

AFRICA RISK CONSULTING**Tanzania Monthly Briefing January 2019**

Tanzania Summary 28 January 2019

President John Magufuli (2015-present) announces that he plans to cancel mining permits belonging to large-scale miners if the sites remain undeveloped, and will allocate the licences to smallholder mining companies. Magufuli appoints Doto Biteko as mining minister on 8 January, replacing Angellah Kairuki. The World Bank states that Tanzania's economy is forecast to grow 6.6% in 2018, down from 7.1% in 2017, but is expected to grow by 6.8% in 2019 and 7% in 2020 due to expanded public investment and strong agricultural growth. The government announces on 11 January that India-based Bharti Airtel has agreed to give part of its stake in Airtel Tanzania to the government, which raises the government's stake from 40% to 49%.

Magufuli threatens to cancel mining permits of unused sites, but also lower taxes

President **John Magufuli** (2015-present) stated on 22 January that he plans to cancel mining permits belonging to large-scale miners if the sites remain undeveloped, and would instead allocate the licences to smallholder mining companies.¹ The statement is one in a line of plans Magufuli appears to be considering regarding the mining sector, which includes reviewing mining sector taxes and installing closed circuit television (CCTV) within mines to prevent smuggling.² The statements come during an ongoing tax dispute with **Canada**-based mining company **Barrick Gold** subsidiary, **Acacia Mining**, where the government is demanding \$190 billion in penalties for under-declared export revenue since 2000 (see *ARC Briefing Tanzania* December 2018).³ Barrick Gold, which completed its merger with **South Africa**-based **Randgold Resources** at the beginning of 2019, holds a 64% stake in Acacia and is looking at options to resolve the two-year long dispute, which has prevented Barrick from exporting gold during the stand-off.⁴ Barrick Gold chief executive officer **Mark Bristow** stated that there are issues but “they will be resolved”,⁵ which may include the sale of Acacia Mining.⁶

However, Magufuli appears to be in a conciliatory mood. Despite threatening expropriation of unused mining land, he also acknowledged during a meeting with mining stakeholders that the current tax regime was “unacceptably high” and should be lowered to encourage miners to pay their taxes and reduce the chances of tax evasion.⁷ Magufuli made the comments after the **Federation of Miners Association of Tanzania (Femata)** stated that the 18% value added tax on mineral goods, 6% royalty and 5% withholding tax all increase the tax burden and harm the mining sector.⁸ Magufuli directed the miners to speak with the newly appointed mining minister, **Doto Biteko**, to look into the tax issue.⁹ Magufuli appointed Biteko as mining minister on 8 January, replacing **Angellah Kairuki** who was moved to the minister of state for investment in the prime minister’s office.¹⁰ Biteko stated on 23 January that the government plans to speak with mining companies about their constraints and

¹ Bloomberg, 22 Jan 2019

² Multiple sources: IPP Media, 23 Jan 2019; The Citizen, 23 Jan 2019

³ Mining Weekly, 23 Jan 2019

⁴ Mining Weekly, 3 Jan 2019

⁵ Mining Weekly, 3 Jan 2019

⁶ Mining Weekly, 3 Jan 2019

⁷ The Citizen, 23 Jan 2019

⁸ The Citizen, 23 Jan 2019

⁹ The Citizen, 23 Jan 2019

¹⁰ The East African, 8 Jan 2019

to help the sector to grow, as it did in 2017, contributing 4.8% of gross domestic product compared to 4% in 2015.¹¹

Magufuli has also given Biteko 30-days to install CCTV cameras at tanzanite mines in **Manyara** region to stop smuggling and increase mining revenues.¹² Magufuli reportedly threatened to fire Biteko, his third mining minister since 2015, if he is unable to install the CCTV cameras.¹³ The cameras are in addition to a \$2.2m perimeter wall surrounding the mines, which Magufuli ordered built in July 2017.¹⁴ The wall and other measures appear to have work, as tanzanite revenues rose from \$74,000 a month in January 2015 to \$461,000 a month by September 2018.¹⁵ Part of this increase is also due to the new 2017 mining laws, which sought to decrease fraud and under-reporting of production.

Despite Magufuli's current conciliatory mood, many mining companies have become wary of Tanzania's growing regulatory and legislative instability. If Barrick sells Acacia Mining, it may signal to investors that even the largest companies are not willing to take the risk of investing in Tanzania, despite its abundance of natural resources. This investor fear may spill over into the natural gas industry, which would be detrimental to Tanzania's economy. While a worsening economy may increase pushback against Magufuli's policies, it may also drive Magufuli to consolidate his power even more and institute further unfavourable decisions, such as higher taxes or expropriation in order to raise revenue.

World Bank predicts Tanzania economy will slow slightly in 2019

The **World Bank** stated on 16 January that Tanzania's economy is forecast to grow 6.6% in 2018, down from 7.1% in 2017, but is expected to grow to 6.8% in 2019 and 7% in 2020 due to expanded public investment and strong agricultural growth.¹⁶ While growth remains strong, there are still major risks to Tanzania's economy, the greatest of which is that close to half of the country's 45 banks are vulnerable to risk insolvency due to a rising number of bad loans.¹⁷ Another issue is that foreign donors have pulled their financial support due to Magufuli's authoritarian leadership and only released 0.016% of promised funds during 2018, totaling just \$43,350.¹⁸ The government was forced to finance the rest of its development projects, which totaled \$271m.¹⁹ The World Bank and the **European Union** have led the pressure on Tanzania to change its repressive policies and will continue to withhold funding as long as Magufuli continues on his present course.

Despite the cuts, finance minister **Philip Mpango** noted in the state of the economy report in December 2018 that Tanzania would not sacrifice its sovereignty despite difficult times if donors continue to cut financial aid.²⁰ The diminished funding will put pressure on the **Tanzania Revenue Authority** to find the funds from other sources, which may mean increased taxes in other areas.²¹ **United States**-based ratings agency **Fitch Ratings** views the diminished aid flows as credit positive because it reduces dependency on foreign aid flows.²² However, as noted above, decreased investor confidence due to legislative and regulatory uncertainty could hurt the country's economy, particularly as delays continue in implementing infrastructure projects, such as the liquefied natural gas (LNG) terminal in **Lindi Region**.²³ This would make Magufuli's plans to turn Tanzania into a middle-income economy by 2025 difficult, and negate the government's **Second Five-Year Development Plan 2016/17– 2020/21 (FYDP II)**, entitled "*Nurturing Industrialisation for Economic*

¹¹ Mining Weekly, 23 Jan 2019

¹² Business Times, 23 Jan 2019

¹³ Business Times, 23 Jan 2019

¹⁴ Business Times, 23 Jan 2019

¹⁵ Business Times, 23 Jan 2019

¹⁶ IPP Media, 16 Jan 2019

¹⁷ IPP Media, 16 Jan 2019

¹⁸ The East African, 21 Jan 2019

¹⁹ The East African, 21 Jan 2019

²⁰ The East African, 21 Jan 2019

²¹ The East African, 21 Jan 2019

²² The East African, 21 Jan 2019

²³ IPP Media, 2 Jan 2019

Transformation and Human Development".²⁴ The development plan aims to revive the national air carrier, **Air Tanzania**, with a \$434.7m funding drive, construct a 2,100 megawatt hydroelectric power dam in the **Selous Game Reserve**, and undertake a massive infrastructure development drive, which includes railway and highway construction.²⁵ While Fitch states that the economy should grow an average of 6.1% over the next 10 years, this could be lower if investor confidence continues to fall, which would make financing of these projects difficult, if not impossible.

Bharti Airtel increases government's stake in mobile telecommunications partnership

India-based Bharti Airtel has agreed to give part of its stake in **Airtel Tanzania** to the Tanzanian government, raising the government's stake from 40% to 49%.²⁶ The value of the shares was not made public.²⁷ The deal may have repercussions for other sectors if the government decides to use similar strong-arm tactics – in this case alleging that the ownership shareholdings were incorrect – in order to increase its stakes in companies or raise funds from the companies involved. The increased stake follows talks to resolve a dispute between Tanzania and Bharti Airtel from November 2017, when Magufuli stated that state-run **Tanzania Telecommunications Company** was the rightful 100% owner of Airtel Tanzania but was cheated out of its shares.²⁸ Bharti Airtel chairman **Sunil Mittal** disputed the claim, stating that Bharti Airtel had received required government approvals to purchase a 60% stake.²⁹ Magufuli's ownership claim over Airtel Tanzania had rattled foreign investors, who were already unnerved by the government's crackdown on mining firms operating in the country (see above).³⁰ According to a Tanzania-based businessman,

*"Bharti Airtel was an independent body which bought Airtel Tanzania from [previous owners], Zain, cleanly."*³¹

Magufuli's allegations appeared to have worked. Bharti Airtel also agreed to pay \$4.4m in dividends to the government for the past 10 years and to pay dividends to Tanzania in the future.³² Bharti Airtel also wrote off about \$400,000 in debt the government owned to Bharti Airtel, and stated it would contribute \$1m to corporate social responsibility in the country.³³ Part of Bharti Airtel's decision to settle was due to its desire to list Airtel Africa, which has operations in 14 **African** countries, including Airtel Tanzania.³⁴ The Tanzanian government stated this was illegal, as Bharti Airtel had not informed it of its plans and objected to the shareholding structure.³⁵ Mittal was positive about the deal,³⁶ though other telecommunications firms and firms in other sectors may be worried that the government may use the same strong-arm tactics against them in the future.

²⁴ The Exchange, 11 Jan 2019

²⁵ The Exchange, 11 Jan 2019

²⁶ IOL, 14 Jan 2019

²⁷ Economic Times, 12 Jan 2019

²⁸ IOL, 14 Jan 2019

²⁹ IOL, 14 Jan 2019

³⁰ The East African, 11 Jan 2019

³¹ Source, businessman, Tanzania

³² IOL, 16 Jan 2019

³³ IOL, 16 Jan 2019

³⁴ Developing Telecoms, 15 Jan 2019

³⁵ Developing Telecoms, 15 Jan 2019

³⁶ IOL, 16 Jan 2019

Planner

28-30 Jan 2019 **Dar es Salaam (Tanzania)** Tanzania Financial Service Expo;

22-24 Feb 2019 **Dar es Salaam (Tanzania)** Buildint Tanzania;

2-8 Mar 2019 **Dar es Salaam (Tanzania)** Tree Tanzania;

27-29 Mar 2019 **Dar es Salaam (Tanzania)** East Africa Health & Medical Expo;

9-11 Apr 2019 **Dar es Salaam (Tanzania)** Sub-Sahara Oil and Gas Summit and Exhibition;

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

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

24 Jan 2019 **Dar es Salaam (Tanzania)** *Observer*. Energy minister officials meet with **Ugandan** government officials to discuss the **East Africa Crude Oil Pipeline** project;

22 Jan 2019 **Dar es Salaam (Tanzania)** *Mining Weekly*. President **John Magufuli** plans to cancel permits for undeveloped mineral sites owned by large-scale miners and allocate to small holders;

16 Jan 2019 **Dar es Salaam (Tanzania)** *Africa Oil and Power*. Energy minister **Medard Kalemuni** states that construction of the **Rufiji** hydropower plant will begin in June;

15 Jan 2019 **Arusha (Tanzania)** *Standard Media*. **Bank of Tanzania** (central bank) deputy governor **Bernard Kibesse** states that the assets and liabilities of **Bank M**, which the central bank took over in August, will be transferred to **Azania Bank**;

14 Jan 2019 **Dar es Salaam (Tanzania)** *Reuters*. The **High Court** rejects a petition to halt parliamentary debate on draft legislation which would criminalise legitimate political activities;

11 Jan 2019 **Dar es Salaam (Tanzania)** *CNBC*. **India**-based **Bharti Airtel** plans to give 9% of its stake in **Airtel Tanzania** to the government, though Bharti Airtel will retain a 51% majority stakeholding;

10 Jan 2019 **Dar es Salaam (Tanzania)** *Reuters*. The government fines **Acacia Mining** \$129,143 for breaching environmental regulations;

10 Jan 2019 **Arusha (Tanzania)** *News24*. President **John Magufuli** orders the central bank to create a gold reserve;

8 Jan 2019 **Dar es Salaam (Tanzania)** *Sowetan Live*. Presidential official **John Kijazi** names **Doto Biteko** as new mining minister;

2 Jan 2019 **Dar es Salaam (Tanzania)** *Reuters*. New **Barrick Gold Corp** CEO **Mark Bristow** states there are several options to end a tax dispute involving subsidiary **Acacia Mining PLC**;

18 Dec 2018 **Dar es Salaam (Tanzania)** *The East African*. The **Uganda-Tanzania** crude oil pipeline will be delayed due to no final investment decision, though construction was supposed to begin at the end of 2018;

About Africa Risk Consulting:

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