 80-bed hospital and school facilities.

At times in the recent past, unfair or illegal competition from imported sugar 'dumped' from the world market has threatened to undermine Kilombero Sugar in its role as champion of Tanzania's home-grown sugar industry. However, the commitment of President John Magufuli's new government to protecting and regulating Tanzania's sugar sector bodes well for the future. With a strong enabling environment to support it, Kilombero Sugar is well placed to continue creating value by transforming sugarcane into a range of products for the domestic and regional market – thereby contributing substantially to the broader value chain of Tanzanian suppliers, growers, distributors and strategic partners.

5.7 Dairy

Overview

Annual per capita milk consumption in Tanzania remains at just 45 litres per person, compared to 130 in neighbouring Kenya and more than 250 in the Netherlands, for example.

Moreover, much of the milk currently consumed in Tanzania is raw milk, which carries attendant health risks and quality issues. In a country with a fast-growing and rapidly urbanising population, the potential for significant demand growth in the formal dairy sector is substantial.

Case Study 3.4 Tanga Fresh

As one of Tanzania's leading dairy companies with a processing capacity in excess of 50,000 litres a day, Tanga Fresh produces a range of fresh dairy products for the domestic market, including fresh milk, mtindi (sour milk), plain and flavoured yoghurt, mozzarella cheese, butter and ghee. Founded in the late 1990s in Tanga region and co-owned by the Tanzania Dairy Cooperative Union (TDCU), Tanga Fresh received an injection of capital – both equity (€450,000) and debt (€3,000,000) – from the Netherlands-based family investment firm, DOB Equity, in 2007.



This investment kick-started the company's expansion, funding the construction of a new factory, investment in state of the art processing equipment and later allowing for the introduction of an automated milk collection recording and payment system for farmers. Over the past decade, the partnership between DOB Equity and Tanga Fresh's Tanzanian team has enabled the company to institutionalise and professionalise its operations. DOB Equity has collaborated closely with the company's senior management team – made up entirely of experienced Tanzanian staff – by providing technical assistance, including training on breeding and milk production, and by bringing world class dairy experts from the Netherlands to Tanga to raise standards across the production cycle.

Tanga Fresh generates significant employment and social impact in Tanzania. The company employs 94 staff directly, and more than 6,000 smallholder dairy farmers in Tanga and Morogoro participate in a guaranteed off-take purchase agreement, a figure that has doubled since 2007. These farmers are provided with growth opportunities through heifer availability and cattle credit. A minimum price is guaranteed to these smallholders regardless of market fluctuations. Since 2007, the company has increased the total number of milk collection centres from 18 to 48, while total annual milk payments to farmers have increased over same period from €1.4 million to €4.5 million in 2015.

TDCU, which sources 70% of Tanga's Fresh's milk supply, is responsible for the quality of the milk provided, while Tanga Fresh takes responsibility for processing and for maintaining the cold chain of milk storage, distribution and marketing from the main Tanga region production area to the Dar Es Salaam market and nationwide. This unique blend of co-

ownership between smallholders, independent Tanzanian management and a private investor with access to capital and world class technical expertise has proven a uniquely successful and durable model since 2007.

As Tanga Fresh looks to the future, the company aims to consolidate its position as the leading provider of fresh milk products in Tanzania in addition to developing and marketing new products – such as flavoured yogurt drinks – that cater to the growing urban youth segment. With support from DOB Equity, the company also intends to strengthen its partnerships with local banks such as NMB to finance new investments and to support farmers and vendors within the company's value chain.

Annual per capita milk consumption in Tanzania remains just 45 litres per person, compared to 130 in neighbouring Kenya and more than 250 in the Netherlands. In a country with a fast-growing and rapidly urbanising population, the potential for significant demand growth in the formal dairy sector is substantial. Against this promising backdrop, the future for Tanga Fresh – whose partnership with DOB Equity presents a compelling example of the catalytic effect of European investment in Tanzania – looks bright.

5.8 Agricultural Inputs

Overview

The most significant cause of low agricultural productivity in Tanzania is the drastically low use of inputs such as improved seed, fertiliser and agro-chemicals.

According to the 2010/2011 National Panel Survey, the use of improved seed by farming households in Tanzania stands at just 16.8%; the average fertilizer application rate is 5-7 kg per hectare – lower than the African average and paling in comparison to the 70-100 kg/ha application rates recorded in developing economies in Asia and Latin America; while in the agro-chemicals sector, only 14%–17% of farming households use any registered chemical products at all. In this way, weak adoption of agro inputs is recognised by many as the leading driver of entrenched poverty among the 80% of Tanzanians living in rural areas.⁴⁵ Prices of agro inputs are high, quality is generally low and availability is limited.

The opportunity cost of failing to use proper inputs is vast. For instance, average maize yield in Tanzania is 1.5 tonnes per hectare while the potential yield using sound agronomic practices and adequate quantities of fertiliser is closer to 6-7 tonnes.⁴⁶

To give a sense of the gap between supply and potential demand, the total supply of improved seed in 2012 was 29,000 tonnes per annum, roughly 85% of which was accounted for by hybrid maize varieties. This figure is well short of the Ministry of Agriculture's conservative 120,000mt

per annum estimate of the latent demand for improved seed.

Meanwhile, annual supply of fertiliser in Tanzania – which stands at approximately 340,000 tonnes – falls well short of demand. A leading player in the Tanzania fertiliser market estimates annual demand at a minimum of 600,000mt per season.⁴⁷ As a benchmark, if Tanzania were to match Asian rates of fertiliser application, annual usage would reach over 1 million tonnes.⁴⁸

Inputs are used more frequently in standalone commercial agriculture projects, where such products can be bought in bulk, but this represents only a fraction of all agricultural activity; and even here, regulatory barriers prevent full adoption.

This supply shortfall represents an excellent market opportunity for EU^{+SN} investors with the expertise to supply such products.

Policy context

A key reason for low agricultural input usage is the unnecessarily restrictive, lengthy and costly process for registering and certifying new inputs and technologies. Registration for new seed varieties takes up to three years and costs at least \$15,000, making the process roughly five times as expensive as a comparable seed market such as Zambia.

These barriers, combined with a general lack of available

⁴⁵ Agricultural Council of Tanzania (2012) and Agribusiness Indicators: Tanzania (2012)

⁴⁶ Agribusiness Indicators: Tanzania (2012), p. xi

⁴⁷ Author interview

⁴⁸ Agricultural Council of Tanzania (2012)

information on the regulatory framework, can dissuade companies from engaging in the Tanzanian market. However, if the regulatory bottlenecks could be removed and a leaner, more effective regulatory system put in their place, then a clear market opportunity would open up for innovative firms to introduce new agricultural inputs that could significantly boost agricultural growth in Tanzania.

Seed sub-sector

The following laws and regulations govern the seed sector in Tanzania:

- Seed Act No. 18 (2003)
- Seed Regulations of 2007, pursuant to the 2003 Seed Act
- Plant Breeder's Rights Act No. 22 of 2002
- Plant Protection Act 1997

Together, these laws provide a reasonably effective and comprehensive framework. The 2003 Seed Act is the core of the legislation and includes measures to stimulate private sector seed production and distribution, as well as procedures to ensure that all seeds meet required standards.

There are no formal restrictions on the importation of seed. However, to import seeds from already-approved varieties for sale in Tanzania, the following are required:

- An import permit from the Seed Unit in the MAFC
- A phytosanitary certificate
- A business licence and company registration documentation
- Documentation outlining the company's business model and financial status

The key challenges for seed companies in Tanzania revolve around the overbearing role of the state-run Agricultural Seed Agency (ASA) and Tanzania Official Seed Certification Institute (TOSCI). Private seed companies struggle to access the basic ('foundation') seed they need from ASA at the time they need it. ASA's own certified seed production program also represents a conflict of interest and places it in direct competition with seed companies, thus hampering the development of an open and competitive private sector. Meanwhile, over-regulation is holding back private seed

companies from developing direct licensing agreements with the Agricultural Research Institutes (ARIs) to multiply basic seed; and the time required for seed companies to introduce new seed varieties – up to three years – is overly long. Finally, the government's failure to obtain international accreditation from the International Seed Testing Association (ISTA) and OECD prevents access to potential export markets for Tanzanian seed.

However, these bottlenecks are relatively straightforward to resolve. If the new administration of President John Magufuli can work collaboratively with private seed companies to overcome them, Tanzania has clear potential to become a seed hub for the entire region.

Fertiliser sub-sector

Private firms were allowed into the Tanzanian fertiliser market in the early 1990s. At the time, thirteen companies set up operations in Dar es Salaam, buying stock from international fertiliser manufacturers, importing it at zero rated duty and selling from wholesale depots in the major towns.⁴⁹ Today, the fertiliser market has evolved into a de facto oligopoly dominated by three large agribusiness companies. More than half of all imported fertiliser is supplied by Yara Tanzania Ltd, with two other international companies – Export Trading Group and Premium Agro – each accounting for roughly a quarter of the market. A number of smaller players account for the remaining market share, including one domestic supplier, Minjingu Mines and Fertiliser Company Ltd. ('Minjingu'), which supplies Phosphate and NPK from a site in northern Tanzania.⁵⁰

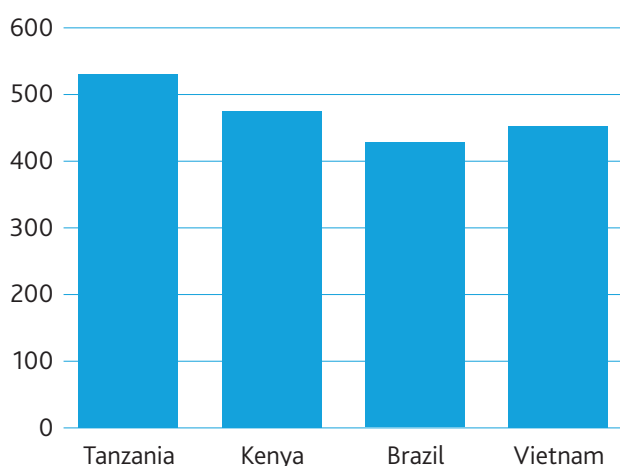
The most commonly used fertilisers in Tanzania are Urea, CAN, DAP and NPK, which together account for more than 70% of all fertiliser use. According to AMITSA, a regional agricultural input market information system, the average prices of a 50kg bag of Urea, DAP and NPK in Tanzania are USD 48, USD 56.5 and USD 48 respectively.⁵¹

⁴⁹ Agricultural Council of Tanzania (2012), p. 1

⁵⁰ The company reportedly has a capacity to produce 100,000 tonnes per annum but utilizes only 20% of this.

⁵¹ See: <http://www.amitsa.org/>

Figure 3.6 Fertiliser costs at farm gate, USD/tonne



Source: SAGCOT technical team estimates

Although there are no taxes or tariffs on fertilisers, farm gate prices are high – fully 40% higher than the cost of fertilizer imports as shown in Figure 3.6. This is the result of a lack of economies of scale and high domestic distribution costs.

Policy context

The Tanzania Fertiliser Regulatory Agency (TFRA), established in 2012, is responsible for the regulation of fertiliser. The agency reports to the Agricultural Inputs Section of the Ministry of Food Security and Cooperatives (MAFC) and is authorized to conduct the following activities:

- Monitor the quality of domestically-produced and imported fertiliser
- Regulate the importation, production, storage, distribution, sale and disposal of fertilizer
- Register and issue licences to fertiliser dealers and register their premises
- Issue import and export permits
- Maintain a register of all approved fertilizers
- Regulate fertilizer prices in light of government directives and appropriate regulations.

In reality, however, many of these functions are still carried out by the MAFC and the Tanzania Bureau of Standards (TBS). The TFRA was created in 2012 but in terms of funding, staffing and capacity the organisation is still in its infancy.⁵²

The 2009 Fertiliser Act and 2011 Fertiliser Regulations unfortunately serve to dampen new investment and innovation in the sector. Under the TFRA's interpretation of the 2009 Fertiliser Act, companies are effectively barred from introducing specialist and customised fertilizers, as well as fertilisers that harness new technologies. The registration process for these 'new' fertilisers is simply too long and expensive for companies to embark on. Yet the necessity of this registration process is highly questionable as most imported fertilisers are already standardized global products and all fertilizers and/or their components are anyway tested prior to importation under the Tanzania Bureau of Standard's Pre-Export Verification of Conformity programme.

As with the seed sub-sector, if these regulatory issues can be addressed, then the market opportunity for EU⁺ investors in fertiliser importation and distribution is significant.

6. Key challenges

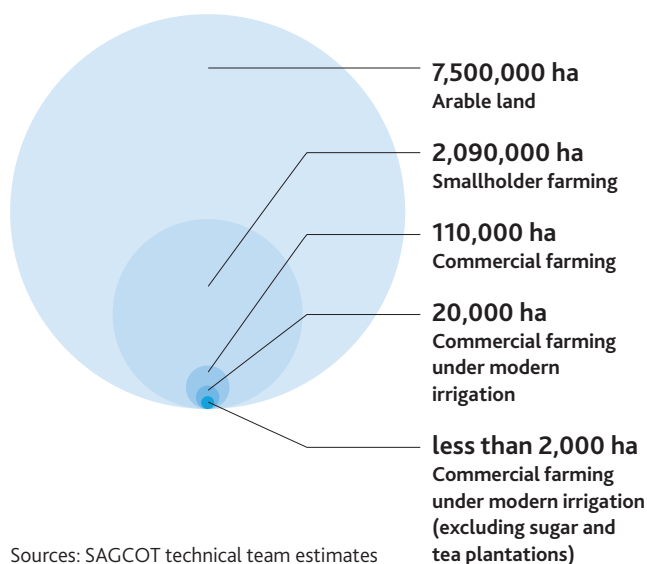
6.1 Land Tenure Insecurity

Although not confined to the agricultural sector, land transactions are generally problematic in Tanzania being sensitive and politicised, therefore making it a particular challenge for agribusiness investors. The regulatory framework is extremely complex and oftentimes contradictory. In addition to this, the cultural view of land rights often conflicts with the central government's juridical interpretation. No reliable land survey is available, the majority of land is not yet demarcated according to the destination of use and only a fraction (less than 10%) of irrigable land is available for the 'Right of Occupancy' title required for long-term leasing or purchase⁵³. Among interviewed stakeholders, concerns were raised about the consequences of the lack of progress on land demarcation which in certain locations has led to conflicting views over ownership in addition to the conflicts arising between encroaching pastoralist communities onto farming land in search of grazing.

⁵² The agency has only a handful of staff – all of them seconded from the MACF – and much of the TFRA's organisational design has yet to be determined.

⁵³ The GoT has embarked on an ambitious land titling program but progress is extremely slow.

Figure 3.7 Current use of land



Sources: SAGCOT technical team estimates

6.2 Uncertainty Regarding Leasing Policy

Since legal changes effected in the 1980s, foreign individuals are not allowed to own land in Tanzania and hence cannot apply for Certificates of Customary right of Occupancy (CCROs) which are reserved for Tanzanian citizens of African descent only. However, corporate entities can lease for periods of 33, 66, or 99 years by acquiring granted rights of occupancy under the Land Act, 1999 (LA, 1999)⁵⁴.

EU^{+SN} investors expressed considerable confusion about the current policy – or administrative practice – regarding leasing land. Some insisted that 99 year leases were no longer granted by the government, while others were less certain. Furthermore, investors reported that obtaining a clear and consistent answer on the matter was challenging as the guidance provided by local and national government officials often differed. Overall, the use of land for commercial farming remains exceedingly low as Figure 3.7 illustrates.

6.3 Lack of Regulatory Coordination

A lack of regulatory coordination is a concern among agricultural investors in Tanzania. Not only do agricultural companies often import farming equipment, seed stock, bespoke fertilizers and pesticides, many also export. This brings them to the attention of a patchwork of specialized regulatory agencies as well as the Tanzania Bureau of Standards (TBS), most of which charge their own fees for licencing and approvals.

A common complaint is the lack of consensus among these agencies on interpretations of the law and customs clearance procedures. The result is delays at customs and the possibility of having to pay demurrage charges if specialized equipment is not cleared in a timely manner. The lack of coordination is also an opportunity for rent seeking among unscrupulous regulators.

More generally, ministers and regulators have a tendency to make ad hoc policy changes without prior consultation with private sector stakeholders, often leading to time-consuming renegotiation and recapitulation of the same policies once the unfeasibility of initial plans has been exposed.

6.4 Lack of Regulatory Capacity

A lack of technical capacity among regulators can cause delays in the clearance of goods due. New technologies and inputs may not be appropriately classified, leading to disputes, costs and delays. Similarly, interviewees for this study noted that specialized agencies in Tanzania over-rely on physical testing of exports without necessarily using appropriate or up-to-date testing methodologies, leading to delays and product wastage. Although it is beyond the scope of this study to prove such allegations, some investors also suggest that competitors from Tanzania, Asia or the Gulf are more often likely to pay a small bribe to bypass these regulatory hurdles, leading to an unfair playing field in a competitive market.

More generally, government communication of policy changes is often slow or inconsistent, and investors report a proliferation of 'red tape' and overlap of regulatory bodies. For example, the lead time for government signature of agricultural project MoUs is often months or years.

6.5 Poor Infrastructure

From the poor rural feeder road network to the lack of freight rail transport and inefficient port operations, infrastructure shortfalls significantly increase the cost of taking agricultural produce to market in Tanzania. At the farm-level, challenges include the lack of modern irrigation systems and large-scale dams, as well as limited access to the national power grid. Farmers are often forced to rely on sub-standard solutions such as expensive diesel-powered generators. The majority of farmers also lack access to cold storage, efficient

⁵⁴ Makwarimba, M. & Dr. P. Ngowi, 'Making Land Investment Work for Tanzania: Scoping Assessment for Multi-stakeholder Dialogue Initiative', Final Report, 2012, p.25

warehousing and processing facilities in their vicinity, rendering it difficult to achieve economies of scale.

6.6 Taxes and Export Barriers

Periodic export bans prevent reliable access for Tanzanian agribusinesses to the larger regional market. These ad hoc bans create a disincentive for farming enterprises to invest at scale and to export regionally, which accounts in part for the weak performance of staple crops in Tanzania's export mix shown in Figure 3.8 below.⁵⁵

Meanwhile, given that Tanzania's domestic manufacturing base does not include modern agricultural machinery; agricultural investors tend to import the capital-intensive equipment they require. While much of this is subject to VAT refunds, investors in the sector note that the procedures and timing of remitting due tax refunds is slow and cumbersome. The effect of this is lost cash flow for businesses and uncertainty in mid-term planning.

6.7 Access to finance

High commercial bank interest rates make it hard to access loans in the domestic market, leading to low private-sector investment in agriculture, especially for smaller companies. Of all domestic lending to agriculture in Tanzania only 8% goes to agricultural production activities as opposed to agribusiness trading, which according to the Tanzania National Business Council accounts for the remaining 92%.⁵⁶

In effect, funding is only available for the short term working capital requirements of large-scale trading houses – farming enterprises and farmer groups are shut out of the financial system.

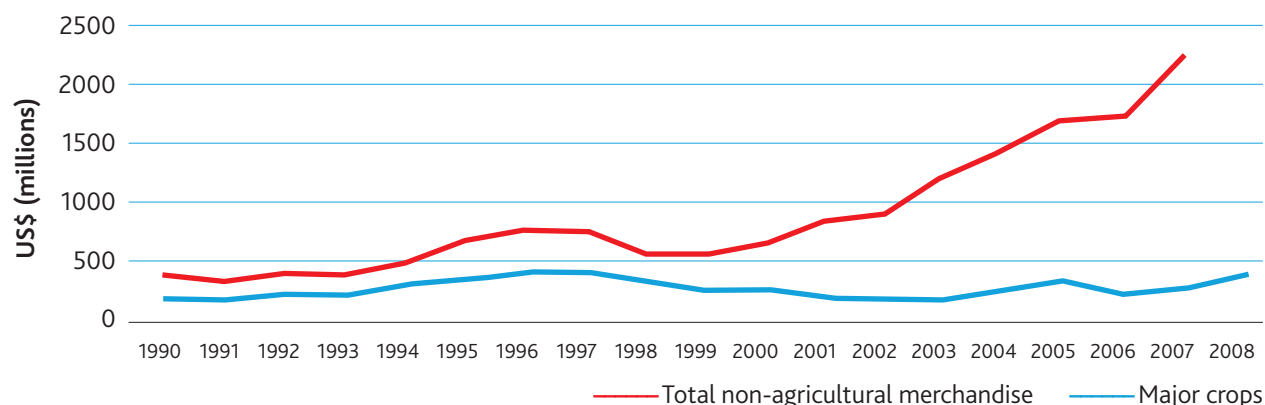
A range of donor organisations are seeking to fill the funding gap with soft loans and grant funding to agribusiness, including the grant-giving Africa Enterprise Challenge Fund (AECF) and AgDevCo, which invests venture capital into agricultural firms. Meanwhile, the Agricultural Development Bank of Tanzania and SAGCOT's Catalytic Fund are scheduled to commence operations soon, and a small number of private equity investors are also active in the sector.⁵⁷ But these efforts do not compensate for the lack of a functioning credit system for agriculture in Tanzania. Until the domestic banking system is able and willing to lend to agricultural businesses at affordable rates, access to finance will remain a major barrier to industry growth.

6.8 Counterfeit products

In Tanzania's agricultural inputs market (seeds, fertilizer and pesticides) fake and adulterated products proliferate, thus undermining trust among potential buyers and disrupting genuine market players. Weak enforcement of existing laws exacerbates this problem.

Annex 1: Legislation Governing Tanzania's Agricultural Sector can be found on page 166

Figure 3.8 Exports of major crops and non-agricultural merchandise from Tanzania



55 SAGCOT, 'Southern Agricultural Growth Corridor of Tanzania (SAGCOT): Investment Blueprint' January 2015; access at: http://www.sagcot.com/uploads/media/Invest-Blueprint-SAGCOT_High_res.pdf

56 SAGCOT, 'Southern Agricultural Growth Corridor of Tanzania (SAGCOT): Investment Blueprint' January 2015; access at: http://www.sagcot.com/uploads/media/Invest-Blueprint-SAGCOT_High_res.pdf

57 See <http://www.agdevco.com/> and <http://www.aecfafrica.org/windows/tanzania-window>. As an example of private equity investment, in 2012 the Carlyle Group announced an equity investment of \$210m in Export Trading Group (ETG), a Tanzanian agribusiness conglomerate. The investment was made jointly with the Pembani Remgro Infrastructure Fund and Standard Chartered Private Equity

4 Mining

Sector Snapshot

- 90% of all government revenue from the mining industry comes from the gold sector, and more than 60% of all gold production is accounted for by European companies.
- Total tax and royalty payments contributed by European gold mining companies to date are in excess of TSh 1 Trillion.
- 22 EU^{+SN} mining and mining services companies from 8 different European countries have active operations in Tanzania, of which 5 are classified as Large Taxpayers by the Tanzanian Revenue Authority.
- Mining sector foreign direct investment from 2006 to 2016 has exceeded USD 3 billion.
- The mining industry has generated over USD 6 billion in taxes and services to date.
- At least 40% of all government export receipts stem from mineral exports.
- In the 2014/15 Financial Year, the country's 9 largest industrial mines contributed over TSh 414 billion in royalties and taxes.
- EU^{+SN} companies actively engage in new job creation measures for Tanzanian citizens in the mining industry, supporting the development of talent through the Integrated Mining Technical Training programme. For example, Acacia mine reduced expatriate employees by 28% and now employs 2,028 Tanzanians who make up 94.5% of its total workforce. Altogether, 22 EU+ investors are represented throughout the mining supply chain and contribute heavily to the total employment of 15,000 people in this industry.

1. Sector Outlook

Despite over a century of gemstone and gold exploration in Tanzania, the country's mining sector remains undeveloped relative to its vast potential. The government's vision to increase the sector's contribution to GDP to over 10% by 2025 is certainly achievable with the right policies put in place. With several entirely new sub-sectors emerging – from rare earths like niobium to uranium, graphite and coal – the future appears bright.

Mining activity is an engine for broader infrastructure development and skilled job creation. Across the industry as a whole, foreign investment flows over the past decade have exceeded USD 3 billion, while the country has generated over USD 6 billion in taxes and services from multinational mining companies.¹

However, for Tanzania to realise its mining potential against a global backdrop of volatile mineral prices, industry and government will need to collaborate and work together to adopt a long-term strategy, with the Government of Tanzania demonstrating consistency and stability in its regulatory regime. A return to the preferential mining agreements signed

in the early 2000s is not necessary, but for investors' confidence to hold up in the fragile global environment the GoT must assume an enabling – rather than interventionist – role that allows private investment to flourish. If not, several large-scale mining investments will remain on hold.²

An example of the planned projects that hang in the balance is Acacia Mining's Nyanzaga Gold Project, where the undeveloped Tusker Deposit is believed to contain at least 4.6 million ounces. In September 2015, Acacia formed a joint venture with OreCorp to advance the project. More than USD 15 million has been spent already,³ but for the Nyanzaga Project to become a producing mine, significant debt financing will be required. (As a benchmark for how capital-intensive such projects can be, total investment costs for AngloGold Ashanti's Geita mine exceeded USD 600 million).⁴

The decision on whether these and other planned projects make it to the production stage or simply remain in limbo, is likely to rely on the Tanzanian investment climate. In the current industry climate, funds on this scale are only likely to be made available if investors can have full confidence in the future stability of Tanzania's fiscal and regulatory regime

1 The Business Year, 'Tanzania Mining: Just a Rock Away' 2015

2 As Tanzania Chamber of Minerals and Energy chairperson Ami Mpungwe recently observed, in response to "sustained policy, legal, fiscal and regulatory uncertainties and unpredictability, exploration activities and expenditure have been significantly scaled down and the mining industry is declining." See: Breytenbach, Mia 'Tanzania mining sees uptake in reinvestment', Mining Weekly, October 2014; access at: <http://www.miningweekly.com/article/tanzanian-mining-sees-uptake-in-reinvestment-2014-10-10>

3 Reuters News, 'Acacia Mining forms JV with OreCorp to progress Nyanzaga project', September 2015; access at: <http://af.reuters.com/article/tanzaniaNews/idAFFWN11R01420150922>

4 Likewise, recent market entrants such as Canada's Lake Victoria Mining, which has nine prospective gold projects, will need to raise debt and equity financing to get near-term projects like the company's Kintambwiga mine – for which the Ministry of Energy and Minerals granted a license to commence construction in 2014 – off the ground.

for the mining sector. The GoT wishes to increase its share of mining revenues, but at this stage of the industry cycle over-regulation, contract reviews or tax hikes could merely forestall new investment and exacerbate cost cutting.

2. Sector Profile

Tanzania's mining sector is central to the country's economic prospects. 40% of the Government of Tanzania (GoT)'s export revenues stem from mineral exports, of which 90% is accounted for by gold exports. As Figure 4.1 illustrates, mining has grown steadily in importance as a percentage of Tanzania's overall GDP since the modernisation of sector regulations in the late 1990s. Reflecting the industry's capital-intensive nature, the mining boom has also fuelled a surge in the overall level of foreign direct investment over the previous two decades.⁵

Figure 4.1 Tanzania Mining Growth 1998-2012

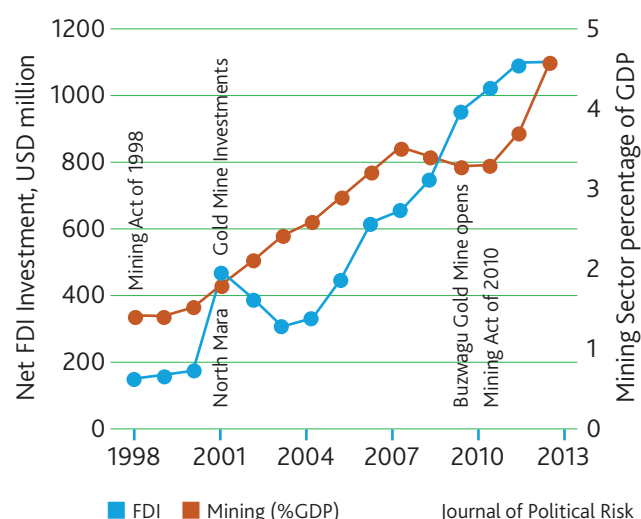
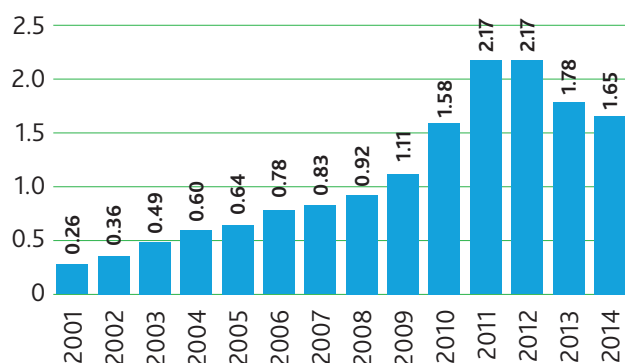


Figure 4.2 shows the total annual value (in USD billion) of key mineral exports from Tanzania, including gold, silver and copper.

Figure 4.2 Total Minerals Export Value by Large Scale Mines, 2001-2014 USD Billion



Outside of the dominant gold sector, Tanzania's mining sector is broadening its horizons. The country has an array of mineral resources, which the Ministry of Energy and Minerals (MEM) categorises into five main groups:

- **1 Metallic:** gold, iron ore, nickel, copper, cobalt, and silver.
- **2 Gemstone:** diamond, tanzanite, ruby, garnets.
- **3 Industrial minerals:** limestone, soda ash, gypsum, salt and phosphate.
- **4 Energy-generating:** coal and uranium.
- **5 Construction:** gravel, sand and dimension stones.⁶

In the past decade, exploration and project development activity has initially picked up across a range of these sub-sectors including in cobalt, nickel, uranium, zinc, coal, graphite and rare earth elements – though it will take some time before such minerals are exported, given the long duration of mining project time-frames.

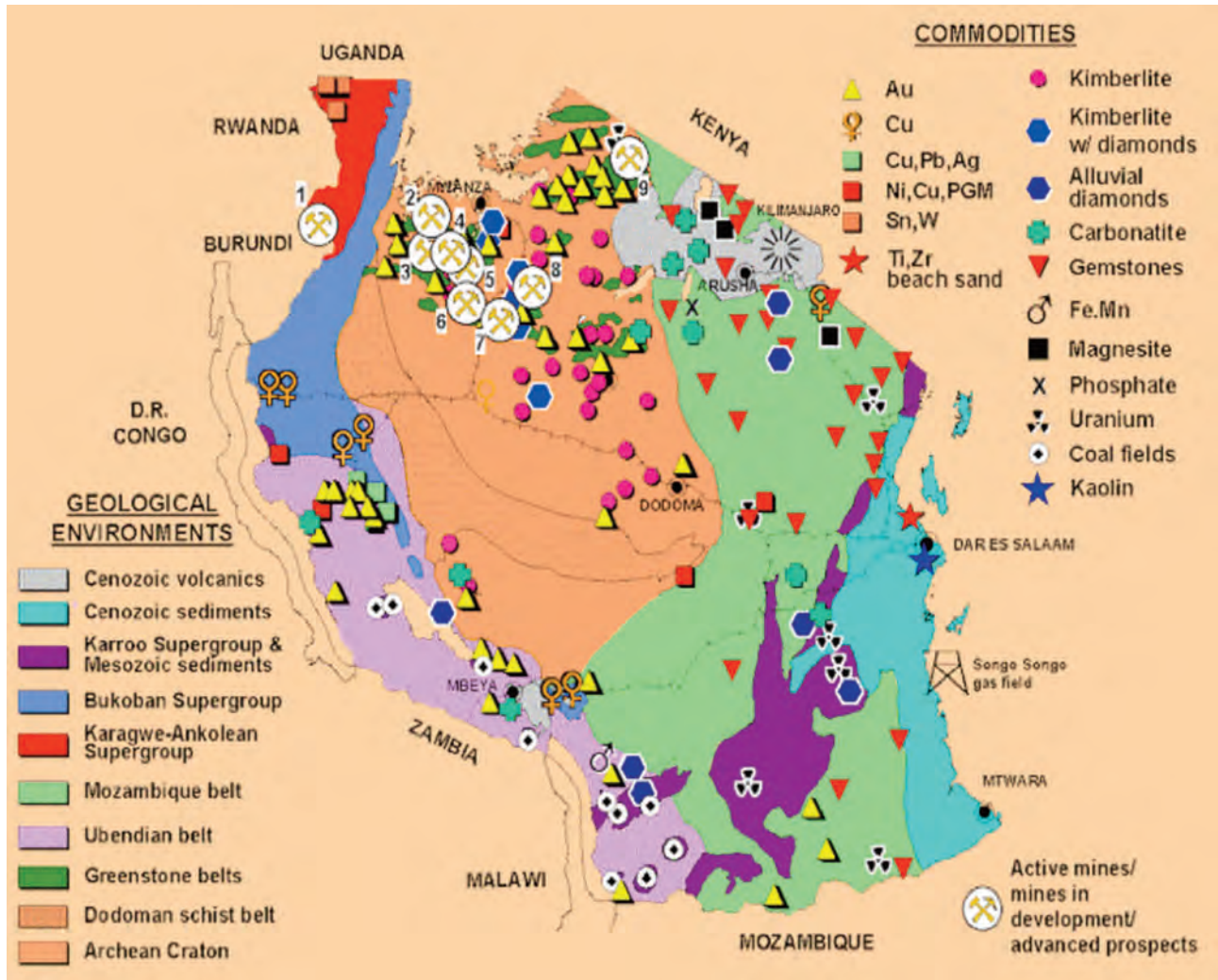
One example of new minerals under development is the identification of a potential niobium mine at Panda Hill in Mbeya district in south-western Tanzania. The project, led by Australia's Cradle Resources, aims to develop a 30 year, 2 million tons per annum operation that will produce 4600 tons per annum of ferroniobium, equivalent to approximately 10% of world production. This special product, found in only a few places across the globe, is used in minute quantities as a micro-alloy to strengthen steel.⁷ Cradle Resources completed the pre-feasibility study in 2015 and now intends to construct a USD 158 million mine with associated plant infrastructure.

⁵ Until the economy diversified in the second half of the 2000s, industrial mining accounted for a staggering 75 percent of all FDI.

⁶ World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012; access at: <http://www.eisourcebook.org/cms/Feb%202013/Tanzania,%20Integrating%20Environment%20into%20Investment%20Decisions,%20Introductory%20Mining%20Guidance.pdf>

⁷ Kotze Chantelle 'Cradle Resources to develop Africa's first niobium mine' Mining Review, April 2015; access at: <http://www.miningreview.com/cradle-resources-to-develop-africas-first-niobium-mine/>

Map 4.1 Geological Map of Tanzania



2.1. The Gold Sector Overview

Geographically, the gold sector is focused in the western and north-western interior of Tanzania (see map above). The majority of the country's gold mines are situated in the greenstone belt that runs in an east-west arc to the south of Lake Victoria cutting across Shinyanga, Geita and Mwanza regions.⁸ The industry in this area dates back to the late 19th century, when small-scale gold mining commenced around the shore of Lake Victoria. However, it was not until the liberalisation of the industry in the mid-1990s – culminating in the passage of the investor-friendly 1998 Mining Act – that the country's mining potential was unlocked and large-scale industrial gold mining began to flourish (see Figure 4.3).

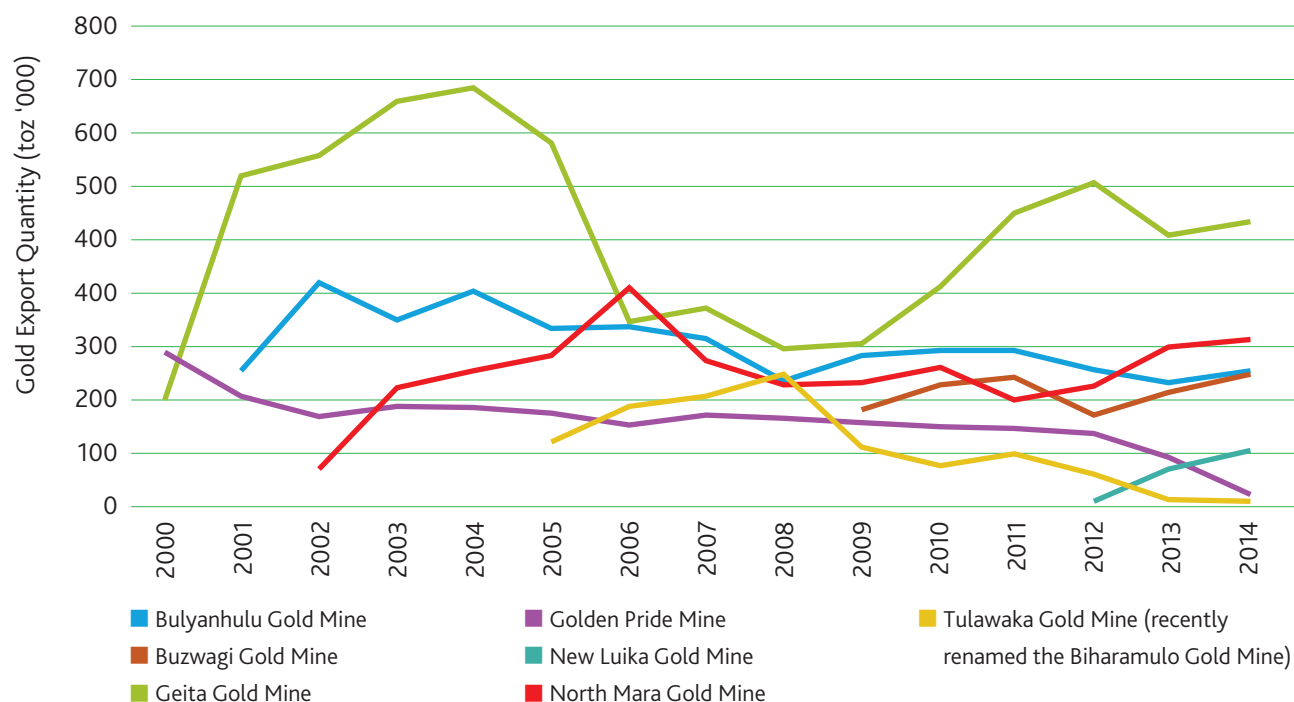
Today, seven major industrial mines produce 1.3 million ounces of gold each year, making Tanzania the third largest gold producer in Africa and earning the GoT USD 1.7 billion annually in export receipts.⁹ Together, these mine sites directly employ over 15,000 Tanzanians and supports hundreds of thousands more through indirect employment and locally-sourced supply contracts.

However, after two decades of steady increases in gold export values, Tanzania's gold mining sector was hit by a sharp drop off in global prices in 2012. Over the past three years, the world market per ounce price for gold has fallen from USD 1,800 to USD 1,080, forcing miners to lay off staff,

⁸ A greenstone belt is "a zone where metamorphic minerals, including in some cases gold, are found within mafic rocks and these minerals impart a green hue to the rock structure." See: The Business Year, 'Tanzania Mining: Ready to Rush' 2015

⁹ Reuters News Agency 'Tanzania's gold output rises in 2014, snaps two-year decline' March 2015; access at: <http://af.reuters.com/article/investingNews/idAFKBN0070SN20150522>. The largest of these mines, AngloGold Ashanti's opencast Geita Gold Mine, employs 3,500 staff on site and produces 480,000 troy ounces (toz) per year, or roughly 35% of Tanzania's gold.

Figure 4.3 Historical Gold Exports by Major Gold Mines (2000-2014)

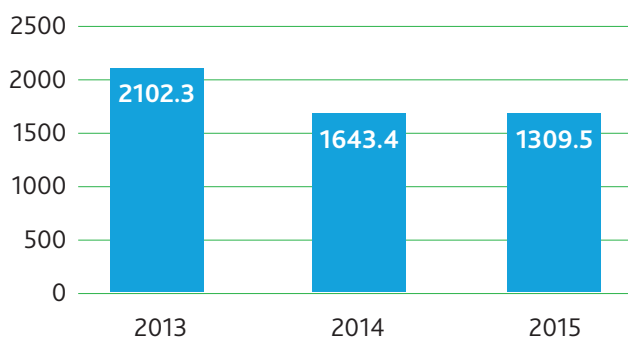


reduce capital expenditure and tighten spending on suppliers. This slump in Tanzania's Mining sector is demonstrated by declining exports from 2013 to 2015 (see Figure 4.4). Tanzania's largest miner, Acacia Mining, in late 2015 announced plans to shed more than 25% of its workforce (1,050 jobs in total).

The tumbling price of gold, which has been mirrored by a slump in most commodity and mineral prices, threatened to reverse the positive momentum witnessed in Tanzania since 2000. The impact on GoT finances has been equally damaging.

However in early 2016, nascent signs of recovery in commodity prices emerged. The silver lining to subdued gold prices is that mining companies in Tanzania have worked hard since 2012 to lower their all-in production costs. After a period of painful restructuring, firms are adapting to the 'new normal' and slowly regaining confidence. A sign of stabilisation after a period of contraction is the pick-up in business for drilling contractors and mining services companies witnessed in 2015 and early 2016¹⁰.

Figure 4.4 Gold Export performance, 2013-2015 USD Million



Source: Bank of Tanzania

However, recent investment initiatives mainly resulted from companies' cost reduction consideration as opposed to new exploration ambitions. For example, Capital Drilling Ltd signed in December 2015 a new contract with Acacia Mining North Mara mine to undertake production drilling services, and no new exploration. Private mining companies have become increasingly reticent to assume high costs of capital-intensive investment in Tanzania's mining sector because their perceived rate of return has been decreased by the 2010

¹⁰ The 24-month contract is reportedly worth USD 1 million per month. See: MacDonald, Alex 'Capital Drilling Secures Drilling Contract From Acacia Mining', Dow Jones Institutional News, December 2015

Mining Act which gives a strengthened role to the GoT vis-à-vis private companies¹¹.

The closure of two key gold mines, Tulawaka in Kagera region (2013)¹² and Golden Pride in Tabora region (2014)¹³ - as a direct result of cost-cutting measures - illustrates private companies' struggle to gain sufficient cash flows to pay off high initial fixed costs. The boom times that followed an influx of investment in Tanzania from international mining giants in the 2000s appear to be over, and new exploration now being inhibited by Tanzania's unfavourable changes in its mining policy, the mining sector's future contribution to the Tanzanian economy is set to decline.

Unless a rejuvenation of positive policies does not reassure investors of their expected steady cooperative gains, the potential of the mining sector to contribute to Tanzania's economic growth will remain underutilised.

2.2. Other Minerals

Coal

In the south of the country, coal discoveries estimated at more than 5 billion tonnes have been made. Together, the coal projects currently under development in Tanzania promise to add at least 620 MW of coal-fired power to the country's energy mix.¹⁵

Uranium

Since 2013, several positive developments have occurred in the uranium sector. Toronto-listed Uranium One, which is owned by Russian company ARMZ, has been awarded a contract to construct a uranium mine at Mkuju River. The project is expected to yield more than 36,000 tons of refined ore, catapulting Tanzania into the world's top ten global uranium producers.¹⁶ The Australia-based uranium exploration and development company, Uranex, is also

prospecting for uranium in south-west Tanzania.

Gemstones

Tanzania's longstanding gemstone industry, which hosts some of the world's oldest mines, is enjoying a renaissance. A vast range of kimberlitic minerals are present across Tanzania, including diamonds and gems such as tanzanite, emerald, sapphire, amethyst, topaz and rubies.

South of Mwanza, the flagship Williamson Diamonds open pit mine has been in operation since 1940. Today, it is operated by EU^{+SN} investor Petra Diamonds – with the GoT as a 25% equity holder – and produces roughly 150,000 carats annually. Periodically, the site produces extremely rare stones such as the 23.16-carat pink diamond discovered in November 2015 and is likely to be worth in excess of USD 25 million.¹⁷

Meanwhile, in Kilimanjaro region TanzaniteOne, in collaboration with STAMICO, runs the world's only commercial tanzanite mines. Approximately 3.2 million carats of this unique rock are produced annually.

3. Policy context

From the 1960s until the mid-1990s, Tanzania's mining sector lay relatively dormant. Not until the reforms of the 1990s, when the government moved from direct control of mining operations towards a more advisory role, did the sector begin to accelerate. The GoT signalled its lighter touch regulatory approach with the passage of the 1998 Mining Act which streamlined investment rules, gave clarity on fiscal rates (with corporate tax of 30% and a fixed royalty rate of 3%) and provided safeguards for global investors.¹⁸

In the years that followed, several major gold companies channelled funds into new gold exploration. The opening of

11 World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012; access at: <http://www.eisourcebook.org/cms/Feb%202013/Tanzania,%20Integrating%20Environment%20into%20Investment%20Decisions,%20Introductory%20Mining%20Guidance.pdf>

12 Zablou, A., 'Shut Tanzania mine remits USD 130 million', East African Business Week, Oct. 2014

13 Lange, S. & A. Kinyondo, 'Local content in the Tanzanian mining sector', CMI Brief Vol.15, No.3, 2016; access at:<http://www.cmi.no/publications/file/5784-local-content-in-the-tanzanian-mining-sector.pdf>

15 Key Energy News 'Coal companies plan to add 620 MW of power projects in Tanzania' December 2015

16 Reuters News, 'Uranium One sees building of Tanzania mine in 2013' October 2012, access at:<http://www.reuters.com/article/tanzania-uraniumone-idUSL5E8LOA4U20121024>

17 The Independent, 'Rare pink diamond headed for auction' November 2015

18 The Business Year, 'Tanzania Mining: Just a Rock Away' 2015. Note that the Mineral Policy of 1997, on which the 1998 Mining Act was based, was the result of a five-year development project by the World Bank and the Tanzanian government. The 1998 Act encouraged new investment by removing import duties on capital goods used for exploration and mine development; providing for five-year tax holidays, 100% transferability of profits and 100% foreign ownership; limiting termination of mining licenses to cases of default; and providing for 100% depreciation with an additional 15% allowance on assets. See: Msabaha, Ibrahim, 'Tanzanian Mineral Sector Performance, Fiscal benefits and Challenges' Tanzanian Ministry of Energy and Minerals / World Bank Workshop Presentation, October 2006

the large-scale Golden Pride in 1998 signalled a new era in industrial mining; by 2002, the North Mara Gold Mine had opened; and seven years later, in 2009, the Buzwagi Gold Mine followed suit to become the second-largest gold mine in Tanzania.

A decade after the 1998 Mining Act and following several years of rising gold prices, the government reconfigured its regulatory strategy with the passage of the 2009 Mineral Policy and 2010 Mineral Act. The 2010 Act consolidated and updated the investment and licencing framework for mining, integrated small-scale mining into the regulatory apparatus and expanded state participation in certain projects.¹⁹ The bill's additional aims were to strengthen integration of the mineral sector with other sectors of the economy, promote value addition to minerals and strengthen environmental management.²⁰

Fiscal terms also became more stringent under the 2010 Act. Royalty rates were to be levied on the gross, and no longer net, value of mineral sales, and the overall royalty rate was increased from 3% to 4%.²¹ Mining companies were required to list locally on the Dar es Salaam Stock Exchange, and the Act permitted the MEM minister to negotiate equity stakes in mining projects on behalf of government.²² Taxes and royalties paid by major mines to the GoT between 1999 and 2014 are listed in Table 4.1.

Given this tightening of fiscal terms and the return of direct government intervention in the sector, mining companies, being unable to recoup losses of exploration since the 2010 Act, perceive that exploration dollars are better spent in other countries, despite Tanzania's immense prospectivity. In a reflection of this, FDI into the sector slowed in subsequent years, while continuing to increase overall.²³ Since 2010, the

government has engaged in several rounds of negotiation with the country's leading mining investors to revise the level of tax, service levies and royalties on their projects. The finance ministry undertook a review of all tax exemptions awarded over the previous half decade. The government also passed the Value Added Tax Bill 2014, effective from July 2015, which promises to increase VAT collections and to remove VAT exemptions for mining and mining services firms.²⁴

In 2015, further changes occurred when several provisions of the 2010 Mining Act were amended or repealed by the introduction of the Tanzania Extractive Industries (Transparency and Accountability) Act 2015. For example, the initial capital investment threshold for a Primary Mining Licence was raised from USD 100,000 to USD 5 million; the duration of Mining Development Agreements (MDAs) was limited to ten years; and holders of mining and special mining licences were required to commence mining activities within 18 months.²⁵

In a development that will allay concerns over opaque license awards, the 2015 Act has introduced an electronic portal for companies seeking mining licenses. The new Online Mining Cadastre Transactional Portal is intended to enhance the investment climate by ensuring greater transparency and streamlined procedures in the license application process.

Overall – as one interviewee for this study noted – the regulatory environment for mining companies in Tanzania has become more challenging at a time when gold and commodity prices have fallen sharply worldwide. This double shock has dampened growth in the mining sector, keeping FDI and output levels well below potential.

19 See The Business Year, 'Tanzania Mining: Just a Rock Away' 2015. Note that under the 2010 Mining Act the government reserves the right to claim shares in "strategic" mining operations in order to ensure that the Tanzanian people benefit from the country's natural resources. How this provision will work in practice is likely to vary case by case, but the clearest recent examples include the government's negotiations with global mining firms to take direct equity stakes in new uranium and nickel projects. See: Economist Intelligence Unit (EIU) 'Tanzania Country Report', March 2015

20 World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012; access at: <http://www.eisourcebook.org/cms/Feb%202013/Tanzania,%20Integrating%20Environment%20into%20Investment%20Decisions,%20Introductory%20Mining%20Guidance.pdf>

21 Ibid. However, this hike was not imposed retrospectively on existing mineral development agreements. Instead, the GoT sought to agree voluntary increases with individual companies through negotiation.

22 World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012

23 Cooper, I & Stevens, N. 'Political Risk to the Mining Industry in Tanzania', *Journal of Political Risk*, Vol. 1, No. 2, June 2013; access at: <http://www.jpolicrisk.com/political-risk-to-the-mining-industry-in-tanzania/>

24 Kabendera, Erick 'Tanzania's law amendment seeks to boost tax collection' *East African*, May 2014; access at: <http://www.theeastafrican.co.ke/news/Tanzania-s-law-amendment-seeks-to-boost-tax-collection/-/2558/2318136/-/cw1s76/-/index.html>

25 Kasanda, Peter, et al 'Amendments to the Mining Act' Clyde & Co. November 2015; access at: <http://www.clydeco.com/insight/updates/view/amendments-to-the-mining-act>

Table 4.1 Tax and Royalty payments by 9 major mines, 1999-2014 (TSh billion)

	Corporate Tax	Total Royalty paid	Grand total
2001	0	6.56	20.13
2002	0	10.22	29.63
2003	0	14.97	37.05
2004	0	18.87	39.82
2005	2.31	21.34	58.50
2006	1.75	29.30	51.51
2007	1.44	30.00	64.19
2008	0.88	32.69	99.95
2009	3.21	43.34	125.50
2010	21.38	70.37	171.00
2011	60.35	97.03	305.71
2012	376.67	115.17	713.05
2013	42.67	112.42	327.44
2014	97.73	102.88	414.20
Total	608.40	705.16	2,457.69

4. Supply and marketing chain

EU investors have played a central role in the development of Tanzania's mining industry to date. As of 2014, some 61.6% of all gold production in the country came from European companies, according to Tanzania Minerals Audit Agency (TMAA) figures; while the total tax and royalty payments contributed by European gold mining companies to date is in excess of 1 trillion TSh.²⁶ Across the sector, 22 EU^{+SN} mining and mining services companies from eight different European countries have active operations, of which five are classified as Large Taxpayers by the Tanzania Revenue Authority (TRA).²⁷

The European company at the heart of this mining ecosystem in Tanzania's Lake Zone is London-based Acacia Mining. In Shinyanga region, production at the company's flagship Bulyanhulu mine is expected to rise to 350,000 troy ounces per year by 2019.²⁸ Following conversion from a narrow vein mine to a site focused on drift, fill, and long-hole techniques, the site will continue producing for at least another 30 years.²⁹ Acacia's other large-scale mines include

the open pit Buzwagi mine and North Mara mine, which is forecast to produce 450,000 ounces of gold over a five-year period following the recent underground expansion.

The company's activities also underpin a much broader supply chain of Tanzanian enterprises. For example, out of a total annual procurement figure in excess of USD 500 million (TSh 600 billion), more than two thirds is allocated to local Tanzanian suppliers (Acacia has a standing policy in all of its Tanzanian operations to use local suppliers wherever possible). And as the largest foreign investor in Tanzania, with a record of investing several billions of dollars in green-field project development to date, the company's dual listing on the Dar es Salaam Stock Exchange has also been instrumental in driving the development and growth of Tanzania's domestic stock market (see Case Studies below for further detail).

A more recent European investor to enter the Tanzanian mining sector is UK-based Shanta Gold, which in 2012 commissioned the New Luika mine on the Lupa gold field in Mbeya in south-west Tanzania.³⁰ Shanta Gold embodies the ambition and innovation that EU^{+SN} companies are bringing to the sector. Unlike Acacia, the company is a mid-tier gold producer focused on smaller, high-grade gold prospects in Tanzania. The flagship New Luika Mine is situated in the Lupa gold field in southwest Tanzania, far from the traditional heartlands of gold mining activity around Lake Victoria. In this way, the company is a trailblazer, proving to the market that the geographic scope for large-scale gold mining in Tanzania is greater than many had supposed. The mine has a reserve estimate of 690,000 ounces,³¹ and a record total of 84,028 ounces were produced in 2014, up 31% on the previous year (see Case Studies).

Outside of the gold sector, several European investors are developing ambitious new projects. For example, UK-based Edenville Energy, is developing the Rukwa coal-to-power project near Sumbawanga. The project will see the development of a coal mine and a 100 MW+ mine-mouth

²⁶ The figure for European-owned gold mines (tax and royalty payments combined) from mine inception to end-2014 was: TSh 923.62 billion. This figure has since surpassed 1 trillion. See: http://www.tmaa.go.tz/uploads/ANNUAL_REPORT_2014.pdf

²⁷ The U.K. has the largest number of companies followed by Italy.

²⁸ The Bulyanhulu mine has a 30 to 50 year life-of-mine based on current data, with probable reserves of 9.4 million ounces.

²⁹ The Business Year, 'Tanzania Mining: Just a Rock Away' 2015

³⁰ In addition, the State Mining Corporation (STAMICO) maintains a number of early stage investments under joint venture agreements, including the Itetemia, Buckreef and Buhemba gold projects.

³¹ As at October 2014

power plant, which will provide a much-needed source of electricity into the grid in western Tanzania.³² Another EU+^{SN} investor, London-listed Kibo Mining, is developing a USD 220 million coal-to-power project in Mbeya region.

Meanwhile in the niobium sub-sector, European investor Kabanga Nickel Company Ltd, a joint venture between UK-based Glencore Xstrata and Barrick Gold, is developing an active niobium mine exploration project 130 km south west of Lake Victoria in the Kagera Region. The exploration program has so far placed 9.7 million tonnes at 2.37% nickel into the indicated resource category. Xstrata has invested USD 95 million in the pre-feasibility stage of development, and the future mine is expected to employ over 2,000 people.

Additional European investors in the mining sector include – but are not limited to – UK-based Randgold Resources, a leading global gold producer; UK company Mutali Coal, which provides coal for the domestic and regional energy market from a mine near the Malawi border; Euromet Tanzania Ltd, whose parent company is based in Germany, which has the mining license for a Niobium Mine in Mbeya region; and Greece-based Noravia Gold (Tanzania) Ltd, which is seeking to develop a gold mine in Njombe region and is conducting exploration on a 286,61 sq. km licencing area.

Beyond upstream mining operations, Tanzania's mining sector supply chain extends – through the procurement cycle – to a range of Tanzanian small and medium sized enterprises (SMEs), equipment manufacturers, engineering and project management contractors, construction firms and input providers. These linkages range from locally-focused

procurement for food, clothing and basic equipment (such as fabricators and foundries) to more sophisticated high value added items such as capital machinery and technical equipment which are procured at the national or international level. In many cases, European mining houses in Tanzania engage in supplier development programs to identify local/Tanzanian procurers and to mentor, train and invest in these companies to support them to achieve the required quality standards to deliver goods and services to them.

Examples of European investors active in the Tanzania mining procurement chain are Sweden-based Atlas Copco, a world-leading provider of productivity-enhancing compressors, vacuum solutions and air treatment systems, construction and mining equipment, power tools and assembly systems; and Sweden-headquartered Sandvik Mining and Construction Limited, a longstanding provider of sophisticated mining equipment, processing systems and hard and super-hard materials in Tanzania.

Finally, beyond the immediate mining sector procurement chain, the industry's catalytic impact extends to the infrastructure sector (ports and roads in particular), the power sector and the transportation sector, where an array of companies have committed to new investment in order to meet the growing supply chain needs of leading European mining companies.

Table 4.2 outlines the different stages of mine development in Tanzania in terms of both project and regulatory requirements:

³² World Coal, 'Edenville affirms commitment to Rukwa project' January 2014; access at: <http://www.worldcoal.com/exploration-and-development/01122014/World-Coal-Edenville-affirms-commitment-to-Rukwa-coal-project-coal/>. Meanwhile, Australia-based Intra Energy Corporation is also progressing coal deposits at Ngaka close to Lake Nyasa in partnership with the Tanzanian state.

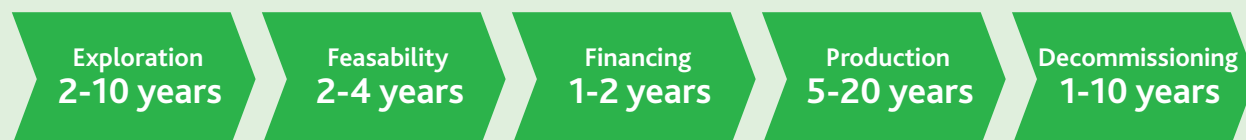
Table 4.2 The Mining Project Life-cycle...



... and the Mining Sector Investment Process in Tanzania



Typical time frames



Case Study 4.1 Acacia Mining

As the country's largest gold miner and one of the largest gold producers in Africa, London-based Acacia Mining is the leading EU^{+SN} investor in Tanzania's mining sector.



The company, which was formerly known as African Barrick Gold, has three producing mines – Bulyanhulu, Buzwagi and North Mara – all situated in north-west Tanzania, in addition to a portfolio of exploration projects across the country. Acacia has produced eight million ounces of gold in over a decade of operations in Tanzania, and in 2014 all three of its producing mines generated over 200,000 ounces of gold.³³ Full-year output for 2015 is forecast at between 750,000-800,000 ounces.

³³ Bulyanhulu, a high grade underground mine with a lifespan of over 30 years, produced 234,786 ounces thanks to the introduction of more mechanised mining methods; at Buzwagi, a single open pit bulk tonnage operation, 210,063 ounces were mined; and at North Mara, a high-grade open pit operation which is transitioning to become an underground mine, 273,803 ounces were produced. See Acacia Mining 'Unearthing Africa's Potential' 2014 Annual Report; access at: <http://www.acaciaining.com/~media/Files/A/Acacia/reports/2015/2014-annual-report-and-accounts-v2.pdf>

Table 4.3 Amounts invested in Tanzanian social sectors in 2014

Education	Health	Water	Infrastructure
US\$2.5million	US\$0.8million	US\$1.3million	US\$2.6million

Acacia's decision to change its name in November 2014 reflects the firm's new culture and strategic direction, with a focus on becoming a truly African company that has a stock market listing in Dar es Salaam, strong government and community relationships, and local staff employed at all levels in Tanzania. The company's contribution to economic development in Tanzania can be measured in several ways. For example, investment in communities located near to Acacia's Tanzanian mining projects exceeded USD 10 million in 2014 while the company's direct economic contribution in the same year was USD 920 million.

Community investment

Acacia's community investment programmes are designed to maximise the benefits of large-scale mining operations for surrounding communities. The company has engaged actively with communities through the Acacia Maendeleo Fund, which invests in a range of local initiatives, and through a series of Village Benefit Implementation Agreements, which provide for specific investments at North Mara.

An example of these projects is the 121-hectare Jatropha Farm at Bulyanhulu, which Acacia established to provide a resilient source of biofuel. The project provides benefits for both the community and Acacia. The conversion of non-productive land within the mining lease helps to prevent encroachment, and the production of bio-diesel contributes to the company's greenhouse gas emission mitigation efforts. For the local community, benefits accrue from training, employment and the development of by-product home industries such as soap and candle making.³⁴

A further example is Acacia's Artisanal Mining Initiative at North Mara, through which the company reaches out to small-scale mining communities to support them in raising safety and environmental standards. The project focuses on improved mining techniques and technologies, and on complying with government regulations. Participating miners are also provided with access to finance to assist legal applications for mining licenses.³⁵

The company achieves further local impact through supplier relationships. For instance, AKO, a wholly owned Tanzanian catering company, began working at Bulyanhulu in 2009 as part of a deliberate effort by Acacia to support local companies in the service industry. The contract gave AKO a foundation from which to grow and the company now services two Acacia mines, the company's Dar es Salaam headquarters as well as a number of other clients nationwide. AKO's turnover in 2014 was an impressive TSh 45.4 billion (USD 23.6 million), with more than 1,600 trained employees on the payroll.

Finally, infrastructure established to support Acacia's mining operations has provided benefits for the local community. At North Mara and Bulyanhulu, for example, power distribution has been extended to local villages.

Operational efficiency

Acacia's sustainability in a lower gold price, and less favourable policy environment has been challenged. Its total revenue decreased from USD 930 million in 2014 to USD 868 million in 2015 whilst cost of sales increased within the same year from USD 688 million to USD 734 million. Accordingly, Acacia's balance sheet went down from a profit of USD 89.9 million in 2014 to a loss of 89.9 million in 2015 as shown in Table 4.4. As a direct result of reduced revenue and increased operating costs, operational cash flows were reduced almost by half and only USD 181 million were used for investing activities in 2015 as opposed to USD 299 million in 2014.

In reaction to the more challenging operating environment, Acacia has moved decisively to reduce operational costs. In 2014, cost savings of USD 185 million were achieved and cash costs per ounce were reduced to USD 732. These efficiencies have been difficult to achieve, and staff redundancies have formed an unavoidable part in them, but the leaner business model has given the market confidence that Acacia is well-positioned to continue investing and growing through this low point in the industry cycle.

³⁴ This section draws directly on World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012
³⁵ As above.

Table 4.4 ACACIA Financial Statement (USD millions)

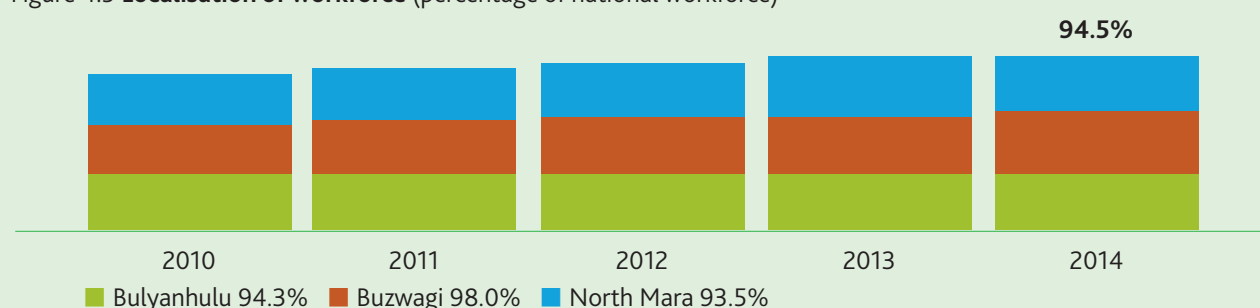
	2014	2015
Revenue	930	868
Cost of sales	688	734
EBITDA	229	175
Operational cash flows	289.5	156.6
Cash used in investing activities	257	157
Balance	89	-197

Source: Acacia Annual Report & Accounts 2015

Despite the pressure on costs, the company continues to invest heavily in the skills and safety of its Tanzanian staff. A new project started in 2014 was “Tunajali” or “We Care”, a behavioural safety programme designed to embed the culture of safety, rather than just relying on checks and processes. The programme has been rolled out across all operations.

Meanwhile, following a 28% reduction in expatriate employment, Acacia’s workforce is now 94.5% Tanzanian. At the company’s largest mine, Bulyanhulu, only 138 of the total 2,166 on-site staff are foreign workers.

Figure 4.5 Localisation of workforce (percentage of national workforce)



Case Study 4.2 Shanta Gold

If Acacia mining illustrates the size and scale of EU^{+SN} investment in Tanzanian mining, then UK-listed Shanta Gold embodies the ambition and innovation that EU^{+SN} companies are bringing to the sector. Despite the harsh global industry backdrop, Shanta has accelerated its investments in Tanzania. Mining operations have reached steady state at around 80-850,000 oz per year. In 2014, Shanta paid the GoT USD 13.1 million in direct and indirect taxes and in 2015 a further contribution of USD 11.6 million in a lower gold price environment.



The future also appears bright for Shanta Gold. In July 2015, Shanta released a resource update for New Luika which included an underground transition to extend the mine life to 2022. Resources for the New Luika mine now stand at 12.9 million tonnes at 3.2 grams of gold per tonne for a total of around 1.3 million ounces.³⁶ The development of the underground and associated infrastructure requires a capital investment of over USD 50 million for which a stable and supportive framework is required.

Community investment

Despite the company’s rapid production growth, Shanta’s focus on community relations, safety and the environment remains paramount. Meanwhile, as part of a Community Development Strategy the company is engaged in a number of education, health, water and livelihoods projects in the neighbouring Mbangala and Saza communities aimed at uplifting livelihoods in the communities surrounding its New Luika operation.

³⁶ Middle East North Africa Financial Network, ‘UPDATE - Shanta upbeat on New Luika’s long term future with resource update’ July 2015

These projects are fully aligned with national, district and village plans to avoid duplication of efforts and have the ownership of the communities involved. Examples include a scholarships scheme for 120 primary and secondary students; a scholarship scheme for a group of students to attend Moshi International Mining School; a water borehole drilling program in surrounding villages; and support to a women's agricultural project that aims to provide a market for local produce.³⁷ In 2015, Shanta constructed and handed over a laboratory complex at the local Saza Secondary School.³⁸

Future prospects

The success of Shanta Gold's New Luika mine provides the company with a platform to grow its mine portfolio in Tanzania and to increase its contribution to the country's economy. The company has recently announced it plans to start a pilot mining operation at its Singida project while it conducts a feasibility study into a larger scale operation.

Multi-Stakeholder Partnership Initiative (MSPI) on Large-Scale Mining and Small-Scale Mining Coexistence

The MSPI initiative was launched in 2013 by a coalition of representatives from the Government of Tanzania, the Small-Scale Miners' Federation, the Women's Small-Scale Mining Federation (TAWOMA), the World Bank and Tanzania's two largest mining investors, AngloGold Ashanti and Acacia Mining. The initiative aims to decrease environmental degradation, improve working conditions and boost incomes for small-scale miners, and to improve relations between artisanal miners and industrial mining companies. MSPI gives a voice to informal miners by providing seats on the committee for artisanal mining association representatives.

The program seeks to address tensions by providing a platform for dialogue through which informal miners, the government (through the Ministry of Energy and Minerals) and large-scale mining companies can resolve issues before they escalate. Large-scale mining firms will also provide direct technical assistance – in the areas of mining, geology, metallurgy, health and safety issues) – to village cooperatives and artisanal mining associations. Additionally, the MSPI project will include strengthening of "no child labour" and "no mercury" policies among artisanal miners.

5. Key challenges

5.1. Power and infrastructure shortfalls

Among the industry's biggest challenges, in cost terms, is the electricity shortage that forces some miners to rely on diesel generators. Tanzania's installed power generation capacity remains considerably lower than total demand, and in the country's interior – where most mines are located – many areas are without access to the national grid. For companies seeking to exploit bulk materials such as coal or iron ore, the country's dilapidated rail infrastructure also means that bespoke lines must be installed, often across vast distances.

5.2. Regulatory uncertainty

The mining industry is the most heavily regulated industry

in Tanzania. Following the 2010 Mining Act, direct government involvement in mining projects led by foreign investors has increased markedly, including at the Buckreef Gold Mine and Mchuchuma and Liganga projects. Given that the government's technical capacity to raise finance on global markets and to execute technically challenging projects is more limited than that of the private sector, this high level of intervention risks dampening industry growth.

Meanwhile, the government's payment record has generated concerns for investors, as demonstrated by Resolute Mining's proposal to take the Tanzanian government to the World Bank-established International Centre for Settlement of Investment Disputes if it does not settle more than USD 30 million in overdue tax refunds.³⁹

37 Shanta Gold, '2014 Annual Report and Accounts'; access at: [file:///C:/Users/Ashley%20Elliot/Downloads/annual_report_and_accounts_2014%20\(1\).pdf](file:///C:/Users/Ashley%20Elliot/Downloads/annual_report_and_accounts_2014%20(1).pdf)

38 Shanta Gold, '2015 Annual Report and Accounts'; access at: <http://www.google.be/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKEwis-4C9xbbOAhWnL8AKHVZqBN8QFggjMAE&url=http%3A%2F%2Fwww.shantagold.com%2Finvestors-and-media%2Ffinancial-reports%2F2016%2Fshg-annual-report-2015.pdf&usq=AFQjCNElpXtecwrcwcv6Q2x5deeArC-Q&bvm=bv.129389765,d.bGs>

39 Kabendera, Erick 'Dar, firm locked in dispute over tax refunds' The East African, October 2015

5.3. Public perception of the mining industry

The mining sector has traditionally struggled to communicate the link between investment in mining and Tanzania’s broader economic development. Suspicion of the private sector has also at times been fuelled by strained community relations and concerns over the environmental impact of operations. These issues are, to a significant extent, the result of a failure of communication between the industry, government and the wider public.

Steps have been taken to address this challenge, including through informational campaigning via the Tanzania Chamber of Minerals and Energy (TCME), an industry association. But TCME’s operational capacity remains limited and much greater efforts are required. The government is frequently torn between a short-term pressure to demonstrate that sufficient benefit is derived for Tanzanian citizens from mining activities,⁴⁰ and a longer term imperative to maintain an attractive investment climate to support sustainable industry growth.⁴¹ The challenge is to prevent these contrasting pressures from producing contradictory or inconsistent policy.

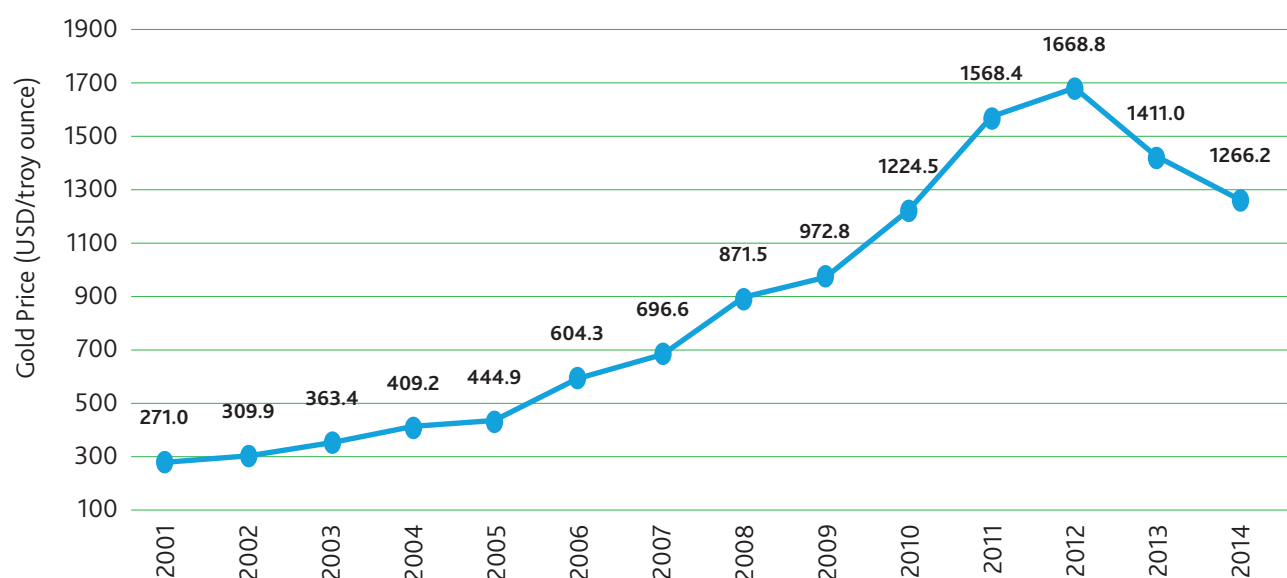
5.4. Weak gold prices

The falling global gold price since 2012 (see Figure 4.6) has caused mining operators in Tanzania to focus hard on their production efficiency. Most have scaled back out of necessity: employees have been retrenched and financial losses have occurred. Of greater consequence for long term industry growth, however, is the move by global capital markets to shut the door on funding for most new mining projects. Going forward, mining companies will have to work hard to persuade banks of the quality both of their projects and of the investment climate in Tanzania. Ultimately, Tanzania now has a distinct lack of new projects to invest in due to the notable decrease of exploration.

5.5. Environmental and safety issues

As elsewhere in the global mining sector, environmental and safety issues including water, food, and air pollution need to be tackled in Tanzania. These challenges are most severe in the informal, small-scale mining sector. For example, in April 2015 an illegal mine collapsed in Shinyanga region, killing 19 people; while in November five artisanal miners were rescued after some 41 days trapped in a small-scale gold

Figure 4.6 Gold Price Trends (2001-2014)



Source: LME - Gold London PM Fix

⁴⁰This is particularly true during election cycles. Ahead of the October 2015 general elections, senior government figures campaigning in the Lake Zone condemned mining companies for failing to engage with local communities and vowed to ensure that contracts and mining licences would be reviewed and legal action instituted. See, for example, Robi, A. 'Gold Firm Criticised Over Lack of Support to Communities' Tanzania Daily News, October 2015.

⁴¹World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012; access at: <http://www.eisourcebook.org/cms/Feb%202013/Tanzania,%20Integrating%20Environment%20into%20Investment%20Decisions,%20Introductory%20Mining%20Guidance.pdf>

⁴²Reuters News 'Five rescued in Tanzania after 41 days trapped in gold mine' November 2015

mine.⁴² Safety records on industrial mining sites are far better, but there is perhaps an opportunity to win broader community support by sharing the safety expertise and practices of global mining companies more effectively with Tanzania's artisanal miners.

5.6. Artisanal mining

Illegal, small-scale mining activity is a significant operational and security concern for foreign investors as much of it takes place on concessions awarded for their exclusive use. In the north-west of the country, site invasions have taken place, leading to violent confrontations with police and security forces.⁴³ Long-running disputes have also occurred between artisanal miners and mining companies over mineral rights and over the challenge of delineating responsibility for environmental damage in areas where both parties are active.⁴⁴

Artisanal mining lacks visibility in the media and the public sphere, in part due to the use of informal marketing channels, but the activity contributes roughly 10% of Tanzania's gold production and accounts for more than 90% of all employment in the mining sector – an estimated 1 million Tanzanian work in the Lake and Central Western gold belt areas.

The sector represents a crucial form of income generation for the rural poor and cannot therefore be ignored by government or industry.⁴⁵ Recognising this, a partial shift from confrontation to cooperation and compromise has taken place in recent years between large-scale miners and government officials on the one hand, and artisanal miners working on gold seams on or near to industrial mining operations on the other.

Government eviction of small-scale miners, which carries the risk of violent confrontation, is not deemed an acceptable solution. Instead, some mining operators have pursued a policy of compensation for lost access or of cohabitation, where small-scale miners are permitted to work on gold

deposits that are unlikely to be developed commercially through large-scale mining, even where these deposits form part of the operator's government-awarded concession.

Large-scale mining companies have also introduced training programs to mentor artisanal mining communities to incorporate basic health, safety and environmental management into their work. For its part, the GoT – with support from the World Bank's Sustainable Management of Mineral Resources Project – has begun a training programme on commercial mining and entrepreneurship for small-scale miners, as well as establishing a Small-Scale Miners Development Fund to provide access to soft loans.⁴⁶

Annex 1: Key actors in the regulatory framework can be found on page 167

43 For example, seven people were killed and 12 others injured in May 2010 when police opened fire on a group of individuals who had attacked the North Mara gold mine. Around 800 people armed with machetes, rocks and hammers reportedly attempted to raid the mine site, prompting police intervention.

44 World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012; access at: <http://www.eisourcebook.org/cms/Feb%202013/Tanzania,%20Integrating%20Environment%20into%20Investment%20Decisions,%20Introductory%20Mining%20Guidance.pdf>

45 World Bank Group 'Proposed Additional Credit in the Amount of US\$45 Million to the United Republic of Tanzania for the Sustainable Management of Mineral Resources Project' April 2015; access at: http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2015/05/08/090224b082df951d/1_0/Rendered/PDF/Tanzania000The0additional0financing.pdf

46 World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012

5 Upstream Oil and Gas

Sector Snapshot

- Overall, 18 EU^{+SN} companies are active in Tanzania's upstream oil and gas sector, representing approximately 70% of the total. Seven are classified as Large Taxpayers.
- Two European investors have led the onshore oil and gas sector development: UK-based Songas and France-based Maurel & Prom. Songas transports gas produced by PanAfrican Energy from Songo Songo Island in Lindi region via a 225-kilometer pipeline to Dar es Salaam; while Maurel & Prom operates five wells in the Mnazi Bay gas field in Mtwara region that deliver up to 130 million CF per day gas per day to Dar es Salaam region via a newly constructed 535 km gas pipeline. The company's operational capacity is expected to increase as new gas reserves are being discovered. Taken together, this gas infrastructure holds the key to solving Tanzania's rumbling power crisis and to unleashing the country's economic potential.
- In the offshore oil and gas sector, investment from Europe's leading International Oil Companies (IOCs) has catapulted Tanzania to the front rank of global oil and gas exploration since 2010. Approximately 57 trillion cubic feet of gas have been discovered by EU^{+SN} investors BG Group, Ophir Energy and Statoil and their partners in offshore blocks 1 to 4.¹
- The same investors are also spearheading development of Tanzania's flagship USD 15 - 25 billion Liquid Natural Gas (LNG) export project in Lindi region, which is expected to generate at least 1,000 specialist oil and gas service jobs and more than 20,000 engineering and support jobs over the next ten years.
- EU^{+SN} investors in Tanzania's gas and oil sector play a key role in the creation of employment opportunities. As the two biggest EU companies in the field, UK-based BG Group and the Norwegian gas and oil producer Statoil deliver skills and knowledge to young Tanzanian citizens. For example, the BG Group awarded more than 10 Tanzanian students with scholarships for oil and gas related study at UK universities.²

1. Sector Outlook

1.1. Onshore gas

The discovery of large-scale gas deposits offshore Tanzania may have dominated recent industry headlines but the outlook for the more established onshore and shallow-water gas fields on Tanzania's coastal margin is, if anything, even more encouraging. Two European investors have led the development of the country's onshore gas sector: UK-based Songas and France-based Maurel & Prom. Songas transports gas produced by PanAfrican Energy from Songo Songo Island in Lindi region via a 225-kilometer pipeline to Dar es Salaam where the company owns East Africa's largest thermal power station, the Ubungu power plant, which generates 180 Mega Watts (MW) of electricity or roughly 20% of Tanzania's electricity needs.

Maurel & Prom operates five wells in the Mnazi Bay gas field in Mtwara region that deliver gas to Dar es Salaam region via a newly constructed 535km gas pipeline. Under the terms of a Gas Sales Agreement signed with the Government of Tanzania (GoT) in 2014, Maurel & Prom and its partners will deliver up to 300 billion cubic feet (CF) of gas –

approximately 130 million CF per day – over a 17-year period, a quantity sufficient to supply gas to thermal power stations with a combined capacity of some 400-500 MW.

Taken together, this gas infrastructure owned and operated by EU^{+SN} investors Songas and Maurel & Prom holds the key to solving Tanzania's rumbling power crisis and to unleashing the country's economic potential (see Supply and Marketing Chain and Sector Profile for further detail). Indeed, Tanzania's onshore and nearshore gas fields are smaller than their offshore counterparts. But being operational already, onshore and nearshore gas fields will play a more immediate and decisive role in solving the country's energy crisis.

1.2. Offshore gas

With unprecedented speed, and with investment from Europe's leading upstream oil and gas companies, Tanzania has risen to the front rank of global oil and gas exploration since 2010. An estimated amount of 57 trillion cubic feet of gas have been discovered by EU^{+SN} investors and their partners in blocks 1 to 4 offshore Tanzania in the past half-decade.

However, the gains made since 2010 are precarious. With oil

¹ BG Group was acquired by Anglo-Dutch firm Royal Dutch Shell in early 2016.

² Further information here: <https://www.rgu.ac.uk/news/bg-supports-tanzanian-students-with-rgu-scholarships>

prices now under USD 40 a barrel and with gas futures falling, more than two-thirds of oil and gas projects in Africa are now considered non-viable. Final investment decisions have been made on only 10% of large-scale projects in Africa, and global capital markets have stopped funding most oil and gas investments on the continent.³

In this harsh new context, Tanzania's prospects of becoming a Liquid Natural Gas (LNG) producer will benefit both from the pedigree of the International Oil Companies (IOCs) invested in Tanzania, and from the strong alignment of interest between them. Norway-based Statoil, for example, has the scale and experience to invest for the long term; and the arrival of Royal Dutch Shell (which acquired UK-based British Gas (BG) Group in early 2016) as the pivotal player in Tanzania's gas sector will provide a further competitive edge, given the company's market-leading global position in natural gas.

Yet uncertainties remain. As there are limited investment funds available for new LNG projects worldwide, Tanzania and Mozambique (which has made its own vast offshore gas discoveries) are effectively in competition to become East Africa's first major LNG supplier.⁴ It remains to be seen whether Tanzania's LNG project will reach completion ahead of equivalent projects in Mozambique. To do so, the project will need to reach a Final Investment Decision (FID) on schedule (around 2018/2019); but for this to happen the Joint Venture consortium will first need to secure long-term LNG offtake agreements with Asian buyers; and the GoT will need to provide clarity on key issues such as the domestic supply obligation and the extent of Tanzanian Petroleum Development Corporation's (TPDC) role in the project.

Changing global LNG supply and demand dynamics will of course play a role; but to a significant extent, answers to these questions will turn on the willingness President John Magufuli's new administration to engage in a truly collaborative, proactive way with its IOC partners in the years ahead.

Map 5.1 Major Gas Plants and Pipelines by EU^{+SN} investors



2. Sector Profile

2.1. Onshore gas sector

Deepwater gas represents an exciting future prospect for Tanzania's upstream oil and gas sector, but first revenues from these vast resources lie a decade or more away. Today, a set of key onshore and shallow-water gas fields along Tanzania's southern coast make a more tangible contribution to the country's energy needs. Following an initial natural gas discovery in 1974, exploration around the Rufiji and Ruvuma river basins led to the discovery of two significant nearshore/onshore gas fields: the first located in the vicinity of Songo Songo Island, the second at Mnazi Bay close to Mtwara (the fields have proven reserves of 0.6 trillion cubic feet and 0.4 trillion cubic feet respectively). These reserves are small-scale in the global context but they play an essential role in meeting Tanzania's growing domestic demand for electricity.

As outlined above, EU^{+SN} investors have led the development of these strategic gas fields which are displayed in the map

3 Burkhardt, Paul 'In 2013, 'six of the top 10 global oil finds were in Africa. Now, with prices under \$50, two-thirds of projects non-viable' Bloomberg, <http://mgafrica.com/article/2015-11-20-two-thirds-of-africas-oil-and-gas-investments-are-non-viable>

4 Burkhardt, Paul 'Shell to Add Firepower to BG Assets in East Africa LNG Race' Bloomberg News, May 13, 2015

above. The Songo Songo field, situated 15km off Tanzania's coastline, is operated by UK-based Songas through a joint venture with another company, Panafrican Energy, and TPDC. Production at Songo Songo began in 2004 and continues today, with gas transferred via a 225km pipeline for conversion to electricity at the 180MW Ubungo power plant in Dar es Salaam. Both the pipeline and the Ubungo plant are managed directly by Songas, which has invested some IUSD 260 million in the Songo Songo project to date.⁵

Meanwhile, the Mnazi Bay Gas field is operated by the French company Maurel & Prom in partnership with Canada-based Wentworth Resources and TPDC.⁶ Like Songas, Maurel & Prom's operation supplies gas for domestic electricity generation.⁷ Gas produced by the company at Mnazi Bay is transferred via a USD 1.2 billion, 532km pipeline to a new multi-plant gas-to-power complex at Kinyerezi near Dar es Salaam, on the one hand, and supplied to Tanesco-owned power plants located in the Mtwara region, on the other hand. This essential backbone infrastructure, which has been operational since September 2015 following the pipeline's completion, is a 'game changing' development for Tanzania's crisis-prone power sector. The pipeline is managed by TPDC.

In September 2014, Maurel & Prom and Wentworth signed a landmark Gas Sales Agreement with the GoT to deliver up to 300 billion cubic feet (CF) of gas from the company's five gas wells at Mnazi Bay over a 17 year period, equating to approximately 130 million CF per day. This supply will be sufficient to fuel 400-500 MW of thermal power generation, equivalent to one third of Tanzania's current installed generation capacity, which will massively reduce the country's precarious reliance on the six reservoir-fed hydroelectric plants run by state power company Tanesco in the north of the country.

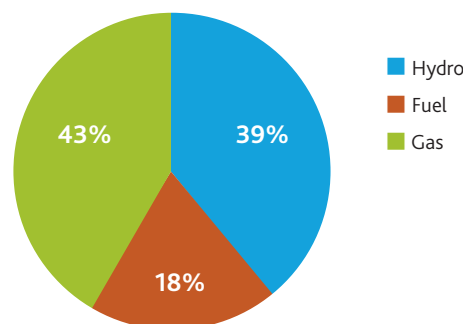
Once the Kinyerezi plants are fully operational, the incidence of load shedding and power cuts will fall nationwide. Longer term, unprecedented access to reliable and affordable power



Deepsea Metro 1 Drillship conducts an exploration campaign offshore Tanzania

through the Mnazi Bay/Kinyerezi gas-to-power system can support industrialisation and rapid economic growth in Tanzania.⁸

Figure 5.1 Gas production by sources of power generation in Tanzania in 2015



Together, Songas and Maurel & Prom demonstrate the long-term commitment of EU^{+SN} investors to Tanzania. Both companies have invested for the long term, working in partnership with the GoT to supply gas that accounts for more than 40% of all electricity supplied to the national grid as shown in Figure 5.1.⁹

A further EU^{+SN} investor in Tanzania's onshore gas sector is UK-listed Aminex which operates through a wholly-owned Tanzanian subsidiary, Ndovu Resources Limited. Ndovu is a

5 The project's ownership and management structure is complex. Songas Ltd. – together with Tanesco, TPDC and a local consortium – owns the pipeline infrastructure and gas processing plant, while the gas plant and wells are operated on behalf of Songas by Panafrican, which is a local subsidiary of Orca Exploration Group. See Pedersen, Rasmus Hundsbæk & Bofin, Peter 'The politics of gas contract negotiations in Tanzania: a review' DIIS Working Paper 2015: 03; http://pure.diiis.dk/ws/files/276453/WP_2015_03.pdf

6 US Energy Information Administration, 'Emerging East Africa Energy' Last Updated May 23rd 2013 <https://www.eia.gov/beta/international/regions-topics.cfm?RegionTopicID=EEAE>

7 Maurel & Prom entered the Tanzanian market in 2004 by acquiring a 60% interest in the Bigwa-Rufiji-Mafia permit. In 2009, it strengthened its position with the acquisition of the Mnazi Bay permit, in which it maintains a 48.06% operating interest in partnership with Wentworth.

8 Maurel & Prom also supplies 2.5 million CF of gas to the Mtwara Thermal Power Station, which produces 18 MW of electricity. Across its various operations, M&P directly employs 70 Tanzanian staff

more recent entrant to the Tanzanian market and is the operator of three licences along Tanzania's coastal margin: Kiliwani North Development licence, Ruvuma Exploration Licence and Nyuni Exploration Licence. Ndovu has discovered gas in commercial quantities in the adjacent block to Songo Songo and will commence production in 2016, adding 10 to 20 million CF of gas daily to the existing pipeline. Major gas operations described in this section are represented in Map 5.1.

Overall, by the end of 2016, a total of 150 million cubic feet should be available through the new pipeline, thus doubling Tanzania's current gas supply capacity – and simultaneously reducing the country's dependence on costly diesel-fired emergency power generation.

2.2. Offshore gas sector

Over a five-year period since 2010 Tanzania has emerged as one of the world's most exciting new hydrocarbon plays, attracting attention – and billions of dollars in investment – from several of the world's largest oil and gas companies. By 2015, following a series of successful offshore drilling campaigns in offshore blocks 1-4, estimates of the country's recoverable gas reserves had soared to approximately 50 trillion cubic feet (tcf).¹⁰ The scale of these resources is sufficient to underpin a multi-train, USD 15 billion – USD 25 billion Liquid Natural Gas (LNG) export project in Tanzania that could supply gas-hungry Asian markets for decades to come.

In a global natural gas market dominated by a few large-scale LNG projects in Australia, the United States and Qatar, the emergence of Tanzania as a significant new source of gas supply could be transformational. Yet numerous challenges must still be overcome – the discovery of Tanzania's gas deposits generated an initial burst of excitement but successfully developing them will be a complex, costly decade-long process. Even in the best case scenario, Tanzania's newfound gas resources will not reach the market until the mid-2020s.

Still, Tanzania enjoys three strong advantages as it seeks to join the top-tier of global natural gas producers. First, the country's gas deposits are likely to prove cheaper on a like-for-like basis to produce than gas from Australia's greenfield LNG projects.¹¹ Second, Tanzanian gas will be cheaper to transport than American LNG, given the proximity of the East African coast to the world's largest consumers of gas in South and East Asia.

Third, the skills and experience of the International Oil Companies (IOCs) invested in Tanzania's offshore gas industry are second to none. The two largest investors in Tanzania – UK-based BG Group and Norway-based Statoil – have unrivalled experience of developing largescale, technically-complex LNG projects. BG Group, which holds a 60% working interest in Blocks 1 and 4 offshore Tanzania, has a unique heritage in LNG, having led the world's first gas export projects from the 1960s onward. With natural gas operations across 27 countries and with unparalleled experience across different segments of the natural gas chain – from upstream exploration and production to liquefaction, shipping, marketing and regasification – BG can draw on a deep pool of experience to drive Tanzania's LNG project forward.¹²

Meanwhile, Statoil, which holds a majority 65% working interest in Block 2 offshore Tanzania, has operations in 36 countries and has more than 40 years of experience from oil and gas production on the Norwegian continental shelf. Like BG, Statoil is one of only a handful of companies worldwide with the expertise to implement a multi-train LNG project of the type envisaged in Tanzania.

Together, these two companies represent the best of European investment in Tanzania: they are creating jobs, transferring world class skills and knowledge, and investing for the long-term to deliver the most capital intensive project ever undertaken in East Africa.

¹⁰ The government has stated that the total may eventually double to 100 tcf. The most recent discoveries offshore Tanzania were made at the Kamba-1 well in Block 4 in October 2014, where the Deep-sea Metro I Drillship operated by BG Group encountered more than 1 tcf in gas, and at the Mdalasini-1 exploration well in Block 2 in March 2015, where Statoil discovered an additional 1.0-1.8 tcf of natural gas.

¹¹ See Makan, Ajay 'LNG projects from Africa to Australia seek buyers' Financial Times, October 14th 2013; access at: <http://www.ft.com/cms/s/0/d6d8ef9c-252d-11e3-b349-00144feab7de.html>

¹² References to BG Group and Royal Dutch Shell throughout this chapter should be viewed interchangeably as the acquisition of the former by the latter was formally approved in January 2016.

¹³ The LNG export project site is likely to be at Likongo-Mchinga, a remote 2,000 acre site 30km north of Lindi town in Lindi region. See Kabendera, Erick 'Lindi chosen to host \$30bn LNG plant, but land issues may provoke protests' The East African, March 2014; access at: <http://www.theeastafrican.co.ke/news/Lindi-chosen-to-host-first-gas-project--/2558/2262388/-/ima14sz/-/index.html>

2.3. Outlook for Tanzania’s LNG project

In early 2014, BG Group led the formation of a Joint Venture (JV) between five IOCs and the Tanzania Petroleum Development Corporation (TPDC) to develop the LNG project.¹³ In addition to the TPDC, BG and Statoil, the other JV project partners include US-based Exxon Mobil, the world’s largest independent oil and gas company; Ophir Energy, a UK-listed oil and gas exploration company; and Pavilion Energy, the LNG unit of Singapore’s state-owned investment company, Temasek.

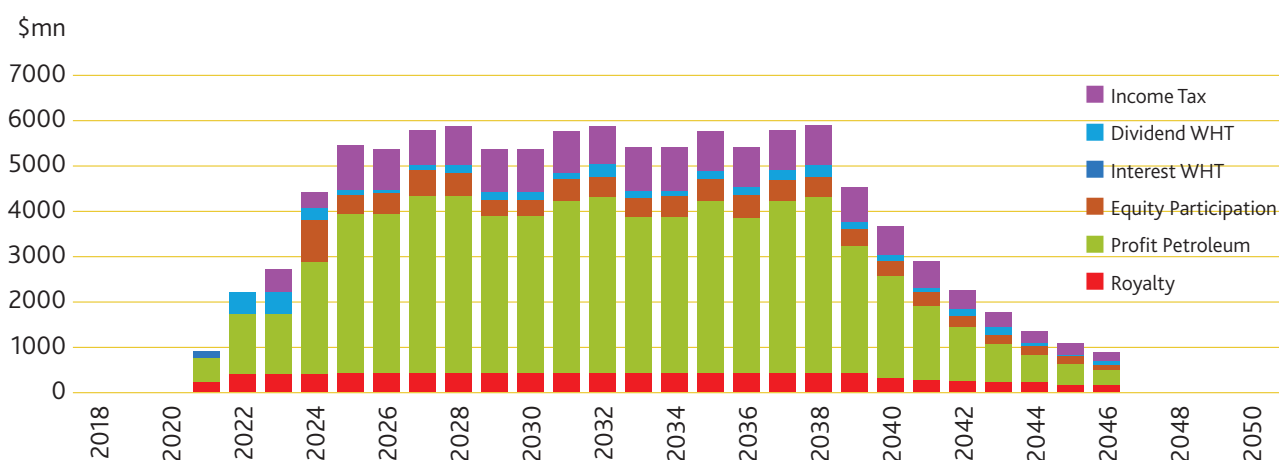
The JV represents a unique example of government-industry collaboration in Tanzania in pursuit of a common goal. For example, both the consortium companies and the TPDC have seconded staff to newly established JV offices in Dar es Salaam and London. From now on, the companies and the TPDC will work as a single, unified team on the LNG project.

The time-line for the LNG project is protracted. Over the past 18 months, the first commercial agreements have been signed, pre-FEED (‘Front-End Engineering and Design’) work has commenced, and the site acquisition process has been initiated. However, before a Final Investment Decision (FID) can be reached, a Host Government Agreement (HGA) must be signed, and negotiations on this crucial element have been delayed as a result of Tanzania’s October 2015 general elections. Going forward, a realistic time-frame for the project is for FID and finalisation of the financing and long-term purchase agreements in 2018, followed by a five-year construction phase before ‘first gas’ in 2023.¹⁴

The benefits of the proposed LNG project to the Tanzanian economy are numerous. As the largest ever investment in Tanzania, the project has the potential to transform the country’s economy, boosting both GDP and the balance of trade. In addition to the transfer of new skills and direct job creation, the project will generate roughly USD 6 billion in annual revenues for the Government of Tanzania (GoT) at full production (see Figure 5.2). Moreover, while export flows will be the primary focus, a domestic off-take agreement will double the domestic gas supply. This provision of cheap, plentiful gas may in turn catalyse new domestic industries, from fertilizer production to petrochemicals.

However, to turn this promise into reality IOCs and the GoT will have to cooperate closely in the coming years to develop a strong enabling environment for gas production. In the past 18 months global crude oil prices have fallen sharply from over USD 110 per barrel to under USD 40 per barrel, thus placing pressure on all IOCs to reduce costs and cut capital expenditure. Against this challenging industry backdrop, only the most promising new projects will proceed without postponement. Key areas to be addressed include (1) the ability of the GoT to develop an effective regulatory framework for the oil and gas sector, in order to allow the BG Group-led consortium to reach FID on the proposed LNG project; and (2) the capacity of the TPDC to be an effective project partner in such a largescale venture. The early signs are broadly positive, but a long road lies ahead (see Policy Context below).

Figure 5.2 Tanzania Gas Project: Forecast Contribution to Government Tax



¹⁴ According to the 2014 International Monetary Fund (IMF) Article IV Consultation for Tanzania, “a final investment decision is expected at the earliest in late 2015 or 2016.” However, industry participants interviewed for this study stated that 2018 is more realistic.

2.4. Industry diversification

In addition to industry leaders such as BG Group, Statoil, Maurel & Prom and Songas, a range of other IOCs have entered the Tanzanian market in recent years. Examples include Australia-based Beech Energy and Woodside Energy, UAE-based Rack Gas, and Brazilian state oil company Petrobras. Most significantly, Royal Dutch Shell, which has had only a marginal presence in the Tanzanian market for decades, is set to become the country's leading investor following the company's proposed USD 70 billion takeover of BG Group, first announced in April 2014. At a stroke, Shell's takeover of BG – which has received regulatory approval – will provide the UK-based oil major with stakes in three offshore blocks (1, 3 and 4) containing one-third of Tanzania's estimated gas resources.¹⁵

2.5. Local participation

The requirements for successful upstream exploration and development, in terms of technical expertise and access to capital, place the industry out of reach for most local companies. However, direct local participation in the sector is still possible. For example, in June 2014, an Australia-based oil and gas exploration company, Swala Energy Ltd, launched a share offering on the Dar es Salaam stock exchange, selling 9.6 million Ordinary Shares in its Tanzanian subsidiary, Swala Oil and Gas, to fund exploration activity in its Pangani and Kilosa-Kilombero license areas. This was the first equity offering of its kind in the East African oil and gas sector.

3. Policy context

Until recently, the regulatory framework for Tanzania's upstream oil and gas sector was governed by the Petroleum (Exploration and Production) Act 1980.¹⁶ This Act provided for the government-owned TPDC to partner with oil and gas companies under a negotiated Production Sharing Agreement (PSA) in which revenue and cost sharing terms were stipulated.

However, the Petroleum Act 1980 was outdated and ill-suited to the current context. IOCs expressed concerns over the extent of discretionary powers vested in the Minister of

Energy and Minerals; the separation of application processes for exploration and development activities, the absence of any independent regulator,¹⁷ and a general lack of detail in a law that was drafted long before significant hydrocarbon deposits were discovered.

In response, the GoT has striven to develop a new regulatory framework. In 2013, then President Jakaya Kikwete announced the government's intention to establish a sovereign wealth fund (or 'Natural Gas Revenue Fund') to safeguard Tanzania's future gas production revenues. Later the same year, the government published a draft Natural Gas Act and an updated Model Production Sharing Agreement (PSA).

This 2013 Model PSA formed the basis for the most recent (fourth) oil and gas licensing round in Tanzania, which concluded in early 2014, though subsequent negotiations between the government and selected bidders continue. The new licenses on offer are subject to a government tax take of up to 90%. The terms include an increase in TPDC's entitlement to carried equity rise from 10% to 25%; and the government has also introduced a signing bonus for new blocks equivalent to several million US dollars. These terms have been widely criticised as uncompetitive in the global context.¹⁸

3.1. Local content

In April 2014, the GoT published a draft Local Content Policy for the Oil and Gas Industry in which the following aims were specified:

- Local content strategies will be developed to promote Tanzanian technical skills and knowledge to ensure a competitive, capable and sustainable supply of local labour.
- Oil and gas sector technology and knowledge should be transferred to Tanzanians, and the government will invest in research and development in this aim.
- Mechanisms will be established to enable Tanzanians and Tanzanian businesses to access opportunities to manage and supply goods, services and labour to the oil and gas sector.

¹⁵ The takeover deal is expected to complete in early 2016, though deteriorating market conditions have placed pressure on Shell to justify the 52% bid premium offered on BG shares. See Butler, Nick 'Is Shell Too Big to Fail?' Financial Times, January 2016; access at: <http://blogs.ft.com/nick-butler/2016/01/04/is-shell-too-big-to-fail/>

¹⁶ A more recent piece of legislation, the Petroleum Act 2008 (PA 2008), covers downstream operations only.

¹⁷ The TPDC currently fulfils part of this role, thus creating a conflict of interest because the state oil company is also an industry participant and partner in the LNG JV.

¹⁸ See 'Britain faults Tanzania government policy on profit sharing' East African, May 2014; access at: <http://www.theeastafrican.co.ke/news/Britain-faults-Tanzania-govt-policy-on-profit-sharing/-/2558/2310246/-/mc1t1l1/-/index.html>

The bill included non-specific proposals for:

- The drafting of further legislation to address the local content agenda
- The creation of a National Local Content Committee
- Minimum percentage levels of local employment, purchasing of local goods and services and local equity ownership (through partnerships or mergers with local companies, for example)
- Limited and non-renewable work permits for expatriates and foreign workers
- Compulsory local content requirements in all future invitation bids
- In-country fabrication and manufacturing of equipment for the oil and gas sector

The draft Local Content Policy is non-binding but IOCs are being proactive in addressing its core objectives. For example, in consultation with the government, companies propose and conduct a training and employment programme for each phase and level of operations, and spend a set training budget each year.

3.2. Petroleum Act 2015

The following year, in June 2015, President Kikwete passed three new bills into law – the Oil and Gas Revenue Management Act, the Tanzania Extractive Industries (Transparency and Accountability) Bill and, most consequentially of all, the Petroleum Act 2015.¹⁹

This newly drafted legislation provides for the reform of existing government institutions, the creation of new agencies as well as a legal basis for the management of future oil and gas revenues. Specifically, the Petroleum Act separates the government's upstream activities between a newly created Petroleum Upstream Regulatory Authority (PURA) and the TPDC. PURA will become the sector regulator and adviser to the Minister of Energy and Minerals, while TPDC becomes the national oil company focused on direct industry participation.²⁰ The scope of PURA's mandate underscores how central this new institution will be for the sector – it will

be responsible for implementing local content, awarding and cancelling exploration, development and production licences, and arbitrating commercial disputes, among other duties.

The Act includes a domestic market obligation and a range of local content stipulations, including the requirement that contractors shall give preference – where goods or services aren't available in Tanzania – to service providers that have entered into a joint venture with a Tanzanian company (where the local partner holds not less than 25% equity in the JV company).²¹

For the first time, a clear distinction is also made between the administration of oil and gas activities of Mainland Tanzania and Zanzibar.

Regarding fiscal and tax terms, the Act stipulates that all costs incurred on integrated projects do not qualify as part of the recoverable costs under the relevant PSA, meaning that the build cost for production facilities cannot be accrued and recovered.

Finally, the Act provides for the creation of an Oil and Gas Bureau within the Office of the President, mandated to advise the Cabinet on oil and gas issues, a development that should allow technical industry specialists greater opportunity to guide government institutions on commercial engagement with IOCs.²² A mapping of the institutional relationships between main stakeholders in Tanzania's power sector is illustrated in Figure 5.3.

Overall, while respecting the sanctity of existing contracts and acknowledging some of the feedback given by IOCs, the Act reflects a more interventionist approach by the Government of Tanzania, compared to the previous Petroleum Act of 1980. This more assertive stance is most evident in the Act's emphasis on national ownership and local participation, including the new requirement for TPDC to maintain a participating interest of no less than 25% on projects ('unless the National Oil Company decides otherwise').

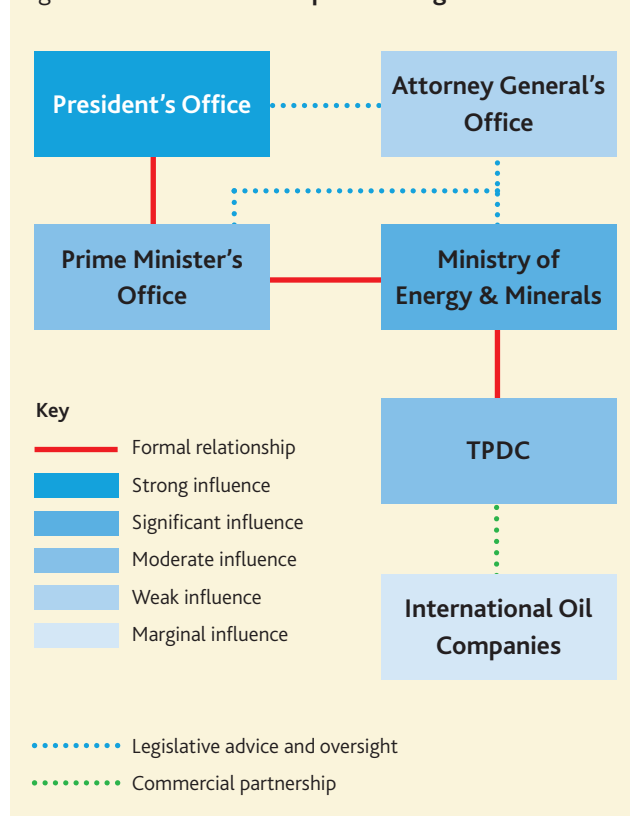
19 The three acts build upon a series of non-binding policies published by the GoT in recent years, including the National Gas Policy, National Petroleum Policy and draft Local Content Policy.

20 With the establishment of PURA, the Energy and Water Utilities Regulatory Authority (EWURA) will relinquish its oversight of licencing for liquefaction, shipping and re-gasification of LNG. Going forward, PURA will play this licencing role.

21 Pedersen, Rasmus Hundsbæk & Bofin, Peter 'The politics of gas contract negotiations in Tanzania: a review' DIIS WORKINGPAPER 2015: 03; http://pure.diis.dk/ws/files/276453/WP_2015_03.pdf

22 Clyde & Co., 'Tanzania Petroleum Act 2015' November 2015 http://www.clydeco.com/uploads/Blogs/employment/CC008656_Tanzania_Petroleum_Act_2015_30-10-15_DOC2.pdf

Figure 5.3 Institutional Map for management of IOCs



Given the dramatic fall in global oil and gas prices in 2015, some interviewees for this study felt that the Act's provisions are too onerous. Should that assessment prove correct, the effect could be to deter new investment, in the same way that the 2013 Model PSA's strict fiscal terms appear to have deterred independent oil companies from bidding in Tanzania's fourth licensing round.

The Petroleum Act 2015 also leaves significant ambiguities unaddressed. For instance, the licensing process for new exploration blocks remains unclear (it appears that TPDC and the Minister of Energy and Minerals will have some freedom to award or reserve petroleum rights to companies without any open competitive tender). A further example is the Act's vague language around the domestic supply obligation, which demands that licence holders 'satisfy domestic market in Tanzania from their proportional share of production' without indicating how this would work in practice. Perhaps most importantly, it remains unclear whether the Petroleum Act 2015 will override any of terms contained within the

existing Production Sharing Agreements held by IOCs in Tanzania. It is to be assumed that existing PSAs remain valid and binding, but there is a lack of clarity on this crucial point.²³

The importance of developing a fit-for-purpose legal framework for Tanzania's oil and gas sector cannot be overstated. In countries with clear regulation and direction, such as Qatar, gas projects can be completed in relatively short-time frames. By contrast, in countries that lack regulatory certainty such as Nigeria, where a draft Petroleum Industry Bill has languished for several years in the country's National Assembly, proven gas reserves can lie untapped for decades.

4. Supply and marketing chain

Some 18 European companies are active in Tanzania's upstream oil and gas sector, representing approximately 70% of the total. Seven of these are classified as large tax payers by the Tanzania Revenue Authority (TRA), underscoring their contribution to the economy.

As the following section (Sector Profile) outlines in detail, EU^{+SN} investors occupy industry leading roles in both the onshore and offshore gas sectors. In the more established onshore gas industry, Songas and Maurel & Prom not only have the longest track records, having entered the Tanzanian market in 2004, they also supply more than one third of Tanzania's electricity supply. By using the country's own natural gas resources, Songas and Maurel & Prom's facilities have saved Tanzania more than USD 6 billion by helping to avoid the high costs of importing heavy fuel oil used for power generation and industrial applications. A third EU^{+SN} investor, UK-listed Aminex, is also set to join Songas and Maurel & Prom as a strategic supplier of gas to the domestic market in 2016.

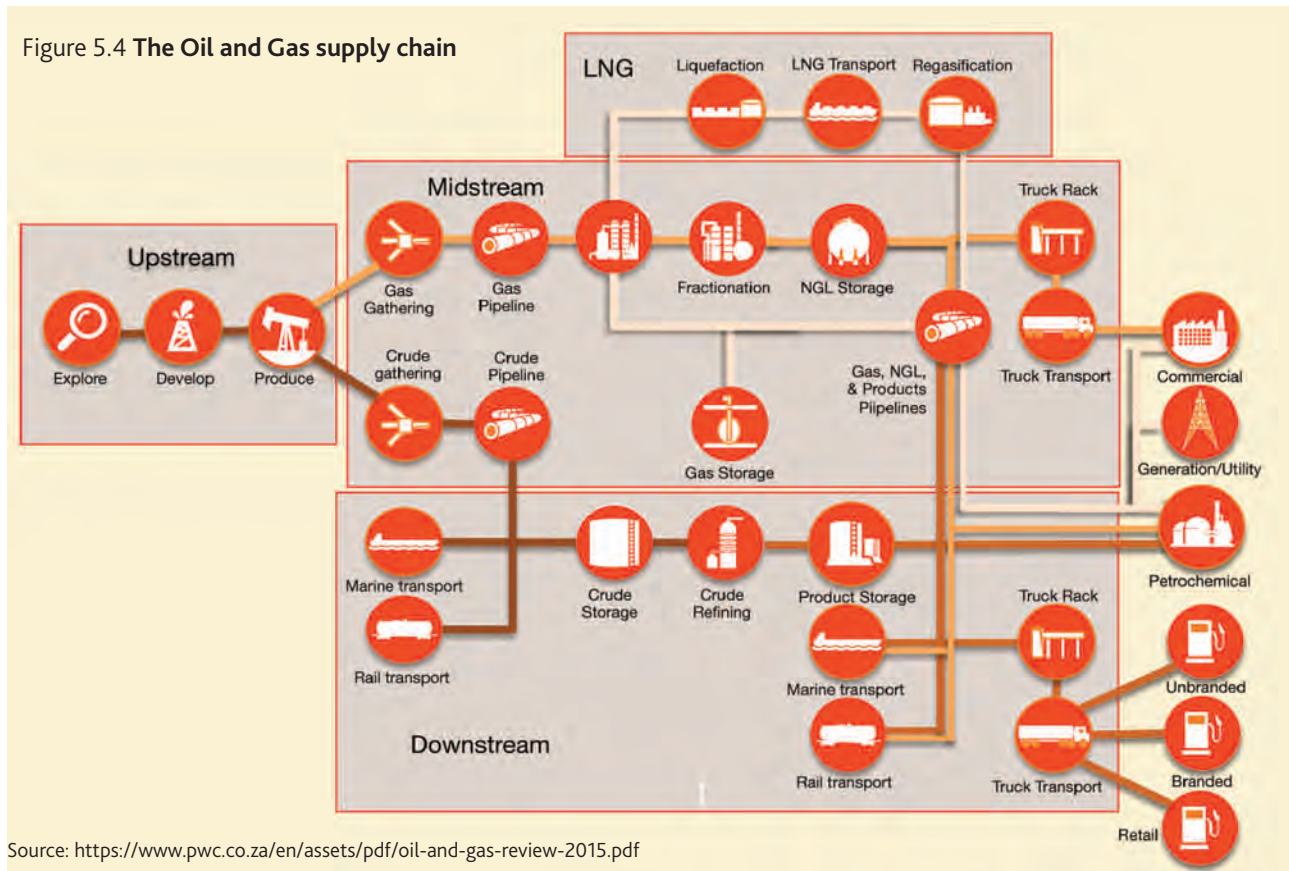
In a country whose installed power capacity has long lagged behind electricity demand, the catalytic effect of having a reliable, affordable gas supply for thermal power generation cannot be overstated: it will render existing industries more competitive and cost effective and it will enable power-intensive manufacturing sectors such as fertiliser production or petrochemicals to become truly viable for the first time in

²³ This section draws on the excellent update provided by Clyde & Co in November 2015. See 'Tanzania Petroleum Act 2015' November 2015 http://www.clydeco.com/uploads/Blogs/employment/CC008656_Tanzania_Petroleum_Act_2015_30-10-15_DOC2.pdf

Tanzania. In this way, onshore gas sector represents a powerful example of how European expertise and investment is driving progress in the development of Tanzania’s backbone infrastructure.

Meanwhile in the offshore natural gas sector, the three out of the four largest investors are European: UK-based BG Group/Royal Dutch Shell, Norway’s Statoil and UK-based Ophir Energy. Together, these companies have spearheaded the early stage development of Tanzania’s flagship USD 15 -

Figure 5.4 The Oil and Gas supply chain



Source: <https://www.pwc.co.za/en/assets/pdf/oil-and-gas-review-2015.pdf>

25 billion Liquid Natural Gas (LNG) export project in Lindi region (see Figure 5.5). Construction of this project, the largest ever undertaken in East Africa, is scheduled to begin after a Final Investment Decision (FID) is made possibly in 2018.

The procurement chain for this mega-project will underpin the emergence and growth of several new sub-sectors in Tanzania, including contracts with an aggregate value of several billions of dollars for firms in the following categories:

- Drilling contractors
- Cement and construction contractors
- Marine works, shipyard and subsea contractors
- Front End Engineering Design (FEED) and Engineering Procurement Construction (EPC) contractors
- Machinery and plant design and manufacturing companies

- Specialist engineering and management consultancies
- Geoscience and seismic data acquisition and processing consultancies
- Support service providers in the banking, IT, sea/air/road transport, warehouse and logistics, communications, recruitment, training, security, medical and environmental, legal, marketing and sales, insurance and accounting sectors

Many of these contracts will go to local Tanzanian firms. Indeed, in February 2016, BG Tanzania/Royal Dutch Shell, in collaboration with Statoil, launched a simplified supplier pre-qualification system designed to enable local suppliers to gain a 'shop window' before procurement opportunities arise. Both EU^{+SN} companies stated that they intend to identify and nurture a Tanzanian supply chain for the LNG

export project from the outset.²⁴

European oil service providers will also play a key role on the LNG export project, drawing on world class technical expertise and experience. For example, France-based Schlumberger, which has supported the exploration campaigns of upstream oil and gas companies in Tanzania for half a decade already, is likely to play an important role. The company is the world's leading supplier of technology, integrated project management and information solutions to the oil and gas industry worldwide, employing 95,000 people in more than 85 countries.

Other examples of European oil services companies with registered companies or branches and active operations in Tanzania include – but are not limited to – the following: Fugro, the Netherlands-based provider of geotechnical, survey, subsea and geosciences services; Damen, an international shipyard and marine transport business based in the

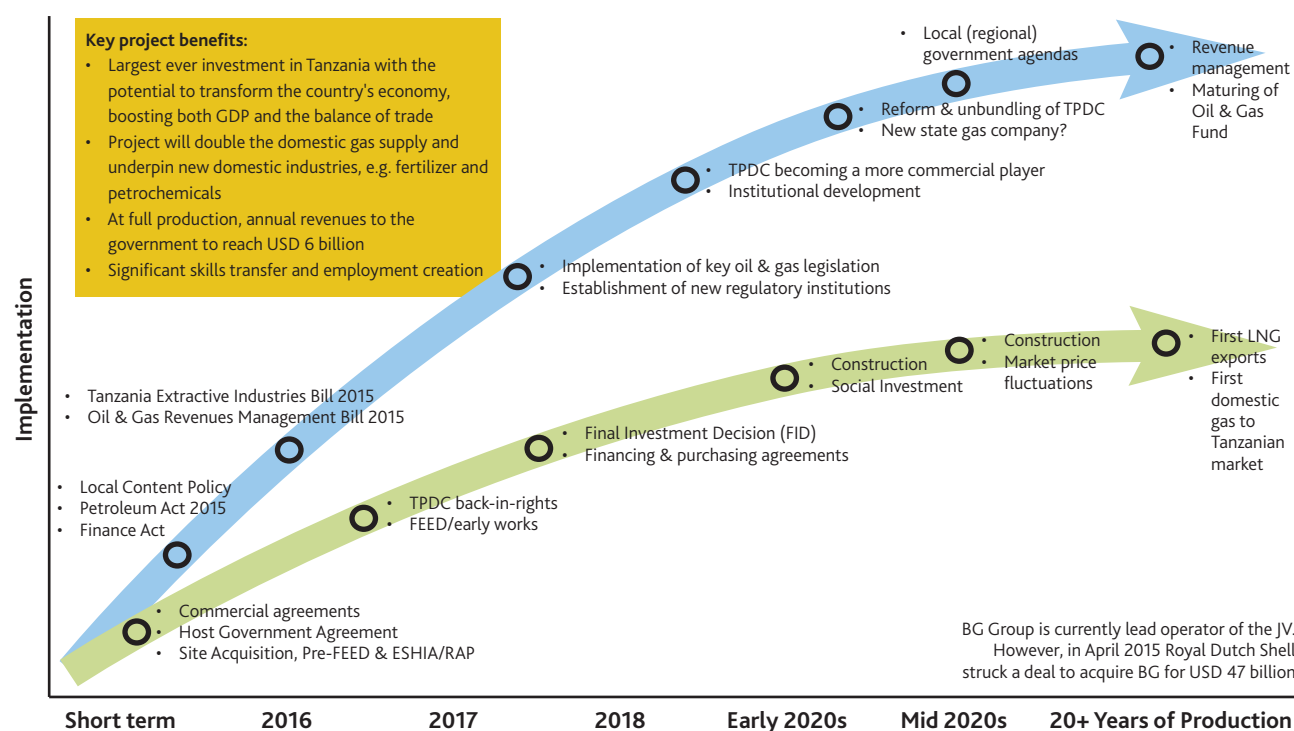
Netherlands; AMT Necotrans, the France-based provider of integrated oil and gas logistics solutions; and Italy-based Pietro Fiorentini, an oil and gas equipment manufacturer.

As the LNG export project moves into the construction phase, much of the fabrication and manufacturing will be done in-country. The project will require at least 1,000 oil and gas services specialists over the next ten years as well as more than 20,000 engineers and technicians for jobs in the sector and related sub-sectors such as maintenance and construction.

Figure 5.4 summarises the regulatory and commercial timeline for the project.

Figure 5.5 Tanzania flagship LNG export project

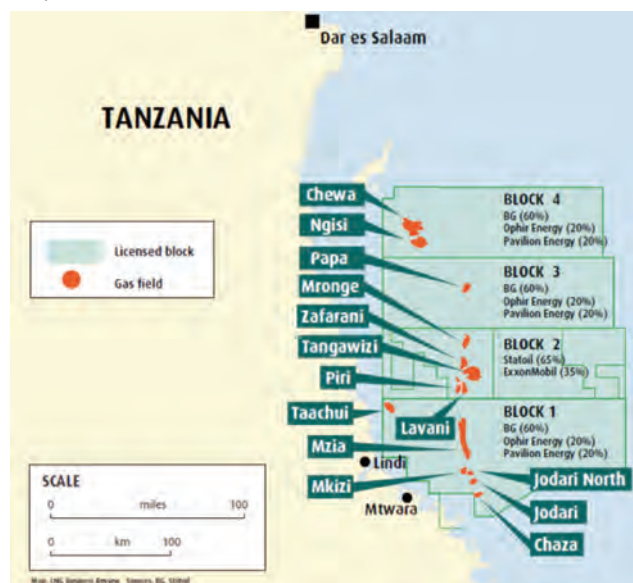
- Since 2010, Tanzania has emerged as an exciting new prospective area in the global natural gas sector
- Recoverable gas reserves of approx. 50 trillion cubic feet are sufficient to underpin a major gas export project
- European oil companies are leading the development of a USD 15 bn + LNG Joint Venture project in Lindi region



²⁴ Supply & Management 'Simpler pre-qualification for oil and gas suppliers in Tanzania' Andrew Allen, February 2016

Map 5.2 shows offshore blocks 1-4 and highlights the location of the key gas fields discovered by the LNG project JV partners since 2010.

Map 5.2 Gas Discoveries in Blocks 1-4



5. Key challenges

5.1. Slow and uneven implementation of new legislation

Passing legislation into law is a first step, but timely and consistent implementation of these complex new laws is equally important. Interviewees for this study highlighted concerns in this regard, including:

- A lack of detail in existing legislation, which may necessitate amendments and additional legislation further down the line;
- Unrealistic provisions around local participation in the gas sector, given the country's lack of skilled graduates and the inability of under-capitalised domestic banks to fund capital-intensive gas sector projects;
- The lack of any guarantee that Tanesco will pay market prices for domestic gas supplied from the future LNG project; and
- Delays in the creation of new regulatory institutions.

5.2. Lack of skilled local labour

Limited access to skilled labour – and the related challenge of securing short-term work permits for expatriates – represents a major challenge to the development of Tanzania's emergent oil and gas sector. This is because, as a relatively new industry for the country, the Tanzanian educational system (secondary, tertiary, vocational, and otherwise) is not yet configured to produce graduates with the requisite technical skills to operate in the sector.

At present only a handful of Tanzanian citizens possess significant technical expertise and management experience in upstream oil and gas operations.

EU^{+SN} investors have led the field in their proactive approach to building a local skills base and in training Tanzanian staff for field-based technical roles. BG Group, for example, has awarded scholarships to more than 10 Tanzanian students to study for a Geoscience or Engineering Master of Science degree at one of three UK universities.²⁵

Nevertheless, despite these efforts, a skills-gap will continue to affect the sector in the medium term. As such, a flexible, gradualist approach to enhancing local content will be required in the coming years to ensure that the industry's development is not hamstrung in its nascent phase.

5.3. Bureaucratic restrictions on skilled expatriate labour

At the same time, some EU^{+SN} investors face challenges bringing much needed technical specialists to Tanzania on a temporary basis. Obtaining the necessary Short Term Work Permit (STP) or Business Visa to bring in an outside expert can be a slow process. As of December 2015, the Carrying on Temporary Assignment (CTA) visa was replaced by the new STP. The STP has only a 6-month duration, is non-renewable and also requires an accompanying Resident Permit (see Chapter 16: Tanzanian Business Environment Overview for further detail) which creates difficulties for visiting specialists that do not qualify for a Business Visa.

²⁵ Further information here: <https://www.rgu.ac.uk/news/bg-supports-tanzanian-students-with-rgu-scholarships>

5.4. Lack of a Whole of Government Approach

EU^{SN} investors highlight a lack of coordination across Tanzania's government agencies, including different interpretations of the same policies and regulations. For example, while the Ministry of Energy and Minerals (MEM) and TPDC may be supportive of seeking exemptions to short-term and expatriate labour permits for large investors in the oil and gas sector, the Ministry of Labour – which is ultimately empowered to grant such permits – may not be. Similarly, tax concessions advocated or granted by MEM and TPDC may not be automatically accepted by TRA, creating delays and costs for companies seeking to ascertain their tax burden.

The planned LNG export project provides a further example of this lack of intra-government coordination. The BG-led consortium has faced long delays in advancing commercial negotiations on the project with the GoT because the government has not yet formed a dedicated, unified negotiating team to engage with the consortium.

At the heart of this lack of coordination is a lack of technical knowledge and expertise regarding the oil and gas industry in parts of government, an issue that will need to be addressed over the medium term if the GoT is to become an effective interlocutor for this strategic sector.

5.5. Concerns about the GoT's Payment Record and Adherence to Contractual Obligations

Companies that do business directly with the GoT often cite frustration at the government's failure to pay agreed fees on time. Although this phenomenon is not confined to oil and gas, it is more pronounced in the sector. This is of particular concern in relations to the planned LNG plant at Lindi, where TPDC may in future have to make significant contributions to the projects' capital costs, alongside its IOC partners.²⁶

The clearest example of non-payment risk to date is the failure by Tanesco to settle over USD 100 million in overdue payments to Songas. Neither the government nor Tanesco has provided clarity on when Songas can expect to receive payment. As a result, there is a credible chance that Songas –

which alone supplies at least 20% of the country's electricity needs – may have to partially suspend operations in 2016, with dire consequences for the country's power supply.²⁷

5.6. Infrastructure constraints

Infrastructure constraints represent a considerable hurdle for business operations. Interruptions in power supply, the poor condition of roads in rural areas and the lack of capacity in the country's ports all contribute to higher than normal projects costs as IOCs are often required to finance ancillary infrastructure directly.

5.7. Gas pricing

TPDC has reportedly stated that industrial clients seeking to use gas from the new Mnazi Bay pipeline for heating must pay USD 6/Cubic Feet, a level that may price certain industries – such as fertiliser or cement manufacturing – out of the market. TPDC is naturally eager to repay the investment costs associated with the pipeline but this must be balanced with the need to make the gas affordable to a range of economic sectors. The pipeline tariff is only reviewed every three years, leaving little room for flexibility.

5.8. Lack of transparency

In November 2014, the TPDC was embroiled in a political dispute over oil and gas contracts, leading to the brief arrest of the organization's chairman and director-general. The arrests followed the TPDC's refusal to comply with requests from a parliamentary committee for the release of details relating to 26 production sharing agreements signed between the government and IOCs. Meanwhile, earlier in 2014 a version of the Statoil-ExxonMobil PSA for offshore Block 2 was leaked online in Tanzanian social media, prompting accusations from opposition politicians that Tanzania is losing out from such agreements (the TPDC later rejected this criticism in a public statement).²⁸

The politicization of PSAs underscores a mismatch in expectations between the Tanzanian public and certain politicians on the one hand, and the commercial realities of the industry on the other. Despite high expectations building

²⁶ Assuming that TPDC exercises its back-in rights to participate in the project

²⁷ In December 2015, Songas stated that unless Tanesco could settle the outstanding debt by making a payment of at least \$500,000 (TSh.1.07 billion) weekly, the company would be forced to shut-off two gas-to-electricity generators with a capacity of 40 MW. See 'Unpaid bills threaten Tanzania power supplies' East African Business Week; access at: <http://www.busiweek.com/index1.php?Ctp=2&pl=4531&plv=3&sr=49&spl=27>

²⁸ Manson, Katrina 'Tanzania natural gas investment threatened by arrest of officials' Financial Times, November 4th 2014

in Tanzanian media and society over the near term benefits of offshore gas, revenues from the LNG project will not start flowing before the mid-2020s. To close this expectations gap, both IOCs and the GoT will need to take steps to increase public awareness of the reality of industry dynamics and timelines.

5.9. Fiscal terms

As outlined in the Policy Context section above, the fiscal terms contained in the 2013 Model PSA and 2015 Petroleum Act are stringent and may be uncompetitive in the global context. Lessons must be learned from the 1980s, when an aggressive fiscal regime combined with plummeting oil prices to deter investors from investing in the sector.

6 Manufacturing

Sector Snapshot

- Tanzania's manufacturing sector contributes 8.6% to GDP, though President Magufuli's government is targeting a more ambitious figure of 15% by 2020. Food and beverages alone account for nearly half of total manufacturing value added in Tanzania.
- The manufacturing sector reached an important tipping point in 2014/2015 with manufacturing exports having expanded to USD 1.4 billion, overtaking gold as the largest contributor to exports in the process.
- TIC data indicates that 169 European companies from 20 countries have invested in the manufacturing industry, seven of which are Large Taxpayers.
- Examples of sub-sectors in which European firms predominate include cement manufacturing, where two companies – France and Swiss based LafargeHolcim and Germany-based Heidelberg Cement Group – account for more than 35% of the market.
- In the beverage industry, EU^{+SN} investors account for more than 90% of market share.
- Tanzania enjoys enormous comparative advantages. Bordering on eight countries (six of which are landlocked) and with all the benefits of a coastal economy, Tanzania is ideally situated to become a manufacturing hub with low cost transportation options for exports to both regional and global export markets. The manufacturing sector provides employment to over 100,000 people¹, of which EU^{+SN} investment accounts for the overwhelming majority. For example, the UK-based Tanzania Breweries Ltd (TBL) provides direct employment for over 1,650 people, and has created an additional 84,000 jobs for Tanzanians in the wider industry.

1. Sector Outlook

In Tanzania, the structural transformation driven by export-led manufacturing growth remains incomplete. The country lags behind some emerging market peers in terms of the quantity and quality of industrial goods produced, relying more on a large agriculture sector to generate revenues. Industrial privatisation has been slow, partly as a result of the continued influence of State Owned Enterprises (SOEs). Industrial sub-sectors that are capital and technology intensive have failed to take off,² leaving lower-tech manufacturing, which is generally subject to intense global competition (food and beverages alone account for nearly half of total manufacturing value added in Tanzania). Many Tanzania manufacturing firms are also sub-scale, a trend underscored by the fact that 91% of all manufacturing establishments in the country are currently private-owned family companies.³

Yet after decades of lacklustre industrial growth in Tanzania, the recent step-change improvement in the country's policy and enabling environment – including the massive augmentation in affordable electricity supply for industrial

customers (see Chapter 8: Power Sector) – represents a fresh opportunity. With new manufacturing investment flowing into Export Processing Zones (EPZs) and Special Economic Zones (SEZs), a larger-scale industry focused on a broad spectrum of activities, and with the critical mass to compete globally, may steadily emerge.

Manufacturing as a percentage of total trade has increased between 2000 and 2010 (see Figure 6.1) and the value of manufactured output has increased (see Figure 6.2). Tanzania enjoys enormous comparative advantages. Bordering on eight countries (six of which are landlocked) and with all the benefits of a coastal economy, Tanzania is ideally situated to become a manufacturing hub with low cost transportation options for exports to both regional and global export markets.⁴

A declining oil price and import bill will also boost the profitability and performance of Tanzania's energy-intensive heavy industries over the coming years by reducing the cost of and dependence on oil-derived energy.⁵ Meanwhile, the completion of flagships projects such as the expansion and

1 Ibid.

2 Morrissey, Oliver and Leyaro, Vincent 'Industrial development in Tanzania: reforms, performance, and issues' In Routledge handbook of industry and development, 2015

3 United Nations Industrial Development Organisation (UNIDO), 'Tanzania Industrial Competitiveness Report' 2012

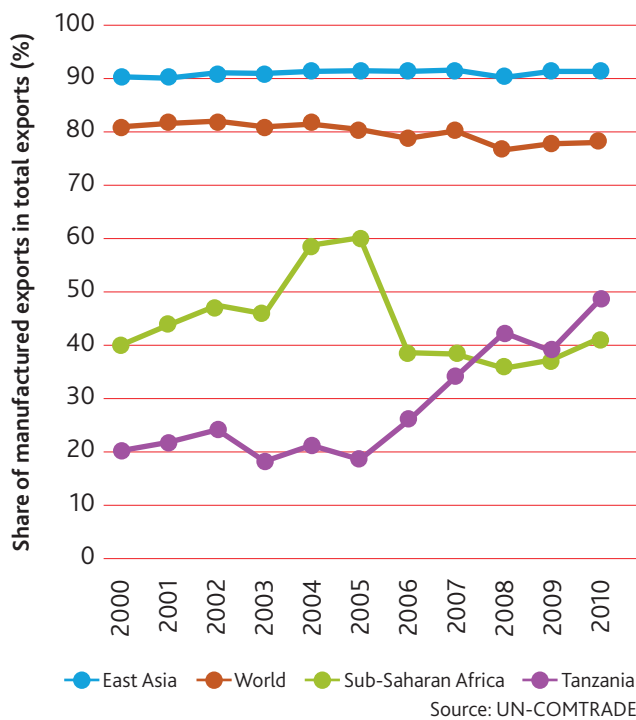
4 Exports from Tanzania to East African Community partner states hit record high in 2013 with total trade turnover of over \$1.5 billion US dollars, and this trend is set to continue – led primarily by growing manufacturing exports. See Tanzania Daily News 'Tanzania's exports to East Africa on the rise' February 2015; access at: <https://www.trademarka.com/news/tanzanias-export-to-the-eac-on-the-rise/>

5 Economist Intelligence Unit (EIU), 'Tanzania Country Report' April 2015

upgrade of the Port of Dar es Salaam and the construction of a Dry Port at Kibaha will reduce the barriers to efficient, low cost export-led manufacturing.⁶

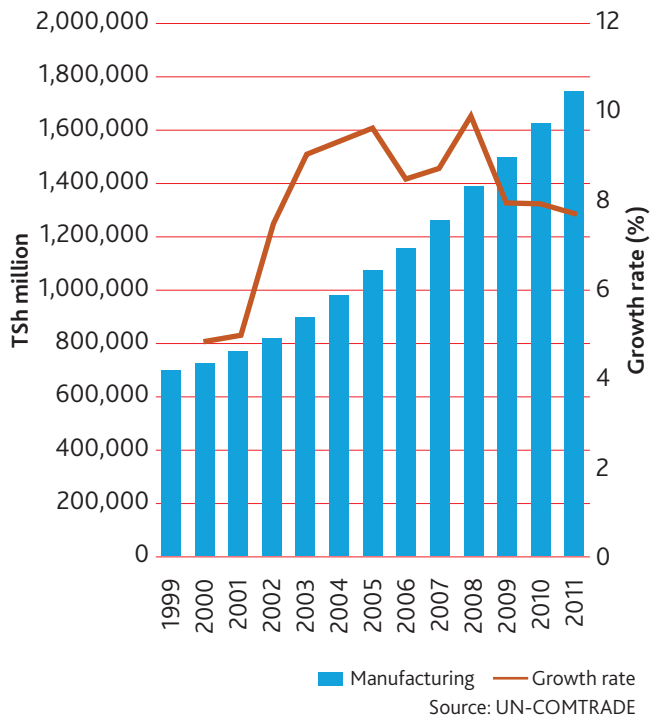
The manufacturing sector has already reached an important tipping point with manufacturing exports having expanded by 35% to USD 1.4 billion in 2014-2015, overtaking gold as the largest contributor to non-traditional exports in the process.

Figure 6.1 Trends in manufactured trade as percentage of total trade, 2000-2010



At the policy level, the domestic manufacturing sector will benefit from stronger integration within the broader eastern and southern African regional markets. The investment climate will be aided further by trade agreements such as the US Africa Growth and Opportunity Act (AGOA) and the EU’s Everything But Arms (EBA) initiative.

Figure 6.2 Value of physical manufacturing output



Hence, with a supportive macro-economic and policy environment, better infrastructure and more reliable utilities, Tanzania’s manufacturing sector is finally – after several false dawns – positioned to become an engine for accelerated growth and economic transformation.

2. Sector Profile

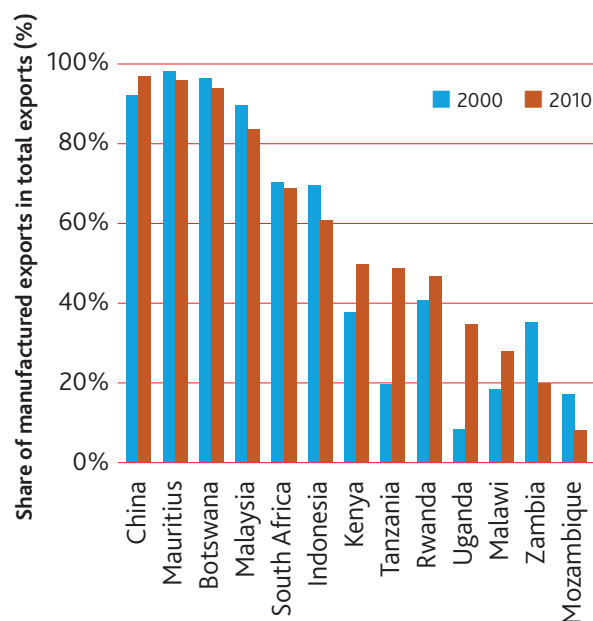
Tanzania’s manufacturing base, which in 2015 generated more exports receipts than the historically dominant gold sector, is mainly focused on consumer products such as beverages, food, tobacco, rubber products, cement, wood products and furniture. However, a wider range of products are also manufactured in smaller quantities including edible oils, plastic products, fertilisers, textiles and fabricated metal products.

As Figure 6.3 illustrates, manufactured exports account for a similar share of total exports in Tanzania as in neighbouring East African Community (EAC) countries; but the figure remains low when compared to other emerging markets. Encouragingly, however, between 2000 and 2010 Tanzania

6 The Dry Port project is led by Blacklvy LLC, a US-based investment company. This innovative project seeks to build an intermodal rail terminal 55km from the Dar es Salaam seaport. The state-of-the art terminal will offer loading and unloading of container trucks, customs clearing and cargo storage, and accessibility via the Tanzania-Zambia highway to Tanzania’s six landlocked neighbours. In this way, the dry port will help to grow manufacturing and value-added processing by providing a low cost and efficient way to move goods in and out of the country.

showed a greater increase in the share of exports that are manufactured than any of its more industrialised emerging market peers, led by gains in the value-added agro processing and textiles sub-sectors.

Figure 6.3 **Manufactured exports in total exports for Tanzania and comparators, 2000-2010**

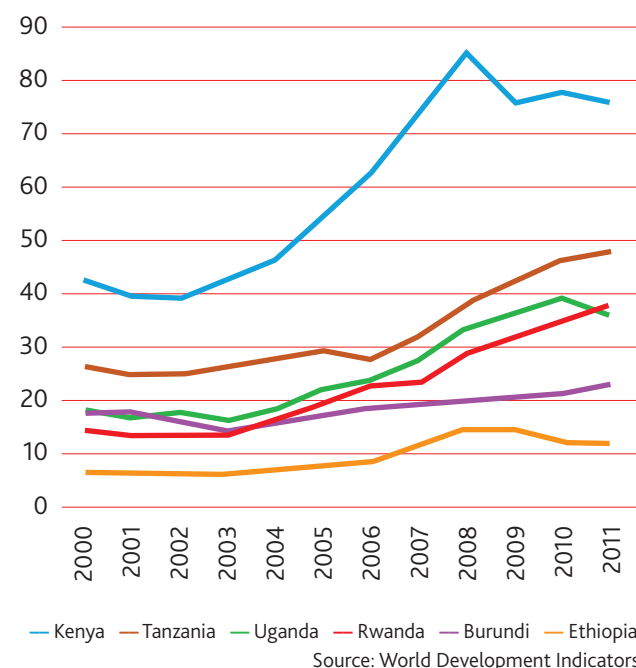


Tanzania's manufacturing industry supports 140,000 jobs and generates an important stream of import sales, tax revenue and foreign exchange earnings for the government. Overall, the sector contributes 20% of the country's foreign exchange earnings.⁷

For a long time after the manufacturing sector was first liberalised in 1986, the industry struggled because formerly state-run firms had difficulty competing with cheap manufactured products imported from regional and global markets. This slow beginning to the era of economic liberalisation reflected the deep structural challenges of transitioning from a state-directed to a market-oriented economic system. Nevertheless, manufacturing has enjoyed steady growth in more recent years, posting a 9% average annual expansion rate during the 2000s and contributing approximately 8% of total GDP.⁸

A number of supportive policy measures introduced in recent years have allowed domestic manufacturers to increase their competitiveness and export potential. As a result, the sector is growing faster today – at 9% in 2015 – than at any previous time, and the country's manufacturing value added (MVA) per capita is rising thanks to the advent of new manufacturing investment, technologies and products, and the opening up of new export markets for Tanzanian goods (see Figure 6.4).⁹

Figure 6.4 **Manufacturing value added per capita in selected study countries**



3. Policy Context

The Government of Tanzania (GoT) has attempted several different approaches to industrial development over the decades. The eventual failure of the state-directed model pursued in the 1970s and 1980s led, in the early 1990s, to the gradual privatisation of the manufacturing industry. However, despite sustained growth since 2000, the GoT has become dissatisfied with aspects of this more market-oriented policy platform.

Today, the government strikes a balance by supplementing its focus on private sector-led development of manufacturing

⁷ Tanzania Investment Center, 2014, Investors Guide to Tanzania - 2014-15

⁸ According to government statistics

⁹ Mordor Intelligence, Manufacturing industry in Tanzania: Analysis of consumption and production trends of several key industries (2004 - 2014); access at: <http://www.mordorintelligence.com/industry-reports/manufacturing-industry-in-tanzania-industry>

with more interventionist policies based on systematic planning and a national economic plan, Vision 2025.¹⁰ This direct government role in the sector is reflected in the relatively high share – eight percent – of total manufacturing employment accounted for by publicly owned firms in Tanzania.

The following key policies and agreements embody the GoT's approach to the manufacturing sector:

- Tanzania Development Vision (TDV) 2025, first introduced in 1999. The TDV explicitly *“aims to transform the nation [...] from a weather and market dependant agricultural economy to a self-sustaining semi-industrialized economy”*. However, the TDV failed to establish an agreed framework for implementation of this high-level goal, and so initial progress was slow.
- The GoT's Five Year Development Plan 2012 – 2016. Under this plan, value-added manufacturing related to the agriculture, mining, and natural resources sectors has emerged as a strategic priority. The government is also eager to expand the country's existing agro-processing and leather manufacturing industries.
- The Sustainable Industrial Development Policy, introduced in 1996.
- The National Trade Policy of 2003, drafted by the Ministry of Industry and Trade and designed to “stimulate and encourage value addition” in manufacturing.
- The Tanzania Mini-Tiger Plan 2020, introduced in 2005 to fast-track implementation of the TDV by replicating the ‘Asian Tiger’ model in Tanzania. The plan explicitly states that *‘the successful development of the manufacturing sector is the formula that all economically thriving Asian countries followed and it is not an exaggeration to say that the sector's success holds the key of the nation's further development’*. The Mini-Tiger Plan introduced the concept of Special Economic Zones (SEZs) for the first time, but otherwise failed to gain significant traction in subsequent years.
- The Integrated Industrial Development Strategy 2025 (IIDS 2025); this is the latest initiative by the Ministry of Industry, Trade and Investment to contribute to the

achievement of the TDV 2025 goals. The Strategy emphasizes the importance of a horizontal, vertical and supporting framework to support a competitive industrial sector based primarily on labour-intensive industries. The targeted subsectors specified in IIDS 2025 are fertiliser and chemical, iron and steel, textiles, agro-processing, edible oil, processed cashew nuts, processed fruits, milk and milk products, leather and leather products, light machinery and the hospitality industry.¹¹

- The introduction of Export Processing Zones (EPZs) following the passage of the 2002 EPZ Act, and the introduction of Special Economic Zones (SEZs) following the 2006 SEZ Act.¹²
- Free Trade Agreements with extra-regional parties, including the EU Economic Partnership Agreement (EPA) and US Africa Growth and Opportunity Act (AGOA).¹³
- Tanzania's membership, since 1995, of the World Trade Organisation (WTO).¹⁴
- Regional trade agreements in East and Southern Africa designed to boost the exportation of Tanzanian manufactured goods to neighbouring countries.

However, despite the government's evident support for manufacturing, the broader business climate for manufacturing investors remains challenging. According to the United Nations Industrial Development Organization's Competitive Industrial Performance (CPI) index, Tanzania stands at a lowly 106th place in a global ranking of 135 countries.¹⁵

One problem has been represented by the large number of overlapping government plans and strategies for manufacturing, as the long list above suggests. Industrialization has received considerable attention, but efforts to promote it have lacked focus. As one report observed, *“Tanzania has been good at producing strategy documents [for manufacturing] but poor at identifying and implementing policy interventions which support realisation of the strategies.”*

10 African Development Bank (AfDB), ‘Eastern Africa's Manufacturing Sector: Promoting technology, innovation, productivity and linkages’, 2014

11 United Nations Industrial Development Organization (UNIDO), ‘Tanzania Industrial Competitiveness Report’ 2012

12 See: <http://www.epza.go.tz/invest.php?p=232>

13 Note that duty free quota free access to export to the EU is already granted to Tanzania through the ‘everything but arms’ regime; the EPA secures this access for the long-term including in the event that the country attains middle income status.

14 See: https://www.wto.org/english/thewto_e/countries_e/tanzania_e.htm

15 See: <http://www.unido.org/data1/Statistics/Research/cip.html>

3.1. Tanzania Export Processing Zone Authority (EPZA)

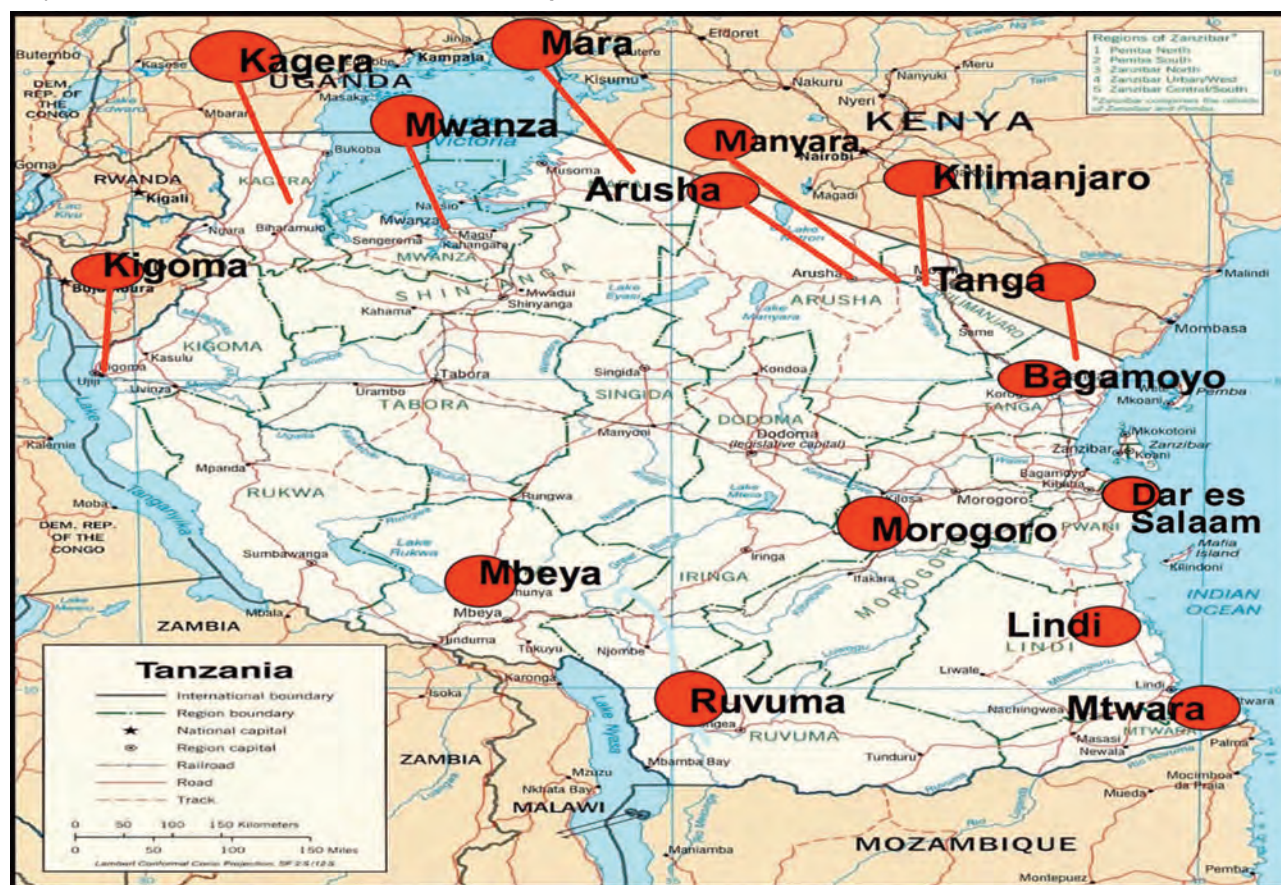
Established in 2006, the Export Processing Zone Authority (EPZA) is an autonomous agency formed under the auspices of the Ministry of Industry and Trade. EPZA is responsible for promoting the development of Export Processing Zones (EPZs) and Special Economic Zones (SEZs) via the creation of EPZ/SEZ infrastructure and the provision of business services and licenses to EPZ/SEZ manufacturing sector investors. The authority is intended to function as a 'one stop shop' for investors in special zones. In this sense, EPZA's objectives are more specific than the country's other investment promotion agency, the Tanzania Investment Centre (TIC), whose role is to coordinate all investment countrywide.

The EPZA is the key government counterpart for new manufacturing investors, especially those who wish to export.¹⁶ The agency offers an attractive incentive package to

EPZ investors including exemption from corporation tax for 10 years; exemption from duties and taxes on capital goods and raw materials; exemption from VAT on utility services and on construction materials; exemption from withholding tax on rent, dividends and interest; and exemption from pre-shipment or destination inspection requirements.

A total of 60 companies has been registered by the authority to date and these firms have invested a total of more than USD 913 million. So far, the country has only six special zones and several of these are small and cannot accommodate new investors. However, plans are in place to develop three new zones at Bagamoyo, Mtwara and Kigoma in the next 5 years; and 17 regions had been identified for future EPZs. Key EPZs are illustrated in Map 6.1 here below. The government intends to develop basic infrastructure at the sites by collaborating with the private sector through Public Private Partnership (PPP) arrangements.¹⁷

Map 6.1 Earmarked locations for EPZ/SEZ development



¹⁶ For further detail, see: Lemunge, G. 'Tanzania Economic Zones: A Tool to Attract Investors' Tanzania Export Processing Zones Authority (EPZA), 2012; access at: http://www.tccia.com/tccia/wp-content/uploads/2012/11/epza_presentation.pdf; note that investors in EPZs may only export, while investors in SEZs may sell in the local market as well

¹⁷ This section draws on the EPZA website (<http://www.epza.go.tz/invest.php?p=232>) and an interview conducted with the EPZA's Director General, available here: <http://www.tanzaniainvest.com/economy/interview-adelhelm-meru-epza>

Box 6.1 Opportunities in the Tanzanian Textile Sector

In a country that produces around 300,000 metric tonnes of cotton each year, a clear opportunity exists to develop large-scale vertically integrated textile and garment manufacturing operations in Tanzania. Several firms are already using this model, making use of cotton grown in the six regions that surround Lake Victoria to spin, weave and manufacture garments for the domestic, regional and global export market.

Wages in Tanzania, which are substantially lower than in a more established garment-producing countries, represent a further competitive advantage. Textile manufacturers also stand to benefit from the inclusion of textiles and garments among the 500 products from Tanzania that enjoy duty- and quota-free access to the US market through the African Growth and Opportunity Act. The EU provides similar tariff-free access to European markets through its unilateral trade arrangements (EBA) and its bilateral trade arrangements (EPA).

In the past, lack of reliable access to affordable electricity has held back the Tanzania's textile sector. But the near term addition of several hundred megawatts of additional power to the grid is set to remove this historic constraint. With competitive power costs and reliable supply from the Kinyerezi gas-to-power complex, the sector is primed for rapid growth.

The GoT has recognised the transformative potential of the textile industry and is actively supporting it. A Textile Development Unit was created at the Ministry of Industry and Trade in 2012, and the following year a Textile and Garment Manufacturers Association of Tanzania (TEGAMAT) was formed to represent the industry. The Government, TEGAMAT and the Textile Development Unit are now working together to streamline the regulatory environment and to promote new textiles manufacturing investment in the country's special economic zones.

Source: Gatsby Foundation; access at: <http://www.gatsby.org.uk/africa/programmes/tanzanian-textiles-sector>

4. Supply and market value chain

Tanzania's manufacturing sector contributes 8.6% to GDP, though the administration of President John Pombe Magufuli is targeting a more ambitious figure of 15% by 2020. The most important industrial sub-sectors include agro-food processing, beverages, oil refining, and cement, though other established industries include the production of textiles, apparel, tobacco products, glass, paints, plastics, chemicals and pharmaceuticals, and the processing of metals and wood products.¹⁸ Beyond manufacturing firms themselves, the sector value chain also takes in research and development consultancies and engineering and construction firms that provide specialist support to manufacturers. Overall, the sector provides employment to over 100,000 people.¹⁹

Several important EU^{+SN} players operate in the key manufacturing sub-sectors, alongside well-established local companies. Tanzania Investment Centre (TIC) data indicates that 169 European companies from 20 individual countries have invested in Tanzania's manufacturing sector. In terms

of the number of registered firms by nationality of origin, the U.K. is the leading player, followed by Germany. Seven of these EU^{+SN} companies are listed among Tanzania's large taxpayers.

For example, EU^{+SN} investors dominate the cement sector, with two companies – France and Swiss-based Lafarge-Holcim and Germany-based Heidelberg Cement Group – accounting for more than 35% of the market between them through their subsidiaries, Mbeya Cement and Tanzania Portland Cement Company Limited (TPCC). Mbeya produces roughly 700,000 metric tonnes of cement each year at its plant in Songwe, near Mbeya; while TPCC has a capacity to produce some 1.9 million metric tons per year at its plant in Dar es Salaam (see Case Studies for further detail). In this way, EU^{+SN} investment is responsible for providing the much of the foundation – literally and figuratively – for Tanzania's construction boom and on-going strategic infrastructure drive.

¹⁸ See: <http://www.natcomreport.com/Tanzania/pdf-new/manufacturing.pdf>

¹⁹ Ibid.

Another sub-sector in which European firms predominate is the beverages industry. UK-based Diageo's subsidiary company Serengeti Breweries Limited (SBL) accounts for approximately 20%-30% of the Tanzanian branded beer sector, together with EABL, another Diageo-controlled company based in Kenya. SBL produces a portfolio of beer and non-alcoholic products, including its flagship Premium Serengeti Lager. Meanwhile, London-listed Tanzania Breweries Ltd (TBL)'s market share is between 70% and 80%. Between these two players, EU^{+SN} investment accounts for the overwhelming majority of this sizable industry, the sixth biggest beer market in Africa.

In smaller sub-sectors, EU^{+SN} companies are represented across the board. Examples include – but are not limited to – Belgium-based La Galette (TZ) Ltd and France-based Frostan Ltd, both food processing companies; Italy-based Domus Woodworks, which employs 180 skilled workers in furniture manufacturing for the domestic and export market; and Finland-headquartered Warsila Tanzania Ltd, a manufacturer of power generation machinery which works in Tanzania on a project basis and was responsible for the delivery to Tanesco of a 100 MW gas fired power generating

plant at Ubungu in Dar es Salaam in 2006.

Meanwhile, in the textiles sector, UK-affiliated A to Z Textile Mills Ltd is a leading player, best known for the production of polyester and Long-Lasting Insecticidal Bed Nets (LLINS) to combat malaria. The company occupies an Export Processing Zone spanning over 200,000 square meters and has provided jobs for more than 7,000 people. A more specialised player in the sector is Frasi Africa, a subsidiary of UK-based Mantis World, which provides tourist and corporate clients with a high quality clothing and accessories made exclusively on Zanzibar.

Finally, in the manufacturing services sub-sector, Germany-based Technology Associates provides technology infrastructure for manufacturing and distribution companies. They often deploying the mission-critical data-centre infrastructure, large scale data networks, and infrastructure software and services manufacturers and distributors need to run their operations. The company's manufacturing clients in Tanzania include Twiga Cement, Bamburi Cement, East African Breweries, Lafarge, Unilever and Tanesco.

Case Study 6.1 Tanzania Breweries Limited

Tanzania Breweries Limited (TBL), the market leader in the country's beverage sector, represents EU^{+SN} investment in Tanzania as the company's majority-owner, SABMiller, has a primary listing on the London Stock Exchange in the United Kingdom. However, TBL also has meaningful Tanzanian ownership: the company is dual listed on the Dar es Salaam Stock Exchange, where over one third of shareholders are Tanzanian government or private sector institutions.



TBL Group subsidiaries are Tanzania Breweries Limited, Tanzania Distilleries Limited (TDL) and Darbrew Limited. The group's most popular brands include: Safari Lager, Kilimanjaro Premium Lager, Ndovu Special Malt, Castle Lite, Castle Lager, Castle Milk Stout, Redd's Original, Balimi Extra Lager, Eagle Lager, Grand Malt, Safari Sparkling Water, Konyagi, Zanzi Cream Liqueur, Chibuku Super and Chibuku Shake Shake. The group is represented throughout the country with 4 clear beer breweries, 3 Traditional African Beer breweries, a distillery, a malting facility and 10 distribution depots.

In 2015, TBL sales revenue registered 10% growth with operating profit growth of 7%, amounting to TSh 318,339 million. TBL is one of the largest taxpayers in the nation with TSh 2.1 trillion paid in taxes over the last 12 years. For this, the company has received several 'Tax Payer's Day' awards from the Tanzania Revenue Authority. The firm has also invested over TSh 660 billion over the last twelve years in world class breweries across the country.

TBL provides direct employment for over 1,650 people, and has created an additional 84,000 jobs for Tanzanians in the wider industry. Meanwhile, TBL's rapid growth has stimulated the creation of new businesses in various sectors – such as farming, distribution, bottling and printing – allowing the company to contribute significantly towards broader economic development in Tanzania.

TBL's listing on the Dar Es Salam Stock Exchange (DSE) since 1998 has helped the DSE to acquire the credibility and liquidity needed to attract new issuers and investors. The company's share price has increased by 1,500% over the past 16 years.

TBL sources the majority of its resources locally, thus boosting the economy and making the country less reliant on foreign imports. Over 30,000 people are currently benefiting directly and indirectly from agricultural activities supported by TBL. The sugar, barley, sorghum and maize used by TBL are all grown and purchased locally, allowing the company to inject TSh 84 billion into the Tanzanian agricultural sector.

The company also works closely with local farmers, providing skills in modern farming techniques. This work has produced impressive results; with the 2015 barley crop of 15,574 tons being the most successful harvest since farming began in Tanzania.

TBL's efforts in the growing of malting barley have resulted in the contracting over 25,791 acres of barley in the local market. The decision to produce more wines using locally grown grapes has also shown significant progress. This has resulted in the contracting of additional farmers in Dodoma region, where grapes produced from small scale farmers are used by Tanzania Distilleries Limited in the production of Valeur brandy, Dodoma Wine, Imagi Wine and local wine brands.

The company prides itself on being a strong corporate citizen. For example, TBL's "Bila Maji Hakuna Uhai" initiative has so far provided over 1 million people with safe and clean water across the country.

An example of TBL's innovation is the introduction of 'green' production at the company's Mwanza plant, where the management team is tapping biomass energy to produce more sustainable beer while simultaneously cutting fuel costs. The company is using rice husks disposed of by local farmers as boiler fuel instead of using heavy furnace oil. As a result, the brewery has halved carbon emissions at the Mwanza operation to 4,451 tonnes in 2014 from 8,909 tonnes in 2012, while saving USD 400,000 a year on oil purchases.²⁰

Going forward, TBL subsidiary, Dar Brew continues to grow Traditional African Beer brands such as Chibuku and Nzagamba aimed at recruiting consumers from the informal alcohol market. The company will also continue its efforts to gain self-sufficiency through local sourcing by guaranteeing farmers a fair price for their crops, and helping to improve quality and yields through an integrated farming model. Finally, TBL will increasingly promote exports of selected TBL brands to neighbouring and global markets.

Case Study 6.2 Serengeti Breweries Limited

Serengeti Breweries Limited (SBL) is the second largest beer company in Tanzania, accounting for over 20% of the Tanzania market by volume.

The company was incorporated in 1988 as Associated Breweries Limited and changed its name to Serengeti Breweries Limited in 2002. SBL's headquarters are in Dar Es Salaam, Tanzania. The previous owners and management of SBL acquired the company in 2002 and commenced on a strategy of rapid expansion. In October 2010, East African Breweries Limited (EABL) acquired 51% of the issued share capital of SBL. The group's largest shareholder of EABL is Diageo listed on the London Stock Exchange (UK). Diageo is the worlds' largest premium spirits company.



²⁰ Makoye, Kizito, 'Green beer cuts Tanzanian brewery's costs and carbon emissions' Reuters News, October 2015; access at: <http://www.reuters.com/article/tanzania-climatechange-beer-idUSL8N12529620151006>

At present, SBL has three operating plants (breweries) spread out across the country; in Dar es Salaam, Mwanza and Moshi. SBL has 800 direct and indirect employees and is ISO 9002 & FSC 22000 certified at all 3 sites.

Key Brands include: Serengeti Premium Lager, Tusker Lite, Tusker Lager, Pilsner Lager, Guinness Stout, Kibo and Senator. Next to local production of beer, SBL imports a number of renowned international spirits brands such as Johnnie Walker Whisky, Smirnoff Vodka, Gordons Gin, Captain Morgan Rum and Baileys Irish Cream. SBL is market leader in Tanzania for premium international spirits.

SBL has a local farmers program which supports and coordinates the production of barley, maize and sorghum for brewing. The program includes supporting the farmers with soil testing, fertiliser, credit access, training, purchase contracts, and mechanisation. High quality seeds are given free of charge to the farmers. All these elements help to improve the yield of the farmers, which has more than doubled in the last years. Over 10,000 acres have been planted with about 100 core farmers, growing from 0 to more than 10,000 tonnes of local grain in 3.5 years. Currently 60% of total raw materials are locally sourced and SBL is striving to achieve over 70% local sourcing by 2017.

In addition to their agricultural program SBL is active in projects to provide clean water to local communities through their project, Water of Life, which since 2011 has provided reliable and clean water to over 1 million Tanzanians.

Furthermore SBL has a comprehensive program of activities for consumers and other stakeholders to promote responsible consumption and 'Don't Drink and Drive' campaigns.

In their annual 'Skills for Life' campaign SBL supports selected students with scholarships.

SBL is also a significant taxpayer, providing 2% to the total revenue collections of Large Taxpayer Department and almost 1% of the national revenue collection in the 2015/2016 Financial Year.

Case Study 6.3 Heidelberg Cement

Tanzania Portland Cement Company Limited (TPCC), a subsidiary of Germany-based Heidelberg Cement Group, is the largest cement producing company in Tanzania. Established in 1966, TPCC was nationalized in 1978 and later privatized in 1998. Today, Heidelberg Cement, via Scancem International DA, is TPCC's major shareholder and with 69.25% of the company's shares, while the remaining 30.75% of shares are owned by the general Tanzanian public. TPCC's shares are actively traded on the DSE.



Since its inception TPCC, which trades under the 'Twiga' brand, has produced high quality cement conforming to the standards issued by Tanzania Bureau of Standards (TBS). The company currently produces three cement brands: Twiga Extra (32.5R), Twiga Plus+ (42.5N) and Twiga Ordinary (42.5N). Overall, TPCC accounts for roughly 15%-20% of total installed capacity in Tanzania's cement sector.

A recent expansion project, the construction of a new Cement Mill (CM5) completed in 2014, will further consolidate TPCC's market position and the company expects an increase in production capacity to 1.9 million metric tons per year. This investment demonstrates Heidelberg's long-term commitment to Tanzania, especially in light of Heidelberg's decision to downsize and deleverage its operations in many other markets worldwide.

As a market leader with an estimated 36% market share, TPCC employs more than 300 staff in Tanzania and has supplied cement to many sensitive and competitive projects including the new National Stadium, the Bus Rapid Transit pavement roads, Kigamboni Bridge, the Mwenge -Tegeta road, refurbishment of the Kilwa road, Multi-storey structures such as Public Service Pension Fund (PSPF) towers, Uhuru Heights, Rita High Rise Building, National Housing Corporation (NHC) projects, and many others.

Case study 6.4 LafargeHolcim Cement

France-Swiss based LafargeHolcim Cement is invested in the Tanzanian cement industry through its local subsidiary, Mbeya Cement Company Ltd. The company has a 35% local shareholding and its main production facility and distribution network is located in Mbeya region in the south-west of the country. The company contributes roughly 10% of the total installed capacity in Tanzania's cement sector.



LafargeHolcim Tanzania, which trades under the 'Tembo Cement' brand, produces roughly 1,000,000 metric tonnes of cement each year from a newly installed vertical mill which has added 700,000 tonnes/year from the previous capacity of 350,000 tonnes/year allowing it to cater for the increasing demand in the Southern Market, Tanzania as a whole, and export markets.

LafargeHolcim Tanzania also inaugurated a new ultra-modern 1.5 million Euro bag filter at Songwe in 2015 to reduce stack emissions to 10mg/nm³, which is significantly lower than the national environmental standard of 50mg/nm³.

The company in October 2015 launched a new higher strength cement product, 'Tembo Supaset' which will be used by civil contractors and pre-casters to address the need for block making, concrete mix, mega-structures and high visibility infrastructure projects like bridges, roads and stadiums. The introduction of Supaset is likely to assist LafargeHolcim Tanzania to increase its market share in the block making segment, and reinforce its position as a leader in innovation within the Tanzanian construction industry.

Like Heidelberg, LafargeHolcim has demonstrated its commitment to Tanzania by investing significant capital at a time when the global cement industry is deleveraging.

5. Key Challenges

5.1. Over-regulation

The manufacturing sector is among those most highly regulated in Tanzania. While regulating complicated and potentially harmful industrial processes is appropriate, a consistent complaint among investors is the lack of coordination among different regulatory agencies, especially when multi-agency cooperation and a single interpretation of the legislation are required for an investment to proceed.

According to an analysis by Deloitte, the sector is overseen by no less than 15 regulatory bodies and is governed by at

least 25 separate items of legislation.²¹ A government initiative to streamline the tax regime and to reduce the number of levies and duties for manufacturers is reportedly forthcoming. If such a process goes ahead, it will be crucial for the GoT to consult a broad range of private sector stakeholders to understand how and why the cost of regulatory compliance is currently so high for manufacturers.²²

Ad hoc changes to existing regulation present a further challenge. In the beverage sector, for example, the GoT introduced a 20% increase in the excise duty rate in 2014, which led to disruption in industry pricing models and supply

²¹ Deloitte, 'Tanzania Budget Insight 2015: Deep Dive' 2015; access at: http://www2.deloitte.com/content/dam/Deloitte/tz/Documents/tax/Tax_Budget%20Insight%202015_TZ.pdf; Examples of the various regulators include the Tanzania Food and Drugs Authority, Tanzania Bureau of Standards, Tanzania Dairy Board and the Occupational Safety and Health Authority.

²² See Tanzania Daily News 'Govt Working on Industry Taxes' June 2015; access at: <http://allafrica.com/stories/201506040440.html>

chains, declines in sales volumes and financial pressures which impacted on the consumer. Industry leaders are now engaging with the government to encourage adoption of a more predictable policy linking adjustments to the annual excise rate to the headline rate of inflation. Instead of abrupt changes, such a system would stabilize prices and allow for better planning for all participants in the sector.²³

5.2. Currency depreciation

The manufacturing sector has been held back during 2014 – early 2016 by a 25%+ depreciation in the Tanzanian Shilling against the US Dollar. This currency weakening hurts manufacturers because it increases the cost of the imported inputs and spare parts on which Tanzania's manufacturing businesses depend.

5.3. Unstable power supplies

Electricity is an essential input to the industrial and manufacturing sector. When the power supply is interrupted, companies are forced to incur high costs to maintain smooth production output, often using diesel-fired generators. Between June and December 2015, for example, erratic power supplies were responsible for a slowdown in quarterly manufacturing sector growth from 10% to 6%, according to the Confederation of Tanzania Industries (CTI).²⁴

This situation has improved notably in early 2016 with the inauguration of the Mnazi Bay pipeline and the associated 150MW Kinyerezi 1 gas-to-power plant (see Chapter 8: Power Sector), which is now supplying power direct to manufacturers in Dar es Salaam region.²⁵ Yet challenges remain. For example, the Tanzania Petroleum Development Corporation (TDPC) is reportedly charging industrial clients \$6 per cubic feet for gas-fired generation, which – though lower than the cost of emergency power generation – is still relatively high.

5.4. Impact of cheap or illegal imports

From textiles manufacturing and agro-processing to Tanzania's large domestic cement industry, the home-grown manufacturing sector is frequently stymied by the GoT's willingness to relax import controls on cheap or subsidised

overseas products. The levying of import duties on certain imported products is essential if local industry is to be protected against foreign dumping. Yet in recent years, import duties and VAT have sometimes been waived on consignments of imported Asian products such as cement, rice and apparel.

Unfortunately, the same imported products also often informally and illegally find their way into Tanzanian market. This disrupts local supply chains, damages quality control and denies the government a significant tax revenue stream. Going forward, the new administration of President John Magufuli has an opportunity to remove this barrier to manufacturing growth by ceasing to allow import duty exemptions on products that are already produced in sufficient quantity locally, and by enforcing existing rules on illegal imports and low quality counterfeits more effectively.

5.5. Technical and capacity challenges

Because Tanzania's manufacturing sector currently lacks scale, the pool of skilled labour is limited; machines and equipment are rarely available locally; supporting ICT technology is often not available; and affordable bank financing – whether to meet working capital requirements or to finance new factory construction – is challenging to obtain. Only once the sector as a whole has grown in size will these issues gradually be resolved.

Annex 1: Main products of Tanzania manufacturing industries can be found on page 168

²³ See Tanzania Breweries Limited (TBL) '2015 Annual Report'; access at: <http://www.sabmiller.com/docs/default-source/investor-documents/reports/2015/financial-reports/tanzania-breweries-ltd-annual-report-2015.pdf?sfvrsn=0>

²⁴ Elinaza, Abduel 'Financial sector excels in 2015 despite risks' Tanzania Daily News, January 2016; access at: <http://dailynews.co.tz/index.php/business/45956-financial-sector-excels-in-2015-despite-risks>

²⁵ See Elinaza, Abduel, 'Manufacturing Sector Deserves Reliable Electricity Supply' Tanzania Daily News, June 2015; access at: <http://allafrica.com/stories/201506091486.html>

7 Construction and Real Estate

Sector Snapshot

- Tanzania's construction sector is set to enjoy growth of 8.3% on average between 2015 and 2020.
- Infrastructure is the largest sub-sector, but the real estate industry alone has the potential to generate USD 2 billion each year, equivalent to more than 6% of the country's GDP, driven by demand for affordable housing complexes, modern office buildings and shopping centres.
- In total, 38 EU^{+SN} companies are active in the construction industry, originating from eight different European countries.
- By number of firms, the U.K. is the largest investor followed by Italy. One company, COWI from Denmark, is classified as a Large Taxpayer and employs more than 100 staff on projects across every region of Tanzania.
- Examples of EU^{+SN} market leadership in construction include UK-based Helios Towers, the first independent mobile network tower construction company in Africa which is working with all major mobile network operators in Tanzania; BAM International, which is leading upgrade work in the aviation sector with projects at Julius Nyerere and Kilimanjaro international airports; and France-based Sogea - Satom and Germany-based Strabag Group in the roads sub-sector, where the latter is constructing the flagship Bus Rapid Transit (BRT) Infrastructure project in Dar Es Salaam.
- Through the transfer of skill, the provision of training and direct employment creation, EU^{+SN} companies' investment in Tanzania's construction sector brings new opportunities to the local labour market. For instance, Dutch-based BAM International has created 1,500 additional jobs and actively supports the training of Tanzanian engineering graduates within its own structures.

1. Sector Outlook

Tanzania's construction sector will continue to face certain capacity constraints and regulatory bottlenecks, but growth is nevertheless set to average 8.3% per annum between 2015 and 2020.¹ A temporary slowdown in mining and oil and gas investment will be offset by growing consumer purchasing power and greater investment in the residential, commercial property and government infrastructure sub-sectors.

Driven by demand for affordable housing complexes, modern office buildings and shopping centres, the real estate industry alone has the potential to generate USD 2 billion each year, equivalent to more than 6% of the country's GDP.²

Two additional factors will underpin the sector's strong performance. First, Tanzania is likely to launch its maiden USD 750 million -1 billion Eurobond in 2016. This sovereign debt will be used to finance new investment in critical infrastructure from ports to roads, railways and power plants. Second, when the country's planned USD 20 billion LNG export project (see Chapter 5: Oil & Gas) reaches a Final Investment Decision around 2018, there be a massive requirement for auxiliary infrastructure investment as construction on this mega-project gets underway.

With so many infrastructure projects in the pipeline, the largest opportunities for European investors in the construction sector are likely to arise under Public Private Partnership (PPP) frameworks. EU^{+SN} investors can differentiate themselves in this part of the market by developing a bespoke PPP strategy and by engaging with the Government of Tanzania early in the design phase of largescale projects – helping to tie in development finance and other investment partners, for example.

In this way, while China will account for a significant share of investment flows into the high volume, price sensitive segments of Tanzania's construction market, EU^{+SN} investors can still play a pivotal role in specific sub-sectors. For complex, multi-dimensional projects in particular, leading European companies – from architects and civil engineers to project management firms and property developers – can draw on their technical capabilities and track record for quality to compete effectively.

1 Business Monitor International (BMI) 'Offshore gas reserves boost Tanzania's construction sector' October 2014

2 Tanzania Invest 'Interview with Nehemiah Mchechu, National Housing Corporation' 2015; access ta: <http://www.tanzaniainvest.com/construction/interview-nehemiah-mchechu-dg-national-housing-corporation-nhc>

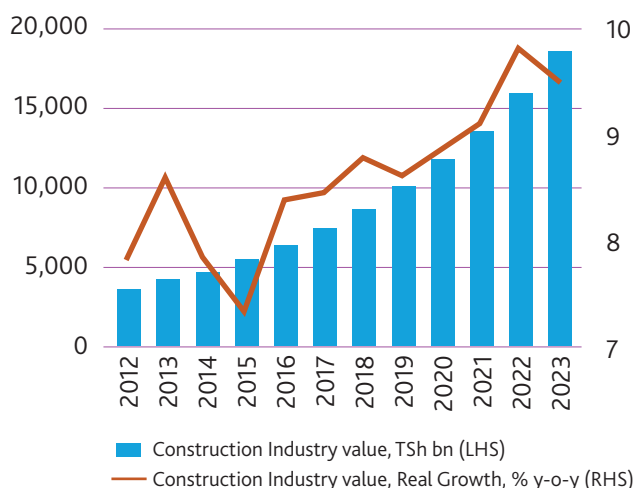
2. Sector Profile

2.1 Overview

Tanzania's construction industry is enjoying an unprecedented boom driven by rapid urbanisation, infrastructure investment and growth in the power, mining, retail, banking, real estate and transportation sectors.

Over the past half-decade, the industry has expanded by more than 8% each year – twice as fast as other economic sectors in Tanzania on average. As Figure 7.1 illustrates, the sector is forecast to continue on this rapid growth trajectory, boosted by a buoyant housing market and a pipeline of transport and utilities infrastructure projects worth USD 19 billion.³

Figure 7.1 **Construction industry value, TSh bn and real growth, % Change year-on-year (2012-2023)**



2.2 Residential sector

In the residential property sector, the potential for rapid growth in home ownership is stifled by the government's ownership of much of the country's housing stock.

Nevertheless, a national housing deficit of close to 4 million units – a figure that is growing by 200,000 units per year –

creates a significant opportunity for private developers in the affordable housing market.⁴ An illustration of the housing supply gap is the difference between the average monthly rental cost of a one-bedroom apartment in the city centre of Dar es Salaam (USD 775) compared to Nairobi (USD 444).⁵

If the current barriers to mortgage financing for low- and middle-income families can gradually be resolved (see Chapter 10: Banking and Finance), housing demand in Tanzania will increase further still. Following the enactment of the Mortgage Law in 2008 and the establishment of the Tanzania Mortgage Refinancing Company (TMRC) in 2010, domestic banks are belatedly showing some willingness to engage in mortgage lending: the number of mortgage lenders in the market has grown from 3 in 2009 to 21 in 2015; the average mortgage interest rate has dropped from 22% to 16%; and the number of new mortgage loans grew by 228% between 2014 and 2015.⁶ The GoT is also intervening directly in the market to increase access to finance for homeowners. In 2014, for example, the government secured a USD 104 million loan facility from financial institutions to assist civil servants to finance their housing costs.⁷

Longer term, population growth and urbanisation trends will continue to drive expansion in the housing sector. Tanzania's current population of 53.47 million people is set to more than double by 2050, while the number of residents in Dar es Salaam is expected to quintuple from 4.3 million to roughly 20 million over the same period.

2.3 Retail sector

Tanzania's formal retail sector is expanding by 15% each year on the back of robust consumer demand. 90% of retail sales are currently generated by the informal market, but this patchwork of small-scale informal sellers cannot cater to the demand from Tanzania's growing middle class for high-end branded consumer goods, including household appliances, automobiles and processed foods.⁸ The potential for sustained growth in the number of larger, more sophisticated

3 PriceWaterhouseCoopers (PwC) 'Real Estate Building the future of Africa' March 2015; access at: <https://www.pwc.co.za/en/assets/pdf/real-building-the-future-of-africa-brochure-2-mar-2015.pdf>

4 The figures are taken from Business Monitor International (BMI) data. Note that in the high-end private market, opportunities exist for high quality real estate development in areas such as Oyster Bay, Masaki and Msasani Peninsula in Dar es Salaam, and along the Lake Victoria shore in Mwanza.

5 TanzanianInvest, 'Tanzania Real Estate Sector Report: Booming Housing' December 2015; access at: <http://www.tanzaniainvest.com/construction/tanzania-real-estate-sector-report>

6 TanzanianInvest, 'Tanzanian Mortgage Loans Grew 228% in 2014-2015', November 2015

7 PriceWaterhouseCoopers (PwC) 'Real Estate Building the future of Africa' March 2015

8 Manson, Katrina 'Retail: Discerning consumers are attractive prospect' Financial Times, November 2011

shopping centres and retail schemes is therefore substantial.⁹

The arrival of South African retailers such as Game and Kenya's Nakumatt supermarket chain has increased competition in the sub-sector. The country's biggest shopping mall is the 19,000 m² Milimani City which opened in Dar es Salaam in 2006, though the new USD 40 million, 32,000m² Rock City Mall shopping complex in Mwanza will surpass this when it opens in 2016.¹⁰

2.4 Commercial property

Dar es Salaam remains the overwhelming focus for activity in the commercial property market. There is significant demand for high quality office space, and leasing activity has been robust over the past half-decade. An indicator of scarcity is the high number of prime residential flats that have been converted into commercial properties. Average rental for premium office space is estimated at USD 21/ m² per month with an average income yield of 9%.¹¹

In the 2010s, the pattern of demand for office space in the commercial capital has shifted, with businesses increasingly opting to relocate from the city centre to new office developments in Masaki, Oyster Bay and Msasani to avoid traffic congestion.¹²

2.5 Infrastructure and roads

As the gateway to several landlocked neighbours – including the DRC, Rwanda, Burundi, Malawi, and Zambia – Tanzania stands to benefit from developing improved transport infrastructure. Having served as Minister of Works under the previous government, President John Magufuli recognises the capacity for investment in backbone transportation infrastructure to spark accelerated growth and regional trade. Largescale infrastructure investment is therefore likely

to feature as a central theme of the president's first term (2015-2020).

Tanzania has 87,600 kilometres of public roads across an area more than twice the size of the U.S. state of California, which has 635,060km of roads.¹³ However, just 19% of national roads and 2% of district roads were paved as of 2013. While the government allocates a significant amount of its budget for road improvements and construction, the demand for quality road is greater than the pace of building and the money allotted.

In recent years, however, the GoT has increased its level of ambition. A total of 539 km of new highway road construction was planned for fiscal year 2014/15 on the back of a USD 730 million allocation to the Ministry of Works from the national budget¹⁴ – more than in any previous year. The GoT has pledged to spend some USD 2 billion in the 2015/16 fiscal year on transport-related projects in Dar es Salaam region alone,¹⁵ including flagship projects such as the Dar es Salaam to Chalinze Expressway and the Dar es Salaam Rapid Transit Project.¹⁶ Concessional financing through bilateral and multilateral partners has also been supportive in financing development infrastructure (see Box 7.1).

Meanwhile, in the aviation sector plans are underway to expand and upgrade a large number of airports and airstrips. A new International Airport at Songwe, Mbeya, has recently become operational and will cater for the Southern Highlands and neighbouring regions. The construction of the third terminal at the Julius Nyerere International Airport is also progressing (see Case Studies), as is work on the expansion of Mwanza Airport and the modernisation of Kilimanjaro International Airport. According to the TIC, plans are in place to upgrade 11 additional airports.¹⁷

9 In these new formal retail complexes up to 80% of products are imported, largely from Dubai, Kenya, and South Africa. Private-label products are not yet common but local consumer goods brands such as Whitedent toothpaste and Azam products (juices, water, biscuits, and dairy) are well established and are also exported to other East African countries. See: AT Kearney, 'Seizing Africa's Retail Opportunities The 2014 African Retail Development Index' 2014.

10 Ihucha, Adam, 'Mwanza gets ready for mega-mall' September 2015; access at: <http://www.thecitizen.co.tz/News/-/1840340/2882352/-/7qsskm/-/index.html>. The Rock City Mall is owned jointly by the Local Authority Pensions Fund (LAPF) and Mwanza City Council under the Joint Venture Company known as Mwanza City Commercial Complex Limited (MCCCL).

11 South African Property Review, 'Africa Uncovered: Tanzania', October 2014; access at: http://issuu.com/sapoa052013/docs/sapoa_property_review_october_2014_

12 PriceWaterhouseCoopers (PwC) 'Real Estate Building the future of Africa' March 2015

13 Clyde & Co 'Road infrastructure in Tanzania' November 2014; access at: <http://www.clydeco.com/insight/updates/view/road-infrastructure-in-tanzania>

14 Tanzania Budget Insight 2015: Diving Deep. Deloitte, 2015, pg. 7

15 'Media Africa Times 'Tanzania earmarks \$2bn for Roads Construction in Dar es Salaam', 2015

16 According to one report, congestion costs the Dar es Salaam economy alone as much as 411 billion Tanzanian Shillings (or \$250 million) every year, with projections that this figure will rise due to the ever increasing number of vehicles on the roads. See: Clyde & Co 'Road infrastructure in Tanzania' November 2014

17 Tanzania Investment Centre, 'Tanzania Special Country report' 2014; access at: <http://www.tic.co.tz/media/TANZANIA%20COUNTRYSPECIAL%20REPORT.pdf>

Box 7.1 Concessional financing

Concessional financing from multilateral and bilateral partners will boost the GoT's infrastructure development strategy. In 2014, for example, the World Bank provided USD 565 million in financing for the expansion of the port in Dar es Salaam, a project that aims to improve the country's position as a regional trade hub and to increase the port's capacity from 14.6 million to 28 million per year by 2020.

The African Development Bank (AfDB) has also been a major source of finance for transportation infrastructure. Most recently, in December 2015, AfDB provided USD 348 million in support for Tanzania's Transport Sector Support Program, to be implemented over the next five years. The program includes nearly 500km of new roads to be improved to bitumen standards, including arterial road corridors linking Tanzania and neighbouring Malawi, Mozambique, Zambia and the Democratic Republic of Congo.

3. Policy Context

Five types of construction contractor are recognised in Tanzania: building contractors, civil works contractors, mechanical contractors, electrical contractors and specialist contractors. Before commencing work, these companies must register with either the Contractors Registration Board (<http://www.crb.go.tz/>) or the Engineers Registration Board (<http://www.erb.go.tz/>).¹⁸ These two bodies, with oversight from the Ministry of Works (MoW) and the National Construction Council, are tasked with regulating the activities of contractors and ensuring compliance with building and safety standards.¹⁹

EU^{+SN} contractors may opt either to set up permanent offices in Tanzania or to register as a temporary contractor to work on a specific project. Provided that the contractor is registered with the relevant Board(s), there are no limits on the types of activity that a contractor who has set up a permanent office in Tanzania may undertake.²⁰

In roads sub-sector, the 2007 Roads Act stipulates an overarching role for the MoW. The ministry develops road policy and oversees both the Tanzania National Roads Agency (TANROADS), an executive agency responsible for the maintenance and development of national roads, and the Road Fund Board,²¹ established under the Road & Fuel Tolls

Act 2006 to manage a fund into which fuel toll levies, transit fees, overloading fees and other monies are collected.²²

In the real estate sub-sector, the principle regulatory issue is weak property rights. Land in Tanzania cannot be owned outright but rather must be leased from the government for 33, 66 or 99 years, depending on its use. Recent reforms have sought to introduce a more reliable system of transferring property rights but uncertainty remains over the land titling process, especially for foreign investors (see Key Challenges below).

The government has attempted to support the industry with specific measures in other areas. For example, the Unit Titles Act of 2008 allowed for multi-storey buildings to be co-owned for the first time.²³ The National Housing Corporation (NHC) supports the mortgage market by supporting key construction initiatives (see Box 7.2)

¹⁸ There is also an Architects and Quantity Surveyors Registration Board.

¹⁹ Clyde & Co 'Structure of the construction industry in Tanzania' November 2013; access at: <http://clydeco.com/insight/updates/view/structure-of-the-construction-industry-in-tanzania-november-2013>

²⁰ Once registered, construction contractors – as with all businesses operating in Tanzania – are required to register for a Tax Identification Number (TIN) and Value Added Tax (VAT) certificate with the Tanzania Revenue Authority (TRA). They must also obtain a Business Licence from the Ministry of Industry and Trade. If all of the company's directors are non-resident, a Power of Attorney needs to be granted to a resident to process the application.

²¹ Public roads in Tanzania are divided into two categories: national roads and district roads. Note that TANROADS covers Tanzania Mainland only.

²² By law 90% of the Road Fund must be re-invested in the maintenance and repair of public roads

²³ PriceWaterhouseCoopers (PwC) 'Real Estate Building the future of Africa' March 2015

Box 7.2 The National Housing Corporation (NHC)

The NHC is a government company established to participate directly in the real estate sector. It has a balance sheet of USD 2 billion and owns nearly 20,000 housing and commercial rental units located across the Tanzanian mainland.

The company also has on-going projects worth USD 400 million, including the Kawe satellite town project in Dar es Salaam's Kinondoni District and two similar projects in Arusha (located in the Burka and Usa River areas). The latter will provide 2 million square metres of property including trade centres, shopping malls and residential developments. The NHC also seeks to boost the mortgage market by supporting initiatives such as the Civil Servants Housing Scheme through which 50,000 affordable houses will be built over the next five years.

4. Supply and marketing chain

As in other emerging markets, the Tanzanian construction value chain is divided into several sub-sectors, from buildings (residential and commercial) to infrastructure (civil construction on large public works) and industrial (including power generation and manufacturing plants). Within each of these sub-sectors, companies often operate at only one stage of the project cycle, from inception and feasibility to design, evaluation, supervision or implementation.

A wide range of European companies – from main contractors to specialist providers – are active across all of these sub-sectors. Road, airport, port and railway infrastructure, residential housing, and commercial property represent the main areas of EU^{+SN} construction activity, with European firms typically engaged on a fee-for-service project basis. In total, thirty-eight EU^{+SN} companies are active in Tanzania's construction industry, originating from eight different European countries. By number of firms, the U.K. is the largest investor followed by Italy. One company, COWI from Denmark, is classified as a large taxpayer by the Tanzania Revenue Authority (TRA).

All EU^{+SN} interviewees for this study highlighted the extent to which they partner with smaller local Tanzanian construction firms to deliver projects. Often an EU^{+SN} investor will use its scale, track record and access to finance to compete as the lead contractor for large-scale open tender projects, but once implementation is underway the company will pass on the majority – more than 75% in several cases – of the revenues to trusted Tanzanian partners. In this sense, EU^{+SN} investors play an apex role in an industry ecosystem that sustains several tens of thousands of jobs in Dar es Salaam region alone.

4.1 European companies in the construction sector

In the infrastructure sub-sector, a large number of EU^{+SN} companies are active, including: Degrémont, a subsidiary of France-based Suez Environment, whose recent contracts include the Lower Ruvu drinking water production plant in Dar es Salaam, financed by the US Millennium Challenge Corporation; and French firm Sogea-Satom, which maintains three offices in Tanzania and has completed high profile projects such as The 100 kilometre long Arusha-Minjingu highway (known as the 'Great North Road') and the renovation of Zanzibar Airport, undertaken in collaboration with German company JBG Gauf Ingenieure GMBH.

Another leading European player is Denmark-based COWI Tanzania Ltd which has five decades of involvement in Tanzania, having established its first office in Dar es Salaam in 1965. Since then, COWI Tanzania has successfully executed projects in all regions of the country. Today, COWI Tanzania employs approximately 100 permanent staff, most of whom are university graduates in the fields of engineering, economics, environment and social science. The company offers a wide range of consulting services within engineering, environment and economics and has the capacity to undertake complex multidisciplinary projects from identification through feasibility, design and supervision, including evaluation.²⁴

Other EU^{+SN} players include Europol, a German provider of infrastructure technology, and Germany-based Strabag Group, one of Europe's largest construction companies whose activities in Tanzania include construction of the flagship Bus Rapid Transit (BRT) Infrastructure project in Dar es Salaam – a surface metro system that uses bus technology to provide metro-like services – in addition to the

²⁴ Core services offered by COWI include planning, design and supervision of roads and bridges, rural and urban water supply and sanitation, structural, mechanical and electrical design of all types of buildings (e.g. high-rises, shopping centers, hospitals and educational facilities).

rehabilitation of the 76km Korogwe -Same Road in north-east Tanzania.

A cluster of Italian companies has also developed a strong track record in Tanzania. Costruzioni Generali Gilardi is engaged in the construction of the Bukoba airport on Lake Victoria; ItalFrame Ltd is engaged in building a number of housing and commercial property projects across the country; and Renco Tanzania Construction Ltd, an Italian project design and engineering company, has built a gas-fuelled power station at Somanga in Lindi region, among other projects. Other notable Italian firms working in civil construction include Sanasi Construction Ltd, Roseka Enterprises Ltd and Asso Costruzioni.

Firms operating in the industrial construction sub-sector include Sweden-based Malmo Montage Konsult AB and Merrywater Ltd, a Swiss leading company for water infrastructure solutions in Tanzania; and Swiss company Coastal Steel Industries (CSI), which has successfully

delivered a large number of complex construction, electrical and engineering projects in East Africa for the past 20 years from its regional headquarters in Dar es Salaam.

Meanwhile, in the commercial real estate sector, investment in high-end office space represents a clear opportunity for EU^{+SN} investors, as demonstrated by the successful development of 9,700 square metres of new office space and 1,000 square metres of retail space in Dar es Salaam by UK-based Actis. The development – implemented through the acquisition by Actis of the local company, Capital Properties, in 2007 – involved the construction of three office blocks on a prime site on one of the main arterial roads running through the city's business district.²⁵ Further examples of EU^{+SN} investment in this sub-sector include France-based DT Dobie Tanzania and UK-listed Regus, the global supplier of flexible working space, whose activities in Tanzania are showcased in the Case Studies section below.

Case Study 7.1 Nicholas O'Dwyer

Ireland-based engineering and environmental consultancy Nicholas O'Dwyer has a track record in Tanzania stretching back to the early 1990s. The company – which provides transportation, water and environmental engineering services to public and private sector clients alike – has demonstrated its commitment to Tanzania by locating its regional office in Dar es Salaam.



Nicholas O'Dwyer's principal focus in Tanzania in recent years has been road infrastructure. Since 2009, the company has undertaken more than a dozen road feasibility, design and project supervision/implementation projects including, for example, supervision of the construction of the strategic 112km Sumbawanga-Matai-Kasanga road. A further example is the company's contract to supervise construction of the Mtwara road corridor in the south of the country, including the 61km Songea to Namtubmo road and the 78km Peramiho Junction to Mbinga road.

Meanwhile, in the water sector, Nicholas O'Dwyer has led supervision; design and rehabilitation work on water supply and treatment facilities in both Morogoro and Dar es Salaam, funded by the US Millennium Challenge Corporation and the World Bank respectively.

The company's way of working in Tanzania is notable for its strong focus on developing local capacity and skills. Drawing on long-term partnerships with Tanzanian-owned companies, some 80% of all project revenues are passed on to local contractors, with Nicholas O'Dwyer retaining a core project management and advisory role only.

As an established global business founded in 1932 with the capacity to complete solo projects of more than €100 million, Nicholas O'Dwyer has the scale and the access to finance and bank guarantees required to take on large-scale open tender infrastructure projects; but once implementation is underway, the company chooses to trust in its local partnerships,

²⁵ See: <http://www.actis.com/actis-portfolio/capital-properties>. New design features were incorporated to reduce energy consumption including energy vapour barriers, wall and roof insulation, double glazing and sun louvres – all of which are innovative in the local market.

devolving responsibility to Tanzanian partners. This approach has helped several Tanzanian engineering consultancies to find their feet in the market and to mature into established, technically proficient businesses.

Case Study 7.2 **Regus**

Regus, the world's largest provider of flexible workspace, operates 3,000 business centres in 900 cities all over the world. The London-listed company has a strategic focus on East Africa and has expanded into Tanzania in recent years, with 3 business centres now operational in Dar es Salaam. However, Regus believes there is potential for some 30 business centres to be built across Tanzania in the next four years, covering Dar es Salaam region, Arusha, Mwanza and elsewhere. This network could draw in not only multinationals but also a growing community of smaller home-grown professional services firms that operate in the same business ecosystem.



The Regus model, focused on flexibility and an ability to meet the needs of large corporates and small businesses alike, is well suited to Tanzania's evolving work culture, where employees are increasingly mobile. Large corporates may wish to secure prime city centre locations but for smaller companies or start-ups, survival and viability often depend on effective control of overheads. For companies such as these, Regus provides the services and facilities they need with none of the fixed costs.

Unlike the traditional Tanzanian real estate market – where landlords rigidly insist on a year or more in up front rental payments, for example – Regus will offer a range of pricing options as well as flexibility on lease durations so that businesses do not have to commit to a capital outlay. This, in turn, will help companies to manage risk, accommodate growth and adapt to market changes.

To mitigate the impact of severe traffic congestion in the commercial capital, Regus plans to offer a range of options to increase efficiency and reduce time wasted on unnecessary travel – from drop-in business lounges with Wi-Fi access in shopping malls, hotels and airports to video communications suites, vibrant and low cost co-working suites, individual work pods, and hi-tech meeting rooms.

Case Study 7.3 **BAM International**

BAM International, subsidiary of Royal BAM Group based in the Netherlands, is a leading European company in the construction and infrastructure sectors. The company won a flagship design and build contract for Terminal 3 at the Nyerere International Airport in Dar es Salaam in 2013. This project, contracted by the Tanzania Airports Authority, has a phase 1 value of more than €130 million. BAM International is executing the project in a joint venture with UK sister company BAM Nuttall and aims to complete it by the end of 2017.



The new terminal will facilitate 3.5 million annual passengers and includes parking lots, access roads, platforms, and a taxiway, while the second phase of the project will provide further capacity to facilitate 6 million annual passengers. Meanwhile, BAM International has been awarded a separate €37 million design and construct contract for the rehabilitation and extension of the country's second largest airport, Kilimanjaro International Airport, situated between Moshi and Arusha in northern Tanzania.

BAM has been carrying out construction projects in Tanzania since the early 1970s. The first project in Tanzania was a

multi-purpose jetty in Tanga built in 1970. Additional projects include an extension to Muhimbili hospital in 1973, the Mbeya cement factory in 1978, and the grain silo at Dar es Salaam port in 1987-1989. In 2005 BAM returned to Tanzania to rehabilitate the runway, apron and aerodrome lighting at JNIA. Since then BAM has also undertaken a number of road projects in Tanzania, such as the Laela - Sumbawanga road in the western part of the country, and the upgrade to the arterial Tanzania-Zambia highway route. The commitment to Tanzania has been boosted further by the company's establishment of the regional office in Dar es Salaam.

Through its current projects in Tanzania, BAM International employs around 1,500 people. Furthermore, BAM International provides access to its construction site for training purposes to students at vocational training institutes and engineering graduates from the University of Dar es Salaam. -VETA instructors and trade graduates in carpentry, steel fixing and electricians are placed at the airport project to gain first-hand experience, while graduates are taken into suitable departments for several months.

5. Key Challenges

5.1. Permitting

Permitting in the construction industry is a problematic and time-consuming affair. The World Bank ranks Tanzania a lowly 179th out of 183 countries worldwide in its effectiveness of dealing with construction permits.²⁶ In 2014 the Tanzania Private Sector Foundation (TPSF) launched a Working Group to advocate for a more streamlined construction permit process for local and foreign investors, though it remains unclear whether this will result in lasting policy change.

5.2. Blurring of the formal and informal construction sectors

In practice, the informal and formal construction sectors in Tanzania are impossible to separate. The industry can be categorised on a gradient from the formal to the informal, but even at the formal end of the spectrum – where multinational firms are developing high profile projects with stringent controls and standards in place – informal builders and worker groups will still invariably be employed as sub-contractors on site. Roughly 60% of the sector is made up of informal construction enterprises and workers who supply not only labour but also materials to formal contractors engaged in larger projects.²⁷

This informal sector, which in Dar es Salaam alone employs more than 26,000 people, is dominated by unregistered self-employed casual labour or worker groups who do not report figures to the government.²⁸ Hiring at scale for larger projects can be particularly challenging for prime contractors, given the difficulty of ascertaining the capacity of local contractors. European investors new to the Tanzanian market will need to adjust to this unique industry environment, for example by building long-term sub-contractor relationships and by extending specific quality controls and mandatory safeguards to all sub-contractors.

5.3. Corruption in government tendering for infrastructure projects

In addition to inefficient government procurement systems and occasional financial mismanagement, the threat of bribery demands and unfair competition in government tendering processes is high. The government's Construction Industry Policy (2003) sought to address this by increasing transparency in the procurement process but the problem remains.

A consequence of corruption in the sector is accidents resulting from the illegal use of sub-standard building material. In 2013, for example, a 14-storey building under construction by the NHC and a private investor collapsed, killing more than 36 people. The government has publicly

²⁶ Tanzania Invest, 'Tanzania Private Sector Foundation Seeks to Ease Construction Permit Process' February 2014; access at:

<http://www.tanzaniainvest.com/construction/tanzania-private-sector-foundation-seeks-to-ease-construction-permit-process>

²⁷ Wells, Jill & Jason, Arthur 'Employment Relationships and organizing strategies in the informal construction sector'; African Studies Quarterly | Volume 11, Issues 2 & 3 | Spring 2010; access at: <http://www.africa.ufl.edu/asq/pdfs/v11i2-3a7.pdf>

²⁸ Some effort has been made to formalise casual labour in the sector through the formation of the Tanzanian Informal Construction Workers Association.

conceded that most construction projects are below standard and President Kikwete, during his second term in office, acknowledged that many public tenders are won not by the most competent firms but by the most corrupt.²⁹

5.4. Supply chain bottlenecks

Most building products shipped to Tanzania enter through the Port of Dar es Salaam, which handles 95% of the country's international sea trade. Yet average ship turnaround times and waiting times stand at 5.2 days and 2.3 days respectively, and the subsequent clearance paperwork can last far longer, thus creating long delays for bulk importers. Meanwhile, interior transport is mainly by road as the country's rail network is dilapidated. This relatively weak and costly transport infrastructure hinders the establishment of efficient supply chains for contractors that need to move heavy inputs to construction sites across the country.

5.5. Uncertainty over land title

The issue of land title is highly contested in Tanzania (this topic is explained in detail in Chapter 3: Agriculture). No reliable land survey is available and only a small percentage of land is available for 'Right of Occupancy'. The resulting uncertainty generates significant costs and delays for property developers.

²⁹ Makoye, Kizito 'Corruption engulfs construction sector in Tanzania' Thomson Reuters Foundation', May 2013; access at: <http://news.trust.org//item/20130523074657-ep7jl/>

8 Power Sector

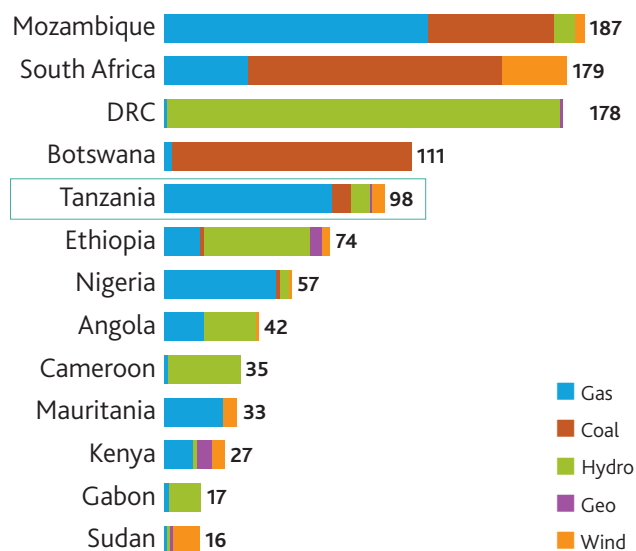
Sector Snapshot

- In the power sector, Tanzania is gifted with an array of unexploited energy sources, from biomass, natural gas, and hydro, to uranium, coal, geo-thermal, solar and wind. The country's power-generation potential is among the highest in Africa, and the diversity of its energy mix is almost unrivalled.
- The challenge facing the power sector is daunting – a massive 9 GW of additional power will be needed by 2035 to meet new demand and to replace older facilities – but credible plans and policies are in place to increase installed generation capacity to match demand growth.
- European investors are playing a leading role. The Ubungo plant owned and operated by UK-based Songas alone generates 180 MW of electricity or roughly 20% of Tanzania's electricity supply, while British company Aggreko produces some 700 gigawatt-hours annually from its temporary generation facilities in Tanzania.
- European engineering firms are also involved in gas-to-power projects, with Norway-based Jacobsen Elektro – which in 2015 delivered the Kinyerezi I Power Plant as a turnkey project to Tanesco – as the leading example.
- In the renewables sector, a cluster of European firms have developed a market leading position, including Denmark-based Wind East Africa (developing a USD 285 million, 100 MW wind farm in Singida) and German companies SolarGrid Tanzania Ltd, Forsera and Mobisol, which serves over 30,000 customers in Tanzania with household solar energy products.
- European investment in Tanzania's power sector creates new employment opportunities, now and in the future, as reliable power generation and more widespread access to electricity will encourage investment and create new business opportunities across all sectors.

1. Sector Outlook

Tanzania is gifted with an array of unexploited energy sources, from biomass, natural gas and hydro to uranium, coal, geo-thermal, solar and wind.¹ As shown in Figure 8.1, the country's power-generation potential is among the highest in Africa, and the diversity of its energy mix is almost unrivalled.

Figure 8.1 Power generation potential for select sub-Saharan African countries by technology (gigawatts)



Today, after decades of lacklustre performance, Tanzania's electricity sector is nearing 'take off velocity'. The challenge is daunting – a massive 9 GW of additional power will be needed by 2025 to meet new demand and to replace older facilities – but credible plans and policies are now in place to increase supply to match demand growth.² And with a stronger policy environment in place, EU^{+SN} investors are uniquely positioned to help meet this demand, given Europe's global lead in renewable technologies and the leading role of EU^{+SN} gas-to-power companies in the sector.

The sector's financing requirement – at roughly USD 1.9 billion per annum – will present an array of opportunities for EU^{+SN} banks, private equity investors and funds. The restructuring of Tanesco will also open up a role over the next half-decade for more than a dozen new independent generation, transmission and distribution companies in Tanzania. The scale and expertise of leading European energy companies could prove instrumental in meeting this massive requirement for new investment – especially if EU^{+SN} firms engage with the Government of Tanzania early in the process, and help to shape it.

Longer-term, the prospects for Tanzania's electricity sector

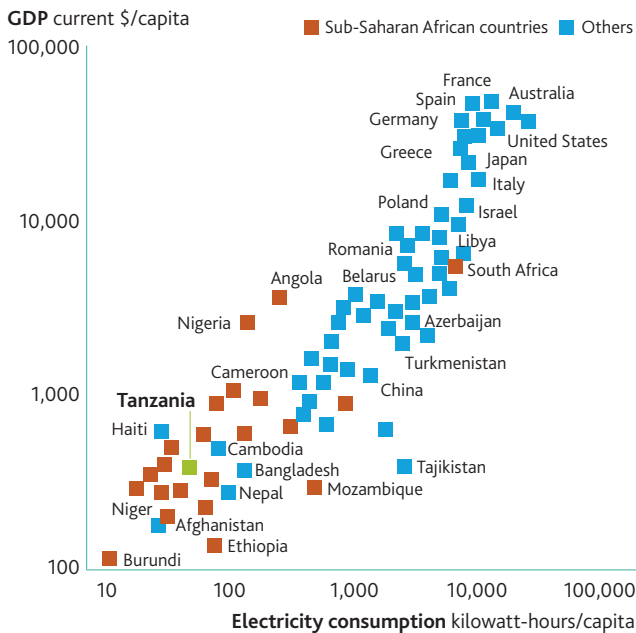
¹ Energy Charter Secretariat, 'Tanzanian energy sector under the universal principles of the Energy Charter Brussels' July 2015

² Peak demand for electricity is projected to increase from 1,600 MW in 2014 to roughly 10,000 MW in 2025, see Ministry of Energy and Minerals (MEM), 'Electricity Supply Industry Reform Strategy and Roadmap 2014-2025' June 2014

will be boosted by the planned USD 20 billion Liquefied Natural Gas (LNG) export project in Lindi region. It may take seven to nine years for this mega-project to reach first production, but once this happens a substantial additional supply of affordable gas will enter the local market via a domestic off-take agreement. This in turn will open up a number of ancillary opportunities for EU^{+SN} investors in energy-hungry domestic industries.

Reliable power generation and more widespread access to electricity will encourage investment across all sectors, create jobs, add value to local production, reduce costs for local businesses, and improve productivity in manufacturing, mining, petrochemicals, services, tourism, agriculture and other industries. As shown in Figure 8.2, Tanzania's trajectory from a low to a high income country will be directly and positively correlated to national electricity consumption.

Figure 8.2 Relationship between GDP and electricity consumption



The arrival of a new government in November 2015 has given fresh political impetus to the power sector: President Magufuli himself has stated that 'without electricity industrialisation will remain a pipe dream'.³ With effective partnership from the government, structural reform of Tanesco and the introduction of investor-friendly legislation,

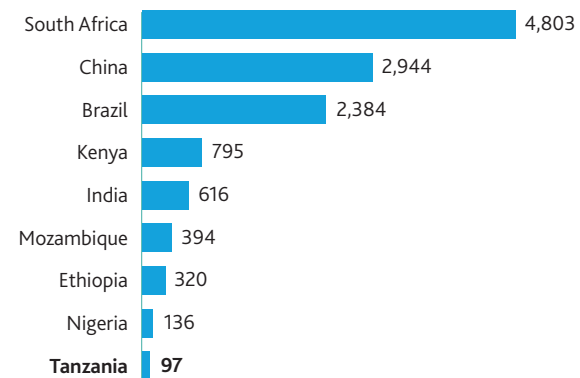
the electricity has the potential to become an engine – rather than a brake – on economic growth in Tanzania.

2. Sector Profile

Tanzania's power sector has benefitted from the introduction of new thermal power generation projects. Nevertheless, the country's rumbling power crisis continues, with demand growth outstripping incremental improvements in supply. In a fast-growing economy where annual kWh consumption is

Figure 8.3 Electricity consumption and forecast demand

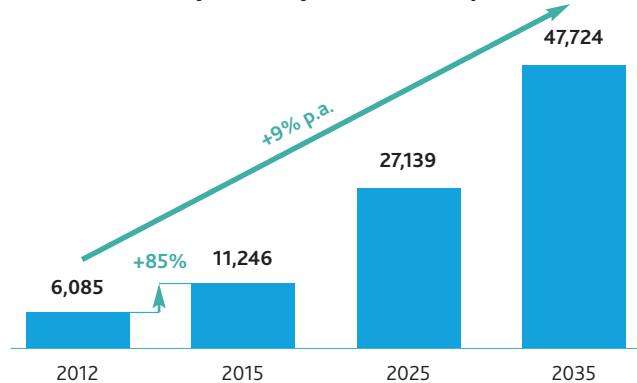
Electricity consumption from selected countries
KWh/capita/year, 2010



Source: BRN Energy Lab Report (2013); World Bank Energy Statistics, TANESCO; NBS; Power System Master Plan

Figure 8.4 Forecast electricity demand by Tanzanians

Forecasted electricity demand by Tanzanians GWh/year



Source: BRN Energy Lab Report (2013); World Bank Energy Statistics, TANESCO; NBS; Power System Master Plan

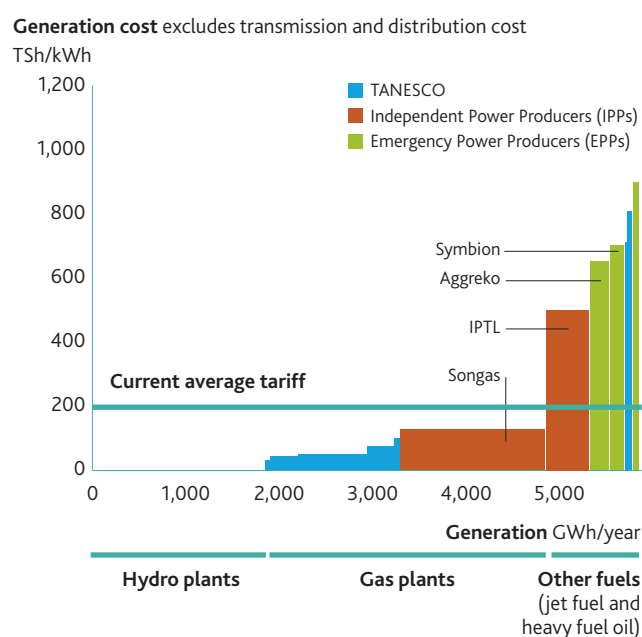
currently just 97 per capita, electricity demand is expanding by roughly 10% per year (see Figure 8.4 and Figure 8.5).⁴

³ See: <http://www.thecitizen.co.tz/News/Magufuli-My-Priorities-1840340/2965662/-/36l05oz/-/index.html>

⁴ Only one in five people in Tanzania currently have access to electricity.

The sector's under-performance therefore continued throughout the Kikwete presidency (2005-2015). However, the inauguration of the flagship Kinyerezi gas-to-power PPP project in late 2015 represents a potential 'game changer' for Tanzania's power supply shortfall. A 550km, USD 1.2 billion

Figure 8.5 **Composition of Tanzania's power generation mix**
In 2012, almost 20% of generated electricity came from EPPs and IPTL, running on expensive fuel, cost 5-8x more than TANESCO or IPP gas plants and 3-4x more than current tariff levels per unit.



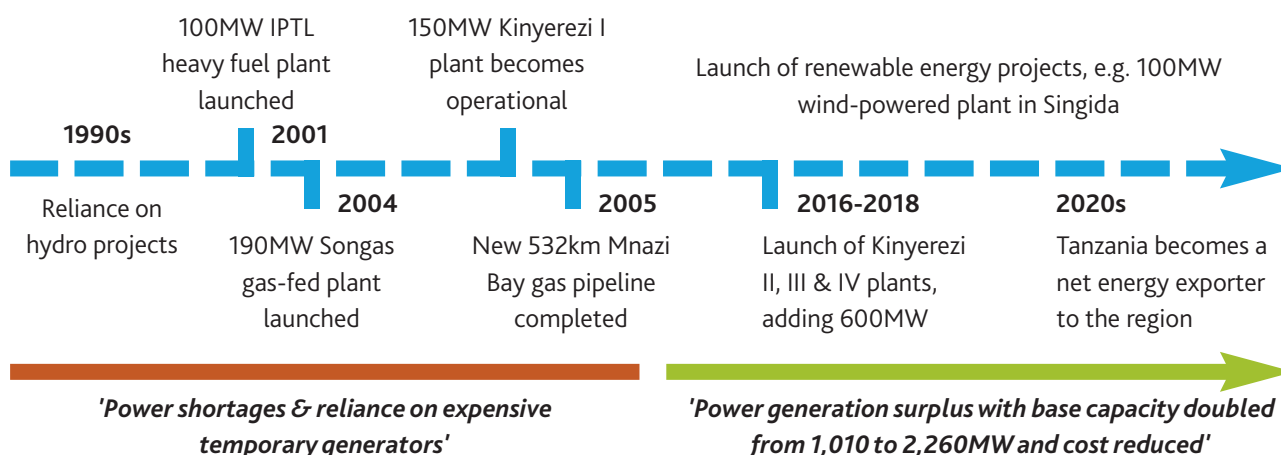
pipeline has been built to transfer gas from Mtwara region in southern Tanzania to a four-plant power complex at Kinyerezi, near Dar es Salaam. The Export-Import Bank of China funded the pipeline while the power plants, which will have a combined capacity of 750 MW, are being built by Norway-based Jacobsen Elektro and Japan's Sumitomo Corporation, among others.

At present only the USD 183 million Kinyerezi I plant is operational. The plant's four aero-derivate turbines currently produce 70MW of power, soon to be ramped up to a total capacity of 150MW.⁵ However, all four Kinyerezi plants will begin producing power in the coming years, at which point the load-shedding by Tanesco will no longer be necessary.

Meanwhile, producers such as Symbion Power, Aggreko and IPTL are in the process of converting their expensive fuel-powered generation facilities to run on cheaper gas instead. This recalibration will help lower the sector's cost profile to a more sustainable level (see Figure 8.3).

Hence, although the industry remains hampered by major operational and financial challenges at the state power company Tanesco, 2016 represents the start of new era in Tanzania's power sector. Going forward, the four-plant complex at Kinyerezi – combined with new wind and solar projects and greater investment in the country's distribution and transmission network – will increase the availability of electricity for residential and industrial consumers alike. As

Figure 8.6 **Tanzania's crisis- prone power sector is reaching a turning point in 2016**



⁵ Tanzania Daily News, 'Power boom set as plant launched' by Rose Athumani et al, October 2015

Table 8.1 Installed capacity by source of power generation

Sources of Electric Power Generation		Installed Capacity	
		MW	%
Renewable Energy	Hydro	556	
	Geothermal	-	
	Wind	-	
	Biomass & Waste	19	
	Cogeneration	-	
	Imports	14	
	Total	589	39.5%
Fossil Fuels	Natural Gas Turbines	594	
	Diesel & Oil	322	
	Total	916	61.4%
Installed Capacity		1,491 MW	

Source: US Agency for International Development (USAID), 'Investment Brief for the Electricity Sector in Tanzania' 2014/15;

illustrated in Figure 8.6 the 150 MW Kinyerezi I plant has already reached full capacity, with all four turbines in operation. In 2017 an additional 185MW extension to Kinyerezi I will be completed. The 240MW Kinyerezi II plant is then scheduled to be operational by January 2018, with plants III and IV following in 2019 and 2020 respectively. In total, over 1000 MW of additional generation is expected to be added to the grid by 2020, though some concerns remain over the affordability of electricity produced and sold by Tanesco.⁶

The impact of these changes will be far-reaching. Inefficiency in power generation has absorbed roughly 1.5% of GDP to date. Tanzania has an opportunity to lift this dead weight on the economy, which in turn will open up new opportunities for EU^{+SN} investors in industries such as light manufacturing, agribusiness and heavy industry, whose viability depends on the consistent supply of electricity.

2.1. Renewable energy projects

A further boost to the country's electricity generation mix is the increasing number of renewable energy projects listed in Table 8.1. For example, the Wind East Africa consortium – made up of Six Telecom Ltd., EU^{+SN} investor Aldwych International, based in the UK, and the International Finance Corporation – is planning to develop a USD 285 million, 100MW wind-powered plant in Singida region.

Meanwhile, One Plant Africa and WarnerCom have secured 15,000 acres of land in Shinyanga region to kick-start a largescale 150MW solar power project.⁷ Solar projects on this scale are attractive because the country has between 2,800 and 3,500 hours of sunshine per year and a global radiation of 4 – 7 kWh per square metres per day.⁸ The best potential sites for solar are clustered in the central and western part of the country around Dodoma, Singida, Shinyanga and Mwanza.⁹

Potential sites for largescale wind power projects have also been identified at Litember (Mtwara region), Gomvu (Dar es Salaam region), Karatu (Manyara region) and Makambako (Iringa region).¹⁰

In the small-scale hydro sub-sector, Rift Valley Energy, headquartered in Zimbabwe and funded by European investors, has recently inaugurated a 4 MW Mwenga Hydro Project in Mufindi district, near Iringa. The project – which is co-financed by the European Union and will supply power to 14 villages previously cut off from the grid – will include construction of almost 100 km of 33 kV power lines.¹¹ Further opportunities for private investment in hydropower abound – Tanzania's hydropower potential is estimated at 4,600MW, of which only 12% is currently developed.¹²

In the geo-thermal sub-sector, the potential for 650MW of power generation has been identified at sites along the East African rift valley system. Finally, in the biomass sub-sector,

6 Tanzania Electric Supply Company Ltd. (TANESCO) 'Presentation on the Tanzanian Solar PV-Hybrid Workshop in Berlin, Germany', March 2015

7 Kasanda, Peter 'Tanzanian draft national energy policy of 2015' April 2015, Clyde & Co; access at: <http://www.clydeco.com/insight/updates/view/tanzanian-draft-national-energy-policy-of-2015>

8 US Millennium Challenge Corporation 'Business Opportunities in Tanzania's Power Sector' Spring 2015

9 Tanzania Electric Supply Company Ltd. (TANESCO) 'Presentation on the Tanzanian Solar PV-Hybrid Workshop in Berlin, Germany', March 2015

10 Ibid.

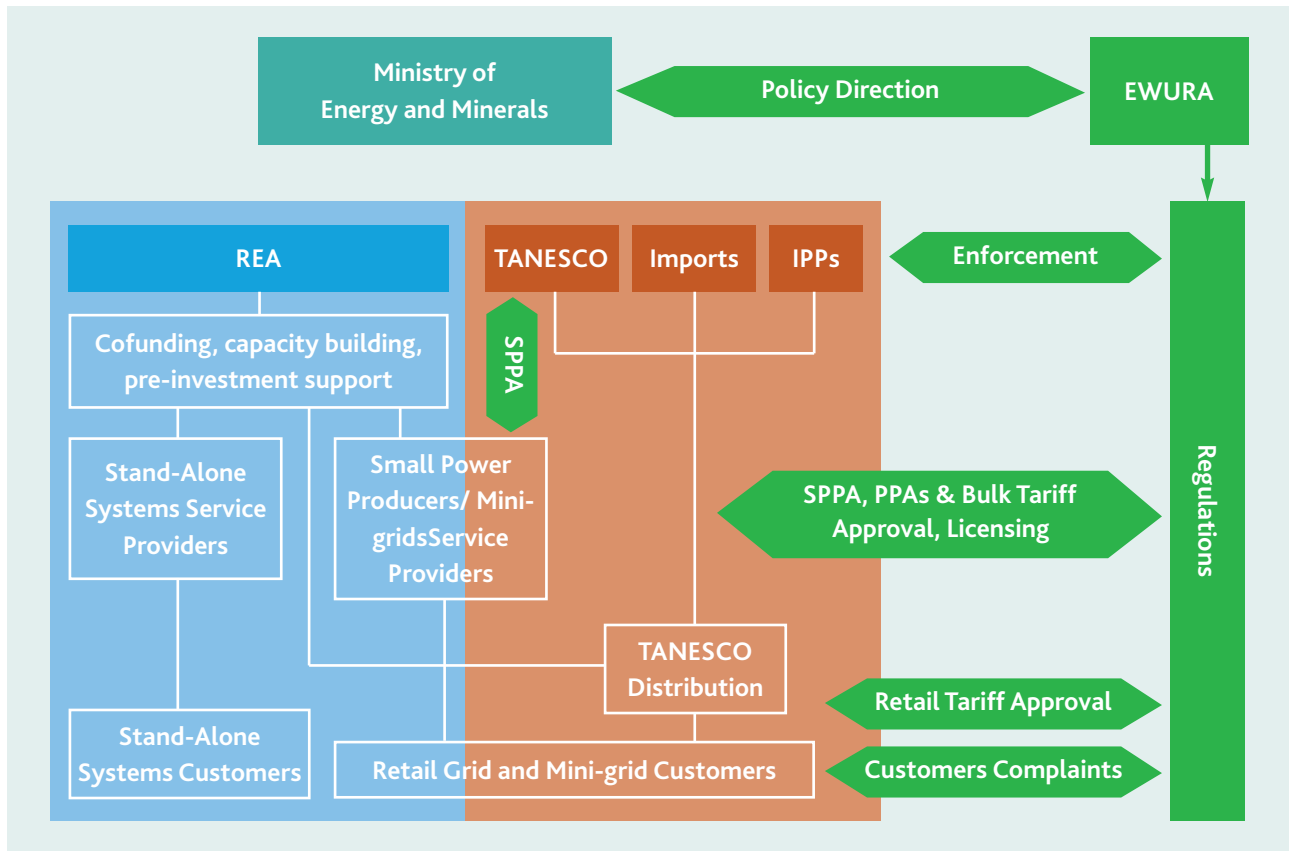
11 Makenes, Prosper 'EU launches 4 MW Mwenga hydroelectric power project in Iringa Region' IPP Media / Guardian, June 2015. See also <http://www.riftvalleyenergy.com/projects/mwenga-hydro/>

12 US Millennium Challenge Corporation 'Business Opportunities in Tanzania's Power Sector' Spring 2015

13 Ibid.

Figure 8.7 below demonstrates the complex interplay of different actors in the electricity sector:

Figure 8.7 Institutional framework and market structure of the electricity sector



2.2. Coal and geo-thermal

As discussed in the Mining Chapter, coal reserves are abundant in Tanzania, with an estimated total reserve in excess of 5 billion tonnes at locations including Kiwira, Mchuchuma, Ngaka, Lake Rukwa and Lake Victoria.¹⁵ At present, no coal-fired electricity is produced in the country, but this is likely to change in the coming years as several projects are underway.

2.3. Off grid

By 2015, one of every nine new electricity connections in Tanzania was off-grid. This figure – which is set to double or more in the coming years – is being driven by the development of mini-grids, micro-grids and increasingly affordable distributed solar products and storage options (known as Solar Home Systems).¹⁶ Of the companies rolling out solar products across Tanzania, the largest include:

- Off Grid Electric, which recently closed a successful multi-million dollar funding round for its household solar products;
- SolarGrid Tanzania, a company founded by German entrepreneurs that sells high quality solar home systems in Tanzania;
- Germany-based Forsera Solar which provides high quality Pico-Solar-Home-Systems for light generation, phone charging, powering of radios and TVs;
- Powergen, whose solar PV products are providing power to entire off-grid communities in Tanzania; and
- EU+SN investor Mobisol, a Germany-based provider of ready-to-use solar home systems, mobile phone-based payment optionality and larger solar systems that can power small businesses. The company has installed over 27,000 solar home systems in East Africa to date.

¹⁵ US Millennium Challenge Corporation 'Business Opportunities in Tanzania's Power Sector' Spring 2015

¹⁶ McKinsey & Company, 'Brighter Africa: The growth potential of the sub-Saharan electricity sector' February 2015

3. Policy Context

In an effort to overcome the obstacles that held back Tanzania's electricity sector for decades, the GoT introduced a raft of new legislation during the 2000s. Key elements of this new enabling framework for private investment included the Energy and Water Utilities Authority Act (2001 and 2006), the National Energy Policy (2003), the Rural Energy Act (2005), the Electricity Act (2008), and the Public Private Partnership Act (2010).¹⁷

Of this raft of new legislation, three items were pivotal. First, the National Energy Policy (2003), which included detail on energy pricing and private sector participation in the electricity market, and provided a clear regulatory regime for the sector. Second, the Electricity Act (2008), which established a general framework for the role of the Ministry of Energy and Minerals (MEM) and the Energy and Water Utilities Regulatory Authority (EWURA), includes EWURA's tariff setting criteria and procedures, the criteria for license awards and disputes resolution procedures. In a related development, in August 2015 EWURA launched revised the Model Power Purchase Agreements for specific technologies on their webpage, in addition to proposing a competitive bidding framework for solar and wind Small Power Projects (SPPs).¹⁸ It should also be noted that Section 41(6) of the Electricity Act 2008 has recently been repealed to allow private generators to sell power directly to bulk off-takers.

Third, the Public Private Partnership Act of 2010 set out the responsibilities and obligations of government and industry in PPPs and established both the Public Private Partnership (PPP) Coordination Unit within the Tanzania Investment Centre (TIC), and a PPP Unit under the Ministry of Finance.¹⁹

Several strategic plans were also developed, including the Power Sector Master Plan (PSMP), Rural Electrification Investment Prospectus, National Development Vision 2025 and Big Results Now initiative.²⁰ Together, these sweeping changes opened up the sector to foreign investment and within a decade independent power projects were

contributing 40% of the national grid's effective generating capacity.²¹

3.1. Key regulatory agencies

The Ministry of Energy and Minerals (MEM) plays the leading role in overseeing the power sector, with responsibility for formulating policies and promoting investment. Under MEM the main institutions with influence over the sector are:

- **Tanzania Electric Supply Company (Tanesco)**, the country's main bulk supplier of electricity and operator of the transmission and distribution system network;²²
- **Rural Energy Agency (REA)**, founded in 2007 to promote and finance rural energy projects, including IPPs;
- **Tanzania Petroleum Development Corporation (TPDC)**, which is responsible for all oil and gas exploration and production activities;
- **Tanzania Geothermal Development Company (TGDCL)**, which is responsible for geothermal exploration and project development; and
- **Energy and Water Utilities Regulatory Authority (EWURA)**, which is an autonomous multi-sectoral regulator responsible for most regulatory tasks, including licensing, standards, tariff regulations, performance monitoring and compliance.

¹⁷ These new laws provided for the creation of new institutions, including the Rural Energy Agency (REA) and Energy and Water Utilities Regulatory Authority (EWURA)

¹⁸ Following the 2008 Electricity Act, the government – through EWURA – introduced Standardised Power Purchase Agreements (SPPA) to support the development of small-scale (0.1 MW to 10MW) renewable energy projects, categorized by the GoT as Small Power Projects (SPPs). These would sell both directly to end customers and into the Tanesco network via a feed-in tariff mechanism. SPPs are likely to attract greater investor interest in the wake of EWURA's recent revisions to Model Power Purchase Agreements and introduction of proposals for competitive bidding for solar and wind SPPs.

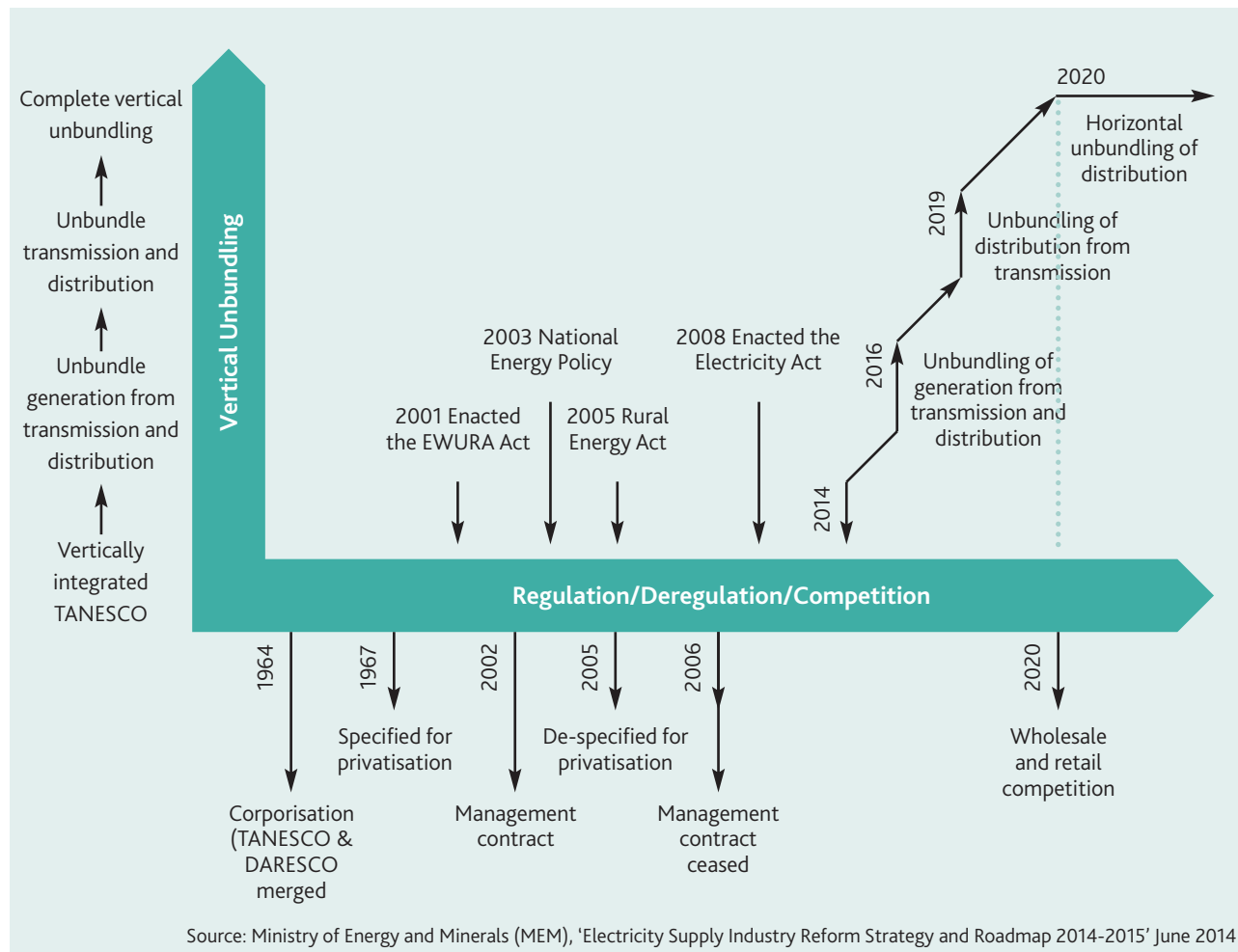
¹⁹ Energy Charter Secretariat, 'Tanzanian energy sector under the universal principles of the Energy Charter Brussels' July 2015

²⁰ African Development Bank (AfDB) 'Renewable Energy in Africa: Tanzania Country Profile' 2015

²¹ Ibid.

²² Distribution of electricity in Zanzibar is the responsibility of the Zanzibar Electricity Corporation

Figure 8.8 Evolution of the regulatory framework for Tanzania's power sector: past, present and future



3.2. Energy Policy of 2015

The most recent development in the sector's regulatory framework was the GoT's publication of a draft Energy Policy in mid-2015.²³ The Energy Policy, which was recently approved and distributed, sets out plans for the unbundling of Tanesco into independent generation, transmission and distribution companies, with the aim of reducing system losses by introducing genuine competition into the wholesale and retail electricity market (see Figure 8.8).

Plans are outlined for increased public and private investment in the sector, diversification of the energy generation mix and expanded connectivity in the distribution network. The Policy also advocates for further PPPs and for measures that allow for the rapid structuring and financing

of PPP projects. In the same aim, the Policy details a pricing regime that addresses issues such as fluctuating exchange rates, inflation and consumer affordability.

Finally, the draft policy outlines steps to harmonise energy sector legislation, to repeal outdated laws and to eliminate overlapping functions at the various regulatory authorities.²⁴

3.3. Tanesco reform

Tanesco lies at the heart of the energy crisis witnessed over the past decade. At present, Tanesco's lack of creditworthiness as an off taker is stalling most potential new investment in power generation. The state company is currently at TSh 699 billion in debt to Tanzania's main independent and emergency power providers²⁵. At one stage,

23 Available here: <https://mem.go.tz/wp-content/uploads/2015/02/NATIONAL-ENERGY-POLICY-2015-Feb-2015.pdf>

24 Kasanda, Peter 'Tanzanian draft national energy policy of 2015' April 2015, Clyde & Co

25 Available here: <https://www.imf.org/external/np/loi/2015/tza/122415.pdf>

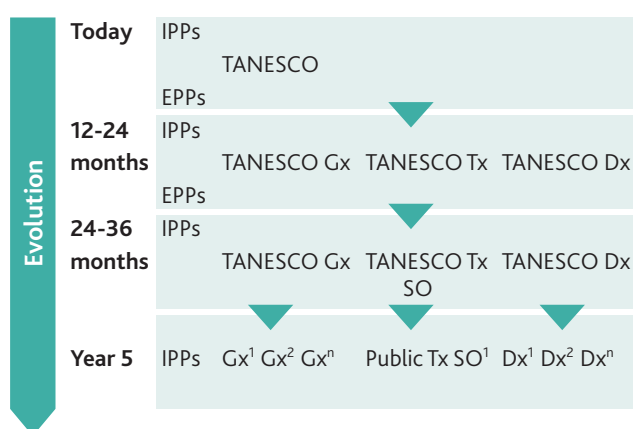
the company was losing USD 3 million per month, and a range of companies had taken Tanesco to court over non-payment claims.²⁶

To address this, the BRN initiative outlined plans to restructure Tanesco to make the organisation more viable as a financing partner and electricity buyer. These plans were formalised in the electricity supply reform strategy. As shown in Figure 8.9, Tanesco will be unbundled in phases. Initial steps in 2014 included tariff reform – featuring a 39% tariff rate increase – which allowed for full cost-recovery, as well as operational improvements to Tanesco’s management.²⁷ By July 2017, generation will be separated from the rest of the company; by July 2021, transmission will be separated from distribution; and by July 2023 there will be horizontal unbundling of distribution into multiple new entities.²⁸

As part of this unbundling process, six private companies will replace Tanesco in power generation and transmission by 2022, which in turn will improve tariff structures and reduce the payment risk for investors involved in power purchase agreements.

However, the GoT’s current timelines for Tanesco reform are

Figure 8.9 **TANESCO step-by-step structure evolution**



Sector evolution should be gradual, following step-by-step timeline

Exact number of resulting Generation and Distribution companies will depend on sector demands in 2020

Source: Big Results Now (BRN) 'Energy Lab Final Report Executive Summary' April 2013

likely to prove optimistic, not least because significant funding will be required from development partners to kick-start the process. The reforms will eventually go ahead because all stakeholders are now agreed that without them, hundreds of millions of dollars of potential new investment will remain on hold. But the process is likely to take longer than planned.

4. Supply and Marketing Chain

The value chain for Tanzania’s power sector encompasses several sub-sectors, including generation, transmission, distribution, service location, storage, and related IT and communications solutions. The industry can further be divided between projects that relate to the country’s national grid network (which provides electricity access to less than a quarter of Tanzanians), and those that cover off-grid electricity generation and distribution, including renewable energy projects.

Parts of this sectoral value chain are controlled by the government of Tanzania: for example, the state electricity utility Tanesco fully owns the country’s transmission and distribution system, made up of roughly 5,000km of 220kV, 132kV and 66kV lines, and oversees a rigid four-category pricing system for end customers.²⁹ In addition, the six hydroelectric power plants that account for approximately half of Tanzania’s total power generation – the plants have a combined capacity of 561MW – are owned and operated by Tanesco.³⁰ However, even in these state-run segments of the sectors, private companies such as EU^{+SN} investors ABB Tanzania Limited (from Sweden) and Schneider Electric, a French-based specialist in energy management, provide a range of services and supplies (including monitoring, maintenance, energy management, data analysis and metering support).³¹

In other key areas – such as thermal power generation using domestic natural gas, coal and heavy fuel oil – foreign investors play a leading role, either independently or via Public Private Partnerships (PPPs) with the Government of Tanzania (GoT). As the Tanzanian economy opened up and

26 Manson, Katrina 'Infrastructure: Power and port projects will ease Tanzania’s energy supply and congestion' Financial Times, September 2013

27 US Power Africa Initiative 'What Power Means for Tanzania' USAID, March 2015

28 Tanzania Electric Supply Company Ltd. (TANESCO) 'Presentation on the Tanzanian Solar PV-Hybrid Workshop in Berlin, Germany', March 2015

29 Domestic Low Usage Tariff; General Usage Tariff; Low Voltage Usage Tariff and High Voltage Usage Tariff. Tanzania’s transmission and distribution network suffers from inefficiencies and under-investment (the World Economic Forum gives the country 2.2 out of 7 for quality of electricity supply due to its underdeveloped infrastructure).

30 Eighty percent of this hydroelectric power is produced from dams in the Rufiji river basin, with the remaining 20% spread across the country’s other principle water basins

31 Schneider Electric is present in Tanzania through its global partner Powertech

economic growth began to accelerate in the 1990s, the electricity supplied from Tanesco's hydropower plants became insufficient – not least because water levels in the reservoirs proved unreliable. Drought affected hydro generation and the sector plunged into crisis – power rationing, blackouts and rising energy costs became the norm. In response, the GoT collaborated with investors to bring new sources of thermal power generation to the grid. From 2001 onward, the role of the private sector expanded with the arrival of Independent Power Producers (IPPs) such as UK-based Songas and PanAfrican Energy, US-based Symbion Energy, as well as Emergency Power Producers (EPPs) such as UK-based Aggreko.³²

These PPPs have boosted the country's installed capacity significantly. By 2015, hydroelectric projects accounted for only 45% of all power generation, while new gas-fired and liquid fuel-fired plants accounted for 544 MW and 210 MW of generation respectively.³³

4.1 European investment in Tanzania's power sector

European investors play a leading role within this power sector ecosystem. The Ubungu plant in Dar es Salaam owned and operated by UK-based Songas alone generates 180 MW of electricity or roughly 20% of Tanzania's electricity supply, while British company Aggreko produces some 700 gigawatt-hours (Gwh) annually from its temporary power generation facilities in Tanzania. Aside from these power providers, a number of specialist European power sector construction and engineering firms are involved in on-going gas-to-power projects in Tanzania, with Norway-based Jacobsen Elektro – which in 2015 delivered the Kinyerezi I Power Plant as a turnkey project to Tanesco – as the leading example.

Meanwhile, in the renewable sector, a cluster of European firms have developed a market leading position. SolarGrid Tanzania Ltd, a company that sells high quality solar home systems in Tanzania, was established by young German entrepreneurs in 2014 and has expanded rapidly, for

example. A second Germany-based renewables company active in Tanzania is Forsera, which designs devices that ensure regular and clean power generation by using high quality solar batteries. The company provides high quality Pico-Solar-Home-Systems – typically used in rural areas where grid access is low – for light generation, phone charging and powering of radios and TVs.³⁴

Another German company, Mobisol, serves over 30,000 customers in Tanzania from its Arusha headquarters. The company combines solar energy with an affordable payment plan via mobile phone, comprehensive customer service and innovative remote monitoring technology. This model allows low-income customers access to quality solar home systems, and a clean alternative to fossil fuels.³⁵ Mobisol's solar home systems provide enough electricity to power bright LED lights, radios, mobile phones and a variety of household and consumer appliances. The company's larger systems can also power small businesses enabling entrepreneurial customers to create additional income. In this way, Mobisol stimulates economic and social development while simultaneously contributing to global environmental protection.

Additional European firms in the renewable sector include Denmark-based Wind East Africa, a project company through which UK-based Aldwych International and its partners are developing a USD 285 million, 100 MW wind farm in Singida region. Wind East Africa seeks to become the country's first successful, independent wind energy power project.

A further example of European innovation in the renewable sector is SimGas Tanzania Ltd, a Joint Venture between SimGas BV in the Netherlands and Silafrica Tanzania Ltd. SimGas aims to deliver affordable small-scale biogas and bio-sanitation systems to Tanzanian households, and changing how families cook by making biogas an affordable energy alternative, eliminating the need to burn wood or coal fires indoors.

A final example is Belgium-based Energio Verda, a renewable

31 Schneider Electric is present in Tanzania through its global partner Powertechnics

32 IPPs focused on gas-to-power projects and associated infrastructure, while EPPs relied upon temporary diesel-fired power generation.

33 BBC News, 'Tanzania closing hydropower plants' October 2015; access at: <http://www.bbc.com/news/world-africa-34491984>; see also: Tanzania Electric Supply Company Ltd. (TANESCO) 'Presentation on the Tanzanian Solar PV-Hybrid Workshop in Berlin, Germany', March 2015

34 Special features of the products consist of Li-Battery technology, ultra-efficient LEDs and the modular system design, which allows the system to grow with the demand of the user.

35 Mobisol's systems come in varying sizes from 80 to 200 watt peak capacity to match the various energy needs of differing households

energy project developer and consultant specialising in East African markets. The company is working with international partners to develop a broad pipeline of projects across

Tanzania, covering mini-grid installations through to 10MW and above grid-connected projects.

Case study 8.1 Songas Ltd

For more than a decade, Songas Ltd has provided a reliable supply of electricity to the Tanzanian national electric grid and industrial users in Dar es Salaam. The company's assets include a gas processing facility, a 225 km sub-sea and onshore gas pipeline, and the Ubungo power station, which currently supplies 25% of Tanzania's electricity needs. Songas is majority owned (56%) by Globaleq, the emerging market power producer (Globaleq in turn is owned by Norway's Norfund (30%) and Britain's CDC Group (70%)). Other investors in Songas include TPDC, TDFL and TANESCO.³⁶



Songas provides one of the cheapest and most competitive all-in generation costs in East Africa. It sells its electricity to Tanesco at approximately US\$5.5 per kWh. By utilizing the country's own natural gas resources, the Songo Songo gas to electricity project has substantially reduced operating costs for Tanesco and other industries in Tanzania. Over USD 5 billion has been saved since commercial operations commenced in 2004.

Songas also processes and transports gas for other TANESCO-owned power plants and approximately 30 industrial consumers who use the natural gas in various manufacturing processes.

The business consists of two different operating streams: natural gas fired generation capacity to provide electricity to Tanesco (who then resell this electricity to their own customers); and the Songo Songo Island upstream and midstream gas infrastructure to enable gas shippers such as Tanzania Petroleum Development Corporation (TPDC) and Pan African Energy to sell gas to their customers in Dar es Salaam.

Gas from the Songo Songo gas field is processed on the island at Songas' processing facility and is then transported through a 225 kilometre pipeline to Dar es Salaam where it is used in Songas' Ubungo Power Plant ("UPP"), the largest gas-fired power station in East Africa. The Ubungo plant uses six aero-derivative gas fired turbines that generate 180MW of electricity. This electricity is supplied to the national electricity grid and distributed to end users by Tanesco. The company has invested more than US\$320m in this infrastructure to date.

5. Key Challenges

The most pressing challenges facing Tanzania's power sector include:

5.1. Failure to increase electricity supply in pace with growing electricity demand

Demand for electricity is increasing rapidly due to mining sector and manufacturing industry growth, urbanisation and broad economic growth. Installed capacity is projected to increase seven-fold to meet demand, but there is no room for error in delivering this supply-side growth. Figure 8.2 shows the expected completion dates for upcoming projects. Clearly, if these are not delivered on time, a return

to the days of power shortages and load shedding may be the result.

5.2. Disruption to hydropower generation due to climate change

Changing rainfall patterns and droughts may impact hydropower output. While the evidence base for a causal connection between climate change and disruption to hydropower production in Tanzania has yet to be proven beyond doubt, anecdotal evidence suggests that this may become a growing concern in the medium term.

³⁶ In 2015, UK-based Actis announced the sale of Globaleq Africa to Norfund, the Norwegian investment fund for developing countries, and CDC Group ("CDC"), the UK government's development finance institution.

Table 8.2 Upcoming power projects in Tanzania

Type	Plant	Capacity (MW)	COD (year)
Gas	Kinyerezi - I	150	2015
	Kinyerezi - I Extension	185	2017
	Kinyerezi - II	240	2017
	Kinyerezi - III	600	2020
	Kinyerezi - IV	330	2030
	Kilwa Energy - I	210	2017
	Kilwa Energy - II	110	2018
	Somanga Funga (TANESCO)	8	2017
	Mtwara (IPP)	400	2018
	Zinga (IPP)	200	2018
	Mkuranga (IPP)	250	2018
	Mtwara (TANESCO)	18	2018
	Coal	Mchuchuma-I	600
Kiwira-I		200	2020
Kiwira-II		200	2024
Ngaka-I		200	2022
Ngaka-II		200	2024
Hydro	Rusumo	300	2018
	Malagarasi stage -III	44.7	2020
	Rumakali	222	2028
	Kakono	53	2020(est)
Wind	Singida Geo Wind	150	2030

Source: US Power Africa Initiative 'What Power Means for Tanzania' USAID, March 2015
Note that this does not include smaller projects and is therefore not comprehensive.

5.3. Tanesco's structural insolvency

Tanesco's poor technical and financial performance, combined with external shocks such as prolonged drought in 2012, has left the utility virtually insolvent. Only when the planned reforms to Tanesco have taken effect will the sector present a truly viable and attractive investment proposition for EU^{5N} companies.³⁷ Tanesco – together with development partners and private sector companies – must raise at least USD 1.9 billion annually for 11 consecutive years to guarantee

the successful dismantling of the state power company's current monopoly.³⁸ This investment requirement is initially to be used for paying the USD 412 million debt incurred by TANESCO. 73.5 % of the funds are to be made available for increased power generation to reach the GoT's objective of boosting overall generation capacity to 10,000 MW by 2025.³⁹

In the near term, a more pressing challenge to be resolved is the accumulation of massive payment arrears owed by Tanesco to independent power producers – a key concern for all operators in the sector.

5.4. Limited network coverage

Electricity connections are available to only 24% of Tanzanians. The sheer size of the country, combined with low population density, renders grid extension expensive and challenging in remote areas. A solution to this problem lies in the growing market and increasingly mature regulatory framework for off-grid electrification schemes. The GoT's efforts to develop mini-grid systems of 1 MW or less, a feed-in tariff for hydro and biomass and a competitive bidding framework for small scale solar and wind projects (less than 10 MW) present first steps into the right direction for the current projects to achieve scale⁴⁰.

5.5. Gaps in the institutional, regulatory and legal framework

Progress has been made on the regulatory environment in recent years, but the policy framework for renewable energy, for example, remains incomplete (there are no feed-in tariffs or other tangible incentives for renewable projects which exceed the 10 MW size definitions of SPPs, for example). Uncertainty over the timing and scope of grid expansion plans also acts as a disincentive to investors in mini-grid projects.⁴¹

Annex 1: Key Legislation Governing the Power Sector can be found on page 169

37 As of the end of the 2013/14 financial year, Tanesco had accumulated Sh400 billion in debts. See: Kasumuni, Ludger 'Tanesco reforms will cost us Sh33 trillion', The Citizen, October 2014

38 Kasumuni, Ludger 'Tanesco reforms will cost us Sh33 trillion', The Citizen, October 2014

39 Construction Review Online, @Tanzania Power System Master Plan: USD 11 bn reform energy sector, 2014; access at:

<http://constructionreviewonline.com/2014/08/tanzania-power-system-master-plan-us11bn-reform-energy-sector/>; Kasumuni, L. 'Tanesco reforms will cost us Sh33 trillion' October 2014; access at: <http://www.thecitizen.co.tz/News/Tanesco-reforms-will-cost-us-/-/1840392/2482566/-/dk5rvt/-/index.html>

40 See: <http://www.africa-eu-renewables.org/market-information/tanzania/governmental-framework/>

41 This section draws directly on: African Development Bank (AfDB) 'Renewable Energy in Africa: Tanzania Country Profile' 2015

9 Information and Communications Technology (ICT)

Sector Snapshot

- The Information, Communications and Technology (ICT) sector is both the fastest-growing industry in the country – expanding at 20% per annum – and the most salient example of the positive impact of European investment in Tanzania.
- In the space of a decade, two EU^{+SN} investors in particular – Vodacom and Tigo – have transformed the country's mobile telephony and financial services sectors, breaking down traditional industry boundaries and making Tanzania the global leader in innovative pro-poor mobile financial services. Together, these two European investors accounted for 69% of all telecommunications service revenue in Tanzania in 2015.
- Elsewhere in the sector, European companies such as Alcatel Lucent, Cambridge Broadband, Ericsson and Siemens are also drawing on decades of in-house research and development and technical excellence to help build a modern ICT backbone infrastructure across Tanzania.
- Overall, some 23 EU^{+SN} companies have invested in the sector, hailing from nine different European countries, of which three are Large Taxpayers.
- In a country which today hosts the world's highest volume of mobile financial services transactions globally, the increasingly sophisticated mobile money and communications products being introduced by EU^{+SN} firms are revolutionising connectivity and ease of trade, breaking down barriers and opening up opportunities for millions of Tanzanians by providing access to new technologies.
- The fast expansion of the ICT sector driven by the investment of major EU^{+SN} companies directly benefits the Tanzanian labour market. The Swedish-based mobile company Tigo alone, accounting for 25 % of the total mobile market share, has offered stable employment in the ICT sector to over 300,000 Tanzanian citizens.

1. Sector Outlook

A combination of supportive regulation and newly available technology is set to propel Tanzania's ICT sector to new highs in the coming years. Mobile penetration is approaching 70%, with annual subscriber growth of more than 20%.¹ The arrival of third and fourth generation (3G, 4G) mobile services, Long-term Evolution (LTE) technology and wireless broadband networks will also catalyse the industry. The recent landing of the first fibre optic international submarine cables in the country is also revolutionising the market and reducing reliance on costly satellite connections. Meanwhile, the GoT's inauguration of the first phase of a national fibre backbone network will increase network bandwidth and availability, and gradually lower costs.

For its part, the Government of Tanzania's progressive and light touch regulatory framework – including the new converged licencing regime – has stimulated competition and innovation in the market. The GoT's recent decision to join the One Area Network, which seeks to homogenize and reduce tariffs on international phone calls within members of the East African Community, will further boost the telecommunications sector. The initiative was first launched in 2014 by Kenya, Uganda and Rwanda, all of which have

already adopted the One Area Network – resulting in a 60% drop in roaming charges on voice calls.

For current and future EU^{+SN} investors in Tanzanian ICT, the opportunities are substantial and varied. Growth in the mobile market will underpin opportunities for mobile network operators (MNOs), but – less obviously – the expansion plans of existing operators will also create ancillary opportunities for specialist vendors who can position themselves to support large-scale programs such as the rollout of 4G networks.

In addition, the emergence of 'Big Data' – i.e. the explosion in the quantity and greater availability of high frequency digital data – offer significant commercial opportunities in Tanzania in the medium term. As in other emerging markets where mobile payment infrastructure and internet usage are growing, there will be an increasing market for service providers able to convert Big Data — call logs, mobile-banking transactions, online user-generated online content and searches, satellite images, etc. — into actionable information.

A key lesson from the successful government-industry

¹ See: <http://www.budde.com.au/Research/Tanzania-Telecoms-Mobile-and-Broadband-Statistics-and-Analyses.html#sthash.ewGwxFzw.dpufin>

relationships of the past decade is that European market entrants will benefit from being proactive and establishing direct relationships with regulators such as the Tanzania Communications Regulatory Authority (TCRA) and Bank of Tanzania (BoT), engaging proactively to understand their perspective and priorities. Identifying and aligning with the regulators' key objectives – such as greater financial inclusion for the poorest – will reap dividends; while keeping government agencies informed on new technologies and on the implementation progress will help to ensure that future regulation is sensitive to the latest market developments.²

2. Sector Profile

Tanzania's national development plan, Vision 2025, places the Information and Communications Technology (ICT) sector at the heart of the country's economic future. The Government of Tanzania (GoT) recognises the opportunity to 'leapfrog' certain stages in the traditional evolution of the ICT industry, thereby accelerating national economic growth via the multiplier and spill-over effects of rapid technological advancement.³

Like many developing countries, Tanzania was late to liberalise the telecommunications market. Reforms began in the early 1990s and continued throughout the decade. The Tanzania Communications Regulatory Authority (TCRA), established in 2003, is now the central regulator for the sector and supervises companies that operate in services related to the postal, broadcast and communications industries (see Policy Context below). The Bank of Tanzania (BoT) is the other main regulator, with a mandate to oversee the development of ICT-enabled financial services.

Mobile voice services are the principle source of recurring revenue for the sector, contributing USD 845 million per annum or 67% of all revenues. This increasingly mature voice market has recently been boosted by the expansion of mobile networks into more rural areas of Tanzania, and by increasing mobile adoption by lower income customers thanks to more competitive pricing. Going forward, however, revenue from voice services will gradually fade in importance and the main source of revenue growth will come from the explosion in usage of mobile financial services (see Mobile

Payments section below).

2.1. Voice, mobile, and internet access

After 15 years of rapid expansion, Tanzania represents the second biggest mobile phone market in the region after Kenya. In 2000, there were just under 300,000 SIM cards registered in Tanzania; today, over 60% of the population – roughly 30mn people – has a registered SIM. Meanwhile, the introduction of 3G and 4G mobile services and wireless broadband networks is improving connectivity, and mobile operators in turn have become the country's leading internet service providers. This has boosted the overall internet penetration rate, which today stands at roughly 6 million or 12%. While this rate is low by global standards (internet penetration in North America and Europe is 88% and 83% respectively), it is increasing rapidly year-on-year thanks to the increasing availability and affordability of smart phones.

2.2. Mobile financial services sector

Forty five percent of Tanzanians use mobile banking, with transactions across all networks worth roughly USD 1.5 billion each month. The range of services available has expanded rapidly beyond simple money transfers and now includes savings, credit and insurance products in addition to payments for goods and services like utilities, television subscriptions and transport fares. Table 9.1 illustrates the wide range of mobile operators and products in Tanzania's ICT sector.

The sub-sector is growing at lightning pace, with more than 12 million new mobile money accounts created in the five years from 2009 to 2014. In terms of subscribers, usage, volumes and revenues, Tanzania is viewed by global firms as the African market with the greatest potential for mobile financial services, given that in neighbouring Kenya the prospects for competition and growth are suffocated by Safaricom's overwhelming 98% share of the mobile money market.⁴ As of early 2016, it is no exaggeration to describe Tanzania as the leading market for mobile financial services worldwide. Mobile payments play an especially important role in enabling informal economic activity in Tanzania, for example allowing rural retailers to send payments to urban wholesalers, thereby strengthening rural-urban market linkages.⁵

2 See Bill & Melinda Gates Foundation, 'Enabling Mobile Money Policies in Tanzania,' by Simone di Castri & LaraGidvani, February 2014

3 The Tanzania Development Vision 2025. Planning Commission, Government of Tanzania, 2010, pg. x


4 The equivalent of one third of Kenyan GDP is transferred through Vodafone subsidiary Safaricom's network of 85,000 M-Pesa agents each year

5 International Finance Corporation (IFC) 'M-Money Channel Distribution Case – Tanzania' 2010

ICT has also enabled banks in Tanzania to revolutionize their product offerings to make them more attractive and affordable to lower income customers, thus promoting

financial inclusion and entrepreneurship. From 2011 total financial transactions made using a mobile phone increased rapidly in Tanzania as shown in Figure 9.1.

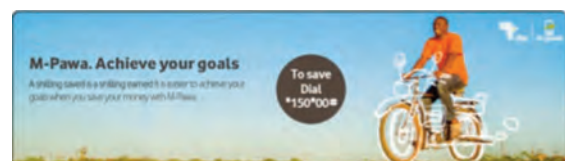
Table 9.1 Market share and mobile money / mobile banking products in Tanzania

Company name	Logo	Mobile market share	M-money market share	M-money product	M-banking product
Tigo Tanzania		24%	18%	Tigo Pesa	Tigo Wekeza
Airtel Tanzania		28%	13%	Airtel Money	Airtel Timiza
Vodacom Tanzania		38%	53%	M-Pesa	M-Pawa
TTCL		2%	N/A	None	None
Zantel*		8%	Not known	Ezy Pesa (Zantel Z-Pesa)	None

Note: 16% of mobile money subscribers use a combination of 2 or more services
*Zantel was acquired by Millicom (operating as Tigo in Tanzania) in 2015

Examples of second generation mobile money products launch in Tanzania in 2015 include:

- Airtel's Timiza product, which offers short term loans to customers through their mobile phones.
- Vodacom's M-Pawa service, which is effectively a bank account that lets customers pay bills via mobile phone, underpinned by Commercial Bank of Africa Ltd.'s banking license.
- Tigo Tanzania's new Tigo Wekeza ("Tigo Invests") product, which returns interest directly to customers, much like a retail bank.⁶



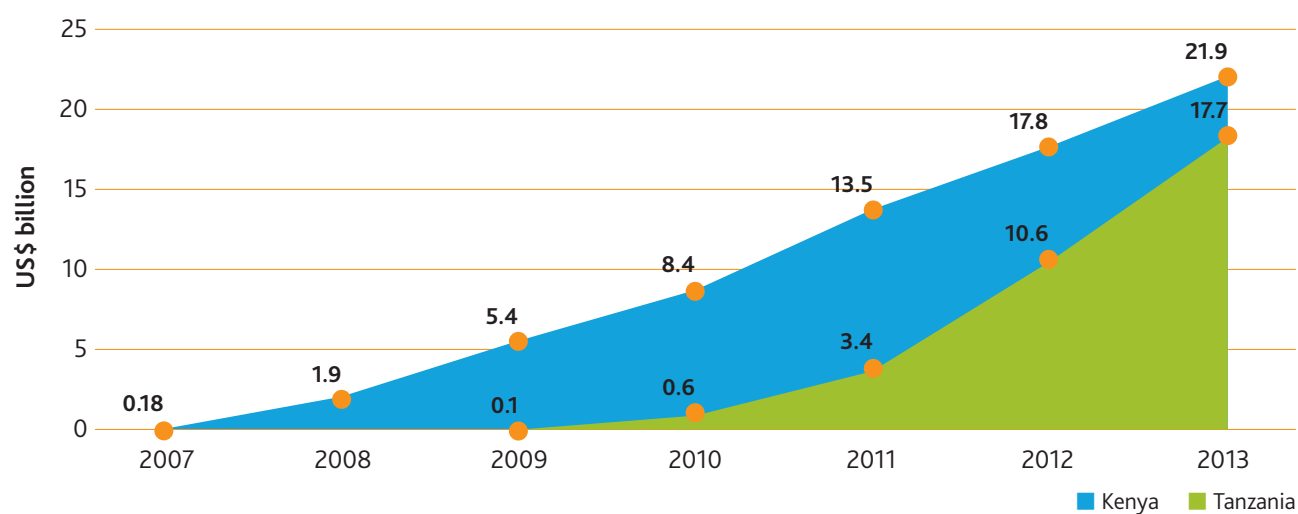
The diverse range of mobile banking products in Tanzania can partly

⁶ A world first, the Wekeza product functions as a profit share paid automatically each quarter to all 3.5 million customers of Tigo's mobile money service 'Tigo Pesa', with profit calculated on the basis of customers' average daily balance. No additional registration is required to benefit from the profit share, which is funded from trust accounts held by Tigo with several Tanzanian banks.

be explained by the absence of clear, overarching national payment systems legislation until April 2015. Up until then, the government had purposely not applied strict regulations affecting national payment systems in order to encourage innovation and to allow for the fast development of the

mobile banking, which it sees as a key driver of financial inclusion. This has been described by BoT Governor Benno Ndulu as a 'light touch, test and learn' approach in which the government issues 'letters of no objection' to allow new operating models to be tested in the market.

Figure 9.1 Comparing mobile money in Tanzania and Kenya: Yearly transaction value



2.3. Media and entertainment

Tanzania's media industry has expanded quickly since liberalisation from government control in the 1990s. Today, the sector is made up of more than 800 registered newspapers and publications, 80 radio stations and over 40 broadcast service providers (free to air, digital terrestrial, cable and satellite TV).⁷ Of these media sub-sectors, radio is the most important and represents the sole media source for 50% of Tanzanians.

Most TV and radio stations have regional rather than national coverage, with radio stations tending to operate at the district level. These stations are obligated by law to produce at least 60% of content locally, which can be challenging for national TV stations in particular.

Going forward, the television sector's progression from analogue to digital will be superseded by a new phase of transition to online TV and the provision of media content via smart phones.

The demand for local media content is growing, and in urban areas much of it will be met by a proliferation of new online and social media platforms accessed by mobile devices.⁸

Challenges facing the sector include generally poor quality content, low capacity – journalism and media graduates often enter the job market with few practical skills – and a lack of financial sustainability due to the slow development of sales, sponsorship and advertising revenue streams at media houses.

3. Policy Context

The regulatory framework for the telecommunications sector is based on the following legislation:

- **Tanzania Communications Act of 1993**, which marked the liberalization of the sector and split the Tanzania Posts and Telecommunications Corporation into a regulator and two separate commercial entities.
- **National Telecommunications Policy of 1997**, which serves as a framework for private investment into the sector, providing guidelines on fair competition and creating an enabling environment for foreign investment.

⁷ Tanzania Media Fund 'Strategic Plan 2015 – 2018', 2015; access at: http://www.tmf.or.tz/wp-content/uploads/2012/06/151222_TMF-Strategic-Plan.pdf

⁸ Ibid.

- **Tanzania Communication and Regulatory Authority Act 2003**, which established the industry regulator, the Tanzania Communication and Regulatory Authority (TCRA).
- **Electronic and Postal Communication Act of 2010 (EPOCA)**, which updated the Tanzania Communications Act and introduced new regulations including a requirement for foreign companies to have a local shareholding arrangement (see Key Challenges). Another feature of EPOCA was the requirement for consumers to register SIM cards purchased from providers.

Implementation of this legislation is the responsibility of the Ministry of Communications, Science and Technology, which regulates the sector through the TCRA.

3.1. Mobile payments regulation

Until 2015, the Bank of Tanzania Act 2006 (Section 6) governed all mobile-enabled financial services. This Act was amended to award the BoT powers to regulate non-bank entities such as mobile network operators that offer payment services. The following year, the BoT issued the Electronic Payment Schemes Guidelines (EPSG), which formally granted mobile network operators the authority to offer payment services, provided they partner with banks, to receive “letters of no objection” (LNOs),⁹ whose purpose is to set out high level performance requirements and to enable the BoT to protect consumer funds via bank guarantees backed by a 100% liquidity requirement.

However, the EPSG were only guidelines and lacked the detail and binding nature of parliamentary legislation. To address this, the flagship National Payment System Bill was adopted – after long delays – in 2015. Drawing on elements

of Kenya’s 2011 National Payment System Act,¹⁰ the bill is part of a broader effort to harmonise financial sector legislation across the East African Community (EAC). The bill was drafted after input from Tanzanian mobile network operators and represents a strong example of how proactive engagement between regulators and industry participants can produce effective legislation.

Once signed into law, the National Payments Act will provide for more modern modes of payment settlement, including recognition of the growing importance of mobile money transfers. The bill also covers tax collection and corporate structure for companies developing new business models in the payments sector. Finally, it introduces more stringent rules and supervision (including a system of fines for transgressors or unlicensed operators) regarding fraud in electronic payment, clearing and settlement systems. Two countries in the East Africa Community, Rwanda and Kenya, have passed similar laws.

3.2. Bank of Tanzania

The BoT has so far taken a light touch and progressive approach to regulation of mobile financial services. Interviewees for this study also report that the BoT is generally willing to consult with industry stakeholders and to address feedback. In some respects, mobile network operators are actually self-regulating in the anticipation of what future regulation might demand. In June 2014, for example, Tigo, Zantel and Airtel signed an interoperability deal to allow customers to make mobile payments between any of their payment platforms – a development the BoT was keen to see take place (see Box 9.1).¹¹

Within the BoT, the National Payments Directorate is

Box 9.1 National Financial Inclusion Framework

The BoT in 2013 launched a National Financial Inclusion Framework with support from the Financial Sector Deepening Trust and other donor and NGO programs. The framework includes the ambitious goal of expanding access to formal financial services accounts to more than half the country’s population by 2016, with mobile banking playing a central role. While the success of this non-binding public policy initiative remains to be seen, the government’s support for the framework demonstrates a broad commitment to increasing financial inclusion that is likely - in the long term - to benefit MNOs whose mobile banking services target the poorest.

9 The LNOs also included provisions for: risk management; safeguards for customer funds; monthly submission of transaction data and trust account balances by MOBILE NETWORK OPERATORS to the BoT; consumer protections; Know-Your-Client (KYC) requirements; transaction limits; and restrictions on the use of interest.

10 See here: http://kenyalaw.org/kl/fileadmin/pdfdownloads/Acts/NationalPaymentSystemsAct_No39of2011.pdf

11 However, the deal was also motivated by commercial considerations: it excluded the market leader Vodacom in an effort to compete at scale with the M-Pesa service.

responsible for day-to-day oversight of financial products offered by mobile network operators. The Directorate also collaborates with the commissioner for domestic tax at the Tanzania Revenue Authority (TRA) on revenue and tax-related matters. Both agencies are ostensibly autonomous, though they fall under the auspices of the Ministry of Finance.

4. Supply and marketing chain

At the heart of the supply and marketing chain for Tanzania's telecommunications sector lies a group of eight licensed Mobile Network Operators (MNOs), of which the largest are EU^{+SN} investors Vodacom Tanzania and Tigo Tanzania, UAE-based Bharti Airtel and Vietnam's Viettel.¹² These companies serve both individual customers and business clients and generate economic opportunities for a range of sub-sectors along the telecommunications supply chain – from component and hardware suppliers to service providers, IT and software companies, satellite and wireless providers (including over 40 Internet Service Providers and international gateway operators), content providers, and network infrastructure providers like EU^{+SN} investors Alcatel Lucent (see Case Studies) and Helios Towers.

UK-based Helios Tower Tanzania Ltd represents a powerful example of EU^{+SN} innovation. As the first independent mobile network tower construction company in Africa, Helios has integrated and built over 5,500 sites in 6 years across Africa. In 2013, Helios purchased Vodacom Tanzania's 1149 telecoms mobile network towers for USD 75 million, having already struck a similar deal with Tigo Tanzania. Both Vodacom and Tigo now have access to an enlarged network infrastructure and can offload the operational cost and responsibility to Helios, thereby focusing only on their core role as a mobile network operator.¹³

The sector as a whole is defined by its high degree of free competition relative to other industries in Tanzania. For example, mobile tariffs are not regulated but rather are determined by market forces. There are also few barriers to

entry for new market entrants. This openness has greatly benefitted the consumer as companies compete and invest to introduce new, cheaper products to the marketplace – from voice telephone products to data and internet services, messaging services and, increasingly, video streaming and other 3G-related services.

The sector's stunning growth record is driven primarily by rapid expansion in mobile telephony and enhanced mobile functionality. The Tanzania Investment Centre (TIC) estimates current growth in the communications sector at 20% per annum.¹⁴ Over the next half decade, service revenue in the communications sector as a whole is expected to grow at a Compound Annual Growth Rate (CAGR) of 4.5% to reach USD 1.6 billion in 2020, up from USD 1.3 billion today.¹⁵

4.1 European investment in Tanzania's telecommunications and ICT sectors

ICT is both the fastest-growing industry in the country and the most salient example of the positive impact of European investment in Tanzania. In the space of a decade, two EU^{+SN} investors in particular – Vodacom and Tigo – have transformed the country's mobile telephony and financial services sectors, breaking down traditional industry boundaries and making Tanzania a global leader, perhaps the global leader, in innovative pro-poor mobile financial services. Together, these two European investors accounted for 69% of all telecommunications service revenue in Tanzania in 2015 (see Case Studies below).¹⁶ The next phase of this on-going revolution will be the repositioning of Vodacom and Tigo as the country's largest internet service providers – a move that will allow the mobile data services market to flourish in the coming years.

In the background, European companies such as Alcatel Lucent,¹⁷ Cambridge Broadband, Helios Towers, Ericsson and Siemens have also drawn on decades of in-house research and development and technical excellence to help build modern ICT infrastructure across Tanzania.

¹² Vietnam's ambitious state-run telecoms operator Viettel entered the Tanzanian market in October 2015 with a \$1bn investment in a new 3G mobile phone network under the brand name 'Halotel'.

¹³ Helios has also worked with Bharti Airtel and other operators in Tanzania.

¹⁴ Tanzania Investment Center, 2014, Investors Guide to Tanzania - 2014-15, pg. 52

¹⁵ Pyramid Research "Tanzania: Revenue Growth to be Underpinned by Mobile Network Expansion into Rural Areas", November 2015; access at: <https://www.kenresearch.com/technology-and-telecom/telecommunications-and-networking/tanzania-revenue-mobile-network-rural-areas/4445-105.html>

¹⁶ Pyramid Research "Tanzania: Revenue Growth to be Underpinned by Mobile Network Expansion into Rural Areas", November 2015

¹⁷ As of early 2016, Alcatel Lucent is part of the Finland-based Nokia group of companies. See Case Studies below.

Overall, some twenty three EU^{+SN} companies are already invested in the telecommunications/ICT sector in Tanzania, hailing from nine different European countries. The U.K. accounts for the largest number, followed closely by Sweden. Three of these EU^{+SN} investors are large taxpayers, including companies from Finland, Luxembourg, and the U.K.

Examples of other leading European players active in Tanzania's telecommunications ecosystem include: Nokia Solutions and Networks Tanzania Ltd, a subsidiary of the Finnish multinational communications and IT company; French firm Virtual Communications, which has over 14 years' experience in Tanzania and specialises in mass communications strategy; Sibesonke, a Finnish provider of low cost mobile-enabled social and business networking platforms whose work to improve farmer's access to information in Tanzania will directly benefit more than 700,000 households; Irish firm Delmec Engineering, which applies deep engineering expertise to build and maintain telecommunication networks; Cyprus-based Benson Informatics Limited, a strategic consulting and technology company that has been in the Tanzanian market since 2000; and Swedish firm BIMA, a leading provider of insurance product solutions in emerging markets.

BIMA offers a clear example of the innovation that European firms bring to the sector. The company recently launched the 'Farijika na Tigo Bima' product in partnership with Tigo Pesa, whose customers will now be able to purchase BIMA Personal Accident Insurance for as little as 2,000 TSh, using their Tigo Pesa wallet. This product represents a new way for customers to access affordable, valuable insurance – with all the security and control that comes when paying through a Tigo Pesa mobile money account.

Outside of the telecommunications sub-sector, EU^{+SN} investors are active across Tanzania's ICT landscape. For example, France-based Bureau Veritas, the global provider of testing, inspection and certification services, is implementing a contract with the Government of Tanzania for the implementation of its Pre-export Verification of Conformity (PVoC) programme. Meanwhile, Ireland-based CR2 provides

integrated self-service banking technology solutions to a range of Tanzanian clients. The company has led Barclays Group Africa's adoption of its multichannel banking solution for operations in Tanzania, and has migrated Tanzania's CRDB Bank Plc to BankWorld, a self-service banking platform that has revolutionised the interaction between the customer and the bank at every point of contact.

A further example is Sweden-based ERP Software Technologies (ERPST), one of the leading systems integrators in East Africa. ERP has a proven track record of Turn-Key implementations in Tanzania and provides cutting-edge innovation in cloud computing and mobile solutions. The company's Tanzania office services clients such as the Tanzania Revenue Authority and Twiga Bancorp Limited, for whom ERP installed and implemented a new core banking solution. Other EU^{+SN} ICT firms include Netherlands-based A&A Computers, based in Arusha, and France-based Weshu Ltd, a printing company.

Finally, opportunities are also present for European investors in the entertainment sub-sector, as the success of EU^{+SN} investor Modern Times Group (MTG), a Swedish digital entertainment company, demonstrates. MTG launched the TV1 channel in Tanzania in 2014 offering top quality Tanzanian, African and global content to a wide audience (see Case Studies).¹⁸

¹⁸ See: <http://tv1.co.tz/> and <http://www.mtg.com/>

Case Study 9.1 Vodacom Tanzania

In 1999, Vodacom Tanzania ('Vodacom') won a bid to operate a GSM cellular network and to provide Public Land Mobile Network Services (PLMN) in Tanzania. Having gone live with the network in 2000, Vodacom connected its one millionth Tanzanian customer in 2004 and continued to grow rapidly thereafter, soon establishing itself as the market leader.¹⁹



In 2006, the company converted its PLMN license into a new licensing framework and was granted three major service licenses – the Network Facilities License, Network Services License and Application Services License – which together granted Vodacom the authority to provide a broader range of communication services, both nationally and internationally.

Boosted by this strong enabling environment, Vodacom today has over 10 million voice subscribers and offers a wide range of additional products, from data and leased lines to PABX connectivity, international connectivity, WiMAX solutions, remote communication solutions over satellite and banking solutions. The most impactful of these new products is M-Pesa, launched in 2008. After investing in a simplified pricing model, a targeted education-based marketing campaign, and an aggregator model to better manage and support its distribution network, Vodacom has gained over 7 million M-Pesa subscribers in Tanzania.²⁰

Since its launch, M-Pesa in Tanzania has also been extended to offer bill payment, airtime purchase, and loan repayments. In 2014, a sister service, M-Pawa, was launched in collaboration with Commercial Bank of Africa (CBA) allowing M-Pesa subscribers to save, earn interest and borrow money solely through their mobile phones. Most recently, Vodacom has introduced an international mobile money transfer service between Tanzania and Kenya, allowing the 7 million customers of Vodacom Tanzania and over 18 million customers of Safaricom Kenya to send and receive money via mobile phone at the same rate as sending money locally.

The company also offers 3G broadband network coverage with HSDPA and WiMAX 802.16d in most major cities. Finally, Vodacom recently established the Vodacom Business division to provide customer-centric solutions addressing bespoke mobile telephony and internet access requirements for corporate clients.

In terms of corporate structure, Vodacom Tanzania a subsidiary company of Vodacom Group (Pty) Limited, South Africa which is also a subsidiary of Vodafone Group UK. Vodacom Group (Pty) Limited owns a 65% majority of Vodacom Tanzania's shares, while the remaining 35% is owned by a Tanzanian shareholder, Mirambo Ltd.

Other EU^{+SN} companies have supported Vodacom in rolling out its ambitious strategy in Tanzania. For example, Germany-based Siemens corporation was awarded the contract to deliver and install Vodacom's complete 3G network including HSDPA (High Speed Downlink Packet Access) technology in Tanzania; while UK-based Cambridge Broadband has provided Vodacom with its VectaStar equipment which can be deployed to backhaul traffic from both mobile and data networks, including GSM, 3G and WiMAX sites.

¹⁹ See: <https://www.vodacom.co.tz/aboutus/whoweare>

²⁰ Vodacom uses a trust structure with independent directors to protect deposits in the M-Pesa service.

Case Study 9.2 MIC Tanzania Ltd. (TIGO)

Established in 1994, Tigo Tanzania ('Tigo') was the first mobile network in the country. Tigo is the largest commercial brand of parent company Millicom, a Swedish firm with operations in 14 countries across Africa and Latin America serving over 62 million customers.²¹ Today, as a fully-fledged digital lifestyle brand Tigo Tanzania has over 10 million registered subscribers and offers a diverse product portfolio in voice, SMS, high-



speed internet and mobile financial services, Tigo is one of the leading players in the country's fast-growing ICT sector. The company has more than 25% of the overall mobile market and directly and indirectly employs over 300,000 Tanzanians, including an extended network of customer service representatives, mobile money merchants, sales agents and distributors.

Tigo has pioneered product innovations such as Facebook in Kiswahili, TigoPesa App for Android and iOS users and Tigo Music (Deezer). Tigo is also the first Mobile Network Operator in the world to launch a savings product – 'Tigo Wekeza' – that allows customers to receive interest for the balance on their mobile money account.

Tigo aims to deeply understand its customers and this has led to innovations such as the Tigo Kilimo product, an agricultural value added service that offers farmers in Tanzania important information via their mobile phones on things like new crop and yield management practices, market pricing and weather forecasts. Tigo Kilimo was launched in 2013 and today has more than 400,000 subscribers.

Tanzania achieved its World Bank financial inclusion targets much earlier than predicted and mobile financial services (MFS) are an important contributor to this. Tigo has created an MFS centre of excellence in Tanzania and has been acknowledged as one of the world's leading mobile money providers. Tigo helped pioneer interoperability between mobile money transfer platforms in Tanzania. In mid-2014, Tigo collaborated with Etisalat's Zantel (which was subsequently acquired by Millicom in 2015) and Bharti Airtel to allow mobile money payments between their customers for the first time, thus creating the potential for the kind of explosion in usage that followed the earlier launch of interoperability between different mobile platforms for SMS and voice services. In 2016, interoperability was completed with the addition of Vodacom.

Tigo's continues its pioneering work in the fintech sector in Tanzania with the launch of a cross-border mobile money transfer service between Tanzania and Rwanda in 2015. This product was the first of its kind globally to enable cross-border mobile transfers with automatic currency conversion, thus lowering transaction and bilateral trade costs. As such, the new service provides a model example of how technological innovation and European investment can be a huge catalyst to growth across the whole Tanzanian economy.

Tigo's 3G network covers all regions of the country, and it recently launched its 4G network in Dar es Salaam which will gradually be rolled out nationwide (coverage has already been extended to six major cities). Tigo has invested an average of USD 2 million per week in network expansion and service quality improvement, and the company intends to double its investment in network infrastructure by 2017, with a particular focus on rural areas.

In a country which today hosts the world's highest volume of mobile financial services transactions, Tigo stands at the forefront of a social and economic revolution. Improved connectivity and ease of trade, driven by increasingly sophisticated mobile money solutions, is transforming the way Tanzanians interact with each another, work with each other and connect globally – breaking down barriers and opening up opportunities for millions by providing access to new tools and technologies. As the fastest growing company in this pivotal sector, Tigo makes a truly compelling case demonstrating the positive impact of European investment in Tanzania.

²¹ Millicom's headquarters are located in Luxembourg and the company is listed on the Stockholm Stock Exchange in Sweden.

Case Study 9.3 Alcatel Lucent

France-based Alcatel-Lucent, a provider of world class mobile connectivity and advanced IP and broadband services, has played a critical role in developing and expanding Tanzania's ICT network infrastructure. In 2015, for example, the company signed a three-year agreement to modernise the IP / Multi-Protocol Label Switching (MPLS) and optical transport networks of the Tanzania Telecommunications Company Limited (TTCL). The project will lay the foundations for the launch of 4G LTE and cater for short-term demand for fixed and mobile access as mobile phone use in Tanzania continues on its rapid growth trajectory.



The data traffic increases, catalysed by the presence of a 4G LTE network, in Tanzania will test TTCL's ability to maintain its existing infrastructure. To cater for the load on the company's infrastructure, Alcatel-Lucent will install its IP routing and 100G agile optical networking all-optical network Dense Wavelength Division Multiplexing (DWDM) technology as a means of converging fixed and mobile access on one network with unified management across the IP and optical layers.²² By the middle of 2016, the new network will be extended to Dodoma, Dar es Salaam, Arusha, Morogoro and Mwanza as part of the first phase of deployment. As Alcatel-Lucent migrates services to the new network it will also provide training and services such as site surveys, design, installation, testing and commissioning.²³

Alcatel-Lucent has also played an essential role in upgrading the EASSy submarine cable system along Africa's eastern and southern coast. The company is deploying the latest 100 gigabit-per-second (Gbit/s) technology which will enable the system to ultimately carry capacity in excess of 10Tbit/s. This upgrade to the 10,000km subsea system linking South Africa to Sudan will boost ultra-broadband capacity in Tanzania and across the region, as well as strengthening onward connectivity between eastern and southern Africa and Europe, the Middle East and Asia.

The company, which has been established in Tanzania since 2002, also enjoys longstanding relationships with the country's leading telecommunications service providers such as Tigo, Airtel and Vodacom, in addition to corporate clients in a variety of other sectors. Alcatel Lucent has led the deployment of optical fibre networks for these Mobile Network Operators. The company also supplied the full end-to-end 4G LTE telecom solution for SMILE Tanzania, which became the first operator to launch 4G LTE in Africa, making Tanzania the first country in the region to enjoy access to a super-fast 4G LTE network. As Alcatel Lucent has implemented these flagship projects, the company has focused on employing local resources, suppliers and sub-contractors for a significant share of its activities.

Looking ahead, Alcatel Lucent's principle areas of focus in Tanzania will remain optical fibre deployment, 4G LTE rollout, IP networking/routing, ultra-broadband access, cloud services and the design and delivery of a range of innovative network infrastructure solutions. As Alcatel Lucent integrates with its new parent company – the company was acquired by Nokia in Q1 2016 – its guiding philosophy, which is that networks lie at the foundation of our ultra-connected world, will remain at the heart of all its work.

²² The equipment used will include Alcatel-Lucent's 7750 Service Router family, 7210 Service Access Switch and 7705 Service Aggregation Router for routing and aggregation functionality in the core, metro and access network

²³ Telecoms.com 'Alcatel-Lucent clinches Tanzania infrastructure deal' November 2015; access at: <http://telecoms.com/453822/alcatel-lucent-clinches-tanzania-infrastructure-deal/>

Case Study 9.4 MTG Africa

The success in Tanzania of Modern Times Group (MTG), a leading Sweden-headquartered broadcaster with operations that span four continents, underscores the scale of the opportunity in the country's fast-growing entertainment sector.



MTG launched a new channel, TV1 Tanzania, in January 2014 with a view to change the media landscape in the country. For the first time, TV1 provided a local TV channel that offers top quality entertainment for free, with content ranging from the most well-known international studios around the world to exclusive African content and the best locally produced Tanzanian shows.

The company's team – a blend of Tanzanian and international staff is based at state of the art TV studios in the Mikocheni area of Dar es Salaam. MTG's business model is unique in Tanzania's emergent entertainment industry in that the company chooses to develop long-term, partnerships with local studios and is willing to pay for fresh local formats.

This approach is helping to support and build a wider ecosystem of indigenous entertainment companies in Tanzania. The company takes a similarly long term view of in-house resource development by investing heavily in staff training and skills, drawing on the MTG's pool of global experience and expertise to deliver world class standards at TV1.

Having developed a loyal following and a fast-growing audience share in just two years, MTG is moving rapidly towards fulfilling its ambition of becoming the undisputed number one free-to-air entertainer in Tanzania, carrying an ever expanding range family entertainment, local dramas and international formats and scripted series.

5. Key Challenges

5.1 Regulatory uncertainty

Although the Bank of Tanzania's 'light touch' approach to regulation of mobile financial services has benefited the sector, the lack of guidance in certain areas has proven challenging for Mobile Network Operators. For example, the BoT has yet to clarify the exact form in which interest may be earned on mobile wallets, which generates uncertainty for companies such as Tigo whose 'Tigo Wekeza' product allows mobile money customers to accrue interest. This ambiguity, which applies equally to current rules on system interoperability, will slow the rate of growth and innovation of mobile banking services, in particular for the lowest income customer segments where commercial returns are marginal and companies will only invest if they have confidence in the rules of the industry.

5.2 Taxation issues

Telecommunications firms are subject to the usual tax obligations, including corporation tax at 30% on net profit, VAT of 18% and tax on capital gains of 20%. However, the government has recently introduced additional levies on the mobile financial services market. First, money transfer fees of 0.15% are applied on outbound transfers exceeding TSh 30,000. Second, a 'SIM card tax' was passed as part of the 2015 Finance Act according to which a monthly tax of TSh 1,000 will be applied on all SIM card users. These ad hoc additional levies are in danger of curtailing innovation and investment in a sector which stands to benefit millions of 'unbanked' Tanzanians, provided that a supportive regulatory framework is in place. The imposition of high import tariffs on telecoms equipment places an additional burden on operators.

5.3 Large geographic spread

With a population of 53 million and a surface area of 364,945 square miles, Tanzania is a large country with a dispersed population. This renders it challenging for ICT operators to roll out nationwide infrastructure or agent networks in a fast and affordable manner. Given the vast coverage area, an unusually high level of investment is required to build networks and to maintain them via effective training and management.

At present, distribution networks are often hampered by absenteeism and long waiting times for cash disbursements among local agents (wakala) representing companies in more remote areas. The same effect can act as a drag on consumer education efforts, given the geographic dispersion of the consumer base.

5.4 Lack of customer education and financial literacy

Exposure to the formal banking sector is low in Tanzania, a trend underscored by the fact that the number of mobile subscribers is far greater than the number of bank account holders. More than half of the population has no familiarity with a debit card, ATM machine or current account. Only 9% of the population has access to the full range of formal financial services. As a result, companies that wish to expand market share in telecommunications and mobile financial services, particularly by introducing more complex mobile banking products, must undertake their own expensive nationwide communication campaigns to enable all users to understand product functionality.²⁴

5.5 Mandatory listings

In 2010, the GoT passed laws requiring mining companies and telecommunications firms to list on the Dar Stock Exchange (DSE), leading to several years of negotiations between the government and leading MNOs. This rule may deter new market entrants who do not wish to be publically listed (if they are currently private) or wish to avoid the additional costs and reporting requirements of a second listing (if they are already listed in their country of origin). It could therefore undermine the long-term competitiveness of the sector, to the detriment of the consumer. The GoT's motivation for demanding local listings, to enable Tanzanians

to take a stake in a strategic industry, is laudable. However, as one potential market entrant – Egypt-based TA Telecom – observed, a softer approach in which companies are incentivised but not obligated to list locally would have avoided the negative effects of this more stringent approach.

²⁴ International Finance Corporation (IFC) 'M-Money Channel Distribution Case – Tanzania' 2010

10 Banking and Finance

Sector Snapshot

- In the fast-growing financial services sector, a number of EU^{+SN} investors have developed leadership positions. EU^{+SN} investors Barclays, Standard Chartered, National Bank of Commerce (NBC) and National Microfinance Bank (NMB) are all among the top seven universal banks by asset base.
- NBC and NMB, which emerged in their current form following state privatisations in the mid-1990s, are model examples of the value of co-ownership between a European investor with world class banking expertise and Tanzanian partners.
- German-based AccessBank, Luxembourg-based Advans Bank and EU^{+SN} firm Akiba Commercial Bank are all leading players focused on providing affordable products for reaching Tanzania's as yet 'unbanked' population.
- There has been a significant increase in the share of the population with access to financial services, from 27% to 50% between 2008 and 2013.
- A number of EU^{+SN} companies are also active as service providers of banking software and operating systems, with Netherlands-based Simbuka and France-based Alios Finance as leading examples.
- Not least through innovative partnerships with Tanzanian shareholders, EU^{+SN} investors have significantly contributed to local employment in the financial sector. NMB employs more than 3,000 full-time staff whilst Standard Chartered has created 380 additional jobs in Tanzania.
- Overall, 18 EU^{+SN} companies operate in the sector, with representation from eight different European countries, of which nine are considered Large Taxpayers by the TRA.

1. Sector Outlook

Despite volatile global market conditions, Tanzania's financial sector remains relatively strong and stable. Total assets grew by 12.4 percent during the year to September 2015, while deposits grew by 6.7 percent.¹ Indeed, since 2010, total assets in the banking sector have grown by an average of 18% per year.² This trajectory is set to continue as the sector benefits from sound oversight, progressive regulation and a wider economy that is more balanced and less resource-dependent than many of its African peers.³

In the medium term, Tanzania's financial system is likely to witness a deepening and broadening of the currently illiquid domestic equity and debt markets, with the introduction of new instruments such as domestic infrastructure bonds to attract institutional and other investors. In addition, Tanzania's financial sector is likely to enjoy greater integration into the east and southern African financial markets.⁴

Meanwhile, in the retail banking sub-sector, the number of 'unbanked' Tanzanians will fall rapidly: all indicators of credit availability and financial inclusion display a clear upward trend. Between 2009 and 2013, the share of the population with access to financial services grew from 27% to 50%. By 2020, this figure is likely to surpass 75%, according to Bank of Tanzania (BoT) Governor Benno Ndulu, thus driving further growth in assets, loan books and the number of customer deposits.⁵ Mobile phones, which now host a range of mobile banking platforms, have proven to be the critical link between the unbanked and the financial services system, and Tanzania has become the global leader for innovation in this area. The growth in mobile banking transactions has been extraordinary, rising from TSh 25.2 billion in 2008 to a stunning TSh 28.9 trillion just five years later in 2013.⁶ In 2008, less than 1% of Tanzanians had access to formal financial services; by 2015, the Bank of Tanzania reported that some 55 per cent of the adult population in the country now had access to financial services.⁷

1 Bank of Tanzania, 'Financial Stability Report' September 2015

2 See <http://www.tanzaniainvest.com/finance/banking/tanzania-banking-sector-report>

3 Tanzania's financial system is supported by the country's positive long-term macroeconomic outlook and by continuous improvements in regulatory oversight. According to the BoT's 2015 Financial Stability Report, the banking system is well capitalized with a ratio of Tier 1 capital to total risk-weighted assets of 18.7% (well above the statutory minimum of 10%, and significantly above minimum Basel requirements). The ratio of non-performing loans to gross loans also fell from 8.5% in 2014 to 6.5% in 2015, though this remains above the regulators' comfort level of 5%.

4 Bank of Tanzania, 'Financial Stability Report' September 2015

5 Carlyle, Tristan 'Tanzania hits financial inclusion target early due to mobile surge' CentralBanking.com, July 2014; access at: <http://www.centralbanking.com/central-banking/news/2356625/tanzania-hits-financial-inclusion-target-early-due-to-mobile-surge>

6 Bank of Tanzania, 'Financial Stability Report' September 2015

7 See: <http://www.millicom.com/media/millicom-blogs/blog-tigo-pesa-surpasses-financial-inclusion-target-in-tanzania/>

2. Sector Profile

Tanzania's banking industry has expanded fast since the sector was first privatised in the 1990s. During the 2000s, leading banks invested to develop national branch networks and the full spectrum of universal banking products. With these foundations in place and with improved technologies offering new routes to market, the industry began to boom in the 2010s. Between 2009 and 2014, net interest income across the sector grew by a fifth each year, while net profits (after tax) increased by 8% per annum.⁸

The industry as a whole has benefited from strong economic growth – averaging 7% per annum since 2001, well above the sub-Saharan average – as well as from a robust financial policy environment (see Policy Context below). As a result, over the past decade the sector has witnessed increased liquidity and a rapid expansion in deposits, loans and asset growth. Several banks have also launched innovative products for lower income customers, and bank penetration has risen in consequence (see Table 10.1).⁹

	2012	2013
Cash and Balances with BoT	15	14
Balances with other banks	9	6
Investment in Government and Debt Securities	17	19
Loans, Advances and Overdrafts (NET)	52	54
Other assets	7	7
Total Assets	100	100

This rapid growth has not come at the expense of diversity. The balanced nature of the sector's aggregate loan portfolio is demonstrated by the breakdown provided in the BoT's Financial Stability report for 2015, as follows:

- Personal loans (16.87%)
- Trade (20.98%)
- Manufacturing (11.24%)
- Agriculture, Fishing, Hunting and Forestry (9.85%)
- Building, Construction and Real Estate (9.65%)
- Transport and Communication (7.05%); and
- Other sectors (24.36%)

This broad spread implies that Tanzania faces substantially less credit risk than resource-dependent peers such as Nigeria or Angola, where sectoral concentration of credit can threaten financial stability.

2.1. Technological change in the financial sector

A wave of new technology adoption has increased the level of competition in Tanzania's financial sector, to the benefit of customers. It is now feasible for banks to pursue an electronic-only, low overhead channel strategy, for example. The most consequential development, however, has been the explosive growth in mobile financial services. As of mid-2014, there were 12.3 million active mobile money accounts in Tanzania, equivalent to 55% of the adult population, up from just 14,000 in 2008. The total number of mobile money transactions made in Tanzania (95 million per month) now outnumbers that of Kenya, the country traditionally regarded as the global leader for mobile money.

Increasingly, the mobile financial services sub-sector is expanding beyond simple payment transfers to mobile-enabled savings, credit and insurance products. Examples of disruptive new mobile banking products launched in Tanzania in the past year include: Tigo's new 'Wekeza' product which returns interest directly to customers for the balance held on their m-payments account, much like a retail bank; Airtel's Timiza product, which offers loans to customers through their phones; and Vodacom's M-Pawa service, which is a mobile bank account that lets customers pay bills via phone.

These mobile banking and mobile commerce products threaten elements of the traditional banking sector business model; equally, however, the arrival of Mobile Network Operators (MNOs) in the banking space offers an opportunity to pilot innovative partnerships that blur the usual lines between sectors and industries (see Chapter 9: Information and Communications Technology for more detail).

In a country that is increasingly moving from cash to non-cash economic activity – and where bricks-and-mortar bank branches reach only a quarter of the population – the opportunity for further growth in mobile financial services is

8 EY, 'Eastern Africa Banking Sector Review' 2014; the original net interest income figure in 2009 was TSh 787,069 million. Note that the profit figures are lower than net interest income growth largely on account of the high ratio of non-performing loans, which averaged 26% over the same period.

9 The rollout of agent banking ('wakala') networks is one example of this focus on lower income customers. Loan products that recognise non-traditional types of collateral such as livestock are another example.

significant (in a reflection of the growing importance of mobile- and electronic banking services, Tanzania's gross domestic savings rate as a percentage of GDP rose to an average of 20.6% between 2011 and 2015, up from 16.7% between 2006 and 2010).¹⁰ An exciting opportunity therefore exists for EU^{+SN} investors with technological expertise in payments, electronic banking and mobile-enabled products.

2.2. Equity market

Traditionally, the Dar Es Salaam (DSE) Stock Exchange was viewed as relatively small, illiquid and overly concentrated. The DSE has a total market capitalization of roughly a quarter of GDP and at least two thirds of this equity capital is in the hands of only three companies – Acacia Mining, East African Breweries Ltd and Tanzania Breweries Ltd. The GoT – both directly and through various parastatals – previously owned a significant percentage of the remaining stock, leaving few free-floating shares for other investors.¹¹

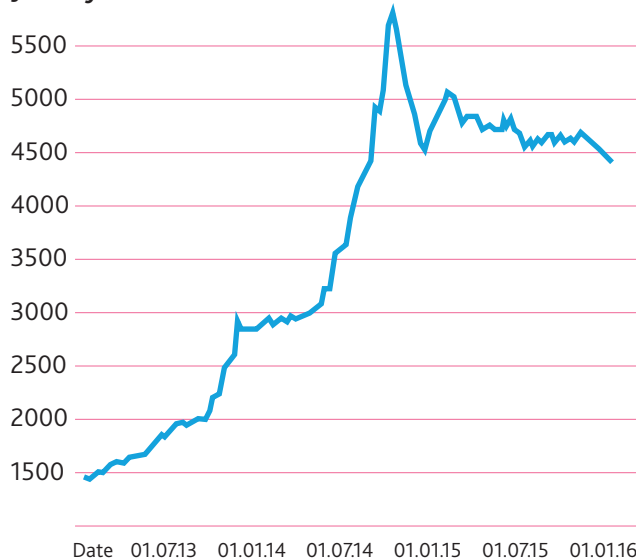
However, liquidity and trading on the DSE has increased in recent years thanks to growing participation from foreign investors, who now account for 90% of all trading. The DSE currently hosts 15 domestic companies and a further 7 cross-listed companies. These numbers are likely to rise in future thanks to growing public awareness of equity markets and pending government legislation that may require multinationals in certain sectors, including oil and gas, to undertake a compulsory secondary listing locally.

In 2014, the DSE was the best performing market in Africa, with the DSE All Share's market capitalisation climbing roughly 30%. This performance was the result, in part, of a decision to lift the previous 60% cap on foreign investment in individual stocks, thus making the country's publicly traded companies fully accessible to non-Tanzanians for the first time in years.¹² Over the six months to September 2015, turnover on the DSE increased by 18.5% (see Figure 10.1). However, total market capitalization softened by 2.5% to TSh 22,166.4 billion after weaker performance from

commodities-focused companies.

Limited liquidity and a lack of automated trading and brokerage facilities continue to curtail the DSE's growth, but on-going reforms and technological innovation will help to broaden market participation in the coming years. These reforms, enacted under the DSE Five Year Strategic Plan (2012- 2017) have already transformed the DSE from an exchange that was 100% reliant on government funding to one that is able to meet its recurrent obligations from its own resources.¹³ Going forward, listing on the DSE represents a viable option for EU^{+SN} firms with investments in Tanzania that wish to broaden their local stakeholder base.

Figure 10.1 DSE All Share performance – January 2013 to January 2016



2.3. Insurance industry

Tanzania's emergent insurance industry remains small in relative terms, with assets equivalent to only 2%-3% of GDP, against a global average of 6.2%.¹⁴ The sector was held back in the 2000s by the fallout of a scandal involving the bankruptcy of the National Insurance Corporation in 2003.

¹⁰ World Bank, 2016

¹¹ The same lack of breadth and depth is true of the primary government bond market in Tanzania. As of 2015, Tanzania has received no sovereign rating by any of the three leading credit rating agencies. Treasury bond and Treasury bill auctions are only held monthly and bimonthly. While the GoT has been making efforts to improve the efficiency and size of the government bond market, treasuries amount to a negligible 2% of GDP. In the corporate bond market, parastatal and corporate issuers are largely inactive and the sector remains in its nascent stages.

¹² Minney, Tom 'Dar es Salaam Africa's top stock exchange'; African Capital Markets News, February 2015; access at: <http://www.africancapitalmarketsnews.com/2633/dar-es-salaam-africas-top-stock-exchange-to-31-jan/#sthash.G14ErPyK.dpuf>

¹³ African Securities Exchanges Association 'Annual Report and Statistics' 2014; access at: http://www.african-exchanges.org/wp-content/uploads/2015/07/ASEA_Annual_Report_and_Stats_2014.pdf; See also: <http://www.dse.co.tz/>

¹⁴ See: <http://www.iii.org/publications/insurance-handbook/economic-and-financial-data/world-insurance-marketplace>

But in recent years a number of successful and efficient registered insurance companies have grown their operations in Tanzania, including EU^{+SN} investors Jubilee, Fred Black Insurance Brokers Ltd, and AON Tanzania Ltd, among others.

In 2015, total assets in the insurance sector grew by 12%, driven by investment in bank deposits and government securities; whilst gross premiums underwritten increased by 13%.¹⁵ Liquidity ratios also increased by 50% (in Life insurance) and 20% (in General insurance) year-on-year. The sector remains adequately capitalized, with solvency ratios above the minimum requirement of 25% (General) and 8% (Life). Return on investment across the industry in 2015 was 6.7% in General insurance and 3.2% in Life insurance.¹⁶

3. Policy Context

In 2015, a number of new statutes, regulations and guidelines were introduced for the financial sector, including:

- The Banking and Financial Institutions (Mortgage Finance) Regulations (2015), which aim to promote the mortgage financing industry.
- The Foreign Exchange (Bureau de Change) Regulations, (2015), designed to strengthen monitoring of the foreign exchange market.
- The Commodity Exchange Act (2015), introduced to promote an efficient market for commodities in Tanzania.
- The Social Security Schemes (Investment Guidelines) 2015, which aim to broaden the scope of investment and enhance risk management practices.
- The National Payment Systems Act (2015), a flagship piece of legislation designed to provide a legal basis for regulatory oversight of the electronic banking, payments and mobile financial services sub-sectors.¹⁷

This raft of new rules and guidelines reflects both the pace of change within the sector and the progress made by the GoT in keeping pace with up-to-date supervision.¹⁸

Under the leadership of widely respected BoT Governor Benno Ndulu, the government has recognised the need to address data gaps to strengthen the oversight of banks; increase capital standards in banks; build avenues for long-term financing in the domestic market; develop better credit information tools to mitigate systemic risk; and improve the management framework for dealing with banking crises. Recent steps taken to resolve these challenges include the establishment of collaboration committees of relevant supervisors and policymakers for effective surveillance and crisis management, as well as the creation of a credit reference database.¹⁹

In a further positive development, the Tanzania Financial Stability Forum (FSF) was established in 2013 to monitor and preserve financial stability by guiding the implementation of new macro and micro-prudential risk and crisis management measures. The FSF, made up of all financial regulators, is developing a stress testing and crisis management framework for non-bank financial institutions, among other initiatives.

Further developments during the second term presidency of Jakaya Kikwete (2010-2015) included:

- Increase of the minimum capital requirement for commercial banks to TSh 25 billion in 2014, up significantly from the previous figure of TSh 5 billion.
- A 2.5% increase to mandatory capital adequacy ratios to 12.5% for Tier-1 capital and 14.5% for total capital, also introduced in 2014.
- Introduction of a new consolidated supervision framework for complex financial firms, including legal amendments that permit regulators to increase oversight of bank holding companies.
- Opening of the capital account to investors from other East African Community (EAC) member states in 2014. This relaxation of controls will be followed by a move to fully liberalise the capital account to global investors in 2016, once the BoT has formally endorsed the 2015 Foreign Exchange Regulations.
- Domestic interest rates have generally ranged within a 5%-15% band since 2010 (see Figure 10.2).

15 Bank of Tanzania, 'Financial Stability Report' September 2015

16 Ibid.

17 Ibid.

18 The documents released in 2015 represent the culmination of a series of reforms initiated in 2009 when the Financial Sector Stability Department (FSSD) and other programs were first established.

19 This section draws on the IMF's 2014 Article IV Consultation Report for Tanzania; access at: <https://www.imf.org/external/pubs/ft/scr/2014/cr14120.pdf>

Figure 10.2 Tanzania interest rate (%)



Source: Bank of Tanzania

3.1. Insurance sub-sector regulation

Regulatory requirements for insurers are onerous.²⁰ Companies are obliged to transfer one fifth of their net profits to a capital reserve account and to reinsure a share of their liabilities with a state institution, the Tanzania National Reinsurance Corporation. Perhaps because of this, most companies only underwrite policies for established companies or higher income individuals in the country's main urban areas. Roughly 80% of Tanzania's rural population therefore remains uninsured, thus representing a notable investment opportunity for companies willing to break new ground in the sector (See Chapter 9: ICT for information on mobile-enabled insurance products).

4. Supply and marketing chain

As of 2015, there are 56 licensed financial institutions in Tanzania (up from 38 in 2009), ranging from retail, merchant and commercial banks to bureaux de change, credit bureaux and mobile financial services providers.²¹ Many of these institutions are partially or wholly-owned by regional or global banks. The focus of this type of subsidiary bank is on largescale corporate banking and the mediation of regional and global capital flows via multi-country networks. Such organisations generally have only a limited number of branches in the country's major cities.

By contrast, 'local banks' – several of which are majority owned and managed by European investors – tend to have

better branch network coverage across Tanzania with services focused on small to medium-sized businesses and personal banking. In this way, the industry is more segmented than first appears. For example, NMB and CRDB focus on retail banking, while at the other end of the spectrum EU^{+SN} investor Citibank is concerned exclusively with the corporate market.²² The asset and funding composition of Tanzania's banking and finance sector is illustrated in Figure 10.3 and Figure 10.4 respectively.

Figure 10.3 Asset composition

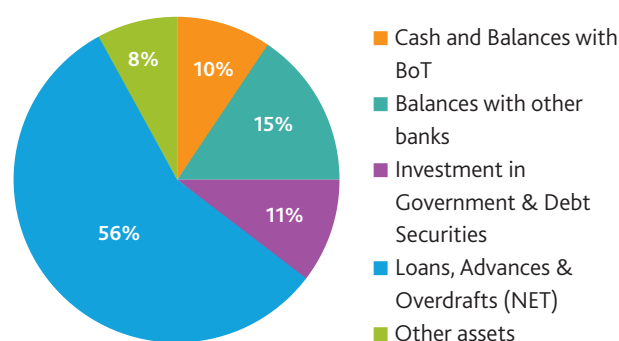
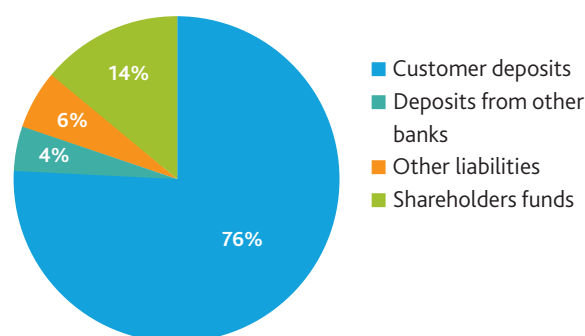


Figure 10.4 Sector's funding composition



EU^{+SN} companies have a wide-ranging presence in Tanzania's banking industry. Eighteen EU^{+SN} companies are operating in the sector, with representation from eight different European countries. The United Kingdom has the largest number of investors followed by France. Nine of the 18 European banking and finance institutions are considered large taxpayers by the Tanzania Revenue Authority (TRA), including those highlighted in the preceding section.

²⁰ Following the passage of the Insurance Act 2009, a 45-day maximum was imposed for the settlement of claims in addition to the creation of various appeals tribunals, including the Insurance Appeal Tribunal and the Tanzania Insurance Regulatory Authority. These bodies allow insurers, brokers and customers to file appeals. The law also stipulated that at least a one-third of the equity of any insurance business must be allocated to Tanzanian citizens in order to secure registration. See: Tanzania Invest, 'Tanzania Industry Welcomes Changes in Insurance Business' May 2016; access at: <http://www.tanzaniainvest.com/industry/tanzania-industry-welcomes-changes-in-insurance-business>

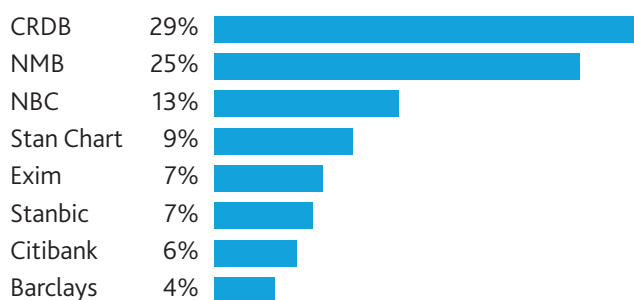
²¹ TanzaniaInvest, 'Tanzania Banking Sector Report', March 2015; access at: <http://www.tanzaniainvest.com/finance/tanzania-banking-sector-report>

²² EY, 'Eastern Africa Banking Sector Review' 2014

4.1. Industry players

Three banks together control roughly 45% of the industry: the Federal Bank of Middle East, the National Micro-Finance Bank (NMB) and CRDB Bank.²³ Of this trio, two in particular dominate the deposit market: CRDB holds 29% of all customer deposits in Tanzania, while NMB holds 25%.

Figure 10.5 **Share of customer deposits in large banks**
Two banks dominate the deposit market, accounting for 38.8 % of the total



After this top tier, 15 banks share another 45% of the market as measured by a weighted combination of assets and number of customer deposits. They are: Standard Chartered, Barclays, Stanbic, Citibank, Exim, National Bank of Commerce (NBC), Diamond Trust Bank, Bank M, Bank of Africa, BancABC, Commercial Bank of Africa (CBA), Kenya Commercial Bank (KBC), Equity Bank, I&M Bank and Ecobank.²⁴ The remaining 10% of the market is shared by roughly 30 smaller players. Figure 10.5 illustrates the market penetration of major banks in Tanzania and Box 10.1 their respective sub-grouping within the sector.

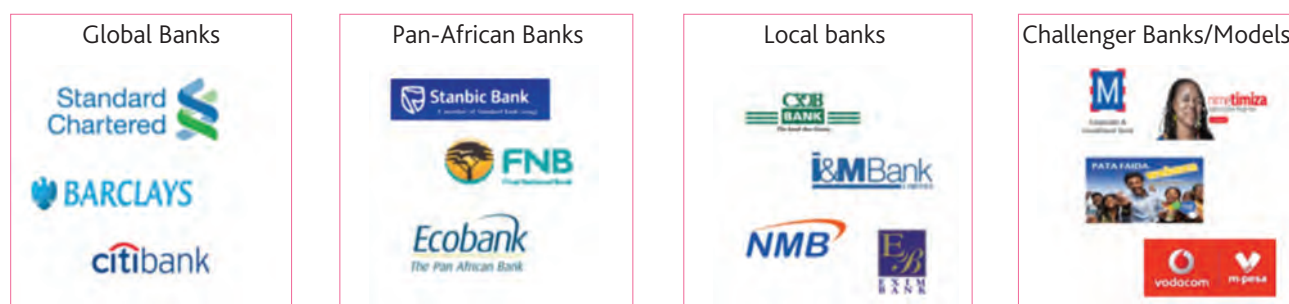
The most recent entrants to the market include Ecobank, the largest pan-African banking group, in 2010; First National Bank, one of South Africa's 'big four' banks, in 2011; Equity Bank, a leading Kenyan financial institution, in 2012; United Bank Limited, one of the largest banks in Pakistan, in 2013; Maendeleo Bank, a regional bank focused on lower income customers, in the same year; as well as a number of mobile-enabled financial services platforms; among others.

4.2. European investment in Tanzania's banking sector

A number of EU^{+SN} investors have developed leadership positions in the financial sector. In universal banking – those companies that offer the full range of products to all client segments – UK-based EU^{+SN} investors Barclays and Standard Chartered are among the market leaders. Standard Chartered Tanzania Ltd first opened its office in Tanzania in 1917 and today employs 380 staff.²⁵ The company is the fifth-largest commercial bank in Tanzania by assets, with an asset base in excess of 1 trillion TSh. It has also invested to develop a range of products tailored specifically to the Tanzanian market, including an SME Banking Platform with flexible collateral and pricing requirements.

Likewise, Barclays Bank Tanzania serves individual customers, small-to-medium enterprises and large corporations alike. First established in Tanzania in 1925, the bank had 87,000 customers, 24 networked branches and total assets of USD 382 million as of 2013.

Box 10.1 **Tanzania's banking sector is growing robustly and four broad groups are competing for market share:**



²³ As as measured by a weighted combination of loans and net assets

²⁴ EY, 'Eastern Africa Banking Sector Review' 2014; access at: [http://www.ey.com/Publication/vwLUAssets/EY-Eastern_Africa_Banking_Sector/\\$FILE/EY-Eastern-Africa-Banking-Sector.pdf](http://www.ey.com/Publication/vwLUAssets/EY-Eastern_Africa_Banking_Sector/$FILE/EY-Eastern-Africa-Banking-Sector.pdf); other sources consulted include: Bank of Tanzania (BoT) statistics; and Serengeti Advisers 'Tanzania Banking Survey' 2012; access at: <http://www.tccia.com/tccia/wp-content/uploads/2011/07/Tanzania-Banking-Survey-2012-FINAL-July-2012.pdf>

²⁵ The company serves corporate clients, retail customers and medium to large business enterprises with a product range that includes personalised banking services, Visa debit cards, credit facilities, international trade accounts, pay-as-you go accounts, personal instalment loans and more.

Together, these two banks have drawn on the depth of their balance sheets and global networks to finance corporate sector growth in Tanzania's most strategic, capital-intensive economic sectors – from commercial agriculture to manufacturing and infrastructure.

Two additional EU^{+SN} financial institutions are among the country's top five commercial banks: National Bank of Commerce (NBC) and National Microfinance Bank (NMB). These banks share similar origins in two respects: first, both emerged in their current form following the privatisation of the government-owned National Bank of Commerce in 1997;²⁶ and second, both have become model examples of the value of co-ownership between a European investor with world class banking expertise and Tanzanian partners.

Today, NBC Tanzania Limited has an asset base of approximately USD 994 million, making it the fourth-best capitalized commercial bank in the country. UK-based Barclays owns 55% of the company's equity, while the Government of Tanzania (GoT) owns 30% and the World Bank Group the remaining 15%. For its part, NMB bank, the country's second largest bank by customer deposits, is co-owned by Netherlands based Rabobank (with a 35% shareholding) and a number of Tanzanian partners, including the GoT and individual shareholders via the Dar es Salaam Stock Exchange (see Case Studies).

Meanwhile, several European banks have secured leadership positions in specific sub-sectors. AccessBank, for example, focuses on the lower and middle income strata of Tanzanian society by offering a unique range of tailored services, described in detail in the Case Studies section below. Similarly, Luxembourg-based Advans Bank has a special focus on providing financial services to micro, small and medium-sized Tanzanian enterprises.²⁷ As a member of the Advans group of companies created by Advans SA, a Luxembourg based venture capital firm, Advans Bank Tanzania is able to draw on microfinance experience and expertise developed across 10 emerging markets worldwide in developing its market presence in Tanzania.

A further example is Akiba Commercial Bank Plc (ACB), which commenced operations in 1997 as a microfinance initiative of over 300 Tanzanian entrepreneurs; today, the company, whose major shareholders include Belgium-based Incofin and the Netherlands Development Finance Company, focuses on reaching Tanzania's as yet 'unbanked' population.

Commercial Bank of Africa Tanzania Ltd provides a further example of the different market strategies adopted by EU^{+SN} investors in Tanzania's banking sector. CBA is the largest privately owned bank in East Africa, having begun as a subsidiary of Société Financière pour les pays d'Outre-Mer (SFOM), a Swiss-based consortium bank. In 2011, CBA began a drive towards product innovation and the bank has since become the first to market with full digital banking channels, including M-Pesa and M-Shwari products and foreign currency based mortgage products.

Finally, a number of EU^{+SN} companies are active as service providers to Tanzania's banking sector. Netherlands-based Simbuka, for example, develops software for financial institutions, including tools to automate and standardize loan origination, credit decision, pricing, loan document warehousing, client communication, portfolio monitoring and risk management processes. A second example is France-based Alios Finance, which launched in Tanzania in 2010 with a head office in Dar-Es-Salam and offers a comprehensive range of finance solutions to corporate bodies which include financial and operating leases and fleet management.

²⁶ The government bank was split into three separate entities: NBC Holding Corporation; National Microfinance Bank (NMB); and NBC (1997) Limited.

²⁷ Though it remains a fully-fledged commercial bank prudentially regulated by the Bank of Tanzania

Case study 10.1 NMB Bank

NMB is both a leading example of European investment in Tanzania and at the same time a truly local, Tanzanian bank. Together, the Government of Tanzania and private Tanzanian shareholders make up more than 65% of the company's shareholder base, and the company has an impressive 17,820 different shareholders in total.²⁸ However, the single largest shareholder is Rabobank Group of the Netherlands, with 35%.²⁹



This blend of European banking expertise with local insight and ownership has driven unparalleled success in the 11 years since the government-run National Microfinance Bank was privatized and NMB attained its current ownership structure after privatisation in 2005. No other bank has done more to extend banking services to previously 'unbanked' communities in Tanzania.³⁰

With 2 million customers, 175 branches and 595 ATMs across the country³¹, NMB is one of Tanzania's leading commercial banks. The bank has pioneered innovative products aimed at increasing access to finance for lower income Tanzanians. Examples include NMB Mobile, which was Tanzania's first mobile banking service and Pesa Fasta, a money transfer service that enables NMB customers to send money to beneficiaries who do not have a bank account (recipients are then able to withdraw transferred amounts from any NMB ATM).³²

Until 2005, NMB only offered payment services and savings accounts, reflecting its origins as a state-owned microfinance institution catering almost exclusively the Government. Today, retail banking remains an important focus area for NMB, however the bank also offers corporate banking, treasury and transactional services (including corporate payments, collections and trade finance). Hence, within a decade, NMB has become a fully-fledged commercial bank.

NMB plays an especially important role in Tanzania's agricultural sector, providing financing to over 600,000 smallholder farmers and having pioneered warehouse receipt financing for agricultural produce in the country. NMB's development of new technology such as branchless banking has also allowed it to reach out to remote rural audiences – the bank now has extensive branch coverage in 95% of all administrative districts in Tanzania. The unique breadth and penetration of NMB's network – which is reinforced by a mobile banking subscriber base of over 1 million – allows the bank to reach and empower rural communities in Tanzania.

The company's rapidly growing Small and Medium-sized Enterprise (SME) segment includes over 40,000 customers nationwide. This represents a new area for future growth, given that 95% of businesses in Tanzania are SMEs, contributing about 35% of the country's GDP.

NMB is among the top 20 brands in Tanzania, according to the London-based Super Brands council. As of December 2015, the bank had total assets of TSh 4.6 trillion; net loans of TSh 2.5 trillion and customer deposits of TSh 3.6 trillion (see Figures 10.6 and 10.7). The bank employs more than 3,000 full-time staff across the country. In 2015, the bank reported net profit of some TSh 150 billion. Today, the value of the government's shares in NMB stands at roughly TSh 398 billion, with the share price having risen from TSh 600 in 2008 to TSh 2,500 as at December 2015.³³

As NMB looks to the future, this positive trajectory is set to continue thanks to the company's long term strategic focus

28 As of end 2014

29 The detailed equity ownership structure is as follows: Rabobank of the Netherlands (34.9%); Government of Tanzania (30%); Private investors via the Dar Stock Exchange (21%); National Investment Company Limited (NICOL) (6.6%); Exim Bank Tanzania (5.8%); TCCIA Investment Company Limited (1.7%)

30 Twentyman, Jessica 'Developing economies: Financial inclusion proves both worthy and profitable' September 2011

31 Source: company data

32 See: <http://www.nmbtz.com/>

33 Source: 2015 Audited financials

on serving the evolving needs of Tanzania's fast-growing 'consumer class', from retail customers in both rural and urban areas to business customers in the services, manufacturing, agriculture, and oil & gas sectors, among others.

Figure 10.6 **Growth of Total Assets NMB Bank (2010-2015 in TSh trillion)**

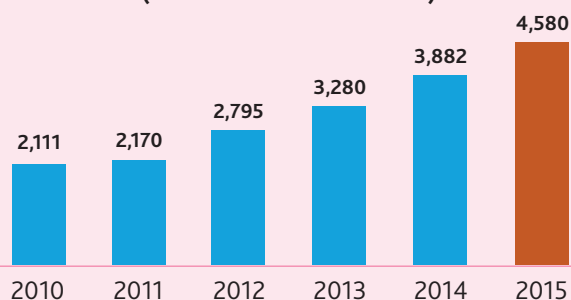
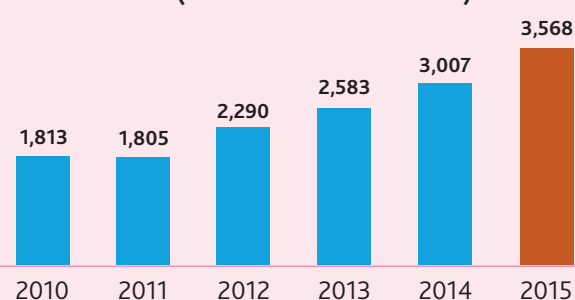


Figure 10.7 **Growth of Total Customer Deposits NMB Bank (2010-2015 in TSh trillion)**



Case study 10.2 **Access Bank**

AccessBank Tanzania is a socially responsible bank whose services centre on the lower and middle income strata of Tanzanian society. AccessBank Tanzania is endowed with a paid-up capital of TSh 25 billion (as of September 2015) divided into 25 million shares which are currently distributed as follows: Access Holdings (50.84%); IFC (15.83%); MicroVest (14.46%); KfW (10.77%); AfDB (8.10%).



The company's mission is to become the leading one-stop bank of choice for micro and small enterprises across the country. To achieve this, the bank builds-up long term business relationships with Tanzanian customers based on responsibility, mutual respect and the promotion of a strong savings culture. Payment and account services are provided but AccessBank Tanzania also actively supports borrowers to build-up a credit history. In this way, the bank's loans are primarily based on a rigorous assessment of the borrower's specific repayment capacity.

Access Bank Tanzania benefits from being a member – through its majority shareholder, AccessHolding – of the AccessGroup, a network of commercial banks focusing on micro, small and medium-sized enterprises with eight member banks in different world regions, six of which are located in Sub-Saharan Africa (with AccessBank Tanzania being the largest). With total assets exceeding USD 1.2 billion and more 800,000 clients (as of end of 2013), the AccessGroup is a major actor worldwide for micro and mezz finance.

Drawing on this strong network and the opportunities for lesson-learning, AccessBank Tanzania has developed a number of competitive advantages, including easy and fast processes (loans will be disbursed after 1 to 5 working days, depending on the loan amount), competitive digital financial services, pricing transparency, and flexible collateral arrangements.

Table 10.2

AccessBank Tanzania Financial Development (TSh, billion)	2012	2013	2014	2015
Assets	80.3	145.9	191.4	210.4
Net Loan Portfolio	52.3	88.5	121.1	152.5
Deposits	64.6	122.1	145.5	162.7
Equity	12.5	19.7	24.2	26.1
Annual Results After Tax	0.14	1.60	0.68	(2.24)
Institutional Development	2012	2013	2014	2015
Number of Branches	7	9	12	12
Number of Staff (incl. trainees)	492	629	714	880
Number of Borrowers	15,819	24,281	27,516	31,946
Number of Depositors	101,947	132,206	165,137	233,623

AccessBank offers a unique range of tailored services. For example, the bank's credit offering includes a menu of different loans for every size and type of entrepreneur, from the 'Business Micro Loan' to the 'Business SME Loan' and 'Agro loan' product, which is offered to individual farmers ranging from 100,000/- to 25, 000,000/- TSh and can be secured with properties such as livestock, household items, goods, farms, houses and motor vehicles.

In addition to normal current accounts and savings accounts, AccessBank's deposit products include the innovative Rahisi product, which is among the only Electronic Payment and Collection Solutions that is completely free of charges with mobile banking. The Rahisi account is integrated with all mobile money providers in Tanzania as well as major utility providers. As such, it provides a platform for paperless monetary transactions for business and individual customers with very high security, convenience and reliability and with enormous process efficiencies and cost-savings.

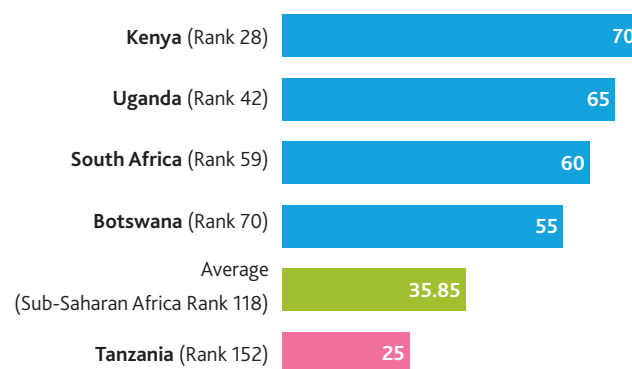
Going forward, AccessBank Tanzania is well placed to build on the success that has garnered awards such as the "1st most convenient Bank in Tanzania – KPMG (2013)" award and the "Brand Excellence – Tanzania Leadership Awards 2015" award. The bank is bullish over growth prospects and is seeking to rapidly expand its customer base and deliver on its mission to foster greater financial inclusion, in particular by extending its growing agent banking network. AccessBank's expansion up to date is illustrated by both its rapid financial and institutional development in recent years as shown in Table 10.2 and Table 10.3.

5. Key Challenges

5.1. Lack of scale

Tanzania's financial system remains relatively small and shallow, despite undergoing beneficial structural changes since 2003 and experiencing rapid growth in recent years. Financial services from formal institutions currently reach only about one in six Tanzanians. As shown in Figure 10.8 Tanzania ranks lowest on the ease of getting credit when compared to its regional counterparts. Moreover, the country's three largest banks controlling approximately 64% of total assets, the resulting lack of scale increases costs and

Figure 10.8 Tanzania and comparator economies rank on the ease of access to credit



creates barriers to entry for smaller banks in segments of the market where just one or two large banks dominate market share.

5.2. Non-performing loans

Although there is good diversification in the industry's total loan portfolio across different sectors of the economy, banks often have high levels of concentration in their individual loans portfolios. This can mean that banks are exposed to unusually high credit risk from a few large borrowers.

5.3. High-level corruption

Tanzania is ranked a lowly 119th out of 175 countries in Transparency International's Corruption Perceptions Index³⁴, and the financial sector has historically been a key area of concern regarding graft. In 2008, the then BoT governor, Daudi Balali, was fired after an audit investigation uncovered fraudulent transactions involving the repayment of the country's external debt. More recently, in 2013, Stanbic managing director Bashir Awale was relieved of his duties alongside several other staff after the company was investigated for – and plead guilty to – a multi-million dollar bribery scandal involving a local company, EGMA, and an attempt by Stanbic to become lead executioners of an opaque government bond auction.³⁵

5.4. Systemic risk

The GoT has made significant progress in financial sector regulation over the past decade, but notable gaps remain. For example, some institutional investors play a relatively unsupervised role in the sector. Rapidly growing government pension funds such as the National Social Security Fund (NSSF), Local Authorities Pensions Fund (LAPF), Parastatal Pension Fund (PPF) and Public Services Pension Fund (PSPF) hold largely undiversified and illiquid investment portfolios. These are made up of government issued securities and commercial real estate, and any deterioration of their asset quality could threaten financial system stability.³⁶

5.5. Global contagion

Volatile global markets in early 2016 point to a low, but credible, risk of contagion in the Tanzanian financial sector.

Already, certain impacts have been felt, including 25% depreciation in the Tanzania Shilling in 2015, a widening of spreads and an increase in the cost of funds. For now, this pressure appears unlikely to develop into a major liquidity crisis: the BoT's recent stress testing confirmed that the sector overall is resilient to interest, credit and exchange rate shocks.³⁷ But Tanzania – along with all emerging markets – is likely to suffer some second order effects in the event of global slump or a spike in US interest rates.

34 Transparency International 2014 <http://www.transparency.org/cpi2014/results>

35 Mtulya, Athuman 'Stanbic Scandal: Dar Undercut by SH148bn' The Citizen, December 2015; access at: <http://www.thecitizen.co.tz/News/Stanbic-scandal--Dar-undercut-by-Sh148bn/-/1840340/2999096/-/nlxtu2z/-/index.html>

36 Making Finance Work for Africa 'Tanzania: Financial Sector Profile' 2015; access at: <https://www.mfw4a.org/tanzania/financial-sector-profile.html>

37 Bank of Tanzania, 'Financial Stability Report' September 2015

11 Transport and Logistics

Sector Snapshot

- Activity in Tanzania's transport and logistics sector is driven by the country's status as a regional trade gateway and by government-led efforts to address the country's infrastructure deficit via a pipeline of transport and utilities infrastructure projects worth in excess of USD 19 billion.
- The EU^{+SN} group accounts for some 132 transportation companies originating from 15 different European countries.
- In the aviation sector, UK-based Fastjet Plc and European-owned Coastal Aviation offer compelling, market-leading examples of different approaches to market development (the former offers low cost fares on high volume routes; the latter specialises in tourist transfers to more remote locations).
- The sector employs significant amounts of people both directly and indirectly, for example, Fastjet counts around 1200 direct and indirect employees alone.

1. Sector Outlook

Tanzania's transport and logistics sector performs well in comparison to most regional peers, despite the bottlenecks identified in the Key Challenges section below. Historically, Tanzania's geographical advantage and untapped potential as a regional trade gateway has been offset by poor transport infrastructure, but the infrastructure deficit is steadily being addressed via a pipeline of transport and utilities infrastructure projects worth in excess of USD 19 billion¹. This unprecedented level of investment will also have positive spill-over effects for other sectors in which European investment is pivotal – including tourism, which will benefit from improved access, and agriculture, which will benefit from the emergence of easier access to market.

Further investments in infrastructure are planned by the Government of Tanzania (GoT) in the recent Five Year Development Plan II. This is reflected in the 2016/17 national budget, in which the GoT has allocated more than 2 billion Euros for development in the transport sector. Out of this, 200 million Euros are focused on the upgrading of the railway central corridor to a standard gauge track.

The GoT will also be given robust support by multilateral financial institutions. The African Development Bank will provide USD 350 million over the next five years to upgrade 500km of roads and other transport infrastructure as part of its Tanzania Transport Sector Support Programme, for example;² while, the World Bank, DFID and the multi-donor TradeMark East Africa (TMEA) program are supporting the

modernisation of the Port of Dar es Salaam with a USD 560 million program to reduce the time required to import through Dar Port from 16 days to 10 days or fewer. Additionally, TMEA is providing USD 25 million to establish one-stop border posts designed to reduce border crossing times by at least 30%.³

The European Union is focusing on supporting the development of the Central Corridor through the creation of two One Stop Inspection Stations along the route which will reduce transit time by 35% and consequently reduce related costs. Additionally, together with DFID and USAID, the European Union is upgrading the road between Mikumi and Ifakara so as to improve access to the important agriculture cluster of Kilombero in the Morogoro region.

The GoT will need to combine an ambitious strategy and sufficient budget allocation for transport infrastructure with timely project execution. The flagship Bus Rapid Transit (BRT) project in Dar es Salaam is both an illustration of an ambitious reform agenda and a warning over the dangers of executing risk. The USD 290 million scheme, which facilitates transport for 300,000 passengers daily along 21.1 km of the commercial capital's main roads, is the first of its kind anywhere in East Africa.⁴ Despite land issues and institutional rivalry over aspects of the project which led to multi-year delays the Dar es Salaam Rapid Transit (DART) Agency commenced operations in early 2016 and after some initial challenges the first phase is operating successfully.

1 PricewaterhouseCoopers (PwC), 'Africa Gearing Up: Tanzania Chapter' 2013

2 BBC Monitoring Africa, 'African Development Bank gives loan to Tanzania to upgrade transport sector' December 2015

3 See: <https://www.trademarkea.com/countries/tanzania/>

4 Tanzania Daily News 'BRT Project Nearing Take-Off As 138 Buses Offloaded' September 2015

Provided that project execution improves under the new government of President John Magufuli, the transport sector is set to play a crucial role in the growth of the Tanzanian economy, facilitating domestic and international trade and contributing to national integration, competitiveness (including through lower production costs) and job creation in sectors from manufacturing and mining to agriculture and tourism.

Infrastructure improvements will be essential as transit cargo demand is expected to grow from 2.7 million tons per annum at present to 9.8 million tons by 2030.⁵ This demand for improved transport infrastructure and services will come from several directions, including: regional and international trading partners, stresses created by rapid urbanisation and deep pockets of internal transport demand in remote areas of Tanzania not yet met by infrastructure.

For their part, European firms – from long-established market leaders to innovative new investors – are well-placed to assume the lead in helping the nation's transport infrastructure and logistics supply chains to keep pace with rapid economic growth.

2. Sector Profile

With nearly 50 million people, several substantial secondary cities and a large landmass, Tanzania has a significant domestic market to be served by transportation companies. The country's economic growth, liberalised trade regime and geographic position – home to one of Africa's busiest seaports and bordering on eight countries – also makes it a gateway to east and central Africa (see Map 11.1).⁶

Tanzania's transport sector (see Map 11.2) revolves around a handful of key sub-sectors, including:

- Maritime transport centred on the port of Dar es Salaam, with smaller ports at Stone Town in Zanzibar, Mtwara (Mtwara region) and Tanga (Tanga region);
- Lake transportation on Lake Victoria, Lake Tanganyika and Lake Nyasa;
- Rail transport on two major rail lines (TRL and TAZARA);

Map 11.1 Tanzania as a Natural Transport and Logistics Gateway to East and Central Africa



- A road system made up of trunk roads for Tanzania's three main transport corridors, and of a network of regional, district, and urban roads;
- A network of 60 airports and more than 300 airstrips, with three major international gateways at Dar es Salaam, Zanzibar and Kilimanjaro; and
- Pipelines connecting Dar es Salaam with Songo Songo Island and Mnazi bay on the southern coast (both supplying gas).⁷

2.1. Regional trade and transportation

As a member of both the East African Community (EAC) and the Southern African Development Community (SADC), Tanzania is uniquely positioned to benefit from growing regional trade integration.⁸ EAC trade in particular is set to grow in significance in the coming years. According to EAC figures, Tanzania's share of the region's internal trade reached a record high of 27% in 2013 and the country's total trade turnover with EAC partners reached an unprecedented USD 1.5 billion, with a net trade surplus of USD 723 million.

⁵ Tanzania Big Results Now Roadmap 'National Key Results Area 2013/14 - 2015/16: Transport' Tanzania Development Vision 2015

⁶ Burundi, Rwanda, Uganda, DR Congo, Zambia and Malawi are all dependent to some degree on the country's transport network for their access to global markets. See African Development Bank 'Tanzania Transport Sector Review' 2013. The same report observed that "for Tanzania, facilitating this access is not only good neighbourliness but is also good business as the provision of transport services is also a potential source of revenues and a catalyst for accelerating development."

⁷ IT Transport 'Tanzania Transport Infrastructure and Demand: Version 2.0' 2012

⁸ Tanzania Budget Insight 2015: Diving Deep. Deloitte, 2015, pg. 3

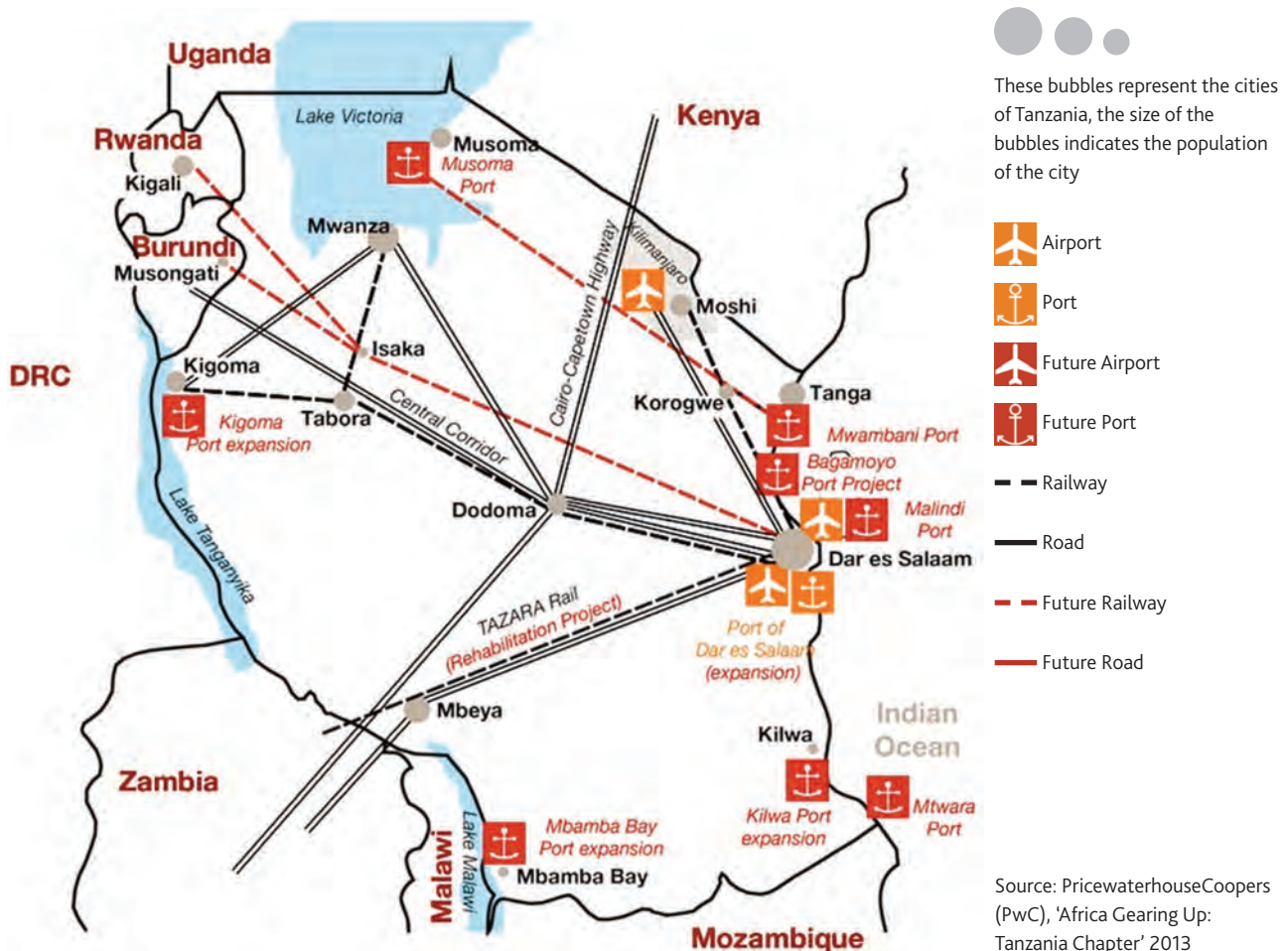
Despite this recent growth, EAC trade still represents only a fraction – 9% – of Tanzania’s total external trade. The scope for further growth in trade between Tanzania and the common East African market (which has a population of over 145 million people) is therefore substantial. Driven by a number of high-profile infrastructure projects, Tanzania has an opportunity this decade to transform itself into a logistics hub for the region.⁹

To this end, the GoT has announced ambitious plans for road, port, rail and airport infrastructure projects worth a combined USD 19 billion to enable accelerated growth in trade.

The World Bank’s 2014 Logistics Performance Index reveals a high degree of variation in Tanzania’s performance in recent

years. From an overall global ranking of 137th out of 155 countries in 2007, the country improved to 88th in 2012 before slipping back to 138th in 2014. In 2014, according to the World Bank’s international logistics scorecard, the efficiency of clearance processes (speed, simplicity and predictability of formalities) by border control agencies was lower in Tanzania than the regional sub-Saharan average. Tanzania currently has a 31 day average lead time to export, which is better than Burundi (46) and Uganda (36) but less efficient than neighbouring Rwanda (30) and Kenya (26).¹⁰ Twelve percent of this export lead time is accounted for by laborious document preparation requirements. Indeed, Tanzania requires a greater number of separate documents to import and export than any other EAC Partner State. Meanwhile, the ease of arranging competitively priced

Map 11.2 Tanzania's backbone Transport Infrastructure



9 Economist Intelligence Unit (EIU), 'Tanzania's trade with EAC reaches all-time high', November 2014
 10 Shippers Council of Eastern Africa, 'East Africa Logistics Performance Survey', 2014

shipments and the ability to track and trace consignments are both significantly lower in Tanzania than regional peers. This is an area in which Tanzania's performance – and in particular the performance of the Tanzania Ports Authority (TPA) – worsened considerably in the final two years of the Kikwete presidency (2013-2015).

2.2. Ports

The Port of Dar es Salaam – through which 90% of the country's international trade passes – has traditionally been a significant choke point for transportation companies in Tanzania.¹¹ Waiting times at anchorage for containers moving through the Dar Port have historically been lengthy – in 2014 the average waiting time at anchorage was 9 days – but this has improved over the past 18 months, with waiting time at anchorage for containerised trade down to approximately 2 days on average as of early 2016.¹² This improvement – driven by investment in new equipment for the containerised part of the facility by the private terminal operator TICTS – has greatly reduced congestion in the port. However, the fees facing port users remain high, and the Tanzania Ports Authority (TPA) continues to apply physical checks on 50% or more of all containers, thus creating delays and extra costs for port users.¹³

A further issue is the unpredictability of the valuation of certain imported products by TPA, which creates uncertainty and additional costs for importing companies. Finally, a key challenge for port users and transportation firms has been TPA's decision since mid-2015 to charge VAT on some elements of transit cargo services – a move that has contributed to a 22% year-on-year fall in transit trade through Dar Port in the opening months of 2016.

By April 2016, the multiplicity of challenges facing port operators had translated into a clear loss of competitiveness for the Port of Dar es Salaam compared to its key regional

competitors. One interviewee for this report observed that the sharp drop-off in transit trade in 2016 is the result of significantly reduced trade to DR Congo and Zambia in particular. This decrease is a direct result of regional competition from other Indian Ocean and Atlantic sea ports that have transport corridors connecting to Zambia and DRC, including Durban (South Africa), Beira (Mozambique), Lobito (Angola) and Walvis Bay (Namibia).

These regional ports may be situated further from landlocked markets such as Zambia but their inland transportation corridors are significantly more efficient and cost effective (those linked to Durban and Walvis Bay in particular) and none of them impose VAT on any elements of transit trade as the TPA now does. Importers will always take the safest and most affordable route to end markets, and Tanzania's complex and frequently changing tax regime is currently deterring them, reportedly leaving as many as 10,000 trucks idle in Tanzania as of April 2016.¹⁴

Dar Port upgrade

However, many of the current bottlenecks at the Dar Port are set to ease, thanks to a flagship USD 750 million upgrade scheduled for completion in 2020.¹⁵ The upgrade forms part of the donor-funded Dar es Salaam Maritime Gateway Project (DMGP) overseen by the TradeMark East Africa (TMEA) facility. The project will improve operational efficiency at the port, doubling capacity to 28 million tonnes by 2020 and more than tripling it to 34 million tonnes by 2025.¹⁶ This will allow Dar Port to meet the GoT's aspiration for a deep-sea port that serves the landlocked countries of Malawi, Zambia, the DRC, Burundi, Rwanda and Uganda in an affordable, efficient manner.¹⁷ The upgraded port will be suitable for bigger ships and the nearby road and rail infrastructure will also be enhanced, thus improving the port's low standard linkages with inland transport networks.¹⁸ Even before the benefits of the upgrade have kicked in, Dar

11 PricewaterhouseCoopers (PwC), 'Africa Gearing Up: Tanzania Chapter' 2013

12 Interview with port sector stakeholder, Dar es Salaam, April 2016.

13 East Africa Business Week 'Dar es Salaam port becomes Rwanda favourite', June 2015

14 Interview, Dar es Salaam, May 2016

15 Kitundu, Timothy, '\$590m Dar es Salaam Port upgrade works begin' BusinessWeek, April 2015; access at: <http://www.busiweek.com/index.php/index1.php?Ctp=2&p=3132&pLv=3&srl=58&spl=24&cl=19>

16 The project is being funded by a combination of grant funding, World Bank loans and private investment. See: <https://www.trademarkea.com/>

17 According to one recent report, additional port projects underway in Tanzania include the construction of new ports at Bagamoyo, Mwambani in Tanga, Kilwa and Mtwara in the South, Malindi in Zanzibar and Musoma, situated on Lake Victoria. Musoma is crucial hub for Lake Victoria linking Tanzania to Jinja and Port Bell in Uganda and Kisumu in Kenya. See PricewaterhouseCoopers (PwC), 'Africa Gearing Up: Tanzania Chapter' 2013

18 Radcliffe, Verity, 'Tanzania aims for big results with Dar es Salaam port expansion' The National, May 2015. Other on-going improvements to the Dar Port include implementation of Integrated Electronic Payment System (IePS) for all port dues, an Integrated Security System (ISS) to enhance security, and installation of 24/7 CCTV.

Port's core performance indicators have improved in recent years. Truck processing and container dwell times are both low relative to Mombasa, while crane productivity is high (see Table 11.1). However, these services are expensive – the

cost of using Dar Port is a quarter higher than the average for African port facilities – and the level of government bureaucracy remains daunting.¹⁹

New Bagamoyo port

Table 11.1 Cost Comparison: Dar es Salaam and Mombasa Ports

Port	Indicator	Shore Handling		Wharfage	
		20 foot	40 foot	20 foot	40 foot
Dar-es-Salaam	Imports - Domestic	90	90	1.6% Ad Valorem	
	Exports - Domestic	90	90	1.0% Ad Valorem	
	Imports - Transit	80	80	1.25% Ad Valorem	
	Exports - Transit	80	80	1.0% Ad Valorem	
Mombasa	Imports - Domestic	105	105	70	105
	Exports - Domestic	56	56	70	105
	Imports - Transit	85	85	70	105
	Exports - Transit	40	40	70	105

Source: Shippers Council of Eastern Africa, 'East Africa Logistics Performance Survey', 2014

In October 2014, a tripartite agreement was signed between former president Jakaya Kikwete's government, China Merchants Holdings International (CMHI), and the Omani State Government Reserve Fund (SGRF) for the construction of a large-scale deep sea port at Bagamoyo, 50km north of Dar es Salaam. If completed, the mega-project would handle a container throughput of 20-million twenty-foot equivalent units (TEUs) annually, rivalling the largest ports in Africa.

However, in January 2016, Minister for Works Makame Mbarawa, stated that construction of the estimated USD 11 billion mega-project at Bagamoyo would be suspended until mid-2016 pending negotiations with the project financing partners. Media reports stated that the project had been suspended indefinitely but the GoT clarified that the decision was temporary and reflected a decision to prioritise refurbishment of Dar es Salaam and Mtwara ports in the short term, amid budgetary constraints.²⁰

2.3. Roads

Tanzania's 90,000 kilometres of public roads are insufficient for the needs of a fast-growing economy whose land area is almost as large as both France and Germany combined. There are only 7.5 km of paved road per 1,000 sq. km of land mass in Tanzania, far fewer than in Uganda (82km) and Kenya (20km).²¹ Road transport is the most common form of transport in Tanzania with over 75% of goods shipped via roads, and over 90% of passengers travelling via road.²²

As of 2013, just 19% of national roads and 2% of district roads were paved, rendering access to feeder roads difficult during wet seasons.²³ In Dar es Salaam, the lack of road infrastructure and road quality generates crippling congestion on major trunk roads, costing the city's economy over USD 250 million annually, according to the law firm Clyde & Co.²⁴

Recent improvements in Tanzania's arterial trunk roads mean that despite the general lack of coverage, the country's road infrastructure is minimally sufficient for trade purposes. The highway that connects Tanzania to Zambia via

¹⁹ PricewaterhouseCoopers (PwC), 'Africa Gearing Up: Tanzania Chapter' 2013

²⁰ Suckling, Chris 'Tanzania's suspension of Bagamoyo port construction and PM's case-by-case audit of projects indicate increased contract alteration risk' IHS Global Insight Daily Analysis, January 2016

²¹ Morriset, Jacques 'Got a Road? The importance of a good Road Network' World Bank Group, 2012

²² IT Transport 'Tanzania Transport Infrastructure and Demand: Version 2.0' 2012

²³ Clyde & Co. 'An overview of the road infrastructure in Tanzania' By Peter Kasanda, September 2014

²⁴ Clyde & Co. 'An overview of the road infrastructure in Tanzania' By Peter Kasanda, September 2014

Morogoro, Iringa and Mbeya is a critical road; as are the Dar es Salaam–Dodoma–Mwanza and Mwanza–Kigoma road corridors. The completion in 2015 of the Bagamoyo to Msata section of the main coast road has improved access to the north of the country and to Kenya. Overall, the trunk road network provides basic regional and national connectivity but needs to be broadened. Table 11.2 shows the condition of Tanzania's roads by pavement type.

As a former Minister for Public Works, President John Magufuli has placed roads at the heart of his infrastructure improvements plans for his first presidential term (2015–2020). With support from multilateral organisations such as the World Bank and African Development Bank (AfDB), the Government of Tanzania (GoT) plans to build more roads in 2016 than ever before. The 2014/15 budget, the last under the Kikwete Presidency, included USD 730 million in funding for roads,²⁵ and this level of expenditure is likely to continue as seen under the first budget presented by President Magufuli's administration in June 2016, providing a significant boost to the country's transportation in infrastructure industry.²⁶

2.4. Rail

Tanzania's rail network is dilapidated and requires massive new investment in order to contribute meaningfully to the country's transportation infrastructure mix. The current rail system consists of two principle lines. First, a northern/central line run by Tanzania Railways Limited (TRL) extends from Dar es Salaam to Tabora, with branches to Kigoma in the west and from Tabora northward to Mwanza.

This 1,000mm gauge, 2,700km line was built at the turn of the century and suffers from repeated washouts and a shortfall of serviceable locomotives. The TLR railway is part of a multi-modal transport corridor which provides both passenger and freight services which connect to Uganda via Lake Victoria.²⁷ Second, a southern line extends from Dar es Salaam into Zambia operated by the Tanzania Zambia Railway Authority (TAZARA). The 1,067mm gauge TAZARA line is 1,850 km in length and was built in the early 1970s. It is under-utilized – carrying relatively little bulk freight compared to the road network – and significant investment is needed. Financial difficulty, the lack of reliability in scheduling and a shortage of operable locomotives have left transport companies and passengers wary of the TAZARA line to date.²⁸ Meanwhile, a third line – running from Ruvu northward to Korogwe with branches to Tanga and to Moshi to the north-west – is completely defunct.

New rail investment

Fortunately, large-scale investment plans are under development for the railway sub-sector, including:

- A USD 2.7 billion project to develop a new line from Tanga on the coast to Musoma on Lake Victoria;
- A flagship agreement between China and TAZARA enabling Chinese companies to rehabilitate the railway and increase capacity on the Dar-es-Salaam to Zambia line;
- A new 1,650km, USD 5.1 billion railway to link Dar es Salaam with Isaka (Tanzania), Kigali (Rwanda) and Musongati (Burundi); and
- A trilateral agreement in 2013 between the national rail

Table 11.2 Road condition by pavement type

Road type	Pavement	Good		Fair		Poor	
		km	%	km	%	km	%
Trunk	Paved	4,111	77	827	15	409	8
	Unpaved	1,333	27	2,746	56	839	17
	Subtotal	5,444	53	3,573	35	1,249	12
Regional	Paved	336	45	205	28	203	27
	Unpaved	5,537	31	9,450	52	3,086	17
	Subtotal	5,873	31	9,655	51	3,289	17

Source: African Development Bank 'Tanzania Transport Sector Review' 2013

²⁵ Ibid.

²⁶ Ibid.

²⁷ IT Transport 'Tanzania Transport Infrastructure and Demand: Version 2.0' 2012

²⁸ Ibid.

authorities of Tanzania, Zambia and DRC to facilitate easier movement of rail cargo and passengers between these countries.

It remains to be seen whether these ambitious, early-stage rail projects – which carry a combined investment cost of more than USD 14 billion – are implemented successfully. In the best case, if these projects are implemented on budget and on time, supported by government guarantees and financing, then Tanzania’s prospects of becoming the leading regional trade hub will move a significant step closer to reality.

Demand for rail services in Tanzania declined in recent decades as the road network expanded. Today, however, the road system is heavily overloaded and there is a pressing need for a functioning rail system to reduce the pressure on it. Rail transport has lower fuel costs and offers the ability to carry far larger tonnages of bulk freight across significant distances. But rail will not become a viable alternative for most transporters until the station network has better coverage and the scheduling and pricing of existing and new lines become more reliable.

2.5. Aviation

Of the four major transportation sub-sectors, the quality of Tanzania’s aviation infrastructure is the highest. The country’s three main international airports – Dar es Salaam, Kilimanjaro and Zanzibar – enjoy good international connections and this is complimented by an increasingly comprehensive network of domestic routes.

Dar es Salaam airport is currently operating beyond its designed capacity in terms of passenger numbers but the development of a new international terminal is set to relieve this pressure.²⁹ The impending airport expansion should also benefit Tanzania’s tourism economy, which would benefit from greater availability of direct long-haul intercontinental flights.³⁰

In the domestic aviation market, Tanzania stands out for the strong level of competition and for the successful introduction of more affordable and accessible air travel (see Case Studies). The GoT has allowed competition between multiple airlines rather than defending the interests of a dominant national airline³¹ – as a result there is more than one provider on each of the 17 domestic routes.³²

With efforts underway to expand and upgrade more than a dozen airports nationwide, the pipeline of current and planned construction projects promises to keep pace with projected increase in aviation demand (which is growing by roughly 15% each year). The three most significant upgrade projects are:

- The construction of a new terminal at Julius Nyerere International Airport designed to more than double annual passenger capacity to six million;
- A USD 66 million expansion of Mwanza airport that will provide Tanzania’s Lake Zone with a viable transport hub capable of handling up to 1 million passengers; and
- A USD 30 million investment into Kilimanjaro International Airport to increase the airport’s capacity by constructing a new taxiway and expanding the terminal.³³

This surge in airport-related construction, together with rising demand for air travel, has attracted a number of European investors and developers including Netherlands-based BAM International (responsible for the construction of the new terminal at Julius Nyerere International Airport to host the airport’s international flights),³⁴ UK-based Fastjet Plc (see Case Studies) and others.

Aviation represents only 2% of GDP and high tax rates continue to hold back the industry’s full growth potential, but overall the industry is a success story with important lessons for other sectors of the country’s economy. Investment in new infrastructure and aviation security and safety, together with an open and competitive industry framework, has encouraged lower costs, greater route

29 The airport is currently 1.3 million passengers over capacity.

30 PricewaterhouseCoopers (PwC), ‘Africa Gearing Up: Tanzania Chapter’ 2013

31 This may change, as the Five Year Development Plan II, published in early 2016 indicates the revival of the national airline through the purchase of a number of new airplanes, as a flagship project. It is unclear how this will be implemented.

32 Ibid. Note that the Tanzania Airport Authority (TAA) is responsible for managing and developing all public airports in Tanzania, as well as for aviation-industry policy implementation. The Tanzania Civil Aviation Authority (TCAA), meanwhile, provides air navigation services and safety, security and economic regulation in the sector. See Clyde & Co. LLP ‘The Legal Framework for the Aviation Sector in Tanzania’ February 2015.

33 Clyde & Co. LLP ‘The Legal Framework for the Aviation Sector in Tanzania’ February 2015

34 The first phase of the project comprises the construction of the main terminal building and will facilitate 3.5 million annual passengers. The second phase will boost capacity to facilitate six million annual passengers. See Clyde & Co. LLP ‘The Legal Framework for the Aviation Sector in Tanzania’ February 2015

coverage and rising passengers numbers (in 2015, total passenger flow through the country's four international airports rose by 8% to roughly 4mn).³⁵

3. Policy Context

An array of government agencies are involved in regulating and developing the transportation and logistics sector. These include the Ministry of Works, Transport and Communications, the Tanzania National Roads Agency (TANROADS), the Road Fund Board (RFB), the President's Office Regional Administration and Local Government (PO-RALG), Tanzania Rail Limited (TRL), RAHCO, Tanzania Airports Authority (TAA), Tanzania Meteorological Agency (TMA), Tanzania Ports Authority (TPA) and Tanzania Electrical, Mechanical and Electronic Services Agency (TEMESA), Surface and Marine Transport Regulatory Authority (SUMATRA), and the Tanzania Civil Aviation Authority (TCAA).

Navigating the large number of regulatory agencies can present a time-consuming challenge for companies entering the market. However, a number of reforms designed to boost trade efficiency have recently been introduced, including the lifting of price controls on most products and the removal of a large number of road blocks to facilitate greater overland cross-border trade.³⁶

3.1. The National Transport Policy

Tanzania's National Transport Policy aims to ensure that appropriate mechanisms exist to ensure effective intermodal coordination and communication between the user, the operator, the regulator and the government on all transport questions and issues. Specific goals include:

- Paving all trunk roads linking regional capitals to bitumen standard by 2018;
- Improving urban mobility and reducing congestion;
- Increasing rail freight to 12.3 million tons a year by 2018 from 0.2 million tons in 2010;
- Developing effective modal interfaces in the port sub-sector to reduce tariff, travel and delivery times;
- Expanding Julius Nyerere International Airport passenger

and cargo capacities into a major hub by 2020;

- Strengthening institutions to satisfactorily implement PPPs in transport infrastructure;
- Ensuring that the regulatory framework produces fair and transparent competition;
- Delivering safe and environmentally sustainable transport infrastructure and services; and
- Providing efficient and effective transport corridors for international trade using national gateways.

Government entities responsible for implementing this policy include the ministerial Cabinet which approves national policy issues, the Ministry of Finance and Planning (for issues relating to financing for development projects), the Planning Commission, and the President's Office - Public Sector Management Department, which contributes on sector reform. The Ministry of Works, Transport and Communication is responsible for setting strategic goals for the sector as well as overseeing the performance of transport regulatory institutions under its mandate; while the Ministry of Works, Transport and Communication and President's Office Regional Administration and Local Government (PO-RALG) are responsible for the national and local roads sub-sectors respectively (see Box 11.1).³⁷

An encouraging development in terms of regional policy is the launch of the EAC single customs territory by the five EAC Partner States in July 2014. Under this arrangement the EAC countries will adopt a destination model of clearance of goods where assessment and collection of revenue is to be done at the first point of entry, thus allowing free circulation of goods in the single market.³⁸ This removal of internal border controls is likely to boost regional trade significantly.

A second example of stronger regional trade cooperation is the Tanzania-headquartered Central Corridor Transit Transport Facilitation Agency (TTFA), a multilateral agency established in 2006 following an agreement by the five governments of the Burundi, the DRC, Rwanda, Tanzania and Uganda (see Box 11.2). The TTFA was formed to support the right of landlocked countries to transit trade and to promote

³⁵ The Guardian, 'More Tanzanians fly as aviation sector grows' December 2015

³⁶ Ibid.

³⁷ This section draws directly on: African Development Bank 'Tanzania Transport Sector Review' 2013

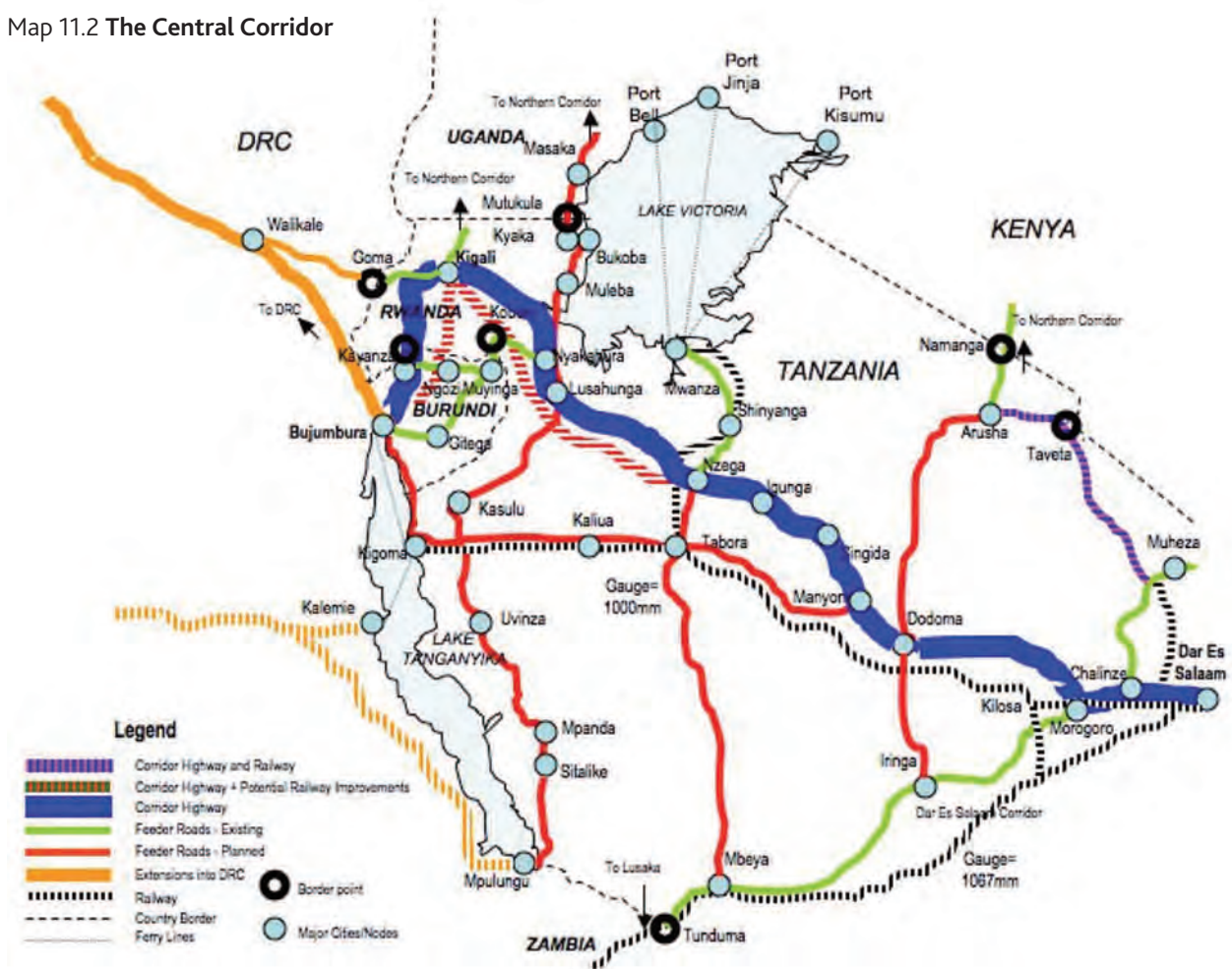
³⁸ This section draws directly on Shippers Council of Eastern Africa, 'East Africa Logistics Performance Survey', 2014. Note that under this new arrangement Customs administrations at destination states will still retain control over assessment of taxes.

transport utilization of the Central Corridor, a multimodal trade and transport corridor supported by the World Economic Forum which bisects Tanzania and covers the five countries. The TFTA's support includes transport cost

reduction initiatives, measures to increase competition and the development of infrastructure and supporting service facilities at port, rail, lake and road border posts.³⁹

Box 11.1 The Central Corridor: Connecting East Africa's coast to the interior
 According to Tanzania's Big Results Now Roadmap, the Central Corridor is a "key transport route and natural gateway connecting Tanzania's landlocked neighbours - Burundi, Rwanda and Uganda - to the Indian Ocean via Dar-es-Salaam Port." Half of all transit cargo handled at Dar-es-Salaam port uses the Central Corridor to reach its final inland destination. This volume of traffic has led to significant GDP growth in regions of Tanzania located along the route, which in turn will boost demand and traffic to and from Dar port. The growing Central Corridor will continue to be a central artery connecting the East African heartland to the coast.

Map 11.2 The Central Corridor



Source: http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Economic_Brief_State_of_Infrastructure_in_East_Africa.pdf

³⁹ See: <http://centralcorridor-ttfa.org/>

A further boost to cross-border trade is Tanzania's recent decision to implement the Pre-Arrival Declaration (PAD) system, an electronic submission system for customs declarations to promote trade and to improve the business environment generally.⁴⁰

Meanwhile, at the Port of Dar es Salaam the World Bank-led project is modernising the port's berths, access channels and dredging operations to cope with ever increasing volumes of trade. New ICT infrastructure is also being installed.⁴¹

Finally, a central element of the government's vision for transportation infrastructure development is the role of PPPs, especially for large-scale port, road and rail projects. The Public Private Partnership Act of 2010 provided a framework for PPPs, and further traction has been provided by the establishment of PPP Coordination Units within both the Tanzania Investment Centre and the Ministry of Finance.⁴² While there are a few existing examples of successful PPPs outside of the energy sector, it is clear that private sector investors would be able and willing to commit capital to projects – without borrowing – provided the regulatory framework is transparent and supportive.

Box 11.2 Road sector regulation

In the roads sub-sector, the Ministry of Works, Transport and Communications is responsible for all policy formulation, the coordination of development programmes and oversight of the Tanzania National Roads Agency (TANROADS) and Road Fund Board (RFB). Public roads in Tanzania are divided into two categories: national roads and district roads. The former are developed and maintained by TANROADS, while the latter are overseen by the Prime Minister's Office - Regional Administration & Local Government (PMO-RALG).

Meanwhile, the RFB, established under the Road & Fuel Tolls Act 2006, manages a road fund into which fuel toll levies, transit fees, overloading fees and other monies are deposited, and from which expenditure is made for the maintenance and repair of public roads. The RFB also advises the Ministry of Works, Transport and Communications on new sources of road and fuel tolls, disburses funds from the Road Fund to TANROADS and other agencies and enters into corresponding performance agreements.

4. Supply and Marketing Chain

European investment has been pivotal in helping Tanzania to progress towards its objective of become a regional trade hub. The EU^{+SN} group accounts for some 132 companies operating in Tanzania's transportation and logistics sector, including several large industry-leading players. These investors come from 15 different European countries. The United Kingdom leads the list with 88 firms, followed by Switzerland and Italy, which each have eight companies operating. However, the largest companies – those classified as large taxpayers by the Tanzania Revenue Authority (TRA) – hail from Denmark, France, Germany and Switzerland respectively.

In the ports and shipping sub-sector, Maersk Group (Denmark) – the world's largest shipping company – is a key

European player providing shipping solutions to clients across all sectors in Tanzania through its partnership with Nyota Tanzania Ltd (a Tanzanian entity with a 51% local shareholding). Further examples include Switzerland-based Mediterranean Shipping Company Ltd, which similarly provides both shipping and inter-modal collections/deliveries services across Tanzania, as well as France-based CMA CGM Group.

Meanwhile, EU^{+SN} investor Africa Bolloré Logistics (France) is active across a wide range of logistics sub-sectors, from haulage, industrial project logistics, heavy lifting, rail transport, air transit and barging to port handling, shipping, and supply chain and warehouse management. Further examples of European logistics companies offering a range of solutions include DSV Global Transport and Logistics Ltd

⁴⁰ See PricewaterhouseCoopers (PwC), 'Africa Gearing Up: Tanzania Chapter' 2013

⁴¹ See Shippers Council of Eastern Africa, 'East Africa Logistics Performance Survey', 2014. According to the same report, other infrastructure initiatives at the port include the construction of two container berths (13 and 14) as well as a bulk liquid custody transfer tank, a new fertilizer terminal, a Ro – Ro berth, a truck folding area outside the port and connecting the EX – NASACO yard to the TAZARA railway line.

⁴² Energy Charter Secretariat, 'Tanzanian energy sector under the universal principles of the Energy Charter Brussels' July 2015

which covers sea and air freight forwarding, customs agency clearing, road and rail transportation, transit clearance and 'door to door' services in Tanzania.

Additional EU^{+SN} companies active in this area include Belgium-based Polytra, an international transport engineering, freight forwarding and customs brokerage firm; Italian companies CargoDev, Linea Messina and FSM Transport Ltd; Portuguese firms Orlando P & A Logistics Ltd and Volcan Logistics Tanzania Ltd; Switzerland-based Kuehne & Nagel Ltd and Spedag Ltd; and finally, DSM Corridor Group ('DCG'), which since 2004 has offered full spectrum logistics solutions to a wide range of clients. As a cargo handler specialized in non-liquid dry bulk and mining reagents, DCG uses its own port handling equipment, bulk terminal, import/export department and warehousing to handle fertilizer, cereals, sugar, coal, clinker and different valuable minerals like copper and cobalt. With origins in Finland and the Netherlands, the company is 80% owned by its current management team.

In the aviation sector, UK-based Fastjet Plc and European-owned Coastal Aviation offer compelling examples of different approaches to development of the Tanzanian and East African aviation market. The former offers low cost fares on high volume routes; the latter specialises in tourist

transfers to more remote locations (see Case Studies below).

Further examples of European investment in the aviation sector include: Air Excel, founded in 1997 by Belgian/Greek owners as one of Tanzania's owner run and operated air charter companies – the company today employs 33 staff- and crew-members and has a fleet of nine aircraft operating from Arusha. TanzaniaAir is another example, a company formed in 1969 and managed by Greek owners, which operates a modern fleet of twin and single engine Cessna and Beechcraft turbine aircraft from Julius Nyerere International Airport in Dar es Salaam.

Other European companies, such as Switzerland-based Swiss Air and KLM/Air France (France/Netherlands) provide international flight transfers between Tanzania and Europe; while Switzerland-based Swissport Tanzania Limited provides ground handling services at all of Tanzania's major airports.

Elsewhere in the sector, DHL Logistics Tanzania Ltd, a subsidiary of Germany-based DHL Supply Chain, provides contract logistics solutions along the entire supply chain for customers from a wide variety of sectors in Tanzania.

Case Study 11.1 **Fastjet Plc**

With its main operational base in Dar es Salaam and a vision to become the first pan-African low cost carrier, London-listed Fastjet Plc demonstrates the enormous potential for innovation that European investment in Tanzania can deliver. It holds a 49% stake in Fastjet Airlines Ltd, whose first flight took place in November 2012 in Tanzania. Since then, it has opened up domestic routes costing as little as TSh 32,000 between Dar es Salaam and four locations: Kilimanjaro, Mwanza, Mbeya and Zanzibar.



The company's low cost model has revolutionised air travel for Tanzanians by making it accessible to thousands of people who could previously not afford it. Fastjet also now flies from Dar es Salaam to Nairobi (Kenya), Johannesburg (South Africa), Lusaka (Zambia), Entebbe (Uganda) and Harare (Zimbabwe). In April 2016, the airline flew its two-millionth passenger.

The benefits to Tanzania of Fastjet's emergence include:

- Hundreds of thousands – and potentially millions – of additional tourist and business passengers flying to and from Dar es Salaam each year.
- Increased regional interconnectivity.

- Positive impact on the regional economy through growth in trade and tourism.
- Increasing the attractiveness of the country and region for inward investment.
- Significant employment opportunities (with ten A319 aircraft, direct employees would rise by 600 people, and an estimated further 600 people would be indirectly employed).
- Increasing footfall at major Tanzanian airports, thereby attracting airport infrastructure investment and increased airport revenues.
- Increased tax and customs revenues.

Fastjet's competitors– including Precision Air and Kenyan Airways – have reduced their fares in response to Fastjet's low cost model, thus benefiting the Tanzanian consumer. Moreover, almost 100% of Fastjet's flights have departed on time, setting new standards for reliability.

Consumer support is unsurprisingly strong: the results of a recent customer satisfaction survey showed that 100% of customers were likely to recommend Fastjet to a friend. With Tanzania's national airline, Air Tanzania Company Limited, close to bankruptcy and with just 0.4% market share, Fastjet has filled a crucial gap in the marketplace as a reliable airline offering national coverage.⁴³

Fastjet's rise also underscores the benefit of constructive industry-government relations. Since 2012, Tanzania's Minister for Transport and the Tanzanian Civil Aviation Authority have provided active support in securing international route approvals for Fastjet. The government's 2006 Civil Aviation Act also empowers the Minister for Transport to establish a system of licensing that favours competition and investment in the sector. This supportive policy environment has benefitted Fastjet and the sector as a whole. In addition, Fastjet is working with the Government of Tanzania to improve the competitiveness of the taxation regime for the country's aviation sector vis-à-vis regional peers (for example, regarding VAT on leases and maintenance and withholding tax on leases).

By adhering to international standards of safety, quality, security and reliability, Fastjet has brought a new flying experience to the Tanzanian market at unprecedented low prices. Utilising its fleet of Airbus A319s, Fastjet Plc is now implementing the low-cost model across Africa and its long-term strategy is to become the continent's first low-cost, pan-African airline, with Tanzania as its primary hub.

Map 11.4 Fastjet's Tanzania Hub and Regional Routes



43 Clyde & Co. LLP 'The Legal Framework for the Aviation Sector in Tanzania' February 2015

44 Tanzania Big Results Now Roadmap 'National Key Results Area 2013/14 - 2015/16: Transport' Tanzania Development Vision 2015

5. Key Challenges

5.1. Infrastructure deficit

A significant deficit continues to exist in basic transport infrastructure, including roads, rail links and ports. These deficits and inefficiencies affect all three modes of transport, leading to long wait times and delays, declining freight volumes and slow travel times. The World Economic Forum Competitiveness Report ranked Tanzania's level of infrastructure at 124th, behind most of its neighbours including Uganda, Ethiopia, Zambia and Kenya.⁴⁴ To provide an enabling environment for private companies to invest in more efficient transport and logistics services, the GoT will need to invest billions of dollars into supporting infrastructure in the coming years. This is especially true in sub-sectors that have been deprived of investment for decades, such as the rail network, which if properly marshalled could massively improve trade performance in Tanzania, offering a far lower freight rate per kilometre tonne on the TAZARA Line and other routes than for the road equivalent.

The GoT must recognise that any investment in backbone infrastructure in Tanzania is likely to have a significant multiplier effect, given the boost it will provide not only to the domestic market but also to neighbouring landlocked countries such as Zambia, Rwanda, Malawi, Burundi and DRC, who will become more likely to route their supply chains through Tanzania.

5.2. Infrastructure financing shortfalls

Tanzania's small and illiquid domestic financial system is ill-equipped to raise debt finance for infrastructure projects. Primary capital market issuance has grown in recent years but maturities remain short and the secondary market is muted. Tanzania has not received a sovereign rating by any of the world's three leading credit rating agencies, making it difficult to raise large-scale 10-year dollar denominated sovereign debt on the Eurobond market in the way that several other African governments have done in recent years. Although the GoT has raised hundreds of million dollars of debt with US banks through the private syndicated loan market, the government is still reliant on multilateral and

donor funds to meet its budget deficit and infrastructure financing needs.

In the long term, a deepening and broadening of the country's domestic equity and debt markets is likely to occur, with the introduction of new longer-dated instruments on the DSE such as domestic infrastructure bonds to attract institutional and other investors. These bonds will likely target road, rail and port sector infrastructure, which represent key priorities for the new President, John Magufuli, for whom infrastructure financing was a key focus during his tenure as Minister for Public Works in the previous administration. Government lenders such as the Tanzania Investment Bank and Agricultural Development Bank of Tanzania will also play a role, albeit on a limited number of projects.

Overall, however, progress is likely to remain slow for several years yet as volatility in inflation, currency and interest rates will hold back growth in local debt markets. For the next half decade at least, local currency financing will only ever meet 20% or less of government financing needs. In the meantime, more innovative financing solutions will be required to meet Tanzania's massive infrastructure financing gap.

5.3. Over-regulation

As outlined above, excessive and inconsistently applied tax levies have rendered Tanzania uncompetitive in several transport sub-sectors in relation to regional neighbours such as South Africa, Kenya, Mozambique and Namibia. Regional transportation and importation companies – especially those focused on landlocked markets such as Zambia and DR Congo – will always select the most affordable and least risky route to market. If Tanzania's imposition of non-refundable VAT levies and other taxes makes transport corridors in neighbouring countries more attractive, then transit trade will quickly divert away from Tanzania.

5.4. Regional coordination and harmonisation

Considerable barriers to cross-border trade continue to exist in east and southern Africa, despite recent progress. A particular challenge is the yawning gap between laws and agreed standards and the actual enforcement and

⁴⁵ See Shippers Council of Eastern Africa, 'East Africa Logistics Performance Survey', 2014

implementation of these in each EAC country. Often there is significant variance, leading to needlessly high cross-border transportation costs. For instance, the EAC Vehicle Axle Load Control Act has been applied differently in each member state, sowing confusion for regional transport companies.⁴⁵

Equally, a more harmonised approach to infrastructure projects – with joint planning and financing mechanisms, and equitable cost and benefit distribution between countries – would reap benefits across the region. As one recent report observed, *“in this respect, the experience of the EU-27 is of particular importance, where a cohesive policy for transport infrastructure was developed to allow countries to catch up to regional standards and funds were earmarked for integration projects.”*⁴⁶

5.5. Performance of government agencies

The performance of state agencies responsible for goods clearance – including the Tanzania Ports Authority, Tanzania Revenue Authority and National Bureau for Standards – is well below the required standard. Unless government agencies can deliver a higher quality of service, the full benefits of increased investment in physical transport infrastructure will not be realised. The Big Results Now Transport National Key Results Area specifically highlighted “overlaps in administrative processes” and “unclear management structure, outdated processes and insufficient human resource capabilities” as key challenges to be addressed.⁴⁷

⁴⁶ Ibid.

⁴⁷ Tanzania Big Results Now Roadmap ‘National Key Results Area 2013/14 - 2015/16: Transport’ Tanzania Development Vision 2015

12 Tourism

Sector Snapshot

- Tanzania's tourism sector has witnessed double digit growth for more than a decade, but this robust performance provides only a hint of the scale and breadth of the future opportunities available across the industry.
- The Tanzania Tourist Board aims to multiply tourism revenues eight-fold by 2025 to produce USD 16 billion in earnings per year.
- An impressive range of EU^{+SN} companies – more than 200 firms from 19 different countries – are active in the sector. The UK has the largest number of tourism investments at 115, followed by Italy with 75, and Germany with 30.
- As these tallies indicate, European businesses account for the majority of all tourism investment in the country. None rank among Tanzania's Large Tax-payers, but together they represent the backbone of the industry and have been responsible for the sector's recent growth and diversification.
- Tourism is now the highest earner of foreign currency in Tanzania. In 2014, the sector generated around USD 2 billion in revenue (approximately 17% of total GDP) from 1.1 million tourist arrivals.
- The industry directly employs around 600,000 people and employs a further two million people indirectly.

1. Sector Outlook

Tanzania's tourism sector has witnessed double digit growth for more than a decade, but this robust performance provides only a hint of the scale and breadth of the future opportunities available across the industry. Today, tourism is narrowly focused on the northern parks and the Zanzibar archipelago – by way of comparison, only 20,000 tourists visit the magnificent 20,226km² Ruaha Park each year, while over 200,000 visit the 5,000km² Serengeti Park.¹ Building on the success of the Northern Circuit, there is clear potential to develop major new circuits in the south – taking in the Selous, Ruaha and Katavi, Lake Tanganyika, Lake Nyasa and the southern coastline, among other locations. These attractions are widely known by local residents, but are currently not well-developed or marketed to international visitors. This diversification could increase the number of tourist arrivals and create stronger linkages between tourist activity and other economic sectors.

Equally, while up-market tourism will remain the mainstay of the Tanzanian tourism sector, an opportunity exists to develop a market for more competitively priced middle budget tourism focused on marine-based tourism, cultural tourism, eco-tourism, conservation tourism, business tourism, urban tourism and package holidays – including chartered flights and inexpensive accommodation – taking in the country's less well known beaches and mountain areas.

1.1 Government targets and policies

The Tanzania Tourist Board aims to multiply tourism revenues eight-fold by 2025 to produce USD 16 billion in earnings per year.² This would require annual growth in tourist arrivals of roughly 20%, assuming average holiday spend remains roughly constant. This target is feasible – for example both South African and Morocco attract more than 10 million tourists annually – but the sector's growth rate will need to double, and that will be possible only if investment is made in human capital and supporting infrastructure, and if a more conducive regulatory environment is introduced to accelerate private investment in the tourism facilities.³

To attain this accelerated growth, strong government support will be essential – and under President Magufuli's new government it appears to be forthcoming. As a key source of job creation, tax revenue and foreign currency earnings, the tourism sector is enjoying increasing government attention. Unlike Tanzania's other key economic sectors – such as mining, oil and gas and agriculture – tourism acts as a stabilizer to the country's balance of payments owing to its resilience to external shocks such as commodity price fluctuations. Moreover, growth in tourism will stimulate demand in construction, transportation, telecommunications, banking and other industries, thanks to its backward and forward linkages with other sectors.

An illustration of this growing support is the GoT's design of

¹ The national parks of Serengeti and Kilimanjaro in the Northern Circuit also generate 85% of all national park revenues, according to the World Bank.

² World Bank Group 'Tanzania Economic Update: The Elephant in the Room - Unlocking the potential of the tourism industry for Tanzanians' January 2015

³ For example, opening up the Selous and Ruaha to greater tourist numbers depends, in the first instance, on reducing transport costs to reach these parks (internal connecting flights from Dar es Salaam are currently upwards of \$300 each way).

a tourism development master plan in late 2015 with support from the World Bank and the United Nations Development Programme, among others.⁴ The GoT has also held talks with major airlines to offer more convenient flight schedules and to reduce the time spent in transit. Meanwhile, the Tanzania National Business Council recently declared tourism a priority industry with high growth potential.

A further example is the government's new six-year, USD 100 million joint project with the World Bank to improve the transport infrastructure linking game reserves, including new airstrips and roads. The project, which starts in 2016, is focused on strengthening the nascent southern tourist circuit.⁵

2. Sector Profile

Unlike some of its African competitors, Tanzania's tourism attractions are richly mixed.⁶ The country boasts some of the world's best wildlife resources, an 800km coastline and no fewer than six world heritage sites. Key attractions include the Serengeti plains which host the world's largest terrestrial mammal migration; the Ngorongoro Crater, which is the world's largest intact volcanic caldera and hosts the highest density of big game anywhere; and Africa's highest mountain, Kilimanjaro.⁷ Tanzania is the only country worldwide with more than 25% of its total land area set aside for wildlife national parks and protected areas. The country hosts 16 national parks, 28 game reserves, 44 game controlled areas, one conservation area and two marine parks.

The liberalisation of the tourism industry in 1995 resulted in two decades of steady growth as Tanzania earned increasing global recognition as one of the premier safari and beach destinations worldwide. In consequence, tourism is now the highest earner of foreign currency in Tanzania. In 2014, the sector generated around USD 2 billion in revenue – or approximately 10% of total GDP – from 1.1 million tourist arrivals (foreign earnings demonstrated in Table 12.1). The

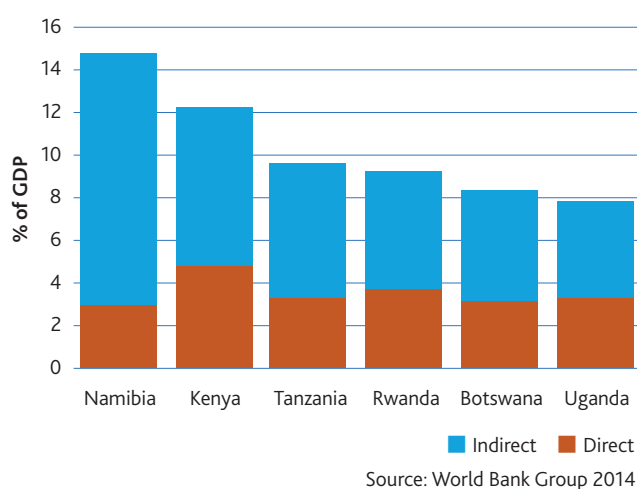
industry directly employs around 600,000 comparatively well paid people and employs a further two million people indirectly.⁸ In a regional comparative perspective, Tanzania ranks as one of the highest earning countries from tourism activities (see Figure 12.2).

Tourism levels have been growing for the past decade, with

Figure 12.1 Foreign exchange earnings from tourism in Tanzania 2000 – 2012



Figure 12.2 Direct and indirect contribution of tourism to GDP – regional comparison



international visitor arrivals climbing from 580,000 in 2004

4 East African 'Tanzania seeks more tourists', October 2015

5 Pan African News Agency 'Tanzania: Tanzania government aims to upgrade tourist facilities, services', February 2016. In a separate development, the GoT in December 2015 approved the launch of daily flights between Zanzibar and Dar es Salaam by Fastjet Plc which will sell the tickets from as little as \$10 before tax, a move that is likely to boost the tourism sector and expand the range of itinerary options for travelers.

6 For the purposes of this study, tourism enterprises will be defined broadly to include hotels, restaurants, tourism transportation companies, and associated services, such as diving and hiking companies.

7 The Ngorongoro Crater is the largest un-flooded and contiguous caldera in the world. About 20km wide, 600 meters deep, and 300 square kilometres in total area, the crater is home to several habitats and more than 30,000 wild animals. Traditional Maasai villages are also present and of interest to international tourists.

8 See East African Business Week 'Tanzania sees tourism become top forex earner' October 2015. The Bank of Tanzania Monthly Economic Review for February 2015 indicated that tourism is now the leading foreign exchange earner, outshining gold exports and reaching over \$2.04 billion.

9 Tanzania Invest, 'Tanzania Tourism Sector Report 2015: Record of Arrivals In 2014' December 2015

to 1.1 million in 2014.⁹ Aggregate investment in travel and tourism in 2014 amounted to TSh 1,864.5 billion or 9.5% of the total investment in the country, up from TSh 1,634.2 billion in 2013.¹⁰ These steady increases are largely the result of more progressive government policies introduced from the 2000s onward (see Policy Context).¹¹

2.1. A brief history of tourism in Tanzania

Formal tourism activities in Tanzania began with the establishment of game reserves on Tanzania Mainland and the construction of a small number of state hotels under the presidency of Julius Nyerere in the 1960s. However, for decades the sector has been starved of investment and neighbouring Kenya developed a significant lead as the region's tourism hub. From the mid-1990s, the Tanzanian government switched to a market-oriented approach and encouraged private investment into hotel construction, restaurants, and air and ground operations. As a result, the industry has grown by 10% each year for more than a decade and today – in contrast to the 1990s – most visitors travel directly to Tanzania, with less than 25% coming via Kenya.¹²

In the 2000s and 2010s, efforts were made to diversify the range of experiences available to tourists. Beyond the traditional Northern Circuit, investment was made in marine activities such as scuba diving, snorkelling, whale shark viewing, sailing and fishing. Land activities and guided excursions on Mafia and Pemba islands and on the southern coast were introduced. The game parks and reserves established in the Southern Circuit such as Mikumi, Ruaha and the Selous Game Reserve, one of the largest faunal reserves in the world, were also developed further.¹³

2.2. The Northern and Southern Circuits

Tanzania's tourism map can be divided into two major circuits: Northern and Southern. The Northern Circuit is the most developed and stretches from Lake Victoria in the west to Tanga on the coast. The circuit is well served by Kilimanjaro International Airport (KIA), from where connections are available to 93 domestic airports and airstrips. The circuit's main attractions – the Serengeti, Lake Manyara, Tarangire

National Park and Ngorongoro Conservation Area – boast excellent wildlife areas and facilities and represent the backbone of the industry. Other assets, such as the Kilimanjaro and Arusha National Parks, the Usambara Mountains, Mkomazi Game Reserve and the coastal area including Tanga, Amboni Caves, Pangani and the Pemba Channel, are less developed. By leveraging existing infrastructure around the core circuit, these additional parks, mountains and coastal areas are ripe for further tourism activities.¹⁴

Meanwhile, the Southern Circuit represents the future of Tanzania's tourism sector. The southern parks host wildlife of equal stature to the Northern Circuit, but historically the poor and costly transport links to parks such as Ruaha have restricted tourist access. Broadly defined, the Southern Circuit takes in the beach resources at Bagamoyo, Mafia Island and the coastline south of Dar es Salaam; the Selous game reserves and Mikumi, Ruaha and Udzungwa National Parks; and cultural and historic attractions including ancient trading settlements at Bagamoyo, Kilwa, Iringa and Mafia Island.¹⁵

2.3. Zanzibar

Tourism is the top income generator on Zanzibar. Tourist arrivals generally enter the archipelago via Zanzibar International Airport, often connecting from Arusha or Dar es Salaam as part of a broader holiday package, though some tourists – especially domestic travellers – take a 2-hour ferry from Dar es Salaam to Zanzibar's main island, Unguja.

The archipelago's main attractions include coastal tourism, terrestrial wildlife, dhow cruising and spice tours. Zanzibar's capital is the historical Stone Town, a World Heritage Site. Many visitors spend a share of the visit in Stone Town before embarking on a beach holiday, taking advantage of the clear Indian Ocean water and coral and marine life on offer across the isles.

Europeans represent more than 70% of annual visitors to Zanzibar, and more than twice as many Italians visit Zanzibar

¹⁰ Ibid.

¹¹ The average expenditure per tourist in Tanzania per night is \$277 for packaged tours and \$117 for non-package tours. See Tanzania Invest, 'Tanzania Tourism Sector Report 2015: Record Of Arrivals In 2014' December 2015

¹² Tanzania Invest, 'Tanzania Tourism Sector Report 2015: Record Of Arrivals In 2014' December 2015

¹³ Ibid.

¹⁴ Tanzania Invest, 'Tanzania Tourism Sector Report 2015: Record Of Arrivals In 2014' December 2015

¹⁵ Ibid

than the combined total of German and British tourists. Most visitors are guests with packaged tours that are organized, booked, and paid for through tour operators. Europeans aged 25 – 44 lead tourist spending, accounting for nearly 60% of total tourism revenues in 2013.¹⁶

Listed among the top 10 honeymoon destinations for 2015 by Travel Channel, Zanzibar relies heavily on tourism as a driver for economic growth. Tourist visits (181,301 in 2013) generated some 51% of Zanzibar GDP in 2013 and 70% of the archipelago's foreign currency exchange.¹⁷

2.4. Tourism infrastructure

The country hosts 174 tourist class hotels with a combined total of 11,568 rooms. Dar es Salaam has the largest number of large hotels including the new Ramada hotel which opened its doors in 2015 with a combined room capacity of about 1,500 rooms. The hotel industry sub-sector grew by over 6% in 2014 and is the fifth fastest growing hotel industry in Africa.¹⁸

As part of the drive to boost tourism activity, the Tanzanian Ministry of Natural Resources and Tourism announced in January 2016 announced that it is actively seeking to promote investment in the country's hospitality industry – in high-end hotels in particular. The ratio of tourist class hotels and hotel rooms to tourist arrivals is far lower than the African average. This supply gap represents a significant investment opportunity for hospitality companies with the relevant expertise and financing, especially at the luxury end of the market (Tanzania tends to attract high spending tourists, with each spending USD 3,000 on average, so demand is strongest in the luxury segment).¹⁹

Air connections for tourist travellers to Tanzania have improved in recent years, but remain limited in important respects. At least 16 foreign cities connect to Dar Es Salaam with nonstop flights but most of these are in Africa, the Middle East or Asia – there are no direct flights to most of the key tourist countries of origin in North American or European markets (80% of tourists in Tanzania arrive from either Europe or the US, with Europe the leading contributor).

However, the Tanzania Tourist Board (TTB) is reportedly advocating with the Tanzania Airports Authority and Tanzania Civil Aviation Authority to introduce incentives to key airlines to fly direct to Tanzania. With air traffic in Tanzania growing at 20% per year, expansion projects nearing completion at several key airports in the country and strong political support for additional international routes, the medium term prospects for securing more direct flights to Europe are strong.

3. Policy Context

Tanzania ranks a lacklustre 93rd out of 141 world tourist destinations, according to the World Economic Forum's 2015 Travel and Tourism Competitiveness survey (see Table 12.1). Tanzania scores ahead of its regional sub-Saharan peers in the areas of 'safety and security' and 'human resources and labour market' but lags behind in the areas of 'health and hygiene', 'ICT readiness' and 'business environment'.²⁰

Realising the sector's potential to contribute to broader economic growth, the new administration of President John Magufuli is prioritising tourism. In January 2016 the Government of Tanzania (GoT) committed to increasing the sector's budget to attract more tourists to the country. Professor Jumanne Maghembe, Minister of Natural Resources and Tourism, stated that the increased budget would permit the Tanzania Tourist Board (TTB) to design new products and to adopt more innovative marketing strategies, such as the launch of a new Tanzania tourism app and the 'Tanzania, the Soul of Africa' advertising campaign broadcast on CNN and the BBC.

Previously, the TTB's precarious financial position had prevented the agency from achieving significant impact, but the new budget allocation is likely to address this. The Ministry's goal is to attract up to 3 million international visitors annually in 2018 and to double the sector's contribution to GDP from USD 2 billion to USD 4 billion over the same period.²¹

The GoT is also working to extend the beach tourism offer beyond the Zanzibar archipelago, with plans underway to

16 See: <http://www.online-zanzibar.com/zanzibar-a-booming-tourism-destination/>

17 See: <http://www.online-zanzibar.com/zanzibar-a-booming-tourism-destination/>

18 Ibid.

19 Tanzania Invest, 'Tanzania Seeks Investments in Hospitality Industry to Raise Tourism Competitiveness' January 2016

20 See: <http://reports.weforum.org/travel-and-tourism-competitiveness-report-2015/index-results-the-travel-tourism-competitiveness-index-ranking-2015/>

21 Tanzania Invest 'Tanzania To Increase Tourism Budget In 2016, Minister Maghembe says' January 2016

Table 12.1 The Travel & Tourism Competitiveness Index 2015: Sub-Saharan Africa

Country/ Economy	TTCI Index		Enabling Environment Pillars, values				
	Regional rank	Global rank	Business environment	Safety & Security	Health and Hygiene	Human Resources and Labour Market	ICT Readiness
South Africa	1	48	5.35	4.30	3.85	4.09	4.29
Seychelles	2	54	4.63	5.09	5.49	4.62	4.17
Mauritius	3	56	5.19	5.91	5.31	4.75	4.22
Namibia	4	70	4.76	5.02	3.70	3.80	3.82
Kenya	5	78	4.33	3.78	3.29	4.44	3.13
Botswana	7	88	4.86	5.15	3.50	4.20	3.74
Tanzania	8	93	3.97	4.85	2.68	4.03	2.48
Rwanda	9	98	5.13	5.58	3.92	4.36	2.93
Zambia	10	107	4.75	5.40	2.44	4.99	2.51
Swaziland	11	108	4.45	4.65	3.19	3.70	3.00
Uganda	14	114	3.87	4.62	2.72	4.11	2.72
Zimbabwe	15	115	2.97	5.31	3.00	3.83	2.82
Ethiopia	17	118	3.90	5.18	4.35	3.63	1.88
Madagascar	19	121	3.87	4.66	3.28	3.85	2.36
Malawi	22	126	4.03	5.41	2.44	4.18	2.55
Lesotho	24	129	4.23	4.42	2.93	3.91	2.47
Mozambique	25	130	4.23	4.50	1.97	3.57	1.94
Burundi	28	135	3.78	4.55	3.91	3.61	1.90
Eastern & Southern Africa average			4.35	4.91	3.44	4.09	2.94

Source: World Economic Forum Travel & Tourism Competitiveness Index 2015

create a Special Economic Zone (SEZ) for tourism activities on the mainland coastline, complete with hotels, resorts and conference centres.²²

3.1. Government tax system for the tourism sector

External partners such as the World Bank view the tax and permitting system for tourist operators in Tanzania as dysfunctional. Operators themselves have frequently stated that the costs, delays and opportunities for government rent-seeking and harassment created by a cumbersome regulatory framework represent the main barrier to growth in the sector. The system is fragmented, with operators subject to more than 20 taxes and fees, including VAT, income tax, municipal service levies, employers' contributions, and safety inspection fees. The TRA, local governments and a range of national agencies and ministries

are involved in collecting fees – including the Ministry of Natural Resources and Tourism, the Tanzania National Parks Authority, the Wildlife Division, the Tanzania Forest Service Agency, the Tanzania Wildlife Protection Fund, the Tanzania Wildlife Research Institute, Tanzania Revenue Authority and others.

The demands that such a laborious system place on tour operators mean that small or new companies struggle to survive, thus reducing competition and diversification in the industry. The opaqueness of the revenue management system is also bad for the government, which loses out from tax levies that fail to circulate back into the formal system.²³ Indeed, a substantial share of tourism revenue is collected and/or disbursed by government agencies that operate outside of the national budget. This can be damaging to the

²² Ibid.

²³ According to the World Bank, the overall fiscal revenue generated by the tourism sector is estimated to reach a value of \$185 million per year. However, 15 hotels account for 25% of those revenues, which means that other tourism operators are either paying much less in taxes and fees, or the amount collected is not finding its way in official records.

industry: for example, tourism revenues allocated to Local Government Authorities (LGAs) are not always distributed for their intended purpose of community-led wildlife development and are often redirected elsewhere.²⁴

There have been improvements in recent years, such as the introduction of Point of Sale (PoS) electronic payments systems at park entrance gates in 2008 which has greatly increased the transparency, efficiency and revenue generating potential of the park permitting process. Moreover, the new administration of President John Magufuli is actively seeking to enhance the efficiency and transparency of the tax and revenue management system for tourism – though these early stage reform efforts will take some time to bear fruit.

4. Supply and marketing chain

An impressive range of EU^{+SN} companies – more than 200 firms from 19 different countries – are active in the Tanzanian tourism sector. According to TIC data, the United Kingdom has the largest number of tourism investments at 115, followed by Italy with 75, and Germany with 30. None of these businesses rank among Tanzania's identified large tax payers, but together they represent the backbone of the industry and have been responsible for much of the sector's recent growth and diversification.

The European companies are spread across the country. However, three main clusters of EU^{+SN} investment stand out: the Zanzibar archipelago, the Northern Circuit (taking in Arusha, the Serengeti, Lake Manyara, Tarangire National Park and the Ngorongoro Conservation Area) and the Southern Circuit (including the coastline around Dar es Salaam, Selous game reserve and Mikumi and Ruaha national parks).

In Zanzibar, tourist operators from at least eight EU^{+SN} countries are present. Italy leads the field with some 48 companies. Five Swedish tourism operators are active on the isles, a further three from Spain, two each from Switzerland and France, and once each from Austria and Norway, among others.²⁵

In the Southern Circuit (including tourism operations in

Tanga, Pwani, Mtwara and Lindi, and Iringa regions, and those based out of Dar es Salaam), the United Kingdom has the largest number of companies with 56, of which the Selous Safari Company offers a compelling example of a company that has successfully pioneered the Southern Circuit and helped to develop it into a world class safari destination. The UK is followed by Italy with 18, Germany (13), Norway with 7, Spain (3), Finland (2), and Belgium, the Netherlands, France, Greece and Portugal with one each, among others.

In the Northern Circuit (Arusha and Kilimanjaro regions), the UK again leads the market with 43 tourism companies active in the area, followed by the Netherlands and Sweden (both with nine), Germany (8), Belgium (6), Norway (4), Italy (3), and Finland, Portugal, Switzerland, Spain with one each, among others.²⁶

Aside from lodges and project-specific tourism ventures in these three geographic clusters, EU^{+SN} firms also dominate the overland and tailor-made tours sub-sector in which the full range of customised walking, driving (short and long distance), flying, climbing and birding safaris are offered. Examples include:

- UK-based overland tour operator Acacia East Africa Ltd, which has been providing customised overland safaris in Tanzania for 20 years;
- Belgian companies Wildlife Guides of Tanzania (T) Lt and African Heart Expeditions, based in Arusha;
- Finnish companies Art in Tanzania Tours Ltd, Colours of Zanzibar, Great Kudu Tours & Safaris and J.M Tours Ltd, based in Dar es Salaam, Zanzibar, Morogoro and Arusha respectively;
- German companies Sharubu Adventure Safaris Ltd, Tanzania Outfitters & Safaris Ltd and The African Embassy Safaris Ltd, an Arusha-based company with lodges in Kilimanjaro region;
- Greek company Exceptional Lodges Tanzania Ltd; and
- Netherlands-based Bush to Beach Safaris, Karibu Africa Safaris and Ajabu Adventures, all of which offer tailored safari packages linking multiple destinations across Tanzania.

²⁴ World Bank Group 'Tanzania Economic Update: The Elephant in the Room - Unlocking the potential of the tourism industry for Tanzanians' January 2015

²⁵ The number of Italian hotels, shops, restaurants and tour operators on Zanzibar is too great to list in full, but examples include: Karafuu Hotel, Blue Marlin Village, Club Vacanze, Coral Reef Resort, Diamonds Mapeenzi Beach Club, Hakuna Majiwe Resort, Hiway of Nungwi Resort, Kichanga Lodge, Mashariki Palace Hotel and the Sultan Palace Hotel.

As these tallies indicate, European businesses account for the majority of all tourism investment in Tanzania. Indeed, as six of the top ten countries of origin for international visitors to Tanzania are also from the EU^{+SN} bloc, it is clear that in all senses Europe has been Tanzania's preeminent partner in the successful development of a flourishing tourism industry in the country.²⁷

European investors also have a crucial role to play in deepening and diversifying Tanzania's tourism industry. The markets from which the Tanzania Tourist Board is expecting strong additional growth in tourist arrivals are largely European – they include, in particular, the UK, Germany, Italy,

France, the Netherlands and Spain. Meanwhile, long-term European residents in Tanzania are well-placed to match specific European tourism trends and demands with the array of natural and cultural tourist attractions on offer in Tanzania.

For several decades, European companies – often small-scale with owners risking personal or family capital – have served as the cornerstone of a growing tourism industry in Tanzania. Today, new and existing EU^{+SN} tourism operators are ideally placed to accelerate this growth trajectory and to transform Tanzania into a globally competitive, multi-centre tourism destination catering to every kind of tourist visitor.

Case Study 12.1 Coastal Aviation

Founded in 1987, Coastal Aviation has been a pioneer at the vanguard of Tanzania's tourism and transportation sectors for three decades. The Dar es Salaam-based company began with a single four-seater plane but today operates a fleet of some 25 aircraft. The company has enjoyed robust double digit growth in recent years, with ticket sales and annual turnover reaching 220,000 and USD 25 million respectively in 2015.



The company's success has been built on rendering Tanzania's vast and disparate National Parks and Wildlife Reserves accessible to tourist travellers from across the globe. Recognising that vehicle-based road travel could not cater to the requirements of all safari companies in a country with among the largest areas of protected land in the world, Coastal Aviation set about developing a flying safari network capable of accessing the remotest parts of the country.

The greater access provided to parks and reserves by this route network has made previously isolated locations for safari lodges and camps economically viable, which in turn has provided greater depth and breadth to the range of itinerary options safari companies are able to offer. In this way, Coastal Aviation has enabled Tanzania to become an ideal destination for the 'once in a lifetime' safari in which tourists can reliably schedule to visit a number of far-flung locations within a single trip.

Today, Coastal flies to some 40 airstrips – linking Tanzania's major cities, the Serengeti, the southern parks of Selous and Ruaha, Katavi national park, the Zanzibar archipelago, Mafia and Songo Songo islands, and many other destinations – in addition to connecting visitors to Kenya, Mozambique and Rwanda.

26 In the northern circuit, examples of EU^{+SN} operators include Belgian companies Ecoscience Limited, which runs a luxury eco-lodge on the North-Eastern border of Tarangire National Park, and Onsea House, near Arusha. Other examples include Ndotu Safari Lodge Ltd, a Dutch-run lodge in the Ngorongoro Conservation Area in the southern Serengeti eco-system; Asilia Lodges and Camps Ltd, which also operate lodges in the Serengeti; and Kigongoni Lodge, Moivaro lodge and Ilboro Lodge – all Dutch-owned and located in Arusha. Also in Arusha region is German-owned Hartebeest View Lodge Ltd and Arumeru River Lodge Ltd. The number of UK-based tourism companies in the area is too long to list here; likewise the large number of tourism ventures from the Nordic countries.

27 The top 10 overseas markets of international visitors to Tanzania in 2014 were the USA, UK, Italy, Germany, France, India, the Netherlands, Canada, Australia and Sweden. The average length of stay in Tanzania per tourist was 10 days in 2014, a number which has been consistent in the last 4 years.

Map 12.1 Coastal Aviation's Route Network



This route network also offers the opportunity for Tanzanian business people and domestic travellers to travel affordably by air across the country. This is made possible by Coastal Aviation's uniquely flexible pricing model: some seats are sold at full price months ahead of time to foreign tourist visitors whose main requirement is an absolute guarantee of on-time service to facilitate their safari experience; while other tickets are sold to local travellers at later notice and at a discount of 50% or more.

The Coastal route network therefore doubles up as an affordable transportation hub for Tanzanians wishing to access hard-to-reach parts of the country. This feature of the company's business model – which effectively subsidises internal flight traffic – supports local communities and acts as an economic lifeline to remote locations.

Beyond its commercial activities, Coastal Aviation's role as a bedrock of the Tanzanian tourism sector is illustrated by the support the company provides both to the wider industry and to the Government of Tanzania. Together with other operators, the company has contributed to the preparation of strategic plans for increasing tourism revenue in the country, helping to identify the constraints facing the industry and proposing a series of clear, actionable recommendations which, if undertaken, would unleash the full potential of Tanzania's tourism sector. These efforts – which include suggestions for a new International Tourism Marketing Strategy; measures to increase private investment in tourism infrastructure; harmonisation and streamlining of regulations; and the formulation of a new 10-year Tourism Sector Development Program – will help to drive the development of the sector as a whole.

5. Key Challenges

5.1. Value for money

Tanzania lags behind its competitors in terms of value for money. According to the Tanzania Association of Tour Operators, operators tend to agree that whilst Tanzania offers an unparalleled natural product, the service levels and accommodation do not match the prices tourists are required to pay for comparable experiences in competing markets.²⁸

5.2. Lack of skilled and reliable labour

Several – although not all – tourism investors interviewed for this market study highlighted the lack of available high quality labour. A few investors also noted that compared to some of Tanzania's neighbours, tourism sector training and customer service skills remain sub-par. This is a key area of competitiveness where a joint effort between industry and government to promote top quality tourism and hospitality skills development may prove highly beneficial in the long run.²⁹

5.3. Multiplicity and Duplication of Taxes and Regulators

Compared to many competing tourism destinations, Tanzania's regulatory system is overly complex and riddled with agency-specific fees. This unpredictable and complex regulatory and taxation system has discouraged many potential investors. For example, a typical tourism venture in Zanzibar will pay 18 different taxes or fees administered by 13 different agencies (see Table 12.2 below).

For air operators, the number of required tourism licenses, levies and fees is a staggering 115. Often tax incentives are offered one year, only to be revoked the following year, creating an environment of mistrust and volatility. Meanwhile, up front registration fees in Tanzania are excessive: new companies must pay USD 5,000 and own at least five vehicles, whereas in Kenya the equivalent payment is USD 200 and only a single vehicle is required.³⁰

This makes operating a tourism enterprise more expensive in terms of both direct fees and the time required of management to engage with regulators and keep track of licenses and payments. As the World Bank observes, *"Today, the business climate in Tanzania is neither conducive toward tourism operations nor investment. In particular, the levies and taxes within the tourism sector are unpredictable, uncertain, and often duplicative. This reduces Tanzania's ability to compete with the tourism industry in neighbouring countries, many of which have already established a better environment for their tourism industry, including more robust regulatory systems for protection of their natural resources."*

If the new government can implement a more simplified, transparent and business-friendly taxation and licencing system, the benefits to the tourism sector will be substantial and immediate. As the main challenges lie in implementation, this reform drive will have to extend well beyond the rewording and updating of legislation and policy. It will require organisational change and strong oversight of a multiplicity of agencies. Such sweeping changes are only likely to prove effective if tourism operators themselves are properly consulted and involved in the reform process.

5.4. Poaching

Uncontrolled poaching has resulted in a sharp drop in the number of elephants and rhinos in Tanzania. Over 60% of Tanzania's elephant population has been wiped out in less than a decade, declining from 142,000 elephants in game reserves in 2005 to 55,000 in 2015.³¹ Without sustained government intervention in the form of support to anti-poaching programmes and sanctions for all actors involved in the illicit ivory trade, Tanzania's elephant population – and its tourism sector along with it – may be annihilated.

There are signs that the new government is willing to tackle the poaching challenge in a meaningful way. For example, the Ministry of Natural Resources and Tourism in February 2016 announced the creation of a special Wildlife Crime Unit (WCU) to reinforce the government's battle against

²⁸Tanzania Invest, 'Tanzania Tourism Sector Report 2015: Record Of Arrivals In 2014' December 2015

²⁹Tanzania hosts a variety of vocational training programmes, including two-year courses in culinary and catering management, leisure and resort management, and hospitality and tourism management. But these programs suffer from underdeveloped linkages with the industry. High-end tourism requires specific skills for the provision of bespoke goods and services, and at present there is a mismatch between local training initiatives and the skillset required to cater to the high-end market segment. According to the World Bank, "these programs have yet to achieve a sufficient level of integration with the industry to enable an agile response to the industry's human resource needs." See World Bank Group 'Tanzania Economic Update: The Elephant in the Room - Unlocking the potential of the tourism industry for Tanzanians' January 2015

³⁰World Bank Group 'Tanzania Economic Update: The Elephant in the Room - Unlocking the potential of the tourism industry for Tanzanians' January 2015

³¹ Ibid.

Table 12.2 Tourism Taxes in Zanzibar

Agency	Tax and Amount	
Zanzibar Revenue Board	Hotel Levy	18%
	VAT	18%
	Stamp Duty	3%
	Income tax	30%
Tanzania Revenue Authority	PAYE, stamp duty, withholding tax, skill development levy	5%
Zanzibar Social Security Fund	Social security fund for all employee	10%
Zanzibar Investment Promotion Agency	Annual payment for investment license	from USD 500 to USD 1500
Lands Tax	Rental per hectare annually	
Fisheries	Entry Marine reserve	USD 5 per tourist per day
	Entry Marine reserve	30% for community
Environment	Regional inspections certificate	from 100,000
Food Safety	Regional inspections certificate	from 100,000
Port Authority	Boat licenses for boat and radio	
District Council	Liquor license	from 1,500,000/= pa to 2,500,000
	Signage	from 100,000 to 500,000
Community Fund	Turnover payable to Local Authority (new tax)	1%
Good Governance	Public Broadcast TV/Music (new)	2,000,000/= to 5,000,000
Commission of Tourism	USD 1,000 to USD 15,000 depending on the size of company	

poaching. For the first time, this initiative will link wildlife agencies such as the Tanzania Wildlife Authority, Tanzania National Parks and Tanzania Forest Services (TFS) with security agencies and the Tanzania Ports Authority, Tanzania Airport Authority and TRA.³²

5.5. Lack of diversification

Over 90% of all tourism activity in Tanzania is concentrated in two geographical areas – the northern safari circuit centred on Ngorongoro and the Serengeti plains, and the beaches of Zanzibar. For the sector to grow without placing undue ecological stress on these two areas, much greater geographic diversification will be required in future.

Annex 1: Over-regulation in the tourism sector can be found on page 170

³² Xinhua News Agency, 'Tanzania to establish wildlife crime unit to curb poaching' February 2016

13 Retail and Trade

Sector Snapshot

- Double digit annual growth in the country's retail sector is being driven by a combination of strong population growth, rapid urbanisation and more inclusive economic growth. A.T Kearney's flagship African Retail Development Index (ARDI) places Tanzania within the top five retail markets in Africa.
- Overall, 34 different EU^{+SN} companies operate in the sector, originating from ten European countries. These firms are active across various sub-sectors, from bulk import and export retail businesses to smaller, locally operational merchants.
- Switzerland-based Nestlé and UK-based Unilever and PZ Cussons are among the largest multi-category consumer goods players, while other EU^{+SN} firms such as Diageo Plc or CFAO Motors Tanzania occupy market-leading position in specific sub-sectors (in this case, imported beverages and automotives).
- EU^{+SN} companies operating in the industry create additional jobs in Tanzania. For example, Unilever's outreach in providing job offers is substantial - around 26,500 people are directly employed and another 120 local distributors are contracted, freeing up resources for new employment opportunities beyond the retail sector.

1. Sector Outlook

Market conditions are likely to remain favourable for Tanzania's retail sector in the medium term. Private consumption continues to fuel economic expansion and is forecast to contribute 4.3% to headline GDP growth this year.¹ Meanwhile, the fall in global oil prices has lowered fuel costs in Tanzania (which is a net importer of petroleum products), and this will contribute to lower inflation and stronger consumer purchasing power. The peaceful conclusion of a close-fought general election campaign in October 2015 has also lifted much of the uncertainty that affected investors and consumers in the run up to the polls.

The sector has significant scope to expand. Poverty levels remain high so that food and other necessities continue to dominate most consumer budgets, but penetration rates in other product categories are deepening. Long term, population growth and more inclusive economic growth will underpin double-digit annual growth in the retail sector. For instance, from having the ninth largest population in Africa in 1980, Tanzania is expected to be the second largest country in Africa by population size by 2060, overtaking regional peers such as DRC, Ethiopia, South Africa and Egypt in the process.²

It is therefore no surprising that A.T Kearney's flagship African Retail Development Index (ARDI) places Tanzania within the

top five retail markets in sub-Saharan Africa.³ Moreover, new technologies will enable new routes to market for innovative retailers, such as e-commerce and online shopping. The Dar es Salaam-based online retail platform Jumia is one of the many companies already active in this area.⁴ Yet some concerns remain over the profitability of new e-commerce start-ups in Tanzania as newcomers are challenged by uncertainties and high distribution costs arising in Tanzania's still fragmented market (see Jumia⁵).

All this untapped potential should excite EU^{+SN} retailers, seeking to enter the Tanzanian market or to expand an existing retail footprint in the country. But European companies will first need to study the distinctive features of Tanzania's retail landscape closely, from regulation, consumer preferences and distribution infrastructure, to branding strategy and advertising channels. By recognising and incorporating these local factors into investment plans, EU^{+SN} companies can succeed in this fast-growing, rapidly evolving industry.

2. Sector Profile

Tanzania's retail sector is small when compared to other emerging markets. The country's middle class is a fraction of the overall population – less than 2 million people from a total of 53 million – and food and beverage consumption is currently just USD 8.1 billion per annum, a much lower figure

1 BMI Research, 'Tanzania Food & Drink Report' January 2016

2 KPMG, 'Africa's Consumer Story' 2013

3 The other countries are Rwanda, Nigeria, Namibia and Gabon. See Ghana News Agency, 'Report offers insight into Africa's retail sector' March 2014

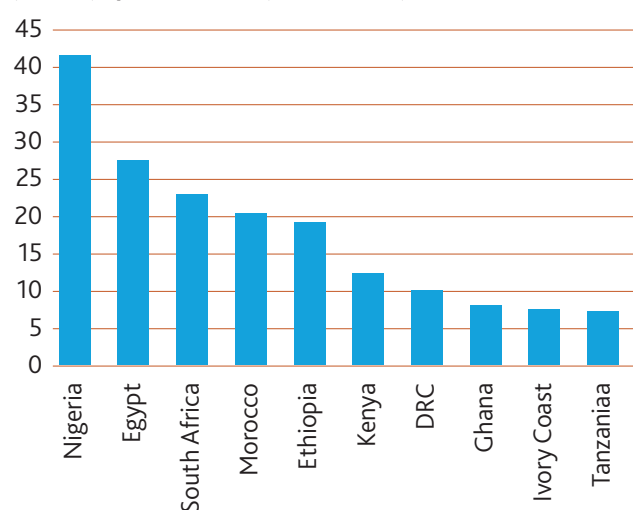
4 See: <http://www.jumia.co.tz/>. Tanzania Daily News, 'More Knowledge Needed to Use Online Shopping' June 2015

5 hbr.org/2015/03/the-challenges-facing-e-commerce-start-ups-in-africa, <https://www.rocket-internet.com/themes/rocket3/download/H1%202014%20Results%20and%20Business%20Update.pdf>

than in larger regional neighbours such as Kenya, Nigeria and South Africa.⁶ Figure 13.1 shows household expenditure on Fast-Moving Consumer Goods (FMCG) in selected African countries in 2010.

Formal retail in Tanzania makes up 14% of total retail sales, according to one participant in the Tanzanian retail sector⁷, with informal sales still dominating the sector. Because Tanzania's per capita GDP is low, consumers are highly cash conscious and retailers are generally required to focus on basic low margin food, beverage, clothing and cleaning products, which can be challenging in light of the country's inefficient and costly supply chains.⁸

Table 13.1 Household Fast-Moving Consumer Goods (FMCG) spent in 2010 (USD billion)



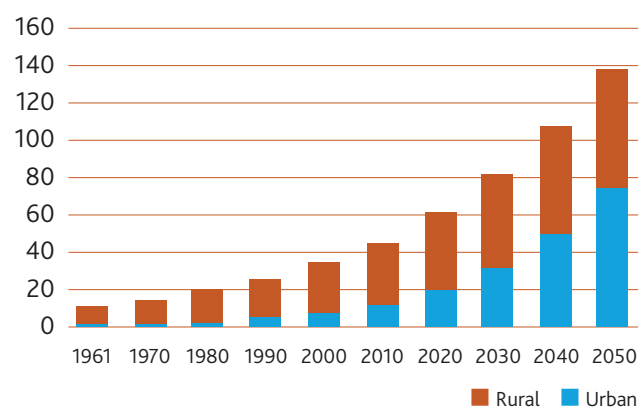
Source: KPMG, 'Fast-Moving Consumer Goods in Africa' 2015

However, with GDP per capita expected to grow at more than 5% per annum over the next decade, and with rapid urbanisation and population growth, Tanzania's retail sector is set for robust expansion. The population will more than double by 2050 (see Figure 13.2) and the number of residents in Dar es Salaam is forecast to increase fivefold from 4.3 million to 20 million over the same period. Boosted by these powerful growth drivers, compound annual growth in per capita food consumption, overall food consumption and

mass grocery retail sales is forecast at 9.4%, 12.7% and 24% respectively for the period 2015 to 2019.⁹

With formal retail currently making up such a tiny fraction of overall sales, there is substantial scope for investment and growth in low-cost brands and products that attract consumer spending away from the informal sector. From a low base, formal retail is now expanding by 15% each year as the informal market – made up of disparate small-scale sellers using kiosks and open-air markets – cannot meet the growing demand from urban consumers for a wide range of branded goods, from household appliances and automobiles to drinks and processed foods.¹⁰ The potential for expansion in the number of more sophisticated shopping centres and retail schemes is therefore considerable.¹¹

Table 13.2 Population growth and projections for the United Republic of Tanzania 1961-2050 (million)



Source: <http://www.africaein.net/TZ/en/about/view/29>

2.1. Consumer behaviour and market dynamics

The limited purchasing power of lower income consumers in Tanzania generates different purchasing behaviour to the median European consumer. Tanzanian consumers are extremely price sensitive and most prefer to buy smaller packages than the large containers often displayed at retail stores. Meanwhile, packaging is important as containers (typically plastic) are often recycled and used for other purposes, such as transporting water or storing non-

⁶ Arthur D Little, 'Feed the Lion: FMCG Challenges and Opportunities in Africa' 2014

⁷ Interview, Dar es Salaam, August 2016

⁸ PricewaterhouseCoopers (PwC), 'Africa Gearing Up: Tanzania Chapter' 2013.

⁹ BMI Research, 'Tanzania Food & Drink Report' January 2016

¹⁰ Manson, Katrina 'Retail: Discerning consumers are attractive prospect' Financial Times, November 2011

¹¹ In these new formal retail complexes up to 80% of products are imported, largely from Dubai, China, Kenya, and South Africa. Private-label products are not yet common but local consumer goods brands such as Whitedent toothpaste and Azam products (juices, water, biscuits, and dairy) are well established and are also exported to other East African countries. See: AT Kearney, 'Seizing Africa's Retail Opportunities The 2014 African Retail Development Index' 2014.

perishable items in the household.¹² Simultaneously, advertising for FMCG in Tanzania is generally implemented through wall and van paintings, basic television broadcasting and – especially – radio advertisements.¹³

The most prominent players in supplying Tanzania's retail market are a handful of long-established, family-run conglomerates owned by Tanzanians of Asian origin. A leading example is Bakhresa Group, a 6,000-strong company run by the Bakhresa family with annual turnover of more than USD 600 million from the sale of dozens of affordable consumer goods products such as ice-cream, biscuits, fizzy drinks and flour.¹⁴

Further examples include Sumaria Group, owned by the Shah family, which has business interests in drinks bottling, food processing, pharmaceuticals, soaps, cement, flour and shopping malls, among other products; and MAC Group, owned by the Manek family, which manufactures and trades cosmetics, toiletries, electrodes, detergents, clothing and pharmaceuticals, among other products. These long established trading families have developed an intricate knowledge of customer behaviour in Tanzania and they have built well-liked brands to address customer needs.¹⁵

Against this backdrop, there is certainly space in a growing retail market for new investors from Europe and elsewhere to succeed, but new markets entrants must learn from the operating models of local companies. The recent pull-out of the Kenyan-based supermarket chain Uchumi and South African Shoprite from the Tanzanian market shows that the diligent selection of local partners who can offer genuine insight into Tanzanian market conditions, which are very different from other countries in the region, is crucial for reaching a sustainable market position¹⁶. Doing so, there is potential for successful investment from new external investors in Tanzania's retail sector as underscored by the recent arrival of apparel stores such as Woolworths, Splash and Adidas, South African retailers such as Game and Mr Price, and Kenya's Nakumatt supermarket chain¹⁷.

3. Policy Context

Tanzania has passed a raft of revisions to its business and trade laws, plans and policies since the early 2000s. Examples of laws that impact on retailers include the Small and Medium Enterprise Development Policy of 2002; the 2003 National Trade Policy; the Finance and Business Licensing Act (2004); and the Business Activities Registration Act (2007) which simplified the various license categories. Additionally, several cross-cutting items of enabling legislation have been passed that impact on the investment landscape for retail businesses, such as the Fair Competition Act (2003), Urban Planning Act (2007), Land Planning Act (2007) and Finance Act (2015).

The key ministries with oversight over the retail sector are the Ministry of Finance and Planning, the Ministry of Agriculture, Livestock and Fisheries, and – most importantly – the Ministry of Industry, Trade and Investment. As a consumer-facing sector, the Tanzania Revenue Authority is also a key interlocutor for retailers.

3.1. Regulatory bottlenecks

Trade-dependent sectors are particularly sensitive to customs-related costs and efficiency. As such, the cross-cutting difficulties affecting overall trade efficiency in Tanzania are of particular concern to the retail sector. Trade efficiency has several dimensions, including cost, efficiency, and transparency. In regard to cost, this is influenced by direct taxation – including tariff duties, excise duties, and VAT treatment. Efficiency is often measured by the time and number of procedures or forms required to clear goods. Inefficiency can also impose direct costs if demurrage charges are imposed and as goods wait in customs while going unsold. Lack of transparency – which may include an element of rent seeking – can further add to costs or delays. All of these dimensions may be exacerbated by inadequate infrastructure and physical bottlenecks in the transport sector (see Chapter 11 Transport and Logistics).

While maintaining appropriate regulatory standards is

¹² Arthur D Little, 'Feed the Lion: FMCG Challenges and Opportunities in Africa' 2014

¹³ Ibid.

¹⁴ Manson, Katrina, 'Family businesses in Tanzania take on international giants' Financial Times, September 2013

¹⁵ Ibid.

¹⁶ Daily News 'Why foreign supermarkets close shop in Tanzania' November 2014; Access at: www.dailynews.co.tz/index.php/home-news/44083-why-foreign-supermarkets-close-shop-in-tanzania

¹⁷ The Citizen, 'Why retail giants may head to Dar' March 2014. The Nakumatt chain invested \$2 million (Sh3.2 billion) in a new branch in Arusha in late 2014 as it seeks to double the formal retail penetration in East Africa in the next ten years. Nakumatt now has four stores in Tanzania. See Ihucha, Adam 'Nakumatt invests Sh3.2bn in branch' August 2014

important to safeguard public health and well-being, among the retail and trade investors interviewed for the market study a common complaint emerged regarding the inability of agency regulators, such as the Tanzania Food & Drugs Authority (TFDA) and the Tanzanian Bureau of standard (TBS) and other regulatory bodies, to coordinate and adopt world-class standards. Particularly for products not manufactured in Tanzania, investors complained that different agencies applied competing – and sometimes out-of-date – standards and testing methods. Furthermore, some suggested that undue quantities of imported products were taken by officials for “routine testing” without regard to implementation of modern risk-based screening systems.

4. Supply and Marketing Chain

A range of EU^{+SN} investors are already active across the retail industry’s various sub-sectors, from bulk import and export retail businesses to smaller, locally operational merchants. UK-based Unilever and PZ Cussons both have local sales and distribution offices in Tanzania with a major footprint in several Fast Moving Consumer Goods (FMCG) product categories, as does Switzerland-based Nestlé (which is active in Tanzania through its subsidiary, Nestlé Equatorial African Region Limited).

European beverage brands are also present. For example, the Netherlands-based Heineken is active in Tanzania through a subsidiary, the Heineken East Africa Import Company Limited, while East African Breweries Limited (EABL) which is owned to 50.03 % by UK-based Diageo Plc is East Africa's biggest beer producer¹⁸. In the automobiles segment, meanwhile, several companies that import European-made vehicles are represented, including CFAO Motors Tanzania.

A further example of EU^{+SN} investment is Achelis (Tanganyika) Limited (ATL), established in 1961 is part of the Germany-based Achelis Group of Companies. ATL acts as an independent local company representing numerous international manufactures. It provides marketing, sales and after-sales-service for a diverse product range. Depending on the needs of its customers, ATL will either conduct its business as an importer and local distributor or as a commission agent. The company has 20 employees in sales,

technical service and administration roles at its Dar es Salaam head office.

Another importer and distributor is Mokasi, established in 1982 as the distributor for Philips Medical Systems in Tanzania. The company, whose country of origin is the Netherlands, has grown steadily to become the leader in the Tanzanian medical imaging equipment market – a recognized and trusted distributor with the ability to meet the needs of the key government hospitals, private institutions and non-governmental organisations.

A further example of smaller but fast-growing EU^{+SN} retail investors is Atsoko, the official distributor and reseller of Slek MakeUP in Tanzania. The company, whose country of origin is Sweden, opened its first shop in Dar es Salaam in 2012 and today boasts more than 5,000 registered customers.

Overall, the Tanzania Investment Centre (TIC) indicates that there are 34 different EU^{+SN} companies operating in the retail and trade sector in Tanzania, originating from ten individual European countries.

¹⁸ www.bloomberg.com/news/articles/2016-01-29/diageo-s-kenyan-unit-targets-congo-to-expand-east-african-market

Case Study 13.1 Unilever

Anglo-Dutch multinational consumer goods company Unilever operates in Tanzania through its subsidiary company, Unilever East and Southern Africa (ESA). As the world's third largest consumer goods company with over 400 separate brands in the food, beverages, cleaning agents and personal care product segments, Unilever provides Tanzanian consumers with a wide range of affordable products.



The company's Tanzanian FMCG portfolio includes a number of well-known and trusted heritage brands such as Omo, Sunlight, Royco, Blue Band, Lifebuoy, Vaseline, Geisha, Close Up, Rexona and Axe, among others. Across its countries of operation, Unilever East and Southern Africa (ESA) employs over 1,500 people directly in its consumer business, in addition to maintaining 120 distributors reaching more than 100,000 retail outlets each week. Unilever also operates a second business in Tanzania – a large-scale tea plantation in Mufundi District – which employs a further 25,000 people (see Chapter 3: Agriculture).

5. Key Challenges

5.1. Distribution

The population of Tanzania is sparsely distributed across a vast geographical area. Reaching these remote consumers can be challenging, especially when poor transportation infrastructure renders it difficult to distribute products to more remote retail outlets. Unless European and other international FMCG companies wish to outsource all distribution and marketing for them in Tanzania (an option which greatly reduces management control), then it will be important to develop strong relationships with a select group of distributors. A few strong relationships will facilitate active partnership in which both parties are involved in marketing, consumer research and distribution coverage, allowing a measure of control to be maintained by the FMCG companies. This will be challenging, time-consuming and more expensive – initially – than remaining inactive and relying solely on local agents from the point of importation onward, but in the long run it is likely to prove the more effective approach for retail investors.

5.2. Market size and consumer purchasing power

The rise of a consuming middle class has been heavily publicised across most of Africa. But in reality this transition remains slow. Despite impressive seven per cent a year GDP growth in Tanzania and reductions in the percentage of Tanzanians that fall under the poverty line, rapid population growth means that the total number of poor people in the

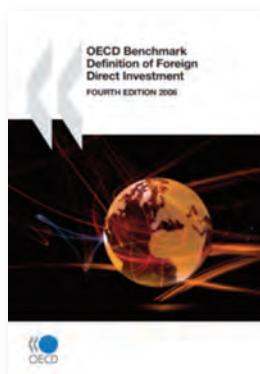
country continues to be high. 5.5 million Tanzanians meet the African Development Bank's definition of "middle class" because they earn at least USD 2 a day, but a more accurate number – based on the number of taxpayers in the country – would be closer to 1.5 to 2 million.¹⁹ Until this number starts to grow more rapidly, Tanzanian retail will fall short of its full potential.

¹⁹ Ibid.

Appendix 1: Definition of a European Investor

The countries in scope for this Market Study of European investment in Tanzania include the 28 member States of the European Union (EU)¹, plus the affiliated European Free Trade Association (EFTA)² countries of which Norway and Switzerland (EU^{+SN}) are active in Tanzania.

For the purposes of this study, our definition of an 'EU^{+SN} investor in Tanzania' draws directly on the OECD Benchmark Definition of Foreign Direct Investment.³ Following the OECD definition, a European investor in Tanzania is therefore any Tanzanian-registered business entity whose Ultimate Investing Country (UIC) is one of the EU^{+SN} countries.



The UIC is the country in which the ultimate controlling enterprise of the company or group of companies is located (as the OECD points out, “*multi-national enterprises often have complex group structures including a number of direct investors and direct investment enterprises [...]. However, there can only be one ultimate controlling enterprise, the UCP, which is at the top of the ownership chain, i.e. not controlled by any other entity*”).⁴

Where the concept of a UIC is not applicable or appropriate, a supporting concept outlined in the OECD Benchmark Definition of Foreign Direct Investment – that of ‘economic residency’ – has been used. According to the OECD, “*The residence of an economic entity (or an institutional unit) is attributed to the economic territory with which it has the strongest connection, in other words its centre of predominant economic interest.*”⁵

An example of the usefulness of this concept in defining the country of origin of an investor in Tanzania is MIC Tanzania Limited (‘Tigo Tanzania’), the Tanzanian subsidiary of global telecommunications giant Millicom (see the Case Studies section in Chapter 9). Millicom has corporate offices in Miami, Luxemburg and London and operations in more than 40 countries worldwide, but it was founded in Sweden and the company’s shares are listed on Sweden’s Stockholm Stock Exchange. In this case, we may use the concept of economic residency to categorise Tigo as an EU^{+SN} /Swedish investor in Tanzania, given that Tigo Tanzania is a direct subsidiary of Millicom and Millicom’s centre of predominant economic interest is Sweden.

The above example is underpinned by a further definitional concept: that of the ‘direct investment relationship’. This is a “*category of cross-border investment made by a resident in one economy (the direct investor) with the objective of establishing a lasting interest in an enterprise (the direct investment enterprise) that is resident in an economy other than that of the direct investor*”. Clearly, as Tigo is a wholly-owned subsidiary of Millicom, there is a direct investment relationship between Millicom (as the parent company) and Tigo (as the subsidiary). As the OECD Benchmark Definition of Foreign Direct Investment report explains, “*Direct investment enterprises are corporations, which may either be subsidiaries, in which over 50% of the voting power is held, or associates, in which between 10% and 50% of the voting power is held, or they may be quasi-corporations such as branches which are effectively 100% owned by their respective parents [...]* the 10% threshold is the criterion to determine whether (or not) a direct investment relationship exists or not.”

In cases where there is ambiguity over the classification of an investor – for example, over whether the investment should be classified as ‘foreign/European’ or ‘domestic’ – we have elected to include within our definition of a European investor in Tanzania those Tanzanian companies which have been created and managed by European nationals using capital originating from EU^{+SN} jurisdictions and drawing on technical skills and experience gained in Europe. Finally, we include European state-funded investors, such as Norway’s Norfund or Germany’s KfW Development Bank, under our definition.

1 For reference, the list of EU members is as follows: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden and the United Kingdom.

2 Norway and Switzerland were among the founding Member States of EFTA in 1960. Iceland joined EFTA in 1970, followed by Liechtenstein in 1991. Norway, Iceland (from 1994) and Liechtenstein (from 1995) are also parties to the European Economic Area (EEA) Agreement with the European Union, while Switzerland has signed a set of bilateral agreements with the EU.

3 A full explanation of the OECD definition is available here: <http://www.oecd.org/daf/inv/investmentstatisticsandanalysis/40193734.pdf>

4 Ibid.

5 The OECD defined a ‘centre of predominant economic interest’ as follows: “*When there exists, within the economic territory, some location, dwelling, place of production, or other premises on which or from which the business engages and intends to continue engaging, either indefinitely or over a finite but long period of time, in economic activities and transactions on a significant scale [...] or if the unit has already engaged in economic activities and transactions on a significant scale in the territory for one year or more, or if the unit intends to do so.*”

Appendix 2: Study Methodology

The market study is intended to be data-driven and profile the European business community in several ways. It is worth noting that the market study depended on having access to official GoT data, which is supplemented by data gathered from business associations, Embassies, individual companies, and third-party analysis. The Market Study team collected data on European companies¹ and total European foreign direct investment.

In addition, the market study discusses the priority constraints faced by a subset of European firms at the sectoral level and across sectors. A priority for the research phase of the study was identifying what sources of data exist, the sources and methods for collecting data on EU^{+SN} companies, strengths and weaknesses in data and collection and reporting methods.

In Tanzania, several government agencies are critical sources of data based on their interaction with private sector². Other critical sources of data on EU^{+SN} commercial activity include EU^{+SN} Commercial Counsellor, the EUBG and umbrella and sectoral business associations. In total, the Study Team conducted interviews with more than 80 individuals.

In terms of sequencing, to get viable GoT's statistics, developing as comprehensive as possible list of active EU^{+SN} companies was a top priority. Doing so depended on the ability of the European Union Delegation, EUBG, and Study Team to get responses back from EU^{+SN} missions and others on what firms operate in Tanzania. Based on these lists, core GoT agencies, including TRA, TIC, and the NBS were asked to generate data on EU^{+SN} business activity, including tax and employment data.

In parallel with critical meetings with GoT and EU^{+SN} stakeholders, the Study Team pursued meetings with business associations and individual companies. The interviews with business associations were structured to collect sectoral data as well as information on crucial constraints to doing business in Tanzania at the general/cross-cutting and sectoral level. The company-level interviews were structured to collect firm level data, information on priority constraints, and information on sectoral dynamics and constraints.

The market study should be seen as a baseline document but also a framework to guide future research and advocacy by the EUD and EUBG and policy formulation by the GoT. As such, it is useful to understand where data on EU^{+SN} companies is collected, aggregated, and analysed in Tanzania. It is also important to note the critical gaps in information and information sharing. Some of the core sources of data on EU^{+SN} companies – and the limitations of data availability – are discussed below.

The Tanzania Investment Centre (TIC) is the country's investment promotion agency and the central source of information on FDI in Tanzania. TIC considers a "foreign company" as one with 51 per cent of its capital coming from abroad. FDI itself is tracked when 10 per cent or more of a company's capital comes from overseas.

Although registration with TIC is not mandatory for foreign investors, many companies do come through TIC. TIC offers fiscal incentives for certain investments but also secures the critical permission to automatically hire maximum of five expatriate employees, which is essential to most medium-sized and large international investors. The automatic approval of five expatriate employees is arbitrary and not related to the size and type of an investment. This limitation can be problematic for large investors, particularly large investors and those where the skill set for management and core employees does not match the available Tanzanian work force. Some investors register multiple companies that would ordinarily be a single unit to be able to bring in the foreign management required. TIC also plays a facilitating role for investors and operates a "one-stop-shop" for investors, relying on officials seconded to TIC from other vital agencies. However, officials seconded to TIC play a facilitating role but the ultimate decisions on whether to grant a permit or license remains with the line agencies.

TIC's data on foreign companies is limited. Companies (particularly small ones) may not register with TIC; a company must deposit a

1 European companies data includes nationality, sector, location, tax and employment contributions, and market leaders by sector

2 Government agencies providing data include the Tanzania Investment Centre (TIC), Tanzania Revenue Authority (TRA), Immigration Department (from the Ministry of Home Affairs), Business Registration and Licensing Agency (BRELA), Ministry of Energy and Minerals (MEM), Export Processing Zones Authority (Tanzania), Zanzibar Investment Promotion Authority (ZIPA), and Zanzibar Export Processing Zone (ZEPZ)

minimum of USD 300,000 in a local bank to avail itself of TIC services.³ As such, many individual entrepreneurs from EU^{+SN} companies with a smaller capital investment would not necessarily be tracked by TIC. This implies that there may be a significant number of small EU^{+SN} entrepreneurs that are not known to TIC or their local Embassies. Indeed, one EU^{+SN} official suggested that although he suspected that his country had several small companies in Tanzania, neither his Embassy nor TIC were aware of them or their impact on the economy.

Secondarily, companies that invest in Tanzania's Special Economic Zones (SEZ) or Export Processing Zones also register and interact with a different agency – the Export Processing Zones Authority. The minimum capital required of a foreign company to invest in a Tanzanian SEZ is USD 500,000.⁴ A few European companies have invested in these Zones, which are very multinational in terms of investment source.⁵ These include Amama Farms Limited (Sweden/Tanzania) and Fides Tanzania Limited (Netherlands). TIC does not formally track these companies.

Similarly, oil and gas companies register and are tracked by the Ministry of Energy and Minerals under a separate investment regime. As such, TIC data is limited in scope in regard to these companies.

Finally, investors in the Zanzibar archipelago would need to invest with Zanzibar officials, notably the Zanzibar Investment Promotion Agency (ZIPA) or the Zanzibar Free Zone Authority. TIC does not methodically maintain data on investors in Zanzibar.

TIC data is also limited because it does not have a tracking system in place to know when a company disinvests or sells to local or non-EU shareholders. As a result, TIC statistics on the number of EU^{+SN} companies active in Tanzania have proven to be inaccurate. In reviewing TIC data by country, embassy officials have spotted over-counting of companies as well as critical omissions. TIC officials note that they are seeking financing to develop a tracking system, but to date they do not know when companies cease operations or sell to other investors. Furthermore, registration at TIC is based on a company's initial business plan and may not reflect an actual, realized investment. As such, TIC data on investment capital committed and employment projected is, although carefully estimated by the company registered, ultimately somewhat notional.

Furthermore, TIC's data sharing agreements with other agencies that collect data on companies are ad hoc to a degree. For example, a Memorandum of Understanding between TIC and the Tanzania Revenue Authority (TRA) is in place, but TIC must file an official request for data. As such, while TRA is aware of companies disinvesting and falling of the roll of active taxpayers, this information is not automatically sent to TIC.

Similarly, while the Business Registration and Licensing Agency (BRELA) collects annual reports from companies, including changes in shareholding and bankruptcy announcements, this information is not automatically shared with TIC. Bankruptcies, which BRELA officials suggest are rare, are published in the national gazette, but it is unclear if TIC staff track these and adjust their records accordingly.

The Tanzania Revenue Authority is actively engaged in engaging EU^{+SN} companies as a source of tax revenue. However, TRA does not ordinarily track companies by nationality, so a search of tax records by investment destination is not easily accomplished. Searches for tax information by individual companies are, appropriately, not available for outside researchers due to privacy concerns enshrined in local tax law. Aggregate data is available – but time-consuming to obtain – if TRA receives a list of taxpayer identification numbers or a list of company names (as officially registered in Tanzania). The tax data presented in this report was obtained by submitting a list of known EU^{+SN} companies to TRA and requesting an aggregate search of taxes paid.

An important subset of taxpayers is the Large Taxpayers and TRA has a Large Taxpayer Unit within TRA. According to interviews with TRA officials and data produced by TRA, there are 450 large taxpayers in Tanzania, mostly focused on the banking and finance, oil, gas, mining,

3 Tanzania Investment Center, 2014, *Investors Guide to Tanzania - 2014-15*, pg. 77.

4 Tanzania Investment Center, 2014, *Investors Guide to Tanzania - 2014-15*, pg. 39.

5 See <http://www.epza.go.tz/invest.php?p=232> for more information on Tanzania's EPZ and SEZ schemes.

and natural resources sectors. TRA officials suggest that the Large Taxpayers account for approximately 58 per cent of the tax revenue collected in Tanzania. European companies account for 55 of these companies, or roughly 12 per cent.

The National Bureau of Statistics (NBS) collects a wide range of detailed statistics on companies, the population, and the general economy. However, according to NBS officials, the Bureau lacks the resources and systems in place to produce regular and timely reports. Data collection is periodic and thematic; for example the NBS produces a very detailed industrial report but only every five years. The agency relies on surveys of private firms and the response rate varies from report to report. The agency's current systems are partially manual, which delays its ability to produce reports and perform searches of collected statistics. Like TRA, they do not organize statistics on companies by nationality of investment. If a list of foreign companies, listed by the Tanzanian name of registration, is submitted, in theory statistics can be generated. To date, NBS has not responded to requests for statistics on EU^{+SN} company activity in Tanzania.

The Immigration Department maintains data on the number of foreigners that have valid work permits and temporary work permits, as well as data on the revenues generated by the Department from foreign workers. However, the Immigration Department has not responded to requests for data on the number of EU^{+SN} workers in the country, disaggregated by work permit type, and the fees collected from EU^{+SN} workers in Tanzania.

The Business Registration and Licensing Agency collects basic company registration information at the time of company registration as well as on an annual basis. Annual company returns to BRELA include information on the company directors, share capital distribution, and company location.

The Ministry of Energy and Minerals regulates the oil and gas sector as well as all mining activities in Tanzania. Under its authority are eight semi-autonomous organizations, including the Tanzania Petroleum Development Corporation (TPDC). TPDC is the direct counterpart for most EU^{+SN} companies operating in the oil and gas sector.

The Export Processing Zones Authority keeps and reports statistics on total investment amounts and direct and indirect employment generated by the investors within its Special Economic Zones and Export Processing Zones.

The EU^{+SN} Commercial Counsellors are a useful source of data on European companies invested in Tanzania. However, of the embassies interviewed, none have compulsory and systematic ways to track all inward FDI from their home countries. As such, while they are aware of many investors from their home country, they do not necessarily know of all of them. Information on EU^{+SN} investors possessed by the embassies is particularly limited when it comes to individual entrepreneurs and small companies. Of the 30 EU^{+SN} countries, 24 have diplomatic missions in Tanzania⁶. However, the majority of these do not have commercial officers who are well informed about EU^{+SN} investors in Tanzania.

The EUBG itself, although in the nascent phase of development, has also conducted research on which EU^{+SN} companies are operating in Tanzania. To date, the EUBG has amassed a contact list 390 EU^{+SN} companies that it considers of European origin and are operational in Tanzania. Tracking and engaging of EU^{+SN} companies is ongoing.

According to the Tanzania Private Sector Foundation (TPSF) – an umbrella group founded to represent cross-cutting Tanzanian business interests – there are approximately 171 sectoral business associations in Tanzania. According to the TPSF the vast majority of these organizations are small and do not have a research or statistical capacity but rather focus on advocacy issues on a somewhat ad hoc basis. As such, there is a limited amount of data on sectoral dynamics in Tanzania.

6 Including Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, the Netherlands, Norway, Spain, Sweden, Switzerland, United Kingdom

Annexes

Chapter 1: Overview of the Tanzanian Business Environment

Annex 1: Examples of over-regulation



Source: Tanzania Development Vision 2025, 'Business Environment – Realigning Regulations and Institutions' Big Results Now Initiative, April 2014

Chapter 3: Agriculture

Annex 1: Legislation Governing Tanzania's Agricultural Sector

Area relevant to Agriculture	Law(s)
Customs	EAC Protocol, 2005
	EAC Customs Management Act, 2004
	Customs Tariff Act, 1976
	Excise Tariff Act, 1976
	Excise Tariff Ordinance, Chapter 332
	Finance Act, 1999
Services	EAC Common Market Protocol, 2010
Taxation	Value-Added Tax Act, 1997
Import/ export control	Import Control Ordinance
	Export Control Act, Chapter 293
	Foreign Exchange Act, 1992
	Anti-dumping and Countervailing Measures Act, 2004
Technical barriers to trade	Standards Act, 2009
Sanitary and phytosanitary measures	Food, Drugs and Cosmetics Act, 2003
	Animal Disease Act, 2003
	Veterinary Act, 2003
	Plant Protection Act, 1997
Investment	Mainland Tanzania Investment Act, 1997
	Export Processing Zones Act, 2002 (amended in 2006 and 2011)
	Zanzibar Investment Promotion and Protection Act, 2004
	Zanzibar Free Economic Zones Acts, 1992 (amended in April 1997)
Agriculture	Food Security Act, 1991
	Agricultural Products (Control of Movement) Act, 1996
	Cashew Nut Industry Act, 2009
	Cereals and Other Produce Act, 2009
	Meat Industry Act, 2006
	Hides, Skins and Leather Trade Act, 2008
	Animal Welfare Act, 2006
	Livestock Identification, Registration and Traceability Act, 2010
	Fisheries Act, 2003
	Deep Sea Fishing Authority (Amendment) Act, 2007
Others	Land Act, 2001

Source: WTO, 2012 and own elaboration based on data provided by the MAFC Legal Unit.

Chapter 4: Mining

Annex 1: Key actors in the regulatory framework

The Ministry of Energy and Minerals (MEM) is the key government entity in the mining sector. MEM is responsible for developing mineral policies and mining projects as well as overseeing regulatory agencies. Within MEM's mining-focused division a Commissioner for Minerals, Mining Advisory Board and Chief Inspector of Mines form the apex of the organisational structure, all of whom ultimately report to the Minister through the Permanent Secretary.

Another important agency is the Tanzania Mineral Audit Agency (TMAA), which is a semi-autonomous institution established under the Executive Agencies Act 2009 whose functions mirror those previously held by the Minerals Auditing Section of MEM. The institution is tasked with advising the government on mining issues and monitoring/auditing all mining operations.¹ Specifically, TMAA is tasked to:

- Audit and monitor mineral production
- Audit the quality and quantity of minerals produced and exported by mining entities
- Audit the financial records of mining entities for tax assessments
- Audit the environmental management expenditures of mining entities to assess compliance with mine closure plans.²

A further government agency that sits under MEM is the Geological Survey of Tanzania (GST), established in 1997 to identify sites with minerals, to prepare, modify and retain geo-scientific data, and to provide the government with professional advice on exploration and mining activities.

Finally, STAMICO (State Mining Corporation), established in 1972, is a parastatal tasked with engaging directly in mineral prospecting and mining. STAMICO takes equity interests in mining projects on behalf of the state and is also responsible for overseeing the transformation of the artisanal mining sector into a regulated, safe and environmentally friendly industry.

1 World Wildlife Foundation, 'Integrating Environment into Investment Decisions: Introductory Guidance for Tanzania's Mining Sector' 2012; access at: <http://www.eisourcebook.org/cms/Feb%202013/Tanzania,%20Integrating%20Environment%20into%20Investment%20Decisions,%20Introductory%20Mining%20Guidance.pdf>

2 Kasanda, Peter, et al 'Amendments to the Mining Act' Clyde & Co. November 2015; access at: <http://www.clydeco.com/insight/updates/view/amendments-to-the-mining-act>

Chapter 6: Manufacturing

Annex 1: Main products of Tanzania manufacturing industries

	Manufacturing firms, %	
	2000-2004	2008
Production, processing and reservation of meat, fish, fruit, vegetable, oil and fats	11.4	10.59
Manufacture of dairy product	3.83	3.53
Manufacture of grain mill products, starches/ products and prepared animal feeds	9.21	9.92
Manufacture of other food products	0.73	1.43
Manufacture of beverages	6.11	7.74
Manufacture of tobacco products	-	0.67
Spinning, weaving, and finishing textiles	5.38	4.21
Manufacture of other textiles	0.73	0.67
Manufacture of weaving apparel, export for apparel	5.38	4.96
Tanning and dressing of leather; manufacture of luggage, saddles/harnesses	7.66	7.06
Manufacture of footwear	0.73	0.67
Sawmilling and planing of wood	0.73	0.67
Manufacture of products of wood, cork, straw and plaiting	1.55	0.67
Manufacture of paper and paper products	4.56	5.63
Publishing	1.55	1.43
Printing and service activities related to printing	5.38	4.21
Manufacture of coke oven products	2.28	2.86
Manufacture of basic chemical products	2.28	1.43
Manufacture of other chemical products	5.38	7.06
Rubber products	0.73	0.67
Plastic products	3.83	5.63
Glass and glass products	0.73	-
Non-metallic mineral products	5.38	4.96
Manufacture of Basic iron and steel products	3.83	4.96
Manufacture of structural metal products, tanks, reservoirs and steam generators	0.73	-
Manufacture of other fabricated metal products; metal working service activities	1.55	0.67
Manufacture of electric motors, generators and transformers	1.55	1.43
Manufacture of other electrical equipment i.e.	2.28	2.10
Manufacture of parts and accessory for motor vehicles and their engines	0.73	0.67
Manufacture of furniture	1.55	0.67
Manufacturing, not elsewhere classified	2.28	2.77
Total	100.0	100.0

Source: MTIM (2009)

Chapter 8: Power Sector

Annex 1: Key Legislation Governing the Power Sector

Act	Highlights
Petroleum (Exploration and Production) Act, 1980 R.E. 2002	<p>Exploration license for 11 years in three time extension periods (4, 4 and 3 consecutively) each with 50% relinquishment</p> <p>Establishment of Model Production Sharing Agreement (MPSA)</p> <p>Development of a license for 25 years plus additional 20 years for discovered area</p> <p>Establishment of petroleum fees for petroleum development</p> <p>Prices for petroleum products shall be governed by the rules of supply and demand, subject to provisions of the EWURA Act and Fair Competition Act</p> <p>The Minister may create or manage strategic reserves of petroleum products in order to ensure reliability of supply</p>
EWURA Act, 2001	<p>Establishment of EWURA as a regulatory for electricity, petroleum, natural gas and water sectors</p> <p>EWURA coordinates, finalizes tariff structure and provides licenses for generation, transmission and distribution</p>
Rural Energy Act, 2005	<p>Establishment of Rural Energy Board, REA and REF</p> <p>Separates non-commercial electrification from TANESCO's mandate, commercial (mainly peri-urban) expansion remains under TANESCO</p>
Electricity Act, 2008	<p>The requirement serve villages along transmission lines</p> <p>The requirement for generator licenses (unless exempted by EWURA)</p> <p>Requirement of the Minister to prepare and publish a policy for reorganisation of the electricity market</p> <p>Requirement of the Minister to prepare a rural electrification master plan and database</p> <p>Requirement to prepare SPPAs to attract investors in the power sub-sector</p>
Gas Supply Act, 2012	<p>Requirement for transportation, storage, distribution licenses and approval for construction of gas infrastructures</p> <p>Requirement of the Minister to supervise the gas industry</p> <p>Requirement of the Minister to establish the National Gas Information System (NGIS)</p> <p>Establishment of a National Standard</p>

Source: Energy Charter Secretariat, 'Tanzanian energy sector under the universal principles of the Energy Charter Brussels', July 2015

Chapter 12: Tourism

Annex 1: Over-regulation in the tourism sector

This Annex provides two examples of the multiplicity of fees and licenses applied to tourist hotels and lodges, over and above the usual VAT and corporation taxes applied on all businesses in Tanzania.

Example 1. A beach hotel in the Zanzibar archipelago

- 1 Business Licence Commission for Tourism
- 2 Management Certificate Commission for Tourism
- 3 Residents Permit Immigration - Every 3 years
- 4 Work Permit Exemption Labour Department - Annual
- 5 Land Lease Land Office - Annual
- 6 ZIPA Licence ZIPA - Annual
- 7 Workplace Registration Labour Department - Every 2 years
- 8 Food and Drugs Board F+D Annual - TSh 300,000 / USD 150
- 9 Liquor Licence A – Annual - TSh 1,000,000 / USD 500
- 10 Court Fee - Annual
- 11 Application form - Annual
- 12 Environmental Report - Annual
- 13 Sign Board Fee A - Annual
- 14 ZATI Membership ZATI Office - Annual
- 15 RTTZ - Every 2 years
- 16 Staff Contracts x 9 Labour Department - Annual
- 17 Staff Medical Checks Health Department - Annual
- 18 Driving Licence ZRB - Every 2 years
- 19 Car Tax Sateni office - Annual
- 20 Fire + Extinguishers Replacement - Annual

Example 2. A lodge situated within a National Park on Tanzania Mainland

Tourism related

- 1 TALA licence – USD 5000 renewable yearly
- 2 Business licence – USD 1000 renewable yearly
- 3 Registration as Tourism Entity – renewable every three years
- 4 TDL Tourism development levy on bed nights – USD 1.5 dollars per bed-night mainland, USD 1 dollar per bed-night ZNZ
- 5 Hotel, bar and restaurant licences - annually
- 6 Health and safety certificates - annually
- 7 Fire certificates - annually
- 8 Airport departure taxes and safety fees (paid on all people flying)

- 9 Camping fees, concession fees, park activity fees in national parks, reserves, community and protected areas.
- 10 NEMC/NEMA certification for all tourism properties and commercial businesses which involves EIA's, consultancies and official fees

Vehicles

- 11 Road safety certificate - renewable yearly
- 12 Road licence - renewable yearly
- 13 SUMATRA – vehicles & boats renewable yearly
- 14 Insurance with public liability - renewable yearly

Employment

- 15 PAYE - monthly
- 16 SDL – skills and development - monthly
- 17 WCF – workers compensation fund - monthly
- 18 NSSF or PDF – social security - monthly
- 19 6th monthly submission of summary of statutory returns for PAYE, SDL, and Withholding taxes

General

- 20 VAT – particular to tourism industry, 18% on accommodation, food, commission, dividends
- 21 Corporate tax - 30% of nett profit (paid quarterly as provisional tax)
- 22 District Service levy – 0.03% of turnover
- 23 BRELA registration – for annual audited accounts and company documents
- 24 Work permits – renewable every 2 years.
- 25 Labour permits – introduced from July 2015 renewable every 2 years
- 26 Withholding tax on rent, consultancy, professional services, commission – all submitted separately with certificates for individual payments in triplicate (5%, 10%, 15% bands)

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