

AFRICA RISK CONSULTING

Tanzania Monthly Briefing July 2022

Tanzania Summary 6 July 2022

Parliament passes finance and planning minister Mwigulu Nchemba's national 2022/23 budget, which is well received by local and foreign investors. The energy ministry signs a framework agreement with Anglo-Dutch Shell and Norway's Equinor relating to Tanzania's proposed \$30 billion liquefied natural gas (LNG) project. While not the legally binding Host Government Agreement, the framework agreement is viewed as progress, with a final investment decision expected in 2025. Zanzibar's President Hussein Mwinyi (2020-present) attends the Zanzibar-European Investment Forum, organised by the European Union Business Group (EUBG).

Parliament passes 2022/23 budget ...

Tanzania's **National Assembly** has passed the 2022/2023 budget presented to parliament on 14 June by finance and planning minister **Mwigulu Nchemba**.¹ The budget is viewed as the first full budget during the administration of President **Samia Suluhu Hassan** (2021-present), who came to power in March 2021 when preparation of the 2021/2022 budget was well underway, and has generally been well received by local and foreign business and investment stakeholders.²

Nchemba used his budget speech to provide an update on the state of the economy, noting that gross domestic product (GDP) growth stood at 4.7% for the year ending 2022, a decrease from 4.9% in 2021.³ The total budget has increased by 9% vis-à-vis the 2021/22 budget, with the new budget anticipating expenditure of TSh 41.48. trillion. (\$17.85 billion). It must be noted that due to cash constraints, actual disbursements are often significantly lower than what is budgeted.⁴

The budget brought no large-scale changes but instead focused on tweaking the economy, in large part to protect citizens and businesses against cost-of-living increases largely attributed to **Russia's** military operations in **Ukraine**. To encourage growth of the local market and protect against rising costs associated with importing goods, the government has removed value added tax (VAT) on edible oils and fertiliser produced domestically. Fuel subsidies already in place are expected to continue and further subsidies may be put in place; however, it is not clear what form these will take.

Costs of imports, particularly fuel, are likely to continue to increase this year. During the year ending April 2022, imports increased to \$11.09 billion, from \$8.06 billion in the year ending April 2021.⁵ Exports from Tanzania increased to \$10.62 billion, up from \$8.56 billion in the year ending April 2021, with gold being a strong performer.

The budget brings minimal, but encouraging, changes for Tanzania's extractives sector. The royalty rate for coal used as a raw material in factories is lowered from 3% to 1%, while the royalty rate for gold is reduced from 6% to 4% when the gold is sold to refinery centres in Tanzania. These remedies are aimed at encouraging downstream processing and value addition in Tanzania, rather than the export of raw or semi-refined products. However, the lower gold royalties are not expected to induce large gold producers such as **Canada**-headquartered **Barrick Gold** to refine its Tanzanian gold domestically, as the current refineries are not internationally accredited.⁶

¹ The Citizen, 14 Jun 2022

² The East African, 14 Jun 2022

³ The East African, 14 Jun 2022

⁴ Clyde. & Co, Tanzania National Budget bulletin for 2022/2023, Jun 2022

⁵ PwC, National Budget Bulletin, Jun 2022

⁶ PwC, National Budget Bulletin, Jun 2022

The budget also brings changes to the telecommunications sector. The mobile transaction levy has been capped at TSh 4,000 (\$1.72), down from TSh 7,000 (\$3), per transaction, and now applies to all electronic transactions. Additionally, the government used the budget as an opportunity to impose a 5% digital tax on all non-resident digital providers, a move viewed as targeting companies such as **United States (US)**-headquartered **Meta**.⁷

Overall, the budget is being viewed as appropriate for the current economic climate, both in Tanzania and globally, with its measured nature giving optimism to current and potential investors alike. It remains to be seen whether the country can collect taxes, attract investment and maintain strong relations with key donor funders, as all will be critical to the government's ability to deliver on its stated aims.

... amid progress on LNG project

Tanzania's nascent liquefied natural gas (LNG) sector is making progress. The energy ministry signed a framework agreement on 11 June with **Anglo-Dutch Shell** and **Norway**-headquartered **Equinor** for the proposed \$30 billion LNG project. The event was attended by President Suluhu, senior government officials, and senior executives from both companies.⁸ Negotiations for the proposed LNG project stalled in August 2019 but were revisited in November 2021, shortly after **January Makamba** took over as energy minister. Shell's board chairman in Tanzania, **Jared Kuehl**, noted Tanzania's strategic location and ability to deliver "*a competitive and investable project*".⁹ The signing of the agreement is expected to start the ball rolling towards a final investment decision, expected in 2025.

Although the signing is viewed as a positive step, it is important to note that it is not the **Host Government Agreement (HGA)**, which will provide a legally binding framework for all matters including taxation and government participation. The document signed on 11 June is a non-legally binding agreement that covers only the areas that have been agreed upon to date. In highlighting the importance of the final signed agreement, President Suluhu issued a directive on 23 June requiring the completion of the HGA negotiations between the **Tanzania Government Negotiation Team (GNT)** and international oil majors to conclude within the next six months.¹⁰

Zanzibar promotes itself as open for business

The semi-autonomous region of **Zanzibar** is making significant progress in attracting investors as part of efforts to diversify its economy from reliance on tourism. Zanzibar's President **Hussein Mwinyi** (2020-present) attended the **Zanzibar-European Investment Forum**, organised by the **European Union Business Group (EUBG)**, on 23 June, which was also supported by the governments of the **Netherlands, European Union** and the **Zanzibar Investment Promotion Authority (ZIPA)**.¹¹

Zanzibar's globally renowned tourism sector is estimated to have contributed 28% of GDP and 82% of foreign exchange prior to the **Covid-19** pandemic.¹² However, the devastating impact of Covid-19 restrictions on travel and tourism raised concerns for the future of the island's economy so heavily dependent on one sector. President Mwinyi, the son of Tanzania's former president, **Ali Hassan Mwinyi** (1985-1995), has placed significant focus on diversifying Zanzibar's economy, noting in his address to the forum on 23 June that in 18 months, coinciding with his time in office, Zanzibar has attracted \$1.4 billion of investment, which is expected to create over 9,000 employment opportunities:

⁷ PwC, National Budget Bulletin, Jun 2022

⁸ The Citizen, 11 Jun 2022

⁹ Reuters, 11 Jun 2022

¹⁰ The Citizen, 23 Jun 2022

¹¹ Daily News, 24 Jun 2022

¹² World Bank 1 Jul 2019

“The government is committed to creating a conducive investment environment by strengthening infrastructure, ports, electricity and services to attract big investors to Zanzibar.”¹³

Investments have come from diverse sectors, including solar power initiatives, infrastructure to assist with road upgrades, and planned upgrades to develop a new port in **Mangapwani** on Zanzibar’s main island of **Unguja**.¹⁴ Mwinyi noted that initiatives around water supply and the blue economy are still available for investors. Interest in residential property has increased as a result of the government’s announcement in 2021 that foreigners who buy property are eligible to apply for residency –in contrast to the mainland where individual foreigners are not allowed to buy property.¹⁵ Development of residential construction is being spearheaded by the construction of the **Fubma Town** housing project.

In promoting the **Isles**, President Mwinyi highlighted several improvements in the ease of doing business, noting that all issues regarding investment and business establishment should be dealt with within as short a time as possible:

“We have also improved services at our one stop centre. Permits are now issued within three days, but we have planned to further improve provision of services under one roof to make it within 24 hours.”¹⁶

Zanzibar has long been regarded as an easier pathway for expatriates seeking work permits in Tanzania. There are unofficial reports of companies applying for permits via Zanzibar for their mainland-based employees during President Magufuli’s time in office, when work permits were challenging.¹⁷ Concerns regarding Tanzania’s new **Foreign Exchange Regulations** (see *ARC Briefing Tanzania June 2022*) will need to be carefully monitored, as potential investors are likely to view restrictions on residents moving foreign exchange out of Tanzania negatively.

Zanzibar’s ability to attract and maintain investment will in large part depend on its ability to create a conducive environment with streamlined processes and a fair tax system (noting that Zanzibar collects some taxes itself), and ensure contract sanctity, particularly around land ownership.

¹³ The Citizen, 28 Jun 2022

¹⁴ The Citizen, 28 Jun 2022

¹⁵ Immigrant Invest, 6 Jul 2021

¹⁶ Daily News, 24 Jun 2022

¹⁷ Source, Tanzania analyst

Planner

7 Jul 2022 **(Tanzania)** Saba Saba (national holiday)
 8 Aug 2022 **(Tanzania)** Nane Nane (national holiday)
 2022 **(Tanzania)** Commencement of construction of **Uganda-Tanzania** oil pipeline
 2024 **(Tanzania)** Local elections
 2025 **(Tanzania)** General elections

Chronology

4 Jul 2022 **Dar es Salaam (Tanzania)** *The Citizen*. President **Samia Suluhu** dismisses **Eric Hamissi** as head of the **Tanzania Ports Authority (TPA)**, replacing him with **Plasduce Mkeli Mbossa**;

4 Jul 2022 **Dar es Salaam (Tanzania)** *The Citizen*. President **Samia Suluhu** witnesses the signing of a deal with **Turkish** company **Yapi Merkezi** and the **Tanzania Railway Corporation (TRC)** for the construction of the **Tabora to Isaka** portion of the **standard gauge railway**;

2 Jul 2022 **Dar es Salaam (Tanzania)** *The Citizen*. The **Tanzania Revenue Authority (TRA)** reports that it collected 99.22% of its target revenue in the 2021/22 financial year;

30 Jun 2022 **Dar es Salaam (Tanzania)** *The East African*. President **Samia Suluhu** announces the appointment of Major General **Jacob John Mkunda** as new chief of Tanzania's defence forces, following the retirement of **Venance Mabeyo**;

29 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. **Tanzanian** fintech company **Nala** announces a partnership with Dar es Salaam-headquartered payment services company **Selcom** that will allow Tanzanians to receive international remittances from the **United Kingdom** and the **United States** directly to their mobile money wallets;

25 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. **Tanzania** is set to review its model production sharing agreement structure to help incentivise more investors into the country's oil and gas sector;

25 Jun 2022 **Dar es Salaam (Tanzania)** *The East African*. **Tanzanian** company **Taifa Gas** is set to set up a liquefied petroleum gas plant in **Mombasa (Kenya)**;

24 Jun 2022 **Dar es Salaam (Tanzania)** *The Daily News*. The **Zanzibar – European Investment Forum** takes place with a key focus on the blue economy;

23 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. President **Samia Suluhu Hassan** issues a directive requiring the completion of **Host Government Agreement (HGA)** negotiations between the **Tanzania Government Negotiation Team (GNT)** and international oil majors **United Kingdom**-based **Shell** and **Norway**-based **Equinor** to conclude within the next six months;

22 Jun 2022 **Dar es Salaam (Tanzania)** *Bloomberg*. Tanzanian billionaire **Mohammed Dewji** reveals plans to invest \$1 billion over 3-5 years in Tanzania to tackle rivals including **Coca-Cola Co** and **Unilever**, with 40% of the investment through equity financing and the remainder raised through debt;

22 Jun 2022 **Dar es Salaam (Tanzania)** *The East African*. Members of parliament unanimously approve the 2022/2023 budget estimates outlined by finance minister **Mwigulu Nchemba**;

22 Jun 2022 **Dar es Salaam (Tanzania)** *The Daily News*. The ruling **Chama Cha Mapinduzi (CCM)** party holds its national executive meeting in **Dodoma**;

22 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. State-owned **Air Tanzania** resumes direct flights from **Dar es Salaam to China**;

- 22 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. **Turkish Airlines** resumes direct flights from **Istanbul** to **Kilimanjaro**;
- 19 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. **Kenya** blocks maize from **Tanzania** entering the country due to concerns over quality;
- 18 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. Tensions continue to rise in **Loliondo** over land disputes;
- 16 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. **Tanzania Railways** cancels its contract with **Turkish** company **Eurowagon** for failing to complete construction of two electric trains;
- 15 Jun 2022 **Dar es Salaam (Tanzania)** *The East African*. **Jersey**-headquartered **Wentworth Resources** signs an agreement to purchase 25% of the **Ruvuma** power sharing agreement;
- 14 Jun 2022 **Dar es Salaam (Tanzania)** *The East African*. Finance and planning minister **Mwigulu Nchemba** presents the proposed 2022/23 national budget to parliament;
- 14 Jun 2022 **Dar es Salaam (Tanzania)** *The East African*. President **Samia Suluhu** visits **Oman** to try to encourage further investment in **Tanzania**;
- 11 Jun 2022 **Dar es Salaam (Tanzania)** *The Citizen*. The ministry of energy signs a framework agreement with **Anglo-Dutch Shell** and **Norway's Equinor** in a step forward in the proposed \$30 billion liquefied natural gas project;
- 8 Jun 2022 **Dar es Salaam (Tanzania)** *The East African*. **Tanzania** will spend \$3.9 billion on servicing debt during the 2022/23 financial year;
- 7 Jun 2022 **Dar es Salaam (Tanzania)** *The Daily News*. President **Samia Suluhu** chairs a meeting of the **Tanzania National Business Council (TNBC)** that brings together key stakeholders in the public and private sectors.

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