

AFRICA RISK CONSULTING

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Tanzania Summary 6 February 2020

The sacking of home affairs minister Kangi Lugola following allegations of corruption, just 18 months after his promotion to the role, adds to political uncertainty as the ruling party Chama Cha Mapinduzi (CCM) prepares itself for the October general election. The United States (US) Secretary of State places a travel ban on the regional commissioner for Dar es Salaam, Paul Makonda, and his wife, alleging human rights violations and preventing them from travelling to the US. The travel ban is strong public condemnation and viewed as a warning shot by the US aimed squarely at President John Magufuli (2015-present). The donor community's displeasure around increasing human rights abuses in Tanzania results in the World Bank announcing a delay in its decision to release a \$500m soft loan for education while Sweden has announced it is cutting aid to Tanzania by 25% during the next five years.

Another cabinet reshuffle and a regional commissioner in trouble

The sacking of home affairs minister **Kangi Lugola**, just 18 months after his promotion to the role, raises concerns about further cabinet reshuffles in the run up to the selection campaign and October general election. Lugola received two promotions under President **John Magufuli** (2015-present) and his fall from grace was swift, reportedly due to allegations of misappropriation of funds relating to a Sh1 trillion (\$453mn) fire department contract.¹ The ministry has one of the largest budgets and has long been hit with scandals and a high turnover of ministers.

Magufuli styles himself as taking a no-nonsense approach to corruption, even among his most senior appointees. **Tanzania's** most recent ranking on **Transparency International's 2019 Corruption Perceptions Index** reflects this, having improved from 117 out of 180 countries at the beginning of Magufuli's administration in 2015 to 96 in 2019.² Nevertheless, the departure of a minister whose star was seemingly on the rise, and who courted largely favourable media coverage in Tanzania, raises concerns regarding high levels of turnover within government which hampers consistency in policy making and creates challenges for those engaging with the government. Lugola will now have to answer to the **Prevention and Combatting of Corruption Bureau (PCCB)** about irregularities in his ministry during his time in office, which is likely to be keenly followed within Tanzania.

The announcement by the **United States (US)** Secretary of State that the regional commissioner for **Dar es Salaam, Paul Makonda**, and his wife, are no longer able to travel to the US is a significant diplomatic move by the US.³ The statement from the Secretary of State designated Makonda under Section 7031(c) of the **FY 2020 Department of State, Foreign Operations, and Related Programs Appropriations Act** due to his involvement in "*gross violations of human rights, which include the flagrant denial of the right to life, liberty, or the security of persons*":

"Specifically, the Department has credible information that Makonda was involved in such violations in his capacity as the Regional Commissioner of Dar es Salaam. In that role, he has

¹ Reuters, 23 Jan 2020

² Transparency International, 23 Jan 2020

³ BBC, 1 Feb 2020

also been implicated in oppression of the political opposition, crackdowns on freedom of expression and association, and the targeting of marginalized individuals.”⁴

The strength of the statement, and the targeting of a regional commissioner, who serves as a presidential appointee, is viewed by many as a warning shot at the president over the trajectory of the country, in particular its decreasing democratic freedoms and increasing human rights abuses, that include increasingly alarming anti-LGBT rhetoric. The sanctioning of Makonda comes shortly after the **US Embassy** made multiple public statements voicing concern about the trajectory of democracy in Tanzania as well as the ongoing arbitrary detention of prominent journalist **Erick Kabendera** since July 2019 (see *ARC Briefing Tanzania August to December 2019*).

Concern within **Dodoma** will be that the next step by the US may be to target a government minister.⁵ Such a decision would be a starting point in alienating the government’s standing among the international community and would cast more attention on the manner in which the October 2020 general elections are held. Against the backdrop of further cuts from western donor funders, the risk is that the government would have even less incentive to adhere to requests for free and fair elections come October, let alone be receptive to concerns about the trajectory of human rights in the country. From an investment perspective, it would also see the government engage more heavily with eastern countries whose loans and investments tend to come with less criticism.⁶

Barrick and government sign framework agreement

The settlement of the long running dispute between the government and **Canada-based Barrick Gold Corporation** on 24 January is a significant development for the mining sector and the investment community more broadly.⁷ The dispute commenced publicly in 2017 with a presidential report on the sector alleging that **United Kingdom (UK)-based Acacia** (now represented in Tanzania by Barrick) had evaded significant taxes during its decades of activity in the country. The allegations broadly coincided with a dramatic overhaul of legislation governing the sector, with industry negatively viewing most of the changes.⁸

Although details have not been made public, Barrick and the government have publicly signed nine key documents that will guide the structure, shareholding and revenue split of Barrick’s assets. The newly created operating company, called **Twiga Minerals Corporation (Twiga)**, will manage Barrick’s **Bulyanhulu, North Mara** and **Buzwagi** mines.⁹ In theory, the official signing is the culmination of two and half years of intense, and reportedly at times contentious, negotiations.

The initial excitement is, however, being tempered by scepticism within the sector. Two weeks after the framework agreement was signed, in what was to be the catalyst for Twiga to export large stockpiles of mineral concentrate, no exports are reported to have occurred yet. There are also questions around when the new revenue sharing mechanism between Twiga and the government will kick in, with the two parties making contradictory statements. Additionally, it is unclear if the government will be satisfied with its 16% free carried interest in each of the operations, or if it is seeking to take a more active interest in running the company. While the sector celebrated, three former Acacia executives remain in jail on multiple charges of economic sabotage that include counterfeiting and conspiracy to evade taxes. presumably as leverage whilst final details are ironed out.¹⁰ The resolution of outstanding issues will set the tone for the sector, a tone that will be critical for all stakeholders, but particularly the exploration companies, many of which are trying to raise funds to develop their long-delayed projects.

⁴ US Department of State, 31 Jan 2020

⁵ Source, Tanzania analyst

⁶ Source, Tanzania analyst

⁷ Reuters, 24 Jan 2020

⁸ Source, Tanzania analyst

⁹ Barrick news release, Dar es Salaam, 20 Oct 2019.

¹⁰ The Citizen, 18 Oct 2018

In the background of the Barrick dispute, another contentious issue has emerged for the sector. The government has decided to actively impose its decision to ban retention licences as part of the Magufuli administration's overhaul of the sector.¹¹ Retention licences allowed companies to delay developing a project and turning it into a mining licence if the global commodity prices were not favourable. Retention licences were previously issued for five years and were renewable. However, the government cancelled existing licences in 2017 and the **Mining Commission** announced a public re-tender process on 19 December.¹² That decision has already seen three companies, **Australia-based Indiana Resources**, and **Canadian-based Winshear Resources** and **Montero Mining & Exploration Ltd**, indicate that they will pursue arbitration to challenge the government's decision. It is likely that more companies will join this list in the coming weeks and months.

Arbitration is likely to be protracted and expensive, drawing increased scrutiny of the current administration's policies. The current lack of clarity as to whether or not former licence holders will be adequately compensated is adding to concern not just about the trajectory of the mining sector, but also the sanctity of contracts in Tanzania more broadly.

The mining sector, targeted as being a large and increasing contributor to Tanzania's gross domestic product, as well as a critical foreign exchange earner, could be a key driver of the country's industrialisation drive. However ongoing legislative, regulatory and political pressure will hamper these goals and see increasing numbers of companies seek to focus their attention elsewhere.

The donor community fights back

The aid community is taking visible steps to show its displeasure at the current state of affairs in Tanzania. Concerns around human rights violations, visibly decreasing democratic freedoms and the contentious decision by the president to ban pregnant schoolgirls from returning to school, have been the main catalysts for the recently delayed and diverted funds.

The **World Bank's** announcement on 27 January to defer any decision on whether to release a soft loan of \$500m to the government to support the country's education system is being watched keenly in-country.¹³ The decision took place the same week that the bank's country director for Tanzania, **Bella Bird**, left her posting and comes after lobbying by both Tanzanian and international gender rights activists to delay the release of funds. Over 11,000 people have signed a petition launched on the website of US-based non-profit organisation **Avaaz** calling for the World Bank to delay the decision until a pathway for education for pregnant schoolgirls can be found.¹⁴

There are currently no indications as to when the World Bank will make a decision to defer, decline or proceed. The World Bank continues to actively engage with the government to try to find an alternative educational pathway for pregnant schoolgirls to re-enroll in school after giving birth. Whilst the World Bank pushes its case strongly, the government continues to put pressure on the donor sector, including the World Bank, to focus its attention on funding large-scale infrastructure projects that are critical to achieving the country's ambitious industrialisation goals.

The decision by the World Bank will only heighten concerns both within Tanzania and among the international community regarding the trajectory of social policy under President Magufuli. This is not the first time the World Bank has delayed a significant loan to Tanzania, and being such a large and globally recognisable donor, its decision is likely to influence the broader donor community's decision-making, as well as public perceptions of the current administration. In addition to the public services that will suffer, there is a risk that the president and the administration will feel backed against a wall and retreat further from engaging on difficult social issues with western donors, instead turning further towards the **Middle East** and **Asia** for financial assistance.

¹¹ The Citizen, 20 Jan 2020

¹² Government of Tanzania, Mining Commission press release, 19 Dec 2019

¹³ Financial Times, 28 Jan 2020

¹⁴ Avaaz, 5 Feb 2020

Less than a week after the World Bank's announcement, **Sweden** declared on 3 February that it would cut its aid budget for Tanzania by one quarter over the next five years due to concerns around the declining democratic space.¹⁵ Sweden has traditionally been a significant donor for Tanzania and there is a risk that other **Nordic** countries may look to follow suit – with the exception perhaps of **Norway** which, via its national oil company **Equinor**, is seeking to develop the Tanzanian LNG project.

Contrary to the trend of donors decreasing or delaying their funding, the **European Union (EU)** announced on 6 February that it would release \$57m in funding, the first significant tranche since it withheld funds in 2018 due to a diplomatic fallout that saw the EU ambassador recalled.¹⁶ The decision is likely to be a mechanism to restore strained relations, rather than tacit acceptance by the EU of the trajectory of the political climate in Tanzania.

Although the diplomatic community has expressed concerns both publicly and privately around human rights abuses, particularly the treatment of the LGBT community, significant cuts in aid, although contentious as they tend to harm their intended recipients, are designed to send a message to the government and will resonate more strongly than diplomatic statements. How constructively the government chooses to engage with the disgruntled donors remains to be seen.

Planner

7 Feb 2020 (**Tanzania**) Parliamentary session concludes
 7 Apr 2020 (**Tanzania**) Karume Day (national holiday);
 26 Apr 2020 (**Tanzania**) Union Day (national holiday);
 October 2020 (**Tanzania**) General elections.

Chronology

6 Feb 2020 **Dar es Salaam (Tanzania)** *The Citizen*. The government and **European Union (EU)** seek to fix strained relations with the EU announcing that it will release a significant tranche of aid;

3 Feb 2020 **Kilimanjaro (Tanzania)** *Daily News*. Dozens of worshippers are killed in **Moshi** as a result of a stampede that occurred at a religious blessing;

1 Feb 2020 **Dar es Salaam (Tanzania)** *Jamii Forums*. **Sweden** announces that it will reduce its aid to Tanzania by a quarter over the next five years in response to concerns around human rights violations;

1 Feb 2020 **Doha (Qatar)** *Al Jazeera*. The **United States** confirms that **Tanzania** is one of the six countries on its new travel ban list, with citizens no longer able to be issued with diversity visas under the ban;

1 Feb 2020 **Washington (United States)** *The Hill*. The **United States (US) Department of State** bans **Dar es Salaam** regional commissioner **Paul Makonda** from travelling to the US due to gross violations of human rights;

30 Jan 2020 **Dar es Salaam (Tanzania)** *The Citizen*. The government announces that **Australian** mining companies **OreCorp** and **Peak Resources** are close to receiving **Special Mining Licences**, classified as projects with a capex of at least \$100m, which would pave the way for the two projects to progress towards construction;

29 Jan 2020 **Dar es Salaam (Tanzania)** *The Citizen*. Net profits from the **Dar es Salaam Stock**

¹⁵ Jamii Forums, 1 Feb 2020

¹⁶ The Citizen, 6 Feb 2020

Exchange (DSE) dropped significantly in Q4 2019, down to Tsh613m (\$266,000) from Tsh2.430 billion (\$1m) in the previous quarter, largely as a result of slowing transactions;

28 Jan 2020 **London (England)** *Financial Times*. The **World Bank** delays its decision on releasing a \$500m soft loan to support educational initiatives in Tanzania due to ongoing concerns around pregnant schoolgirls being refused places in schools across the country;

24 Jan 2020 **Dar es Salaam (Tanzania)** *Reuters*. **Canada**-based **Barrick Gold Corp** and the Tanzania government settle their long-running dispute with the signing of nine key documents that will give increased ownership and benefits to the government from Barrick's mining operations;

23 Jan 2020 **Dar es Salaam (Tanzania)** *Reuters*. President **John Magufuli** sacks home affairs minister **Kangi Lugola** over the inappropriate handling of a Sh1 trillion (\$453m) fire department contract;

22 Jan 2020 **Dar es Salaam (Tanzania)** *Xinhua*. President **John Magufuli** assures diplomats that the October 2020 elections will be free and fair, and that international observers will be allowed to monitor the proceedings;

21 Jan 2020 **Dar es Salaam (Tanzania)** *The East African*. The date for mobile users to biometrically register their sim cards passes, leading the **Tanzania Communications Regulatory Authority (TCRA)** to commence progressively blocking those that have not yet been registered;

20 Jan 2020 **Dar es Salaam (Tanzania)** *The Citizen*. **Canada**-based **Montero Mining and Exploration** becomes the third company to declare a dispute with the government over the cancelling, and public tender for, its retention licence;

18 Jan 2020 **Kigoma (Tanzania)** *The East African*. Police block a scheduled public rally of key opposition member of parliament **Zito Kabwe** in his constituency of **Kigoma**, citing security concerns;

9 Jan 2020 **Dar es Salaam (Tanzania)** *The Citizen*. The **National Bureau of Statistics (NBS)** announces that it has successfully contained inflation levels to 3.4%, down from 3.5% in 2018;

8 Jan 2020 **Dar es Salaam (Tanzania)** *The Citizen*. The **National Food Reserve Agency (NFRA)** acts to lower maize prices by releasing 3,000 tonnes of maize into the market; and

8 Jan 2020 **Dar es Salaam (Tanzania)** *The Citizen*. **Dar es Salaam** mayor **Isaya Mwita** goes to court in an attempt to block plans to remove him from office over allegations of financial misconduct.

About Africa Risk Consulting:

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