Investing in Tanzania

Wednesday July 13 2016

www.ft.com/reports | @ftreports

New leader starts to shake things up

The economy is among the fastest growing in Africa, but big challenges lie ahead, writes *David Pilling*

For years, the image of Tanzania was that of an economic backwater: a peaceful and stable nation by Africa's volatile standards, yet one held back by the socialist legacy of Julius Nyerere, the country's founding father. Bigger geographically than Kenya and with a marginally larger population, estimated at some 55m, Tanzania is habitually contrasted with its northern neighbour: bureaucratic and state-led to Kenya's dynamic and entrepreneurial.

That caricature is becoming outdated. It is true that Kenya is faster paced and marginally richer, with a gross domestic product per capita (at purchasing power parity) of $3,200 against $2,900 for Tanzania, according to the International Monetary Fund. In nominal terms, Kenya's economy is worth $61bn compared with Tanzania's $45bn. It is also true too that Kenya has led the way in technological advancement, particularly in the use of mobile money. But here, as in many other ways, Tanzania is catching up.

Official statistics put average economic growth at 7 per cent since the turn of the century, when Tanzania's economy began to open up to market forces. That has prompted some scepticism, partly because of the seemingly remarkable consistency of the performance. Even so, a short stay in Dar es Salaam, the commercial capital, where skyscrapers are sprouting up and imported cars ride bumper to bumper along backed-up roads, is enough to convince many visitors that the economy has changed gear.

Now there is a new element. John Magufuli became president in November with an apparent determination to shake things up. In his first few months in office he has cleared the civil service of thousands of "ghost workers" and begun a campaign against tax evasion, both by foreign companies and local entrepreneurs, many of them connected to the ruling Chama Cha Mapinduzi party. (More controversially, he rammed through disputed elections in semi-autonomous Zanzibar). He has also tilted the budget sharply away from current expenditure towards development, including capital spending.

"We have a president who wants things to happen today — or yesterday," says Adolf Mkenda, permanent secretary of trade and investment. He says that Mr Magufuli's emphasis on poverty reduction and his loathing of government waste and corruption is hugely popular with a public impatient to see the benefits of growth. "You ask people on the streets and they are quite excited when they see us getting fired."

Bold vision: new president John Magufuli is committed to reducing poverty and government waste AFP Photo/Daniel Hayduk

Yet the problems are formidable. Growth in Dar es Salaam, driven by services, telecoms and banking, is impressive, if uneven. But the 70 per cent of people who live in the countryside, many of them subsistence farmers, are falling behind. Farming productivity is barely keeping pace with a population that is growing at just below 3 per cent a year. The population, which has quintupled since independence in 1961, could double again to more than 100m by 2035. Finding jobs for young people pouring into the labour market is a top priority.

So is powering the country and building the roads and ports that could turn Tanzania, with its long coastline and proximity to six landlocked countries, into an important transshipment centre. Under Mr Magufuli, Tanzania has shown more interest in the East African Community, an emerging tariff-free area with EU-style ambitions. The new president is seen to have played an important role in persuading his Ugandan counterpart, Yoweri Museveni, to opt to ship Ugandan oil via a pipeline through Tanzania instead of Kenya, as originally planned.

China, which has had close relations with Tanzania for decades — even the country's military academy was built with Beijing's assistance — is helping to finance much of the infrastructure, from roads and rail to a potential multi-billion-dollar port at Bagamoyo, north of Dar es Salaam.

Power shortages have been partly alleviated in the commercial capital thanks to a Chinese-financed pipeline carrying natural gas from onshore fields in the south to Dar es Salaam. But far more work will be needed to sort out the energy problem. Only about one-fifth of the population has access to regular supplies.

Tanzania is more economically diverse, less indebted and less dependent on commodity exports than many countries on the continent. It is a beneficiary of low oil prices, a spectacular tourist destination for high-end travellers and emerging as a top-five African gold producer. It is also sitting on 55tn cubic feet of undersea gas. However, drawn-out negotiations with the likes of ExxonMobil and Royal Dutch Shell, coupled with a sharp drop in global prices, mean it could be many years before production starts.

The new government has also declared its intention to step up manufacturing and agro-processing, both to push the economy up the value chain and to provide jobs for the swelling workforce. Infrastructure will be key, but so will creating the right business environment. Benno Ndulu, central bank governor, says cleaning up the judiciary so that companies have speedy and dependable recourse to the law is crucial. Foreign investors used to Tanzanian courts will share his hope, but will not be holding their breath.

Much depends on the new government's relations with business. Mr Magufuli has inherited Nyerere's suspicion of the private sector. He has, for example, questioned the deals struck with foreign miners, including London-listed Acacia Mining, formerly Barrick Gold Africa, arguing that companies have been allowed to declare years of losses while paying dividends overseas. In April, Acacia was forced to make a $70m tax provision as a result of disputes with Tanzania's authorities over past taxes.

Those close to Mr Magufuli say he genuinely wants to root out corruption and fly-by-night practices. "People believe sincerely there's a new sheriff in town and that he means to do what he says he'll do," says Salim Ahmed Salim, a former prime minister.

But Mr Salim argues that the new president, accused by opponents of authoritarian tendencies, will have to institutionalise change rather than take on everything himself. Still, Mr Salim argues, if the new government can rationalise the business environment, Tanzania — stable, economically diversified and growing quickly — is ripe for further investment. "If corruption is tackled," he says, "this country has tremendous potential."

Inside

Move to market-based model inspires quiet success story

Economy

Agriculture is a rare weak spot as country outperforms rivals, writes *David Pilling*

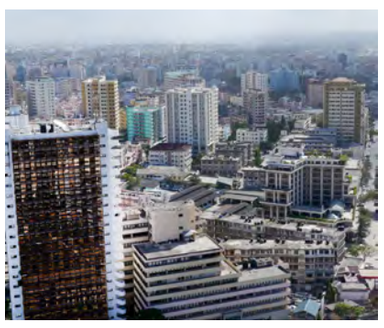
In macroeconomic terms, Tanzania has been a quiet success story. Official calculations of gross domestic product — though problematic in a largely rural economy with a big informal sector — show growth has averaged 7 per cent a year since the country turned away from socialism around 15 years ago.

To some, that performance, particularly its consistency, sounds too good to be true. Growth has hardly strayed from between 6 and 8 per cent, even after the 2008 financial crisis. But only a true cynic would question the idea that Tanzania, which has changed from a quasi-socialist to a quasi-market economy over the past decade and a half, has experienced strong growth for a sustained period.

"For me, 7 per cent is real," says Benno Ndulu, the central bank governor, gesturing through the window of his office to the rapidly evolving Dar es Salaam skyline. Services, telecoms, banking and construction have all grown quickly, he says. In a decade, the population of the commercial capital has at least doubled to 5m, and possibly more.

"That doesn't mean we have become rich," Mr Ndulu says, adding that it took China 30 years of near-double-digit growth to eradicate poverty and create a sizeable middle class. "We started so low down, it will take time."

Since the turn of the century, the country's nominal GDP has almost tripled to $45bn, helped by a 32 per cent boost in 2013 when statistics were rebased to take into account expanding



Real estate: Dar es Salaam skyline

areas, such as telecoms and banking. Still, by 2015, Tanzania's GDP per capita was just $942, or $2,900 in purchasing power parity terms, which adjusts for local prices. That makes it around the 150th country in the world on that measure.

One of the reasons for continued poverty is that, although growth is real, it has been far from even. Agriculture, which employs at least 70 per cent of the population, has lagged. Annual growth

Continued on page 2

Politics John Magufuli faces accusations of stifling democracy, writes *John Aglionby*

President's tough tactics alienate his opponents

'It's all about work': President Magufuli has a reputation for taking action
AFP/Daniel Hayduk

When John Magufuli became Tanzanian president in November it was widely expected that he would shake up government. He campaigned under the slogan "It's all about work" and had garnered a reputation for action in his previous role as works minister.

Less clear was how he would handle the nation's politics. While a longstanding member of Chama Cha Mapinduzi (CCM), the party that has ruled Tanzania since its foundation 39 years ago, the trained chemist was not seen as a member of its inner circle.

Western diplomats argue he failed his first political test soon after being inaugurated. He backed the decision by the Zanzibar electoral commission chairman to annul the semi-autonomous region's October election results based on unproven claims of irregularities. The opposition boycotted the re-run in March and US and EU diplomats boycotted the inauguration of the islands' president.

Parliament has been another battleground. Here opposition parties felt emboldened by securing their best ever results in the 2015 election — 40 per cent of the vote in the presidential election and Chadema, the main opposition party, won 70 seats in the 367-seat legislature. This was up from 48 seats in 2010 and 11 in 2005.

They were helped by uniting around one presidential candidate, CCM defector and former prime minister Edward Lowassa, and fielding a single candidate in most constituencies.

Adjoa Anyimadu, a Tanzania analyst at Chatham House, a London thinktank, says, however, that while the opposition "coalition around Lowassa has held, he hasn't made as much of an impact as opposition leader as you'd expect".

"I think this reflects a change in the way government is being carried out after being done in the same way for decades," she says. "It's going down well in Tanzania because officials are being fired and ministers are being sent to rural areas."

Of more concern, according to Ms Anyimadu, is the opposition MPs' decision to boycott parliamentary sessions overseen by deputy speaker Tulia Ackson. The action was prompted by their belief that she was mistreating them and stifling democracy at the behest of Mr Magufuli, who appointed her.

Opposition MPs were further incensed by a speech Mr Magufuli gave last month in which he ordered opposition parties, for the sake of developing the nation, to confine their political activities to parliament and not engage in campaigns that could obstruct the government until the 2020 election.

> 'It looks multi-party, but basically Tanzania is still a one-party regime . . . It's not democratic, it's simply chaotic'

Freeman Mbowe, chairman of Chadema, called the move "regrettable". "[The president] should know that he can't and won't silence us," he said after the speech.

Elsewhere, the new government also appears to have curtailed Tanzanians' democratic rights. The police have banned opposition rallies and a man was last month ordered to pay a fine or serve three years in prison after being found guilty, under controversial cyber crime legislation passed last year, of insulting Mr Magufuli on Facebook.

Abdulrahman Kinana, CCM secretary-general, insists Mr Magufuli is not autocratic, but rather "strict" and merely determined to "restore discipline".

Some observers are not convinced. Lawrence Kilimwiko, an author and former journalist, says: "It looks multi-party, but basically Tanzania is still a one-party regime. It's just a mockery. It's not democratic, it's simply chaotic."

Because of the ruling CCM party's dominance, particularly in rural areas where more than 70 per cent of Tanzanians live, analysts say the most important political event of Mr Magufuli's first year will be when he succeeds the former president as party chairman. This is due to happen at a party congress on July 23.

CCM suffered a slew of desertions after Mr Magufuli became the party's presidential candidate last year. The extent to which he reforms the party will shape how Tanzania develops over the rest of his five-year term.

Mr Kinana, who is expected to step down as secretary-general, accepts there is some complacency in the party. But he is confident that CCM's grip on power will endure. This is because, he says, the party has evolved from its socialist roots to become a group of "social democrats". "We have accepted that the private sector is the engine of growth," he adds. "We have accepted that the government would regulate . . . [and] not do business."

Even if CCM does endure at the national level, Ms Anyimadu says a growing number of towns and cities — including the commercial capital, Dar es Salaam — have mayors from opposition parties. She believes this "could make a difference at the national level" if Mr Magufuli stops delivering tangible development.

Zanzibar 'Politics is like a religion'

In Stone Town, the historic centre of Zanzibar City, people are still talking about politics months after the elections were supposedly settled. In the warren of streets, the complex history of the semi-autonomous archipelago, home to 1.2m people, is on full display. People of Omani, Indian and Persian origin rub shoulders with Africans from the mainland. A museum in the centre of town bears witness to the archipelago's active participation in the slave trade. The tight alleyways are crammed with palaces, churches and mosques.

Zanzibar, which joined Tanganyika in 1964 to form the union of Tanzania, has been seething with political tension for years. Formed by two main islands — Unguja and Pemba — it has its own president and parliament. Elections have often been fraught. In 2000, some 35 people were killed after police shot into a crowd following a contested poll. There were further fatal clashes in 2005.

Tensions bubbled to the surface again last year when the electoral commission annulled October's election on the grounds of alleged irregularities. The main opposition candidate for president, Maalim Seif Sharif Hamad of the Civic United Front, declared himself the winner. His party, which said it had won the election easily, boycotted the re-run, held in March. That was duly won — with 91 per cent of the vote — by the candidate from the ruling Chama Cha Mapinduzi party, Ali Mohamed Shein.

Internationally, the election is regarded as a serious blot on Tanzania's copybook. Most foreign diplomats refuse to interact with Zanzibar's new government. The Millennium Challenge Corporation, a US government aid agency, cancelled a $470m project in Tanzania in protest. The agency said the elections were "neither inclusive nor representative" and accused the government of stifling freedom of expression.

The stand-off has raised fears of radicalisation of Zanzibar's Muslim majority population. Jennifer Cooke, director of the Africa Program at the Center for Strategic and International Studies in Washington, says Zanzibar, with a median age of just 16, is a potential recruiting ground for al-Shabaab, the Somalia-based terrorist group. Zanzibar, she says, has all the ingredients of militancy, including poverty, unemployment and inequality. "Once the radicalisation genie slips out of the bottle, it is very difficult to put it back in," she adds.

Abdulrahman Kinana, secretary-general of Tanzania's ruling CCM party, denies the elections were unfair and says his party is "legitimately running Zanzibar". He adds: "The island is very different from the mainland. I would say politics is like a religion."

Fatma Karume, granddaughter of Zanzibar's first president, says the situation is explosive. "Zanzibar has never wanted to lose its identity. Now we are being swallowed up."

David Pilling

Market-based economy inspires quiet success story

Continued from page 1

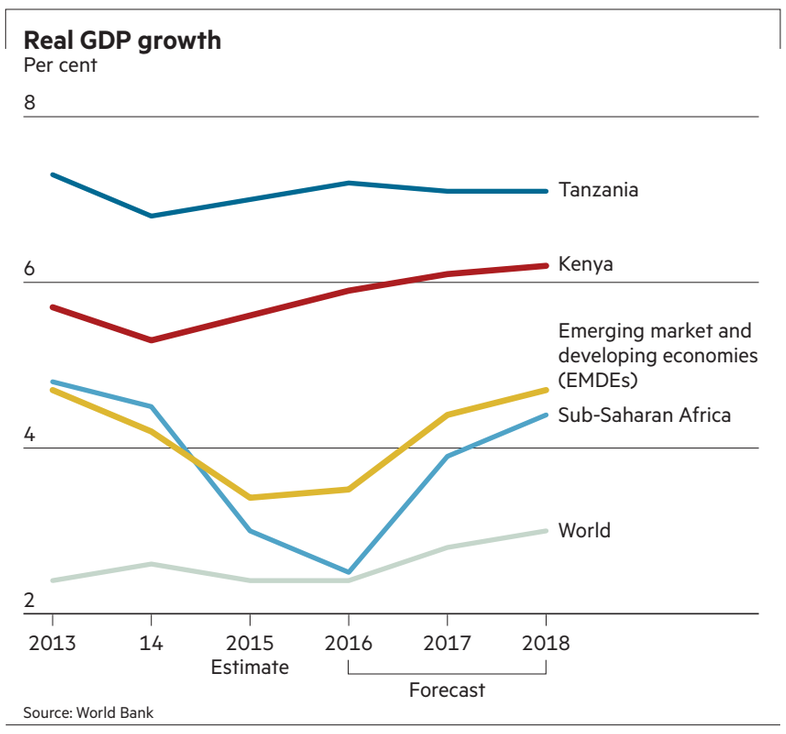
in the sector of around 3-4 per cent has barely kept up with population expansion of nearly 3 per cent. "That means a lot of people are being left behind," says Adolf Mkenda, permanent secretary for trade and investment.

Outside agriculture, there has been an impressive performance across nearly all sectors, with construction and telecoms growing at double digits for several years. Tanzania has also become one of the top five gold producers in Africa, although the new government of John Magufuli has questioned how much benefit that has brought to the economy as a whole.

Manufacturing, which Mr Magufuli has prioritised partly because of its potential to employ what is likely to be a restless young workforce, has also begun to recover after years of decline. Tanzania produces cement, textiles, ceramics, tools and simple machinery both for itself and neighbours, many of them landlocked.

Delivering goods from its ports to countries such as Uganda, Rwanda, Burundi and Zambia is another source of income, as will be fees for transporting Ugandan oil to the coast when a recently agreed pipeline reaches completion.

"During the [previous government of Jakaya Kikwete] we achieved quite good economic growth, but that growth was not widely shared," says Samuel Wangwe, principal research associate at the Economic and Social Research Foundation, a Dar es Salaam think-tank. "Inequality widened a great deal. Magufuli is determined to reverse that."



Source: World Bank

Part of the plan involves a big shift of spending towards roads, rural electrification and power as well as health and education. Much of this will go straight to GDP, leading some economists to predict increased growth as more people in the countryside join the formal economy and productivity improves.

One risk, highlighted by the IMF, is that ambitious spending plans could push up the country's budget deficit, which the fund estimates at 4.5-5 per cent of GDP if government arrears on energy and pensions are taken into account. Another risk is that the government's bid to raise revenue and clamp down on tax evasion could scare off the private sector or even provoke capital flight. One official from a multilateral institution worries that the temptation may be to "come down too heavily on the private sector, which [the government] may see as a golden goose".

'We started so low down, it will take time,' says Benno Ndulu, Tanzania's central bank governor

Trade and investment permanent secretary Mr Mkenda concedes: "The tempo for cracking down on tax evasion is very strong and I'm not surprised some people are anxious about that." But he says the emphasis is on making companies comply with existing laws, something that should not deter legitimate businesses.

Mr Ndulu at the central bank thinks foreign and offshore Tanzanian money will still be attracted to the country, particularly if regulations can be simplified to make it easier to do business. Once the dust has settled, he says, investors will realise that Tanzanian growth prospects are among the most attractive on the continent.

Contributors

David Pilling
Africa editor

John Aglionby
East Africa correspondent

Owen Walker
Commissioning editor

Steven Bird
Designer

Alan Knox
Picture editor

Chris Campbell
Graphic artist

For advertising details, contact:
Mark Carwardine, +44 (0)20 7873 4880, mark.carwardine@ft.com, or your usual FT representative.

All editorial content in this report is produced by the FT. Our advertisers have no influence over or prior sight of the articles.

All FT Reports are available at: ft.com/reports

Follow us on Twitter @ftreports

‘Bulldozer’ builds for the future

Infrastructure

The latest budget shows a dramatic shift in emphasis from current to capital spending, reports *David Pilling*

If a key priority for Tanzania, as many experts say, is to upgrade the quality and capacity of its roads and ports and to make full use of its untapped energy resources, then having a president nicknamed the “Bulldozer” seems like a promising start.

Before his surprise selection as presidential candidate for the ruling party last year, John Magufuli spent two stints as minister of public works. In that role, the former industrial chemist — who has an engineer’s eye for detail and a reputation for getting things done — became renowned for impromptu visits to construction sites where he would sniff out delays and malfeasance. The country’s road network, much of it built and financed by China, improved under his watch.

Those qualities will be very much required if Tanzania is to build on that success. The latest budget puts renewed emphasis on infrastructure, with a dramatic shift in priorities from current to capital spending.

A string of projects, covering everything from rural electrification to improvements to regional road and rail links, could significantly raise economic potential as well as improve the lives of ordinary people. Tanzania, with its long coastline and proximity to six landlocked countries, should be able to use its influence as a transport conduit for an integrating east African trade bloc.

Top of the list is power. About only a fifth of Tanzanians have access to electricity and, even in the urban centres, manufacturers must contend with costly and sporadic supply. When the reliance on hydropower was exposed as unsustainable during chronic electricity shortages in 2011 and 2012, a subsequent shift to imported liquid fuel plunged Tanesco, the parastatal organisation responsible for electricity generation, transmission and distribution, into at least $350m of debt. Unrealistically low tariffs — even after price increases — and Tanesco’s poor payment record are big disincentives for potential suppliers of electricity.

The situation in Dar es Salaam, at least, may improve as a result of a 542km Chinese-built pipeline to bring natural gas from Mtwara in the south to the commercial capital. Construction began in 2015 and the $1.3bn pipeline will supply two gas-fired power stations, potentially doubling generation capacity to 3,000MW. The government has set an ambitious, some say unrealistic, target of raising generating capacity to 10,000MW and bring electricity to half the population by 2025.

As well as solving its domestic needs, Tanzania has enough offshore gas — about 55tn cubic feet in proven reserves — to become a significant exporter. The country’s challenge is to conclude transparent and robust deals with foreign companies, including ExxonMobil, Royal Dutch Shell, Statoil and Ophir, and to avoid the resource curse that has plagued so many other African countries where rent seeking and commodity dependency have resulted.

So far negotiations have been slow and opaque. The appetite of foreign companies has cooled with falling gas prices. “I sense a lot of impatience among investors,” says one foreign diplomat, adding that foreign companies have spent some $3bn-$4bn on exploration with no sign of a return.

After four years of toing and froing, Tanzania’s centrepiece oil and gas legislation finally passed into law earlier this year. But red tape and mixed messages have tested the patience of international energy companies. Schlumberger and Halliburton, oil services companies, have scaled back operations. Separately, land set aside for a liquefied natural gas plant in the southern town of Lindi mysteriously found its way into private hands until Mr Magufuli personally intervened in January to clear the impasse.

“This is where this gentleman is different. He makes a quick decision,” says Abdulrahman Kinana, secretary-general of the ruling Chama Cha Mapinduzi party. “He said: ‘OK, give the land to [the energy companies]. They want to build a huge plant.’”

Mr Kinana says he expects natural gas investments of about $25bn over the next 10 years. “So we should take every step possible to help them invest.” Such sentiments aside, negotiations are unlikely to be concluded until 2019 at the very earliest, observers say.

One deal that Tanzania has clinched is the shipment of oil from Ugandan fields to the Indian Ocean via a 1,200km pipeline running from eastern Uganda to Tanga port in Tanzania. Originally Uganda had agreed to export its oil through Kenya, but Total, the French petroleum company that is expected to finance the $4bn project, lobbied hard for the Tanzanian route, partly on security grounds.

Other parts of the infrastructure puzzle include upgrading the railway to Zambia and adding significantly to port capacity. China Merchants Group is planning to construct a megaport at Bagamoyo, 75km north of Dar es Salaam. The new government’s exact intentions are uncertain, but the original plan envisaged a $10bn port that would be built in phases and could eventually reach a capacity 25 times that of the port at Dar es Salaam.

In the meantime, a new management team at Dar es Salaam port is trying to overcome its well-earned reputation for backlogs and corruption. A recent crackdown on “ghost” containers, which slip through without paying fees, has reduced traffic, but may set operations on a sounder footing in the medium term.

Hebel Mhanga, port manager, says Dar es Salaam will double capacity to 30m tonnes a year within two years with the help of a $600m World Bank loan.

Whatever the problems in the port itself, he insists that the real bottlenecks lie elsewhere. “The challenges are the inland transport infrastructure . . . outside the port and in the rest of the country,” he says. “Some require time to overcome. Power and inland transport are going to take years to improve.”

If Tanzania is to develop the infrastructure needed to unlock its domestic and regional potential then Mr Magufuli, the “Bulldozer” president, has his work cut out.

Call for stability after anti-corruption push

Business environment

The government is trying to reassure foreign investors it wants their business, reports *John Aglionby*

It is easy to find horror stories of doing business in Tanzania.

In April, Acacia Mining, a London-listed gold producer, issued a press release denying that it was running a “sophisticated tax evasion” scheme in Tanzania following a tribunal ruling against it in the country.

Standard Chartered Bank, listed in London and Hong Kong, is meanwhile mired in a protracted legal dispute over the alleged extraction of funds from Independent Power Tanzania, an energy company.

Foreign diplomats are far from effusive in their praise for the country’s investment climate, despite the 7 per cent annual growth rate. “Ministers are walking the talk that a lot of the investment they’re doing, like building roads, will help facilitate private sector-led growth,” one says. “But we’re also seeing contradictory actions. There’s ingrained in many serving government officials a suspicion of the private sector and that skews how they look at it.”

Tanzania is ranked 139 out of 189 countries in the World Bank’s ease of doing business index. Sirili Akko, executive secretary of the Tanzania Association of Tour Operators, says the ranking is “fair”, citing the average of 128 days each year it takes his members to renew all the permits they require to operate.

A lack of policy certainty is exacerbating the situation. When John Magufuli became president in November he “came charging out of the blocks and the country didn’t know what had hit it,” in the words of one foreign investor.

He has clamped down on corruption and smuggling, imposed austerity measures and sought to increase tax revenues. Jayesh Shah, managing director of manufacturing conglomerate Sumaria Group and vice-chairman of the Confederation of Tanzania Industries, says: “There is bound to be some short-term pain because the government is trying to address the issues that were brushed under the table.”

Toby Bradbury, chief executive of London-listed miner Shanta Gold, also welcomes the push against corruption but adds: “The government now needs to settle down and provide direction.”

Mr Shah believes that it is going to be hard to change after decades of socialist administration. “I think it’s very difficult to get away from that socialist mentality and that distrust of the private sector,” he says. He argues that recent changes to the tax regime have made doing business “much harder”.

Government officials acknowledge there is “anxiety” among businesspeople but it is trying to reassure investors. “The socialist legacy that this country is proud of has moved on,” says Adolf Mkenda, permanent secretary of the trade and investment ministry. “We’ve realised that private investment is key to stimulating the economy.”


‘The government now needs to settle down and provide direction,’ says Shanta Gold’s Toby Bradbury

Statistics suggest that despite the negative stories, investors believe it is still worth investing in Tanzania. The Tanzania Investment Centre registered 551 projects worth $9.2bn between December and May, which compares favourably with the 458 projects worth $5.7bn registered in the six months before Mr Magufuli became president.

While Standard Chartered and Acacia are contesting the claims against them, they nonetheless appear to be committed to the country. Andrew Wray, Acacia’s chief financial officer, said in a video published on the company’s website in May that the challenges were “nothing I wouldn’t expect to see in a long-term relationship”. He added: “We’ve been in Tanzania for over 15 years and fully expect to continue for another 30 years.”

Fintech and mobile money transform business practice

Telecoms

Local operators are competing to deliver innovative financial services, writes *John Aglionby*

Ramadhani Saidi Gereza is a barometer for the way mobile phone technology is changing Tanzania.

The engine oil seller in Dar es Salaam’s Kariakoo market says mobile money has transformed his business. “People from upcountry used to send cash by bus and I had to go further to collect their money,” he says. “Now I don’t have to. It’s much more efficient.”

Yet it is not all good news. The country’s eight mobile operators offer various incentives to attract customers, but they do not always deliver, Mr Gereza says. “Bonus payments [for customers] are delayed or we don’t get them so I tell my city customers to go and get cash and pay with that [instead].”

These glitches are a result of the continuous innovation the operators feel compelled to adopt as they compete in one of the most promising markets in sub-Saharan Africa.

Johannesburg-listed Vodacom, which is majority owned by Vodafone, is the largest mobile operator by subscriber numbers. Its main rivals are Tigo, a brand name of Stockholm-listed Millicom, and India’s Bharti Airtel. Together, the three operators control some 90 per cent of the market of 34m active mobile contracts out of a population of 55m.

The GSMA, a global body representing operators, predicts Tanzania will be among the top seven subscriber markets in sub-Saharan Africa in the next five years.

Mobile money is the main battleground. While Kenya’s M-pesa has won international plaudits for its groundbreaking mobile money system, Tanzania has arguably overtaken its northern neighbour in the depth of its mobile money market.

The World Bank reported last year there were more mobile money accounts per 1,000 adults in Tanzania than anywhere else in Africa. Interoperability, where people using one network can send money to mobile wallets of people using another, is now complete after Vodacom joined other networks earlier this year. Customers of Tigo, meanwhile, can also send money to Tigo customers in neighbouring Rwanda.


Calling the market: a sugar cane juice vendor at a Zanzibar market — ISTOCK

“Mobile money is so successful because the competition is cash, not the banks,” says Diego Gutierrez, Tigo’s general manager for Tanzania. Some 60 per cent of adults have mobile money wallets in the country, while only 15 per cent have bank accounts, Tigo says.

“I believe we’re just scratching the surface,” Mr Gutierrez adds. “Fintech is going to drive the development of mobile financial services. I believe that Tanzania is showing the way as to where mobile money is going. If it’s not the most advanced it’s one of the most advanced markets.”

Among the innovations that Tigo has introduced is paying customers to keep money in their mobile wallets. It has paid customers a total of $25m in profit distribution — it insists it is not interest — in the past two years and the banks are feeling the impact.

> ‘Mobile money is successful because the competition is cash, not the banks’

“Two years ago you wouldn’t have got interest on anything short of a fixed deposit,” says Ruan Swanepoel, the company’s head of mobile financial services for Africa. “Now [customers] get up to 5 per cent on a current account. I firmly believe that’s because of the mobile money market.”

Mobile loans are also booming. Vodacom announced last month that in the two years since it launched its M-Pawa loans and savings facility, 4.9m Tanzanians have borrowed 39bn Tanzanian shillings ($19.5m), with monthly loans now above 4bn shillings.

Operating in Tanzania is not always easy, however. At 36 per cent, the country has the highest rate of consumer tax on mobile phone ownership in sub-Saharan Africa, according to the GSMA. The regional average is 20 per cent.

The operators, who have invested more than $1bn over the past five years, are also taxed heavily. In 2013-14, the last financial year for which there are data, operators paid $540m in taxes, equivalent to almost half their revenues, the GSMA said. Meanwhile, the turnover of the mobile sector directly contributed about 4 per cent of Tanzanian GDP that financial year, yet it contributed more than 11 per cent of national tax revenues.

Last month the government announced that operators would have to list 25 per cent of their subsidiaries’ shares on the Dar es Salaam stock exchange by January 1. The decision, which appears to reverse an informal agreement with the main operators, is part of a government strategy to squeeze more money from the private sector. Ministers have said the measure would help the government keep track of the revenue companies generate.

While the central bank and government have been very proactive in supporting mobile money, there has been less government encouragement of economies of scale — such as making infrastructure-sharing mandatory — which is common in other markets.

If these hurdles are denting the operators’ enthusiasm for Tanzania, it does not appear to be showing.

Tourism hit by bad news from other African countries

Leisure Strong growth at beginning of the decade appears to have stalled, writes *John Aglionby*

National pride: Ngorongoro Crater is a top attraction — ISTOCK

The two lions whose mating was interrupted by the arrival of more than 100 buffalo in their corner of the 20km-wide Ngorongoro Crater unsurprisingly looked annoyed.

Their faces contrasted sharply with the smiles, squeals of excitement and incessant camera clicking from the dozens of tourists watching from their safari buses only a few metres away in what is one of Tanzania's most popular visitor destinations.

Tourism is a crucial part of Tanzania's economy, contributing about a quarter of the country's foreign exchange revenue and supporting some half a million jobs directly, along with many more indirectly.

The industry grew steadily at the start of the decade. Foreign visitor numbers rose from 783,000 in 2010 to 1.14m in 2014. Annual revenues grew from $1.2bn to $2bn over the same period. Four Seasons and Hyatt are among the international hotel chains that expanded in the country, while regional groups, such as Elewana, opened more high-end accommodation.

"We came here because it was cheaper than South Africa and we were told there's a greater guarantee of seeing all the big animals," said Kate, a British tourist, as she gazed at a group of two dozen hippos in the Ngorongoro Crater.

But the past year has not been so bountiful. Devota Mdachi, managing director of the Tanzania Tourist Board, says that while the official annual figures have yet to be tallied, there was a "slight fall in the number of arrivals in 2015 and . . . this year there might be a slump again."

The Ebola outbreak, which peaked in 2014 in three west African countries, and terrorism, nearer to home in Somalia and Kenya, are two of the main contributing factors, Ms Mdachi says. "Most tourists think Africa is a country so if something happens in one country it spreads to others," she adds.

Poaching has also been rampant in Tanzania. In the Selous Game Reserve, the largest in the country and a Unesco World Heritage Site, the elephant population has fallen from around 110,000 to 15,000 in the past 40 years.

"Given the threat to these animals, it's likely tourism will be affected because elephants are one of the great attractions for tourists," says Simon Lugandu, a conservation manager at the World Wildlife Fund.

Ms Mdachi says the lack of a national airline also puts off some tourists. "People can easily fly to Kenya so that's where they go on holiday," she says.

In a detailed report on Tanzanian tourism last year, the World Bank said the government's goal of increasing annual revenues to $15bn by 2025 would require growth of about 20 per cent each year. "While attainable, the achievement of this target will require substantial investments in infrastructure, the provision of support to the private sector, and the development of human capital in diversified geographic areas," the report said.

It also highlighted the need to "improve the quality of governance", in particular to create a "fair, business-friendly taxation system and the development of transparent redistribution mechanisms".

In some respects the new government, which took office last November, is moving in the opposite direction. Tour operators are aggrieved about the imposition of value added tax of 18 per cent on tourism services such as national park fees and transport hire from July 1. This was announced in last month's budget. The situation has been exacerbated by the fact that a few months ago Kenya, Tanzania's neighbour and tourism rival, cut fixed fees on similar services to entice visitors.

"I understand that every sector has to help contribute to the government, but before the tax is imposed I would suggest growing the cake," says Sirili Akko, executive secretary of the Tanzania Association of Tour Operators. "It will put people off coming. Tanzania is not Mecca. It's not an unmissable destination. Tourists are becoming extremely cost sensitive."

Ms Mdachi says the tourist board is taking steps to reverse the downward trend. It launched an e-marketing campaign that focused on four primary markets: the US, Germany, Italy and the UK. But she admits arrivals from the latter might fall if the pound remains weak in the wake of the Brexit vote.

The tourist board is also trying to promote a wider selection of the country's attractions. Tanzania is best known for Mount Kilimanjaro, the highest peak in Africa, the northern parks such as the Serengeti, and Zanzibar's beaches. "We are looking to open up the south much more," Ms Mdachi says. "However, it will need considerable infrastructure investment because there are many areas that are not accessible by road."

Ms Mdachi also wants to promote cultural tourism. "We have more than 125 tribes, all speaking their own vernacular, and not many of them are yet fully integrated into the tourism industry," she says. "We need to do that."

But while Tanzania's tourist board would like to accommodate a greater number of visitors, it knows that the country's main selling point is access to wildlife, which would be threatened by increased tourism.

"We're looking to attract more people from [Brazil, Russia, India and China] and promote intra-African tourism," Ms Mdachi says. "But we want to maintain the quality of our product, too."

Media tycoon sees hope for end to graft

Interview
Reginald Mengi
John Aglionby talks to one of Tanzania's richest businesspeople

The personal website of Reginald Mengi — the tycoon who, over 30 years, has accumulated interests in print and broadcast media, manufacturing, soft drinks, mining and technology — suggests Tanzania is and always has been an open economy where it is easy to do business.

But two hours with the softly spoken businessman, who is one of the country's richest people, reveals a very different picture. Despite Tanzania's economy growing at more than 7 per cent a year, Mr Mengi says widespread graft has left it resembling a piece of fabric that is riddled by holes.

"You touch here there's a hole, you touch here there's a hole," he says prodding the tablecloth over lunch in a Dar es Salaam hotel. "You touch this ministry there's a hole, you touch this functionary . . . everywhere is full of holes." Mr Mengi says he has lost out on at least two big deals due to corruption.

It is not just corruption that has hampered Tanzania's economic growth; it was ruled for decades by socialists who regularly stifled entrepreneurialism, Mr Mengi says.

The businessman recounts how in the 1980s there were widespread shortages due to the government promoting policies that favoured domestic produce over imports. "People would queue for anything and things were very very tough," he says.

It was this scarcity that prompted Mr Mengi — then working at UK accountancy Coopers & Lybrand, now PwC — to go into business in the 1980s, assembling ballpoint pens. "At that time it was very difficult to import ready-made goods. Fortunately the system allowed the importation of components or knocked-down goods that you could assemble locally."

Mr Mengi eventually acquired the financing and the components and navigated the bureaucracy to launch his business. He describes how he made money by producing shoe polish out of charcoal during the shortages.

But he says that decades of socialism have had a significant impact on society. "People don't see opportunities in things," he says. "We have so much in Tanzania people need help to see the opportunities which are there."

The economy did open up in the late 1990s under President Benjamin Mkapa. But Mr Mengi says the policies ushered in an era of crony capitalism.

By last year the situation "had reached tipping point", according to Mr Mengi, and he is relieved that the new president, John Magufuli, has prioritised fighting corruption.

Mr Mengi acknowledges the president has yet to articulate his economic vision, but he understands why this has taken time.

"If someone has a heart attack what do you do? Poop poop poop, you try and revive them. You don't think, 'Shall I give them a Panadol?'" he says while miming using a defibrillator.

Despite painting a gloomy picture, Mr Mengi says businesspeople should not be too downcast about the current "bad times".

"People with guts will make a lot of money in bad times, a lot of money," he insists. "Beauty is in the eye of the beholder. You can say this is good times or bad times depending on the beholder."

Reginald Mengi
Sam Vox

Farming blighted by lack of modern infrastructure

Agriculture

About 70 per cent of Tanzania's land is cultivated by hoe, but commercial incentives offer hope for the future, writes *David Pilling*

Bearing fruit: villagers carry bananas in Morogoro Carl de Souza/AFP/Getty Images

When Julius Nyerere wrote the Arusha Declaration, the 1967 statement in which he laid out the principles of African socialism, he called agriculture the "basis of development". Tanzania's founding father warned against a model of progress that bled the countryside dry in order to invest in the big cities. Yet, he said, "only by increasing our production can we get more food and more money for every Tanzanian".

Half a century later, despite all the efforts to transform it, farming is badly lagging, both as a provider of a decent living for rural families and as a driver of economic growth. Agriculture employs three-quarters of the workforce, yet produces only one-quarter of economic output. It contributes to exports, but much of it in unprocessed form.

"Clearly something has gone wrong despite the fact that agriculture has been a priority for successive governments," says Thomas Baunsgaard, IMF resident representative in Tanzania.

Parts of the national economy, concentrated in the big cities of which the late president Nyerere was so wary, are growing at double digits. If Tanzania were a city state in which the telecoms, services, banking and construction industries dominated, it would be one of the fastest-growing economies in the world. Farming, meanwhile, much of it subsistence and performed by women, is growing at only 3 per cent a year. Given that this is similar to the population growth rate, productivity has practically stalled.

That is alarming for a country whose population is growing as fast as almost anywhere on earth. Tanzania has more arable land than any country in east Africa, but population pressure will take its toll. The country is not alone in squandering its most obvious asset. Africa as a whole is an importer of food, while, in much of the continent, farming techniques — from implements to seeds — have barely altered in centuries. In Tanzania, according to one report, 70 per cent of the land is cultivated by hoe. As in much of Africa, most of the land is dependent on rainfall, not irrigation. The weary joke among economists is that, given the reliance of most people for sustenance on farming, the best predictor of economic performance is the weather forecast.

Uncertain land rights are another impediment to working the land more intensively. Many farmers do not have legal title to the plots they till and attempts at commercial farming are often dogged by life-and-death struggles over land. Credit is another problem, one that could be addressed by recent advances in mobile banking.

Infrastructure is perhaps the biggest hurdle of all. Tanzania's main roads are pretty good. But deep in the countryside the roads become narrow, turn to mud or disappear altogether. Without transport links or adequate refrigeration, surplus production simply rots in the field rather than being shipped efficiently to markets elsewhere in Africa or beyond. Here, the new government's push to step up construction of roads, rail and power and to electrify the countryside could have a real impact.

> '[Infrastructure has] always been the problem. Where productivity has improved, crops are thrown away'

"It's always been the problem. Where productivity has improved, crops are thrown away," says Benno Ndulu, central bank governor.

Samuel Wangwe, principal research associate at the Economic and Social Research Foundation in Dar es Salaam, says: "The biggest challenge is improving farming practices, so you can have higher productivity per unit of land." He points to efforts such as the Southern Agricultural Growth Corridor of Tanzania, which is attempting to link commercial farmers with small-scale subsistence farmers, replicating a way of drawing smallholders into the market economy that is gaining traction across parts of Africa.

"For a long time there was a socialist approach in this country," says Mr Ndulu, referring to Nyerere's persistent legacy, "this framework of looking at the farmer almost as an extension of the public sector." Now the aim, he says, should be to incentivise farmers and to provide them with the means — especially through market access — to turn their smallholdings into profitable enterprises.

Some of the approaches that are now under way, such as contract farming — where individual farmers are committed to producing products for companies — are beginning to have an impact, he says. Mr Ndulu thinks that, if these projects can bear fruit they can provide an example for the rest of Tanzania. The country's leadership, he believes, may have turned a corner in finally understanding that farming needs to be set on a commercial footing. If he is right, the next 50 years may be better than the previous half century.