



Tanzania

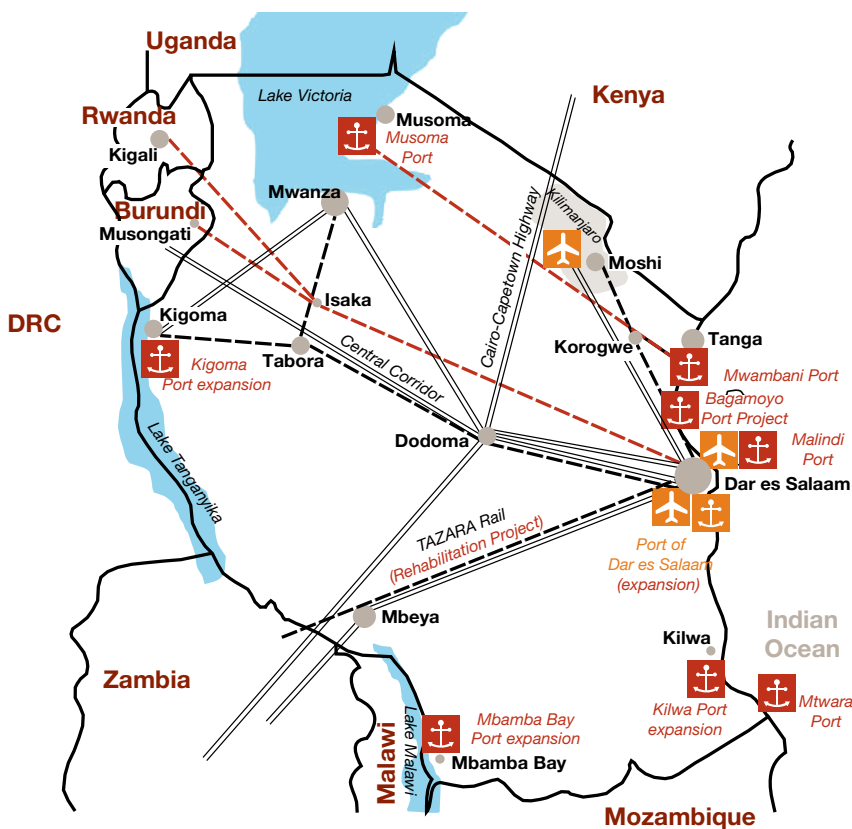


Tanzania is expected to become one of the fastest-growing economies in the world. Key drivers will be recent natural gas discoveries, regional integration, reforms to ease of doing business and a long-term stable democracy.

A rapidly growing economy but still small in absolute terms

Tanzania is already one of sub-Saharan Africa's most rapidly growing economies, but it is still rather small in absolute terms, with a market size of about US\$28 billion. Recent discoveries of natural gas offshore and a broad number of planned infrastructure projects promise to further boost to the economy. However, increased development will lead to greater congestion at the Port of Dar es Salaam, which the construction of a new US\$10 billion port at Bagamoyo will alleviate once it begins operating in 2017.

With regard to the low level of human development and poverty, the Tanzanian Government has called for more active private sector participation in its Second National Strategy for Growth and Reduction of Poverty, MKUKUTA II, initiated in 2010.¹ There are positive signs that Tanzania will stay on a favourable growth path in the long run and establish itself as a viable alternative to Kenya as a gateway to the East African region.



● These bubbles represent the cities of Tanzania and the size of the bubbles indicates the population size of the city

✈ Airport 🚢 Port ✈ Future Airport 🚢 Future Port 🚂 Future Railway 🛣 Future Road 🚂 Railway 🛣 Road



“In terms of rating it as an investment haven, I would say it has potential and I haven’t been exposed to any corruption. There are large areas that are relatively unexplored and therefore a good investment attraction.”

Dick Kruger, Deputy Head: Techno Economics, Chamber of Mines

Trading hub

A liberalised trade regime and regional integration will foster economic growth and increase traffic volumes.

International trade constitutes a significant proportion of GDP in Tanzania, with exports and imports accounting for 31% and 50% of GDP respectively. The widening trade deficit has been driven by a sharply rising oil import bill.

Tanzania’s export base is fairly broad. The principal exports include gold, coffee, cashew nuts, manufactured goods and cotton. Major trading partners are from Asia – with China and India of growing importance – the Middle East and Europe.

Export growth remained below its potential at 5.4% between 2001 and 2011. However, this is likely to change as the Government is actively working to increase competitiveness, while participating actively in regional trade integration. Notable reforms in facilitating increasing trade efficiency include the lifting of price controls on most products and a decrease in the number of road blocks to facilitate greater cross-border trade, although further reduction is still required.

Tanzania is a member of the East African Community (EAC) as well as the Southern African Development Community (SADC). Given its active role in these regional trade communities, the Government’s plans for increasing trade competitiveness have sped up. Tanzania has pursued implementation of the EAC Common Market Protocol, which became operational in July 2010, and

continues to play an important role in the process of establishing a Common Market by the SADC member states.

Diverse natural resources provide the basis for attracting investment and support economic growth. Tanzania is a significant producer of gold and diamonds, with gold being the most important mineral and key growth area. Tanzanite gemstones and coal have the potential to become among the fastest-growing mining subsectors. Tanzania also has substantial reserves of uranium oxide. Exploration has also been conducted in nickel, oil and natural gas.

Tanzania achieved almost 7% average growth over the last decade. For the 2012-2017 period, the IMF projects annual economic growth to vary between 6.6 and 7.2%, placing it among the world’s fastest-growing economies over the medium term.ⁱⁱ At the same time per capita GDP will grow at a robust 5.7%, though starting from a low base. Economic growth is constrained by high levels of poverty and other poor socioeconomic indicators.

At the beginning of 2012, inflation stood at 19.8%, but thanks to structural and fiscal reforms on the part of the Government, the IMF predicted it would reach single digits by mid-2013. This proved to be correct as the Tanzania Bureau of Statistics reported that annual inflation stood at 9.4% in April 2013 and 6.1% by September 2013. This has been accompanied by a continuing decline in prices of staple foods which, together with low lending rates, provides a more positive environment for investment growth.ⁱⁱⁱ

Despite reforms, challenges remain

Despite impressive reforms, the challenging business environment and security still remain important issues.

Tanzania’s historically state-led economy is now more market-based but remains hindered by weak property rights. Land in Tanzania is officially government property and can only be leased from the Government for 33, 66 or 99 years, depending on its use. However, annual land rentals are low and new legislation gives the lessee first right of refusal to extend a lease when it expires.

In addition, recent reforms have been aimed at establishing a reliable system of transferable property rights. Despite efforts to reform the business environment, the country continues to suffer from a regulatory environment that is not sufficiently responsive to the needs of investors.

Corruption is one of the major obstacles facing investors in Tanzania, even though less severe than in neighbouring Kenya. Tanzania’s ranking in Transparency International’s Corruption Perception Index 2012, though high at 102 out of 174 countries, is better than that of most of its African peers.

Furthermore, the lack of efficiency within state institutions and the goods market as well as an overall lack of business sophistication add to the challenge of domestic productivity growth. Access to finance is another bottleneck to the development of the private sector.



80%
of the labour
force employed
in agriculture



By the end of 2015, power
supply is expected to exceed
3GW

Security is an issue in Tanzania, with armed banditry prevalent in regions near the borders to Rwanda and Burundi. Outside these regions and at election times, crime is the most common security risk. Traffic is a leading safety concern with congestion becoming an increasing problem in larger urban areas. To protect passengers, busses are not permitted to drive cross-country at night.

Unskilled workforce

The unskilled local workforce is a major challenge.

Tanzania has a large population and a robust population growth rate. It had the sixth-largest population in

Africa in 2010 and is expected to move up to fifth by 2020 and fourth by 2050. Consequently, there is a large labour force and a sustained surplus of labour. **Up to 80% of the labour force is employed in the agriculture sector.**

Tanzania's socioeconomic indicators remain weak. Its score on the Human Development Index in 2011 was similar to the average for sub-Saharan Africa. The level of education among youth and people in rural areas is also comparatively low.

Shortages of skilled labour are a significant challenge for firms operating in Tanzania, particularly in new and fast-growing sectors of the economy. This has spurred growing levels of government and private investment in education, but

Tanzania still has some way to go in translating its large population into a competitive advantage.

Existing labour regulations allow foreign investors to recruit only up to five expatriates. Although additional work permits for expatriates may be granted under certain conditions, it can sometimes be difficult to get the necessary approval.

Power

Tanzania's electricity industry has grown at a slightly slower pace than the economy as a whole over the past decade, making electricity shortages and frequent power outages a constraint to economic growth. Only 20% of the population of 45 million currently has access to electricity. Improving supply and distribution will assist the country in attaining higher levels of economic growth. Tanzania presently produces about 800MW of electricity, scarcely meeting demand, which is expected to be double that amount by 2015.

Although demand for electricity is expected to continue to outstrip supply in the short term, **by the end of 2015, supply is expected to exceed 3GW, as various power projects come onstream.** The increase in capacity will be enough to meet domestic demand and stimulate the manufacturing sectors as well as providing a surplus for export.^{iv}

Key indicators

Population size (million, 2012)	47.8
Population growth (2012-2020, avg p.a.)	3.0%
GDP (US\$ billion, 2012)	28.2
GDP growth forecast 2012-2017 (avg, y/y rate)	7.0%
GDP per capita (US\$, 2012)	628
Global competitiveness index 2012 (global rank/144 (score 1-7))	120 (3.60)
Corp. Income Tax (CIT) rate	30.0%
Top exports	Precious metal ores and concentrates, other than silver (14.5%); Tobacco, partly or wholly stemmed/stripped (8.7%); Coffee, not roasted, not decaffeinated (6.4%)
Logistics Performance Index 2012 (global rank/155 (score 1-5))	88 (2.65)
Global Competitiveness Index 2012 - Infrastructure (global rank/144 (score 1-7))	132 (2.27)



Tourism 2nd
highest earner of
foreign currency



**Pre-Arrival
Declaration system
will improve
customs procedures**



Agriculture

Agriculture is crucial to Tanzania's economy and domestic employment.

Tanzania has immense agricultural potential. Only 5% of land is permanently cultivated, but 20% is considered cultivatable. However, while most other sectors are growing, agriculture faces stagnation in productivity growth. In 2011, agriculture accounted for 25.2% of GDP and was the largest contributor to employment.

However, it continues to be dominated by small-scale and subsistence farmers with average farm sizes between 0.9 and 3 hectares and with little capital to invest in machinery and irrigation. As a consequence the Government is supporting large-scale investment into the agricultural sector.

Tourism

Tourism is the second-highest earner of foreign currency in Tanzania and the country is already one of the top tourist destinations in Africa. With a quarter of its land area set aside for conservation and vast natural attractions, there is still much untapped potential, which will be able to be more effectively exploited once necessary tourism infrastructure upgrades have been made.

Economic diversification

Economic diversification is driven by good development in manufacturing and mining.

There have been some signs of diversification in Tanzania's economic output, with strong growth in manufacturing value-add over the 2005-2010 period of around 8.8% annually, and manufacturing exports to the EAC and SADC countries also expanding briskly over this period.

Most activities in the manufacturing sector are concentrated on the manufacture of simple consumer goods for the domestic market. Because of Tanzania's low per capita GDP, retailers must also focus on basic goods, but even this is not easy since the **inefficient and inadequate product supply chain is one of the main impediments to expansion in the retail sector.**

Thanks to the country's wide natural resource base, mining is a sector of growing importance, though its contribution to GDP remains relatively small at 3.2%. The Government aims to expand this to 10% by 2025.

Logistics improving

Logistics Performance Index



Source: World Bank

Logistics performance has improved significantly in recent years

The Logistics Performance Index shows that Tanzania's overall logistics ranking has shown significant improvement over the past few years. From an overall global ranking of 137th in 2007, it is now ranked 88th out of 155 countries and 9th in Africa.

Although international shipments, infrastructure, track & trace and logistics competence have improved significantly since 2007, customs and timeliness have declined slightly since 2010. **However, the performance of customs procedures is likely to improve in the near future, since Tanzania has started implementing the Pre-Arrival Declaration (PAD) system, an electronic submission system for customs declarations to promote trade and to improve the business environment generally.**



Transport & utilities
infrastructure worth

US\$19bn
in the pipeline



Port of Dar es Salaam to
be expanded at cost of

US\$400-500m

Transport infrastructure

Transport infrastructure performs better than most peer countries.

Tanzania's infrastructure quality differs largely between the four major modes of transport. It is well served by air, particularly domestically, but also has relatively good international connections. Roads are also sufficient for the purposes of trade, but the low levels of rural connectivity could constrain the development of agricultural and mining interests.

Rail requires significant investment to adequately serve domestic and neighbouring markets and connect these with ports and international markets. Finally, the Port of Dar es Salaam is a major bottleneck, limiting the country's ability to trade, not only from a capacity perspective, but also in terms of clearing shipments through customs appropriately.

Overall, Tanzania's infrastructure performs fairly well compared to its African peers, but quality is still poor and has a negative impact on the economy's productive capacity.

Infrastructure in Tanzania has witnessed impressive investment in recent years and there is more to come. **Transport and utilities infrastructure projects worth US\$19 billion are in the pipeline.** Many of these projects are expected to be financed by donors (in the form of loans), while the rest will be financed by the Government or via bilateral agreements with other countries such as China, which is currently funding railway rehabilitation projects.

The infrastructure plans of the entire EAC should see a number of new regional transport links developed, with a focus on improving rail infrastructure in the two major transport corridors linking to the region's two export hubs: the Port of Mombasa in Kenya and the Port of Dar es Salaam.

Port competition

Dar es Salaam is a major regional maritime hub and in competition with Mombasa as the main maritime hub in East Africa. While Mombasa is currently the largest port in the region, for its part, Dar es Salaam handles 4.1 million tonnes of dry cargo and six million tonnes of bulk liquid cargo annually. It also serves the landlocked countries of Malawi, Zambia, the DRC, Burundi, Rwanda and Uganda.

Dar es Salaam's performance indicators compare well to those of other eastern and southern African ports. It has a low container dwell time, low truck processing time, and high crane productivity. As a result, the port leads sub-Saharan Africa in container handling productivity and ranks among the top in general cargo handling.

But quality comes at a price. The European Union (EU) reports that shipping costs at Dar es Salaam are among the highest in the world. **Currently, the cost of using the port is 24% higher than other port facilities in sub-Saharan Africa.**

What makes the Dar es Salaam port costlier than others are delays in cargo handling, as it suffers from significant capacity constraints – caused by high traffic growth

and poor backward linkages with inland transport networks – and congestion. Its demand-to-capacity ratio is the highest in Africa after Mombasa. Adding to the pressure, Dar es Salaam also accommodates transshipments that Mombasa cannot handle due to its own severe capacity constraints and operational inefficiencies.

The Port of Dar es Salaam is due to be expanded, with the port authority's development plan estimated to cost US\$400-650 million. Other port projects include the construction of new ports at Bagamoyo, Mwambani in Tanga, Kilwa and Mtwara in the South, Malindi in Zanzibar and Musoma, situated on Lake Victoria. Musoma is an important hub that connects to Jinja and Port Bell in Uganda and Kisumu in Kenya.

Air transport

Tanzania has three international airports in Dar es Salaam, Kilimanjaro and Zanzibar. In addition, there are a number of domestic airports. Tanzania has one of the largest domestic air transportation markets in sub-Saharan Africa, but high demand leads to capacity constraints, especially at Dar es Salaam airport. Indeed, the airport is currently operating beyond its design capacity in terms of the numbers of passengers it accommodates.

In contrast to its vibrant domestic air transport market, its international market is one of the smallest in sub-Saharan Africa. Tanzania's appeal as a tourist destination would benefit greatly from the increased availability of direct intercontinental flights.



One of **2** countries in sub-Saharan Africa that allow competition in its domestic airline sector



Chinese Government signed **US\$42m** with Tanzania-Zambia Railway Authority to rehabilitate regional transport network



Tanzania stands out for allowing competition in its domestic air transport market and has more than one provider on each of its 17 routes. **This is outstanding for the region, as only one other country in sub-Saharan Africa, South Africa, permits competition in its domestic air transport sector.**

Flight safety is a concern and greater investment is needed in this area.

Rail

There are big plans for investment in rail infrastructure.

Tanzania's rail corridors are key conduits for bulk freight in the region as they ease the pressure on roads. The rail system consists of two main lines. The central line, which runs from Dar es Salaam to Tabora, has two branches: one to Kigoma in the west along Lake Tanganyika, and one runs from Tabora to Mwanza port on Lake Victoria.

The other line runs from Ruvu northward to Korogwe and then branches to Tanga port on the Indian Ocean. The other branch goes north-west to Moshi. It connects to the Kenyan railway system at Taveta as well as to Kenyan and Ugandan networks by rail ferry on Lake Victoria. Still, not all railway lines are operational and significant further investment is needed.

The national railways of Tanzania, the DRC and Zambia signed an agreement in March 2013 to facilitate easier movement of cargo and people between these countries.

Rail projects with an estimated value of more than US\$14 billion are currently in various stages of development. These include a

US\$2.7 billion project to develop a new railway line from Tanga at the Indian Ocean to Musoma on Lake Victoria.

The Chinese Government has signed a US\$42 million agreement with the Tanzania-Zambia Railway Authority (Tazara) enabling Chinese companies to rehabilitate the railway, which is an important regional transport network connecting Eastern Africa to Asia and the Far East through the Port of Dar es Salaam. Once completed, the deal will drastically increase capacity.

Tanzania, together with Rwanda and Burundi, is also developing plans for a new railway linking the three countries. The 1 651-km line is planned to link Dar es Salaam with Isaka (Tanzania), Kigali (Rwanda) and Musongati (Burundi). It is estimated the project will cost US\$ 5.1 billion.

Although much work is being considered in the rail sector, it should be noted that plans are ambitious and funding has yet to be secured for many of the projects.

A central road network forms Tanzania's infrastructure backbone

Tanzania's road coverage is better than the regional average and the network of trunk roads is adequate. Although the network provides basic regional and national connectivity, linking the capital Dodoma to the coast, roads are generally in poor condition and can become impassable in rains, when floods sometimes wash them away.

Nevertheless, compared to benchmark groups, both paved and unpaved roads in Tanzania can be considered to be good. Due to great progress in road sector reform in recent years, Tanzania is also one of the few African countries that appear to be allocating adequate resources to road network maintenance.

As mentioned earlier, road safety is a major concern, which increases operational risks and undermines the viability of logistics businesses.

On a trans-African level, the Cape-Cairo route traverses Tanzania along the main part of a central corridor that links Dar es Salaam to Rwanda, Burundi, Uganda and the DRC. This is part of one of the four corridors that form Tanzania's infrastructure backbone:






- From Dar es Salaam west to Dodoma and northwest to Mwanza on Lake Victoria;
- From Dar es Salaam west and southwest to Mbeya and on to Zambia;
- From Dar es Salaam north to the mountainous area around Kilimanjaro; and
- From Mwanza to Kigoma on Lake Tanganyika.

The rest of the country, by contrast, is sparsely populated and characterised by only fragmented infrastructure coverage.

Conclusion

Based on our analysis, we've assessed the investment potential for Tanzania's transportation and logistics sector as shown in the graphic below.

Tanzania – Investment potential assessment

1. Demographics and resources	
2. Economics	
3. Business environment	
4. Trade and logistics	
5. Transport infrastructure	

Key:	 Attractive	 Strong improvement expected
	 Average	 Some improvement expected
	 Unattractive	 Stagnation/marginal change expected

End notes

- ⁱ United Republic of Tanzania, "National Strategy for Growth and Poverty Reduction (NSGPR)", <http://www.tanzania.go.tz/hmgrf.html> <http://www.povertymonitoring.go.tz/Mkukuta/Mkukuta%20English.pdf>
- ⁱⁱ International Monetary Fund, "World Economic Outlook April 2013" <http://www.imf.org/external/pubs/ft/weo/2013/01/pdf/text.pdf>
- ⁱⁱⁱ "Declining inflation a boon to the mortgage business", Daily News, <http://www.dailynews.co.tz/index.php/biz/21285-declining-inflation-a-boon-to-mortgage-business>
- ^{iv} "Dar es Salaam eyes export market for electricity", Daily News, <http://www.dailynews.co.tz/index.php/biz/19640-dar-es-salaam-eyes-export-markets-for-electricity>