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TANZANIA

OPERATIONAL RISK REPORT

INCLUDES THE BMI OPERATIONAL RISK INDEX

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Tanzania Operational Risk Report Q3 2016

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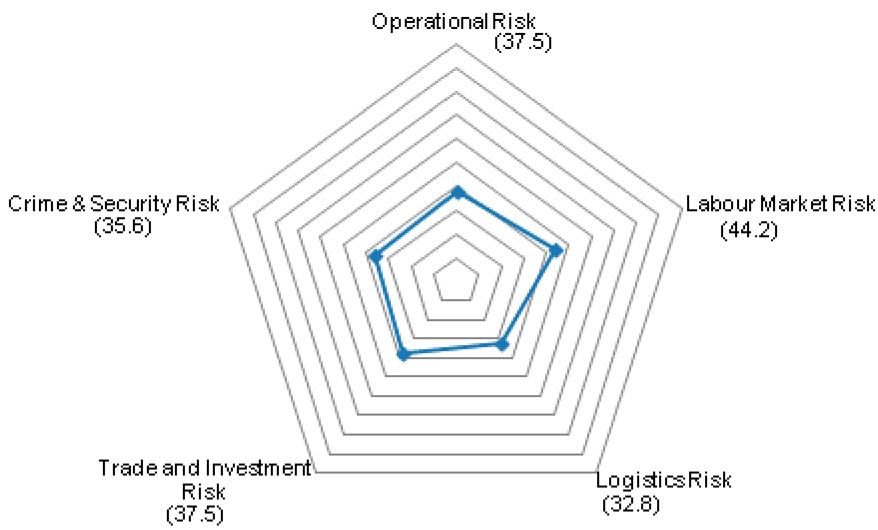
BMI View

BMI View: *Tanzania is characterised by a moderate level of operational risk by regional standards, underlined by relative political stability and a diversity of trade and economic opportunities. Further advantages include moderately low labour costs, a large labour pool and a wealth of natural gas reserves, though production will not start until 2023. The main challenges investors face in Tanzania include: transport and supply chain bottlenecks, burdensome bureaucratic procedures, low levels of urbanisation, industrialisation and productivity, weak service delivery resulting in low life expectancy levels and a predominantly unskilled workforce. Corruption is pervasive throughout Tanzanian society and is a serious problem across all sectors of the economy, heightening legal risks for foreign investors. Tanzania's limited transport network and cumbersome trade procedures constrain business operations. Consequently Tanzania scores 37.5 out of 100 for Operational Risk, ranking 16th out of 48 states in the region and 156th out of 201 states on a global scale.*

Security, Logistics Risks Weigh Down Operational Risk Environment

Tanzania - Operational Risk



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Operational Risk Index

Logistics (32.8/100): Due to its strategic location, Tanzania's transport system serves as an important link in regional trade, enabling landlocked neighbours to access maritime trade routes through Tanzania. Within this, firms benefit from a competitive and efficient system of trade procedures and governance within the context of the region, enabling companies to lower trade costs and maximise price competitiveness for their products. At the same time, the national transport network is of a fairly high quality, particularly in terms of the country's ports. Tanzania also offers competitive packages in terms of pricing and accessibility for a number of important utilities, notably water and electricity. However, a moderate level of risk stems from other characteristics of the country's logistics capabilities, including the limited size and extent of the national transport network, particularly within air travel, and cumbersome and lengthy customs procedures that inhibit the efficient flow of trade.

Crime and Security (35.6/100): Security risks in Tanzania are moderate in comparison with its regional peers, as the country enjoy stable relations with its neighbours, possesses one of the most capable military forces in the region. However, its porous borders elevate the threat of terrorism from regional groups and businesses remain exposed to organised crime and corruption.

Trade and Investment (37.5/100): Tanzania offers a number of strategic advantages to investors and businesses, including a wealth of natural resources and a government that is becoming increasingly more open to foreign participation in the economy. However, firms continue to face challenges in the form of non-tariff trade barriers and difficulty competing with public sector firms in key economic sectors. Tanzania's main challenges include addressing infrastructure bottlenecks, improving the business environment, increasing agricultural productivity and value addition across all sectors and managing urbanisation. Corruption is pervasive throughout Tanzanian society and is a serious problem across all sectors of the economy. The most affected sectors are government procurement, land administration, taxation and customs.

Labour Market (44.2/100): With one of the most competitive labour markets in Sub-Saharan Africa, Tanzania offers a relatively low level of labour risk to investors and businesses. Benefits include flexibility in hiring and firing workers, a high percentage of working-age citizens and women employed in the workforce and increasing education attainment levels in the workforce. However, businesses face a moderate level of risk in the poor quality of the country's educational sector. Despite rapid growth in enrolment rates as well as educational facilities, a scarcity of state funding has constrained the development of secondary and tertiary education, resulting in a limited supply of high-skilled and technical labourers. This necessitates high training costs and the import of foreign labour.

Table: Tanzania - Operational Risk

	Operational Risk	Labour Market Risk	Logistics Risk	Trade and Investment Risk	Crime and Security Risk
Tanzania Score	37.5	44.2	32.8	37.5	35.6
Sub-Saharan Africa Average	35.4	39.1	33.8	35.8	32.7
Sub-Saharan Africa Position (out of 48)	16	12	27	17	22
Global Average	49.8	50.3	49.3	49.9	49.8
Global Position (out of 201)	156	147	166	147	148

Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Operational Risk Index

BMI's Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk state. The entire index consists of 20 sub-index scores and 79 individual surveys and datasets, which all contribute to the headline score. A full methodology can be found at the end of the report.

SWOT

Operational Risk

SWOT Analysis

Strengths

- There is limited risk of conflict with other states.
- The low cost of exporting from and importing to Tanzania makes the country competitive from a regional perspective and boosts the country's role as a transit point to landlocked countries.
- Tanzania has achieved nearly universal access to primary education.
- Increased regional integration, with Tanzania's participating in major sub-regional and regional trade agreements, benefits trade flows.

Weaknesses

- Porous borders leave the country vulnerable to regional terrorist groups.
- Access to water is poor, with some areas of the country experiencing just five hours of water per day. Sanitation rates are even worse, threatening the health of the labour force.
- A lack of resources for secondary and tertiary education lowers the quality of education received in Tanzania.
- A low number of bank branches per population means Tanzanian consumers have limited access to capital.

Opportunities

- Increased regional and international coordination may lower the threat of terrorism.
- The introduction of compulsory secondary education will boost the level of skill in the workforce.
- Rail is expected to play a growing role in freight transport owing to new routes between Tanzania and neighbours Rwanda and Burundi, as well as routes built out of the country's mining bases; this will decrease the pressure on road freight and aid in tackling congestion.

SWOT Analysis - Continued	
	▪ The discovery of natural gas could significantly boost trade flows and foreign reserves.
Threats	▪ An inability to prevent the expansion of cybercrime and financial crime means these crimes will pose greater threat to companies in the medium term. ▪ Projections indicate that by 2025, Tanzania will experience water stress due to population growth and the resulting increase in consumption. This will place further pressure on the country's utilities. ▪ Growing unemployment, particularly among the youth population, could lead to growing discontent and political instability. ▪ Widespread corruption, particularly in the legal system, will continue to drive up the cost of doing business in the country.

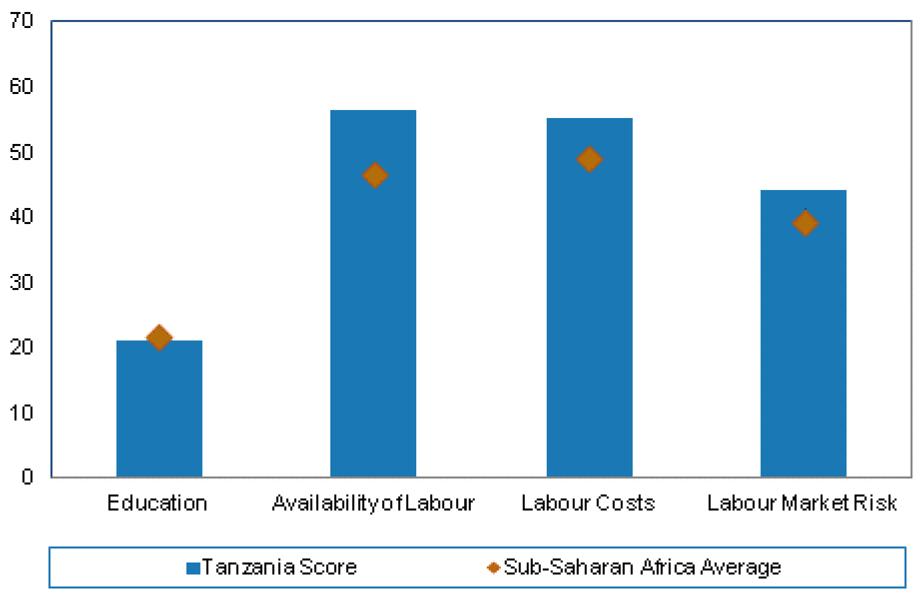
Labour Market Risk

BMI View

BMI View: *With one of the most competitive labour markets in Sub-Saharan Africa (SSA), Tanzania offers a relatively low level of labour risk to investors and businesses. Benefits include flexibility in hiring and firing workers, a high percentage of working-age citizens and women employed in the workforce, and increasing education attainment levels in the workforce. However, businesses face a moderate level of risk in the poor quality of the country's educational sector. Despite rapid growth in enrolment rates as well as educational facilities, a scarcity of state funding has constrained the development of secondary and tertiary education, resulting in a limited supply of high-skilled and technical labourers. This necessitates high training costs and the import of foreign labour. As a result of these factors, BMI has awarded Tanzania a score of 44.2 out of 100 for Labour Risk, ranking the country 12th regionally, behind Kenya and Rwanda, but ahead of Mozambique.*

Labour Market Remains Regionally Competitive

Tanzania & Regional Average - Labour Market Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

Education (21.1/100): Education is a key component of the government of Tanzania's development agenda such that the country has made significant gains in improving access to and equity of primary education. However many challenges persist related to retention, completion and transition to secondary education, the quality of education, actual learning outcomes and the relevance of skills that graduates bring to the economy. Additionally, many children enrolled in school drop out before completing primary education, especially girls. Significant deficiencies in educational attainment levels within the workforce are magnified by the wide gender, regional and socio-economic disparities in access to quality general and tertiary education. This is largely a product of limited resources, particularly at the tertiary education level, which produces a negligible number of graduates with skilled degrees. As a result, firms face a shortage of well-educated workers with technical knowledge. Businesses looking to fill technical positions will face additional training costs and may have to import skilled foreign labour which raises operational costs.

Labour Costs (55.1/100): Risk from the country's underdeveloped education sector is moderated by relatively low labour costs. Benefits to firms include a stable labour-management environment, a competitive severance package and a limited number of paid annual holidays. Official unemployment is also very low by regional and global standards, however, vulnerable employment remains high posing a risk of potential unrest as a result of a dearth of employment opportunities. Youth unemployment is also at least double the national rate, particularly among educated Tanzanians, leaving the potential for instability in the future. Furthermore, it highlights the lack of formal on-the-job-training in the workforce, raising training costs and limiting labour mobility. Average wages remain competitive by regional standards, though costs are pushed up by burdensome labour-related tax requirements and low relative productivity levels. Businesses also benefit from a relatively flexible system for hiring foreigners and the improving ease of hiring workers from EAC regional counterparts.

Availability of Labour (56.4/100): Tanzania's most significant advantage in the domain of labour risk lies in the availability of its labour. Benefits to investors include the fact that Tanzania has the highest rate of female participation in the workforce as well as the largest percentage of the working age population in employment in SSA. Increasing labour mobility within East Africa will improve the availability of labour over the medium term. Tanzania is, however, characterised by a low urbanisation rate and the country's average life expectancy declined considerably with the HIV/AIDS epidemic and a poor healthcare system. This raises risk of absenteeism and high staff turnover, lowering productivity and raising labour costs. However, government initiatives aimed at addressing the spread of HIV/AIDS and improving responses to water-borne diseases have resulted in a gradual recovery of life expectancy averages, which will serve to lower the risk associated with worker productivity and wellbeing in the long term.

Table: Tanzania - Labour Market Risk

	Education	Availability of Labour	Labour Costs	Labour Market Risk
Tanzania Score	21.1	56.4	55.1	44.2
Sub-Saharan Africa Average	21.7	46.5	49.2	39.1
Sub-Saharan Africa Position (out of 48)	22	3	17	12
Global Average	49.1	49.8	52.2	50.3
Global Position (out of 201)	173	54	87	147

Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

BMI's Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk state. The entire index consists of 20 sub-index scores and 79 individual surveys and datasets, which all contribute to the headline score. A full methodology can be found at the end of the report.

SWOT

SWOT Analysis

Strengths

- Tanzania has near-universal access to primary education, which boosts the availability of the labour force with basic skills.
- Tanzania has one of the highest regional net enrolment rates for secondary education, which widens the availability of educated workers.
- Competitive labour costs at the regional level decrease employment costs for businesses.
- Ease in hiring foreign workers mitigates limited skills in the workforce.

Weaknesses

- A lack of resources for secondary and tertiary education hinders the quality of education received by students.
- Limited access to healthcare means Tanzania's labour force suffers from a number of health problems that reduce productivity.
- A scarcity of technical workers increases the need to bring in foreign workers.

Opportunities

- The introduction of compulsory secondary education will help to boost education levels in the medium term.
- An increasingly well-educated youth population is entering the country's workforce, meaning investors will be less reliant on importing foreign workers at additional cost.

SWOT Analysis - Continued	
Threats	▪ Growing unemployment, particularly among the youth population, has the potential to cause discontent. ▪ Persistent inequality along regional and socio-economic lines for access to education means investors will be constrained as to where they are able to operate. ▪ A new law by the Tanzanian government to enforce USD2,000 fees for work permits to other African countries means the country is likely to see its migrant stock population reduce in the medium term, leading to a decreased availability of workers.

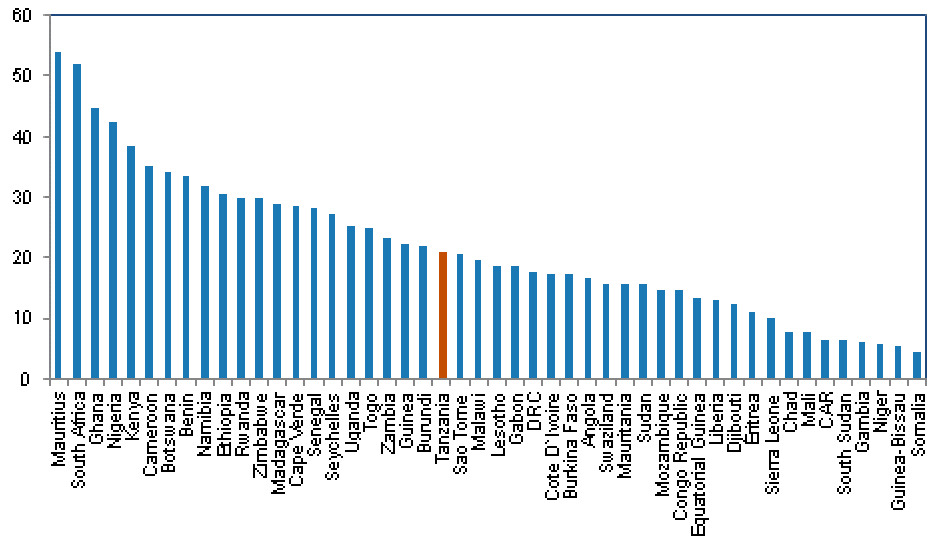
Education Analysis

Education

BMI View: *Education is a key component of the government of Tanzania's development agenda, such that the country has made significant gains in improving access to and equity of primary education. However, many challenges persist related to retention, completion and transition to secondary education, the quality of education, actual learning outcomes and the relevance of skills that graduates bring to the economy. Additionally, many children enrolled in school drop out before completing primary education, especially girls. Significant deficiencies in educational attainment levels within the workforce are magnified by the wide gender, regional and socio-economic disparities in access to quality education. This is largely a product of limited resources, particularly at the tertiary education level, which produces a negligible number of graduates with skilled degrees. Businesses looking to fill technical positions will face additional training costs and will have to import skilled foreign labour which raises operational costs. Consequently, we score the country 21.1 out of 100 for Education, ranking Tanzania 22nd in Sub-Saharan Africa (SSA) and a low 173rd out of 201 countries worldwide.*

Education Levels Lagging Behind Regional Peers

SSA - Education Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

Latest Education Analysis

- In a key policy shift, from January 2016, primary and secondary schooling will be free for all Tanzanian children. Furthermore, the Tanzanian government has warned that it will impose fines on parents who fail to ensure their children attend school. This move will ease the burden of tuition payments for most low-income families and boost the skills development in the labour force over the long term. There remains a need to further improve access to quality education by providing adequate learning materials and reduce widespread practice of child labour, that negatively affects attendance.

- In May 2016, several members of parliament urged the government to seek ways to effectively transform the current education system and develop a sustainable structure that addresses the skills mismatches in the market and is globally competitive. Debating the education, science, technology and vocational training ministry's budget estimates, a section of legislators attributed the poor education system to the department's failure to devise a structure that is clear, involving consultations with key stakeholders.

- In May 2016, the Ministry for Education and Vocational Training presented a budget of TZS1.39trn, a considerable portion of which will be directed towards improving deteriorating infrastructure for 33 schools. Improvements in infrastructure will boost the education system over the long term. In addition, the ministry outlined plans to further expand vocational training and tend to the needs of disabled children. In the short term, the ministry plans to acquire facilities such as Braille machines and wheelchairs. This will improve the availability of labour in the medium- to long-term and reduce the government's welfare burden by empowering special needs students.

- The government of Tanzania has given unregistered private schools operating in the country a July 30 2016 deadline to apply for accreditation. Failure to adhere to the directive will result in the closure of the schools and the transfer of students to registered schools. This arrangement seeks to improve the monitoring of the education sector. The prevalence of non-accredited schools raises the likelihood of poor learning outcomes.

General Education

Primary and secondary education in Tanzania is free, however, due to widespread poverty; many households struggle to pay for uniforms, testing fees and school supplies, making it unattainable for some low-income families. Risks are heightened by the prevalence of child labour in the country, which negatively impacts retention and attendance rates. Though improvements in access to education will increase the proportion of the labour pool with a formal education, deficiencies in quality and resources exacerbate the skills shortage in the country as literacy and numeracy levels remain low. This state of affairs necessitates considerable training costs and the import of foreign workers, particularly for firms looking to recruit semi-skilled to skilled labour.

In mainland Tanzania, pre-school education caters to children aged five-to-six years old, lasts two years and is mainly provided by private entities; attendance is not compulsory. Primary education is compulsory and lasts seven years; however, due to the shortage of classrooms, late entrants are common. Education is free in theory up to secondary school level in Tanzania, although the completion rates to the last grade of primary are low (66.65%) as poorer parents are unable to afford uniforms, school materials and examination fees. Furthermore, most schools in rural areas do not have books and classes are overcrowded, reducing the quality of learning outcomes.

The completion of the primary school cycle is marked by sitting the Primary School Leaving Examination, which is mainly used for secondary school selection purposes. Secondary education in Tanzania follows the Cambridge model of ordinary and advanced levels where private schools also write international exams and public schools follow the national equivalent. Secondary education is divided into two cycles: the first cycle, of four years' duration, prepares students for the Certificate of Secondary Education Examinations; the secondary cycle, lasting two years, leads to the A-level examination. Graduates of primary education may also follow two-year craft courses offered at post-primary vocational training centres.

The extension of free access to education to include secondary school education will increase enrolment rates over the medium term. However, serious challenges are evident in the implementation due to underfunding and poor planning, which results in congested classrooms, wide regional disparities, limited facilities and shortage of qualified teachers. The pupil to teacher ratio currently stands at 43.44 in primary school, higher than Zimbabwe (35.9) and lower than Kenya (56.6). Poor learning environments disrupt the process of skills development, such that firms looking for workers with basic literacy and numeracy skills will continue to face restricted recruitment options.

Tanzania has made considerable progress over the past decade in terms of enrolment rates, but learning outcomes have been declining as schools battle to cope with larger numbers of children. The increase in education access has not been met with increase in supporting infrastructure and learning materials as well as an improvement in effective resource allocation. To address this, Tanzania, with support from international donors such as USAID and the World Bank among others, is adopting a new approach to solving development challenges in education under the 'Big Results Now in Education' programme. The program is expected to fast-track quality improvements in primary and secondary education to ensure that students are not just going to school but actually learning.

The Big Results Now in Education programme includes financial rewards for school performance, early grade student assessments, targeted support to underperforming students, recognition incentives for teachers and ensuring that funds reach schools in a timely manner. The USD416mn programme is being supported by the Tanzanian government's own financing and from funding provided by the governments of UK, Sweden, and the International Development Association (IDA).The traditional approach to project planning and budgeting has been replaced by a more rigorous process of planning, implementation and monitoring. This will enable Tanzania to reform its institutions for more productive investments in human capital development.

During 2012, US assistance to Tanzania increased access to basic education for almost 285,000 students, more than half of whom were girls and also provided secondary school scholarships for 700 girls from disadvantaged communities. Additionally, USAID supported an adult literacy programme, which empowered 3,600 Maasai women to start their own businesses and secure land rights.

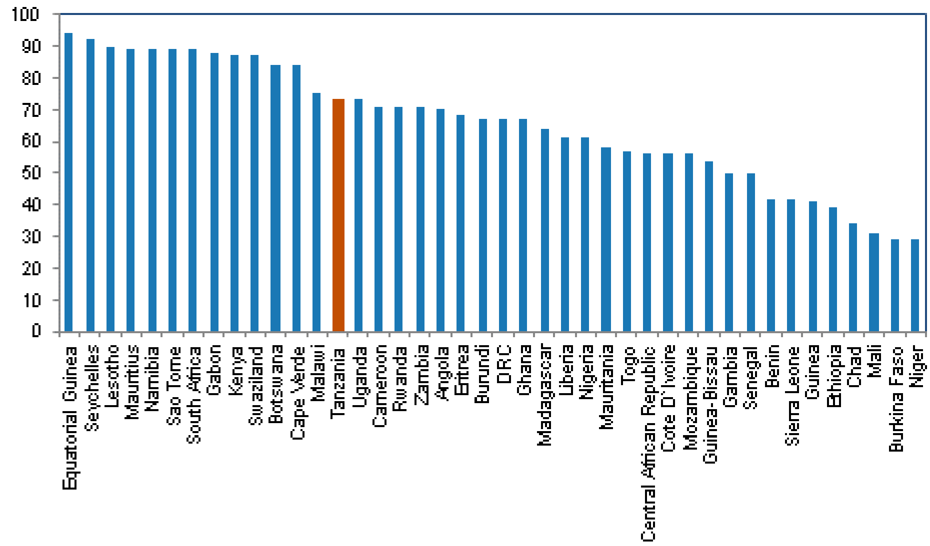
Education expenditure currently stands at 17.3% of total government spending (the equivalent of 3.5% of GDP.) This is low in comparison to Ethiopia's 27% of government expenditure on education and Kenya's education expenditure of 20.6%. The over-reliance on aid organisations to supplement the education sector highlights the deficiency in resources and presents a risk of the unsustainable nature of the state's drive to ensure universal access to education that is not met with improvements in quality. Furthermore according to the 2016-2017 education budget and strategy tabled before parliament, the education ministry aims to allocate 45% of the budget to the higher learning education, which is a key disadvantage with respect to skills development. This will raise the likelihood of poor educational outcomes in basic education as primary education remains underfunded and consistently poor literacy rates.

Primary Education

Tanzania has achieved significant progress in raising the basic skills of its population, particularly among the nation's youth. According to UNESCO, in 2015, literacy rates for ages 15-24 stood at 87.3%, underlined by significant gender parity, whereas for those aged 65 and older literacy rates were a low 47.6%, with females twice as likely to be illiterate as their male counterparts. This highlights significant improvements in access to education and skills development. Businesses will benefit from an increasing number of workers with basic skills over the medium- to long-term. However, some regional and socio-economic gaps remain, despite the country having largely closed the gap in primary educational attainment between male and female students.

Uncompetitive Levels Of Literacy, Numeracy Compared To Regional Peers

SSA - Literacy Rate



Source: UN

With a literacy rate of 73%, Tanzania places 14th regionally for this indicator, ranking jointly with Uganda and marginally above Rwanda. Although the country scores higher than the majority of African countries, progress in increasing literacy levels in the population has been constrained by limited state resources and pervasive poverty, which have led to a notable decline in the country's educational performance, characterised by growing illiteracy and failing school attendance rates. According to the World Bank, 34.7% of children aged seven to 14 years are employed or economically active. Endemic poverty is the biggest contributor towards the number of children out of school, where in 2013 this figure stood at 1.7mn up from an estimated 770,000 in 2005, according to UNESCO. Within the population, the mean years of schooling stands at just 5.8, ranking the country 13th in the region for this indicator, below Kenya (6.1 years), meaning many children achieve only the basic primary education that is compulsory under the law and do not progress to secondary school. Consequently, a small proportion of Tanzania's labour force has received basic education, resulting in a dearth of skilled workers in the labour market.

However, the Tanzanian government has sought to reverse poor education outcomes by increasing public expenditures on education from 2.2% of GDP in 2002-2005 to 3.5% in 2015 and by improving access to primary education, beginning with the implementation of the Primary Education Development Plan. Since 1991, net primary school enrolment has increased from 49.0% to 83.5%, meriting a rank of 26th regionally, marginally ahead of Kenya (83.58%) and well behind Rwanda (93.4%). The system has also helped largely eliminate gender inequality in access to primary education, enabling employers to increasingly benefit from a growing population of young workers, male and female, endowed with basic literacy and numeracy skills. Nevertheless, conditions in the education sector are uneven and the quality of education is an issue of concern. Net primary school and gross primary school enrolment rates for the period 2010-2015 have continued to decline, mostly because of increasing dropouts at higher grades.

Significant room for improvement remains in the quality of education received by Tanzanian children due to a scarcity of resources and teachers, with an average of one textbook for every five students and an average classroom size of 66 students in state schools as of 2011. Progress is also needed in attendance and completion rates, the latter being only 62%, which may restrict the capabilities of young workers. Despite the introduction of free primary education for all, poorer children also remain at a disadvantage vis-à-vis more privileged children due to various fees necessary to receive education, while pupils living in rural areas experience more difficulty in accessing school facilities than children in urban areas.

Secondary Education

Tanzania performs poorly at the regional level for its secondary education system, with among the lowest net enrolment rates in the region for secondary school (32.2%) and for female secondary school enrolment (30.8%). Significant improvements have been made in recent years to increase access to secondary school, but shortages in funding translate into a lack of facilities and other resources, constricting secondary school attainment rates. A small proportion of the Tanzanian workforce has received a secondary education, necessitating high training costs and the import of foreign workers for firms over the medium- to long-term.

One of the main challenges facing the secondary education subsector is the persistently high dropout rate. The rate is higher at O-Level compared to A-Level, with many students still unable to afford the cost of educational material despite the provision of free education by the government. Furthermore, endemic poverty in the country has meant that many students drop out of school in order to become economically active or employed and help support their families. Challenges remain with regard to retention and performance of girls at all levels of education as early pregnancies and marriage continue to contribute significantly to school dropouts among girls in both rural and urban areas. This highlights a dearth of skilled female workers over the medium to long term, restricting the pool of skilled workers and recruitment options for businesses seeking to fill skilled gender specific roles.

The school curriculum in Tanzania has been criticised for being too examination-oriented with no provision for local flexibility and adaptability. Consequently, students resort to rote learning with few opportunities for practical activities related to the labour market, leaving them unprepared for later employment. Most graduates of O-level and A-level do not have the sufficient knowledge and vocational skills that are needed in both formal and informal sectors of the economy. For example, subjects such as ICT and English as well as other foreign language skills are not well provided for, meaning businesses will struggle to communicate with their employees or will be required to provide them with additional training.

The development of the country's secondary education system is constrained by inadequate resources, particularly in the realm of funding. According to UNESCO, government expenditure on secondary education per student stands at USD244, one of the lowest levels of funding in the region. As a result, the secondary education system is characterised by a shortage of schools, textbooks and teachers, and low access to water and sanitation. Specifically, education infrastructure suffers from a lack of school buildings, while those that do exist are in poor condition. Teachers receive inadequate salaries, thereby limiting the quality of teaching. However, from January 2016, the government has made secondary education compulsory, which will likely improve children's access to higher education and overall educational attainment in the Tanzanian workforce. Additionally, institutions within different regions of the country are stepping up to enhance the accessibility and quality of secondary education. For example, an estimated 21 secondary schools will be built in the coastal region, while new programmes will be introduced into existing schools.

Yet many students are not equipped at the primary level to continue to secondary education, further lowering the availability of workers with a secondary education background. Primary school students are obliged to pass the Primary School Leaving Exam in order to continue on to secondary education. In 2013, 49.4% did not pass, equivalent to more than 400,000 students. Critics argue that the exam should be used to assess pupils rather than a selection mechanism for secondary school, which would likely increase secondary school educational attainment. Meanwhile, in 2012, a reported 397,126 secondary school students wrote the national Form Four examinations, of which 61%, or 240,903 students, failed - a state of affairs that is attributed to poor reading, writing and mathematics skills attainment from the primary school level. As a result, businesses may face a scarcity of well-educated workers, necessitating imports of foreign labourers.

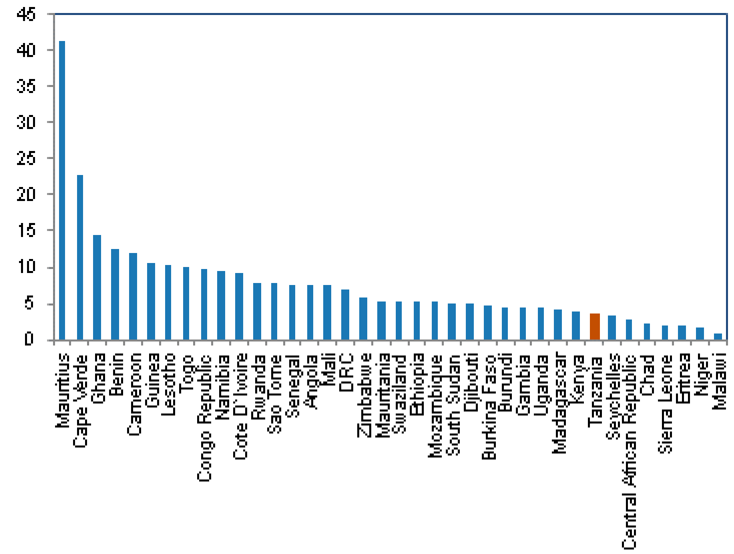
Tertiary Education

The most significant labour risk in Tanzania's education system is derived from the tertiary education sector. Although the number of students and universities has increased considerably over the last decade, enrolment rates remain low, suggesting businesses will be heavily reliant on importing foreign workers to fill high-skilled positions. Additionally, tertiary education is characterised by a severe lack of funding and resources, leading to a low quality of education for those who do attend and a scarcity of well-educated and qualified labourers in more sophisticated economic sectors. As a result, Tanzania receives a score of 19.6 out of 100 for Tertiary Education, ranked 24th regionally, well behind Kenya and Rwanda, marginally ahead of Mozambique.

The tertiary education system has significantly increased in size, from only three public universities in 1995 to a total of 32 public and private institutions that served around 140,000 students in 2012. By 2015, the number of universities and higher-learning education facilities has risen to over 40, reflecting burgeoning demand for tertiary education in the country. However, the quality of higher public education is very low, and the country's private universities are generally unaffordable for most Tanzanians. The poor quality of education is largely the result of a shortage of resources; between 2009 and 2010 and 2014 and 2015, the budget for higher education has been estimated at TZS3.603bn, of which TZS3.178bn will be supplied by the state while the remainder will come from development institutions. A significant portion of this funding is spent on financial aid for students, which has accounted for as much as 50% of state expenditure on higher education. Additionally, many Tanzanian universities are burdened by overcrowding, limited teaching facilities, poor infrastructure and a lack of staff and teaching resources, translating into generally low quality education even for university graduates. Students also encounter difficulties in the university application process, as poverty prevents many from visiting institutions or accessing a computer, though government programmes are working to facilitate this process.

Skilled Labour Pool Remains Limited

SSA - Gross Tertiary Enrolment Ratio



Source: World Bank

The underdevelopment of Tanzania's tertiary education system is exemplified by its gross enrolment ratio of only 3.7, one of the lowest in the region, ranking behind regional peers such as Kenya (4.0), Uganda (4.4), Mozambique (5.2), Ethiopia (5.3) and Rwanda (7.9). This underperformance, particularly with East African peers, magnifies the uncompetitive educational attainment levels in Tanzania that have resulted in tertiary educational attainment for only 10% of the labour force. The country also produces one of the lowest numbers of skilled graduates in SSA, with only just over 200 science graduates and an average of 140 engineering, manufacturing and construction graduates on an annual basis. Businesses in advanced manufacturing, engineering and service industries, requiring workers with technical and advanced skills face a severe shortage of skilled labour in all fields and high labour costs due to the need for extensive training and the import of foreign workers. However, Tanzania has signed a Mutual Recognition Agreement with Uganda and Kenya that enables engineers from any member state to work legally across all three countries, allowing companies to recruit skilled foreign labourers with limited difficulty.

Additionally, the availability of skilled workers will likely receive a boost from new government plans to train Tanzanian experts in the oil and gas sectors, in preparation for the beginning of natural gas production in 2023. In May 2015, the government announced its intention to train 1,350 graduates in oil and gas geosciences, geology and minerals explorations, mining and minerals processing and mining environmental management by June 2016. These efforts will be supported by contributions from the private sector and foreign governments; for example, the Dutch government and **British Gas** have provided four processors to teach courses within the specified degrees, while offering full scholarships to 13 students registered in the Master of Science in Petroleum Geology programme.

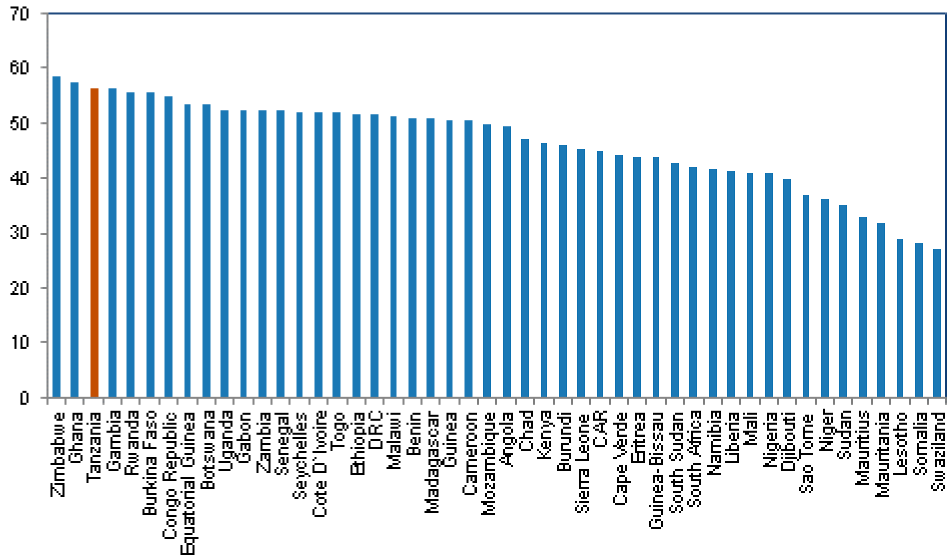
Availability Of Labour Analysis

Availability Of Labour

BMI View: *Investors in Tanzania have the benefit of vast recruitment options particularly for low-skilled labour-intensive industries. The country has one of the largest working age populations in the region and high population growth rates which will support the availability of labour over the long term. Low urbanisation rates exacerbating regional disparities in hiring options, poor access to quality healthcare reducing productivity and a limited pool of skilled foreign workers pose the most significant risks to businesses. Tanzania's labour market is dominated by semi-skilled or unskilled labour, with the majority engaged in agriculture and other forms of vulnerable employment, indicating a dearth of formal on-the-job skills development. These factors necessitate considerable training costs and the import of foreign workers particularly for firms looking to fill technical roles. Due to these considerations, Tanzania scores 56.4 out of 100 for Availability of Labour, ranking the country third out of 48 states in Sub-Saharan Africa (SSA) and 54th out of 201 countries worldwide.*

Large Workforce Diminished By Low Life Expectancy

SSA - Availability Of Labour Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

Latest Availability of Labour Analysis

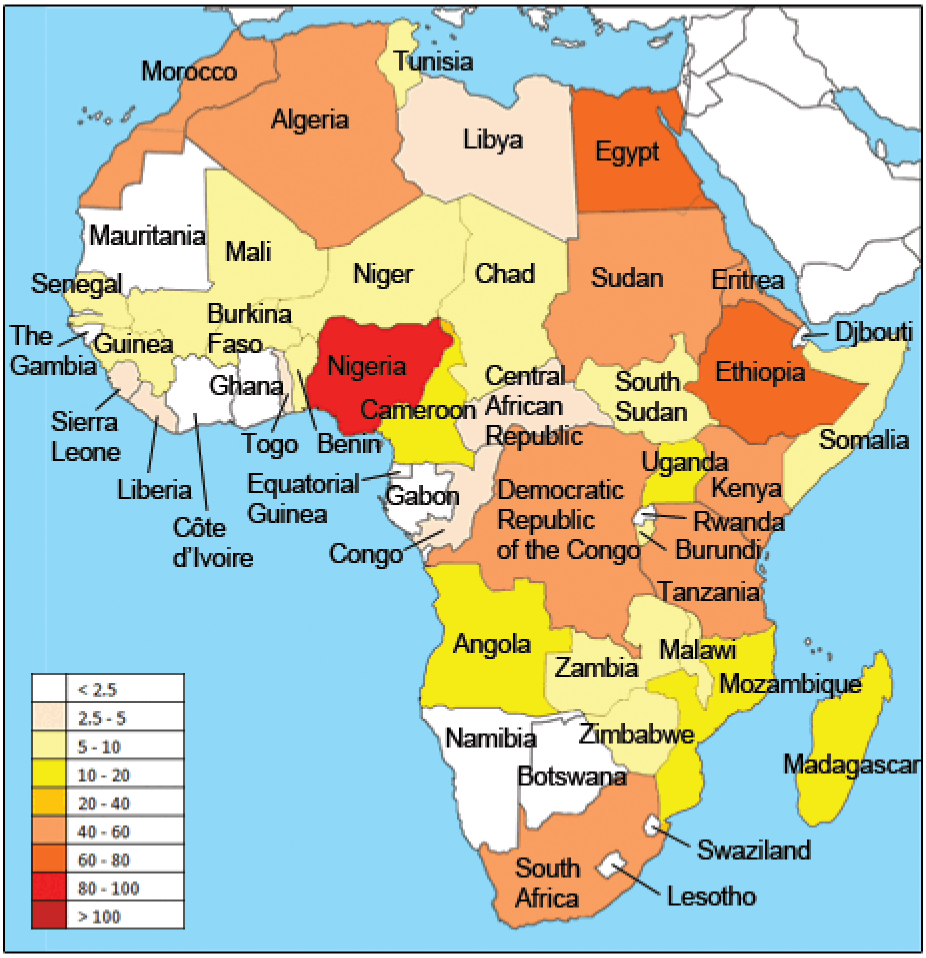
- Businesses in Tanzania continue to face productivity-related challenges emanating from a poor healthcare system, raising risk of absenteeism and high staff turnover due to illness. We highlight, however, that access to healthcare services may improve as the country's National Health Insurance Scheme (NHIS) gains traction. While the government has recognised the need to improve the situation and is implementing certain strategies to this end, the large funding gap and pre-existing structural issues will continue to hinder universal access to essential medical care.
- The Medical Stores Department (MSD) has expressed concern over Tanzania's growing drug shortage as a result of fiscal constraints - healthcare allocation for 2016 stands at 11.3% - short of the 15% target pledged during the Abuja Declaration. This raises the risk of the improper implementation of the healthcare reforms due to underfunding.
- The Tanzania Food and Drugs Authority (TFDA) has approved the new dosage for Swiss drug-maker **Novartis**' anti-malarial drug, Coartem. This will help in lowering absenteeism due to illness with improved access to anti-malarial medication. Nevertheless, Tanzania will remain vulnerable to diseases such as malaria, cholera and typhoid, given poor sanitation and weak access to healthcare throughout the country, as seen in the cholera outbreak in 2015 that persisted well into the first quarter of 2016.

Size Of Labour Force

The size of Tanzania's labour force offers a number of significant benefits for investors. The country boasts the largest percentage of the working age population in employment and has a large working age population. Though the country also has a relatively high life expectancy by regional standards, worker health remains poor and productivity will likely face disruptions due to risk of absenteeism and high staff turnover. Taking these factors into account, Tanzania receives a score of 54.8 out of 100 for Size of Labour Force, meriting a rank of second regionally, behind Zimbabwe. It is the highest score of its neighbours representing a key competitive advantage for businesses, particularly those in labour-intensive industries.

Large Working Age Population Boosts Recruitment Options

Africa - Working Age Population (mn)



Source: BMI, d-maps, World Bank

Investors benefit from considerable recruitment options due to the country's large working age population of 28.5mn, ranking it in fifth position regionally for this indicator, between South Africa (36.3mn) and Kenya (26.2mn). This figure will increase over time due to the country's rapid annual population growth rate of 3.2%. Tanzania's total population was estimated at just over 50mn inhabitants in 2015, of which over half were under the age of 18, offering businesses a young and growing working population. Tanzania also has the largest percentage of its working age population in employment in SSA, estimated at 86.3%, providing firms with a large supply of potential workers. Although there is a low rate of youth unemployment relative to both developing and developed countries, most Tanzanian youths are engaged in informal agricultural work and many face limited work opportunities due to their lack of education. It is important to note that firms will still face a dearth of advanced and vocational skills due to lack of formal training among the majority of the workforce. According to the World Bank, vulnerable unemployment (unpaid family workers and own-account workers) as a percentage of total employment stands at a high 74%. This means that though unemployment is low (4.9%), most of those that are employed are not developing their skills in a manner that would add value to work in the formal sector. Businesses will have to accommodate considerable training time and costs, particularly in secondary and tertiary sectors.

At 66.0 years, life expectancy is high relative to SSA standards, where Tanzania ranks fifth in the region, not far behind regional leader Mauritius with 74.8 years. Life expectancy has increased substantially over the last several decades, rising from 46.7 years in 1970 to 50.5 in 1990. However, high rates of poverty continue to limit health outcomes; nearly 45% of Tanzanians do not reach the age of 40, while 22% of children are malnourished, presenting severe constraints on worker productivity and well-being. Access to healthcare is limited by poverty and a lack of state resources, worsening notable health challenges including a high incidence of HIV/AIDS. The HIV/AIDS epidemic adversely impacted life expectancy in the 1990s and early 2000s, though notable progress has been made in combating the disease since the implementation of a national plan in 2001.

Other major challenges to health in Tanzania include low-quality maternal healthcare and relatively high maternal mortality rates. Each day, an estimated 22 women die in childbirth; while for every mother that dies, another 20 women will likely develop a childbirth-related injury, infection or life-changing disability. In Dar es Salaam, expecting mothers often share a hospital bed with two to three other women, reflecting the dearth of healthcare resources and the limitations of health services. Through its contributions to a pooled fund for health in Tanzania, the World Bank has helped boost capabilities of health units at the grassroots level and contributed to better access to services and encouraging outcomes. The under-five mortality rate fell from 147 per 1,000 live births in 1999 to 81 per 1,000 live births in 2010, in part due to a rise in proportion of children under five sleeping under mosquito nets to around 73% by 2010 and increased vaccination coverage. This will support the country's high population growth rate of 3.2%, increasing the size of the labour pool over the long term.

Tanzania will continue to suffer from a shortage of essential medicines as a result of budgetary constraints that have lead to inadequate allocations to the healthcare sector. Nevertheless, we uphold a positive outlook for Tanzania's healthcare sector over the coming years. Access to healthcare services will continue to improve as the country's National Health Insurance Scheme gains traction, with Tanzania one of a number of Sub-Saharan African countries attempting to achieve universal health coverage through insurance-based models. The low proportion of the population covered by public health insurance (just below 15%), means that the majority of Tanzania's population seeks treatment at private healthcare facilities and pays out-of-pocket for medicines.

In 2015, per capita spending on healthcare reached a value of USD42.10 of which the government contribution was only 39%, leaving individuals to bear the brunt of paying the remainder. Due to endemic poverty and generally low wages among workers, many are unable to access quality healthcare services. Health expenditure as a percentage of GDP is forecast to decrease, however, from 5.2% in 2015 to 4.5% in 2020 and 3.7% by 2025. Government expenditure on health accounted for 39% of total healthcare expenditure in 2015, and we see this percentage increasing over the long term to 43% by 2025. Nevertheless, private health expenditure will continue to provide the lion's share of healthcare expenditure, responsible for 61% of total health spending in 2015, yet forecast to decrease to 58% by 2025 as the government increases its commitment to the sector. Despite the government's increasing commitment to improving healthcare provision, over the long term, the majority of Tanzania's healthcare spending will take place in private facilities, leaving it out of reach of the average worker. This raises the necessity for firms to contribute to their employees' healthcare cost or risk losing productivity due to illness-related absenteeism and high staff turnover.

The introduction of compulsory health insurance in Tanzania will increase uptake of the scheme, driving growth in the healthcare sector and improving access to healthcare. Tanzania has the largest proportion of the working age population in employment in SSA at over 86%, meaning that uptake of the scheme will occur faster than many of its regional peers. Nevertheless, severe inefficiencies within the health system continue to drain already limited resources, thereby lowering the quality and accessibility of healthcare. For example, it is estimated that for every USD100 spent on the storage, distribution, prescription and usage of drugs, citizens only receive USD15 worth of medication.

Tanzania's healthcare system is currently experienced additional pressure due to the ongoing refugee crisis in neighbouring Burundi. Currently, an estimated 50,000 Burundian refugees have taken shelter along the shores of Lake Tanganyika, while at least another 26,000 refugees are housed elsewhere. Within the former community, a large-scale cholera outbreak has presented a major challenge to the local healthcare system, necessitating emergency supplies from UNICEF to address the crisis.

Composition Of Labour

The composition of Tanzania's labour force is not particularly conducive to business activities, despite high female participation rates, the dearth of skilled labour presents significant obstacles for firms. The country has low urbanisation rates and a limited migrant stock which reduce the availability of skilled labour to businesses. Furthermore, the majority of the working-age population is employed in subsistence agriculture, meaning workers are generally low-skilled compared to more urban inhabitants. Consequently, we give the country 58.0 out of 100 for the Composition of Labour pillar of our Index, ranking Tanzania 15th in the SSA.

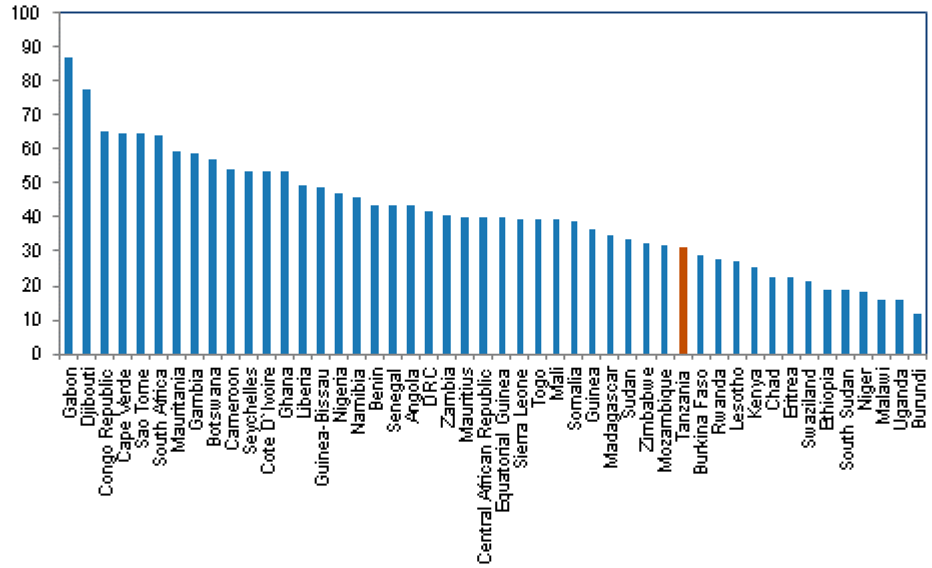
The native population of Tanzania consists of more than 120 ethnic groups, of which the Sukuma, Haya, Nyakyusa, Nyamwezi, and Chagga have more than 1mn members. The majority of Tanzanians, including such communities as the Hehe, Sukuma, and Nyamwezi, are Bantu-speaking groups. Other Bantu-speaking communities include refugees from Mozambique. Groups of Nilotic or of related origin include the nomadic Maasai and the Luo, both of which are found in greater numbers in neighbouring Kenya. Swahili and English are the official languages of Tanzania. However, the former is the national language.

The benefits of Tanzania's abundant labour force are somewhat moderated by the country's modest urbanisation rate, with just 30.9% of Tanzanians living in cities, the 12th-lowest in SSA. The country's largest urban centre is Dar es Salaam, which is Tanzania's largest and richest city and an important regional economic centre. With a population increase of 5.6% a year from 2002 to 2012, Dar es Salaam is the third-fastest growing city in Africa (ninth fastest in the world), after Bamako and Lagos. The metropolitan population is expected to reach 5.12mn by 2020, increasing the availability of workers to businesses. The city is also the educational centre of Tanzania and home to many of the country's best known universities, including the University of Dar es Salaam, which is the oldest and second-largest university in Tanzania after the University of Dodoma.

Urbanisation has become a major development challenge in Tanzania. Planned residential areas are rare, although land itself is in abundance. In the city of Dar-es-Salaam and other major cities, unemployment is higher than in the rural areas, basic infrastructure and the provision of social services have become highly insufficient to meet the demands of users and there is inadequate provision of recreational facilities, sewage systems, water drainage channels and environmental protection. This state of affairs exacerbates the health challenges that Tanzanians face as diseases such as cholera and other communicable disease are prone to spread more rapidly under such circumstances. Intra-city transportation presents a serious challenge to commuters due to poor road networks and the absence of intra-city mass rail transport systems, raising risk of delays in commute time which reduces productive time at work.

Urban-Based Firms Face Recruitment Constraints

SSA - Urbanisation Rate (% Total Population)



Source: World Bank

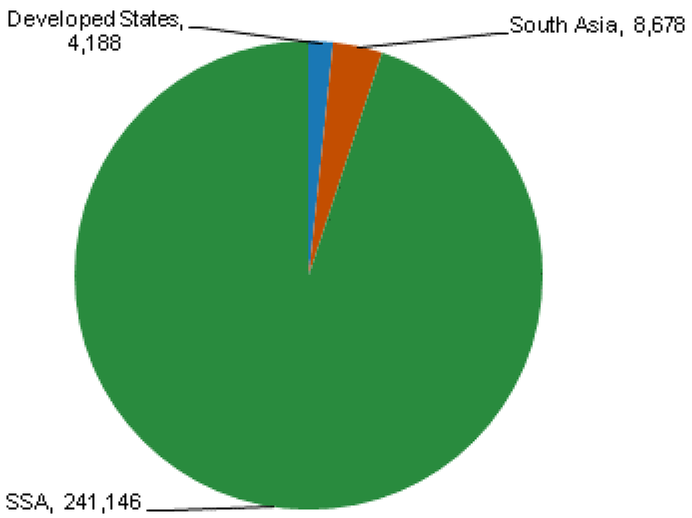
Dodoma is the capital of Tanzania and has a population of 2mn, of which just 321,194 is urban. Situated at an elevation of 3,729 feet in a sparsely populated agricultural region, it is a market centre for peanuts (groundnuts), castor beans, sunflower seeds, gum, corn (maize), rice, wheat, coffee, tea, tobacco and sorghum. Coffee and sisal are cultivated in the north of the region, and cattle-raising is an important source of income throughout the remainder of the region. Consequently, the majority of the population is employed in subsistence agriculture and less accessible compared to the population of the more urban Dar es Salaam. There are two universities in Dodoma: St John's University of Tanzania, owned by the Anglican Church of Tanzania, and the University of Dodoma, currently with 22,000 students. The latter is projected to have a total of 40,000 students in three- to four-years' time, providing businesses with a more educated labour force in this region in the medium term.

Tanzania's migrant stock population has reduced significantly in the past decade from 900,065 in 2000 to 312,778 in 2013, depleting the size of the country's labour force. Migrants from developed states such as Canada, Germany, Italy, the UK and US have a decreasing presence in Tanzania, falling from 22,354 in 1990 to 4,147 in 2013. This has reduced the availability of educated labour in Tanzania and meant that businesses are more reliant on importing workers at additional cost. However, Tanzania has seen rising investment from Chinese firms interested in the country's mineral deposits. Migrants from South Asian countries rose from 3,597 in 1990 to 12,462 in 2010, before falling again to 8,523 in 2013. These workers tend to be of mixed skill but generally well-informed on the industry in which they work.

The majority of Tanzania's migrants come from other SSA countries, such as Mozambique, Kenya, the Democratic Republic of the Congo, Burundi and Malawi. These workers tend to be of a similar skill level to Tanzanian workers and therefore serve to widen the labour pool as opposed to contributing to its overall skill level. Businesses benefit from Tanzania's membership with the East African Community (EAC) as it allows for the improved mobility of labour among member states and expands the scope of available labour, particularly for skilled positions.

Majority Of Migrants From Neighbouring States

Tanzania - Migrants By Region Of Origin, 2015



Source: UN

Under a new law that came into force in October 2014, generally, foreign workers are forced to seek work permits at a cost of USD2,000 each, making them unattainable to many workers. In addition, many applicants have to wait for up to five months to obtain the documents, meaning they have no choice but to leave the country. This new law creates additional complications for businesses looking to employ foreign workers and will serve to decrease the size of the labour force over the medium term.

Tanzania's job market has also expanded owing to the large presence of refugees fleeing conflict in neighbouring countries. For example, the Nyarugusu camp outside of the western city of Kasulu houses some 65,000 Congolese migrants, freeing the supply of cheap labour while creating competition with Tanzanian workers. More recently, the political crisis in Burundi has led over 90,000 Burundians to seek refuge in Tanzania, while illegal immigrants from Ethiopia pass through the country on their way to prosperous African nations like South Africa. As a result of these population pressures, efforts by the Tanzanian government to curb foreign participation in the labour force may be stifled in the short term.

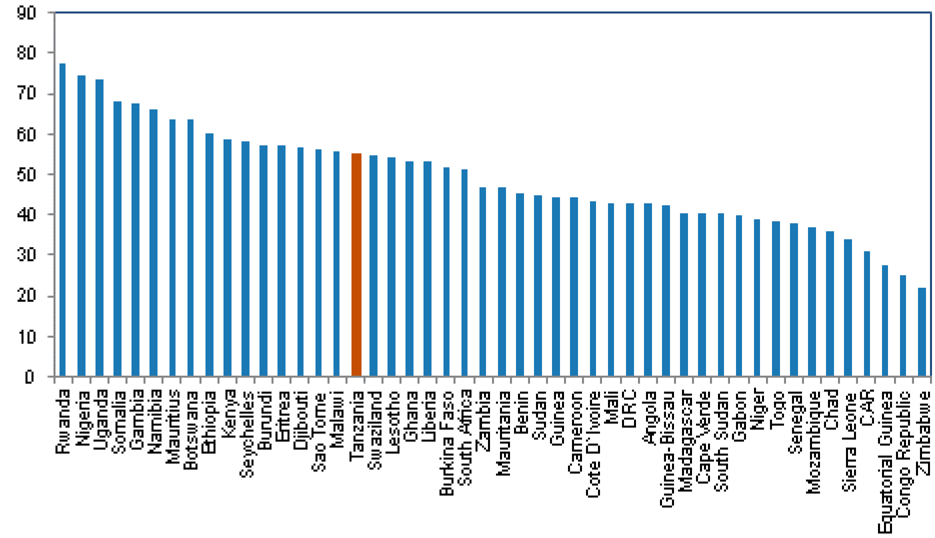
Labour Costs Analysis

Labour Costs

BMI View: *The key risks to investors entering Tanzania are the relatively high minimum wage relative to productivity and onerous labour-related taxes, both of which increase employment costs for businesses. Businesses benefit from moderately flexible wage determination structures and low severance pay entitlement, which somewhat mitigates the high cost of employment and offers flexibility to workers in terms of the hiring and firing of their employees. Overall, we score Tanzania 55.1 out of 100 for Cost of Employment; a score that ranks it lowly both from a global and regional perspective, in 17th place out of 48 states in the SSA and 87th out of 201 countries globally.*

Businesses Face Regionally Uncompetitive Labour Costs

SSA - Labour Costs Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Labour Market Risk Index

Latest Labour Costs Analysis

- In May 2016, the High Court in Tanzania dismissed a lawsuit filed by 121 former **Tanzanite One** workers regarding the firm's decision to terminate their employment. The case, led by the Tanzania Mines and Construction Workers Union (TAMICO), was dismissed on the basis that the employees were involved in an illegal strike at the mines and that they also allegedly rejected a mediation meeting with the employer. This highlights the ability of employers to seek fair legal mediation of labour-related cases. It simultaneously shows the propensity of the heavily unionised workforce to engage in strike action.

- Consumer price inflation in Tanzania will average just below 7.0% annually over the course of our 2016-2024 forecast period, broadly in line with historical trends. For instance, the prospect of continued exchange rate depreciation in light of a wide current account deficit will pose a persistent risk to the inflation outlook. Food, which accounts for almost 48% of Tanzania's CPI basket, will also continue to be a key driver of inflation over the coming years. In a region historically vulnerable to drought, food price inflation arguably poses the single biggest risk to our inflation outlook. This will raise the general cost of living for workers and exert upward pressure on wage expectations.

Costs And Flexibility Of Labour

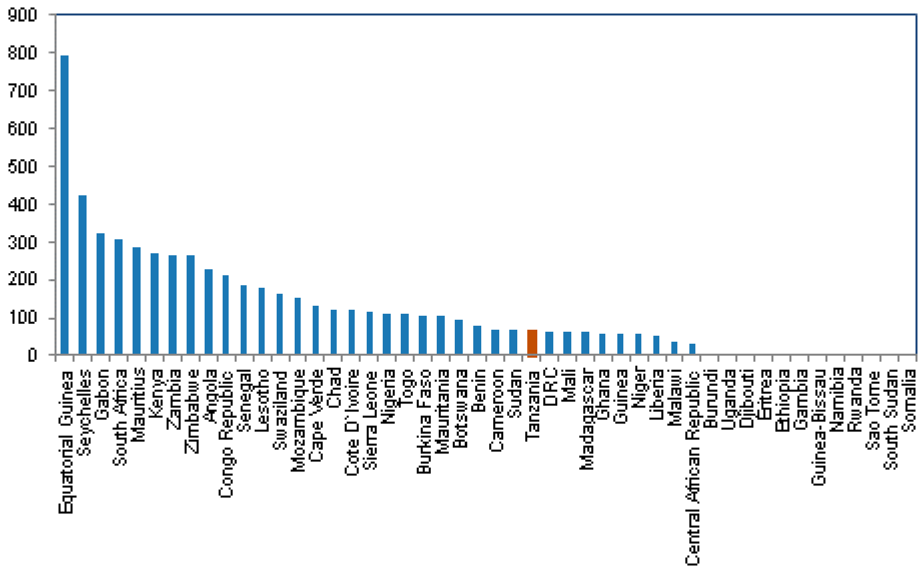
Tanzania is placed in the middle of the regional pack for costs of labour, owing to its above-average labour tax rate and high average wage costs - particularly relative to productivity. Benefits to firms include the relative ease in hiring foreign workers, a low annual leave entitlement and a low redundancy notice period, which all provide flexibility to businesses in the country. Taking these factors into account, Tanzania receives a score of 55.2 out of 100 for its Labour Costs, ranking 20th regionally, ahead of Kenya and Mozambique, but well below Rwanda and Nigeria.

In addition, notable advantages come in the form of the flexibility of Tanzania's labour force, where factors such as its low number of paid holidays, secure labour-management environment, less time-consuming redundancy notice periods and regionally competitive severance packages mitigate labour costs. While official unemployment remains low, the actual rate of unemployment is likely higher than reported and could stimulate social unrest due to limited job creation, particularly among the nation's youth population, raising risks of supply chain disruption. Consequently, Tanzania performs relatively well for Flexibility of Workforce, ranked 12th in the region with a score of 55.1 out of 100.

According to the World Bank, the average minimum wage in Tanzania stands at USD68.20, which is low by global standards, however, it is uncompetitive on a regional comparison where Rwanda and Ethiopia have no stipulated national minimum wage. The minimum wage is determined separately for each economic sector and ranges from TZS70,000 monthly for hotel employees to TZS350,000 for workers in the mineral industry. Despite the country's relatively competitive minimum wage, the labour force underperforms in terms of relative productivity, where regional counterparts such as Rwanda and Uganda rank higher. This means that employers will gain more value for each additional unit of labour over time in comparison to regional counterparts, meaning labour-intensive industries will find countries such as Ethiopia more appealing due to higher rates of marginal productivity per additional unit of labour and a large working age population. The minimum wage has been steadily eroded by rising inflation, prompting government officials to increase the minimum wage in 2012. An additional raise may occur in the short- to medium-term. In May 2015, the government reiterated its intention to increase wages and lower the monthly income tax taken from salaries, known as Pay As You Earn (PAYE), which currently stands at 10%. However, as no concrete salary increases had been announced at the time of publication, it is unclear the extent to which this decision will increase operational costs for employers.

Comparatively Low Minimum Wage Costs

SSA - Minimum Wages (USD/Month)



Note: As applicable to the worker assumed in the case study. Source: World Bank 'Doing Business'

The country's labour tax and contributions consist of 10% on gross salaries payable by the employer and an additional skills development levy of 5% on gross salaries, raising direct labour costs. The risk for Tanzania's low value added per worker relative to its rising minimum wage is moderated somewhat by other indicators. A relatively low severance pay entitlement of 5.3 weeks, and redundancy notice period of four weeks, ranks Tanzania 10th and ninth in the region respectively for these indicators and offers greater flexibility to employers when it comes to hiring and firing practices.

The flexibility of Tanzania's workforce is one of its most significant labour advantages. Firms do not have access to a large international migrant stock; however, a number of other positive indicators enable firms to be more productive while lowering costs by regional standards. For example, the process of hiring foreign workers in the country is relatively simple, enabling businesses to mitigate the risk of low skill by employing more qualified foreign workers.

Tanzania and Zanzibar ascribe to their own labour laws, but trade unions are generally weak throughout national territory. In 2012, around 13% of workers in the formal sector were covered by unions, notably by the Trade Union Congress of Tanzania, while only 5-8% of agricultural workers were unionised during the same time. In Zanzibar, approximately 40% of the workforce is unionised under the Zanzibar Trade Union Congress, but workers are restricted from joining mainland-based labour unions. Workers are legally able to strike and cannot be fired for participating in a lawful strike, but are not permitted to strike within sectors integral to the wellbeing of the population, such as electricity, health services, water and sanitation and fire fighting. The right to collectively bargain exists for private sector workers on the mainland, while disputes are overseen and concluded with the assistance of the Commission for Mediation and Arbitration, lowering the likelihood of prolonged conflict between labour and management.

A number of strikes have taken place in recent years. In 2012, doctors, nurses and teachers went on strike to protest for better salaries and working conditions, though the strikes were ultimately called off. During the same year, strikes also occurred following changes to the social security law that took away the right for labourers to withdraw their contributions before retiring. These events pose risk to businesses in these sectors, which may face disruption to their business activities.

In the last several months, Tanzania's transport network has been adversely affected by labour activities, incurring delays for businesses. In particular, firms involved in copper exports from Zambia and the Democratic Republic of the Congo suffered transport delays owing to the importance of the Tanzania-Zambia Railway Authority (TAZARA) railway for transporting copper to the Port of Dar es Salaam. Unionised workers of TAZARA went on strike in late 2014 to protest the fact that they had not received their salaries for the past five months. However, the High Court of Tanzania, Labour Division declared the strike as illegal in January 2015 and demanded that workers resumed their responsibilities.

Finally, Tanzania's bus drivers went on strike in April 2015 to exert pressure on the government to provide drivers with government recognised employment contracts from employers. As of April, none of the 36,000 bus drivers in Tanzania possessed a permanent and pensionable job from their employers, excluding drivers of government vehicles. Due to the relatively high frequency of strikes, firms face a growing risk from unionised action, which may disrupt business activities, lengthen trading times and increase operational costs.

Table: Tanzania - Regulations Governing Flexibility Of The Workforce

Contracts	
Fixed-term contracts prohibited for permanent tasks?	Yes
Maximum length of a single fixed contract (months)	0 - Not allowed at all for 'our worker' (however, no limit for professionals and managerials cadres.) Fixed employment could also be for 'a specific task'
Working Week and Absences	
Maximum working days per week	6
Premium for overtime work (% of hourly pay)	50
Paid annual leave (average for workers with 1, 5 and 10 years of tenure, in working days)	20
Paid or unpaid maternity leave mandated by law?	Yes
Minimum length of maternity leave (calendar days)	84
Redundancy	
Dismissal due to redundancy allowed by law?	Yes
Notice period for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	4
Severance pay for redundancy dismissal (average for workers with 1, 5 and 10 years of tenure, in salary weeks)	5.3

Source: World Bank 'Doing Business'

Logistics Risk

BMI View

The greatest risk to investors in Tanzania stems from the country's underperforming transport network, which is preventing the country from fulfilling its role as a gateway for regional trade in East Africa and creating supply chain delays for Tanzania's importers and exporters. While a number of significant projects are under way to improve the existing network, investors in the short term will face port congestion, increasing the cost of imports and exports, and a poor quality of transport infrastructure in internal networks. These factors contribute to the country's uncompetitive score of just 24.1 out of 100 for Transport Network, ranking the country 35th out of 48 countries. This represents the country's lowest score and regional ranking in the **BMI** Logistics Risk Index.

Tanzania's utilities sector still reflects its status as a developing country, with water shortages, blackouts and slow internet download speeds representing significant risks to investors. While the country does have some of the lowest electricity costs in the region, lengthy and frequent power cuts mean businesses are often reliant on back-up diesel generators at extensive cost. Furthermore, access to water is variable across the country, with even the capital, Dar es Salaam, experiencing on average just nine hours of water per day. These risks are factored into the country's score of 35.2 out of 100 for Market Size and Utilities, which places it 26th in the region.

Investors in Tanzania will, however, benefit from the regionally competitive cost of exporting and importing. Tanzania outperforms both Kenya and Mozambique, its neighbours and main regional competitors, in terms of import and export costs, though is less competitive when it comes to import times owing to high levels of bureaucracy and port and terminal handling times. Low costs and lead times improve the operational efficiency of businesses and speed up supply chains, increasing Tanzania's role as a gateway to landlocked countries such as Zambia, Burundi, Rwanda and Uganda. The competitiveness of Tanzania's trading process is demonstrated in its score of 39.1 out of 100 for Trade Procedures and Governance in the **BMI** Logistics Risk Index, placing the country 15th out of 48 states, between Mozambique and Guinea.

Table: Sub-Saharan Africa - Logistics Risk

Country	Market Size And Utilities	Transport Network	Trade Procedures And Governance	*Logistics Risk*
Mauritius	55.5	48.8	84.0	*62.8*
South Africa	47.4	62.4	60.1	*56.6*
Seychelles	36.8	49.3	71.7	*52.6*
Namibia	56.9	52.1	36.7	*48.5*
Ghana	42.8	47.2	50.0	*46.7*
Senegal	30.8	45.9	58.7	*45.2*
Cape Verde	47.4	35.4	50.0	*44.3*
Côte d'Ivoire	49.3	53.1	27.6	*43.3*
Sudan	56.8	36.4	33.2	*42.1*
Gabon	43.7	38.1	43.1	*41.6*
Swaziland	42.6	47.6	33.7	*41.3*
Gambia	32.6	40.7	50.0	*41.1*
Togo	29.8	38.4	52.4	*40.2*
Madagascar	38.4	31.9	49.9	*40.1*
Djibouti	21.4	35.5	61.3	*39.4*
Kenya	36.6	47.1	34.5	*39.4*
Botswana	49.1	35.0	24.9	*36.3*
Mozambique	33.4	32.3	42.7	*36.1*
Benin	28.1	33.6	45.2	*35.6*
Cameroon	45.3	28.2	31.9	*35.1*
Sao Tome	32.0	25.3	47.0	*34.7*
Nigeria	34.8	35.9	32.6	*34.4*
Zambia	49.7	36.6	15.9	*34.1*
Zimbabwe	47.9	32.6	20.2	*33.6*
Guinea	37.7	23.1	38.0	*32.9*
Angola	45.9	24.9	27.8	*32.9*
Tanzania	**35.2**	**24.1**	**39.1**	***32.8***
Congo Republic	48.7	30.3	17.5	*32.1*
Ethiopia	35.0	32.6	24.3	*30.6*
Rwanda	39.5	28.1	23.8	*30.5*
Mali	35.9	34.9	20.5	*30.4*
Sierra Leone	33.5	19.9	37.5	*30.3*
Liberia	30.8	24.7	32.4	*29.3*

Sub-Saharan Africa - Logistics Risk - Continued				
Country	**Market Size And Utilities**	**Transport Network**	**Trade Procedures And Governance**	***Logistics Risk***
Mauritania	43.1	12.5	27.7	*27.8*
Eritrea	33.2	27.9	20.3	*27.1*
Lesotho	45.6	11.1	24.7	*27.1*
Equatorial Guinea	32.9	11.5	33.2	*25.9*
Uganda	33.0	25.8	17.5	*25.4*
Guinea-Bissau	24.4	10.3	37.4	*24.0*
Malawi	21.1	36.7	9.1	*22.3*
DRC	26.3	24.9	15.4	*22.2*
CAR	32.1	18.6	10.5	*20.4*
Niger	34.0	15.5	10.7	*20.1*
Somalia	31.0	15.6	13.5	*20.0*
Burkina Faso	26.2	22.6	10.1	*19.7*
South Sudan	43.3	12.5	2.6	*19.5*
Burundi	32.2	13.9	10.1	*18.7*
Chad	38.4	4.2	6.7	*16.4*

Source: BMI Operational Risk Index

BMI's Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk state. The entire index consists of 20 sub-index scores and 79 individual surveys and datasets, which all contribute to the headline score. A full methodology can be found at the end of the report.

SWOT

SWOT Analysis

Strengths	▪ The low cost of exporting from and importing to Tanzania makes the country competitive from a regional perspective and boosts the country's role as a transit point to landlocked countries. ▪ Tanzania's airports play a vital role in the country's expanding tourist sector and are steadily increasing their role in trade supply chains. ▪ Low electricity costs drives down set-up and operational costs for businesses.
Weaknesses	▪ Heavy taxes contribute to the rising cost of fuel, which increases transportation costs for investors. ▪ Access to water is poor, with some areas of the country experiencing just five hours of water per day. Sanitation rates are even worse, threatening the health of the labour force. ▪ Download speeds are low compared with neighbouring countries Kenya, Rwanda and Mozambique, limiting the productivity of companies that require internet connectivity for their operations. ▪ High trade growth has caused congestion at the nation's ports and has led to supply chain delays and increased transport costs.
Opportunities	▪ Mobile broadband subscribers are increasing, and there are already a number of mobile operators driving m-commerce and financial banking products, increasing investment opportunities in the country. ▪ Rail is expected to play a growing role in freight transport owing to new routes between Tanzania and neighbours Rwanda and Burundi, as well as routes built out of the country's mining bases; this will decrease the pressure on road freight and aid in tackling congestion.

SWOT Analysis - Continued

	▪ Expansion to the country's ports and airports will help to reduce congestion and meet growing demand.
Threats	▪ The country is highly reliant on hydropower to power its electricity. This decreases the reliability of electricity supply during periods of draught. ▪ Projections indicate that by 2025, Tanzania will experience water stress due to population growth and the resulting increase in consumption. ▪ Greater need for imported fuel to meet rising demand will push up fuel prices, increasing transport costs for investors.

Market Size And Utilities Analysis

Market Size And Utilities

Tanzania's utilities sector still reflects its status as a developing country, with water shortages, blackouts and slow internet download speeds representing significant risks to investors. While the country does have some of the lowest electricity costs in the region, lengthy and frequent power cuts mean businesses are often reliant on back-up diesel generators at extensive cost. Furthermore, access to water is variable across the country, with even the capital, Dar es Salaam, experiencing on average just nine hours of water per day. These risks are factored into the country's score of 35.2 out of 100 for Market Size and Utilities, which places it 26th in the region.

Although firms already enjoy competitive electricity costs, the promise of natural gas production in the long term will provide a major boost to Tanzania's utilities competitiveness. However, risks exist in the form of rising fuel prices. As such, Tanzania places 22nd regionally for Electricity and Fuel, with a score of 49.1 out of 100.

Firms will also enjoy significant growth in internet penetration rates, which could facilitate improvements in the country's download speeds in the medium term. However, businesses face a high risk emanating from the country's dwindling freshwater reserves, which threaten industries such as agriculture and tourism. Consequently, we score Tanzania 21.4 out of 100 for Telecommunications and Water, which places the country towards the bottom of the pack in Sub-Saharan Africa (SSA), in 36th position out of 48 states in the region.

Table: Sub-Saharan Africa - Market Size And Utilities Risk

Country	Electricity And Fuel	Telecommunications And Water	*Market Size And Utilities Risk*
Namibia	69.3	44.5	*56.9*
Sudan	79.3	34.3	*56.8*
Mauritius	48.2	62.8	*55.5*
Zambia	64.8	34.6	*49.7*
Côte d'Ivoire	62.6	36.1	*49.3*
Botswana	59.5	38.7	*49.1*
Congo Republic	64.3	33.0	*48.7*
Zimbabwe	43.5	52.3	*47.9*
South Africa	42.8	52.0	*47.4*
Cape Verde	46.3	48.5	*47.4*

Sub-Saharan Africa - Market Size And Utilities Risk - Continued			
Country	**Electricity And Fuel**	**Telecommunications And Water**	***Market Size And Utilities Risk***
Angola	53.3	38.6	*45.9*
Lesotho	60.7	30.4	*45.6*
Cameroon	66.1	24.5	*45.3*
Gabon	50.9	36.5	*43.7*
South Sudan	55.3	31.2	*43.3*
Mauritania	55.2	31.0	*43.1*
Ghana	43.9	41.6	*42.8*
Swaziland	55.5	29.6	*42.6*
Rwanda	53.9	25.1	*39.5*
Madagascar	49.3	27.6	*38.4*
Chad	57.0	19.7	*38.4*
Guinea	41.8	33.5	*37.7*
Seychelles	21.5	52.2	*36.8*
Kenya	39.4	33.7	*36.6*
Mali	41.7	30.2	*35.9*
Tanzania	**49.1**	**21.4**	***35.2***
Ethiopia	61.8	8.3	*35.0*
Nigeria	31.3	38.3	*34.8*
Niger	55.6	12.5	*34.0*
Sierra Leone	38.5	28.6	*33.5*
Mozambique	51.5	15.3	*33.4*
Eritrea	58.4	8.0	*33.2*
Uganda	36.3	29.6	*33.0*
Equatorial Guinea	37.7	28.0	*32.9*
Gambia	33.7	31.4	*32.6*
Burundi	47.2	17.1	*32.2*
CAR	45.4	18.9	*32.1*
Sao Tome	37.2	26.8	*32.0*
Somalia	43.8	18.2	*31.0*
Senegal	29.0	32.6	*30.8*
Liberia	29.1	32.5	*30.8*
Togo	49.7	10.0	*29.8*
Benin	33.1	23.2	*28.1*
DRC	30.1	22.5	*26.3*
Burkina Faso	30.3	22.1	*26.2*

Sub-Saharan Africa - Market Size And Utilities Risk - Continued			
Country	**Electricity And Fuel**	**Telecommunications And Water**	***Market Size And Utilities Risk***
Guinea-Bissau	30.8	18.0	*24.4*
Djibouti	33.4	9.3	*21.4*
Malawi	23.0	19.2	*21.1*

Source: BMI Logistics Risk Index

Tanzania's electricity generation sector has an installed capacity of 773MW, of which 71% is hydropower, leaving it highly vulnerable to drought. Thermal power represents the second largest power source in the country, and currently generates around 240MW of electricity. The country's inability to meet its electricity generation needs domestically means it has to import electricity from its neighbours, which leads to reliability risks.

Increased demand has left Tanzania heavily reliant on energy imports from Uganda and Zambia, leaving the country vulnerable to power shortages and rising prices. In 2011 (latest available data), the country was only able to produce a total of 777MW of electricity from all sources, which equated to 63.9% of 1,200MW required for the country. Electricity imports from Tanzania's neighbours have been inconsistent, in part because both countries also depend on hydropower, which exposes these states to power shortages during draughts.

Tanzania therefore continues to suffer from frequent power outages, with many grid-connected consumers receiving just four hours of electricity per day. Power outages pose risks to business operations and significantly undermine profits. In 2013, for example, the World Bank estimates that 17.6% of sales value was lost due to power outages in the country, significantly higher than Kenya (7.1%), Zambia (7.5%) and Uganda (11.5%). As a result, many firms are obliged to pay for expensive self-generation plants, which smaller businesses are generally unable to afford. Investors must therefore be aware of this extra-cost outlay that is required to ensure a reliable power source for operations.

In an effort to enhance the reliability of the power supply, the state-run Tanzania Electric Supply Company announced the commencement of a major rehabilitation project of its hydro-power plants at Kitadu and Mtera. The project will involve the replacement of old technologies and switch gears to boost power generation, as well as the upgrade of the control system and the powerhouse ventilation and cooling system. Additionally, several new power sub-stations are being constructed in Dar es Salaam, which will add another 150MW to the national grid by the end of June 2015. Furthermore, a number of other power projects are being implemented in hydro, coal and wind power, which will help meet growing domestic demand for electricity in the long term.

Tanzania's discovery of natural gas will also enhance the country's long-term energy security. The country is estimated to have over 53.2trn cubic feet of gas reserves off the southern coast, generating considerable interest from foreign investors. Within this, the Norwegian energy company **Statoil** discovered an additional natural gas find, bringing the total discovered gas volumes in Block 2 offshore Tanzania to roughly 22trn cubic feet, while the company is optimistic that there is more natural gas to be discovered.

To effectively exploit the fruits of the country's natural gas, the Tanzanian government has earmarked an estimated USD6mn to purchase land that will house a USD30mn liquefied natural gas (LNG) terminal. The two-train onshore export terminal will be constructed in the southeast of the country at Lindi, near past natural gas discoveries. However, the benefits of this discovery will not be felt until the long term, as production will not begin until after 2020.

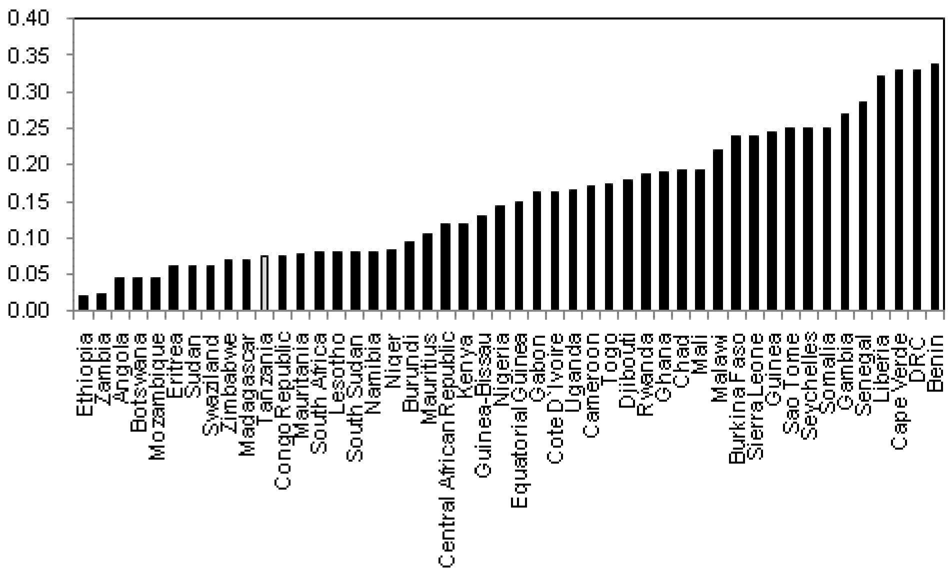
The electricity sector will receive a further boost from the liberalisation of the industry, thereby allowing private partners to generate and distribute electricity in the country. However, thus far, private companies have been unable to effectively compete with the state-owned **Tanzania Electricity Supply Company** (TANESCO) and its monopoly over the sector. As a result, businesses seeking to invest in the power industry may face high entrance barriers to the market.

Electrification rates in Tanzania are similar to the rest of the region, though low by global standards at just 14%. Access to electricity is far lower in rural areas, where less than 3% of the population are connected to the electricity grid, compared with 50% in Dar es Salaam. Furthermore, the reliability of the electricity grid is low, with frequent brownouts and blackouts averaging up to 60 days per year, disrupting business operations. Tanzania has experienced numerous drought-related power crises in past decade. In 2011, TANESCO had to institute rolling blackouts of up to 12 hours, forcing about 50 factories to close down and lay off their employees.

Despite these risks for businesses, once they are connected to the grid, the initial connection process for companies is relatively easy, with four procedures required to get electricity, taking 109 days. This compares competitively with the regional average of five procedures and the time for connecting taking 138 days.

Despite Poor Access To Electricity, Low Power Costs

SSA - Cost Of Electricity (USD Per KWh)



Source: National statistics

Despite importing a significant share of its power, electricity costs in Tanzania are low relative to its regional peers at USD0.07 per KWh, making it the ninth cheapest nation in SSA for electricity costs, jointly with Zimbabwe and Madagascar. The government heavily subsidises electricity costs, though these have not been enough to meet TANESCO's rising operational costs. According to a spokesperson for the firm, TANESCO buys emergency hydropower from its neighbours at USD0.50 per KWh and sells the same at USD0.12, creating losses that accrue to billions. These losses are unsustainable, and, consequently, the company has submitted an application for a power tariff hike that will likely see rising costs based on consumption as opposed to the current standard tariff structure. If this extra cost is passed on to consumers, the country's electricity costs will rise, decreasing Tanzania's competitiveness and attractiveness to investors.

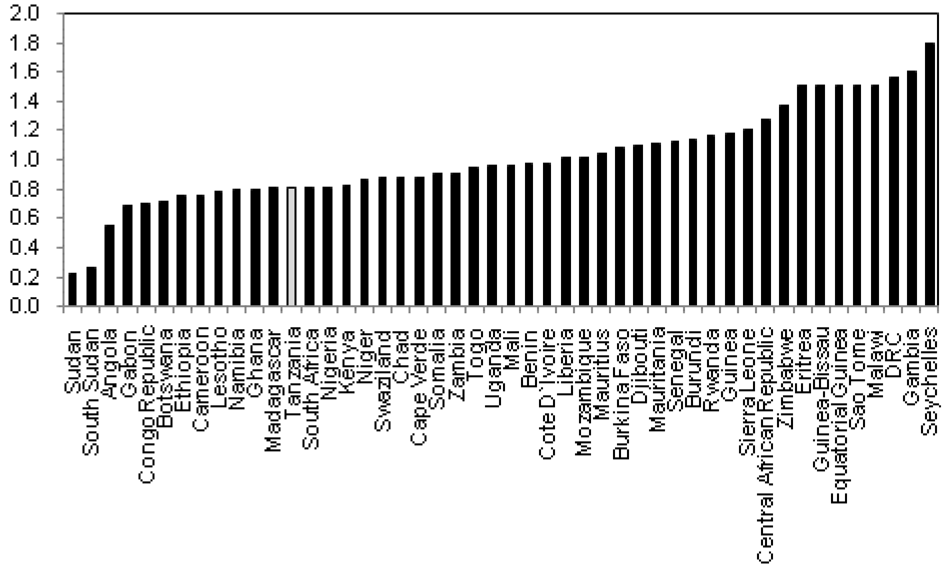
Fuel

Tanzania imports all of its crude oil requirements, pushing up the cost of fuel in the country to USD0.81 per diesel litre, ranking it 12th in the region for the cost of fuel jointly with three other SSA countries. Specifically, Tanzania is the second-largest importer of refined petroleum, importing an average of 95,000 barrels per day. The **Tanzanian Petroleum Development Company** procures the oil, refines it at the Tiper refinery and then delivers the product to marketing companies. Refined products are also imported, as the refinery does not process enough to supply the demand in Tanzania, pushing the cost of fuel higher.

One of the main problems facing Tanzania's fuel sector is the high cost of delivery of petroleum products into the country. This is largely due to the fact that most of the imported product is transported by roads that are of poor quality, increasing transport costs, as well as the high tax component in the price structure, which can be up to 55% of the 'freight on board' price.

Low Global Oil Prices Facilitate Declining Diesel Prices

SSA - Cost Of Fuel (USD Per Litre)



Source: National statistics

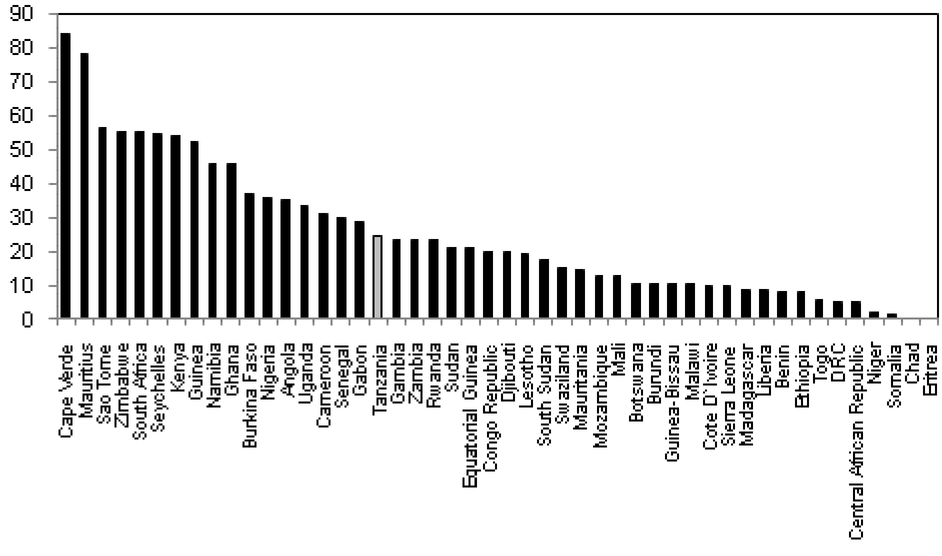
In 2013, Tanzania's energy regulator increased petrol, kerosene and diesel prices due to growing international oil prices, with costs increasing 0.56%, 1.72% and 1.60% for petrol, diesel and kerosene respectively. As a result, firms have been subjected to an increase in operational costs, presenting a sizeable burden for firms reliant on road to meet supply chain needs. However, the price hike, which was driven by a change in price in petroleum products on the international market and the depreciation of the Tanzanian shilling against the dollar, is expected to be temporary, which means that prices will likely stabilise in the medium term. Indeed, by December 2014, Tanzania's energy regulator greatly reduced the retail prices of diesel, petrol and kerosene in light of low international oil prices. Within this, the maximum retail price of petrol was reduced by 6.83% to USD1.16 in the capital of Dar es Salaam, while the prices of diesel and kerosene were reduced by 5.85% and 7.16%, respectively.

Telecommunications

Internet coverage in Tanzania is steadily expanding, with 24.6 internet users per 100 people - ranking 18th in SSA. Investors will, however, face the fact that in the majority of cases, they will have to operate via dial up, as there are only an estimated 2.9 broadband subscribers per 100 people in the country, thereby slowing business operations.

Room For Improvement In Internet Usage

SSA - Internet Users Per 100 People



Source: National statistics

Internet connectivity in Tanzania is slow from a regional perspective, negatively impacting business operations. According to **Ookla**'s Net Index Explorer, download speeds in Tanzania average 3.9Mbps, low relative to 7.5Mbps in Kenya, 7.1Mbps in Rwanda and 5.5Mbps in Zambia. While connectivity does vary according to location, with large cities such as Dar es Salaam and Arusha experiencing download rates of 4.8Mbps and 5.0Mbps respectively, slow download speeds reduce the productivity of businesses and decrease the connectivity available to these businesses to contact other operations, either domestically, regionally or globally.

Like many other states in SSA, Tanzania's population have gained access to the internet via mobile connections, rather than more costly broadband operations, with the number of 3G/4G users having reached 14.6 out of 100 inhabitants, up from 11.6 out of 100 inhabitants in 2014.

Business opportunities via mobile platforms, are already starting to emerge, with products such as M-Pawa, which allows customers to save and borrow money using their mobile phones, as well as a mobile money transfer service by **Tigo**, which allows Tigo Cash and Tigo Pesa subscribers in Rwanda and Tanzania to use transferred funds to access a range of services including airtime top-ups, transport, utilities payments, cash withdrawals and transfers.

The expanding internet connectivity of the country via mobile links is leading to greater internet knowledge and expertise among the country's workforce and is also opening up new opportunities in supply chains for greater cargo tracking.

Indeed, Tanzania's relative sophistication in ICT capabilities is demonstrated by its e-governance readiness. According to the UN E-Government 2012 Survey, Tanzania ranked 139th out of 193 states in the world for its e-government development in 2013, constituting one of East Africa's fifth most capable governments. In the past several years, the government has harnessed fibre-optic cabling, ICT centres and other facilities to improve the running of the government and its services, bringing both direct and indirect benefits to businesses by lowering delays in basic bureaucratic procedures while delivering e-health and education to the Tanzanian workforce.

Water Availability

Water supply in Tanzania is characterised by decreasing access to improved water sources, intermittent water supply and a generally low quality of service. The country's water sector is highly fragmented and underfunded, with many utility companies barely able to cover their operational and maintenance costs due to low tariffs and poor efficiency. In addition, there are significant regional differences, with the greatest water coverage found in major cities such as Arusha and Tanga. These issues will therefore impact investors, which require reliable water supply for their operations and so will decrease Tanzania's attractiveness for certain industries.

Despite having 1,812 cubic metres of renewable internal freshwater resources per capita, access to water and sanitation remains low in Tanzania. Roughly just half of the population has access to an improved water source, with stark differences between urban areas (about 79% in 2010) and rural areas (about 44% in 2010). Furthermore, in 2011, out of the 57.8% rural water supply coverage, about 30% of the installed capacity of water facilities was non-operational due to factors such as drought and obsolete facilities.

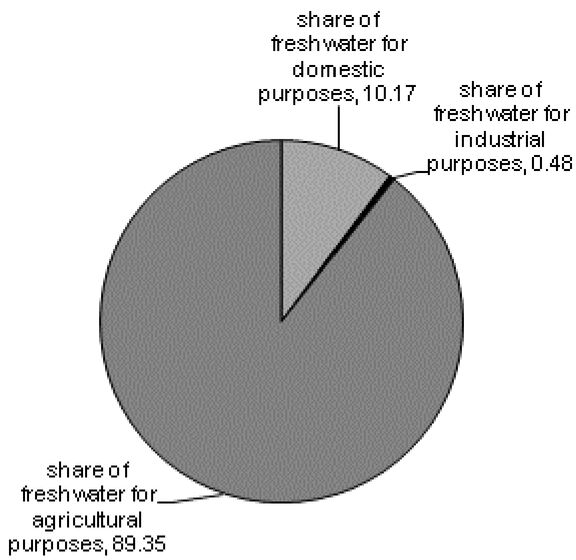
Of the 20 urban water supply and sanitation authorities that operate in Tanzania, just three are able to provide continuous water supply (Arusha, Songea and Tanga). In 11 other cities, water is supplied for at least 19 hours per day. In Babati and Mtwara, there is water supply for 12 hours per day, while the lowest figures come from the cities of Kigoma, Lindi and Singida. In the capital city, Dar es Salaam, water is supplied on average for nine hours per day. This limits the available locations for investors to set up operations, specifically those where water resources are a necessity, such as agriculture.

Access to sanitation is even lower than access to water, with just 12% of the population having access to toilets. This is particularly problematic to the health of the labour force in densely populated, unplanned settlements. It is estimated that 12.1% of total deaths in Tanzania are water, sanitation and hygiene-related. This causes considerable cost to employers in terms of high absenteeism and staff turnover rates.

Projections indicate that by 2025, Tanzania will experience water stress (defined as average per capita water resources below 1,500 cubic metres) due to population growth and the resulting increase in consumption. During the dry season, which usually lasts from June to October, the country already faces capacity problems as even large rivers can dry up or their flows decline substantially. This once again varies according to region, with some parts of the country receiving heavy rainfalls of 3,000mm per year, while others, such as the Dodoma Region or the Rift Valley, experiencing yearly rainfall averages of 600mm, thereby impacting future water reliability and heightening risk for sectors such as agriculture in the longer term.

Agriculture Dominates Water Consumption

Tanzania - Freshwater Consumption By Sector (%)



Source: World Bank, national statistics

Tanzania's water resources are also under increased pressure from the relatively high freshwater withdrawals made; indeed, at 102 cubic metres per capita, the country has the 14th highest freshwater withdrawals per capita, which will likely exacerbate the severity of future water shortages. Although industry only accounts for 0.5% of freshwater withdrawals, the consumption patterns of the population will increasingly clash with the needs of water-intensive industries like agriculture and tourism, thereby enhancing the impact of water shortages on business operations. Specifically, the agriculture industry accounts for as much as 89.35% of total freshwater withdrawals, indicating the importance of the sector to employment and the national economy. In light of this state of affairs, growing competition between the population, agriculture and other industries will greatly constrain the future contributions of agriculture to GDP in particular.

Transport Network Analysis

Transport Network

Unpaved roads, high rates of traffic accidents, delayed rail lines and port congestion present high risks to investors' supply chains. The country's role as a regional transit hub to landlocked East African countries is limited by the poor state of its transport network, particularly its roads, of which just 15% are paved. **BMI** awards Tanzania a score of 24.1 out of 100 for Transport Network, demonstrating the current poor state of its infrastructure from a global and regional perspective. This ranks the country 35th out of 48 states in Sub-Saharan Africa (SSA), between Liberia and Guinea.

Table: Sub-Saharan Africa - Transport Network Risk

Country	Extent Of Transport Network	Quality Of Transport Network	*Transport Network Risk*
South Africa	42.4	82.4	*62.4*
Côte d'Ivoire	35.5	70.6	*53.1*
Namibia	26.0	78.1	*52.1*
Seychelles	43.0	55.5	*49.3*
Mauritius	38.5	59.0	*48.8*
Swaziland	31.0	64.1	*47.6*
Ghana	40.4	54.0	*47.2*
Kenya	27.3	67.0	*47.1*
Senegal	39.5	52.4	*45.9*
Gambia	32.4	49.0	*40.7*
Togo	36.8	40.0	*38.4*
Gabon	45.3	30.9	*38.1*
Malawi	46.5	26.9	*36.7*
Zambia	36.9	36.4	*36.6*
Sudan	37.4	35.4	*36.4*
Nigeria	45.4	26.5	*35.9*
Djibouti	30.5	40.5	*35.5*
Cape Verde	30.6	40.1	*35.4*
Botswana	21.8	48.3	*35.0*
Mali	29.9	40.0	*34.9*
Benin	37.5	29.6	*33.6*
Ethiopia	16.0	49.3	*32.6*
Zimbabwe	25.9	39.4	*32.6*

Sub-Saharan Africa - Transport Network Risk - Continued

Country	Extent Of Transport Network	Quality Of Transport Network	*Transport Network Risk*
Mozambique	34.6	30.0	*32.3*
Madagascar	33.1	30.6	*31.9*
Congo Republic	33.9	26.6	*30.3*
Cameroon	18.5	37.9	*28.2*
Rwanda	13.0	43.3	*28.1*
Eritrea	15.4	40.5	*27.9*
Uganda	22.6	28.9	*25.8*
Sao Tome	27.0	23.5	*25.3*
Angola	38.3	11.5	*24.9*
DRC	36.6	13.1	*24.9*
Liberia	18.5	30.9	*24.7*
Tanzania	**19.1**	**29.1**	***24.1***
Guinea	39.0	7.1	*23.1*
Burkina Faso	20.3	25.0	*22.6*
Sierra Leone	22.4	17.5	*19.9*
CAR	25.6	11.5	*18.6*
Somalia	3.6	27.5	*15.6*
Niger	15.8	15.3	*15.5*
Burundi	12.0	15.8	*13.9*
Mauritania	6.5	18.5	*12.5*
South Sudan	12.5	12.5	*12.5*
Equatorial Guinea	10.5	12.5	*11.5*
Lesotho	7.4	14.8	*11.1*
Guinea-Bissau	8.1	12.5	*10.3*
Chad	3.9	4.5	*4.2*

Source: BMI Logistics Risk Index

Roads

Road-based supply chains in Tanzania face heightened risks from the country's dirt track roads, which cause high rates of traffic accidents and are prone to cargo theft. While the country has a higher-standard network of tarmac and all-weather roads connecting major towns, the majority of roads are hazardous, increasing the likelihood of traffic accidents and adding to transportation costs. Further pressure on the country's road stems from Tanzania's role in regional transportation, facilitating links for the country's landlocked neighbours of Malawi, Uganda, Rwanda, Zambia, Burundi and the eastern region of the Democratic Republic of the Congo (DRC) through regional roadways such as the Central Corridor to Tanzania's ports.

There are 86,472km of roads in Tanzania, of which about 15% are paved. The rest vary from gravel to dirt rural tracks. The main 'trunk' roads are numbered 'A' or 'B' and link the major centres. However, their classification does not necessarily mean that they are either paved and/or in good condition, thereby heightening risk of delays to domestic supply chains. The best roads are from Arusha across the border to Nairobi, Arusha to Dar es Salaam, and Dar es Salaam to Zambia and Malawi, highlighting the investment made to ensure Tanzania's gateway role. On Zanzibar, the major road that loops around the island is tarred and in good condition. The relatively good condition of Tanzania's tarred roads is demonstrated by its score of 3.22 out of seven in the World Economic Forum's Global Competitiveness Index. This score ranks the country 17th out of 44 states in SSA and is a reflection of the fact that 97.4% of Tanzania's paved roads and 69.1% of unpaved roads are deemed in good or fair condition.

Well-Connected Road Links Offer Regional Trade Options

Map Of Tanzania's Main Road Links

Source: d-maps

However, despite the relatively good condition of Tanzania's road network from a regional perspective, investors face significant risk from the country's high rate of traffic accidents, which at 22.7 road deaths per 100 people is the 18th highest in SSA. A number of road deaths have involved large vehicles, such as inter-city buses and lorries, suggesting heavy cargo vehicles face increased risk of accident than smaller vehicles. A large number of road accidents are due to roaming animals, ranging from chickens to wild boars. Road accidents add to transportation costs for investors in the form of delays and damage to cargo.

Businesses based in urban centres benefit from a well-connected road network, which ensures rudimentary national and regional connectivity, linking the coast to the capital city and regional corridors and thereby limiting expenses incurred for road transport. However, companies based in rural areas do not enjoy the same level of national connectivity; in 2010, only 24% of the country's rural inhabitants lived in close proximity to an all-weather road, translating into increased difficulties for firms dependent on transport capabilities between rural and urban areas.

The construction of a proposed four lane motorway connecting Anusha city with Kilimanjaro International Airport (KIA) will help to drive both the tourist industry and air freight volumes in the medium-to-long term. The project is one of the largest road projects in Tanzania, costing an estimated USD60mn. The road will form part of the planned corridor linking Arusha city with Holili and Taveta border towns via Moshi and Himo. Construction was due to commence in late-2014.

Businesses working around the commercial capital of Dar es Salaam will also enjoy improved connectivity and better quality roads following the completion of USD2bn worth of roadway improvements and reforms. In May 2015, the Tanzanian government announced its intention to lower congestion in the city by constructing new roads and establishing a rapid transit bus system. Within this, new bridges and interchanges will also be constructed, thereby lowering transport costs for local firms and facilitating trade throughout the country and the region.

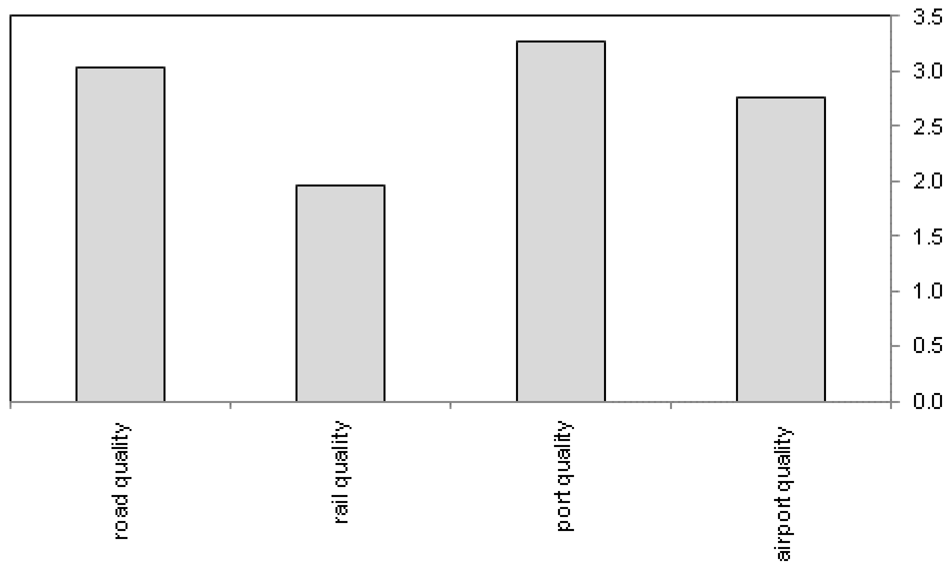
Railways

Tanzania's railways are in a poor condition, with breakdowns and cancellations of already infrequent services common. The network, however, plays an important role in regional trade, reinforcing road connectivity, particularly for bulk freight. Freight traffic densities are comparable to neighbours such as Uganda, Kenya and Zambia, despite being considerably lower than South Africa's traffic flows.

Tanzania's rail network comprises of 3,689km of standard gauge (1,000mm), making it the 47th longest rail network in the world. **Tanzania Railways Corporation** operates the Central Line, which runs between Dar es Salaam and western Tanzania. The line splits at Tabora in the middle of the country; one branch continues to Kigoma on the shores of Lake Tanganyika, while the second branch goes north to Mwanza on Lake Victoria.

Investments In Infrastructure Needed To Maintain Competitiveness

Tanzania - Infrastructure Quality



Note: 0 = Worst; 7 = best quality. Source: World Economic Forum

The route between Dar es Salaam and Mbeya in the southwest and on to Kapiri Moshi in Zambia is run by the Tanzania and Zambia Railway Authority. There is a break-of-gauge at Dar es Salaam to the Tanzania-Zambia Railway Authority 1,067mm line in Zambia, which will delay supply chains as gauges must be changed, increasing time and transport costs. A second link is at Kidatu, where the TAZARA line meets the Kidatu branch. From Tangya, a line to Kenya is currently not in use; however, plans to rehabilitate the line, along with the central line, will improve efficiency in Tanzania's rail network, as well as enable landlocked countries greater access to the Port of Dar es Salaam.

In March 2014, a memorandum of understanding was signed by the government of Tanzania and Burundi for the joint construction of a 195km railway line from Msongati in Burundi to Uvinza in Tanzania. The project will facilitate the smooth transportation of cargo between the two countries and decrease reliance on Tanzania's road network, helping to alleviate congestion. In addition, it is estimated that transport costs from the Port of Dar es Salam to Rwanda and Burundi will drop by 40%, reducing inland transportation and handling costs for investors and reducing overall trading costs.

Later that year, the **Tanzania Railways Corporation** initiated a USD130mn plan to modernise its railway infrastructure, a move that is expected to improve the quality and efficiency of rail travel. In addition to purchasing new locomotives, the project will also equip trains with a cargo tracking system to increase efficiency and enable businesses to know the geographic position of their cargo at all times.

In March 2015, another major railway project was announced by the transport minister that, upon its completion, will greatly enhance Tanzania's prospects as a regional transport hub. Over the next five years, the state will allocate an estimated USD14.2bn to build a new railway network, which is expected to meet demand for cargo transport within Tanzania and to landlocked neighbouring countries, including Rwanda, Uganda, Burundi, and the DRC. Additionally, this project will relieve pressure on over-congested and poor quality roadways, thereby diversifying transport options for regional traders.

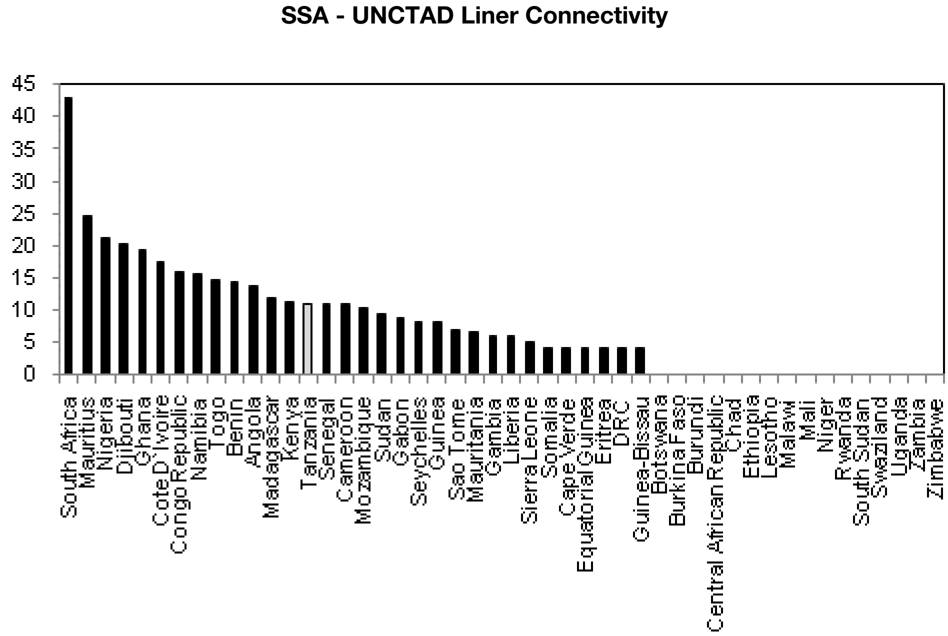
Ports And Inland Waterways

The country has three major Indian Ocean ports, with a number of minor ports. Dar es Salaam is Tanzania's main port, receiving an average of 9mn tonnes of cargo per year, equivalent to around 95% of all Tanzania's export and import volumes. According to the International Association of Ports and Harbours, Dar es Salaam is the fourth largest container port on Africa's eastern seaboard after Durban in South Africa, Mombasa and Djibouti. **AP Moeller-Maersk**, the world's largest container line, **Mediterranean Shipping Co** and **Mitsui OSK Lines** are among companies that use the port, which increases the port connectivity to global maritime trade routes. Moreover, Dar es Salaam is also the second largest in East Africa, separating Tanzania from many of its land-locked neighbours and boosting its logistics competitiveness within the context of the sub-region. This relatively strong connectivity is demonstrated by Tanzania's position on the UNCTAD's Liner Connectivity Index, ranked 14th out of 48 SSA states. Additionally, Tanzania offers traders a total of 17 dry ports, reflecting the country's importance as a trade hub for neighbouring landlocked economies.

According to the World Bank's Africa Infrastructure Country Diagnostics, Dar es Salaam's container dwell time was only seven days in 2010 (latest available data), while trucks were processed in five hours and cranes handled an average of 20 containers or tonnes per crane hour. This compares well to the port's regional competitors; South Africa's Cape Town and Kenya's Mombasa ports have an average container dwell time of seven and five days, respectively, while truck processing times in Cape Town and Durban are 4.8 and five days, respectively. These factors have provided a major advantage to Tanzanian firms dependent on trade, reducing wait times, delays and transport costs while enhancing the competitiveness of locally-produced goods.

However, Dar es Salaam has faced increased difficulty in responding to explosive growth in Africa's container and dry bulk traffic over the last decade. As of 2010, the demand to capacity ratio for containers was 140%, well exceeding the annual capacity of 250,000 TEUs, while the capacity ratio for general cargo was 93%, with demand exceeding 3.8mn tonnes per year. Despite investment, congestion is prevalent at the port. Dar es Salaam's port constraints have also been exacerbated by the oversaturation of Kenya's Port of Mombasa, with Dar es Salaam having to handle greater volumes than were previously handled at the Kenyan port.

Despite High Degree Of Connectivity, Declining Port Quality Impedes Competitiveness



Source: UNCTAD

As a key link in the transport supply chain, increased efficiency and throughput at the Dar es Salaam port is both essential to meet the economic growth prospects of Tanzania and the landlocked countries it serves. Although Dar es Salaam receives an estimated 90% of Tanzania's international trade, shippers face relatively high costs by regional standards. Indeed, the cost of shipping to Tanzania is around 25% higher than rates to the larger competing ports in Southern Africa. Furthermore, the World Bank estimates that trading costs between China and Tanzania are 60% higher than costs between China and Brazil, despite the fact that the latter countries are twice as far apart as the former countries. This is mostly attributable to port inefficiencies brought about by inadequate investment in infrastructure, particularly with regards to larger container ships, for which Tanzania's ports are ill-equipped to handle. Tanzania's ports are therefore in need of substantial infrastructure investment in order to keep up with both local demand and regional demand, owing to the importance of the country's ports to trade destined to and from landlocked neighbours such as Malawi, Uganda, Zambia, Rwanda, Burundi and the DRC; without it, businesses within the region will likely face the risk of rising port costs and increased delays and handling times. As a result, investors reliant on trade via ports may opt to establish themselves in more competitive economies, such as Kenya.

Investment is forthcoming. Plans are currently in place to expand the port of Dar es Salaam by building two new container terminals to cater for increased traffic. Dar es Salaam intends to boost its cargo handling capacity by 2015, helping to reduce delays and overall costs to investors, while lowering cargo clearing times from seven to five days by the end of the year.

Furthermore, an estimated USD750mn will also be invested to boost the capacity of the port to 28mn tonnes by 2020 and 34mn tonnes by 2025. Within this, infrastructure upgrades are underway to deepen and strengthen seven berths, to dredge the entrance of the port, and to rehabilitate gates and access roads. Other planned improvements include the introduction of an advanced conveyor belt system and the clearance of the port's warehouses to initiate a more efficient system of container stacking. In addition, plans to add four berths to the Port of Mtwara are in place that will cater towards the ongoing exploration activities for oil and gas in the Indian Ocean. Finally, the Ministry of Transport announced in May 2015 its intention to spend an estimated USD800mn on the construct of a port in the Rukwa region, which will cater to passengers and cargo from the DRC's port of Kilemie.

These plans will go a long way to enhancing Tanzania's competitiveness within the region as a logistics hub. According to the World Bank, if the Port of Dar es Salaam attained the same level of efficiency as that of Kenya's Port of Mombasa, the Tanzanian economy would gain nearly USD1.8bn a year, while the regional economy would garner USD800mn annually.

Upgrades are also necessary in light of the challenges posed by flooding. In May 2015, cargo clearance from the Port of Dar es Salaam was nearly stalled due to heavy flooding, which left cargo trucks debilitated in flooded roads. Without upgrades, businesses could face considerable delays in lead times and heightened trade costs during periods of heavy rain.

Tanzania's inland waterways also play a role in the country's supply chains. Lake Victoria plays the greatest role in regional trade, with ferries carrying rail wagons and vehicles from Uganda to Tanzania. The ferries are the main means of transport between Tanzania and Uganda, as well as between northern Tanzania and south-western Kenya. Lake Tanganyika, once a rival to Lake Victoria as a waterway, now provides only short commercial traffic runs between Kimogo and Bujumbura, Burundi and Mpulungu, Zambia, including the MV Liemba. These routes offer some diversification options for regional supply chains, which for the most part are reliant on road.

Airports

Tanzania's airports suffer from poor quality and low safety standards. The uncompetitive quality of the airports is demonstrated by the country's weak score of 2.76 out of 7 in the World Economic Forum's Global Competitiveness Index for airport quality. This score ranks Tanzania's airports 38th out of 48 states in SSA.

Mainland Tanzania (excluding Zanzibar) has 26 airports. These airports are primarily equipped to cater for the country's booming tourist industry, as opposed to for commercial purposes, and therefore operate limited freight options. Julius Nyerere International Airport is the principal airport serving Dar es Salaam, the largest city in Tanzania. The airport is well connected and has flights to destinations in Africa, Europe and the Middle East. It is predominantly a passenger airport; however, major cargo lines serving the airport include **Astral Aviation**, **Martinair Cargo**, **Etihad Airways** and **Safair**.

The Kilimanjaro International Airport is the country's main cargo airport, providing services such as cargo acceptance and documentation, warehousing, cargo delivery, special cargo handling, cargo palletisation and cold storage facilities. **Equity Tanzania** and **United Aviation Services** are registered companies based at the airport and provide full logistic support, including meet-and-greet services to commercial and private jets.

Air freight volumes in Tanzania have decreased from 3.5mn tonnes per km in 2000 to 1.4mn tonnes per km in 2013 and are low when compared with the surrounding region. For example, Kenya received 334mn tonnes per km in 2013, an increase from 249 tonnes per km in 2010. This highlights the uncompetitive state of Tanzania's airport when it comes to air freight, which is due to the country's primary focus on the tourist sector.

However, increasing passenger operations in Tanzania offer belly hold cargo options for air freight. Air passenger volumes have been growing over the past eight years, from 1.72mn passengers in 2004 to 3.62mn in 2012. Currently, 44.1% of tourists arrive by air, and this is expected to increase in the medium term, heightening the risk of congestion.

Tanzania's airports have already reached capacity in terms of the number of passengers; as a result, the quality of the country's airports has deteriorated due to needed infrastructural improvements and expansions. Businesses also face a threat of unsafe flights, particularly due to the frequent use of unpaved runways and a low usage rate of radars, increasing the risk of plane troubles or damages.

The government is cognizant of the importance of air travel to the economy and has therefore rehabilitated airports at strategic locations such as Kigoma to capture the market from neighbouring countries, and KIA in the northwest to serve the African Great Lakes region. Other major airports under planning and consideration include plans to build a third terminal at Julius Nyerere International Airport in Dar es Salaam. Meanwhile, Songwe airport in Mbeya and Tabora airport will also receive upgrades, thereby expanding air travel options within the country.

Trade Procedures And Governance Analysis

Trade Procedures And Governance

Investors in Tanzania benefit from a competitive export system by regional standards and high levels of trade facilitation due to the country's membership of a number of regional and international trade institutions. A notable drawback, however, is the country's import regime, which has longer lead times due to lengthy port and terminal handling procedures. Ranked 15th out of 48 Sub-Saharan Africa (SSA) countries with a score of 39.1 out of 100, Tanzania performs well for its trade procedures and governance, particularly in a regional context.

Tanzania's competitive performance in the realm of Trade Governance and Procedures reflects its moderately high score in the pillar of Costs and Connectivity, for which it merits a score of 46.8 out of 100. Major assets include competitive costs by regional terms, with export and import costs for one container standing at only USD1,090 and USD1,615, respectively.

Tanzania is less competitive in the Ease of Trading pillar however, which highlights the relatively high number of documents needed to import a container. Despite this, firms benefit from fairly short export and import lead times, thereby reducing logistics risk in this category. Consequently, Tanzania scores 31.3 out of 100, ranking 23rd in the region.

Table: Sub-Saharan Africa - Trade Procedures And Governance Risk

Country	Ease Of Trading	Costs And Connectivity	*Trade Procedures And Governance Risk*
Mauritius	87.2	80.9	*84.0*
Seychelles	71.1	72.2	*71.7*
Djibouti	65.6	57.1	*61.3*
South Africa	64.7	55.6	*60.1*
Senegal	73.0	44.5	*58.7*
Togo	43.3	61.6	*52.4*
Cape Verde	51.3	48.8	*50.0*
Ghana	44.9	55.1	*50.0*
Gambia	48.8	51.2	*50.0*
Madagascar	47.3	52.4	*49.9*
Sao Tome	34.6	59.4	*47.0*
Benin	43.1	47.3	*45.2*
Gabon	46.7	39.5	*43.1*
Mozambique	37.2	48.3	*42.7*
Tanzania	**31.3**	**46.8**	***39.1***
Guinea	26.8	49.3	*38.0*
Sierra Leone	31.4	43.6	*37.5*
Guinea-Bissau	50.5	24.3	*37.4*
Namibia	40.3	33.1	*36.7*
Kenya	27.8	41.2	*34.5*
Swaziland	53.1	14.3	*33.7*
Equatorial Guinea	36.8	29.7	*33.2*
Sudan	32.0	34.5	*33.2*
Nigeria	18.1	47.1	*32.6*
Liberia	26.8	38.1	*32.4*
Cameroon	19.9	43.8	*31.9*
Angola	15.3	40.3	*27.8*
Mauritania	24.4	31.0	*27.7*
Côte d'Ivoire	19.9	35.3	*27.6*
Botswana	42.6	7.2	*24.9*
Lesotho	34.7	14.7	*24.7*
Ethiopia	20.6	27.9	*24.3*
Rwanda	30.5	17.2	*23.8*
Mali	30.4	10.6	*20.5*

Sub-Saharan Africa - Trade Procedures And Governance Risk - Continued			
Country	**Ease Of Trading**	**Costs And Connectivity**	***Trade Procedures And Governance Risk***
Eritrea	6.6	33.9	*20.3*
Zimbabwe	23.4	16.9	*20.2*
Uganda	24.7	10.3	*17.5*
Congo Republic	9.1	25.9	*17.5*
Zambia	25.6	6.2	*15.9*
DRC	17.3	13.4	*15.4*
Somalia	4.7	22.3	*13.5*
Niger	13.5	7.9	*10.7*
CAR	7.4	13.7	*10.5*
Burkina Faso	14.3	5.9	*10.1*
Burundi	14.7	5.5	*10.1*
Malawi	10.6	7.7	*9.1*
Chad	9.3	4.1	*6.7*
South Sudan	4.5	0.8	*2.6*

Source: BMI Logistics Risk Index

The number of documents required to export from Tanzania is seven, which is the same number required by neighbouring Mozambique. This number is fewer than that required by Kenya, which requests eight documents in line with the SSA average. The fact Tanzania requires fewer than the average number of documents means administration costs for exports are reduced and makes the country competitive for investors. Importing goods is, however, more complex, requiring 11 documents compared to the SSA average of nine documents - the number required in both Kenya and Mozambique. This drives up the cost of imported goods and heightens companies' initial start-up costs, as a business typically must import goods to develop operations.

The seven documents required to export and 11 documents required to import take eight and 13 days respectively to prepare, with the preparation time of documents accounting for around 44% of total export times and 50% of total import times. For imports, this is also the most costly stage of the procedure, costing USD575, or 36% of the total cost to import. The document completion process costs less for exports at USD270. The level of bureaucracy is therefore a major drag on the country's attractiveness to importers and may influence investors to opt to do businesses in more competitive locations, such as Kenya, where more documents are required but which are completed at the lower price of USD250 for imports and USD350 for exports.

Table: Tanzania - Import And Export Documents

Export documents	Import documents
Bill of lading	Bill of lading
Certificate of origin	Certificate of conformity
Commercial invoice	Certificate of origin
Customs export declaration (TANSAD)	Commercial invoice
Customs release order	Confirmation receipt of payment for customs related fees
Packing list	Customs import declaration (Pre-arrival declaration - PAD)
Shipping order	Customs release order
	Delivery and disposal order
	Delivery order
	Gate pass
	Packing list

Source: World Bank 'Doing Business'

Lead times of 26 days for imports are considerably better than the SSA average of 38 days; in this regard, Tanzania competes well with lead times of 26 days in Kenya and 25 days in Mozambique. Lengthy average port and terminal handling times for imports stand at seven days, thereby delaying supply chains and adding costs to imports - though these are likely to be improved with the expansion of the country's ports in the medium term. Lead times for exports of 18 days are competitive when compared with the SSA average of 31 days, as well as compared with Kenya and Mozambique's export lead times of 26 days and 21 days, respectively.

Table: Tanzania - Trade Procedures Breakdown

Nature Of Export Procedures	Duration (Days)	USD Cost	Nature Of Import Procedures	Duration (Days)	USD Cost
Documents preparation	8	270	Documents preparation	13	575
Customs clearance and technical control	4	250	Customs clearance and technical control	5	250
Ports and terminal handling	4	320	Ports and terminal handling	7	540
Inland transportation and handling	2	250	Inland transportation and handling	1	250
Totals	18	1,090	Totals	26	1,615

Source: World Bank 'Doing Business'

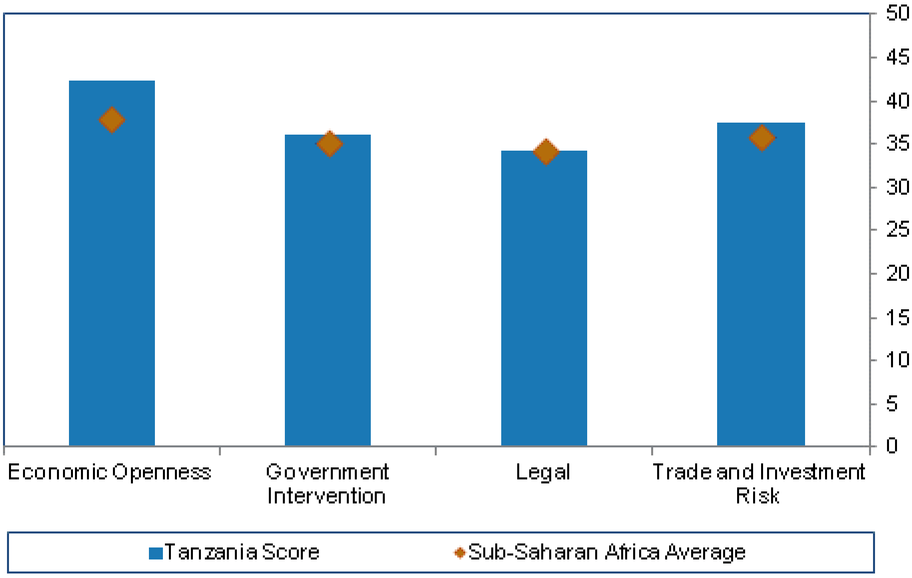
Trade and Investment Risk

BMI View

BMI View: *Tanzania offers a number of strategic advantages to investors and businesses, including a wealth of natural resources and a government that is becoming increasingly open to foreign participation in the economy. However, firms continue to face challenges in the form of non-tariff trade barriers and difficulty competing with public sector firms in key economic sectors. Tanzania's main challenges include addressing infrastructure bottlenecks, improving the business environment, increasing agricultural productivity and value addition across all sectors and managing urbanisation. Corruption is pervasive throughout Tanzanian society and is a serious problem across all sectors of the economy. As a result, Tanzania receives a score of 37.5 out of 100 for Trade and Investment Risk, ranking 17th regionally behind neighbouring Zambia, Rwanda and Kenya.*

High Financial Barriers, Legal Risks Deter Foreign Investors

Tanzania & SSA Regional Average - Trade And Investment Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Trade and Investment Risk Index

Legal (34.2/100): Tanzania's performance in the Legal Risk pillar underlines the high risk in the country's burdensome bureaucratic environment and a corrupt and under-resourced judiciary. Bureaucratic procedures for licenses and permits continue to be burdensome and time-consuming and this is highlighted by the protracted time it takes to open and close a business, register property and obtain construction permits. According to the World Bank's Doing Business report it takes on average three years to close a business. Corruption is endemic, though measures to combat it have been ramped up since 2015 and are applied impartially to foreign and domestic investors; rent-seeking persists in government procurement, privatisation, taxation, and customs clearance. Additionally, investors continue to face challenges receiving payment for services rendered for government sponsored projects. Lack of court capacity remains an issue as investment-related disputes in Tanzania can be protracted by up to four years, despite the establishment of a computerised arbitration system. Intellectual property protection is low and the legal risks are further compounded by inadequate legal penalties for counterfeiters.

Government Intervention (36.0/100): Businesses face a high degree of trade and investment risk from the limitations of the country's banking and financial development. On the surface, Tanzania ranks moderately well for its level of taxes, offering investors a total tax rate of 43.9% of profit, versus a regional average of 46.5%. However, Tanzania faces increasing challenges in achieving its desired level of fiscal balance while maintaining conducive conditions for economic growth, due its low tax base. The GDP growth projections and trends are counterbalanced by the widening wealth gap, high levels of poverty, increasing public debt stock and high levels of unemployment. Businesses predominantly bear the brunt of the tax bill in Tanzania and this is unlikely to decrease in the medium term. Furthermore, the domestic market is largely unbanked and financial inclusion remains low. The financial sector is underdeveloped in comparison to regional peers such as Kenya and to a greater extent South Africa, and protection of minority investors remains weak. Investors will experience considerable obstacles with regard to accessing banking services and international financial markets in Tanzania.

Economic Openness (42.3/100): Tanzania benefits from vast natural resources that offer numerous investment opportunities in the extractive, agricultural and tourism sectors. We forecast robust long-term economic growth as the country looks to benefit from its nascent offshore gas sector and the investment influx aimed at developing this sector and infrastructure projects. Tanzania also benefits from its membership with the East African Community (EAC) that fosters regional economic integration and trade. However the dearth of critical infrastructure and inadequate logistics networks have resulted in low industrialisation in the country and low FDI inflows in comparison to regional peers such as Kenya. Capital goods imports will continue to dominate trade in our medium- to long-term forecast. Overall trade volumes remain low and the trade deficit is set to widen. As the country relies heavily on its agricultural and mining sectors, businesses face significant medium term risks due to adverse weather conditions (namely El Niño), subdued commodity prices and weak global demand for commodities.

Table: Tanzania - Trade And Investment Risk

	Economic Openness	Government Intervention	Legal	Trade and Investment Risk
Tanzania Score	42.3	36.0	34.2	37.5
Sub-Saharan Africa Average	37.9	35.2	34.3	35.8
Sub-Saharan Africa Position (out of 48)	17	22	21	17
Global Average	49.3	49.9	50.6	49.9
Global Position (out of 201)	128	157	150	147

Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Trade and Investment Risk Index

BMI's Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk state. The entire index consists of 20 sub-index scores and 79 individual surveys and datasets, which all contribute to the headline score. A full methodology can be found at the end of the report.

SWOT

SWOT Analysis

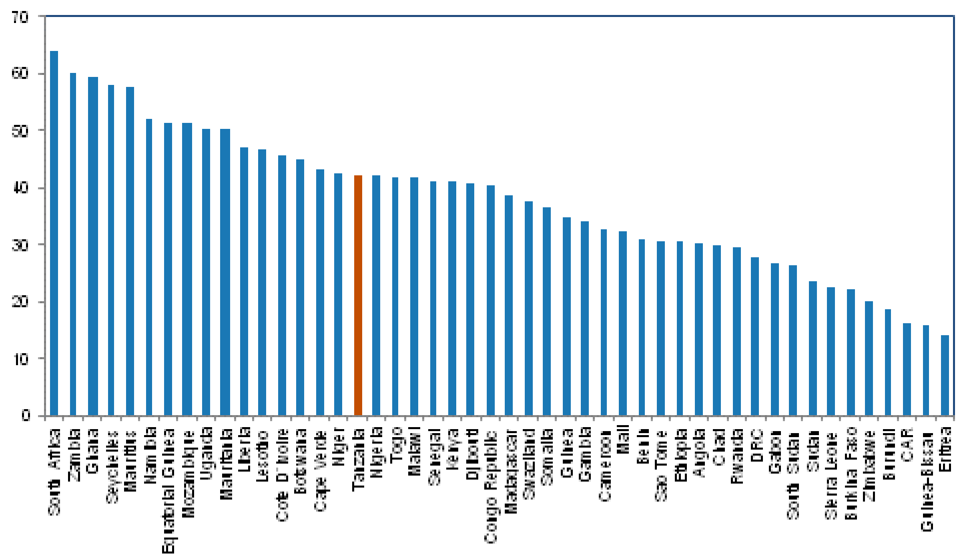
Strengths	▪ High levels of foreign investment and portfolio investment exemplify the diversity of investment opportunities. ▪ High liquidity and stability in the banking sector bodes well for future development. ▪ Increased regional integration will pave the way for new trade opportunities. ▪ A competitive tax environment lowers the tax burden on businesses.
Weaknesses	▪ High interest rates limit access to credit. ▪ Low number of bank branches per population reduces the availability of financial services. ▪ High levels of corruption lower the attractiveness of Tanzania as an investment hub. ▪ Non-tariff barriers such as customs and port authorities cause difficulties.
Opportunities	▪ The risk of fraud has been lowered with the deployment of a national ID card system. ▪ The discovery of natural gas could significantly boost trade flows and foreign reserves. ▪ The country's efforts to expedite basic business procedures will lower the burden of red tape.
Threats	▪ Unfair competition from public sector firms in major economic sectors may constrain foreign participation in the economy. ▪ Restricted access to international financial markets may encourage foreigners to invest in more established regional markets. ▪ If the country's widespread corruption is not tackled, investors may be dissuaded from participating in the economy.

Economic Openness Analysis

BMI View: *Tanzania benefits from vast natural resources that offer numerous investment opportunities in the extractive, agricultural and tourism sectors. We forecast robust long-term economic growth as the country looks to benefit from its nascent offshore gas sector and the investment influx aimed at developing this sector and infrastructure projects. Tanzania also benefits from its membership to the East African Community (EAC) that fosters regional economic integration and trade. However, the dearth of critical infrastructure and inadequate logistics networks have resulted in low industrialisation and low FDI inflows in comparison to regional peers such as Kenya. Capital goods imports will continue to dominate trade in our medium- to long-term forecast. Overall trade volumes remain low and the trade deficit is set to widen with imports outpacing exports. As the country relies heavily on its agricultural and mining sectors, businesses face significant medium-term risks from adverse weather conditions (namely El Niño), subdued commodity prices and weak global demand for commodities. Consequently, BMI awards Tanzania a score of 42.3 out of 100 for Economic Openness, placing it in 17th place out of 48 states in the SSA, and 128th out of 201 states worldwide.*

Poor Trade Balance To Receive Boost From Growing Investor Interest

SSA - Economic Openness Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Trade and Investment Risk Index

Latest Economic Openness Analysis

- Imports of energy products such as fuel will continue to drive trade volumes in the coming years, raising input costs for firms. Given that oil prices will continue to recover gradually over the medium- to long-term, the import burden is likely to rise.
- Economic growth is projected to reach 6.5% during 2016 and 2017, boosted by major public and private investments in infrastructure. The availability of gas for electricity generation from the Mtwara pipeline that was completed in 2015 will provide more stable and cheaper power supply to industries, stimulating domestic production. The **Dangote** cement plant that started operations in 2015 is one of the major private sector investments that are contributing to cheaper inputs for construction and other sectors. In addition, public support for agriculture, in particular the introduction of out-grower schemes by government agencies and private firms, as well as the provision of fertiliser and other inputs to farmers, are expected to contribute to overall GDP growth in the medium term. The government has demonstrated a commitment to public-private partnerships in agriculture, infrastructure and services, while foreign investors are also showing interest in these arrangements.
- The Tanzanian shilling (TZS) will experience a much less rapid pace of depreciation in 2016 than in 2015 as it benefits from a less bullish US dollar, positive balance of payments dynamics and improved local sentiment. Having depreciated by an average of 22.4% against the dollar in 2015, we forecast average depreciation in 2016 of just below 8.0%.
- State-run **Tanzania Petroleum Development Corporation** (**TPDC**) plans to develop a USD3bn fertiliser plant in Tanzania that is expected to be operational by 2021. TPDC has entered a joint venture agreement with Germany-based **Ferrostaal Industrial Projects**, Denmark-based **Haldor Topsoe** and Pakistan-based **Fauji Fertilizer Company** for the project. The facility, to be built in southern Tanzania near large offshore gas finds, will use natural gas to manufacture fertiliser. According to the Tanzanian President's office, the plant, which will become Africa's biggest fertiliser producer, will have a capacity of producing an estimated 3,800 tonnes per day.
- Tanzania is making significant strides in moving from an aid-dependent nation to one that seeks to attract FDI that will generate employment, improve the economy and increase the value of exports. In February 2016, Japanese conglomerate **Toyota Tsusho Corporation** showed intent to diversify from the automobile industry and invest in other sectors in Tanzania. The company will explore investment opportunities in the energy (wind and geothermal), manufacturing (textile and meat processing), agriculture, infrastructure, and health sectors as it diversifies its local portfolio of investments over the short- to medium-term. Toyota Tsusho's interest in the Tanzanian projects highlights the increasing level of interest from foreign investors and the government's readiness to engage foreign-owned businesses. The government under the leadership of President John Magufuli has promised to work closely with the private sector, clamp down on corruption and improve the business environment.
- In February 2016, Tanzania and Uganda's leaders agreed to build a crude pipeline linking their countries, connecting landlocked oilfields to the Indian Ocean. The proposed link will cover 1,120km and its construction will create 15,000 jobs, according to a statement by President Magufuli. The heated pipeline will cost approximately USD4bn and the two countries' governments plan to swiftly implement the project. Tanzania is competing with neighbouring Kenya for the pipeline that will tap Ugandan oil deposits being developed by companies including **Total SA** of France, **China National Offshore Oil Corp**, and London-based **Tullow Oil Plc.** This development will boost trade volumes and economic activity in Tanzania and the region as a whole in the long term.

Trade Openness

Tanzania's geographical attributes such as extensive tracts of wilderness, proximity to the Indian Ocean, rich diversity of scenery and an abundance of natural resource wealth, provide investors with a number of opportunities for exports in the extraction, agriculture and tourism sectors. Consequently, Tanzania enjoys a strong growth outlook for exports and imports over the medium term, representing one of the highest growth rates in the region. Indeed, the discovery of offshore natural gas has necessitated a notable expansion in imports, while contributing to a strong export growth outlook when production begins in 2023. We view Tanzania as one of Africa's bright spots for economic growth with an aggregate real GDP growth forecast of 6.4% y-o-y from 2016 to 2020; however, this growth is from a low base. Furthermore, we highlight that investors will continue to face significant supply chain risks due to poor logistics and hard infrastructure and high regional non-tariff barriers. Therefore, **BMI** scores Tanzania 41.6 out of 100 for Trade Openness, ranking the country in 22nd place out of 48 states, behind Zambia, and ahead of Rwanda and Kenya.

In 2015, Tanzania's economy grew by 5.7% driven by continued strong performance in most sectors and supported by public investment in infrastructure, with aggregate GDP growth projected to remain at 6.4% y-o-y in the medium term. We highlight that this growth is from a low base, where GDP stands at USD42.7bn (from a population with an estimated size of 53.5bn) and the country remains poorly industrialised by regional comparison. A major risk to our economic outlook comes from the weather. Poor rains would not only exacerbate tight food supplies, but will also hamper hydroelectricity production, raising costs for businesses and, by extension, consumers.

The main contributors to growth were the construction, mining, agriculture and transport sectors. The headline inflation continuously declined from over 20% in 2011 to 4% in January 2015, largely due to the combined impact of prudent monetary policy and recent decreases in global food and energy prices. The rising local food prices have slightly pushed the inflation rate since early 2015 to 6.4% in July 2015. While agriculture remains the mainstay of the economy due to the large share of the workforce involved in the sector, the robustness of the recorded growth has partly been a result of sustained dynamism in the mining, manufacturing and services sectors, which have consistently maintained gross value-added shares as well as good performance in terms of growth. Net exports will remain a drag on headline growth over the coming years. Rapid investment and robust private consumption growth will see demand for non-substitutable imported capital and consumer goods remain high. The external sector, meanwhile, will continue to suffer from a dearth of domestic productive capacity. Despite possessing a relatively diversified export base, the performance of exports will be hampered by weak global commodity prices and an uncompetitive agricultural sector.

Trade flows in Tanzania have increased considerably over the last decade, with trade volumes reaching USD23.3bn in 2015. This represents the ninth largest trade volumes in the region, ranking Tanzania between DRC and Mozambique; however, Tanzania ranks below neighbouring Kenya with USD31.7bn. Trade growth will be largely fuelled by private consumption, government expenditure and FDI inflows, underpinning the strong growth outlook for imports expected to come in at 8.6% y-o-y between 2016 and 2020. We highlight that import values continue to outweigh exports such that the increase in trade volumes has brought with it a negative trade balance which has widened since 2008 where is stood at USD4.6bn, to USD6.3bn in 2014. Within this, the lion's share of imports stems from product imports which are driven by much-needed infrastructural development and the growing manufacturing and mining sectors; indeed, the products trade deficit ballooned from USD3.5bn in 2009 to USD8.1bn in 2013. On the other hand, Tanzania has enjoyed a relatively modest trade surplus in services, which has fluctuated between USD0.1bn in 2009 and USD0.6bn in 2013.

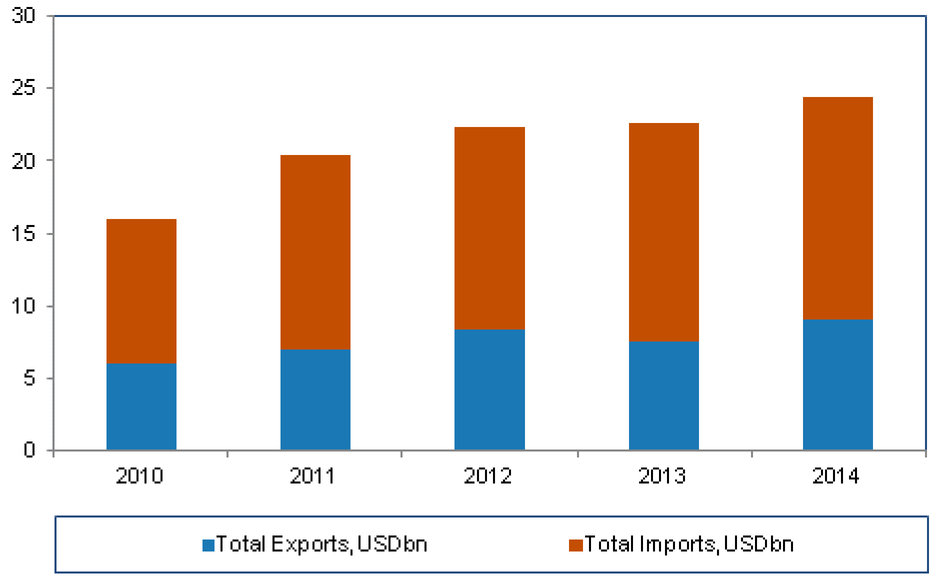
Imports currently represent 24.7% of GDP at an estimated value of USD14.7bn. Tanzania has the eighth largest import value in the region driven by considerable growth in imported manufactured and capital goods due to the development of the country's gas sector. While we forecast slow but significant growth in private consumption in the medium term, with so much of the population employed in the agricultural sector, growth will be subject to shocks based on the strength of the harvest, agricultural mechanisation, weather conditions and fluctuating global food prices.

Tanzania's goods imports grew by 6% y-o-y thus far in 2015, representing a notable decline from the same period in 2014, when import growth reached 7.4%, and 6.8% y-o-y in 2013. Nevertheless, this state of affairs is largely the result of a decline in purchasing power with a depreciating Tanzanian shilling, and will not likely continue in the medium term. Indeed, the Tanzanian government strongly encouraged businesses and citizens to cut back on imports. In May 2015, the Tanzanian shilling depreciated to the lowest level since the country attained independence 54 years ago, trading at TZS2,025 to the US dollar. Oil products account for a sizeable portion of imports, constituting 37.6% of all imports in 2014, in addition to manufactured products and machinery. A recovery in global oil prices will likely increase the import burden in the long term. A reliance on imported fuel, food, and capital goods will ensure that the country's current account will remain in deficit over the medium term, standing at 9.3% of GDP in 2015, reaching 10% by 2019.

At an estimated USD10.3bn in 2015, exports are overshadowed by imports, representing 34.5% of GDP. Tanzania the ninth largest export volumes, falling behind Kenya with USD11.4bn and the DRC with USD13.1bn. Primary goods continue to represent the majority of Tanzanian exports, though manufacturing and services exports are also steadily increasing in importance, demonstrating the continued diversification of the Tanzanian economy. The fall in global commodity prices combined with subdued commodities' demand in key export destinations such as China and South Africa presents significant risks for investors in the extractive sector in the medium term. Nevertheless, Tanzania's export growth will remain resilient over the medium term, with aggregate growth forecast of 8.8% y-o-y from 2016 to 2020. Discoveries of natural gas off the Tanzanian coast by Norway's **Statoil** have the potential to transform the economy. Large-scale hydrocarbons production will not only boost Tanzania's external accounts owing to increased exports, they will also decrease the country's reliance on energy imports. Although production is some way off (our Oil & Gas team expect 2022 at the earliest), investment into extractive and export infrastructure will have a meaningful impact on headline economic growth in the medium term due to increased investment.

Imports Overshadow Exports Highlighting Low Levels Of Industrialisation

Tanzania - Total Imports & Exports, 2010-2014, (USDbn)



Source: Trade Map

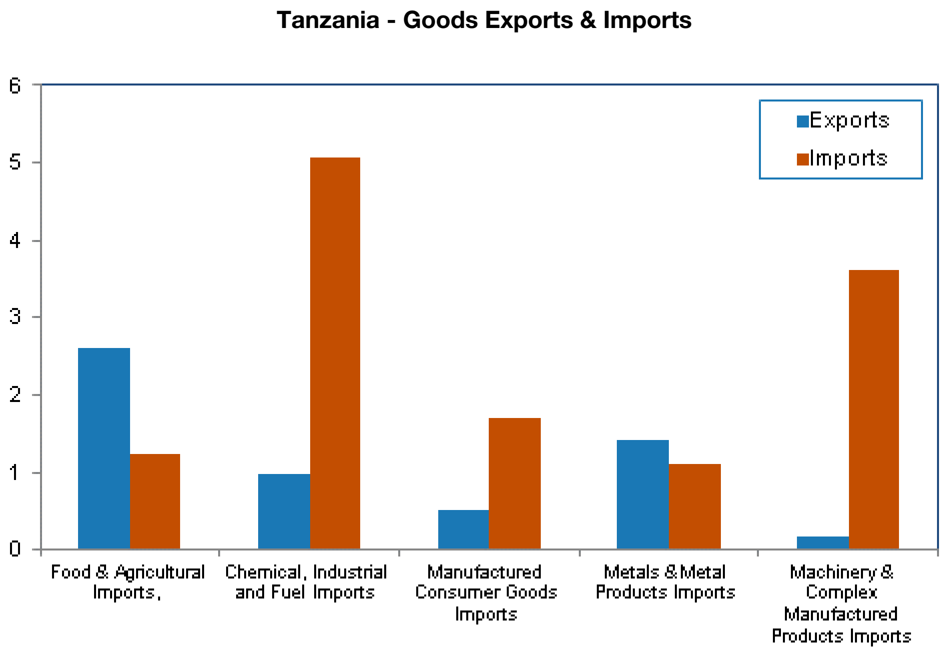
The principal exports include minerals (gold, gemstones, diamonds, coal), coffee, cotton, cashew nuts, tea, sisal, tobacco, pyrethrum and cloves. Agriculture is one of the leading sectors in Tanzania accounting for almost 25% of GDP, 45.6% of total product exports. The main exported cash crops are cereals, coffee, tea, cotton, cashews, raw tobacco, and spices. Tanzania's agricultural sector has played a key role in the last 25 years contributing to a general decline in poverty due to the country's fertile arable lands, diverse climatic zones and vast natural water sources throughout Tanzania. We highlight that the country's high dependence on key cash crops leaves it vulnerable to price changes in the international market and adverse weather conditions. Furthermore, this sector remains dominated by subsistence farming and only 24% out of about 44mn hectares of total land has been utilised so far according to the United Nations Educational, Scientific and Cultural Organisation (UNESCO). This highlights the untapped opportunities for the development of this sector; however, investor participation remains biased towards locals. However, as Tanzania remains on the path towards industrialisation, the agriculture sector is serving as a stimulus to the various manufacturing industries that operate in the country and are more open to foreign participation.

While **BMI** continues to favour the Tanzanian sugar and coffee industries over the medium term owing to their potential for growth on the back of strong investment in capacity, we foresee decreased output from the agricultural sector as a whole, as the economy shifts focus towards the extraction and tourism sectors. That said, Tanzania's agricultural exports will continue to make notable contributions to overall trade flows for the coming years, particularly from the country's coffee harvest. Specifically, Tanzania's coffee harvest is expected to hit a record high of 1.25mn bags in 2015-2016 on a July-to-June basis, which will increase Tanzanian exports to 1.22mn bags, representing an increase of 25% y-o-y. This record represents an increase of 100,000 bags y-o-y - an achievement that comes close to meeting the government target of reaching 1.33mn bags by 2016 and 1.67mn bags by 2021.

Tanzania holds vast deposits of coal, cobalt, copper, diamonds, gold, nickel, silver, uranium and tanzanite (unique to Tanzania). Mining is another key sector in Tanzania in terms of its contribution to GDP and its share of exports, with metal and metals products accounting for 15% of total product exports in 2014. As the fourth-largest gold producer in SSA after South Africa, Zimbabwe and Ghana, the country exports in excess of 50 tonnes of gold per annum. Despite these positive aspects, we forecast the country's mining sector growth to decline over the medium term. **BMI** maintains a downbeat forecast for the country's gold mining sector in the medium term, as lower gold prices, local unrest and high taxation weigh on the key players. We forecast Tanzania's mining industry value to decline from USD0.81bn in 2015 to USD0.79bn by 2019. This is an average annual contraction of 1.3% during 2016-2019, significantly lower than the average annual growth of 4.2% over 2010-2014. In our view, weak gold prices will halt gold production growth and delay or halt new projects from coming online altogether. Beyond our forecast period, the sector will be boosted by increasing coal, nickel and uranium production.

The discovery of natural gas is also expected to boost Tanzania's long-term export prospects, while contributing to the country's energy self-sufficiency. This year, the Norwegian energy company **Statoil** discovered an additional natural gas find, bringing the total discovered gas volumes in Block 2 offshore Tanzania to roughly 22trn cubic feet, while the company is optimistic that there is more natural gas to be discovered. However, as production is not expected to begin until 2023, natural gas exports will not dramatically alter the landscape of Tanzania's trade balance until the long-term.

Capital Goods Dominate Trade



Source: Trade Map

Tanzania is the only country in the world to allocate more than 25% of its total area to wildlife parks and game reserves. This has attracted significant attention from international tourists who are drawn to the country's landscape, wildlife resources and beach islands, and Tanzania is now considered one of the best tourist destinations in Africa. In 2013, the trade and tourism sector contributed 16.2% to GDP and accounted for 25% of total export earnings. This is expected to grow to around 17.2% of GDP by 2023, thereby highlighting the growing diversity of investment opportunities available in the tourism industry.

Major import commodities include agricultural machinery, implements and pesticides, industrial raw materials, machinery and transportation equipment, petroleum and petroleum products, construction materials, and consumer goods. Imports are driven by the manufacturing and extractive sectors as well as ongoing infrastructural developments. Efforts to develop the country's gas industry have also resulted in growing demand for machinery and complex manufactured imports, which accounted for 23.3% of total imports in 2014. Meanwhile, demand for manufactured consumer goods and metals and metals products represents 11.2% and 9.6% of total product imports, respectively. Consumer purchasing power remains low, despite a large population; hence the demand for imported consumer products will continue to be overshadowed by capital imports over the medium to long term. Furthermore, large-scale hydrocarbons production will not only boost Tanzania's external accounts owing to increased exports, they will also decrease the country's reliance on energy imports in the long run.

Despite the shilling's heavy sell-off and associated imported price growth, inflation has been contained thanks to favourable food and fuel prices. These benign price conditions are set to continue through 2016, also benefitting from the gradual abating of FX inflation pass through. The collapse in Brent crude prices has precipitated a marked decline in the cost of fuel in Tanzania, a major net importer, and with oil prices set to remain comparatively low, this will help to keep a lid on price growth.

The latest data from the Bank of Tanzania confirms that in the year through September 2015, the current account deficit narrowed by 14% to USD4.2bn due to a jump in exports and a sharp deceleration in imports. Traditionally averaging between 30-40% of total imports, Tanzania's imported fuel bill is one of the most burdensome in the region (on a relative basis) and the biggest single contributor to the country's gaping trade and current account deficits. This boost from lower oil prices, however, will be insufficient to make a meaningful dent in the gaping trade deficit. Indeed, over the coming years we expect heavy demand for imported capital goods and a subdued outlook for exports stemming from a structural dependence on low value-added agricultural commodities to keep the trade balance, and by extension the currency, under pressure.

Table: Top Five Trade Partners - Product Imports (2010-2014), USDmn

	2010	2011	2012	2013	2014
Total Product Imports	**8,013**	**11,184**	**11,716**	**12,525**	**12,691**
India	**895.0**	**1,565**	**880.6**	**2,309**	**2,454**
% change y-o-y	15.8	74.9	- 43.7	162.2	6.3
% of total product imports	9.0	11.7	6.3	15.4	15.9
China	**876.5**	**1,056**	**1,163**	**1,596**	**2,047**
% change y-o-y	26.7	20.5	10.1	37.2	28.2
% of total product imports	8.9	7.9	8.3	10.6	13.3
United Arab Emirates	**672.2**	**1,243**	**1,026**	**1,193**	**1,175**
% change y-o-y	6.4	85.0	- 17.5	16.3	- 1.5
% of total product imports	6.8	9.3	7.3	7.9	7.6

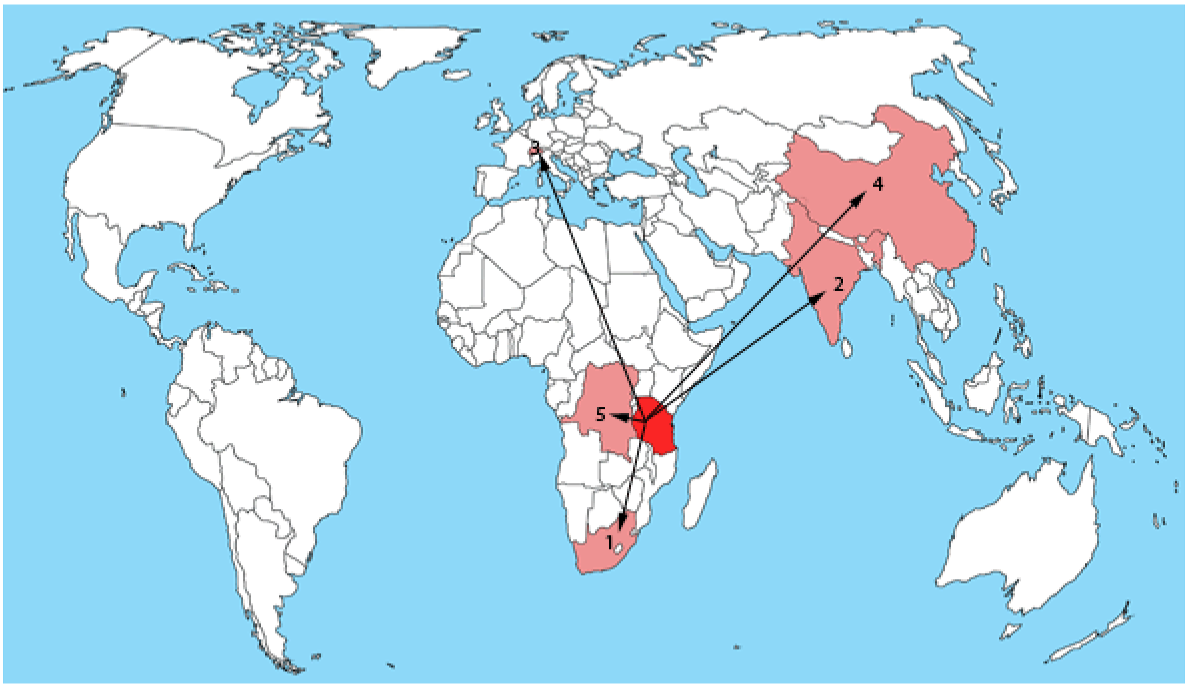
Top Five Trade Partners - Product Imports (2010-2014), USDmn - Continued					
	2010	**2011**	**2012**	**2013**	**2014**
Switzerland	**562.6**	**1,102**	**1,582**	**1,622**	**905.6**
% change y-o-y	318.0	95.9	43.5	2.6	- 44.2
% of total product imports	5.7	8.2	11.2	10.8	5.9
Kenya	**275.3**	**339.3**	**564.2**	**335.6**	**654.7**
% change y-o-y	- 9.6	23.3	66.3	- 40.5	95.1
% of total product imports	2.8	2.5	4.0	2.2	4.3

Source: Trademap, BMI

Risk within Tanzania's trade environment is further diminished by the country's broad array of trade partnerships. India remains the country's top import source, followed by China, the UAE, Switzerland and neighbouring Kenya. Indeed, India is also Tanzania's top export partner, accounting for 13.8% of total imports. The resilience of the Indian economy against global economic headwinds means that demand for Tanzania's primary goods will be sustained in the medium term and Tanzania is well hedged against risk of subdued demand in other major trade partners such as China (7.5% of exports) and South Africa (7.6% of exports). India and China share strong trade relations with Tanzania, due in part to the country's strong mining base, and Tanzania does much trade within the East African region due to its membership of the East African Community (EAC). Taking these factors into account, Tanzania offers a relatively low level of risk arising from a decline in demand from key trade partners. The country therefore performs well by regional standards in the Trade Diversification Index, ranking 15th in the region out of 48 states, between Ghana and Madagascar.

Diversified Export Partners Lowers Risk Of Declining Demand

Tanzania - Top Five Export Partners



Source: *d-maps.com, Trade Map, BMI*

External trade has been further facilitated by Tanzania's introduction of the Global Standard 1 (GS1) barcode system into its trade environment. Specifically, the embrace of this system has enabled over 700 small- to large-scale producers to register roughly 13,300 locally produced products under the GS1 system, thereby boosting product traceability, aiding customers at self-service checkouts, enhancing check-out operations at the point of sale, and increasing national income via the payment of VAT.

Trade has been facilitated by a number of agreements, including membership to the EAC, the Southern African Development Community (SADC) as well as the WTO. As a result, businesses operating in Tanzania benefit from preferential access to member economies, notably to key neighbours including Kenya, Rwanda and Uganda. Other major economies include Ethiopia, Angola, South Africa, Namibia and the DRC. Indeed, efforts to enhance intra-regional trade has resulted in reduced cargo times in East Africa's major transport corridors and expedited the implementation of the EAC's Single Customs Territory. Within this, seven One Stop Border Posts (OSBP) have been introduced throughout East Africa, including pilot projects at the Kobero/Kabanga crossing between Burundi and Tanzania, where traders have enjoyed a reduction in transit times of two days. As a result, these efforts will lower lead times and trade costs, thereby increasing the competitiveness of Tanzanian products in regional and global markets. In May 2015, Tanzania also voiced its interest in strengthening bilateral trade ties with Mozambique. Specifically, the two countries envision enhancing bilateral cooperation on trade and investment as well as boosting security coordination over water borders, piracy and poaching.

Currently, Tanzania places in the middle of the regional pack for its trade barriers, with an average tariff rate of 11.5%. Nevertheless, with Tanzania's increased participation in regional and international trade partnerships, tariffs have steadily declined, enabling firms to participate in a significant expansion of regional trade flows. Specifically, Tanzania's trade policies are undergoing harmonisation with other EAC countries, while SADC members receive tariff preferences from Tanzania, greatly facilitating regional trade. Despite a decline in trade barriers, non-tariff issues continue to present challenges, notably due to corrupt and inadequate port and customs officials. As a result, the state has implemented reforms to improve the customs system, though the potential for delays and high costs remains.

Intra-regional trade is expected to receive a considerable boost from Tanzania's efforts to further remove trade barriers. In 2014, the country reportedly resolved over 40% of non-tariff trade barriers (NTBs), particularly in the central corridor between Tanzania and Rwanda. Specifically, Tanzania has reduced the number of weighbridges from eight to three and lowered the frequency of roadblocks. Importers and exporters have cited NTBs as a major barrier to doing business between the two countries; therefore, Tanzania's efforts will likely facilitate trade flows and improve the overall business environment for traders and investors.

Table: Tanzania - Free Trade Agreements

Country/Bloc	Status	Positive Effect On Businesses
East African Community (EAC) comprising Burundi, Rwanda, Kenya, Uganda	Active	**High -** As a member state, the customs union aids regional trade flows and allows businesses to use Tanzania as a gateway to the African market. The EAC common market is becoming increasingly important to foreign investors, offering access to a market of over 130mn people with free movement of factors of production. Trade with neighbouring states is substantial where trade volumes stand at over USD1.3bn between Tanzania and the EAC.
EAC-US	Active	**High -** The US is a major export market and the Trade and Investment Framework Agreement and Africa Growth and Development Act remove tariffs for some product exports to the US (such as textiles), reducing trade barriers.
EAC-EU	Active	**High -** EU states are key trade partners and the Economic Partnership Agreement facilitates access to this large market.
The Southern African Development Community (SADC) - involving Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe	Active	**High -** At a regional level, Tanzania is a member of the Southern African Development Community (SADC), an organisation that helps to reduce trade barriers among member states. It covers a population of some 250mn people and is a zone whose cumulative GDP stands at over USD580bn. Total trade in 2014 between Tanzania and SADC amounted to over USD2bn, and there is potential for growth with greater regional logistical development that will help to lower trade costs.
The African Free Trade Zone (AFTZ)	Under negotiation	**High -** This is a regional free trade agreement that if implemented appropriately will open up new markets with the country's regional peers. The leaders of the three AFTZ trading blocks, the Common Market for Eastern and Southern Africa (COMESA), The East African Community (EAC), and SADC, announced the agreement, with the aim of creating a single free trade zone to be named the African Free Trade Zone, consisting of 26 countries with a combined GDP of an estimated USD650bn. The African Free Trade Zone agreement would ease access to markets within the AFTZ zone and end problems due to several of the member countries in the AFTZ belonging to multiple regional groups.

Source: BMI

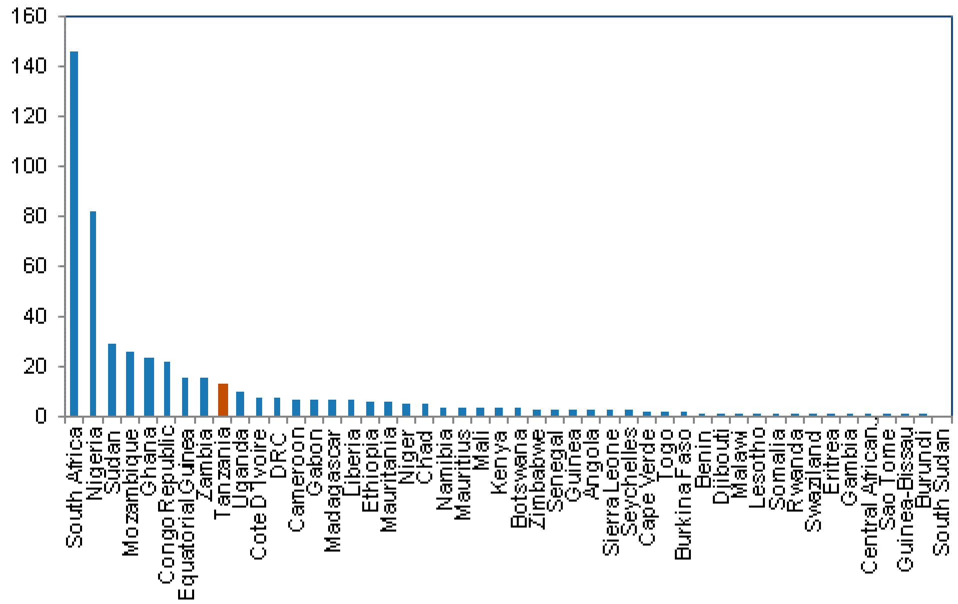
Investment Openness

With the liberalisation of the national economy and the introduction of notable state incentives, foreign investment has increased considerably in Tanzania, paving the way for efficient investment procedures relative to regional standards. The steady diversification of the Tanzanian economy has expanded the number of investment opportunities, which range from agricultural production and processing to tourism, mining, and increasingly, energy production. This state of affairs is reflected in growing FDI levels, which currently stand at USD12.7bn, representing the ninth largest inwards FDI stock out of 48 SSA countries. Specifically, the discovery of natural gas reserves in 2013 will likely enhance the appeal of Tanzania as an investment hub in the long term. Consequently, Tanzania receives a score of 43.0 out of 100 for Investment Openness, ranking 13th in the region, below neighbours such as Zambia and Uganda, but ahead of Kenya.

FDI flows have increased significantly over the last several years, partly as a result of the welcoming environment provided to investors by the government. FDI flows currently represent 28.7% of GDP, and constitute one of the highest rates of foreign investment in East Africa; in 2012, Tanzania attracted the highest level of FDI in the sub-region, equating to USD1.1bn. These levels are set to increase in the medium term where current inward FDI stock stands at USD12.7bn.

Diversity Of Investment Opportunities Drive FDI

SSA - Inward FDI Stock, 2014 (USDbn)



Source: BMI, national statistics

Notable sectors for investment include telecommunications, road construction, energy, mining, tourism and hotels, and agriculture. Currently, agriculture is the leading economic sector in Tanzania, with favourable climatic conditions in a number of regions providing a number of investment opportunities for large-scale commercial farming in cash crops such as coffee, cotton, tobacco, sisal, cashew nuts, sugar and pyrethrum. While FDI into this sector has been low, accounting for roughly 5% of total investment, recent land reforms that allow for long-term leases of up to 99 years for foreign companies are helping to promote investment in this sector. Some major players in this industry already include **Brooke Bond** (tea) from the UK, **Illovo** (sugar) from South Africa and **Africa Plantations** (coffee) from Zimbabwe.

Although Tanzania's mining industry is relatively small in terms of value, it is responsible for a significant share of the country's export revenue and FDI inflows. Major foreign investors in Tanzania's mining sector include **Acacia Mining**, (formerly **African Barrick Gold**) and **AngloGold Ashanti**. However, Tanzania's mining sector will remain relatively uncompetitive due to the country's high mining taxes and royalties. The mining code, updated in 2010 at the peak of the commodities price boom, is relatively more burdensome than the mining codes of the bulk of other African countries. As such, Tanzania is likely to find itself at a competitive disadvantage as mining companies look to control capital expenditure in an era of weakening commodity prices. Major gold miners will continue to dominate Tanzania's mining sector over the coming years. The country's high regulatory risk will limit new entrants from entering the sector. Tanzania's gold sector will remain pressured by low gold prices, which will discourage production growth over coming years. Beyond our forecast period to 2020, the country's mining sector could diversify as various miners are looking to invest in the country's nickel, coal and uranium resources.

Despite the ongoing problems hampering the country's mining sector, a number of new projects could support the sector's growth outlook over the coming years. For instance, the construction of a coal and iron ore mine plus a 600MW coal-fired power plant will begin in the coming quarters. The capital expenditure for the new coal and iron ore projects will total USD3bn, which will be provided by China's **Sichuan Hongda**. This supports our view that Chinese investment will support Africa's mineral growth outlook. The new iron ore and coal mines are expected to start production in 2018.

In 2013, significant gas discoveries of 4-6trn cubic feet were made on the coastal shores of Songo Songo Island and Mnazi Bay, 10km from previous Zafarani and Lavani discoveries. These discoveries will drive growth in the long term as well as improve Tanzania's energy insecurity, but we do not expect production to begin until 2023. Nevertheless, in diversifying investment opportunities in a lucrative industry, these discoveries will greatly boost the appeal of Tanzania as an investment hub in the long term.

Enthusiasm from foreign investors may be dampened by the recent arrest of top officials at Tanzania's state-owned oil company. In November 2014, two senior officials were arrested for failing to release the details of 26 multi-billion dollar oil and gas contracts signed with foreign and local investors to Parliament. Amid accusations of limited transparency, foreign investors may consider postponing their participation in Tanzanian natural gas projects, thereby reducing investment levels. Already, international donors recently threatened to suspend nearly USD500mn in aid following accusations that top Tanzanian officials siphoned off USD122mn from the central bank to private overseas bank accounts, reportedly to pay for electricity projects. Investors will also likely postpone investments in the wake of the 2015 presidential elections to avoid any potential operational challenges incurred by the political transition.

Other important investment opportunities in Tanzania include infrastructure, manufacturing and telecoms. The Tanzanian government is in the process of privatising the **Tanzania Railways Corporation** in order to increase efficiency, while also attempting to attract investors into build-operate-transfer schemes in road construction and rehabilitation. The manufacturing industry, while still relatively small and subject to volatile growth, is also seeing increased foreign investment from cement companies such as **Tanga** (**Holcim**), **Mbeya** (**Lafarge**) and **Portland** (**Hiedelberg**), as well as **Tanzania Breweries** (**SAB Miller**) and **Tanzania Cigarette Company** (**JTI**). Finally, as mobile operators' profits are squeezed by declining revenues from traditional voice services, mobile operators have cut operating costs by selling or offloading management of their telecoms towers to independent towers firms. **BMI** has a positive outlook for these countries' towers markets, as strong private consumption growth is supporting rising demand for mobile voice and data services.

The diversity of Tanzania's investment opportunities have generated interest from a number of global investment players, including the US, UK, South Africa, Kenya, India and China. In 2012 and 2013, the UK constituted the largest investor, while in 2013; China was the second largest investor, followed by South Africa, the EU and Canada. In particular, **BMI** anticipates that the mining sector as well as the oil & gas industry will generate the largest amount of foreign investment from these countries in the coming years.

Created in 1997, investment is coordinated through the Tanzania Investment Centre, facilitating the investment process by enabling investors to go through a one-stop centre for investing in Tanzania while offering incentives to work with local partners. Incentives include VAT and import duty exemptions, 100% repatriation of dividends, capital and profits post-tax payments, guarantees against expropriation and nationalisation, and 100% foreign ownership, representing a notable benefits package relative to many other African countries.

Although the review process takes a maximum of 10 days to complete, investments can be subjected to delays from bureaucratic inefficiency, creating varying degrees of hassle for investors. Additionally, policies for investment tax incentives are known to fluctuate significantly. According to the US Department of State, in 2010 agricultural equipment imports were awarded substantial tax exemptions, while the capital goods tax exemptions were reintroduced, creating a degree of volatility for investors. In some sectors, foreign investment is also regarded with suspicion, but risk in this area remains low, as there are no notable restrictions on foreign participation in the economy.

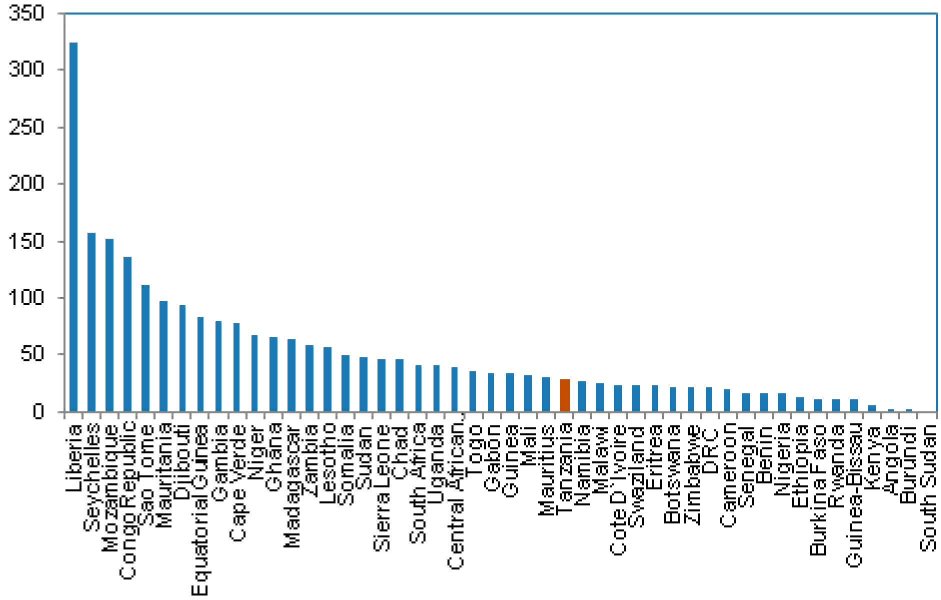
Foreign investors will also benefit from the implementation of the Tanzania Window 2014 (TIW), which aims to offer investors a one-stop-shop for online services. Overseen by the Tanzania Investment Centre

(TIC), the TIW will simplify procedures and expand access to efficient services. Already, the first phase of the project was implemented during 2014 and enabled investors to apply online to start a business in Tanzania. The second phase will boost the TIC's capacity to monitor investments. As a result, foreign enterprises will encounter a lighter burden of red tape and simplified business procedures.

However, firms have reportedly encountered operational challenges in the form of unfair competition between private and public enterprises. State companies benefit from state subsidies, among other advantages, and are able to actively compete in critical sectors such as communications, transport and energy provision, possessing monopolies in electricity distribution, railways, port management and operation, and water management. As a result, private firms often find it difficult to participate in these sectors against state-owned enterprises, highlighting continued room for additional market liberalisation and privatisation efforts.

Tanzania's GDP Benefits from FDI Inflows

SSA - Inward FDI Stock, 2014 (% Of GDP)



Source: BMI, UNCTAD

Foreign investment has been further facilitated by the implementation of the Economic Processing Zones Act of 2006, which created six special economic zones (SEZs) in order to promote the development of agroprocessing, agriculture and light sector activities. As of 2013, the government of Tanzania has established seven industrial parks and 24 stand-alone factors, having generated an annual turnover of USD357mn. In the process, these SEZs attracted investments worth USD1.15bn, while creating 26,381 new employment opportunities. Any investor can qualify to invest under the Special Economic Zone Scheme provided they fulfil specific criteria. The investment must be new with minimum annual export turnover of USD5mn for foreign investors and USD1mn for local investors and the investors must implement adequate environmental protection systems.

The state aspires to continue encouraging foreign investment in three new SEZs in Mtwara, Kigoma and Bagamoyo, having set aside 16,150 hectares of land for their creation. Within this, the port city of Bagamoyo will provide 10,500 hectares of space catering to value-added activities, particularly in agriculture, within which investors will have access to a free port, a satellite city, and an international airport. Meanwhile, the Mtwara SEZ will facilitate trade through the Southern Corridor to Mozambique, Zambia, and Malawi, while providing a free port as well as industrial, tourist and technology parks. Finally, the government is seeking to attract investment to construct a port in Kigoma along the shores of Lake Tanganyika. Additionally, the construction of industrial and trade parks in the city is expected to enhance trade links with Burundi and the DRC. Businesses operating in these zones will benefit from investor tax holidays and interest and dividend tax exemptions for 10 years, exemptions on local tax levies and VAT for utilities payments, and the ability to import capital goods duty free, among other incentives. Taking these factors into account, Tanzania merits a rank of 17th regionally for the State of Cluster Development, below key regional competitors for foreign investment, notably Kenya, Zambia and Rwanda.

Individual regions in Tanzania have also sought to encourage local and foreign investments through the provision of business incentives. For example, the Kisarawe District Council in the coastal region has set aside 291 surveyed plots for public-private industrial investments under the Kisarawe Industrial Park Project. Within this, 63% of the benefits of land sales will be invested in the local community, while the remainder will be used by the government to build infrastructure that will support the development of the industrial park

Table: Tanzania - Free Trade Zones And Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
Benjamin William Mkapa Special Economic Zone (BWM - SEZ) in Dar es Salaam	Exemption from payment of taxes and duties for machinery, equipment, heavy duty vehicles, building and construction materials and any other goods of capital nature to be used for purposes of development of SEZ infrastructure.
	Exemption from payment of corporate tax for an initial period of 10 years and thereafter a corporate tax shall be charged at the rate specified in the Income Tax Act.
	Exemption from payment of withholding tax on rent, dividends and interest for the first 10 years.
	Exemption from payment of property tax for the first 10 years.
	Remission of customs duty, value added tax and any other tax payable in respect of importation of one administrative vehicle, ambulances, fire fighting equipment, and up to two buses for employees' transportation to and from SEZs.
	Exemption from payment of stamp duty on any instrument executed in or outside the SEZ relating to transfer, lease or hypothecation of any movable or immovable property in or situated within the SEZ or any document to any activity or venture in the SEZs.
	Entitlement to an initial automatic immigrant quota of up to five persons during the start up period.
	Exemption from payment of Value Added Tax on utility charges.
	On-site customs inspection of goods.
	Treatment of goods destined into Special Economic Zones as transit cargo.
	Exemption from pre-shipment or destination inspection requirements.
	Access to competitive, modern and reliable services available within the Special Economic Zones.
	Unconditional transferability through any authorised dealer bank in freely convertible currency of profits, remittances and loan payments.
	Provision of business visa at the point of entry to key technical, management and training staff for a maximum of two months; thereafter the requirements to obtain a residence permit according to the Immigration Act will apply.

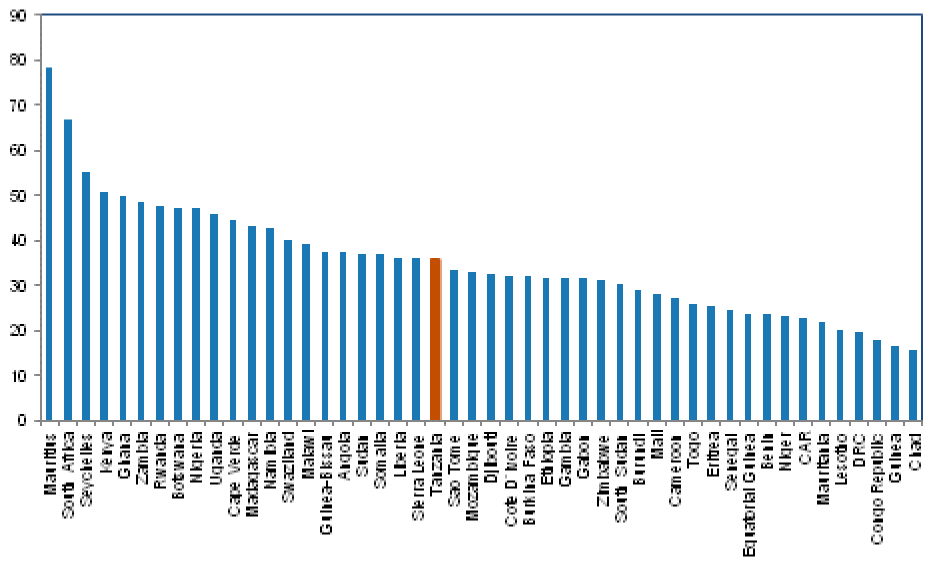
Source: BMI

Government Intervention Analysis

BMI View: *On the surface, Tanzania ranks moderately well for its level of taxes. However, Tanzania faces increasing challenges in achieving its desired level of fiscal balance while maintaining conducive conditions for economic growth, due its low tax base. The GDP growth projections and trends are counterbalanced by the widening wealth gap, high levels of poverty, increasing public debt stock and high levels of unemployment. Businesses predominantly bear the brunt of the tax bill in Tanzania and this is unlikely to decrease in the medium term. Furthermore, the financial sector is underdeveloped in comparison to regional peers such as Kenya and to a greater extent South Africa, and protection of minority investors remains weak. Investors will experience considerable obstacles with regard to accessing banking services and international financial markets in Tanzania. BMI awards Tanzania a score of 36.0 out of 100 for its level of Government Intervention amongst its SSA peers, placing the country in 22nd place, behind Kenya and Rwanda and ahead of Mozambique.*

Investors Face High Financial Barriers, Onerous Tax Burden

SSA - Government Intervention Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Trade and Investment Risk Index

Latest Government Intervention Analysis

- In February 2016, **Barclays Plc** announced plans to pull out of Africa as part of a major restructuring drive. **Barclays Bank Tanzania** has said that London based Barclays Plc will sell down its 62.3% stake in **Barclays Africa** to a non-controlling level in the next two to three years. Barclays Tanzania also assured the public that bank operations in Africa would remain intact and that it will maintain the same expansion strategy. We highlight that the changes were primarily due to change of regulations and requirements of regulators in the UK and US, such that the bank had to reduce its stake in Barclays Africa. Tighter regulations in developed markets are likely to have long-term effects on the expansion of the financial sector in Tanzania and Africa as a whole.
- Following an audit that has been underway since March 2016, Tanzania has removed more than 10,000 ghost workers from its public sector payroll as part of the country's anti-corruption drive. According to the Tanzanian government, payments to the non-existent employees had been costing the government more than USD2mn every month. A reduction in recurrent expenditure will give the government more fiscal flexibility and lower the likelihood of an increase in corporate taxes over the medium- to long-term.

Taxation

Tanzania ranks moderately well for its level of taxes, offering investors a total tax rate of 43.9% of profit, versus a regional average of 46.2%. Indeed, for both corporate and income tax rates, the country shares the same tax policies as many of its East African counterparts, notably Kenya, Uganda and Rwanda. As a result, Tanzania faces few competitive disadvantages vis-à-vis its sub-regional competitors in this regard. However, at 20.7% and 17.5%, the country's profit tax and labour contributions remain higher than many of its regional counterparts, thereby lowering the competitiveness of the country on a regional scale. Meanwhile, the country's tax bureaucracy offers a somewhat mixed bag of benefits and drawbacks. While it takes only 179 hours annually to pay taxes, versus 308.6 hours in SSA, taxpayers must make 49 payments per year to pay taxes, relative to only 38.6 in the region. Furthermore given the widening fiscal deficit and high levels of poverty and unemployment, tax performance is diminishing as tax revenue is not growing fast enough to catch up with the speed of expenditure growth. Taking these factors into account, Tanzania receives a score of 54.5 out of 100 for its Taxation policies, ranking 14th out of 48 states in SSA, falling below a number of its sub-regional competitors, notably Rwanda and Kenya.

Tax revenues account for 14.8% of GDP in Tanzania, placing the country in the bottom 10 of the regional pack for this indicator between Sierra Leone and Ethiopia. Consequently, businesses operating in Tanzania face a higher tax burden than firms in other East African economies, since poverty and unemployment levels remain high, shifting the tax burden to businesses. Furthermore, government expenditure remains high - while the government managed to keep its fiscal deficit at 3.3% of GDP for 2013/14 and 3.8% for 2014/15, this has come at the expense of accumulation of arrears to suppliers, raising public debt (currently 38% of GDP), and reduction in development expenditures and transfers to local governments. Tax performance is diminishing with tax revenue not growing fast enough to catch up with the speed of expenditure growth. As a result, investors may choose to establish their operations in other East African countries to lower business costs.

Table: Tanzania - Business Taxes

Type of Tax	Tax Rate And Base
Corporate Income Tax	30% on operating profits. 25% for up to three years for newly listed companies with minimum 30% of shares issued to the public.
Alternative Minimum Tax	0.3% payable by organisations with perpetual unrelieved losses for three consecutive years.
Branch Tax	30% on operating profits. 10% on repatriation.
Capital Gains Tax	30% on operating profits (taxable as business income)
Dividends	5% (listed companies). 10% standard rate on net earnings.
Interest	10% (bank deposits). 0% (if paid by strategic investors to a non-resident bank) on net earnings.
Royalties and Fees	15% on net earnings.
Excise tax on money transfer	0.15% on value of transaction in excess of tzs30,000.
Value Added Tax	18% on value of the products.
Social Security Contributions	10% on gross salaries.
Skills and Development Levy	5% on gross salaries.

Source: BMI, government websites

Tanzania places in the middle of regional rankings for its highest marginal corporate tax rate, which stands at 30%, alongside a number of other SSA states including Rwanda, Ethiopia, Kenya, Uganda, Sierra Leone and Angola. Other forms of tax include a capital gains tax of 30%; social security contributions of 10% of gross salaries; a vehicle tax of TZS200,000; a property tax of 0.15% of the property value; and VAT of 18%, paid in 12 payments over 60 hours.

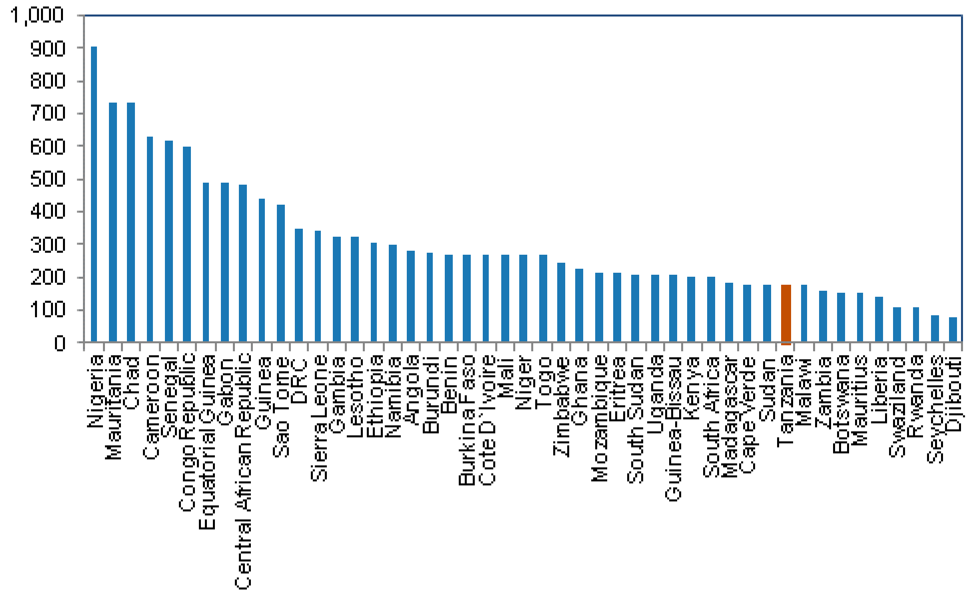
Regarding personal income tax, residents are taxed on a graduated scale from 0% to 30%; however, due to a high level of unemployment this tax base remains small. Non-residents, on the other hand, pay taxes at a flat rate of 20%, aside from employment income, which is taxed at 15%. Ranked 13th regionally, alongside Rwanda, Kenya, Uganda, and Sierra Leone, Tanzania places favourably for its highest marginal income tax rate, which stands at only 30%. In contrast, expatriates doing business in countries like Chad and the Central African Republic face the highest marginal income tax rates of 60% and 50%, respectively. Due to the fact that Tanzania has the same marginal income tax rate as many of its sub-regional counterparts, the country faces no competitive disadvantage to its neighbours in this regard.

Tanzania falls towards the bottom of the regional pack for its profit tax of 20.8%, which places below the regional average of only 17.8% and the OECD average of 14.9% profit tax. Labour tax and contributions also remain high at 16.9%, relative to an SSA average of 14.1%. However, this risk is mitigated by the comparatively low cost of other taxes, which account for only 6.2%, relative to a regional average of 15%. A list of other taxes includes a fuel tax, a property tax, an excise tax on money transfers, and a vehicle tax, all of which require one tax payment. In all, firms benefit from a low total tax rate of 43.9%, compared with the regional average of 46.5% and the OECD average of 41.2%. Taking these factors into account, Tanzania ranks 15th regionally for the level of fiscal freedom, placing between Mauritania and the Seychelles for this indicator. Consequently, the country outperforms other East African countries like Kenya and Ethiopia, thereby enhancing its competitiveness within the sub-region for foreign investment.

Generally, firms enjoy access to a competitive and efficient tax administration by regional standards, reducing extra costs and difficulties in filing and paying taxes. It takes an average of 179 hours per year to pay taxes in Tanzania, compared with a regional average of 308 hours and an OECD average of 176.6 hours. Tanzania ranks 11th regionally for this indicator, placing between Sudan and Malawi. This competitive performance places Tanzania above the majority of its East African counterparts, excluding Rwanda, where it takes only 109 hours to pay taxes each year, ranking second regionally.

Limited Bureaucracy Lowers Administrative Costs

SSA - Time To Pay Taxes (Hours)



Source: World Bank

However, the benefits of this competitive timeframe are somewhat diminished by the relatively high number of annual tax payments required of individuals and firms. Taxpayers must pay 49 annual tax payments per year in Tanzania, along with Zimbabwe, Congo Republic and Mauritania, thereby placing Tanzania in 35th position regionally. In contrast, the regional average for tax payments is 38.6 payments per year, versus an average of 11.1 payments in the OECD countries.

Despite Tanzania's moderate competitiveness in its tax system by regional standards, there remains considerable room for improvement in terms of tax collection. Currently, over TZS1.8trn worth of tax appeal cases remain unresolved, of which nearly TZS300bn has been delayed within the Tax Revenue Appeals Tribunal for a long period of time. Additionally, there has been considerable misuse of tax exemptions granted to mining companies as well as other industries, incurring sizeable losses in tax income for the government. As a result, the state has lost a notable percentage of income that could have been invested in assets designed to improve the quality of doing business in the country, such as infrastructure and education.

Residents are subject to income tax on worldwide income. Non-residents are subject to tax on Tanzania-source income only. All expatriates are required to pay tax on income earned in Tanzania, except for those who enter the country under special agreements with the government. Personal income is taxed on progressive scale from 0% to 30%. Non-residents are taxed on employment income that is sourced in Tanzania at a rate of 15%.

Table: Tanzania - Personal Income Tax

Personal Monthly Income (TZS)	Tax On Lower Amount	Tax Rate On Excess
Up to 170,000	0	0%
170,000 - 360,000	0	11%
360,000 - 540,000	20,900	20%
540,000 - 720,000	56,900	25%
720,000 and above	101,900	30%

Source: BMI, government sources

Fiscal Barriers

Tanzania's banking sector has enjoyed steady growth, characterised by high liquidity, sector stability and a notable presence of foreign banks, however, this growth is from a low base as the country lags behind regional financial hubs such as South Africa and Kenya. Interest rates remain high due to structural risks such as high vulnerability to financial crime, limited bank density and poor credit strength throughout the population. Buoyant economic growth, a low statistical base and the proliferation of mobile financial services will sustain rapid rates of expansion within Tanzania's banking sector over the medium- to long-term and micro-loans will continue to be the main driver of growth within the sector. Despite having a high numbers of listed companies on the continent, firms also face restricted access to international financial markets, presenting a barrier to foreign investment. However, this risk may be somewhat mitigated with the repeal of a cap on foreign shares. Consequently, Tanzania ranks 34th regionally with a score of 17.5 out of 100 for Financial Barriers, below the majority of its neighbours, notably Kenya, Uganda and Rwanda .

Tanzania's financial markets remain relatively underdeveloped by global standards. This state of affairs is due in part to the recent beginnings of key aspects of the sector; indeed, the Dar es Salaam Stock Exchange (DSE) only began trading in April 1998 after being incorporated in September 1996. As of November 2014, the DSE had 22 listed companies, five corporate bonds and eight government bonds, representing one of the highest numbers in the region. Major industries accounted for in the bourse are banking and finance, insurance, aviation, and local food and beverage production, with listed companies such as **Kenya Airways**, **Tanzania Tea Packers** and **KCB Group**. Consequently, businesses experience limited access to international financial markets, exemplified in the country's rank of 42nd regionally, below all of its Eastern African neighbours.

Another barrier to financial development lies in the countries limited protection of minority investors. Although Tanzania performs well for the ease of shareholder suits as well as the extent of director liability, outperforming both regional and OECD country averages, Tanzania performs poorly in the extent of corporate transparency, as well as the extent of disclosure. Other weaknesses include a weak governance structure within corporations, as well as a limited extent of shareholder governance. As a result, minority shareholders may be deterred from investing in the country until sufficient protective measures are in place.

However, foreign participation in the country's financial sector will likely receive a boost if plans proceed to remove limits on foreign share ownership. Currently, foreign holdings of listed companies on the DSE are capped at 60%, but are expected to be scrapped in 2016. As a result, investors will enjoy enhanced economic opportunities while boosting liquidity in the market. As of August 2014, foreign investors accounted for roughly 23% of turnover in the market, out of a total of TZ114bn, representing more than a fivefold increase in average turnover within five years.

Moreover, Tanzania offers businesses the benefit of one of the highest portfolio investment rates in SSA, demonstrating the sophistication of the country's financial system relative to many of its SAA counterparts. Indeed, total capital and financial account values totalled 17.2% of GDP in 2013. However, according to the US Department of State, Tanzania's capital account has not been completely liberalised, and foreigners are restricted from access to the state securities market, increasing the cost of capital while limiting access to capital for borrowers. To lower this risk, the government freed investors based in the East African Community to directly invest in Tanzanian government securities in 2013, with the intent of fully liberalising this market in 2015.

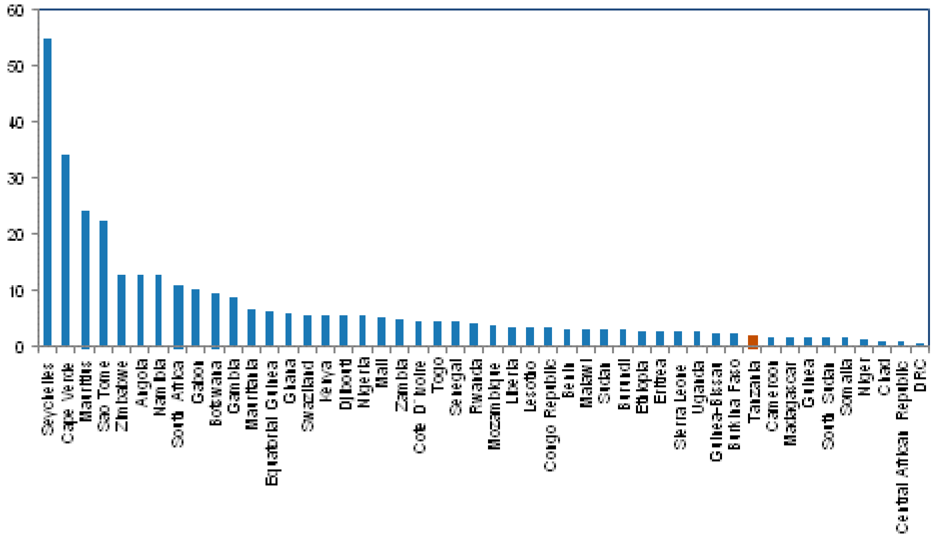
Tanzania is a regional leader in the provision of a conducive environment for financial inclusion, due to the bold policy approach by the central bank to allow non-banking institutions to provide financial services. Financial inclusion remains problematic in Tanzania, mainly due to regional disparities and high levels of poverty especially areas outside of Dar es Salaam. The poorer regions are predominantly rural and their economies are much less diversified. Agriculture is the main economic sector in these areas, with low productivity and low wages. As a result, per capita incomes in these regions are less than half that of Dar es Salaam, the wealthiest area.

Continued growth in mobile phone usage, including the recent expansion in mobile money services, has been the main factor driving the performance of the mobile financial services sector. Indeed, we believe that low statistical base effects and a weak transmission mechanism will see growth remain resiliently high. Furthermore, buoyant economic growth, greater affordability of mobile devices and the proliferation of mobile financial services will sustain rapid rates of expansion within Tanzania's mobile banking sector over the coming years and micro-loans will continue to be the main driver of growth within the sector. The abundant opportunities created by a rapidly growing economy and the relatively underdeveloped nature of the sector mean that banks can safely expand their loan books without having to undercut one another by lowering the cost of credit. For this reason Tanzania's banking story remains a relatively unequal one. Given the challenges to the expansion of traditional banking services in Tanzania, we believe mobile financial services offer a solution and are potentially an important tool for increasing financial sector inclusion. Tanzania is one of the more mature markets for mobile financial services in SSA. With the adoption rate nearing 60% of all adults by early 2015, it is clear that growth opportunities abound but exploiting those opportunities will be increasingly difficult. The historic lack of platform interoperability has precluded the emergence of the kind of advanced value-added services needed to attract greater spending on mobile platforms. This will change over the next two years and we envisage Tanzania remaining one of the higher-performing mobile financial services markets in the region in the long term. Tanzania's four principal mobile network operators - **Tigo**, **Airtel**, **Vodacom** and **Zantel** - all offer dedicated mobile financial services to their customers, with the Bank of Tanzania reporting that Vodacom's M-Pesa service was the clear market leader at the end of 2014, serving 47% of all registered mobile money accounts. Over the long term, we envisage interoperability on MFS platforms to include deeper partnerships with financial institutions as they seek to offer access to a greater variety of loan services.

Development in the overall banking sector has been consistent, facilitating business transactions and transparency. However, only 12% of Tanzanians use the formal banking sector, highlighted by the presence of only 2.26 local bank branches per 100,000 people, one of the lowest out of 48 states in the region, ranking Tanzania between Cameroon and Burkina Faso. However, the industry remains profitable, characterised by high liquidity and a solid degree of stability. This is demonstrated by the fact that the country has one of the highest claims on local residents by banks in the region, which totalled USD1.4bn as of 2014.

Low Bank Density Reflects Limited Financial Sector Development

SSA - Commercial Bank Branches (Per 100,000 Adults)



Source: World Bank

In 2013, the banking sector comprised of 53 banking institutions - 34 fully fledged commercial banks, 12 community banks, five financial institutions, and two microfinance companies taking deposits from customers. Five of the banks are state-owned and the remaining 48 are privately-owned financial institutions; they are evenly split with half the banks being majority locally-owned and the other half majority foreign-owned.

Foreign investors can get credit in the local financial market, where credit is allocated on market terms. Recent bank lending rates ranged from 15% to 18% for ordinary borrowers. Corporate borrowers can negotiate lower lending rates. Credit to the private sector continues to grow, though there are few local institutions large enough to finance significant deals such as infrastructure projects, thereby limiting access to credit. Despite this, the private sector has a number of outlets from which to access credit, including term loans, overdrafts, guarantees and letters of credit, and corporate borrowers enjoy the benefit of negotiating lower interest rates. High interest rates are the product of a notable risk of fraud, raising the risk of financial losses for firms. To address this threat, the state has introduced a mandatory national ID card for Tanzanian citizens, for which registration began in 2012. Other drawbacks to Tanzania's financial market development include the absence of a national credit database, which restricts transparency in the system. Consequently, Tanzania ranks in the middle of the regional pack for the availability of financial services, placing between Cape Verde and Sierra Leone.

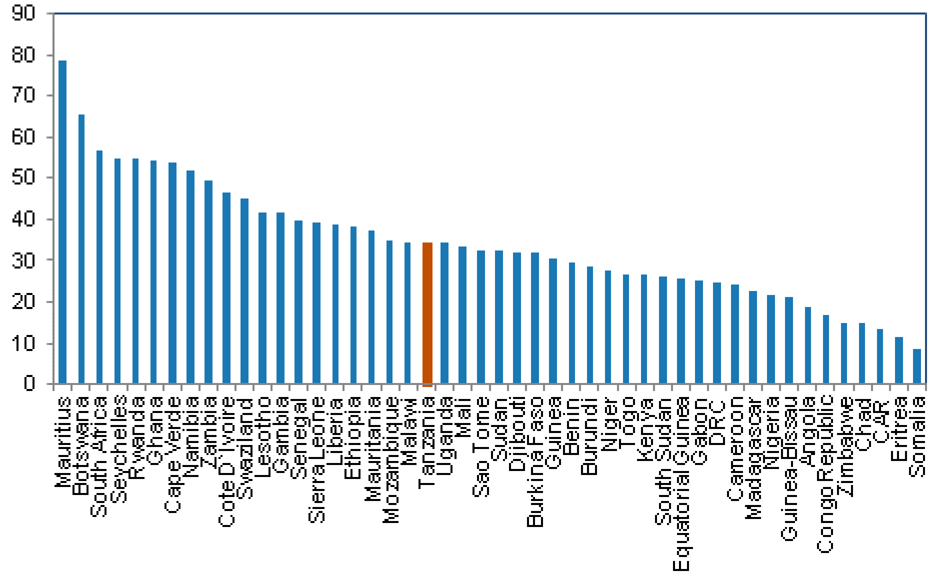
Despite these drawbacks, the Tanzanian government is working to boost the appeal of its banking and financial system through the introduction of various reforms. In May 2015, the state implemented the Tanzania Automated Clearing House (TACH), which has increased the security features on cheque instruments while reducing clearing days, to the benefit of clients. Additionally, electronic funds transfers can now be processed more quickly and efficiently by providing multiple settlement windows within a day. Ultimately, the new system will allow cheques to be processed within hours, while introducing penalties for banks that incur delays for cheque clearance.

Legal Environment Analysis

BMI View: *Procedures for licenses and permits continue to be burdensome and time-consuming and this is highlighted by the time it takes to open and close a business, register property and obtain construction permits. This significantly increases risks to investment in the country. Furthermore, business registration fees and charges for foreign companies are significantly higher than for domestic companies. Corruption is endemic, though measures to combat it have been ramped up since 2015 and are applied impartially to foreign and domestic investors; rent-seeking persists in government procurement, privatisation, taxation, and customs clearance. Additionally, investors continue to face challenges receiving payment for services rendered for government-sponsored projects. Lack of court capacity remains an issue as investment-related disputes in Tanzania can be protracted by up to four years, despite the establishment of a computerised arbitration system. Intellectual property protection is low and the legal risks are further compounded by inadequate legal penalties for counterfeiters. BMI gives Tanzania a score of 34.2 out of 100 for Legal Risks, placing it 21st regionally out of 48 SSA states.*

Bureaucratic Inefficiency, Pervasive Corruption Increase Legal Risks

SSA - Legal Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Trade and Investment Risk Index

Latest Legal Risk Analysis

- Tanzanian President John Magufuli is moving forward with an anti-corruption campaign. However, a significant reduction of the risks associated with corruption will only be felt in the longer term and businesses should ramp up compliance and anti-graft measures. Demonstrating this push to root out corruption, Magufuli introduced a series of austerity measures and fired the head of Tanzania's ports authority and the top official in the transport ministry following the disappearance of more than 2,700 shipping containers at the port since his election in 2015. This is indicative of the presence of corruption in society and the government's increasingly proactive stance against such practices.

- In February 2016, investigations were launched in order to establish whether corruption may have influenced actions that resulted in a USD115mn mining permit dispute pitting a local company against gold mining giant, **Acacia Mining**. Both the ministry of energy and minerals and the Prevention and Combating of Corruption Bureau (PCCB) are probing claims that ministry officials acted improperly in handling the matter. The investigations follow a report by a private anti-corruption lobby that alleges collusion between government officials and Acacia Mining. This development comes at a time when mediation continues between Acacia Mining and **Bismark Hotels**, the Tanzanian company which lost its mining permit in the matter. Bismark Hotels filed the claim for USD115mn in compensation against Acacia for the loss of the mining permit in May 2015. Lawyers representing the Tanzanian firm say the company only discovered the permit had not been renewed after the partnership was terminated and new talks were in progress to bring in international investors. This highlights bureaucratic inefficiency, opaque licensing procedures in the extractive industry, the abuse of the rule of law and endemic corruption in Tanzania.

- The government of Tanzania plans to table in parliament a bill to establish the Corruption and Economic Saboteur Court as a division of the High Court, in April 2016 for discussion. The Attorney General, George Masaju, said the bill, if made into law, would allow the court to start trying corruption and economic saboteur cases. This move could help reduce corrupt activities from taking place and foster an environment of accountability in the long term.

Bureaucratic Environment

Extensive red tape presents significant obstacles for investors looking to enter Tanzania. The government continues to undertake multi-level reforms to streamline the ease of doing business and investing, however; the processes involved in opening and closing a business as well as obtaining business-related permits remain time-consuming and costly. Furthermore, Tanzania is one of the most difficult countries in the world for acquiring construction permits, with long waiting times and numerous procedures to receive a permit. As a result, Tanzania scores 26.1 out of 100 for Bureaucratic Environment, placing it 37th regionally, and 180th globally out of 201 countries.

The time it takes to open a business in Tanzania is relatively on par with Kenya and the regional average of 26.8 days. Tanzania performs poorly relative to many of its East African competitors, notably Rwanda, where it takes only 5.5 days to register a business, meriting a rank of fourth regionally. Furthermore, the country remains considerably below the OECD average of only 8.3 days, indicating the country's limited attractiveness on a global scale for this indicator. The lengthiest procedures include the process to obtain a registration number at the National Social Security Fund, taking an average of seven days, and the application process for a business licence from the regional trade officer, which takes six days and costs TZS1,000; however, improvements are gaining traction. Since 2013, Tanzania made starting a business easier by eliminating the requirement for inspections by health, town and land officers as a prerequisite for a business licence. A particular noteworthy development is the ongoing implementation of the Roadmap for Improvement of the Business Environment and Investment. In the government's roadmap for improving the investment climate, reforms focus on business registration, licensing, regulation, and tax administration. Progress has also been made in reducing bureaucratic impediments to business registration, with the provision for online submission of registration applications and simplification of procedures for registration of business names.

Table: Tanzania - Bureaucratic Procedures

Bureaucratic Obligation	Number Of Procedures	Time	Cost
Opening a new business	9	26 days	18% of income per capita
Registering a property purchase	8	67 days	4.4% of property value
Obtaining construction permits	18	205 days	5.7% of warehouse value
Completing insolvency proceedings	na	3.0 years	22% of estate

na = not available. Source: World Bank 'Doing Business'

In order to open a business, investors are required to pay only 18% of income per capita for start-up costs, versus an average of 53.4% of income per capita in the region. Meanwhile, firms are not obliged to make a paid-in minimum capital investment, while businesses in SSA and the OECD pay an average of 45.1% and 9.6% of income per capita, respectively.

Tanzania also ranks poorly for the ease of closing a business - a process that takes an average of three years. For this indicator, the country ranks in 22nd place - jointly with a number of other countries. In this respect, Tanzania compares unfavourably with the majority of its East African competitors. Businesses can be closed in only 1.8 years in Ethiopia, ranking third in the region, while the same procedure takes an average of 2.2 and 2.5 years, respectively, in Uganda and Rwanda, thereby placing the countries towards the top half of the regional pack. With regard to exit from business, the government has strengthened the Registration, Insolvency and Trusteeship Agency in order to enable the use of information and communications technology in record keeping and to simplify the services offered to the business community.

Businesses also face more difficulty in registering a property as it takes 67 days, involving eight procedures, ranking the country 33rd regionally - marginally behind Gambia. This creates a poor business environment relative to the regional average of 57.5 days and the OECD average of 21.8 days. Consequently, Tanzania again performs poorly compared to its East African competitors, where it only takes 32 days to register property in Rwanda, while taking 52 and 42 days, respectively, in Ethiopia and Uganda. However, firms and investors enjoy a considerably lower cost for the registration process; to register a property, enterprises pay 4.4% of the property value, while businesses elsewhere in the region face an average cost of 8.3%. In this regard, Tanzania even compares favourably with the OECD countries, where property registration costs are only 4.2% of property value.

Similarly, it takes an average of 205 days to acquire a permit, or the eighth-longest time in the region. Consequently, Tanzania falls below the regional and OECD average of 162 and 152.1 days, respectively. Meanwhile, businesses in Rwanda spend only 77 days acquiring a permit; therefore, investors may choose to establish operations in other East African countries with a lighter burden of red tape and expedited timelines to complete basic procedures. Tanzania's uncompetitive performance in this category is mainly due to the large number of procedures required to obtain a construction permit. It takes 18 procedures in Tanzania, versus an average of 14.4 in SSA and 12.4 in the OECD countries. In contrast, the cost of construction permits remains competitive at 5.7% of warehouse value. In this regard, Tanzania performs better than the regional average of 6.6% and poorly against the OECD average of 1.7% of warehouse value. Within this, Tanzania compares poorly with a number of its East African counterparts; in Ethiopia and Rwanda, the same process costs 3.2% and 4.1% of warehouse value, respectively.

Legal Environment

Investors face significant legal challenges in Tanzania mainly due to the poor implementation of otherwise sound regulations. Despite the crackdown on corruption since President Magufuli came into power in 2015, the country and its administrative system still faces legal challenges such as fraud, rampant corruption, opacity in policy-making and exacerbated by development challenges such as high levels of poverty, infrastructural bottlenecks and unemployment. Contracts transparency is an issue of concern for investors and contracts relating to extractive industry such as oil, gas and mining are rarely disclosed to the public. Contract enforceability performs well by regional comparison, however recovery rates are extremely low and lack of court capacity remains an issue as investment-related disputes in Tanzania can be protracted by up to four years, despite the establishment of a computerised arbitration system. Furthermore, widespread corruption within the government creates a challenging legal environment and lowers investor confidence in the objectivity and fairness of court decisions. Although this state of affairs does not weigh significantly on the country's performance in the rule of law, Tanzania's police force was ranked by Amnesty International as one of the most corrupt in the world in 2014, presenting a notable deterrent for investment. Ranked 13th regionally, Tanzania receives a score of 42.4 out of 100 for Legal Environment, lower than neighbouring Rwanda.

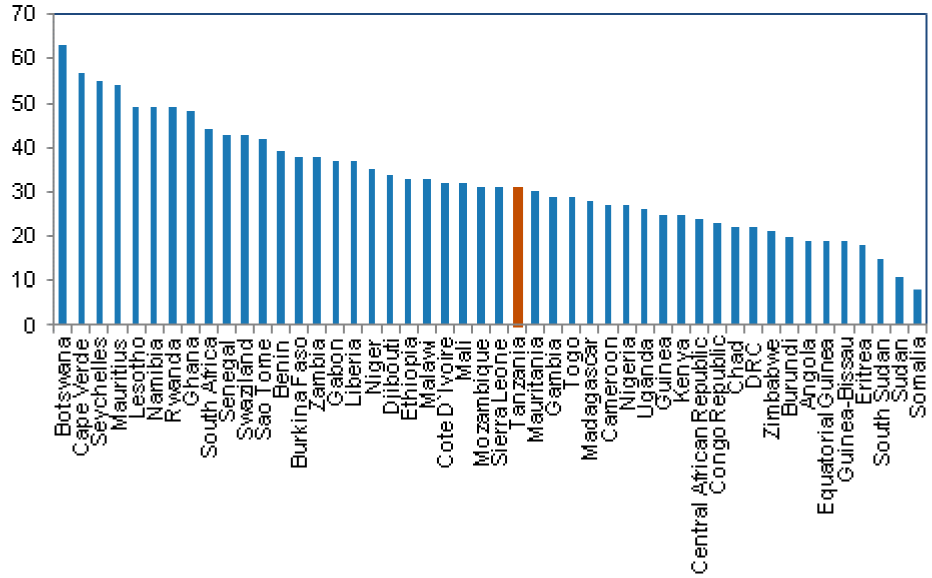
Tanzania reportedly has a fairly independent judiciary, but the effectiveness of the country's legal system is limited by a number of factors, notably a lack of resources and an abundance of court cases. Tanzania's judicial system is understaffed and under-resourced despite its heavy workload, making it particularly vulnerable to corruption. Indeed, the legal system is considered one of the most corrupt government institutions, particularly amid the lower courts, and its track record for prosecuting corrupt officeholders has been poor, diminishing societal confidence in the independence and efficacy of the courts. This state of affairs represents a key source of weakness in Tanzania's legal system, and may deter investors from investing in the country owing to the high likelihood of an unfair court decision in legal disputes.

Perceptions of widespread corruption in the judiciary also extend to other key government institutions in the country. This is exemplified by the fact that Transparency International's 2013 Global Corruption report concluded that 56% of people surveyed had paid a bribe to at least one state and non-state official, including religious groups, the media and political parties. Accountability is also low among government officials; according to the Bertelsmann Stiftung Transformation Index 2014, it is estimated that 20% of the country's annual budget is lost to corruption. As a result of this state of affairs, firms face numerous risks such as unfair competition with local firms, a lack of visibility within courts and government decisions that diminish the appeal of the Tanzanian business environment. As a result, businesses face a number of operational challenges such as a lack of transparency and accountability among governing and non-governing authorities, unfair competition and unnecessary expenditures due to the need to bribe within certain environments.

Corruption is alleged to be particularly widespread within the energy sector, thereby dampening enthusiasm for foreign participation in this industry. Indeed, the **African Development Bank** was one of several donors that recently threatened to suspend roughly USD500mn of aid money to Tanzania following reports that top officials deposited state funds worth USD122mn in private overseas bank accounts, reportedly to pay for electricity projects. Although the government has publicly declared its intention to address allegations of corruption by officials, the country's long-term commitment to increasing transparency has not yet been proven, thereby limiting its appeal to foreign investors. Taking these factors into account, Tanzania is considered one of the most corrupt countries in the world, despite ranking 24th in the region for its corruption perception index.

Pervasive Corruption Inhibits Foreign Interest

SSA - Transparency International Corruption Perceptions Index 2014



Source: Transparency International

Despite these obstacles, Tanzania ranks 18th regionally for Rule of Law, placing between Zambia and Mozambique. Tanzania is one of the best countries in SSA for contract enforceability, ranked third regionally, thereby outperforming all of its East African competitors. It takes an average of 515 days to enforce a contract, versus 653 days regionally. Moreover, businesses face relatively low costs for enforcing contracts, at only 14.3% of the claim, versus an average of 44.9% in the SSA and 21.1% in the OECD. However, dispute settlement is complicated by the lack of resources within the legal system, though investors are able to use arbitration through a number of avenues, including the International Centre for the Settlement of Investment Disputes and the Multilateral Investment Guarantee Agency.

Tanzania is a participant in the WTO and Agreement on Trade-Related Aspects of Intellectual Property Rights, paving the way for the passage of laws up to international standards to combat piracy and counterfeiting. However, enforcement capabilities remain weak, while observers note that the legal punishment for violations is inadequate and a poor deterrent. However, this state of affairs may improve with the completion of the East African Community's Anti-Counterfeiting Act to introduce more substantial punitive measures for counterfeiters.

Although regular property rights protection is provided, the inadequacies of the judicial system often hinder the effective implementation of such laws. Foreign firms also encounter difficulties in security property rights due to restrictions on foreign land ownership, potentially creating extensive delays in the acquisition of property. In particular, the acquisition of rural land has been complicated by the clash between traditional and modern land rights, while urban land purchases have been adversely affected by disputes between the state and urban residents. More than 90% of Tanzanian land has not been surveyed, leaving significant gaps in information that can severely delay the process of land acquisition. Land in Tanzania is legally owned by the government, therefore the process to obtain a lease and a certificate of occupancy can create difficulties for firms and investors due to bureaucratic delays and inefficiencies. The existence of Islamic shari'a law and customary laws may also create limitations for female foreign workers and investors in their legal rights, posing another challenge to investment.

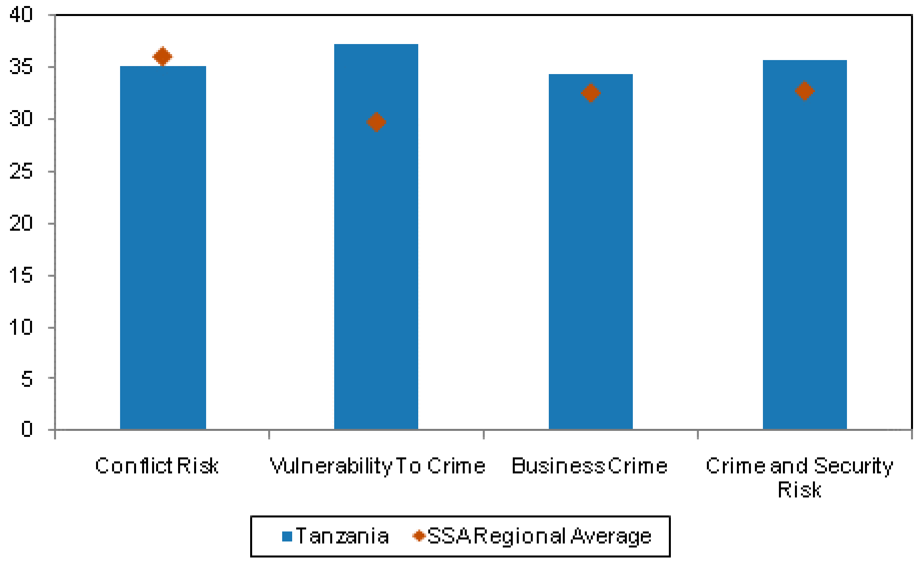
Crime and Security Risk

BMI View

BMI View: *Security risks in Tanzania are moderate in comparison to its regional peers, as the country enjoys stable relations with its neighbours and possesses one of the most capable military forces in the region. However, its porous borders elevate the threat of terrorism from regional groups and businesses remain exposed to organised crime and corruption. Tanzania receives a score of 35.6 for Crime and Security Risk, placing it 22nd out of 48 states regionally.*

High Crime Rates Elevate Risks To Businesses

Tanzania & SSA Regional Average - Crime And Security Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Crime and Security Risk Index

Business Crime (34.4/100): Criminal groups in Tanzania are primarily motivated by economic wealth and threaten businesses in various forms. Pirate activity poses high risk to maritime trade, while armed gangs and fraudsters increase the danger of foreign expatriates. In particular, money laundering and financial crimes pose a major risk to businesses operating in the country, due to the likelihood of illicit activities in the banking sector and US-imposed penalties on key actors in the financial industry. As a result, businesses may be cut off from US financial markets and other major global financial sectors. On a day to day basis, investors and foreign businesses likely face the largest risk from crimes, particularly petty theft, and increasingly, financial crime and cybercrime.

Conflict Risk (35.1/100): Although the terrorist threat to Tanzania is lower than in Kenya, it remains high due to the country's porous borders, its proximity to Somalia, its sizeable Muslim population and its concentration of expatriates and Western interests. There is a low risk of outright conflict as there are no notable outstanding disagreements with neighbouring countries and Tanzania possesses one of the most capable military forces in the region. Nevertheless, events in the country's regional neighbourhood could adversely impact security outcomes within the country, exemplified by the disruptive impact of Burundi's political instability. In addition, the Tanzanian armed forces' ability to revamp an ageing equipment inventory is hampered by a limited budget, affecting the capability of both the army and the air force.

Vulnerability To Crime (37.3/100): Foreign travellers and expatriates are vulnerable to both violent and petty crime in Tanzania, which the police force often lacks the capability to prevent due to lack of training and corruption. This has resulted in the presence of vigilante groups such as the Sungusungu, which has now been given the ability to make arrests. Overall, companies are not able to rely on the police force to bring justice to criminal activity, resulting in higher costs to investors. That said, Tanzania has a relatively large police force by regional standards, and has received the support of various external donors in recent years, which bodes well for an improved police force in the coming years.

Table: Tanzania - Crime And Security Risk

	Conflict Risk	Vulnerability To Crime	Business Crime	Crime And Security Risk
Tanzania Score	35.1	37.3	34.4	35.6
Sub-Saharan Africa Average	36.0	29.7	32.5	32.7
Sub-Saharan Africa Position (out of 48)	28	14	21	22
Global Average	49.2	50.1	50.0	49.8
Global Position (out of 201)	152	133	139	148

Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Crime and Security Risk Index

BMI's Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk state. The entire index consists of 20 sub-index scores and 79 individual surveys and datasets, which all contribute to the headline score. A full methodology can be found at the end of the report.

SWOT

SWOT Analysis

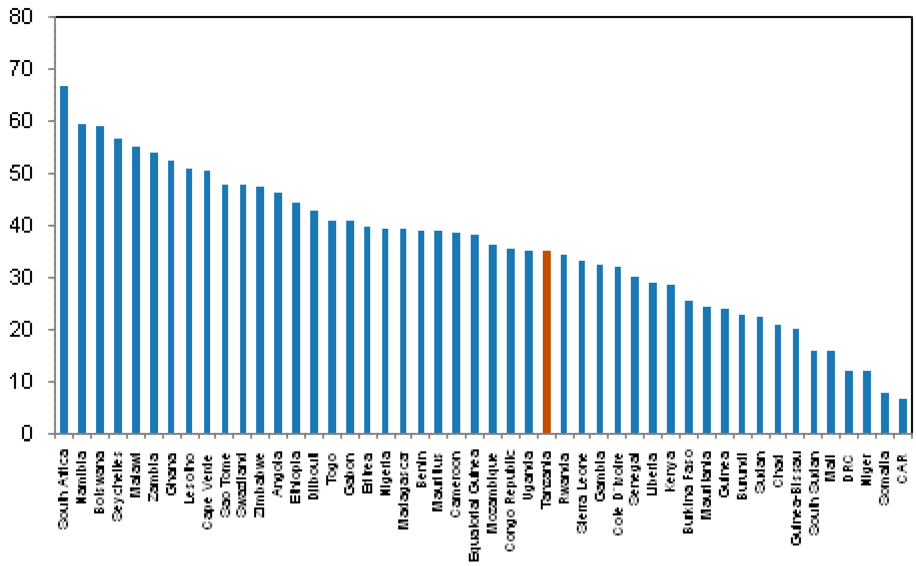
Strengths	▪ The military is capable by regional standards. ▪ There is a limited risk of conflict with other states. ▪ The country benefits from a large supply of available manpower in the form of a well-equipped military.
Weaknesses	▪ The police force suffers from perceived corruption, and is understaffed and under-resourced. ▪ Porous borders leave the country vulnerable to regional terrorist groups. ▪ High crime rates add costs to businesses. ▪ There are limited naval capabilities to combat maritime piracy.
Opportunities	▪ Increased regional and international coordination may lower the threat of terrorism. ▪ The country has made notable improvements in its ability to combat terrorism over the last several years. ▪ Expected increases in defence spending will boost military capability.
Threats	▪ Growth in home-grown terrorism increases the risk of terrorist attack. ▪ A continued rise in violent crime may deter foreign investment. ▪ An inability to prevent the expansion of cyber and financial crime.

Conflict Risk Analysis

BMI View: *Although the threat to Tanzania is slightly lower than that of its neighbour, Kenya, the threat of terrorism remains high due to the country's porous borders, its proximity to Somalia, its sizeable Muslim population and its concentration of expatriates and Western interests. Stable relations with neighbouring countries reduce the risk of conflict. Tanzania receives a score of 35.1 out of 100 for Conflict Risk, ranking the country 28th in the Sub-Saharan Africa (SSA) region of 48 states.*

Limited Interstate Risk Compared Regionally

SSA - Conflict Risk Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Crime and Security Risk Index

Latest Conflict Risk Analysis

- Tanzania's sound political climate is reflective of the country's historic stability, having avoided major conflict - both internal and external - since independence in 1961. The situation is different in the semi-autonomous region of Zanzibar, where the opposition Civic United Front has shown itself capable of mounting a serious challenge to CCM rule. Although tensions between the rival parties appear to have reduced following a power-sharing agreement signed in 2010, discontent arising from poverty and economic marginalisation continue to pose risks.
- Businesses face a growing risk of disruption to their activities in Zanzibar, where political rallies and large galleries are more likely to turn violent. Following the October 2015 elections, the election

commission in Zanzibar annulled the vote for the island's president and tensions remain high. A politically charged re-run of Zanzibar's October 2015 election presents significant short term risks in the country. The re-run that is scheduled to take place in March 2016 will involve both presidential and parliamentary votes. According to the Zanzibar Electoral Commission, reforms in the electoral process have been made aimed at avoiding fraud and sabotage of the elections.

- In February 2016, Police in Tanzanian's northern town of Arusha stopped and killed three suspected terrorists and recovered ammunition and materials used for making explosives and army uniforms. The Arusha regional police said the suspects were killed in an exchange of fire with the police. Reports said the deceased could be terrorists after they were found with two flags with Arabic inscriptions which are used by terrorist groups. In April 2016, Tanzanian police in the Morogoro region seized explosives, army uniforms, masks, bomb detonators and a black flag used by Somalia-based Al-Shabaab militants, and arrested 10 people in connection with the devices used in terrorist attacks. Terrorism alerts were issued in 2015 in the capital Dar es Salaam and the northern tourist town of Arusha. The alerts led to stepped-up security measures in regions thought to be terrorist targets. This highlights the high risk of terrorism in Tanzania and the region as a whole.

- Tanzania will continue to enjoy broad political stability over the coming decade, with little to suggest that the ruling Chama Cha Mapinduzi party's authority will be threatened. That is not to say the period will be without challenges. Chief among these will be dealing with high levels of corruption and addressing the country's dependence on foreign aid.

- In May 2016, three people were killed at a mosque in north-west Tanzania in what police have described as a terrorist attack. More than a dozen attackers armed with machetes and axes struck during evening prayers at a mosque in Mwanza district. Police have confirmed that the attackers were unhappy about the arrests of Muslims in the area. Businesses face significant risks stemming from the growing threat of extremist militancy in the country, which has until this point, avoided such attacks.

Terrorism And Political Violence

The terrorist threat in Tanzania emanates primarily from the success of al-Shabaab in Kenya, its ambitions to conduct attacks across East Africa and risk of copycat attacks by Tanzanian nationals. Recent political unrest has erupted in Zanzibar following the October 2015 elections but the risks of an escalation into violent conflict remains unlikely. The below factors contribute to Tanzania's score of 30.0 out of 100 for the risk associated with Terrorism and Political Violence, ranking the country 28th out of 48 states in the region.

Terrorist Threat

Table: Main Active Terrorist Groups In Tanzania

Terrorist Group	Targets	Sector/Region Exposure	Threat Level
al Shabaab	Western interests, tourists, government buildings and infrastructure	The tourism sector and strategic industries are most exposed and attacks are more likely to occur in urban centres.	**Moderate** - Al Shabaab constitutes the primary terrorist threat in East Africa and the surrounding area, and has successfully implemented a number of attacks in recent years.
Boko Haram	Western interests, tourists, government buildings	The tourism sector and strategic industries are most exposed and attacks are more likely to occur in urban centres.	**Low** - Although Boko Haram has not conducted attacks in East Africa, it has a well-established base in West Africa and is suspected of collaborating with al-Shabaab.
Unidentified Tanzanian nationals inspired by al Shabaab	Western interests, tourists, government buildings	The tourism sector is most exposed but businesses across industries which are located in urban centres must be vigilant.	**Moderate -** There has been a growing concern of copycat attacks by individuals inspired by terrorist organisations like al-Shabaab.

Source: BMI

Counterterrorism Capability

Institutions

As a result of sustained efforts on the part of the government to boost its counterterrorism capabilities, Tanzania has made substantial progress in improving detection of terrorist activity. Consequently, Tanzania has not experienced any major terrorist attacks since the 1998 bombing of the US Embassy, unlike neighbouring Kenya and Uganda. However, intelligence is still weak from a regional perspective, despite having increased coordination between regional and international players such as the African Union and the East African Community. The efficacy of Tanzanian counterterrorism forces is also undermined by limited resources and expertise in crime investigations and other areas of security, as well as high levels of corruption within the police force, which increases the likelihood of an attack. This is reflected in the fact that the country received a score of 29.0 out of 100 for Counterterrorism Capability, placing it in the middle of the regional pack, ranking 23rd after neighbouring Malawi (fifth), Rwanda (tied for sixth) and Zambia (16th).

Counterterrorism Laws

In August 2012, Tanzania published the Prevention of Terrorism Regulations 2012, which defines the police and the Financial Intelligence Unit (FIU) as responsible for gathering and responding to terrorist activities. The 2012 laws also formally facilitated a number of essential terrorist-related activities, including the coordination of information between state institutions, determining suspected terrorists, and defined the process for freezing terrorist assets.

As a result of these institutions, Tanzania is considerably more prepared for terrorist attacks than neighbouring Uganda and Kenya, which rank 26th and 34th out of 48 SSA states for Counterterrorism Capabilities. That said, the efficacy of Tanzania's counterterrorism efforts is constrained by a number of challenges, notably a lack of specialised equipment, and personnel who have not been fully trained in important skills such as crime scene investigation and advanced intelligence analysis, according to the State Department. In particular, Tanzania's security institutions are ill equipped to secure the country's borders, leaving it exposed to the threat of terrorists from the sub-region. Within Tanzania's financial investigations unit (FIU), there were also only three technical staff members as of 2013, which severely limits the ability of the task force to combat the financing of terrorism. Corruption within the police force also threatens the effectiveness of the Tanzanian counterterrorism programme, increasing the likelihood of negligence or bribery within the context of anti-terrorism efforts. As a result, businesses remain vulnerable to the risk of terrorism.

After the 2010 Kampala terrorist attacks, Tanzania increased its coordination between countries at the regional and international level, working with the African Union, the East African Community and the South African Development Community to share information in an effort to combat terrorism. Tanzania has also enhanced its enforcement and military capabilities, particularly within the realm of border and airport security. Cooperation between US and Tanzanian officials has improved significantly, with US personnel providing training and needed resources to understaffed and underequipped Tanzanian anti-terrorist forces. During 2013, the FIU benefited from US training on anti-corruption and computer forensics from the US Department of Homeland Security and the Department of Justice. Meanwhile, Tanzanian law enforcement officials received training and enabling equipment from the US Department of State's Antiterrorism Assistance programme, which boosted the ability of officers to control Tanzanian borders, particularly maritime borders; investigate crimes, and respond to crises. Finally, Tanzania has stepped up efforts to combat terrorism at the grassroots level by improving national and community policing, educating citizens about terrorism and countering extremist trends in certain populations. As a result of these efforts, foreign firms benefit from improved anti-terrorism intelligence, reducing the risk of attacks.

Tanzania's improved counterterrorism capabilities have enabled it to establish itself as a growing player in regional counterterrorism activities. According to a 2012 US government report, Tanzania led the sub-regional effort in 2012 to combat terrorism, making significant improvements in terms of increased training, regulatory frameworks and other essential counterterrorism initiatives. In 2013, Tanzania helped expose and prevent at least two terrorist attacks meant to take place during Kenya's General Elections, highlighting the country's progress in boosting its counterterrorism capabilities.

Interstate Conflict Risk

Tanzania maintains peaceful relations with its neighbours and has one of the continent's most capable military, reducing the risk of interstate conflict. Nonetheless, insecurity in neighbouring countries could adversely affect Tanzania's security environment and increases the risk of violence among its borders. **BMI** awards a score of 40.3 out of 100 for Tanzania's Interstate Conflict Risk, ranking it 20th out of 48 states regionally. As a result, Interstate Conflict Risk is the third most competitive pillar in the overall Crime and Security Risk Index, boding well for the preservation of peace with Tanzania's neighbours.

Likelihood Of Conflict

Table: Tanzania - Major Conflict Flashpoints

Protagonist	Likely Cause Of Conflict	Form Such A Conflict Would Take	Likelihood Of Conflict
Rwanda	Tensions emanating from Tanzanian raids on Rwandan families	Increased military presence along Rwandan-Tanzanian border	**Low -** peacekeeping operation
Uganda	Extradition of Jamil Mukulu	n/a	**Low**
Malawi	Dispute over exploratory drilling works in Lake Nyasa	Increased military presence around drilling works and negotiations at regional level	**Low -** peacekeeping operation

n/a = not available. Source: BMI

Military Capability

Size

Tanzania's army is reported to be one of the most capable militaries in SSA, boding well for the country's ability to repel an aggressor in the event of an attack. However, like many other countries in the region, the Tanzanian armed forces' ability to revamp an ageing equipment inventory is hampered by a limited budget, affecting the capability of both army and air force. That said, the Tanzanian military still compares favourably by regional spending in terms of military spending and arms deposits, and its position will only improve in the coming years due to an anticipated increase in military spending. Specifically, in response to regional instability and the growing threat of terrorism, Tanzania will increase its military budget by 30% in the next fiscal year, amounting to a total budget of USD808mn.

Currently, the Tanzania People's Defence Force (JWTZ) consists of 27,000 active personnel, with 80,000 reserves and a total of 9,985,445 Tanzanians available for military service if needed. The JWTZ is divided into the Army, the Naval Wing, the Air Defence Command and the National Service, having received an average of around 1.13% of GDP annually in military expenditures between 2010 and 2012.

However, the country enjoys the strategic asset of having a large portion of the population fit for service, a total of 11,742,618 individuals, with more than 1mn Tanzanians reaching military age annually. As a result, the country has the seventh largest population fit for military service in SSA, below some of the most populous countries on the continent, notably Nigeria in first place. Within this, there are an estimated 5.86mn men and 5.88mn women fit for military service, therefore in the event of a national emergency, Tanzania has one of the largest potential manpower pools in the region to draw on.

Tanzania has one of the most capable militaries in SSA, having contributed peacekeeping troops to conflicts in the Democratic Republic of the Congo, Liberia and Sudan. The country's capabilities have been reinforced by technical training and support from countries such as the US, from which Tanzania received logistics vehicles, ships, communications systems, training and other military assets. However, the country's military might has been dampened by limited military spending and ageing equipment, thereby reducing its ability to repel attackers. Since 2000, military expenditures have generally been on the decline from 1.5% of GDP to a stagnant 1.1% by 2004. However, as terrorism and insecurity along its borders have grown, the Tanzanian military has slightly increased its budget to 1.3% to meet these challenges.

Weaponry

The country's military strength will likely be bolstered further by the decision to increase state spending on defence equipment in order to combat threats such as terrorism and maritime piracy. Indeed, in May 2015, the state announced it will increase its military budget by 30% in the next fiscal year, amounting to a total budget of USD808mn. This burgeoning military spending denotes the rising importance of the armed forces to the government in light of the security challenges it faces. Within this, a significant portion of the military budget will be spent on the modernisation of the armed forces, beginning with the construct of an USD55mn National Defence Headquarters at Makongo Juu, located in the Lugalo Military Base. This new facility will provide offices for the commander-in-chief, the defence and national service ministry and the office of the chief of defence forces. Additionally, a new Command College will be constructed at Duluti in Arusha, as well as 10,000 new units for soldiers around the country.

That said, any future investments in Tanzania's military must be weighed against regional security trends. During 2013, military spending grew 8.3% alone across the continent, or the largest of any region in the world, underlining the general state of insecurity for many African states, both within and along their borders. Over the last decade, two-thirds of African countries have considerably increased their spending, amounting to an increase of 65% across the region. In 2013, Angola increased its defence budget by over 33% to USD6bn, surpassing South Africa as the largest military spender in the region, while Namibia is one of several Southern African countries that have significantly increased military spending in recent years, alongside Zambia and Zimbabwe. As a result, any gains within Tanzania's armed forces will always be somewhat offset by the efforts of other regional states to enhance their military prowess.

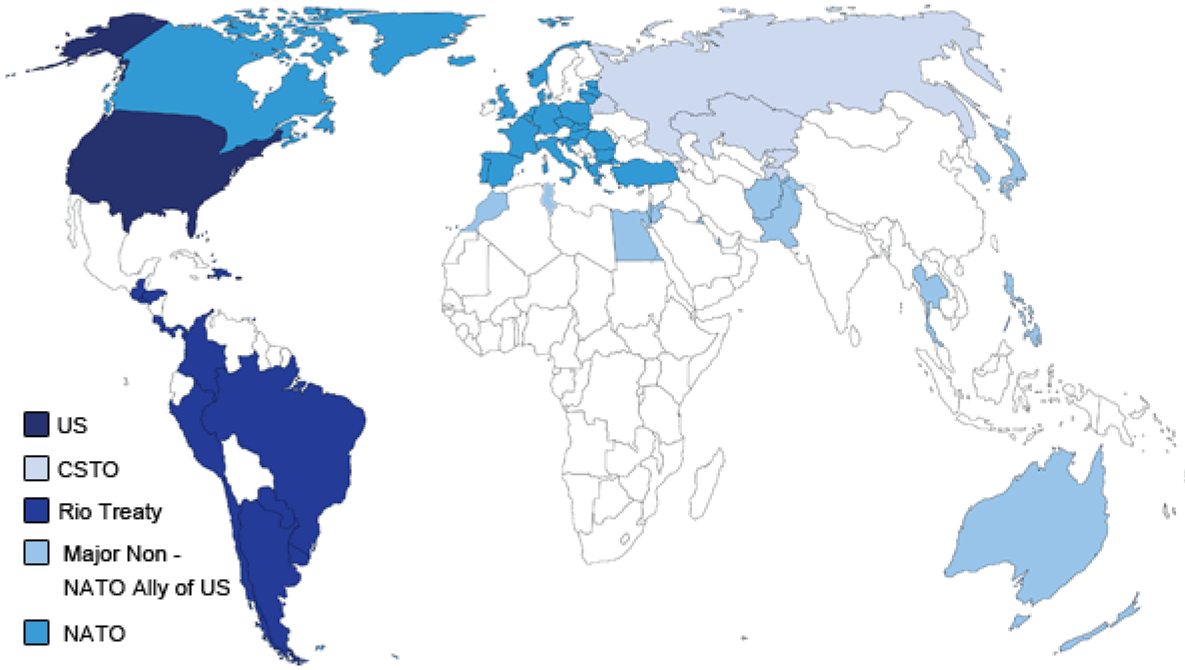
Dispute Management

Tanzania maintains amicable relations with Rwanda, while Tanzania's membership in the African Union, the East African Community and the South African Development Community also facilitate discussions between states.

Defence Agreements

Tanzania has signed a number of defence agreements, including an agreement with Canada, as well as Angola, Mozambique and Zambia. Tanzania's armed forces also maintain good relations with the US military and over the last several years the two institutions have coordinated to improve the former's capacity to perform coastal surveillance, civil military operations and regional and international peacekeeping and humanitarian initiatives, among other tasks.

Global Defence Agreements



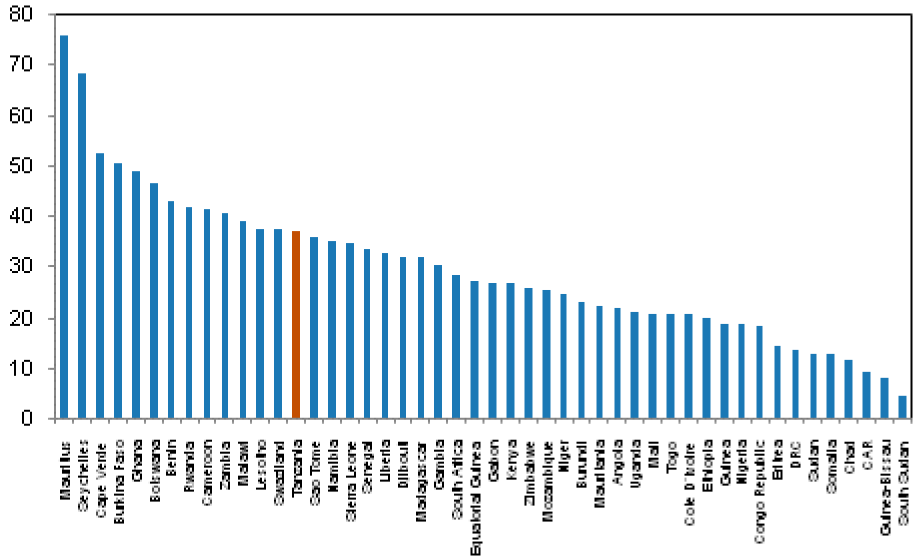
Note: The US is a member of the Rio Treaty and NATO; Kuwait and Bahrain are also Major Non-NATO Allies of the US. Source: d-maps.com, BMI

Vulnerability To Crime Analysis

BMI View: *Investors in Tanzania face moderate risks related to crime in comparison with regional peers, as crime rates are not as high in Tanzania as in neighbouring countries. Nonetheless, foreign workers remain exposed to occasional petty and violent crime, which the police often lacks the capacity to prevent. Sexual violence is also a significant issue in Tanzania, posing an elevated risk to female workers. For this pillar, Tanzania scores 37.3 out of 100, ranking 14th out of 48 Sub-Saharan Africa (SSA) states.*

Violent Crime Threatens Business Operations

Tanzania & SSA Regional Average - Vulnerability To Crime Scores



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Crime and Security Risk Index

Latest Vulnerability To Crime Analysis

- Businesses continue to be exposed to corrupt practices within the police force, but measures to combat them will reduce this threat in the medium term. In December 2015, an escalating number of resident complaints about corruption in the region of Tabora led the police force to strengthen measures against officers resorting to corrupt practices such as bribe solicitation on the country's roads.

- As part of a programme supported by the UN Development Programme, up to 6,000 police officers were trained in preparation for the October 2015 elections in Tanzania, completing courses on human rights, gender and the role of the police in democratic elections. While this programme was punctual, it demonstrates the government's effort to maintain political stability by strengthening police force capability and should reduce vulnerability to crime in the medium term. Furthermore, it proved helpful in the March 2016 election re-run in preserving peace and stability.

- Businesses operating in Zanzibar must be aware of there the threat of violence against women, mainly against locals. The issue came to the frontline during the local elections in Zanzibar in November 2015, when many reportedly did not vote out of fear of violent reactions and divorce threats from their husbands.
- A modern communication system to be used by the police for surveillance and to track down high end criminals was launched in Arusha in February 2016. The VHF Radio communication system will help the Tanzania police to operate more efficiently and effectively in managing the country's long and porous borders, especially the northern border and Arusha city. The equipment, worth USD778,000, has been supplied by the US Embassy in Tanzania. Arusha city, which serves as a hub of the tourism industry, has been subjected to a string of grenade attacks, which the authorities blamed on terrorists, between 2012 and 2014, claiming nearly a dozen lives and hundreds injured. The implementation of the Arusha Secured VHF Radio Project will strengthen Tanzania's existing mechanisms of combating transnational crimes and will boost the police force capability.

Violent And Petty Crime

Investors in Tanzania face risks in the form of moderately high murder rates, prominence of sexual assaults, and high rates of petty crime. These factors are the product of a number of social and operational challenges, notably high levels of poverty and an incompetent police force. Sexual violence is also a significant issue in Tanzania, posing an elevated risk to female workers. **BMI** therefore awards Tanzania a score of 24.0 out of 100 for Violent and Petty Crime, placing it 26th out of 48 states regionally.

Petty Crime

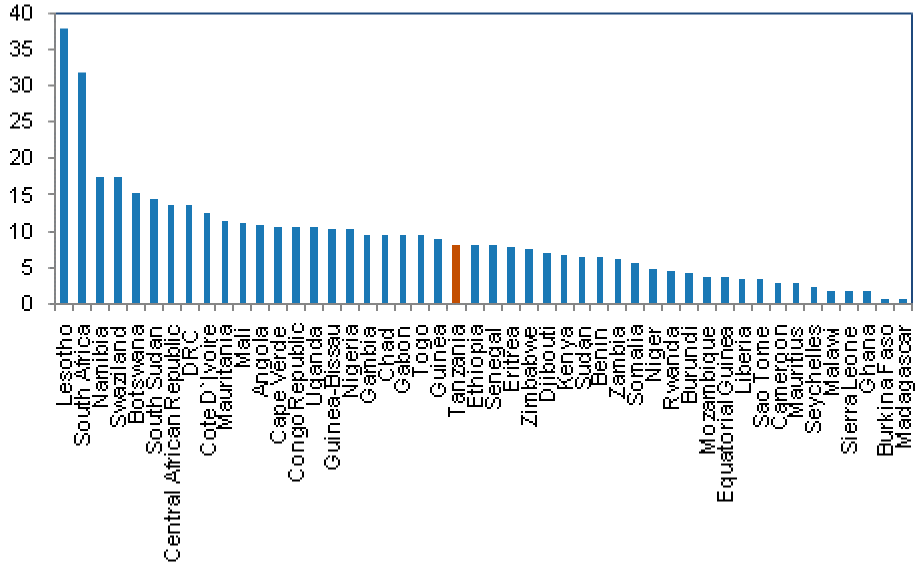
Crime represents a serious risk to expatriates and foreign businesses in Tanzania, particularly in urban areas such as Dar es Salaam and Arusha. High rates of poverty and inequality have led to a proliferation in crime over the last several years that often targets foreigners, who are perceived as wealthy, thereby increasing the threat of crime to expatriates. Crimes vary from petty theft, robbery, carjackings, scams, kidnapping, forced ATM withdrawals under threat of violence, assault, rape and murder.

Violent Crime

According to the UN Office on Drugs and Crime (UNODC), Tanzania has the 23rd highest homicide rate of 48 SSA countries, with 8.2 murders per 100,000 people in 2012 (latest available data). While this is a relatively high rate, Tanzania places far below the regional outperformers for homicide, Lesotho and South Africa, where the murder rates are as high as 38, and 32 homicides per 100,000 people respectively. Despite this, foreigners are not the primary target for murders, which diminishes the risk associated with high overall murder rates.

Middle Of The Pack

SSA - Homicide Rate (Per 100,000 Population)



Source: UNODC

According to the fifth Afrobarometer survey conducted by the Research on Poverty Alleviation organisation, 44% of Tanzanians were physically attacked between 2011 and 2012, a figure that may be underestimated due the fact that only 42% of citizens reported crimes to the police during the same period. Nevertheless, the incidence of violent crime is considerably lower in Tanzania than in many other African countries, diminishing the risk of injury to foreign workers and investors on a regional scale. Moreover, it is not as common for foreigners to be targeted by criminals for violent crimes; rather, expatriates often fall victim to petty crimes, thereby necessitating increased precaution and security measures for foreigners working and living in Tanzania.

Women in particular are vulnerable to high crime rates. Rape is a serious problem in Tanzania, with 45% of Tanzanian women having experienced sexual or physical violence as of 2010, while almost three out of 10 girls experienced at least one act of sexual violence before turning 18. Reporting is also deterred by a rape policy that obliges women to report a rape to police and obtain a police release form before being permitted to visit a hospital. Poor training, inadequate forensic facilities and police incompetence serve as major deterrents for women to report rape, increasing risk for expatriate women working in Tanzania. Indeed, a 2014 study conducted by the Tanzania Media Women's Association found that men accused of committing sex crimes often walked free, owing to a lack of evidence, poor police investigations and unwillingness on the part of victims to testify to avoid the stigma and shame attached to rape.

However, the risk to women may decline in the medium term amid the roll-out of gender and children desks in every police station in Unguja and Pemba islands. Comprised of a reception, rest area, interview and counselling room, and an office for reporting cases of physical and sexual abuse to trained officials, special units have received USD3.2mn in funding from the EU to bolster training and resources available to local police. Additionally, like other types of violent crime, Tanzanian women are far more vulnerable to rape and sexual assault, thereby reducing the risk of attacks on foreign female workers.

As a result of high poverty rates and economic decline, there has also been a reported rise in armed robberies and break-ins, rendering businesses increasingly vulnerable to lost or damaged property and violence against their employees. In August 2012, an armed robbery took place in the Peninsula area of Dar es Salaam at the property of a Swiss national, who was killed during the incident. Firms therefore face increased costs from private security companies, the hiring of which diminishes the likelihood of property damage, stolen goods, and assault.

The burden of crime on businesses is reflected in widespread societal perceptions of insecurity in Tanzania. According to the 2014 Legatum Prosperity Index, 21.5% of Tanzanian respondents reported that they were assaulted in 2010, relative to a global average of only 7.5%. Similarly, 35% of participants stated they had property stolen during 2013, in contrast to only 16.5% at the global level. Finally, only 54.5% of individuals felt that they were safe walking alone at night in 2013, relative to the global average of 61.5%. Taking these factors into account, businesses operating in Tanzania are advised to invest in private security to limit crimes committed to their property and staff members.

Capability Of The Police Force

The capacity of Tanzania's police force is diminished by a number of factors, including a lack of training, corruption and low pay. The poor capability of the police is effectively demonstrated by Tanzania's crime record, which has some of the highest rates of murder and rape in the region. The inability of the police to deter crime has resulted in the presence of vigilante groups such as the Sungusungu, who have now been given the ability to make arrests. Overall, companies are not able to rely on the police force to bring justice to criminal activity, resulting in higher costs to investors. That said, Tanzania has a relatively large police force by regional standards, and has received the support of various external donors in recent years, which bodes well for an improved police force in the coming years. Taking these factors into account, Tanzania receives a score of 50.5 out of 100 for Capability of Police Force, placing the country seventh out of 48 states regionally.

Size Of The Police Force

According to recent estimates, the Tanzanian Police Force (TPF) reportedly has around 40,000 personnel throughout the mainland and in Zanzibar and is largely responsible for preserving law and order. Within this, a special unit called the Field Force Unit monitors and controls illegal riots and demonstrations. According to the US State Department, the competence of the TPF is limited due to its inadequate human and physical resources, which translates into restrictions in the efficacy of policing and low pay, incentivising corrupt practices among many segments of the police force. As a result, firms cannot fully rely on the police to deter crime and delivery justice, increasing the risk of bribery and losses due to theft and other crimes. The low capability of the police is exemplified by Tanzania's high crime rates, which demonstrate that the force is unable to deter criminal behaviour and respond to crimes as they occur.

Despite these drawbacks, the TBF has benefitted from numerous external donors to boost their competence. For example, the Egyptian government recently provided TZS100mn in mortuary equipment to improve healthcare services at the main police hospital of Kilwa Road in Dar es Salaam. Additionally, US officials have been working with Tanzanian police officers to improve the efficacy of forces combating the illegal ivory and drugs trade. The programme aims to train police officers, provide sniff dogs to be used at the port of Dar es Salaam and the airport, and implement an effective administrative management system, among other benefits. These efforts serve to solidify previous cooperation efforts between the two governments, wherein the US trained over 200 Tanzanian police and wildlife personnel working in the Regional Rural Border Patrol Unit.

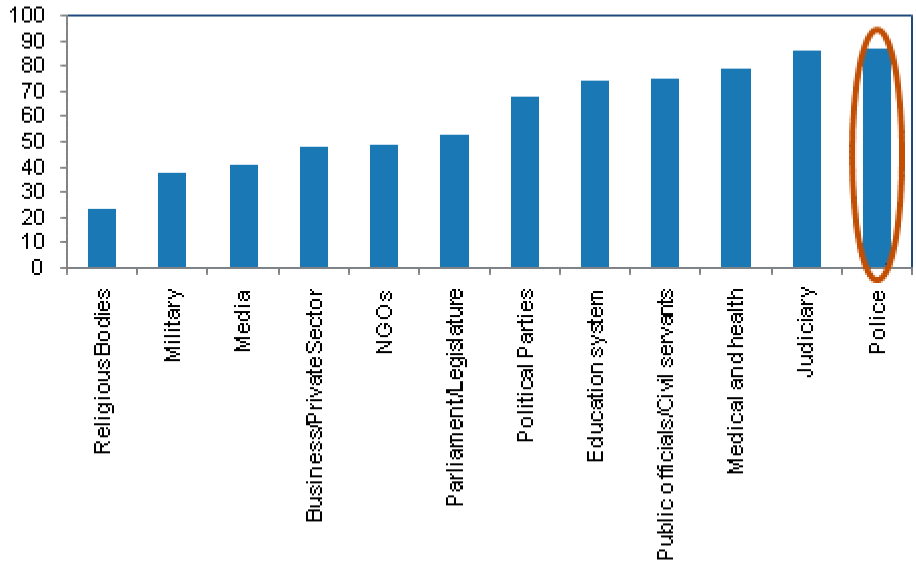
Due to the inability of the police to combat crime, the police are not the only force within Tanzanian society with the power to pursue justice. The Sungusungu is an organisation independent of the police that was created by the Nyamwezi and the Sukuma ethnic groups several decades ago, which acts as a citizens' patrol group in preventing crime, and has been given the ability to make arrests. Although they are not allowed to carry machetes or firearms, they wield clubs or sticks, and coordinate with police and municipal governing authorities.

Perception Of The Police

East Africa's police forces are renowned for their corruption, and Tanzania is no exception. According to Amnesty International, in 2013 Tanzania's police were ranked the most corrupt in the East African Community, while a government report found the police forces to be the most corrupt institution in the country. Indeed, an estimated 87% of respondents in a recent Transparency International survey deemed the Tanzanian police force to be either 'corrupt' or 'very corrupt', only slightly above the judiciary, which is perceived as the second most corrupt state institution. High rates of police corruption therefore represent a major challenge to preserving law and order due to limited transparency and accountability on the part of governing officials. According to Amnesty International, although the police accumulate the largest number of bribes, the value of police bribes is substantially lower on average than in the Tanzanian tax administration, valued at just USD36, compared with the highest average tax bribe of USD87. Therefore, although businesses and investors face a high risk of having to pay bribes, the sums are low compared with those in other sectors.

Police Force Perceived As Most Corrupt State Institution

Tanzania - Respondents Who Viewed Institutions As Corrupt Or Very Corrupt (% Of Total)



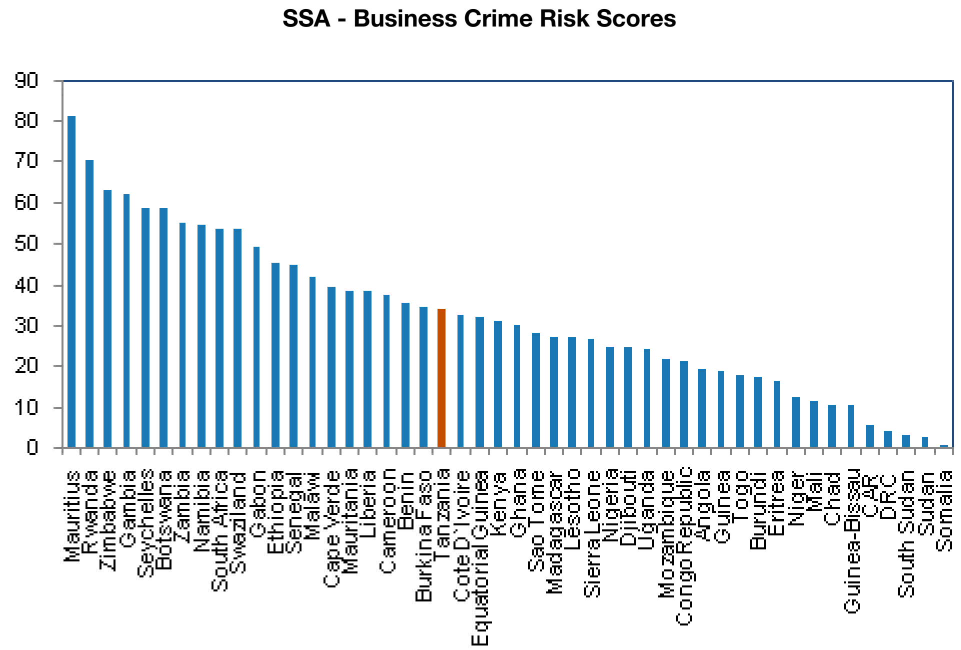
Source: Transparency International

The police force is also reputed to have a low level of accountability, contributing to excessive force and brutality. According to the Legal and Human Rights Centre, during 2011 police violence and extra judicial killings increased in number, with 25 individuals killed and more than 40 injured by police and security personnel throughout the year. Police also fulfil the role of prosecutor within the lower courts, which has allegedly facilitated the manipulation of evidence in criminal trials. Although the state has attempted to crack down on corruption and unmerited violence by dismissing or punishing officers and improving police training, these issues continue to adversely impact the probity of police forces. As a result of these issues, most Tanzanian nationals and expatriates receive little help from police in the event of a crime. Many businesses therefore rely on more costly, albeit reliable private security units to protect themselves against theft, property damages and injury to personnel.

Business Crime Analysis

BMI View: *Although Tanzania is not a regional financial hub in Sub-Saharan Africa (SSA), the country remains vulnerable to money laundering and trafficking activities due to its position at the crossroads of eastern, central and southern Africa. As a result, Tanzania's financial sector faces a growing risk from money laundering in particular, both in the poorly regulated informal banking industry and the formal sector. Moreover, limited training and resources has constrained the country's ability to prosecute and convict alleged money launderers, thereby emboldening potential financial criminals. BMI awards a score of 34.4 out of 100 for Business Crime, ranking Tanzania 21st out of 48 SSA states.*

Risks To Businesses From Crime Lower Than Regional Average



Note: 100 = Lowest risk; 0 = highest risk. Source: BMI Crime and Security Risk Index

- In February 2016, the Tanzanian government outlined plans to engage experts from Tanzania Wildlife Authority (TAWA), Tanzania National Parks (TANAPA), the Ngorongoro Conservation Area Authority (NCAA) and Tanzania Forest Services (TFS) in an effort to prevent wildlife trafficking and poaching. The agencies will work in collaboration with security organisations from Tanzania Ports Authority (TPA), the Tanzania Airport Authority (TAA), the Tanzania Revenue Authority (TRA) as well as local and international conservation institutions and stakeholders. The move came barely three weeks after the poachers gunned down a helicopter which was on a patrol in the Maswa Game Reserve on the southern part of Serengeti National Park, killing the pilot - a British national. The incident was widely reported and the government is determined to eliminate the entire syndicate of poaching in the country; however, this is a regional problem that will likely require regional collaboration to prove its effectiveness.

- Other government strategies to guard the country against wildlife trafficking include speeding up the process of transforming the operation of wildlife conservation from civilian to paramilitary. Furthermore, the government is working on the possibilities of banning private people from owning firearms to reduce the increasing incidents of people to use arms in committing crimes, which will reduce overall crime levels.
- Increasingly thorough investigations of financial crime and corruption pushes businesses to conduct due diligence into business partners to avoid involvement with illegal activities. In December 2015, seven senior officials from the Tanzania Revenue Authority (TRA) and an official from Azam Inland Container Depot (ICD) were charged with economic sabotage and the loss of TZS12.7bn in unpaid taxes to the government.

Financial Crime And Cybercrime

Tanzania's regulatory framework to combat financial crime is weak, leaving businesses exposed to illicit activities. However, government efforts to bolster financial reporting standards indicates will improve the investment environment in the longer term. Cybercrime relatively low but increasing and businesses are highly vulnerable to attacks given low levels of protection. Tanzania scores 20.3 out of 100 for Financial Crime and Cybercrime Risk, placing 30th out of 48 SSA countries. In this regard, Tanzania compares poorly to sub-regional heavyweight Kenya, which places eighth in the region for this pillar.

Financial Crime

Although Tanzania is not a financial centre in SSA, the country remains vulnerable to money laundering and trafficking activities due to its position at the crossroads of eastern, central and southern Africa. As a result, Tanzania's financial sector faces a growing risk from money laundering in particular, both in the poorly regulated informal banking industry and the formal sector. Moreover, limited training and resources has constrained the country's ability to prosecute and convict alleged money launderers, thereby emboldening potential financial criminals. To ameliorate these issues, Tanzania has stepped up its efforts to bring financial reporting standards to the global norm and invested in training and resources for its anti-financial crimes institutions. However, these initiatives have not yet likely borne fruit; as recently as July 2015, one of the country's leading banks, **FBME**, was cut off from accessing the US financial system due to concerns that the bank facilitated money laundering, organised crime and terrorist financing. As a result, Tanzania's anti-financial crimes initiatives continue to fall under global scrutiny, which increases the threat of money laundering to foreign businesses in the country.

Tanzania is not a major financial hub in the region, which reduces its appeal for financial crimes relative to other more developed financial centres. However, the country's geostrategic position between eastern, southern and central Africa heightens the risk of traffickers smuggling the proceeds of various illicit trades through the country. Due the relative underdevelopment of the Tanzanian formal banking sector, the majority of money laundering occurs in the informal non-bank sectors. For example, popular methods for laundering money include the rapidly expanding mobile banking services, notably AirtelMoney and Mpesa, as well as front companies, foreign currency exchange centres, and *hawaladars*. The used car business and the real estate sector are also preferred strategies for money laundering, particularly in Zanzibar.

Despite the growing risk of money laundering, Tanzania's legal and regulatory environment has not adapted to effectively combat the threat of financial crimes. In October 2012, the Financial Action Task Force noted in its Public Statement that Tanzania had failed to adequately implement its programme to close the gap on noted anti-money laundering (AML) and counterterrorist financing deficiencies (CFT). Specifically, Tanzania's regulatory environment is in need of procedures to identify and freeze terrorist assets, which it has thus far been unsuccessful in implementing. In response to these deficiencies, Parliament passed new AML legislation in 2012, expanded KYC requirements, and amended the 2006 Anti-Money Laundering Act (AMLA) to broaden the list of predicate offenses, which now include pyramid and other similar schemes, fraud, piracy of goods, and counterfeiting of currency. The Tanzanian Financial Intelligence Unit (FIU) also reported plans to hire new staff, reflecting a budget increase during 2012, and conducted two training sessions with law enforcement authorities to enhance its ability to investigate financial crimes and strengthen reporting standards.

Despite these efforts, gaps still remain in the country's reporting standards, particularly in Zanzibar, where jurisdiction issues often create difficulties in implementing financial regulations. Additionally, the prevalence of informal financial transactions outside of the formal banking sector further complicates authorities' ability to regulate the financial industry. Even within the formal financial sector, enforcement officials have struggled to bring the industry's standards up to the global norm, thereby exposing firms to the threat of financial crimes. Only in 2014 was Tanzania removed from a list of countries believed to be at high risk for money laundering, demonstrating its continued struggle to combat financial crimes. This state of affairs contributes to Tanzania's low regional position for the strength of its financial standards, placing ninth from the bottom of the regional pack, among countries such as Mali, Chad and Burundi.

These difficulties are reflected in the recent penalisation of one of Tanzania's largest banks. In July 2015, FBME was cut off from accessing the US financial system due to concerns that the bank's lax AML controls facilitated money laundering, organised crime and terrorist financing. Consequently, US financial institutions were barred from doing business with the prominent Tanzanian bank and trading on its behalf, effectively constituting a 'death sentence' on the bank. A US district judge granted FBME a preliminary injunction against the ruling, though the bank's name has not yet been cleared, generating concern over the transparency and accountability of one of Tanzania's key financial institutions.

Tanzania's law enforcement and judiciary are also ill equipped to cope with the rising tide of financial crimes. Deficiencies within the legal system in particular are highlighted by the country's poor track record in convicting alleged financial criminals. In 2012, the Tanzanian legal system prosecuted 14 cases related to money laundering, yet it made no convictions, which does not bode well for the country's ability to investigate and prosecute financial crimes.

Cybercrime

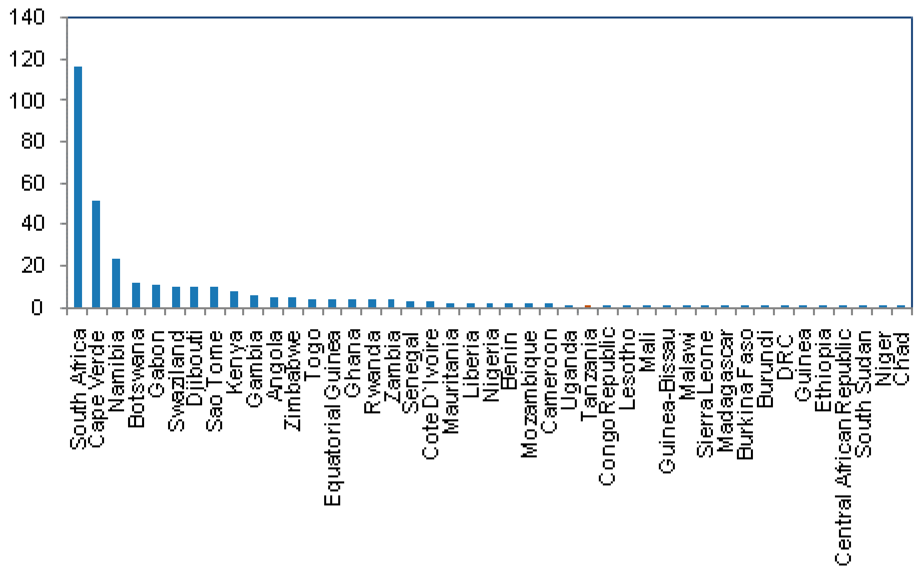
As internet penetration rates have grown, Tanzania faces a rising tide of cybercrimes, particularly related to cyberfraud. Between September 2010 and September 2013, more than USD6.1bn was stolen from Tanzania's banking sector through cyberfraud, posing a serious risk to foreign businesses operating in the country, particularly those with assets in Tanzania's banks. This vulnerability is due to a variety of factors, such as growing internet usage rates unaccompanied by a rise in secure internet servers and other online security precautions. As a result, in recent years the Tanzanian government has begun re-evaluating the National Information and Communication Technology policy in 2012 to cover growing challenges such as cybercrime. At the same time, the state has worked to enact new laws to curb the threat of cyberattacks, notably the 2015 Cybercrime Bill, though its implementation has been undermined by concerns over violations of freedom of expression.

Tanzania's growing risk of cybercrime stems from the country's embrace of the internet. Ranked 18th out of 48 SSA countries, Tanzania's internet penetration rate currently stands at 24.6 users per 100 people, representing the third highest internet usage rate in East Africa. As a result, Tanzania remains less exposed to cyberattacks compared to neighbours with higher penetration rates, notably Kenya and Uganda, where internet usage rates have reached 54.1 and 33.6 users per 100 people, respectively. However, due to the fact that this technology is relatively new to Tanzania, users are more likely to be unfamiliar with online security precautions, thereby increasing the risk of cybercrimes. Users become even more exposed to attacks as more Tanzanians utilise online payment systems. According to a recent World Bank survey, only 1.42% of the population currently makes online transactions, ranking the country 22nd regionally. As more Tanzanians go online, the need for increased online security will increase to prevent the rising tide of cybercrimes committed in the country.

Of particular concern for online security is the low number of secure internet servers in Tanzania, which exacerbates the risk of cyberattacks. Growing internet usage has not yet kept pace with online security infrastructure needed to protect users from attacks, and there are only 1.5 secure internet servers per million people in the country, ranking it 29th in the region, tied with Congo Republic. In contrast, although neighbouring Kenya has higher internet usage rates that could lead to a higher vulnerability to attacks, its internet security infrastructure is considerably more advanced, with an estimated 7.7 secure servers per million people, ranking 11th regionally. Nevertheless, the state of East Africa's internet security is woefully poor by global standards, particularly when compared to the regional outperformer, Seychelles, with 616.8 secure servers per million people. As a result, East African countries face a higher risk of cyberattacks due to the limited number of secure internet servers.

Low Protection Increases Vulnerability To Cybercrime

SSA - Secure Internet Servers (Per 1mn People)



Source: World Bank

In response to the growing threat of cybercrime over the last several years, the Tanzanian government began to re-evaluate the National Information and Communication Technology policy in 2012 to bridge the gaps in legislation for challenges such as cybercrime. Initiatives included the introduction of the esecurity.co.tz website, which offers services to protect web systems and websites from hacking attacks. As of September 2013, over a period of three years, more than USD6.10bn had been stolen from the country's banking sector through cyberfraud, with threats arising in forms as varied as card skimming, the manipulation of electronic files and hacking. Between 2011 and 2012, no less than 500 Tanzanians were arrested over cyberfraud. As a result, although the government is in the process of improving legislation, firms and investors remain at risk of losses from cyberfraud, attacks and other crimes on the web or within the financial system.

Nevertheless, concrete steps have been taken to diminish the threat posed by cybercrime to investors and businesses. At the moment, the Government of Tanzania is considering the implementation of three bills that would empower officials to prosecute crimes and define the legal environment: The Data Protection and Piracy Act, the Computer and System Act and the Electronic Transaction Act. Additionally, in April 2015, the Tanzanian parliament passed the Cybercrime Bill, which seeks to reduce cyber bullying, online impersonation, illegal interception of communications, the publication of false information and child pornography. To effectively counteract the growing threat of cybercrime, the bill has allotted considerable scope for police officials to search the homes of suspected criminals, seize their electronic equipment, and obtain their data from online service providers.

However, the new bill was not passed without difficulty. Indeed, the United Nations Country Representative Coordinator spoke out in May 2015 against the constraints placed on journalists by the Cybercrime Bill. The new bills not only allegedly restrict freedom of the press, but they may also indirectly support the intimidation and violence directed against many journalists in Tanzania. Additionally, critics have argued that the bill gives excessive powers to the police, while limiting the freedom of citizens.

Business Costs Of Crime

Taking the below factors into consideration, Tanzania ranks 16th in the region for the Business Costs of Crime, scoring 48.5 out of 100.

Organised Crime

Tanzania is plagued by high levels of poverty, inequality, and corruption, which have enabled armed and criminal groups to flourish in the country. Criminal groups in Tanzania are primarily motivated by economic wealth and threaten businesses in various forms. Pirate activity poses high risk to maritime trade, while armed gangs and fraudsters increase the danger of foreign expatriates. In particular, money laundering and financial crimes pose a major risk to businesses operating in the country, due to the likelihood of illicit activities in the banking sector and US-imposed penalties on key actors in the financial industry. As a result, businesses may be cut off from US financial markets and other major global financial sectors.

Motivated by economic wealth, armed criminal groups have incurred a growing risk for businesses in Tanzania in the form of theft, robbery, assault and damage to property. According to the US Overseas Security Advisory Council, armed and criminal activity has grown in recent years, fuelling a rise in the number of armed residential break-ins and robberies reported, particularly along the Tanzanian border with Burundi. These groups have also been responsible for an increase in financial crimes, particularly cyber crimes and money laundering.

With regards to financial crimes, deficiencies in the AML/CFT reporting standards within the Tanzanian financial sector have exposed businesses to a growing tide of crimes associated with money laundering. Currently, organised criminals in the drug, arms and illegal wildlife trade profit from Tanzania's strategic location between southern, eastern and central Africa and employ a number of sectors to launder the illicit proceeds of their trades. Gangs utilise the informal non-bank sectors such as mobile banking services, in addition to front companies, foreign currency exchange centres, and *hawaladars*. The used car business and the real estate sector are also preferred strategies for money laundering, particularly in Zanzibar.

The inability of the Tanzanian state to bring its reporting standards to global standards has serious implications for foreign companies doing business in the country, complicating access to international financial markets and transactions conducted with major global financial institutions. Indeed, in 2015, one of Tanzania's largest banks, FBME, was cut off from accessing the US financial system over concerns that the bank's lax AML controls facilitated money laundering, organised crime and terrorist financing. As a result, American financial institutions were barred from doing business with the prominent Tanzanian bank and trading on its behalf, effectively severing access for FBME clients to one of the largest markets in the world and threatening access to other major global institutions. Furthermore, only last year, Tanzania was removed from a list of countries believed to be at high risk for money laundering, demonstrating its continued struggle to combat financial crimes. Consequently, the risk perceived to emanate from money laundering activities is high, necessitating a considerable strengthening of the financial sector's regulations to combat the threat of organised crime.

Another notable form of crime on the rise as a result of armed groups and organised crime is a proliferation of maritime piracy, particularly in the Gulf of Aden and the Indian Ocean, putting companies reliant on shipping and maritime trade at risk of significant cargo and financial losses and personal injury to staff. Pirate attacks have occurred immediately off Tanzania's coast and have impacted both larger cargo vessels as well as smaller fishing, sailing and tourist ships. The Tanzanian Navy's ability to combat and restrict these attacks is very low due to inadequate resources and training, but the Tanzanian government has signed a joint maritime agreement with Mozambique and South Africa in order to diminish the risk posed by piracy.

In light of the current deficiencies in Tanzania's AML/CFT regulations, the country's appeal to criminal groups for money laundering remains relatively high. That said, the penalisation of a leading institution like FBME may spur law enforcement officials to step up their efforts to reduce the ability of criminals to launder money. As a result, although the credibility of Tanzania's financial sector has been tarnished in the short run, these events may help ensure that the government meets its commitments to eliminate money laundering. If not, foreign enterprises may opt to invest in a more sophisticated and transparent banking and financial industry and avoid Tanzania for certain business activities.

Business Response To Security Risks

On a day to day basis, investors and foreign businesses face the largest risk from crimes, particularly petty theft, and increasingly, financial and cybercrimes. While the cost to businesses is lower than many regional peers, the US State Department still provides hardship pay of 25% on basic compensation, an indication of significant of the security threat to businesses.

Table: Business Response To Risk In Tanzania

Risk	Risk Level	Business Response To Risk
Conflict Risk	Elevated	▪ Exercise high degree of caution in Dar es Salaam and Zanzibar, especially in crowded areas.
		▪ Hire security to protect key strategic infrastructure, especially along the country's north-western borders.
Vulnerability To Crime	Elevated	▪ Ensure employees, especially foreign workers are aware of specific petty and violent crime risks, particularly at night-time in Dar es Salaam and Zanzibar.
		▪ Provide secure accommodation and transportation to and from work for employees.
		▪ Ensure employees, especially foreign workers are aware of police corruption and the threat of bribery on the country's roads.
Business Crime	Elevated	▪ Monitor new legislation, which is being developed as part of Tanzania's anti-corruption drive, ensure compliance.
		▪ Awareness of cybercrime threat, with companies connected to the government and strategic infrastructure most exposed.

Business Response To Risk In Tanzania - Continued

Risk	Risk Level	Business Response To Risk
		▪ Due diligence into potential business partners.
		▪ Monitoring for suspicious payments and activity associated with money laundering.

Source: BMI

Methodology

BMI's Risk/Reward Indices provide a comparative regional ranking system that evaluates the ease of doing business and operational risks and limitations for potential investors in a given market. Our Operational Risk Index quantitatively compares the challenges of operating in 201 countries worldwide. The index scores each country on a scale of 0-100, with 100 being the lowest risk.

Each country has a headline Operational Risk Index score, which is made up of four categories of analysis, each further broken down into three sub-sectors. The individual categories and sub-categories are also scored out of 100, with 100 the best.

The index focuses on four main risk areas: labour market, trade and investment, logistics, and crime and security.

- **Labour Market:** evaluation of the risks surrounding the size, education levels and costs of employing workers in a country.
- **Trade and Investment:** evaluation of the openness of an economy, level of government intervention and the quality and efficacy of the legal environment.
- **Logistics:** evaluation of the quality and extent of the transport infrastructure, ease of trading, and quality and availability of utilities.
- **Crime and Security:** evaluation of operating conditions with respect to interstate conflict risk, terrorism, crime, including cyber crime and organised crime.

Operational Risk Index

The four main Operational Risk categories are Labour Market Risk, Trade and Investment Risk, Logistics Risk and Crime and Security Risk. All four scores are equally weighted to form a country's overall Operational Risk score.

Table: Operational Risk Pillars, Weighting (%)

Labour Market Risk	25
Trade and Investment Risk	25
Logistics Risk	25
Crime and Security Risk	25

Source: BMI

Labour Market Risk

The overall Labour Market Risk score is calculated from the average of the Availability of Labour, Education and Labour Cost sub-component scores.

Education: the education sub-component focuses on general and tertiary schooling. Scores are based on enrolment at each level of education and interest in technical subjects, such as science, manufacturing, construction and engineering. This gives an indication of the talent pool available in a country, and emphasises higher value technical skills.

Availability of Labour: the availability of labour score takes into account the size of the workforce, the quality, age and health of the labour pool and its composition (both with regards to the nationality of workers, and their occupations).

Labour Cost: this sub-component assesses worker flexibility and the cost of hiring in a particular country. It includes factors such as the minimum wage, severance pay and unemployment. The scores are calculated to reward the countries with the lowest cost of hire.

Logistics Risk

The Logistics Risk component is calculated using the average of the Transport Network, Trade Procedures and Governance and Market Size and Utilities scores.

Market Size and Utilities: this indicator assesses the quality and availability of electricity and fuel, and their costs, and considers the availability of water, industrial usage, and evaluates the quality and extent of the telecommunications networks and internet penetration. A well developed utilities sector enables the smooth running of supply chains.

Transport Network: this indicator assesses the extent and quality of road, rail, air and waterway transport networks within a country, which indicate capacity and ability to transport raw materials and finished goods around a country.

Trade Procedures and Governance: this indicator assesses the time and cost required to import and export goods by container. In addition, a country's air freight volumes and connectivity to shipping networks is used to gauge its potential as a shipping or freight hub. An ideal market would have strong freight connections and low levels of trade bureaucracy.

Trade And Investment Risk

The overall Trade and Investment Risk Index score is calculated using the average of the Economic Openness, Government intervention and Legal Environment sub-component scores.

Economic Openness: analyses a country's openness to investment and trade. This is generated from indicators such as imports, exports and foreign direct investment (FDI), which are used as a barometer of openness. A country that is more open and that has good financial markets is a better prospect for businesses, as it means firms have access to a better selection of imported raw materials and can realise opportunities to sell overseas.

Government Intervention: this score is composed of information on fiscal and trade barriers and taxation. The scoring system favours countries where governments are more supportive of businesses, lower taxation and good financial market development.

Legal: this score reviews the rule of law and quality of information and communications technology (ICT) governance, and evaluates the development of the bureaucratic environment and how extensive or streamlined the requirements are to set up businesses, buy properties and construct facilities. It takes into account issues such as corruption, freedom of the press and rule of law. A strong legal system, with patent protection, is essential for a business to be able to operate securely.

Crime And Security Risk

The Crime and Security Risk Index score is the average of the Conflict Risk, Vulnerability To Crime and Business Crime scores.

Conflict Risk: This indicator assesses the risk of conflict in a country. Looking at the interstate environment for that state and the region, and the country's military capability. We examine possible triggers for military confrontation, factors that could mitigate conflict risks, multilateral dispute resolution channels, military alliances and the size and quality of a country's armed. We look also at the terrorism threat within a country, from both a domestic and international terrorist organizations perspective. We examine what the terrorist organizations aims are and what could be their potential targets.

Vulnerability To Crime: This indicator assesses the risk of crimes to the person and to property, from both a violent and petty crime perspective. It also examines the capability and integrity of the police force.

Business Crime: This indicator assesses crimes that might specifically target businesses such as organised crime and cyber crime. The indicator also assesses the potential cost of crime and violence to businesses, such as the need for companies to pay danger or hardship pay.

Table: Weighting Of Indicators (%)

	Weighting
LABOUR MARKET RISK	**25 of which**
Education	**33 of which**
General Education	50
Tertiary Education	50
Availability of Labour	**33 of which**
Size of Labour Force	50
Composition of Labour	50
Labour Cost	**33 of which**
Costs of Employment	50
Flexibility of Workforce	50
LOGISTICS RISK	**25 of which**
Transport Network	33 of which
Quality of Transport Network	50
Extent of Transport Network	50
Trade Procedures and Governance	33 of which
Ease of Trade	50
Costs and Connectivity	50
Market Size and Utilities	33 of which
Electricity and Fuel	50
Telecommunications and Water	50
TRADE AND INVESTMENT RISK	**25 of which**
Economic openness	33 of which

Weighting Of Indicators (%) - Continued	
	Weighting
Trade Openness	50
Investment Openness	50
Government Intervention	33 of which
Taxation	50
Fiscal Barriers	50
Legal	33 of which
Bureaucratic Environment	50
Legal Environment	50
CRIME AND SECURITY RISK	**25 of which**
Conflict Risk	33 of which
Terrorism and Political Violence	50
Interstate Conflict Risk	50
Vulnerability To Crime	33 of which
Violent and Petty Crime	50
Capability of The Police Force	50
Business Crime	33 of which
Financial and Cyber Crime	50
Business Costs of Crime	50

Source: BMI