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TANZANIA
TRADE AND INVESTMENT RISK REPORT

INCLUDES THE BMI OPERATIONAL RISK INDEX

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Tanzania Trade and Investment Risk Report Q4 2016

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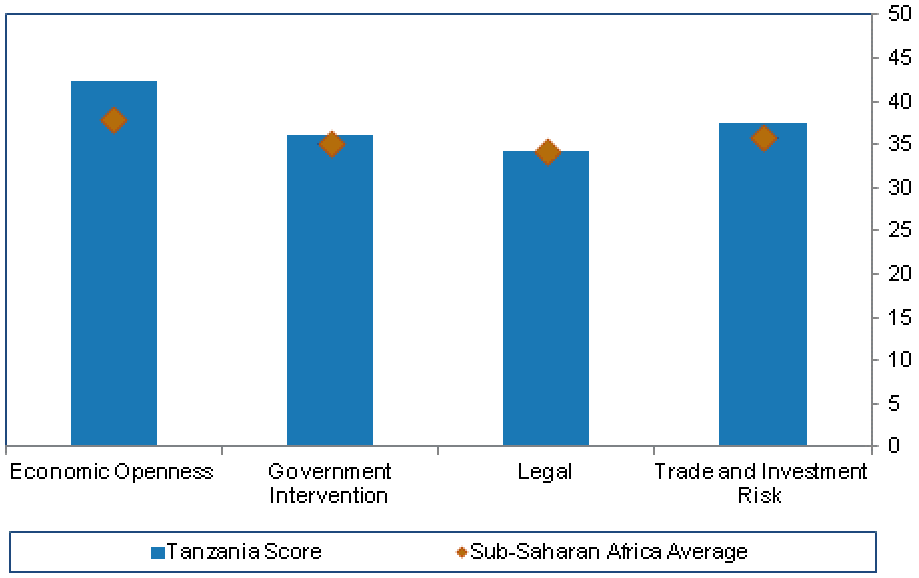
BMI View

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



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 as well as rising tax requirements. 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 bode 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

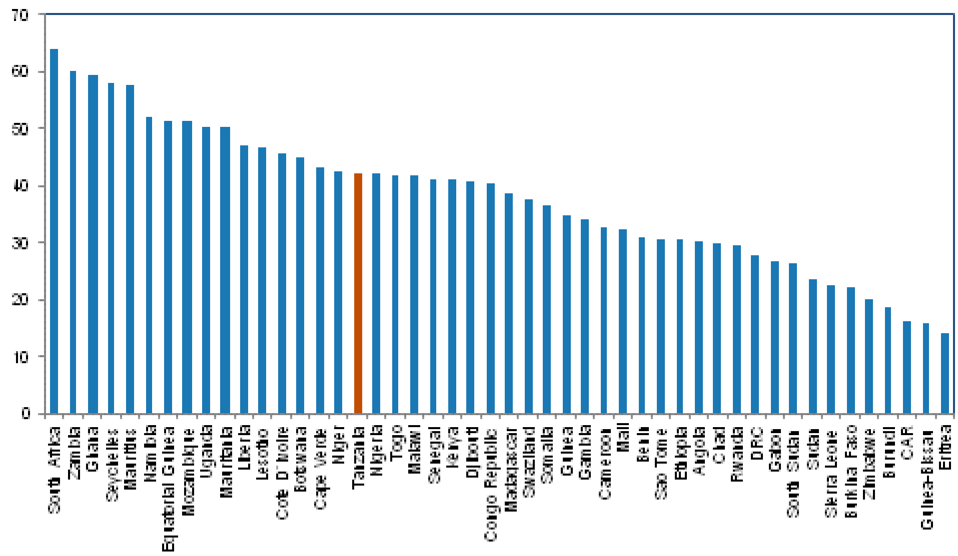
- Unfair competition from public sector firms in major economic sectors may constrain foreign participation in the economy.
- Restricted access to international financial markets may encourage foreigners to invest in more established regional markets.
- If the country's widespread corruption is not tackled, 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 other 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 inhibit the country's trade potential and have resulted in low levels of industrialisation in comparison to regional peers such as Kenya. Capital goods imports will continue to dominate trade in our 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, subdued commodity prices and weak global demand for commodities such as gas. BMI awards Tanzania a score of 42.3 out of 100 for Economic Openness, placing it 17th out of 48 states in the SSA, and 128th out of 201 states worldwide.*

Poor Trade Balance To Receive Boost From Growing Investor Interest

Sub-Saharan Africa - Economic Openness Risk



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 are likely to recover gradually over the medium- to long-term, the import burden is likely to rise almost in tandem.
- Tanzania wants the six-nation East African Community (EAC) bloc to delay signing a trade agreement with the EU to consider the impact the treaty may have on their economies in light of the region's weak manufacturing base and the bloc's rigid customs union. The EAC has been negotiating the Economic Partnership Agreement (EPA) with the European Union since 2002, a pact that will give it duty- and quota-free access for produce including flowers, fruit and vegetables. Kenya is the only nation that stands to lose access to Europe because it isn't grouped among the Least Developed Countries (LDCs). The others, including Tanzania can continue exporting to the bloc under a separate Everything But Arms treaty for LDCs. Burundi has already signalled it won't sign, citing EU sanctions, while South Sudan is yet to gain full membership in the bloc. The fractured state of the EAC and the high risk of conflicts in certain parts of the region will hinder regional integration efforts and trade potential.
- Economic growth is projected to average 6.7% 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.
- 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. This will support regional agricultural activities and in the long run farmers will benefit from reduced import reliance.
- 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.

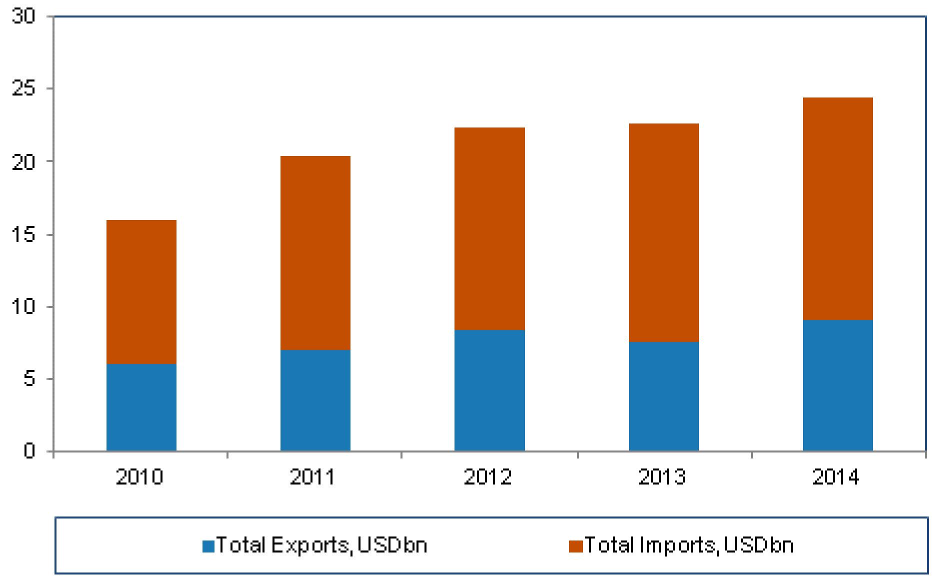
Imports currently represent 24.7% of GDP at an estimated value of USD14.7bn. Tanzania has the eighth largest import value in the region driven by considerable growth in imported manufactured and capital goods due to the development of the country's gas sector. While we forecast slow but significant growth 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.

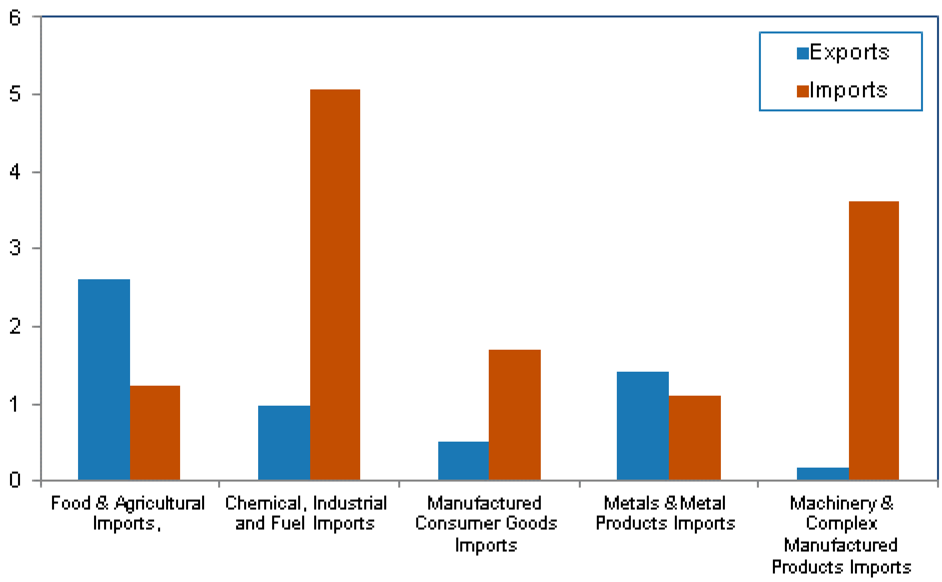
While **BMI** continues to favour the Tanzanian sugar and coffee industries over the medium term owing to their potential for growth on the back of strong investment in capacity, we foresee decreased output from the agricultural sector as a whole, as the economy shifts focus towards the extraction and 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

Tanzania - Goods Exports & Imports



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

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

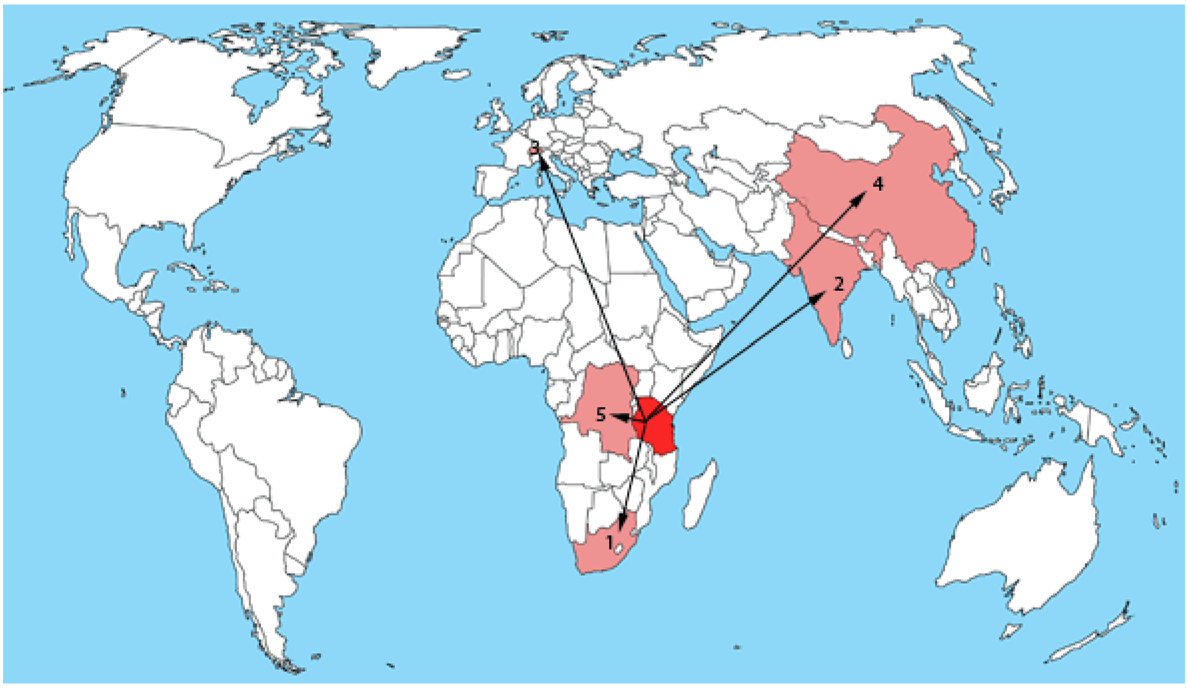
	2010	2011	2012	2013	2014
United Arab Emirates	672.2	1,243	1,026	1,193	1,175
% change y-o-y	6.4	85.0	- 17.5	16.3	- 1.5
% of total product imports	6.8	9.3	7.3	7.9	7.6
Switzerland	562.6	1,102	1,582	1,622	905.6
% change y-o-y	318.0	95.9	43.5	2.6	- 44.2
% of total product imports	5.7	8.2	11.2	10.8	5.9
Kenya	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

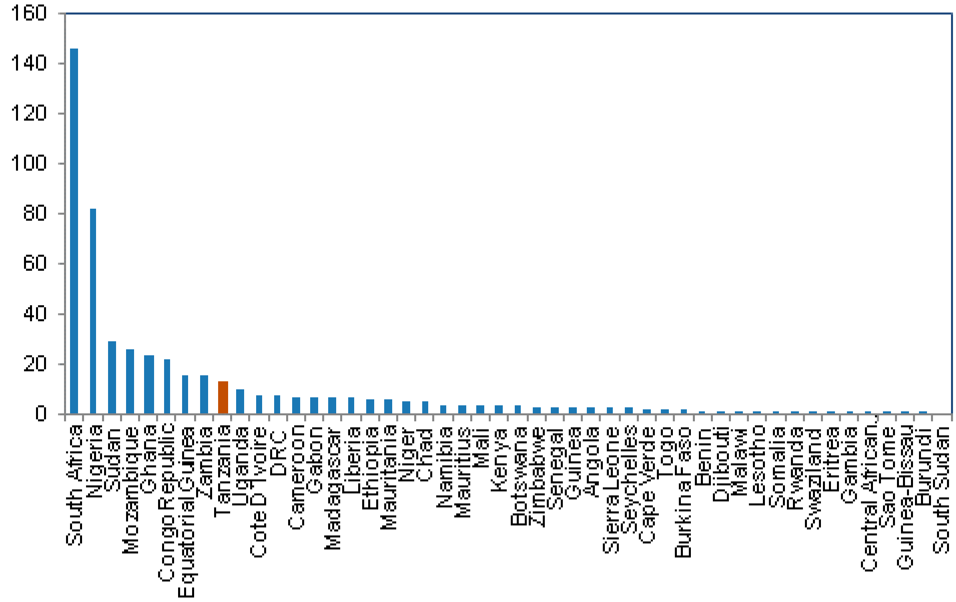
Investment Openness

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.

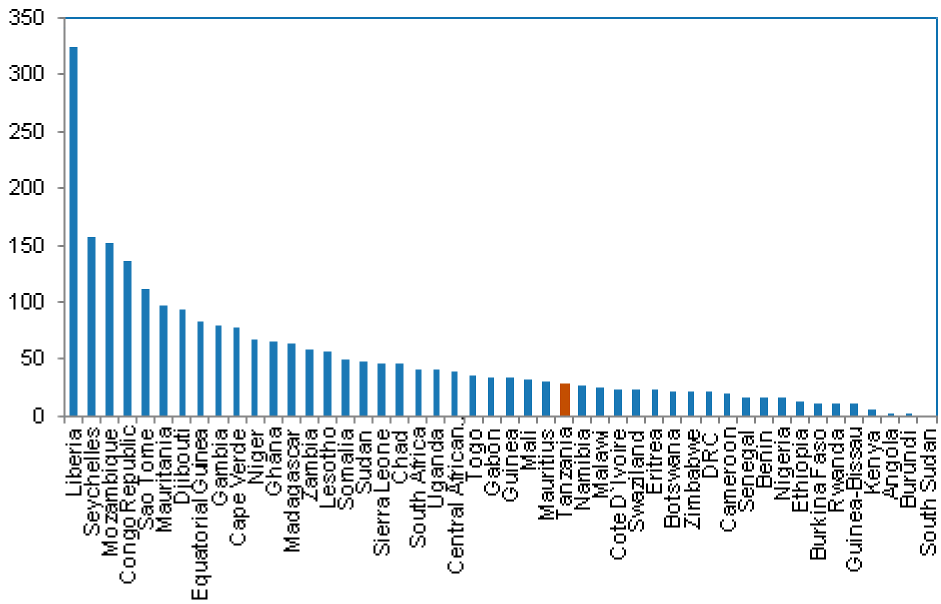
Foreign investors will also benefit from the implementation of the Tanzania Window 2014 (TIW), which aims to offer investors a one-stop-shop for online services. Overseen by the Tanzania Investment Centre

(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.

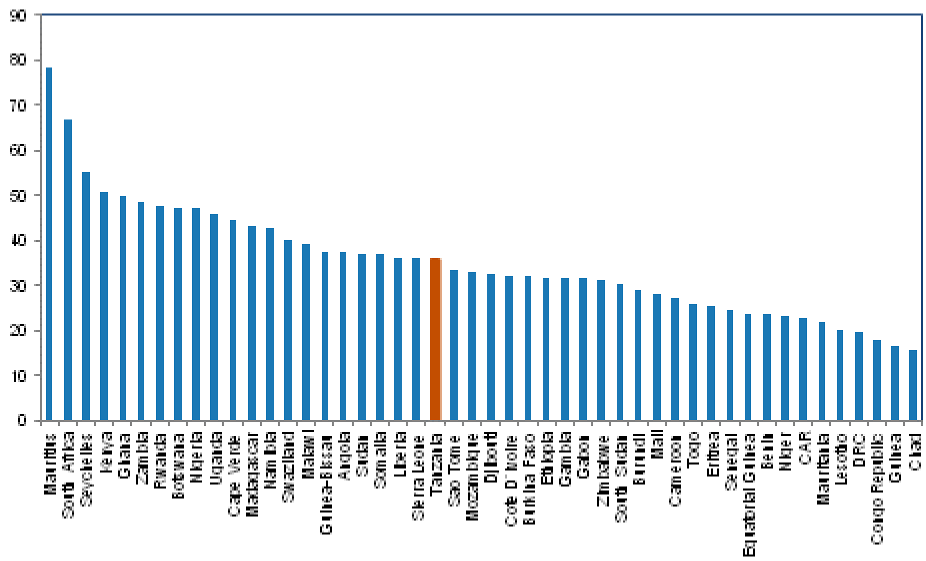
Source: BMI

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 placing the country 22nd in SSA, behind Kenya and Rwanda and ahead of Mozambique.*

Investors Face High Financial Barriers, Onerous Tax Burden

Sub-Saharan Africa - Government Intervention Risk



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

Latest Government Intervention Analysis

- Tanzania's large unbanked population will offer significant room for loan growth in the years ahead. Client loans as a percentage of GDP stood at just 16.5% as of 2015, placing it below the already fairly low regional average (25.3%) and indicating that there is substantial room for expansion before hitting a point of saturation, given the limited size of the income group able to sustain debt repayments. We have already seen outreach by banks to build their consumer bases, including so-called 'agent banks', referring to the provision of banks' services to customers through an agent who acts on behalf of a particular banking institution, and expect further efforts will buoy loan growth.
- Meanwhile, comparatively high real GDP growth will further support demand for financial services. While real GDP growth will cool modestly in 2016 compared to the prior year due to a pullback in donor aid, Tanzania will maintain a robust rate of growth compared to its regional peers. Indeed, we forecast 6.8% real GDP growth in 2016 and 6.7% in 2017. With donor funding likely to resume by 2018, as the government takes steps to assuage international concerns regarding the legitimacy of the elections in the archipelago of Zanzibar, this will further support growth.
- A key driver of long-term loan growth will be the robust size of the country's mobile financial services network. While some observers have noted that the use of mobile services may provide competition for Tanzania's traditional banks, we believe that the spread of mobile money transfers and savings products will boost financial sector inclusion, providing a gateway for lower-income individuals to gradually adopt more complex financial services products.
- Recently mooted tax changes suggest some headwinds to financial services sector growth in the near term, with the government having proposed the introduction of a VAT of 18% on banks' fees and commissions as well as a 10% excise duty through mobile phone money transfers. This will limit the extent to which banks expand and temper recent financial inclusion efforts. That said, given robust economic activity and low penetration, we expect this is unlikely to substantially derail loan growth.
- 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.

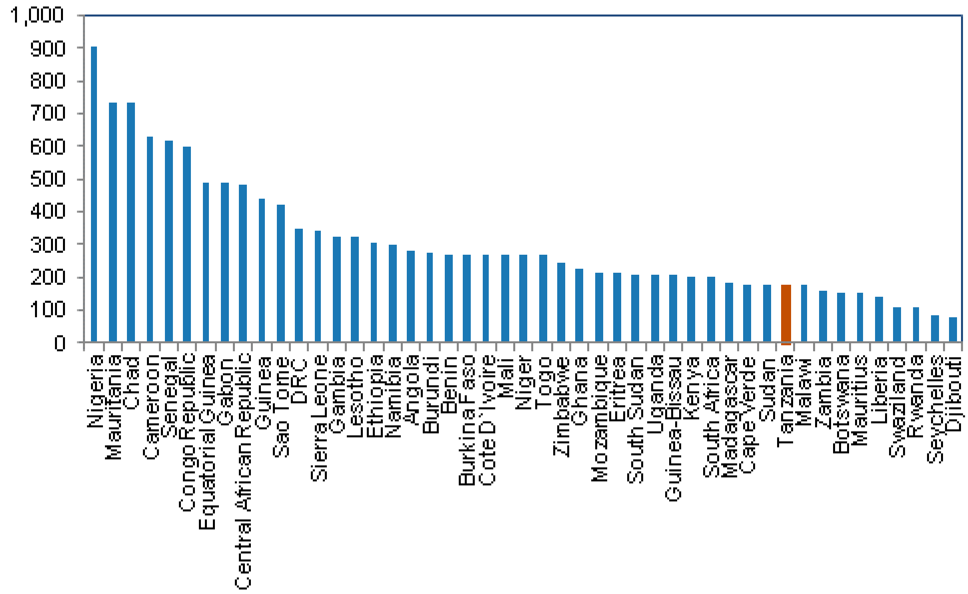
Regarding personal income tax, residents are taxed on a graduated scale from 0% to 30%; however, due to a high level of unemployment this tax base remains small. Non-residents, on the other hand, pay taxes at a flat rate of 20%, aside from employment income, which is taxed at 15%. Ranked 13th regionally, 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.

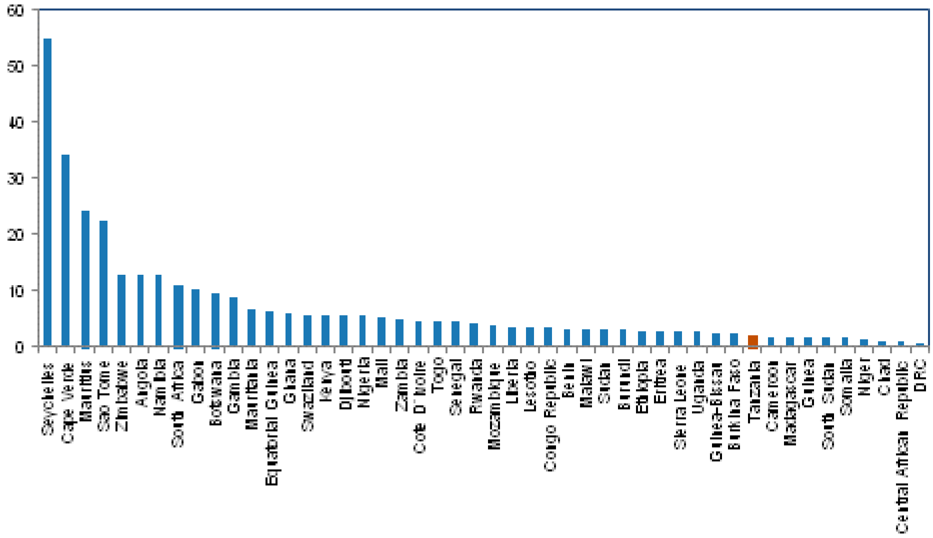
Tanzania is a regional leader in the provision of a conducive environment for financial inclusion, due to the bold policy approach by the central bank to allow non-banking institutions to provide financial services. Financial inclusion remains problematic in Tanzania, mainly due to regional disparities 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.

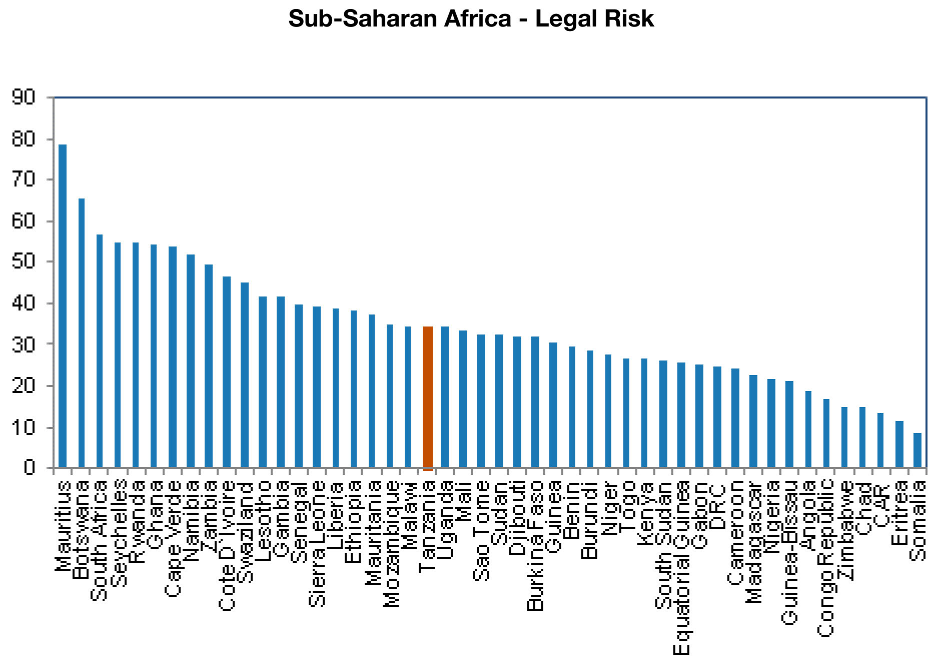
Foreign investors can get credit in the local financial market, where credit is allocated on market terms. Recent bank lending rates ranged from 15% to 18% for ordinary borrowers. Corporate borrowers can negotiate lower lending rates. Credit to the private sector continues to grow, though there are few 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 long time it takes to open and close a business, register property and obtain construction permits. 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



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 that looks set to stem endemic corruption in the country. 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 September 2016, the Economic, Corruption and Organised Crime High Court's Division started to operate following the decision by President John Magufuli to assent the bill passed by the parliament to establish such special court. This will allow the court to start trying corruption 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.

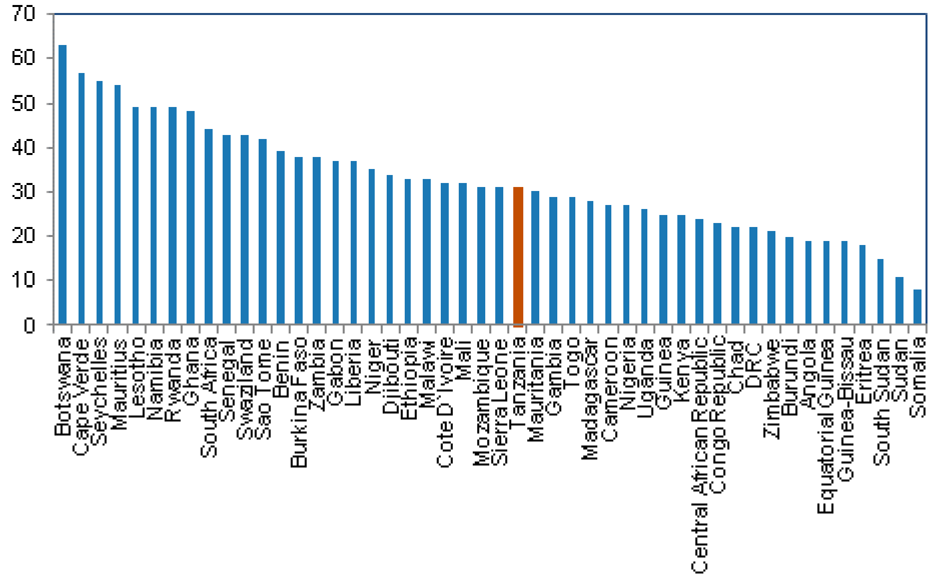
Tanzania reportedly has a fairly independent judiciary, but the effectiveness of the country's legal system is limited by a number of factors, notably a lack of resources and an abundance of court cases. Tanzania's judicial system is understaffed and under-resourced despite its heavy workload, making 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.

Methodology

Trade And Investment Risk Index 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 Trade and Investment 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 Trade and Investment Risk Index score, which is made up of three categories, further broken down into sub-categories. The individual categories and sub-categories are also scored out of 100, with 100 the best.

The overall Trade and Investment Risk Index score is calculated using the average of the **Economic Openness**, **Government intervention** and **Legal** 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.

Table: Weighting Of Indicators (%)

Indicator	Weighting
Economic Openness	33 of which
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

Source: BMI