TANZANIA ANNUAL ECONOMIC REVIEW FOR 2013

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Economic and Social Research Foundation

EXECUTIVE SUMMARY

The economy of Tanzania continued to expand in 2013 at a rate of 7.1 percent building on its performance in 2012 when it recorded a growth rate of 7 percent per annum. This observed growth was driven by capital intensive, but less job-creating sectors, such as communication, transportation, construction and retail trade. The exchange rate, which had appreciated by more than 20 percent in 2012, remained fairly stable in 2013, supporting a disinflationary path. The inflation environment was effectively anchored and continued to trend downwards during the second half of 2013. In December 2013 the annual headline and core inflation were 5.6 percent and 4.5 percent, respectively, down from 12.1 percent and 8.9 percent in December 2012.

Although the current account balance in 2012 improved because of strong performance of the export sector and low value of imports compared to 2011, the momentum could not be maintained in 2013 due a decline in the growth in exports, which fell by 5 percent, whereas the decline in imports fell by 2.7 percent. The economy was still vulnerable to external shocks, gravely affecting its external trade balance, especially from the variations in export prices of commodities such as gold and import prices of commodities such oil. Another unsettling development was the widening of fiscal deficit from 5 percent of GDP in 2011/2012 to 6.2 percent in 2012/2013. This could be tied to government's failure to meet its targets in revenue collection from identified targets, on one hand; and inability to rationalize public expenditure in relation to collected revenue. The fiscal deficit could also be attributed to the general desire to boost future economic growth by investing in physical and human capital development. A case in point in the sudden increase in public expenditure was the “Big Results Now (BRN)” where the selected six priority sectors were assured of more funds.

Looking forward, the economy is likely to remain on its current growth trajectory into the near future. This growth may be accelerated by the recent offshore discoveries of substantial reserves of natural gas which, if found to be commercially viable, is expected to become the driving force for FDI in the country. Given the right policies, revenue from natural gas and the associated local contents along its value chain, will most likely lead to the structural transformation of the Tanzanian economy.

Medium term projections by the Bank of Tanzania indicate that inflation will be controlled at single digit around 5 percent, and the current account deficit will remain at 13-15 percent of GDP, unless there are significant changes in world commodity prices and the demand for Tanzanian products. The agriculture sector will continue to remain an important contributor to the economy, mostly due to the slow pace in industrial development. There is need to diversify the type of minerals exported so as to counter the effects of gold price variations. Ongoing measures to convert natural gas for electricity generation will help mitigate the impact of imported oil products for industrial energy. Conversion of oil-based industrial generators and furnaces and vehicle diesel engines to use natural gas will also provide some relief on foreign exchange reserves. In order to boost revenue the Government will need to make necessary adjustments that include a combination of increased collection of domestic revenues and better managed public expenditures.

CONTENTS

LIST OF TABLES

LIST OF FIGURES

LIST OF ABBREVIATIONS

BoP	Balance of Payment
BOT	Bank of Tanzania
BRN	Big Results Now
CCM	Chama Cha Mapinduzi
CHADEMA	Chama cha Demokrasia na Maendeleo
CPI	Consumer Price Index
FDI	Foreign Direct Investment
FY	Fiscal Year
GDP	Gross Domestic Product
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
ICT	Information and Communication Technology
ILO	International Labor Organization
LGAs	Local Government Areas
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MDGs	Millennium Development Goals
MKUKUTA	Mkakati wa Kukuza Uchumi na Kupunguza Umasikini Tanzania
NFRA	National Food Reserve Agency
NGL	National Gas Liquids
NPS	National Panel Survey
PSI	Policy Support Instrument
R&D	Research and Development
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SCF	Standby Credit Facility
TANESCO	Tanzania Electricity Supply Company
TPDC	Tanzania Petroleum Development Corporate
TRA	Tanzania Revenue Authority
UNDP	United Nations Development Program
UWSAs	Urban Water Sanitation Authorities

MACROECONOMIC PERFORMANCE

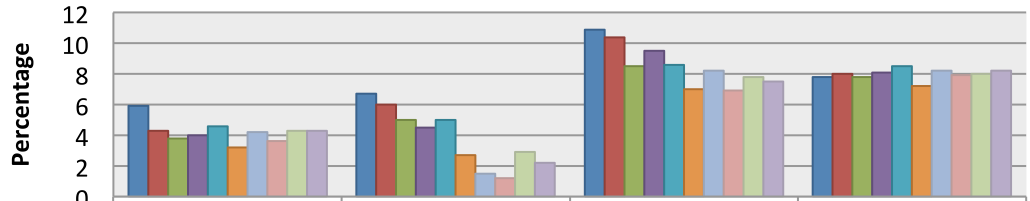
Economic Growth

The Tanzanian economy continued to perform strongly in 2013, with the annual growth rate at 7 percent. The economy remained resilient to both internal and external shocks. The key growth drivers were expansion in services, particularly telecommunication and financial intermediation, industry, manufacturing and construction subsectors as well as trade.

The observed stable GDP growth for the last decade was partly driven by an increase in domestic demand, given an annual population growth rate of 2.6 percent, and the expansion of public investments in infrastructure, services and trade. However, the sustainability of economic growth was somehow undermined by the failure to correct a persistent external current accounts deficit which was around 14 percent of GDP in 2012/13. This deficit was the largest recorded in the East African region. During this period, shortfalls in fiscal revenue caused the deficit of domestically-financed spending to rise to 6.8 percent of GDP.

The strongest performing sectors for the year 2013 were transport and communication, which recorded an annual average growth rate of 13.4 percent, followed by construction which recorded an annual average growth rate of 8.6 percent. Agriculture sector, on the other hand had a rather low growth rate of 4.5 percent, and continued to play an important role in generating employment and foreign exchange. Some of the factors that led to the poor performance in the agriculture sector resulted from continued over-reliance on rainfall for irrigation, the use of rudimentary/outdated farming technologies and lack of credit facilities in rural areas.

Figure 1 Annual Growth Rates of Gross Domestic Product by Economic Activity at Constant 2001 Market Prices; Tanzania Mainland, 2004 -2013



	Agriculture, forestry and hunting	Fishing	Industry and Construction	Services
2004	5.9	6.7	10.9	7.8
2005	4.3	6	10.4	8
2006	3.8	5	8.5	7.8
2007	4	4.5	9.5	8.1
2008	4.6	5	8.6	8.5
2009	3.2	2.7	7	7.2
2010	4.2	1.5	8.2	8.2
2011	3.6	1.2	6.9	7.9
2012	4.3	2.9	7.8	8
2013	4.3	2.2	7.5	8.2

Source: National Bureau of Statistics, 2013

Monetary policy

In 2012/2013 the Bank of Tanzania (BoT) aimed at having an annual growth of average reserve money not exceeding 16.0 per cent, achieving an annual growth of extended broad money (M3) of 18.0 per cent, an annual growth of private sector credit of 20.0 per cent; and an accumulation of gross official reserves adequate to cover at least 4.5 months of projected imports of goods and services. BoT implemented a tight monetary policy and consistent with this tight monetary policy stance, extended broad money supply (M3) grew by 15.6 percent, compared with the projected growth of 18 percent for the year 2012/2013. Credit to the private sector grew by 17.1

percent compared with the projected growth of 20 percent. The banking sector remained profitable and adequately capitalized.

The portfolio of non-performing loans reduced steadily from 8.1 percent at the end of 2012 to 6.5 percent at the end of 2013. The banking sector has yet to adequately serve Tanzanians with affordable credit for commercial and development projects. The spread between savings and borrowing annual rates – pegged at between 3 and 7 percent, for savings; and between 16 and 30 percent for borrowing – is considered too wide. The reason for the wide difference between overall lending interest rates and deposit rates was the perceived high credit risk and inadequate competition in the financial sector.

Inflation was successfully curbed and continued to trend downwards. The quarterly inflation rates were 10.4 percent, 8.5 percent, 6.8 percent and 6.0 percent for March, June, September and December 2013 respectively. Despite declining inflation rates, food prices remained relatively high; this situation gave an indication of the declining welfare of households and the poorest segments of the population.

The exchange rate remained fairly stable, supporting the disinflationary path. The US Dollar was exchanged at an average of TZS 1,592.06 in the quarter ending March 2013, at an average of TZS 1,603.4 in the quarter ending June 2013, at an average of TZS 1,618.5 in the quarter ending September 2013 and at an average of TZS 1,609 in the quarter ending December 2013.

Fiscal Policy and Public Debt

Similar to previous years, a cautious fiscal policy was pursued in 2013 with the aim of promoting economic growth, enhancing service delivery and improving the socio-economic welfare of the general public so as to achieve macroeconomic stability. The Government maintained its medium term fiscal policy to keep on reducing annual budget deficit through expenditure restraints and mobilized more domestic revenue.

There was a shortage of external budgetary support which posed challenges to fiscal management. The challenging situation prevailed due to continued revenue expectations and weaknesses in public financial management. This resulted to an overall fiscal budget deficit of 5.5 percent of the Gross Domestic Product (GDP), slightly above the agreed target of 5.2 percent, despite some efforts to reduce program expenditures.

During the first quarter of the year, tax revenues were estimated to be 92 percent of domestic revenues, and tax revenue performance continued to be driven by trade taxes. Furthermore, tax revenues were boosted, following improvements in tax administration which included intensification of tax audits and amendment of corporate tax assessments. Collections were boosted by the continued increase in taxable transactions in some sectors, particularly, telecommunication, oil and gas. Due to implementation challenges, the Tanzania Revenue Authority (TRA) was also not able to collect the projected tax revenues from mobile phone sim-cards.

In 2012/13 the Government collected domestic revenue amounting to TZS. 8,221.8 billion, of which TZS. 7,729.9 billion was collected as Tax revenue and TZS. 491.7 billion was Non- Tax revenue. In the same Financial Year, the Government spent TZS. 13,543.0 billion of which recurrent expenditure was TZS. 9,043.4 billion and development expenditure was TZS. 4,499.6 billion.

Tanzania's external debt stock increased due to accumulation of interest arrears. Government borrowings had to be raised in order to finance the transport and telecommunications sector, energy sector, social welfare, education, Balance of Payments (BoPs) and budget support, which led to the level of non-concessional borrowing to increase. Tanzania's external debt stock at the end of December 2013 was US$13,195.6 million, an increase of $2,602.5 million above the debt for the corresponding period in 2012. In 2013, cumulative debt service amounted to Tsh 2,387.1 billion. The stock of domestic debt at the end of December 2013 had increased to Tsh 6,048.6 billion. Government bonds continued to account for the largest share of the domestic debt portfolio, accounting for 70 percent followed by Treasury bills. There is, therefore, a need for an improved debt management strategy and the improvement of public investment planning capacities remain critical to ensuring debt and fiscal sustainability.

The Tanzania Electricity Supply Company (TANESCO) continued to operate with a deficit while not being able to recover operational cost due to historical low tariffs and exorbitant power purchase agreements with Independent Power Producers. The government continued its process of addressing financial problems facing TANESCO which accumulated arrears in excess of an estimated USD 300 million. In the management of TANESCO's financial difficulties, the Government faced two uncertainties. The first concern was the size of the projected gap in TANESCO; the value of which would amount to approximately USD 300 million every year over the next few years, would require decisive actions that might not be popular, including new tariff increases or budget cuts in other areas. Second, the size of the TANESCO deficit was sensitive to a number of factors which the Government was unable to control. For example, if the world oil prices increased, there would also be higher production costs and therefore a higher TANESCO deficit. This demand would add to the current accumulated arrears by the central government, largely due to unpaid construction works, and concerns over the potential inability to sustain the public pension system.

On the other hand, the public debt in Tanzania continued to grow, with corresponding increase in debt servicing and repayment. The country's financial sustainability was not threatened, but debt management became increasingly more important, and there was a strong need for significant strengthening of control of public investments. There is still especially a need for greater openness in public contracts and procurement.

Unemployment rate and Labor force participation

As seen in Table 2 the unemployment rate in Tanzania during the year 2012/2013 was 2.9 percent; an improvement from the rate of 3.5 percent recorded in the year 2010/2011. A lower unemployment rate of 1.0 percent was recorded in rural areas compared to 7.9 percent in urban areas. Unemployment was much higher among females than among males; at 3.7 percent versus 2.1 percent respectively. Youth aged between 15 and 24 and those aged between 25 and 34 recorded unemployment rates of 6.73 percent and 4.43 percent respectively. Other age groups of 35 to 64 recorded an unemployment rate of 1.61 percent while those who were aged 65 and above recorded an unemployment rate of 2.57 percent.

The labor force participation rate and the unemployment rate are shown in the Table 1 below.

Table 1 Labor force participation and Unemployment rate

Area	Labour force participation rate			Unemployment		
	NPS 2008/09	NPS 2010/11	NPS 2012/13	NPS 2008/09	NPS 2010/11	NPS 2012/13
Tanzania	**77.6**	**82.6**	**78.2**	**2.5**	**3.5**	**2.9**
Rural	81.2	86.2	81.0	0.7	2.0	1.0
Urban	67.1	73.9	71.7	8.5	7.7	7.9
Tanzania Mainland	**78.0**	**83.1**	**78.7**	**2.3**	**3.1**	**2.6**
Dar es Salaam	68.0	72.1	72.4	16.0	13.7	12.9
Other Urban	68.3	75.0	72.0	4.1	5.0	4.1
Rural	81.4	87.0	81.4	0.6	1.5	0.7
Tanzania Zanzibar	**64.1**	**65.2**	**62.5**	**7.9**	**17.8**	**16.5**
Female	75.3	81.3	74.1	2.7	4.2	3.7
Male	80.1	84.0	82.6	2.2	2.7	2.1
15-24	57.7	66.1	65.1	5.3	7.1	5.7
25-34	89.2	93.4	87.0	2.8	3.5	3.5
35-64	92.1	95.8	90.0	0.8	1.2	0.8
65+	67.0	72.0	61.6	0.3	1.4	0.8

Source: National Bureau of Statistics, 2013

The labor force participation rate in Tanzania during the year 2012/2013 was 78.2 percent; a decline from the rate of 82.6 percent recorded in the year 2010/2011. A higher labor force participation rate of 81 percent was recorded in rural areas compared to 71.7 percent in urban areas. Other records indicated labor force participation record of four out of five working adults. Labor force participation was much lower among females than among males; among females it was at 74.1 percent whilst among males it was 82.6 percent. Youth aged between 15 and 24 recorded labor force participation rate of 65.1 percent and those aged between 25 and 34 recorded labor force participation rates of 87 percent. The highest age group participating in labor were that aged between 35 and 64; this group recorded a labor force participation rate of 90 percent while those who were aged 65 and above had the lowest record of labor force participation of 61.6 percent.

Income Inequality

The gap in consumption inequality was widened in 2012/13, as indicated by a higher Gini coefficient in 2012/13 at 0.39, compared to 0.37 in the previous year (Table 2). This was mainly contributed by an increase in inequality in rural areas (from 0.31 in 2011/2012 to 0.34 in the 2012/13). This indicates that despite in the rise in economic growth, a significant segment of the population especially those in rural areas did not experience income growth. Inequality in Dar es Salaam and other urban areas in Tanzania Mainland remained constant, while rural areas and Zanzibar experienced a rise in inequality. The government should therefore find means to redistribute wealth through social programs and taxation policies to reduce the level of inequality.

Table 2 Gini Coefficient

Area	NPS 2008/09	NPS 2010/11	NPS 2012/13
Tanzania	**0.36**	**0.37**	**0.39**
Rural	0.31	0.31	0.34
Urban	0.37	0.37	0.36
Tanzania Mainland	**0.36**	**0.37**	**0.39**
Dar es Salaam	0.34	0.32	0.32
Other Urban areas	0.35	0.35	0.35
Rural areas	0.31	0.31	0.34
Tanzania Zanzibar	**0.32**	**0.31**	**0.33**

Source: National Bureau of Statistics, 2013

Balance of Payment

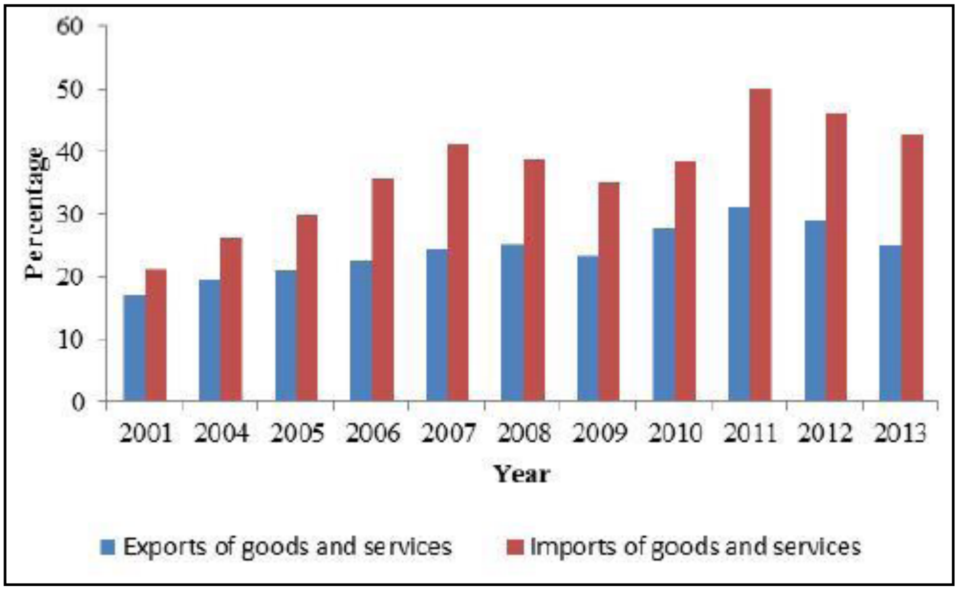
According to the Bank of Tanzania estimates, the current account deficit was USD 3.9771 billion in 2011 and it narrowed to USD 3.438 billion in 2012, mainly on account of improved export performance. However, in 2013 the current account deficit increased to USD 4.6931 billion, as a result of increased imports.

Through the use of the Harmonized System Classification, the Observatory for Economic Complexity (OEC) reported that, in 2013 Tanzania exported $5.59 billion worth of goods and imported $13 billion worth of goods resulting in a negative trade balance of $7.45 billion. The top exports were Gold ($1.57 billion), raw tobacco ($356 billion) precious metal ore ($248 million), refined petroleum ($215 million) and coconuts, Brazil nuts and cashews ($196 million). Its top imports were refined petroleum ($4.53 billion), cars ($294 million), wheat ($251 million), delivery trucks ($234 million) and hot-rolled iron ($211 million).

OEC further reported Tanzania's top export destinations which were; South Africa ($926 million), India ($777 million), China ($520 million), Switzerland ($420 million) and Japan ($295 million). The top import origins are India ($2.43 billion), China ($1.61 billion), Switzerland ($1.51 billion), the United Arab Emirates ($1.14 billion) and South Africa ($714 million).

In 2013 Tanzania imported $13 billion worth of goods, making it the 95th largest importer in the world. During the last five years the imports of Tanzania have increased at an annualized rate of 9.4 percent from $8.32 billion in 2008 to $13 billion in 2013. The percentage share of imports to GDP at current market prices was 42.7 percent in 2013 as compared to 46.1 percent in 2012. According to OEC the most imported product in that year was refined petroleum which represented $4.53 billion worth of imports.

Figure 2 Percentage Shares of Export and Imports of Goods and Services to GDP between 2001 and 2013 at Current Market Prices



Source: National Bureau of Statistics, 2013

Investment Climate Reforms

The Government of Tanzania put efforts in implementing structural reforms and improving the investment climate. The National Business Council was successful in persuading the government to include investment climate reform to the existing Big Results Now (BRN) initiative, a program aimed at reforming key sectors through public and private partnerships, to include investment climate reform. The aim was to develop a strategy for this new aspect in the BRN initiative and to create a business enabling environment.

According to the Tanzania Investment Climate Statement, the following areas were identified as the most severe impediments to growth: regulations; access to land; taxation and fees; corruption; labor law and skill-set; and contract enforcement, law and order. Institutional reform recommendations include legislative and regulatory changes aimed at streamlining business registration and operations; enforcing property rights; removing labor and product market rigidities; enhancing transparency; and reinforcing the rule of law.

The government initiated policy and strategic reforms with regards to the discovery of natural gas. A Natural Gas Policy was formulated and approved in 2013. Even though it is not binding under law, the policy reflected a way forward for the Government of Tanzania in the development of a new legal and regulatory framework intended to prepare the country to become a major natural gas producer gas reserves.

The Revenue Watch Institute further explains that the policy includes the following pillars: Strategic participation, interventions and equitable benefit sharing, development and strengthening of institutional frameworks and human capacity, ensuring a transparent and accountable system is in place for revenue management, ensuring adequate disaster management systems are in place to prevent adverse impacts and to protect people's health & safety and the environment and integration of the natural gas industry into other economic sectors in order to accelerate broad based growth and socio-economic transformation.

In 2013 the 'Strategies & Implementation Status' document suggested that Tanzania has made good progress in implementing best practice of domestic policies as recommended by the Intergovernmental Forum on Mining, Minerals, Metals and Sustainable Development.

The government committed to mining information disclosure to the public through The Ministry of Energy and Minerals' Client Service Charter published in 2010. The document ensures good service delivery to clients. Such services include commitment to communication and full disclosure of information to the media, to the communities, to the academic institutions and development partners. It also includes commitment to the processing times for licensing and auditing. The observation made was that commitments in this document may be viewed as superficial because no specified actions for information delivery are given.

SECTOR DEVELOPMENT

Agricultural Sector

Agricultural sector accounted for 24.7 per cent of the GDP and about 20 percent of traditional export earnings in 2013. It provided 95 percent of food requirement and continued to be the main source of livelihood for 77 percent of Tanzanians.

The budget for the Agricultural sector for 2012/13 was Tshs.1103.6 billion which was a 19.1% increase from Tshs.927.0 billion allocated in 2011/12. Moreover, TShs 192.2 billion was allocated for agriculture, fisheries and livestock in the year 2012/2013 as part of the outlined national development strategic projects to increase the production of food and ensure food security in the country.

In 2012/13 the Government planned to ensure a conducive environment for actors with the intention of boosting agricultural productivity and reducing the challenges faced by the Agriculture sector through the following: it set aside Tshs.6.54 for Agricultural Inputs Fund to facilitate availability of loans for purchasing inputs and tools for implementation including tractors and power tillers, irrigation equipment and value addition equipment; it also set aside Tshs.30.0 billion for starting the Agricultural Development Bank; Tshs 40.0 billion was set aside for Tanzania Investment Bank (TIB) for Agriculture Window; Tshs.1.5 billion was set aside for procuring aircraft for spraying insecticides; Tshs.68.0 billion was set aside for continued provision of subsidies for fertilizers; Tshs.3.6 billion was allocated towards subsidies for improved seeds and seedlings; Tshs.30.9 billion was allocated for the purchase of food from surplus areas of the country for national food reserve and for conducting surveys to assess the status of food security in the country; Tshs.12.1 billion was set aside to facilitate distribution of cattle and goats in the areas affected by drought; and Tshs.2.2 billion was allocated to the Cooperative Audit and Supervision Cooperation (COASCO) in order to strengthen the inspection of Co-operative Societies.

Apart from those mentioned above, the Government encouraged commercial farming in order to raise productivity, to promote livestock keeping and fish-farming. There were also programs to improve extension services; ensuring availability of credit facilities to farmers and provision of markets for agriculture products.

In line with the sector's budget, the Ministry of Agriculture, Food and Cooperatives was allocated a total amount of approximately Tshs 291 billion and of which Tshs.170 billion was for recurrent expenditures and Tshs121 billion for development expenditures. After deductions were made in the national budget, Tshs 2,023,291,610 and Tshs 614,282,274 were deducted from the budget allocated to recurrent and development expenditures respectively leaving a total amount of approximately Tshs 289 billion whereby Tshs. 168 billion was allocated to recurrent expenditures and Tshs 121 billion to development expenditures.

The money received by the Ministry from the Treasury was Tshs 89,785,797,567 equal to 53 percent of the approved budget and TShs 88,256,414,561 which is equivalent to 98.3 percent of the money provided, was spent. Among the approved funds for capital expenditure, Tshs 22,961,014,700 was received from the Treasury which was equal to 19 percent of the approved budget and Tshs 11,266,543,824 which is equivalent to 49 percent of the money provided, was spent.

There have been reforms that have been undertaken in this sector, such as review of land laws to allow for long term leases for foreign companies and redefining the role of government and the private sector that allow for the latter to participate in production, processing, and marketing, while the former retain regulatory and public support functions.

Education Sector

Education forms part of the human capital which is needed on imparting knowledge and skills essential for improving economic growth and human development.

In Tanzania, the key policies which guide the provision of education exist within the framework of National macro-policies, various ministries' and sector policies and programs within the Ministry of Education and Vocational Training. The macro-policies include the Tanzania Development Vision (2025) and the National Strategy for Growth and Reduction of Poverty (NSGRP, 1996) and the National Policy on Disability, (2004). Sectoral policies and plans include the Education and Training Policy (1995) which is the overall policy on education, Technical Education and Training Policy (1996); Primary Education Development Plan (PEDP) Phase one (2002 -2006) phase two (2007-2011); Phase III 2012-2016, Secondary Education Development Plan (SEDP) (2004-2009); and Educational Sector Development Program (ESDP) (1997).

The Education Sector Development Program (ESDP) was launched in 1997 and revised in 2001 in order to improve educational provision to achieve poverty alleviation. ESDP has the aim of creating a well-educated nation with a high quality of life for all. It is a comprehensive program aimed at a total transformation of the education sector into an efficient, effective, outcome/output based system; it is an evolving national plan for achieving the educational goals. The program is set to be implemented between 2008 and 2017.

In line with ESDP, Tanzania joined the Global Partnership for Education (GPE) in 2013. GPE is a non-profit organization which supports 61 developing countries to ensure that every child receives a quality basic education, prioritizing the poorest, most vulnerable and those living in fragile and conflict-affected countries. Tanzania received a GPE grant of US$100 million. The grant was divided into two allocations: USD 94.8 million for 2014-2017 for Mainland Tanzania and US$5.2 million for 2013-2016 for Zanzibar. The GPE-funded programs in Mainland Tanzania have led to the following outcomes: a new curriculum was developed for reading, writing, and arithmetic, 18,680 teachers and facilitators were trained in the new curriculum, 16,000 primary schools with new learning materials were provided. In Zanzibar, the GPE programs produced 2,705 trained teachers and distributed over 1 million textbooks for early childhood development, primary and secondary education, and special needs education.

Enrollment rates in Pre-Primary Schools, Primary Schools, Secondary Schools and Higher Education Institutions

The net enrolment rate (NER) in education is the ratio of the number of students of official primary or secondary school age who are enrolled in primary/secondary education to the total population of children of official primary/secondary school age, expressed as a percentage

The net enrollment rate in pre-primary education increased from 20 percent to 26 percent between 2008/09 and 2010/11, and increased again to 28 percent in 2012/13. Enrolment in pre-primary education is not uniform as there are significant regional variations. It should also be noted that the enrolment of pre-primary education children is limited by the capacity of schools to absorb the children.

Statistically significant declines were observed at the national level, as primary school NER fell from 83 percent to 80 percent between 2008/09 and 2010/11, and decreased to 76 percent in 2012/13. This decline may be due to increased costs of attending school i.e. school fees and other related costs. Besides the costs factor, the decline in the pupil-teacher ratio in primary school from 46 percent in 2012 to 43 percent in 2013 and the low capacity of schools to absorb students may also be reasons that account for the decline in primary school education.

The NER in secondary education in Tanzania rose from 23 percent to 28 percent between 2008/09 and 2010/11, and increased again to 30 percent in 2012/13. According to the World Bank this increase is due to increased external aid in post-primary level education, large cohorts of young people searching for the key to a better life, and the global demand for an increasingly sophisticated labor force. This heightened demand for secondary education is accompanied by the need to respond to the twin challenges of "increasing access to" and, at the same time, "improving quality and relevance of" secondary education. These two overarching themes run through all other issues in secondary education. .

The gross enrollment rate (GER) in higher education institutions is the ratio between those enrolled in higher education institutions (irrespective of their age) with respect to those aged 20 to 24 years. The GER in universities was used as a proxy for the GER in higher education institutions. It should be noted that this definition differs from that of the net enrollment rates used in the preceding sections.

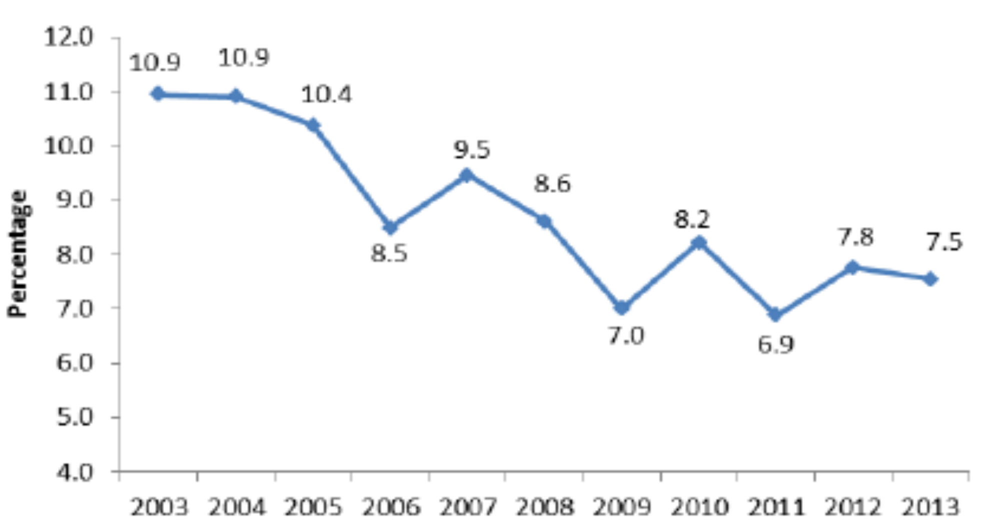
The GER in tertiary institutions is still low but its gaining momentum in the country: in 2008/09 it was just 2.5 percent, and increased to 3.8 percent and 5.1 percent in 2010/11 and 2012/13 respectively. Similar to other levels of education, enrollment in tertiary education was higher in urban areas when compared with rural areas. This may be due to poorly funded public schools in rural areas, a generally low level of educational attainment among the members of the rural community and high levels of economic distress. All these reasons pose as major obstacles to the educational progress in the rural areas. Additionally, other reasons are parents' perception of female education and related gender issues that prevail in rural areas where the roles of female children are confined to domestic work and looking after children, as well as the poverty rates in rural areas being higher than those in urban areas.

The education sector made some huge quantitative leaps as reflected in the aspects of access and equity. Government revenue allocation for secondary education sub-sector took relative higher share of resources compared to primary and tertiary education. Emphasis was on improvement of infrastructure for teaching and learning as well as training and retaining teachers and technicians for science subjects. Furthermore, access to higher education expanded over the past four years, due to a more conducive environment created by the government, thus attracting more participation of the private sector in the delivery of Higher and Technical Education. The non-segregationist provision of scholarship grants and loans by the Higher Education Students' Loans Board (HESLB) to students of both public and private universities and other higher learning institutions has enabled many qualified students to be increased.

Industrial Sector

The industrial and construction activities grew by 7.5 percent in 2013, with construction, manufacturing and mining sub-sectors contributing largest having growth rates at 8.6 percent, 7.7 percent and 6.9 percent respectively.

Figure 3 Average Annual Growth Rates of Industry and Construction GDP at 2001 Basic Prices



Source: National Bureau of Statistics, 2013

Energy and Minerals Sector

Tanzania is bestowed with various sources of energy including biomass, natural gas, hydro, coal, geothermal, solar and wind power and uranium, much of which is untapped. In 2013, commercial energy sources i.e., petroleum and electricity, accounted for about 7.8% and 0.6%, respectively, of the primary energy used. Natural gas accounted for 2.4%, hydropower (1.2%) and coal/peat (0.3%). About 6.6 percent of primary energy needs to be imported, primarily from Uganda (8 Megawatts) and Zambia (5 Megawatts). Out of Tanzania's 41.5 million inhabitants, 12 percent of urban and 2 percent of rural areas have access to electricity; meaning that less than 10 percent of the total population has access to electricity. The national electricity connectivity is about 14%; the demand for electricity is expected to triple by 2020. The Tanzania power sector is dominated by a single national utility, Tanzania Electricity Supply Company Ltd (TANESCO).

Whereas Tanzania has plentiful natural gas, coal, hydropower, solar and biomass resource potential; it has one of the world's lowest levels of electricity consumption per capita. Considerable scope exists for accelerating electrification to meet the growing demand, especially in the rural areas through off-grid solutions.

According to the budget for 2012/13, the budget allocations for the special Energy programs included: Tshs. 94 billion for construction of electricity transmission and distribution ways, Tshs. 62 billion for improving power supply reliability in Dar es Salaam; Tshs. 50.4 billion for Emergency Power Plants; Tshs. 157 billion for Rural Energy Agency (REA) and Rural Energy Agency Fund; and Tshs. 9.3 billion allocated for ensuring the use of New and Renewable Energy sources.

In particular, the public electricity company TANESCO had accumulated an operational deficit of US$ 240 million and arrears amounting to US$ 276 million at the end of 2012. TANESCO's financial state improved only marginally during 2013, as the cost of electricity supply continues to be higher than the revenues derived from its sale. The gap between revenues and costs has been partially met by transfers from the central Government and commercial borrowing.

Natural Gas

Tanzania has positioned itself as a source of new global gas supply. Since 2010, Tanzania has witnessed further exploration and discoveries of significant quantities of natural gas both on- and off-shore. The large natural gas reserve is regarded as the most significant and transformative factor on the economy. The natural gas has various uses including thermal applications in industries, transportation, institutions, and households; electric power generation and gas to liquids (GTL) conversions; and as a raw material for other products (like fertilizer, methanol and ethanol).

Making the domestic energy market more attractive for foreign investors, in late 2013 Tanzania upgraded its 2008 production sharing agreement (PSA), it also engaged in opening up to tender seven deep-water blocks and one block on Lake Tanganyika. Many provisions from the 2008 model were retained in the 2013 model PSA template, including minimum state participation of 25 percent, additional profits tax, and government royalty, but it also encouraged deep-water exploration by reducing the royalty rate to 7.5 percent from 12.5 percent.

As noted earlier the Government established a Natural Gas Policy was that was approved in 2013 with regards to mid and downstream segments while upstream issues were planned to be dealt with under a separate policy, yet to be developed. The main objective of the Policy was to provide guidance for the sustainable development and utilization of the natural gas resource and maximization of the benefits therefrom and contribute to the transformation and diversification of the Tanzanian economy. For that reason, the intention was to export Natural Gas when domestic market has been satisfied.

In this regard, the Government considered facilitating wide domestic utilization of this local resource as an important element of the country's strategies for achieving rapid broad based growth and socio-economic transformation. Such facilitation included promoting production of natural gas for the domestic market; and promoting the establishment of industrial parks for natural gas industries. Under the model PSA, the government ensured domestic supply obligation whereas if domestic demand exceeds the TPDC's total entitlement to profit oil or gas, the contractor may be required to sell its share of profit oil or gas in Tanzania on a pro rata basis with other producers in Tanzania (except the TPDC). Whereas the main incentive for international oil and gas companies to develop natural gas reserves is for export market, Tanzania aimed to have a reasonable share of the resource for domestic applications as a necessary measure to ensure diversification of the gas economy before export market.

Large amounts of foreign investments have been invested in the Tanzanian Oil and Gas industry after its discovery. These investments have made East Africa the next lucrative market in the international scenario. The discovery of natural gas has been made by companies such as Statoil, Ophir Energy and BG Group. As a result of these discoveries, Tanzania's total estimated natural gas reserves quadrupled from 10 trillion to 40 trillion cubic feet in 2012, to become a major player in the industry at global level. The gas explorers BP Group and Statoil for instance invested USD 500 million each in the sector in 2013. Offshore gas fields at SongoSongo and Mnazi Bay are currently in the process of being developed by Pan African Energy and Maurel and Prom in conjunction with the Tanzania Petroleum Development Corporation (TPDC).

Mining

Tanzania is blessed with vast natural riches; these include minerals in the form of gold, diamonds, copper, and coal. As noted earlier the mining and quarrying subsector had a growth rate of 6.9 percent by 2013. Overall, Statistics show that the sector's contribution to the economy was 3.5% in 2012 while in 2013 the mining sector contributed 3.3% to the Tanzanian GDP. The Tanzania Mining industry is highly important due to that it accounts for a significant share of the country's export revenues. The Government's plan is to have this sector contribute 10% of GDP by 2025. There are ongoing exploration works, which until 2013, resulted in discovery of resources in excess of 45 million ounces of gold, 1.5 million tons of nickel and 50 million carats of Tanzanite.

Mineral royalty paid to the Government by the seven major gold mines during the year under review was USD 70.76 million. This represented a decrease of 4.47% compared to USD 74.07 million realized in 2012 possibly due to the fall in metal prices. The mineral sector remained critical to Tanzanian development, and has been an important contributor to the national economy despite fall in metal prices like gold experienced during the year 2013.

Revenue forecasting is pertinent aspect of public finance and economic planning. The Government is currently receiving technical assistance from the Norwegian Government in revenue forecasting and management of revenue flows from the extractive industries (mining, oil and gas). Representatives from ten Government institutions have been undergoing a 3-year capacity building program since January, 2012.

The government also engaged in mining revenue forecasting on major operating mines in order to share policy recommendations on industry outlook with other stakeholders. It received technical assistance from the Norwegian Government in a capacity building program that commenced in 2012. In 2013 the forecasts on 8 active large scale mines, between 2014 to 2023, were assessed and covered the following government revenue streams; mineral royalty local government service levy, corporate tax and withholding tax.

The government through Tanzania Minerals Audit Authority (TMAA) improved monitoring and auditing the quantity and quality of minerals produced and exported by large, medium and small miners through its laboratory services. This has helped to conducting strategic audit on medium and small scale mines to gather information on minerals production and sales as well as strengthening efforts to counteract minerals smuggling and royalty evasion practices as key exit points and strategic mining sites.

Additionally, in 2013 the government pursued strict measures to reduce offences in the mineral sector. TMAA in collaboration with Tanzania Airport Authority (TAA), Police and Tanzania Revenue Authority (TRA) has managed to apprehend minerals worth TZS 2 billion which were in the process of being smuggled out of the country in 32 incidents. The offenders have been dealt with in accordance with the Mining Act of 2010.

Transport Sector

The reforms in this sector included increasing private sector participation in the transport sector through management contracts and/or outright sale of parastatal.

The total amount allocated for transport sector for the year 2012/13 was Tshs 1,940.008 billion. The allocation in 2012/13 was about 16% of the total government budget, and had decreased roughly by 4% from 2011/12 allocation.

Tshs 104.0 billion was allocated to strengthen and improve the performance of TRL (rail equipment and track maintenance); Tshs 69.54 billion was allocated towards construction of railway bridges destroyed by the flood; upgrading the existing railway lines and design of new railway lines. Tshs 106.3 billion was allocated towards construction, rehabilitation, and improvement of various airports. Tshs. 3.1 billion was allocated towards construction of Inland Container Depot in Mwanza; Tshs. 12 billion shillings was allocated towards aircraft maintenance, procurement of TMA Radar, Equipment and Infrastructure; Tshs 988.4 billion was allocated towards construction of roads at the level of tarmac in various areas of the country, Tshs 400 billion was set for “Road Fund” to be used for the maintenance, construction and management of a variety of road projects, managed by TANROADS and Local Authorities; Tshs 13.0 billion was allocated towards construction of bridges. Of this amount, Tshs 2.8 was set aside for Kigamboni Bridge and Tshs 8.2 billion was allocated towards procurement and rehabilitation of ferries and ferries services in Geita, Mwanza, Mara, Dar es Salaam, Mtwara, Ruvuma, Kigoma, Morogoro, Tanga and Pwani regions.

In 2013 the Government has made the following contracts for the improvement of rail services:

The contract for the purchase of 22 new passenger carriages was signed in March, 2013 and all payments were made. The contract for the purchase of 274 freight wagons whereby the contract was also signed in March, 2013. The contract for the purchase of 34 wagons of brakes was signed in March, 2013 and the full payment was paid.

Tanzania Railway Company (TRL) transported 1,343,763 passengers in 2013 compared with 230,009 passengers were transported in 2012. In addition, TAZARA transported 1,460,506 passengers in 2013 compared to 148,524 passengers transported in 2012. Moreover, the consulting company called COWI from Denmark began working on the improvements on the railroad from Tanga to Arusha in September 2013 at a cost of Tshs 5.02 billion and is expected to complete the job in July, 2014.

There was also the construction of the bridge that exists between Bahi and Kintinku stations that was completed November, 2013. Furthermore, the construction of the pier of the port of Mafia was completed in September 2013 and officially opened by the Hon. Dr. Jakaya Mrisho Kikwete, the fourth President of the United Republic of Tanzania.

Communications Sector

Fixed line network

In Tanzania the main fixed network is operated by the incumbent Tanzania Telecommunications Company Limited (TTCL), which was once fully owned by the Government. TTCL was partially privatized in 2001, with 35% of its shares sold to private investors. The 35% share, after a series of sales to different parties, was acquired by Bharti Airtel when it took over Celtel International in 2010.

In 2013 TTCL reported a total number of approximately 159,000 fixed lines. In Zanzibar, Zanzibar Telecom (Zantel) is the second fixed line operator that offers fixed services, thus competing with TTCL. It operates about 7,000 lines in total. The total number of fixed lines, according to the TCRA, is 164 999 with 0.4 percent penetration compared to the mobile penetration of approximately 27million.

Fixed lines TTCL's fixed-line subscriptions increased by only 13,355 between 2006 and 2013 to a total of 164,999 fixed lines. Between 2012 and 2013, however, fixed-line subscriptions fell from 176,367 to 164,999, a decrease of 11,368. TTCL has expanded its fixed-broadband services but the service is mainly used by banks (for ATMs), government agencies, public institutions and international organizations.

Mobile telephone access

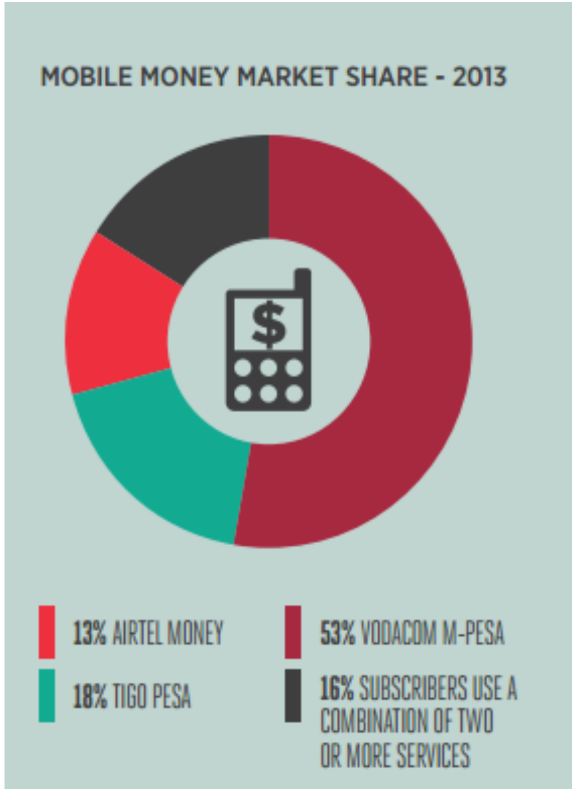
The mobile market in Tanzania has been growing rapidly in recent years. Mobile subscriptions increased steadily until 2013 when SIM registration was introduced, and the registration process has resulted in a slight decline in mobile subscriptions between 2012 and 2013. Research ICT Africa reported that there were over 27 million mobile SIM accounts by the end of 2013, representing a (nominal-only) penetration rate of 61% of the population The reality is that an increasing number of mobile users are acquiring second, third and fourth SIMs in order to be able to place calls over multiple networks and take advantage of promotional pricing. The figure of 27million SIM accounts thus does not mean there are 27million individual users.

Table 3 below depicts a picture of voice telecom subscriptions in 2013. In January 2013 there existed a total number of 27,307,137 subscriptions while in December 2013 there were 27,607,822 subscriptions. This shows the number of subscribers have increased from the previous year which was 26,351,907 and 27,395,650 in January 2012 and December, 2012 respectively.

Mobile money

There are a large number of opportunities that comes with mobile payment systems. It has become a major source of financial inclusion and has changed people's lives. It has given the poor the opportunity to be involved in the financial sector of Tanzania. The market share for Mobile Money Systems in 2013 was as follows; the percentage of M-Pesa users 53 percent, while TigoPesa 18 percent and Airtel money 13 percent.

Figure 4 Mobile Money Market Share in Tanzania



Source: GSMA Intelligence, 2013

Internet Subscriptions

By the end of 2013, there were some 1.4 million internet subscribers in Tanzania, served by multiple internet service providers (ISPs). The TCRA estimates that there are 9,312,272 users of the internet in the country, translating into a penetration level of 21% (TCRA, 2013). This figure includes estimates of internet café users, organization/institution use and household and individual use. The combination of different sources and methodologies makes this estimate very unreliable and, therefore, this high level of penetration is extremely unlikely.

Switch from analogue to digital television transmission

Tanzania was the first mainland sub-Saharan country to complete the switchover from analogue to digital TV transmission, starting the process in December 2012 in Dar es Salaam and moving to other major cities during the course of 2013. Research conducted by Analysis Mason, the telecommunication and media specialists showed indicated that the switching process has been met with some complaints because 20% and 50% of viewers in Dar es Salaam lost TV reception as a result of not acquiring digital reception equipment.

Despite the challenges Tanzania has beaten the digital switchover date set by the International Telecommunication Union (ITU) by more than two years and has avoided the expense of running two systems (both analogue and digital) for an extended period of time. The process was made easier, however, by the fact that only 24% of the population had access to analogue TV due to challenging terrain.

It is clear that in the development and maintenance of transport sector, ICT and R&D is an important driver for sustained economic growth and poverty reduction. Investment in information and communication technology, research and development is a key in transforming skills based economy to technology- based economy in order to increase production, enhancing human capacity and raising the capability of the state to compete regionally and internationally.

Table 3 Voice Telecom Subscriptions in 2013

	2.1 Subscriptions per Operators						
	VodaCom	*AirTel*	*Tigo*	*ZanTel*	*TTCL*	*Benson*	*TOTAL*
Jan 2013	9,367,186	8,418,145	6,377,632	2,927,526	216,055	593	**27,307,137**
Feb 2013	9,454,790	8,446,963	6,391,592	3,045,913	214,336	550	**27,554,144**
Mar 2013	9,467,484	8,440,040	6,408,742	3,070,728	211,167	528	**27,598,689**
April 2013	**9,521,600**	**8,495,035**	**6,408,849**	**2,849,651**	**210,701**	**593**	**27,486,429**
May 2013	**9,633,555**	**8,500,446**	**6,451,870**	**2,043,360**	**210,127**	**550**	**26,839,908**
June 2013	**9,666,122**	**8,519,427**	**6,331,845**	**1,997,185**	**209,111**	**528**	**26,724,218**

	2.1 Subscriptions per Operators						
	VodaCom	*AirTel*	*Tigo*	*ZanTel*	*TTCL*	*Benson*	*TOTAL*
July 2013	**9,638,268**	**8,615,897**	**6,229,538**	**1,953,199**	**211,315**	**593**	**26,648,810**
Aug 2013	**9,899,687**	**8,682,304**	**6,241,903**	**1,939,020**	**211,315**	**550**	**26,974,779**
Sept 2013	**10,023,206**	**8,772,285**	**6,217,214**	**1,798,379**	**211,315**	**528**	**27,022,927**
Oct 2013	**10,149,970**	**8,772,285**	**6,183,074**	**1,807,211**	**211,038**	**593**	**27,124,171**
Nov 2013	**10,239,188**	**8,772,285**	**6,231,840**	**1,814,901**	**210,766**	**550**	**27,269,530**
Dec 2013	**10,288,972**	**8,995,824**	**6,297,288**	**1,814,444**	**210,766**	**528**	**27,607,822**

Source: Tanzania Communications Regulatory Authority, 2013

Water Sector

In 2012/3, the government allocated Tshs 616.9 billion for the water sector which is equivalent to 5% of the total budget as compared to Tshs 621.6 billion that was allocated in last financial year. During 2012/13 the focus was on management and development of water resources; implementing a special program for improving water supply and sewerage services in Dar es Salaam City; implementing rural water supply and sanitation program; facilitating urban Water authorities to control water leakages and rehabilitate water supply infrastructures.

Tshs 51.9 billion was allocated for Water Sector Basket Fund and will cover among other things construction for water infrastructure, capacity development for program implementers and providing education on environment conservation. This fund was channeled to Ministries, Regions and Local Government Authorities; Tshs 1.2 billion was allocated for 6 projects in Ruvuma basin and Southern Coast in 5 Districts of two Regions namely Mtwara and Ruvuma;

Tshs 116.4 billion was allocated for expansion of Lower Ruvu project; Tsh 1.1 billion was allocated for Management and conservation of environment around Lake Victoria with a particular focus on Maswa, Bariadi, Magu, Meatu and Kwimba District Councils and Tshs 20.5 billion was allocated for irrigation.

Water Sector Development Program (WSDP)

The first phase of the Water Sector Development Program established a foundation of strategic, institutional and legal frameworks, which are necessary ingredients in the efficient and effective implementation of the interventions in the water sector. The primary objective of WSDP was to introduce reforms that aimed to strengthen sector institutions for integrated water resources management and improve access to clean and safe water supply and sanitation services.

The Government of Tanzania in collaboration with Development Partners (DPs) committed funds to finance WSDP in the first phase of five years period from 2007/2008 to 2011/2012 at an estimated cost of USD 951 million. The Government and Development Partners jointly agreed to extend the implementation of phase I of WSDP up to June 2014. During the implementation of phase I, more commitments were received from DPs. By June 2013, the total amount committed reached USD 1,364 million, which is an increase of USD 413 million, equivalent to 43% of the original estimates.

Water User Associations (WUAs) are important input for accomplishing the Water Resource Management institutional structure and observed to be effective for ensuring sustainable water resources management especially conflicts management and water allocation. Also, WUAs are basic input in forming sub-catchment committees. In 2012/2013, 19 WUAs were established.

The total number of WUAs established so far in all basins is 74. This is 90% of the target of forming 93 WUAs for WSDP Phase I.

During 2012/2013, 973 out of 1,400 planned water use permits were granted. Registration of existing water uses and customary rights was done. A total of 1,503 abstractions were identified, of which 616 were registered. Water use conflicts were experienced in 7 Basins. A total of 35 water use conflicts were reported in 2012/2013, of which 24 were resolved. Due to awareness on roles of the Basins and increase of economic activities in catchments, more conflicts were reported and resolved.

Increasing number of water points; in FY 2012/2013, 3,985 water points out of targeted 7,785 were built using basket funds and 1,629 water points out of targeted 3,136 were built using other sources of funds. The constructed water points from both basket and other sources of funds are estimated to serve 1,403,500. Since 2007 up to June 2013, 14,860 water points were constructed and rehabilitated.

Table 4 Distribution of budgets for FY 2012/2013 in Sector Sub-Programs

Name of Programme	Development budget estimates (USD)				
	Local In USD	% of Total Local Dev. Budget	Foreign In USD	% of Total Foreign Dev. Budget	TOTAL
Water Resources Development and Management	1,267,700	1.36	16,206,171	5.72	17,473,871
Rural Water Supply and Sanitation	6,404,132	6.86	74,120,893	26.18	80,525,025
Urban Water Supply and Sanitation	84,554,910	90.58	173,410,799	61.26	257,965,709
Strengthening Sector Institutions and Capacity Building	1,117,237	1.20	19,357,447	6.84	20,474,684
TOTAL	**93,343,979**		**283,095,310**		**376,439,289**

Source: Ministry of Water and Irrigation, 2013

Health Sector

In2012/13, the Government allocated Tshs. 1,288.7 billion to the health sector which is a 10% of the total national budget, compared to Tshs.1,209.1 billion in year 2011/2012.

Tshs.31.0 billion was allocated for improvement of antenatal and maternal health programs to prevent and reduce under – five and maternal deaths, and for supplying vitamin A and D Supplements; Tshs.6.4 billion was set aside for supporting people with disabilities and underserved social group (Older people, Orphans); Tshs.382. billion was set aside for development of health infrastructures for enhancing curative and preventive services and for control of communicable diseases; Tshs.253.4 billion was set aside for procurement and distribution of medicines nationwide; out of it Tshs.147.423 billion shillings was allocated for preventing and treatment of Malaria and combating HIV/AIDS; Tshs.8.3 billion was set aside for development services in Muhimbili Orthopedic Institute (MOI) and Muhimbili National Hospital; Tshs.113.7 billion was set aside for the procurement and supply of medicines and medical equipment for health care quality improvement at district level. Also to promote building capacity for health workers (Nurses, Clinical Officers, and Midwives) at the lower level; Tshs. 89.7 billion is set aside for the enhancement of provision of Health Insurance; Tshs.3.0 billion was set aside for construction of the ongoing Cancer Treatment Center at Bugando Hospital and increasing of 150 patients' beds in Ocean Road Cancer Hospital and procurement Cancer Treatment Machine; Tshs. 20 billion was set aside for strengthening Primary Health Care Services through construction of dispensaries in villages countrywide; and Tshs. 4.9 billion was set aside for ongoing projects of construction of Regional Hospitals in Singida, Shinyanga, Mbeya, Manyara and Mara.

The total number of health workers increased from 47,000 in 2006/7 to 64,449 in 2012/13. The highest increase was among health trained cadres of doctors and nurses. Nationally, there are fewer than 5 skilled health workers per 10,000 people, but in rural areas, there are as few as 2-3 workers per 10,000 people. The stats are still far below those recommended by World Health Organization (WHO), which is at least 23 health-care professionals (counting only physicians, nurses and midwives) per population of 10,000.

The population living within 5 km from Health facilities was 48 percent in June 2009. In June the following year (2010), 50.6 percent of the population was living within 5 km from Health facilities. In June 2013 the percentage was 71.9 reflecting a vast improvement in comparison to previous years.

Another big and promising step in Tanzania's health sector is the eHealth strategy started in 2013. A concise definition of eHealth is the cost-effective and secure use of information and communication technology (ICT) in support of health and health-related fields, including healthcare services; health surveillance; health literature; health education, knowledge, and research. This strategy has a vision to enable a safe, high-quality, equitable, efficient, and sustainable health system for all citizens by using ICT to enhance planning, managing, and delivering health services by 2018.

POLICY DEVELOPMENTS, PROSPECTS AND ISSUES

The Big Results Now Initiative

The BRN initiative took off in 2013, inspired at facilitating the achievement of Tanzania's Development Vision 2025. The authorities' "Big Results Now" (BRN) initiative envisages ambitious infrastructure investment that, after further prioritization, needs to be fully integrated into the budget process, while safeguarding critical social expenditures. Through this initiative, Tanzania's government is directing its efforts to transition the country from a low to middle-income. The idea was derived from the Malaysian Model of Development.

The system of implementation focuses on six priority areas of the economy (i)Energy and natural gas (ii)Agriculture (iii)Water (iv)Education (v)Transport (vi)Mobilization of resources. Big Results Now (BRN) initiative aims at adopting new ways of working under a limited timeframe for implementing the changes desired. The initiative has also been adopted in Rwanda and Nigeria. The result Tanzania hopes to achieve in implementing the BRN is that it becomes a middle income economy by 2025. Policy experts from Malaysia arrived to train 300 Tanzanian policy makers on how to implement the BRN initiative so as to achieve the goal of transitioning from a middle class economy using the 6 priority areas. The initiative is also hoping to achieve the goal of transitioning out of aid dependency by identifying and resolving constraints.

Donor Relations

In January 2013, the IMF concluded the Fifth Review under the Policy Support Instrument (PSI), and First Review under the Standby Credit Facility (SCF) for Tanzania. The review highlighted Tanzania's continued strong economic performance and noted that fiscal consolidation measures have been successful in containing expenditure growth and maintaining the fiscal deficit within sustainable limits. The review pointed out concerns facing the power utility, the Tanzania Electric Supply Company (TANESCO) as a key risk to the economic outlook.

Shortly after the conclusion of the IMF review, Tanzania decided in February 2013 to draw the full amount of US$114.2 million under its Standby Credit Facility (SCF). The decision to withdraw funds was aimed to cushion the economy from emerging balance of payments pressures and prevent a further dwindling of foreign exchange reserves. Mitigating the escalating liquidity risks in the energy sector is also cited as another reason for utilizing the SCF. In June 2013, the IMF's review noted the continued robust growth of the economy and the decline in inflation. The key reform priorities identified in the review included to step-up structural reforms, particularly to modernize the tax regime; strengthening debt management capacity; and establishing a sound institutional and legal framework to ensure that possible future revenues from newly discovered gas deposits benefit all the citizens.

Political Context

Three years after Tanganyika attained its independence from colonial rule in 1961 it united with Zanzibar to form the United Republic of Tanzania in April 1964, although the latter still maintains a semi-autonomous government and legislature. The country returned to multi-party democracy as part of wide-ranging political and economic reforms in 1992. Since then, the number of parties participating in the political space has grown from 11 to 19, although only six of these have been able to achieve representation in Parliament where they are considerably vocal on issues such as transparency and accountability.

President Jakaya Kikwete is the fourth democratically elected president of Tanzania which continues to maintain a peaceful existence in an often turbulent post-independence period in the region. The President won his second and last term in 2010 with 61 percent of the vote, which was surprisingly lower compared to the 82 percent win he obtained during his first term in 2005. His sponsoring party, Chama Cha Mapinduzi (CCM), has dominated the political landscape since 1961 when multi-party politics were abolished under the founding President Julius Nyerere. The lower than expected approval rating during the 2010 elections is a pointer to a tougher generation come 2015 given than opposition parties are gradually becoming stronger over time. While they have not been successful in dislodging CCM from power they have continued to encroach on its support base as seen from the 2010 elections and recent by-elections. The most prominent opposition party, CHADEMA, made significant strides in the last election, winning 44 seats in Parliament, from five seats in the 2005 election.

Visit from the Chinese President

Chinese President Xi Jinping visited Tanzania in March 2013 as part of his in his first foreign trip as head of state. Tanzania was the first country in Africa to be visited by the Chinese president, underlining a special historic relationship. It started in the 1960-70's during President Nyerere with the Chinese construction of the Tanzania-Zambia Railway Line. Economic relations have since then increased exponentially. China ranks among Tanzania's top foreign direct investors, with growing interests particularly in the extraction of natural resources.

Collaboration between Tanzania and China is expected to span a broad development agenda including energy and mining sectors, agriculture, industry, and infrastructure. It is estimated that currently more than 300 Chinese companies operate in Tanzania, with a total registered capital of over US$ 1 billion. The current trade volume is about US$ 1.5 billion. This Chinese presence is expected to grow further, especially following the conclusion of various bilateral agreements, including the USD 10 billion plan to develop the Bagamayo port and surrounding areas. More broadly, the symbolic visit signaled that Africa is firmly emerging as a strategic investment and trading partner for China.

Development Challenges

In November 2013, the government announced the results of the 2012 National Household Budget Survey indicating that approximately 28.2 percent of the population was below the poverty line considerably lower than the corresponding figure of 33.6 percent in 2007. Caution must however be applied in assessing the magnitude of the apparent reduction, as the two figures are not directly comparable due to changes in survey methodologies and tools.

Regardless of the significance in the decline of poverty over recent years, Tanzania remains a poor country. The rebasing of the national account reveals a picture of a country closer to reaching middle income status. However, the country remains very poor by regional and international standards. The revised average per capita income is still significantly lower than the Sub-Saharan Africa average. And while it can be argued that economic growth has benefited a large number of Tanzanians, it is still too early for the Government to claim that it has achieved its goal of eradicating poverty in the country.

A report written by the Danish Development Assistance (DANIDA) put into view that, in Tanzania, the modest reduction in poverty shows that economic growth has not been broad-based. Growth is capital-intensive concentrating on telecommunications, financial services, retail trade, mining, tourism, construction and manufacturing. Growth is no longer driven by public spending and international aid, but it is due to the private sector where the highest rates of growth are predominantly capital-intensive and concentrated in large urban areas. Growth has largely failed to affect the great challenges of generating more employment and additional jobs in all parts of society and improving incomes for the vast majority of the population.

Another major reason why poverty has not declined is because Tanzania has not succeeded in raising productivity in agriculture over the last decades. Three quarters of the Tanzanian population engages in agricultural activities in rural areas and eighty percent of Tanzania’s poor live in rural households. Growth in the agricultural sector remains low, at around 4% per year, and in the rural areas the growth in productivity is not enough to sustain the population growth. The birth rates in rural areas are high at6.1 births per woman compared to 3.7 in t urban areas.

While donors and the government have used plenty of resources to improve the social sectors, similar necessary support has not been given to agriculture and other productive sectors. Lack of secure land tenure to ensure that the traditional users in the rural districts do not lose their land is one of the most essential issues, constraining investments that could enhance productivity. Processing of food and other agricultural produce and other forms of manufacturing is also very limited in the rural areas creating very few additional employment opportunities.

DANIDA further reports that, Tanzania is experiencing significant out-migration of young people from low productivity agriculture to urban informal service sectors, where productivity is just as low. Unemployment is high and growing rapidly, especially in the urban areas and among youth. The official unemployment rate is 12% and is highest in the cities, reaching 32% in Dar es Salaam. In addition, one-third of those employed are so-called "working poor": technically employed, but whose income is less than the basic needs poverty line of USD 0.96 per day. They often work either in farming or in the urban informal service sector in low-productivity, part-time jobs. An estimated 700,000 new young job-seekers enter the labor market each year, but only a fraction of them have a realistic possibility of obtaining a stable job that can give them the possibility to provide for a family. The flow from countryside to city of rural-urban migration will continue in years ahead, and Dar es Salaam is already one of the fastest growing cities in Africa.

In sharp contrast to the largely stagnating extreme poverty, Tanzania has seen the emergence of a small, but growing urban middle class. It is a relatively small group, only around 10% of the population, but it has growing purchasing power, substantial political influence, and it has posed political and economic demands - for cheap electricity, imported goods, and better urban social services and infra-structure in the urban areas. The Government is working hard to meet these demands, through for instance, large subsidies for cheap electricity, comprehensive tax exemptions to foreign and national companies as well as government employees, and large non-taxed per diem allowances for civil servants. These government's attempts to satisfy the middle class run the risk of further increasing, rather than reducing, the inequality in society. This can threaten the continued peace and stability as well as social cohesion in Tanzania.

Tanzania's rank in the United Nations Development Program's (UNDP) Human Development Index has improved since 1995, but its progress toward the Millennium Development Goals (MDGs) has been uneven. The country is expected to reach only three out of seven MDGs by 2015. Tanzania is on track to meet the MDGs related to combating HIV/AIDS and reducing infant and under-five mortality but is lagging in primary school completion, maternal health, poverty eradication, malnutrition, and environmental sustainability. Future economic growth will also depend on the ability of the Government to remove existing constraints on businesses**.** The most significant constraint on growth as reported by 80 percent of businesses operating in Tanzania, relates to the provision of electrical energy. Overall, Tanzania's business environment remains unattractive, resulting in disappointing rankings in Doing Business and Africa Competitiveness Report.

Tanzania needs competitive labor-intensive sectors to absorb the growing youthful labor force, augmenting by approximately 800,000 every year. Growth in employment has so far largely come from domestically-oriented industries with the exception of tourism. There is a need to promote competitiveness gains in labor-intensive sectors such as manufacturing and services. The agricultural sector contributes to approximately one quarter of GDP and provides employment to approximately three quarters of all Tanzanian workers and it remains an area where significant achievements can be made with even small undertakings.

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