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# EU INVESTMENT IN TANZANIA

How European investment contributes to  
industrialisation and development in Tanzania

MARCH 2022







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# CONTENTS

<b>LIST OF ABBREVIATIONS .....</b>	<b>6</b>	<b>1 EUROPEAN UNION INVESTMENT IN TANZANIA .....</b>	<b>19</b>
<b>FOREWORD.....</b>	<b>8</b>	Contribution to import and export levels .....	21
<b>EXECUTIVE SUMMARY .....</b>	<b>10</b>	EU companies: numbers, nationalities, location, and sectors .....	23
Overview .....	10	Contribution to overseas development .....	23
Key figures .....	10	Sector outlook .....	24
Business environment .....	11	Sector profile .....	24
Looking ahead .....	11	<b>2 AGRICULTURE .....</b>	<b>24</b>
Governance .....	12	Sector-wide policy context .....	25
Economic overview .....	12	Key subsectors .....	26
Macroeconomic outlook – consistency is key .....	12	Horticulture.....	26
Growth vs. volatility: 2016 - 2020.....	13	Tea .....	27
Poverty and demography .....	13	Coffee.....	28
Foreign trade.....	14	Forestry .....	29
Taxation .....	14	Dairy .....	29
<b>COVID-19 .....</b>	<b>15</b>	Sugar.....	30
Investment climate .....	16	Fisheries .....	30
Administrative procedures .....	16	Agro-inputs .....	32
Barriers (firms affected).....	16	Seed .....	32
Labour laws .....	17	<b>EU investment in Tanzania’s agriculture sector .....</b>	<b>33</b>
Land ownership .....	17	Case study 1: Silverlands Ndolela.....	34
Taxation .....	17	<b>Sector outlook .....</b>	<b>35</b>
Corruption.....	17	Banking sector .....	35
Immigration .....	17	<b>3 BANKING &amp; FINANCE .....</b>	<b>35</b>
Government initiatives to improve the investment climate .....	18	Equity market .....	36
Overview .....	19	Insurance industry .....	37
Contribution to FDI Tanzania .....	19		

<b>Sector profile .....</b>	<b>39</b>
<i>Policy context.....</i>	<i>39</i>
<i>Cyber security.....</i>	<i>39</i>
<i>Non-performing loans .....</i>	<i>39</i>
<i>Stabilising foreign exchange .....</i>	<i>39</i>
<i>Insurance sub-sector regulation .....</i>	<i>39</i>
<b>EU investment in Tanzania's banking sector .....</b>	<b>40</b>
<i>Case study 2: NMB Bank.....</i>	<i>41</i>
<b>Sector outlook .....</b>	<b>42</b>
<b>Sector profile .....</b>	<b>42</b>
<i>Overview .....</i>	<i>42</i>
<i>Residential sector .....</i>	<i>42</i>
<b>4 CONSTRUCTION &amp; REAL ESTATE.....</b>	<b>42</b>
<i>Retail sector .....</i>	<i>43</i>
<i>Infrastructure and roads.....</i>	<i>44</i>
<b>EU investment in Tanzania's construction and real estate sector .....</b>	<b>44</b>
<i>Case study 3: BAM International .....</i>	<i>45</i>
<b>Sector outlook .....</b>	<b>46</b>
<i>Supply versus demand .....</i>	<i>46</i>
<b>5 ENERGY SECTOR .....</b>	<b>46</b>
<i>Rural electrification.....</i>	<i>47</i>
<i>Grid expansion .....</i>	<i>47</i>
<b>Sector profile .....</b>	<b>49</b>
<i>Renewable energy projects .....</i>	<i>49</i>
<i>Off grid .....</i>	<i>49</i>
<i>Coal and geo-thermal .....</i>	<i>50</i>
<b>Policy context .....</b>	<b>50</b>
<b>EU investment in Tanzania's energy sector .....</b>	<b>51</b>
<i>Case study 4: Mobisol .....</i>	<i>53</i>
<b>Sector outlook .....</b>	<b>54</b>

<i>Voice, mobile, and internet access .....</i>	<i>54</i>
---	-----------

## **6 INFORMATION & COMMUNICATIONS TECHNOLOGY.....54**

<i>Mobile financial services sector .....</i>	<i>55</i>
<i>Media and entertainment .....</i>	<i>56</i>

<b>Sector profile .....</b>	<b>56</b>
-----------------------------	-----------

<b>Policy context .....</b>	<b>56</b>
-----------------------------	-----------

<i>Role of the TCRA .....</i>	<i>57</i>
-------------------------------	-----------

<i>Mobile payments regulation .....</i>	<i>58</i>
---	-----------

<i>Spectrum .....</i>	<i>58</i>
-----------------------	-----------

<i>EU investment in Tanzania's communications and ICT sector .....</i>	<i>58</i>
--	-----------

<i>Case study 5: Tigo .....</i>	<i>59</i>
---------------------------------	-----------

<b>Sector outlook .....</b>	<b>60</b>
-----------------------------	-----------

<b>Sector profile .....</b>	<b>60</b>
-----------------------------	-----------

## **7 MANUFACTURING ..... 60**

<b>Policy context .....</b>	<b>61</b>
-----------------------------	-----------

<i>Tanzania Export Processing Zones Authority (EPZA) .....</i>	<i>61</i>
--	-----------

<i>European investment in Tanzania's manufacturing sector .....</i>	<i>62</i>
---	-----------

<i>Case study 6: Heidelberg Cement Group.....</i>	<i>63</i>
---	-----------

<b>Sector outlook .....</b>	<b>64</b>
-----------------------------	-----------

## **8 MINING ..... 64**

<i>Tanzania Chamber of Mines .....</i>	<i>64</i>
--	-----------

<i>Governance structures .....</i>	<i>66</i>
------------------------------------	-----------

<i>Scale and life cycle of mining .....</i>	<i>66</i>
---	-----------

<i>Artisanal and small-scale miners.....</i>	<i>66</i>
--	-----------

<i>Artisanal and small-scale outlook.....</i>	<i>67</i>
---	-----------

<i>Medium-scale outlook .....</i>	<i>68</i>
-----------------------------------	-----------

<i>Large-scale outlook .....</i>	<i>68</i>
----------------------------------	-----------

<b>Sector profile .....</b>	<b>69</b>
-----------------------------	-----------

<b>Policy context</b> .....	<b>70</b>	<i>COVID-19 recovery and outlook</i> .....	<b>88</b>
<i>Free carried interest</i> .....	<b>70</b>	<b>Attractions</b> .....	<b>88</b>
<i>Royalty rates</i> .....	<b>71</b>	<i>Mainland</i> .....	<b>88</b>
<i>Local content</i> .....	<b>71</b>	<i>Tourism infrastructure</i> .....	<b>89</b>
<i>Retention licenses</i> .....	<b>72</b>	<b>Policy context</b> .....	<b>89</b>
<i>European investment in Tanzania's mining sector</i> ...	<b>72</b>	<b>EU investment in Tanzania's tourism sector</b> .....	<b>91</b>
<i>Case study 7: Bollore</i> .....	<b>73</b>	<i>Zanzibar</i> .....	<b>91</b>
<b>Sector outlook</b> .....	<b>74</b>	<i>Southern circuit</i> .....	<b>91</b>
<b>9 RETAIL &amp; TRADE</b> .....	<b>74</b>	<i>Northern circuit</i> .....	<b>91</b>
<b>Sector profile</b> .....	<b>75</b>	<i>Case study 10: Helios Lodges Company</i> .....	<b>91</b>
<b>Policy context</b> .....	<b>76</b>	<b>Sector outlook</b> .....	<b>92</b>
<i>European investment in Tanzania's retail and trade sector</i> .....	<b>76</b>	<i>Onshore gas</i> .....	<b>92</b>
<i>Case study 8: Achelis (Tanganyika) Limited</i> .....	<b>76</b>	<i>Offshore gas</i> .....	<b>92</b>
<b>Sector outlook</b> .....	<b>77</b>	<b>12 UPSTREAM OIL &amp; GAS</b> .....	<b>92</b>
<b>10 TRANSPORT &amp; LOGISTICS</b> .....	<b>77</b>	<i>EACOP</i> .....	<b>93</b>
<b>Sector profile</b> .....	<b>78</b>	<i>Geothermal</i> .....	<b>94</b>
<i>Ports</i> .....	<b>78</b>	<b>Sector profile</b> .....	<b>95</b>
<i>Roads</i> .....	<b>80</b>	<i>Oil and Gas Association of Tanzania</i> .....	<b>95</b>
<i>Rail</i> .....	<b>80</b>	<b>Policy context</b> .....	<b>96</b>
<i>Aviation</i> .....	<b>82</b>	<i>Local content</i> .....	<b>97</b>
<b>Policy context</b> .....	<b>83</b>	<i>Product-Sharing Agreement (PSA) review</i> .....	<b>97</b>
<i>The national transport policy</i> .....	<b>83</b>	<b>EU investment in Tanzania's oil and gas sector</b> .....	<b>97</b>
<b>European investment in Tanzania's transport and logistics sector</b> .....	<b>84</b>	<i>Case study 11: Anglo-Dutch Shell</i> .....	<b>99</b>
<i>Case study 9: Hellmann Worldwide Logistics</i> .....	<b>85</b>	<b>APPENDICES</b> .....	<b>100</b>
<b>Sector outlook</b> .....	<b>86</b>	<b>Appendix 1: Definition of a European investor</b> .....	<b>100</b>
<i>Government targets and policies</i> .....	<b>86</b>	<b>Appendix 2: Methodology</b> .....	<b>100</b>
<b>11 Tourism</b> .....	<b>86</b>		
<b>Sector profile</b> .....	<b>87</b>		
<b>COVID-19</b> .....	<b>88</b>		

## LIST OF ABBREVIATIONS

AfCFTA	Africa Continental Free Trade Areas	GMO	Genetically modified organisms
AfDB	African Development Bank	ICT	Information and Communication Technology
AFDP	Agriculture and Fisheries Development Plan	JICA	Japanese International Cooperation Agency
AMCOS	Agricultural Marketing Co-operative Societies	KYC	Know Your Customer
ASDP	Agricultural Sector Development Program	LNG	Liquefied Natural Gas
BOT	Bank of Tanzania	LATRA	Land Transport Regulatory Authority
BRELA	Business Registration and Licensing Authority	LMIC	Lower Middle-Income Country
CMSA	Capital Market and Securities Authority	MDA	Mineral Development Agreement
COMESA	Common Market for Eastern and Southern Africa	MDAs	Ministries, Departments and Agencies
COSTECH	Tanzania Commission for Science and Technology	MIT	Ministry of Industry and Trade
CTI	Confederation of Tanzania Industries	MoFP	Ministry of Finance and Planning
DSE	Dar es salaam Stock Exchange	MKUKUTA	Mpango wa Kukuza Uchumi na Kupunguza Umasikini Tanzania
EAC	East African Community	MSMEs	Micro, Small and Medium Enterprises
EPZA	Export Processing Zones Authority	MT	Metric Tones
EPZs	Export Processing Zones	NBS	Tanzania Bureau of Statistics
EU	European Union	NGOs	Non-Governmental Organizations
EUBG	European Business Group	NPL	Non Performing Loans
FAO	Food and Agriculture Organization	OGAT	Oil and Gas Association of Tanzania
FBPS	Fertilizer Bulk Procurement System	PPP	Public Private Partnership
FDI	Foreign Direct Investment	PSE	Private Sector Entity
FOREX	Foreign Exchange	SACCOS	Savings and Credit Cooperative Organisations
FYDP	Five Year Development Plan	SADC	Southern Africa Development Community
GDP	Gross Domestic Product	SAGCOT	Southern Agricultural Growth Corridor of Tanzania
GNI	Gross National Income	SEZs	Special Economic Zones
GoT	Government of Tanzania	SGR	Standard Gauge Railway

SIDO	Small Industrial Development Organization	TPA	Tanzania Ports Authority
SMEs	Small and Medium Enterprises	TPSF	Tanzania Private Sector Foundation
SOE	State Owned Entity	TRA	Tanzania Revenue Authority
TAA	Tanzania Airports Authority	TZS	Tanzanian Shillings
TADB	Tanzania Agricultural Development Bank	UNCTAD	United Nations Conference on Trade and Development
TAHA	Tanzania Horticulture Association	UNIDO	United Nations Industrial Development Organization
TANCIS	Tanzania Customs Integrated Systems	US\$	United State Dollar
TANROADS	Tanzania Roads Agency	URT	United Republic of Tanzania
TASAC	Tanzania Shipping Agencies Corporation	VAT	Value Added Tax
TATO	Tanzania Association of Tour Operators		
TCAA	Tanzania Civil Aviation Authority		
TRC	Tanzania Rail Company		
TARURA	Tanzania Rural and Urban Roads Agency		
TBA	Tanzania Bankers Association		
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture		
TCT	Tourism Confederation of Tanzania		
TDV	Tanzania Development Vision		
TEMESA	Tanzania Electrical, Mechanical and Electronic Services Agency		
TIB	Tanzania Investment Bank		
TIC	Tanzania Investment Centre		
TIRA	Tanzania Insurance Regulatory Authority		
TMA	Tanzania Meteorological Agency		
TMDA	Tanzania Medicines and Medical Devices Authority		
TTB	Tanzania Tourism Board		
TTCL	Tanzania Telecommunication Corporation Limited		

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## FOREWORD

The relations between the European Union and the United Republic of Tanzania are founded on several pillars: foreign policy and peace building, security and fight against organised crime, human rights and the rule of law, development cooperation, trade, and investments. This report focuses on the EU investments in Tanzania, looking at their contribution to the national economy and at future opportunities offered by Tanzania, the great economic potential of which is still far from being fully utilised.

In July 2020, Tanzania achieved a milestone by graduating to lower-middle-income country status. This success brings the challenge of making it sustainable by fostering a steady and inclusive economic growth to provide decent employment to a population which is growing at a rate of 3% per year. COVID-19 has added to the structural issues of the Tanzanian economy, but the country has reacted and in 2021 the first signs of recovery were visible.

The EU Member States' development experience, as well as other success stories outside the EU, have clearly shown that development cooperation funds and public investments, although necessary, have never been sufficient to "make the difference" and propel a country's economy towards a solid growth path bringing modernisation and diversification. This is the reason why private investments are essential provided that certain conditions are in place. One of them is a continuous dialogue between the public administration and the private sector to ensure coherence of policy objectives. A second condition is the presence of a conducive legal and administrative framework to stimulate a predictable business environment based on the rule of law.

Investors from the EU contribute significantly to the Tanzanian economy. However, there are substantial opportunities for EU investors to contribute even more considering, for example, the added value they can bring in relation to the green economy, innovation, or digitalization.

This report, which follows an earlier 2016 publication on the same topic, aims at presenting the state of play of EU investments, at delving into the trends witnessed over



### AMBASSADOR MANFREDO FANTI

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

the past five years, and at highlighting opportunities for EU companies which are currently considering investing in Tanzania. The EU is a committed partner to Tanzania's sustainable and inclusive economic growth. There are remaining challenges to register and run a business in this country, but also vast opportunities and a trend of an improving business environment that can be accelerated through continued collaboration. As we always say, "*Pamoja tunaweza!*" – "*Together we can!*" in Swahili.

Finally, my thanks go out to the numerous stakeholders in both the private sector and the Tanzanian public administration, who have contributed by providing data and information.



EUBG members and the Government of Tanzania share a common goal for Tanzania's economic prosperity and our members are proud to be part of Tanzania's growth story.

This report highlights the diversity of European businesses, and it underscores the importance of trade between Europe and Tanzania as well as the long-term commitment of European investors to Tanzania.

As the third largest foreign investor group, European businesses have invested over USD 1.5b in the past seven years (2013 - 2020) and, based on TRA data, have contributed upwards of USD 1.5b in taxes over the past six years (2015 - 2021). Possibly more important than the financial contributions are the approximately 151,000 jobs for Tanzanian nationals created through European businesses and investments.

As the world is emerging from the COVID-19 pandemic and is formulating answers to the threat of climate change, corporate social responsibility is no longer optional, but is rather an essential component of doing business. European businesses are leaders in environmental initiatives and innovation and are playing their part in this field in Tanzania through investments in areas such as water, agriculture, and forestry.

This report underscores the potential and opportunities that Tanzania offers, but also outlines areas where policy interventions coupled with investment facilitation could positively impact growth and investment.

The EUBG shares Tanzania's vision for development and its commitment to industrialisation and private sector led growth and believes that this publication will add value to business environment conversations and act as a useful tool for dialogue and collaboration.



**MR HANS LEMM**

*Chairperson of the European Business Group Tanzania*



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# EXECUTIVE SUMMARY

## Overview

Historically, European Union (EU) companies have been active investors in Tanzania. Recent events such as the COVID-19 pandemic and the United Kingdom's departure from the EU have significantly impacted trade and investment figures. Nonetheless, EU investment continues to be substantial across the key sectors of Tanzania's economy.

This report highlights the scope, scale and reach of investments from the EU in Tanzania, showcasing their impact on the national economy as well as trends and opportunities for further investments. It is an update of the 2016 report titled "European Investment in Tanzania: How European investment contributes to industrialisation and development in Tanzania" and therefore, has a specific focus on developments that have taken place in the past five years. As part of the study, 11 key sectors of the economy are mapped in detail, highlighting the outlook, opportunities, and challenges for investors. References to past developments and historical aspects in each key sector are highlighted where appropriate.

## Key figures

Data in this report have been collected from a number of sources including a market survey issued to EU companies and investors,<sup>1</sup> data provided by government agencies, including the Tanzania Investment Centre (TIC) and the Tanzania Revenue Authority (TRA), information from membership organisations such as the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), the Tanzania Tourism Board (TTB), the Tanzania Private Sector Foundation (TPSF), the Tourism Confederation of Tanzania (TCT), the Tanzania Association of Tour Operators (TATO) and the Tanzania

Horticulture Association (TAHA), international databases, such as UN Comtrade, and an array of secondary sources (further information on the methodology can be found in Appendix 2).

The EU is a strong and reliable trade partner to Tanzania, with the EU being the destination for 8% of Tanzania's total exports and providing 10.2% of total imports. In recent years, Tanzanian exports to the EU were dominated by food, including livestock, followed by beverages, tobacco, and crude materials. EU exports to Tanzania were dominated by machinery, transport equipment and chemicals.<sup>2</sup> In 2021, Tanzanian exports to the EU amounted to EUR 456m while imports from the EU amounted to EUR 856m.<sup>3</sup>

The EU is also a significant contributor to foreign direct investment (FDI). FDI flows into Tanzania from the ten most active EU Member States into Tanzania was USD 1.5b between 2013 – 2020.<sup>4</sup> Nevertheless, in recent years there has been a drop in EU investment figures, representing the exit of the UK from the EU and a broader decline in Tanzania's appeal as an investment destination. This was in large part caused by an increasingly challenging regulatory and fiscal landscape. The trends of EU FDI in the country broadly follow the global trend of FDI heading to Tanzania. Recent optimism, largely driven by President Samia Suluhu Hassan's commitment to fostering a more conducive business environment is expected to give new impulse to FDI.

Investors in strategic sectors promoted by the Tanzanian government are granted incentives through the Tanzania Investment Centre (TIC). EU companies and investors continue to register new projects in Tanzania as captured by data collected from the TIC. Between 2016 and 2020, EU companies registered 115 new projects with the TIC. The total size of these EU projects was USD 471.9m and, at the time of their registration, these investments

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<sup>1</sup> This report captures the investment and contribution of the 27 members of the EU. For the purpose of this report, the investment captured under the market study of European investment were businesses with one or more linkages to one of the 27 Member States of the EU. These linkages include: A business operating in Tanzania that is registered in one of the Member States; A subsidiary of a business that is registered in one of the Member States; One of the investors in the business, either minority or majority, is from a Member State; or The most senior executive based in Tanzania is from a Member State.

<sup>2</sup> UN Comtrade data

<sup>3</sup> European Commission, DG Trade.

<sup>4</sup> Bank of Tanzania: Tanzania Investment report 2018 Tanzania Investment - \_ 2018 (EN).pdf & Tanzania Investment Centre (TIC): collected on 7th June 2021

directly employed 7,684 people.<sup>5</sup> Estimating the total employment created by EU companies, both directly and indirectly, has a number of challenges. However, based on an extrapolation of the responses of the EU market survey and data provided by government entities, including the TIC, it is estimated that EU companies directly employ around 151,000 people in Tanzania.

EU companies are significant taxpayers in Tanzania. According to data provided by the TRA, 31 EU companies are classified as large taxpayers in Tanzania between 2015 and June 2021.<sup>6</sup> The total amount of taxes paid by these companies to the Tanzanian government during this period is USD 1.45b. <sup>7</sup>Taxpayers come from a range of sectors, including agriculture, banking, information and communication technology, manufacturing, oil and gas, power, and logistics.

EU investors look to Tanzania not only to service the local market, but also regional and international markets. Investment is often long term; the average year of company formation among the EU market survey respondents was 2000 with 71% of respondents noting that they had been operating in Tanzania for over 10 years. The size of investment was, however, quite varied with 51% of respondents reporting a turnover of less than EUR 1m, 41% reporting a turnover of less than EUR 10m, and 8% more than EUR 10m.

## Business environment

Tanzania is a strategic location for investment. The country's growth trajectory with GDP growth rates averaging 6.5% between 2013 – 2018 contributed to reaching an important milestone in July 2020 when it formally graduated from low-income country to lower-middle-income country (LMIC) status. Even though growth has slowed due to the COVID-19 pandemic,<sup>8</sup> the country has maintained relative macroeconomic stability. The country has an abundance of natural resources and agricultural potential, a world-leading tourism market, and a location that enables it to facilitate transit goods and cargo to landlocked neighbours.

EU businesses have shown interest in a diverse range of sectors with significant investments across power, oil and gas, logistics, agriculture, and tourism among others. EU companies, capital and technologies have helped transform Tanzania's power sector, been instrumental in ICT development, and a leading force in modernising the logistics sector, cementing Tanzania's positioning as a transit hub to its landlocked neighbours.

Despite encouraging macro-economic metrics, some challenges exist to its business and investment climate. As per the Tanzanian Government's own *"Blueprint for Regulatory Reform to improve Business Environment"* there is room for improvement, in particular in areas relating to starting a business, paying taxes, and trading across borders.<sup>9</sup> Recent efforts by the Government to improve the country's business environment also aim at enhancing the inflow of investments.

Over regulation of some key sectors continue to be sources of frustration among investors, and many companies have faced challenges with the TRA's efforts to increase tax collection. This perception, among other dynamics, has contributed to a slowdown of FDI into Tanzania in recent years, dropping from 3.2% of the GDP in 2015 to 1.8% in 2018.<sup>10, 11</sup>

## Looking ahead

In her government priorities, President Samia Suluhu Hassan has included reforms to foster a more conducive business environment. Investors and potential investors alike are cautiously optimistic that these presidential statements will be translated into tangible actions over the short to mid-term.

Significant opportunities continue to exist for investment in Tanzania. However, the inflow of investment will largely depend on the ability of the current administration to create favourable conditions to attract and maintain investment. The existence of an independent and transparent judiciary framework, an aligned legislative framework and a level playing field

<sup>5</sup> It is important to note that as this data is taken from the time of project registration, employment numbers and investment levels may have changed over time

<sup>6</sup> The definition of an EU company is based off the TRA definition. Additionally the TRA defines a large taxpayer as a company that has an annual minimum turnover in Tanzania above TZS 10 billion. Large taxpayers can come from any specialised sector, however the classification does not include wholesalers

<sup>7</sup> Taxes are paid in TZS so these figures have been converted from TZS to US\$ at a conversion rate of 1 = 2313

<sup>8</sup> 2019 and 2020 growth rates are skewed by the impact of COVID-19 and detract from what has been a trend of relatively consistent economic growth over the past five years

<sup>9</sup> The World Bank, Doing Business 2020: Comparing Business Regulation in 190 Economies

<sup>10</sup> World Bank Group, Tanzania Economic Update: Assessing the Impact of COVID-19 (sourced from the BOT)

<sup>11</sup> 2019 and 2020 FDI numbers are skewed by the impact of COVID-19



for international investors are important components of any conducive business environment.

Key concerns raised throughout the data collection process included the efficiencies around TRA's revenue collection mandate, the ability of the Government to streamline processes, and the need for stakeholder consultation when legislation and regulations are being reformed. On the other hand, investors will need to show a genuine commitment to work with the Government in achieving its strategic goals as set out in the National Five-Year Development Plan and the annual budgets.

## Governance

President Samia Suluhu Hassan was sworn in as the country's new president on 19 March 2021 after the death of President John Pombe Joseph Magufuli. The power transition took place in line with the Constitution.

In various speeches, President Samia Suluhu Hassan has articulated commitments to improve Tanzania's attractiveness as an investment destination. On 22 April 2021, she addressed the National Assembly in front of the Government, the senior officials, and the diplomatic corps. During her speech, she committed to continue to implement the country's key strategic plans, including the Development Vision 2025 and the Five-Year Development Plan III (FYDP III). She further mentioned her intent to continue with President Magufuli's anti-corruption campaign and to hold civil servants accountable, focus on infrastructure projects, respect media freedoms, and enhance Tanzania's foreign policy. When addressing the economy more specifically, President Samia Suluhu Hassan committed to improving the operating environment for the private sector, ensuring that the country's tax regime was more predictable, simplifying work permit process for expatriates, and to work with bodies such as the Tanzania Private Sector Foundation (TPSF) to help better understand and address investors' concerns. Likewise, building an investor-friendly climate was a strong focus of the FY20/21 budget speech and has been referenced multiple times by the new president.

## Economic overview

On 1 July 2020, Tanzania's economy entered lower-middle income status as per the World Bank's definition of a gross national income (GNI) between USD 1,036 – USD 4,045.<sup>12</sup> With a GNI of USD 1,080, Tanzania reached lower-middle income status five years ahead of schedule. This transition is an important milestone for the country.<sup>13</sup>

### Macroeconomic outlook – consistency is key

In 2019, before the outbreak of the COVID-19 pandemic, Tanzania's growth was on a strong trajectory with the World Bank declaring that between 2013 –2018 Tanzania's average gross domestic product (GDP) growth was 6.5%, making it one of the top three growth performers in East Africa.<sup>14</sup> Real GDP growth, however, fell from 5.8% in 2019 to approximately 2% in 2020 according to the World Bank due in large part to COVID-19.<sup>15</sup> In 2022, Tanzania's economy is expected to grow by 4.3%.<sup>16</sup>

Key sectors spurring on this economic growth between 2013 - 2018 were construction, mining, communications, transport and the financial services sector. During this period, construction grew by 14.8%, attributed in large part to President Magufuli's campaign of improving the country's public infrastructure. Likewise, mining grew by 12.6% due to favorable gold prices and an increase in production compared to the previous year. During this period, Tanzania exhibited relatively low degrees of volatility in its annual growth rates, indicating that the economy was being gradually built in a more sustainable manner. Figure 1 highlights this growth and stability by measuring growth against volatility between 2016 - 2020.

<sup>12</sup> World Bank Group, World Bank Tanzania Country Overview

<sup>13</sup> It must be noted that GNI is one of the factors that is taken into consideration when eligibility for non-concessional loans is assessed. Although there is no indication that Tanzania's ascension into lower-middle income status will impact the country's eligibility for non-concessional loans at this stage, it may be a factor in the future as the country progresses through the development curve

<sup>14</sup> World Bank Group, Tanzania Economic Update: Assessing the Impact of COVID-19

<sup>15</sup> The World Bank, Raising the Bar: Achieving Tanzania's Development Vision, February 2021

<sup>16</sup> The World Bank, Tanzania Economic Update, January 2022

## Growth vs Volatility: 2016 - 2020

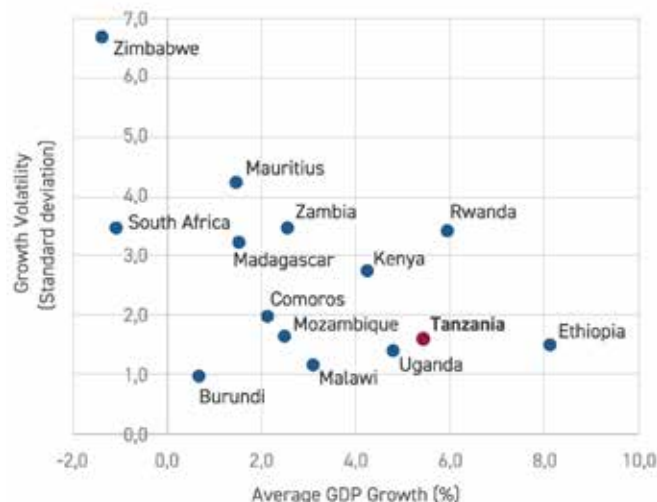


Figure 1.1 Regional comparison of growth volatility 2016 - 2020. The World Bank, *Raising the Bar: Achieving Tanzania's Development Vision*, February 2021 (sourced from National Bureau of Statistics and World Bank staff estimates)

The Government has managed to maintain low and consistent rates of inflation. In 2020, annual inflation stood at 3.2%, slightly below the 2018-19 average of 3.5%. Whilst energy inflation has experienced volatility, there has been a high degree of stability in food and headline inflation in recent years as highlighted in Figure 1.2 which charts inflation between 2018 – 2020.

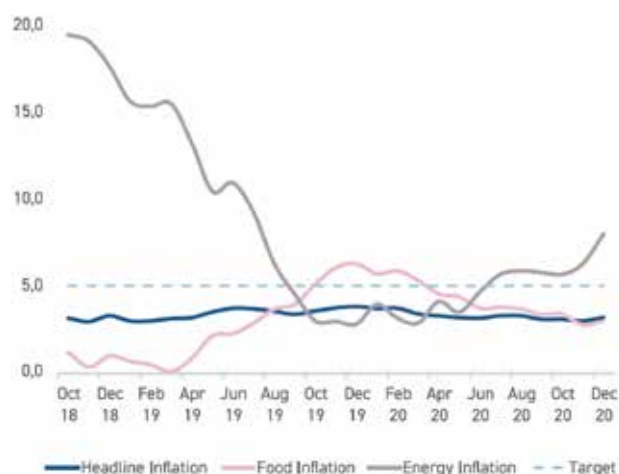


Figure 1.2 Inflation, 2018 – 2020. The World Bank, *Raising the Bar: Achieving Tanzania's Development Vision*, February 2021 (sources from NBS)

A similar example of Government management resulting in stable economic indicators is the recent trajectory of the Tanzanian Shilling (TZS). The TZS has seen relatively low degrees of volatility in recent years against key currencies, including the Chinese yuan (CNY), US dollar (USD), and the Kenyan shilling (KSH). A lot of this stability has been the result of strategic interventions by the Bank of Tanzania.<sup>17</sup> Part of these interventions include the decision to restrict the foreign exchange markets to registered banks as discussed in more detail in Banking and Finance. Figure 1.3 charts currency fluctuation between 2019 and 2020.

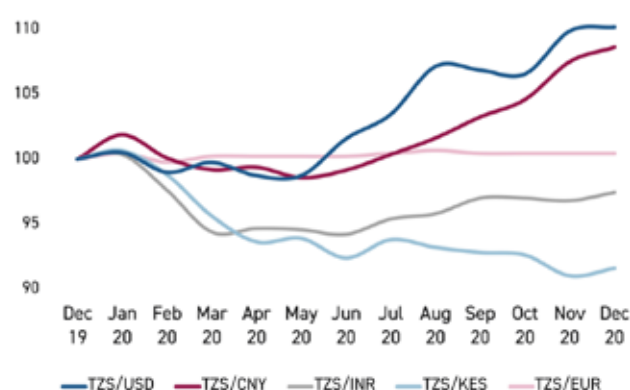


Figure 1.3 Currency fluctuation 2019 – 2020. World Bank Group, *Tanzania Economic Update: Assessing the Impact of COVID-19* (sourced from OANDA exchange rates and World Bank staff estimates).

Recent data indicate a gradual economic recovery led by commodities and consumption<sup>18</sup>. Revenue data indicate strong trajectory in early 2022 compared to similar months in 2021 with The World Bank noting that other indicators like cement production, electricity generation, private sector credit, goods and service exports as well as tourism continuing to improve. The rate of economic growth for 2022 is estimated to be above 4.5%. However, Tanzania is also experiencing a burgeoning debt level which has led to its recategorization, as a country, from low to medium risk of debt distress by the World Bank.<sup>19</sup>

## Poverty and demography

Despite a sustained increase in GDP and consistency in other key metrics, poverty levels have not declined at the same pace. Whereas GDP rose by an average of 6.4% between 2011 and 2018, annual GDP growth per capita rose at just 3.2% during the same period, due in

<sup>17</sup> The Bank of Tanzania is the central bank of Tanzania

<sup>18</sup> The Bank of Tanzania, *Monthly Economic Update*, February 2022

<sup>19</sup> The World Bank, *Tanzania Economic Update*, January 2022

large part to sustained and rapid population growth. Additionally, reductions in poverty levels in Tanzania have been slower than the average for sub-Saharan Africa at 0.25% per year compared to 0.72%.<sup>20</sup> The seemingly slow reduction in poverty levels, whilst the country is experiencing relatively high and consistent growth rates, is in large part due to the country's demographics. With a median age of just 18.4, Tanzania has a very young population. This, in turn, results in a high dependency ratio with a large number of people economically dependent on every adult worker, making it harder for people to see an increase in their standard of living.<sup>21</sup> The World Bank estimates that the COVID-19 pandemic pushed an additional 600,000 Tanzanians below the poverty line.<sup>22,23</sup>

## Foreign trade

Although still operating at a current account deficit (CAD), Tanzania has been able to reduce its CAD in recent years; from -4.2% in 2016 to -2.0% of GDP in 2021, buoyed by the fact that the country experienced a peak in exports at USD 9.7b in 2019, driven in large part by an increase in global gold prices but also due to tourism and the export of manufactured goods. Further improvements in narrowing the CAD were made in 2020, as at the end of the year this was estimated to be -1.6% of GDP.<sup>24</sup> CAD as a percentage of GDP between 2017 – 2021 is captured in figure 1.4.

The CAD is currently funded largely by external borrowing and the country's total external debt increased from USD 21b in 2018 to USD 24b in 2020. As of October 2021, the public and publicly guaranteed debt stock reached USD 29.6 b (40.6 percent of GDP) and the cost of debt service has increased significantly and now consumes nearly 40 percent of domestic revenue. The latest joint IMF-World Bank Debt Sustainability Analysis, conducted in September 2021, concluded that Tanzania's risk of external debt distress had increased from low to moderate.<sup>25</sup>

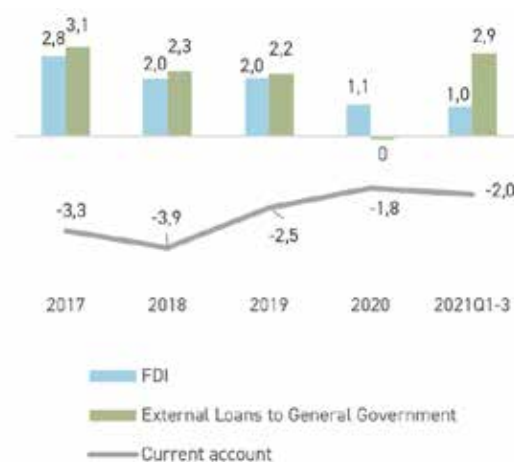


Figure 1.4 Figure 1.4 Current Account Deficit, FDI, and External loans to the general government (% of GDP). The World Bank, Tanzania Economic Update, January 2022 (sourced from the BOT)

## Taxation

Since 2016, Tanzania took significant steps to increase domestic tax revenue collections. Figure 1.5 provides an overview of the country's fiscal accounts between 2018 and 2020. Although falling just short on tax revenue targets in these years the gap between targets and actual collections has closed in recent years.

<sup>20</sup> World Bank Group, Tanzania: Mainland Poverty Assessment 2019

<sup>21</sup> A dependent is classified as each person aged 0-14 and above the age of 65 that is likely to be economically dependent on someone of working age

<sup>22</sup> The World Bank defines Tanzania's national poverty line as TZS 49,320 per month

<sup>23</sup> The World Bank, Raising the Bar: Achieving Tanzania's Development Vision, February 2021

<sup>24</sup> The World Bank, Raising the Bar: Achieving Tanzania's Development Vision, February 2021

<sup>25</sup> The World Bank, Tanzania Economic Update, January 2022



	2018/19	2018/19	2018/19 H1	2018/19 H1	2019/20 H1	2019/20 H1
As percentage of GDP	BUDGET	ACTUAL	BUDGET	ACTUAL	BUDGET	PREL. ACTUAL
<b>Domestic revenue</b>	<b>15.5</b>	<b>13.8</b>	<b>7.6</b>	<b>6.9</b>	<b>7.5</b>	<b>7.0</b>
Tax revenue	13.3	11.4	6.5	5.8	6.4	6.2
Nontax revenue	2.3	2.3	1.0	1.1	1.1	0.8
<b>Total expenditure</b>	<b>19.5</b>	<b>16.6</b>	<b>9.5</b>	<b>7.1</b>	<b>8.5</b>	<b>7.7</b>
<b>Recurrent expenditure</b>	<b>10.6</b>	<b>10.3</b>	<b>5.4</b>	<b>4.5</b>	<b>5.1</b>	<b>4.4</b>
Wages and salaries	5.5	4.9	2.7	2.5	2.5	2.4
Interest payments	1.6	1.8	0.9	0.7	0.8	0.8
Goods and services	3.5	3.5	1.7	1.3	1.9	1.2
<b>Development expenditure</b>	<b>8.9</b>	<b>6.3</b>	<b>4.1</b>	<b>2.6</b>	<b>3.4</b>	<b>3.3</b>
Domestically financed	7.3	4.8	3.3	2.0	2.5	2.4
Foreign financed	1.6	1.5	0.8	0.6	0.9	0.9
<b>Grants</b>	<b>0.8</b>	<b>0.3</b>	<b>0.4</b>	<b>0.2</b>	<b>0.5</b>	<b>0.3</b>
<b>Overall fiscal deficit</b>	<b>-3.1</b>	<b>-3.1</b>	<b>-1.6</b>	<b>-0.1</b>	<b>-0.5</b>	<b>-0.4</b>
<b>Financing</b>	<b>3.1</b>	<b>3.1</b>	<b>1.6</b>	<b>0.1</b>	<b>0.5</b>	<b>0.4</b>
Foreign (net)	2.3	0.9	0.4	0.0	1.0	1.2
Domestic (net)	0.9	2.3	1.2	0.1	-0.4	-0.8

Figure 1.5 Tanzania's Fiscal Account, 2018 – 2020. World Bank Group, Tanzania Economic Update: Assessing the Impact of COVID-19 (sourced from the MoFP)

## COVID-19

The impact of COVID-19 on the global economy continues to be significant. Tanzania's decision to impose minimal COVID-19-related restrictions (see Text Box 1) made the presence of the virus seem less impactful in comparison with other regional peers, however, global supply shocks continue to impact all countries. Tanzania's tourism sector, traditionally the highest earner of foreign exchange, has been severely impacted, as have key exports due to decreasing global demand. Throughout the pandemic to date, the country's gold exports provided vital foreign exchange. As a gold exporter and net oil importer, a sustained gold price, coupled with decreasing global oil prices have been a fortuitous combination for Tanzania's economy throughout the pandemic.

The government has also installed a number of fiscal measures to help protect the country's economy against the economic impact of the pandemic. Measures include the Bank of Tanzania reducing the discount rate from 7% to 5%, reducing the statutory minimum reserve requirement from 7% to 6%, and providing

increased flexibility to banks and financial institutions to restructure loans. The Government also announced an exemption on VAT and customs duties for the import of medical equipment and has made transferring money within the country less stringent by increasing daily transaction limits via mobile money.<sup>26</sup>

In 2021, the Tanzanian government also rolled out a country-wide vaccination program with about 2.4 million people vaccinated by December of the same year.<sup>27</sup>

With the mid to long term impact of the pandemic still being ascertained, projections of Tanzania's GDP growth rates still waver significantly. However, the economic recovery will also be determined by the ability of the Tanzanian authorities to contain the pandemic as its persistence incurs greater damage to human and financial resources.

COVID-19 has significantly impacted businesses operating in Tanzania in many ways. Respondents to the EU market survey outlined the direct impact that the pandemic has had on their businesses with decreased demand for goods and services and challenges

<sup>26</sup> IMF, Policy Responses to COVID-19, <https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19#T>

<sup>27</sup> The World Bank, Tanzania Economic Update, January 2022

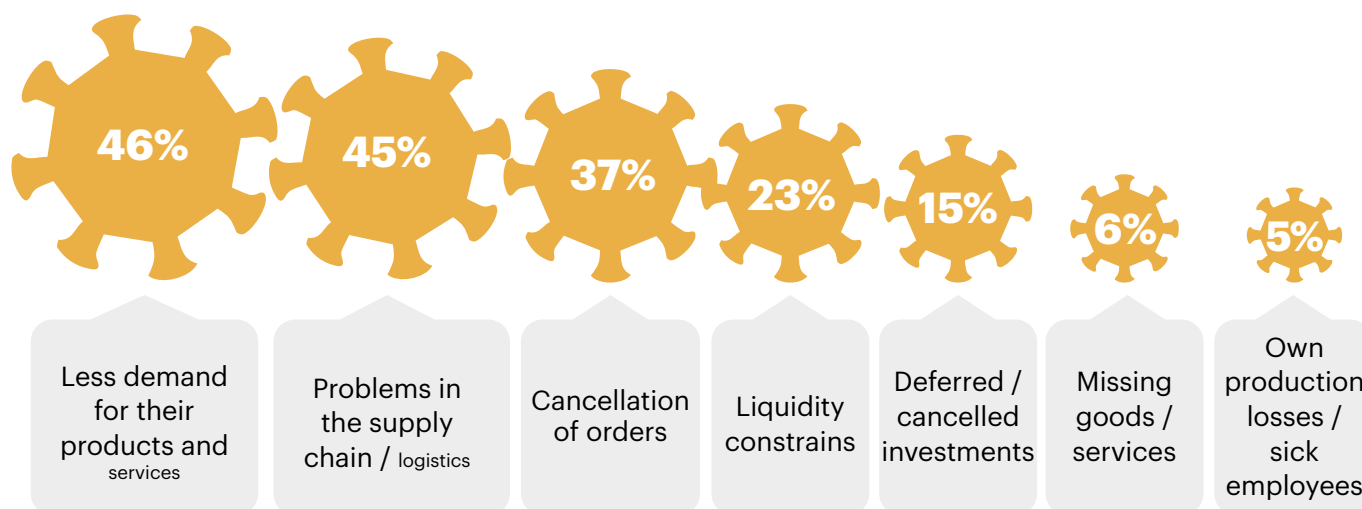


Figure 1.6 Impact of COVID on EU enterprises - EU market survey

managing supply chains being the most prominent as highlighted in Figure 1.6.

## Investment climate

Tanzania has many of the key hallmarks that investors look for including a strategic location, peace, and political stability. These considerations are particularly important for investors with long-term horizons. Tanzania's 1,424 km coastline on the Indian Ocean with multiple ports is another advantage for investors with heavy import and export requirements. As is the fact that the country is in the unique position of being a member of the East African Community (EAC) and the Southern African Development Community (SADC). The demography of the country also lends itself to investment opportunities with a population of approximately 62 million, an annual population growth rate of 2.8%, and approximately two-thirds of the country aged below 25.<sup>28</sup>

Since 2015, Tanzania saw a marked decrease in investment with FDI flows dropping by one third and the number of new businesses registering in Tanzania dropping by a similar amount, further reflecting the real and perceived challenges of conducting business in the country. These realities are highlighted in Figure 1.7. There is a strong correlation between the drop in EU FDI and the drop in FDI more broadly into Tanzania as expanded upon in the following chapter.

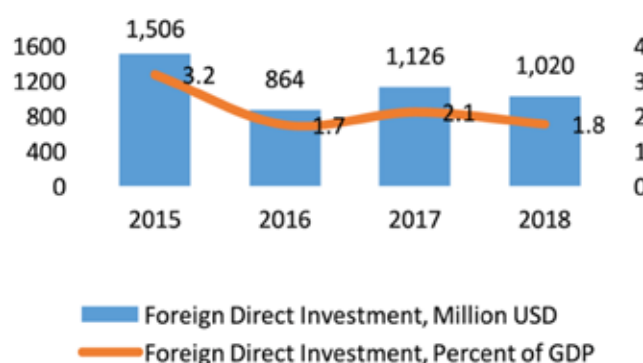


Figure 1.7 Foreign Direct Investment inflows, 2015 - 2018. World Bank Group, Tanzania Economic Update: Assessing the Impact of COVID-19 (sourced from the BOT)

Among the metrics used by the World Bank, a particular concern was related to the country's tax policy, trading across borders, and starting a business.<sup>29</sup> Similar concerns were expressed in the EU market survey (see Figure 1.8).

<sup>28</sup> CIA The World Factbook, Tanzania

<sup>29</sup> The World Bank, Doing Business 2020: Comparing Business Regulation in 190 Economies

## AREAS AFFECTING FIRMS



Figure 1.8 Perceived barriers to business operations by EU firms - EU Market Survey

President Samia Suluhu Hassan has indicated her wish to increase the country's attractiveness as an investment jurisdiction. This has included multiple commitments to streamline permit and license applications, reduce challenges around the issuance of work permits, and provide a more stable fiscal and regulatory environment. Ministers and heads of government agencies have been tasked to fast track the President's reform agenda. There is a renewed sense that Tanzania wants to present itself, not just to its regional neighbours, but to the world, as a prime investment jurisdiction in East Africa.

### Administrative procedures

According to investors operating in the country, there is room for streamlining administrative procedures, taking into account two aspects in particular: the predictability of measures and the simplification of the permits and licenses to operate a business issued by a multiplicity of regulatory authorities, spanning the national, regional and municipal levels of Government. A lack of coordination between these agencies can at times lead to significant roadblocks and costly delays for businesses.

The Tanzania Investment Centre (TIC) was established in 1977 by the Tanzania Investment Act to be "the Primary Agency of the Government to coordinate, encourage, promote and facilitate investment in Tanzania and to advise the Government on investment policy and related matters." The TIC allows investors to register a project with the Centre and, in turn, be eligible for a number

of both fiscal and non-fiscal incentives including VAT deferment on project capital goods. In order to be TIC registered, the majority of foreign owned businesses must show a minimum capital investment of USD 500,000 which has proven to be a challenge for many small and medium-sized investors.

### Labour laws

Navigating Tanzania's labour laws was described as a challenge by virtually all respondents in all sectors of the EU market survey. For example, challenges around hiring, and potentially firing, of employees have long been a hurdle. Respondents expressed concerns that even after complying with existing labour laws, they still felt a significant risk that they could be sued for terminating an employee contract.

### Land ownership

Tanzania retains a system of leasehold whereby investors are eligible to lease land (up to 99 years renewable), however, not hold the land outright. Foreign individuals are not allowed to own land with companies requiring a majority Tanzanian shareholder to purchase land. The process of holding land for business purposes is usually assisted by the TIC, however, some investors consulted felt that although the TIC sped up the process, the multiple steps involved in the process made it both expensive and time-consuming. Issues of land ownership are most often felt by EU businesses focused on the agriculture and manufacturing sectors.

### Taxation

According to the results of the survey, running a tax compliant business in Tanzania is demanding for all investors. The number of filings required, coupled with changing goal posts of what is required in each filing, makes many investors fall short of their duties. The TRA's online e-filing system has, however, made significant progress in easing this administrative burden on companies. However, one issue that remains a concern for investors is the length of time they have to wait before receiving VAT refunds, hampering cash flow and making some respondents hesitant to continue to re-invest profits in Tanzania. According to the World Bank, it takes an average of 110 weeks to receive a VAT refund in Tanzania.<sup>30</sup>

<sup>30</sup> The World Bank, Doing Business 2020: Comparing Business Regulation in 190 Economies



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## Corruption

The fifth phase Government under President John Pombe Joseph Magufuli conducted a strong action against corruption. The results were noticeable and are reflected in Tanzania's improvement on leading metrics such as the Transparency International's Corruption Perceptions Index (CPI) where the country's ranking improved from 119th in 2014 to 94th in 2020.<sup>31</sup> The CPI provides each country with a score, and the higher the score, the less corrupt the country is perceived. On this metric, Tanzania currently has a score of 38 compared to a score of 32 in 2016.<sup>32</sup> Among the other EAC states, Tanzania ranks second only to Rwanda.

## Immigration

Uncertainty surrounding work and resident permits continues to cause significant challenges for companies seeking to hire expatriates. The Government has, however, taken steps to simplify and speed up the process,<sup>33</sup> for example by moving the application system online.

## Government initiatives to improve the investment climate

The Tanzanian Government has acknowledged that the country needs to do more in order to both attract and maintain investment. The Government has either enacted, or is in the process of enacting, a number of pieces of legislation and regulation to help facilitate investment in the country. Key initiatives, but by no means an exhaustive list, include:

- In May 2018, the Blueprint for Regulatory Reforms was endorsed by the Government following a consultation with private sector stakeholders.
- In June 2019, the Blueprint Action Plan was adopted to improve the country's regulatory procedures and enhance transparency.

- The 2020 changes to the Arbitration Act that confirmed that investors would be allowed access to international forms of arbitration when trying to settle a dispute with the Government.
- The Government is currently reviewing the Ministry of Industry and Trade's Small and Medium Enterprises Policy.
- The Tanzania Investment Act is currently under review with the aim of improving ease of investment for stakeholders.
- The Ministry of Investment, Industries and Trade is currently commissioning a baseline study with the Tanzania Startup Association (TSA), supported by the Netherlands, to produce a comprehensive baseline survey on the establishment of a Start-up Act in Tanzania to help improve the ease of doing investments in the subsector.
- Additional TRA functions are moving online to ensure that calculations and payment of the necessary taxes are streamlined, and compliance is made easier.
- Work permit applications are now online, significantly reducing the approval process.
- A number of government agencies have been merged to assist with ease of permitting and licensing.

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<sup>31</sup> Transparency International, Corruption Perceptions Index, <https://www.transparency.org/en/cpi/2020/index/nzl>

<sup>32</sup> The CPI provides scores and rankings to countries based on how corrupt their public sector is perceived to be. The index is determined via a combination of 13 assessments and surveys on corruption gathered from credible institutions. Each country receives a ranking on how it fares in comparison to other countries surveyed. Additionally each country is assigned a score between zero and 100, where zero is highly corrupt and 100 is very clean

<sup>33</sup> In 2021, the government moved to amend section 12(4) of the Non-Citizens (Employment Regulation) Act of 2015 to extend the time limit for work permits of non-citizen employees from the initial five years to eight years.

# EUROPEAN UNION INVESTMENT IN TANZANIA

## Overview

This section provides a macro view of EU investment in Tanzania. The following 11 sector specific chapters investigate the EU's role and highlight the overall impact of EU businesses in Tanzania in terms of trade, investment, employment and, where possible, the qualitative impact of EU technology. It further maps and tracks EU business interests in Tanzania and opportunities for the future across the key sectors of Tanzania's economy.

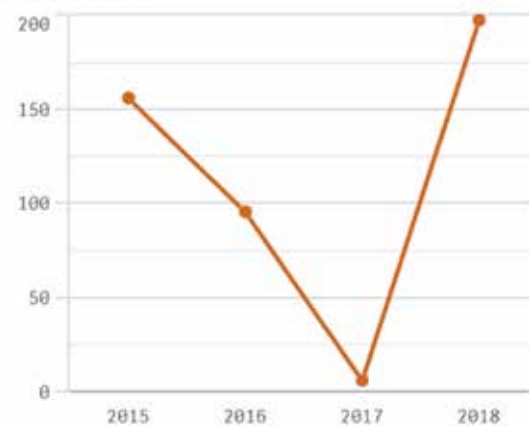
## Contribution to FDI Tanzania

The EU and Tanzania have long maintained a strong economic relationship, largely characterised by EU businesses and capital investing in Tanzania and long-standing diplomatic ties. Whilst FDI inflows to Tanzania grew by 120% in the five-year period leading up to 2013, FDI flows from the EU and investors more broadly into Tanzania have decreased in recent years. Table 1 showcases FDI inflows of the ten most active EU member states between 2013 – 2020 (figures shown in USD millions).

The decline in EU investment was consistent with an overall decline in FDI, particularly between 2016 - 2017, as investors attempted to navigate significant regulatory changes in key sectors such as the extractives sector. Trends in EU FDI and total FDI are captured in Figure 1.9 and 2 above. The graphs below clearly indicate renewed interest from both EU investors and the investment community more broadly in recent years, a trend that is expected to continue in line with increased optimism around ease of doing business in Tanzania under the incumbent Government.

**EU FDI flows into country**

(Net flows M USD)

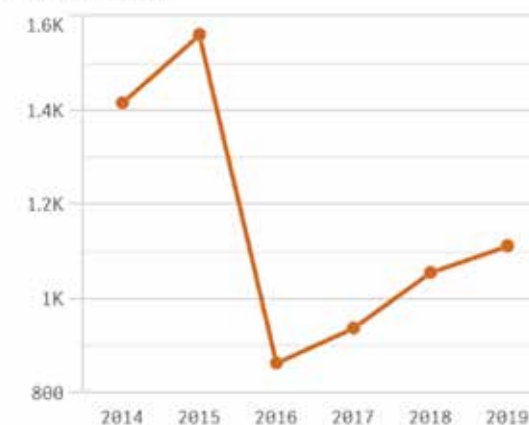


NOTE: negative means divestment

	2015	2016	2017	2018
Tanzania	158.0	95.64	8.21	197.2

**Total FDI flows into country**

(Net flows M USD)



NOTE: negative means divestment

	2014	2015	2016	2017	2018	2019
Tanzania	1,420	1,560	864.0	937.7	1,060	1,110

Figure 1.9 FDI inflows from EU member states, 2015 – 2018/ Figure 2 Total FDI inflows, 2014 - 2019 - European Commission, Global socio-economic country profile series, Tanzania. Generated from the Global Development Data Tool on 24/6/2021

Top 10 EU MS	2013	2014	2015	2016	2017	2018	2019	2020	Total	Average
Bulgaria	-	-	-	-	0.7	-	-	20.3	21.0	4.2
Belgium	-	-	-	0.5	0.0	64.0	3.5	-	67.9	13.6
Denmark	-71.2	24.4	41.3	2.9	24.4	5.4	0.3	0.9	28.3	6.8
Germany	-2.9	12.8	27.1	23.5	12.3	6.6	0.8	65.2	145.3	21.7
Italy	0.2	-	0.2	3.7	3.1	1.9	0.6	62.1	71.8	14.3
Netherlands	341.9	18.7	127.8	171.2	85.3	0.8	6.8	-	752.6	83.6
France	27	38.6	97.1	15.2	27.9	2.9	-	0.2	208.9	23.2
Luxembourg	0.5	21.9	105.3	35.8	-44.8	0.0	-	-	118.7	13.2
Finland	-	-0.5	2.2	26.7	0.7	-	-	-	29.1	3.2
Cyprus	60.3	-	-6.9	1.6	1.6	0.5	-	2.4	59.6	6.6
<b>TOTAL -Top 10 EU MS</b>	<b>355.8</b>	<b>115.9</b>	<b>394.1</b>	<b>281.1</b>	<b>111.2</b>	<b>82.2</b>	<b>12.0</b>	<b>151</b>	<b>1,503.3</b>	<b>167.0</b>

Table 1 - FDI inflows from 10 most active EU members, 2013 – 2020 - Bank of Tanzania: Tanzania Investment report 2018 Tanzania Investment - 2018 (EN).pdf & Tanzania Investment Centre (TIC): collected on 7th June 2021

Tanzania Investment Centre (TIC) is the first port of call for many international investors seeking to benefit from the various fiscal and non-fiscal incentives associated with registering a project.<sup>34</sup> Between 2016 - 2020, 115 new EU projects were registered with the TIC. The total size of investment of these projects, noting that investment size is captured at the time of TIC registration, was USD 471.9m. At the time of project registration, these projects employed 7,684 people.<sup>35</sup> Estimating total employment created by EU companies, both directly and indirectly, has a number of challenges. However, based on an extrapolation of the responses of the EU market survey and data provided by government entities, including the TIC, it is reasonable to assess that EU companies directly employ approximately 151,000 people in Tanzania.

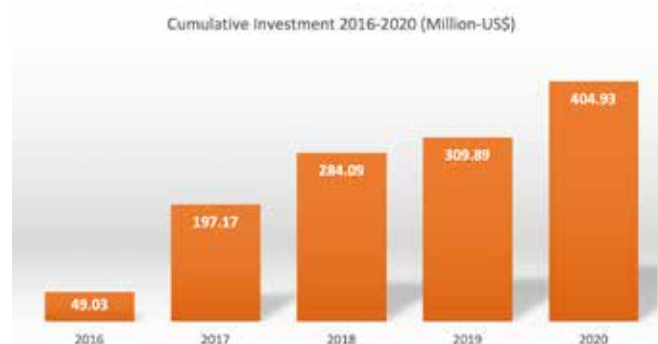


Figure 2.1 Data showing the scale of EU investments in Tanzania, Tanzania Investment Centre (TIC)

New projects registered between 2016 – 2020 were dominated by manufacturing, which accounted for 39 out of 115, followed by tourism (19), and agriculture (13). Investors from Germany were the most active during this period, registering 19 new projects, followed by the Netherlands (18), Sweden (15), and Italy (13).<sup>36</sup> The graph above shows cumulative EU investment at the time of project registration via TIC registered projects between 2016 – 2020.

<sup>34</sup> Note that TIC registration is restricted to projects with a capital investment in excess of USD 500,000 so will not capture all new business ventures entering the country. Additionally there is a fee to register at TIC, so registration is made by those companies that feel their business model will be assisted by the various fiscal and non-fiscal incentives offered

<sup>35</sup> It is important to note that as this data is taken from the time of project registration, employment numbers and investment levels may have changed over time

<sup>36</sup> Data provided by the TIC



	2017	2018	2019	2020
Investment registered (Million US\$)	148.14	86.92	25.8	95.04

Table 2 - Data showing the amount of EU investments in Tanzania, Tanzania Investment Centre (TIC)

## EU companies as taxpayers

According to data provided by the TRA there are 31 EU companies classified as large taxpayers in Tanzania between 2015 and June 2021. The total amount of taxes paid by these companies to the Tanzanian government during this period was USD 1.45b.<sup>37</sup> These taxpayers come from a wide range of sectors, including agriculture, banking, information communication technology (ICT), manufacturing, oil and gas, power and logistics, with the banking sector leading the way with some of the largest taxpayers. Figure 2.2 below shows taxes paid by the EU companies classified as large taxpayers between 2015 – 2021, showing a progressive increase over this time period.

## Contribution to import and export levels

Tanzania benefits from preferential access to European markets via its classification as a “least developed country,” affording the country both duty free and quota free access to the EU. Although the EU finalised its negotiations for an Economic Partnership Agreement with the countries of the East African Community (EAC) in 2014, the agreement has not been implemented, with Kenya being the only country to ratify the agreement to date.

Whilst in 2016 the EU was Tanzania’s largest trading partner; this is no longer the case. – largely as a result of the competition of China and India and, later, of the effect of Brexit. Nevertheless, the trade volume between the two partners remains substantial. In 2020, the EU was the destination for 10% of Tanzania’s total exports and provided 12% of total imports.<sup>38</sup>

### Taxes Paid by EU Large Taxpayers (US\$)

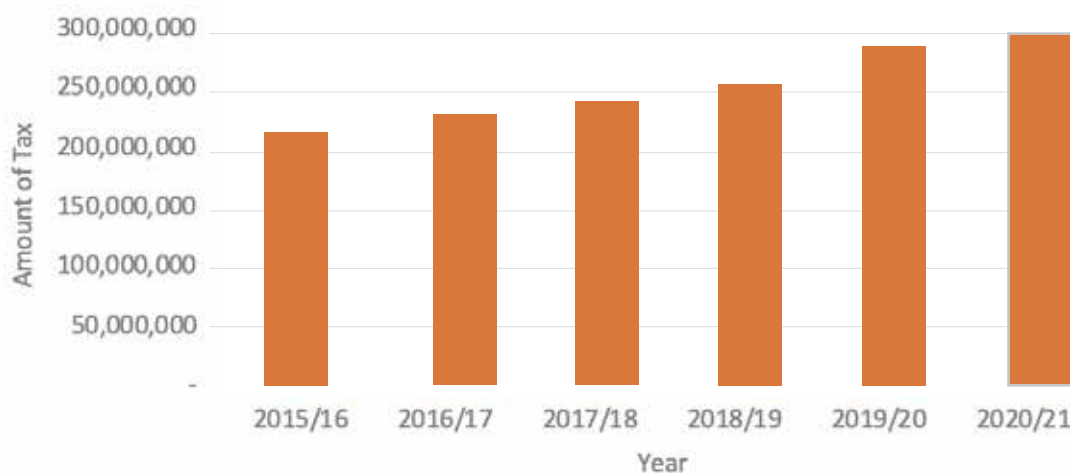


Figure 2.2 Taxes paid by EU large taxpayers, Data provided by the Tanzania Revenue Authority (TRA) and EU calculations

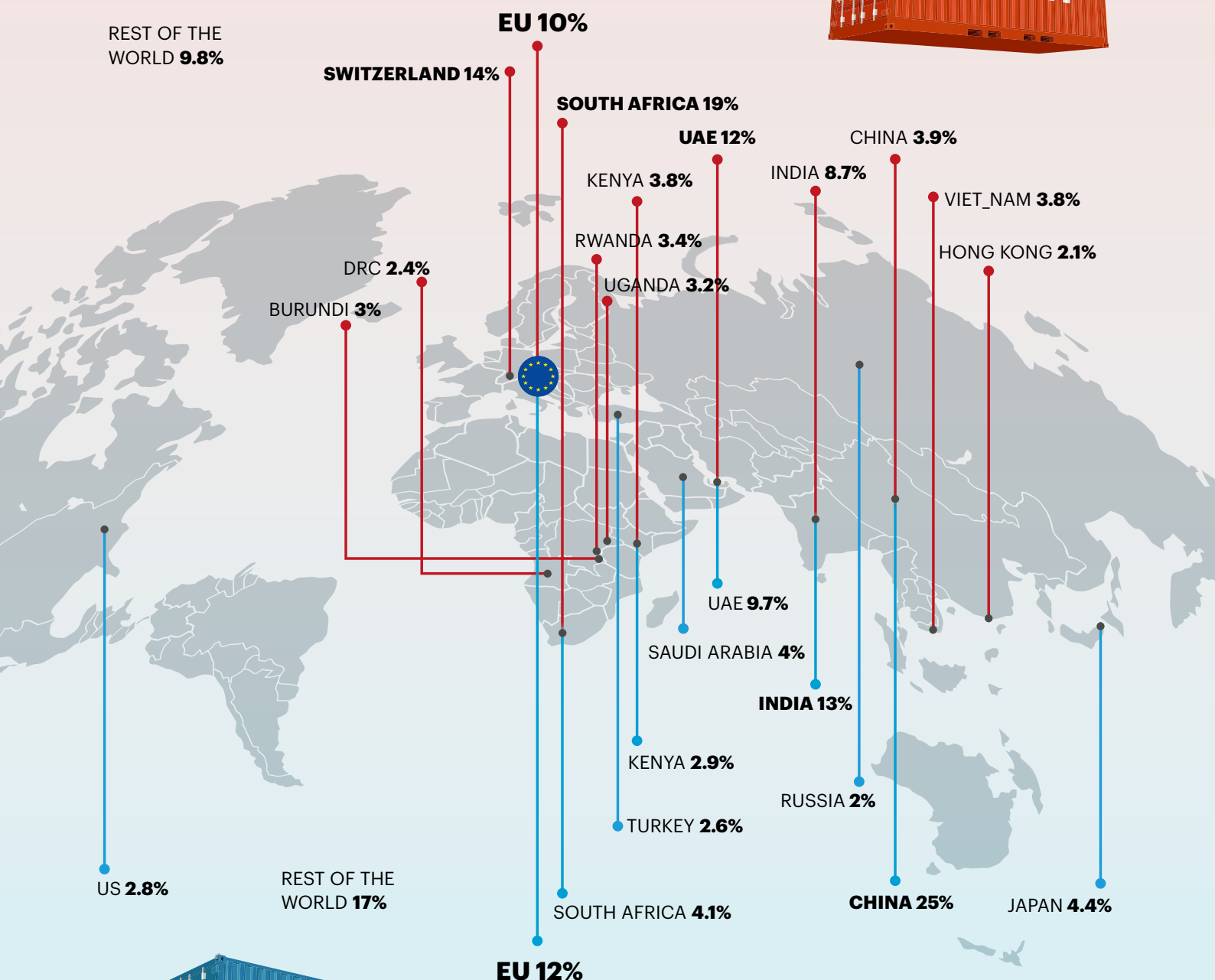
<sup>37</sup> Taxes are paid in TZS so these figures have been converted from TZS to US\$ at a conversion rate of 1 = 2313

<sup>38</sup> European Commission DG Trade and IMF.

## EXPORTS DESTINATION PARTNERS in 2020 (share in % of total)

Source: IMF

REST OF THE  
WORLD **9.8%**



## IMPORTS MAIN ORIGIN PARTNERS in 2020 (share in % of total)

Source: IMF

## EU companies: numbers, nationalities, location, and sectors

EU investment comes from many Member States in an array of forms. Total contributions made via capital and companies registered are hard to quantify accurately. With this in mind, this section relies on data collected as part of the EU market study that was distributed to a cross section of businesses that fulfilled the criteria of being an EU investor (*further information on this in Appendix 1*).<sup>39</sup>

Among the respondents, 22% of businesses reported having a shareholder from the Netherlands; this was followed by Germany (14%), France (12%), Italy (9%), and Spain, Belgium, and Denmark (all with 8%). Respondents operated in a diverse range of sectors with a significant number of investors dealing with fresh agricultural products (28%), tourism (26%), and processed agricultural products (12%).

EU investors tend to be long-term investors, which is not surprising given the nature of the sectors many are investing in. 71% of respondents from the EU market survey have been present in Tanzania for more than 10 years, and the average establishment date of a company was 2000. Out of all respondents, 51% reported a turnover of less than EUR 1m, 41% reported a turnover of less than EUR 10m, and just 8% more than EUR 10m. Capital for EU investors comes from a number of sources with the majority of respondents accessing capital from company profits, banks and financial institutions, or a combination of both. Many investors have an international outlook with 56% of respondents saying that they had invested due to the international market, 30% due to the local market and the remainder looking at regional opportunities.

Companies were also spread across the country: 38% of respondents had their head office located in the commercial capital of Dar es Salaam and 20% had chosen Arusha which could be a result of the heavy EU investment in the agriculture and tourism sectors. Just 5% of respondents had their office located in Zanzibar, and the rest were scattered around the country.<sup>40</sup>

EU investment stems from a variety of Member States and across a range of sectors, however, the agriculture and tourism sectors have long attracted EU companies and capital. With the country's concerted plans to further industrialise, in the coming years, we are likely to see increased opportunities for investment in manufacturing, construction, and potentially transport and logistics among others.

## Contribution to overseas development

In recent years, Tanzania has taken assertive steps in minimising its reliance on overseas development assistance (ODA). This has corresponded with a noticeable reduction in ODA as a percentage of GDP. More specifically, ODA decreased from 7.5% in 2013 to 4.3% in 2018. Despite the overall decline in ODA, the EU continued to be the largest contributor in 2018, providing 27% of all ODA with the US next at 25.2%. Assistance to Tanzania is spread among a number of sectors, including education, transport, agriculture and a number of other social initiatives up to humanitarian assistance for the refugee camps.

### Tanzania

(net) (2018) (M USD) 2,454.88

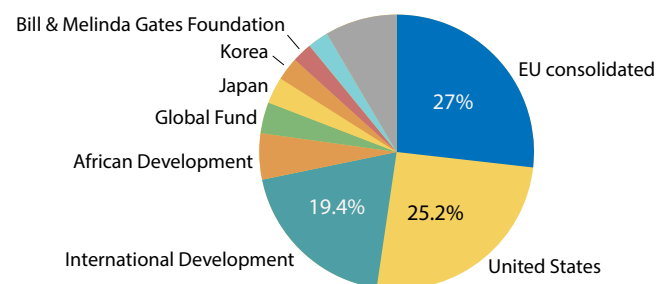


Figure 2.3 Overseas Development Assistance (ODA) profile by partner contribution, 2018 - European Commission, Global socio-economic country profile series, Tanzania. Generated from the Global Development Data Tool on 24/6/2021

<sup>39</sup> EU market survey

<sup>40</sup> EU market survey

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# AGRICULTURE

## Sector outlook

Tanzania has excellent agricultural potential with multiple contributory factors for growth. Huge territory, excellent soil quality, predictable weather patterns, the availability of vast freshwater stores and over 44 million hectares of arable land all combine to offer a compelling case for farming. The sector represents Tanzania's leading employer with more than three quarters of the workforce engaged in agricultural activities. Providing 29% of GDP and worth \$12.7b to the economy annually, agriculture represents both a major source of household income and national wealth.<sup>41</sup>

With a geographical location neighbouring eight countries and three commercial ports, Tanzania is well positioned for the import and distribution of exogenous agricultural inputs and products as well as export of agricultural surplus and globally desirable strategic-crops. Membership of the East African Community (EAC) and Southern African Development Community (SADC) regional trading blocs theoretically gives direct access to markets across Eastern and Southern Africa. As the effects of the global pandemic recede, Tanzania is well positioned to service the increase in demand for commodities globally. Further to this, the significant population growth rate (approximately 3% annually)<sup>42</sup> combined with increased citizen purchasing power continues to drive domestic market demand. Whilst attractive from a macro perspective, some significant challenges remain ranging from a small middle-class market, informality, and high cost of doing business.

The sector is critical for Tanzania, and there are many opportunities for investors across the value chain to bring the sector into line with modern global standards and improving earning potential.

More recently, the sector has faced significant impacts from the COVID-19 pandemic. Slower

growth rates amongst Tanzania's trade partners have resulted in drastically reduced demand for agricultural commodities. Major exporters of fruits and other agricultural products expect a 40% decline in revenue as a result of the associated global economic effects.<sup>43</sup> Domestic demand remains largely unaffected, a reflection of the market's weighting toward consumption of staples. President Samia Suluhu Hassan paid the agricultural sector special attention during her maiden address to the Parliament. She committed the Government to doubling the area of irrigated land by 2025, strengthening of the Tanzania Agricultural Development Bank (TADB) and promoting access to agricultural insurance.<sup>44</sup>

## Sector profile

90% of Tanzania's annual food requirement is produced domestically, and smallholder farmers are responsible for 70% of all production. Over 45% of the total land area in Tanzania is utilised for agriculture with a diverse range of agrarian and pastoral usage. Maize represents by far the most widely cultivated food-crop, displacing the traditionally dominant millet and sorghum, as more drought and pest-resistant cultivars become available. 65% of all land used for farming in Tanzania is dedicated to maize production, the staple food source for nearly 70% of the population.

Within the last two decades the crop land under maize has tripled in size, largely in keeping with population growth and demand trends. However, government schemes to improve farming practices have been facing challenges. Total yields per hectare declined during the last 10 years, evidence that increased land use, rather than increased efficiency and know-how, has been the predominant factor in the sector's growth. This, however, opens up an opportunity for investment in creating efficiencies and increasing yield throughout the country from those investors with the necessary experience, capital and access to technology.

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<sup>41</sup> Tanzania Country Commercial Guide, International Trade Administration

<sup>42</sup> World Bank Data

<sup>43</sup> Tanzania Economic Update, Addressing the Impact of COVID-19, World Bank Group, June 2020

<sup>44</sup> Priority Sectors and Growth Strategy of Tanzania Sixth Phase Government, TanzaniaInvest.com, April 2021



## Sector-wide policy context

The Government has long recognised the importance of agriculture to the economy and introduced several initiatives over the past two decades to facilitate growth and encourage the sector to modernise. The National Agricultural Policy (NAP) is the framework paper for

agricultural policy in Tanzania. Implementation is achieved through various programs and initiatives, such as Kilimo Kwanza (Farming First, 2009) and the Tanzania Agriculture and Food Security Investment Plan (TAFSIP), a decade-long program running from FY 2011 - 2012 until FY 2020 - 2021. Figure 3.1 shows the position of the TAFSIP in the national planning hierarchy.

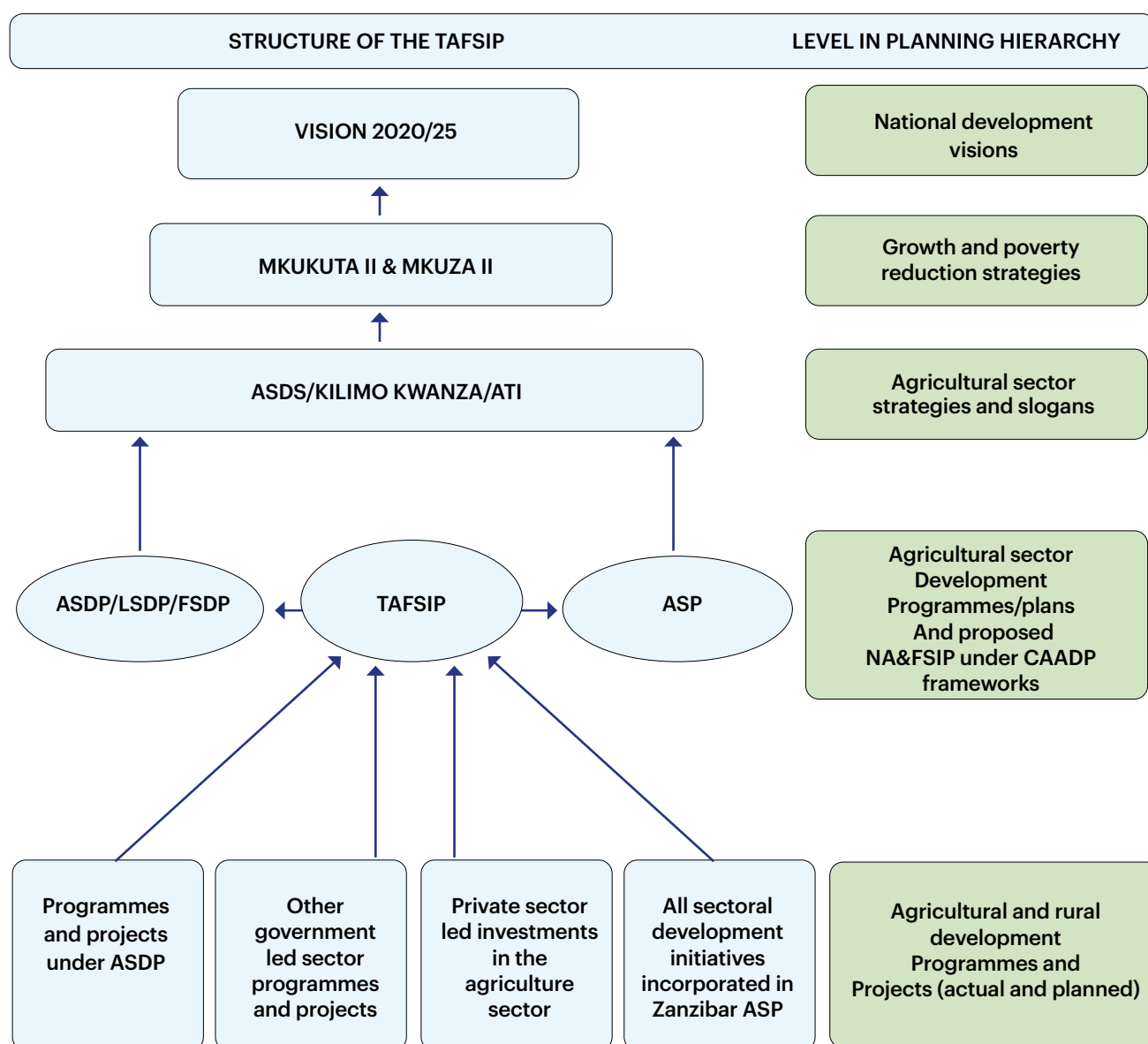


Figure 3.1 Agriculture sector policy framework, Ministry of Agriculture

The Government has been increasingly open to private sector engagement with the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) initiative paving the way to a USD 3b investment in agricultural reform across wide areas of Tanzania. Another Public Private Partnership (PPP), the Agricultural Sector Development Plan II (ASDP II), launched in June 2018, overtly calls for smallholder commercialisation. By FY 2022/23, the first five-year phase aims to achieve inclusive agricultural transformation as part of the National Strategy for Growth and Poverty Reduction (MKUKUTA II). By earmarking USD 6.2b for investment in agriculture, ASDP II foresees the sector to become a driving force in Tanzania's economic growth.<sup>45</sup> The EU remains a committed partner to Tanzania's ambitions for sustainable agricultural growth, funding a number of programmes, including the Trade and Agriculture Support Programme I and II, SAGCOT and AGRI-CONNECT, a €100 m programme focused on strategic value chains such as coffee, tea and horticulture in the Southern Highlands and Zanzibar, adopting an holistic value chain approach targeting more than 170,000 smallholder farmers.<sup>46</sup>

Access to finance has long been a barrier to modernisation of the sector. In order to alleviate this issue, the Government established the Tanzania Agricultural Development Bank (TADB), a state-owned development finance institution with a mandate to deliver credit facilities for agricultural capacity building. The loans are intended to provide funds to small, medium and large farmers including those who have no access to credit due to lack of collateral.<sup>47</sup> In June 2021, the EU and the Government of Tanzania launched AGRI-Connect which aims to support sustainable agriculture and received approximately EUR 100m of support from the EU.

The Tanzanian Ministry of Agriculture has highlighted several areas for increased funding in the FY 21/22, again emphasising capacity building for increased efficiency. These include an increase in the budget for the Tanzanian Agricultural Research Institute, development of 13 Government-owned seed farms and a USD 5m investment in the agriculture extension services budget.

Whilst these measures are largely inward facing, some legislative changes are of interest to investors, including a VAT waiver on crop insurance and associated premium charges. Exporters of unprocessed products are now able to reclaim tax on inputs - a major fillip for input intensive cash-crops.<sup>48</sup>

## Key sub-sectors

### Horticulture

Horticulture has been a FDI magnet since the late 1970's, when flower producers active around Lake Naivasha in Kenya sought further land suitable for development. The Arusha/Moshi highlands in North-East Tanzania provided an ideal area with similar soils and climatic conditions to the Kenyan cluster. Dutch agri-businesses have invested in the Arusha area, and represent some of the most developed value-chains in Tanzanian agriculture, exporting flowers worth nearly USD 30m in 2018, 40% of which went to the Netherlands.<sup>49</sup>

Today, the subsector has diversified with farmers producing a range of seeds, vegetables, fruits, spices, and flowers. Domestic demand for these non staple crops has increased in line with GDP per capita, and export demand from neighbouring Burundi and Rwanda has increased. Other potential investment opportunities exist in the provision of high-quality equipment to the sector despite limited local purchasing power. Spoilage still accounts for an estimated 40% of potential yield, speaking to a lack of cold chain and other secure storage facilities.<sup>50</sup> The surge in international demand for avocado has led to a massive increase in the number of farmers turning to this cash crop. Exports have increased from less than 3,500 tonnes in 2015 to 9,000 tonnes in 2018. An estimated 10,000 farmers across the country now have land under avocado, and several large agri-businesses have invested heavily in the crop. The top destinations for avocados from Tanzania are France, and the Netherlands. Together, the two markets accounted for more than three quarters of this product's exports between 2014 and 2018. In 2019, avocado exports increased by at least USD 10m, mainly because of a surge in exports to the EU.<sup>51</sup>

<sup>45</sup> Agricultural Sector Development Programme Phase Two, GoT, May 2016

<sup>46</sup> Horticulture only

<sup>47</sup> TPSF

<sup>48</sup> National Budget Bulletin 2021/22, PWC, June 2021

<sup>49</sup> World Bank Group Data

<sup>50</sup> Tanzania Horticulture, Netherlands Enterprise Agency, February 2015

<sup>51</sup> Tanzania's trade in times of COVID-19, International Trade Centre, December 2020

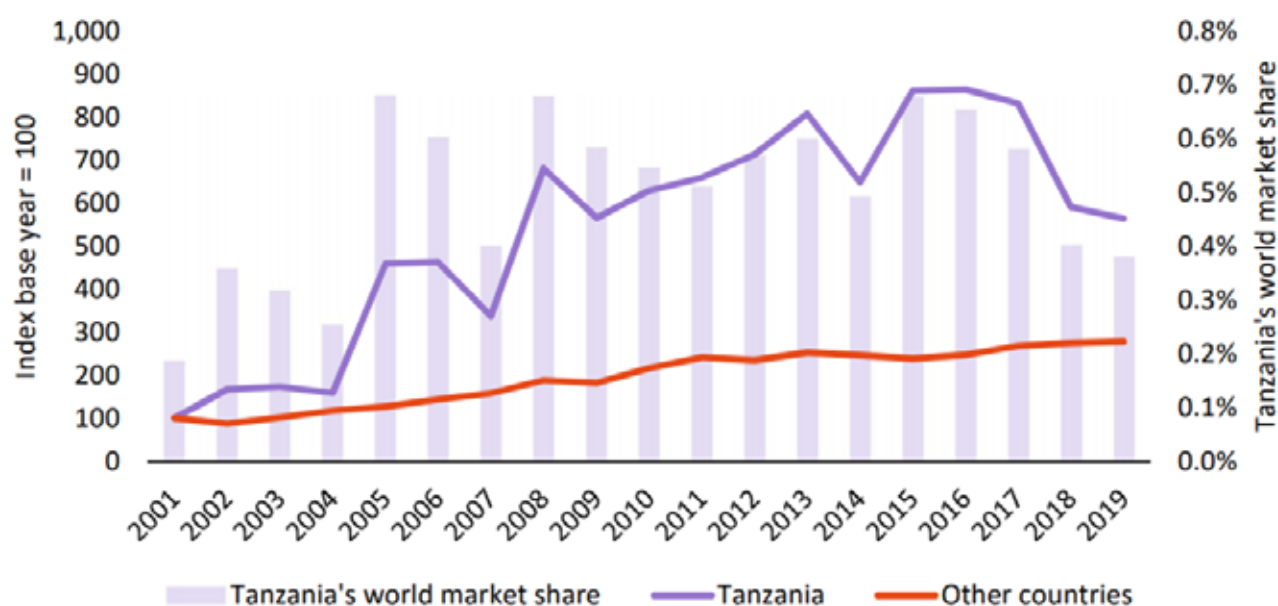


Figure 3.2 Tanzania's global tea market share, 2001 – 2019

Markup, EU-EAC Market Access Upgrade Programme, Tanzania's trade in times of COVID-19, [https://umbraco.exportpotential.intracen.org/media/1187/tza\\_brief\\_revised-draft\\_no-watermark.pdf](https://umbraco.exportpotential.intracen.org/media/1187/tza_brief_revised-draft_no-watermark.pdf)

Olivado Tanzania Ltd, a subsidiary of its New Zealand based parent company, has constructed a USD 2.5m modern avocado oil production facility in the Southern Highlands, demonstrating investor confidence in this subsector. Producing avocado oil from fruits deemed unsuitable for export, Olivado currently works with over 2,500 smallholders and exports 16 tonnes of oil every week, employing 450 staff.<sup>52</sup> Finnish development finance company Finnfund provided a EUR 2.5m loan to Tanzanian avocado producer Africado. Africado specialises in the hass variety of avocado that are primarily exported to European markets.

Access to inputs remain a considerable obstacle although recent regulatory reform has significantly reduced testing times for new fertilisers, allowing for faster adoption into the market. Further reforms would open up more opportunities for investment. Providers of agri-chemicals, such as Bayer CropScience and Balton, face difficulties importing modern inputs, whilst earth has not yet been broken on a USD 1.9b fertiliser plant slated for construction beginning in 2016, with concerns raised that the project may never eventuate.<sup>53</sup> The Tanzanian and EU private business joint venture has repeatedly stalled over investor uneasiness over

the costs of gas, the main raw material for the project. A lack of commercially available seeds has impacted the ability of Tanzanian farmers to produce crops to satisfy modern markets, exemplified by the only cultivar of soya seed available having been approved nearly 50 years ago.

## Tea

Despite the high international demand for tea, Tanzania's share of the world market has declined over the last five years as captured in Figure 3.2.<sup>54</sup>

Saddled with aging infrastructure and burdensome regulatory requirements, the tea industry reports serious problems in bringing an economically competitive product to market. The infrastructure deficit does, however, present an opportunity for investment from external parties. Figure 3.3 showcases where Tanzania's tea is exported to.

While the international demand for tea remains high and is forecast to grow, Tanzania will not be likely to capture this market opportunity until internal conditions improve.

<sup>52</sup> SAGCOT

<sup>53</sup> Why Mtwara fertiliser plant project has been delayed, The Citizen, December 2020, <https://www.thecitizen.co.tz/tanzania/news/-why-mtwara-fertiliser-plant-project-has-been-delayed-3235536>

<sup>54</sup> Tanzania's trade in times of COVID-19, International Trade Centre, December 2020

## Tanzania's tea export destination

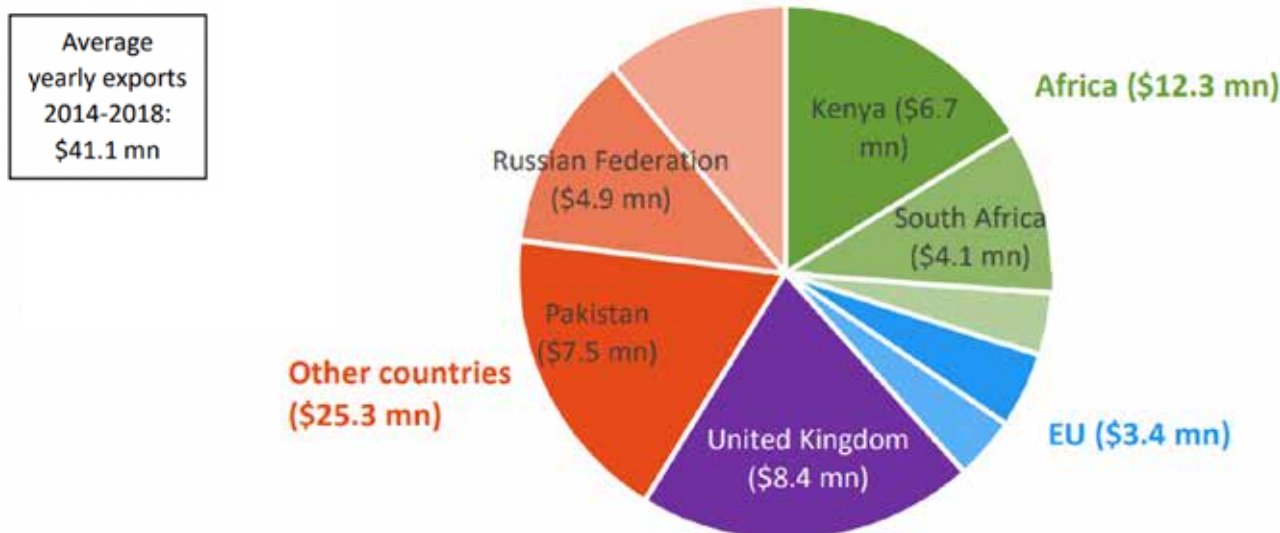


Figure 3.3 Tanzania's tea export destination, 2014 – 2018 average - Markup, EU-EAC Market Access Upgrade Programme, Tanzania's trade in times of COVID-19, [https://umbraco.exportpotential.intracen.org/media/1187/tza\\_brief\\_revised-draft\\_no-watermark.pdf](https://umbraco.exportpotential.intracen.org/media/1187/tza_brief_revised-draft_no-watermark.pdf)

Indeed, volumes traded are quite limited, in the range of 35,000 tons in 2019, most of which is sold through the Mombasa auction. Due to the closure of the Kenyan borders in 2020 during the COVID-19 crisis, the Government of Tanzania set up and successfully tested a tea online auction system based at the Tanzania Mercantile Exchange. The system will soon be officially adopted and enforced.

One of Tanzania's leading tea exporters is the family-owned company Kimamgi Farms, located in Morogoro and owned by German nationals. The farm produces a range of products, including hibiscus tea and lemongrass tea. Additionally, Unilever Tea Tanzania Limited is based in Iringa where it employs 80 people and reports annual revenue of US\$13m.

## Coffee

The vast majority of coffee grown in Tanzania is exported. Japan represents the largest market for Arabica whilst the EU is the largest consumer of Tanzanian Robusta. Despite the global logistical challenges during the COVID-19 pandemic, Tanzania's coffee sector remained largely unaffected, reflecting coffee's economic resilience as a commodity. Furthermore, Tanzania's coffee exports are predicted to rise continuously over

the coming years. By 2024, projections suggest that exports will climb to USD 287m – only 0.3% less than the value expected based on pre-pandemic GDP forecasts.<sup>55</sup>

The smallholder-produced coffee supply chain within Tanzania is tightly structured. Producing the overwhelming bulk of all Tanzanian coffee, these smallholders send coffee to the local co-operative for aggregation before further transport for centralised auction. Buyers are unable to purchase coffee directly from smallholders, but the auction system generally ensures competitive pricing for buyers.

Whilst the centralised auction model does have its advantages, there are several intrinsic issues that hold back the development of the supply-chain and cause system-wide inefficiencies. Internal logistics from field to market are often extremely slow. Coffee harvested in June becomes available at auction in late August. As a perishable commodity, the quality of the product is diminished, realising lower prices. Farmers are paid for their harvest after the final product is sold in a single lump sum, creating considerable liquidity issues amongst growers, resulting in an inability to purchase inputs to increase yield and quality. Furthermore, 99% of the coffee exported from Tanzania is shipped

<sup>55</sup> International Trade Centre, April 2021



as a raw agricultural product in green bean form.<sup>56</sup> With processed coffee commanding a considerable mark-up, this represents a potential opportunity for foreign investment.

Responses from buyers representing the five major players involved in the international coffee trade have suggested that the control exercised over the coffee-supply chain in Tanzania results in less upstream foreign direct investment. Currently limited to the role of simply buying at auction, multinational corporations are largely disenfranchised at all other levels. Whilst much work has been carried out in terms of best practice-based education by NGOs, private entities will remain unwilling to invest at smallholder level via extension farming services and infrastructure development due to negligible returns on investment. Any potential moves toward a free-market model would encourage a closer relationship between growers and buyers, providing the capital needed for whole-scale change in the sub-sector.

Respondents also noted that exports require multiple certifications from a wide range of agencies. Whilst by no means exclusive to the subsector, the challenge to operations is keenly felt in an industry constructed around export. Notably, there have been no new entities making investments in the subsector in the past seven years. The sector has existing investment from a number of Swiss-headquartered companies including Tropical Farm Management (T) Ltd and Louis Dreyfus Commodities Tanzania Ltd.

## Forestry

In the late 1990s, a shift in supply trends towards wood originating from plantation grown softwoods (predominantly eucalyptus, pine, and wattle species) established a precedent for long-term forestry projects.<sup>57</sup> Currently, privately and government-owned tree plantations remain a major source of lumber for domestic consumption, however, the emergence of small-holder plantations has created a major source of revenue, particularly in the Southern Highlands region.<sup>58</sup>

Commercial forestry in Tanzania is similarly centred around the southern highlands, with major players including Norwegian Green Resources, Mufindi Paper Mills, New Forest, Tanganyika Wattle Company (TanWat), and the Kilombero Valley Teak Company.<sup>59</sup>

Recent developments in the sector include the launch of a government initiative for engineered wood products, local procurement policies, and the introduction of Chinese plywood mills. Despite highly favourable growing conditions for commercially important species, the forestry industry in Tanzania has stagnated in recent years. The Government's decision to levy VAT on raw timber - often backdated - has vastly reduced margins. The decision has been appealed by commercial and smallholder growing groups, but so far to no avail. The domestic market for lumber has also become less competitive in the last three years due to less demand and a general oversupply, causing wholesale prices to drop considerably.

## Dairy

Tanzania is currently a net importer of dairy products despite having the second largest total number of cattle in Africa. The demand for milk is projected to rise at 3.5% annually, in line with trends seen in other developing countries. 70% of the domestic market is serviced by traditional dairy, often in the form of raw (i.e. unpasteurised) milk. Imports account for roughly 3% of the market.<sup>60</sup> With a rising demand for milk, dairy presents opportunities for commercial operations, but certain important issues need to be addressed.

The increasing prevalence of cattle breeds of improved dairy potential provides a clear pathway towards farmers producing sufficient supply to service existing commercial operations. However, lack of access to artificial insemination techniques and high animal mortality rates (often as a result of cross contamination with unvaccinated local cattle herds) have hindered the spread of these higher-cost breeds. Lack of suitable medication due to exhaustive licensing processes, coupled with a lack of sector-specific veterinarians, means that these losses are considerably higher than

<sup>56</sup> Tanzania's trade in times of COVID-19, International Trade Centre, December 2020

<sup>57</sup> Sustainability of sawn timber supply in Tanzania, Wells J, Wall D (2005)

<sup>58</sup> Forestry Development Trust, 2017

<sup>59</sup> Timber Market Dynamics in Tanzania and in Key Export Markets. Ministry of Natural Resources and Tourism, Tanzania, 2011

<sup>60</sup> Dairy Products in Tanzania 2020-2025, Mordor Intelligence

expected.<sup>61</sup> Investment into training of veterinarians and access to the necessary medication, including vaccinations, would work to assist in this challenge.

The strong seasonal rainfall patterns prevalent across Tanzania create periods where milk production drops during lengthy dry seasons<sup>62</sup>. Seasonal supply shortages are a major obstacle to creating robust value chains, and while there are solutions such as planting drought resistant fodder crops, appropriate seed varieties are not yet commercially available in Tanzania, due in part to the lengthy regulatory procedures that surround the introduction of new seeds. Access to information, highlighting appropriate use cases to the relevant stakeholders and a successful lobbying campaign could help assist with this.

The most advanced operation in Tanzania is Tanga-Fresh, jointly owned by a Dutch investment company and the Tanga Dairy Cooperative Union. Tanga Fresh has capacity to process 120,000 litres of milk per day, but often produces far less due to inherent supply issues. In February 2020, farmers managed to supply 50,000

The dairy industry provides a compelling case for investment across the agriculture sector as a whole with massive possibilities for growth and demand rising for quality domestic product. However, streamlining of regulatory procedures would enable the sector to reach its full potential.

## Sugar

The sugar industry has been bolstered over the last five years by the Government's determination to protect domestic producers from ad hoc tariff-free imports that previously blighted the sector. Legislation passed in 2020 further demonstrated the Government's willingness to address these issues, introducing a raft of protectionist regulations concerning the import and distribution of sugar.<sup>64</sup> Reflecting the confidence engendered by this, Kilombero Sugar Company, Tanzania's largest single producer, is in the process of extending its operating area by over 10,000ha with an aim of doubling production to 265,000 tonnes per year.<sup>65</sup>

Investors have been further buoyed with the release to market of six new varieties of sugarcane for cultivation, including high yield and drought resistant varieties. The country currently produces 470,000 tonnes of sugar a year as a whole, with the stated aim of producing 700,000 tonnes annually by 2024 - 2025. The market demand for sugar, for household and industrial usage combined, stands at 710,000 tonnes as of 2019.<sup>66</sup> In April 2020, the TIC issued a notice inviting domestic and foreign investors to develop sugarcane and sugar processing plantations due to the sugar demand gap in the country, presenting an opportunity for further investment in the sector.

## Fisheries

In view of the enhanced focus upon the blue economy of Tanzania, and particularly Zanzibar, the fisheries sector is very much in the spotlight. Fisheries produce an estimated 400,000 tonnes per year, of which over 75% comes from freshwater sources. Mainland Tanzania produces 336,821 tonnes of fish annually against a demand of 731,000 tonnes. With an estimated

**Milk volume**  
**1,000,000 lts/m**

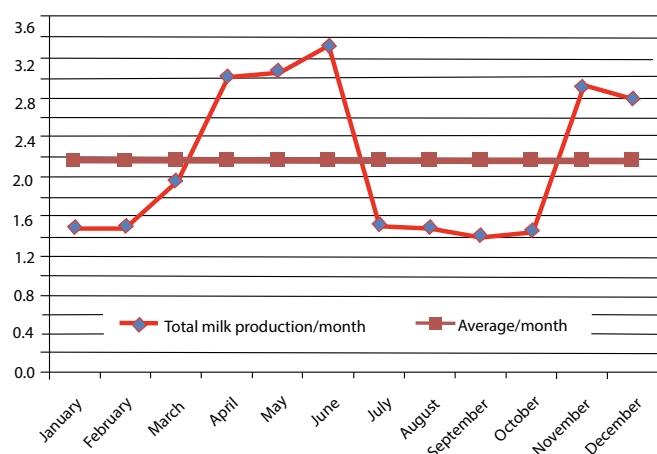


Figure 3.4; Seasonal fluctuation of milk production in Mara region (2010; based on Kurwijila et al., 2012)

<sup>61</sup> Risk factors for smallholder dairy cattle mortality in Tanzania, South African Veterinary Association, December 2010

<sup>62</sup> Dairy production in Tanzania, CSIRO, 2020

<sup>63</sup> Dairy Products in Tanzania 2020-2025, Mordor Intelligence

<sup>64</sup> Clyde and Co, 2020

<sup>65</sup> Why sugar output is set to rise by 33%, The Citizen, <https://www.thecitizen.co.tz/tanzania/news/business/why-sugar-output-is-set-to-rise-by-33-per-cent>

<sup>66</sup> Tanzania imports 25,000 tonnes of sugar to offset shortage: minister, Xinhua, [http://www.xinhuanet.com/english/2020-05/13/c\\_139051520.htm](http://www.xinhuanet.com/english/2020-05/13/c_139051520.htm)

production potential of over 3m tonnes per year, there is high potential for expansion of commercial fishing operations.<sup>67</sup>

Recognising the vast untapped potential of the fisheries sector, the Government has introduced several legislative changes during the last five years. In 2020, the Government of Zanzibar created a new Ministry for Blue Economy and Fisheries. The Tanzanian Fisheries Research Institute was created in 2016, designed to ensure policy decisions pertaining to fisheries are based on current scientific principles. Furthermore, the Deep-Sea Fisheries Management and Development Act No. 5 of 2020 introduces a robust framework for both the protection and commercial exploration of Tanzania's Exclusive Economic Zone (EEZ).<sup>68</sup>

The blueprint for development of the sector as envisioned by the Government is laid out in the Agriculture and Fisheries Development Plan (AFDP), which is part of the wider ranging Agricultural Sector Development Strategy II (ASDS II 2015 – 2016 – 2024 - 2025). It explores the procurement of eight offshore fishing vessels, increased investment in cold-chain solutions and, with regard to the development of the aquaculture sub-sector, creation of fish-feed mills.

Tanzania has developed the EEZ Fisheries Research Agenda 2018 - 2027 to guide research that will support development and management of tuna and tuna-like fisheries in Tanzanian waters. The agenda includes a number of research areas, namely biological research of tuna, environmental research, fishery related research, stock assessment, business planning, social and economic research as well as monitoring, control, and surveillance.

Tanzania does not have a bilateral agreement with the EU, with no EU investors taking up licences in the period 2016-2020. After a 2013 expression of interest, an evaluation was prepared in 2014 to assess if there was benefit and value in progressing with negotiations. Although the evaluation was positive, there has been no formal negotiation request to the European Union to date.<sup>69</sup>

Between 2015 and 2018 there has been a considerable

rise in the exports of shellfish to the Far East. Rising from a near negligible USD 109,000 to over USD 9m in three years, the sector is well positioned to continue this rapid growth.<sup>70</sup>

Usually practised as part of a substance farming model, there are an estimated 24,000 fish farms spread across the Tanzanian mainland. However, these are often extremely small-scale; aquaculture provides only 0.435% of the average annual fish landings. Since 2014, increasing numbers of commercial operators have developed sites in Tanzania, but these remain outliers. Despite the nascency of the sector, there are clear opportunities for further development with potential to benefit both the economy and the environment. The Government actively encourages interest in the sector with a three-year tax-free period for investors in commercial aquaculture through the National Investment Centre (NIC). Reported difficulties surround availability of suitable and approved fingerlings as well as high-protein feed supply issues.<sup>71</sup> Figure 3.5 highlights the growth in fish ponds in Tanzania.

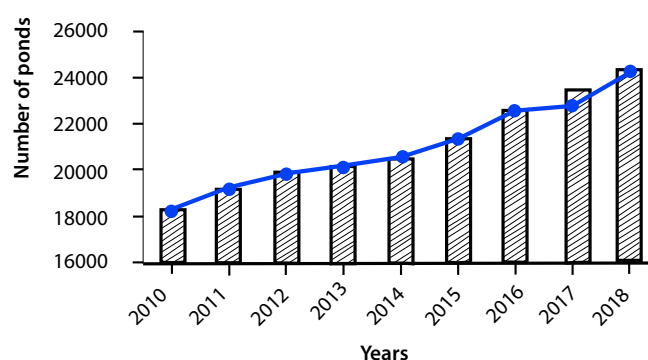


Figure 3.5 Number of aquaculture ponds - (Aquaculture and Fisheries, Fish-ponds in Tanzania, Volume 6, Issue 3, May 2021)

Tanzania has a coastline of 1,424 km and several major island chains, incorporating both the Zanzibar and Mafia archipelagos. Just over a third of Tanzania's marine harvest is produced from Zanzibar, owing to the Isles' favourable location near rich fishing grounds. Despite the majority of the sector activity being conducted in extremely small-scale operations, coastal fishing is nearly exclusively commercial in nature. Fish are generally sold within 20km of where they were caught, reflective of the lack of cold storage options available.<sup>72</sup>

<sup>67</sup> Scoping study of the Coastal fisheries in Tanzania, Linton J, 2021

<sup>68</sup> FAO

<sup>69</sup> The status and future of sustainable partnership agreements in the South West Indian Ocean, WWF, Nov 2019

<sup>70</sup> Trend Economy data

<sup>71</sup> FAO

<sup>72</sup> Aquaculture and Fisheries, Fish-ponds in Tanzania, Volume 6, Issue 3, May 2021

Factory fishing vessels can be licensed for operation within the Tanzanian EEZ, and EU-registered vessels from Spain were, until 2016, regular visitors. Tanzania licensed up to 27 EU vessels to fish before 2016, and one vessel obtained a licence in 2017, but reportedly did not fish in Tanzanian waters. As of November 2019, no EU vessel owners had taken licences, due in large part to exhaustive local licensing conditions.<sup>73</sup>

Lake Victoria is the single largest source of fish in Tanzania, and the single most productive freshwater fishery in the world.<sup>74</sup> Fish stocks in the lake have steadily declined since the 1980s, and over 2000 new fishing vessels are registered annually. In 2017, Tanzania strengthened its legislation around fishery protection, creating a multi-sector task-force in an attempt to protect the lake's resources. Generally unpopular, the task-force conducted operations against illegal fishing activities, including the seizure of non-compliant fishing equipment and the destruction of non-registered boats.<sup>75</sup> It remains to be seen what effect this has had on the resource, however, the fishery total catch for 2018 - 2019 was the largest since 2010, reversing a near decade of decline.<sup>76</sup>

## Agro-inputs

Perhaps the single largest barrier to agricultural development in Tanzania remains the low usage rates of agro-inputs. The use of fertiliser in Tanzania remains well below the recommended rates, contributing to comparatively poor crop yields. In 2018, Tanzanian farmers used an average of 15.8kg of fertiliser/ha on arable land, far below the global average of 199.6 kg/ha. High prices inhibit access to fertilisers by small scale farmers, and represents a key factor in stubborn poverty rates in the country. Breaking this cycle through investment could lead to significant increases in yields. The Government has been assisting, noting that in 2017 the Ministry of Agriculture introduced the fertilizer bulk procurement system (FBPS). This system is designed to increase availability and lower the farm-gate cost of fertiliser across Tanzania. Further regulatory approval requirements were reduced in an effort to cut red tape in the procurement process, cutting the procedure from three growing seasons of testing to one. The system has seen tentative signs of success, showing increased usage of fertiliser in the years after implementation. Figure 3.6 highlights fertiliser use in Tanzania, Kg/ha.



Figure 3.6 Fertilize usage, Kg/ha, 1961 – 2015 - World Bank, 2021

<sup>73</sup> The status and future of sustainable partnership agreements in the South West Indian Ocean, WWF, Nov 2019

<sup>74</sup> Lake Victoria, Experience and Lessons Learnt, Kayombo S, Jorgensen S, 2016

<sup>75</sup> Reviving Lake Victoria by Restoring Livelihoods, World Bank Group, February 2016

<sup>76</sup> Status and targets for rebuilding the three major fish stocks in Lake Victoria, National Fisheries Resource Research Institute, Uganda, October 2020



A further challenge to the use of fertilisers is their perceived quality. There is considerable mistrust of the quality and authenticity of available fertiliser; this seems to be an enduring cultural perception rather than a reflection of reality; a 2021 analysis of available fertiliser in the Morogoro region showed that the vast majority of products were up to market compositional standards.

Commercial farms are largely unaffected by this lack of availability, having the purchasing power to buy direct in bulk from the manufacturer. However, the regulatory framework that exists around the import and usage of fertiliser remains a significant barrier to flexibility.

Domestic fertiliser production is dominated by Norway's Yara with a market share of nearly 50%, providing both imported and domestically manufactured products from its USD 20m plant situated in Dar es Salaam. Yara is one of the largest agri-businesses in Tanzania and was a key player in the conceptualisation and implementation of the SAGCOT program, demonstrating the ability of large multinationals to withstand the business challenges inherent to Tanzania.

## Seed

Genetically modified organisms (GMOs) are still banned outright for general use in the country and remain limited to technical trial plots for government study despite their potential to mitigate the effects of climatic change and pest issues for Tanzanian farmers.

Regulatory oversight is carried out by both the Tanzanian Official Seed Certification Institute (TOSCI) and the Agricultural Seed Agency (ASA) and governed by the Seed Act 18 and the Plant Breeders' Rights Act, both of 2003. In the 2020/21 budget, 12 new seed farms were earmarked for operation by the ASA in order to further promote availability of modern seed stock.<sup>77</sup>

TOSCI has faced criticism in the past for excessive red tape around the procedure for official acceptance of new varieties, and the necessary multi-agency approvals have created an environment hampering sector growth. Additionally, challenges accessing biological agents make it difficult to produce organic products. Furthermore, the imported seed varieties must still undergo protracted evaluation processes, denying consumers and businesses the flexibility necessary to react to macro-scale climatic conditions.

Investment from Dutch companies, including Enza Zaden, which produces hybrid seeds for melons, cucumbers and tomatoes as well as Rijk Zwaan are noticeable examples of EU investment in the subsector. Streamlining this process would open up further opportunities for international players.

## EU investment in Tanzania's agriculture sector

EU investors are present throughout the supply chain from the manufacture of inputs through commercial growers and breeders to buyers, processors, and transporters. EU investment in Tanzania has traditionally been characterised by large-scale, sector-leading businesses. Both Dutch Dekker Chrysanten Tanzanian Limited and Sao Hill Industries Limited (with major ownership stakes from Norwegian Norfund and Finnish Finnfund) are classified by the TRA as large taxpayers in Tanzania.

Dutch investment has been a feature of the Tanzanian agricultural landscape since the 1970s. Specialising in floriculture, horticulture and dairy, Dutch investment has been notable for creating some of the most successful and long-lived agri-businesses in the country, such as Tanga Fresh Ltd who buy milk from over 5,000 smallholder farmers, privately owned Mount Meru Flowers that was formed in 2004 with over 500 employees, Dekker Bruins Tanzania, Enza Zaden and Rijk Zwaan Afrisem. This agglomeration of Dutch enterprises in the country's north represents the largest commercial agricultural cluster in the country.

There have been 13 new TIC registered entrants to the market since 2016, bringing USD 26.67m worth of investment and initially creating 969 jobs.<sup>78</sup> However, USD 23m of that figure was invested into Ndolela African Plantations Ltd, a commercial cropping farm in the southern highlands under the auspices of Silverlands Tanzania. The drop in FDIs for agricultural projects is reflective of the increasingly difficult business climate with foreign entities increasingly unwilling to invest in the sector.

<sup>77</sup> Cashew growers upbeat over new seed varieties, The Citizen, April 2021

<sup>78</sup> TIC Data

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## CASE STUDY 1: SILVERLANDS NDOLELA

Silverlands Ndolela, previously Ndolela African Plantations Ltd, represents the single largest EU investment in agriculture in Tanzania in the last five years. A large-scale cropping project, Ndolela produces high quality seed, grains and soya as well as planting considerable quantities of export-quality avocado varieties. With 2,300ha of land under irrigation, Silverlands Ndolela represents a modern agri-business and is the largest grower of hybrid seed maize, seed potatoes and seed beans in Tanzania. It is the first producer of hybrid sunflower seed in Tanzania, with two varieties registered with authorities. Domestic availability of these varieties has been a boon for small-holders, retailing at USD 6.50/kg – nearly half the price of the previously imported seed.<sup>79</sup>

In 2017, Silverlands Ndolela upgraded the existing 80KW hydroelectric plant to produce 800KW. The hydro-generated electricity powers the farm's irrigation pumps, houses, and offices.

Employing 649 staff in 2020, Silverlands Ndolela has a wide range of indirect impacts upon the community. Local bee-keepers have benefitted from the rental of hives for pollination processes while local shop-keepers have seen increased spending power from the workforce translate into larger incomes. In total, an estimated 128,000 people have benefitted economically from the project,<sup>80</sup> demonstrating the transformative power of FDI.

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<sup>79</sup> Silver Street Capital, 2020 Annual Impact and ESG Report The Silverlands Funds, <https://static1.squarespace.com/static/5ce287fec731b0001047515/t/602fca714425a376f204a30c/1613744781707/Annual+Impact+and+ESG+Report+2020.pdf>

<sup>80</sup> <https://www.silverstreetcapital.com/tanzanian-cropping>

## BANKING & FINANCE

### Sector outlook

#### Banking sector

Tanzania's banking and finance sector has increased in vibrancy since it was liberalised in the 1990s. A period of hasty investment, however, led to saturation of players in the banking and insurance markets. With consolidation and further market regulation, however, this has dissipated to some extent. The banking and associated services sector continues to offer opportunities for investment. The range of offering is from the more traditional banking and financial services through to digitising Tanzania's banking and ancillary services. Many of these initiatives are increasingly going hand in hand with the country's mobile money sector (covered in more detail in the ICT chapter).

The need to grow and mature Tanzania's banking and financial services sector is referenced multiple times in the country's Five-Year Development Plan III (FYDP III) with commitments made to support the

country's capital markets, advocate for greater competition in the banking system, and minimise constraints for those wanting to access credit. Investment opportunities that sit within the current regulations and enhance these policy objectives are likely to be well received.

According to Tanzania Invest, the country's five largest banks – CRDB whose major shareholder includes Danish Investment Fund, NMB with a significant ownership stake held by Arise BV of the Netherlands & Norway, NBC 34.9% owned by Arise B.V, Stanbic, and Standard Chartered - dominate the banking sector, accounting for 55% of total assets. This is in large part assisted by a broad customer base, but also wide-reaching access to branches vis-à-vis their competitors. However, access to branches outside of the main cities still remains a problem for enticing people into the formal banking space. Whilst branch numbers have increased between 2015 – 2019, over 30% of branches are currently located in Dar es Salaam. Figure 4.1 shows branch distribution across the country.

Regions	Number of Branches					Share in 2019 (Percent)
	2015	2016	2017	2018	2019	
Dar Es Salaam	263	273	277	286	290	30.30
Arusha	51	57	56	61	68	7.11
Mwanza	49	58	57	65	67	7.00
Moshi	33	37	39	40	46	4.81
Dodoma	27	29	32	39	41	4.28
Others	305	356	360	387	445	46.50
<b>Total</b>	<b>728</b>	<b>810</b>	<b>821</b>	<b>878</b>	<b>957</b>	<b>100.00</b>

Figure 4.1 Commercial bank branches distribution, 2015 – 2019 - Tanzania Invest, Tanzania Banking Sector Report – 2021 Analysis Update, <https://www.tanzaniainvest.com/finance/banking/tanzania-banking-sector-report>

## Commercial loans distribution across sectors, 2015 – 2019

	%	%	%	%	%
	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19
Agriculture, fishing, hunting and forestry	8.05	7.26	7.30	7.16	9.64
Building , construction and real estate	9.10	9.50	10.06	8.07	10.88
Education, health and other services	12.88	13.47	13.64	8.36	5.61
Electricity, gas and water	5.02	5.40	3.70	4.14	2.95
Financial intermediaries	2.61	2.36	1.79	0.98	0.98
Leasing	0.01	0.03	0.06	0.05	0.03
Manufacturing	10.77	9.91	10.72	11.78	9.89
Mining	1.65	1.92	1.71	2.16	2.18
Personal loans	17.80	17.99	20.33	29.54	29.04
Tourism, hotel and restaurants	4.50	4.44	4.50	3.98	2.98
Trade	19.78	20.58	20.22	18.46	16.15
Transport & communication	7.41	7.04	5.88	5.18	5.10
Warehousing and storage	0.13	0.10	0.09	0.14	0.07

Figure 4.2 Commercial loans distribution across sectors, 2015 – 2019 - Tanzania Invest, Tanzania Banking Sector Report – 2021 Analysis Update, <https://www.tanzaniainvest.com/finance/banking/tanzania-banking-sector-report>

The sector has fared relatively well compared to other markets during the COVID-19 pandemic, in large part due to the Government's decision to continue operating on a business-as-usual basis. The rate of non-performing loans (NPL) stood at 8.0% in October 2021 which, although higher than the desirable rate of 5%, is a decrease from 9.3% of December 2020 and even more so from a high of 10.8% in June 2018. Banks such as Stanbic Bank Tanzania worked to proactively assist their customers during the pandemic by offering debt relief, including the option of a 3 – 6-month re-payment pause. Debt remains concentrated among personal loans and trade, with personal loans increasing as a percentage of loans between 2015 – 2019, as highlighted in Figure 4.2.

The microfinance sector has also seen significant expansion via savings and credit cooperative organisations (SACCOS). Tanzania also has five Village Community Banks (VICOBAs), and two microfinance banks. This subsector of banking, along with mobile money technology and ancillary services, will further assist in broadening financial inclusion. Growth in the market has been in part facilitated by the enactment of the Tanzania Microfinance Act, of 2018, which governs the niche and very price sensitive sub-sector of the banking market. Where international banks have at times struggled with fulfilling their know your customer (KYC) checks, microfinance institutions have been able to step in and assist in broadening access to finance for those in the informal and semi-formal economy. As an industry source noted, "if a Maasai has 200 cows he is rich, but Absa Bank's KYC isn't equipped to take that into account

to help him get a loan." Further growth in microfinance institutions and ancillary banking and mobile money services is anticipated for the foreseeable future and represents an opportunity for investment, so long as the regulatory environment remains broadly conducive and prioritises financial inclusion over short term tax collection.

Whilst banks have moved towards mobile banking and internet banking, the sector is still largely governed by regulations that require paper-based records. Current regulations dictate that after a customer ends a relationship with a bank, the bank is required to keep their physical documents on file for 10 years. Additionally, paper transaction records are required to be kept by the bank for 10 years after the completion of the transaction. There has, however, been work within the banks to digitise, with Absa, for example, working with South African company Sybrin Systems to go paperless in their branches. If regulatory change allows for it, the move from paper-based records to online record keeping could present significant opportunities for well-placed investors.

## Equity market

The Dar es Salaam Stock Exchange (DSE) was incorporated in 1996 and commenced operations in 1998. The exchange is regulated by the Capital Markets and Securities Authority (CMSA). The DSE currently has 29 listed entities with almost half of those in the banking and finance sectors.



The DSE continues to be highly concentrated and relatively illiquid. The dominance of a handful of companies, East African Breweries Limited, Tanzania Breweries Limited, Kenya Commercial Bank (KCB), NMB Bank Plc, Tanzania Cigarette Company and Vodacom Tanzania Plc, means that the market can swing with a high degree of volatility. There is not a high uptake or interest in investing in the DSE among Tanzanian nationals, which is due to a number of factors including; the DSE being a relatively new exchange by global standards, limited disposable income, lack of financial literacy, and a preference among many Tanzanians to invest in land and assets which are viewed as more tangible.

In recent years however, the DSE has made progress in growing and maturing. The 2017 listing of Vodacom, the first and to date only telecommunications company to list on the exchange was significant. The DSE was modernised significantly with the 2020 launching of the DSE Hisa Kiganjani – Mobile Trading Platform, that allows for trades to take place via a mobile app or USSD code. Progress has also been made in recent years in encouraging participation of small and medium-sized enterprises (SME) in the equity markets. In 2019, the DSE Enterprise Acceleration Program was launched, providing six-month training programmes to SMEs, linking them with sources of funding opportunities and providing support for capital raisings.

Government intervention in the market has, however, been noticeable, largely in the form of mandatory listings. The 2016 Finance Act mandated that all telecommunications providers list 25% of their business on the DSE by year end. After successful lobbying campaigns this edict was significantly softened, however it acted in part as the catalyst for Vodacom's 2017 listing. Additionally, all holders of special mining licenses (SML) are required to list 30% of their business on the DSE. However, with many mining and exploration companies lacking brand awareness (and the sector more broadly having somewhat of a perception issue) and with those companies not yet in production likely unable to pay dividends for the foreseeable future, this caused significant challenges. Again, this has since been modified with companies able to arrange alternative revenue sharing arrangements with the Government in lieu of listing. Nevertheless, these strongly worded

edicts which perhaps do not take into account the array of commercial considerations, continue to see investors wary of regulatory uncertainty across key sectors in Tanzania.

The announcement by President Samia Suluhu Hassan in June 2021 that Tanzania should open itself up to cryptocurrencies and blockchain technology may also see significant developments in the banking and financial services sectors in the years to come.<sup>81</sup>

## Insurance industry

Tanzania's insurance sector was liberalised in 1996 and saw a remarkable expansion between 2010 – 2015. This, however, resulted in a saturated market, and one that had seen increased government intervention in recent years. There are currently 30 insurance companies, one re-insurance company, and 109 insurance brokers registered in Tanzania. In the micro-insurance space, Swedish BIMA is a growing force in the market. Approximately two-thirds of insurance transactions are conducted through brokers, highlighting the importance of the sub-sector. The country's one reinsurance firm is Tanzania Reinsurance Company (TAN-RE).<sup>82</sup> EU investors, and foreign investors more broadly, tend to opt for the larger insurance providers when assessing what is a saturated market.

The nature of the saturated insurance market has seen undercutting become a problem, whereby insurance providers race to the bottom to secure market share by providing incredibly cheap insurance premiums, however this leaves them without the capacity to cover potential claims or invest in their companies. This was rectified with the Insurance (Minimum Rates) Regulations, 2018 that imposed a minimum rating order on the sector aimed at minimising undercutting. Progress on this will help to ensure that insurance companies have the financial capacity to re-invest in their businesses and their staff.

The dominant players in the market include Jubilee Insurance, Alliance, Heritage and the Government-owned National Insurance Company (NIC).<sup>83</sup> Figure 4.3 provides an overview of 2018 turnover and market share of the insurance companies operating in Tanzania, note that this does not include the life-insurance sub-sector of the market which is dominated by Sanlam

<sup>81</sup> Business Daily, Tanzanian President Samia Suluhu signals interest in Bitcoin, <https://www.businessdailyafrica.com/bd/news/east-africa/tanzania/tanzania-samia-suluhu-roots-for-cryptocurrency-3436946>

<sup>82</sup> Atlas Magazine, Tanzania's insurance agency in 2018: ranking of companies and turnover per class of business

<sup>83</sup> Note that significant player AAR announced in 2021 that it is withdrawing from the Tanzanian market

Figures in thousands

Company	2018 turnover		2017 turnover		2017-2018 evolution (1)	2018 market share
	In TZS	In USD	In TZS	In USD		
Jubilee	90 681 000	38 992.83	80 870 000	35 582.80	12.10%	13.10%
Alliance	63 032 000	27 103.76	57 185 000	25 161.40	10.20%	9.10%
NIC	45 124 000	19 403.32	43 513 000	19 145.72	3.70%	6.50%
AAR	43 522 000	18 714.46	46 149 000	20 305.56	-5.70%	6.30%
Heritage	43 041 000	18 507.63	35 780 000	15 743.20	20.30%	6.20%
Strategis	42 554 000	18 298.22	38 992 000	17 156.48	9.10%	6.20%
Phoenix	25 739 000	11 067.77	21 508 000	9 463.52	19.70%	3.70%
Britam	24 105 000	10 365.15	22 548 000	9 921.12	6.90%	3.50%
UAP	21 741 000	9 348.63	27 930 000	12 289.20	-22.20%	3.10%
ZIC	21 188 000	9 110.84	19 778 000	8 702.32	7.10%	3.10%
Reliance	19 914 000	8 563.02	18 920 000	8 324.80	5.30%	2.90%
Mayfair	19 434 000	8 356.62	14 303 000	6 293.32	35.90%	2.80%
Sanlam General	17 910 000	7 701.30	20 213 000	8 893.72	-11.40%	2.60%
Bumaco	14 025 000	6 030.75	11 359 000	4 997.96	23.50%	2.00%
Resolution	13 411 000	5 766.73	13 079 000	5 754.76	2.50%	1.90%
Metropolitan	13 263 000	5 703.09	7 817 000	3 439.48	69.70%	1.90%
Tanzindia	12 651 000	5 439.93	14 307 000	6 295.08	-11.60%	1.80%
Maxinsure	10 605 000	4 560.15	12 089 000	5 319.16	-12.30%	1.50%
IGT	10 280 000	4 420.40	12 439 000	5 473.16	-17.40%	1.50%
MO	7 978 000	3 430.54	5 962 000	2 623.28	33.80%	1.20%
ICEA Lion	7 408 000	3 185.44	7 521 000	3 309.24	-1.50%	1.10%
Mgen	5 863 000	2 521.09	9 063 000	3 987.72	-35.30%	0.90%
GA	5 296 000	2 277.28	6 036 000	2 655.84	-12.30%	0.80%
First	5 080 000	2 184.40	4 356 000	1 916.64	16.60%	0.70%
Milembe	2 277 000	979.11	2 388 000	1 050.72	-4.60%	0.30%
Star General	1 509 000	648.87	2 193 000	964.92	-31.20%	0.20%

Figure 4.3 Turnover and market share of the insurance companies operating in Tanzania, 2018 - Atlas Magazine, Tanzania's insurance agency in 2018: ranking of companies and turnover per class of business

Life. Despite recent growth in the life insurance market, non-life insurance makes up approximately 85% of the market.

The 2020 decision to allow for bancassurance has seen a number of banks enter the insurance market, including NMB Bank, National Bank of Commerce (NBC), Absa and Diamond Trust Bank (DTB). This is a sector that is anticipated to grow. There is also a growing micro-

insurance sub-sector with Jubilee and TanManagement veering into the micro space with premiums delivered via scratch card vouchers purchasable via mobile money.

Despite the saturation of players, insurance penetration remains incredibly low. According to Tanzania Invest, whilst penetration (defined as insurance premium as a percentage of GDP) stood at 0.54%, in 2017, it actually

decreased to 0.53% in 2018.<sup>84</sup> Lack of disposable income and a lack of financial literacy contribute to this low uptake.

## Sector profile

### Policy context

The key regulator of the banking and finance sector is the Bank of Tanzania (BoT). Other key regulators include, but are not limited to, the TRA for taxation, the Tanzania Communications Regulatory Authority (TCRA) around mobile money, the Tanzania Insurance Regulatory Authority (TIRA) and the CMSA. The peak industry body for the banking sector is the Tanzania Bankers Association (TBA), with a membership base of 44 organisations, the TBA acts as the common voice on matters impacting the banking sector, whether those be political, regulatory or market focused. The TBA advocates on behalf of its membership for a better investment landscape and also for higher rates of financial inclusion in the country. The banking sector has been subject to numerous regulatory changes in recent years, largely focused on increasing the Government's ability to monitor the activities of banks and centrally stabilise the economy.

### Cyber security

Multiple circulars, culminating in the most recent 2019 circular from the BoT mandated that all banks move their primary or secondary data centres onshore to Tanzania. This directive is both expensive to implement and not common practice globally. Banks tend to scatter their data centres around the world, to minimise risks to business continuity and also to ensure that the centres are located in varying time zones. Nevertheless, non-compliance to the circular attracts a fine of TZS 5b and a further TZS 500m, for each additional month a bank is not compliant two years after the issuance of the circular. It seems there are two banks that have been fined for non-compliance.

### Non-performing loans

Despite relatively stable rates of Non-performing loans (NPLs), even throughout the pandemic, in January 2021, the BoT issued a circular to address banks' ratios of cost to income and non-performing loans. The circular stated

that if "a bank or financial institution with either cost to income ratio of above prescribed acceptable limited of 55 percent or the non-performing loans ratio above the acceptable limit of 5 percent, is restricted from paying dividends and bonuses, effective from date of this Circular."<sup>85</sup> The circular came as a surprise to many in the sector, due in large part to the decision to issue the circular in the middle of a global pandemic when economic and business realities were almost certain to see NPLs increase over the short to mid-term. With banks making up a significant portion of companies listed on the DSE, failure to pay dividends may also diminish investor appetite in the capital markets. In further attempts to combat this challenge, the BoT issued a circular in November 2021 committing to investigate if employees in the banking sector are contributing to high rates of NPLs by issuing inappropriate loans.

### Stabilising foreign exchange

There have been significant changes with regards to the way in which foreign exchange (forex) is managed in-country. In 2018, the BoT conducted a review of the non-bank currency exchange outlets (bureaux de change) operating in Tanzania and determined that they were a likely source of tax evasion, money laundering and were not able to conduct adequate Know Your Customer (KYC) reviews. This resulted in all non-bank bureaux de change being closed. The 2019 Foreign Exchange Regulations further clarified the Government's position on this matter. These regulations allowed for bureaux to regain their licenses, however, they were made to reach minimum capital requirements of TZS 1b, more than three times the previous amount. This has, in turn, from the consumer's end reduced the vibrancy of the forex market; in 2020, there were just 38 bureaux de change in operation in Tanzania.<sup>86</sup>

### Insurance sub-sector regulation

Tanzania's insurance sector is governed by the Insurance Act No.10 2009 and Insurance Regulations (2009) and is regulated by Tanzania Insurance Regulatory Authority (TIRA). Insurance companies and brokerages need to be registered with TIRA. Respondents to the survey noted that the time taken to receive regulatory approval is often in excess of six months. Investors also noted a shortage of skilled insurance brokers, and felt that the approach of the regulatory authority could be more service oriented to reduce delays.

<sup>84</sup> Tanzania Invest, Tanzania Insurance, <https://www.tanzaniainvest.com/finance/insurance>

<sup>85</sup> Bank of Tanzania, Ratios of cost to income and non-performing loans, 22 January 2021

<sup>86</sup> Tanzania Invest, Tanzania Banking Sector Report – 2021 Analysis Update, <https://www.tanzaniainvest.com/finance/banking/tanzania-banking-sector-report>

The sector has seen significant regulatory change in recent years, with a focus on increasing local ownership and government participation. Previously, the regulations stipulated that insurance companies and brokerages must be at least one-third Tanzanian owned. Circular 55, 2017, however, changed this requirement, with brokerages now required to be at least two-thirds Tanzanian owned, a factor that respondents felt deterred foreign investment in the brokerage sub-sector. Another challenge for growing the sector is the Finance Bill 2016 that introduced 18% VAT onto insurance premiums further increasing the cost of coverage.<sup>87</sup>

Tanzania's insurance regulations state that companies registered and operating in, Tanzania must insure in Tanzania, not abroad. Where this is not possible, due to the type of insurance or capacity issues within the market, an insurance broker must collect letters of no objection from all the locally registered insurance companies, a system that although is automated adds a minimum of five working days to the insurance process. However, even once this is achieved the broker must ask the regulator TIRA for a Letter of No Objection, a process that can lead to protracted delays. Only once both of these steps are completed, can a broker go to the international insurance market. The process of involving foreign companies has however increased in complexity in recent years due to a decision by TIRA that any foreign re-insurance companies or foreign re-insurance brokers that want to insure Tanzanian assets pay an annual fee to the local regulator of USD 10,000 and USD 5,000 respectively. This edict deters international re-insurance players from operating in the Tanzanian market, which in turn can lead to issues of capacity.

## EU investment in Tanzania's banking sector

Although British institutions have long been the leading European player in Tanzania's banking sector, significant non-UK investments exist. Examples include CRDB Bank, classified as a large taxpayer by the Tanzania Revenue Authority (TRA), NMB (with a significant ownership stake held by Arise BV of the Netherlands & Norway), NBC (34.9% owned by Arise B.V) has 1,200 staff across the country, 51 branches and over 200 ATMs. French Letshego Bank Tanzania Limited, (formerly known as Advans Bank Tanzania Limited) and Akiba Commercial Bank Plc (ACB) (significant shareholders include

Belgium-based Incofin CVSO, the Dutch Development Bank, and Fonds Européen de Financement Solidaire pour l'Afrique (FEFISOL). Additionally global advisory firm KPMG, with its headquarters in the Netherlands is classified as a large taxpayer by the TRA.

EU companies have also made a significant impact on making banking more accessible for a wider range of Tanzanians via a burgeoning sector of banks and financial institutions targeting the small business sector. French Letshego Bank Tanzania Limited *received a banking license from the BoT in 2010 and provides services targeting the micro and small end of the sector.* Polish POCCO has also invested in Tanzania via Zenka Finance, that provides quick loan assistance over the phone. Swedish owned micro-insurance provider BIMA, is working with mobile money app services such as Tigo Pesa to provide affordable insurance over the phone. The Netherlands' SME Impact Fund helps to provide loans to small and medium-sized agricultural businesses, providing them with working capital and loans to make further investments in their businesses. To date, the fund has given 140 loans reaching 19,000+ smallholder farmers in Tanzania. With an average loan amount of EUR 82, they are catering to a sub-sector of the economy that is seen as un-bankable by many of the larger institutions. The fund is focused on supporting agribusiness across Tanzania's key subsectors including sisal, coffee, cashews and maize. All of these initiatives work in parallel with the Government's commitment to financial inclusion, and the novel modalities of these institutions allow for citizens, who may not fulfil the KYC requirements of the international banks to enter the formal banking sector.

As the sector has developed and modernised, the concept of banking and financial institutions has evolved, now taking on a whole new supply chain that operates in and around the banking, finance, and insurance sectors. In addition to traditional banks, innovative partnerships between banks, insurance companies and mobile network operators have sprung up, and will continue to do so. As the country looks towards cryptocurrencies and blockchain technology, this is likely to only evolve further. This evolution is likely to see increased opportunities for innovative technologies from abroad, including Europe, to enter the market.

<sup>87</sup> There remains however VAT exemption on agricultural crop insurance



## CASE STUDY 2: NMB BANK

NMB was established in 1997 and operates as a full-service commercial bank, encompassing retail, wholesale, and treasury. The bank has a large customer base of over 4 million customers, with over 100,000 being micro and MSE customers. NMB employs close to 3,500 staff. The bank has invested heavily across the country with 226 branches and more than 800 ATMs, with a recent branch re-design and upgrade. Over 65% of NMBs customers are in the rural areas, no doubt helped by the fact that NMB has invested in ensuring that it has interoperability with Vodacom, Tigo, Airtel and Halotel, allowing for customers to deposit and receive cash from over 50,000 access points around the country. Pop-up banking trucks can also be found at various points including airports and shopping malls.

NMB also works with platforms developed by Dutch organisation Simbuka who are seeking to automate technology around loan origination, document warehousing and standardise processes pertaining to the money lending system, from origination, pricing, KYC and risk management. Technology such as this highlights EU investment across the banking value chain, assisting to modernise and broaden access to a wider range of customers.

NMB continues to evolve and in June 2021 signed an agreement with the National Health Insurance Fund to help provide health insurance to farmers in a scheme whereby NMB will pay the farmers' insurance premiums upfront with farmers repaying the funds after the harvest season. As part of this initiative, NMB is working with members of the Agricultural Marketing Co-operative Societies (AMCOS) as an initial trial. Programmes like this demonstrate the bank's willingness to respond to market demands and cater to a broad section of Tanzanians in both rural and urban areas.

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# CONSTRUCTION & REAL ESTATE

## Sector outlook

With the industry well placed to service ambitious Government infrastructure plans, a pipeline of domestic mega-projects will continue to generate ample opportunities across the supply chain. Fears that Tanzania will struggle to attract further funding for these projects have been challenged with a wide range of donor agencies, financial institutions, state actors, and private finance continuing to contribute to the funding matrix.

With major road, airport, rail, and port projects underway the TIC offers bespoke public private partnership options for potential investors in the sector, allowing more favourable terms that would ordinarily exist. There remain clear opportunities throughout the sector value chain, from architects and civil engineers to project management firms, consultancies, and quality assurance agents.

Increasing oversupply of office space, retail space and prime residential units have adversely affected high-end rental prices across the board. Acute demand for low-income housing has seen the industry struggle to provide affordable stock in the numbers required. With the bulk of demand for the relatively unprofitable small-scale retail and low-end housing sectors,<sup>88</sup> the further growth of the Tanzanian middle class will be of critical importance to the sector going forward.

## Sector profile

### Overview

With massive infrastructure development perhaps the defining feature of President John Magufuli's term in

office, the construction industry has enjoyed significant growth throughout the last five years. The industry has, and continues to play, a key role in Tanzania's emergence as a lower-middle-income country.<sup>89</sup>

### Residential sector

With a burgeoning population predicted to reach 120m people by 2050<sup>90</sup> and rapidly increasing urbanisation, Tanzania's formal residential real estate sector is powered by the demand for affordable housing. With 3 of the top 20 fastest growing cities in the world, including Dar es Salaam,<sup>91</sup> the demand is currently estimated to grow at 200,000 units per annum with an existing backlog of over 3,000,000 units presenting significant opportunities for investors and developers.<sup>92</sup> Demand is largely centred around affordable housing. With a market highly sensitive to cost, the sector will continue to target the middle-class, a small but growing socio-economic group. Further growth is likely to be predicated upon Tanzania's ability to add to this group.<sup>93</sup>

Within the prime residential market, the picture is less promising. Increased construction of high-end residential units in Dar es Salaam has led to weakening of demand, reflected in falling residential rental prices. Rental rates for three bed apartments in prime areas of Dar es Salaam fell by an average of 21% between 2017-19 due in large part to an oversupply caused by developers banking on the country's oil and gas sector growing.

The emergence of Dodoma as a market for prime residential properties has been a bright spot with demand rising significantly for high-end accommodation from Government staff and the expatriate community, with mid to high-end rental prices now comparable to those in Dar es Salaam.<sup>94</sup> Opportunities for residential and retail continue to grow in Dodoma. Figure 5.1

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<sup>88</sup> Tanzania Market Update 2019, Knight Frank, <https://content.knightfrank.com/research/1942/documents/en/tanzania-market-update-2019-7058.pdf>

<sup>89</sup> Mining for Change, Page J, Tarp F, March 2020

<sup>90</sup> UN Data

<sup>91</sup> World Economic Forum

<sup>92</sup> Tanzania Ministry of Lands, Housing and Human Settlements Development

<sup>93</sup> The Report, Tanzania 2018, Oxford Business Group

<sup>94</sup> Tanzania Market Update 2019, Knight Frank, <https://content.knightfrank.com/research/1942/documents/en/tanzania-market-update-2019-7058.pdf>

represents the fall in Dar es Salaam prime residential rent prices in recent years.



Figure 5.1 Cost of rent in Dar es salaam prime residential areas, 2014 – 2019, Knight Frank, 2019

Efforts to address this supply gap have been characterised by the emergence of large-scale housing projects. Massive public investment has been made toward further construction of housing, with the National Housing Corporation (NHC), the Tanzania Building Agency (TBA), the Watumishi Housing Company (WHC) and national pension funds all investing in property projects in the last five years in addition to private enterprises. However, these developments have faced serious challenges associated with the difficulties of doing business in Tanzania. The National Social Security Fund's USD 653.44m Kigamboni Satellite City remains incomplete, facing serious allegations of corruption during the contracting process.<sup>95</sup> Further large-scale developments include the NHC's USD 2b Kawe 711 and Morocco Square projects, both subject to severe delays caused by funding issues. The release of TZS 15b as credit from the Government has eased cashflow, and construction is expected to resume in 2021.<sup>96</sup> These projects, with estimated unit retail prices between USD 10,000 and USD 550,000 have been criticised as being too expensive for consumers; even the cheapest units priced at USD 10,000 were estimated to be affordable for approximately 2.4% of Tanzanians.<sup>97</sup>

## Retail sector

With small traders forming the backbone of the Tanzanian retail sector, the development of formal retailing has remained slow. With few malls and formal shopping precincts, the rental market is largely based around ground-level space leased on an individual basis. Larger-scale developments do exist in Tanzania, notably Mlimani City Mall, Aura Mall and Mkuki House in Dar es Salaam, as well as AIM Mall in Arusha and Rock City Mall in Mwanza. These are complemented by a number of less capital-intensive developments largely catering to small independent enterprises. More upscale malls are planned, with Dar es Salaam expected to see an extra 100,000m<sup>2</sup> of mall-space opening in the next five years, across four developments,<sup>98</sup> complementing the 153,000m<sup>2</sup> of existing retail stock.<sup>99</sup>

However, with malls operating at 35 - 40% occupancy levels, extant commercial spaces face difficulties in attracting leaseholders<sup>100</sup>. This has resulted in lower rental rates and return on investment for developers. Companies able to afford high-end retail rents have struggled to maintain market presence in Tanzania with international chains such as Shoprite and Nakumatt shuttering stores in the last five years. Despite these challenges, there is cause for optimism in the sector, with more international retail brands starting to appear in Tanzania. Furthermore, online retailers have yet to achieve significant market penetration, placing consumer focus on brick-and-mortar outlets. As and when they do increase in prominence, it could further slow demand for shop front presences.

The commercial property market continues to be dominated by Dar es Salaam. Recent construction in and around the Central Business District (CBD) has eased the shortage of quality office space, with over 180,000m<sup>2</sup> now available. Further developments, particularly those along the rapidly developing New Bagamoyo Road, are redistributing the spread of business tenants, easing congestion issues in the downtown core. As a result of this increased supply,

<sup>95</sup> NSSF admits fraud in giant Sh1.4tr satellite city project. The Citizen, October 2016. <https://www.thecitizen.co.tz/tanzania/news/nssf-admits-fraud-in-giant-sh1-4tr-satellite-city-project-2571226>

<sup>96</sup> Stalled major NHC projects now up and running again. The Citizen May 2021. <https://www.thecitizen.co.tz/tanzania/news/stalled-major-nhc-projects-now-up-and-running-again-3414340>

<sup>97</sup> Rapid economic growth and an expanding private sector reshape Tanzanian real estate. 2018. <https://oxfordbusinessgroup.com/overview/rapid-economic-growth-and-increasingly-confident-private-sector-have-resaped-marketplace-settling>

<sup>98</sup> Tanzania Market Update 2019, Knight Frank, <https://content.knightfrank.com/research/1942/documents/en/tanzania-market-update-2019-7058.pdf>

<sup>99</sup> Tanzania's Commercial Real Estate sector on the rise. The Exchange, March 2018. <https://theexchange.africa/investing/retail-sector-most-paying-in-dar-es-salaams-real-estate/>

<sup>100</sup> Ibid.

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rents have decreased over the last half-decade from USD 25/m2/month in 2015 to USD 17/m2/month in 2019.<sup>101</sup>

## Infrastructure and roads

The continued focus on wide-spread structural upgrades to Tanzania's transport infrastructure has had positive effects on other subsectors, perhaps mostly on construction. With the infrastructure budget taking up as much as 37% of total Government expenditure<sup>102</sup> and supported by massive capital flows into the country from donor agencies, financial institutions and private investment, the wholesale regeneration of Tanzania's infrastructure has created enormous potential for infrastructure-focused businesses.

Concessional financing has played a large part in the mosaic of funding approaches to this drive. The World Bank's current portfolio in Tanzania includes 20 projects with a total commitment of USD 4b, most of which is dedicated to transport development.<sup>103</sup> Other major partners include the African Development Bank (AfDB), providing loans of USD 272m and EUR 345m in 2019 for the construction of the new Dodoma airport and the Mombasa - Dar es Salaam super-highway respectively.

With the government committing to further infrastructure development plans as part of FYDP II & III, the sector is likely to continue to grow, creating employment and revenue.

## EU investment in Tanzania's construction and real estate sector

Engaged in public works including port development, railway, airport, and road construction, as well as privately financed residential, commercial, and industrial developments, EU companies are active across the entire value-chain.

Following the prioritisation of the upgrade and rehabilitation of Tanzania's infrastructure under President Magufuli's administration, EU companies have fulfilled several key roles within the value and supply chain. Businesses have been involved in airport upgrades,

roadbuilding, port upgrades, railway construction, mass-transit system developments and commercial property construction. Often in partnership with smaller Tanzanian firms, these companies are largely engaged on a single-project basis.

Notable contracts won by EU firms include phase one of the Standard Gauge Railway, awarded to Portuguese giant Mota-Engil (and Turkish company Yapi Merkezi). The project employs over 8,000 employees, with over 7,000 of these Tanzanian. The phase currently under construction is worth approximately USD 1.2b. Additionally the construction of Julius Nyerere International Airport's Terminal Three was awarded to the Netherlands' BAM International and the award of the phase one Bus Rapid Transit System was to German-based Strabag Group, with the contract valued at EUR 179.6 million. At its peak, the project is expected to employ between 600 – 800 people.

Some EU businesses maintain full-time operations in Tanzania. By far the biggest such entity is Denmark-based COWI Tanzania Ltd, present in the country since 1965 and classified as a large taxpayer by the TRA. Employing over 100 graduates and carrying out construction programs in all regions of Tanzania, COWI represents a European entity with a real and lasting foothold in the market.

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<sup>101</sup> Tanzania Market Update 2019, Knight Frank, <https://content.knightfrank.com/research/1942/documents/en/tanzania-market-update-2019-7058.pdf>

<sup>102</sup> Speech to Parliament, Minister for Finance and Planning, 25 June 2018

<sup>103</sup> TanzanianInvest.com



### CASE STUDY 3: BAM INTERNATIONAL

BAM International, a subsidiary of Netherlands-based Royal BAM Group, has been active in Tanzania since the early 1970s. Originally focused on local infrastructure projects, BAM International has emerged as a leading partner in the construction of some of Tanzania's most high-profile projects.

In addition to winning the USD 283m contract to design and build Terminal Three at the Julius Nyerere International Airport in 2013 - a terminal that is expected to host 3.5 million passengers annually, with that number expected to gradually rise to 6 million - BAM International was also awarded the contract to upgrade airport facilities at Kilimanjaro International Airport. The construction process was not without difficulties however, taking a full two years more than scheduled. This delay was ascribed to difficulties in the procurement of building materials from overseas, as well as a shortage of skilled labour.<sup>104</sup> With almost 2,500 workers employed at the project's peak, BAM International ran daily onsite training classes and worked with a multiplicity of suppliers throughout its value chain.<sup>105</sup>

<sup>104</sup> Construction Review Online, Construction of JNIA terminal 3 in Tanzania nears completion, <https://constructionreviewonline.com/news/tanzania/construction-of-jnia-terminal-3-in-tanzania-nears-completion/>

<sup>105</sup> African Aerospace Online News Service, Terminal plugs new life into Tanzania, <https://www.africanaerospace.aero/terminal-plugs-new-life-into-tanzania.html>

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# ENERGY SECTOR

## Sector outlook

Tanzania has an abundance and diversified mix of energy sources, many of which are yet to be exploited. Tanzania currently has 1,605 MW installed capacity, dominated by gas and with a significant portion of non-gas supply coming from oil and hydropower. Current installed capacity is divided as follows:

- 48% natural gas
- 31% hydropower
- 18% oil
- 1% solar
- 1% biofuels

In addition to domestic installed capacity, Tanzania imports power from neighbouring Kenya (1 MW), Uganda (10 MW), and Zambia (5 MW).<sup>106</sup>

Close to 50% of the country's power supply is currently derived from gas. Notably, 21% of Tanzania's electricity requirements are currently met by one company, Songas. Songas is majority owned by Globeleq which in turn is majority owned by UK's CDC and 30% owned by Norwegian Norfund. The country's reliance on gas is likely to increase when the liquefied natural gas (LNG) project in the south of the country (discussed in detail in Oil and Gas chapter) comes online, with a domestic reservation quota likely. The LNG project will be spearheaded by EU investment with international oil company Shell's involvement. The project will be led by Norwegian Equinor. The project is anticipated to be a USD 30b project. The project's development will present massive opportunities for investment in ancillary goods and services.

## Supply versus demand

According to the Power System Master Plan 2020, peak demand is expected to increase to 2,677 MW in 2025, 4,878 MW in 2030 and 17,611 MW in 2044.<sup>107</sup> In order to reach such demand the Government's Power System Master Plan 2020 predicts that in 2044 energy composition will consist of:

- 5,690.4 MW hydropower
- 6,700 MW natural gas;
- 5,300 MW coal
- 800 MW wind
- 715 MW solar
- 995 MW geothermal<sup>108</sup>

An ongoing challenge for the Government is meeting the existing and growing need for power supply. 2020 data from the National Bureau of Statistics notes that 78.4% of those on the mainland have access to electricity; 99.6% in urban areas and 49.3% of the rural population. World Bank estimates that 73.2% of the population had access to electricity in 2019, however this drops dramatically in rural areas, where it falls to just 19%.<sup>109</sup> The low level of electricity in rural areas is largely driven by price and infrastructure constraints. Noting that the Government has a stated target of providing universal access by 2030 in line with the Sustainable Development Goal 7, there will exist opportunities for innovative companies that can offer reliable and affordable off-grid solutions. Falling costs in technology, buoyed by significant funding – be it concessional loans, donor funding or private finance to electrify Tanzania – will provide opportunities for world leading EU companies to seek out further opportunities in this space.

Of those Tanzanians already connected, average per capita consumption is currently quite low, standing at

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<sup>106</sup> Tanzania Invest, Tanzania Electricity Profile, <https://www.tanzaniainvest.com/power>

<sup>107</sup> Ministry of Energy, Power System Master Plan 2020 Update

<sup>108</sup> Ministry of Energy, Power System Master Plan 2020 Update

<sup>109</sup> The World Bank, Data, <https://data.worldbank.org/indicator/EG.ELC.ACCS.RU.ZS?locations=TZ>

108kWh per year compared to a sub-Saharan African average of 550kWh.<sup>110</sup> Urbanisation, industrialisation and modernisation will only see demand increase in Tanzania. Reliable and affordable energy will in turn act as a direct catalyst for economic growth, both improving the lives of citizens and also acting as an enticement for investors in energy intensive sectors such as manufacturing. Reliable and disbursed power supply is also critical for construction of key mega-infrastructure projects such as the standard gauge railway that cuts across the country.

In order to deliver on such demands, the Government is working to execute a number of initiatives – some of which are already underway and some of which are projected. According to the Ministry of Energy's Power System Master Plan 2020, these include:

- Completion of Julius Nyerere Hydropower Plant (2,115 MW)
- Construction of Kinyerezi I extension (185 MW)
- Development of Rusumo hydroelectric project (80 MW)<sup>111</sup>
- Murongo – Kikagati Hydropower (14 MW) <sup>112, 113</sup>

By far the largest of these projects is the under-construction Julius Nyerere Hydropower Project in Stiegler's Gorge. The project has an estimated capital expenditure of USD 3.6b and is implemented by Arab Contractors and El Sewedy Electric Co. bringing an additional 2,115 MW of installed capacity. Whilst the project will bring online significant capacity, a requirement to ensure that Tanzania has a diversified

energy mix will remain a priority for the Government. The ongoing construction phase, and ultimate period of operation will bring significant opportunities for goods and services providers to the sector. The project will require significant assistance in the fields of engineering, scheduling, project management, and logistics among others.

## Rural electrification

The ongoing flagship programme on rural electrification (2016/17 - 2020/21) is financed by the governments of Sweden, Norway and Japan, the World Bank, the EU, Agence Française De Développement, and African Development Bank. The main objective of the programme is to improve livelihoods and foster social and economic development in rural areas through provision of access to electricity. A number of EU companies have been engaged as contractors and consultants in the implementation of this programme.

## Grid expansion

Grid expansion will also be a key component of ensuring reliable and disbursed access to electricity. Tanzania requires significant new transmission infrastructure development. The Government has considerable plans to increase transmission lines across the country with projections from the country's Power System Master Plan 2020 captured in Table 3.

Years	2012	2014	2016	2018	2019
Lengths of 400 kV in km	0	0	670	670	670
Lengths of 220 kV in km	1710.69	2,227.85	2,745	2922.14	3,010.7
Lengths of 132 kV in km	1,538	1538.75	1626	1657.06	1672.57
Lengths of 66 kV in km	543	543	543	543	543

Source: TANESCO

Table 3: Transmission line expansion coverage - Ministry of Energy, Power System Master Plan 2020 Update

<sup>110</sup> Tanzania Invest, Tanzania Electricity Profile, <https://www.tanzaniainvest.com/power>

<sup>111</sup> Noting that the project is shared by Burundi, Rwanda and Tanzania

<sup>112</sup> Noting that the project is shared by Tanzania and Uganda

<sup>113</sup> Ministry of Energy, Power System Master Plan 2020 Update

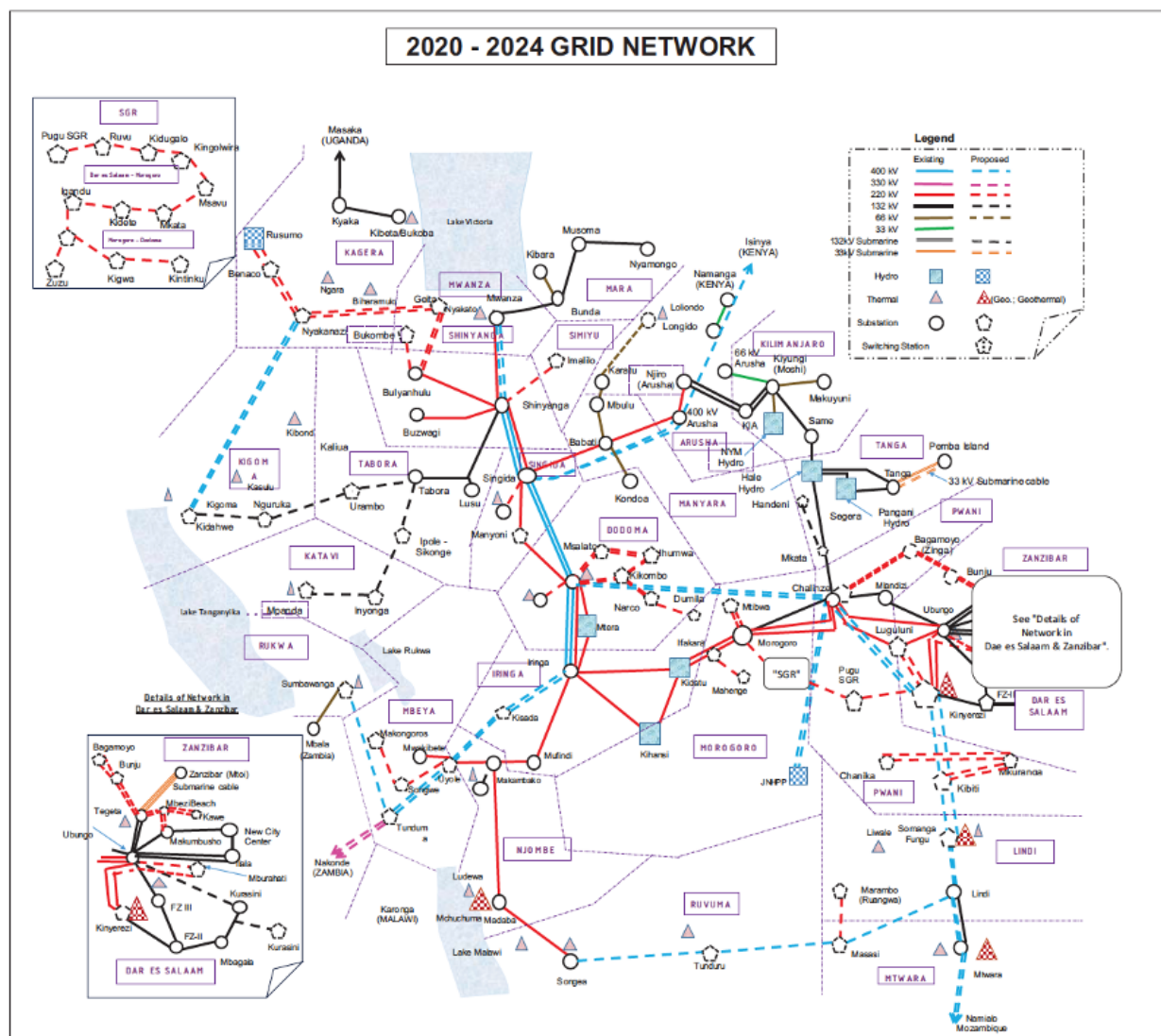


Figure 6.1 Generation and Transmission Plan, 2020 – 2024 - Ministry of Energy, Power System Master Plan 2020 Update

In order to achieve such targets, massive infrastructure investment is needed. The Government has ambitious plans to further develop transmission infrastructure and is currently investing in a number of new lines or extensions, including, but not limited to:

- Tanzania (Singida – Arusha – Namanga) – Kenya (Isinya) 400 kV interconnection project
- Tanzania – Zambia 400 kV interconnection project
- Tanzania (Nyakanazi – Kyaka) – Uganda (Masaka) 400 kV interconnection project
- Tanzania – Mozambique 400 kV interconnection project

- Tanzania, Rwanda, and Burundi Interconnection Project
- Tanzania – Malawi 400 kV interconnection project
- Tanzania (Shinyanga – Mwanza – Musoma) – Kenya (Kilgories) 400 kV interconnection project
- Tanzania (Kigoma) – Burundi (Itaba) 220 kV Interconnection Project
- Tanzania (Rukwa) – DRC (Katanga Province) 400 kV Interconnection Project<sup>114</sup>

Figure 6.1 highlights how the transmission landscape is projected to change between 2020 – 2024.

<sup>114</sup> Ministry of Energy, Power System Master Plan 2020 Update



S/N	Region	District	Average Wind Speed at 10m (m/s)	Average Wind Speed at 30m (m/s)
1.	Singida	Singida (Kititimo)	8.2	9.4
2.	Njombe	Njombe (Makambako)	7.6	8.7
3.	Iringa	Mufindi (Usokami)	7.5	>7.5
4.	Kilimanjaro	Mwanga (Mgagao)	3.75	4.85
5.	Tanga	Korogwe (Mkumbura)	4.14	4.9
6.	Arusha	Karatu	4.9	5.5
7.	Dar es Salaam	Kigamboni (Gomvu)	3.56	4.28
8.	Mtwara	Mtwara (Litembe)	3.21	4.47
9.	Pwani	Mafia	No Measurements	4.01
10.	Mwanza	Ukerewe	3.55	4.9

Source: TANESCO

Figure 6.2 Wind potential sites in Tanzania - Ministry of Energy, Power System Master Plan 2020 Update

## Sector profile

### Renewable energy projects

The Government has plans to increase both wind and solar generation capacity. Wind is a prospective energy source with the ability to generate in excess of 1,000 MW according to the Ministry of Energy (see Figure 6.2 for key sites).

The potential for solar power has been estimated by the Ministry of Energy to be in excess of 670 MWp with key regions ripe for development including Dodoma, Iringa, Katavi, Rukwa, Tabora, Singida, Shinyanga, and Mara.<sup>115</sup> There has also been a focus on clean cooking solutions with opportunities for investment likely to increase in the areas of stoves, fuel production, and assembling. As part of this, the United Nations Industrial Development Organization (UNIDO) is working with partners to roll out ethanol cooking stoves across Dar es Salaam.

Opportunities and challenges exist for those looking to enter the renewable energy market. A respondent noted that TIC registered projects tend to receive significant assistance in terms of ensuring that excise tax is not applied on the importation of equipment such as panels and turbines. However, the same respondent noted

that issues such as lack of government guarantee of payments has acted as a deterrent for private sector investment, with much of the investment funded by the Government, donor partners or multilateral agencies. This support was highlighted in June 2021 with the French Development Agency committing EUR 130m loan to fund the construction of a 150 MWp solar plant in Kishapu, Shinyanga.<sup>116</sup>

### Off-grid

Noting that just 19% of Tanzanians living in rural areas currently have access to electricity, there is a strong push towards affordable off-grid energy solutions. From a government perspective this falls under the remit of the Rural Energy Agency (REA). Off-grid solutions come in many forms, including mini-grid, micro-grid and solar home systems. The latter is a solution that has gained prominence in recent years with significant investment from EU companies and utilisation of European technologies. An example includes Mobisol, once a German start-up and now part of French company Engie, that utilises technology designed in Germany to deliver solar home systems to underserved areas. The company has installed 16 MW of power across a dozen countries and utilises a pay-as-you-go system to deliver simple solar home solutions right up to complex bundles

<sup>115</sup> Ministry of Energy, Power System Master Plan 2020 Update

<sup>116</sup> PV Magazine, French Government finances 150 MW solar project in Tanzania with €130M, <https://www.pv-magazine.com/2021/06/15/french-Government-finances-150-mw-solar-project-in-tanzania-with-e130m/>

that include incorporating solar panels, tv, radio, and rechargeable torches. PowerGen Renewable Energy that provides Photovoltaic (PV) products for off-grid communities in Tanzania also recently expanded with its 2019 acquisition of Rafiki Power. The company has raised funds from a number of institutions including Shell's New Energies business. German company Forsera Solar is also involved in providing the technology utilised by many of the solar home solution providers, further demonstrating the role of European capital, companies and technical capabilities being harnessed by this sector in Tanzania. Challenges do, however, exist in this subsector with a respondent noting that the Government mandates that off-grid systems must reach grid capabilities in terms of their specifications, something that is not standard practice globally. Additionally, there are often challenges in terms of whether or not it is TANESCO or the REA that is in charge of oversight of this sector causing confusion and potential delays. Despite the current challenging environment, there are positive signals towards mini-grids, and it is expected that a win-win regulatory environment will be put in place.

## Coal and geo-thermal

Tanzania has opportunities to develop a geothermal sector with significant prospectivity and over 50

exploration sites identified. The sector's status and development potential is discussed in more detail in follow on sections along with the challenges facing the development of the sector, namely a lack of legislation specific to geothermal. In terms of energy generation capacity opportunities include:

- **Ngozi:** approximately 70 MW power generation capacity at Ngozi volcanic mountain in the Mbeya region. Plans are in place to commence 30 MW of generation by 2023
- **Kiejo-Mbaka:** approximately 60 MW power generation capacity in Rungwe district, Mbeya region. Plans are in place to commence with 10 MW of generation
- **Songwe:** approximately 5 MW power generation capacity in the Majimoto area
- **Luhoi:** approximately 5 MW power generation capacity in the Coast region
- **Natron:** approximately 60 MW power generation capacity in the Ngorongoro District, Arusha Region.

## Policy context

The power sector is regulated by a multiplicity of key authorities as outlined below.

Entity	Remit
Ministry of Energy	The central policy maker on matters impacting the energy sector
Ministry of Finance and Planning	The ministry oversees fiscal and budgetary matters and has oversight over the Tanzania Revenue Authority (TRA)
TRA	In charge of administrating taxation, and therefore a key stakeholder in how the ever evolving power sector is being taxed
Energy and Water Utilities Regulatory Authority (EWURA)	EWURA became operational in 2006 and is the regulator for the natural gas, electricity, petroleum and water sectors and is responsible for tariff regulations and licensing
Tanzania Petroleum Development Corporation (TPDC)	Tanzania's national oil company
Tanzania Electric Supply Company Limited (TANESCO)	100% Government owned parastatal organisation with remit to generate, purchase, transmit, distribute and sell electricity
REA	Operational as of 2007, REA's remit is to promote the development of energy projects to support rural areas
Tanzania Geothermal Development Company (TGDC)	In charge of all matters relating to the country's geothermal sector, and a subsidiary of TANESCO
Zanzibar Electricity Corporation (ZECO)	Responsible for distribution of electricity in Zanzibar (bulk electricity is supplied by TANESCO)
National Environmental Management Council (NEMC)	Responsible for environmental permits and clearances

The sector is guided by a number of pieces of law and policy documents, these include:

- National Energy Policy, 2015
- Power System Master Plan, 2020
- Tanzania Rural Electrification Expansion Program (TREET)
- Electricity Act, 2008 (amended in 2020)
- Petroleum Act, 2015
- Energy and Water Utilities Regulatory Authority Act, 2001
- Rural Energy Act, 2005

The National Energy Policy 2015 outlined plans to unbundle state-owned TANESCO, separating the functions of generation, transmission, and distribution to help balance the books of the struggling parastatal. The plan was also aimed at enticing more competition into the retail electricity sector. The plan, reinforced by the 2013 Big Results Now initiative and spearheaded by then President Jakaya Kikwete, outlined the following timeframes for reform:

- 2014: tariff reform
- 2017: generation separated out from the organisation
- 2021: transmission separated from distribution
- 2022: six private companies replace TANESCO's role in generation and transmission
- 2023: unbundling into three discrete entities

Some work was done on tariff reforms, that included the 2014 tariff increase of 39.19% that EWURA approved. However, in 2017, when EWURA approved a similar, albeit smaller, tariff increase, the government reversed the decision. Besides some progress on tariff reform, none of the other steps outlined above have taken place. Instead, TANESCO continues to face challenges concerning efficiency, financial management and reliability of supplies. Economic & Development Institutions publication on the status of TANESCO paints a dire picture noting “despite over two decades of attempted institutional reforms, the structure of the power sector continues to most resemble that of the traditional industry model – a model that has largely been dysfunctional in Tanzania and across the region for decades.”<sup>117</sup>

## EU investment in Tanzania's energy sector

The power sector value chain is expansive with inputs required for the three main components of generation, transmission, and distribution. In addition, a vast array of service providers exist who contribute to everything from IT, logistics, communications, consulting, engineering, and technical support. Off-grid power also has an expansive value chain, often involving innovative technologies, payment systems and vast distributor networks spread throughout the country offering last mile solutions to the most isolated communities.

The Government is the dominant player in the distribution and transmission of power, with plans to significantly expand transmission lines domestically, and within the region, in the coming years. However, the complex technologies, infrastructure, data analysis and experience required is likely to see opportunities open up for international consultants, suppliers and advisors in this space.

There is also room for further investment in the hydroelectric, geothermal, and renewable space. Independent power producers, often working in partnership with the Government, are likely to be called on to help develop these projects, with capital and expertise needed. Models such as those used by Songas, where a number of Government entities including the TPDC own a minority stake in the company, are likely to be encouraged. The country's planned LNG project, with lead operator Norwegian Equinor, will require massive foreign investment, both in the project itself and the infrastructure required to enable the project to proceed. The structure of the revised local content regulations will in part dictate how attractive such a proposition is for the goods and service providers that support the oil and gas sector, however opportunities will no doubt exist for those companies that can provide goods and services not readily available in Tanzania. Finally, last mile off-grid solutions, often funded by donors and multilateral institutions, are likely to become more lucrative to off-grid companies as the country strives to reach its goal of universal electrification by 2030.

<sup>117</sup> Economic & Development Institutions, Tanzania Institutional Diagnostic, [https://edi.opml.co.uk/wp-content/uploads/2018/09/07-TID\\_Power-sector.pdf](https://edi.opml.co.uk/wp-content/uploads/2018/09/07-TID_Power-sector.pdf)

EU investment will hit new heights when the country's first LNG project comes online, with Shell one of the international oil companies engaged in the project. Negotiations between the Government and investors recommenced in November 2021. The project is estimated to cost USD 30b and will invest massive sums of money into the country's energy sector, economy and also into the myriad of goods and services that accompany a project such as this. Leading EU engineering firms such as German Siemens and Italy's Saipem will no doubt be bidding for large pieces of the upcoming engineering, procurement, and construction (EPC) contracts for the project.

EU investment in wind and solar is already evident. Danish-Sino cooperation saw Sino-Tan Renewable Energy develop the Makambako wind project that has the capacity to initially produce 20 - 50 MW power, with a potential upgrade to 100 MW in the future. The project is estimated to cost USD150million. Luxembourg registered Redavia has been involved in the construction of a solar farm at Shanta's New Luika mine, the project financed by InfraCo Africa. The solar farm generated approximately 100,000 kWh in its first year of operation, bringing with it an estimated fuel saving of 28,000 litres. Once fully operational, the solar farm is anticipated to save the project 219,000 litres of fuel annually. The company has also been involved in two mini-grid projects in Songwe region. EU-funded impact investment facility ElectriFI approved investment of USD 2m to NextGen. The company has built a 5 MW solar plant in the Kigoma region that will replace several highly polluting and costly diesel generators in the region.

In recent years, the emergence of a growing, and increasingly innovative off-grid sub-sector has seen significant interest from EU companies, technology and capital. Existing investments include:

- Forsera Solar, a German company that has developed much of the technology harnessed by the solar home providers.
- Dutch Devergy East Africa is developing off-grid solutions for rural Tanzanians. Devergy's customers reported spending 20 per cent less on lighting and phone charging compared to their previous suppliers. Devergy works closely with mobile network operators such as Tigo, with Devergy's customers eligible for Tigo Bonus, that provides additional airtime and SMS services to Devergy's customers.
- German company Jumeme Rural Power Supply, co-funded by the EU provides mini-grid solutions in rural areas targeting household customers.
- EDFI ElectriFI is an EU-funded impact investment facility, financing early-stage private companies and projects, focusing on new / improved electricity connections as well as on generation capacity from sustainable energy sources in emerging markets.
- Mobisol (part of French company Engie) utilising German technology to deliver increasingly complex solar home solutions to off grid communities.
- PowerGen Renewable Energy providing Photovoltaic (PV) products to off-grid communities, having expanded its presence in Tanzania via its 2019 acquisition of Rafiki Power. Cross Boundary Energy Access (CBEA), partially funded by Anglo-Dutch Shell has made significant investments into the mini-grid sector, working in partnership with PowerGen Renewable Energy to finance 60 mini-grids in Tanzania.

**CASE STUDY 4: MOBISOL**

Mobisol, once a start-up, is now part of French company Engie and is classified as a large taxpayer by the Tanzania Revenue Authority. The company harnesses German technology to deliver increasingly complex solar home solutions to off grid communities. Mobisol has installed in excess of 100,000 solar home systems in Tanzania to date, in turn servicing well over 500,000 users. Mobisol's products are used by households, schools and businesses. The company has installed 16 MW of power across a dozen countries and utilises a pay-as-you-go system to deliver simple solar home solutions right up to complex bundles that include incorporating solar panels, TV, radio, and rechargeable torches. Mobisol has also partnered with organisations such as internet provider Zuku to launch a solar powered television. The company currently has over 250 employees and 40 shops throughout the country.

Mobisol is also part of a diverse technology network as the company's customers pay via mobile money with Mobisol being able to harness their payment history to create a credit profile. This is being used by some solar home providers to provide a rudimentary Know Your Customer (KYC) check to allow customers to borrow money and potentially access a suite of ancillary services.



# INFORMATION & COMMUNICATIONS TECHNOLOGY

## Sector outlook

Information and Communications Technology (ICT) is a catalyst for development and encouraging financial inclusion. Progress in expanding the reach and services available in Tanzania in recent years has been noticeable. The Government has clearly prioritised the sector in recent years, spinning off communications and ICT into its own ministry in 2020 and highlighting the importance of ICT and digitisation in all key development focused policy documents. However, a progressively complex regulatory environment, coupled with increased state-intervention into the sector has caused a degree of concern among investors and potential investors. Nevertheless, opportunities for EU investment throughout the ICT value chain continue to exist.

### Voice, mobile and internet access

Mobile voice traffic has expanded significantly in Tanzania in recent years, with the number of unique subscribers increasing from 12 million in 2010 to 25 million in 2020.<sup>118,119</sup> Tanzania's mobile network operator (MNO) market is competitive, with a handful of players, but with Vodacom Tanzania Limited (Vodacom) the dominant player with 34% market share and over 15 million customers. Halotel's progress in the market must also be noted having only entered Tanzania in 2015 and obtaining 10% market share by 2019.

Whilst access to both voice and internet services has increased, access to internet continues to lag noticeably behind, with 89% of people having access to voice telecommunications services in 2020 compared to 49% having access to internet. The FY20/21 budget abolished VAT on smartphones, and this is projected to increase access to the internet, while also opening up opportunities for cost-effective providers of mobile phones. Figure 7.1 shows the growth in voice and internet access between 2013 – 2020.

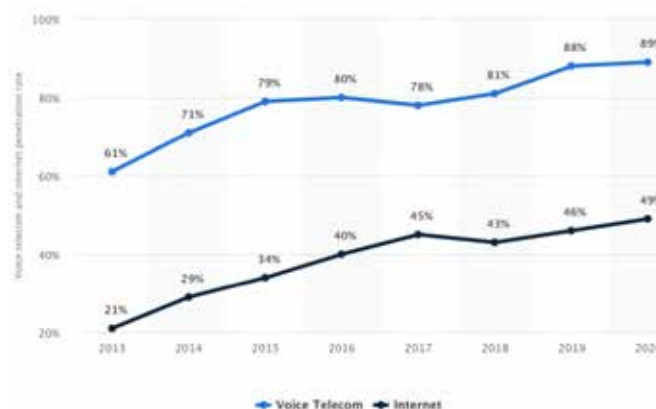


Figure 7.1 Growth in voice and internet communication access, 2013 – 2020. Statista, Penetration rate of voice telecom and internet services in Tanzania from 2013 – 2020, <https://www.statista.com/statistics/1082352/tanzania-voice-telecom-and-internet-penetration/>

The discrepancy in access to voice services versus internet is as a result of a number of factors; lack of internet connectivity, limited access to smart phones and the rising price of internet packages.

Whilst international bandwidth usage in Tanzania is increasing, it is still low by regional standards, currently at just one-third of Kenya's. Although Tanzania has three international undersea cables, they are underused. However, on the upside this means that there is increased capacity that can be harnessed when required. With regards to fiber optic cable, Tanzania's National ICT Broadband Backbone (NICTBB) has laid approximately 7,500km of installed cable. Whilst the MNOs are able to lay their own cable, and have to a degree, the NICTBB, managed by state owned Tanzania Telecommunications Corporation (TTCL), has placed restrictions over Mobile Network Operators (MNOs) laying inter-city fibre optic cables, severely limiting the attractiveness for the MNOs to invest in this area.

<sup>118</sup> GSMA, Tanzania: Driving economic and social value through mobile-sector tax reform

<sup>119</sup> Note that it is very common in Tanzania to have multiple sim cards

	Tanzania	Uganda	Kenya	Rwanda	Mozambique
3G	85	65	85	93	40
4G	13	17	25	89	Unknown

Figure 7.2 regional comparative coverage of 3G and 4G network, 2020 - World Bank Group, Tanzania Economic Update: Assessing the Impact of COVID-19 (sourced from the GSMA)

	100MB	500MB	1GB	2GB	5GB	10GB	20GB
Kenya	1.46	2.58	4.14	4.88	9.76	19.52	28.99
Mozambique	0.48	1.68	2.52	4.20	7.94	15.89	31.77
Rwanda	1.07	2.15	2.15	4.29	9.20	10.73	21.47
Tanzania	4.35	4.35	4.35	5.59	13.05	15.22	21.74
Uganda	1.49	2.30	4.07	5.42	9.22	13.55	23.23

Figure 7.3 regional comparative cost of internet data, 2020 - World Bank Group, Tanzania Economic Update: Assessing the Impact of COVID-19 (sourced from the GSMA)

3G and 4G coverage is quite expansive in Tanzania compared to the country's regional neighbours as highlighted in Figure 7.2.

Whilst 3G and 4G coverage is relatively wide, many potential users are locked out of the market due to the cost of data. Whilst larger data packages in Tanzania (10 GB and above) are competitive vis-à-vis regional standards, smaller bundles are relatively expensive, potentially cutting poorer and more price sensitive users completely out of the market. A regional pricing comparison is captured in Figure 7.3.

### Mobile financial services sector

As in most of East Africa, mobile money is a huge phenomenon in Tanzania. While it is estimated that approximately 11% of Tanzanians have access to a bank account, more than 50% have access to mobile money. The MNOs that dominate in this area, Vodacom, Tigo and Airtel, are the same MNOs that hold market share in the mobile communications market as highlighted in Figure 7.4.

Mobile Money Provider	Service	Market Shared
Vodacom	M-Pesa	39%
Tigo	Tigo Pesa	30%
Airtel	Airtel Money	20%
Halotel	Halopesa	7%
TTCL	T-Pesa	3%
Zantel	Ezy Pesa	1%

Figure 7.4 Mobile network operators (MNOs) market share, 2020

Tanzania Invest, Mobile Money, <https://www.tanzaniainvest.com/mobile-money#:~:text=Tanzania's%20mobile%20money%20penetration%20reached,value%20of%20USD%204.6%20billion.>

The uptake in mobile money in Tanzania has seen MNOs target this sub-sector as a key revenue stream. Mobile money options such as Vodacom's M-Pesa, the dominant provider of mobile money in Tanzania, is a common mechanism for bill payment and money transfers in both rural and urban areas and among all social strata with the ability to use the function via an application requiring internet or via USSD code. The ability to make easy payments and transfer money among friends and family has become an integral part of daily life in Tanzania. Mobile money has also branched into areas such as insurance, lending and also as a mechanism for those outside of the formal banking system to develop a credit score.

## Media and entertainment

Tanzania was a first-mover in the continent to commence migrating from analogue to digital transmission in 2012. Growth in paid TV has been noticeable, from a low uptake of 1 million in 2015 to 2.7 million in 2019, a 170% increase. As of 2019, the country had 43 broadcasting service providers, of which 37 were free to air, 4 via digital terrestrial television, and 2 via satellite.<sup>120</sup> In terms of potential investment opportunities it must be noted that regulations such as the Electronic and Postal Communications (Licensing) Regulations 2011 limit foreign ownership of Tanzanian TV stations to 49% and it is also prohibited to have foreign capital participation in national newspapers.

Print media is well read with a number of Swahili and English language daily newspapers across the country; some such as Daily News and Habari Leo are Government-owned whilst others are privately held. Tanzania's blogging sphere is however limited due to the Electronic and Postal Communications (Online Content) Regulations, adopted in 2018, that requires bloggers to register and pay a significant license fee of up to TZS 2.1m, a prohibitive amount for many start-ups.

There is also diversity in news TV and radio stations, in terms of national versus regional, Swahili versus English and Government owned versus privately owned, giving citizens an array of choices to consume content, with radio being the most popular avenue. German radio station Deutsche Welle, broadcasts in Swahili and has over 9 million listeners. Reporters Without Borders notes

that there were 156 radio stations in Tanzania in 2017 and a 2018 poll found that 44.5% of Tanzanians get their news from the radio. Interestingly TV, not radio, was perceived as the most trusted media source in Tanzania, followed by radio, newspaper and then social media.<sup>121</sup>

## Sector profile

Tanzania, as with many developing countries, liberalised its telecommunications market at quite a late stage. Large-scale reforms commenced in the 1990s and the sector's regulatory authority, the Tanzania Communications Regulatory Authority (TCRA) was established in 2003. Tanzania's efforts to privatise its telecommunications market appear to be waning. Whilst Tanzania Telecommunications Corporation Limited (TTCL) was partially privatised in 2001, this decision was reversed in 2017. The Government also increased its stake in Airtel in 2017 from 40% to 49%.<sup>122</sup>

Tanzania's ICT sector continues to grow in terms of breadth of service offering and reach of coverage. The uptake of mobile money and its growth into related products and its linkage to enhanced service delivery in critical areas such as health and education, opens up significant opportunities for fintech providers.

The sector has, however, faced a perception challenge. This was driven by a sense, in Government and among large portions of the country, that the sector is highly profitable, with a large portion of foreign ownership, and that the sector had not paid its fair share of taxes. This last point is driven by the need for the TRA to often rely on self-reporting of volume of usage by the MNOs when calculating the necessary taxes.

## Policy context

The Government's increased focus on ICT was confirmed with the decision to create a standalone Ministry of Communications and ICT in December 2020; prior to this, the sector fell within the Ministry of Works, Transport and Communications. Additionally significant progress was made in May 2021 in making regional connectivity more affordable when Tanzania announced that after many years of deliberations, it would join the EAC One Network Area which will allow for harmonised calling rates across the regional bloc, allowing for cheaper

<sup>120</sup> Tanzania Invest, Tanzania Telecoms, <https://www.tanzaniainvest.com/telecoms/page/5>

<sup>121</sup> Reporters Without Borders, Media Ownership Monitor Tanzania, <https://tanzania.mom-rsf.org/en/media/radio/>

<sup>122</sup> This increase in stake came as a result of a protracted ownership dispute that caused significant reputational damage to the company

regional calls. Rwanda, Kenya, South Sudan and Uganda have already signed up to the initiative, with Burundi now the only country in the region not to have done so.

Tanzania's ICT sector is governed by a number of ministerial and regulatory bodies, with a high level overview captured below:

Entity	Remit
Ministry of ICT and Communications	This newly created ministry is the central policy maker on matters impacting the ICT sector
The Ministry of Information, Culture, Arts and Sports	The ministry is responsible for access to information, and as part of this remit it is directly involved in the TCRA's work in regulating freedom of information in the country
Ministry of Finance and Planning	The ministry oversees fiscal and budgetary matters and has oversight over the Tanzania Revenue Authority (TRA) and the Bank of Tanzania (BoT), both of which are critical stakeholders for the sector
TCRA	A quasi-independent body that regulates both broadcasting and communications sectors throughout the country
Universal Communications Service Access Fund (UCSAF)	Created to increase access to ICT services across the country
BoT	The central bank takes the lead on facilitating financial inclusion, of which the digital economy is a key component
TRA	In charge of administering taxation, and therefore a key stakeholder in how the ever evolving ICT sector is being taxed
Tanzania Commission for Science and Technology (COSTECH)	A Government entity that is responsible for supporting the use of science and technology in Tanzania's socio-economic development

The sector has faced increased regulation in recent years, and whilst there is no indication at this point that the regulatory environment has reached a point that it is diminishing investors' appetite, if the trajectory continues, such an implication is feasible. The sector is also politically sensitive as it links directly into freedom of information, and when Government sensitivity on this matter increases, often supplementary regulations are imposed on the sector. Additionally in recent years there appear to be competing priorities when it comes to regulating the sector, these include control over the spread of information, the need to raise revenue and the desire to increase financial inclusion as part of Tanzania's development plan.

*Text Box 2: Tanzania Communications Regulatory Authority (TCRA)*

### ROLE OF THE TCRA

The TCRA is the sector's lead regulatory authority. On technical matters it is well regarded, staffed with competent technocrats, an easy to navigate website and with an increasing number of online avenues to apply for the various permits and licenses that fall under its remit. The TCRA is also a key provider of advice around technical matters to the Ministry of Communications and ICT.

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## Mobile payments regulation

With mobile money providers such as M-Pesa, Tigo Pesa, and Airtel Money and their ancillary service providers moving further into providing services such as insurance and money lending, there is an increasing awareness that the “light touch” approach to regulating this space may not continue in perpetuity. Whilst mobile money transactions first entered Tanzania in 2008, the key pieces of legislation that now largely govern the sector did not come into play until 2015, such as the National Payment Systems Act, No. 4 of 2015, the Payment Systems (Licensing and Approval) Regulations of 2015 and the Payment Systems (Electronic Money) Regulations of 2015. Mobile money has also expanded in terms of financial capacity with a 2020 decision to increase daily transfer limits from TZS 3m to TZS 5m and daily balances increasing from TZS 5m to TZS 10m.

The MNO space has, for example, witnessed an increase in taxes in recent years including the introduction of excise duty on communications services charged at a rate of 17% of dutiable value. Additionally, as of April 2018, all mobile money payments to state owned entities are run through the Government e-Payment Gateway (GePG), which attaches a small fee paid by the end user. Small changes in price sensitive markets can have a disproportionate impact on the ability of customers to utilise such online systems that are supposed to increase efficiencies in their everyday lives. The 2021 - 22 budget also brought with it some ambiguity on how the Government views the sector. Although the budget removed taxes on smartphones, the budget also applied a levy on mobile money transfers and sim cards. After significant lobbying however, the mobile money levy imposed by Government was reduced.<sup>123</sup> As PwC noted in its budget analysis, these changes “could have an unintended detrimental effect on financial inclusion. It is also not certain on how prepared the Telcos are in terms of having robust systems for implementing the proposed taxes/levies.”<sup>124</sup> How to tax the sector will continue to remain a challenge, Groupe Speciale Mobile (GSMA) estimates that 19.9% of Tanzania’s GDP was made up of mobile market revenue in 2019, and total taxes collected from the mobile sector were approximately USD 404m, making it a significant earner for the country. On the other side of the equation is the impact access to ICT has on development, on this matter GSMA notes that

“There is a need to somehow balance the benefits that mobile money and its associated services bring, with the need to deepen and broaden the tax base.

## Spectrum

Regulatory amendments to the Electronic and Postal Communications (Radio Communication and Frequency Spectrum) Regulations 2018 increased regulatory control over the country’s MNO’s access to spectrum. This led to some calls that unfair advantage was being given to state-owned Tanzania Telecommunications Corporation (TTCL) as it tried to increase its market share as an MNO. There is concern among the sector that the amendments to the regulations that allow for auctions of spectrum could lead to favouritism to the state-owned entity, however this will need to be assessed over the mid to long term.

## EU investment in Tanzania’s communications and ICT sector

The largest capital investors in the country’s ICT sector are the MNOs, with Tigo Tanzania (parent company Swedish Millicom) the largest EU investor; further information on Tigo in Tanzania in case study 5. The next biggest capital investment is generally in the forms of the towers companies, a sub-sector dominated by players such as British Helios Towers and Airtel (majority owned by Indian Bharti Airtel). Although it must be noted that in May 2021 Airtel Africa announced the sale of their Tanzanian towers business to SBA Communications Corporation (USA) and Paradigm Infrastructure (UK).

EU companies’ involvement in Tanzania’s ICT sector is extensive, from work done by Germany’s Siemens and Sweden’s Ericsson, currently classified as a large taxpayer by the TRA, to help build Tanzania’s ICT infrastructure to newer entrants such as Konnect Broadband Tanzania (owned by French company Eutelsat), working to provide high-speed satellite broadband internet across Tanzania. Their offering requires a satellite similar in size to a DSTV kit, without the need for capital intensive infrastructure commitments, and is therefore being rolled out to help bridge the digital divide in areas where infrastructure such as towers may not be economically feasible. Finnish Nokia is present in the market and is also classified as a large taxpayer by the TRA.

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<sup>123</sup> It is unclear how exactly these two levies are going to be imposed

<sup>124</sup> PwC, National Budget Bulletin, Nurturing investment growth; embedding economic resilience



EU investment is also growing in the country's burgeoning ancillary application space. Micro-insurance provider BIMA (Sweden), for example, is working with the MNOs and their mobile money app services such as Tigo Pesa to provide affordable insurance. BIMA entered Tanzania in 2011, making it their second market after Ghana. Other Nordic investors include Finnish Sibesonke that works to provide farmers with increased access to information via a USSD service, allowing farmers and their customers to interact and also via an online

mFarming Portal. Companies such as Mobisol (owned by French Engie with products designed in Germany) provide solar home systems to underserved areas. Whilst their remit is more squarely in the renewable energy space, their solar home systems are connected via a sim card which help monitor the pay as you go system with instalments paid via mobile money transfer. They have branched into providing additional services including radios, fans and speakers highlighting the power of the ICT sector in all aspects of life.

### CASE STUDY 5: TIGO

Established in 1994, Tigo Tanzania (Tigo) was the first MNO to enter the Tanzanian market. Tigo currently holds 26% of market share and its mobile money app, Tigo Pesa, has approximately 30% of market share. Tigo employs close to 500 people directly. Tigo's parent company is Millicom. Tigo's 3G coverage covers all regions in Tanzania and it continues to roll out 4G coverage. Tigo's product offerings are diverse, with service lines to target large corporations, small and medium sized enterprises and individual users. For their larger customers, Tigo offers cloud, voice and connectivity solutions. The company offers bulk SMS options and tailored business plans as well as access to data centres. Tigo offers a combination of bundles tailored to customers' needs. Tigo Pesa has a bank wallet solution, where funds can be transferred to and from mobile wallets straight to a bank account to facilitate ease of use.

As part of its operations in Tanzania, Tigo partners with the Registration Insolvency & Trusteeship Agency (RITA) and UNICEF to support the rollout of the national birth registration initiative to increase the number of children with a birth certificate. The rollout is being managed via a mobile application developed by Tigo, with data collectors working in Mbeya, Mwanza, Iringa and Njombe, having registered over 660,000 children already, with the data being sent back to a central database at RITA in real time via the Tigo application. The goal is for the system to reach and register four million children under the age of five in the next four years. Tigo also supports the Digital Changemakers initiative, that aims to identify and then support entrepreneurs. The plan was launched in 2012 and focuses on social impact entrepreneurs in Tanzania.

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# MANUFACTURING

## Sector outlook

As one of the sectors prioritised under the Government's Five-Year Development Plan III, manufacturing has considerable potential. For manufacturers supplying the internal market, opportunities remain fueled by a growing demand from construction and domestic consumers.

Enjoying eight direct borders, a newly upgraded port facility, dramatically improved local infrastructure and free trade agreements with several key markets, Tanzania is well-placed to become a manufacturing hub with clear routes to market. The ratification of the East African Community (EAC) common market agreement, in addition to the creation of the pan-African tariff free trading bloc the African Continental Free Trade Area (AfCFTA) will provide a further boon to manufacturers.<sup>125</sup> Further investment in power supply and utilities, for a long time a major issue for industrial development, has directly contributed to increased output from the sector. However, for investors considering to manufacture goods for export, the sector still finds itself in an invidious situation.

Relatively high costs in importing raw materials present barriers for growth, whilst the global move toward highly automated and capital-intensive infrastructure has driven down costs in countries with mature manufacturing clusters. The resulting availability of affordable, high-quality products from international competitors means that the development of an export-driven sector in Tanzania will need careful management and the creation of an environment conducive to business.<sup>126</sup>

Toward that end, the Government has introduced a raft of incentives, most notably in the FY 2017/18 budget, aimed at enabling the production of goods for which

Tanzania remained a net importer. These included the removal of VAT on the importation of machinery necessary for the manufacture of edible oil, textiles, leather and pharmaceutical products, as well as reductions in import tax for motorcycles for domestic assembly. Further benefits are available to businesses operating in Export Processing Zones and Special Economic Zones (EPZ, SEZ). More recently, the Government has focused on developing processing industries aimed at adding value to agricultural products in addition to steel and vehicle battery production.<sup>127</sup>

Despite these measures, growth in the sector remains below government targets, and with the effects of COVID-19 likely to significantly disrupt international trade flows for at least another year, the target of semi-industrialisation by 2025 looks increasingly ambitious. With no clear road map towards further industrialisation, the sector is unlikely to become the driving force of the Tanzanian economy unless, and until, key challenges are addressed.

In 2021, the Minister of Industry and Trade acknowledged the challenge posed by the current operating environment, reinforcing the Government's desire to "create a better policy, legal and operation environment to stimulate and protect private sector growth as engine and foundation." Coming on the heels of a series of meetings between private industry stakeholders and the Government, these reconciliatory remarks bode well for potential amelioration of the relationship between public office and private business.

## Sector profile

Despite the growth of the sector overall, manufacturing value added per capita (MVA) has remained largely constant at around 5.3% since 2010.<sup>128</sup>

In 2015, the manufacturing sector in Tanzania seemed to

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<sup>125</sup> Investment via EPZA drops by 88pc in five years, The Citizen, April 2021: <https://www.thecitizen.co.tz/tanzania/news/business/-investment-via-epza-drops-by-88pc-in-five-years-cag-3355658>

<sup>126</sup> Africa's manufacturing puzzle. VOX EU, March 2021: <https://voxeu.org/article/africa-s-manufacturing-puzzle-evidence-tanzanian-and-ethiopian-firms>

<sup>127</sup> Africa's manufacturing puzzle. VOX EU, March 2021: <https://voxeu.org/article/africa-s-manufacturing-puzzle-evidence-tanzanian-and-ethiopian-firms>

<sup>128</sup> UNIDO, 2019

have reached a tipping point. Generating more export receipts than gold for the first time, the increasing importance of the sector seemed assured, with growth fuelled by manufacturers expanding into regional markets.<sup>129</sup> However, an increasingly difficult operating environment caused manufacturing exports to decline over time, with domestic demands fuelling growth within the sector. Manufactured goods exports were worth USD 985m in 2019 compared to USD 1.4b in 2015, marking a decrease of 30%.<sup>130</sup> The import of capital goods used in industrial production also fell by 26% over the same period, from USD 3.84b to USD 2.84b,<sup>131</sup> speaking to a lack of appetite for investment in Tanzania. The rise in gold price, and the steady normalisation of exports from mines in 2019 largely accounts for the total rise in export receipts in recent years.

Employing 6.8% of the employed workforce in 2020, manufacturing has a large role to play in the future job market in Tanzania. As the agricultural sector moves slowly towards modernisation, increased efficiencies will likely result in increased urbanisation as people previously employed in agriculture seek new opportunities. Combined with the country's high population growth rate, the sector has the potential to become a key player in creating jobs, increasing Tanzania's revenue and individual prosperity.

## Policy context

Since the liberalisation of the economy in the early 1990s and the subsequent privatisation of the manufacturing industry, the sector witnessed a steady growth. With a stated aim of achieving semi-industrialised status by 2025, the Government's drive towards industrialisation has produced a wide range of policy documents and strategies to achieve this target. Whilst ostensibly market-orientated, the Government has shown willingness to intervene in industries that are underperforming.

Key government guiding policies toward the sector include the Tanzania Development Vision 2025, Five Year Development Plan III, The Sustainable Industrial Development Policy (1996), The National Trade Policy (2003), The Tanzania Mini-Tiger Plan (2020), the Integrated Industrial Development Strategy (2025), the Special Economic Zone Act (2006), and the Export

Processing Zones Act (2002). The policy documents emphasise the Government's desire for transformative change and the placement of industrialisation at the core of overall development strategy. However, the considerable overlap between plans, and the lack of a coherent strategy towards achieving the set goals has hampered attempts to overhaul the sector.

### Tanzania export processing zone authority

Established in 2006 under the Export Processing Zones Act of 2002, the EPZA is the agency responsible for developing export processing zone infrastructure and attracting investors. The EPZA is designed to be an all-encompassing authority for potential investors interested in securing incentive and barrier-free manufacturing environment for export-oriented market. Created with the aim of increasing employment opportunities and foreign exchange earnings, the EPZAs had generated USD 1b for the economy by 2016.<sup>132</sup> Figure 8.1 shows the location of the EPZAs.

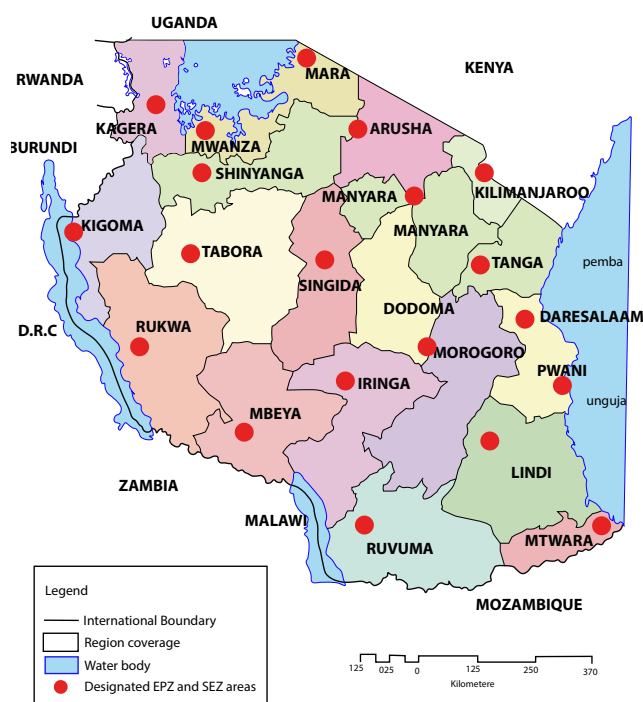


Figure 8.1 Locations designated for EPZ - JICA, Map of EPZs/SEZs, 2019

<sup>129</sup> European Investment in Tanzania, 2016

<sup>130</sup> European Investment in Tanzania, 2016

<sup>131</sup> The Report, Tanzania 2018, Oxford Business Group

<sup>132</sup> TIC

With the expansion of the export-oriented manufacturing sector, the EPZA offers a wide range of incentives to prospective investors in addition to land access, infrastructure, security, corporate intelligence, utilities, and other support functions. These incentives include a 10 year exemption from corporate taxes, exemption from duties and taxes on imported raw materials and capital goods, exemption from VAT on utilities and construction materials, and exemption from withholding tax applied to rent, dividends, and interest. Furthermore, some of the burdensome regulatory requirements around the export of goods are reduced, with EPZA registered clients exempt from pre-shipment inspections of goods, providing an easier route to market.<sup>133</sup> Repatriation of capital, traditionally a major difficulty for international investors in Tanzania, is facilitated with unconditional transferability of net profits and proceeds of equity sales or liquidations.<sup>134</sup>

In order to benefit from these incentives, firms must export 80% of goods produced, and annual export turnover must not be less than USD 500,000 for international entities or USD 100,000 for local businesses.

Despite the incentives associated with the zones, Tanzania's complex regulatory environment was still seen as a barrier, with the legal structure for development of EPZAs seen as a major challenge.<sup>135</sup> Criticised in a 2021 report from the controller and auditor general (CAG), the EPZA acknowledged that a lack of serviced land available to investors had slowed growth. The EPZA itself has also faced challenges in the processes of obtaining permits from other Government institutions for investors. The report singled out the "National Environment Management Council (NEMC), the Lands Ministry, Employment Authority, Immigration Department and the Tanzania Revenue Authority (TRA)" as particularly difficult agencies to navigate.<sup>136</sup>

The EPZ initiative has seen slower uptake than originally envisaged. However, the number of registered businesses has still grown significantly over the last five years. In 2015 there were 60 businesses registered, investing USD 913m. By 2019 there were 169, investing

USD 2.2b. These businesses generated USD 2.2b in export earnings in 2019 and employed 56,312 workers.<sup>137</sup> However, recent trends have shown a serious decline in the number of new applications to the EPZA, with only five new projects registered in 2019 - 2020. This represents a drop in the annual new investment value in EPZs of 88% over five years.<sup>138</sup> Whether the growth rate will increase will depend much on the success of the businesses currently registered, and Governmental attitudes toward them.

### **European investment in Tanzania's manufacturing sector**

Making up 40 of the 116 EU-entities registered with the TIC since 2016, manufacturing is a clear area of focus for EU investors. Reflective of the manufacturing sector as a whole, investment remains centred around the refinement of domestically available agricultural goods, producing products such as drinking water, packaged cashew nuts, wine, beer, soft drinks, and other consumer goods. Demand for cement from the construction sector has caused increased investment in production facilities, in contrast to prevailing worldwide trends.

Market leaders in the manufacturing sector include Germany's Tanzania Portland Cement Company Limited (TPCC) and French owned Mbeya Cement, both classified as a large taxpayer by the TRA, Unilever, Tanzania Breweries Ltd which employs approximately 1,500 people with revenue of approximately USD 447m and BASF. Additionally, Dutch owned Heineken Tanzania Limited produces beer, employing approximately 100 people and generating around USD 6.18m in sales annually and Danish company A to Z Textile Mills Limited is a significant investor listed by the TRA as a large taxpayer.

<sup>133</sup> EZPA 2020

<sup>134</sup> The Report, Tanzania 2018, Oxford Business Group

<sup>135</sup> EZPA 2020

<sup>136</sup> Investment via EPZA drops by 88pc in five years, The Citizen, April 2021: <https://www.thecitizen.co.tz/tanzania/news/business/-investment-via-epza-drops-by-88pc-in-five-years-cag-3355658>

<sup>137</sup> Ibid.

<sup>138</sup> Ibid.

## CASE STUDY 6: HEIDELBERG CEMENT GROUP

Established in 1966 as a subsidiary of German producer Heidelberg Cement Group, TPCC was the largest cement producer in Tanzania until the commissioning of Dangote Cement's 3m tonnes per year plant in Mtwara. Despite the increasingly competitive market in Tanzania, TPCC has seen steady growth since 2016, with 17% growth in profits in the period 2016-2020.<sup>139</sup> 2020 represented a record year for TPCC in terms of sales volumes, illustrating the current demand for cement within Tanzania. Employing 257 staff directly, TPCC has produced high-quality Portland cement for over 50 years with its products used in many of Tanzania's high-profile construction projects.

<sup>139</sup> TPCC Annual Report 2020.



# MINING

## Sector outlook

Investors in the mining industry are often looking to invest a significant amount of capital for an extended period of time. When considering that the lifespan of a mining project such as Barrick Gold Corporation's (Barrick) Bulyanhulu gold mine in Tanzania's Shinyanga region is 18 years, long term investment horizons are understood by all key stakeholders. First and foremost, investors look at the geology of a country or a specific opportunity, however they also analyse long term macro stability metrics including the country's fiscal regime, political stability and security. Text box 3 provides further information on this topic.<sup>140</sup>

In recent years, Tanzania has struggled to convince many in the sector that its mining policies are conducive to long term investment. The Canada-based public policy research organisation Fraser Institute conducts an annual survey of mining companies. In its most recent 2020 survey, Tanzania ranked in the bottom ten jurisdictions in a number of metrics including perceptions of the Government's mining policies, infrastructure, taxation and uncertainty in the interpretation and enforcement of existing regulations.

*Text box 3: Tanzania Chamber of Mines*

### TANZANIA CHAMBER OF MINES

The Tanzania Chamber of Mines (previously referred to as the Tanzania Chamber of Minerals and Energy) was created in 1994 and represents the voice of the private sector. The Chamber has close to 50 members that include large scale international mining companies, medium-scale companies, junior exploration companies and associated service providers. According to the Chamber, there are a combination of factors that attract foreign direct investment into a country's mining sector:

1. A rich geology that hosts economically minable minerals
2. A conducive business environment
3. A win-win, stable and predictable mining fiscal regime
4. Security of tenure
5. Political stability
6. Peace and harmony
7. Availability of skills in the local population
8. Developed infrastructure (availability of electricity, good roads, rail network, ports)

Despite recent concerns regarding Tanzania's mining sector outlook, the sector has played a significant role in the country's economy, particularly in the years since Tanzania opened itself up to foreign investment. Between 1994 and 2012, eight large scale mines were opened in Tanzania, seven of them gold mines, as represented in figure 9.1.

Since the opening of Shanta Gold's New Luika mine in 2012, not a single large scale mine has opened. This has to a large extent coincided with a depressed gold price between 2012 and 2019, making project economics harder to justify in what is Tanzania's most exploited mineral as represented in figure 9.2. However, those in the sector we consulted gave the impression that this slowdown in project development has been exacerbated by significant changes in the policy environment that governs the sector.

<sup>140</sup> Tanzania Chamber of Mines, Summary of Recommendations to the Ministry of Minerals, May 2021

Year	Mine	Company that opened the mine
1994	Tanzanite One	Richland Resources
1998	Golden Pride Mine	Resolute Mining Limited
2000	Geita	Anglo-Gold Ashanti
2001	Bulyanhulu	Sutton Resources / Barrick
2002	North Mara	Placer Dome / Barrick
2005	Tulawaka	Pangea Minerals / Barrick
2009	Buzwagi	Pangea Minerals / Barrick
2012	New Luika	Shanta Gold <sup>141</sup>

Figure 9.1 List of large-scale mines opened between 1994 – 2012



Gold Price, <https://goldprice.org/gold-price-history.html>

<sup>141</sup> Golden Pride Mine and Tulawaka have subsequently closed and mine closure activities are taking place at Buzwagi

## Governance structures

The Tanzanian Government has taken multiple steps to improve the governance of the country's mining sector. In October 2017, the Magufuli administration announced that the Ministry of Energy and Minerals would be split into two ministries, providing Tanzania with a ministry dedicated to running the country's mining sector. Additionally, a Mining Commission was created. The Mining Commission, a separate entity to the Ministry of Minerals, took over the functions that were previously performed by the minerals division of the ministry, the functions of the Tanzania Minerals Audit Agency (TMAA) and Tanzania Diamond Sorting Organization (TANSORT). A lot of the Commission's work when it comes to dealing with investors is centred around the granting and revoking of licenses and matters pertaining to the implementation of the country's local content regulations. This delineation of tasks was to create efficiencies and transparency among the agencies that govern the mining sector. Sources we spoke to noted that, whilst this new structure has brought some significant benefits to the sector, there is sometimes a lack of clarity between the functions of the two organisations, with some matters needing to be

reviewed by the Ministry and the Commission, thereby creating protracted delays.

The management of licenses has been, and continues to be, greatly assisted by the 2015 implementation of the mining cadastre portal. The online system has enhanced transparency in the licensing process and has assisted in streamlining the various administration procedures associated with ensuring that licenses are in good standing.<sup>142</sup>

## Scale and life cycle of mining

The type of license awarded for a project is determined by the scale of the investment. A snapshot of this is captured in figure 9.3 along with a profile of the type of investor that generally invests at each scale.

License type	Sub-sector	Capex	Profile of investor
Primary Mining License (PML)	Artisanal and small-scale miners	Below USD 100,000	Tanzanian nationals conducting small scale mining and generally seeking to sell locally
Mining License (ML)	Medium scale miners	Up to USD 100m	Some Tanzanian companies but majority foreign companies
Special Mining License (SML)	Large scale miners	Above USD 100m <sup>143</sup>	Foreign companies, albeit some are in a joint venture with a Government entity

Figure 9.3 Types of mining licences

<sup>142</sup> License administration includes applications for licenses, renewals of licenses, payment of annual rents, submission of quarterly reports and surrender of licenses

<sup>143</sup> Note that companies may choose to apply for multiple MLs instead of one SML

Whilst projects all have unique features, the mining cycle tends to be quite similar from initial tenement acquisition through to construction, operation, and closure. When it comes to medium and large scale mining, it is common that companies will not invest in all key stages of the mine cycle. Figure 9.4 provides an overview of a mining cycle.

The exploration stage is high risk with the Tanzania Chamber of Mines estimating that the chances of finding an economical and mineable ore resource are 1 in 100. At the exploration stage, companies do not generate revenue and must invest significant sums of money into exploration to try and prove a resource. If junior exploration companies, then attempt to develop a project, they will almost always need to take on significant external financing. Many junior exploration companies will, however, seek to sell the license onto larger mining companies with the capital and expertise to take projects into production.

## Artisanal and small-scale outlook

The outlook for growth in artisanal and small-scale mining is positive, buoyed in large part by an enabling tax environment. The Government put in place a number of measures to formalise, regulate and assist in the growth of artisanal and small-scale mining. Incentives included the removal of 18% VAT and 5% withholding tax. It also installed 39 mineral markets and 50 mineral buying centres, situated near small scale mining operations throughout the country. This structure allows miners to sell their minerals to trading centres, thereby formalising the sale process and allowing the Government to collect royalties. This approach of formalising the sector has provided significant dividends for the miners and the Government, with artisanal and small-scale miners making up 29% of the country's total gold production in 2019 - 20; in earlier years this figure was less than 5% due to smuggling and undeclared mining.<sup>144</sup>

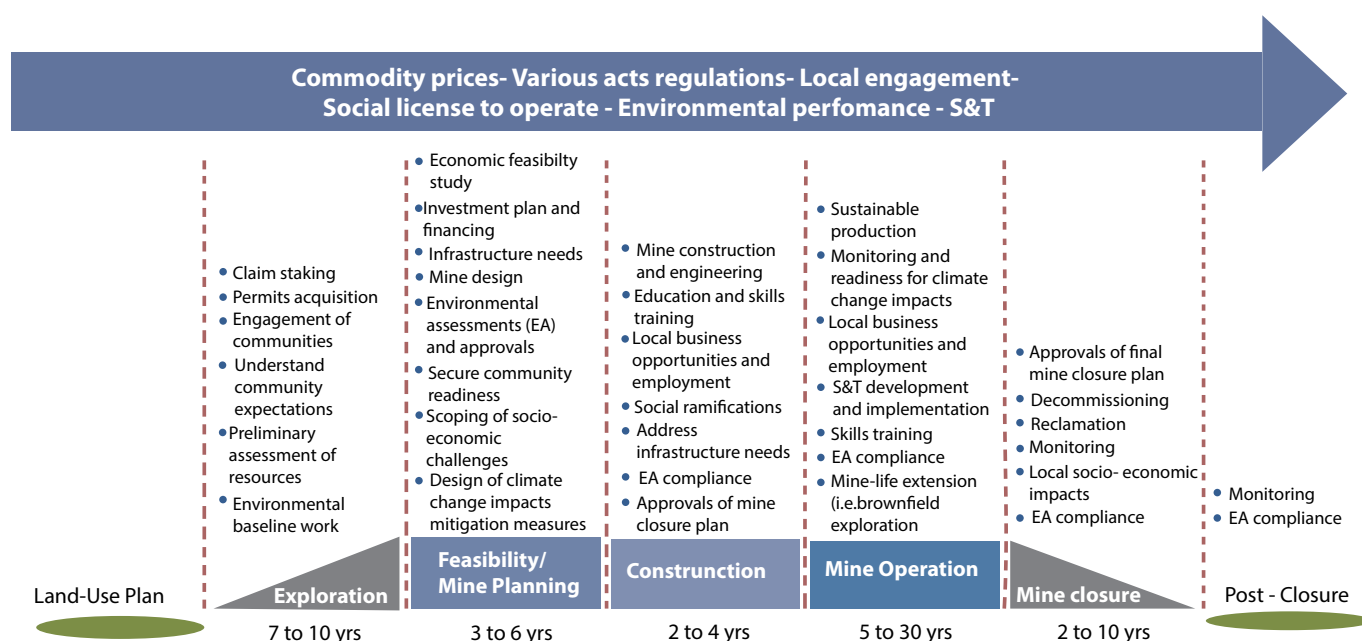


Figure 9.4 Stages of the mine cycle - Mining North Works, Mining cycle, <https://miningnorthworks.com/mining-cycle/>

<sup>144</sup> Tanzania Chamber of Mines, Summary of Recommendations to the Ministry of Minerals, May 2021

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The Government has also worked with investors to commission three refineries in Mwanza, Geita, and Dodoma respectively. Mwanza Precious Minerals Limited is the most progressed with a capacity to refine 480 kg of gold per day.<sup>145</sup> The development of refineries in-country will allow small scale miners to sell to the refineries and to ensure that Tanzania captures additional value from downstream processing rather than exporting raw or semi-processed materials. At this stage, it is unclear whether or not medium and large-scale miners will seek to utilise the in-country refineries.

### Medium scale outlook

Medium-sized exploration and mining encompasses those companies that either hold a Mining License (ML) or are in the process of applying for one. Many of these companies are junior exploration companies listed on foreign stock exchanges. Whilst some of these companies have ambitions to take these projects into production, others are seeking to find larger mining companies to buy the licenses. For junior exploration companies seeking to develop projects, the vast majority require external funding which often comes in the form of debt financing. The 2017 changes to the legislation that governs the mining sector (discussed in more detail in the policy context section below) have however made it increasingly difficult for companies to raise project financing. The level of detail required by a reputable financial institution to fund a project versus the level of detail currently provided in the legislation and regulations often does not align. This has seen a backlog of medium scale projects stall pre-construction; these include, among others, Blackrock's Mahenge project, Strandline's Fungoni heavy mineral sands project and Volt Resources' Bunyu graphite project. Recent progress was, however, seen when ASX-listed Walkabout Resources announced in April 2021 that it had gained USD20m in debt financing from Tanzania's CRDB to develop the Lindi Jumbo graphite project.<sup>146</sup>

Tanzania's ability to capitalise on these projects and reap the benefits including revenues, royalties, job creation and technology transfer which responsible mining practices can bring, will depend on global commodity prices, but also the country's willingness to provide a legislative framework that is consistent,

and commercially minded. If this can be achieved, it is feasible that Tanzania will see a boom in new medium scale projects coming into construction and production in the next 12- 24 months.

### Large scale outlook

Large scale projects are those projects that hold, or are in the process of applying for, a Special Mining License (SML), available to projects with a CapEx in excess of USD 100m. A ML is approved by the Minister for Minerals, whereas a SML is approved by the entire Cabinet. In October 2021 the Cabinet of Ministers approved the SML for the Kabanga Nickel project, the first SML to be awarded in a decade.

Large scale mining is dominated by international companies, namely Twiga Minerals that manages the Buzwagi, Bulyanhulu and North Mara mines (further information on this in the section on Acacia Mining below)<sup>147</sup>. Other operating large mines include Anglo-Gold Ashanti's Geita gold mine, Shanta Gold's New Luika gold mine and Petra Diamond's Williamson Mine. Many of the country's large-scale mines were commissioned during the 1990s. At a time when Tanzania's economy was faltering, favourable terms were given to encourage investors to enter the market including a raft of tax and other incentives, captured under confidential Mineral Development Agreements (MDA) between the investor and the Government. There has long been a sense that these agreements disproportionately favoured investors, with Tanzania and Tanzanians not benefitting sufficiently from their mineral wealth. It was this sentiment that, to a large extent, acted as the catalyst for the 2017 legislative changes that overhauled the country's mining laws (examined in more detail in the policy section below). The result of this legislative overhaul is that all large-scale mining companies have, or are in the process of, re-negotiating their agreements with Government. As part of this, their existing MDAs have been abandoned and negotiations are taking place to ensure that the sector's largest investors are compliant with the 2017 legislative changes, and any subsequent regulatory changes.

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<sup>145</sup> Mwanza Precious Minerals Limited is jointly owned by state-owned Stamico (25 per cent) and two foreign companies, ROZZELA General LLC of the UAE and ACME Consultant Engineers PTE Limited of Singapore

<sup>146</sup> This debt financing will cover just over 60% of the project development costs

<sup>147</sup> These mines were previously owned by London-listed Acacia Mining and are now owned by Twiga Minerals Corporation Limited, a joint venture between the Government and Barrick



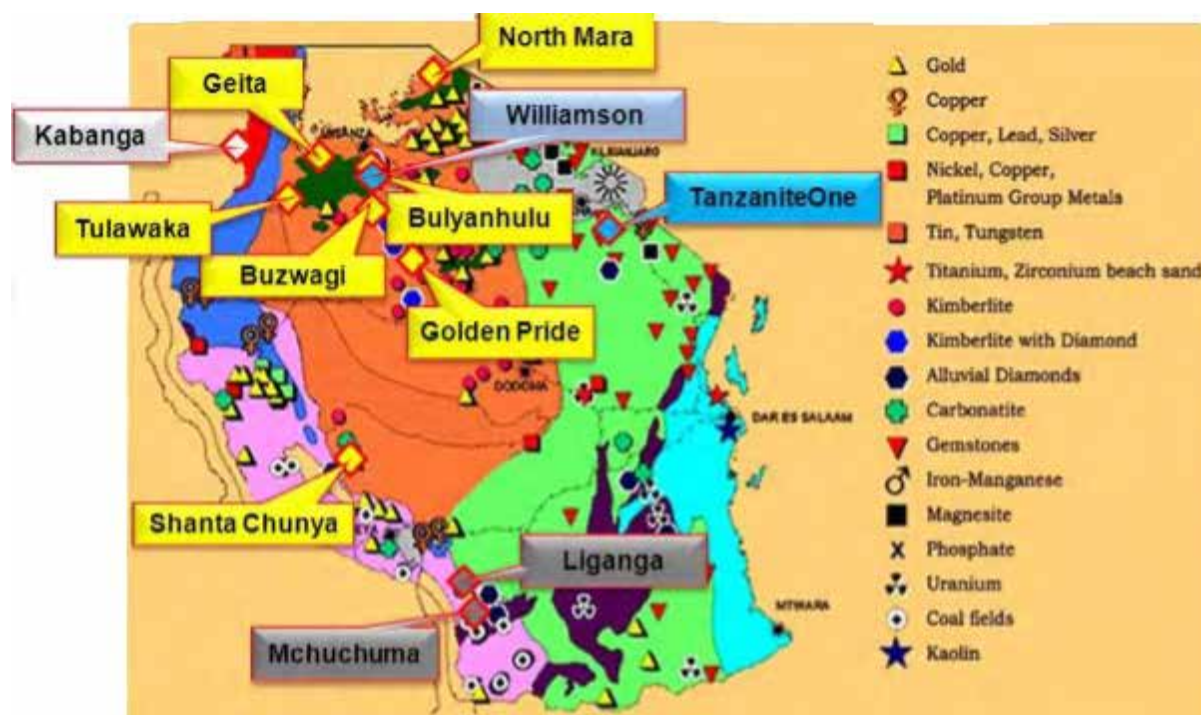


Figure 9.5 Location of flagship mineral projects in Tanzania. Tanzania Chamber of Mines, <https://www.tcme.or.tz/mining.html>

## Sector profile

Tanzania's mining sector is dominated by gold deposits located in the Lake Zone region. In addition to gold, the country has a rich diversity of minerals, including but not limited to, rubies, tanzanite, diamonds, coal, nickel, copper, cobalt, lead, gypsum, and uranium. Figure 9.5 shows the location of key minerals and flagship projects across the country.

The Government has ambitious plans to increase the importance of mining to 10% of GDP by 2025. Progress on this has already been made with mining rising from 3.4% of GDP in 2015 to 5.2% in 2019.<sup>148</sup> During this period, revenue collected from the sector increased from TZS 168b in 2014 - 2015 to TZS 527b in 2019 - 2020.<sup>149</sup> This growth is due to external factors such as an increase in global gold prices, but also as a result of government interventions to formalise the artisanal and small scale mining sector, and the decision to increase royalties on a number of minerals, but specifically gold.

In 2019-2020, while the global economy was impacted by the COVID-19 pandemic, mining was the fastest growing sector in the Tanzanian economy, increasing by a remarkable 17.7% in 2019 - 20.<sup>150</sup> Mining has also replaced tourism as the leading earner of foreign exchange, accounting for USD 2.7b of foreign exchange in 2019, and gold exports reached USD 3b for the first time in the year ending 31 March 2021.<sup>151</sup> Mining has long been an important cornerstone of Tanzania's economy. In light of a slowdown in tourism due to the global pandemic, mining is likely to only increase in importance in the eyes of the Government. In order to achieve sustainable growth, however, Tanzania cannot just rely on external factors such as favourable swings in commodity prices. Rather in order to build a growing and sustainable mining sector new mines need to be built, and this will require investors becoming comfortable with the 2017 legislative changes and subsequent regulatory changes that govern how the sector now operates.

<sup>148</sup> In 2020 the percentage of mining as a portion of GDP has increased significantly, in part due to an increase in global gold prices, but largely due to the decline in other key sectors including tourism due to COVID-19

<sup>149</sup> Tanzania Chamber of Mines, Summary of Recommendations to the Ministry of Minerals, May 2021

<sup>150</sup> Tanzania Chamber of Mines, Summary of Recommendations to the Ministry of Minerals, May 2021

<sup>151</sup> <https://www.thecitizen.co.tz/tanzania/news/business/turning-point-as-tanzania-s-gold-exports-pass-3-billion-mark-3388952>

## Policy context

Tanzania's mining sector grew exponentially in the 1990s when the economy began to liberalise and foreign companies began to bring capital and expertise into Tanzania. With this liberalisation came the passing of the 1998 Mining Act, which clarified taxation and royalty rates, fixed at 3%, for the sector. With time came further nuances in the laws and regulations that governed the sector, with the passing of the 2009 Mineral Policy and 2010 Mining Act. These worked to promote value addition, increase royalty rates and specify that royalty rates were payable on the gross, as opposed to net, value of the mineral.

The legislation and regulations that currently govern the sector came as a result of the passing of the Mining Act CAP 123 in 2017, the Written Laws (Miscellaneous Amendments), the Natural Wealth and Resources Contracts (Review and Re-Negotiation of Unconscionable Terms), and the Natural Wealth and Resources (Permanent Sovereignty) Acts of 2017.<sup>152</sup> The legislative changes of 2017, among others, increased royalty rates, introduced a 1% warehousing fee, enforced a mandatory partial listing on the Dar es Salaam Stock Exchange (DSE) for SML holders,<sup>153</sup> and imposed a mandatory Government free carried interest, of not

less than 16%, in all mining projects. These changes fundamentally altered project economics for the sector.

### Free carried interest

Perhaps the most contentious in all of the 2017 legislative changes was the inclusion of the Government being granted a non-dilutable free carried interest of not less than 16% of each company that holds a ML or SML. The legislation also says that the Government can choose to acquire, in total, up to 50% of shares in these companies. Although the notion of a free carried interest is not unique, with Ghana, Mali, Guinea and other countries also mandating a government free carried interest in mining projects, it was the lack of detail and also the lack of distinction between exploration and mining companies that caused significant concern for investors.

In October 2020, the Government published the Mining (State Participation) Regulations, that provided further detail and clarity to this requirement. However, more than four years after the passing of the original legislation, companies are still working with the Government to secure signed shareholder agreements, with the protracted delay one of the key factors in precluding many companies from securing debt financing and moving into construction.

Mineral	Pre-2017 Royalty Rate	Post-2017 Royalty Rate	Inclusive of the 1% warehousing fee
Uranium	5%	5%	6%
Gemstones and diamonds	5%	6%	7%
Metallic minerals: copper, gold, silver and platinum group minerals	4%	6%	7%
Gems	1%	1%	2%
Other minerals, including building materials, salt and minerals within the industrial minerals group	3%	3%	4%

Figure 9.6 Royalty rates for various minerals in Tanzania (Natural Resource Governance Institute)

<sup>152</sup> Further changes have been made with the passing of various regulations post-2017

<sup>153</sup> This has to some extent been amended as if SML holders can now show that they are providing 50:50 benefit sharing with the government, the requirement to partially list on the DSE can be removed

## Royalty rates

The 2017 legislative changes saw a noticeable increase in royalty rates for key sectors including gold. Whilst these changes on their own could have likely been successfully absorbed, when coupled with the Government's free carried interest, and the inclusion of a 1% warehousing fee, the changes saw exploration companies re-run their project economics to see if their projects were still viable under the new tax structures. Figure 9.6 shows the changes in royalty rates.

Figure 9.7 compares Tanzania's mining taxes, both pre and post the 2017 legislative changes, with other key mining jurisdictions.<sup>154</sup>

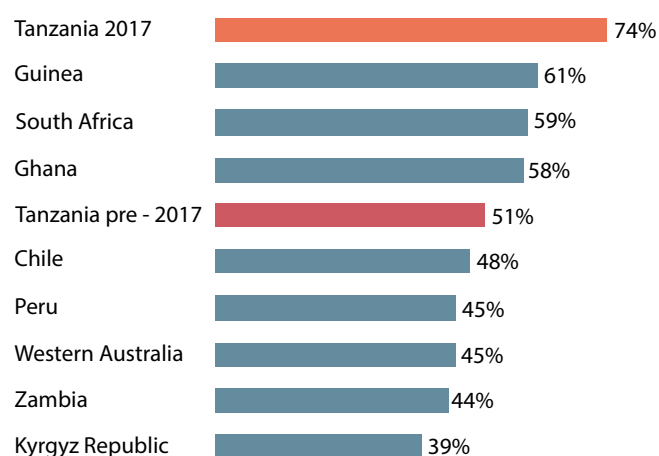


Figure 9.7 Comparative mining taxes - Tanzania Invest, Tanzania Mining Taxes Highest in the World, Analysis Estimate <https://www.tanzaniainvest.com/mining/mining-taxes-highest-in-the-world>

## Local content

Robust local content regulations are in place to ensure that Tanzanian companies and individuals reap the rewards of the country's natural wealth, they are an important part of all mining codes. However, in their current form there are some impracticalities that have the potential to create significant delays.

Under the Mining (Local Content) Regulations, 2018, mineral right holders must use indigenous Tanzanian companies to supply them with goods and services. This is defined as a company that is no less than 20% owned by a Tanzanian. Alternatively, a foreign company

is required to incorporate a joint venture with an indigenous Tanzanian company where that company owns no less than 20% of the joint venture company. The challenge with this is that some contracts are short term and potentially so niche that they are not necessarily replicable for other mines in Tanzania. Therefore, to go through the process of incorporating a company in Tanzania may potentially take more time than the duration of the contract itself.

Another concern is that the tendering process detailed in The Mining (Local Content) Regulations, 2018 is fraught with potential delays, and does not allow for emergency scenarios, for example when a critical piece of machinery breaks down. Sections 16, 17 & 18 of The Mining (Local Content) Regulations, 2018 outline the steps that mineral right holders, and their key service providers and sub-contractors, must fulfill when awarding any contracts above USD 100,000.

- **Section 17:** At the start of each quarter, a mineral right holder must submit to the Mining Commission a list of contracts they intend to sole source and/or any contracts they intend to enter into with a value in excess of USD 100,000
- **Section 16:** The following documents relating to any tender above USD 100,000 need to be submitted to the Mining Commission. The Mining Commission then has 10 working days to approve them:
  - Advertisements relating to the expression of interest
  - Requests for proposals
  - Pre-qualification criteria
  - Technical bid documents
  - Technical evaluation criteria
- **Section 18:** Before commencing each step of the tender process the company must fill out and submit specified forms to the Mining Commission for approval. At each step the Mining Commission has 14 working days to provide written comments:
  - Before issuing a prequalification notice to prospective bidders
  - Before issuing a request for proposal or request for quotation
  - Before awarding a contract

<sup>154</sup> This modelling is based off a hypothetical gold project, with a per unit operating cost of USD 600 per ounce, development costs of USD 420m and a fixed gold price of USD 1,300 per ounce (<https://resourcegovernance.org/blog/tanzania-strikes-better-balance-mining-fiscal-regime>)

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The total time to adhere to these steps is 52 working days. This process is then exacerbated if a selected sub-contractor, for example a drilling company, is awarded a contract by a mineral right holder and they potentially need to then buy equipment to complete that task that is valued at more than USD 100,000, as they too will then need to complete this process and the aforementioned steps must be repeated.

## Retention licenses

Exploration companies have a finite period to convert their prospecting licenses (PL), which provides them with the ability to conduct exploration, to a ML or SML. Typically, a company is awarded its first prospecting license for four years, its second license for three years and its third and final for two years. Previously if companies could prove that due to low commodity prices, lack of infrastructure or technological deficiencies their project was not ready for development, they could apply for a retention license, and thereby delay converting to a ML or SML.

The Tanzanian Government repealed sections 37 and 38 of the Mining Act, 2010 thereby nullifying retention licenses, and returning them to the Government. The decision to revoke the retention licenses has seen three companies, Australian-based Indiana Resources, and Canadian-based Winshear Resources and Montero Mining & Exploration Ltd, take steps towards pursuing international arbitration cases against the Government. This legal process is ongoing however whatever the outcome, lodging of claims has further damaged Tanzania's reputation as an investment jurisdiction.

## European investment in Tanzania's mining sector

With the United Kingdom (UK) leaving the EU, European investment in the mining sector is now more focused on the associated mining value chain with a number of EU companies providing vital goods and services throughout the life cycle of a mining project.<sup>155</sup> Ireland registered Kibo Energy PLC 100% owns the Mbeya coal to power project in the Songwe region. The company holds seven ML's across the project area to develop a 120 Mt coal resource with a co-located thermal power plant. The project is anticipated to bring over USD 7.5b in revenue over the 26-year life of mine. Development of the plant has however stalled

Opportunities for goods and service providers can be found throughout the life cycle of a mine, from consultancies undertaking preliminary assessments and environmental baseline studies to engineering, design and procurement focused businesses at the feasibility stage. Once mines move towards construction and ultimately production, opportunities for businesses with the capital and world leading technology needed to develop mines are increasingly available.

Examples of EU companies currently invested in the mining value chain include Swedish Sandvik Mining and Construction Limited. Sandvik has 40,000 employees globally and provides high end engineering technologies including, underground drill rigs, excavation tools, loaders, trucks, crushers and screeners to the country's mining operations. Additionally German-headquartered Liebherr has world leading machinery including earthmoving equipment and cranes across Tanzanian mine sites. Epiroc provides a range of heavy equipment and automated solutions to Tanzania's mining and exploration companies.

EU companies are also prevalent in the logistics space with French Bolloré Logistics and Bridge Shipping Tanzania (owned by Netherlands-headquartered C. Steinweg) both active in the country's mining sector. Bridge Shipping specialises in forwarding, warehousing and trucking for the sector, with multiple warehouse facilities in Tanzania and a focus on both exporting Tanzania's minerals and also providing transit of materials through Tanzania from the country's in-land neighbours. Case study 7 provides additional information on Bolloré in Tanzania.

Further opportunities for these businesses will no doubt come as the backlog of exploration projects transition towards construction and ultimately production. The number of these pending projects highlights that there are significant opportunities for European businesses to grow their footprint in Tanzania's mining sector in the short to midterm.

In addition to incorporating local content compliant companies in Tanzania, European businesses play a vital role in developing Tanzania's local value chain. This comes in the form of commitments to transfer technology to Tanzanians and Tanzanian businesses, invest in research and development and also by investing in the upskilling and training of Tanzanian staff. These commitments are reported to, and audited, by the Mining Commission on an annual basis.

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<sup>155</sup> Prior to the UK departing the EU, there were a number of then-EU companies investing in medium and large scale exploration and production in Tanzania, these included AIM listed Petra Diamonds, Edenville Energy, Shanta Gold, and Helium One, among others

## CASE STUDY 7: BOLLORE

Bolloré has a long history in Tanzania, commencing operations in 1968. Bolloré currently has four offices in Dar es Salaam, Mwanza, Arusha and Tanga as well as one warehouse in Dar es Salaam with a capacity of 9,000 sqm. They offer end-to-end solutions for clients that include ocean freight, airfreight, customs broking, warehousing, distribution, and on the ground transportation. Bolloré's Tanzanian operation also deals with transit goods through to countries including Burundi, the Democratic Republic of Congo, Malawi, Rwanda and Zambia, making Tanzania a critical hub.

As part of its impact mapping, Bolloré conducts studies of its socio-economic impact in the countries it operates in. The data, taken from a 2018 study, indicates that the company provided 300 direct jobs in Tanzania, but also provided additional employment to 9,670 local service contractors and suppliers. Bolloré also contributed EUR 5m to the country's public services, and EUR 41m of goods and services were procured locally.

	2017 data			2018 data				
	Cameroon	Gabon	Congo	Comoros	Sierra Leone	Kenya	Tanzania	Uganda
Direct jobs <sup>(1)</sup>	4,805	1,103	2,077	249	396	1,107	300	237
Of which women	528	189	206	17	179	74	74	229
Local service contractors <sup>(2)</sup>	13,408	1,989	12,729	105	27,059	5,255	9,670	1,126
Induced jobs <sup>(3)</sup>	9,934	745	4,231	708	5,954	1,959	3,211	880
Health coverage (in millions of euros)	2	1	1.7	0.84	0.242	0.582	0.144	0.85
Investments in infrastructure and equipment (in millions of euros)	41.6	149.8	350 (since 2010)	9.3 (since 2012)	121	16 (between 2016 and 2019)	1.1 (between 2016 and 2019)	1.5 (between 2016 and 2019)
Contributions to public services (in millions of euros)	63	14	33	2.33	11	4	5	1
Goods and services purchased on the domestic market (in millions of euros)	40	50	74.7	1.96	52.8	20.2	41	4.5
Number of societal actions	47	8	21	7	4	3	1	2
Amount of societal actions (in euros)	718,000	474,000	249,000	40,000	81,000	21,000	3,000	23,000

(1) Direct jobs generated in one year by the Bolloré Logistics, Bolloré Ports and Bolloré Railways business units (if present in the country in question).

(2) Indirect jobs generated in one year by service providers (dockers, etc.) and local suppliers.

(3) Induced jobs in one year via household consumption by direct and indirect employees.

Figure 9.8 Continental operations, Bolloré 2020 Universal Registration Document



# RETAIL & TRADE

## Sector outlook

With rapid economic growth and a population expected to double in size by mid-century, conditions will likely remain favourable for Tanzania's formal retail sector in the medium term. With Tanzania achieving lower-middle income status in 2020,<sup>156</sup> five years ahead of schedule, increased consumer spending power will continue to be the primary driver of growth within the sector.

Contributing 8.8% of GDP in 2019,<sup>157</sup> the retail sector has benefitted from Tanzania's general political and economic stability over the last five years. The Tanzanian Shilling has remained stable since a depreciation in 2015,<sup>158</sup> whilst inflation rates have dropped to unprecedented lows in the same period, contributing to stronger consumer purchasing power. Figure 10.1 highlights movement of the Tanzanian Shilling against the US dollar since 2016 whilst figure 10.2 tracks inflation from 1986, until today, and with a projection until 2026.

US Dollar to Tanzanian Shilling



Figure 10.1 Tanzanian shilling exchange rate to US Dollar, 2016 - 2020 - XE.com, 2021

<sup>156</sup> World Bank Group data

<sup>157</sup> Bank of Tanzania figures

<sup>158</sup> Currency rate; TZS/USD: xe.com

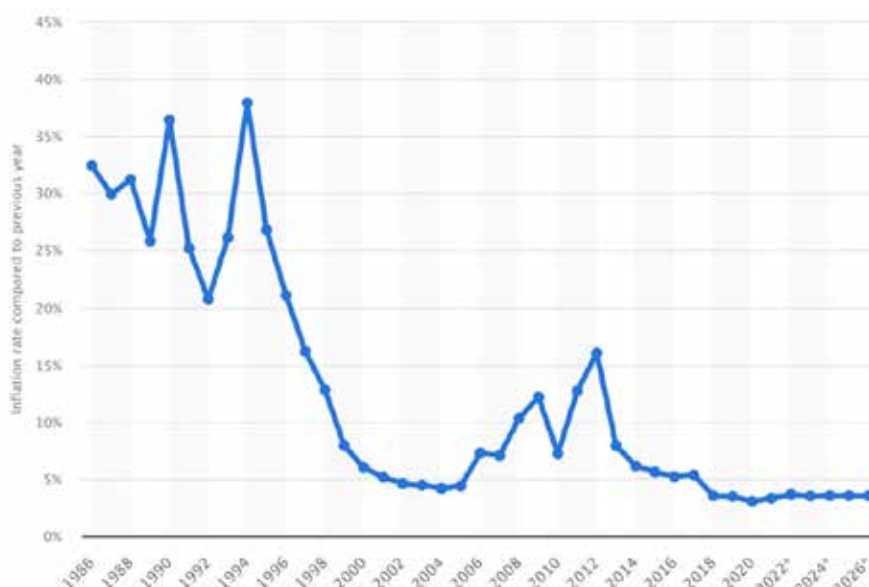


Figure 10.2 Inflation (projection), 1984 – 2026 - World Bank Group data

Due to the Government's COVID-19 response insulating the sector from the most damaging effects of the pandemic which took a toll on retailers globally, the retail sector in Tanzania managed to exhibit growth of 1.2% year on year throughout 2020.<sup>159</sup> This growth trend is expected to accelerate as the region emerges from the constraints of the pandemic.

The sector has significant scope for expansion. As inclusive economic growth creates demand for non-staple products, formalised retail will play large part in the diversification of goods on offer. Tanzania's potential for retailers saw the country ranked 28th in the world, and first in East Africa, in the 2019 Global Retail Development Index.<sup>160</sup>

As access to internet increases the market penetration of online retail is expected to increase. Difficulties associated with distribution in Tanzania have however, caused issues for pioneers in the market. The high-profile withdrawal of Jumia, the largest e-commerce platform in Africa, from the market in 2019 demonstrated the difficulties companies face in establishing new operational procedures within Tanzania.<sup>161</sup>

## Sector profile

Tanzania's retail sector remains dominated by the informal sector with an estimated 90% of food sales supplied by small shops, street vendors, and markets.<sup>162</sup> Either excluded from the formal market by onerous and unaffordable compliance standards, or deliberately choosing to exclude themselves from tax systems, these informal vendors compete with larger formalised retailers, free of many of the operational difficulties that govern the market in Tanzania. Able to offer cheaper goods, these outlets have shown increasing organisational complexity, with an increasing trend towards informalisation in the wholesale trade<sup>163</sup>. Efforts to subject the informal sector to stricter regulation have been impressive, however the loss of revenue and growth potential of the under-regulation of traders remains vast. Within the wider retail market, there remains a clear consumer preference toward the informal sector. Cost remains the dominant market factor, forcing retailers to focus on staple products, with correspondingly low margins.

With formal retail making up such a low percentage of total sales, the emergence of urban demand for diversified goods has come as a major positive. With

<sup>159</sup> Fitch Solutions, Tanzania Consumer Retail Report, 2021

<sup>160</sup> Global Retail Development Index, AT Kearney, 2019: <https://www. Kearney.com/documents/20152/5005160/2019+Global+Retail+Growth+%E2%80%93+A+Mix+of+New+Consumers+and+Old+Traditions.pdf/79ba4703-03d2-4132-6432-ebfc493c75e3?t=1578678903535>

<sup>161</sup> Jumia closes e-commerce business in Tanzania, CNBC Africa, Nov 2019 <https://www.cnbc.africa.com/2019/jumia-closes-e-commerce-business-in-tanzania-two-weeks-after-shutting-down-in-cameroon/>

<sup>162</sup> Wholesale and retail of food in Tanzania, Who owns Whom, February 2017: <https://www.whoownswhom.co.za/store/info/4487?segment=Wholesale+and+Retail+of+Food+in+Tanzania>

<sup>163</sup> Study on the informal sector with a view to formalisation, The Institute of Management and Entrepreneurship Development, July 2016: <http://repository.businessinsightz.org/bitstream/handle/20.500.12018/7475/IMED-%20INFORMAL%20SECTOR%20STUDY%20Final%20report%20July%202016.pdf?sequence=1&isAllowed=y#:~:text=Informal%20enterprises%20represent%2066%25%20of,52%25%20are%20owned%20by%20women>

shopping mall space expected to double within the next five years in Tanzania,<sup>164</sup> rental rates at prime locations will remain relatively low, offering businesses a less expensive route into the market. Increasing affluence in urban areas is likely to drive growth in the sector, with global household brands enjoying aspirational appeal.

Consumer conservatism is high, with interest limited in non-traditionally available products, detrimental to retailers accustomed to high-profit margins on imported goods. The modern trend toward biodegradable and lightweight packaging is similarly off-putting in Tanzania, with plastic containers valued for use in a wide range of household applications.

In the face of these market trends, potential entrants will need to carefully study consumer behaviour. Tailored approaches, with a clear understanding of supply chain management and locally successful marketing techniques are most likely to be able to fully take advantage of the enormous growth potential of the Tanzanian market. It has become evident in the retail sector, as in many sectors, that what works in Kenya for example, does not necessarily work in Tanzania.

## Policy context

Laws that impact retailers include the Small and Medium Enterprise Development Policy of 2002; the National Trade Policy, 2003; the Finance and Business Licensing Act, 2004; and the Business Activities Registration Act, 2007. Further changes have been made to legislation over the last five years, including the Tax Administration Act, Cap 438 R.E 2019, Income Tax Act, Cap 332 R.E 2019, The Value Added Tax Act, Cap 148 R.E 2019, The Port Service Charges Act, Cap 264 R.E 2019, The Motor vehicle (Tax Registration and Transfer) Act, Cap 124 R.E 2019, The Road and Fuel Toll Act Cap 220 R.E 2019 and The Stamp Duty Act, Cap 189 R.E 2019.

Regulatory bodies such as the Tanzanian Bureau of Standards (TBS), Tanzania Medicines and Medical Devices Authority (TMDA) and the Occupational Safety and Health Authority (OSHA) are heavily involved in many sectors, and retail's consumer orientated focus brings with it increased regulatory oversight. Additionally the Tanzania Revenue Authority (TRA) has

increased oversight and enforcement for both formal and informal sector retailers over the last five years.

Line ministries overseeing the retail sector include the Ministry of Finance and Planning, the Ministry of Agriculture, Livestock and Fisheries, and the Ministry of Industry and Trade and the Ministry of Investment.

## European investment in Tanzania's retail and trade sector

According to the Tanzania Investment Centre (TIC) data, there have been no new entrants to the retail market in Tanzania from European investors since 2016. French supermarket giant Carrefour shelved plans to enter the market in 2019, citing difficult market conditions.<sup>165</sup>

Extant investors include Unilever, Heineken, Nestlé, and Achelis (Tanganyika) Limited. European penetration of the Tanzanian retail market is characterised by provision of fast-moving consumer goods, including beverages. European brands provide household-name brands across Tanzania but are in direct competition with established Tanzanian-owned companies.

### CASE STUDY 8: ACHELIS (TANGANYIKA) LIMITED

Achelis (Tanganyika) Limited (ATL), established in 1961, is part of the German-based Achelis Group of Companies. As the on-the-ground representative for a range of European brand names without internal market presence in Tanzania, ATL plays the role of distributor, marketer, importer, and service provider across a diverse range of products. Employing 65 staff across three offices in Dar es Salaam, Morogoro and Mbeya, ATL represents brands such as CIMC, Zeiss, Heidelberg, Hyster, Manitou, and Thermo Scientific, amongst many others. This one stop shop for high-end European-manufactured products makes ATL a storefront for European equipment and is a major conduit for EU manufactured goods into the country.<sup>166</sup>

<sup>164</sup> Tanzania's commercial real estate sector on the rise, The Exchange, March 2018: <https://theexchange.africa/investing/retail-sector-most-paying-in-dar-es-salaams-real-estate/>

<sup>165</sup> Trend Type, New Supermarket Entrant in Tanzania, Smart Buys, Opens in Dar es Salaam, <https://www.trendtype.com/news/smart-buy-hypermarket-dar-es-salaam/>

<sup>166</sup> Achelis, <https://achelis.co.tz/resource-center/>

# TRANSPORT & LOGISTICS

## Sector outlook

Massive investment in infrastructure was perhaps the core feature of President Magufuli's development policy. The rehabilitation of Tanzania's railways, coupled with major improvements to roads, border-posts, airports, and port facilities in Dar es Salaam, have created an environment conducive to continued growth. The trickle-down effects of such policies have had positive effects on other subsectors, creating access to previously poorly served areas such as the agriculturally important Kilombero Valley and tourism destinations across the country. With the infrastructure budget taking up as much as 37% of total government expenditure,<sup>167</sup> there is a case to suggest that the focus placed on infrastructure development diverted much needed resources from other sectors. However, the resulting capabilities have left Tanzania well-placed to fulfil the role of regional gateway.

As the former Minister for Works, President Magufuli took a figure-head role in creating the framework for comprehensive upgrades to national transportation infrastructure, increasingly viewed as his primary legacy. Taking a personal interest in multiple development efforts, his presidency oversaw the continued implementation of Tanzania's Vision 2025 plan, the National Strategy for Growth and Reduction of Poverty (MKUKUTA II), and the Implementation Strategy of the Transport Policy of 2011 - 2025.<sup>168</sup>

The rehabilitation of the country's railways has led to a consolidation of Tanzania's position as the preferred country of entry for goods destined for regional markets. Lengthy routes to market are now considerably more economically appealing with some major logistics companies using rail for up to 50% of all goods transported within Tanzania.<sup>169</sup> This has created

difficulties for vehicle-based transportation companies in the country, traditionally the major carriers for regional freight. The rail system has a total track length of 3,676km, which are operated by two railways systems: the Tanzania Railway Limited (TRL) and the Tanzania-Zambia Railway Authority (TAZARA). Linking the port of Dar es Salaam with key regional partners, the spending on railways demonstrates the importance of trade and transit goods to Tanzania's development plans.<sup>170</sup>

Cross-border logistics have been improved with the opening of One Stop Border Posts on key trade routes, significantly decreasing border transit times for hauliers<sup>171</sup>. Tanzania's unique response to the COVID-19 pandemic largely insulated the logistics industry against the expected economic effects on the sector. Document processing times were unaffected, and staff continued to work in-office. Companies reliant on airfreight experienced severe difficulties during the two-month period in early 2020 when Tanzania's airspace was closed but have rebounded strongly since. Furthermore, the Dar es Salaam Port was open for business at near full capacity – a point of difference from competitor ports in the region. Indeed, several companies returned record profits in 2020, and project further growth in 2021.<sup>172</sup>

More generally, Tanzania is moving towards reducing the inefficiencies which have long hindered the sector. There is considerable cause for optimism amongst the business community placed to take advantage of the sector's rehabilitation. Whilst bureaucratic and regulatory challenges to business remain, efforts to streamline the sector's governance are beginning to have substantive results, most obviously in the case of the Dar es Salaam port.

The heavy investment in infrastructure over the last five years has vastly reduced the deficit in capacity in all transportation sectors. The decrepit railways, moribund

<sup>167</sup> Tanzania Invest

<sup>168</sup> International Trade Administration

<sup>169</sup> Respondent Data

<sup>170</sup> International Trade Administration

<sup>171</sup> TRA

<sup>172</sup> Respondent data

state airline, inefficient ports and underfunded airports have all seen major upgrades, resulting in huge increases in capabilities. Whilst not all of the projects are complete, many remain on track to deliver significant change within the sector. Infrastructure remains a priority area for the Government, and a continuation of the ‘build it and they will come’ mentality will ensure Tanzania’s natural advantages of location are matched by its ability to deliver results.

## Sector profile

### Ports

Tanzania has four commercially significant marine ports, located in Dar es Salaam, Tanga, Mtwara and Stone Town (Zanzibar). The Port of Dar es Salaam is by far the most significant in terms of cargo volume, handling over 95% of all international trade. In 2019 - 2020, the Dar Port handled 17.5 million tonnes of cargo.

Proposals for a vast seaport at Bagamoyo have stalled, leaving the Dar es Salaam Port well positioned to be the primary conduit for trade goods for the foreseeable future.<sup>173</sup> Long associated with lengthy waiting times, high fees and procedural inefficiencies, the port is undergoing significant modernisation under the Dar es Salaam Maritime Gateway Project (DMGP), a USD 900m donor-funded construction effort, supported with additional funding from the Government.

The DMGP aims to increase total port capacity through a comprehensive strengthening and deepening of berths and the existing roll-on-roll-off terminal, as well as a modernisation program for dry-bulk handling and improvement of the rail-head terminal. The second component involves capacity building within the Tanzania Ports Authority (TPA), especially with regard to tenant management.<sup>174</sup> Further improvements to the railhead at the port will reduce wait times and, by extension, wharfage costs, making Dar es Salaam an increasingly attractive choice for regional transporters. The program as a whole is expected to allow the port to handle an increase of 43% in total volume by 2025.<sup>175</sup>

The project is being carried out by subsidiaries of Chinese state-owned construction consortia and supervised

by two German consultancies. Originally slated for completion by mid-2020, the program is currently behind schedule, with an estimated completion date in mid-2024. At the time of writing one of the new berths operated by the Tanzania International Container Services (TICTS) is now open, with improvement of an additional TPS berth ongoing.<sup>176</sup> Respondents have noted that the construction has caused further port congestion during the implementation process but feel strongly that the improvements will greatly facilitate movement of cargo through the port in the near future. Figure 11.1 highlights project timeframes and spend to date.

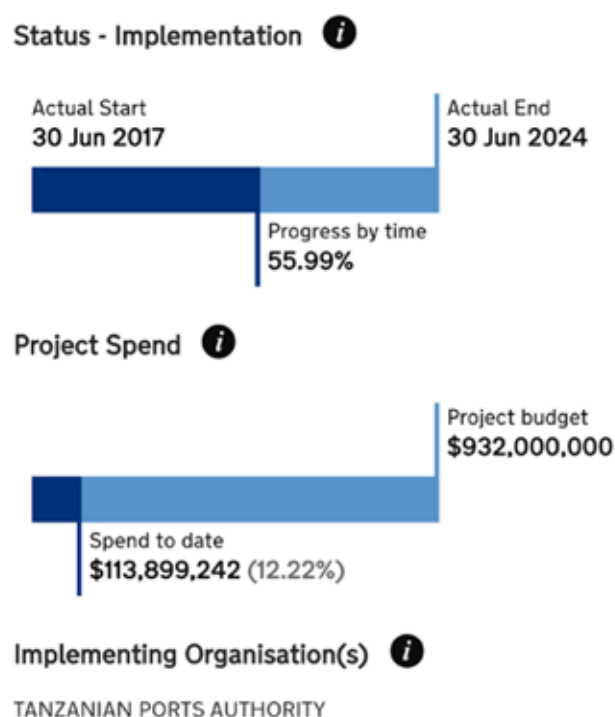


Figure 11.1 Dar es Salaam Maritime Gateway Project Implementation Status - The World Bank/Dev Tracker, DMGP Progress 2021

In 2016, the Government imposed a VAT levy on transit goods, resulting in consumers choosing to use competitors to service demand in Central and East Africa. Beira (Mozambique), Mombasa (Kenya) and Durban (South Africa) saw major up-ticks in usage, whilst Dar es Salaam saw a precipitous drop in traffic. Despite the policy being reversed within six months, the damage had been done. Operators were impressed

<sup>173</sup> Tanzania Ports Authority Handbook, 2019

<sup>174</sup> Foreign, Commonwealth and Development Office, UK

<sup>175</sup> Ministry of Works, Transport and Communications, Speech from MoW, Dr.Chamuriho, 2nd March, 2021

<sup>176</sup> Ministry of Works, Transport and Communications, Speech from MoW, Dr.Chamuriho, 2nd March, 2021



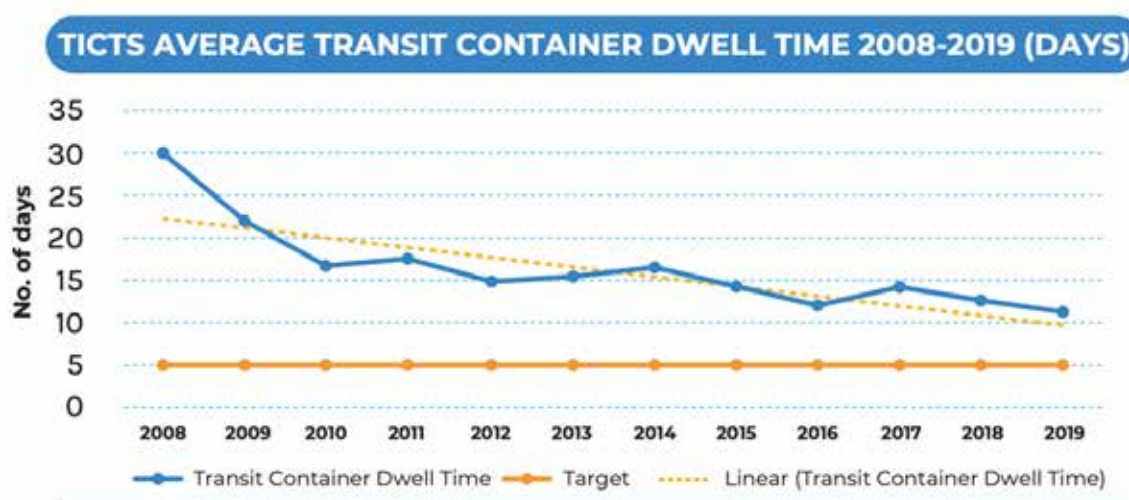


Figure 11.2 Average container dwell time, Port of Dar es salaam - CCTO Annual Report, 2019

with the comparatively straightforward regulatory environment and handling capabilities of the competitor ports, despite their distance relative to end-markets. Attracting business back to Dar es Salaam has remained a challenge, although the year-on-year growth in cargo volumes post-2016 suggest the strategic advantages enjoyed by Dar es Salaam remain a key factor in the choice of shipping location.

Over the last five years, the port has seen improvements in several KPIs, including wait times for berths, total volumes of cargo handled, dwell times for containers and turnaround times for trucks. However, these metrics invariably lag behind the capabilities of a modern container port and illustrate remaining capacity gaps. Documentation requirements for both import and export remain challenging for business, despite the launch of the One Stop Centre (OSC), which began operations in 2018.

The OSC was implemented as a response to stakeholder feedback concerning port ease of use. Announced in 2012, and opened in 2018, the centre agglomerates all the agencies responsible for documentation necessary for clearances under a single roof.<sup>177</sup> Respondents indicate the office has gradually improved workflows over time and suggest that it has been an overall improvement on the pre-existing system. Customs clearances are completed using Tanzanian Customs

Integrated System (TANCIS), reducing import times from nine to five days.<sup>178</sup>

Further improvements have been made to processes with the implementation of two key digital platforms; the Integrated Electronic Payment System, introduced in 2015, and upgraded with the addition of the Government Electronic Gateway, enables customers to make and access payments in real time and reduces key bottlenecks in the payment process. Although teething troubles were flagged, if the system was at fault the Tanzania Revenue Authority (TRA) was reportedly willing to process payments as complete for later evaluation, further reducing processing times. As the system has progressed toward operational maturity, these instances have reduced. Figure 11.2 tracks TICTS average transit container dwell time.

Political economy behind Port authority continues to affect management turnover. Robust policing of port corruption remains a key area in which Tanzania can maximise the efficiency and earning potential of this economically vital facility.<sup>179</sup>

The net effect of these improved processes has been greater demand for port usage in Dar es Salaam. Upgrades to the railway network, and an improved rail/port interface system combined with the additional investment in improving the facilities at the port itself

<sup>177</sup> Tanzania Ports Authority Handbook, 2019

<sup>178</sup> Tanzania Ports Authority Handbook, 2019

<sup>179</sup> Tanzania's ports boss dismissed over corruption allegations, The Maritime Executive, March 2021: <https://www.maritime-executive.com/article/tanzania-s-ports-boss-dismissed-over-corruption-allegations>

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is expected to present an increasingly compelling case for the use of Dar es Salaam as a primary hub for import/export across the region.

## Roads

With its sprawling hinterland and large rural population, Tanzania's road network is crucial to the country's economic development. Prior to his ascent to the presidency, President Magufuli's tenure as Minister for Works was marked by his personal supervision of road-building operations. Under his leadership, key trade routes from Dar es Salaam to neighbouring countries were progressively upgraded, alongside rolling improvements to the nation's trunk road network. In 2020, the Government announced that funding had been secured for the proposed USD 751.3m Coastline Transnational Highway, linking the strategic ports of Mombasa and Dar es Salaam.

Under the Tanzania National Roads Agency's (TANROADS) 2016-2021 five-year plan, 27% of the country's roads were paved by 2018 with another 4000km of roads undergoing upgrade by 2022.<sup>180</sup> Much of the capital expenditure on infrastructure was raised as debt; amongst major lenders were the World Bank, the African Development Bank, and the European donor agencies. China, in particular, has been responsible for providing both capital and construction services on several major programs.

However, road safety remains a serious issue in Tanzania, with an estimated 16,252 deaths per year.<sup>181</sup> Poor driving standards, coupled with substandard vehicle maintenance and inspection regimes, hazardous road surfaces and lack of provision of space for pedestrians has created an extremely challenging environment for road users. In 2020, the World Bank and the United Nations Road Safety Fund announced the 'Ten Step Plan for Safer Road Infrastructure' in Tanzania. This program, in association with TANROADS and the Tanzania Rural and Urban Roads Agency (TARURA) aims to reduce road traffic deaths and serious injuries through a multilateral approach, combining practical skills and capacity building training with revision of legislation and enforcement regulations.<sup>182</sup> For hauliers, along the backbone of the Tanzanian logistics chain, this represents a long-overdue investment in the security of

goods in transit and will reduce the incidence of fleet attrition. However, with increasing scrutiny likely to fall on vehicle standards, meeting regulatory requirements will become an increasingly expensive undertaking for an industry already stretched by the resurgence of the railways.

Urban road networks, often without significant upgrade since independence, were notorious for their crippling congestion. Within the last five years, these networks have been the focus of key public works projects, including widening programs for major arteries, bypasses, improved interchanges and flyovers. Coupled with the implementation of improved bus stations and mass transit systems (DART), these have had substantive effects on commute times in urban centres. Announced in 2017, the Tanzania Strategic Cities Project (TSCP) is aimed at ensuring major urban centres in Tanzania have the necessary infrastructure to cope with increasing urbanisation. Partially funded by Denmark, the USD 130m World Bank program will augment domestic efforts to revitalise urban road networks.

## Rail

Tanzania's rail network has long been viewed as the sleeping giant of the country's infrastructure picture. Financially neglected for several decades, the railways represented both a huge opportunity for growth and a major financial burden to rehabilitate. Significant investment in the country's railways within the last five years have greatly enhanced Tanzania's prospects of becoming the primary trade hub for the region with rail used in many parts of the world as an efficient way of transporting commodities and bulk goods across borders. In 2015 a 1.5% levy on imported goods was imposed as a Railway Development Levy (RDL). Figure 11.3 highlights the rail network across the country.

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<sup>180</sup> Tanroads

<sup>181</sup> UN Road Safety Fund

<sup>182</sup> World Bank Group



Figure 11.3 Tanzanian Railway Network 2021 - Tanzania Railways Corporation

President Magufuli made the railways a key part of his vision for the development of Tanzania, pledging unprecedented financial investment to renovate existing lines and construct new ones. The legacy rail network, consisting of the central line running from Dar es Salaam to the lake ports of Kigoma and Mwanza, and the TAZARA line, running from Dar es Salaam into Zambia, is serially deficient in operational capacity.

In 2017, Tanzania signed a USD 1.46b loan with Standard Chartered Bank to fund part of the construction of a standard gauge railway (SGR) to replace the existing 1219 km central line.<sup>183</sup> With an estimated total cost of USD 7.5b, the new line represents one of the largest construction projects in Tanzanian history. Built in piecemeal, the first two sections, from Dar es Salaam to Morogoro and onward to Dodoma, were awarded to Turkish construction giant Yapi Merkezi and Mota-Engil of Portugal. In 2020 Tanzania awarded a contract worth USD 1.32b to the China Civil Engineering Construction

Corporation to build 341 km of line from Mwanza to Isaka.<sup>184</sup> When complete the railway has the potential to transform regional trade, with faster and more reliable locomotives offering an estimated 40% reduction in freight costs to Rwanda, Burundi, Uganda, and the Democratic Republic of Congo (DRC).<sup>185</sup> In 2019, the SGR accounted for nearly half of the entire budget of the Ministry of Works, Transport and Communications.<sup>186</sup> Concurrently, Tanzania is undertaking repairs on the 970km of the old-gauge railway with a \$300m facility from the World Bank.

The TAZARA line, traditionally perceived as the economic lifeline to the Zambian Copper Belt, was originally completed in 1975. Financed and constructed by China, it had degraded significantly by the 2010s. Facing massive losses and aging infrastructure, the line was kept in operation by Chinese aid. In 2020, the Government earmarked an additional funding package worth TZS 10b.<sup>187</sup> In 2020, TAZARA saw an increase of 19% in total rail freight.<sup>188</sup> Culturally and economically significant, TAZARA is unlikely to be allowed to slide further into disrepair although the estimated multi-billion-dollar costs of any significant rehabilitation or repair are likely to hold the line back in coming years.

In 2018, the Government funded a USD 6.8m renovation project of the Tanga-Arusha Railway. Built over 120 years ago, the line links Tanga Cement with markets in Arusha and Moshi, reducing reliance on road transit, and driving down costs. Operations resumed after a 24-year absence in 2019.

Flagship regional rail projects have drawn criticism in some quarters; Kenya's USD 3.8b SGR running from Nairobi to Mombasa has so far failed to secure funding necessary to complete the project's envisioned full scope, much to the dismay of Uganda, the intended final destination.<sup>189</sup> Tanzania's competing railway network offers fresh options to the region, although it remains to be seen if the country can avoid the pitfalls experienced by Kenya and fully establish an economically self-sustaining system.

<sup>183</sup> Tanzania signs \$1.46 billion loan for standard gauge railway construction, Reuters, February 2020: <https://www.reuters.com/article/us-tanzania-railway-idUSKBN2080JY>

<sup>184</sup> Chinese firm wins \$1b Tanzania rail ward amid global bids, Engineering News-Record, January 2021: <https://www.enr.com/articles/51013-chinese-firms-win-1b-tanzania-rail-award-amid-global-bids>

<sup>185</sup> Electrical testing begins on Tanzania's new standard gauge railway, International Rail Journal, May 2021: <https://www.railjournal.com/infrastructure/electrical-testing-begins-on-tanzanias-new-standard-gauge-railway/>

<sup>186</sup> Tanzania rail project to take half of transport ministry budget, Bloomberg, May 2019: <https://www.bloomberg.com/news/articles/2019-05-10/tanzania-rail-project-to-take-half-of-transport-ministry-budget>

<sup>187</sup> 10 Billion Tsh dished out for revamping TAZARA, allAfrica.com, April 2020: <https://allafrica.com/stories/202004120006.html>

<sup>188</sup> TAZARA

<sup>189</sup> A tale of two railways, African Business News, June 2016: <https://african.business/2019/06/economy/kenya-vs-tanzania-a-tale-of-two-railways/>

## Aviation

With an increasingly modernised portfolio of airports and the revitalisation of state-owned airline Air Tanzania Company Limited (ATCL), the aviation industry in Tanzania has experienced unprecedented upheaval within the last five years. Figure 11.4 shows the number of air transport passengers carried from 1970 onwards in Tanzania.

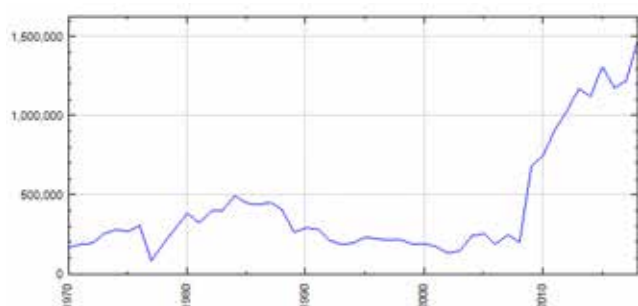


Figure 11.4 Number of passengers carried, Air transport, Tanzania, 1970 onwards - International Civil Aviation Authority

In 2015, Tanzania had a functional small-scale, civil aviation sector with an enviable network of airports and airstrips serviced by a range of private and Government-owned companies. However, the airports were generally antiquated, and the national flag-carrier was near bankrupt and operating a single airframe from its hub in Dar es Salaam. Major domestic airlines included Fastjet Plc, and Precision Air, with tourism destinations in the interior largely served by Coastal Aviation, founded by an Italian-born entrepreneur, Auric Air and Flightlink.

Identified by the Government under the Tanzanian Development Vision 2025, the aviation sector was singled out as a potential driver of development in Tanzania, largely in the role of a conduit for tourism. Massive investment in airport infrastructure, coupled with the resurrection of ATCL, have resulted in widespread changes in the sector.

ATCL has invested heavily in a new fleet, including Bombardier, Airbus and Boeing aircraft, with further

plans for expansion. This fleet, with an average age of just 3.5 years, gives Tanzania direct access to lucrative tourist and business destinations, with services scheduled for regional destinations, as well as Mumbai and London.<sup>190</sup> However, the running of a mixed fleet airline, in addition to the challenges presented by the unique ownership model and leasing agreement has resulted in ATCL showing significant losses year on year. Competitor airlines have complained of protectionist policies and preferential treatment of ATCL, and Fastjet has ceased operations in Tanzania as of late 2018.<sup>191</sup> In her maiden speech to parliament in April 2021, the President reiterated the government's committed to continue to "nurture" ATCL "strategically" by providing debt relief and lifting some taxes and levies.<sup>192</sup>

The global aviation industry has seen considerable hardship due to the effects of the COVID-19 pandemic, and Tanzania has fared no different. Barriers to international travel, and a precipitous decline in tourist arrivals have hit airlines hard. The Government has confirmed that there will be no state funding to sustain airlines during this time, and long serving players in the domestic arena are facing an uncertain future.<sup>193</sup> Further challenges revolve around staff shortages in specialised positions, a lack of training infrastructure for pilots and maintenance staff, and lack of maintenance facilities. As in so many sectors, regulations and ad-hoc changes to policy have created an uncertain operational environment. Airlines have complained previously of having to send parts abroad for service, only to be charged import duties on the returned items.<sup>194</sup>

Of the near 240 airports and airstrips in Tanzania, three account for the vast majority of international arrivals: Kilimanjaro International Airport (KIA), Julius Nyerere International Airport in Dar es Salaam (DAR), and Abeid Amani Karume International Airport (ZNZ) serving Zanzibar. All have seen major upgrades over the last five years.

KIA, the major hub for tourism in the Northern Circuit, saw a USD 40m renovation completed in 2018, aimed at doubling capacity to 1.2m passengers annually. ZNZ's USD 70m Terminal 3 is now officially open and awaiting operational status. Serving international arrivals and with capacity for 1.5m passengers a year, the project

<sup>190</sup> ATCL

<sup>191</sup> Fastjet statement

<sup>192</sup> Hassan gov't pledges to rescue Air Tanzania, Air Tanzania, April 2021: <https://www.ch-aviation.com/portal/news/103052-hassan-govt-pledges-to-rescue-air-tanzania>

<sup>193</sup> Interview with Patrick Mwani, CEO Precision Air. <https://marcopolis.net/tanzania-aviation-sector-precision-air-the-first-iosa-certified-airline-in-tanzania.htm>

<sup>194</sup> Ibid.



began in 2011, but was repeatedly delayed for financial and technical reasons. In Dar es Salaam, by far the biggest airport in Tanzania in terms of annual passenger handling, the new Terminal 3 has capacity for 6m passengers a year and delivers drastically improved user experience. The former international terminal is slated for renovation, with Dutch BAM International selected to carry out the modernisation program.<sup>195,196,197</sup>

Domestic airports have also been beneficiaries of a wide-ranging upgrade program, with 11 regional airports all seeing major investment over the last five years to allow for the growth of the domestic aviation sector.<sup>198</sup> Furthermore, USD 272.1m worth of funding has been allocated for a new international airport to serve Dodoma. With capacity for 1m passengers per year, the new airport is perhaps overly ambitious in scale given that the existing airport served only 14,800 passengers in 2015, the last year statistics were made available.<sup>199</sup> According to the AFDB, the government of Tanzania have signed agreement with a construction firm in July 2021 which slates the project to break ground.

Given the focus on strengthening the infrastructure around Tanzania's aviation sector, the country is well placed to continue its rise in total passenger numbers. As domestic travel increases, and the spending power of consumers rises in conjunction with GDP, the sector faces a period of growth once the effects of COVID-19 recede. A difficult regulatory environment, exacerbated by high rates of taxation and a shortage of technical capacity, remains the major obstacle for the sector in achieving the desired growth. Protectionist policy towards ATCL may well marginalise private sector players; a concern given the traditional performance of sectors dominated by a monopoly within Tanzania.

## Policy context

Regulation of the transportation and logistics sector is carried out by a wide range of Government agencies, including the Ministry of Works and Transport, TANROADS, TARURA, the Road Fund Board (RFB), the President's Office Regional Administration and Local Government (PORALG), Tanzania Rail Company (TRC),

Railway Assets Holding Corporation (RAHCO), Tanzania Airports Authority (TAA), Tanzania Meteorological Agency (TMA), TPA, Tanzania Electrical, Mechanical and Electronic Services Agency (TEMESA), Land Transport Regulatory Authority (LATRA) Tanzania Shipping Agencies Corporation (TASAC) and the Tanzania Civil Aviation Authority (TCAA).

Notable changes to the regulatory structure were made in the recent past. Failing agencies such as Tanzanian Railways Limited were reorganised to oversee individual projects, whilst SUMATRA, the body responsible for transport standards was split into specialised agencies covering land and marine transport individually.<sup>200</sup> Additionally, many projects were actively followed on by the administration, with contractors held to account by the President's office. The number of agencies involved in the regulatory process still represent a challenge for the sector, with respondents noting that whilst overall requirements generally increased, individual processing times were slightly reduced.

### The national transport policy

Tanzania's National Transport Policy aims to ensure that appropriate mechanisms exist to facilitate effective intermodal coordination and communication between the user, the operator, the regulator and the Government on all transport questions and issues. Specific goals include:

- Increasing rail freight to 4 million tons by 2023
- Expanding sea and lake port cargo handling by 50 percent by 2020
- Expanding Julius Nyerere International Airport's passenger and cargo handling capacity by 2020
- Improving urban transportation networks to improve mobility and reduce congestion
- The development of more effective intermodal transport links
- Development and strengthening of institutions to implement strategic PPPs<sup>201</sup>

As a member of the Tripartite Free Trade Area, Tanzania enjoys preferential trading status with The Common

<sup>195</sup> Zanzibar forms airports authority, modernises aviation infrastructure, Business Times, October 2018: [http://businesstimes.co.tz/?option=com\\_content&view=article&id=1121:zanzibar-forms-airports-authority-modernises-aviation-infrastructure&catid=1:latest-news&Itemid=57](http://businesstimes.co.tz/?option=com_content&view=article&id=1121:zanzibar-forms-airports-authority-modernises-aviation-infrastructure&catid=1:latest-news&Itemid=57)

<sup>196</sup> TAA

<sup>197</sup> Kilimanjaro International Airport

<sup>198</sup> Hassan gov't pledges to rescue Air Tanzania, ch-aviation, April 2021: <https://www.ch-aviation.com/portal/news/103052-hassan-govt-pledges-to-rescue-air-tanzania>

<sup>199</sup> TAA

<sup>200</sup> Clyde & Co, 2020

<sup>201</sup> International Trade Administration



Market for Eastern and Southern Africa (COMESA), Southern African Development Community (SADC) and East African Community (EAC) countries. Further regional ties are expected to be created later in 2021 as Tanzania signed and ratified the Africa Continental Free Trade Area (AfCFTA).<sup>202</sup> Tariff-free trading concessions from the EU under the Everything but Arms (EBA) scheme, and with the US under the African Growth and Opportunity Act (AGOA) have enabled access to market for Tanzanian goods.<sup>203</sup> Additionally Tanzania has access to Chinese markets on favourable terms, qualifying for the China Preferential Tariff for Least Developed Countries.

Tanzania has also been increasingly proactive in attracting potential clients for its transport infrastructure. In July of 2016, the TPA opened a liaison office in Kigali, Rwanda to facilitate usage of the Dar Port for Rwandan entities. Subsequently the TPA opened offices in Burundi, Zambia, the DRC and Uganda.<sup>204</sup> Furthermore, the implementation of the EAC single customs territory has significantly reduced customs bottlenecks on the central and northern corridors, boosting regional trade. One Stop Border Posts on major road routes have similarly decreased transit times for goods vehicles.

The Central Corridor Transit Transport Facilitation Agency, (TTFA), headquartered in Dar es Salaam, is squarely aimed at improving the modalities of usage for Tanzania's transport infrastructure. With the massive investment in the SGR, the key component of the corridor, it is hoped that this vital trade artery will further grow in importance within the EAC. The TTFA'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.

## European investment in Tanzania's transport and logistics sector

Brexit has greatly reduced the number of EU companies operating within the sector in Tanzania. However, global players and regional specialist continue to play a major role in the sector, filling several key niches in the supply and marketing chain.

A range of EU owned businesses operate within the logistics ecosystem in Tanzania. Bolloré Logistics (France) DSV Global Transport, and Logistics Ltd (Denmark), Scania (Sweden), DSM Corridor Group (the Netherlands), Hellmann Worldwide Logistics (Germany), DHL Logistics Tanzania Ltd (Germany), Polytra (Belgium) CargoDev, Linea Messina and FSM Transport Ltd (Italy) Orlando P & A Logistics Ltd and Volcan Logistics Tanzania Ltd (Portugal). These companies are active across the gamut of logistics sub-sectors, from haulage, industrial project logistics, heavy lifting, rail transport, air transit and barging to port handling, shipping, supply chain and warehouse management and final mile delivery.<sup>205</sup>

In the aviation sector, privately owned airlines such as Coastal, Tanzanair and Safari Air Link, with European owner and operators, are major players in the tourism market, for both scheduled and chartered flights.

COVID-19 has hit the sub-sector hard, with both airlines and support companies having to furlough staff although projections for international air travel post pandemic suggest a brighter future.<sup>206</sup>

<sup>202</sup> Tanzania to ratify free trade area agreement, The Citizen, May 2021: <https://www.bilaterals.org/?tanzanian-to-ratify-free-trade>

<sup>203</sup> Observatory of Economic Complexity, 2021

<sup>204</sup> TPA

<sup>205</sup> European Investment in Tanzania, 2016

<sup>206</sup> Swissport lowers profit projections over COVID-19 crisis, The Citizen, July 2020: <https://www.thecitizen.co.tz/tanzania/news/-swissport-lowers-profit-projections-over-covid-19-crisis-2712098>

**CASE STUDY 9: HELLMANN WORLDWIDE LOGISTICS**

Hellmann Worldwide Logistics (Hellmann) is a leading logistics company in Tanzania. The company was founded in Germany in 1871 and is one of the world's largest international logistics companies. The company works across road, rail, airfreight, sea freight, and contract logistics. The company's global annual turnover is EUR 2.53b, with 10,600+ employees and 263 offices across the world. The company brings its global experience to its operations in Tanzania.

Hellmann set up in Tanzania close to 20 years ago and currently has 25+ employees and offices in Dar es Salaam and Kilimanjaro. The company is a leading logistics provider to the agriculture sector, transporting key commodities such as avocado, sesame seeds, chickpeas and soya beans out of the country. Via its office in Kilimanjaro, Hellmann exports fresh cut flowers, predominately to EU markets. Hellmann assists in the importation of fertiliser and also has a significant role in the importation of spare car parts, largely coming in from EU countries and South Africa, for companies such as CMC and CRP, with the latter supplying spare parts for Volkswagen, Mercedes and Suzuki.

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# TOURISM

## Sector outlook

Blessed with an abundance of world-class attractions, political stability and a comparatively safe travelling environment, Tanzania clearly has enormous potential as a global tourism destination. Tanzania's spectacular national parks are the primary draw for visitors, with the northern safari circuit accounting for an estimated 80% of tourists.<sup>207</sup>

Whilst the Government remains focused on attracting high-end (and high-spend) tourists to Tanzania, an opportunity exists to develop a market for middle budget tourism focused on marine-based tourism, cultural tourism, eco-tourism, conservation tourism, business tourism, urban tourism and package holidays. However, the taxation and regulatory environment is currently diminishing the appetite for investment in these niches.

More recently, the COVID-19 pandemic has had significant effects on the tourism industry. Discussed in further detail below, the pandemic will likely drastically reshape the tourism industry in the country.

### Government targets and policies

The current administration has committed to continued focus on the sector, with the aim of increasing total annual revenue to USD 6b by 2025, despite the effects of the pandemic.<sup>208</sup> In addition to COVID-19, there are several pre-existing bottlenecks that must be addressed in order to achieve further development of the sector; this ambitious target will require much in the way of additional investment in capacity building and infrastructure if it is to be realised. Originally conceived in 2015, the release of a tourism development master plan has been much delayed. Once ready, the white paper will form the basis of Tanzania's policy toward the sector.

With the Government conceding that there are "some indications that the carrying capacity of the Northern Circuit is almost being exceeded,<sup>209</sup>" attention has turned towards further diversification of the country's attractions. Much of the focus has fallen on the under-capitalised southern circuit, comprising the Mikumi, Ruaha, Udzungwa, Kitulo, and Katavi national parks. These parks contain some of the largest and most biodiverse ecosystems in Tanzania, yet remain relatively unknown abroad. The creation of a second circuit in Tanzania, and the infrastructure to transport and accommodate visitors, is a major undertaking, with the World Bank committing USD 150m to the task under the REGROW program in 2017. Growth in this market will see significant further opportunities for investment in Tanzania's tourism sector.

The creation of six new national parks in 2019 represent further attempts to add to the country-wide list of attractions. These remote and undeveloped former hunting blocks will require extensive rehabilitation and infrastructure development to cater for photographic safaris. For investors with long timeframes and deep pockets, these wilderness parks present intriguing possibilities for adventure tourism and exclusive safaris. Initial development and conservation costs of USD 100m for the new parks will be provided by the World Bank and the German Federal Government Development Bank (KfW)<sup>210</sup> Despite this funding stimulus, the danger remains that these isolated parks may well remain "paper parks," lacking adequate management and revenue streams to ensure their protection.<sup>211</sup>

Additional focus has been placed on the diversification of tourism products available to visitors. With the current emphasis on developing the 'blue economy' of Zanzibar, eco-tourism, marine wildlife encounters and other associated leisure activities are expected to play an increasingly important role in the further

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<sup>207</sup> Serengeti Travel Tips, Business Insider, July 2019: <https://www.businessinsider.com/serengeti-travel-tip-packed-during-peak-safari-season-reality-check-2019>

<sup>208</sup> Tourism industry excited over President Samia's pledge on the sector, April 2021: <https://www.thecitizen.co.tz/tanzania/news/tourism-industry-excited-about-president-samia-s-pledge-on-the-sector-3376130>

<sup>209</sup> Tanzania Invest

<sup>210</sup> New National Parks get sh255b boost, The Citizen, December 2019: <https://allafrica.com/stories/201912270602.html>

<sup>211</sup> Will Tanzania's Wildlife Sector Survive the COVID-19 Pandemic? Kideghesho J, Kimaro H, Mayengo G. May 2021.

development of Zanzibar's tourism industry. Whilst safaris are expected to remain the mainstay of the sector for the foreseeable future, the Ministry of Natural Resources and Tourism is actively seeking out additional revenue streams. Opportunities have been identified and actively pursued; in 2021 the Government established the National Convention Bureau under the auspices of the Tanzania Tourism Board (TTB) in order to promote Tanzania as a destination for the lucrative international convention segment.<sup>212</sup> Further investment has been earmarked for development of hospitality training establishments and cruise liner docking facilities, although the perception of the East African coast as a relatively unsafe maritime security environment is likely to hinder commercial operations until further stability is achieved.

## Sector profile

Tanzania's extraordinary range of attractions gives the country the highest score for natural resources in Africa in the 2019 edition of the World Economic Forum's Travel and Tourism Competitiveness Report (TTCR).<sup>213</sup> Internationally famous destinations such as Mt. Kilimanjaro, the Ngorongoro Crater, the Serengeti and Zanzibar exist alongside myriad alternatives equally deserving of such recognition. With seven UNESCO world heritage sites, 22 national parks, 28 game reserves and a mosaic of forest reserves, Ramsar sites (protected wetlands), marine reserves, wildlife management areas and game-controlled areas, 38% of the total land area in Tanzania falls under some form of protection.<sup>214</sup>

Until the worldwide travel restrictions associated with COVID-19 began to bite in 2020, the tourism sector had achieved steady growth since its liberalisation in 1995. Directly employing over half a million people, and accounting for some 11.7% of the country's GDP in 2019,<sup>215</sup> the sector has typically been the single most significant generator of foreign income.<sup>216</sup> Between 2015 and 2019, visitor numbers rose from 1.1m to 1.5m visitors a year. The total revenue accrued from tourism

increased from USD 1.9b to USD 2.6b over the same period.<sup>217</sup> This international demand for Tanzanian holidays has attracted heavy investment in the sector, despite the challenging local business environment.

Increased investment in transportation in the recent past has left the country better prepared to cater for this influx. Access roads to national parks have been improved and both domestic and international air links have been strengthened by the rejuvenation of Air Tanzania Company Limited (ATCL). The occupancy rate for hotel rooms in Tanzania stood at 56% prior to the pandemic, offering a huge amount of untapped capacity in the sector. However, with a ranking of 121st from 140 countries for tourist service infrastructure in the 2019 TTCR, the quality of lodgings available shows considerable room for improvement outside of the high-end luxury market.<sup>218</sup>

In the face of improved services from regional competitors, continued investment in Tanzania's brand will be critical to the sector's growth. The Government has committed to the aggressive promotion and marketing of Tanzania as a unique tourist destination. The TTB has launched campaigns in the two most populous countries in the world, China and India.<sup>219</sup> With ATCL having commenced direct flights to these countries (although disrupted due to the COVID-19 pandemic), these rapidly growing tourist markets represent a real chance for Tanzania to reach its stated targets. Hitherto niche markets such as Israel, Russia and the Gulf States have been courted more recently, with Russian tourists in particular helping to prop up the tourism industry in Zanzibar during COVID-19.<sup>220</sup>

Domestic tourism continues to be overlooked, and whilst accommodation and services within headline attractions remain unaffordable for the majority of Tanzanians, an increasingly affluent middle-class continue to seek attractions within the country. Furthermore, the low cost of road travel has given rise to an entire sub-sector of low-cost lodgings, restaurants, bus companies and roadside vendors, generating substantial sums.

<sup>212</sup> Tanzania establishes National Convention Bureau, e-turbo news, December 2020: <https://eturbonews.com/2636677/tanzania-establishes-national-convention-bureau/>

<sup>213</sup> World Economic Forum

<sup>214</sup> World Bank Data

<sup>215</sup> World Bank Data

<sup>216</sup> Tourism was overtaken by mining as a result of the COVID-19 pandemic, however historically it is the largest earner of foreign exchange for the country.

<sup>217</sup> Tanzania Invest

<sup>218</sup> World Economic Forum

<sup>219</sup> Tanzania Invest

<sup>220</sup> Undeterred by health warning Russians begin flocking to Africa's islands, IPP Media, November 2020: <https://www.indepthnews.net/index.php/the-world/russia/3970-undeterred-by-health-warnings-russians-begin-flocking-to-africa-s-islands>

Domestic tourism contributed an estimated 27.6% of the sector's contribution to GDP in 2017. With a population increasing in size, mobility and prosperity, the domestic sector is expected to grow by an annual average of 6.4% until 2027.<sup>221</sup>

## COVID-19

COVID-19 has had a disproportionate effect on the tourism industry worldwide. Travel bans, consumer fears, and lack of access to travel insurance have resulted in a precipitous fall in international travel, especially in destinations that cater primary to leisure tourism. A 2020 survey of operators in East Africa saw a 75% reduction in new bookings, with up to 90% of safari bookings cancelled.<sup>222</sup> Figure 12.1 shows the marked decline in international tourist arrivals.

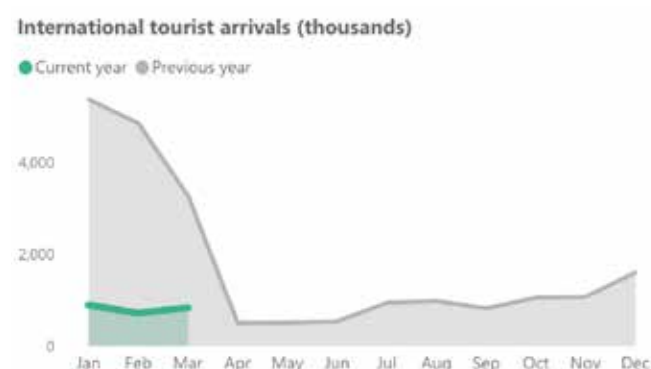


Figure 12.1 International tourist arrivals, Tanzania 2020/21

### COVID-19 recovery and outlook

Tanzania's open borders and relatively unrestricted policies attracted some visitors in the short term, but mass tourism at the levels observed pre-pandemic will gradually recover. In 2020, at the high of the pandemic, Tanzania's controversial approach to combatting the virus received negative international press coverage which has contributed to a perception of Tanzania as an unsafe destination.<sup>223</sup>

With the dynamics of the handling of the pandemic in 2020, operators expected a slow 2021 season, the second in a row. The loss of earnings for two years straight has not been offset by any substantive help in the form of tax relief or deferment.

The handling of the pandemic by the Government since April 2021 has sent encouraging signals to the tourism industry in country and abroad. Information about the state of the pandemic has become regular, although the available instruments and the fact that around 70% of the population lives in rural areas does not enable the health authorities to have an exhaustive picture of the situation. COVAX and bilateral donors have started deliveries of vaccines although vaccination levels are still low. Most of the employees of the tourism sector have been vaccinated.

Operators are currently looking at the 2022 season as the start of return to normality. 2020 was a lost year, whereas 2021 saw the return of some tourists but still far below the pre-COVID-19 levels. The fiscal ramifications of two years of tourism lost may drive many businesses providing sector services to closure. With the Government ruling out financial assistance for the sector, the business landscape will likely have irrevocably changed by the time international visitors return en masse.

## Attractions

### Mainland

Tourism in mainland Tanzania is centered around two primary clusters; the long-established Northern Circuit, and the comparatively underutilised Southern Circuit. The Northern Circuit has enjoyed considerable development of infrastructure and represents the most cohesive supply chain in the sector. The recently upgraded Kilimanjaro International Airport, situated between Moshi and Arusha, and Arusha Airport act as dual hubs for the circuit and serve over 100 destinations.

The Southern Circuit is seen as the answer to the overcrowding in the North. With massive wildlife populations and vast tracts of land under national park stewardship, the southern circuit offers an alternative to the crowded northern plains. However, the vast area covered by the circuit, coupled with relatively low demand, entails lengthy, and costly, travel. There is no fixed definition of the southern circuit, but broadly speaking it covers a wide swathe of Tanzania south of Dodoma.

<sup>221</sup> The Report, Tanzania 2018, Oxford Business Group

<sup>222</sup> Safaribookings.com

<sup>223</sup> Will Tanzania's Wildlife Sector Survive the COVID-19 Pandemic? Kideghesho J, Kimaro H, Mayengo G. May 2021.



## Zanzibar

Synonymous with exotic culture and spectacular beaches, Zanzibar's mix of cultural sites, emergent restaurant scene, temperate seas and increasingly high-end resorts attracted nearly half a million visitors a year pre-COVID-19.

Tourism is Zanzibar's primary source of income, contributing an estimated 28% of the islands' GDP and 82% of its total foreign exchange earnings.<sup>224</sup> The primary port of entry is the newly upgraded Abeid Amani Karume Airport, capable of handling large aircraft and processing 1.5m visitors annually. In 2021 the airport was the fourth busiest in East Africa, behind the three major regional hubs of Nairobi, Addis Ababa and Dar es Salaam.<sup>225</sup> Zanzibar's relatively small size allows for easy transfers to coastal resorts, despite the patchy internal road network.

To this date, the development of tourism in Zanzibar has been piecemeal and overwhelmingly driven by private investment.<sup>226</sup> More recently the Government has engaged with consultancy services and stakeholders in order to create a framework for further development of the sector.

With several Zanzibar-based hotels and resorts winning World Travel Awards within the last five years,<sup>227</sup> the increasing quality of accommodation and dining establishments on the island have attracted guests from across the world. Until 2019, Western European tourists represented the bulk of visitors. However, the establishment of a number of direct flights from Eastern-European countries, coupled with stringent travel restrictions in traditional markets, has recently seen a shift in focus, with over 40% of visitors in 2021 hailing from Russia.<sup>228</sup>

## Tourism infrastructure

With nearly 200 tourist standard hotels, Tanzania's hospitality industry has seen considerable investment in the last five years.<sup>229</sup> Whilst further investments may be

curtailed due to the effects of COVID-19, the increasing availability of high-quality accommodation will go some way towards addressing the shortfalls in tourism infrastructure. The EU has also directly supported conservation efforts in the Serengeti, contributing EUR 1m to fund the Serengeti-Mara Ecosystem Project between 2018 and 2020.

The rehabilitation of ATCL has improved regional and international connectivity, with scheduled flights to the United Kingdom, France, India, China and South Africa planned. Travel links with markets in Europe have remained somewhat constrained and were dealt a blow in 2020 with the withdrawal of Swiss International Airlines from the Dar es Salaam route, leaving Turkish Airlines and KLM (the Netherlands) as the sole European direct routes. Connecting flights via the Gulf states and African hubs remain widely available, with 26 international airlines offering services to Dar es Salaam.<sup>230</sup> These multi-leg flights often involve long layovers and less than ideal arrival times. Government negotiations with major airlines have improved matters somewhat but, as a relatively small market, Tanzanian routes are often allocated marginal slots and older equipment.

Internal flights are increasing in both availability and reliability with ATCL and Precision Air providing affordable links between major airports and smaller feeder airlines such as Coastal Aviation and Auric Air carrying visitors to destination airstrips.

A concerted program of airport and airstrip expansions and renovations have seen facilities improve markedly.

## Policy context

Despite increased investment in tourism, and the prioritisation of the sector, the sector has failed to achieve Government targets in terms of contribution to GDP and total visitor numbers. Growth in the sector has been in line with international tourist numbers, suggesting sector growth has been a result of increased global travel trends, rather than Tanzania itself attracting a larger market share. In the 2019 edition of the World

<sup>224</sup> World Bank

<sup>225</sup> Zanzibar now East Africa's fourth-largest airport – seven new airlines, AnnaAero, January 2021: <https://www.anna.aero/2021/01/21/zanzibar-now-east-africas-fourth-largest-airport-seven-new-airlines/>

<sup>226</sup> World Bank

<sup>227</sup> World Travel Awards 2020

<sup>228</sup> Zanzibar Tourism

<sup>229</sup> The Report, Tanzania 2018, Oxford Business Group

<sup>230</sup> TAA

# Sub-Saharan Africa TTCI 2019 Scores

		ENABLING ENVIRONMENT					T&T POLICY & ENABLING CONDITIONS				INFRASTRUCTURE			NATURAL & CULT. RESOURCES	
	Global Rank	Business Environment	Safety & Security	Health & Hygiene	Human Resources & Labor Market	ICT Readiness	Prioritization of T&T	Int'l. Openness	Price Competitiveness	Environ. Sustainability	Air Transport Infrastructure	Ground & Port Infrastructure	Tourist Service Infrastructure	Natural Resources	Cultural Res. & Business Travel
South Africa	61	4.0	3.9	3.3	4.4	4.6	4.5	2.5	6.6	6.7	3.3	3.5	4.3	3.3	1.3
Namibia	81	4.6	5.0	3.3	4.4	4.0	4.8	2.8	5.7	4.3	2.9	3.4	4.6	3.6	1.3
Botswana	92	4.9	5.5	3.3	4.5	4.1	4.8	2.9	5.5	4.3	2.1	2.8	3.6	3.4	1.3
Zambia	113	4.4	5.3	2.8	3.8	3.2	3.8	2.8	5.1	4.4	1.8	2.9	3.5	3.8	1.3
Zimbabwe	114	3.9	5.4	3.1	3.8	3.2	4.2	3.0	5.3	4.1	1.8	2.8	3.0	3.6	1.3
Eswatini	118	4.4	5.5	3.1	3.8	3.1	4.6	2.7	5.0	4.1	2.2	3.1	3.0	2.8	1.0
Lesotho	124	4.1	5.4	3.4	3.8	3.2	5.1	2.6	5.0	4.6	1.9	1.8	2.8	2.8	1.0
Angola	134	3.8	5.0	3.3	3.2	3.3	4.0	1.8	5.3	4.1	1.7	2.8	2.7	2.8	1.3
<b>Southern Africa Average</b>		<b>4.2</b>	<b>5.1</b>	<b>3.2</b>	<b>3.9</b>	<b>3.4</b>	<b>4.4</b>	<b>2.6</b>	<b>5.7</b>	<b>4.2</b>	<b>2.1</b>	<b>2.7</b>	<b>3.3</b>	<b>3.2</b>	<b>1.4</b>
Mauritius	54	5.5	5.8	5.6	4.7	4.8	5.0	3.6	4.8	4.3	3.2	3.5	5.0	2.4	1.3
Seychelles	62	4.7	5.2	5.4	5.0	5.0	4.8	2.7	5.8	4.3	4.3	4.4	5.4	2.8	1.8
Kenya	82	4.5	4.8	3.1	4.4	3.5	4.5	3.0	4.9	4.5	2.7	3.3	2.9	3.3	1.5
<b>Tanzania</b>	95	4.0	5.2	3.1	3.8	2.8	4.9	3.3	5.5	4.4	2.2	2.8	3.4	3.3	1.3
Rwanda	107	4.9	5.9	3.8	4.4	3.4	4.1	3.2	5.3	4.5	1.8	3.4	3.3	2.8	1.2
Uganda	112	4.2	4.3	4.5	4.1	3.8	4.5	3.0	5.7	4.2	1.7	2.6	3.8	3.7	1.5
Ethiopia	122	3.8	6.1	3.3	3.6	2.8	3.8	2.6	5.5	4.1	2.2	3.4	1.7	3.0	1.6
Malawi	125	4.6	5.4	2.1	3.8	3.2	3.8	2.5	6.6	4.1	1.8	2.7	3.8	3.1	1.5
Mozambique	127	3.8	4.3	1.7	3.8	3.1	4.0	3.1	5.6	4.3	1.8	3.3	2.8	2.8	1.7
Congo, Democratic Rep.	136	3.8	4.3	2.8	3.8	1.1	1.8	1.8	4.8	3.8	1.8	3.8	1.8	3.1	1.3
Burundi	137	4.0	4.8	2.3	4.1	1.2	2.8	1.8	5.4	4.1	1.7	2.5	1.7	2.1	1.1
<b>Eastern Africa Average</b>		<b>4.3</b>	<b>5.1</b>	<b>3.3</b>	<b>4.1</b>	<b>3.0</b>	<b>4.2</b>	<b>2.7</b>	<b>5.2</b>	<b>4.2</b>	<b>2.3</b>	<b>2.9</b>	<b>2.8</b>	<b>3.2</b>	<b>1.3</b>

Figure 12.2 Comparative scores on Tourism sector competitiveness - World Economic Forum, 2019

Economic Forum's Travel and Tourism Competitiveness rankings, Tanzania slid further down the rankings, from 93rd in 2015 to 95th.<sup>231</sup> Figure 12.2 provides further detail on how Tanzania fared in the 2019 rankings.

Tanzania's performance in the survey, which uses a series of metrics to determine the overall attractiveness of a destination highlights the issues faced by the sector. The business environment, health and hygiene, human resources, ICT readiness and tourism infrastructure were deemed to be below average for the region.

With the Government aiming to increase tourist revenues to USD 6b by 2025, the TTB has seen considerable investment, and steps are being taken to improve marketing campaigns in primary and secondary markets. Partly owing to the effects of COVID-19, these efforts have produced little tangible results so far. Furthermore, the TTB has come in for criticism amongst respondents, particularly with regard to ineffectual marketing strategies and recently engulfed with credibility concerns.<sup>232</sup>

<sup>231</sup> World Economic Forum

<sup>232</sup> Tanzania Tourism Board's Devotha Mdachi suspended, April 2021: <https://www.thecitizen.co.tz/tanzania/news/tanzania-tourism-board-s-devotha-mdachi-suspended-3356954>

## EU investment in Tanzania's tourism sector

EU investment has been seen as the bedrock of the tourism industry in Tanzania since the switch to a market-orientated environment in the 1990s. With footholds in all aspects of the supply chain, European firms have been the driving force in Tanzania's emergence as an international destination. Golden Tulip, for example, owned by French Louvre Hotels Group is a recognisable hotel on both the mainland in Dar es Salaam and in Zanzibar.

In recent years, there have been several distinct trends emerging in the market. Family-operated private lodges, for so long the mainstay of the safari accommodation scene, have been heavily impacted by both the difficult business environment and the COVID-19 pandemic. The loss-making nature of many of these smaller operators has meant limited finances available for upgrade, marketing, and repair, leaving them uncompetitive in the face of newer competition. As a result, several long-standing lodges have been acquired by larger chain-operators with the benefits of economies of scale and deeper financial reserves.

### Zanzibar

Traditionally dominated by Italian businesses, the hospitality sector has seen continued investment from EU entities over the last five years. Increasing levels of investment from Eastern European operators are reflective of the Isle's increasing popularity within those markets. Spanish hotel group Meliá Hotel SA has commenced operations of its 150 bed 5-star resort in the island's north, and other EU interests are represented by Swedish, French and Austrian companies.

### Southern circuit

The expected emergence of the Southern Circuit as competition to the long-established Northern Circuit has been underscored by the interest from large tourism operators. Asilia Africa, the Dutch-owned luxury travel giant, now operates lodges in both Nyerere and Ruaha national parks, with further plans for expansion in Ruaha's underdeveloped south west. With vast capital reserves, courtesy of billionaire backers, Asilia is representative of a company able to withstand the financial hardship

that goes hand in hand with tourism operations in Tanzania. Additional Italian, German, Spanish, Finnish, Belgian, French, Greek, and Portuguese companies have invested in the southern circuit, providing services at high, mid and low-end levels across the supply chain.

### Northern circuit

New entrants to the market include Bulgarian, Danish, German, Italian, Dutch, Polish, Spanish, and Swedish companies, in addition to the multitude of extant entities providing services in Tanzania's most visited region.

### CASE STUDY 10: HELIOS LODGES COMPANY

Helios Lodges Company was established in 2019 as a vehicle for tourism investment in Tanzania. A subsidiary of Bulgarian hotelier TTS Group, the creation of the entity is representative of the rise of Eastern European investment in the Tanzanian tourism sector. With an initial investment of USD 20.76m through the Tanzania Investment Centre (TIC), Helios is aiming to complete three new high-end lodges in Serengeti national park, Ngorongoro conservation area, and Tarangire national park by 2023, providing 169 units across the three properties. Helios is to be responsible for the construction of the lodges, whilst Swiss owned Kempinski Hotels SA signed management contracts in 2021.<sup>233</sup>

Helios's creation of an internal circuit reflects the growing trend towards single-company options for travellers in Tanzania and re-establishes a presence for Kempinski Hotels in the Tanzanian market.

<sup>233</sup> Hospitality Net, Wild Life and Pure Nature: Kempinski expands international portfolio with two Safari Lodges and Luxurious Tented Camp in Tanzania, <https://www.hospitalitynet.org/news/4102997.html>

# UPSTREAM OIL & GAS

## Sector outlook

Similarly, to the mining sector, investors in oil and gas are generally seeking to invest a significant amount of capital over a long period of time. This reality means that, in addition to the natural resources a country is endowed with, metrics such as a country's fiscal regime, political stability and security are all key factors assessed by companies before entering a market or deciding to expand their exposure in a country. The tragic events in Mozambique in 2021, that saw over 3,000 people killed by Islamic insurgents and Total claim force majeure on its multi-billion dollar investment in Palma, Cabo Delgado province, highlight this factor. With Tanzania's planned liquified natural gas (LNG) project just 150 km North of Palma, issues of regional security as well as fiscal and regulatory consistency remain front of mind for investors. Difficult negotiations with the Tanzanian Government, in addition to a drop in oil and gas prices, has led to a stagnation of new companies seeking to enter the market in recent years. However, recently the Government signalled the willingness to see movement on key projects and there is a degree of optimism that activities will increase in coming years.

### Onshore gas

Tanzania has multiple onshore and shallow water oil and gas fields already in production. The development of this sector has been spearheaded by Songas, which is majority owned by Globeleq (Globeleq is owned by the UK's CDC and Norwegian Norfund). Songas has been providing electricity to Tanzania since 2004, taking gas extracted from Songo Songo Island and transporting it via a 225km pipeline to its power station in Ubungu, Dar es Salaam. Songas provides 21% of Tanzania's electricity requirement and therefore plays a key role in the country's power sector. Figure 13.1 highlights the wells and transportation route to the mainland.

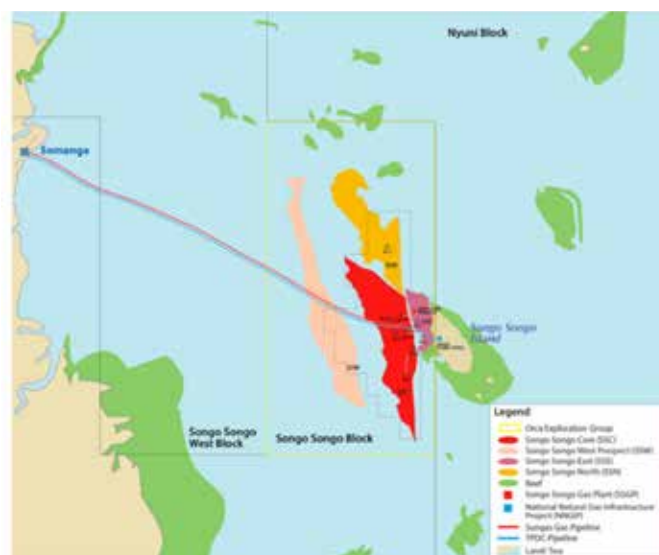


Figure 13.1 Songo Songo gas wells and transport route - PanAfrican Energy, Exploration, <http://www.panafricanenergy.com/operations/exploration>

EU investment is highlighted by French Maurel & Prom who entered Tanzania in 2004 and signed a gas sale agreement with the Government in 2014. Maurel & Prom holds 12,025 km<sup>2</sup> of exploration wells in Rufiji / Mafia<sup>234</sup> and 756 km<sup>2</sup> in Mnazi Bay.<sup>235</sup> Production in 2020 stood at 31.5 MMcfd, a decrease of 8% from 2019. Overall sales during that period however increased by 26% to USD 43m, with sales offsetting decreased production. All gas produced is utilised by the Tanzanian domestic market, demonstrating the importance of European investment into the country's upstream sector, but also in supplying the country's energy needs.<sup>236</sup>

### Offshore gas

Tanzania's prospective LNG project is located 100 km off the coast of Lindi, southern Tanzania. With an estimated investment of USD 30b, the project has the potential to unlock 1 trillion cubic metres of gas and be economically transformative for the southern part

<sup>234</sup> The company holds a 60% interest

<sup>235</sup> The company holds a 48.06% interest

<sup>236</sup> Maurel & Prom, 2020 Universal Registration Document



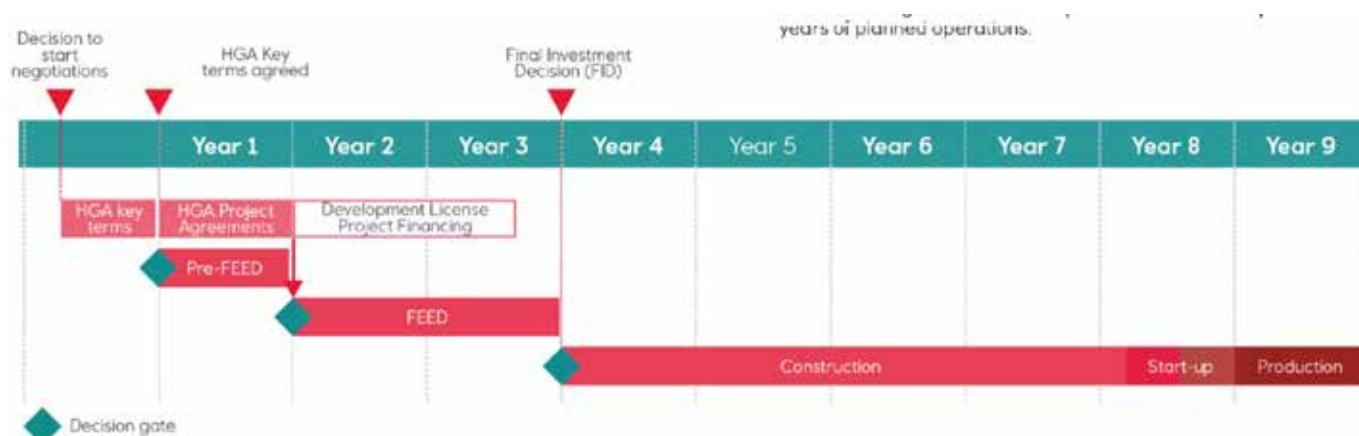


Figure 13.2 Estimated duration between decision note and production in Oil and Gas sector - Equinor, Block 2 Tanzania

of Tanzania and the country more broadly. However, negotiations on the project stalled in August 2019, with minimal movement in the past two years on finalising the host Government agreement (HGA) that is intended to govern key conditions around the project. The slowdown of negotiations was a key catalyst for the January 2021 decision by Norwegian national oil company Equinor to write down the book value of its investment in the LNG project by USD 982m. However in her first month in power, President Samia Suluhu Hassan directed the negotiations to re-commence and there is currently an increase in optimism in what this may mean for the potential development of the project. The key investors in the project are Equinor, along with Anglo-Dutch Shell, US Exxon Mobil, Singaporean Pavilion Energy and UK Ophir Energy.

Negotiations appear to have gone in multiple iterations, with the oil companies initially negotiating as a block, then as individual companies and as of 2021 they have reverted to increased collaboration. This collaboration was highlighted by the March 2021 announcement that Equinor and Shell had signed a memorandum of understanding to negotiate together on midstream matters, with both companies being jointly represented by Clyde and Co, however they continue to negotiate separately on matters relating to upstream. Due to the size and unique nature of the project it is possible that it will be governed by its own project specific law. Such an approach is normally undertaken to give investors more

comfort around the terms (and stability of those terms) governing their massive investment into Tanzania's infrastructure and extractives sector.

Figure 13.2 shows the timeframe from when the HGA key terms are defined until construction and ultimately production, further highlighting the long-term horizons held by those in the sector.

## EACOP

Tanzania is set to benefit from the construction of the East African Crude Oil Pipeline (EACOP).<sup>237</sup> The 1,443 km heated pipeline links the oil that will be extracted from Hoima in Uganda to Tanzania's Tanga. The project will require construction of a marine export storage terminal and significant upgrades to the existing Tanga port. The majority owner of the project is French company Total, with China National Offshore Oil Corporation (CNOOC) the minority investor.<sup>238</sup> Investments are also being made by the Governments of Uganda and Tanzania, via the Uganda National Oil Company (UNOC) and the Tanzania Geothermal Development Company (TGDC). The pipeline route passes through Tanzania in Masaka, Bukoba, Kahama, Singida, Kondo and Tanga. Figure 13.3 highlights the pipeline's route through the two countries.

Although Tanzania and Uganda officially broke ground on the project in 2017 significant momentum towards

<sup>237</sup> The upstream component of EACOP is in Uganda, however the project's significance and management by the Ministry of Energy means that it should still be captured in this section

<sup>238</sup> Total increased its stake in the project in 2020 by purchasing UK-headquartered Tullow Oil's 33% stake in the project





Figure 13.3 Proposed route of the East African Crude Oil Pipeline (EACOP)  
EACOP, <https://eacop.com/information-center/maps/the-route/route-description-map/>

developing the project has only taken place since 2020, with final agreements between the two Governments signed in 2021.

Political will for the project was cemented in Tanzania's 2021 - 2022 budget that provided some project specific concessions for EACOP; a proposed zero rating of VAT for crude oil transported through the EACOP pipeline and a depreciation rate of 5% for assets under EACOP. The project has also received a VAT exemption for imports and local purchases, which will assist in reducing the project's operational costs.

The project has a budget of USD 3.5b and is spearheaded by French Total, estimated to increase foreign direct investment (FDI) in both countries by in excess of 60% during the construction phase. The project will also require over 500,000 tonnes of imported equipment. It is estimated that the construction process will take approximately three years until the oil is being extracted in Uganda, transported through the two countries and exported from Tanga. Environmental and corporate social responsibility issues will be very prominent for this investment.

## Geothermal

Tanzania has been making efforts to develop its geothermal space for a number of years. The sub-sector falls under the remit of the Tanzania Geothermal Development Company (TGDC). The TGDC, established in 2013 is a subsidiary of the Tanzania Electric Supply Company Limited (TANESCO). Geothermal exploration in Tanzania has the potential to be active, with over 50 potential sites identified and five highlighted as strategic sites. These sites are outlined below:

- **Ngozi:** approximately 70 MW power generation capacity at Ngozi volcanic mountain in the Mbeya region. Plans are in place to commence 30 MW of generation by 2023
- **Kiejo-Mbaka:** approximately 60 MW power generation capacity in Rungwe district, Mbeya region. Plans are in place to commence with 10 MW of generation
- **Songwe:** approximately 5 MW power generation capacity in the Majimoto area

- **Luhoi:** approximately 5 MW power generation capacity in the Coast region
- **Natron:** approximately 60 MW power generation capacity in the Ngorongoro District, Arusha Region.

The projects above are at varying stages of exploration with the TGDC working closely with state-owned STAMICO for early-stage exploration drilling. It is feasible however that opportunities for private sector players may emerge as exploration intensifies and the requirement for capital and expertise increases.

The process of drafting legislation, and subsequent regulations, to govern the geothermal sector is ongoing. Whilst efforts have been made to draft a separate act, it is unclear at this point if this will remain the case, or if geothermal will be encompassed under an existing act, most likely the Petroleum Act 2015, that governs the sector more broadly. Until this is clarified, it will be challenging to entice significant investment into the sector.

## Sector profile

It is estimated that Tanzania has in excess of 1.5 trillion cubic meters of gas reserves. The size of such reserves has seen international oil companies conduct significant exploration, both onshore and offshore since the commencement of exploration activities in 1952. To date over 50 exploration wells have been drilled and substantial geological data collected. According to the TPDC “the cumulative seismic coverage in public domain is approximately 100,000 km<sup>2</sup>; 70,000 km<sup>2</sup> offshore and 30,000 km<sup>2</sup> onshore, including the interior rift basins. About 15,000 square km of 3D seismic data has been acquired in the offshore areas.”<sup>239</sup>

In the 1950s and 1960s Shell and BP were both awarded concessions along the coast of Tanzania to conduct exploration work. Following this work the TPDC was established in 1969 and the first Product-Sharing Agreement (PSA) was signed with AGIP (for concessions that were previously explored by BP and Shell) resulting in large scale seismic studies and drilling of wells, both onshore and offshore. As part of this the Songo Songo gas discovery was drilled. With a burgeoning industry, the Government published the Petroleum (Exploration and Production) Act of 1980, which was promptly

followed by a significant gas discovery at Mnazi Bay in 1982. Following these discoveries, a number of international companies including Canadian Ocelot Energy and Trans-Canada Pipelines entered the market, as did Tanganyika Oil Company, Antrim and Canop of Canada and Ndovu Resources of Australia. From 2000 onwards, the sector saw significant 2D seismic surveys take place and companies including Petrobas, Ophir, Statoil (now Equinor) and Dominion enter the market.<sup>240</sup>

The private sector has two key apex bodies, the Oil and Gas Association of Tanzania (OGAT) and the Association of Tanzania Oil and Gas Service Providers (ATOGS) to represent their interests to Government and other key stakeholders. Additional information can be found in text box 4.

*Text Box 4: Oil and Gas Association of Tanzania*

### OIL AND GAS ASSOCIATION OF TANZANIA

The Oil and Gas Association of Tanzania (OGAT) was formed in 2009 to act as the link between the industry, the Government and the civil society. With a stated mission to promote dialogue between these stakeholders, OGAT is a membership organisation for the country's oil and gas companies. Membership is however restricted to just a handful of companies.

The Association of Tanzania Oil and Gas Service Providers (ATOGS) represents companies across the sector's value chain. The organisation has 81 members and works to promote local content in the sector, ensure that local providers are reaching global technical and safety standards and create a network of providers to the sector across the country. ATOGS is a membership organisation, however with a far broader base than OGAT.

<sup>239</sup> TPDC, Exploration History, <https://tpdc.co.tz/upstream.php>

<sup>240</sup> TPDC, Exploration History, <https://tpdc.co.tz/upstream.php>

## Policy context

The initial legal framework that governed the sector was the Petroleum (Exploration and Production) Act 1980. The legislation paved the way for some of the structures of the sector, including allowing for the TPDC to work in partnership with private sector companies under PSAs, that outline the terms of a company's investment in-country. The PSA structure was updated via a model PSA that was published in 2013. It is this structure that has governed all future licensing rounds.

In 2015, three key pieces of legislation were passed, the Oil and Gas Revenue Management Act, the Tanzania Extractive Industries (Transparency and Accountability) Bill and the Petroleum Act 2015 with the latter being the most impactful on the sector. The Petroleum Act 2015, among other matters, clearly delineated upstream activities via the creation of the Petroleum Upstream

Regulatory Authority (PURA) with TPDC being re-framed as the country's national oil company. Critical matters such as local content (discussed in more detail below) fall under the remit of PURA. The Act also put domestic market requirements in place. Further structural changes were made to the sector in October 2017 the Ministry of Energy and Minerals was split into two separate ministries, thereby creating a standalone Ministry of Energy.

The Government manages the country's oil and gas resources on behalf of the citizens of Tanzania. Licenses are granted by the Ministry of Energy, who receives input from PURA. Although the TPDC has exclusive rights over all operations, it can enter into a partnership with an investor. The key government stakeholders that oversee and regulate the sector are highlighted below.

Entity	Remit
Ministry of Energy	The central policy maker on matters impacting the energy sector and the entity that grants licenses
Office of the Attorney General	Overseeing the PSA review process from a legal perspective
Ministry of Finance and Planning	The ministry oversees fiscal and budgetary matters and has oversight over the Tanzania Revenue Authority (TRA)
TRA	In charge of administering taxation, and therefore a key stakeholder in how the ever evolving oil and gas sector is being taxed
TPDC	Tanzania's national oil company
PURA	In charge of the upstream sub-sector of oil and gas with a key role in local content
Energy and Water Utilities Regulatory Authority (EWURA)	The regulator for the natural gas, electricity, petroleum and water sectors
TANESCO	A parastatal organisation with remit to generate, purchase, transmit, distribute and sell electricity
TGDC	In charge of all matters relating to the country's geothermal sector, and a subsidiary of TANESCO

## Local content

Local content is a critical component of developing any country's extractives industry. The sector is currently governed by the Petroleum Local Content Regulations, 2017. The regulations cover local content compliance matters for upstream, midstream and downstream activities. The regulations outline that preference for all goods and services for the sector shall be given to those locally available. If a foreign investor wishes to provide goods and services to the sector then they must either incorporate a company in Tanzania where Tanzanians own not less than 15% of participating shares, or enter into a joint venture structure where a local company owns not less than 25% of the joint venture company. There are also provisions in the regulations to ensure that Tanzanian citizens are given priority in employment, training and benefit from technology transfer and research and development.

Similarly to the mining local content regulations, there is a requirement for all goods and service providers to submit a local content plan for approval, however in conversations with industry players it appears as though this is not (or not yet) stringently enforced. There was also a sense among respondents that it is far more acceptable to source goods and services from the international market compared to the mining sector. Respondents noted that further review of the current regulations is currently underway and there is an expectation that revised regulations will be published soon. Devising a local content law that is fit for purpose, thereby taking into account any capacity issues in-country (be that human capital or technical expertise) with the need to ensure that the country's natural resources benefit Government, businesses and individual Tanzanians, will be a critical component of the sector's successful development.

## Product-Sharing Agreement (PSA) review

In 2018, it was announced that all existing PSAs would be reviewed by the Natural Gas Audit Committee. Following the announcement, there was a sense among respondents that the older the PSA, the more likely it would be subject to significant changes. This in turn appears to impact the earlier investors such as Pan African and Songas, more so than the newer LNG market entrants.<sup>241</sup>

The PSA reviews have raised significant concerns regarding sanctity of contracts. Numerous contradictions currently exist between the PSA's that individual companies hold and the legislative and regulatory changes that came into force after the signing of the PSAs. A sector source noted that although PSAs are supposed to be grandfathered, protecting the contents of the agreements against any future regulatory or legislative changes, in effect this is not happening.

At the time of the signing of the PSAs for example, PURA did not yet exist, so questions were raised among industry players as to a company's requirement to engage with the new entity. Additionally, the detail provided in the local content regulations is more in-depth and developed than what is in many of the PSAs, with the Government trying to place pressure on the investors to adhere to the new regulations. Whilst PSAs have a requirement for producers to supply 10% of the oil and gas to the domestic market, there is a sense among industry experts that the Government would like to see this increased, and may continue to push for this as part of the PSA reviews.

## EU investment in Tanzania's oil and gas sector

Tanzania's onshore industry is dominated by European companies, and the EU is represented largely by the French energy firm Maurel & Prom, which is also classified as a large taxpayer by the TRA. The companies are long term investors in Tanzania's oil and gas sector. Their commitment to the sector and the country highlights a key role played by European interests to date in electrifying and industrialising the country in line with Government ambitions.

The sector has the ability to radically transform should the HGA negotiations proceed smoothly and allow for the construction of Tanzania's first LNG project. The project itself has significant investment from European companies, with the Anglo-Dutch Shell a key investor in the consortium. With the exploration complete, the project is currently in the planning phase with the focus on ensuring that the agreements between Government and the investors are finalised. The coming phases, namely construction, operation and de-commission will

<sup>241</sup> The PSA reviews, and ultimate re-negotiations, have been protracted and remain ongoing at the time of writing



lead to significant opportunities for goods and service providers to the sector including but not limited to, production drilling, construction, front end engineering design (FEED), engineering procurement construction (EPC), manufacturing companies, environmental social

and management consultants and the associated services such as logistics, security, legal, accounting and others, that will all need to be put in place for the project to proceed. Figure 13.4 provides a high-level overview of the key project stages.



Figure 13.4 Key stages of development in LNG project

Shell, Tanzania LNG Our Vision, [https://www.shell.co.tz/about-us/reports/\\_jcr\\_content/par/list\\_751c\\_stream/1562315752269/02dae9d0db9c8e7162ef597421d4267886622ebd/tanzania-lng-brochure-english.pdf](https://www.shell.co.tz/about-us/reports/_jcr_content/par/list_751c_stream/1562315752269/02dae9d0db9c8e7162ef597421d4267886622ebd/tanzania-lng-brochure-english.pdf)



The ongoing review of the local content regulations will however determine how attractive such opportunities are for EU investors. Regardless of how regulatory change will be enacted, there is still a need for those goods and services not readily available in Tanzania. A number of EU companies have shown an interest in working on the project.

The newly-signed EACOP project with oil coming from Uganda, but the pipeline running through Tanzania, will also create opportunities right across the northern part of Tanzania. From land and environmental consultants

during the resettlement phase to EPC contractors and the associated legal, security, HR, financial, and accounting services that go along with such a significant infrastructure investment. Upgrading the port of Tanga will also require significant expertise and technological know-how, opening up opportunities for those companies with a track record in the sector and global experience. Associated infrastructure surrounding the project such as roads, access to water and power will also all need significant upgrades and ongoing maintenance.

### CASE STUDY 11: ANGLO-DUTCH SHELL

Anglo—Dutch Shell has a presence in over 70 countries with significant sums of money invested in exploration and production globally. Shell is one of the international oil companies invested in Tanzania's proposed LNG project.

Shell's main assets in Tanzania are its interests in gas exploration blocks 1 and 4 that they hold in conjunction with Ophir and Pavilion. The blocks are estimated to hold 16 trillion cubic feet (tcf) of recoverable gas. The gas in these blocks is planned to be exploited in conjunction with block 2 that is held by Equinor and Exxon Mobil, with the parties sharing the planned liquification plant onshore in Lindi, southern Tanzania.

Shell is set to become a major tax payer, employer and contributor to Tanzania's economic and infrastructure transformation over the Front End Engineering Design (FEED), construction and ultimately 30-year production lifespan of the USD 30b project. Noting the previously mentioned domestic gas reservation requirement, the project will have the capacity to provide a transformative addition to the country's power sector.

Shell contributes to a number of social initiatives in Tanzania, including its support for the Annual Young Scientist Tanzania Exhibition that showcases scientific projects prepared by secondary students. Shell has also contributed to the country's fight against the COVID-19 pandemic, donating medical supplies to the Ministry of Health, that included personal protective equipment, surgical masks and assistance for the country's frontline workers.

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# APPENDICES

## Appendix 1: Definition of a European investor

This report captures the investment and contribution of the 27 Member States of the EU.<sup>242</sup> For the purpose of this report, the investment captured under the market study of European investment were businesses with one or more linkages to one of the 27 Member States of the EU. These linkages include:

- A business operating in Tanzania that is registered in one of the Member States
- A subsidiary of a business that is registered in one of the Member States
- One of the investors in the business, either minority or majority, is from a Member State
- The most senior executive based in Tanzania is from a Member State.

It is also important to note the following considerations:

- There was no minimum firm size for a business, be it of employees, capital or investment, to be eligible to respond to the survey, therefore the survey was open to sole traders, right through to multinational corporations
- Businesses in any sector operating in Tanzania were eligible to respond, as were both goods and services providers.

## Appendix 2: Methodology

This report aims to provide a data driven overview, complemented by comprehensive analysis, of the EU's impact on the Tanzanian economy to date, whilst also highlighting trends and opportunities in the market for future investment.

In order to do so, primary data was initially collected from a number of sources. Data was provided by the Tanzania Chamber of Commerce Industry and Agriculture (TCCIA), a country wide membership organisation that tracks export data, among other metrics and the Tanzania Revenue Authority (TRA). Information on registered projects was provided by the Tanzania Investment Centre (TIC). However, it must be noted that the data provided by the TIC has a number of limitations for the purpose of this report. Firstly, it is not compulsory for companies to register a project with the TIC, and most will only do so if they feel that the incentives, both fiscal and non-fiscal, offered by the Centre offset the cost of registration. Secondly the TIC classifies a company as foreign if it is at least 51% owned by a foreign entity or individual. This is not aligned with how foreign direct investment (FDI) is captured, which is assessed as when 10% or more of a company's capital comes from abroad. Thirdly, the TIC has a minimum threshold for registration, with foreign companies needing to invest at least USD 500,000 in Tanzania to register a project.<sup>243</sup> This means that many smaller investors are not captured by the TIC data. The TIC does not register upstream oil, gas and mining investments, so this data is not captured by the Centre. Finally data given to the TIC is recorded at the time of project registration, data regarding investment and employment is therefore captured at the time of registration and the TIC does not track this as and when companies grow or decrease in size or change ownership structure.

With regard to data, it must also be noted that over the past five years access to data has been challenging. The

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<sup>242</sup> Note that the 2016 report, European Investment in Tanzania: How European investment contributes to industrialisation and development in Tanzania, used the OECD definition

<sup>243</sup> Note at the time of the previous 2016 report this figure was USD 300,000

Statistics Act 2015 placed restrictions on the ability of organisations to publish statistics not approved by the National Bureau of Statistics (NBS). Whilst this Act was amended in 2019, it has been a catalyst for a significant drop in non-Government statistical data available over the past five years. It must also be noted that access to official Government data is driven by the willingness of Government departments to share such information.

Information was further provided by a number of embassies, individual companies and business associations. Such associations included the European Business Group (EUBG), the Tanzania Private Sector Foundation (TPSF), the Tanzania Horticultural Association (TAHA), the Tourism Confederation of Tanzania (TCT), the Tanzania Association of Tour Operators (TATO) and the Tanzania Tourism Board (TTB). In some instances, qualitative data was gathered from individual organisations.

A market study was issued in January 2021 and re-issued May 2021 to EU companies and investors across a wide range of sectors. Out of EU companies operating in Tanzania, 117 respondents provided feedback. The key questions asked as part of the market survey are as follows:

1. Company name
2. Company location
3. Company's contact
4. Establishment date
5. Sector
6. How do you describe your economic impact in comparison with 5 years ago (decrease / increase in percentage) on the following areas:
  - a. Employment
  - b. Annual turnover
  - c. Taxes
  - d. Amount of investment
7. Where do you sell your product:
  - a. Local
  - b. EAC
  - c. Europe
  - d. Other
8. In the next 5 to 10 years how do you perceive the Tanzanian market for your company?
9. What effects do you expect or do you already have from the coronavirus crisis?

10. Please state the barriers you face when doing business / investing in Tanzania and their impact on your firm?

11. What are the concrete actions that the EU could do to resolve these issues?

Primary data was supplemented by utilising existing research from a number of sources including, but not limited to, the World Bank, the European Commission and UN Comtrade, as well as a range of sector-specific secondary sources and analysis. Such research was complemented by reviewing companies' own annual reports, and source interviews were undertaken with investors in each of the 11 key sectors this report covers.

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