

AFRICA RISK CONSULTING

Tanzania Monthly Briefing July 2020

Tanzania Summary 6 July 2020

Tanzania's 2020/21 national budget passes through parliament with a number of election year sweeteners. The budget, and accompanying Finance Act 2020, were broadly well received by the investment community, but changes to the Tax Administration Act have raised concerns among foreign investors. Domestic politics in the run up to the October 2020 general election begins to intensify. President John Magufuli (2015-present) is nominated unchallenged to stand as ruling party Chama Cha Mapinduzi's (CCM) candidate on the mainland. In Zanzibar, however, there is significant competition for the CCM presidential nomination with over 30 candidates nominating. Senior executives of multinational companies are under the spotlight after the release of three former Acacia Mining executives and the brief jailing of three oil executives.

Tanzania passes its 2020/21 budget

Finance and planning minister **Philip Mpango** presented the 2020/21 national budget to parliament in **Dodoma** on 11 June. Mpango presented the budget projecting economic growth for 2020 of 5.5% (revised downwards from previous estimates of 6.9% due to **Covid-19**).¹ The **World Bank** however, estimates that **Tanzania's** 2020 growth rate will be just 2.5%. The budget did not provide specific **Covid-19** related tax concessions or relief, but both President **John Magufuli** (2015-present) and minister for foreign affairs and **East African** cooperation **Palamagamba Kabudi** have called on multilateral institutions to cancel outstanding debts to help the country navigate the crisis.²

The budget outlines total expenditure for the upcoming year of TSh34.88 trillion (\$13.8 billion).³ In line with previous budgets prepared under President Magufuli's administration, there is significant focus on large-scale infrastructure projects. The budget supports strategic projects such as the 2,115 MW **Nyerere Hydropower Project** with an estimated construction cost of \$3.6 billion; the standard gauge railway; an international airport in **Msalato**, just 12km outside the capital, Dodoma, which the **African Development Bank** is funding; and supplementary funding for **Air Tanzania Company Limited** to purchase aircraft.⁴ In some ministries, mega-projects take an overwhelming amount of their line ministry's budget. Construction for the standard gauge railway during 2020/21 for example, has been allocated 48% of the ministry of works, transport and communications' annual budget. There is, however, a risk both that funds are disproportionately disbursed to strategic projects and that funding shortages lead to line ministries receiving less money than officially allocated. In 2019/20 for example, only 75% of the funds allocated to ministries and government departments have been disbursed.⁵

The budget provided a popular election year amendment, increasing the threshold from when income tax is applied from TSh170,000 (\$73) per month to TSh270,000 (\$116) per month. Employers were also offered a reprieve with the skills development levy reduced from 4.5% of payroll to 4% of payroll. Local companies will now compete on a more even playing field, with the directive that any

¹ Reuters, 11 Jun 2020

² The East African, 25 Jun 2020

³ The Daily News, 11 Jun 2020

⁴ The Daily News, 11 Jun 2020

⁵ PwC National Budget Bulletin, Jun 2020

company located in a special economic zone that sells product to the local market be stripped of previously awarded tax exemptions.⁶

The day after the budget was read, Mpango presented the **Finance Act 2020** to parliament. The bill presents opportunities and challenges to industry, and a few unique scenarios for international investors. In a popular move, the finance bill outlined an amendment to section 60 (1) of the **Fair Competition Act**. The amendment means that any penalty levied on a multinational company under the act, (noting that the commission has the authority to impose a fine of not less than 5% of annual turnover and not more than 10% of annual turnover), be restricted to turnover generated in Tanzania, not globally.⁷ Although foreign investors view this amendment positively, the amendment to section 51 of the **Tax Administration Act** is a cause for concern. The amendment provides the Commissioner General of the **Tanzania Revenue Authority (TRA)** the ability to deem a party challenging a tax assessment a “*flight risk*”. Once deemed a flight risk, the objecting party is required to pay 100% of a disputed tax bill up-front, prior to lodging an appeal. This is in contrast to the current practice where parties must pay one third of the bill before lodging an appeal. This amendment will no doubt increase concerns, particularly among foreign investors who are more susceptible to being labelled a flight risk, around potentially excessive tax bills and their impact on cashflow.⁸ Overall, however, the budget and finance act are viewed as fairly even handed with a focus on refining the policies that have been put in place throughout Magufuli’s administration.

Tanzania received some positive news on 2 July with the World Bank now categorising Tanzania as a lower middle-income country (defined as a country where gross national income is between \$1,006 and \$3,995) five years earlier than predicted.⁹

Domestic politics heats up

Domestic politics has started to intensify in the lead up to the October general election with the ruling **Chama Cha Mapinduzi (CCM)** running its nomination process for presidential candidates on the mainland and in **Zanzibar**. The process ran from 15 to 30 June and saw the incumbent, President Magufuli, as the only candidate to collect the nomination forms for the ruling CCM on the mainland.¹⁰

In Zanzibar, however, there is significant competition for the CCM presidential nomination and 32 candidates have successfully nominated.¹¹ Of particular note among the nominees are **Ali Karume** (the son of Zanzibar’s first president, **Abeid Amani Karume** (1964-1972)) and **Dr Hussein Ali Mwinyi** (the son of the former mainland president **Ali Hassan Mwinyi** (1985-1995)), adding a level of intrigue around potential political dynasties. Another nominee of note is Professor **Makame Mbarawa**, a cabinet minister on the mainland.¹² Mbarawa is from **Pemba**, in Zanzibar, and is reported to enjoy a high degree of support in Zanzibar. Zanzibar’s former chief minister, **Shamsi Vuai Nahodha**, has also nominated. The inclusion of these high-profile nominees will ensure that the Zanzibari nomination process is closely followed both on the mainland and in Zanzibar.

Meanwhile, opposition party politics on the mainland and in Zanzibar continue to intensify. **Tundu Lissu**, opposition party **Chama cha Demokrasia na Maendeleo’s (Chadema)** former chief legal officer who was shot multiple times in an unsolved attack in 2017, announced on 9 June that he will nominate himself as the party’s presidential candidate. Lissu is a popular figure in Tanzania and is yet to return to the country from **Belgium** where he has been receiving treatment since his near fatal shooting.¹³ Chadema chairman **Freeman Mbowe**, whom unknown assailants attacked on 10 June, is

⁶ PwC National Budget Bulletin, Jun 2020

⁷ Clyde & Co Tanzania, 16 Jun 2020

⁸ F&B Attorneys, 14 Jun 2020

⁹ The Citizen, 2 Jul 2020

¹⁰ The Citizen, 16 Jun 2020

¹¹ The Daily News, 30 Jun 2020

¹² The Citizen, 19 Jun 2020

¹³ The Citizen, 9 Jun 2020

yet to formally announce if he, too, will nominate as the party's candidate.¹⁴ Former foreign minister, and recently expelled CCM party member **Bernard Membe** also indicated his intention to nominate as a presidential candidate, however it is unclear at this point under which party he will nominate.

Defections, both to the CCM and between various opposition parties, continue to dog opposition politics. On 15 June, three Chadema members of parliament announced that they were defecting to the ruling CCM.¹⁵ In Zanzibar, 21 members of the opposition **Civic United Front (CUF)** announced that they were defecting to **Wazalendo Alliance for Transparency and Change (ACT Wazalendo)**.¹⁶

Opposition politics is taking place in a climate of increased intimidation. ACT Wazalendo leader **Zitto Kabwe** and eight other party members were arrested for holding an illegal assembly on 23 June, while the attack on Chadema chairman Mbowe remains unsolved and **Tanzania Daima**, a daily newspaper connected to Mbowe's family, has had its licence revoked.¹⁷

Opposition party politics is likely to continue to be fractious and there is a real probability that the parties will be unable to unite under a central banner or cohesive opposition strategy, to try to challenge CCM during the October general election. Although CCM's success at the polls is almost guaranteed, the opposition parties will need a cohesive strategy if they are to reduce CCM's majority in parliament.

Top executives in the spotlight

Executives of international companies made headlines throughout June. Three former **Acacia Mining** executives – **Deodatus Mwanyika**, **Alex Lugendo** and **Assa Mwaipopo** – were released from jail on 16 June. Their release after more than a year in jail, comes after they pleaded guilty to tax evasion at the **Kisutu Resident Magistrate Court** and were ordered to pay a fine of TSh1.5 billion (\$645,000).¹⁸ The arrests of the three former Acacia executives is linked to the fallout between the company and the government in June 2017. The timing of the release of the executives is believed to be linked to the signing of the framework agreement between **Canada**-based **Barrick Gold** (which acquired Acacia's assets via its Tanzanian subsidiary, **Twiga Minerals**) and the government in February. Following the finalisation of the framework agreement, it was announced on 25 May that Twiga had successfully resumed exporting its gold concentrate that had stockpiled to 1,600 containers. The export of the concentrate was the trigger for the company paying the government \$100m, the first tranche of the \$300m it owes.¹⁹

On 30 June, police arrested three executives from top oil marketing firms: **Total Tanzania's** managing director, **Jean-Francois Schoepp**; **Puma** supply manager **Adam Eliewinga**; and **Oryx** representative **August Dominick**.²⁰ The three executives were arrested when attending a meeting with the **Energy and Water Regulatory Authority (EWURA)** in **Dar es Salaam** on suspicion that they had hoarded supplies, thereby causing a shortage, in order to increase fuel prices.²¹ The executives reportedly spent the evening in jail and were released the following day, however investigations continue. It was reported that the authorities were also seeking to question executives from **Lake Oil** and **Star Oil**. The arrests come just one week after EWURA revoked the licences of five other fuel marketing companies in Tanzania.

The seemingly arbitrary arrest of senior executives continues to be of concern among the business community. The arrest of one of its senior executives will no doubt concern **France**-based **Total E&P**, for example, leading the revival of the **East African Crude Oil Pipeline (EACOP)** from **Uganda** to

¹⁴ Daily News, 10 Jun 2020

¹⁵ The Citizen, 15 Jun 2020

¹⁶ The Citizen, 21 Jun 2020

¹⁷ The Standard, 23 Jun 2020

¹⁸ The Citizen, 16 Jun 2020

¹⁹ Mining Weekly, 25 May 2020

²⁰ Daily Nation, 30 Jun 2020

²¹ Bloomberg, 1 Jul 2020

Tanzania.²² The private sector will continue to monitor these developments closely to see if they increase in frequency in the lead up to the October general election.

Planner

7 Jul 2020 **(Tanzania)** Saba Saba Day (National Holiday);
 8 Aug 2020 **(Tanzania)** Nane Nane Day (National Holiday);
 14 Oct 2020 **(Tanzania)** Nyerere Day (National Holiday); and
 October 2020 **(Tanzania)** General elections.

Chronology

5 Jul 2020 **Dar es Salaam (Tanzania)** *The Citizen*. Health minister **Umyy Mwalimu** announces that additional **Covid-19** treatment centres have been closed due to a decline in cases. Only 11 of the initial 84 centres remain open;

2 Jul 2020 **Dar es Salaam (Tanzania)** *The Citizen*. The **World Bank** officially categorises **Tanzania** as a lower middle-income country, defined as GNI per capita between \$1,006 and \$3,995, five years earlier than anticipated;

30 Jun 2020 **Zanzibar (Tanzania)** *Daily Nation*. A total of 32 candidates have met the criteria to nominate as **Chama Cha Mapinduzi's (CCM)** presidential candidate in **Zanzibar**;

30 Jun 2020 **Dar es Salaam (Tanzania)** *Daily Nation*. Police arrest three top oil marketing firms' bosses, **Total Tanzania's** managing director **Jean-Francois Schoepp**, **Puma** supply manager **Adam Eliewinga** and **Oryx** representative **August Dominick**, for questioning Tanzanian authorities' allegations of foul play over fuel supply.

28 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. **United Kingdom**-headquartered **Petra Diamonds** announces that it is seeking to sell its **Williamson Diamond Mine** along with a number of its **South African** assets in a bid to decrease the company's debt burden;

23 Jun 2020 **Dar es Salaam (Tanzania)** *The Standard*. Opposition party **Wazalendo Alliance for Transparency and Change (ACT Wazalendo)** leader **Zitto Kabwe** and eight other members are arrested for holding an illegal assembly, accusing the government of repression ahead of October's presidential election;

21 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. 21 members of parliament in **Zanzibar** defect from opposition **Civic United Front (CUF)** to opposition **ACT Wazalendo**;

16 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. President **John Magufuli** collects the **Chama Cha Mapinduzi (CCM)** nomination forms and will commence collecting the 250 sponsors he requires to nominate as the party's presidential candidate;

16 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. Three former executives of **Acacia Mining** – **Deodatus Mwanyika**, **Alex Lugendo** and **Assa Mwaipopo** – plead guilty to tax evasion at the **Kisutu Resident Magistrate Court**, where they are ordered to pay a fine of TSh1.5 billion (\$645,000) and subsequently released;

15 Jun 2020 **Dar es Salaam (Tanzania)** *Daily News*. The **Court of Appeal** has ruled in favour of the **Tanzania Revenue Authority (TRA)**, ordering **Geita Gold Mine Limited** to pay TSh 3 billion (\$1.29m) in underpaid withholding taxes;

14 Jun 2020 **Dodoma (Tanzania)** *Daily News*. Tanzania's first gold refinery, located in **Dodoma**, is complete and ready to refine gold to the 999.9 purity recommended for international trade

²² The Citizen, 7 Jun 2020

requirements;

15 Jun 2020 **Dodoma (Tanzania)** *The Citizen*. Opposition party **Chadema** members of parliament **Sware Semesi, Anna Gidarya** and **Latifa Chande** announce their defection to the ruling **Chama Cha Mapinduzi (CCM)**;

13 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. President **John Magufuli** calls on international finance institutions to provide Tanzania with debt relief to help the country recover from **Covid-19**;

12 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. Tanzania's first wind farm, operated by **Rift Valley Energy Group**, has commenced operation in the **Mufindi** district, generating 0.8MW of electricity with plans to expand output to 2.4MW;

11 Jun 2020 **Dodoma (Tanzania)** *Daily News*. Finance and planning minister **Phillip Mpango** reads the 2020/21 national budget in parliament, with a focus on large-scale infrastructure projects;

11 Jun 2020 **Dodoma (Tanzania)** *Daily News*. Parliament passes the controversial **Written Law (Miscellaneous Amendment) (No. 3) of 2020** that provides immunity from prosecution to the heads of state organs;

9 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. **Tundu Lissu**, former member of parliament for **Singida East**, who left Tanzania after being shot multiple times by unknown assailants in 2017, announces that he is standing to be nominated as opposition party **Chadema's** candidate in the 2020 general election;

10 Jun 2020 **Dodoma (Tanzania)** *Daily News*. Unknown assailants attack opposition party **Chadema** chairman **Freeman Mbowe** in **Dodoma**;

7 Jun 2020 **Dar es Salaam (Tanzania)** *The Citizen*. The stalled **East African Crude Oil Pipeline (EACOP)** from **Uganda** to Tanzania shows hope of revival after **United Kingdom**-headquartered **Tullow Oil** agrees to transfer its stake in the project to lead developer **France**-based oil company **Total E&P**.

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistle-blower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)