

AFRICA RISK CONSULTING

Tanzania Monthly Briefing November 2018

Tanzania Summary 21 November 2018

International donor countries threaten to pull funding from Tanzania because of the government's conservative social agenda. The Bank of Tanzania (central bank) suspends licensing of foreign exchange bureaus in a bid to target money laundering and illegal transactions. President John Magufuli (2015-present) intervenes in Tanzania's cashew nut crisis; Magufuli disbands the Cashewnut Board of Tanzania (CBT), dismisses CBT chair Anna Abdallah, agriculture minister Charles Tizeba and trade minister Charles Mwijage, and deploys the military to buy cashew nuts from farmers. Tanzania drops seven places in the World Bank's Doing Business report for 2019, coming 144th out of 190 countries. The 2,100 MW Stiegler's Gorge power project is on track; the government awards the design building tender for the project to Egypt state-owned Arab Contractors Company.

Will donor countries call time on Tanzania's conservative social agenda?

Several donors to Tanzania have taken economic and diplomatic action against the government citing its various proscriptive social policies. This could not only cause Tanzania to lose out on vital development aid from these donors, but also further alienate Tanzania from foreign capital investment. The **World Bank** scrapped plans on 15 November to loan the Tanzania government \$300m to support an education project after the government ratified a policy of excluding pregnant girls from school (or ever returning to school after their pregnancy).¹ The same day, **Denmark**, Tanzania's second biggest donor, withheld \$10m of aid to the country due to "unacceptable homophobic comments" made by a government official.² This refers to **Dar es Salaam** regional commissioner **Paul Makonda**'s plea to the public on 29 October to report anyone they suspected to be gay to his 'special team', which would arrest them.³ Also on 15 November, the **European Union (EU)** announced that it would review its policies towards Tanzania after its ambassador to the country was recalled due to political pressure from the Tanzanian government.⁴ The EU pledged more than \$700m to Tanzania between 2014 and 2020, and decried the "deterioration of the human rights and rule of law" in Tanzania in justification of its decision.⁵ The EU's review of its dealings with Tanzania could also bring about sanctions.⁶

Such policies are nothing new in Tanzania under President **John Magufuli** (2015-present) and have not previously deterred international donors in a meaningful way. In September the Tanzanian government banned family planning advertisements funded by **United States** government funded development agency **USAID** on the basis that such content contradicted President Magufuli's wish for Tanzanians to have large families.⁷ In 2016 the Tanzanian government attempted to ban the sale of lubricant in a bid to discourage homosexual activity.⁸

¹ Reuters, 15 Nov 2018.

² The Guardian, 15 Nov 2018.

³ The Guardian, 1 Nov 2018.

⁴ Al Jazeera, 15 Nov 2018.

⁵ CNN, 7 Nov 2018.

⁶ The East African, 17 Nov 2018.

⁷ www.lifesitenews.com, 27 Sept 2018.

⁸ The Independent, 23 Jul 2016.

It remains unclear whether donor organisations will stand by their punitive measures, or compromise with the Tanzanian government and resume aid. Already, the World Bank announced on 18 November that it will redesign its \$300m loan for education in Tanzania, reneging on its threat to scrap the deal just days before.⁹ A local source told ARC that

*"donors have a habit of threatening [to pull their funding] and then negotiating with government."*¹⁰

Tanzania is not likely to lose out significantly if members of its government continue this conservative social course. Although these events attract widespread coverage in the global news media, many of the policies do not gain traction on the ground. Within days of Makonda's rallying cry to arrest those thought to be gay, Tanzania's foreign ministry issued the statement that this did not reflect the government's position on the issue.¹¹ ARC's source called this would-be policy a "*clanger*" with "*no real political approval*".¹² However, these developments show a deeply-rooted reticence from prominent members of the government to pander to Western ideals, and a penchant for erratic policymaking. This, seen with the Tanzanian government's punitive treatment of international mining companies such as **United Kingdom (UK)-based Acacia Mining** (see *ARC Briefing Tanzania October 2018*), is likely to give investors to Tanzania great cause for concern.¹³

State intervenes in forex bureau licensing and cashew nut industry

Bank of Tanzania (BoT) (central bank) governor **Florens Luoga** stated on 20 November that the BoT has suspended licensing of foreign exchange bureaus as part of a bid to mitigate money laundering and illegal transactions from taking place.¹⁴ The crackdown on foreign exchange bureaus demonstrates the Tanzanian government's will to tightly manage private economic activity. Luoga's statement followed law enforcement officers shutting down and inspecting foreign exchange bureaus across the northern city of **Arusha** on 19 November.¹⁵ In his statement, Luoga threatened to revoke the licences of foreign exchange bureaus that had either obtained their licences illegally or partaken in illegal activity.¹⁶

This is not the only example of the government attempting to control private economic activity. President Magufuli ordered the **Tanzania People's Defence Forces** to buy the country's entire cashew nut harvest at \$1.43 per kilogram after farmers refused to sell to buyers that offered too low a price for their product.¹⁷ The president also disbanded the **Cashewnut Board of Tanzania (CBT)** and sacked CBT chair **Anna Abdallah**, agriculture minister **Charles Tizeba** and trade minister **Charles Mwijage** on 10 November as part of the debacle.¹⁸ Cashew auctions for international buyers have closed as a result.¹⁹ As Tanzania's harvest comes at a different time of year to other cashew-producing nations, this may drive up the global price of cashew nuts.²⁰ As part of its purchase of the cashew crop, the government has seized thousands of tonnes of produce from people who cannot prove they are farmers.²¹ This will leave cooperatives and cashew traders without any payment for their produce.²²

⁹ Reuters, 18 Nov 2018.

¹⁰ Source, journalist, Dar es Salaam.

¹¹ Reuters, 4 Nov 2018.

¹² Source, journalist, Dar es Salaam.

¹³ Reuters, 20 Oct 2018.

¹⁴ The East African, 20 Nov 2018.

¹⁵ The Citizen, 20 Nov 2018.

¹⁶ The East African, 20 Nov 2018.

¹⁷ BBC, 12 Nov 2018.

¹⁸ The East African, 10 Nov 2018.

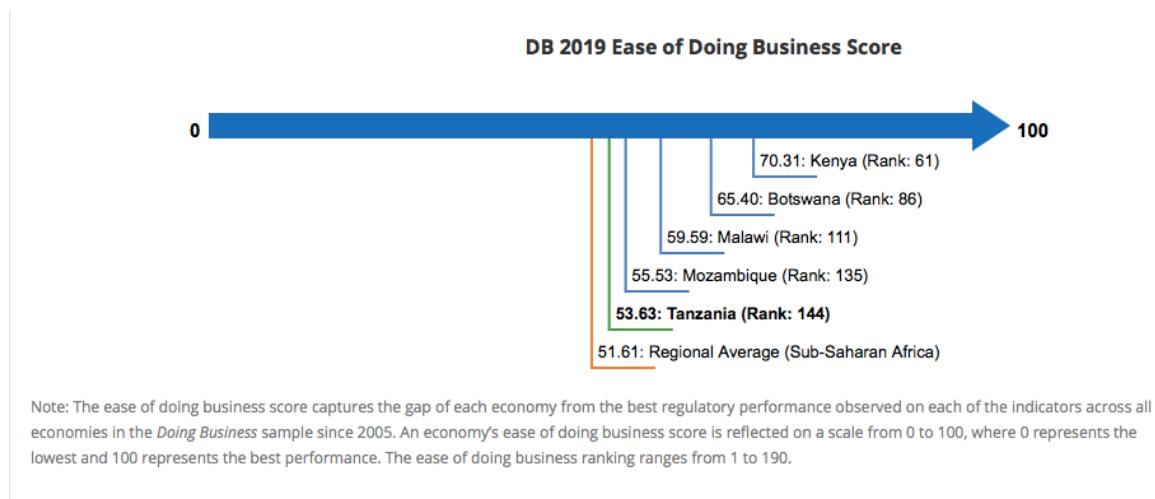
¹⁹ Financial Times, 20 Nov 2018.

²⁰ Financial Times, 20 Nov 2018.

²¹ The Citizen, 20 Nov 2018.

²² The Citizen, 20 Nov 2018.

Its forays into the cashew nut and foreign exchange industries show the Tanzanian government to have created an unpredictable business environment under Magufuli. This is reflected in the World Bank's **Doing Business** report for 2019. With an overall score of 53.63, Tanzania ranked 144th out of the 190 countries assessed, and only slightly higher than the **sub-Saharan Africa** average of 51.61.²³ Tanzania dropped seven places from its 2018 ranking of 137.²⁴ 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.²⁵ Tanzania improved in only one area, starting a business, which it achieved by launching online company registrations.



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

Tanzania's ranking below its regional peers highlights the adverse business and political conditions that have deterred many investors from Tanzania.

Stiegler's Gorge power project on track

The Tanzanian government awarded the tender to design and build the **Stiegler's Gorge** hydroelectric power project in the **Morogoro Region** to **Egyptian** state-owned company **Arab Contractors Company** on 26 October.²⁶ The hydroelectric dam is likely to transform Tanzania's economy upon completion, as the addition of its 2,100MW to the national grid will double current grid capacity.²⁷ This could not only provide power to the 37 million of Tanzania's 54 million people currently without access to mains electricity,²⁸ but also make a vital contribution to the government's plans to industrialise the economy by 2025 (see *ARC Briefing Tanzania August 2018*).²⁹

Project execution committee chairman **Juma Iddi** stated that the project is on track to completion with the preparatory works for the project nearly completed.³⁰ Construction of the facility will involve building a main dam and appurtenant structures, with expected reservoir length of 100 km, covering

²³ Doing Business 2019, p. 5.

²⁴ Doing Business 2019, p. 5.

²⁵ World Bank, 31 Oct 2018

²⁶ Global Construction Review, 26 Oct 2018.

²⁷ AllAfrica, 19 Nov 2018.

²⁸ Global Construction Review, 26 Oct 2018.

²⁹ Xinhua, 4 Apr 2018.

³⁰ AllAfrica, 19 Nov 2018.

an area of about 1,350 square km.³¹ Arab Contractors will carry out the project in partnership with Egypt-based **Elsewedy Electric Company**.³²

The project involves a significant financial outlay for Tanzania. The total estimated project cost is \$3.6 billion.³³ The Tanzanian government committed \$307m to the project in its national budget proposal in May.³⁴ The sum represents more than 40% of Tanzania's proposed 2018-19 budget.³⁵

The location of the Stiegler's Gorge power project in the **Selous Game Reserve** has made the project controversial.³⁶ The reserve is the largest in **Africa** and was added to the **United Nations' World Heritage** list in 1982.³⁷ Reportedly, 2.6 million trees will be cut down during the preparation of the dam site.³⁸

The project has been on the drawing board for decades as part of Tanzania's master power plan, which envisions Stieglers Gorge helping to connect the grids of Tanzania, **Kenya, Uganda** and **Zambia**.³⁹ Tanzania's energy minister, **Medard Kalemuni**, claims the project will “end Tanzania's electricity problems, support local industries by providing them with electricity, and enable the surplus to be sold abroad”.⁴⁰

Investors should consider the potentially transformative effects of the dam on Tanzania's economy, and the industrial opportunities that could arise upon its completion, which is due by the end of 2021.⁴¹

Planner

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

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

Chronology

20 Nov 2018 **Dar es Salaam (Tanzania)** *The East African*. The **Bank of Tanzania** (central bank) freezes all licensing of forex bureaus to crack down on illegal operations and money laundering;

18 Nov 2018 **Dar es Salaam (Tanzania)** *Reuters*. The **World Bank** plans to work with **Tanzania** to redesign the \$300m education project after it cancelled the project due to Tanzania's policy on pregnant school girls;

13 Nov 2018 **Arusha (Tanzania)** *CNN*. The **World Bank** pulls a planned \$300m education loan due to the government's banning of pregnant girls from going to school;

11 Nov 2018 **Arusha (Tanzania)** *Reuters*. President **John Magufuli** fires agriculture minister **Charles Tizeba** and trade minister **Charles Mwijage** due to low cashew nut prices;

5 Nov 2018 **Arusha (Tanzania)** *Tanzania Daily News*. Foreign minister **Augustine Mahiga**

³¹ HydroWorld, 30 May 2018.

³² Afrik21, 8 Nov 2018.

³³ Global Construction Review, 26 Oct 2018.

³⁴ AllAfrica, 19 Nov 2018.

³⁵ HydroWorld, 30 May 2018.

³⁶ HydroWorld, 30 May 2018.

³⁷ HydroWorld, 30 May 2018.

³⁸ Afrik21, 8 Nov 2018.

³⁹ HydroWorld, 30 May 2018.

⁴⁰ Afrik21, 8 Nov 2018.

⁴¹ AllAfrica, 19 Nov 2018.

denies that the government expelled **European Union** diplomat, **Roeland van de Geer**;

4 Nov 2018 **Arusha (Tanzania)** *News24*. The **European Union** recalls its chief representative to **Tanzania**, **Roeland van de Geer**, after the Tanzania government asked him to leave;

31 Oct 2018 **Dar es Salaam (Tanzania)** *The Citizen*. **IPP Ltd** sets up a plant to assemble smartphones and computers;

30 Oct 2018 **Dar es Salaam (Tanzania)** *The East African*. Minerals minister **Angela Kairuki** stated that it will partner with the **Democratic Republic of the Congo** to establish a cobalt smelter in **Tanzania**;

26 Oct 2018 **Dar es Salaam (Tanzania)** *Global Construction Review*. The government chooses **Egypt** state-owned construction company **Arab Contractors Company** to build the \$3.6 billion **Stiegler's Gorge** dam;