

AFRICA RISK CONSULTING

Tanzania Monthly Briefing December 2018

Tanzania Summary 17 December 2018

Tanzania's resource sector shows signs of growth as the government engages formerly apathetic investors in its liquefied natural gas (LNG) sector. United Kingdom-based mining company Acacia Mining reportedly makes headway in tax negotiations with the Tanzanian government after years of deadlock. President John Magufuli (2015-present) snubs Western donors in the wake of homophobia debacle, stating that he prefers Chinese aid to Western aid due to its fewer preconditions.

Tanzania's resource sector shows signs of growth...

A representative of **Norway**-based energy company **Equinor** told news agency **Petroleum Economist** on 17 December that the **Tanzanian** government indicated a wish to begin talks with Equinor and **United States**-based oil and gas company **Exxon Mobil** regarding the development of a liquefied natural gas (LNG) project.¹ Development of Tanzania's LNG resources had stalled in recent months, with various private stakeholders in the proposed projects deterred from pursuing their investments in Tanzania's unpredictable business operations environment and reported disputes with the Tanzanian government regarding construction costs for the project (see *ARC Briefing Tanzania September 2018*).² These issues prompted Exxon Mobil to try to sell its undeveloped offshore asset from June 2018,³ but according to its investment partner, Equinor, Exxon Mobil has renewed commitment to its Tanzania venture, and will not sell its stake in the gas field.⁴

Transforming Tanzania into an industrial economy by 2025 is a cornerstone of President **John Magufuli's** (2015-present) presidential manifesto, and this depends upon the development of Tanzania's energy output, of which LNG makes up an important part (see *ARC Briefing Tanzania August 2018*).⁵ Exxon Mobil's threat to abandon Tanzania's LNG sector and competition from southern neighbour **Mozambique** in the LNG sector appear to have incentivised Magufuli to woo LNG investors.⁶

The Tanzanian government's reported initiation of trade talks with LNG investors could represent softening of President Magufuli's adversarial attitude towards private investors in Tanzania's resource sector. The \$190 billion fine that **United Kingdom (UK)**-based mining company **Acacia Mining** received from the Tanzanian government in 2017 (see below) is just one example of Magufuli's hard-line approach to foreign investors.⁷ Investment in Tanzania's resource sector still carries significant regulatory risks, but those risks appear to be diminishing.

...as Acacia Mining makes headway in tax negotiations with Tanzanian government

UK-based news agency **Reuters** reported on 12 December that **Canada**-based mining company **Barrick Gold Corp** had made progress in tax dispute negotiations between its subsidiary, UK-based

¹ Petroleum Economist, 17 Dec 2018.

² The Citizen, 23 Aug 2018.

³ Reuters, 7 June 2018.

⁴ Petroleum Economist, 17 Dec 2018.

⁵ Xinhua, 4 Apr 2018.

⁶ Reuters, 7 June 2018.

⁷ BBC, 25 Jul 2017.

Acacia Mining, and the Tanzanian government.⁸ This appears to be a further example of a softening in Tanzanian attitudes towards private investors in the country's resource sector (see above). Although Barrick Gold Corp and the Tanzanian government are yet to reach a deal on the tax dispute that began in 2017 with a \$190 billion fine and a ban on exporting gold from Tanzania,⁹ a source informed UK-based news agency **Financial Times** that talks on 12 December could have carved a path for fruitful negotiations between the two parties.¹⁰ Acacia Mining's share price rose 6% in response to the news.¹¹ Acacia Mining invoked a bilateral trade treaty on 19 October to solve the dispute, a costly and lengthy legal process that demonstrated the extent of the deadlock between the two negotiating parties (see *ARC Briefing Tanzania October 2018*).¹²

The merger of Jersey-based **Randgold** and Barrick Gold Corp will see **Mark Bristow** take over as chief executive officer of Barrick Gold Corp. Bristow boasts extensive mining operations experience in **Africa**, which appears to have furthered Acacia Mining's negotiations with the Tanzanian government.¹³ In October, Bristow suggested a plan to form a mining alliance among those operational in Tanzania to break the deadlock between Acacia Mining and the Tanzanian government.¹⁴ Although such alliances have failed to effect positive change for mining companies in neighbouring **Democratic Republic of the Congo (DRC)**, this plan of action could have influenced the Tanzanian government's decision to negotiate with Acacia Mining.¹⁵

According to **United States**-based news agency, **The Wall Street Journal**, the UK government's **Serious Fraud Office (SFO)** is investigating allegations that Acacia Mining officials bribed Tanzanian government officials and consultants, for which several of Acacia Mining's staff and former staff were arrested in October (see *ARC Briefing Tanzania October 2018*).¹⁶ Acacia Mining released an official statement clarifying that they were unaware of an SFO investigation into these corruption allegations, but said that they had been contacted by the SFO regarding these allegations.¹⁷ This possible development could undermine negotiations between Acacia Mining and the Tanzanian government, but as yet this information has not been verified.

The progress made by Bristow and Barrick Gold Corp provides evidence of a possible improvement of the investment environment in Tanzania's resource sector; in October, a source described mining in Tanzania simply as a "no go area".¹⁸ Tanzania's respectable rank of 14th out of 54 countries in the 2018 **Ibrahim Index of African Governance**¹⁹ and position of 103rd of 180 countries in **Transparency International's 2017 Corruption Perceptions Index** (see below) attest to certain strengths in Tanzania's business environment.²⁰ Tanzania ranked considerably higher than its neighbours **Kenya** (143rd) and **Uganda** (151st). However, significant investment risks remain, with Tanzania ranking at a lowly 144th out of 190 countries in the **World Bank's Doing Business 2019** report, worse than its 2018 ranking of 137th.²¹

2017 Rank	Country	2017 Score	2016 Score	2015 Score	2014 Score	2013 Score	2012 Score	Region
103	Tanzania	36	32	30	31	33	35	Sub Saharan Africa

⁸ Reuters, 12 Dec 2018.

⁹ Financial Times, 14 Dec 2018.

¹⁰ Financial Times, 12 Dec 2018.

¹¹ Financial Times, 12 Dec 2018.

¹² Business Day, 19 Oct 2018.

¹³ Financial Times, 19 Oct 2018.

¹⁴ Reuters, 26 Nov 2018.

¹⁵ Reuters, 26 Nov 2018.

¹⁶ Reuters, 18 Oct 2018.

¹⁷ Financial Times, 14 Dec 2018.

¹⁸ Source, lawyer, South Africa

¹⁹ IPP Media, 2 Nov 2018.

²⁰ Transparency International, 2018.

²¹ Doing Business 2019.

Magufuli snubs Western donors

President Magufuli stated publicly on 27 November that he prefers **Chinese** aid to **Western** aid because it comes with fewer preconditions.²² The statement appears to be further evidence of the Tanzanian government's capacity for ill-conceived policy-making decisions, which could have adverse implications for investors. Several Western donors, including **Denmark** and the **World Bank**, withdrew their funding to Tanzania after **Paul Makonda**, a close ally of President Magufuli and regional commissioner for **Dar es Salaam**, asked members of the public to report gay people across the city to the police to be arrested, and supported a policy that banned pregnant girls from ever returning to school (see *ARC Briefing Tanzania November 2018*).²³

The current Tanzanian government has practised a socially conservative agenda since Magufuli's rise to power in 2015. Western withdrawal of funding has evidently not changed the government's social position as the Western threats are largely toothless. The World Bank reneged on its decision to scrap funding for an education programme on 18 November, just two days after its initial announcement (see *ARC Briefing Tanzania November 2018*).²⁴ Western protests have also not encouraged the Tanzanian government to respect multiparty democracy. Opposition **CHADEMA** party leader **Freeman Mbowe** was arrested on 23 November after failing to attend court for participating in protests in February 2018.²⁵

Despite heavy international media coverage of these events, investors should understand that the investment environment of Tanzania remains largely unchanged as a result. However, these events do show investors that policymaking in Tanzania can be erratic; something that could have strong effects on the nation's investment environment.

Planner

Mar 2019 **Dar es Salaam (Tanzania)** *East African Community*. East Africa Health and Scientific Conference;

2020 **(Tanzania)** *Africanews*. General elections;

Chronology

12 Dec 2018 **Dar es Salaam (Tanzania)** *Reuters*. President **John Magufuli** states that he will sign a deal to build a \$3 billion hydroelectric power plant on **Selous Game Reserve**, a world heritage site, this week;

12 Dec 2018 **Dar es Salaam (Tanzania)** *Reuters*. **Canada**-based mining company **Barrick Gold Corp** states it has made progress in tax dispute with **Tanzanian** government, but a deal has not been reached;

4 Dec 2018 **Dar es Salaam (Tanzania)** *Business Day*. **Norwegian** state-owned energy company **Equinor** plans to start negotiations with **Tanzania** to develop an LNG offshore project;

28 Nov 2018 **Dar es Salaam (Tanzania)** *Reuters*. The **Bank of Tanzania** (central bank) suspends five banks – **Barclays Bank Tanzania**, **Exim Bank**, **UBA Bank**, **BancABC**, and **Azania Bank** – from trading in the foreign exchange market for one month for breaching banking regulations;

²² BBC, 27 Nov 2018.

²³ BBC, 27 Nov 2018.

²⁴ Reuters, 18 Nov 2018.

²⁵ Daily Nation, 24 Nov 2018.

27 Nov 2018 **Dar es Salaam (Tanzania)** *BBC*. President **John Magufuli** states he prefers **Chinese** aid to **Western** aid as it comes with fewer preconditions, after several Western states cut aid due to Magufuli's policies;

26 Nov 2018 **Dar es Salaam (Tanzania)** *IOL*. **Ireland**-based mining company **Kibo Mining**, sells subsidiary **Kibo Nickel**, to **United Kingdom**-based **Katoro Gold**;

26 Nov 2018 **Arusha (Tanzania)** *Reuters*. **Canada**-based mining company **Barrick Gold**'s incoming CEO, **Mark Bristow**, plans to form a mining alliance in **Tanzania** to fix subsidiary, **Acacia Mining**'s tax dispute;

22 Nov 2018 **Dar es Salaam (Tanzania)** *The Citizen*. The **African Development Bank** approves a \$322.3m loan to **Tanzania** and **Burundi** to finance the **Kabingo-Kasulu-Manyovu** and **Rumonge-Gitaza** road upgrade projects;