

## AFRICA RISK CONSULTING

### Tanzania Monthly Briefing May 2019

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#### Tanzania Summary 15 May 2019

**The Tanzania government blocks publication of a mandatory International Monetary Fund (IMF) report on the state of the economy but later denies it. A leaked copy of the report states that government policies have damaged the investment climate. The government announces plans to produce six times its current power generation capacity by 2025 as the controversial Rufiji Hydroelectric mega-dam project at Selous Game Reserve, a World Heritage site, gets underway. The government requests the East African Community's intervention in a dispute with Kenya over the bilateral Mara River hydroelectric dam project. A Reuters investigation has uncovered a multi-billion dollar gold smuggling market from Africa to the United Arab Emirates.**

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#### Government blocks release of critical IMF report as Tanzania's economy worsens

**Tanzanian** authorities did not consent to the publication of an **International Monetary Fund (IMF)** inspection report, according to an IMF statement on 17 April.<sup>1</sup> A leaked copy of the report states that President **John Magufuli's** (2015-present) policies have "*worsen[ed] the investment climate and led to meagre, or even negative, growth and potential risks to the balance of payments and debt sustainability*".<sup>2</sup> Tanzania's government denies blocking the report and says it is committed to working with the international lending agency. IMF spokesperson **Lucie Mbotto Fouda** said the organisation does not comment on "*leaked reports*". The report's findings and the government's apparent cover-up attempt will worry investors and donors.<sup>3</sup> As a regional economist noted:

*"It will make it more expensive for [Tanzania] to tap international markets, especially given that it was proving more difficult to source funding from multilateral and bilateral sources after certain government policies taken in September last year."*<sup>4</sup>

Tanzanian official GDP statistics show growth at 6.8% in 2017, up from 6.9% in the previous year.<sup>5</sup> However, the IMF expects Tanzania's economic expansion to slow to 5.2% in the fiscal year ending on 30 June 2019, from an estimated 6.7% increase in 2018.<sup>6</sup> The unreleased IMF report states:

*"There are serious weaknesses in the data, and other high-frequency indicators point to a much more subdued pace of economic activity."*<sup>7</sup>

The IMF's **Africa** department director, **Abebe Aemro Selassie**, met on 6 May with President John Magufuli in **Dar es Salaam**.<sup>8</sup> In a statement after the meeting, the IMF said it is planning to send a team of experts to discuss "*recent developments and prospects and continue the dialogue on the economic reforms that could boost economic growth*", and that the IMF "*always stands ready to continue supporting Tanzania's efforts*".<sup>9</sup> Tanzania's **Directorate of Presidential Communication** stated that

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<sup>1</sup> IMF, 17 Apr 2019

<sup>2</sup> Bloomberg, 18 Apr 2019

<sup>3</sup> Source, analyst, London

<sup>4</sup> Source, regional economist at Nairobi-based Stanbic Holdings

<sup>5</sup> The Citizen, 11 Feb 2019

<sup>6</sup> Bloomberg, 18 Apr 2019

<sup>7</sup> Bloomberg, 18 Apr 2019

<sup>8</sup> IMF, 7 May 2019

<sup>9</sup> IMF, 7 May 2019

Selassie had praised Magufuli for implementing major electricity projects aimed at reducing power tariffs and that Selassie promised to dispatch the team of experts during his talks with Magufuli.<sup>10</sup>

Finance and planning minister **Philip Mpango** told the **National Assembly** on 23 April that the government is still holding consultations with the IMF and said: “*We have not blocked the report in any way whatsoever.*”<sup>11</sup> Mpango assured Tanzanians that his ministry is prepared in giving clarification on the state of the economy report.<sup>12</sup> The minister for foreign affairs and **East African** cooperation, **Palamagamba Kabudi**, said there was no friction between Tanzania and the IMF.<sup>13</sup>

The IMF is authorised to inspect the economic, financial and exchange-rate policies of its members to ensure a smooth-running international monetary system.<sup>14</sup> Tanzania’s membership entails at least one annual visit by IMF economists to analyse data and hold meetings with government and central bank officials.<sup>15</sup> The IMF team submits a report to the executive board, which then transmits its views to the country’s government, and publishes a summary of the report on its website with the consent of the member nation.<sup>16</sup> IMF staff visited Tanzania between November 26 and December 7 and met with the deputy finance minister, **Ashatu Kijaji**, and the **Bank of Tanzania** (central bank) governor, **Florens Luoga**, among other officials.<sup>17</sup> The IMF report was due to be published on 18 March.<sup>18</sup>

The IMF’s latest **World Economic Outlook** forecasts a downgrade in Tanzania’s economic growth this year and in 2020 to 4% and 4.2% respectively.<sup>19</sup> These figures are a significant reduction from the estimated 6-7% medium-term growth the IMF predicted at the beginning of 2018. The latest growth forecast is likely to lower investor confidence in the country, which will put pressure on the **Tanzania Revenue Authority** to find revenue funds, and reduce the likelihood of the government achieving its ambition of becoming a middle-income economy by 2025, as stipulated in the **Development Vision 2025**.

Tanzania’s economy has suffered as a result of Magufuli’s policy decisions. These include imprisoning representatives of mining and mobile-phone companies involved in disputes with the state and demanding that gold producer **Acacia Mining** pay a tax bill of \$190 billion, equivalent to two centuries of revenue (see *ARC Briefing Tanzania March 2019*).

### Energy ministry targets six times energy capacity by 2025 ...

Deputy energy minister **Subira Mgalu** told parliament on 23 April that Tanzania aims to produce six times its current power generation capacity by 2025 through investment in thermal and renewable energy.<sup>20</sup> Investors have long complained that a lack of reliable power hurts business in the country due to periodic power shortages.<sup>21</sup> Mgalu said:

*“Implementation of various power generation projects will increase the capacity of our national power grid from 1,602 megawatts presently to 10,000 megawatts by 2025.”<sup>22</sup>*

While Tanzania has over 57 trillion cubic feet of natural gas, Mgalu noted that the country needs “*abundant and reliable power from an energy mix that includes hydropower, natural gas, solar and*

<sup>10</sup> Divdiscourse, 7 May 2019

<sup>11</sup> Reuters, 23 Apr 2019

<sup>12</sup> Divdiscourse, 7 May 2019

<sup>13</sup> Xinhua, 7 May 2019

<sup>14</sup> IMF, 17 Apr 2019

<sup>15</sup> IMF, 17 Apr 2019

<sup>16</sup> IMF, 17 Apr 2019

<sup>17</sup> Bloomberg, 18 Apr 2019

<sup>18</sup> Bloomberg, 18 Apr 2019

<sup>19</sup> IMF, World Economic Outlook, Apr 2019

<sup>20</sup> Reuters, 23 Apr 2019

<sup>21</sup> Reuters, 23 Apr 2019

<sup>22</sup> Reuters, 23 Apr 2019

wind".<sup>23</sup> Tanzania plans to export its surplus electricity to eastern and southern Africa once it has boosted its generation capacity.<sup>24</sup>

Tanzania is currently seeking an intervention from the **East African Community's** ministerial committees to resolve a dispute over a bilateral hydroelectric project with **Kenya** at **Mara River** dam.<sup>25</sup> Deputy minister for natural resources and tourism **Constantine Kanyasu** told parliament that the country is in consultation with Kenya to have the planned projects frozen.<sup>26</sup> Tanzania no longer wants the construction of two dams on the Mara River, **Norera** in Kenya and **Borenga** in Tanzania, because of the adverse effects it will have on the country's \$2.44 billion tourism industry.<sup>27</sup> The 400km-long Mara River starts in Kenya's **Rift Valley** and ends in **Lake Victoria**, Tanzania.<sup>28</sup> Kenya has said it plans to proceed with construction of Norera dam and is accusing Tanzania of backtracking on the **Nile Basin Initiative**.<sup>29</sup> The project is still in the planning stages. The Kenyan government is yet to identify a financier and has not yet started an environmental impact assessment.<sup>30</sup>

### ... as mega-dam project in Selous Game Reserve gets underway

Construction is reportedly underway on the **Rufiji Hydroelectric Project** at **Stiegler's Gorge** inside the **Selous Game Reserve**, a **World Heritage** site in southern Tanzania.<sup>31</sup> The government awarded the tender in December 2018 to two **Egyptian** companies, **El Sewedy Electric Co** and **Arab Contractors**, to build the \$3 billion dam, which is expected to produce 2,100 megawatts upon completion in three years' time.<sup>32</sup> The dam is set to expand Tanzania's energy generating capacity from 1.5GW to 3.6GW.<sup>33</sup> The government made an advance payment of \$309.65m, equivalent to 15% of the total project cost, on 24 April to build the dam.<sup>34</sup>

According to a report by a **United Kingdom (UK)**-based news outlet, **The Telegraph**, Western donors have lobbied Tanzania to halt the development of the project, arguing that the dam is unlikely to work and could bankrupt the country.<sup>35</sup> An independent expert and assessor on the sustainability of hydropower projects, **Joerg Hartmann**, said the dam was likely to cost \$7.58 billion once financing and other costs were taken into account, rising to \$9.85 billion on account of cost overruns associated with such projects.<sup>36</sup> A Tanzania-based economist said:

*"It is a colossal white elephant, ruinous in every way...it is hard to think of a project more ill-conceived."*<sup>37</sup>

Conservationists also oppose construction of the power plant in the Selous Game Reserve, one of the largest **UNESCO** protected areas in **Africa**.<sup>38</sup> The **World Wildlife Fund** conservation group said in a report in July 2018 that:

*"... [the dam] puts protected areas of global importance, as well as the livelihoods of over 200,000 people who depend upon the environment, at risk."*<sup>39</sup>

<sup>23</sup> Reuters, 23 Apr 2019

<sup>24</sup> Reuters, 23 Apr 2019

<sup>25</sup> The East African, 11 May 2019

<sup>26</sup> The East African, 11 May 2019

<sup>27</sup> The East African, 11 May 2019 and East African Business Week, 19 Feb 2019

<sup>28</sup> The East African, 11 May 2019

<sup>29</sup> The East African, 11 May 2019

<sup>30</sup> The East African, 11 May 2019

<sup>31</sup> The Telegraph, 5 May 2019

<sup>32</sup> Reuters, 23 Apr 2019

<sup>33</sup> Global Construction Review, 25 Apr 2019

<sup>34</sup> Global Construction Review, 25 Apr 2019

<sup>35</sup> The Telegraph, 5 May 2019

<sup>36</sup> Reuters, 24 Apr 2019

<sup>37</sup> The Telegraph, 5 May 2019

<sup>38</sup> Global Construction Review, 25 Apr 2019

<sup>39</sup> WWF, 12 Dec 2018

Tanzania's government has rejected the environmental concerns and the project is now underway.<sup>40</sup> Environment minister, **Kangi Lugola**, told parliament last year:

*"The government will go on with the implementation of the project whether you like it or not...those who resist the project will be jailed."*<sup>41</sup>

The Tanzanian government reports it is funding the project; however, registration logs reportedly show large numbers of employees from two state-owned **Chinese** companies, **SinoHydro** and **Power China**, visiting the construction site daily.<sup>42</sup>

### Multi-billion-dollar gold smuggling market discovered between Africa and the UAE

Tanzania has been implicated in a **Reuters** investigation that found that billions of dollars' worth of gold are being smuggled out of Africa every year through the **United Arab Emirates (UAE)**.<sup>43</sup> The research identified a significant gap between the amount reported in gold exports by many African states and the amount indicated in African gold imports by the UAE. Tanzanian official figures showed no gold exports to the UAE in 2016; however, in the same year, UAE official figures show \$788m worth of gold imports from Tanzania.<sup>44</sup> The gold smuggling market has flourished from Africa's gold small-scale "*artisanal*" businesses and the UAE's weak gold import regulations. President Magufuli's response has been to establish in-country trading hubs offering access to financing and regulated markets.

Customs data shows that the UAE imported 446 tonnes or \$15.1 billion worth of gold in 2016, up from 67 tonnes or \$1.3 billion in 2006.<sup>45</sup> Overall, between 2006 and 2016, the share of African gold in UAE's reported gold imports increased from 18% to almost 50%.<sup>46</sup> Much of the gold is not recorded as exports by African states, indicating that large amounts of gold are leaving Africa with no taxes paid to the countries that produce them. The major international mining companies in Africa say that they do not send gold to the UAE, suggesting that the illicit flow is from "*artisanal*" or small-scale miners.<sup>47</sup> Illegal mining is growing in Tanzania, as well as elsewhere in Africa, which has resulted in various environmental and conflict issues.<sup>48</sup>

Mining import restrictions are much less stringent in the UAE, China and **India**, where consumer demand for gold is high, compared to Western states.<sup>49</sup> Much of Africa's gold goes to UAE's central commodity marketplace, the **Dubai Multi-Commodities Centre (DMCC)**. DMCC's head of commodities, **Sanjeev Dutta**, said in January that the centre is building relationships with most gold-producing African countries and that it has established a strict framework on responsible sourcing and sustainability, called the **Dubai Good Delivery**.<sup>50</sup> Dutta said:

*"We track right from responsible sourcing to sustainable development, things like human rights etc. ... We demand export certificates."*<sup>51</sup>

However, the **African Union's** senior adviser on industrial development, **Frank Mugenyi**, said the UAE is "*cashing in on the unregulated environment in Africa*".<sup>52</sup>

<sup>40</sup> Global Construction Review, 25 Apr 2019

<sup>41</sup> The Telegraph, 5 May 2019

<sup>42</sup> The Telegraph, 5 May 2019

<sup>43</sup> Reuters, 9 May 2019

<sup>44</sup> Reuters, 9 May 2019

<sup>45</sup> Reuters, 9 May 2019

<sup>46</sup> Reuters, 9 May 2019

<sup>47</sup> Reuters, 9 May 2019

<sup>48</sup> Source, analyst, London

<sup>49</sup> Reuters, 9 May 2019

<sup>50</sup> Reuters, 9 May 2019

<sup>51</sup> Reuters, 9 May 2019

<sup>52</sup> Reuters, 9 May 2019

An economist who has studied capital flows in Africa, **Leonce Ndikumana**, described this as a “*classic case of export under-invoicing*” to reduce taxes.<sup>53</sup> This red flag concern is shared by **Matthew Salomon**, a **United States** economist who has researched the use of trade statistics to identify illicit financial flows:

*“Persistent discrepancies in the trade of particular goods and between particular countries can identify significant risks of illicit activity.”*<sup>54</sup>

A Tanzanian parliamentary report estimated that 90% of the annual production of informally mined gold is smuggled out the country.<sup>55</sup> The permanent secretary in the minerals ministry, **Simon Msanjila**, stated that all mineral-producing regions have set up government-controlled mineral trading centres to curb tax evasion and illegal exports by June this year.<sup>56</sup> The government says that the trading centres will improve regulation, which will attract more local and international investors, and increase government revenues from the mining sector by imposing levies. The first international gold trading centre launched in the mineral-rich region of **Geita** on 17 March, close to **South Africa**-based **AngloGold Ashanti**’s Geita gold mine, the country’s biggest gold mine (see *ARC Briefing Tanzania April 2019*).<sup>57</sup>

The centres are in line with mining sector reforms enacted by Magufuli’s administration, which require the buying and selling of minerals to be conducted at government-controlled centres. However, it is not likely that the trading centres will improve confidence in Tanzania’s mining sector, which Magufuli’s growing regulatory and legislative instability and the government’s two-year dispute with **Canada**-based mining company **Barrick Gold Corp**’s Tanzanian unit, **Acacia Mining**, have considerably damaged (see *ARC Briefing Tanzania March 2019*).

**Barrick Gold** CEO **Mark Bristow** said on 8 May that Acacia is an obstacle to solving a long-running tax row in Tanzania, prompting Acacia to demand clarification from Barrick.<sup>58</sup> Acacia announced on 9 May that gold output at its **North Mara** mine had risen 54% from the same time a year ago, which increased its share price by 3%.<sup>59</sup> However, Acacia’s 2019 first quarter production was 13% less than the previous financial year.<sup>60</sup>

Tanzania is Africa’s fourth largest gold producer, after South Africa, **Ghana** and **Mali**. Since Magufuli took office in 2015, he has pushed to get more government revenue from the country’s gold and other mineral resources, which accounted for 4% of Tanzania’s economic growth in the year he took office.<sup>61</sup> Magufuli ordered the **Bank of Tanzania** (central bank) to start buying the country’s gold in January to curb smuggling and build reserves to stabilise the local currency. Critics view Magufuli’s mining sector reforms, including his construction of government-controlled mineral trading centres, as part of a broader power-grabbing agenda.

### Planner

3-5 Jun 2019 **Arusha (Tanzania)** Africa Aviation Conference and Exhibition (AACE);

18-20 Jun 2019 **Changsha (China)** China-Africa Economic and Trade Expo;

25-27 Jun 2019 **Dar es Salaam (Tanzania)** Agro & Poultry East Africa;

<sup>53</sup> Reuters, 9 May 2019

<sup>54</sup> Reuters, 9 May 2019

<sup>55</sup> Reuters, 9 May 2019

<sup>56</sup> Business Day, 18 Mar 2019

<sup>57</sup> The East African, 18 Mar 2019

<sup>58</sup> Reuters, 9 May 2019

<sup>59</sup> Reuters, 9 May 2019

<sup>60</sup> Mining MX, 25 Apr 2019

<sup>61</sup> The East African, 4 Apr 2019

25-28 Jun 2019 **Dar es Salaam (Tanzania)** Expo Tanzania (Trade Fair);  
 3-4 Jul 2019 **Dar es Salaam (Tanzania)** Africa LPG Summit;  
 27-29 Sep 2019 **Dar es Salaam (Tanzania)** Tanzania Oil, Gas & Mining Expo;  
 7-9 Nov 2019 **Dar es Salaam (Tanzania)** Power & Energy Africa;  
 2020 **(Tanzania)** *Africanews*. General elections;

### Chronology

11 May 2019 **Dar es Salaam (Tanzania)** *The East African*. Tanzania is seeking **East African Community** intervention to resolve the **Mara River** dam project dispute with **Kenya**;

11 May 2019 **Dar es Salaam (Tanzania)** *The East African*. **Kenyan-based Indo Power Solutions Ltd** loses 100,000-tonne cashew deal with Tanzanian government;

11 May 2019 **Dar es Salaam (Tanzania)** *The East African*. President **John Magufuli** orders **Kiwira** coal mine taken back from **TanPower Resources Ltd**;

8 May 2019 **Dar es Salaam (Tanzania)** *Reuters*. An active government critic on social media was found beaten and unconscious, stoking fears of opposition crackdown;

6 May 2019 **Arusha (Tanzania)** *PM News*. Deputy state minister **Mary Mwanjelwa** says the government reinstated 4,160 public servants who were wrongly dismissed after allegations of fake academic credentials;

6 May 2019 **Dar es Salaam (Tanzania)** *Construction Review*. The state-owned power company, the **Tanzania Electric Supply Company**, approves the development of the **Mbeya** coal-to-power project;

1 May 2019 **Dar es Salaam (Tanzania)** *The East African*. Tanzania's government moves to deprivatise 15 allegedly non-performing companies, with more to follow;

28 Apr 2019 **Dar es Salaam (Tanzania)** *The Citizen*. President **John Magufuli** issues a seven-day ultimatum to local authorities to set up a gold market in **Chunya District**;

25 Apr 2019 **Dar es Salaam (Tanzania)** *The Citizen*. The government could acquire all **Songas** shares at \$1 by 2035 in a potential new agreement;

24 Apr 2019 **Changsha (China)** *Xinhua*. **China** invites Tanzania to participate as the guest of honour at the first **China-Africa Economic and Trade Expo** in June;

23 Apr 2019 **Dar es Salaam (Tanzania)** *Reuters*. Deputy energy minister **Subira Mgalu** says Tanzania aims to have 10,000 megawatts of power by 2025, six times the current capacity;

23 Apr 2019 **Dar es Salaam (Tanzania)** *Daily Maverick*. President **John Magufuli** denies blocking an **International Monetary Fund (IMF)** report that was critical of the government;

18 Apr 2019 **Dar es Salaam (Tanzania)** *Financial Times*. The **International Monetary Fund (IMF)** reportedly criticised Tanzania's unpredictable economic policies, though President **John Magufuli** blocked the publication of the report;

17 Apr 2019 **Dar es Salaam (Tanzania)** *The Citizen*. **China's** ambassador to Tanzania, **Wang Ke**, says that China is now Tanzania's largest trading partner with bilateral trade reaching \$3.97 billion;

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