

# TANZANIA



## Basic Country Information:

### Country Size:

Total: 945,087 km<sup>2</sup>, Land: 886,073 km<sup>2</sup>, Water: 59,050 km<sup>2</sup>  
Includes the islands of Mafia, Pemba and Zanzibar

### Population :

35,306,126 (July 2000), Growth Rate: 2.57% (2000)

### GDP (in US\$bn):

8.0 (2000)

### GDP per Capita (in US\$):

\$258  
GDP per Capita (purchasing power parity) \$550

### Local Currency:

Tanzanian Shilling (Tsh)

### Exchange Rate / \$US:

Tsh 888,25 (28/8/01) Tsh 902 (May 2001)

### Inflation (Annual):

5.3 (Apr 2001) 10.0 (1999)

### Interest Rates:

Bank Discount Rate 10% (May 2001)  
Banks' Lending Rate 19% (May 2001)

### Electricity Production:

1,7 billion kWh

### Fuel Mix:

Fossil Fuel: 29%  
Hydro: 71%

### Electricity Imports:

44 million kWh

### Percent of Population Serviced by the Grid:

6%

### Per Capita Energy Consumption :

455 KOE (kilograms oil equivalent)

### Energy Related Carbon Emissions, if applicable (mt)

2.4 million tons

### Public Holidays:

Fixed: 1 Jan, 12 Jan, 5 Feb, 26 Apr, 1 May, 25 Jul, 8 Aug,  
9 & 25 Dec.

Variable: Good Friday, Easter Monday, Eid-al-fitr, Eid-al-Adha, Islamic



## Overview:

Tanzania is an independent republic with a democratic government which lies on the Indian Ocean coast and forms part of the East African Region. The capital city is Dar es Salaam. Other major cities are Arusha, Dodoma and Mwanza. The official language is Swahili but English is widely spoken.

## ***Social Environment***

### Health

People Living with Aids

Adults (15-49) 1999: 8.09%

Woman (15-49) 1999: 670,000

Children (0-14) 1999: 59.000

Tuberculosis cases (per 100,000 people) 1998: 160

Undernourished People (1996/98) 41% of the population

In terms of the Human Development Index as established by the UNDP, Tanzania is ranked 140 out of 162 countries<sup>1</sup>

There is a total number of 2,100,000 households in Tanzania which have an average income of US\$564. The share of income by the highest 10% of the population is 30.1% and the share of income by the lowest 20% is 2.8%.

## ***Political Environment***

Tanzania's increasingly fragile union is likely to cloud the impressive economic developments taking place. Disputed election results have led to bloody crackdowns in Zanzibar that have outraged many international observers. The situation on the mainland however is very different, with opposition generally not being violent. The current dispute is the severest test in years of the union between Tanganyika and Zanzibar, although it is unlikely to result in wholesale changes on the mainland.

In the mean time Zanzibar remains tense and politically charged. More than 500 supporters of the opposition Civic United Front (CUF) returned after fleeing to Kenya from the Zanzibar islands of Unguja and Pemba following clashes in January. The CUF, National Reconstruction Alliance, Tanzania Labour Party and Popular National Party (PONA) all won international support. This is pressurizing the ruling Chama Chama Pinduzi to allow political tolerance on the Islands. The challenge for the country is to maintain its status as one of the most competitive in Africa and therefore political stability is important for the country to remain economically vibrant.

The Corruption Perceptions Index ranked Tanzania 82 out of 91 countries surveyed (1 = least corrupt, 91 = most corrupt). A score of 2,2 was given where 10 is highly clean and 0 is highly corrupt.<sup>2</sup>

## ***Investment Climate:***

Tanzania's economy is growing rapidly after years of stagnation. The key areas of development are mining, tourism and value-added agriculture. These developments, in conjunction with large donor-driven infrastructure and social spending programmes have had good spin-offs for Tanzania's small manufacturing base as well. Regional developments such as the revival of the EAC, benefits under AGOA and the signing of the SADC FTA should all help broaden potential economic activity.

The Tanzanian economy relies on agriculture, with the main crops being tea, cotton, coffee, cashew nuts, wheat, sisal, cassava, rice, tobacco and maize. Agriculture employs about 90% of the labor force and contributes approximately 50% to GDP. Industry in Tanzania is limited mainly to the processing of agricultural products and the production of light consumer goods. There is potential for Tanzania to become a significant exporter of seafood to Japan

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<sup>1</sup> The HDI measures a country's achievements in three aspects of human development: 1 Longevity (life expectancy at birth), 2 Knowledge (adult literacy rate and school enrolment ratio) 3 Standard of living (GDP/capita)

<sup>2</sup> The Corruption Perceptions Index is based on surveys which reflect the perceptions of business people, academics and country analysts.

## **Inflation**

A prudent monetary policy exercised by the Bank of Tanzania has resulted in a significant decline in inflation in recent years. Inflation has declined from levels above 30% in 1995 to 5.3% in April 2001. This has been achieved despite the drought of 1999, which exerted upward pressure on food prices and risking global oil prices. The progress that has been made in lowering inflation has been supported by the continued implementation of the government's economic reform programme.

## **Lending Rates**

The Commercial banks' lending rates were above 40% in 1995 and are currently standing at 19%.

## **Currency**

The beginning of 2001 saw the Tanzanian Shilling depreciating nearly 12% from Tsh805 to Tsh 900 against the US\$ between January and June. The currency has however recovered to Tsh888.25 in August 2001. Despite the currency's weakness, foreign exchange reserves have increased significantly in recent years on the back of capital inflows associated with FDI, debt relief, external financing and tourism.

## **IMF Funding**

Economic growth could further benefit should the IMF's recommendations for total debt cancellation materialize in 2001. In the mean time, the government has intensified its efforts in implementing socio-economic reforms and the poverty reduction strategy paper (PRSP). The PRSP is key to the country's acceptance for total debt cancellation. The current macroeconomic environment should enable the country to achieve the economic targets as set out in the PRSP

## ***The Energy Sector:***

### **Overview**

Electricity generation, transmission and distribution in Tanzania is through the Tanzania Electric Supply Company known as Tanesco. The company is 100% government owned and is responsible for 98% of the country's electricity supply. Petroleum, hydropower and coal are the major source of commercial energy in the country. The biomass energy resource, which comprises fuel-wood and charcoal from both natural forest and plantations, accounts for 93 per cent of total energy consumption.

The electricity sub sector contributes about 0.6 per cent of total energy consumption. Two thirds or 381 MW of Tanzania's installed capacity is hydro powered. It is reported that Tanzania has an estimated 3800 MW of economic hydro potential capacity. The Hydropower is prone to draught effects- so some thermal power stations have been installed. There are plans to connect with neighboring countries of Zambia and Uganda to the national grid to boost the supply of electricity.

Droughts over the East Africa region have had severe effects on the electrical power supply. Blackouts and power rationing as a result of low water levels in the hydro dams have forced Tanesco to rely on gas-powered generators and to look increasingly at thermal projects for future capacity increases.

Only three quarters of the country (mainly urban areas) is connected to the national grid. It is intended that the rest of the country, including an estimated 8,200 villages should be supplied with electricity to curb deforestation. In addition there are plans to supply power to Kenya and Malawi from Tanzania. Tanzania has a per capita electricity consumption of 46/KWh per annum, which is growing at the rate of 11 - 13 per cent. Hence the government is encouraging investment to expand generating capacity, distribution systems and developing indigenous sources of energy.

There are other indigenous alternative sources of energy, which include coal. Tanzania has 1,200 million metric tons, which could provide energy for paper mills, cement factories, agriculture and household consumption, and generation of power.

Wind and solar energy is another source of energy. Very little attempt has been made to utilize this source of energy which could be a viable alternative source to reduce use of wood and oil for heating purposes.

### **Grid connection**

Installed generation capacity connected to the power grid system is 577MW.

Tanzania has an area of 954 000 square kilometers and has a 220kV transmission network covering 2248km. It also has 1400km of 132kV transmission lines. 55 isolated and mini hydroelectric generators having a capacity of 23MW supply 135km of areas not connected to the grid

### **Grid connection anticipated in the next 10 years**

It is forecast that peak demand will double to about 850MW by 2005 and then increase even further. Tanzania will therefore have to source new capacity. Government policy aims to reduce dependence on hydro sources and increase utilization of indigenous thermal resources such as natural gas and coal in the medium to long term. A number of projects may be a source for increased capacity, these include:

Tegata: 100MW of diesel generation. Being delayed by tariff disputes  
Kihanshi – Hydropower will add 180MW

Other possibilities include:

Establishment of some 420 MW of generation capacity between 2002 ad 2009 at Kinyerezi using Songo gas

The 358 MW Ruhudji hydro facilities

### **History and Status of RE/EE regulations /Rural electrification policy**

With the on going reforms renewable energies have to compete with other conventional forms of energy. The new energy policy allows independent power producers to generate electricity from different sources including new and renewable sources of energy, particularly for the rural population of Tanzania.

### **Current Renewable Energy efforts by Government**

About 80% of the population lives in the rural areas where energy requirements are mostly met by wood fuel, resulting in deforestation. In order to reduce the trend the following projects are being promoted:

- Biogas production for cooking, improved technologies (cook stoves and kilns)
- Solar thermal applications for water heating and cooking, Solar and Wind technologies are being promoted.

Projects to address problems of electrification in remote areas are being promoted.

Tanzania is in the process of implementing a National Solar Programme under the World Solar Programme (WSP). (The WSP is an open-ended attempt through broad partnerships and cooperation of Governments and NGO organizations to promote the wider utilization of renewable energy resources.)

Government has declared two of its five project proposals submitted to UNESCO as being of high national priority. These are: village level solar electrification and small islands solar electrification. Efforts have been made to seek donor support but no funds have been committed yet.

### **Tax breaks, subsidies, dispatching preferences, generation capacity etc.**

According to the United States Energy Information Administration, in July 1999 Tanzania announced attractive financial terms for potential investors in developing its vast renewable energy resources. It has simplified procedures for investing in solar, wind and micro-hydro projects including a 100% depreciation allowance in the first year of operation, exemption from excise duty and sales tax and concessionary customs duty on the first import of materials used in renewable energy projects. In addition extensive guarantees are provided to investors under the investment promotion centers certificate of approval. Guarantees such are ownership of properties, dispensation of assets, repatriation of income. Tanzania is also a member of multilateral arbitration agencies in case of disputes concerning investors, notably the World Bank's Multilateral Investment Guarantee Agency (MIGA) and the international Center for Settlement of Investment Disputes (ICSID).

### **Privatisation effort**

In September 1999 the managing director of TANESCO said the best option would be to unbundle TANESCO into several privately owned generation companies, a single transmission company and several privately owned regional distribution companies (African Energy Mag). According to the Tanzanian website, privatisation still forms part of the policy reforms. A new power sector policy paper outlining the new industry structure has been drafted. This is to be submitted to government for approval. Meanwhile TANESCO is implementing internal restructuring.

### **The appropriateness of RE/EE to this country**

- Only 6% of the population have access to electricity
- The rural population is almost entirely dependent on wood for fuel and spends about 20% of their day collecting firewood
- Deforestation stands at 250,000 hectares per annum
- Government supports renewable energy
- Privatisation efforts are underway

### **HOWEVER**

- Poor payment record
- Lack of awareness and confidence in renewable energy technologies
- High investment requirements as compared to low purchasing power of the target groups
- Weak institutional framework and infrastructure for effective promotion and support and lack of financing mechanisms to provide credit to potential users

## ***Legal and Tax Guidelines***

### **What is required for E&Co to open a bank account? Is it possible to open a US\$ denominated account? Are there any protections against the default or bankruptcy of a bank (for example, is there any government insurance available?)**

Both residents and non-residents are allowed to open bank accounts with local banks. It is a legal tradition for foreign companies like E&Co to be registered in Tanzania by the Business Registration and Licensing Authority (BRELA) for them to open a bank account.

### **Is it necessary to register loans or equity investments with a governmental entity? Are there fees for such registration (e.g. stamp duty)? What time period is generally involved with this process?**

There is no legal restriction on foreign companies making loan or equity investments in Tanzania provided the funds to be invested are free from criminal sources. However, for recognition, protection and other investment incentives registration with the Tanzania Investment Centre (TIC) is recommended.

Should E&Co wish to register in Tanzania the following documentation is required:

1. Application forms - Available at the centre 3 copies
2. Project study/Business Plan 3 copies
3. Certificate of Incorporation 1 copy
4. Foreign investors profile and reference from relevant country's chamber of commerce.

#### **\* Note**

From the date of application and throughout the project implementation period TIC Officers will assist to acquire utilities, permits, approvals and various licences. However, the Centre deals with all enterprises whose minimum capital investment is not less than US \$ 300,000 if foreign owned.

Up to date information on the registration of E&Co can be found on the TIC website [www.cats-net.com/tic/bizguide.htm](http://www.cats-net.com/tic/bizguide.htm)

### **Are there any benefits from E&Co being a US registered non-profit? What is the process for such registration? Are there any tax benefits if the funds to be used by E&Co are sourced from bi-laterals or multi-laterals?**

Charitable and non-profit organization are exempted from some taxes such as VAT (20%) and corporate tax (30%). But E&Co has to be approved as a non-profit organization by the Permanent Secretary - Treasury through Tanzania Revenue Authority (TRA). In other words E&Co would have to be registered in Tanzania. The TIC can assist E&Co for approval through TRA.

**What tax obligations arise from interest earned by E&Co on a payments of principal on loans, interest on loans, dividends earned on an equity investment, sales of shares, or interest earned on a bank account?**

A Stamp Duty of 0.96% is payable for Loan Agreements

According to the Tanzanian Investment Centre, the withholding tax for NON RESIDENTS on interest is 15% and on Dividends is 20%.

A holder of a Certificate of Incentives (would probably have to register to get certificate) would pay a withholding tax of 10% on Dividends and 0% on interest on loans.

**Can local currency be converted to US dollars? What is the process?**

Yes no exchange regulations

**Can funds be repatriated? Is there a withholding tax on such transactions?**

The full repatriation of capital, profits, dividends, royalties and loan servicing is permitted, though there are shortages of foreign exchange. The currency is freely convertible and the shilling has been relatively stable against the dollar since 1994.

**How are collateral/security interests registered?**

This refers to the procedure for providing security against a loan. These requirements again linked to registration of the foreign company. What would typically be required is that the title deeds be ceded to the lender for the period of the loan. A clause in the loan agreement would formalise this cession. However, mostly it depends to the discretion of the lender.

**Special Requirements for Legal Agreements:**

- The borrower should gain Central Bank Approval for the loan. Although the approval is just a matter of formality. The approval becomes more relevant at the time of servicing the loan.
- Make sure that the lawyer is aware of the legal status of the borrowers organisation as this affects the agreement.
- Ensure that the lawyer has all the borrowers contact details (Postal add, tel, fax, email)
- The agreement should be bound in Tanzania and then signed by the borrower. Thereafter is should be sent to New Jersey to be sealed. The requirement for sealing outside Tanzania is that the signatures of people witnessing the seal (Lender therefore needs a seal) should be attested by a Notary Public.
- 2 signed copies of the agreement should be sent by E&Co back to the lawyer. Attached should be a covering letter addressed to the Borrower giving a short explanation of the nature of the loan, as well as a certified copy of incorporation.

***Appointed Legal Council***

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***References***

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United Nations Development Programme  
International Monetary Fund  
Bank of Tanzania