



# REPUBLIC OF TANZANIA

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# INTRODUCING

## COUNTRY PROFILE – FACTS AND FINDINGS



**Location:** The United Republic of Tanzania is located in East Africa. It shares borders with Kenya and Uganda in the north, Rwanda, Burundi and the Democratic Republic of Congo in the west, and Zambia, Malawi and Mozambique in the south. The capital city is Dodoma. Its economic prospects are positive, with strong foreign investor participation, adequate foreign exchange reserves and relatively low political risk. Tanzania is home to Africa's highest mountain, Kilimanjaro, located within the northeastern region of the country.

**Chambers/Associations:** Tanzania is a member of the East African Community (EAC) and of the East African Chamber of Commerce, Industry and Agriculture (EACCIA), which was established and is owned by three national chambers: the Kenya National Chamber of Commerce and Industry (KNCCI), the Uganda National Chamber of Commerce and Industry (UNCCI) and the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA).

# PESTEL ANALYSIS

## INTERNATIONAL TRADE

Top five export locations	Top five import locations
1. India (21.99%)	1. India (19.33%)
2. South Africa (12.08%)	2. China (16.13%)
3. China (11.99%)	3. United Arab Emirates (9.26%)
4. Kenya (7.82%)	4. Switzerland (7.14%)
5. Democratic Republic of Congo (5.11%)	5. Kenya (5.16%)

Top five exported goods	Top five imported goods
1. Pearls, precious stones, metals, coins (23.86%)	1. Mineral fuels, oil, distillation products (28.08%)
2. Ores, slag and ash (12.51%)	2. Machinery, nuclear reactors, boilers (10.31%)
3. Edible fruit, nuts, citrus fruit, melons (7.00%)	3. Vehicles other than railway and tramway (9.21%)
4. Oil seed, oleagic fruits, grain, seed and fruit (6.32%)	4. Electrical and electronic equipment (5.88%)
5. Tobacco and manufactured tobacco substitutes (5.66%)	5. Plastics and articles made thereof (4.71%)

## TANZANIA'S OPENNESS TO FOREIGN DIRECT INVESTMENT

- Foreign direct investment (FDI) has increased considerably in Tanzania. FDI has brought with it efficient investment procedures, measured against regional standards.
- The steady diversification of the Tanzanian economy has expanded the number of investment opportunities. These range from agricultural production and processing to tourism, mining and, increasingly, energy production.
- This is reflected in growing FDI levels, which currently stand at USD12.7bn. This represents the tenth-largest inward FDI stock out of 48 sub-Saharan African countries and the second-largest stock among its neighbours after Zambia. Specifically, the discovery of natural gas reserves in 2013 will likely make Tanzania more attractive as an investment

hub in the long term.

- Tanzania's relations with its main donors are currently strained. This is due to a major corruption scandal in 2014, after which some donors decided to put their budgetary support on hold. However, economic ties with China will continue to strengthen.
- The US wants to refocus its relationship with Africa away from aid and more towards trade and investment. The difficult business climate will make this difficult.

## SOUTH AFRICA IN TANZANIA

- South Africa has well established business and economic ties with Tanzania. A number of South African companies have operations in the country. These include financials such as Sanlam, telecoms companies such as MTN, and food and drink companies SABMiller and Shoprite.

## POLITICAL

- The legal system is based on English common law and the 1977 Union and 1985 Zanzibar constitutions.
- The ruling party, Chama Cha Mapinduzi (CCM), retained power after the presidential elections of 25 October. It got 58% of the votes, with 40% of the votes going to the opposition, Ukawa. The new party leader is John Magufuli.
- The political climate is tense due to the opposition party's refusal to accept the official results. Key investment decisions in the energy sector are likely to be delayed until the dust from the election has settled.
- Tanzania started reviewing its constitution in 2012. A Constitution Review Committee was formed to co-ordinate and supervise the constitution-making process. A new constitution was proposed in October 2014. One of the changes that were proposed was a structure made up of two governments – a Union government, which would have authority over Union matters as well as non-Union matters concerning Tanzania mainland; and a Zanzibar government, which would have authority over all non-Union matters concerning Zanzibar.
- There has been fierce opposition to the proposed changes to the constitution. Despite this opposition, though, the government scheduled a referendum to adopt the new constitution in April 2015. This was postponed due to the inadequate biometric voter registration numbers.
- Some believe the draft constitution does not do enough to rebalance political power between Tanzania and Zanzibar. The incoming government will probably avoid constitutional questions in the near term, and then go on to revive the review process once it has secured its own political authority.
- The lingering uncertainty over the constitution's future will

continue to obstruct policymaking and heighten ideological tensions.

- More and more public protests are expected because of the rising cost of living and increasing urbanisation.
- Parliament released the Petroleum Act in July. The Petroleum Act reforms the institutional framework of the oil and gas industry and introduces transparency and accountability measures.

## ECONOMIC

- Tanzania's economy is viewed as a well-diversified, fast-growing economy located within Africa's most progressive trade bloc.
- The key sectors contributing to the economy include agriculture, industry and services.
- The economy has experienced economic growth of close to 7% since 2000, making it one of the top 20 fastest-growing economies in the world. In 2014, GDP was 7.0%. It is forecasted to drop to 6.8% in 2015, with expectations that it will fluctuate slightly over the coming years but remain close to 7%.
- Economic growth will remain afloat throughout the remainder of this year. Rising private consumption, large infrastructure projects and investment in the gas sector will help with this.
- The United Kingdom-based BG Group is currently leading a consortium of investors to develop a USD15bn liquefied natural gas export scheme. It hopes to reach a final investment decision in 2016.
- The growth rate in sub-Saharan Africa will be negatively affected by the slowdown in China, weaker commodity prices and tighter financial conditions globally.



- The fiscal position has weakened in recent years, with the deficit widening to 3.9% of GDP in 2014/15 from 3.3% in the year before. This is driven by a sharp rise in development spending and less external budgetary support from donors.
- The Bank of Tanzania wants to lower inflation to 5% during 2015, but they are likely to miss this target because of the downward pressure on the Tanzanian shilling.
- Infrastructure is forecasted to grow at 7.9%.
- Some USD500 million in foreign budget support will boost broad investor sentiment.
- Regional transport development and power sector projects will be key drivers of growth.
- The country depends heavily on external donor support, and the economy is vulnerable to bad weather and fluctuating commodity prices.
- The poor state of infrastructure is holding back the productive capacity of the economy.
- Development of the country's natural gas resources could transform the country's economic landscape and bring quicker economic growth. The World Bank estimates that gas-related investments could go as high as \$5 billion annually over the medium term. This would give the country's development a significant boost.
- Currency: Tanzanian Shilling (TSh)
  - TSh 2169.60: USD1 (3 November 2015)
  - TSh 156.44: R1 (3 November 2015)

## ECONOMIC GROWTH: CURRENT VS OUTLOOK

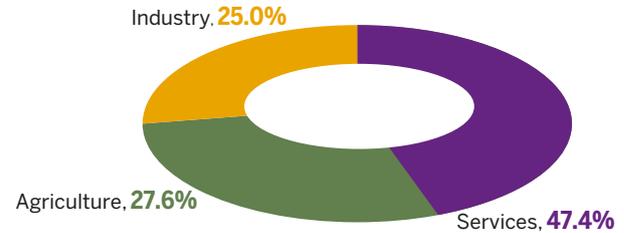
Economic growth (%)						
	2014	2015 <sup>(f)</sup>	2016 <sup>(f)</sup>	2017 <sup>(f)</sup>	2018 <sup>(f)</sup>	2019 <sup>(f)</sup>
Economic Intelligence Unit (EIU) <sup>(1)</sup>	7.0	6.8	6.7	7.0	6.5	7.2
– Agriculture	27.7	2.4	3.7	4.5	3.2	4.5
– Industry	24.4	5.3	7.2	7.3	7.3	7.6
– Services	7.8	6.9	7.7	7.9	8.0	8.1
BMI Research <sup>(2)</sup>	6.1	5.7	6.0	6.5	6.7	6.3
Inflation (%)						
EIU (Y-o-y average)	6.1	6.6	6.7	6.4	5.7	5.2
BMI Research (Y-o-y average)	6.1	4.9	5.5	6.0	6.5	7.0

<sup>(f)</sup>Forecasted  
 Sources: <sup>(1)</sup>EIU: Country Report Tanzania, 27 October 2015; <sup>(2)</sup>BMI Research: Tanzania Country Risk Report Q4 2015, 1 October 2015

## THE STRUCTURE OF THE ECONOMY:

- A large part of the economy remains agricultural. Small-scale farmers with unsophisticated farming techniques form the core of the sector.
- Employment is driven by this sector, as subsistence farming provides a livelihood for a large portion of the Tanzanian population.
- The agricultural sector is not only an employer, though – it is also a foreign exchange earner. Cash crops, including coffee, tea, cotton, cashews, sisal, cloves and tobacco, make up a large portion of export earnings. The main food crops include maize, sorghum, millet, rice, wheat, beans, cassava, potatoes, bananas and plantains. With its many natural resources and agricultural potential, Tanzania could become a major food exporter.
- The coffee industry is expected to perform well in the medium term.
- The grains industry will remain less competitive in Tanzania than in other countries in the region, particularly South Africa and Zambia. This means the country has less of a chance to become a major exporter of grains.
- The sugar industry will see limited production growth in the next few years. This is mainly due to low sugar prices and the fact that Tanzania scores poorly on productivity measures compared to its regional neighbours.
- Low productivity, inadequate infrastructure and weather-related shocks will continue to hamper the agricultural sector.
- The government established the Tanzania Agriculture Development Bank in 2015 to help with the implementation of government policies and strategies for the agricultural sector.

## SECTOR CONTRIBUTION TO GDP



Source: CIA World Fact Book

- **The industrial sector** is expected to be a key driver of economic growth. The construction, mining, electricity and manufacturing sub-sectors are especially important for economic growth.
- The exploitation of the country's natural gas resources will also stimulate industrial development. Manufacturing and construction will benefit most.
- Increased local processing of commodities will help grow manufacturing. The sector will remain dominated by low-skilled, resource-based manufacturing – progress up the value chain is limited because there are not enough skilled people.
- **The construction sector** is currently experiencing a period of growth. This growth has been driven by developments in roadwork, housing and mining.
  - Construction of new pipelines, gas-processing plants and gas-fired power infrastructure should start in 2016 to 2018 to develop the gas industry.
- Growth in the **mining sector** will drop because of weak mineral prices. The country holds vast deposits of coal, cobalt, copper, diamonds, gold, nickel, silver and uranium. Tanzania is currently Africa's fourth-largest producer of gold and continues to produce growing numbers of diamonds. Although the industry is relatively small, it earns a significant share of the country's export revenue.

High mining taxes and royalties could hamper the competitiveness of the country's mining sector.

- **Electricity sub-sector**

- The Tanzania Electric Supply Company (TANESCO) generates, transmits and distributes 98% of the electricity in the country.
  - Most of the energy consumption in the country comes from biomass – fuel from wood and charcoal.
  - Because so many people live in rural areas where they use wood fuel, a number of projects are addressing deforestation concerns. This includes looking at providing electricity in the remote areas of the country.
  - Most of Tanzania's installed capacity comes from hydropower, which is affected by droughts.
  - The government is encouraging investment in the electricity sub-sector so as to expand its generating capacity and distribution systems. It is also looking at the development of local renewable energy sources such as wind and solar energy.
- Looking at the potential of the **services sector**, there are opportunities for consumer-oriented industries. The country has a strong tourism sector and a stable financial sector, and there are opportunities to invest in the telecommunications sector.
  - The services sector is growing strongly, driven by telecommunications, banking and trade.
  - The industrial and services sectors are expected to be the main drivers behind economic growth over the medium term. The agricultural sector should maintain its significant position as an employer of the majority of the population.
  - Untapped potential in tourism could be used if the necessary infrastructure is put in place or upgraded.
  - There are a number of projects underway to improve the existing transport network.

## SOCIAL

- Population: 51 045 882
- Languages: Swahili and English
- One of the most competitive labour markets in sub-Saharan Africa
- Scarcity of state funding has constrained the development of secondary and tertiary education. This has resulted in a limited supply of high-skilled and technical labourers.
- Approximately 28.2% of the population lived below the poverty line in 2012; a reduction from 34% in 2007. During the 2007/2012 period, there were improvements in living conditions; access to basic education, and health and nutrition; and participation by the labour force in non-agriculture employment. These benefits were not distributed equitably, though.

## TECHNOLOGY

- The mobile sector grew by 16.1% in 2014, compared to a growth of 0.8% in 2013 following the discounting of inactive subscriptions
- The Tanzania Telecommunications Company Limited (TTCL) aims to turn the country into an information and communication technology (ICT) hub in East and Central Africa. This will be done through the completion of a national fibre cable network and the official launch of 100% high-speed broadband coverage across the country.
- The new broadband network will bring fast and reliable internet access to homes and businesses in even the most remote locations in the country. One of the benefits of this is that it will encourage new entrepreneurs to establish online businesses. OneWeb, a company owned by mobile operator Airtel, is meant to bring rural access to high-speed affordable internet into the country.

## ENVIRONMENT

- Soil degradation, deforestation, desertification and the destruction of coral reefs threaten marine habitats.
- The country is well placed to increase coffee production over the coming years as government has committed itself to making support schemes available.
- A major risk to the economic outlook will be the weather – poor rains are expected to worsen tight food supplies and hamper the production of hydroelectricity, raising costs for businesses and consumers.

## OPPORTUNITIES FOR DOING BUSINESS

- To do business in Tanzania, you need to know how local corporate compliance, financial reporting and tax requirements work.
- Reforms were made to the business environment, and it is now relatively cheap to register a business in the country.
- Tanzania is rich in minerals, including gold, uranium, iron, vanadium, titanium and coal. It also has a wealth of natural gas reserves.
- The development of the gas sector can transform the economy by boosting growth and improving the persistent electricity shortfalls.
- There are opportunities to improve the tourism industry through improvements in infrastructure.
- Tanzania has a flourishing trade and investment environment.
- Due to its location, Tanzania's transport system serves as an important link in regional trade. Landlocked neighbours use Tanzania's transport system to get to maritime trade routes.
- Tanzania offers competitive packages in terms of pricing

and accessibility for a number of key utilities. The most important of these are water and electricity.

- The rural population could get easier access to bank lending if property ownership laws are reformed.
- There are diverse economic opportunities for investors in tourism, mining and, in the long term, natural gas production.
- The country has one of the most competitive labour markets in sub-Saharan Africa.
- There are plans to improve the country's port infrastructure and reduce congestion. Trade lead times will also be sped up across the country and into its neighbouring trade partners. The improvements include extra capacity at the port of Dar es Salaam and extra equipment. Bureaucratic requirements for trading will also be streamlined, and one-stop border controls will be put in place.
- Construction of coal and iron ore mines plus a 600 MW coal-fired power plant will begin soon. China's Sichuan Hongda will provide the capital for these projects, estimated to be USD3 billion. The mines are expected to start production in 2018.
- Construction will begin soon on the port of Bagomoyo. Bagomoyo will be competing with Kenya's port of Mombasa to become the regional transport hub. This will be integral to Tanzania's future shipping and freight sector development.
- Tanzania is thinking of setting up a new sugar production factory in a joint venture with an Indian company. The factory would be located in the Morogoro region and would produce 20 000 to 40 000 tonnes of sugar annually.
- A Kenya-Tanzania power interconnection project has been launched by the Tanzanian and Kenyan governments. The project aims to connect the Eastern Africa electricity highway between Kenya and Ethiopia with the Eastern Africa power pool formed by countries of the Common Market for Eastern and Southern Africa (COMESA). This is part of a wider project

to make power trade easier, bring down average energy production costs and improve the reliability and security of power supply to both Southern and Eastern Africa. The expected completion date is December 2017.

## OPERATIONAL RISKS/ BARRIERS TO DOING BUSINESS

The growth and development across Africa has attracted foreign investment and many multi-national companies to the continent. Yet there are many risks associated with doing business or operating in African countries.

The following are some of the potential risks facing investors operating in Tanzania:

- Its high crime rates; corrupt and inadequate police force pose an operational security threat” to be changed to “Its high crime rates; corrupt and inadequate police force pose an operational security threat.
- Businesses face a risk from widespread petty crime. There has also been an increase in violent, financial and cyber-crime.
- The country’s poor transport network stops it from being a gateway for regional trade in Eastern Africa. It also creates supply chain delays for Tanzania’s importers and exporters.
- Corruption is endemic and poses a risk to the Tanzanian economy, which depends heavily on foreign assistance for its budget.
- The country relies heavily on agriculture, which is subject to extreme weather. Periodic droughts can lead to crop failures and serious food shortages.
- Problems when doing business in Tanzania include limited access to financing, corruption, high tax rates, an inadequate supply of infrastructure and high inflation.
- The limited size and extent of the national transport

network, particularly when it comes to air travel, inhibit the efficient flow of trade. This is further worsened by cumbersome and lengthy customs procedures. Tanzania receives a score of 32.8 out of 100 for logistics risk.

- Pirate activity poses a risk to maritime trade.
- The threat of terrorism is relatively lower than for its East African neighbours. But terrorism is possible through its porous borders, its close proximity to Somalia and the high concentration of expatriates.
- The country has a poor infrastructure, a shortfall of technical and managerial skills, and inadequate and expensive access to finance. Some areas are under-served by air travel, which could make it costly to invest in areas where there is no reliable network of roads and railways.

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### SOURCES:

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