

European Investment in Tanzania:

How European investment contributes to industrialisation and development in Tanzania



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Executive Summary

Snapshot of key data

- The EU remains the largest trading partners of Tanzania with total trade (exports and imports) totalling USD 2 billion in 2013.
- EU^{+SN} represented 68% of total FDI flows into Tanzania in 2012, with a total of USD 1.2 billion invested.
- EU^{+SN} companies classified as 'Large Taxpayers' paid USD 813 million of domestic taxes in 2014, accounting for 25% of taxes paid by large taxpayers in Tanzania.
- The Tanzania Investment Centre attributes the creation of approximately 95,000 direct jobs to EU^{+SN} companies in Tanzania from 2007 to 2014.
- There are an estimated 1000 EU^{+SN} companies in Tanzania, mainly located in Dar es Salaam, Arusha and Zanzibar. Half of them are British companies. The main sectors for investment are Mining, Financial Services, Energy, Agriculture and ICT.

Overview

This investment study¹ draws on available data to showcase the number, nationality and location of European companies invested across all key sectors of the Tanzanian economy. As the study's findings reveal, EU^{+SN}² investors have made a transformational impact in Tanzania in terms of job creation, innovation and their contribution to tax revenue and economic growth. The study not only maps existing European investment in Tanzania but also provides a baseline to support future investment by EU^{+SN} companies and to measure progress in addressing business environment challenges going forward.³

Historically, the EU^{+SN} and the United Republic of Tanzania have enjoyed a robust economic relationship based upon steadily growing investment and trade, and strong diplomatic ties. The EU^{+SN} is a preeminent trading partner as European markets are increasingly open to Tanzanian produce, and as this study demonstrates, jointly, EU^{+SN} trading partners account for a larger share of foreign direct investment in Tanzania than any other trade group. The total flow and stock of European FDI is rising consistently year-on-year as a wide range of EU^{+SN} companies choose to start or expand new business operations in the country.

Key figures

The EU's 28 member states are Tanzania's primary export destination and the country's single most important source of foreign direct investment and bilateral trade. 16% of Tanzania's global exports are destined for the EU's 28 member states, and the total value of these exports to Europe – which averaged USD 650 million per year from 2008-2013 – is growing at a rate of 10% annually.⁴ Imports into Tanzania from EU countries (third import partner after China and India) averaged a substantial USD 1.4 billion per annum between 2008 and 2013, with the total amount rising by an average of 8% each year. **Total trade between Tanzania and the EU today stands at more than USD 2 billion each year.**

Approximately 1000 EU companies from 26 different EU^{+SN} countries have invested in Tanzania. Taken together, from 2008-2014, the **total amount of FDI inflow by the top ten by EU^{+SN} countries to Tanzania was estimated up to USD 4.5 billion.** FDI inflows from EU^{+SN} countries exceed that from any other trading partners: inflows from the top ten European countries in 2012 stood at USD 1.08 billion, compared to USD 507 million from North America (US and Canada), USD 108 million from the East African Community

1 Note: the research for the report was completed in February 2016

2 EU+SN refers to all 28 member states to the European Union with the EFTA countries Sweden (S) and Norway (N) which have companies active in Tanzania.

3 A full explanation of how this report defines and categorises European investment in Tanzania is provided in the Annex to this report.

4 Tanzanian imports into the EU in 2014 (the latest year for which data is available) were 10.5% higher than in 2013.

and USD -20.7 million from the top five Asian countries, for example.⁵

EU^{+SN} companies are significant employers in Tanzania. **In total, the TIC attributes the creation of 93,826 jobs to EU^{+SN} companies in Tanzania⁶.** European companies are also among those that have been most proactive in partnering with government and educational institutions to develop and train the Tanzanian workforce. European companies are the most significant tax contributors in Tanzania. In 2014, **EU^{+SN} companies classified by the Tanzania Revenue Authority (TRA) as Large Taxpayers contributed TSh 1.811 Trillion in taxes, which represent approximately ¼ of all the taxes paid by all the Large Taxpayers.** This figure has been rising consistently by 15%-20% each year since 2010.⁷

Key findings

In the agricultural sector, the 'sleeping giant' of the economy, which employs more than 75% of Tanzanians, European firms are active across the entire value chain. 92 EU^{+SN} companies have invested in the sector, originating from 13 different European countries, with the UK and the Netherlands accounting for the largest share. **Many of these firms are leading players in their sub-sector in terms of both innovation and investment size, and they are widely dispersed across every region of Tanzania.** As an example, in the sugar sector, where EU^{+SN} investor Kilombero Sugar Company is the largest player, producing 130,000 tonnes of sugar annually and employing 105,000 people directly and indirectly in the Kilombero Valley area. In the agro-input sector (seeds, fertiliser and pesticides), three European firms – Yara, Syngenta and Bayer CropScience AG – account for the majority of all investment and sales.

In the mining sector, which is focused on Tanzania's underdeveloped western and north-western interior, EU^{+SN} **investors have played a central role in the industry's development.** As of 2014, some 61.6% of all gold production in the country came from European companies, with Acacia Mining and Shanta Gold as the leading firms. Total tax and royalty payments contributed by European gold mining companies to date are in excess of TSh 1 Trillion. Across the sector, some 22 EU^{+SN} mining and mining services companies

from eight different European countries have active operations, of which five are classified as Large Taxpayers.

In the onshore oil and gas sector, two European investors have led the industry's development: UK-based Songas and France-based Maurel & Prom. Songas transports gas from Songo Songo Island in Lindi region via a 225-kilometer pipeline to Dar es Salaam; while Maurel & Prom operates five wells in the Mnazi Bay gas field in Mtwara region that will deliver up to 130 million CF of gas per day to the Dar es Salaam region. **Taken together, this gas infrastructure holds the key to solving Tanzania's rumbling power crisis and to unleashing the country's economic potential.**

In the offshore oil and gas sector, investment from Europe's leading International Oil Companies (IOCs) has catapulted Tanzania to the front rank of global oil and gas exploration since 2010. EU^{+SN} investors BG Group, Ophir Energy and Statoil and their partners in offshore blocks 1 to 4, have discovered approximately 57 trillion cubic feet of gas.⁸ These companies are also spearheading development of Tanzania's flagship USD 15-- 25 billion Liquid Natural Gas (LNG) export project in Lindi region, which is expected to generate at least 1,000 specialist oil and gas services jobs and more than 20,000 engineering and support jobs over the next ten years. **Overall, 18 EU^{+SN} companies are active in Tanzania's upstream oil and gas sector, representing approximately 70% of the total.** Seven are classified as Large Taxpayers.

Tanzania's manufacturing sector contributes 8.6% to GDP, though President Magufuli's government is targeting a more ambitious figure of 15% by 2020. The sector reached an important tipping point in 2014/2015 with manufacturing exports having expanded to USD 1.4 billion, overtaking gold as the largest contributor to exports in the process. **TIC data indicates that 169 European companies from 20 countries have invested in the manufacturing industry, seven of which are Large Taxpayers.** Examples of sub-sectors in which European firms predominate include cement manufacturing, where two companies – France-Swiss based Lafarge-Holcim and Germany-based Heidelberg Cement Group – account for more than 35% of the market, and the beverage industry, where EU^{+SN} investors account for more

5 2012 is the latest year for which data is available. The figure for the top five Asian countries (China, Japan, India, Malaysia and Pakistan) is an average for the period 2008-2013 and the figure for 2012 was negative. Source: Tanzania Investment Report 2013

6 Estimated data for period 2008-2012

7 Payments are spread evenly by tax type as follows: VAT (15% of the total), income tax (15%), excise duty (14%), P.A.Y.E (14%), rental tax (14%), Skills Development Levy (14%) and other taxes (14%).

8 BG Group was acquired by Anglo-Dutch firm Royal Dutch Shell in early 2016.

than 90% of market share.

Tanzania's construction sector is set to enjoy growth of 8.3% on average between 2015 and 2020. Infrastructure is the largest sub-sector but the real estate industry alone has the potential to generate USD 2 billion each year, equivalent to more than 6% of the country's GDP, driven by demand for affordable housing complexes, modern office buildings and shopping centres. **In total, 38 EU^{+SN} companies are active in the construction industry, originating from eight different European countries.** Examples of EU^{+SN} market leadership in construction include UK-based Helios Towers, the first independent mobile network tower construction company in Africa, which is working with all major mobile network operators in Tanzania; BAM International, which is leading upgrade work in the aviation sector with projects at Julius Nyerere and Kilimanjaro international airports; and France-based Sogea-Satom and Germany-based Strabag Group in the roads sub-sector, where the latter is constructing the flagship Bus Rapid Transit (BRT) Infrastructure project in Dar Es Salaam.

In the power sector, Tanzania is gifted with an array of unexploited energy sources, from biomass, natural gas, and hydro, through to uranium, coal, geo-thermal, solar and wind. The country's power-generation potential is among the highest in Africa, and the diversity of its energy mix is almost unrivalled. The challenge facing the power sector is daunting – a massive 9 GW of additional power will be needed by 2035 to meet new demand and to replace older facilities – but credible plans and policies are in place to increase installed generation capacity to match demand growth. **European investors are playing a leading role.** The Ubungu plant owned and operated by UK-based Songas alone generates 180 MW of electricity or roughly 20% of Tanzania's electricity supply. In the renewables sector, a cluster of European firms have developed a market leading position, including Denmark-based Wind East Africa (developing a USD 285 million, 100 MW wind farm in Singida) and German companies SolarGrid Tanzania Ltd, Forsera and Mobisol, which serves over 30,000 customers in Tanzania with household solar energy products.

The Information, Communications and Technology (ICT) sector is both the fastest-growing industry in the country – expanding at 20% per annum – and **the most salient example of the positive impact of European investment in Tanzania.** In the space of a decade, two EU^{+SN} investors in particular – Vodacom and Tigo – have transformed the country's mobile telephony and financial services sectors, breaking down traditional industry boundaries and making Tanzania the global leader in innovative pro-poor mobile financial services. Together, these two European investors accounted for 69% of all telecommunications service revenue in Tanzania in 2015.⁹

In the fast-growing financial services sector, UK-based investors Barclays, Standard Chartered, National Bank of Commerce (NBC) and National Microfinance Bank (NMB) are all among the top seven universal banks by asset base. NBC and NMB, which emerged in their current form following state privatisations mid-1990s, are model examples of the value of co-ownership between a European investor with world class banking expertise and Tanzanian partners. **The efforts of these banks have contributed significantly to the increase in the share of the population with access to financial services from 27% to 50% between 2008 and 2013.**

Activity in Tanzania's transport and logistics sector is driven by the country's status as a regional trade gateway and by government-led efforts to address the country's infrastructure deficit via a pipeline of transport and utilities infrastructure projects worth in excess of USD 19 billion. **EU^{+SN} trading partners account for some 132 transportation companies originating from 15 different European countries.** In the shipping sub-sector, EU^{+SN} firms Maersk Group and Mediterranean Shipping Company are examples of market leadership; while France-based Africa Bolloré Logistics is an example of a market-leading firm offering full spectrum logistics services.

Tanzania's tourism sector has witnessed double-digit growth for more than a decade, but this robust performance provides only a hint of the scale and breadth of the future opportunities available across the industry. The Tanzania

⁹ The next phase of this on-going revolution will be the repositioning of Vodacom and Tigo as the country's largest internet service providers – a move that will allow the mobile data services market to flourish.

¹⁰ These European tourism ventures are spread across the country. However, three main clusters of EU+ investment stand out: the Zanzibar archipelago; the northern circuit (taking in Arusha, the Serengeti, Lake Manyara, Tarangire National Park and the Ngorongoro Conservation Area) and the southern circuit (including the coastline around Dar es Salaam, Selous game reserve and Mikumi and Ruaha national parks).

Tourist Board aims to multiply tourism revenues eight-fold by 2025 to produce USD 16 billion in earnings per year. An impressive range of EU⁺SN companies – more than 200 firms from 19 different countries – are active in the sector. The UK has the largest number of tourism investments at 115, followed by Italy with 75, and Germany with 30. **As these tallies indicate, European businesses account for the majority of all tourism investment in the country.** None rank among Tanzania's Large Tax-payers, but together they represent the backbone of the industry and have been responsible for the sector's recent growth and diversification.¹⁰

Business environment

As one of the fastest-growing and most stable emerging markets globally, Tanzania's overall macro-economic outlook is positive. The economy is projected by the African Development Bank (AfDB), the World Bank and the International Monetary Fund (IMF) to grow by 6-8% in the medium-term, underpinned by continuing foreign investment, strong private consumption, and robust growth across all of the sectors highlighted above. This forecast growth trajectory places Tanzania in the world's top five fastest-growing economies for the seven-year period to 2023.

There is no doubt that with an increasing population, valuable natural resources, vast arable land and a strategic location in East Africa, Tanzania will continue to attract further investments from Europe. However, this attraction could be even higher if a number of obstacles to doing business, already revealed in the latest World Bank's Ease of Doing Business Report (2016) and reprised in this report, could be efficiently tackled by the Government of Tanzania.

Issues such as trading across borders, paying taxes, contract enforcement and immigration continue to be the main obstacles for European businesses to grow in Tanzania. Other matters such as policies and institutional constraints, energy generation, shortage of skills and corruption are another source of concern.

Looking ahead

The concrete cases of European businesses described in the study, in sectors as different as tourism, construction, mining and other sectors, present successful stories of positive contribution to Tanzania by European investors. **The study demonstrates, with facts and figures, that the role of European investment to Tanzania's growth over the past years is substantial.**

It is now established that the European private sector, present in all sectors of the Tanzania's economy, has a crucial impact on revenue collection, and on employment creation. These are the best long-term solutions for poverty reduction. European investments have also contributed to open the door to multiple partnerships between businesses across borders, stimulated other investments in the supply chain and provided citizens with new services and technology.

The Tanzania's Five Year Development Plan II (FYDP II) embodies a "business unusual" approach for embracing strategic partnership with the private sector and facilitating its development and competitiveness. The European private sector, with capital, know-how and technology would like to reinforce its partnership with the Government for an effective dialogue on the implementation of the FYDP II.

Within this framework, creating a conducive environment for the private sector to thrive is a priority. As often highlighted in numerous economic analyses, the private sector is the engine of growth, poverty reduction and the driver of economic transformation. With appropriate policy measures to generate an attractive business and investment environment, the engine could be boosted.

European investors hope that this study, by demonstrating the value of their contribution to the Tanzanian economy, will open the floor to an enhanced partnership with the Government of Tanzania and other Tanzanian private sector stakeholders. **European investors stand ready to play their role of international investor reference partner in a dedicated forum for dialogue** between the Government of Tanzania and the overall private sector in Tanzania.