



Doing business in Tanzania

Tanzania has a very diverse population, both ethnically and religiously, which was successfully unified by the country's first president Mwalimu Julius Nyerere in the 1960s. Tanzania is a developing country that needs improved infrastructure, healthcare and education and investment in agricultural development. A growing consumer base and rising trade flows mean that GDP growth is expected to continue to average 6% to 7%. Growth markets are banking, which is growing in rural areas, and oil and gas, which has been discovered in Tanzania, with small-scale developments now starting to take place. In addition, general infrastructure and agricultural value-chain improvements are also ripe for investment.

Political economy

Tanzania is a stable country, with relatively well-functioning public institutions. The country's growth is slowing down but remains significant (the latest figure is 6.8%). It is clearly a developing country. Approximately 25% of the population has access to electricity. Health services are still below standard. 75% of the population works in agriculture and, within that sector, mostly in subsistence farming, mainly because they have no alternative. Tanzania is also slowly weaning itself off donor funding.

President John Magufuli entered into office in 2015 with the aim of curbing corruption, reforming public-service practice, cutting government costs, and industrialising and improving the business climate. He has however also introduced repressive measures, including suspending newspapers, introducing troubling new legislation and prohibiting political rallies.

In 2017 many businesses saw a downturn and complications to their operations because of these new policies and regulations. One important example is the new natural resources legislation which is forcing mining and energy companies to renegotiate their contracts to bring them in line with the new law.

In general, many uncertainties and challenges remain that reduce the ease of doing business in Tanzania (currently ranked 137 on the index). This is also confirmed in recent economic analyses conducted by the World Bank, the IMF, the United Nations Industrial Development Organization (UNIDO) and the World Economic Forum (WEF). The latter cites access to finance, corruption, inadequate infrastructure, tax rates and inefficient government bureaucracy as the five biggest challenges. In addition to these challenges, the unpredictability of government policies is a major constraint for foreign investors. In March 2018 the country received its first Moody's rating, of B1, which is better than most of its neighbouring countries.

The Netherlands and Tanzania

Tanzania and the Netherlands have a history of friendship and development cooperation. The main focus of this relationship is now mainly on trade rather than aid. However, the Netherlands still earmarks a reasonable amount of official development assistance (ODA) for Tanzania (approximately USD 24 million), mainly for infrastructure projects.

The Netherlands Fellowship Programme (NFP), which ran for over 40 years, was a major success. It allowed thousands of Tanzanians to study in the Netherlands, and helped to further strengthen the relationship between the two countries. Last year the NFP was replaced by a similar project, the Orange Knowledge Programme (OKP) (<https://www.nuffic.nl/en/global-development/orange-knowledge-programme>).



NFP send-off event, 2017

Priority sectors

Tanzania has adopted a series of development plans with the aim of achieving middle-income status by 2025. The country is currently implementing the second Five Year Development Plan (FYDP II) 2016/17-2020/21. The main focus of this plan is development of the industrial sector, for example constructing a new standard-gauge 2700km Central Railway Line, developing skills and creating a better environment for doing business. This includes establishing SEZs/EPZs (Special Economic and Export Processing Zones), industrial parks, and logistics hubs and strengthening research and development institutions. With an emphasis on infrastructure, industrialisation and domestic value addition, the embassy sees opportunities for Dutch expertise and investment in infrastructure (including water, sanitation and waste management) and in energy and agricultural value chains.

The impact of the plan will largely depend on the ability of the government to raise and allocate sufficient funding. This will depend on the success of domestic resource mobilisation, foreign direct investment (FDI) and external budget support (in the form of grants and loans).

Agriculture

Agriculture remains the backbone of the Tanzanian economy and of its vision for the future. About 75% of all Tanzanians depend on agriculture for their livelihoods, with most being subsistence farmers. Tanzania wants to invest more in agricultural processing and other value-adding activities, as part of its recently launched industrialisation agenda. As partners in agriculture, the Netherlands and Tanzania work together on strengthening value chains in sectors that include aquaculture, horticulture, poultry, dairy and potatoes. There are plenty of opportunities for Dutch investors and businesses to maximise the potential of their innovation, know-how and technology. Details of the latest developments in Tanzania can be found at <https://www.agroberichtenbuitenland.nl/landeninformatie/tanzania>. In 2017 an agreement was signed on the import of seed potatoes and the two countries are working towards setting up a Centre for the Development of the Potato Industry in Mbeya, which will offer opportunities for investors across the entire value chain.

Infrastructure

There is a major need for improved infrastructure in Tanzania. 95% of all transport takes place by road. Most roads are two-way single carriageways that are poorly maintained and have a high accident rate. President Magufuli was formerly the Minister for Works, Transport and Communication and has a special professional interest in the infrastructure sector, reflected in his plans to improve the railways. The World Bank, the African Development Bank and bilateral donors including China, Turkey and South Korea have all offered financial support (the latter on the condition that Chinese/Turkish/Korean companies are commissioned to carry out the work). This influences competition for contracts in Tanzania. Despite this competition, the Netherlands is supporting the construction of a third terminal at Dar es Salaam airport (commercial financing through Atradius insurance) and the improvements to Kilimanjaro international airport (funded by the Netherlands Enterprise Agency (RVO.nl)

and Atradius). Dutch companies are also involved in establishing an electricity network in Tanzania, building and furnishing hospitals and repairing drinking water systems. The embassy is working to improve solid waste management in Dar es Salaam.



The sea returns waste dumped in the rivers back to the beach

Energy

International oil companies (IOCs) have discovered large offshore gas fields in Southern Tanzania totalling 57 trillion cubic feet (TCF). By comparison, the province of Groningen in the Netherlands had 100 TCF of gas, which has so far lasted 50 years. In April 2016 it was decided that the oil pipeline from Uganda to the coast would run via Tanzania instead of Kenya, mainly due to safety and land rights issues. In May 2017 Tanzania and Uganda signed an intergovernmental agreement on the pipeline. The Ugandan president wants to have oil flowing before the new elections in Uganda in 2020. The pipeline is being operated by Total (France), with stakeholders including CNOOC (China) and Tullow Oil (UK). The tendering process for the pipeline and facilities in Uganda has already started.

Tanzania also has a high and mostly untapped potential for renewable energy sources. Currently, the only resource significantly utilised is hydropower. However, biogas, solar, wind and geothermal projects are all in the pipeline. The 2100 MW Stieglers Gorge hydropower project is also high on the president's agenda.

Starting a business

Doing business in Tanzania is a challenge, but one that has the potential to reap great rewards. Issues include an unreliable power supply, limited availability of skilled labour, underdeveloped transport systems and bureaucracy (in addition to the points described above under 'Political economy'). However, this is fairly

typical for most African countries – doing business in Africa can present particular challenges and require flexibility and entrepreneurship.

There are many untapped opportunities for investment in Tanzania ranging from agribusiness, infrastructure and energy to tourism. One of country's main advantages is its political stability, with investors unlikely to lose their investments due to political turmoil as has been the case in neighbouring countries. Stability creates a conducive environment for businesses to prosper in the long run. The country has plenty of uncultivated arable land for agriculture investment. While the population's level of education is low, there is a large labour force available.

There are currently about 70 Dutch companies active in Tanzania. Many of these investors have been in Tanzania for a long time, in some cases more than 30 years. They do encounter problems, but the business opportunities and high profit margins outweigh the costs of the challenges they face.

Do's and Don'ts

Be prepared

Good preparation is key. Get to know the local economic, political and cultural context. Make good use of the knowledge and services offered by trade associations and government authorities and consult reliable local partners who are familiar with the African/Tanzanian way of business. It is important for entrepreneurs to travel to Tanzania and experience the country first hand. Do not run your business from your office in the Netherlands.

Build relationships

Invest in relationships with reliable local partners. This can speed up the preparatory phase considerably, as it can give you inside market knowledge and access to local networks.

Understand business etiquette

Business cards: have some business cards made as they are important and widely used.

Language: although English is the business language in Tanzania, it may be useful to find reliable interpreters for important business meetings. It helps to break the ice if you know some greetings and simple phrases in Swahili.

Patience: be patient, things do not move at the same pace as in Europe. Meetings do not always start on time and people will sometimes not show up. Government representatives may for example have to attend to other priorities at short notice.

Know your challenges

Manage your expectations, especially when it comes to culture and language, laws and regulations, intellectual property rights, trade barriers, logistics, personnel and bureaucracy.

Develop a solid business plan and carry out market research: set clear goals and ambitions and know your niche market and your competitors. Do not underestimate the need for quality checks on progress and produce.

Act responsibly

Be aware that corruption is still widespread in Tanzania, even though the government is making efforts to curb it. The Dutch government supports enterprises that are serious about international corporate social responsibility.

Financial instruments

In cooperation with the embassy, the Netherlands Enterprise Agency (RVO.nl) offers a range of services and financial arrangements to entrepreneurs who want to do business in Tanzania, including the instruments described below. Most work on a tender principle and have closing dates. See also

<http://www.rvo.nl/onderwerpen/internationaal-ondernemen/landenoverzicht/tanzania>

Dutch Good Growth Fund (DGGF)

The DGGF provides finance for SME entrepreneurs who want to invest in emerging markets and developing countries. The investment or export product must have a positive impact on the country's development.

Sustainable Enterprise and Food Security Facility (FDOV)

The FDOV encourages public-private partnerships in the field of food security and private sector development in developing countries.

Sustainable Water Fund (FDW)

The FDW is a public-private partnership facility that aims to contribute to water safety and water security in developing countries.

Development Related Infrastructure Investment Vehicle (DRIVE)

DRIVE facilitates investment in infrastructure projects that help create a good business climate and boost entrepreneurship in the areas of water, climate, food security, and sexual and reproductive health and rights (SRHR).

Official name	United Republic of Tanzania
Government style	Republic
Population	55 million
Area	947,300 km ²
Capital	Commercial: Dar es Salaam Political: Dodoma
GDP	USD 45.6 billion (2% ICT, 26% industry, 31% agriculture)
GDP per capita	USD 1,040 (2017, IMF)
GDP growth	6.5% (2017, IMF)
Inflation	5.4% (2017, IMF)
Exports	USD 9.38 billion (2016)
Export goods	Gold, tobacco, coffee, cashew nuts, cotton, manufactured goods
Export countries	India, Japan, China, United Arab Emirates, Kenya, South Africa, Switzerland
Imports	USD 10.8 billion (2016)
Import goods	Consumer goods, machinery and transportation equipment, crude oil
Import countries	China, India, United Arab Emirates, Kenya, South Africa, Switzerland
Ease of doing business index	Ranked 137 out of 190 (2018)
Global competitiveness Index	Ranked 113 out of 137 (2017/2018)
Corruption Perceptions Index	Ranked 116 out of 176 (2016)
Moody's rating	B1
Number of jobs created by NL investors*)	13,784
Value of NL investments*)	1,046.10 million
Rating of NL investments*)	8th largest investor in Tanzania

*) Total between 1990 and 2017. Source: Tanzanian Investment Centre

Useful contacts

Tanzanian Investment Centre (TIC): www.tic.co.tz

Tanzanian Horticultural Association (TAHA): www.taha.or.tz

Southern Agricultural Growth Corridor of Tanzania (SAGCOT):

www.sagcot.com

EU Business Group (EUBG): www.eubgtz.com

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