

AFRICA RISK CONSULTING

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Tanzania Summary 14 June 2019

President John Magufuli (2015-present) sacks industry and trade minister Joseph Kakunda and the commissioner general of the Tanzania Revenue Authority (TRA), Charles Kichere, following complaints from local businesspeople over the state of the business environment, including an unfair taxation regime, harassment by security and regulatory agencies, bureaucracy and corruption. Tanzania and Zambia announce a plan to build a 1,349 km refined petroleum products pipeline between Dar es Salaam and Zambia's mining city, Ndola, at the cost of \$1.5 billion. Magufuli faces criticism for his development project investments as the country's national debt balance worsens. India-based Bharti Airtel agrees to pay TSh60 billion (\$26.2m) over a period of five years to settle a long-standing ownership dispute concerning the company's Tanzania unit, Airtel Tanzania.

Magufuli sacks industry minister and trade chief

President John Magufuli (2015-present) sacked the minister for industry and trade, **Joseph Kakunda**, and the commissioner general of the **Tanzania Revenue Authority (TRA)**, **Charles Kichere**, on 8 June following complaints from prominent local businesspeople at a **State House** meeting over poor performances.¹ The business community cited an unfair taxation regime, harassment by security and regulatory agencies, bureaucracy and corruption as reasons for the difficulty of doing business in **Tanzania**. Given Magufuli's portrayal as an anti-corruption leader, how effectively he handles the corruption problem at the TRA and the confidence problem within the business community may have a significant effect on his leadership nomination within the ruling **Chama Cha Mapinduzi** party before the 2020 national elections.² However, rather than addressing the policy concerns raised at the State House meeting, Magufuli's strategy to restore business confidence appears to be to target government leaders, which offers only short-term solutions and is unlikely to have its desired effect.³

Magufuli sacked the two officials a day after the State House meeting with business leaders, appointing **Innocent Bashungwa** as the new industry and trade minister and **Edwin Mhede** as the new TRA commissioner general.⁴ Bashungwa was previously the deputy minister for agriculture, and Mhede was formerly the deputy permanent secretary for the industry and trade ministry. In a live broadcast on the **Tanzania Broadcasting Corporation** on 7 June, Magufuli blamed state-owned institutions for the country's deteriorating business environment and vowed to address the issue.⁵ Magufuli noted the existence of excessively complicated administrative procedures in government, or, bureaucracy, as a significant factor that discourages sustainable growth of business activities.

The opinions shared at the meeting are not new; in fact, they have been growing since Magufuli took office in 2015.⁶ **Francis Noni**, a businessman from **Kondoa District, Dar es Salaam**, said:

"Many of the TRA workers who deal with tax do not know what they are doing. They have turned themselves into the law."⁷

¹ The Citizen, 8 Jun 2019

² Source, analyst, London

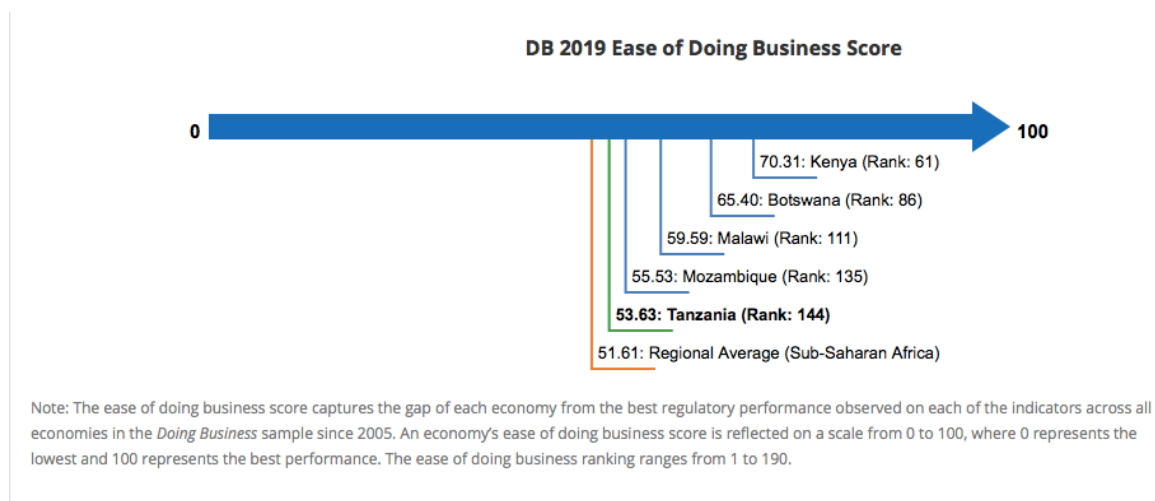
³ Source, analyst, London

⁴ The Citizen, 8 Jun 2019

⁵ Xinhua, 8 Jun 2019

⁶ Source, analyst, London

Tanzania dropped seven places in the **World Bank's Doing Business** report for 2019, coming 144th out of 190 countries.⁸ The Doing Business rankings use a variety of indicators to assess the business environments of World Bank member states, including: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency.⁹ Tanzania improved in only one area, starting a business, which it achieved by launching online company registrations. With an overall score of 53.63, it placed only slightly higher than the **sub-Saharan Africa** average of 51.61.¹⁰ Tanzania's ranking below its regional peers highlights the adverse business and political conditions that have deterred many investors from Tanzania.¹¹



Source: World Bank Doing Business 2019, Training for Reform, Economy Profile Tanzania

Adding to the TRA's tarnished reputation, three TRA officers appeared before the **Kisutu Resident Magistrate's Court** in Dar es Salaam on 10 June charged with corruption for allegedly soliciting bribes of TSh2m (\$868) from a businessperson from **Kariakoo District** in the capital.¹² The defendants denied the charges and were released on bail while the investigations are complete.

\$1.5 billion petroleum pipeline deal with Zambia ...

Tanzania's energy minister, **Medard Kalemani**, said in a presentation on his ministry's 2019/20 budget on 28 May that Tanzania and **Zambia** plan to build a 1,349 km refined petroleum products pipeline between Dar es Salaam and Zambia's mining city, **Ndola**, at the cost of \$1.5 billion.¹³ The pipeline is expected to reduce challenges and lower costs in transporting petroleum, which predominantly comes from the **Middle East**, to many inland regions of Tanzania as well as landlocked Zambia.¹⁴ Kalemani did not provide any details about how the project will be financed or when it will commence, but he did say that a feasibility study will be conducted in the coming fiscal year (July 2019-June 2020).

During his presentation in the administrative capital of **Dodoma**, Kalemani said,

"The project will reduce challenges in transporting petroleum products in the countries that use our ports to import fuel and open up business opportunities."

⁷ The Citizen, 8 Jun 2019

⁸ Doing Business 2019

⁹ World Bank, 31 Oct 2018

¹⁰ Doing Business 2019

¹¹ Source, Tanzania analyst, Dar es Salaam

¹² Tanzanian Daily News, 11 Jun 2019

¹³ Reuters, 28 May 2019

¹⁴ Engineering News, 29 May 2019

According to Kalemani, the pipeline will have take-off points at **Morogoro, Iringa, Njombe, Mbeya and Songwe Regions** on the Tanzanian side. Zambia currently imports most of its petroleum requirements through the port of Dar es Salaam. The countries already have a crude oil and petroleum pipeline between them, the **Tazama pipeline**, transporting products to Ndola, where they are refined for local use.¹⁵ The new pipeline will facilitate transport and create more job opportunities.

... as Magufuli faces criticism over substantial investment in infrastructure

The government's latest major development project deal comes amid growing criticism over President Magufuli's high investment in development projects. Critics worry that the country is unable to finance the plans, which will, in turn, worsen the country's already poor national debt balance. Critics also claim that necessary social and environmental planning is often missing. According to an article by **The Economist**:

*"Donors and investors are less enthusiastic [about Magufuli's investments in mega-projects]. They have nothing against infrastructure-driven development, but it needs to be well planned, carefully implemented and make financial sense. They worry that Magufuli's schemes often fail on all three counts. Already, several have made faltering starts."*¹⁶

The article cites multiple mega-projects that Magufuli has implemented, or plans to implement, during his tenure. These include his buy-up of the loss-making airline, **Air Tanzania**; the \$1.9 billion (about 4% of GDP) railway from Dar es Salaam to **Kigali (Rwanda)** due to be completed in December this year; and the estimated \$2.9 billion **Rufiji Hydroelectric Project**, which is expected to be completed in three years and will become **Africa's** second largest hydroelectric dam (see *ARC Briefing Tanzania May 2019*). The Economist article goes on to say:

"Far from boosting the economy, Magufuli is shackling it. Private investment has been scared off by limits on foreign ownership, a ban on international arbitration to settle contract disputes and a delay in paying vat refunds."

Finance and planning minister **Philip Mpango** told parliament on 3 June that new loans secured by the government during the implementation of mega-projects were among the four reasons that the national debt has increased from TSh49.86 trillion (\$21.69 billion) in April 2018 to TSh51.03 trillion (\$22.20 billion) in April 2019.¹⁷ Mpango said:

*"The increase was particularly caused by new loans received during that period for implementing development projects including the construction of the **Terminal III** of the **Julius Nyerere International Airport**, the **Standard Gauge Railway**, power generation projects and construction of roads and bridges."*

Mpango reassured parliament that the 2.35% increase in national debt during the past year is sustainable, and that of the total liability, TSh13.25 trillion (\$5.76 billion) was secured domestically while TSh37.78 trillion (\$16.43 billion) was sourced from outside the country. According to Mpango, indicators show the value of the national debt as compared to the GDP is 27.2% and that the ceiling stands at 70%. The government plans to borrow Tsh2.32 trillion (\$1.009 billion) from external non-concessional sources in the next fiscal year.¹⁸ If the government's ability to service the debts weakens, it may fail to honour the outstanding debts and be subject to more severe credit restraints.¹⁹ Tanzania's persistent debt crisis undermines its economic growth and damages its ability to restore creditworthiness, particularly at the level of international commercial banking lending.

¹⁵ www.tazama.co.zm

¹⁶ The Economist, 6 Jun 2019

¹⁷ The Citizen, 3 Jun 2019

¹⁸ Reuters, 13 Jun 2019

¹⁹ Source, analyst, London

Airtel Tanzania agrees to \$26.2m settlement with Tanzanian government

The Tanzanian government said on 10 June that **India**-based **Bharti Airtel** has agreed to pay TSh60 billion (\$26.2m) over a period of five years to settle an ownership dispute concerning the company's Tanzania unit, **Airtel Tanzania**.²⁰ The payments are part of a deal made in January in which Bharti Airtel agreed to give part of its stake in Airtel Tanzania to the Tanzanian government, raising the government's stake from 40% to 49% (see *ARC Briefing Tanzania January 2019*).²¹ Magufuli's ownership claim over Airtel Tanzania and the subsequent large settlement payment have rattled foreign investors, who were already unnerved by the government's crackdown on mining firms operating in the country.²²

Tanzania passed a law in April restricting investment disputes to a local resolution mechanism.²³ Foreign affairs minister **Palamagamba Kabudi**, who led the Tanzanian team in the negotiations, said the agreement "*sends a message that investment disputes can be resolved domestically without engaging the international tribunals.*" Talking at State House in Dar es Salaam on 10 June, President Magufuli said:

*"I salute the country's negotiation team and commend [Bharti Airtel Chairman **Sunil Mittal** for believing in the talks instead of seeking international arbitration."*

Magufuli said benefits from the deal would enable the implementation of various development projects. As part of the agreement, Bharti Airtel will give Tanzania \$1m to support development projects. Bharti Airtel will write off \$407m in debt that Tanzania owes it and will pay the government TSh1 billion (\$433,88) every month for sixty months starting April 2019. Bharti Airtel will also pay an undisclosed special dividend at the end of 2019. Three of Airtel Tanzania's seven board members will be Tanzanian nationals and the Tanzanian government will appoint Airtel Tanzania's chairman. Mittal said he hoped the deal would "*give a fresh start to the company*".²⁴

The increased stake followed talks to resolve a dispute between Tanzania and Bharti Airtel from November 2017, when Magufuli said that state-run **Tanzania Telecommunications Company** was the rightful 100% owner of Airtel Tanzania but was cheated out of its shares.²⁵ Mittal disputed the claim, stating that Bharti Airtel had received government approvals to purchase a 60% stake.²⁶

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.²⁷ The Tanzanian government stated this was illegal, as Bharti Airtel had not informed it of its plans and objected to the shareholding structure.²⁸ Although Mittal was positive about the deal, other telecommunications firms and firms in other sectors may worry that the government will use the same strong-arm tactics against them in the future.

²⁰ Bloomberg, 10 Jun 2019

²¹ IOL, 14 Jan 2019

²² The East African, 11 Jan 2019

²³ The Citizen, 18 Apr 2019

²⁴ IOL, 16 Jan 2019

²⁵ IOL, 14 Jan 2019

²⁶ IOL, 14 Jan 2019

²⁷ Developing Telecoms, 15 Jan 2019

²⁸ Developing Telecoms, 15 Jan 2019

Planner

18-20 Jun 2019 **Changsha (China)** China-Africa Economic and Trade Expo;
 25-27 Jun 2019 **Dar es Salaam (Tanzania)** Agro & Poultry East Africa;
 25-28 Jun 2019 **Dar es Salaam (Tanzania)** Expo Tanzania (Trade Fair);
 3-4 Jul 2019 **Dar es Salaam (Tanzania)** Africa LPG Summit;
 12-13 Jul 2019 **Dar es Salaam (Tanzania)** Tanzania Cashew Nuts Forum;
 Aug 2019 **Dar es Salaam (Tanzania)** Southern African Development Community 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

14 Jun 2019 **Dar es Salaam (Tanzania)** *Daily Nation*. Finance minister **Philip Mpango** announces 25% import tax on wigs and hair extensions and a 10% tax on those made in the country;

11 Jun 2019 **Dar es Salaam (Tanzania)** *The Citizen*. India-based telecom group **Bharti Airtel** and Tanzanian government agrees on a \$26.2m settlement over **Airtel Tanzania** dispute;

11 Jun 2019 **Dar es Salaam (Tanzania)** *Tanzania Daily News*. **AZANIA Bank Limited** opens five stand-alone *bureaus de change* shops in **Dar es Salaam, Arusha and Kilimanjaro regions**;

11 Jun 2019 **Dar es Salaam (Tanzania)** *Xinhua*. Government warns public and private land rent defaulters to pay up or face legal action;

11 Jun 2019 **Dar es Salaam (Tanzania)** *Xinhua*. Prime minister **Kassim Majaliwa** invites **Rwanda** to invest in Tanzania's tourism and mining sectors;

10 Jun 2019 **Dar es Salaam (Tanzania)** *Reuters*. The **Bank of Tanzania** (central bank) cuts reserve requirement from 8% to 7% to lift lending;

10 Jun 2019 **Dar es Salaam (Tanzania)** *Xinhua*. **The Prevention and Combating of Corruption Bureau** launches an investigation into seven government officials;

8 Jun 2019 **Dar es Salaam (Tanzania)** *The Citizen*. President Magufuli sacks industry and trade minister **Joseph Kakunda** and **Tanzania Revenue Authority** commissioner general **Charles Kichere**;

7 Jun 2019 **Dar es Salaam (Tanzania)** *Nairobi News*. **Bank of Tanzania** (central bank) suspends conversion of **Kenyan** currency to local currency;

7 Jun 2019 **Dar es Salaam (Tanzania)** *Mining Review Africa*. Tanzania's minerals ministry responds to **Australia**-based **Graphex Mining's** regulatory concerns;

3 Jun 2019 **Dar es Salaam (Tanzania)** *Construction Review Online*. Energy minister Medard Kalemani announces that construction work on the liquefied natural gas project in **Lindi region** will commence in 2022;

1 Jun 2019 **Dar es Salaam (Tanzania)** *The East African*. Mining minister **Dotto Biteko** says mining sector reforms increased the sector's contribution to GDP to 5% in 2018/19, up from 4.8% in the previous year;

28 May 2019 **Lusaka (Zambia)** *Reuters*. Tanzania's energy minister, **Medard Kalemani**, says

Tanzania and **Zambia** will build a refined petroleum products pipeline between **Dar es Salaam** and **Ndola** (Zambia) for \$1.5 billion;

26 May 2019 **Dar es Salaam (Tanzania)** *Xinhua*. **Tanzania Information Services** says the country sold gold worth \$14m in one month in recently opened gold trading centres;

21 May 2019 **Dar es Salaam (Tanzania)** *Xinhua*. **Rwanda** seeks \$1.3 billion to finance the **Isaka-Kigali** standard gauge railway linking Tanzania and Rwanda;

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