International Business Tanzania

Report 2014

Content

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Preface

International Business - Norways Most Exciting Student Project

The International Business Project (IB) is an annual non-profit student project carried out by students from the Norwegian School of Economics (NHH), the Norwegian University of Science and Technology (NTNU) and BI Norwegian Business School (BI). Founded in 1984 by Innovation Norway, the purpose of IB is to identify foreign business opportunities for Norwegian companies. This report marks the 30th anniversary of IB, and we strongly believe that the project continues to be relevant and valuable for Norwegian firms of all sizes.

This year's project subjects Tanzania, a country highly relevant for Norwegian companies as it is currently providing investors with great opportunities and incentives. Our investigations in Tanzania allowed the group to meet a wide range of individuals throughout companies' value chains. Our research encompassed both one-man companies to multinational firms, and many in-betweens. The diversity of subjects has, in our opinion, enabled our report to portray a holistic perspective of doing business in Tanzania.

Although the primary goal of our investigation was to gain inside knowledge about the investment climate in Tanzania, our comprehension of the country encompass a lot more. Most memorably was our meeting with a mid-aged woman living in a village close to Bagamoyo, who showed a spirit of entrepreneurship and determination that baffled us all. With a lifelong dream of owning her own restaurant, she had built her business gathering one branch at a time, taking her years to finish. An act of patience and determination not often found in our fast-paced world, and something we all can learn from.

The International Business Project is truly a unique student project. We never expected to learn so much and to gain so many experiences highly relevant for our future careers. Sharing this experience together with students from diverse backgrounds made the experience even greater. It also helped strengthen the report as our different points of view are reflected.

Our ambition has been to present a report that offers a unique and honest view of Tanzania, expressed in a way only achievable by an independent group of students. We hope that it will be an enjoyable and interesting read, and prove helpful especially for those who are considering Tanzania as a future venture.

On behalf of the IB13/14-team, thank you for showing interest in our project.

Solfrid Dahl Helgesen
CEO of the International Business Project Tanzania

Executive Summary

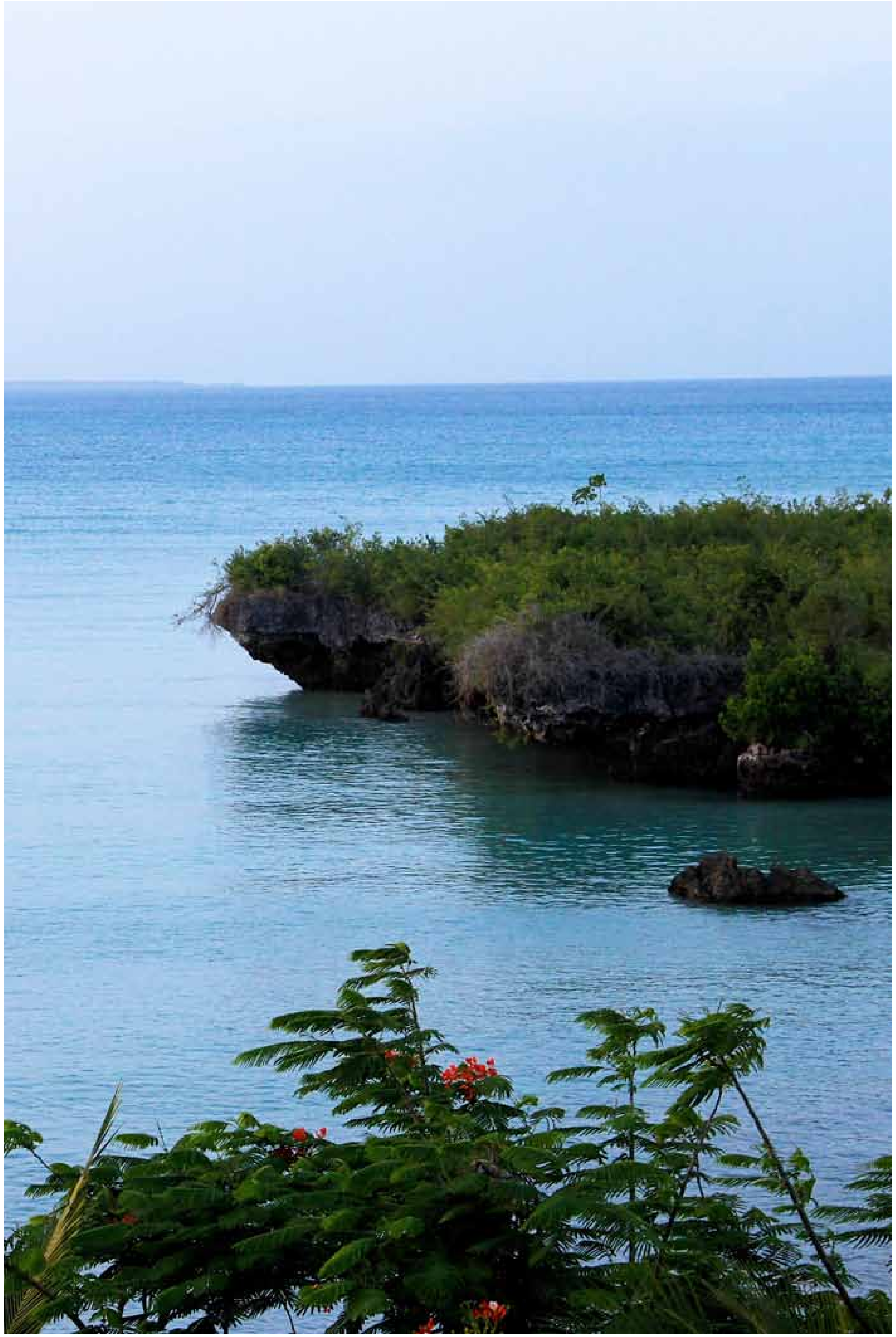
Tanzania represents a largely unexplored market for Norwegian businesses, despite being the third fastest growing country in Africa. The vast abundance of natural resources is in particular increasingly attracting international firms, while the projected growth in population and the increase in average income of Tanzanians will spur demand for new products and services across sectors. Parallel to these promising factors, the Tanzanian government continues to encourage and facilitate foreign direct investments through incentives such as taxation exemptions and low local content requirements.

However, our investigation of the Tanzanian market revealed the presence of major barriers to continued business and economic development. Tanzania continues to struggle with both petty- and grand corruption that reach from front-desk employees to government officials, and should be an area of concern for prospective investors. However, several companies have managed to avoid participation in such illegal activities, and there is a rising awareness and resistance of corruption amongst most Tanzanian citizens. In fact, compared to neighbouring countries, Transparency International ranks Tanzania as a cleaner nation, and the increasing presence of international companies should influence a bettering of the business climate.

The cultural differences between Norway and Tanzania should also attract prospective investors attention. True understanding of the underlying norms and values prevalent in the Tanzanian culture will save prospective companies both time and money, and its importance cannot be overemphasized: Patience truly is a virtue you need to master when entering the less than punctual Tanzania.

Moreover, the presence of major shortcomings in infrastructure makes doing business in Tanzania difficult. Transportation is both expensive and arduous and is a true bottleneck for business development. Due to both high transportation costs and trade barriers between neighbouring nations, the strategic location of Tanzania has in practice proven difficult to exploit. The mission of the East African Community is to reduce these barriers to trade in the East African region, and trade between Tanzania and neighbouring countries has increased during the last decade.

Despite these barriers to business development, Tanzania should not be written off. In fact, Tanzania appears to be the new land of opportunities, and the influx of foreign direct investment supports our optimistic view. Successful companies will be those that manage to act fast, avoid corruption at all cost, understand the cultural differences, and manage to create long-term relationship with the local environment.



Acknowledgement

Kristin Skogen Lund
President of the Confederation
of Norwegian Enterprise

Norway has a long-standing partnership with Tanzania. Norway has for decades provided development assistance, and a great number of close contacts have been established through the years. Many prominent persons in Tanzanian government and business have received their education or training in Norway. We have created personal and professional relationships at many levels. This is a good foundation for developing the relations between our countries further.

I am particularly pleased that the focus is increasingly turning to business development. Quite a few Norwegian companies are now establishing themselves in Tanzania. One reason for this is of course the new dynamism and optimism that we see in Tanzania. There have been stable political conditions for years and the Government has been determined to improve business conditions. There are great investments in infrastructure, which is a precondition for developing trade. There are also important investments in the energy sector, and, although red tape is still a challenge, conditions for business have greatly improved. And we see the results: investments are booming and economic growth is among the highest in the world.

We see this new optimism and dynamism in many African countries. A new middle class is growing, which provides and exciting market, both for African and foreign companies. Some are predicting that African countries will replicate the boom of the Asian Tigers in the 50`s. I am encouraging Norwegian companies to grasp the opportunities. Statoil, the biggest Norwegian oil company, is currently active in exploring the possibilities of extracting gas outside the coast south in Tanzania. The findings so far have been very promising, although the reserves are in very deep waters. It will take time to develop the fields, but the potential is great for business development related to this activity. Norwegian engineering and service companies have great expertise in delivering equipment and services to the oil companies. This will also provide great opportunities for cooperation with local companies and focusing on local content.

Norwegian companies are also active in renewable energy projects, where we have great experience with developing hydroelectric power. One of the great challenges for Tanzania, as for many other African countries, is to educate enough skilled people. There is often a focus on higher university studies. This is important, but I would also like to stress that it is just as important to have a modern vocational training. Schools are often too abstract and academic, and not adapted to the real needs of business. I strongly encourage partnerships between schools, business and the authorities.

Private sector is crucial in continuing the positive development. This is where jobs are created. Local leaders want trade and investments, not aid. Not everybody in Europe have grasped the new reality in Africa. Although there are great challenges, I think we increasingly need to view Africa as a continent of business opportunities and partnership. I am therefore very pleased that students at the Norwegian business schools NHH, BI and NTNU have embarked on this very interesting project. This report gives a good overview of challenges and opportunities and it will be a very useful tool for Norwegian companies considering to invest in Tanzania or develop trade relations.

Acknowledgement

Finn Kristian Aamodt
Acting President and
CEO of Innovation Norway

For 30 years, International Business has pointed Norwegian companies in the right international direction. They provide a fresh—and comprehensive—perspective on opportunities in new markets abroad relevant for Norwegian industry. Experience shows that companies speak more openly to students than to professional consultants, and that youthful curiosity helps to question established industry assumptions.

We are very pleased that Tanzania is the focus for this year's project. Tanzania has seen strong economic growth over the past fifteen years. The country's vast abundance of natural resources makes Tanzania very attractive for extractive industries. We already see Norwegian suppliers establishing a presence in Tanzania in preparation for Statoil's planned investments there. Economic growth has also come as a result of long-term investments in education, which has given rise to an increasingly competent workforce and a growing middle class.

Although it will still take some before Tanzania's industry is on a level with the Asian growth economies, the whole of East Africa is undergoing a generational shift. New and young entrepreneurs are starting up companies and developing professional communities more and more compatible with those we are accustomed to in Norway. Tanzania is still considered a challenging market to do business in, which is why Innovation Norway's East Africa office will initially focus on working with established companies that already have an international strategy.

We are pleased to support International Business in their important project to provide Norwegian businesses with up-to-date information on the Tanzanian market, and we hope the report will be read thoroughly by all companies considering doing business in Tanzania. A well-written report on the business climate and opportunities in a new market can for some companies be what triggers a process leading to an eventual market entry.

Acknowledgement

Monica Mæland
Minister of Trade and Industry

NORWEGIAN MINISTRY OF TRADE, INDUSTRY AND FISHERIES

As Minister in charge of promoting Norwegian trade and investments abroad, I am pleased that the International Business student project this year has chosen to focus on Sub-Saharan Africa and Tanzania.

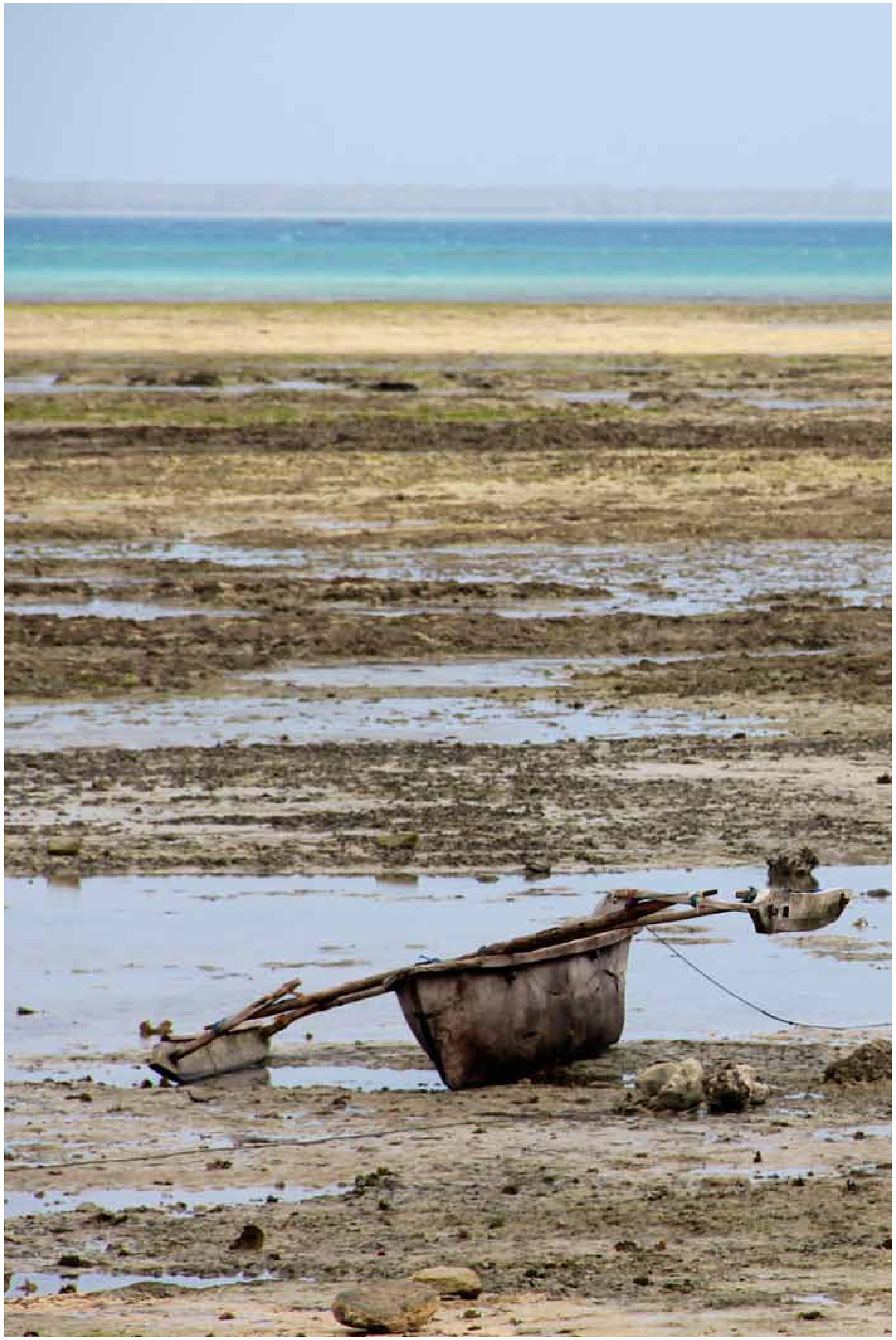
Many Norwegian companies are already aware of the great possibilities that Africa's economic growth entails. There are more than 100 Norwegian companies operating and investing in African countries, especially in sectors such as offshore, maritime and energy. Norway's trade in goods and services with Africa continues to increase. However, it is apparent that we are not exploiting the full potential – neither in business nor in trade.

I believe that trade and investments are important driving forces for employment, economic growth and development. In this Government's political platform we have stated that we will have a more ambitious trade policy, also towards emerging economies. Tanzania is one of the countries that we will follow closely in the coming years.

Norway and Tanzania have had a close relationship for more than 50 years. In the past, the main focus was on development co-operation, but over the last few years our bilateral relations have increasingly been defined by new and exciting economic partnerships. I am positive that this trend will continue.

While most Norwegian business activities in Tanzania today are related to the energy sector, it is likely that this will diversify in the coming years. Tanzania has experienced impressive economic growth and important advancements in living standards over the last decade, which translates into a growing middle class with increased demands for goods and services. Furthermore, Tanzania has a strategic geographic location and is a key member of the East African Community.

The International Business reports created by the students from NHH, BI and NTNU are in-depth and useful analyses of important global markets, and reflect ongoing trends in the Norwegian business community. This year's report will provide helpful information to companies that are considering seizing some of the many business opportunities in Tanzania.



Tanzania
– The True Land of Opportunities

Introduction

Tanzania is currently ranked as the third fastest-growing country in Africa, and projections for the future warrant continued optimism. Despite a promising future, the climate for business development and economic growth is associated with challenges. The World Bank's annual "Doing Business Report" from 2014 ranked Tanzania as 145th out of 189 countries in terms of ease of doing business. This serves as a good indicator of the challenges the country is experiencing in developing an encouraging climate for business development. However, the possibilities and opportunities far outweigh the challanges. The following report aims to be a testimony of the opportunities available for Norwegian companies in Tanzania, and highlights the multiple challenges one should be wise to take note of before entering this developing market.

Tanzania has been the largest receiver of Norway's foreign budget aid, but the nature of aid work is changing. The traditional relationship between aid supporter and receiver is increasingly being criticized for its static and short-term perspective. Supportively, African leaders are increasingly encouraging Norwegian investments and business development above aid support. The Tanzanian government is providing numerous incentives to facilitate foreign direct investments and business development. Amongst such incentives are favourable tax exemptions and low, if any, requirements for local content.

Despite these incentives, Tanzania remains a largely unexplored market for Norwegian businesses. Conversely, both the Indians and Chinese have already begun investments in Tanzania due to the presence of natural resources, the country's strategic location, and expected economic growth primarily related to the substantial gas findings, and more countries are following suit.

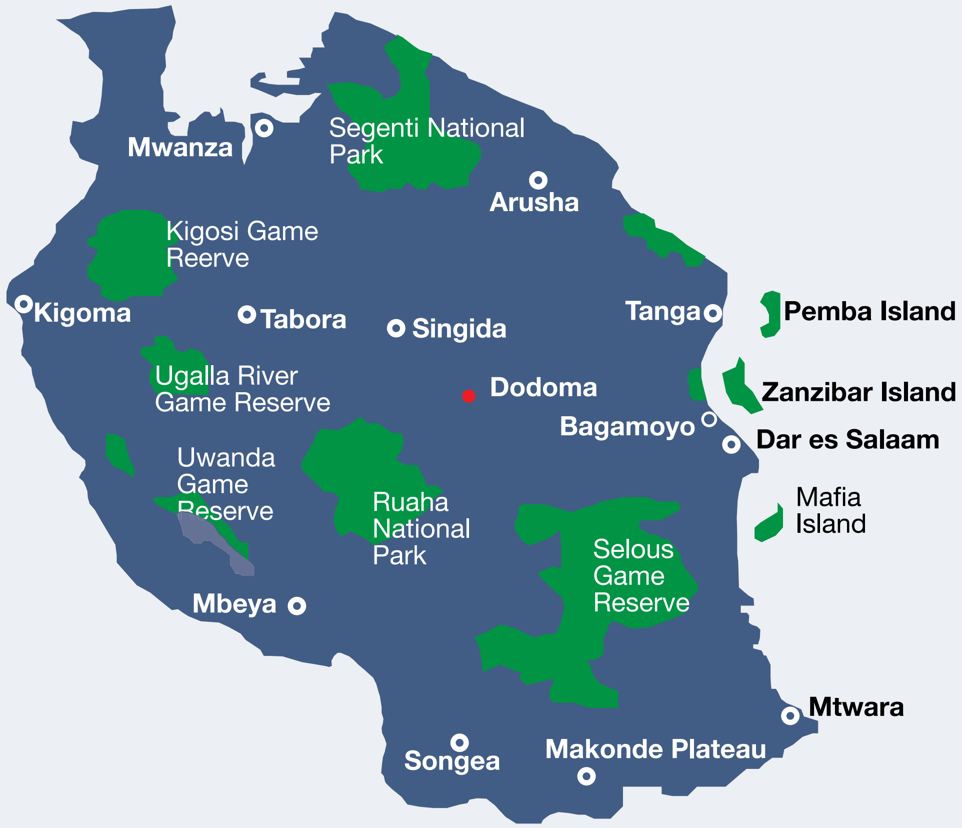
Yet, most Norwegian companies are failing to recognize the opportunities and growth potential prevalent in this emerging market. It appears that the associated challenges of entering a widely different country in terms of legislation, culture, and business environment are discouraging many from entry. Rather, many companies follow a me-too strategy when exploring foreign market opportunities, thereby entering markets well on their way of reach maturity with stiffer competition and lower margins. If this strategy represents your firm, you may be missing out on enormous opportunities.

In a developing country with endless opportunities, Norwegian companies stand to gain by entering before maturity. A key success factor for Norwegian companies entering the Tanzanian market will be the ability to act fast. With the current growth rate of 2.7 per cent, the Tanzanian population is projected to close to double by 2035. Needless to say, it does not matter what your business entails: Sooner or later, Tanzania's potential can be unlocked by willing and able Norwegian firms.

Key Statistics

Capital: *Dodoma*
Government: *Republic*
President: *Jakaya Kikwete*
Independence: *26 April 1964*
Population: *48.2 million (july, 2013 est.)*
Religion: *Christian 30%, Muslim 35%, indigenous beliefs 35%;*
Zanzibar - more than 99% Muslim

Area: *947,300 km2*
Official language: *Kiswahili and English*
Currency: *Tanzanian shilling*
GDP:*$28.24 billion*
Economic growth rate: *6.9%*
Exports: *$8,5 billion*
Imports: *$13.6 billion*

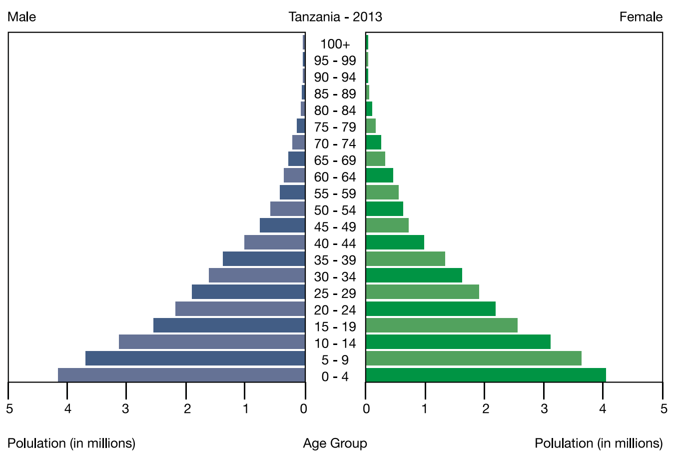


Social Infrastructure

Being characterized as a young and poor nation, Tanzania's social infrastructure is currently undergoing tremendous transformation. Despite uncertainty regarding how the nation will successfully meet the challenges caused by the projected population growth and urbanization, Tanzania remains a relatively stable nation in the Sub-Saharan region

Urbanization of a Young Population

The Tanzanian population can be characterized as young, poor, and to a large extent, uneducated. With high birth rates, and decreasing death rates, the annual population growth rate has reached 2.9 per cent. If kept constant, the Tanzanian population will double inn less than 25 years. Today, over 44 per cent of the population is under the age of 15, giving Tanzania a huge potential work force. However, given the already strained capacity in both physical and social infrastructure, concern should be raised as to how Tanzania can handle this population explosion.

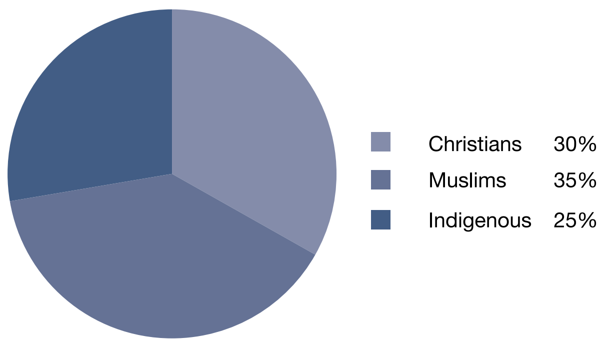


Tanzanian Population Pyramid. Source: CIA The World Factbook, Tanzania.

The combination of both push- and pull factors has caused an increasing number of young Tanzanians to leave rural areas and relocate to major cities such as Dar es Salam, Mwanza, Arusha, and Dodoma. The massive urbanization of the Tanzanian population is causing severe strain on the infrastructure of the cities, causing UNICEF to raise concerns about the living condition for children. Despite government initiatives to slow down the urbanization the urbanization remains to a large part unguided and uncontrolled. However, some argue that urbanization is an improvement since the quality of schools and health services are better in the bigger cities. Supportivly, a slow but constant increase in the Human Development Index (HDI) suggests that overall living conditions are improving. However, compared to Norway with a HDI score of 0.955, Tanzania and it's HDI score of 0.476 has a long way to go.

High Diversity in Religious Beliefs With Low Tension

The dominating religious beliefs in Tanzania are Christianity, Islam and indigenous beliefs. Estimates indicate that 35 per cent are Muslim, 30 per cent Christian, while 35 per cent are associated to indigenous beliefs. Religious leaders are persons of standing in the Tanzanian society, and benefit from reverence among followers and strong influential power. Despite multiple religious beliefs, Tanzania has experienced low levels of conflict between religious groups compared to peer Sub-Saharan countries. However, signs of negative development with the increasing influence of extremist groups demand attention and caution.



Children in Local village

Major Shortcomings in the Educational System

Primary education is free and compulsory for all children from the age of 7 to 15, while a tuition fee is required to attend secondary education. Consequently 98 per cent of all children attend primary school, while secondary school only has a 24 per cent (female) and 26 per cent (male) attendance. Despite increasing attendance in primary school, the educational quality is even lower than Kenya in the north. Moreover, as teacher salaries are low, there are numerous examples of teachers omitting to show up to class, and rather asking parents for extra payment to hold afternoon classes instead. The significant shortcomings in the educational system cause extensive training necessary when hiring employees.

Respect and Equality for Women

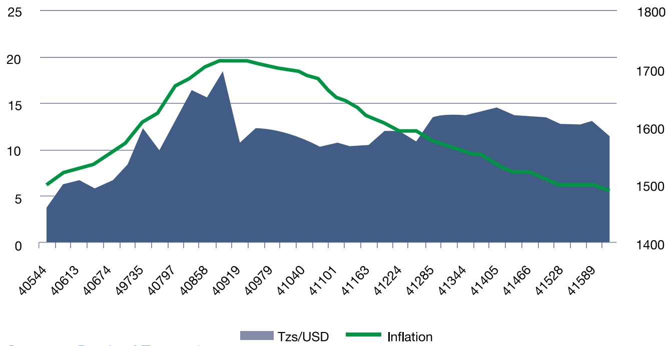
Tanzania enjoys more developed gender equality norms than many other peer countries. Women are respected at work, and several women hold key positions in the government and at the university. Lack of respect for women is therefore not an issue to be concerned about before entering Tanzania. However, as in most other countries women have to work harder to prove themselves in a male dominated environment.

The Tanzanian Economy

Analysts expect the Tanzanian economy to be one of the top performers the years to come. With a lowered inflation rate and a stable currency, the macroeconomic outlook for Tanzania is positive. The recent transformation of the financial system has successfully attracted foreign investments. However, obstacles for continued development remains, and must be overcome before Tanzania is able to realize its potential

A Positive Macroeconomic Picture

Signs of improved monetary climate



Source: *Bank of Tanzania*

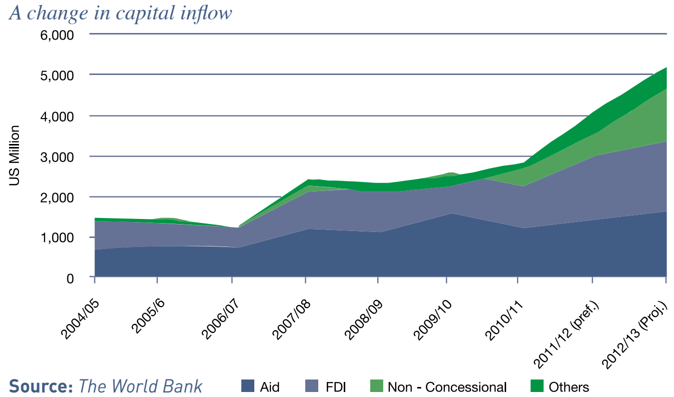
The Tanzanian economy is currently the third fastest growing economy in Africa, and has the last decade enjoyed a high and stable growth, with a GDP growth rate between 6 and 7.5 per cent. Two-thirds of the GDP growth has been driven by domestic demand in five sectors; communication, financial services, construction, manufacturing, and retail. According to the World Bank, the economy will continue its strong performance and increase its GDP growth rate with 7-8 per cent annually the next three years, making Tanzania one of the top performers in the Sub-Saharan region. The Tanzanian market has an enormous potential, and is in many ways comparable to Brazil just before international firms entered the market.

The monetary situation in Tanzania has shown signs of improvement in recent years. With a primary objective to achieve an inflation rate of 0-5 per cent, Bank of Tanzania (BoT) managed to reduce inflation from double-digits in early 2013 to 5.6 per cent per annum (December 2013). This development is attributed to a tight monetary policy, improved food supply and stability in the global oil prices. The Tanzanian inflation rate is higher than that of neighbouring countries, implying a more volatile currency. However, overall sensible fiscal and monetary policies and increased foreign capital inflow have made the Tanzanian shilling to one of the most robust currencies in the East African region.

A Developing Financial System

The capital inflow to Tanzania has historically depended heavily on foreign aid. As the economic climate has improved, foreign direct investments and non-concessional loans constitute a significant portion of the inflow of foreign capital. To continue the development of Tanzania's financial system, the government is in the process of obtaining a credit rating that will enable integration with international financial markets. This will consequently ease and lower the cost of financing for both the government and privately held companies. To illustrate the recent confidence gained in the financial market, BoT successfully issued its first 15-year government bond in November 2013.

A change in capital inflow



Source: *The World Bank*

The increase in the number of banks operating in Tanzania has contributed to growth in the use of financial services and domestic credit. For example, the domestic credit provided by the banking sector has increased from 13 per cent of GDP in 2007 to 24 per cent in 2012. Despite these recent improvements, Global Competitiveness Report 2013-2014 identified obtaining financing as the most challenging aspect of doing business in Tanzania. In particular, SMEs in the agriculture sector and sole proprietorships will struggle to attain loans due to high interest rates and short maturities because of unreliable income and collateral requirements.

Increase in International Trade

The total export of goods and services accounted for approximately USD 8.5 billion or 31 per cent of GDP in fiscal year 2013. Gold and tourism is by far the most important, accounting for 42 per cent of total export. Total import reached 13.6 billion, in which oil contributed for 39 per cent. China, India, and the European Union, Tanzania's main trading partners, accounted for 48 per cent of total trade. Today, trade with neighbouring countries only accounts for a minor degree of Tanzanian's international trade.

Finding the Way Forward

Although the Tanzanian economy is expected to continue its growth, several economic indicators demand attention. The public debt to GDP ratio increased from 30 to 45 percent between 2008 and 2012, which suggests a troublesome future if not controlled. Additionally, the financial problems in the state-owned electricity firm TANESCO have significantly influenced the fiscal flexibility of Tanzania. Finally, continued growth will to a large part depend on BoT's ability to maintain the current low inflation rate and the stability of the Tanzanian shilling.

Political Climate

Tanzania is a country shaped by historic events and immigration by primarily the Chinese, Arabs, and Indians, but has remained being a stable nation compared to many African nations. Although signs of increased political pluralism are present, the ruling party Chama Cha Mapinduzi, continues to dominate. The political environment is highly affected by the elected President's agenda, so the upcoming 2015 election will most surely affect the political governance of Tanzania. The country has so far been successful in resolving political conflicts, and has continued its gradual social and political transformation since its independence. The political climate in Tanzania is complex, and it is therefore important to be well informed about the political climate and the history that led to the current situation and possible pitfalls.

The Road to Independence - Historical Overview

Tanzania has a varied history, which has set the conditions for development of the country. The Arabs settled on Zanzibar in 1840 and made the island a centre for trade with slaves and ivory. Since 1890 the Europeans has been exploring the mainland, and in 1897 it became a part of The German East African colony. Britain got the mandate to administer the region in 1919, and ruled the country until a peaceful transition to independence in 1961.

Today, The United Republic of Tanzania consists of the mainland (popularly called Tanganyika) and the semi-autonomous islands of Zanzibar, which merged in 1964 through "The Articles of the Union".

Political situation – From Socialist Government to Market Economy

The Arusha declaration of 1967 inaugurated the country to be a socialist state with the prospect of eliminating the social class system that emerged after the colonialists entered the country and encourage Tanzanians to collaborate in progressing their socio-economic development. The transition from socialist government to a market economy and political reform from the mid-1980s has not been easy. Our investigations revealed several signs of a continued socialist mindset by Tanzanians. This will most likely continue to complicate Tanzania's process of developing a well-functioning market economy.

An Uncertain Future?

The upcoming election in 2015 is associated with uncertainty. The current President Kikwete's battle against corruption and internal conflicts are far from over. Despite coming into power on the promise of reducing corruption, Kikwete has officially stated that corruption is part of a well-functioning society. With a growing awareness of the harmful consequences of corruption, Tanzanians are increasingly voicing their disbelieves in the current government's ability to change.

Traditionally, the president always prioritizes development and improving the living conditions in the area in which he grew up in. The election is therefore not only a competition between political parties, but also between regions, and can affect infrastructure construction, corruption handling, and rule of law in general. Understanding these influences is of great importance for companies considering a market entry in Tanzania.

These elements are pervasive in the society and affect Norwegian companies present in Tanzania. Especially the oil and gas sector meets expectations of employment, economic growth and problem solving when establishing in Tanzania. The government and the population of Tanzania have high expectations to everyone else, yet they remain passive to their own participation in society.

The East African Community - A Futuristic Vision?

The establishment of the East African Community's (EAC) has currently been highly influential in increasing the interregional trade amongst the partner states, but more potential remains untapped. Continued development will be crucial for Norwegian companies to fully exploit the favourable strategic location Tanzania offers for interregional trade.

The East African Community (EAC) is the regional intergovernmental organisation of the Republics of Burundi, Kenya, Rwanda, the United Republic of Tanzania, and the Republic of Uganda, headquartered in Arusha, Tanzania. EAC's mission is to widen and deepen economic, political, social, and cultural integration in order to improve the quality of life for the East African people through increased competitiveness, value added production, interregional trade, and investments. The EAC partner states aimed to establish a Customs Union in 2005 and a Common Market in 2010. The next phase of the integration is planned to be a Monetary Union for the block that ultimately seeks to become a Political Federation of the East African States. Successful accomplishment of its vision would be beneficial for Norwegian companies in terms of interregional trade. However, the development and continued work of EAC has so far been problematic, largely due to different stages of development and incoherent trade frameworks, disagreements between the member-states, and slow policy-implementation.

Challenges of Progress and Stability

EAC has faced problems with aligning the interests of its five partner states primarily due to varying degree of economic development. For example, the difference between the development and economic state of Kenya and the poorest nation of Burundi is unquestionable. The differences between the states are also apparent in terms of trade agreements with the European Union, where Kenya with its GSP status has a widely different framework for trade than the other four countries.

Internal disagreements between the five states have been a source of conflict and effectively reduced the progress of EAC's work. In fact, Kenya, Rwanda, and Uganda have formed their own Coalition of the Willing (CoW), in order to push integration and collaboration internally. This has caused many to fear for the future of EAC. To date, the CoW has fast-tracked an integrated immigration system that has lowered the cost of non-East African citizens to travel across the three states, and successfully increased tourism to all three states. Furthermore, the CoW has successfully improved the internal trade relations through improvement of infrastructure between the three countries through trans-country road construction and railway projects.

Despite current internal challenges with the already established Common Market and Customs Union, EAC is determined to implement a monetary union in the near future. The potential monetary union is considered highly premature due to recent challenges and the emergence of CoW, and has caused the World Bank to caution the EAC of this initiative. The negotiations of the monetary union that commenced in 2011 are continuing, suggesting that the union may still happen in the near future.

Tanzania's Role in the EAC

Tanzania has been criticised of pulling the breaks on EAC, refusing to appear at meetings and negotiations. It appears that the primary reasons for reluctance from the Tanzanian government relates to the perceived threat of an influx of immigration that will significantly strain the current labour market. Critics have claimed that the EAC appears to need Tanzania more than Tanzania needs them. For instance, the port of Dar es Salam is used by EAC states to import goods when turbulence in Kenya prevents them to import goods from the port of Mombasa. On November 7th 2013, President Kikwete stated that Tanzania would not quit the EAC, and will continue its efforts in the establishment of an economically strong EAC. Despite this shining proclamation of commitment, it remains to be seen whether Tanzania will continue to fulfil their commitment to the EAC.

EU involvement with the EAC and possible trade agreement including Norwegian businesses

To date, the EAC has been unable to become sustainable, with 60 per cent of the budget relying on funding from donors (primarily EU member states). Due to the expiration of the WTO waiver, the EAC initiated an interim Economic Partnership Agreement (EPA) with the EU in 2007. Currently, the EU and the EAC are negotiating a comprehensive Economic Partnership Agreement (EPA). Due to the deadline for the interim EPA agreement this October, this year will be important for the future of EU*. EPA is supporting the development of the private business sector between the EU and the Cotonou-countries, including the EAC. The goal is to provide support to private sector through trade.

Future of the EAC

The future of the EAC appears to be highly uncertain due to slow progress, internal conflicts, political instability, and unsustainable funding. The realisation of a well-functioning EAC would be highly beneficial for Norwegian companies, and the Norwegian Embassy in Tanzania accentuates that the uncertainty of EAC's future should not be decisive for prospective Norwegian companies. Due to expected development within the year, prospective companies are urged to stay updated on the situation of EAC continuously.

** EEA/EAC-trade as EU member states will in the near future decide whether to include EEA-countries.*

Trading with Tanzania

The opening of Tanzania's port for international trade over the past decade has been imperative for the country's economic growth. From 2000 to 2012, exports grew faster than that of countries like Brazil, Tunisia and Thailand. The total value of imported goods and services currently adds up to more than half of Tanzania's annual GDP. In the 2013 The World Bank report, Tanzania Economic Update, Tanzania was ranked 88th out of 156 countries with regards to connectivity to domestic and international markets. Although this indicates that Tanzania is more open to international trade than other nations in the East African region, the country is still falling behind most East Asian nations.

Growth Opportunities

The main driver for the increased openness to trade is the port of Dar es Salaam. Compared to landlocked neighbouring countries, Tanzania is naturally more connected to the outside world, which should be beneficial for trade with the global market. However, considering the strategically perfect location of the port in relation to the rest of East Africa, it is cause for concern that Tanzania does not rank higher than 88. Tanzania remains relatively closed by global standards, as net external trade has on average only contributed 20 per cent of GDP from 2000 to 2011. However, Tanzania's economic development and population growth have simultaneously served as a driver for increased imports. Compared to other successful emerging markets in East Asia, Chile and Botswana, Tanzania's net external trade share shows room for development, and appears to be a decisive area of improvement to boost the economy in the years to come.

High Transport Costs

There are several obstacles for further expansion of trade in Tanzania, the most significant one being high transport costs. When comparing transportation costs in Tanzania with other successful emerging economies, the gap is disturbingly large. To illustrate, it is almost 70 per cent more expensive to trade between China and Tanzania, than between China and Brazil. The port of Dar es Salaam, where roughly 90 per cent of all traded goods passes through, is highly inefficient. The port is therefore considered the primary source of the excessive costs associated with transportation to and from Tanzania. Furthermore, the connection between the port and railway land is poor. This, in addition to an unsatisfactory railway, makes transport to and through Tanzania a long and expensive process. The development potential is large and to a great extent untapped. Conversely, The Mombasa port in Kenya has been significantly improved the last years, and now has a one-day waiting time, compared to 10 days in Dar es Salaam. Non-tariff barriers (NTBs) are also contributing to factors such as prolonged clearing procedures, and makes doing business in East Africa expensive.

No Bilateral Trade Agreement

Contrary to several other economies such as India, Norway does not have a bilateral trade agreement with Tanzania. The lack of a bilateral trade agreement could potentially discriminate Norwegian producers and exporters in the Tanzanian market. It further makes Norwegian investors more susceptible for unstable regulatory framework from the government. To overcome these uncertainties, some companies have chosen to enter Tanzania through subsidiaries in countries that have a bilateral trade agreement with Tanzania. The Norwegian Embassy in Dar es Salaam would not confirm that a bilateral trade agreement between Norway and Tanzania is under any serious consideration.

An option is for Norway to join the EU in negotiations for a bilateral trade agreement with the East African Community. The negotiations are still at an early stage, with three agreements signed with Tanzania, respectively cooperation on taxation, immigration and the port authority. Further negotiations depend on the development of the EAC.

The lack of a bilateral trade agreement between Norway and Tanzania can be an obstacle especially for small and medium sized enterprises (SME's), which do not have the power or economies of scale to fight corruption as larger enterprises do. The importance of good conditions for SME's is recognized by the EU delegation, where Rodrigo Romero Van Cutsem states: "Small-and medium sized enterprises help a country to grow". In order for Tanzania to achieve higher economic growth, employment and sustainable development, they are dependent on a good investment climate for the SME's.

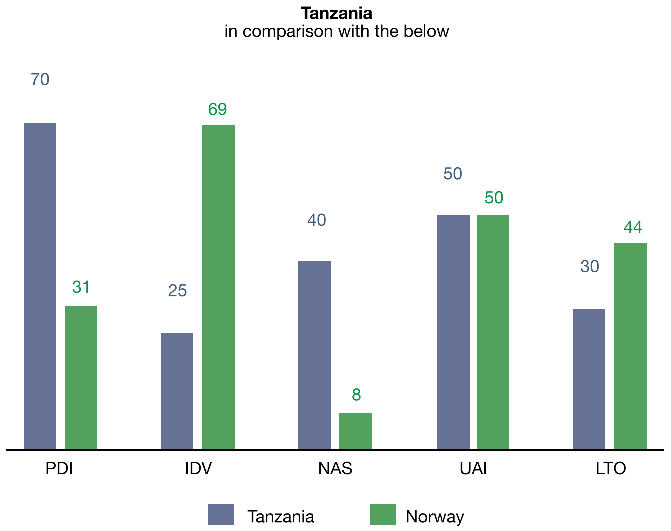
Fishmarket in Bagamoyo

A Sleeping Giant

In 2012, the export from Tanzania to Norway exceeded the corresponding import. Tanzania exported goods equivalent of NOK 374 million, consisting mainly of machinery and transport equipment. The import, on the other hand, only amounted NOK 43 million. Arguably, the reason for the low export from Norway relates to the high transportation costs, trade barriers, and the current inability to capitalize on Tanzania's strategic location. Tanzania has been called a "sleeping giant" and if the government and international investors make the right decisions, the potential is immense.

Cultural Differences

Tanzania is a country that differs hugely from Norway in terms of both location and climate, but perhaps more importantly, in terms of culture. To be able to succeed in Tanzania, it is vital to gain a true understanding of the culture. Failing to understand the differences could easily be a source of conflict and failure to succeed in the market.



Power Distance (PDI), Individualism versus collectivism (IDV), Masculinity versus femininity (MAS), Uncertainty avoidance (UAI), Pragmatic Versus Normative (PRA), Indulgence versus Restraint (IND) **Source:** *http://geert-hofstede.com/tanzania*

Compared to Norway, the Tanzanian organisational structure is far more hierarchical in nature, and the power distance appears to be far higher in Tanzania. This is particularly visible in the restaurant and hotel sectors, where workers are deeply dependent on strict guidelines as most are uncomfortable or unwilling to make independent decisions. Our investigation revealed a systematic phenomenon of micromanagement, where directions and job descriptions frequently were explained to employees to ensure compliance with the overall company goals. As individuals rarely exhibit signs of initiative to exceed stated job descriptions, Norwegian managers are advised to note the challenges this may entail and avoid ethnocentric judgments and frustration.

Norwegian firms will most likely find it challenging to implement the Norwegian leadership model in Tanzania, but steps can be taken to increase the likelihood of success. For example, there are examples of companies who have succeeded in encouraging initiative through investment of time and training. Being clear and direct are true virtues to be mastered for a successful manager in Tanzania. Another key success factor is being loyal to your company's core values and culture, while allowing for flexibility and alterations to fit the local culture. Managers who successfully identify common elements between the Norwegian and Tanzanian cultures, and manage to build a shared identity based on these, will stand a better chance of succeeding.

Tanzanians are far more collectivists than Norwegians, where "we" is more prevalent than "I", arguably due to the country's history with socialism. Tanzanians value their families highly, and to greater extent than that of most Norwegians. For example, as Tanzania does not have a well-functioning welfare system, families function as a social safety net. Tanzanian's family orientation is for example prominent for employers in the case of funerals. Employees often expect to have several days off when someone dies, that being close family, extended family, a neighbour or a friend of the family, and the funerals often extend over three days.

Most Tanzanians will be perceived as kind and goodhearted, and will do everything in their power to please the other party. In fact, Tanzanians will rarely say no to you in person, as this would entail losing face. To be successful in Tanzania, managers must understand the implications of this and ensure that the local party is in fact in agreement and on the same page as oneself.

In Tanzania patience truly is a virtue that is imperative to master. "African Time," is an expression coined by western individuals, and refers to what most Norwegians would call tardiness. Throughout every aspect of running a business, managers from Norway are wise to expect everything to take longer than planned. Businesses often wait "unreasonably" long on government institutions and local parties to process requests. In fact, it appears that the phrase "time is money" never reached Tanzania. Most Tanzanians are not used to think in terms of timeliness and planning, and rather live by the very commonly heard expression "hakuna matata" (no worries). To successfully overcome this, a wise manager quickly learns when to be patient, and when to push things forward.

Tanzania is currently undergoing a transformation, and signs of cultural changes are prevalent in many areas. A higher number of educated Tanzanians are moving away from the traditional path of politics and are entering the private sector. This is a positive trend that will increase the prospects for future growth. Our investigation also indicates that well-educated Tanzanians are adaptable, proactive and resourceful, and an increasing number of students are taken parts or most of their education abroad, which increase their cross-cultural understanding.

Although most of the mentioned facets of the Tanzanian culture can be generalized to majority of Tanzanians, we emphasize that there are large cultural differences within Tanzania. Our study was primarily conducted in the urban areas of Bagamoyo and Dar es Salaam, which differs greatly from more rural areas. The current influx of foreign investments is slowly changing the culture of Tanzania, and its influence is already detectable in Dar es Salaam. The human capital existing in Tanzania offers great opportunities for willing companies, but to successfully tap into this resource, managers need to be flexible, understanding, and most importantly patient.

Infrastructure

One of the key factors holding back the Tanzanian economy is the lack of and poor quality of infrastructure. Measured in electric power consumption, Tanzanians used 92 kWh per capita on average in 2011 according to the World Bank, significantly lower than comparable low-income Sub-Saharan countries like Kenya (155 kWh) and Angola (248 kWh). The major infrastructural challenges facing businesses are instabilities in electricity supply and poor transportation networks.

Instabilities in Electricity Supplies

	Tanzania		Latvia		Norway	
Infrastructure rating	Score	Rank/148	Score	Rank/148	Score	Rank/148
Quality of overall infrastructure	3,2	124	4,9	50	5,3	29
Quality of roads	3	109	3	110	3,7	29
Quality of railroad infrastructure	2	93	4,2	32	3,6	29
Quality of port infrastructure	3,2	120	5,1	37	5,5	29
Quality of air transport infrastructure	3	134	5,4	40	6,1	29
Quality of electricity supply	2,3	131	5,3	54	6,6	29

Source: *The World Economic Forum – The Global Competeitiveness Report 3013-14. Scores are values on a 1-7 scale, with 7 being the most desirable outcome.*

Customers of the national electricity provider TANESCO frequently experience both warned and unwarned power outages, causing missed production targets and reduced profits. According to the World Bank, Tanzanian businesses lose an average of 6.3 per cent of their sales due to power outages. The network capacity is not sufficient to serve all customers simultaneously, causing the supplier to ration power access between its users. Unwarned outages are usually caused by the poor quality of the grid, and malfunctions in electrical circuits, wires, switches and fuses occur daily.

Other outages are not caused by the network itself, but rather by the nature of its energy sources. The installed capacity has an energy mix of two-thirds hydroelectric sources and one-third fossil fuels. The hydropower stems from regions prone to droughts, consequently making the hugely hydropower dependent grid disposed to long periods of reduced generating capacity. During the last severe draught in 2011, the nation suffered daily 12-hour outages with stark rationing. Poor managerial decisions and short-termed financial planning also add to the problem. On this matter, TANESCO have looked to Norway for help from Statnett. To mitigate the unpredictable outages in the public grid, many companies invest in access to a generator or other reliable power solutions. This added security comes at the price of higher capital, fuel and maintenance costs, which makes it less feasible for diseconomies of scale, i.e. small and medium sized enterprises (SME). Thus, 85 per cent of larger corporations have access to at least one generator compared to 55 per cent for that of SME. Having access to generators and efficient switching systems greatly enhances the reliability of the power solution, effectively reducing the experienced downsides to occasional glimmering of lights. The government is also planning huge investments in expanding the current production capacity in the public grid, reducing losses in distribution and transmission currently at 27 per cent, and also reducing the hydropower dependency through the construction of a natural gas pipeline from the south to Dar es Salaam.

Transportation – an Infrastructural Bottleneck

The other major infrastructural challenge facing businesses in Tanzania is the poorly developed transportation networks. Only 8.2 per cent of the 86 472 km of roads are paved, causing huge problems for road transportation. However, compared to the inferior state of the other option, railways, most companies choose road haulage as their preferred transportation solution, despite the security concerns associated with it.

Unpaved roads in Tanzania are often very rough, enabling only slow speeds for acceptable comfort and vehicle wear and tear levels. A bigger problem with unpaved roads in this region is the effects of the rain season, usually in April and May. The heavy rain causes huge areas to be inaccessible due to flooding. Combined with the low level of driver skills, this makes road haulage an undesirable option.

Ships unloading their cargo at the Port of Dar es Salaam

Freighters waiting outside the Port of Dar es Salaam.

Traditionally, railway transportation has been a more favourable option in Tanzania, as it has lower unit costs, is more environmentally friendly, and is considered safer. Conversely the share of imported tonnage freight volumes leaving the Port of Dar es Salaam on railways have gradually decreased from 60 per cent in the 1970s and 1980s to 7 per cent in 2012. This is linked with scanty modernization investments in railways, causing the condition of tracks and locomotives to deteriorate. The huge shift to lorry transport has conveyed over usage of roads, causing the government extra repair costs.

The Dar es Salaam Port is the central hub for 90 per cent of Tanzania's international trade, clearing $15 billion of goods every year, or 60 per cent of Tanzania's GDP in 2012. However, ships often spend weeks getting through the low capacity constraints of the Port. Inefficiencies at the Port were estimated to cost the Tanzanian economy $1.8 billion in 2012, or about 7 per cent of Tanzania's annual GDP, according to the World Bank. Freighters typically wait an average of 10 days to berth, and an additional 10 days to be able to unload their cargo. In order to increase the docking capacity, the government is currently planning a new dock outside Bagamoyo in cooperation with Chinese contractors.

For citizens, water supply and housing in urban areas are also growing concerns due to the expected population growth and urbanization. While projects to increase the piped water supply of the main city Dar es Salaam are under construction, the current capacity of 50 litres per capita per day is at less than half that of Nairobi in neighbouring country Kenya.

The low level of infrastructure also opens for opportunities for the contracting industry. China has quickly become Tanzania's largest trading partner, led by Chinese contractors, and accounted for 15 per cent of Tanzania's trade, or $2.5 billion, in 2012. Today, the Chinese contractors have secured agreements worth tens of billions of dollars, with promises of a brighter future for the infrastructure levels and standard of living of Tanzanians.

Sector Analysis

Introduction

Tanzania is experiencing strong economic growth. Since 2008, five sectors (agriculture, communication, manufacturing, retail trade, banking, and financial services) have accounted for 60 per cent of the contribution to GDP alone. The contribution to GDP from communication has almost doubled over the past four years with a growth rate of 20 per cent annually, while retail trade increased with almost 40 per cent between 2008 and 2012

Unearthing Infinite Opportunities

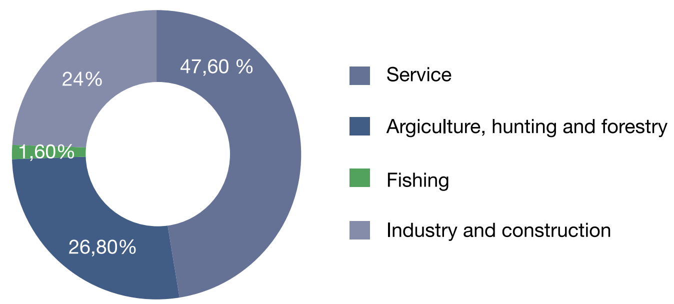
Tanzania is endowed with a variety of resources and is an important exporter of gold, coffee, tea, tobacco, cashew nuts, and cotton, in addition to its large deposits of coal, gas, and biomass. The recent significant gas discoveries off the coast of Tanzania and further development of extractive industries are forecasted to provide a further boost to the economy.

Agriculture is a major sector in Tanzania and accounts for about a quarter of GDP. It covers most of the country's exports and accounts for a crucial part of local employment.

Tourism is also an important contributor to the Tanzanian economy and employment, and accounted for 17 percent of the country's GDP in 2011. Tanzania has several large national parks with a unique and abundant wildlife, beautiful beaches, and spectacular scenery that, in addition to Mount Kilimanjaro, attract tourists from around the world.

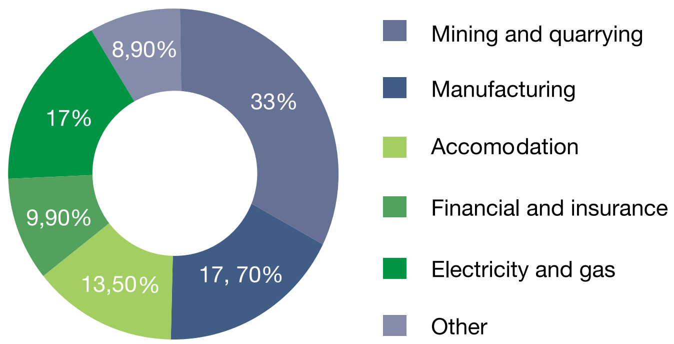
Tanzania is in a highly exciting stage of development and an increasing number of international investors have spotted the treasures this country possesses. Due to their relevance for prospective Norwegian companies, the sectors agriculture, mining, petroleum, and renewable energy are in the following investigated.

Percentage Share of GDP at Current Prices, 2012



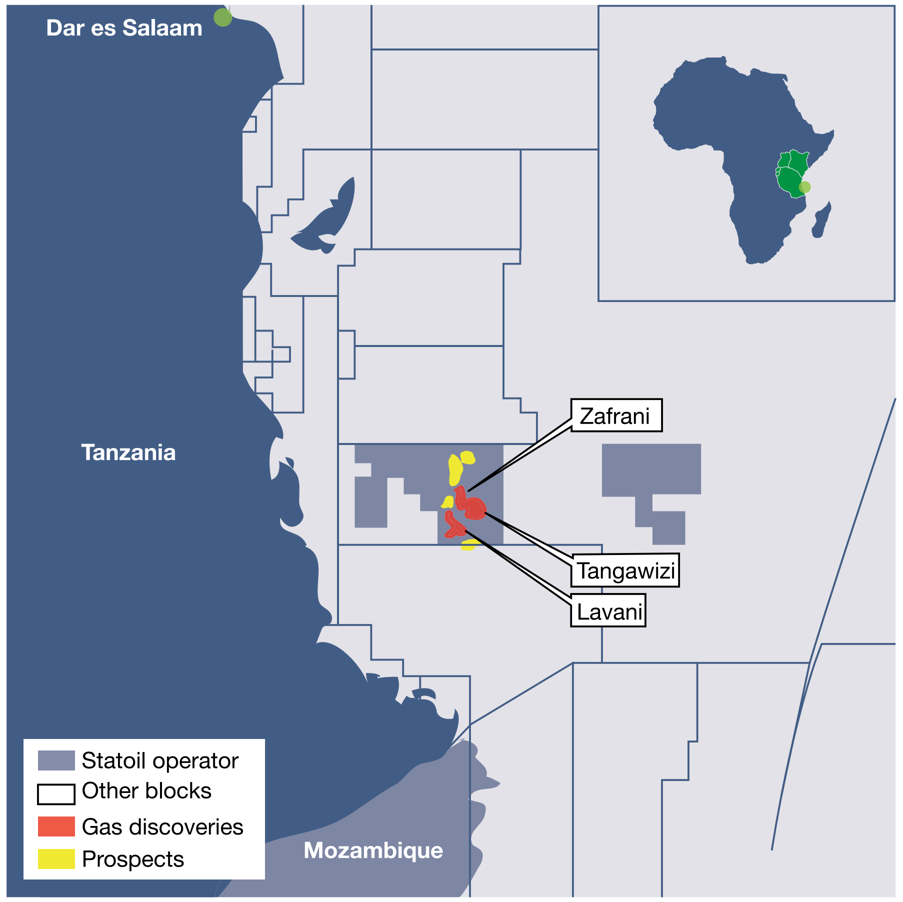
Source: National Bureau of Statistics

Composition of FDI Inflow, 2011



Source: Tanzania Investment Centre

Oil and Gas



Substantial Gas Reserves

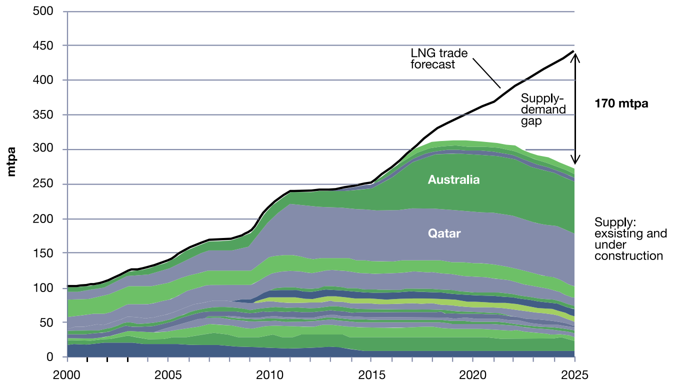
In 2012, Tanzania increased the estimate of recoverable natural gas reserves from 29 Trillion Cubic Feet (tcf) to 33 tcf. At present time, the upside potential is estimated to as much as 60 tcf of natural gas. These figures are likely to increase in the years to come.

While there have been huge discoveries of natural gas, exploration for offshore oil has not proven successful. Nevertheless, geologists suggest that the exploration should continue.

Competitive Environment

Since 2010, major companies such as Ophir Energy, ExxonMobil, BG, Petrobras, Shell and Statoil have entered the Tanzanian arena. Statoil operates Block 2 with a 65 per cent share, and ExxonMobil has 35 per cent. BG operates in Block 1 with 60 per cent, while partner Ophir holds 20 per cent. Both partnerships possess findings large enough for the realization of liquefied natural gas (LNG) projects, however Statoil and BG are now jointly working to select an adequate site for a possible future LNG development.

Tanzania Moves Closer to LNG Developments



Source: *BG Group interpretation of Wood Mackenzi data (Nov, 2012)*

Proximity to key buyers of LNG in Asia increases the likelihood of exports. Over the next decade, the worldwide LNG industry will experience demand increasing faster than supply, as demand for LNG will increase. This is estimated to leave a supply-demand gap of around 170 million metric tonnes per annum in 2025.
Because of the volatility in natural gas prices, it is difficult to estimate the potential impact of LNG exports on Tanzania's bottom line. The strong competition from Mozambique is also worth taking into consideration. With heavy international competition limiting the window for new LNG projects, timing is crucial. As Tanzanian LNG exports are expected from 2020, concerns are that this may be too late to access the lucrative Asian market.

The Regulatory Framework

As E&P companies enter the late stages of exploration, companies await legislative changes before initiating the production phase. The government has indicated changes to the existing regulatory framework, and changes in the countries energy policy is expected. The shortage of electric power in Tanzania is destructive to the economic growth and it is likely that government will want the gas discoveries to prioritize the domestic market before export markets. Although Tanzania has been producing gas since 2004, the taxation legislature for this sector is still in the early stages of development

Developing Skills Within the Local Workforce.

Norwegian petroleum companies can expect to find it particularly challenging to find appropriately skilled workers. As the Tanzanian government is currently drafting local content policies that will compel E&P companies to employ and train significantly more local staff, this challenge will increase in magnitude in the near future.

Uncertain regulatory framework, inefficiency of national shipping ports, nationalization of resources, and political intervention will be key factors affecting the development of the oil and gas industry in Tanzania. Transparency with no perceived corruption, clear regulation and decision making from governments are vital to the prompt development of the gas resource and LNG export projects.

Renewable Energy

Tanzania has a large variety of energy resources, including natural gas, biomass, hydro, wind, solar, geothermal, and coal. However, only a minor part of the nation's vast energy potential has been exploited to cover the critical demand for power generation to date. Rural energy consumption (i.e., fuel, wood, and charcoal) accounts for approximately 90 percent of total national energy consumption, while petroleum products (8 percent) and electricity (2 percent) makes up the rest. Annual amount of imported petroleum has been estimated to be close to 1.54 million cubic metres, and has caused energy import costs to be a heavy burden for the Tanzanian economy. In order to improve the supply of power, efforts have been made to increase the number of coal and gas power plants through new mining operations, and are projected to dominate Tanzania's power generation in the near future.

Untapped Potential for Renewable Energy

Despite substantial potential for renewable energy production in Tanzania, the sector remains largely untapped. The use of renewable energy is limited to small-scale **hydropower**, which accounts for about 60 percent of the total electricity generated (where gas and diesel thermals accounts for the remaining part). Encouragingly, the Tanzanian government has decided to increase the share of renewable energy from 4.9 percent (2013) to 14 percent by 2015. Although Tanzania has invested heavily in hydroelectric power, the lack of maintenance and skilled work force challenges the future operation of the facilities. In addition, Tanzania has been plagued by unexpected and prolonged droughts in recent years, which has further challenged the operation of the hydropower facilities. Despite these drawbacks, the potential for hydropower in Tanzania is far from exhausted. The total power generation from the plants is estimated to be 561 MW, far below the estimated potential of 4,700 MW.

Tanzania has a solid foundation for **solar energy** with a daily insolation of approximately 4.5 kWh/m2,compared to 6-7 kWh/m2day in Sahara. Despite recent efforts by several firms to commercialize the solar energy technology in the rural regions of Tanzania, the market remains attractive for prospective investors. To date, emphasis has been placed on solar photovoltaic systems, where the capacity primary is installed in donor-funded projects and rural electrification. Solar energy sales are estimated to have increased in recent years due to major project initiatives and demand for private solar power system, and installed solar panels increased from 100 kW in 2005 to more than 5 MW in 2012.

Most of the **wind resources** in Tanzania are located on the plains, along the coast, in the Rift Valley, and around the Great Lakes that surround Tanzania. Most of the installed wind energy is used to pump water to meet the drinking water demand and irrigation. Despite recordings of wind speeds between 0.9 to 4.8 m/s, only a small amount of the potential has been exploited.

Most of Tanzania's energy consumption comes from **biomass**, through forest and agriculture residues. The estimated energy generation potential from sugar cane residues (bagasse) alone is about 99 GWh/year. Today, the total installed capacity from sugar and wood-based industries are about 33 MW. The rural energy sector is dominated by biomass waste, charcoal and wood fuel, where it is primarily used to generate electricity for cooking.

There is also a great potential for **geothermal energy** in the areas around Rift Valley, Rufiji Basin and in the Rungwe volcanic field. The potential is so far estimated to be around 650 MW and is currently still under investigation.

Tanzania has utilized extensive applications of the power sector and Independent Power Projects (IPP) in force development. TANESCO, a state-owned enterprise, is responsible for the generating, transmission, and distribution of the electricity. Although responsible for 98 percent of the electricity in the Tanzania, several IPPs are allowed to generate and sell power to TANESCO. Today, IPP contribute with about one third of Tanzania's total power generation.

Port of Bagamoyo

Renewable Energy as a Key Success Factor in the Future

With all its resources, Tanzania has a unique opportunity to be self-sufficient and sustainable in power generation. When the natural gas power generation commences, the power generation costs will most likely decrease and allow Tanzania to become a net exporter of energy. Today, however, electricity remains a scarcity for the vast majority of Tanzanian population, where less than 15 percent of all citizens have access to electricity, while the remaining population relies on wood and agricultural residues to cover their basic energy needs. The booming industrial development of Tanzania will create a substantial need for increased energy supply, making the sector highly attractive for prospective companies. Undoubtedly - energy will be a key success factor to secure Tanzania's further development and economic growth.

Mining

Tanzania is endowed with a vast abundance of natural minerals, from metallic minerals (e.g. gold and iron ore), gemstones (e.g., diamonds and tanzanite), and energy source minerals (e.g., coal and uranium). In 2011, the mining sector constituted 45% of Tanzania's merchandise exports and contributed to 3.3% of GDP. However, most of the resources have not been extracted as the government historically has been cautious with resource extraction. The main apprehension appears to have been losing value to foreign extractors, due to underdeveloped legislature and revenue collection practices.

Tanzania - A Gold Mine

The last decade, the mining sector has experienced double-digit growth annually. The growth can be sourced to the Tanzanian government's encouragement of foreign direct investments (FDI) and an overall goal of achieving 10% sector contribution to GDP by 2025. For example, the gold mining industry has received beneficial legal reforms and other fiscal incentives since the mid 90s. As a result, billions of dollars have been invested and large-scale mines opened. Today, the annual gold exported from Tanzania constitutes about 2% of global gold production per annum.

Failure to Meet Local Contribution Expectations

To date, the mining industry has not met local and national value contribution expectations of most Tanzanians. The main concerns have been that large foreign multinational enterprises fail to deliver value to local communities and lack fiscal transparency, therefore rising allegations of massive tax exemptions and corruption. The Mining Act of 2010 attempted to address these concerns by entailing mining companies to list with the local stock market and warranted stakes in mines to a state owned company. Unlike the emerging petroleum sector, resource rights in the mining industry have belonged to private companies, thereby limiting the country's value collection potential of its natural resources. However, few mining multinationals have in reality complied with the requirements of the Mining Act.

In summary, Tanzania offers huge potential to mining contractors possessing technological competence and financial resources for capital investments. The sector has received billions of dollars in FDI and experienced double-digit growth for years, showing many signs of an attractive market. The main industry specific challenge will be that of building trust with local residents and the government.

Agriculture

With enormous water resources, ideal soils, and climate, Tanzania is well suited for agricultural production and livestock development. Today, Tanzania produces agricultural and horticultural products, in addition to a substantial livestock. Despite employing 76.5 per cent of the Tanzanian workforce, the agricultural sector only accounts for 27.1 per cent of GDP. This may partly be sourced to the fact that out of a total of 29 million hectares, only 280,000 hectares are under irrigation farming. This greatly challenges productivity, and is an area of great opportunity for agricultural investments.

Investment Incentives

The agricultural sector has great potential for economic growth as well as contributing to poverty reduction. Consequently, the Tanzanian government has introduced several incentives to strengthen the sector, such as Southern Agricultural Growth Corridor Tanzania (SAGCOT) and Kilimo Kwanza ("Agriculture First"). In addition, tax incentives such as 0 per cent import duty, VAT exemption on capital goods, and other investment allowances have been introduced. The National Irrigation Development Plan and an Agriculture Policy have also been established to assist the development of Tanzania's irrigation system. Despite these efforts, investigated companies strongly indicated that the government's lip service being paid to the many challenges and opportunities in the sector is a great barrier for development.

Low Labour & Land Productivity

Small-scale farmers make up the majority of the agricultural sector in Tanzania, where the productive land per farmer average between 0.9 hectares and 3.0 hectares. Unfortunately, most small-scale farmers in Tanzania lack the knowledge about and application of technology and fertilizers, which further decreases the level of land productivity. Due to unpredictable weather conditions, Tanzania is occasionally struck by drought-periods that destroy entire crops. Adequate irrigation methods are crucial to stabilize the agricultural production in the country. Currently, low labour productivity and shortcomings in availability of technology and financial support limits Tanzania's ability of reaching its goal of 10 per cent annual growth in agriculture.

Restrictive Land Rights

The Tanzanian Investment Centre (TIC) has sought to identify challenges foreign investors face when entering Tanzania. These studies show that foreign investors find it in particular difficult to acquire land for investment projects in Tanzania. Previously, the entire land of Tanzania was declared as "public," where the ownership belonged to the President who could provide consent for the use of lands to others. Today, there is a reversal of this policy and a gradual transition towards a more investor friendly property- right legislation system. Non-citizen investors may occupy land for their investments through government grants. Despite progress, land ownership remains restrictive in Tanzania, and for example the process of applying for occupancy-lease is both lengthy and extremely complex.

Potential For Norwegian Firms

Tanzania offers an ideal climate for agricultural investment for those with access to large-scale financing and competent farmers. Investors in this sector face challenges such as low productivity, lack of modern technology application, agricultural financing, restrictive land-rights, and inadequate infrastructure. Despite significant barriers, the potential in agriculture is large for prospective firms that invest in technology and focus on productivity.

Local farming

Corruption

A major constraint on business development

The publication of the Warioba report in 1996, which disclosed the presence of both petty corruption as means of supplementing individuals income and grand corruption involving high-level officials' abuse of power to accumulate power and wealth, spurred the Tanzanian government to make strong commitments in the fight against corruption. In the battle, widespread bodies of regulations, oversight institutions, and laws have been established.

Evidence of Grand Corruption

Many Tanzanians question President Kikwete and other governmental officials accumulation of wealth. Current examples suggesting grand corruption are construction of mansions throughout the country by government officials, as well as the building of a road from Dar es Salaam to President Kikwete's small home city Bagamoyo. In a country where only 8.2 per cent of roads are paved, the sudden wealth and priority of the President's hometown made up by only 40,000 inhabitants has spurred allegations of corruption and abuse of power.

SME Most Vulnerable to Corruption

The World Bank, as well as investigated companies, suggest that small- to midsized companies are the most vulnerable to corruption. Whereas large global companies have the financial strength to mitigate delays in processing documentations, long experience dealing with corruption, and negotiating power against unjust claims, smaller firms lack such leverage. Small firms of 1-20 employees may also find it easier to avoid unjust claims, as their size and limited revenue attracts less attention and interest. It appears that both small and large companies are less vulnerable to corruption, whereas mid-sized companies are worse off due to their attractiveness in terms of revenue, and lack of power to withstand unjust claims.

Transparency International (2013) placed Tanzania in 111nd place out of 176 countries, which ranked the country higher than several other comparable countries in the Sub-Saharan Africa (Mozambique: 119, Kenya: 136). However, the threat of corruption should not be underestimated. Our investigation revealed discrepancies concerning the prevalence of corruption: Several global firms reported no signs of corruption, whereas others described the situation as sever and inevitable to avoid.

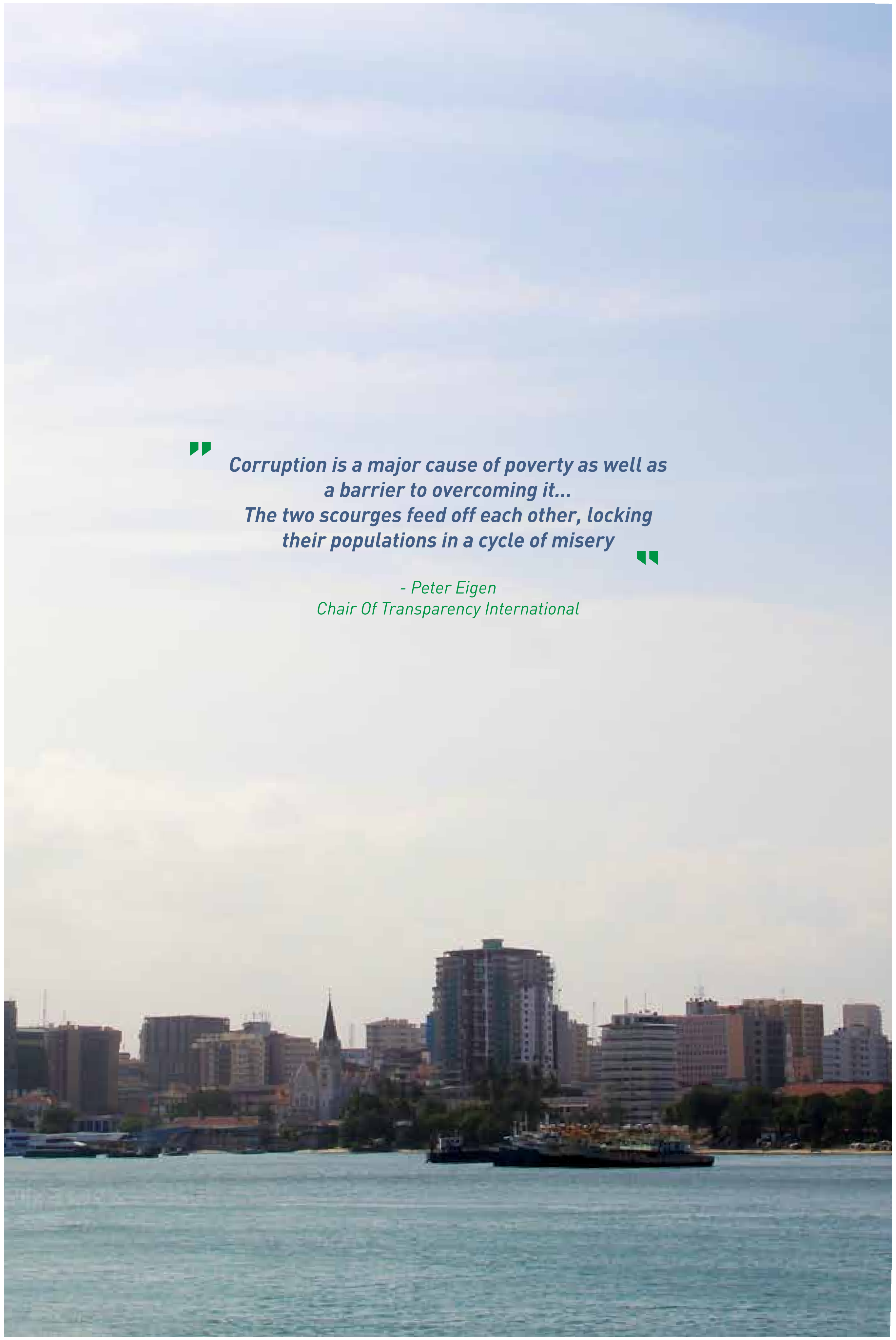
Corruption – a threat to the development of Norwegian businesses in Tanzania

To the best of our knowledge, it appears that corruption continues to be a major barrier for the development of Tanzania and for Tanzanian businesses. Corruption materializes at all levels: from housecleaners and the local police, to government officials and ministers. Furthermore, our investigation has revealed an increasing problem of non-monetary kickback schemes (i.e., a negotiated bribery that a bribe taker takes as quid pro quo for a service, in which a favour is reciprocated). Finally, although Norwegian companies are legally bound to refrain from bribery and corruption, many have raised ethical concerns of the current practice of disclaiming any responsibility of supplier activities, and the employment of "fixers" (i.e., highly connected external individuals that solves firm problems with no questions asked).

Transparency International rates Tanzania higher than neighbouring countries

	Rank	Score	Confidence Range	2012
Tanzania	111	33	29-37	35
Mozambique	119	30	27-33	31
Kenya	136	27	23-31	27
Uganda	140	26	21-31	29

Source: *Transparency International 2013*
Note: *The "Score" indicates the perceived level of public sector corruption, where 0 means that the country is perceived as highly corrupt, and 100 means it is perceived as very clean.*



*"Corruption is a major cause of poverty as well as a barrier to overcoming it...
The two scourges feed off each other, locking their populations in a cycle of misery"*

- Peter Eigen
Chair Of Transparency International

Corruption - Red Flag Overview

Helping Companies Identify and Fight Corruption

Among the many formidable challenges confronting companies doing business in foreign countries such as Tanzania, is determining whether operations and transactions are untainted by corruption. This imperative has been sharply underscored by the recent surge in stricter laws, regulations, requirements and prosecutions by justice departments internationally. In light of these developments, any company engaged in international commerce should carefully examine whether it has effective policies and procedures in place to manage fraud and corruption risks. Understanding the signs and the related risk of being exposed to potential corrupt situations is an important element of helping to mitigate the risk of corruption.The following areas include some of the red flags and other considerations for companies doing business in foreign countries.

Deloitte.
Albert Wolders, Director and Anticorrution Leader, Deloitte Bergen

Environment
• The country where the transaction is taking place has a history of public corruption or a high score on the Transparency International Corruption Perception index
• Rumors are heard about unethical behavior by agents* or employees
• Excessive pressure for sales without appropriate ethics messaging
• Significant use of third-party agents
• Failure of company to respond adequately to issues raised by whistleblowers
• Lack of transparency in third-party contracts
• Charitable or potential donation work in at risk foreign jurisdictions

Unusual Business Relationships
• Sales to government agencies with high unit price, low frequency
• Request for commission payments to other countries
• Excessive payments for services rendered
• Vague deliverables in contracts
• Losing bidders hired as subcontractors
• Favourable treatment of one supplier over another/lack of bid process
• Lack of relevant experience of successful candidate

Agents
• Excessive reliance on agents as a means of obtaining work. Some examples of this include:
- The only qualification the agent has is influence over foreign public officials
- The agent makes reference to political or charitable contributions as a way of influencing official action
- The agent has family or business ties to relevant foreign public officials
• Unnecessary third parties performing services. Some examples of this include:
- The agent proposes unusual or overly generous subcontracts
- Agents specifically recommended by government officials
• Incomplete or inadequate disclosure by third parties such as:
- The agent provides unusual or incomplete documentation of a transaction
• Refusal to certify compliance with anti-corruption laws and regulations.
• Evasiveness on ownership questions such as:
- The agent has undisclosed principals, associates or subcontractors with whom fees or commissions are split
• Lack of agent contract terms and monitoring
• Unusual payment terms. Some examples of this include:
- The amount of the payment requested is more than one would normally expect to pay for the services to be rendered
- The agent wants upfront payments
- The agent wants payment in cash
- The agent wants an unusually high commission
- The agent requests an unusual method of payment such as payment through a third party or payment in a third country
- The agent provides excessive, false or poorly-described payment requests

Record Keeping and Transactions
• Thin file syndrome for agents
• Requests for payments to third parties
• Payments in cash
• Political or charitable contributions tied to agents
• Poor documentation for expense reimbursements
• Contract payment oddities. Some examples of this include:
- Payments to numbered accounts or to "haven" or other offshore banks
- Commissions or fees in abnormal amounts not flagged
- Advance fees paid
- Significant write-offs on government contracts
- Large termination fees
- Frequent undocumented change orders
- Use of foreign bank drafts/wire transfers with little documentation

Training and Promotion
• Visits to vacation locations requested for "training"
• Lack of ethics or anti-corruption training to sales people.

Tools Against Corruption
To secure compliance with applicable anti-corruption laws and regulations, protect your company's reputation and create awareness amongst your team of people you shold consider the following tools:

1. *Tone at the Top* – Management should take the lead in the fight against corruption and create awareness amongst its people.

2. *Risk Assessment* – Assess the risk of corruption beforehand; what is the likelihood of corruption in that area/country and what is the impact if it happens.

3. *Policies and procedures* – Design and implement adequate policies and procedures against corruption defining situations, stating desired attitude related to facilitation payments, gifts, entertainment, charity and political contributions

4. *3rd party integrity due diligence* –Make sure you have assessed every third party you do business with before you do business with them.

5. *Contract provisions* – Implement adequate anti-corruption clauses in contracts securing compliance with laws and regulations and enabling audit and/or termination in case of corruption

6. *Training* – Create awareness amongst your team of people by providing anti-corruption training including practical cases and dilemmas

7. *Responsibility* – Have a designated person responsible for compliance and available for questions

8. *Whistle Blowing function* – implement appropriate whistle blowing procedures to be able to respond appropriately to real life cases and detect, investigate, report and prevent corruption.

9. *Financial & accounting procedures* – implement adequate control procedures, especially within the procurement and payment processes.

10. *Audit* – audit your anti-corruption program to secure compliance and adequate implementation

Corporate Social Responsibility in Tanzania

Firms' relations with society and the environment in which they operate in are critical factors in ensuring operational excellence. As the historically substantial amount of foreign aid given to Tanzania is slowly being reduced, many Tanzanians rely on the influx of international firms to continue with support to the local environments.

CSR Uncovered

Under the umbrella of the United Nations Global Compact guidelines, the International Organization for Standardization (ISO) aims to break down barriers to international trade. It defines corporate social responsibility (CSR) as "a balanced approach for organisations to address economic, social and environmental issues in a way that aims to benefit people, communities and society." CSR has in the last decades become increasingly important due to issues related to human rights, safety, environmental and social development, and business practices, and the focus has been placed on creating shared value. Focus on CSR has also increased transparency and higher demands from both partner firms and customers of higher ethical standards.

Doing CSR in Tanzania

Due to the challenges of doing business in Tanzania, such as poor infrastructure and low levels of education, CSR is of high importance when doing business in Tanzania. For example, due to limited access of skilled workers, many firms have already begun to offer locals educational support and training. This is mutually beneficial as it builds the local community as well as provides a skilled workforce. Involvement in the local community is crucial in Tanzania in order to gain support and goodwill. The Norwegian Church Aid (NCA) argues that an open dialogue with strong religious leaders have had a greater impact on their work in local communities than through governmental officials alone.

Several organisations such as the NCA and Norges Vel, stress that it is important to make sure that CSR is done in a way that truly benefits the local community. For instance, building a school will not help if there are no teachers, and constructing a road is of little use if nobody can maintain it. It is therefore imperative that international companies have CSR programmes that ensure a sustainable future.

Prospective Norwegian companies are therefore strongly encouraged to focus their CSR initiatives around local content - hereunder offering educational support, employment of local contractors, and involving the local communities. The fight against corruption also falls naturally under a firms CSR initiative, and has been extensively discussed in previous chapters.

Example: Practical Steps from Statoil Tanzania AS – Integrating Social Responsibility and Integrity in Business Planning

- Take into account both the short- and long term strategies
- Perform a country- and reputation risk analysis
- Identify CSR risks and mitigation actions – generate opportunities (e.g., education)
  - •Seek to build local capacity/strengthen local content
  - •Promote human right and transparency
  - •Improve local conditions
- Create a strategic approach to social investments through sponsorships and donations to create mutually beneficial projects
- Monitor and re-assess initiated social investment projects

Security Risks

Despite being one of the most peaceful and politically stable countries in Africa, Tanzania has recently been troubled by protests and demonstrations. As Tanzania enters what likely will be crucial transitional years with high-paced economic development and growing political and religious tensions, more companies are taking precautionary steps to face the unsure future.

Stuck in Traffic

The traffic system in Tanzania is very creative, as traffic lights are not followed, the driving direction seems optional, and the number of lanes can double if necessary. In fact, it is associated with so much risk that many companies refuse employees to drive themselves, and therefore offers professional drivers. In some areas of Dar es Salaam, it is advised to never to stop the car due to the high risk of thefts. Furthermore, walking from one place to another should be avoided due to the high prevalence of theft and violence against pedestrians.

Little Tension between Religious Groups

Tanzania has historically been spared of internal conflicts despite the presence of high ethnic and religious diversity, and remains as a testimony of former President Nyere and his vision of a collected country. To this day, there is almost no tension between the religious groups in Tanzania. There are some early signs of conflict, but these conflicts are prevented by dialogue between the government, religious leaders, and NGOs.

Investments and the need for Mitigating Tensions

In response to the emerging of large-scale deals in mining and the petroleum sector, Tanzania has recently experienced protests and demonstrations caused by growing fear among local residents of wealth outflow, such as the recurrent protests over the gas pipeline in Mtwara, in May 2013. Local villagers claim that the entire process of these projects lead by international companies and the government lack transparency and tend to exclude the interest of local residents. Prospective firms are therefore advised to closely monitor the development of local resistance to international business development and the increasing centralization of wealth and power to Dar es Salaam.

Maritime Industry and Piracy

Somali pirates are operating in areas well beyond the country's territorial waters, causing piracy to pose a risk for investments in Tanzania. The Tanzanian government has strengthened its maritime security in response to this threat, specifically to ensure the continuation of gas exploration activities in the country. However, investors within the maritime sector continue to take counter piracy measures such as naval patrols and armed security personnel aboard ships to maintain the safety of their assets.

Precautionary Measures Advised

Although Tanzania remains a relatively peaceful nation, Norwegian companies are advised to take precautionary steps to ensure the safety of both facilities and employees. The employment of security services in Tanzania seem to be preventive measures more than an actual necessity, yet caution is highly encouraged and deemed necessary. Most investigated companies ranked traffic security as the biggest security risk of operating in Tanzania, which illustrates that Tanzania remains a relatively stabile and safe nation in the East African region.

Tanzanian Taxation

The Minister for Finance and Economic Affairs, Honourable Dr. William Augustao Mgimwa (MP), presented the Budget Speech and Economic Status, comprising the estimates of the Government revenue and expenditure for financial year 2013/14, to the National Assembly on 13 June 2013, in Dodoma. Agriculture remains a top priority for the Government and employs over 85% of the population. The Budget was supported by a Finance Bill for 2013. This Bill has since been enacted into the Finance Act, 2013.

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Income Tax

Residents are taxed on their worldwide income.

Income Tax Rates for Resident Individuals: From 1 July 2013

Monthly Taxable Income as exceeds	But does not exceed	Tax Payable
Tshs.	Tshs.	Tshs.
0	170 000	0%
170 000	360 000	0 + 13%
360 000	540 000	24 700 + 20%
540 000	720 000	60 700 + 25%
720 000		105 700 + 30%

Notes

1. An individual is considered resident in Tanzania for tax purposes if the individual:
   - Has a permanent home in Tanzania and was present in Tanzania at any time in the tax year; or
   - Is present in Tanzania for 183 days or more in the tax year; or
   - Was present in Tanzania in that tax year and in each of the two preceding tax years, for periods averaging more than 122 days per year; or
   - Is an employee or an official of the Government of Tanzania posted abroad during the tax year.
2. Individuals are also taxed on the value of any benefit or advantage arising from employment.
3. The tax-free amount for purposes of Pay-As-You-Earn (PAYE) continues to be to Tshs. 170 000 following the increase in the minimum threshold in 2012.
4. The 2013 Finance Act provided for a 1% reduction on the lower band PAYE rate payable by resident individuals. The minimum tax rate chargeable for the year of income has been reduced from 14% to 13%
5. In addition, the Finance Act provided for a reduction of the rate of Skills and Development Levy ("SDL") payable by the employer from 6% to 5%.
6. It also provided exemption from SDL to government de partments or public institutions wholly funded by the government

Non-Residents

Non-resident individuals are subject to a fixed tax rate of 20% on total income from a source in Tanzania. However, non-residents are taxed on their income from employment income with a source in Tanzania at 15%, which is a final tax. In addition, certain payments made to non-residents are subject to withholding taxes (WHTs). (See Withholding Taxes below).

Companies

Income Tax Rates for Companies: Years of Assessment Commencing On or After 1 January 2005

	Rate
Companies	30%
Alternative Minimum Tax	0.3%

Notes

1. The corporate tax rates have remained unchanged since 1 January 2005.
2. Where the underlying ownership of a company changes by more than 50%, as compared with the ownership at any time during the previous three years, the company is treated as having realised its assets and liabilities held immediately before such change in control at their market value.
3. Shareholders disposing shares in Tanzanian companies are required to pay a single instalment tax (10% for residents and 20% for non-residents) before the title in the shares can be transferred.
4. A 4% royalty is charged on gold and other metallic mineral, 5% on diamonds, uranium and gemstones, 1% on gemstones (cut and polished), 3% for other minerals (e.g. coal) and 12.5% for petroleum and gas produced onshore and in shallow water. The royalty rate for deep sea hydrocarbon production is 7.5%. A 15% levy is charged on exports of raw hides and skins.
4. The Finance Act has introduced a change to the Alternative Minimum Tax (AMT) provision. Companies making 5 consecutive years of losses will be taxed at 0.3% on their turnover on the fifth year.

Income Tax Rates for Resident Individuals: From 1 July 2013

Yearly Turnover as exceeds	But does not exceed	Tax Payable (where complete records are kept)	Tax Payable (where records are incomplete)
Tshs.	Tshs.	Nil	
0	4 000 000	170 000	Nil
4 000 000	7 500 000	0 + 2%	100 000
7 500 000	11 500 000	70 000 + 2.5%	212 000
11 500 000	16 000 000	170 000 + 3.0%	364 000
16 000 000	20 000 000	325 000 + 3.5%	575 000

Notes

This table is applicable to self-employed individuals whose businesses have an annual turnover of less than Tsh20 million and applies to individual's income that consists of exclusively of income from business with a source in Tanzania. A standard assessment is made (i.e. the graduated tax rates for individuals are not applied) and no tax returns need to be submitted.

Mining

The Income Tax Act (ITA) has been amended to allow the mining companies to claim full deduction on equipment used for prospecting and exploration for minerals during their first year of use.

Oil and Gas

The Income Tax Act (ITA) was amended to introduce a ring-fencing provision in petroleum operations effective 1st July 2013. Previously ring fencing was only applicable to mining companies. This has a potentially significant impact on companies in the Oil and Gas sector. The implication of ring fencing provision is that deductions in oil and gas operations will be limited to a specific contract area or block, Companies involved in petroleum operations will no longer be able to use the losses arising from one Production Sharing Agreement ("PSA") to shelter profits of another area from income tax.

The Finance Act also introduced changes to the third schedule of the ITA under which equipment used for prospecting and exploration of petroleum would now qualify for 100% deduction

Gaming Tax

Operators of casinos, private lotteries and slot machines are subject to gaming tax, which is a flat amount per table or slot machine in the case of casinos and 10% of gross sales in the case of private lotteries.

Following the 2013/14 Budget, the gaming tax for casino operations is now paid at the rate of fifteen per cent (15%) of the weekly gross gaming revenue. Formerly the tax was charged on the monthly gross gaming revenue.

Withholding Taxes (WHTs)

Certain payments are subject to WHT. These rates are set out below.

Withholding Tax Rates

	Note	Residents	Non-Residents
Dividends			
Paid by listed company		5%	5%
Paid by unlisted company		10%	10%
To company controlling 25% of shares or more		5%	10%
Insurance premiums	5	0%	5%
Interest		10%	10%
Pensions			
Lump sums commuted		10%	15%
Annuities		15%	15%
Royalties		15%	15%
Mining			
Management and technical services		5%	15%
Rents			
If in excess of Tsh500 000 per annum	11	10%	10%
Aircraft	5	10%	0%
Service fees	3	5%	15%
Government payments			
Suppliers of goods to the government	10	2%	0%
Money transfer commission	12	10%	Nil

Notes

1. All supplies of goods to a resident corporation, whose budget is wholly or substantially financed by the Government, by a resident corporation irrespective of whether or not they hold TIN are subject to WHT of 2% w.e.f 1st July 2013.
2. The non-resident WHTs specified above and WHT on technical services to mining companies are final taxes. The resident WHT rates for dividends, interest on deposits from a financial institution to an individual, and rent to an individual, are final taxes.
3. The 2013 Finance Act imposed WHT of 5% on service fee paid by a resident person or a PE of a non-resident person to resident person or a PE or a non-resident person. The tax is a non-final tax that can be offset against corporate tax liability for the year.
4. 15% WHT applicable where service fee is paid to a non-resident person with a source in Tanzania. Income is sourced in Tanzania where services are rendered in Tanzania, though the TRA is attempting to tax payments where the service is consumed in Tanzania, regardless of the location of performance.
5. A 10% WHT applies on aircraft lease payments made to resident persons engaged in air transport business.
6. The repatriated income of a local permanent establishment (PE) of a non-resident person is subject to a WHT of 10%.
7. Tax withheld must be paid to the Commissioner within seven days after the end of the month in which the amount is withheld.
8. The requirement to withhold tax does not apply to individuals unless the payment is made in conducting a business.
9. The WHT rates may, in respect of payments to nonresidents, be reduced by an applicable Double Tax Agreement (DTA). Tanzania's DTAs, and the WHT rates in terms of these agreements, are set out below.
10. The 2013/14 Budget introduced a 2% withholding tax on payments made by entities whose budgets are substantially or wholly financed by the governments

Maximum Withholding Tax Rates Once a DTA is Applied

Recipient's Country of Residence	Dividends	Interest	Royalties
Canada	10%[1]	10%	15%
Denmark	10%	10%	15%
Finland	10%	10%	15%
India	10%[1]	10%	15%
Italy	10%	10%	15%
Norway	10%	10%	15%
Sweden	10%[1]	10%	15%
Zambia	0%[2]	10%	15%
South Africa	20%[3]	10%	10%

Notes

1. The WHT rate may be reduced if certain levels of shareholdings are held.
2. The reduced rate only applies if the dividend payment is taxed in the recipient's country of residence.
3. A preferential rate of 10% applies where the beneficial owner holds at least 15% of the capital of the company paying the dividends
4. All of these tax treaties (except the treaty with Italy) provide that no WHT can be levied on branch profits.

Controlled Foreign Corporations (CFCs) and Trusts

Residents are taxed on the undistributed income of controlled foreign corporations and controlled foreign trusts. A "controlled foreign trust" or "controlled foreign corporation" means a non-resident trust or corporation in which a resident person has an interest, whether directly or indirectly through one or more interposed non-resident entities, and where the person is "associated" (i.e. connected) with the trust or corporation.

A controlled foreign corporation/controlled foreign trust is treated as having distributed its unallocated income at the end of each tax year and the shareholders or beneficiaries are treated as having received such income. The unallocated income of the corporation or trust is determined as if it were a resident of Tanzania, less any distributions made.

Thin Capitalisation, Transfer Pricing and Income Splitting

The 2013/14 Budget has recognized the need to build capacity for TRA officials in respect of several tax matters including transfer pricing. The TRA has always taken intercompany transactions very seriously and an increasing number of transfer pricing related inquiries are made during TRA audits, despite the lack of technical capacity in transfer pricing. Tanzania's detailed transfer pricing guidelines are yet to be published.

Notes

The Income Tax Act provides that where transactions between associated persons are not at arm's length, the Commissioner has the discretion to make adjustments to the taxable income. Similar rules apply when there is an attempt to split income and thereby reduce the tax payable, whether dealing with associated companies or not. In terms of the thin capitalisation rules, the Finance Act amended the existing rule. Interest deductions will now be limited to the extent of a debt to equity ratio of 70:30. This interest is disallowed permanently in the year incurred.

Capital Gains

Residents and non-residents could be liable for income tax on capital gains. This applies to land, buildings and shares or securities held as securities. The rate is 30%, with an instalment tax due at the time of transfer of land or buildings, being 10% for resident persons and 20% for non-resident persons. The 2012 Finance Act imposed a single instalment on sale of shares in a resident corporation by a foreign/non-resident shareholder. The instalment is payable before the title to an investment asset is transferred. Moreover, the transfer shall only be registered upon certification by the Commissioner that the instalment has been paid or that no instalment is payable. This aims at controlling tax avoidance. Gains realised by a person carrying on a business are generally taxed as business income

Inheritances and Donations

There is no donations tax or estate duty in Tanzania.

Value Added Tax (VAT)

Tanzania's Ministry of Finance issued a draft of a new VAT Act on 18th October. At the time of writing it is not clear when this will come into force. With effect from 1 July 2009, VAT on the supply and importation of goods and services, was reduced from 20% to 18%.

Currently, exports, agricultural and fishing inputs, veterinary drugs and mosquito nets, are zero-rated. The supply of basic foodstuffs, agricultural and livestock raw products, newspapers and books, pesticides, health services, educational services, mobile health clinics, railway locomotives and rolling stock, and veterinary services, are exempt supplies. Certain other goods and services are also exempt from VAT, including ground transport services run by tour operators, aviation fuel for domestic air operators, games of chance, and goods such as computer equipment, hospital equipment, capital goods for investment in education projects and tea and milk packaging materials.

Third schedule provides VAT relief on importation by or supply to a registered and licenced O&G/mining explorer or prospector of goods or services used in exploration or prospecting activities. The 2013/14 Budget has provided for special relief on the importation by, or supply to, a local textile manufacturer of goods or services which are exclusively used in the manufacturing of textile by using locally grown cotton.

Other Transaction Taxes

Transaction Tax

	Note	Tax Payable
Stamp duty on transfer of		
Agricultural land		Tsh500 per acre
Immovable property		Maximum 1.5%
Stamp duty		
Share transfers		1%
Air travel tax		
Domestic travel		Tsh5 000
International travel		US$30
Road fuel levy	1	Tsh263 per litre

Business Licensing

- City, town and municipal councils – Licence fee of Tsh50 000 per annum for each type of business eligible for a business licence (other than bars).
- District councils – Licence fee of Tsh30 000 per annum.
- Village councils – Licence fee of Tsh10 000 per annum.

Notes

1. The road fuel levy has increased to Tshs. 263, being an increase in Tshs. 63 per litre from prior year.
2. The 2011/12 Budget introduced an exemption from stamp duty on transfer of ownership of assets to Special Purpose Vehicles (SPVs) for the purpose of issuing asset-backed securities.
3. Government has introduced a petroleum levy of Tshs. 50 per litre. The move is intended to support the Rural Energy Authority in the rural electrification project.

Motor Vehicle Licence Fees

The rates for motor vehicle licence fees are as follows:

Motor Vehicle Licence Fees

Motor Vehicle Engine Capacity as exceeds	But does not exceed	Licence Fee p.a. (Tshs.)
0	500cc	0
500	1 500cc	150 000
1 500cc	2 500cc	200 000
2 500c +		250 000

Notes

1. Excise duty on importation of non-utility vehicles aged more than ten years now set at 25% being a 5% increase from prior year.
2. Importation of utility vehicles aged, more than 10 years from the year of manufacture under HS Code 87.01, 87.02 and 87.04 are now subjected to a 5% excise duty.

Investment Incentives

Tax Incentives

Wear-and-tear rates

- Initial allowance (in first year of use) – 50% allowance in respect of plant and machinery used for manufacturing processes or fish farming, and hotel equipment.
- Annual allowance – The wear-and-tear rates apply as set out below (straight-line method unless otherwise stated):
  - Computer equipment and construction and earth-moving equipment – 37.5% (reducing balance method).
  - Vehicles – 37.5% or 25% depending on the type of vehicle and seating capacity (reducing balance method).

- Trains, boats, aircraft, plant and machinery used in manufacturing or mining operations – 25% (reducing balance method).
- Office furniture, fixtures and equipment – 12.5% (reducing balance method).
- Mining assets – 20%.
- Buildings and other permanent structures used in agriculture, livestock farming or fish farming – 20%.
- Plant and machinery used in agriculture, electronic fiscal device purchased by a non-Value Added Tax registered trader and equipment used for prospecting and exploration of minerals or petroleum.. – 100%.
- Other buildings – 5%.
- Other intangible assets – Written off over the useful life of the asset.
- Other assets – 12.5% (reducing balance method).

• A full deduction is granted in respect of the following:
- Agricultural improvement expenditure in clearing land, excavating irrigation channels or planting perennial crops or trees bearing crops.
- Environmental expenditure for the prevention of soil erosion or remedying damage caused by natural resource extraction.
- Research and development expenditure.
- Various fees charged by the Ministry of Natural Resources and Tourism will be reviewed.
- Various concessions apply to Export Processing Zones, Special Economic Zones and non-government organisations on land.

Tanzania Investment Centre (TIC)

TIC was established to act as a go to centre for investors. It is responsible to coordinate, encourage, promote and facilitate FDIs in Tanzania.TIC is also tasked among other things with the following

(a) Initiate and support measures that enhance the investment climate in the country;
(b) Collect, collate and analyse and disseminate information about investment opportunities and sources of investment capital, and advise investors upon request on the availability, choice or suitability of partners in joint-venture projects;
(c) In consultation with Government institutions and agencies, identify investment sites, estates, or land together with associated facilities of any sites, estates or land for the purposes of investors and investments in general
(d) Assist all investors to obtain all necessary permits, licences approvals consents, authorisations, registrations and other matters required by law for a person to set up and operate an investment; and to enable certificates issued by the Centre to have full effect;
(e) To provide, develop, construct, alter, adapt, maintain and administer investment sites, estates or land together with associated facilities and subject to relevant law, the creation and management of an export processing zone
(f) Provide and disseminate up to date information on benefits or incentives available to investors

One of the eligibility criteria under the centre is a minimum capital threshold of $100,000 and $300,000 for local and foreigners respectively.

Upon successful application and acceptance, the TIC will issue a company a certificate of incentives. . Incentives as per the Act is used to mean tax reliefs and concessional tax rates which may be accessed by an investor under the ITA, ECCMA, Customs Tariff Act, VAT and any other laws for the time being in force

Strategic Investor

The Tanzania Investment Act provides that a relevant minister can identify a certain investment as a strategic or major investment. In doing so, the minister in consultation with the Finance Minister can issue a Gazette Notice setting out specific incentives to be granted to the strategic investor.

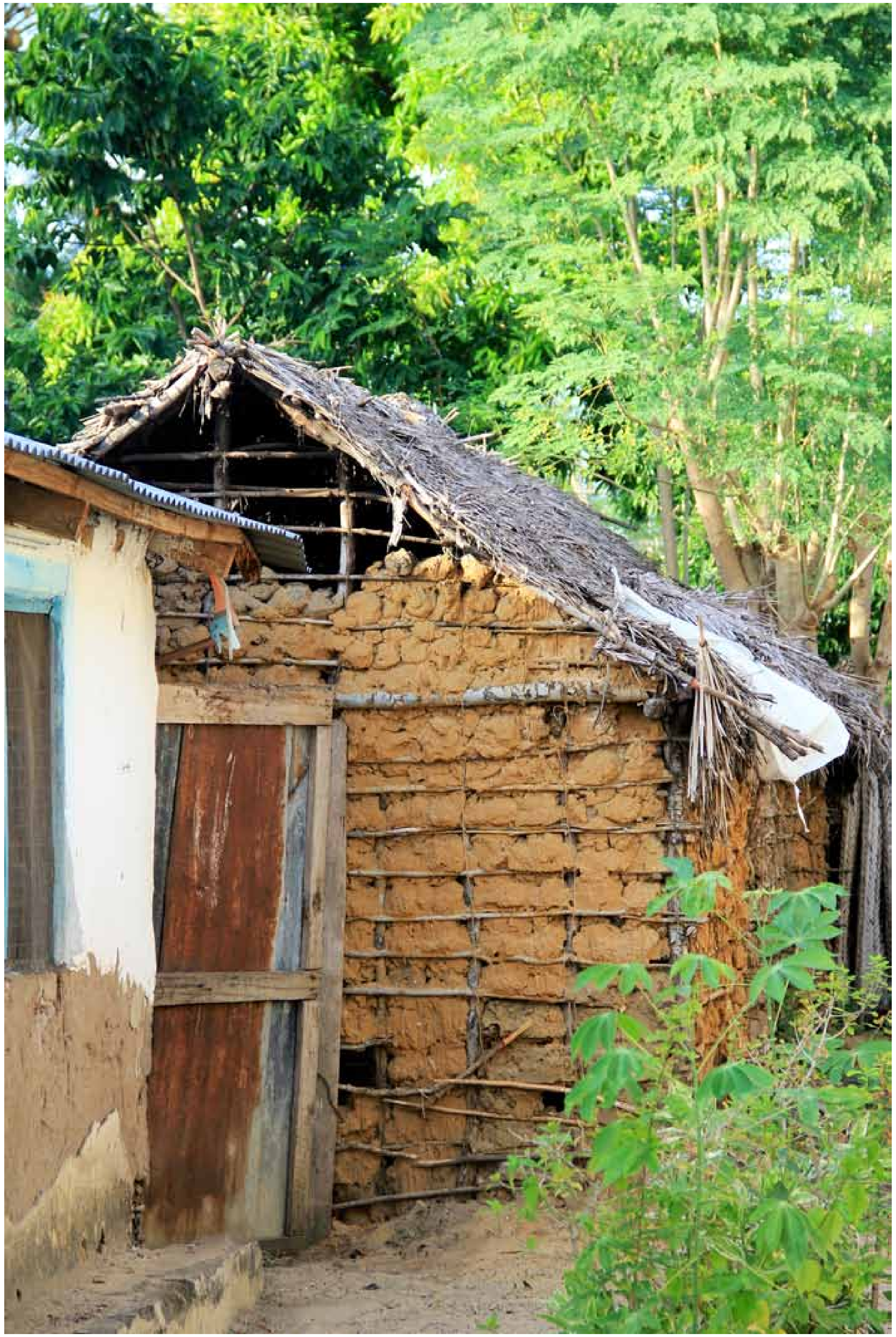
Economic Processing Zones (EPZs)

On 26 March 2006, presidential assent was given to the Export Processing Zones (Amendments) Act, 2006. The primary purpose of this Act is to overhaul the administration of EPZs. This is being done through the establishment of the Export Processing Zones Authority. Roles of the EPZ Authority include setting up EPZ sites and promotion of EPZs. The EPZ Authority is to be comprised of various government ministers, the Attorney General, Governor of the BOT, as well the heads of three industry groups. The other function of the Amendments Act was to restate the benefits under an EPZ. Importantly, EPZ operators can now sell up to 20% of their goods within the customs territory, provided the necessary customs permits and applicable import duties, levies and other charges are cleared. An EPZ investor's entitlements include the following:

(a) Access to the export credit guarantee scheme.
(b) Exemption from payments of corporate tax for an initial period of 10 years.
(c) Exemption from payment of WHT on rent, dividends and interest for the first 10 years.
(d) Remission of customs duty, VAT and any other tax payable on raw materials and goods of a capital nature.
(e) Exemption from payment of all taxes and levies imposed by local government authorities for goods and services produced or purchased in the EPZ for a period of 10 years.
(f) Exemption from pre-shipment or destination inspection requirements.
(g) On site customs inspection of goods.
(h) Provision of business visas at the point of entry to key technical, management, and training staff for a maximum period of two months; thereafter the requirements to obtain a residence permit applies.
(i) Entitlement to automatic immigration quota of five persons.
(j) Treatment of goods destined for the EPZ as transit cargo.
(k) Exemption form VAT on utility and wharfage charges.
(l) Guarantees on foreign exchange transferability.

Special Economic Zones (SEZs)

In another move to promote manufacturing, the Special Economic Zones Act, 2006, was also given presidential assent on 26 March 2006.The Special Economic Zones (SEZ) regime in Tanzania is now operational. This scheme applies to investments that produce goods and services for the local market. An investment falling short of qualifying for the EPZ scheme will most likely be eligible for this.The EPZ now operates under the umbrella of the SEZ but with slight different conditions to the SEZs especially in terms of local supply limitation. The SEZ Act has widened the coverage of incentives to more than just producers for export market.
Each one would be under a specific licensing authority but all under the one umbrella, the SEZA



Tanzanian Taxation from a Norwegian Perspective

The Tanzanian government offers a variety of incentives to attract foreign direct investments and international firms. Despite offering a warm welcome, completing the ever-changing bureaucratic requirements for international firms often turns out to be a time-consuming and costly process.

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Norway and Tanzania has entered into double tax treaties. The general tax rate in Tanzania is 30%. Based on this (the tax rate), any investments in shares in Tanzania may qualify for the participation exemption meaning no tax on dividend from Tanzania or any tax on capital gain on shares in Tanzania (assuming the Norwegian corporate shareholder holds at least 10% of the shares for at least 2 years – and that Tanzania is not a low tax country).

Several considerations should however be evaluated;

- If dividends are paid to a Norwegian company a 5 % or 10 % withholding tax will incur – this WHT is not possible to credit in Norwegian tax or used for tax deduction purposes and will increase the tax burden on the relevant group.
- For the case of any tax incentives in Tanzania the participation exemption in Norway may not apply and the earnings are taxed accordingly as dividend income and or capital gains on shares.
- Withholding taxes on technical service deliveries to Tanzania is quite high and based on the gross invoiced amount, e.g. 15%. If the invoice is 100 and the cost is 85 the tax will be 15% of 100, which will run the project into a no profit project.

Written by *Deloitte, Tanzania*

The Tanzanian Government's Effect on Business Operations

The Tanzanian government offers a variety of incentives to attract foreign direct investments and international firms. Despite offering a warm welcome, completing the ever-changing bureaucratic requirements for international firms often turns out to be a time-consuming and costly process.

The Government's Impact on Business

The World Bank's Doing Business report ranked Tanzania 177th of 189 nations judged by the ease of obtaining construction permits, and one of the worst nations in the Sub-Saharan region. With an underdeveloped legislative system, firms across sectors continue to struggle with unsatisfactory conditions for business development. In particular, regulations and taxation are often phrased too general to serve international firms' complex investments and operations. Furthermore, uncertainty occurs when inexperienced policy makers pass new legislations with a high frequency.

Today, the Tanzanian government lacks both experience and the capacity to evaluate and implement regulations that would better facilitate business development. According to the Global Competitiveness Report, 10.2 per cent of the respondents place inefficient government bureaucracy as the most problematic factor of doing business in Tanzania. The government's ability to better include the private sector in the establishment of new regulations will be of high importance for continued development and the business environment for prospective investors.

Larger Firms Are Less Vulnerable To Government Inefficiencies

The degree of political risk firms encounter is highly influenced by both industry importance and firm size. Some key indicators are local content, the amount of dollar invested and the estimated tax revenues for the Tanzania Revenue Authority. In fact, it appears that firms' international recognition and power are highly correlated with the Tanzanian governments willingness to cooperate. In particular, companies in the booming petroleum sector appear to have been met with far more beneficial working conditions in Tanzania than most other sectors.

Throughout this field study, numerous stories related to government officials encouraging to bribery to accelerate firms mandatory processes to meet bureaucratic requirements were discovered. Most often, firms appear to be approached to speed up the process of declaring goods, obtaining work permits, and obtaining government approvals on applications. To avoid temptations and vulnerability to the inefficiencies of the government, firms stock up on inventories, allow for scheduling flexibility, and attempt to predict future demands to a greater extent than usual when operating in the Norwegian market.

Future Opportunities and Threats for Tanzania

The future of Tanzania remains highly uncertain. Despite endless opportunities, major barriers challenge Tanzania's ability to realize its potential. The Tanzanian government's facilitation of foreign direct investments has undoubtedly played a critical role in the economic growth to date, but there are reasons to question its ability to ensure continued success. For example, the recent major findings of gas have spurred a nationwide debate of local ownership and distribution of wealth. Many fear that corruption and the government's inability to holds its stand against large international firms will result in an increase in wealth of only a few, while the nation will not gain wealth from the discoveries. To date, the Tanzanian government has yet to present viable strategies to reach its stated desire to emulate Norway's oil success.

In fact, most of the critical success factors of Tanzania's future relate to improvement of governmental inefficiencies and incapacities. Reduction of public and private corruption, improvement of the educational system, and major investment in infrastructure will significantly improve Tanzania's ability to secure future economic development and emerge as a leading East African nation.

The Threat of Urbanization and the Population Explosion

However, concomitant factors are set to impede Tanzania's ability to ensure social and economical stability. The last decade has seen the beginning of an uncontrolled urbanization of the Tanzanian population. Related to the economic development and improvement of opportunities in major cities, the pull factors for urbanization primarily relate to economic opportunities in urban areas. Lower standards of living and lack of amenities are simultaneously pushing people from rural to urban areas. The consequences of urbanization relate to both leaving land uninhabited and putting considerable stress on the social and physical infrastructure in the urban areas, and in particular in Dar es Salaam. The massive growth of the urban areas is additionally causing strain on employment rates, and the recent increase in youth unemployment rate in Dar es Salaam illustrates the potential problems that may arise. The non-governmental organization Restless Development found that only 14 out of 1000 young people across Tanzania was employed in the formal sector, while the majority of the remaining respondents were looking to Dar es Salaam for employment.

Simultaneously, the projected population growth will further strain urban areas' ability to hold and provide for their residents. Despite being a vast country, the growth will unquestionably become a burden both economically and socially due to scarcity in resources. Already constrained budgets will be challenged as the need of providing services to its increasingly young population increases. The strain is, due to both urbanization and immigration, by far most critical in Dar es Salaam, with its annual growing rate of 5.6 per cent. The growth is however not isolated to Tanzania. In fact, the population growth in Tanzania was the second lowest in the East African region in 2012, and is in fact a regional challenge that has attracted the concern of many. Despite these concerns, the government has to date primarily paid lip service to resolving actions. For example, although Tanzania's policy advocates free family planning services, they are not being provided free of charge.

Improvements Arise

The stability of Tanzania remains a primary differentiator from many neighboring nations, and increasing political pluralism indicates a positive development from the once

socialistic and single-party nation. For example, the absence of rivalry between tribes and groups contrasts Kenya's current problems. Furthermore, Tanzania continues to be among the best countries in Africa for gender equality, and many women have made their way to close-to-leading positions in politics. Perhaps most importantly, a nationwide interest and emphasis on education has in the last decade substantially increased attendance. Although the quality of education remains to be improved, the recent development is encouraging. Continued progress will be crucial to increase the availability of skilled workers, and allow Tanzania to benefit from its future demographic dividend.

Will the Sun Rise Over Serengeti's Endless Plains?

Many Asian nations have already identified the endless opportunities Tanzania offers, and many more are expected to enter the market within few years as development of gas initiates. It therefore appears that the future of Tanzania in truth lies in the hands of its government and the ability to cultivate continued economic development. The future of Tanzania may, if carefully nurtured, be as bright as the sunrise over Serengeti's endless plains.

Best Practices

- Final advises on how to succeed in Tanzania

The As this report concludes, a few common denominators determining the success rate of companies entering the Tanzanian market have been identified. In the following section, we discuss possible solutions to problems entering companies most often face in terms of daily governance, time, and human capital. Finally, we present our last thoughts on Tanzania's attractiveness for prospective Norwegian companies, and provide you with our final recommendations

"Norwegians are too slow, they should have been here long time ago. East-Africa is the new hot spot"

- Bjarte Fadnes, Rig Manager, Odfjell Drilling 2014

Getting Around the Tedious Tanzanian System

Inefficient daily governance is a common challenge most domestic and international firms face. Impeding both ones schedule and budget, the impedimental processes can be sourced to two fundamental sources: Corruption, in which the second party expects greasing to fast-forward processes, or inefficiencies related to doing business in a nation with low productivity. A possible solution to get around the inefficient government, while avoiding corruption, may be to hire a fixer. Your fixer should be an individual that knows the local environment and is well connected. It is also of upmost importance that your fixer has positive references, as there have been numerous examples of dishonest fixers that have jeopardized entire operations. The use of an independent fixer should also be cautioned, as the line of corruption is blurred when a firm pays a third-party for unknown services that will speed up processes. As a result, most Norwegian firms already present in Tanzania employ internationally known consulting firms or lawyers with operations in Tanzania. Despite being costly, the benefits are apparent. In order to mitigate SME's disadvantageous position in the Tanzanian business climate, cooperation is encouraged to increase negotiating power.

Despite relentless efforts and complying with regulations, many companies have found it difficult to get an international company registered in Tanzania. In such cases, you should be wise to investigate the opportunity of registering in Zanzibar, as it by many is seen as far easier than establishing a company on the mainland. Furthermore, despite lacking a bilateral trade agreement with Tanzania, Norway has an agreement with Mauritius. Establishing a subsidiary company in Mauritius that is used to establish an entity in Tanzania may considerably reduce the risks for prospective Norwegian firms.

African time

Getting around the governance maze will only get you halfway there. In Tanzania, you will likely make scheduling errors continuously. For example, traffic congestion often causes hours of delay, and the sudden announcement of a public holiday one day in advance illustrates that scheduling is a difficult task. In fact, the "African Time" affects every aspect of life in Tanzania. Kesho, a commonly heard word in Swahili, in truth means tomorrow, during next week, in a year, or maybe never. The solution to avoid significant costs is to allow for flexibility, always keeping stock of crucial components, and plan for the future as if it was today.

CSR and Leadership

Forced requirements of local content have caused many firms in foreign countries to hire far more people than necessary, strongly signalling to the local work force that their presence is merely due to local requirements. As a result, demotivated and discouraged local employees reduce the overall productivity of firms, which is costly regardless of how little each is paid per hour. The lack of skilled workers in Tanzania will undoubtedly represent a challenge most prospective firms will face when entering the country. Although there are currently no requirements of local content in for example the petroleum sector, they will most likely be developed within the next few years.

There seems to be a widespread lack of initiative by Tanzanians in the workplace that most likely is caused by the local culture and a general occurrence of micromanagement. This in turn has caused many to lack a sense of ownership to the work being done. International firms have coined the phrase "It requires seven Tanzanians to do the job of one Kenyan" to illustrate the extent of which low productivity and inefficiency challenge the feasibility of employing local workers.

Our investigation revealed that there does not appear to be a single answer as to how to best manage local Tanzanians. Whereas some successful managers best can be described as Machiavelli descendants, others have taken a more caring approach far more similar to the management style prevalent in Norway and been equally successful. However, in order to successfully release the potential of local employees, it is advised that time is dedicated to both acquire and retain skilled workers. Furthermore, it is strongly recommended that firms invest in education and practical training of their employees, which not only will benefit the firm directly through increasing the skillset of its employees, but also positively contribute to the local community.

Perfection is an Enemy of Success

Regardless of industry or management style, perfection truly is the enemy of progress in Tanzania. The country manager of a major Norwegian firm noted: "You should be satisfied with 70-80 per cent. Never expect 100 per cent. If you are at 100 per cent, you most certainly are being inefficient and unproductive." Understanding that 100 per cent is impossible, and in fact most likely not even desirable, will dramatically increase your likelihood of success.

Children at ophanage

Aftermath

Our investigation of the Tanzanian market has been a dynamic one, and the amount of information that experienced managers have provided us with has truly been endless. Most of the challenges described in this report have been elaborated on repeatedly, which indicates that they in fact are everyday challenges. However, the common denominator appeared to be the emphasis of the endless of opportunities Tanzania holds for willing Norwegian companies, and all have agreed that the time for entry is now. Norwegian companies will benefit greatly from Norway's goodwill in Tanzania caused by decades of aid support. We strongly believe that the question should not be whether to enter Tanzania or not, but how to best do so.

Of increasing concern is the question as to how Tanzania's wealth in natural resources will be distributed. Many fear that corruption and the government's lack of capability to create protective, but conducive, regulations to manage extraction of its natural resources will challenge Tanzania's ability to continue its economic growth and development of prosperity. As Norwegian firms enter, we will strongly encourage a proactive approach to avoid exploiting the shortcomings in Tanzania's regulations.

Many will wrongfully assume that the potential market in Tanzania is limited to those living above the US $2 poverty line, while a true marketer should disagree. As we investigated a small village three hours outside of Dar es Salaam, it dawned on us how many were using smartphones. Despite low incomes, the potential market is in fact vast, given the right packaging and price innovation. For example, a producer of FMCG that offers one, rather than six, diapers a pack may see far more consumers turning into customers, than a producer of the more expensive six pack.

However, the associated challenges of overcoming barriers to entry and business development should not be ignored. The continuous battle to work the system is tiresome, and will demand excessive amounts of both time and money. An entrepreneurial spirit and indomitable will are characteristics of successful managers in Tanzanian. To achieve long-term success, stamina and shrewd understanding of people are undoubtedly imperative.

At the speed of Tanzania's development, it appears that any prospective firm with the right resources may be successful. Most foreign companies are at a great advantage because of superior productivity and efficiency. However, the great challenges of corruption and low productivity may cause many to retreat before being able to reap the fruits of their labour. Therefore, it appears that larger companies with solid financing and long-term perspective are more appropriate to enter the cumbersome Tanzanian market. Smaller firms should not be discouraged, but rather motivated to tie closer relationships with similar firms to gain power and strength to withhold many of the challenges they will face. Finally, the most crucial advice we have to offer is: When in Tanzania, do as the Tanzanians do, but never fall into the trap of corruption.

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Previous IB Projects

2012/2013:	Brazil
2011/2012:	India
2010/2011:	Indonesia
2009/2010:	Mexico
2008/2009:	Malaysia
2007/2008:	Vietnam
2006/2007:	Brazil
2005/2006:	India
2004/2005:	China
2003/2004:	Russia
2002/2003:	Turkey
2001/2002:	Poland
2000/2001:	South Korea
1999/2000:	Brazil
1998/1999:	The Baltic States
1997/1998:	Indonesia
1996/1997:	India
1995/1996:	South Africa
1994/1995:	Chile
1993/1994:	Hungary
1992/1993:	Mexico
1991/1992:	Portugal
1990/1991:	Russia and the Baltic States
1989/1990:	Thailand
1988/1989:	China
1987/1988:	Italy
1986/1987:	Australia
1985/1986:	Brazil
1984/1985:	Singapore

**Next year's project:
Myanmar**

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