

# TANZANIA

Dar es Salaam (gtai) – Political developments in Tanzania are volatile and unpredictable, raising concerns especially among investors in the mining sector. In transport and tourism, on the other hand, Tanzania benefits from political tensions in Kenya, while continued investments into the energy sector benefit its resource-based industrial production. Port expansions supports the construction industry and a new mega-pipeline for crude oil creates additional business opportunities.

## ECONOMIC PROSPECTS

Tanzanian economic growth will slow to 5.5% and 5.2% respectively over the next two years because of lower foreign direct investment in the face of haphazard economic policy. As a result, the business climate is deteriorating, above all affecting growth in the mining sector. The state's demands for a bigger slice of the raw materials pie translates into higher costs for the mining companies and depresses international demand for commodities.

International companies may still continue with their investments but where possible stretch or reduce them. However, private consumption is booming, at least in 2017, leading to an increase in GDP above the African average. Services continue to expand, driven by financial services and tourism and now account for half of the GDP.

Resource-based industrial production is also on the rise, benefiting from cheaper credit, more reliable power supply, and new special economic zones offering favourable tax rates. Port projects further support the construction industry, improving its competitiveness with Kenya, and should boost lucrative transit routes into Uganda, Burundi and Rwanda over the medium to long term. However, major projects are often delayed, either because the money runs out or because the government cannot make decisions. Such project overruns have a direct negative impact on economic growth.

President John Magufuli has embarked on an ambitious industrialisation of the country to create much-needed new jobs. The private sector should play the leading role, while the state wants to reduce bureaucratic hurdles. Sadly, the reality is different: taxes are raised overnight, and regulations are changed by leaps and bounds without consulting the private sector beforehand. Thus, there is no planning security for companies and a deteriorating business environment. In the World Bank's last

Doing Business Index, Tanzania fell five places to 137th (out of 187 countries), while neighbours Rwanda and Kenya improved to 41st and 80th place, respectively.

## INVESTMENTS

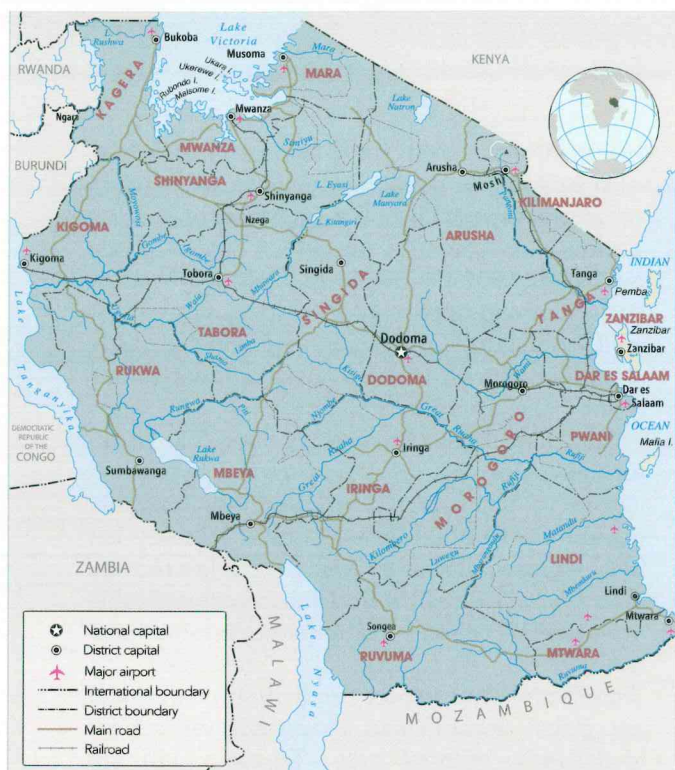
The EIU estimates investment growth at 6% in 2017 and 5% in 2018. Infrastructure projects are the focus of planned investments. For this there is no shortage of grand plans, there is a lack however, of funding and implementation. For now, the interest of foreign donors has slowed down, as the government with its erratic trial-and-error policy creates uncertainty and seems not to know exactly what it wants.

Current projects continue for now, but may also become protracted over time. The largest active project is the construction of a crude oil pipeline from Uganda to the Tanzanian port of Tanga. Based on initial estimates, the project is to cost some 3.55 billion USD; a detailed feasibility study is currently underway. The challenges are huge, as the oil needs to be constantly heated due to its waxy consistency. For now, the mega-plans for expensive gas liquefaction have become markedly quiet. Given weak market prices, and large supply with low demand, there are currently very few investors to be found for the project.

## CONSUMPTION

According to initial figures, private consumption is to grow by a remarkable 8.9% in 2017. For the next five years, however, the EIU expects gains of only 4.8 to 5.9%. Real growth in government consumption in 2017 is also at a strong 8.8%. In the next few years, a gradual decline in growth rates to 5% is expected.

After hurtling to 20% at the end of 2011, inflation has stabilised at a moderate 5.5% on an annual average for 2017. For the next five years, the forecasts are between 4.9% and 5.7%. Key factors include weather (associated crop yields) and international food prices for wheat



Area	947 300 km <sup>2</sup>
Population	55.5 million (2016)
Population growth	3.1%
Official languages	Swahili, English
Capital	Dar es Salaam
GDP growth	7.1% (2017)
President	John Magufuli
Ease of doing business	137/190 (2016)
Currency	Tanzanian Shilling (TZS)

Source: IMF, gtai

### KEY ECONOMIC DATA

Indicator	2017	2018 (estimates)	Comparative data, Germany 2017
GDP (nominal, billions of USD)	50.6	52.1	3 686.7
GDP per capita (USD, PPP <sup>2</sup> )	883	882	44 595
Population (millions)	57.3	59.1	82.7
Exchange rate (1USD = TSh <sup>3</sup> )	2 230	2 390	

Source: IMF, German Federal Bureau of Statistics

### FOREIGN TRADE (USD MILLIONS)

	2017	2018 (estimates)	% change
Imports	-8 798	-9 224	4.8
Exports	5 212	5 370	3.0
Balance of trade	-3 585	-3 854	7.5

Source: EIU

### SWOT ANALYSIS

Strengths	Weaknesses
Extensive mineral resources.	Poor Infrastructure.
Above average economic growth.	High production costs; chronic skills shortage.
Enormous agricultural potential.	Poor position in the Doing Business Index (World Bank) <sup>2</sup>
Lucrative goods transit transactions.	Unpredictable, authoritarian government regime.
Most stable country in East Africa <sup>1</sup>	Low per capita income
Opportunities	Threats
Utilisation of natural resources	High dependency on international commodity prices.
Extensive infrastructure projects particularly harbours, oil pipelines.	Drought and crop failures.
Desired industrialisation, spurred on by new industrial zones	Social tensions and unrest; high population growth.
Commercialisation of agriculture	Unpredictable government; inadequate planning certainty
Urban development: Dar es Salaam is amongst the ten fastest growing cities	High dependence on and conflicts with international donor community

1) Ranked 65th in the Fragile State Index 2017 of the Fund for Peace (place 1 is worst, 178 is the best ranking); 2) Dropped 5 places, ranking 138 out of 187 countries (by comparison: Rwanda = 41, Kenya = 80); © German Trade and Invest

### SELECTED MAJOR PROJECTS

Project	Investment amount (USD)	Project Status	Comment
Natural gas production, liquefaction and export	Up to 30 billion	Investment decision is pending	Tanzania Petroleum Development Corp. (TPDC)
Bagamoyo Harbour	11 billion	Long-term project with no fixed schedule. Dependent on changing political priorities.	Client: Ministry for Works, Transport and Communications; Property Developer: China Merchants Holdings International
1 445 km long crude oil pipeline from Uganda to the Tanzanian port of Tanga	3.6 billion	Technical feasibility study	Joint project: Total E & P, CNOOC and Tullow Oil
Three new standard-gauge railway projects with a total of 700 km	Unknown	Tender preparation	Client probably the newly planned Tanzania Railways Corporation as successor to the Reli Assets Holding Company
Mchuchuma coal and Liganga iron ore project	3 billion	Planning	Sichuan Hongda Group of China
Expansion and development of Dodoma to the capital	Unknown	By order of the President; Short-term implementation	Abundance of individual projects; No information about a master plan
Offshore 600 MW wind-power plant	2.4 billion	Intention	Promotor: VR Holding AB (Sweden)
2-phase standard gauge railroad, 422 kms, Morogoro-Dodoma	1.9 billion	Under construction; Anticipated completion: September 2020	Yapi Merkezi Insaat VE Sanayi As (Turkey)
1-phase standard gauge railway, 207 km, Dar es Salaam-Morogoro	1 billion	Intention	Japanese Koyo Corp.
250 to 350 MW Mbeya coal-fired power plant	0.6 to 0.8	Planning	Kibo Mining

Sources: gtai, Press reports

and sugar, which Tanzania imports to a large extent. Added to this is the low oil price, which thus far favoured private consumption. Because of low average incomes, the general population has no purchasing power for high-end consumer goods or long-term consumables, except for a very small upper class and a small, albeit growing, middle class, who is concentrated almost exclusively on the metropolis of Dar es Salaam.

### FOREIGN TRADE

The trade deficit will rise significantly in 2017 with the increase in capital goods imports for infrastructure projects and higher international prices for imported goods. Although Tanzania is expected to increase food export revenues, the mining crisis is likely to have a negative impact.

Logistics (road transport, warehousing and port handling) is developing very positively. Due to political uncertainties in Kenya, many foreign traders in Uganda and eastern DRC have switched to the route through Tanzania. For the same reason, there has been growth in the tourism sector. On the negative side, expenditure on foreign loans is increasing and development aid is declining.

In 2016, Germany delivered goods to Tanzania to the value of 136.7 million euros, 14% more than in 2015, but 20% less than in 2014. According to Tanzanian sources, the German share of total imports in 2016 was 2.4%. Goods were imported from Tanzania in the same year for 168.8 million euros, an increase of 1% over the previous year. Main import items are tobacco and ores.

## SECTOR SURVEY

Tanzania's economic potential is one of the highest in East Africa: it is an important transit country and has huge tracts of fertile land. Enormous natural gas deposits and many other mineral resources could be used for industry. While the country actively addresses its infrastructure deficits, government does not keep pace with the creation of adequate administrative conditions for investors. 2017 was a year of new hurdles.

### MACHINERY AND EQUIPMENT

Tanzanian industry is still in its infancy and is concentrated in agricultural processing. This could change once Tanzania's extensive gas resources are exploited and a value chain for other mineral resources is built. Until then there

are many hurdles to be overcome. Tanzania is also banking on massive expansion of its infrastructure, especially in the energy and transport sectors. Consequently, imports of capital goods will continue to increase in coming years. In 2016, German imports of machinery, equipment and mechanical appliances amounted to only 34 million euros, 10% less than in the previous year.

### CHEMICALS

Given its huge natural gas reserves, Tanzania would like to build up a chemical industry but the estimated cost of 30 billion USD (extraction, transportation, liquefaction) is barely conceivable for the poor country. Participating international companies are primarily interested in liquefaction and export production conditional on global demand and favourable investment conditions. Without help, Tanzania will not make it because neither the money nor the know-how is available. However, without the decision for liquefaction, gas extraction will also not be feasible and neither will the anticipated fertiliser factory (with German participation).

### ENERGY

Tanzania has neglected its energy sector for too long and cannot guarantee stable power supply anymore. Thanks to projects that have been started and its natural gas and coal resources, these deficits may however soon to be a thing of the past. With a highly ambitious expansion in energy supply, the country wants to industrialise very quickly and advance into a new league. Still many questions remain. To what extent German technology can be applied remains to be seen and will depend crucially on financing issues. So far, German technology is virtually nonexistent; in 2016, relevant imports amounted to just 3.1 million euro.

### CONSTRUCTION

The construction sector is profiting from port projects, ambitious railway expansion and a planned crude-oil pipeline. Of interest is the upgrading of the capital, Dodoma, while the port city of Dar es Salaam is on its way to becoming a mega-city. The demand for consulting services and structural quality is increasing as are opportunities for relevant German companies. Meanwhile, the boom in private real-estate has stalled because the government wants to put a stop to 'dubious' financing schemes. In 2016, Germany supplied mining-, construction- and building materials machinery to Tanzania for only 4 million euro.

## MEDICINE

As in all of East Africa, the health sector in Tanzania is in permanent crisis. There is a lack of money, good management and know-how. Corruption and counterfeit medicines are a continuing unpleasant topic. Only those who have a lot of money can afford adequate medical care, which is often only available abroad. The state is estimated to contribute 25% of health care costs, the international donor community adds about 40% and the rest comes from private pockets. In 2016, Germany provided medical devices for 5 million euros and 2 million euros for pharmaceutical products.w

## AGRICULTURE

Many a country in Africa would be fortunate to have even a small portion of Tanzania's agricultural assets and water resources. The climate is very favourable for a variety of crops. The country could feed its population well, and earn valuable foreign exchange through exports. The reality is different: Tanzania is still dependent on consistent and sufficient rainfall and has to import food for 500 million USD annually, mainly grain and sugar - a disgrace for the Tanzanian Government, which for decades has not been able to provide adequate policy for a sustainable change of direction.

## MINING

East Africa is blessed with an abundance of minerals that could make Tanzania a leading mining nation in Africa. The extent to which the treasures can be extracted and sold lucratively, however, depends on international commodity prices and the government. The latter however is about to impose a greater state-owned share 'using a crowbar'. Poor rule of law and planning security, are ostracizing new investors, while existing investors focus on damage control rather than expansion. Whether a series of ambitious projects can be accomplished, is questionable.

## OIL AND GAS

Tanzania has enormous gas reserves that could be exported, and could be used to build up an energy-intensive industry. In view of the subdued world demand however, the companies involved shy away from the associated investments and only want to commit to them if the gas can also be exported. Gas exploitation for the domestic use only seems not worthwhile for them. Meanwhile, another major project is more realistic: a heatable crude oil pipeline (the oil has a wax-like consistency) from Uganda to the Tanzanian port of Tanga. The foundation has

already been laid and the technical feasibility study is in progress. For a country like Tanzania, this too is a project of gigantic proportions.

## FOOD

Despite having successful agricultural export products, Tanzania's agricultural potential remains largely untapped – instead enormous sums have to be spent on food imports. If you visit a Tanzanian supermarket, you would have to search for processed and neatly packaged local food. The number of larger domestic producers can easily be counted on two hands. At least there is now a positive trend towards local processing albeit on a basic level. Germany supplied machines for the food industry (EGW848) for 578,000 euros in 2016 – in 2013 this was still 6 million euros.

## ENVIRONMENT

Tanzania's water supply is inadequate, while sewerage and refuse management are downright scandalous. Many beaches (except Zanzibar) are severely littered – with plastic bags floating in the sea. Only some old hotel names like White Sands endure as a reminder of cleaner days. Environmental awareness is almost nonexistent. If there are initiatives and projects, they come almost exclusively from the international donor community. This may offer an opportunity for foreign companies to participate and in fact receive contractually agreed payment for services provided – this is not always a given in the case of public contracts.

Information on current donor-funded projects is available at <http://www.gtai.de/tanzania> – Tenders and Development projects. ■