

# Investing in Tanzania

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## Statist ways hold back progress

**Business leaders think growth would be stronger with less bureaucracy, says Katrina Manson**

Tanzania's very decent annual growth rate masks many ills. At 7 per cent this year, and on average throughout the past decade, it is hard to complain about the economy.

The future looks ever brighter, with an impressive series of offshore gas discoveries as explorers confirm new finds, coal and nickel to mine besides gold, a growing population, vast arable land and the launch of its maiden bond within the next three months, which is likely to be a billion-dollar offering.

Banks praise Tanzania as one of the world's rapidly growing regions; economists like its robust macroeconomic stability, budget controls and rising revenue collection, and growing consumer demand.

East Africa's biggest country is the darling of donors. And the presidents of China and the US have both visited this year and delivered rousing verdicts on the country's future.

Lu Youqing, China's ambassador to Tanzania, says: "I predict that this year, in terms of attraction of foreign direct investment, Tanzania will be number one in the east African region."

But the great promise mixes with a lacklustre picture heavy on bureaucracy and corruption in a country held back by an inexperienced, undereducated workforce and startling underperformance.

Most business leaders and economists say the country ought to be



people cannot afford the tax, penalising a tool that helps spark small business, reduces the cost of transactions and is among the main contributors to economic growth rates.

Tanzania is also taking on an increasing volume of commercial loans, only a few years after donors cleared its debts.

A report from the World Bank this year says: "Economic growth will remain constrained by Tanzania's weak performance in policy areas, including the business environment, human development, and government effectiveness."

In addition, the impact of that 7 per cent annual growth is hard to see. Poverty is entrenched. More than a third of the 45m people live on less than \$11 a month. There are too few jobs and it seems unlikely the target to become a middle-income country by 2025 will be reached.

"Tanzania needs to accelerate growth of the formal sector and needs to maintain it for 20 years before it makes a difference at scale," says Philippe Dongier, head of the World Bank in Tanzania.

The government is beginning to acknowledge the problems in public. "We have not created the speed of economic transformation [we need]," says William Mgemwa, finance minister. "Between 2001 and 2012, poverty was only reduced by 2.1 per cent, despite all this good GDP growth."

Besides gold, agricultural crops led by tobacco, coffee, cashews, cotton and tea drive exports, but farmers – who make up three-quarters of the population – are especially poor.

Growth in the agriculture sector lags behind that of communications, financial services and construction, manufacturing and retail, which have expanded by 30 per cent in the past

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## Investing in Tanzania

# Region is one of the hottest for energy industry

**Natural gas** Long road ahead to transform reservoirs into LNG shiploads, says *Javier Blas*

When BP and Shell explored for hydrocarbons along the coast of Tanzania between 1952 and 1964, they found little natural gas and even less oil.

But their geologists did discover that the 100 stratigraphic shallow boreholes they drilled showed the presence of sealing, reservoir and source rock combinations common in other hydrocarbon-rich regions. In short, they were sure oil and gas were nearby – but beyond the technology of half a century ago.

Fast-forward the last 60 years and new technology – including deepwater drilling and 3D seismic mapping techniques – has allowed geologists to find the elusive hydrocarbons they missed in the 1950s and 1960s.

Over the past three years, a group of companies including UK-listed Ophir Energy, Shell and BG Group, Statoil of Norway, Petrobras of Brazil and ExxonMobil of the US have discovered a string of large offshore natural gasfields. The finds have put the east African nation firmly on the global energy map.

The discoveries, coming on top of even bigger fields in Mozambique, have transformed the region into one of the hottest for the global energy industry. Tanzania could become a leading exporter of liquefied natural gas (LNG) by 2025, supplying markets as diverse as Pakistan, China, Spain and Chile.

"Tanzania is in a formidable position," says Knut Henrik Dalland, Statoil's country manager in Tanzania. "We have only scratched the surface."

The country's ministry of energy and minerals, which had put Tanzania's gas reserves at about 40tn cubic feet, expects a fivefold increase as companies drill further. "Tanzania's natural gas resources will rise to

200tn cubic feet after the next two years," the ministry said in August.

But transforming the newly found reservoirs into actual LNG shiploads will be a long and tortuous journey – one that could make or break the country's hope to use natural resources to spur economic development.

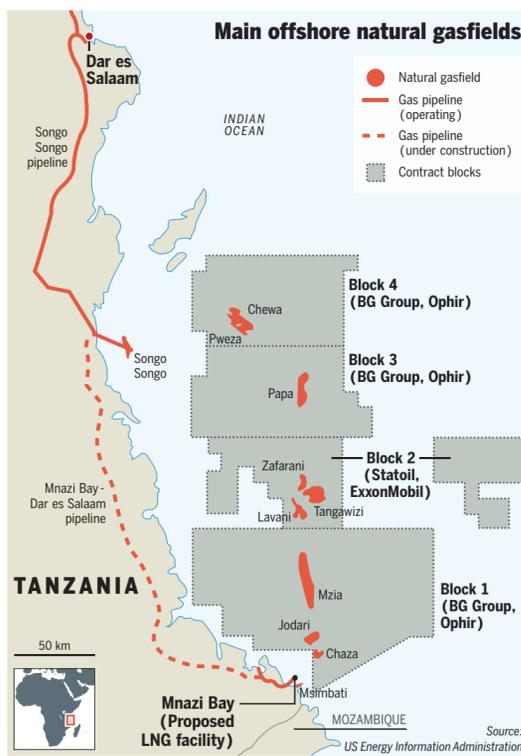
First, it will take a huge financial effort – estimated to be at least \$40bn and potentially as high as \$60bn – that is still years away. Worse, the sector may not take off, as companies worry about soaring construction costs and forecasts of rising LNG supply from other countries, including the US, which is experiencing a shale boom, Australia and, potentially, neighbouring Mozambique.

The start-dates of the projects, which industry executives put between 2021 and 2023, would be crucial to avoid any potential supply glut in the late part of the 2020s and early 2030s, says an executive with a foreign company drilling in the country. "Tanzania and Mozambique are neck-and-neck and the one to build the first LNG facility will have better opportunities," the executive says.

The US Energy Information Administration, part of the country's Department of Energy, said in a report about the east African energy corridor this year that both Tanzania and Mozambique "should focus on securing long-term LNG contracts" or "sell stakes in their LNG projects to Asian investors that are big LNG buyers".

The US warning is a pointed reminder that without committed long-term buyers, the companies developing the LNG plants are unlikely to obtain the billions of dollars in loans they need to finance their projects.

Second, the development of the industry will need a clear policy and



regulatory environment, which is so far lacking.

The Tanzanian energy industry is still regulated by the Petroleum Exploration and Production Act of 1980. This is expected to be replaced by a Natural Gas Policy, which will set the broad terms under which the sector will operate, and a series of regulatory bills that the government, after months of delays and behind-the-scenes arguments with the industry, has yet to approve.

Nonetheless, there are signs the industry and the government have mended their relationship after the first draft of the gas policy, published in mid-2012, triggered strong criticism from foreign energy companies.

The clearest sign of the new climate between the government and the companies is that the private sector has quietly accepted the suggestion from the government for a single location for the onshore LNG terminal.

Still, the industry has yet to agree whether it will build a single plant, which will serve all production sites – as the government would prefer – or two at the same location, one per consortium, as the industry prefers.

"Tanzania is in a formidable position. We have only scratched the surface"

# Donor-backed initiative to speed up reforms

## Business climate

**Katrina Manson** on the problems that have led to the 'Big Results Now' effort

When one of Tanzania's leading businessmen needed to discuss a worrying shift in government policy, he set off for a senior civil servant's office himself. There, he spent two hours waiting, as he puts it, to "not get a meeting".

"We are working on it," the civil servant said. "*Kuja kesho* (Come tomorrow)." Private businesses say this *kuja kesho* mentality is one of the biggest impediments to attracting investment and expanding operations. Several aim to move into the east African region and beyond, but are consistently wrongfooted by government inefficiency.

"The business community is dynamic, but the government... Oh my goodness," says the businessman.

Of its four neighbours, only landlocked, war-devastated Burundi scored lower than Tanzania for its business environment in the World Bank rankings this year. Worse, it is slipping.

"In terms of the quality of the country's investment climate, the country's ranking has actually declined, slipping 21 places over the past five years," says a World Bank report on Tanzania published this year.

While it is easier to start a business and register property than it used to be, it is harder to secure construction permits, protect investments, trade across borders and enforce contracts, the report says.

William Mgemwa, the finance minister, says: "We are not here to make decisions that are going to create any negativity with

investors. No, no, no. That will be the last [thing] to attempt."

But in another set of rankings, which assess government effectiveness, Tanzania is also slipping, down 15 places in five years.

Real estate developers say they can wait months for "the right business permit", a euphemism for a propensity to extract money in exchange for paperwork. "Corruption is... perceived as the most severe constraint by almost half of business leaders," says the World Bank report.

Business people say privately they could cope with corruption if paying extra meant it would speed things up. "They take the money

Corruption is seen as the most severe constraint by almost half of business leaders

and things still don't happen," complains one.

Businesspeople say the problem is based, to some extent, on the country's socialist, centralised legacy. "Decision-making is very slow," says one. "Everyone wants the safest bet, including the president. Don't do anything and then we're still OK."

None of which suggests Tanzania is speeding to its target to become a middle-income country by 2025.

But, with an election on the way and donors regularly noting that despite pouring in billions of dollars they have made no headway on reducing poverty, president Jakaya Kikwete is spearheading a fresh initiative.

Lu Youqing, the Chinese ambassador, says "One reason Tanzania has difficul-

ties attracting investment is the inefficiency of the government."

He backs the president's delivery bureau, a Chinese-style target-orientated office, headed by Omari Issa, who also heads a donor-funded initiative.

"The 'Big Results Now' initiative is a recognition by the government that it is not getting results fast enough," says a senior international donor of a project introduced this year to fast-track reforms in six areas, including energy, agriculture and education. "The productivity of public expenditure is very low."

The BRN initiative, modelled on efforts in Malaysia after a visit there by Mr Kikwete, aims to marshal change from the top and deliver on targets.

The \$25m-a-year monitoring system is paid for by the World Bank, the UK's aid agency DFID – which has committed more than \$70m over four years – and the Swedish aid agency.

On his return, Mr Kikwete gathered the country's top officials to execute the plan, which has a counterpart in Rwanda.

Tanzania already had several overlapping plans, but Mr Mgemwa says the extra organisation will deliver.

"We have had all these priorities for the past two years in the strategic plan – [the BRN] is not a publication of other priorities," he says. "It is a mere emphasis on specific priorities that have a quick impact."

Businesspeople and investors are sceptical whether it can deliver results faster.

One donor insists: "It's not a waste of money. The point is to have a different level of execution."

The exasperated businessman says next time he is obliged to visit a ministry, he will do so wearing a T-shirt emblazoned with the phrase "Big Results Now".

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## Statist ways hold back progress

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five years and together delivered 60 per cent of Tanzania's economic growth since 2008.

Mr Lu says: "There is still a long way for the country to go to realise industrialisation. It is still short of electricity supply."

The government's latest response to this barrage of complaints is "Big Results Now", a donor-backed unit that aims to speed progress in several key areas. The greatest spur to action may come from an electorate that is finding its political voice.

A small section of the population, perhaps 12 per cent according to the African Development Bank, is now defined as middle class.

The political opposition is small but growing, and political tensions have turned violent several times in recent years, a shock for a country used to peaceful continuity.

Elections scheduled for 2015 will prove the first real test of Africa's longest ruling party, as opposition parties elicit greater followings and organise themselves better.

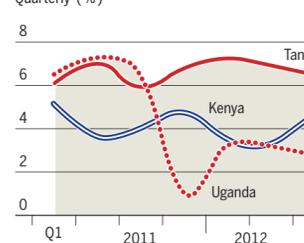
The very structure of the country, still wedded to socialist values despite its capitalist-friendly veneer, has hitherto accounted for the lack of reform, says an international adviser.

He adds: "It's effectively a very centralised one-party system with the trappings of democracy around the fringes."

Even the reform agenda is modelled on Malaysia,

### GDP growth: faster and less volatile than Kenya and Uganda

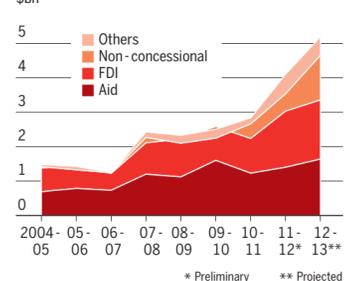
Quarterly (%)



Source: The World Bank

### A gradual shift in the source of foreign capital

\$bn



although the UK and China both back it.

Those close to President Jakaya Kikwete describe him as a good tub-thumper for the country who has delivered investment and international regard, but who remains in the words of one person familiar with him, indecisive and "a little leftist – as much as he thinks he's a capitalist, he's not".

Observers in business and policy are sceptical whether the government's "Big Results Now" framework will deliver, but the biggest hope may come from the rise of a consumer class.

Tanzania was late to adopt mobile phone innovations embraced by its neighbour Kenya but they have spread rapidly.

Now 45 per cent of people send and receive money via mobile transfers. There are more than 20m cell phone customers, compared with 14,000 five years ago.

"There's enough demand for four or five shopping malls here," says Jayesh

Shah, chief executive of local Sumaria Group, noting that cement consumption is also far below that of regional leaders.

Dar es Salaam, the commercial capital, really only has one mall at present, though several projects are under way, including one from Mr Shah.

Cranes and scaffolding shape much of the skyline as a small building boom takes hold, partly to feed the nascent oil and gas industry as expatriates move in.

Mr Mgemwa, the finance minister, says: "There is no clear evidence that the emergence of a middle class will be sustainable unless we create economic undertakings."

He cites the need to create more industries, more employment and reduce the cost of doing business.

As the nation becomes more inquisitive, faultlines are increasingly exposed.

For the first time, people worry about divides between Christians and

Muslims entrenching in a country used to unity. The local population in Mtwara, the site that supplies a new Chinese-built natural gas pipeline, worry that they will not benefit from their own resources, but police quelled riots with fatal results.

Unknown assailants threw acid at two British volunteers on holiday in Zanzibar, hurting the tourism industry and highlighting the spectre of Islamist fundamentalism.

The Zanzibar archipelago continues its clamour for greater autonomy, but neither it nor the mainland has found a workable model. Some fear this could lead to a democratic impasse, even postponing elections. The answer, for the sake of political stability as much as economic development, could be for the government to produce results. "We all see these reforms are not happening fast enough," says one diplomat. "To me it's a constant puzzle."

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### Three issues on political agenda

Who will succeed President Jakaya Kikwete (right)? How strong is the opposition? And what will become of Tanganyika/Zanzibar union?



## Investing in Tanzania

## Homegrown groups take on international giants

**Family businesses**  
Private companies are expanding fast, writes *Katrina Manson*

Come 10am on a Saturday, 64-year-old Said Salim Bakhresa is not off enjoying the leisure pursuits of an ageing multimillionaire; he is checking up on developments at his factory just outside Dar es Salaam, Tanzania's commercial capital.

But that makes perfect sense for a family business that has reached its \$600m-plus turnover thanks to five decades of his own hard work.

"It's a true rags to riches story," says Abubakar Bakhresa, his son, who now runs most of the family businesses as executive director. "He built it from scratch – he started at 14 – he made shoes, ice-cream, he was a trader – he did everything."

Bakhresa Group is similar to many of Tanzania's leading conglomerates – private, family-run affairs with reclusive founders who started out very small.

In what was long a closed economy, suspicious of outside investment, they built up diversified companies that supply the nation with everything from soap to soft drinks, ferries to fuel. These little-known homegrown multimillionaires are now fast expanding their businesses throughout the region and beyond, taking on international giants.

"We're fighting now Omo and Unilever," says Mohammed Dewji, group chief executive of another diversified company, MeTL. He is the grandson of its founder, who ran a small shop in a market town.

"We want to expand in Malawi, Mozambique, Rwanda, Burundi, Uganda and eastern Congo in the next 24 months," he says of the company, whose products range from toothpicks and lollipops to cooking fat and wheat flour.

Of 50 industrial companies in Tanzania analysed by the London School of Economics in a study published last year, 29 had their origin in the domestic private sector. They took off when Tanzania loosened its statist ways and started allowing private business back into the economy from the mid-1980s, and a handful of



**Family fortunes** Tanzania's big groups offer everything from soap to soft drinks, ferries to fuel

**Company** MeTL  
**Family** The Dewjis  
**Self-declared annual turnover** \$1bn

**Business** Trading in 200-plus items, manufacturing of a wide range of goods including bicycles and textiles, agriculture, insurance, transport and logistics, mobile telephony, infrastructure and distribution. Active throughout the region.

**Notable and quotable**

Mohammed Dewji, the group chief executive, is also an MP, and has developed a product range that packages everything from pens to spaghetti under the brand name "Mo".

**Company** Bakhresa Group  
**Family** The Bakhresas  
**Self-declared annual turnover** More than \$600m

**Business** Manufacturing and distributing dozens of products, from ice-cream and biscuits to fizzy drinks and flour, trading agricultural commodities, ferrying passengers, and fuel distribution. Active throughout the region.

**Notable and quotable**

Started by a reclusive family. The grandfather of Abubakar Bakhresa, the executive chairman, was killed in the Zanzibar Revolution of 1964.

**Company** Sumaria Group  
**Family** The Shahs  
**Self-declared annual turnover** \$130m

**Business** At least 25 companies since 1975, in plastics manufacturing, cotton ginning, drinks bottling, food processing, pharmaceuticals, soaps, cement, flour and, more recently real estate, biogas and finance.

**Notable and quotable**

One of the next big projects is building a shopping mall in Dar es Salaam. "There's enough demand for four, five shopping malls," says chief executive Jayesh Shah.

**Company** MAC Group  
**Family** The Maneks  
**Self-declared annual turnover** None given

**Business** Growing and processing tea and sisal; manufacturing cosmetics, toiletries, electrodes, detergents, slippers, pharmaceuticals and more; shipping, mining and insurance. It is expanding in east and southern Africa.

**Notable and quotable**

HSBC, Satya Capital and Catalyst Principal invested in MAC's Chemi & Cotex consumer goods manufacturing company in 2011.

**Companies** MM Integrated Steel Mills, Motison Holdings  
**Family** Subhash Patel  
**Self-declared annual turnover** None given

**Business** Industrial manufacture of steel sheeting and pipes, rubber, paint, fizzy drinks and hotel operator. MM has expanded into Zambia with a steel plant in Lusaka.

**Notable and quotable**

It might be among the more recent companies, but Mr Patel is already training his son to follow him into the business – rotating him on factory floors for hands-on work as well as in the head office.

**Running a tight ship:** ferries are one of many products and services included in the Bakhresa family's Azam brand

manufacturing conglomerates, which was set up in the 1940s by a group of brothers.

Unlike many others, Sumaria Group has sold part of its business in private equity deals in the past – for example, its pharmaceuticals business – and Mr Shah also sits on private equity firm Aureos East Africa's investment advisory committee.

Another family-run conglomerate is MAC Group, founded in the 1980s by Yogesh Manek, who is now its chairman. It sold a stake in its consumer goods company, Chemi & Cotex, which manufactures toothpaste among other products, to two private equity groups based in the UK and Kenya.

But Mr Shah says most prefer to keep their books private and retain all their shares, and so are keener on debt to expand their companies. Sumaria is developing a mezzanine debt fund to serve this market.

In MeTL's case, Mr Dewji says that although sourcing capital has long been "my biggest challenge", he prefers debt to equity for now, and this year raised a \$100m syndicated loan from South African banks.

"Many people are looking to come in and take 50 per cent of our business, but we do not think it is the right time to sell – we believe we are still very undervalued," he says of his business, which he believes is worth \$5bn.

Over long years of exposure to the market, these trading families have come to know and understand their customers, have established well-loved brands and can largely draw on their own internal finances to power their growth according to classic management principles.

The Bakhresa family's brand Azam, for example, puts its profits into high-end machinery and inputs – milling plants from Switzerland, fizzy drinks concentrate from Germany – and runs a tight ship.

"We are a lean organisation, with fewer management reporting lines and more of a family feeling," says Mr Bakhresa of the 6,000-strong organisation that employs only 90 expatriates. "We're not trying to cash in. We have to try to make as [little] margin as possible" – to keep products affordable and boost sales volumes.



## THE UNITED REPUBLIC OF TANZANIA Announcement



### Launching the 4th Tanzania deep offshore and North Lake Tanganyika licensing round

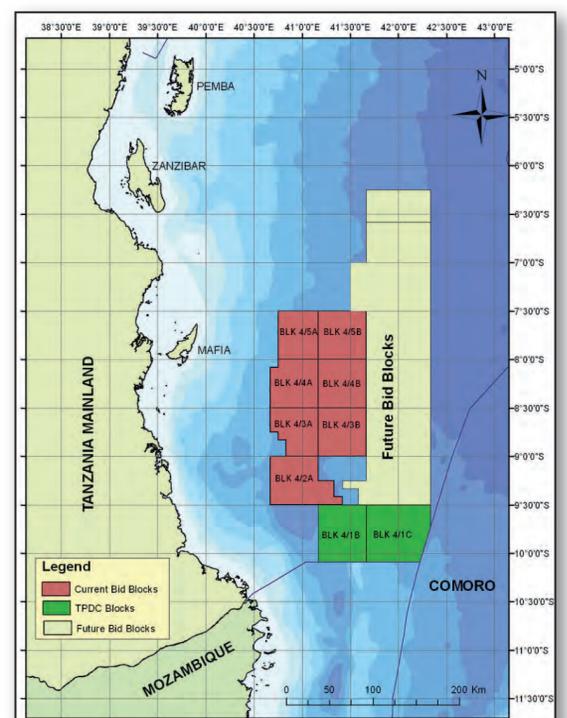
The Government of the United Republic of Tanzania through Tanzania Petroleum Development Corporation (TPDC) is pleased to announce the 4th Tanzania Deep Offshore and North Area Lake Tanganyika Licensing Round. The 4th Tanzania Offshore Licensing Round that was delayed in September 2012 will now be launched on **25th October 2013** during the **2nd Tanzania Oil and Gas Conference and Exhibition** that will be held from 23rd to 25th October 2013. The Conference will take place at the Mwalimu Nyerere International Conference Centre located in the city of Dar es Salaam, Tanzania. The bid

round will be closed on Thursday 15th May 2014 in Dar es Salaam.

The 4th Tanzania Deep Offshore and North Lake Tanganyika Licensing Round 2013 include the deep offshore sedimentary basins comprising of seven (7) Deepsea Blocks (each of average size of 3000sq. km Blk4/2A, Blk4/3A, Blk4/3B, Blk4/4A, Blk4/4B, Blk4/5A, Blk4/5B) that are located between 2000m to 3000m of water depths from 40°30'E to 41°40'E and 7°30'S to 9°00'S and Lake Tanganyika North Block located offshore in the western arm of the East African Rift System. The two Deep offshore Blocks 4/1B and 4/1C are reserved

for Government where TPDC will be allowed to execute a different exploration approach using a strategic partner to be competitively sourced. The Deep offshore blocks have good coverage of modern regional 2D seismic data which can be viewed at ION GX Technology of Houston, Texas and WesternGeco of UK.

Lake Tanganyika is the world's longest (650 kilometres) and second-deepest (1,500 meters) lake and is covered by sparse 2D seismic data which were collected in the 1980s during the African Lakes Drilling Project. The data and copy of report is available at TPDC.



For any further details and clarifications, please contact:

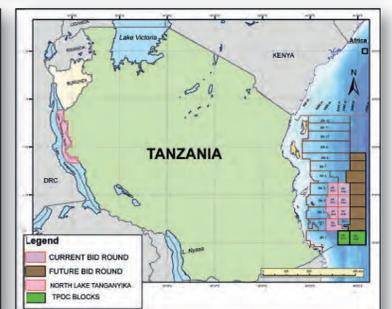
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## Investing in Tanzania

# Gold diggers find themselves in a deep hole

**Mining** High hopes of a decade ago have given way to a sense of crisis, writes *Javier Blas*

Nothing portrays better the crisis engulfing Tanzania's mining sector than the plight of African Barrick Gold, the London-listed company that has all its precious metals mines in the east African country. Its shares have lost more than 60 per cent this year; its chief executive has left, and it has announced a review that includes cost-cutting and job losses to try to weather a perfect storm of rising costs, electricity shortages, higher taxation and lower gold prices.

The company's problems are typical for the struggling mining industry in Tanzania. Other companies operating in the country, which include Anglo Gold Ashanti, Resolute Mining and Shanta Gold, are also suffering to varying degrees in what constitutes a sharp reversal from the high hopes of a decade ago.

"The industry is definitely in crisis," says Deo Mwanyika, vice-president at African Barrick Gold.

The gold mining sector in Tanzania has a long history dating back to the German colonial period with the discovery of gold deposits near Lake Victoria in 1894. Commercial mining started in 1909 with the Sekenke mine, but digging declined through the 1950s and 1960s – although artisanal mining flourished in the 1970s when gold prices surged.

The commercial industry revived in the 1990s, when a group of companies, with Barrick and AngloGold Ashanti as leaders, re-entered Tanzania, putting several large pits into production over the next few years.

The new boom saw Tanzania's gold

production rise steadily from zero in 1998 to about 170,000 ounces in 1999; by 2002 output had surged to 1.1m, and hit a peak of 1.4m in 2005. But since then, output has fallen almost every year, as mining companies curtail investment to try to improve margins – a trend common in mining regions elsewhere.

Jonathan Guy at RBC Capital Markets said in a report in August: "We are moving from an industry that was about growth – almost at any cost – to one where the focus is on cost management."

In the first half of the year, gold production fell 12 per cent and analysts expect that output for 2013 as a whole will be the lowest in five years.

The Golden Pride mine, owned by Sydney-listed Resolute Mining, highlights the new trends. The pit was the first to start producing gold in 1999 at the beginning of the most recent phase of the Tanzanian mining sector.

But the Australian company has announced plans to close the mine by the end of the year. And African Barrick Gold is also set to shut down the Tulawaka pit.

The sharp decline in the sector's fortunes has shocked the government, which worries about job losses, lower export and tax revenues and a drop in foreign direct investment. Gold is the biggest foreign-exchange earner in Tanzania, bringing in \$2.1bn last year.

Local businessmen and mining executives say the government has yet to catch up with the new realities of the gold market, where prices have fallen from nearly \$2,000 per ounce in 2011 to roughly \$1,320/oz today, squeezing the miners' profitability.



It's the pits: an AngloGold Ashanti mine in Tanzania

But officials in Dar es Salaam complain that miners have benefited from a decade of tax holidays, only to reduce jobs now that taxes are starting to rise. The miners contend that the rise in taxation – including a rise in royalties from 3 to 4 per cent and changes in VAT policy – comes at the worst moment for the industry.

However, the problems of Tanzania's gold industry run deeper than a drop in gold prices and a relatively small increase in taxes, analysts say. The main problem, they say, is high production costs. One main factor in this is the erratic power supply, which forces miners to run on expensive fuel-fired generators for most of the time.

"Power is by far the biggest problem for us," says the chief executive of a gold miner operating in Tanzania. African Barrick Gold reports all-in costs of \$1,507/oz, significantly above current gold prices.

Although other companies report somewhat lower costs – for example, Resolute Mining says its all-in costs

for its operations in Tanzania are \$1,067/oz – the whole sector suffers from the same problem.

The solution, executives argue, is to cut expenses at any price, as the industry and government agree that the power shortages in the isolated northwest of the country will not be resolved in the near future.

"If we are to survive, we need to reduce costs tremendously," says a Dar es Salaam-based executive. That means job losses, with executives talking in private about 15-20 per cent cuts across their operations.

The government is already warning the miners to show restraint. Ally Samaje, acting commissioner for minerals, told local media recently the government was "very concerned" at the drop in gold prices and warnings from African Barrick and AngloGold Ashanti about job losses in the rural northwest.

"The potential job losses will have a very negative impact on the country's economy and the wellbeing of employees," he said.

# Scepticism over size of \$1bn funding plan

## Sovereign bond

The dollar-denominated issue targets investors flocking to Africa in search of growth, says *Javier Blas*

A decade ago, Tanzania and foreign debt were well worn topics among officials discussing the country's economic outlook. Today, the talk is no longer about the need for debt relief, but rather about raising fresh loans.

The country is planning its first US-dollar denominated sovereign bond, potentially raising as much as \$1bn this year to invest in power and transport infrastructure. It raised \$600m through a private placement with international investors in February.

Tanzania is joining a string of countries in the region, from Rwanda to Zambia, that in recent months have issued dollar-denominated sovereign bonds for the first time at remarkably low interest rates despite the considerable risk, as investors flock to African frontier markets in search of growth. Kenya also plans to issue a maiden sovereign bond.

Tanzania is pushing ahead with what the authorities say is an ambitious – and critics describe as overstretched – plan to raise \$1bn in bonds through an agreement with the International Monetary Fund to lift the country's debt ceiling. William Mgemwa, finance minister, says that east Africa's second-largest economy wants the IMF to increase its commercial debt ceiling for the fiscal year 2013-14 by nearly 45 per cent.

"[We have] already made a decision to issue eurobonds," he says, adding that he would ask the IMF next month to "unlock the limit" on debt the country may take on. At present, the IMF stipulates that Tanzania may borrow a maximum \$700m in the year to June 2014, as part of two support programmes.

If Tanzania gets the green light from the IMF to go ahead with a \$1bn note, it would match the size of the largest bond debut in sub-Saharan Africa, by oil producer Gabon in 2007. Nigeria, Senegal and Zambia opted for \$500m-\$750m bonds as their first step.

However, bankers and investors in frontier markets are sceptical that Tanzania would be able to raise as

much, unless it is willing to pay a hefty coupon well above 8 per cent.

"The negotiation [with the IMF] should at least give us an opportunity to borrow up to, say, \$1bn," Mr Mgemwa says.

Tanzania has taken \$2.7bn in commercial debt from China, India and international investors over the past two years. Yet the ratio of external debt to gross domestic product remains relatively comfortable at 41 per cent, down from 60 per cent a decade ago, and the more than 100 per cent of the late 1990s.

This reflects the \$6bn in debt relief it received between 2000 and 2007, the third largest amount in sub-Saharan Africa. This took place through the Highly Indebted Poor Countries initiative and the Multilateral Debt Relief Initiative backed by the IMF, the World Bank and other donors.

The plan to tap the bond market is receiving local and international support, but has also sparked warnings.

In its latest report on Tanzania, the IMF urged "a conservative approach to non-concessional borrowing", suggesting it is worried about the rapid increase in liabilities. The ratio of external debt to GDP is expected to climb to 44 per cent in 2015.

Zitto Kabwe, shadow finance minister, says the significance of the finance plan is not the bond itself, but whether the proceeds are used to lift long-term economic growth, by investing in, say, infrastructure, or are spent on consumption, including footing the multimillion-dollar fuel bill of Tanesco, the state-owned utility.

But he points out that the bond – together with the credit rating Tanzania has requested – would provide an international benchmark to measure the success of the government's policies.

The recent discovery of large offshore natural gas reserves and rapid economic growth over the past decade have attracted investors.

But government policies have failed to reduce poverty in the largely agrarian, aid-dependent economy. Worse, businessmen and international donors feel the economic momentum of the country has slowed, with the government not moving fast enough to implement reforms that would unlock growth.

Local businessmen say economic growth should be in double digits, rather than the current 6-7 per cent.

# Power and port projects will ease energy supply and congestion

## Infrastructure

China leads the way but some question the price tag, reports *Katrina Manson*

The cylindrical sections of gas pipeline stacked on trucks beside the quay symbolise the greatest failing – and promise – of Tanzanian infrastructure: energy and the port of Dar es Salaam.

The load shedding that resulted in regular blackouts last year may have diminished, but the national power company is an indebted mess and the port so corrupt and inefficient that, according to the World Bank, the country is losing \$1.8bn a year because of it.

In the next two or three years, however, mandarins say all that will change. The pipelines offloaded at the chaotic government bulk cargo port offer the greatest hope things may turn round.

Destined for a 532km Chinese-built pipeline started last year and on track for completion late next year, it will deliver natural gas from Mtwara in the south to the commercial capital Dar es Salaam and double national power generation capacity to 3,000MW.

Only one in five Tanzanians have access to electricity at the moment, much of that unreliable. Many other power projects are also under way, aimed at switching from costly emergency diesel-fuelled plants to cheaper gas-powered replacements likely to become operational in 2015.

"The gas is going to shoot down the cost of doing business in Tanzania," says William Mgemwa, finance minister. He asserts prices will fall to six to eight US cents per kilowatt hour from 40-44 cents at the moment.

He adds: "Industrial goods will be cheaper and the cost of living for our people will be very low."

Donor officials nevertheless believe the pipeline, which has triggered fatal riots by the disgruntled local population in Mtwara,

## Tanesco Restructuring and price rises needed to repair cash-strapped utility

Fixing Tanesco, the power parastatal at the heart of Tanzania's energy crisis for more than a decade, may be the trickiest task of all.

It faces numerous legal actions in different jurisdictions for failing to pay suppliers for years on end and its arrears are so big – at more than \$500m – as to distort the government's fiscal position, forcing it to cut general budget spending.

"The whole company is just a huge mess – there's monstrous bureaucracy in there," says an international adviser familiar with the company, which the World Bank says is losing \$30m a month. "The idea that Tanzania will be a net exporter of electricity by 2015 seems absurd."

Companies including

Standard Chartered Bank, IPTL and Downes have all taken Tanesco to court over a variety of claims.

The World Bank will lend the stricken utility \$300m, and, separately, a consortium of commercial banks is expected to loan "several hundreds of millions of dollars" guaranteed by the government before the end of the year, according to a person familiar with the deal.

But fixing Tanesco will depend on robust management and separating generation from transmission and distribution, a restructuring on which the African Development Bank is advising.

It is also likely to require further price rises.

**Katrina Manson**

"could have been done cheaper" than the \$1.2bn Chinese price tag. As with the Chinese-built Tanzania-Zambia railway of the 1960s, China insists it stepped in because no one else would.

"Remarks such as 'the cost of the project is high' or 'the project is not necessary' are irresponsible," says Lu Youqing, China's ambassador to Tanzania.

"Many other countries have turned down participation in this project but Tanzania urgently needs to construct this pipeline – it's a very big, important infrastructure project."

Fixing the port is the other big, important task facing the country. Tackling its inefficiency is a consistently unmet priority, thanks in large part to what the

**Lu Youqing: defends pipeline**



director, have led to some improvement but not enough, say shippers.

The World Bank warns in a report this year: "If the current situation is not remedied, the port of Dar es Salaam might lose its existing market share in regional trade."

Although governments along the east African coast are trying to develop megaports, from Djibouti to Kenya, the greatest threat to Dar es Salaam port may come from closer to home.

China Merchants Group (CMG) plans a port with more than 25 times the capacity of Dar es Salaam in Bagamoyo, a former colonial entrepot 75km to the north. It will include an export processing zone, industrial park, and a new city.

The development will take seven to 10 years and cost \$10bn, says Mr Lu. He adds that the Tanzanian government will take responsibility for the \$500m to dredge the channel, while CMG will start work on a \$1bn port phase next year that will take three years to complete. CMG has yet to conclude negotiating terms with Tanzania.

Mr Lu says: "On completion, the port will have berths that can hold a cargo ship as big as 100,000 tonnes and it will be the biggest port in the east African region."

But some warn the project, which is backed by the government, could upset plans for Tanzania's three other ports – Dar es Salaam, Mtwara and Tanga.

A person familiar with the country's port projects says: "This unsolicited bid from the Chinese just arrived, but the government already has a strategic plan for infrastructure and this port was never part of that."

"So if you were bidding to develop one of the port concessions and now suddenly there's the possibility of this huge megaport being built just down the road – it's created a lot of uncertainty, because 80 per cent of your volumes could be redirected to another port in five years' time."

# The Business Council for Africa



The Business Council for Africa is a private sector focused members' association that assists its members in doing business in sub-Saharan Africa. We offer support to a membership base that ranges from SMEs up to multinationals.

We do this primarily by hosting investment briefings and also through our African Networks of In-Country Directors in almost all the 36 countries on which we focus, and with the Eastern Africa Association for East Africa.

## Events

BCA hosts VIP round-tables, sector specific briefings and 'doing business in...' meetings providing practical advice plus hosting and networking opportunities.

Forthcoming lunchtime events include:

**'Prospects with Zimbabwe post elections'** with Professor Stephen Chan OBE on Thursday 3 October

**'Corporate Social Responsibility (CSR) What works in Africa?'** on Wednesday 9 October & hosted by Shell

**'Insights into Trade and Investment with South Africa'** in partnership with the South African Chamber of Commerce, on Wednesday 16 October and hosted by Fasken Martineau

**'Africapitalism': and how to advance it?** With Lynne Featherstone MP, PUS DFID with responsibility for Africa, on Tuesday 29 October and hosted by Stephenson Harwood

**BCA AGM and Keynote Address by Lord Malloch-Brown** on the evening of Wednesday 6 November, sponsored by PZ Cussons and hosted by Simmons & Simmons.

**EBCAM meeting with Rt. Hon Andrew Mitchell MP** on Thursday 21 November and hosted by Stephenson Harwood

**'Nigerian Budget Review'** on Wednesday 27 November and hosted by Addleshaw Goddard

**Recent events have included** 'African Investment Opportunities – appraisal and management of risk' hosted by Nabarro and 'Doing business in Francophone Africa' hosted by Simmons & Simmons

**BCA membership grants access to a diverse range of companies, organisations and entrepreneurs doing business in Africa, including leading figures & investors. For more information please contact us on 020 3730 5035 or info@bcAfrica.co.uk. Special membership deals available quoting this supplement.**

