

AFRICA RISK CONSULTING**Tanzania Monthly Briefing March 2016**

Tanzania Summary 1 March 2016

Zanzibar returns to the polls on 20 March for a re-run election after the Zanzibar Electoral Commission (ZEC) annulled the presidential and parliamentary elections in October 2015 due to allegations of vote-tampering. A major electoral issue is the level of autonomy with the mainland. President John Magufuli's (2015-present) victory in the October 2015 elections ushers in a crackdown on corruption. The discovery of a natural gas reserve estimated to be worth \$6 billion could be a big economic boost for Tanzania.

Zanzibar returns to the polls

Zanzibar's re-run election on 20 March is stirring fears of renewed violence on the island. While elections on 25 October in mainland Tanzania proceeded without incident, **Zanzibar Electoral Commission (ZEC)** chairman **Jecha Salim Jecha** annulled the results of Zanzibar's original election alleging breaches of electoral law such as double-voting and ballot-stuffing and called for a re-run. The main opposition party, the **Civic United Front (CUF)**,¹ also claimed discrepancies in the original election. CUF leader **Seif Sharif Hamad** claimed victory over Zanzibar's incumbent president, **Ali Mohamad Shein** of the **Chama Cha Mapinduzi (CCM)** party, before the ZEC announced any results, re-igniting historical tensions between the two parties.

The CCM (or its predecessors, the **Tanganyika African National Union** and the **Afro-Shirazi Party**, which merged in 1977) has governed semi-autonomous Zanzibar since 1964, as it has mainland Tanzania. The restoration of multi-party democracy in 1992 led to the rise of two major parties, the incumbent CCM and the opposing CUF. In the five elections held since 1995, the CUF has alleged vote-rigging in each instance, and Hamad largely blames the ZEC for the electoral defeats.² The margins of these defeats have narrowed and, in 2010, the CCM won the election in Zanzibar by an extremely small margin, with 50.1% of the vote compared to the CUF's 49.1%.³ In the most recent election, the CUF was predicted to win.⁴ The CUF and its supporters believe the ZEC annulled the vote without announcing the results because the CCM lost the presidential vote.⁵

Since the annulment, CUF and CCM supporters have clashed. Several homemade bombs have detonated in tourist-heavy areas⁶ and police have been called in to maintain order.⁷ Although electoral violence has been a feature of each election since 1995, this has decreased since 2010 due to a referendum which established a government of national unity for future elections, allowing the losing party to nominate the First Vice-President.

The CUF has declared it will boycott the upcoming election, calling for the release of the results of the October 2015 election instead.⁸ The leaders of the two major parties have met several times since

¹ Al Jazeera, 28 Oct 2015

² Washington Post, 1 Nov 2015

³ ZEC 2010 Presidential Election Results

⁴ The Economist, 24 Oct 2015

⁵ The Tanzanian Citizen, 23 Dec 2015

⁶ New York Times, 2 Nov 2015

⁷ Business Insider, 29 Oct 2015

⁸ Bloomberg Business, 28 Jan 2016

November, but the CUF have since called off negotiations unless the upcoming re-run election is postponed.⁹ President **John Magufuli** (2015- present) has appealed to the opposition to take part.

“Refusal to participate in the elections is to reject an olive branch for compromise from the government and a recipe for protracted political antagonism in the next five years.”¹⁰

One of the major distinctions between the CCM and the CUF is each party’s policy on Zanzibar’s relationship with mainland Tanzania. The CCM has vowed to continue the status quo and semi-autonomy with the mainland, while the CUF has promised full autonomy and a new federal structure if it wins.¹¹

“Zanzibar has always had fairly strong separatist ambitions but the CCM has always been too strong for them [the CUF] to do that. It wouldn’t be a stretch to suggest that CCM is trying to find ways to remain in power.”¹²

Proposed changes to the constitution are at the centre of the issue. Many Zanzibaris feel that the island should have more powers than it currently does.¹³ While full independence from Tanzania might be unfeasible for the island, with a population of just one million and an economy reliant on spices and tourism, the status quo is unacceptable for many.

Former president **Jakaya Kikwete** (2005-1015) announced a constitutional review in 2011. The draft constitution went through numerous changes due to opposition protest of CCM domination of the process. Despite a boycott by the **Umoja wa Katiba ya Wananchi (Ukawa)** (the coalition for the people’s constitution), a large coalition of four political parties, the draft passed the **Constituent Assembly** on 2 October 2014. The final step in the adoption of the new constitution is a referendum, which was supposed to take place 30 April 2015. However, the **National Electoral Commission** postponed the referendum because of delays in registration.

Many in Zanzibar are unhappy with the proposed new constitution despite improvements in the areas of gender equality and human rights in the constitution. The first and second drafts of the constitution had established a three-tier system of government – basically a federal arrangement – but the final draft has retained the current two-tier system.

Some local analysts have suggested that the re-election is a chance for CCM to maintain its hold on power in Zanzibar, and with the tacit cooperation from mainland Tanzania. Magufuli has backed the election re-run:

“There is no better way to solve the political impasse in Zanzibar than another round of the ballot box.”¹⁴

The opposition and international observers see the use of the army – which is not under Zanzibar’s mandate – to control protestors and restore order as a move to control the re-run elections.¹⁵

Stanbic outcome supports Magufuli’s anti-corruption drive

The **United Kingdom (UK)’s Serious Fraud Office (SFO)** has given a high profile boost to Magufuli’s November inauguration promise to clamp down on corruption in Tanzania. In November the SFO announced that it had concluded a deferred-prosecution agreement (DPA) with **Stanbic Tanzania Ltd**, a division of **ICBC Standard Bank**.¹⁶ The DPA centres on a \$6m payment by Stanbic to a ‘local agent’, **Enterprise Growth Market Advisors (EGMA)**, owned by a government official and a former

⁹ The Citizen (Tanzania), 13 Feb 2016

¹⁰ News24, 9 Feb 2016

¹¹ Al Jazeera, 12 Nov 2015

¹² Source, analyst, Port Louis

¹³ The Economist, 30 Oct 2015

¹⁴ News24, 9 Feb 2016

¹⁵ Washington Post, 1 Nov 2015

¹⁶ SFO News Release, 30 Nov 2015

head of a government agency.¹⁷ The government official allegedly helped Stanbic to win a \$600m government bond mandate. The **Bank of Tanzania** fined Stanbic on 17 January for failing to detect transactions involving EGMA and for not putting in place “*strict procedures of internal control*” to comply with Tanzanian law.¹⁸ Stanbic spokeswoman Annette Nkini said on 16 February that Stanbic had complied with the central bank’s requirement and paid the fine.¹⁹

Since taking office on 5 November, Magufuli has vowed to fight corruption.²⁰ At the inauguration of parliament on 20 November, Magufuli outlined his government’s five-year plan, which included boosting revenue collection, stopping unnecessary expenditures and increasing industrialisation.²¹ Magufuli cancelled annual Independence Day (9 December) celebrations, instead asking citizens to clean their backyards and himself helped to clean streets on the day.²² He has also cut business class travel and other luxuries for cabinet ministers and MPs,²³ reduced the number of ministries from 30 to 19, and has punished officials for poor service and corrupt practices.²⁴

Whether these reforms will help Tanzania remains to be seen. GDP growth has hovered around 7% for the past decade but close to 70% still live below the poverty line.²⁵ The **National Bureau of Statistics** found that, despite GDP growth, the poverty rate only dropped from 35.6% in 2001 to 33.4% in 2007, and that the number of people in poverty actually rose from 11.5 million to 12.8 million in the same time. Magufuli stated that he “*will not triumph in economic growth statistics that do [not] reflect on the day to day lives of the ordinary citizens.*”²⁶ It is too early to tell whether Magufuli’s reforms will result in increased economic opportunities for the poor.²⁷

*“I would say you won’t really be able to answer this question for another year. For now it looks like his intentions are genuine and that he is not wasting time – so if the rest of the CCM gets on board we may see some interesting changes under his leadership and better wealth redistribution.”*²⁸

If Magufuli is able to continue reforms that limit corruption and increase service delivery, the poverty level could drop significantly, especially in rural areas. **Gerson Msigwa**, the acting director of information at the presidency, said Magufuli’s new measures have already raised revenue collection from \$400m to over \$600m.²⁹ Close to 90% of Tanzania’s poor live in rural areas, where agriculture is the major source of employment. Subsistence farming has continued amid a lack of productivity, infrastructure investment and low connectivity with urban areas. Corruption by government officials has been largely to blame for the lack of progress in these areas, diverting funds allocated for rural projects into the hands of police, court, tax and land offices. **World Bank** advisor **Anwar Shah** and public management consultant **Mark Schacter** found that bribes paid to these officials amounted to 62% of official public expenditure in these sectors.³⁰ However, policies to cut corruption are not enough without implementation.

¹⁷ Wall Street Journal, 30 Nov 2015

¹⁸ Daily News, 18 Jan 2016

¹⁹ Bloomberg, 16 Feb 2016.

²⁰ Coastweek, 21 Jan 2016

²¹ The Daily News (Tanzania), 21 Nov 2015

²² Daily Nation, 9 Dec 2015

²³ The Citizen, 11 Feb 2016

²⁴ Reuters, 10 Nov 2015

²⁵ CIA Fact Book, Tanzania

²⁶ The Citizen (Tanzania), 21 Nov 2015

²⁷ Source, Analyst, Port Louis

²⁸ Source, analyst, Port Louis

²⁹ VOA News, 23 Jan 2016

³⁰ Combating Corruption: Look Before You Leap, IMF, 2004

“He is cutting unnecessary spending, focusing on delivering essential public services, and has issued a directive to enhance revenue collection. Now he will have to make sure that he appoints individuals who have the competence and credibility to help him achieve his aims.”³¹

While the SFO agreement is an encouraging step in fighting corruption, it is only a first step. While Tanzania is far from the most corrupt country in the **East African Community (EAC)**, it is ranked 117th of 168 countries in **Transparency International’s 2015 Corruption Perceptions Index (CPI)**. Tanzania scored 30 on the CPI, where 0 is highly corrupt and 100 very clean, showing a deteriorating trend.

CPI scores of EAC member states				
	2015	2014	2013	2012
Tanzania	30	31	33	35
Rwanda	54	49	53	53
Uganda	25	26	26	29
Kenya	25	25	27	27
Burundi	21	20	21	19

Discovery of new natural gas reserves could boost economy

The discovery of a natural gas reserve in February estimated to be worth \$6 billion³² could be a big economic boost for Tanzania. The 22 trillion cubic feet (tcf) of natural gas found off the Tanzanian coast is in addition to the 53.2 tcf of estimated gas reserves³³ already discovered in the country, which is on track to become one of the continent’s leading natural gas suppliers.³⁴ This, as well as the new **Petroleum Act 2015** that will better regulate and monitor the petroleum sector, can be a positive for the country as long as the reserves are managed well and resources are directed at areas which need improvement.

*“Much still needs to be done. Electrifying the vast country is still a problem for instance – the new gas discoveries might help fix that if they manage the resource well. There are still protectionist tendencies at government level, which stifles big investors from the West, who are already weary of Africa. The **Chinese** are not [as] scared... It is only now that Tanzania is starting to have an educated youth again, [b]ut teachers are still struggling to be paid and trained adequately, [a]nd politics of patronage that have kept the CCM in [power] for so long have resulted in inadequate redistribution of wealth.”³⁵*

Implications

The re-run election in Zanzibar is more than a vote for president – it is a referendum on the future of Zanzibar. On one hand, the CCM, the dominant party in the mainland and Tanzania, is looking to keep the status quo. On the other hand, the CUF, the major opposition in Zanzibar, is looking to increase Zanzibar’s autonomy. No date has been set for the referendum on the new constitution but if the CUF had won the election in October, it would probably have tried to alter the draft constitution or halt the

³¹ Director of local think-tank in The Guardian, 8 Dec 2015

³² The Daily News (Tanzania), 25 Feb 2016

³³ Reuters, 17 Oct 2014

³⁴ Business Day Live, 1 March 2016

³⁵ Source, analyst, Port Louis

referendum. However, with the CUF set to boycott the upcoming election re-run, it is likely that the status quo in Zanzibar will remain.

While violence and conflict on the island has been minimal since two post-election bomb blasts on 31 October,³⁶ the potential for a return to conflict between the CCM and CUF may increase after the re-run elections. Political violence has largely ceased since the government of national unity was implemented in 2010, but a continued boycott by the CUF will mean a loss of their position as First Vice-President, which may ignite tensions among CUF supporters.

Magufuli's crackdown on corruption looks set to continue.³⁷ The ruling CCM is hoping Magufuli can help present a different image of the party to the population. The opposition Ukawa coalition – comprising the CUF, the **National League for Democracy (NLD)**, **Chadema**, and **NCCR-Mageuzi** – earned 40% of the vote compared to 58% for the CCM, the closest election in Tanzanian history. The CCM is aware that continued rampant corruption will eventually cost its majority and hold on power and, thus, will support Magufuli's measures. Ukawa leader, former prime minister **Edward Lowassa**, was not the best choice to head Ukawa, as he was embroiled in numerous corruption scandals during his several decades in government as part of the CCM.

Foreign investors should make sure that companies adhere to the rules of the **UK Bribery Act 2010** and the **United States Foreign Corrupt Practices Act (FCPA)**. The SFO's DPA – the first in the UK – with Standard Bank may result in other admissions of corrupt behaviour, as DPAs allow organisations to make reparations for criminal behaviour rather than have a criminal conviction. Organisations in contravention of the UK Bribery Act may voluntarily admit guilt to escape criminal prosecution, which could more accurately expose the extent of corruption in government. However, while many have argued that DPAs are too lenient on companies and could be used too frequently in lieu of prosecuting individuals,³⁸ companies in breach of anti-bribery acts should be aware the DPAs are not always an option and the only defence in the face of a possible prosecution is that the company has in place 'adequate procedures', such as a proper risk assessment, to prevent bribery.

The discovery of a new large natural gas reserve could have a great impact on the Tanzanian economy, which is aiming to be a middle-income economy by 2025. With the second-largest natural gas reserves in East Africa after **Mozambique**, the construction of a 535km Chinese-built pipeline from the southern region of **Mtwara** to **Dar es Salaam** should help to ease the reliance on hydro-electric power in Tanzania's largest city. The low price of oil has been a positive, as the country is a net importer of oil, but it could slow further natural gas exploration or investment. The fall in the price of crude oil has caused the market in natural gas to fall, especially in **Asia** where the price has fallen over 50% since May 2014. However, a lack of infrastructure means that the majority of production of Tanzania's reserves will not begin until 2022, allowing the country to benefit more than it loses from the current low price of oil.

³⁶ Reuters, 31 Oct 2015

³⁷ Monday Times (Uganda), 18 Jan 2016

³⁸ Forbes, 28 May 2015

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)