QER TANZANIA

ESRF

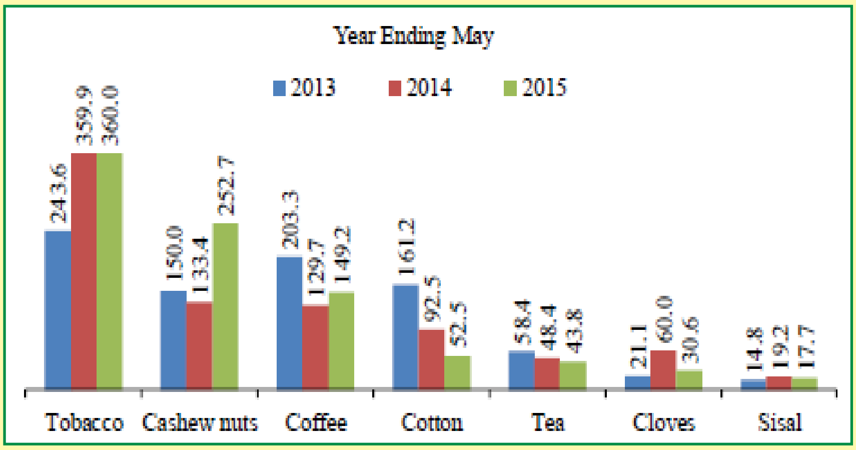
ECONOMIC AND SOCIAL RESEARCH FOUNDATION

ISSN 0856 6658 Volume 15 Issue 2 April - June 2015

INSIDE

Performance of Traditional Exports

Millions of USD



Source: Tanzania Revenue Authority and crop boards

Kinyerezi - Power the Production Unit

Quarterly Economic Review

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EDITORIAL NOTE

The period between the months of March and June 2015 was dominated by preparation and approval of the national Budget FY2015/16. The Budget was formally unveiled in Parliament on 11th June 2015. During this Budget season, the country's economic policy decision makers and senior civil servants are almost exclusively occupied with budget matters.

The 2015/16 Budget process formally begun with the issuing of Budget Guidelines in January 2015 by the Ministry of Finance and the Planning Commission. An important step of the process entailed Budget document submission to the parliamentary committees in April 2015, and climaxed with the formal presentation of the Budget to Parliament by the Minister of Finance on the fore-mentioned date of 11th June 2015.

Due to the importance of the Budget during this period and generally to the country as a whole, the current QER has devoted special space to this topic in form of a Special Theme appearing as the last Chapter under the title **SPECIAL THEME PAPER ON THE 2015/16 BUDGET: A SUMMARY AND CRITIQUE.**

In this Editorial Note we intentionally limit the Budget topic to making at least three observations that evidently standout. They are that: (a) This year's Budget has special significance to Tanzania in view of the fact that it will be the final one for the current Presidency and Parliament and thus it has been debated in Parliament and approved under heightened political anxiety as most politicians were inordinately focused on the pending October 2015 General Elections;

(b) on the revenue side, the new Budget comes in the shadow of critical shortages of financial resources that characterized its predecessor, namely inadequate mobilisation of domestic resources and donors' hesitancy to provide promised assistance; and that (c) in view of the two points cited above, government expenditure commitments hardly matches with current budget resource realities, even though they reflect also the fact that the style and levels of public spending in Tanzania are unfortunately embedded in creeping propensity for lavishness that does not correspond with the country's level of poverty.

To make matters worse, some of the resource commitments are made outside the budget process, but in fact tie future budgets on irrevocable basis. Good examples of this phenomenon include creation of new territorial administrative units and election constituencies that were announced after the 2015/16 Budget had been approved. In that context, they may already have inflationary consequences on the recently approved budget estimates.

It has been noted that the Government of Tanzania (GOT) plans to raise substantial financial resources to implement the 2015/16 Plan. The amounts envisaged are indeed considered ambitious as indicated in the Special Theme Paper, found in the last Chapter of the current QER.

Besides the Budget, the current QER also covers other issues; prominent among these are: (i) the usual information on Inflation (noting a very slight jerk up of the pace of inflation during the second quarter); (ii) DSE performance; (iii) as usual, a lengthy article on Agriculture, noting among other developments the robust growth of cashewnut output and of tobacco.

Nevertheless, this positive outlook is counteracted by a slowdown in the production of coffee and cotton, crops that used to lead in export revenue in the 1990s and early 2000s. Then a brief account on tourism and mining sectors follows. Due to the importance of the transport and power sectors in underpinning performance of the production and service sectors, the former also accordingly occupy significant space in this QER.

THE OVERALL ECONOMY AND KEY MACRO-ECONOMIC INDICATIONS

The Tanzania economy has continued to be buoyant. It achieved an average growth of 7.0%. per annum in the last 10 years[1]. In 2014 it grew by 7.0% and according to the Minister of Finance[2], it is expected to grow by 7.3% in year 2015. However, this forecast may be rather optimistic given that second quarter 2015 economic growth will probably be less than 7%, and taking into account of four other factors, namely: (i) the fact that first quarter growth of 2015 was only 6.5%, those for quarters three and four of 2014 were also less than 7%; (ii) the uneven pattern of rainfall distribution that was in sum not the best in the first half of 2015 and the resulting crop forecast provided in **Table-4** below; (iii) the continued slump in gold prices; and (iv) the shortfall in public investments that feature in the Budget Sections below.

On the other hand, the depreciation of the TShlling is a double-edged sword. It can for example help to stimulate exports in the medium to long terms if the exchange rates stabilize eventually. But in the short-run, it may undercut the budget allocations, particularly those that result in increased demand for imported goods and services. On a positive note though, the significant improvements in the power supply situation facilitated by good progress on a number of power projects listed later in the section of this QER on Power Sector Development, (some of which are underpinned by the completion of the Mtwara-Dar gas pipeline project), may tilt the balance in favour of better economic performance in the rest of the year 2015.

Inflation Developments

Tanzania's headline inflation had been gradually declining since August last year to 4.0% in January 2015, but thereafter it started to rise marginally, so that by May 2015 it was 5.3% and in June it reached 6.1%, mainly driven by food inflation**.** As elaborated further in **Table-1,** it is clear that food inflation has been playing a dominant role in the inflation trend. Food inflation (including non-alcoholic beverages) increased to 9.9% in June 2015, a rise from 5,0% in January 2015. On the contrary, the economy has enjoyed falling energy prices that cushioned the impact of rising food prices.

Table-1: Summary of National Consumer Price Index (January - June 2015)

S/N	Jan - 15	Feb - 15	Mar - 15	Apr - 15	May - 15	June - 15
Inflation Rate	4.0	4.2	4.3	4.5	5.3	6.1
Food Inflation Rate	5.0	5.1	6.1	7.2	8.4	9.9
Energy Inflation Rate	2.4	4.4	-0.5	-4.2	-2.1	-2.3
Non-Food and non-Energy Inflation Rate	2.7	3.0	2.0	1.0	1.4	1.4
Non-Food Inflation Rate	2.8	2.7	2.5	2.1	2.1	2.2

Source: NBS CPI by June 2015.

During this period, the depreciation of the TShilling vis-à-vis the US Dollar was showing unprecedented speed; and that naturally had inverse effect on prices of imported products and foods. The exchange value of the TShilling was about TZS 1,841 per One US$ on 1 April 2015 but had reached to TZS 2,292 per One US$ by 23 June 2015[3], a jump of over 24% in only 3 months.

The TShilling was being a devalued vis-a-vis the American Dollar mainly on account of strengthening of the US dollar itself placed against all other currencies, due to robust recovery of the US economy. But there were other factors that worked against the TShilling, including the following: (i) Tanzania's poor export performance resulting in lower earnings compared to the needs of imports of goods and services and (ii) falling gold prices in the world market resulting in low foreign exchange revenues from this source.

Paradoxically, the price inflation of fuel combined with energy has been falling since February 2015. This issue is separately presented later below in the section on pump fuel prices for Dar es Salaam, showing generally stable or even falling prices till the end June 2015.

[1] THDR 2014 (BP No.5)
[2] Budget Speech to Parliament on 2015/16 Budget
[3] TradingEconomics and World exchange-rates.org

Among the East African Community (EAC) members, Kenya and Tanzania were experiencing rising inflation rates in first half of 2015 as seen in **Table-2:** The land locked countries of Uganda and Rwanda, despite incurring elevated transportation costs on exports and imports from overseas, were managing to record relatively lower inflation possibly due to tight financial management controls. Burundi inflation is at a higher level, due recently to political instability. Rwanda has maintained a very low rate of inflation for many years.

Table-2: Annual Headline Inflation Rates in % for Some Neighbouring Countries; Jan – June, 2015[4]

Country Name	Jan, 2015	Feb, 2015	Mar, 2015	Apr, 2015	May, 2015	June, 2015
Tanzania	4.0	4.2	4.3	4.5	5.3	6.1
Kenya	5.53	5.61	6.31	7.08	6.87	7.03
Uganda	1.3	1.4	1.90	3.60	4.90	4.90
Rwanda	0.4	0.2	-0.7	1.2	1.6	1
Burundi	3.5	1.17	4.7	7.5	NA	NA

Sources: Central Banks of respective countries

Inflation Induced by Fuel Prices

Pump fuel prices in Tanzania were falling for about 6 months (from September 2014 to March 2015), but from April 2015 through July 2015 they started with moderate jerk up that eventually accelerated by July 2015. Thus for instance within only three months from April to June 2015, the petrol price cap had increased by 33% from TZS 1,652 per litre to TZS 2,198. EWURA attributed this to changes of oil price trends in the world market.

The Minister of Finance in Speech to Parliament on the 2015/16 Budget had proposed introduction of a new Petroleum Act, that included tax rate hikes as follows: a) Diesel from TZS 50 per litre to TZS 100 per litre, or an increase of TZS 50 per litre; b) Petrol from TZS 50 per litre to TZS 100 per litre, or an increase of TZS 50 per litre; and (c) Kerosene from TZS 50 per litre to TZS 150 per litre, or an increase of TZS 100 per litre (in order to prevent fuel adulteration). The likely impact of these changes is explained in the Special Theme Paper further below.

Though these levy increases were justified by need to raise revenue for the financing of rural electrification projects under the Rural Electrification Agency (REA), so as to generate about TZS 139.78 billion, it would appear that the government had derived too much comfort from reading the trend of petroleum price changes ruling in the 12 months period up to April 2015, that had been declining sharply. As it turned out eventually, the declining trend was not endless and, it was mistakenly concluded that these prices were likely to remain reasonably stable in the following period.

The same relief had been found in the stability of the TShilling that previously had been slightly appreciating vis-à-vis most major currencies and depreciated only very marginally against the US Dollar[5]. Indeed, even if global petroleum prices continue to remain stable during the latter part of 2015, the stability of the TShilling is not guaranteed. Thus the yield on Budget taxes will be constrained if these two factors (i.e. the value of the TShilling and the global petroleum price trend) do not reflect the optimism so far seen by the budget planners. If the internal petroleum products prices keep rising in the coming months, they could push up inflation beyond the government's objective of keeping inflation within single digits.

On the other hand, it is also quite likely that the oil prices might rise as a result of disruptions of oil production in the Middle East (where Tanzania procures its oil) as the region is now engulfed in several civil unrests. At the same time, the situation could depend on how much Iran responds to the news about a deal being struck with Western governments regarding its nuclear plan; as to whether it can pump out more oil to the market since political restrictions to sale will have been be lifted.

4 Sources: Central Banks in relevant EAC Countries ……….. NB: Inflation rates for Rwanda and Burundi have not been included due to lack of credible sources; the rates for Rwanda tend to be lowest in the EAC while for Burundi they are relatively unstable but tend to be within the range of other EAC members.

5 The Guidelines for 2015/16 Plan and Budget Preparation – January 2015

FINANCE RESOURCES MANAGEMENT

In this chapter we summarise a number of subjects in the Finance and Budget areas that have been outstanding during the second quarter 2015 as well in the relevant prior and subsequent periods. They concern particularly mobilisation of Domestic Resources, a subject that has been treated in detail in the current QER Theme paper, in addition to mobilization of External Resources for development, whether they pass through the Budget or not. The issue of budget resources expenditure is of course germane in this discussion.

The Government Budget

The underlying Government of Tanzania (GOT) principles on the management of the 2014/15 Budget and the orientation of the new 2015/16 Budget were spelt out in GOT's Letter of Intent to IMF dated 18 June 2015. One of its outstanding features is reaffirmation of government intent to stick to key spending priorities as envisaged in Big Results Now (BRN) agenda. In this context, the GOT also continues to pursue poverty reduction goals, and other issues that have been raised to high priority as the current situation dictates; for example the organization of October 2015 General Elections, the need to significantly improve the physical infrastructure in order to benefit from the unfolding prospects of a natural gas economy and to take advantage of Tanzania's natural location as a gateway for about 8 land-locked countries in the Eastern and Southern Africa region. These two areas (i.e. the **natural gas** and the physical infrastructure) have been assigned dedicated sections in the current QER that give account of the progress in their development.

During the Budget debates on the Parliament floor, and particularly in the opening statement of the Minister of Finance on 11th June 2015, it is not entirely clear why such a strategic national issue of **natural oil and gas** was not given sufficient space and thereafter sufficient time for serene debate. This was also the same in presenting and debating the resulting two bills related to oil and gas mining and taxation. Though naturally entailing a sophisticated legal framework, the bills were hurriedly put into Acts of Parliament and submitted under a certificate of emergency to be approved within a few days by the Parliament in July 2015.

The caveat regarding the 2015/16 Budget revenue prospects is that government has to install and maintain a prudent budget expenditure posture so as to avoid the adage of trying to fill a proverbial bottomless pit. It is not obvious that such a cautious stance has been adopted to the letter in regard to the 2015/16 Budget, which carries certain expenditure votes that have risen by as much as 30% compared to the previous year's Budget.

The disturbing logic is that those looking at the future revenue sources, may be doing so from a misled position, encouraged by erstwhile gold export revenues and prices which, when they were high in the past, aroused plenty of expectations in parliamentary and NGO circles. Hence, people were then advising on how the government should have found ways to raise maximum tax revenues to fund its development programmes.

The process of coming up to this tax objective has taken years upto the present, resulting in the Oil and Gas bills mentioned above. Nonetheless, they have been unveiled at a time when the gold prices and output in some gold mines have started to decline; but the appetite for more government spending has not been lowered in tandem. This upbeat attitude is not overcome yet. In fact, the difference is that focus has been shifting from gold to natural gas resources recently, forgetting that most of the latter has not yet been lifted up to the ground. Furthermore, most of the gas deposits already discovered are located in distant offshore and it will take several years to bring them to the markets in sufficient quantities in order that their revenues can be used effectively to meet the rising budget requirements.

Mobilisation of Domestic Resources

The 2015/16 Budget process has taken in a number of measures that to some extent will enhance mobilization of domestic resources, despite the fact that realization of budget goals in FY2014/15 was clearly off-target. These measures include: (i) revision of taxation and benefits sharing regime in respect of mining and natural gas activities, (ii) reduction of unnecessary tax exemptions and streamlining of tax exemption procedures, (iii) government intention to collect more non-tax revenues from Ministries, Departments and Agencies (MDAs) and Local Government Authorities (LGAs), (iv) raising revenues from bonds and the shares market, and (v) pursuing prudent borrowing from foreign and domestic lenders in 2015/16.

Mobilisation of External Resources

As indicated in QER-VI of 2014 and QER-I of 2015, Tanzania has been leading in Foreign Direct Investments (FDI) destinations in East Africa. The country also continues to lead in receiving Official Development Assistance (ODA) in this region when compared to other Eastern African countries. The latest ODA data for 2013 shows the following magnitudes[6]: (i) Tanzania US$3,430 million; (ii) Kenya US$3,246 million; (iii) DRC: US$2,752 million; (iv) Mozambique US$2,314 million; (v) Uganda US$1,693 million; (vi) Zambia US$1,142 million; (vii) Malawi US$1,126 million, (viii) Rwanda US$1,081 million, and (ix) Burundi US$546 million.

The high figures of Tanzania represent the country's elevated aid dependency which on one hand can be a cause for self-congratulation: in that donors continue to put high confidence in the country's economic and finance management practices. Most observers however disagree; and see it as a negative aspect if it goes on for a long time, a matter that also has troubled the GOT. It has thus decided intentionally to try to reverse the trend or concurrently has been forced by default as some donors cut back their assistance in the face of what they perceived as gaps in the country's governance performance. The ratio of aid dependency had thus declined from 24% in 2004/5 to 17% in 2010/11, and now is down to 6.4% in the 2015/16 Budget. In 2014 many traditional donors had suspended or dragged their feet on their aid disbursements over dissatisfaction with the way the government had handled the IPTL/Escrow account issue[7]. The GOT by April 2015 had received TZS 2,941.5 billion as grants and concessional loans from Development Partners which was about 67% of the expected amount in FY2014/15[8].

As of now, the uneasiness triggered by the IPTL episode has considerably abated. Examples of this softening on the part of donor positions showed recently in individual aid programmes approved or committed by the donors. This for instance includes: (i) the EU, as part of a donor group that had earlier withheld nearly $500 million in GBS earmarked for Tanzania, but has now resumed its aid; (ii) the AfDB signed a US$70 million loan for the energy sector in May 2015; (iii) the AfDB is also intending to disburse $44 million for GBS before end June 2015; (iv) the World Bank[9] on June 23, 2015 approved a soft loan of US$100 million for increasing transparency and accountability in governance, as well as helping to improve public financial management in the country; (v) The World Bank also (in March 2015) approved a US$300 million IDA credit for the new Dar es Salaam Metropolitan Development Project (DMPD) aimed at improving city services for the benefit of over 1.9 million residents.

Meanwhile, GOT has initiated formal approaches with New Strategic Partners of India and China as well as Turkey and to some extent Israel, as a continuation of its diversification of sources of donor assistance aid. On the other hand, political and economic experts point out that Tanzania has to realize that these countries are receptive of any such moves not out of altruistic motives that are expressed in international fora. But they are realistic in seeking new partnerships for either own geopolitical motives and/or seeking easy

6 Source: OECD on ODA Receipts and Selected Indicators for Developing Countries and Territories 2014

7 for understanding the essence of this issue see QER-IV 2014

8 Annual Economic Survey 2014

9 World Bank DSM office information

access to new markets for their products; and are also eying at sure sources of raw materials for their booming industrial power houses. If these motives happen to coincide with Tanzania's own motives and intrinsic benefits, then the partnerships are quite beneficial for Tanzania and should be pursued with strategic resolve.

GOT also facilitates mobilisation of Tanzania development resources for private investments in the form of the popular Foreign Direct Investments (FDIs). They are mobilised directly by MDAs or through Tanzania Investment Centre (TIC) screening with or without GOT offered tax benefits. The latter have now been revised and streamlined according the Minister of Finance 2015/16 Budget Statement[10].

Mobilisation of Resources through Share Ownership

The Dare es Salaam Stock Exchange (DSE)

The DSE is another government option for mobilisation of development resources through launching of new shares, or by means of share trading and bonds.

The DSE performance[11] in the second quarter 2015 was satisfactory albeit with mixed outcomes. Thus total market capitalization and the DSE Index recorded a 5% growth rate, i.e. from TZS 22.7 trillion at the end of Quarter-I of 2015 to TZS23.9 trillion by end of June 2015. In that period, domestic market capitalization index decreased by 3%. In this situation, the effect of the TZS depreciation vis-à-vis other currencies, unavoidable as it was, engendered a negative view of investors on potential returns on their investments. This was evident in reduced sales of shares that involved foreign investors during Quarter-II compared to the previous quarter.

On the contrary, liquidity (turnover) moved up slightly from TZS 278 billion in Quarter-I 2015 to TZ S285 billion during Quarter-II, a 5% change. The annualized DSE liquidity ratio is now at 9%, which is more than 5 times its previous level[12]. As for the bonds market segment, there was a significant drop in turnover during the second quarter. For instance, bond trading turnover was TZS 75 billion versus TZS 136 billion in the previous quarter.

Another notable development indicator of the DSE is information to the effect that in the coming period, i.e. in the third quarter 2015, three listings are expected. They include Mwalimu Commercial Bank, PTA Bank (for corporate bonds) and YETU[13] Microfinance. The listing of the Mwalimu Commercial Bank, as indicated in QER-1 of 2015, is an important event in the progress of promoting wide share-ownership in the country. The bank is formed by the teachers, whose numbers constitute the largest civil servants' group in the country; possibly numbering over 200,000 countywide, sponsored by Tanzania Teachers' Union (TTU). TTU intends to boost its current capitalisation of TZS 23.5 billion by 25% via the DSE's Enterprise Growth Market (EGM) window.

Another share launching venture is the starting of three funds under the umbrella of UMANDE Unit Trust, that would seem to be triggered by the encouraging success of the Unit Trust of Tanzania (UTT. The three UMAMDE funds being promoted by Core Securities Ltd are: the UMANDE Capitalisation Fund, the UMANDE Income Fund and the UMANDE Balanced Fund. These funds will provide access to the equities listed at the DSE as well as access to government bills, bonds and money market. The above information prompts revisiting of the UTT progress, to show how a determined government can directly facilitate wide public ownership of shares in the country.

The Unit Trust of Tanzania (UTT) was incorporated on 19 June, 2003[14], under the legal instrumentality of the Trustees Incorporation Act (Cap. 318). Basically, the UTT was set up

[10] Amendment to Tanzania Investment Act, CAP 38 in MOF Budget Speech of June 2015.
[11] DSE CEO's QUALTERLY NOTE (Q2, 2015).
[12] Ibiden
[13] The latter is a small public limited corporation initiated by Youth Self Employment Foundation (YOSEFO) that expects to raise capital of TZS 12.5 billion by the way of an IPO. After the IPO, its shares could rise to TZS 36.9 million.
[14] UTT website
[15] Whose Board of Trustees, by the way, the current QER Technical Editor had a privilege of chairing, in its nascent stage in 2002 and 2003.

as successor to a previous entity known as The Privatisation Trust (PT)[15]. The PT had been established by an Act of Parliament in 1997. Its beneficiaries are all citizens of Tanzania. The initial PT shares consisted of equities of previous parastatal enterprises which after denationalization have been warehoused under the trust and they bore nominal rights appertaining to those shares.

The PT made preparation for the setting up of collective investment schemes and eventually turned into UTT. There were three organisations that resulted from subsequent growth and restructuring of the UTT, namely: UTT Asset Management and Investor Services Plc (UTT AMIS), UTT Microfinace Plc (UTT MFI) and UTT Projects and Infrastructure Developments Plc (UTT PID). They have all been operational since 1st July 2013. UTT success led to establishing 5 dedicated funds under its umbrella, whose new asset values as at 30/6/2015 were[16] : Umoja Fund (TZS 212.4 billion), Wekeza Maisha (TZS3.4 billion) Jikimu Fund (TZS 20.8 billion) Watoto Fund (TZS 2.7 billion) and Liquid Fund (TZS 645 million). The share values in the five UTT schemes reached TZ S240 billion by end of June 2015.

One of the top priorities of the DSE during upcoming quarter three in 2015 is introduction of e-mobile and internet trading in the DSE platform. This facility is expected to, encourage more listings, enhance public education and awareness, as well as help in integrating and synchronizing the DSE Central Securities Depository (CSD) to that of the BOT for trading on government bonds.

DEVELOPMENT OF SELECTED SECTORS

SPECIAL FOCUS ON AGRICULTURE SECTOR PERFORMANCE

The sector of agriculture in Tanzania in its wider dimension spans across five major subsectors, namely: crop production, livestock development, forestry, fisheries and hunting or game. Agriculture is distinctively the most important sector of Tanzania's economy, complemented by livestock. It is a major source of food in the country as well as employment. In 2014 this sector contributed 28.9% of GDP, a rise of about 3.4% compared to 2013 and 2012[17].

Food Production

The grain output was reasonably encouraging in 2014, with 9.8 million tons produced against 7.8 million tons of the previous year, or a rise of about 26%. Thus Tanzania's food self-sufficiency has been about 125%, since demand in 2014 was about 12.8 million tons against domestic output of 16 million tons (of both grain and non-grain food crops). The overall 2014 food production picture is shown in **Table-3:** which also compares favourably in grains vis-à-vis production performance in earlier years.

Table-3: Food Crop Production (sold) 2012 - 2014 (in '000 tons)

Crop Type	2012	2013	2014*	%-tage Change 2014/2013
Maize	5,104	5,288	6,734	27.3
Rice	1,170	1,342	1,681	25.3
Wheat	109	102	167	63.7
Sorghum and Millet	1,052	1,073	1,246	16.1
Cassava	1,821	1,878	1,664	-11.4
Pulses	1,827	1,871	1,697	-9.3
Bananas	842	1,317	1,064	-19.2
Potatoes (Irish and Sweet)	1,418	1,808	1,761	-2.6

*Source: Annual Economic Survey 2014 derived from MFS; * provisional estimates*

16 UTT website
17 Source: Annual Economic Survey 2014

The production of maize increased for example by about 27% from 5.3 million tons of 2013 to 6.7 million tons in 2014

By the end of 2014, wholesale prices of **maize** had reached low levels, due to good 2014 *"msimu"* and *"masika"* harvests in many regions. But this situation has not lasted long in most markets in uni-modal rainfall areas, since between January and April 2015, prices rose by more than 50%, after witnessing a lean season harvest. This situation continued to be complicated by pressure of maize demand by traders buying locally-produced maize for exports to Kenya (and beyond to South Sudan).

With respect to **rice**, this is the second most important food and commercial crop after maize in Tanzania. Rice production rose appreciably in 2014. KILIMO reports that rice output rose from 1.3 million tons in 2013 to 1.7 million tons in the following year[18], which is a 25% increase. In rice production, Tanzania possesses immense potential to not only feed itself, but to also export substantial amounts to the entire East African region. Tanzania's rice is well sought after in Kenya and Uganda, except that in recent years its fame has been tainted by unfaithful traders who adulterate it with imported cheap rice such as from Pakistan.

Sorghum and Millet also did well in 2014.

With respect to production of non-grain food crops like pulses (such as beans, soya beans, peas, etc), production in 2014 was slightly less than in 2013[19] partly due to plant diseases. The *mnyauko* disease (Banana Bacterial Wilt disease) continued to ruin the banana crop with no effective remedy in sight especially in Kagera region, as reported in QER-IV of 2014.

Despite overall food self-sufficiency, the country has persistently experienced food deficits in some regions, such as Dodoma and Singida, and quite often Shinyanga and Manyara regions. As indicated in QER-II of 2014, apart from expanding irrigated rice areas, Tanzania could look into the option of using genetically modified organism (GMO) crops to significantly boost its maize production, although there are pros and cons in using this technology. On the other hand in East Africa, Kenya and Uganda have already started field trials on growing GMO crops, but Tanzania is still confined to laboratory trials due to lack of a science-based and cost-effective regulatory system.

Cash Crop Production

Cash crop production increased by 4.46% between 2013/14 and 2014/15, which is a modest growth, with levels of performance varying from crop to crop (**Table-4**).

Table-4: Production of Major Traditional Cash Crops (tons)

Crop	Production 2012/13	Production 2013/14	Production 2014/15	Anticipated Production 2015/16
Cotton	351,151	246,767	203,313	200,000
Coffee	71,200	48,599	40,759.2	62,000
Cashewnuts	121,704	127,939	200,000	250,000
Tobacco	74,240	100,000	105,881	104,600
Sisal	23,344	41,104	40,000	45,000
Tea	33,700	33,000	35,500	36,000
Sugar	286,380	293,011	304,007	328,416
Pyrethrum	6,100	7,000	7,600	8,000

Source: MAFC, data compiled from respective crop boards

As seen in **Table-4,** the production change of Cashewnuts was vastly above that of all the other crops, registering a 56.3.% rise in one year (between 2013/14 and 2014/15), mostly due to good rains, better supply of production inputs and prices offered to the farmers. But cotton and coffee performed rather disappointingly, this being attributed to low prices offered to the farmers as well as deficiency in the supply of production inputs.

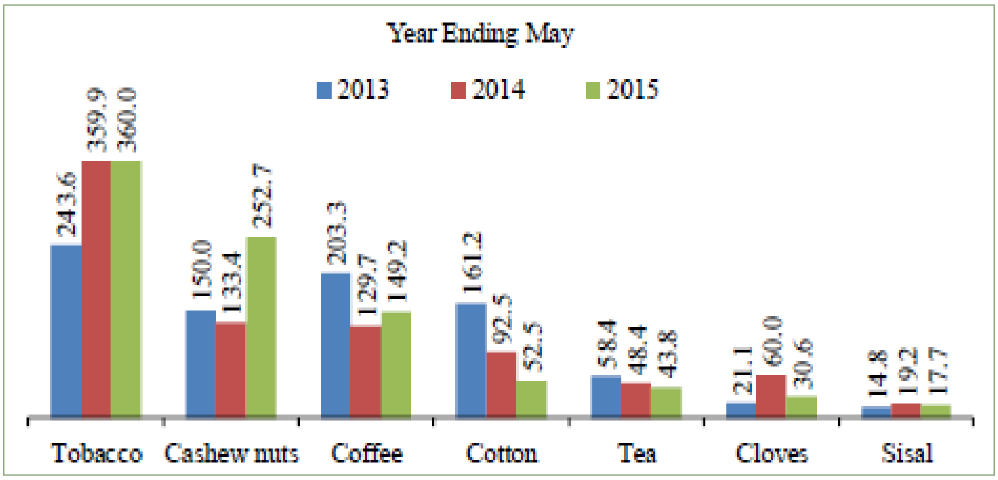
[18] FAO estimates for 2014 are higher at 2.2 million tons

[19] Annual Economic Survey 2014

Below is a summary account of a few of the major crops **(Chart-1)** namely: cotton, coffee, cashewnuts and tobacco. It also includes information on efforts being deployed to raise production in 2015 and the coming years.

Chart-1: Performance of Traditional Exports[20]

Millions of USD



Source: Tanzania Revenue Authority and crop boards

Cotton

The country has witnessed a systematic decline of cotton output for a number of years as noticed in **Table-4** i.e. from 351,151 tons in 2012/13, down to 203,313 tons in 2014/15; and predictions for 2015/16 are still subdued. There are several reasons contributing to this falling trend, but the main ones include generally depressed world cotton prices that filter down to the farm level; the unreliable rains, input supply challenges and poor quality of lint cotton sold by the farmers to the ginners that partly is a result of deliberate adulteration of the cotton being delivered, or simply carelessness.

Hopes for reversing the cotton output decline in the future are pinned on a number of initiatives. These include: (i) research on new cotton seed varieties at Ukiruguru Agriculture Research Station in Mwanza in order to come up with better seeds in terms of yield and disease resistance, (ii) better organization of inputs supply, and (iii) straightening up the contract farming regime. On seed issue, Tanzania has yet to approve the use of GMO seeds in the production of cotton.

Coffee

The production of Coffee , like that of cotton, has also been declining in recent years, from 71,200 tons in 2012/13 to 40,759 tons in 2014/15, as the effect of poor weather (rain) in many areas. In some areas, particularly in Kagera region, many coffee trees are aging and thus encountering declining yields in absence of fertilizer application. Efforts to revamp the coffee growing industry revolve around planting of new seedlings, with this being concentrated in Moshi, Kagera, Mbinga and Tarime areas. These new plants researched by TaCRI are more productive than the existing varieties and are relatively better at resisting the deadly Coffee Berry Disease (CBD) and the Coffee Leaf Rust (CLR). They are also likely to reduce production costs by requiring less use of herbicides and fungicides (chemical sprays). The wide-ranging efforts also entail timely provision of subsidized fertilizers and ensuring that cooperatives and other coffee bean buyers offer attractive prices, that reflect world market prices (for instance, for new types of coffee that have bigger bean-size with a good flavor). Better farmer prices can also be achieved by direct coffee exports rather than exclusively through the local auction at Moshi Coffee Exchange.

Cashewnuts

As seen in **Table-5** cashewnut production has rebounded more vigorously in the last decade,

[20] Derived from BOT MER June 2015

after passing through a period of contraction that was particularly serious in the 1980s.

Table-5: Cashewnut Production Trend in the past Decade

YEAR	Production (tons)	Export (tons)
2004/2005	71,000	70,667
2005/2006	77,446	66,708
2006/2007	90,741	69,259
2007/2008	98,728	75,887
2008/2009	48,633	55,011
2009/2010	74,169	63,043
2010/2011	121,134	113,374
2011/2012	158,714	121,946
2012/2013	121,704	124,924
2013/2014	130,124	124,924
2014/2015	177,600[1]	149,742*

*Source: Economic Survey 2014, and Minister's Finance Speech 2015…. (*preliminary figures according to www.tzaffairs.org)*

The unusually higher cashewnut production in 2014/15, possibly the highest in the industry's history, has been helped by conducive weather, better input supply, higher prices paid to farmers under the warehouse receipt system, facilitated by improved cashewnuts world market conditions. In terms of earning foreign exchange, the crop is second after tobacco; it has pushed coffee and cotton to second and third positions respectively.

MAFC attributed the production increase to several factors, particularly: (i) better management of the inputs supply system to achieve timely and full delivery of the required amounts, (ii) more favorable weather, (iii) better prices offered to the farmer that reflect world market prices, as well as (iv) the performance of the warehouse receipt system. The estimates for the 2015/16 crop are upbeat, with projection of above 250,000 tons.

More strategic effort by government has been directed at relying on PPP[21] arrangements to encourage more processing of raw cashewnuts within Tanzania, so as to avoid their exportation in raw form that has been dominated by low value unshelled nuts, which by the way deprived Tanzania of better market prices and employment generation.

Tobacco

The production of tobacco has been rather fluctuating in the last few years, though its export value has on the whole been high, rising from US$307.0 million in 2013 to US$315.0 million in 2014, effectively confirming tobacco's number one position as an export crop. In fact by 2013, tobacco accounted for 29% of all the country's export earnings from traditional crops. The factors facilitating the increase were improved supply and use of farming inputs.

As reported in QER-IV of 2014, authorities have still to wrestle with harmful practices of tobacco leaf adulteration at the selling points. Another negative element affecting the tobacco industry, especially in the medium to long-term, is the health risks of tobacco on farmers, leaf processors and the smokers. The urgency of dealing with this dilemma has been stressed by anti-smoking lobbies. All this could adversely affect tobacco demand in the future. No viable income earning alternative for the individual peasant farmer has been found as yet.

The most serious challenge the country faces in the long run is the high rate of deforestation in tobacco growing areas that use firewood for tobacco leaf curing. In Urambo (Tabora region) tobacco farming has been destroying natural forests at an alarming speed, with desertification following as a result. There, its said that about 6% of the woodland resources has been cleared annually[22] of trees for tobacco farming and for firewood for tobacco leaf curing. Yet the programme of afforestation to restore the woodland has not been successful, partly due to inefficient programme implementation and inadequate funding.

Agriculture Sector Financing

It was learnt from the 2015/16 Budget statements that the 2014/15 Budget Support

[21] PPP = Public Private Partnership

[22] Exact magnitude is difficult to determine because of different densities of tree cover in different cultivation areas, although new technology such as by using satellite may provide more accurate figures

to Agriculture has been under-funded. For instance for development programmes, out of the earmarked amount of TZS 87.9 billion only 46.26% was disbursed as on 22 April 2015[23]. The recurrent budget suffered almost similar fate of underfunding, as only 46.3% of the approved amount was actually disbursed. As reported by Policy Forum[24], this kind of underfunding coupled with delays in inter-institution transfers of funds has been felt across many administrative agencies[25].

These figures of course would have more lessons to impart if the funding of agriculture was seen in a sector-wide approach, rather than that of a narrow focus on central agricultural ministries (Ministry of Agriculture, Food and Cooperatives - MAFC and Ministry of Livestock Development and Fisheries - MLDF). Thus the wider sector would include other agencies being funded besides the MAFC, to also cover livestock, fisheries, forestry and wildlife, as well as agricultural activities in non-agriculture agencies such as LGAs, Education Establishments, Prisons Services, National Parks, etc.

Lest it be forgotten that Tanzania has undertaken an international commitment under the NEPAD (The New Partnership For Africa's Development – in the context of CAADP[26]) to allocate at least 10% of its budget to the agricultural sector[27] so as to reach at least 6% annual growth of the sector as envisaged under by NEPAD. In a continent-wide assessment of this international commitment (made in 2014 by ESRF along with ECDPM and LARES), it was found that only Senegal had fulfilled this pledge in the last 10 years. In a commentary made by TradeMark East Africa (April 25, 2015), it was observed that "none of the EAC states has consistently met the 10% target. Tanzania on the other hand came out better in the Trademark review of the 2014/15 budgets, since the review report says that " *Overall, Tanzania allocated the biggest chunk of its budget absolute expenditure to agriculture at 7.2 percent followed by Uganda at 6.5 percent, whereas Rwanda was ranked third with 6.2 percent allocation, and Kenya was fourth with 5.8 percent. Further, the report shows that Kenya, presented the biggest budget in the region (Ksh1.77 trillion), with her priorities being food security, increased productivity and commercialisation of Kenyan agriculture amid irrigation*"

CAADP or no CAADP, effective agriculture sector financing has to be the preoccupation of everybody in the country, keeping in mind that the sector supports the livelihoods of about 80% of the population living mostly in the rural areas, and is a preponderant source of food to the nation in Tanzania, as well as an important supplier of raw materials for local manufacturing industries. Two special initiatives for mobilization of resources for agriculture involving government funding and/or support that ought to be mentioned are the SAGCOT scheme and the Tanzania Agricultural Development Bank (TADB).

The **SAGCOT** programme[28] is one of the components of BRN hinged on supporting small-holder farmers in a context of large-scale farmers such as the Kilombero Plantations Limited (KPL- for rice growing) and the Bagamoyo Sugar complex. It is said that over 71 agencies both private and public have been involved in the SAGCOT arrangement, by providing so far over $300 million for its implementation[29]. The specific projects being supported include: (i) Mafinga (Iringa) tea growing scheme managed by Uniliver company, (ii) Kilombero rice production improvement (managed by the Kilombero Plantation Ltd in collaboration with about five private companies[30], and (iii) Bagamoyo Sugar Infrastructure & Sustainable Community Development Programme (BaSIC), which is being implemented within the PPP framework. This is a huge project intended for production of ethanol from a sugar plantation. It spans over 22,000 hectares, and will also involve peasant farmers as sugarcane outgrowers.

23 MAFC Minister's 2015/16 Budget Speech
24 Policy Forum Budget 2016/16 Position Statement
25 The Ministry of Energy and Mining for example by end of May 2015 had received only 35% of the its approved 2014/15 Budget (TZS375.76 billion out of TZS 1.07 trillion).
26 CAADP Comprehensive Africa Agriculture Development Programme
27 In a Maputo Declaration of 2003 African governments pledged to allocate 10% of their national budgets to agriculture by year 2008. To date, Burkina Faso, Ethiopia, Ghana, Guinea, Malawi, Mali, Niger and Senegal have exceeded this target and most countries have made significant progress towards this goal (ECDPM Paper No. 158 of February 2014).
28 Source: Business Times 29 May 2015
29 Speech by Minister of Agriculture to Parliament in June 2015.
30 i.e. SEED-Co, Syngenta, YARA, Clinton Development Foundation, Mtanga Foods Ltd and Silver Lands Ltd.

So as to be assured of funds, SAGCOT has created SAGCOT Catalytic Trust Fund, already with pledges amounting to about $100 million, contributed by a wide range of donors such as USAID, DfID, World Bank, UNDP and even GOT (latter with $1.0million). As for the **TADB**, it is expected to provide the bulk of farming credit, especially to small growers. Its initial financing operations are expected to commence before the end of 2015.

TOURISM

Tanzania has been proclaimed as one among the top tourist destinations in Africa, It boasts of exceptional attractions for international tourists, *inter alia* including: the Ngorongoro Crater, Serengeti national park, the famous Mount Kilimanjaro, and the spice islands of Zanzibar.

The number of tourists entering Tanzania and the tourist revenue have been growing significantly in the last few years. **Table-6** shows that growth in numbers of tourists in 5 years from 2010 to 2014 was about 27% and in revenue 58%, implying that the country was gaining more in revenue collection than in the growth of sheer numbers of tourists.

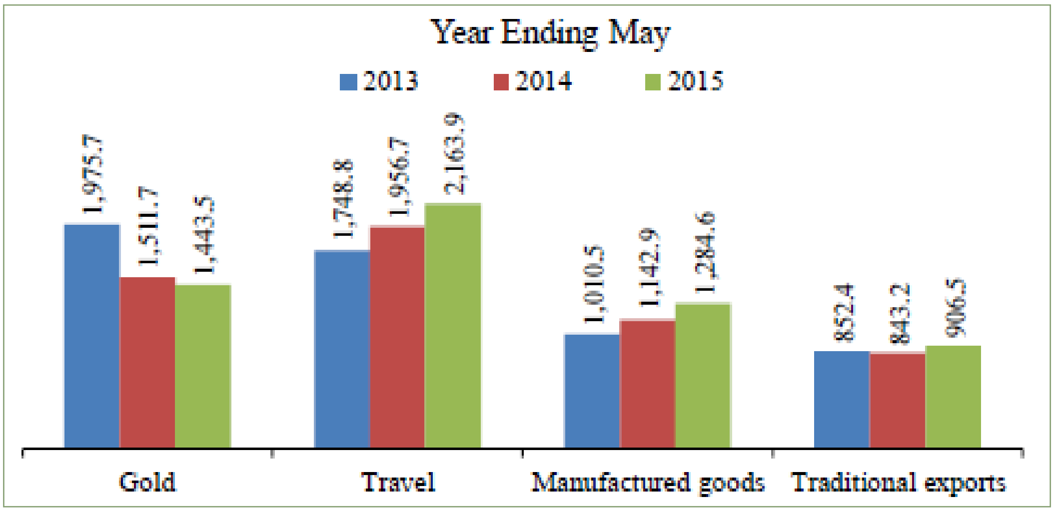
Table-6: Tourism Sector Performance between 2010 and 2014

2010		2011		2012		2013		2014	
Numbers	US$Mn	Numbers	US$Mn	Numbers	US$Mn	Numbers	US$Mn	Numbers	US$Mn
782,699	1,254.5	867,994	1,324.83	1,077,058	1,712.75	1,095,884	1,853.28	1,102,026	1,982.98

Source: 2012 and 2014 National Economic Surveys

By 2013 the earnings from tourism outdid those from gold (US$1.74 billion) in terms of foreign exchange[31], thus gold securing the second place after agriculture, with nearly 25% of total export earnings. A similar position has been maintained in 2014 (**Chart-2**) and is likely to remain so in 2015 given the not-sothus, brilliant prospects with respect to gold exports as described below in the section on Mining.

Chart-2: Export Performance of Selected Goods and Services (in US$ Million)[32]



Source: Bank of Tanzania, Tanzania Revenue Authority crop boards andcommercial banks.

In fact the tourist sector contributed about 17.5% to GDP in 2013 and over 17% in 2014. Reasonable earnings from tourism have been achieved in the last two years despite the threat from ebola disease, as well as the impact of terrorists in Kenya. Tourism has still more potential to enhance its contribution to export earnings and GDP, and three strategies have been proposed in this regard. One is to expand tourism away from concentration on the northern circuit; the second is to diversify activities from the current emphasis on high-end tourism, to capture more modest travel budgets, as well as local and regional visitors.

[31] BOT (though this is because in 2013 the price of gold dropped in the world market)
[32] Chart derived from BOT MER for June 2015.

Projections suggest still high potential for tourism growth. Estimates of arrivals in 2015 are difficult to predict; but the ebola threat has gone away but the terrorist impact from Kenya and Somalia continues to increase the risk to travel to the East African region; while the 2015 General Elections could create uneasiness among potential visitors.

MINING SECTOR AND NATURAL GAS

Though the mining sector is relatively small in terms of its contribution to GDP (contributing only 3.7% to GDP in 2014[33]), its importance is more pronounced in its share of the country's export revenues. It is anticipated that by 2025, this proportion will rise to more than 10%t of GDP[34]. In 2014 the performance of the mining sector, especially gold was affected largely by instability in the world market and to some extent declining output in Tanzania. Thus revenue from gold exports fell to US$ 1,640 million in 2014 from US$1,735 million of 2013 (i.e. a gap of 5.5%). Nonetheless, related government revenues from mining taxes and royalties were higher in 2014 compared to 2013 (TZS 415.2 billion versus TZS 327.3 billion respectively).

Management of Natural Gas Activities

More encouraging news continued to flow from Tanzania's natural gas exploration and exploitation activities. It was confirmed in Parliament in June 2015 by the Minister of Energy and Mining that Tanzania's current natural gas reserves are about 55 trillion cubic feet (tcf), rising from 46.5 tcf reported in June 2014. The new findings are the results of new exploration activities by oil companies such as Statoil, Exxon Mobil, BG Group and Ophir Energy. Progress on the construction of the pipeline connecting offshore natural gas fields from Mtwara and Lindi regions to Dar es Salaam is so advanced that the pipeline could be commissioned in september this year (2015). What it means is that commercial operations involving gas processing plants could go ahead by that date.

[33] Annual Economic Survey 2014
[34] Tanzania Mining Policy 2009

While the progress in natural gas development is so encouraging, ESRF has been promoting a dialogue on effective management of this resource in particular, and for both oil and gas in general. In 2013 ESRF organized a stakeholders' discussion on the topic; and one of its main messages was that caution must be exercised in dealing with the gas prospects: above all that the gas revenue boom is not yet in sight that soon, since critical infrastructural impediments must be overcome before real impact on the economy can be seen. This may be anytime between the next 5 and 10 years to come. Another sobering suggestion was that a longer-term outlook is imperative so that the country focuses on gas revenues within the context of its impact on the future Tanzania economy as a whole, and not by just looking at the natural gas revenue absolute figures. In other words, questions must be answered as to what and where the money will be spent, who benefits and how the revenue inflows will be used to promote growth in other sectors.

The other related ESRF initiative was an internet network discussion in 2014, organized through its TAKNET forum on natural gas potential benefits and mechanisms for installing effective natural gas management. The TAKNET exchanges were summarized in an ESRF Brief No. 020 – 2014. It hailed the publication of the Natural Gas Policy, which *inter alia* heralded establishment of a Natural Gas Revenue Fund to facilitate efficient management of the gas revenues, so that maximum transparency and accountability are imposed over their collection, allocation, and expending. Thus while the overwhelming majority of well-informed people support the idea of establishing the Natural Gas Revenue Fund or what internationally is equivalent to a Sovereign Wealth Fund (SWF), some TAKNET participants cautioned on being too optimistic.

The hesitation is based on past experience in Tanzania about the tendency to develop brilliant plans, on which nonetheless enthusiasm quickly. The other concern is that in some African countries where similar funds have been established, the resources often get captured by unscrupulous leaders prone to rent seeking and even direct embezzlement.

Oil and Gas Revenue Management Bill 2015

A more concrete action by GOT in establishing an instrument akin to the SWF mentioned above was unveiled in Parliament in July 2015 under a certificate of emergency[35] in the name of *Oil and Gas Fund via the Oil and Gas Revenues Management Bill, 2015*. It was passed on July 5, 2015[36]. Among its key tenets is the establishment of a dedicated monitoring committee, called the Extractive Industries, Transparency and Accountability Committee, to ensure transparency and accountability in the management of the gas reserves and their extraction. In this context, the BOT will play a key role in receiving and disbursing oil and gas revenues, as well as maintenance of the country's fiscal and macroeconomic stability, guaranteeing financing of key investments within and outside the oil and gas sector to enhance social and economic development in the country.

The Bill also evokes the need for safeguarding resources out of the oil and gas revenues for future generations. The actual revenues will be accessed through collection of due royalties, the sharing of profits and dividends derived from government participation in the oil and gas operations, as well as the usual corporate income tax at various stages of the oil and gas value chain. The Fund money will also be invested in appropriate saving investment instruments, upon which investment returns will accrue.

The Oil and Gas Revenue Management Bill was tabled to Parliament alongside with the Tanzania Extractive Industries Transparency and Accountability Bill. The former bill includes stipulation for establishment of a Petroleum Upstream Regulatory Authority (PURA), to regulate and monitor the petroleum business upstream. The latter Bill aims at securing transparency and accountability of extractive industries in general, so that government can meet the challenges faced in managing extractive industries, in order that they contribute more to GDP growth, by means of providing requisite resources for investment. The two bills were passed by Parliament after a heated debate and a walk out by the opposition MPs, who protested over the rushing of presentation and approval of such strategic initiatives, that by so doing does not provide sufficient time and space for sober discussions by stakeholders.

TRANSPORTATION[37]

Tanzania's large territory (945,087 sq.km) is served by a wide network of transport infrastructures, comprising four main modes of transport, namely: (i) Railways, (ii) Ports, (iii) Airport/Airlines and (iv) Roads. One of the most distinctive aspects of Tanzania' transport facilities is that they also ease access to the sea for 6 land locked neighbouring countries (Zambia, Rwanda, Burundi, Uganda, Malawi, and DRC[38]); through the gateway of Tanzanian ports. Even Zimbabwe also uses the Dar-es-Salaam port although mainly for vehicle importation. The latest transport developments covered in this QER concern the railways and harbours, which were among the other points highlighted in the Speech of the Minister for Transport during presentation of the Ministry's 2015/16 Budget in Parliament. Key aspects of the Railways and Harbours are as follows:

(i) Railways

Two main railway networks in Tanzania provide both freight and passenger services. These include: (i) The Central Line (2,715 km) linking Dar es Salaam with central and western Tanzania regions, operated by the Tanzania Railways Limited (TRL); and (ii) the TAZARA (1,860 km) linking Dar es Salaam through Mbeya region to Kapiri Mposhi in Zambia .

TRL Railway

The TRL railway is an old line, and its services

[35] This procedure allows Bills to be presented in Parliament in a hurry to reflect an emergency that cannot wait for the usual 21 days notice after publication in the Government Gazette, plus time for the parliamentary committee procedures. It is difficult to see what was that emergency situation, by merely reading the content of the Bills or available information on the internet.

[36] On Sunday

[37] Information in this section is largely derived from the Speech of the Minister of Transport to parliament in May 2015

[38] This refers mostly to eastern DRC

have been declining over the years. TRL could carry 1,446,000 tons of cargo in 2002. By 2012 the network could afford only about 154,000 tons, going down further to 127,000 tons in 2014. Thus by 2012 TRL carried on 5% of the country's freight, compared to about 70% in 2002. The main cause for the decline has been poor state of train engines and train-wagons. Similarly, the number of passengers carried by the TRL has also been dwindling, from 685,000 passengers of 2002 to about 227,000 in 2011[39]. There was a moderate increase in 2012 to 339,000 passengers, then to 373,000 by 2013, though again a sharp fall was experienced in 2014 to 170,000.

In order to revitalize the Central Line, the mainstay of TRL operations, a number of priority investments have been underway. The most recent ones include: (i) large-scale overhaul of the rail route from Dares Salaam to Tabora, including repair of key bridges so that they can withstand heavy freight; (ii) purchase and/or repairs of 14 engines and 274 rail-wagons[40]; (iii) significant improvement of rail platforms especially at Isaka, Ilala and Dar port, and (iv) expanding capacities of training institutions run by the Ministry of Transport, SUMATRA AND TRL. Work on all the above plans has been in progress and was funded under the 2014/15 Budget and is provisioned for under the new 2015/16 Budget as well.

The plan to construct a new line along the central railway (Dar-es Salaam to Kigoma, some 2,561 km) with internationally accepted wide gauge is at the stage of preparation of project documents to facilitate mobilization of requisite finance and attract joint ventures. The intention is to start construction before end of 2015, for which funding has been identified or negotiated from China (about $14.2 billion[41]) and the World Bank ($300 million[42]). Commercial loans from a consortium of banks (possibly including those from China) under a 20-year repayment period are under negotiation.

An important user of the TRL is the DRC. The TRL rail handles significant DRC cargo offloaded at the Dar port. In 2014 the port handled 1,577,000 tons of cargo for this country. By comparison, the port of Mombasa handled only 407,727 tons for DRC or about 25% of the cargo handled by Dar port. One of the innovative ideas of servicing DRC, as an important client of TRL, that has been launched is the introduction of block cargo trains that could make dedicated direct deliveries to DRC. This initiative is a way forward to facilitate the fastest movement of cargo to be loaded at the Dar port and offloaded only in the final destination.

If the scheme will be successful, it will be extended to perform similar services to Burundi and Rwanda via the Isaka dry port. More efficient TRL haulage of Rwanda cargo will guarantee that Rwanda does not switch off its sea access route in favour of the competing port of Mombasa, as Kenya with Uganda are hastening construction of a new international gauge standard rail line from Mombasa to Kampala to be extended to Kigali in Rwanda. It should be recalled that in 2014 the Mombasa port handled 235,912 tons of Rwandan cargo which is about 37% of the Rwandan cargo handled by Dar es Salaam port destined for the same country[43] [44].

A project related to decongestion of the Dares Salaam port, and easing pressure on the TRL central line, is the discharge of oil and oil products at Tanga port. This initiative is in a more strategic sense linked to a proposed deep water harbour at Mwambani in Tanga Region, as well as a standard gauge railway from Tanga to Musoma that was the subject of comment in QER-I of 2015.

TAZARA

The TAZARA rail line has been running rather poorly for a number of years, due to ineffective management, financial difficulties as well as lack of smooth maintenance of facilities. By 2002 TAZARA could carry 677,000 tons of cargo and 1,212,000 passengers. By 2012 the TAZARA

39 Economic Survey 2012.

40 The snag here that could cause delay in the progress of the project could be investigations about suspected irregularities revealed in Parliament March 2015 about the purchase of the rail wagons from India.

41 CMA CGM/DELMAS ISSUE 16 APRIL 2015.

42 Though this covers other components such as those related infrastructures, improvement of the traffic operations, and the network regulation.

43 The Citizen of 12 April 2015 quoting the PTA Director General

44 The East African Business Week of 14 June 2015

managed to carry only 339,094 tons of cargo (a fall of about 50%) and 793,231 passengers (a decline of about 44%)[45]. Therefore, large-scale TAZARA rehabilitation has been an urgent preoccupation by both the Zambian and Tanzanian governments in the last few years, involving plans for reconstruction, re-equipment and restructuring of TAZARA facilities. A five-year strategic plan for 2013 – 2018[46] with an indicative budget of $211 million serves as the guideline for the rehabilitation effort.

The original financier (CHINA) of TAZARA has been reverted to in this regard for financial assistance, while additional counterpart contributions by the TAZARA co-owners (Zambia and Tanzania)[47] should be forthcoming and have been provisioned for in the GOT Budgets for 2014/15 and 2015/16. The Five-Year TAZARA Plan envisages traffic growth from 480,000 tons in 2013 to 1.5mn tons by 2018[48]. By May 2015, a number of activities under the plan had been accomplished, including purchases of 6 new engines, 90 new wagons and rehabilitation of about 9 engines as well as workshops and related facilities[49].

General Comment

There is no doubt that rehabilitation of the two railway systems (TAZARA and TRL) is an urgent matter for GOT. The systems compete with other alternative land transport modes in two areas, as follows: (i) with the roads within Tanzania especially over a long distance cargo haulage, and (ii) with other countries' railway systems. Compared to road transport, the railway can withstand bulk haulage fairly well: for instance, 24,000 tons being ferried on TRL network per month at present might require about 800 lories to do the job[50]. In other words, rail transport of cargo can provide benefit in economies of scale and cost effectiveness as trains burn less fuel on equivalent distance/load hauled, besides saving roads from wear and tear. For land-locked countries that depend on the Dar port, Tanzania has a natural advantage that she can tap to provide foreign exchange revenue in substantial amounts, provided its harbor and rail systems are able to compete with alternative gateways. These are the ports of Mombasa (Kenya), Beira and Nacala (Mozambique) and Durban (South Africa).

The DRC alternative port of Matadi at the Atlantic Ocean coast in DRC is only a nominal challenger to Dar port because of the enormous land transport hardships in that country's large territory. At present about 35% of the cargo offloaded at the Dar port is transit cargo to other countries[51], 25% of which is going to DRC[52], and the rest is shared between 6 other countries of Uganda, Rwanda, Burundi, Zambia, Malawi and even Zimbabwe. Appropriately, the improvement of the Dar port performance is top priority of GOT as highlighted in the BRN for the transport sector. And it is encouraging in this regard that significant improvements have been recorded in the past couple of years. Encouraging indicators of this include rise in cargo being handled and drastic reduction of loss (often stealing) of cargo. As a result , the Dar port handled a total 12.7 million tons in 2014/15 (up to May 2015) compared to 10.3 million tons in the same period in 2013/14[53]. The ship turn-around at the port has been reduced from 4,8 days in May 2014 to 3.1 days[54] in May 2015.

POWER SECTOR DEVELOPMENT

A detailed Brief on the status and challenges of the power sector was presented relatively recently, in QER-IV of 2014. It summarized the situation at that time regarding important aspects involving the country's power demand, consumption, production and planned activities of the sector. It also informed on efforts made in finding solutions to the challenges facing the power sector, particularly in mobilizing finance and implementing planned projects, with more focus on electricity as the main power source for the economy. In the current QER some updates

45 QER-4, 2013
46 Source By The guardian 17th December 2013
47 The relevant contributions by GOT have been provided in the 2014/15 and 2015/16 Budgets accordingly
48 Speech by Minister of Transport and Communication to Parliament on the 2015/16 Budget
49 Ibiden
50 Ibiden
51 TPA source (TPA = Tanzania Ports Authority)
52 The Tanzania Business Times of 05 June 2015 10:02
53 Speech by Minister of Transport and Communications on 2015/16 Budget
54 Ibiden

are provided on the development of the power sector based on the 2015/16 Budget Speech by the Minister of MEM in Parliament in June 2015. The Minister highlighted the progress being made, *Inter alia*, in the following areas as good examples:

(a) Completion of installation of natural gas power turbines at Kinyerezi-I to facilitate production of 150 MW (in the context of BRN for the power sector);
(b) By end of 2014 total electricity produced was 6,285GWh, a rise of 4.8% from 5,997GWh in 2013, of which 95.99% was linked to the national grid;
(c) Plans are going on to expand power production at Kinyerezi-I from 150MW to 185MW during 2015/16; and to start construction in 2015/16 of Kinyerezi-II (240MW) with $344 million credit from *Sumitomo Mitsui* Banking Corporation (SMBC) and Japan Bank for International Cooperation (JBIC) (as well as contribution from the GOT Budget);

Pictures of Kinyerezi-Power Site and the Production Unit

Internet Pictures (source unspecified)

(d) The Mtwara – 600MW power project based on natural gas is underway, being implemented jointly by TANESCO and Symbion Power Ltd;
(e) Extension of electricity power coverage to 8 district headquarters (in Busega, Chemba, Itilima, Kalambo, Kyerwa, Mkalama, Mlele and Nanyumbu;
(f) Kiwira Coal Power project (200 MW); and
(g) Implementation of other mid-size power projects, which include: Rusumo hydro-power (80 MW), Mchumchuma,and Ngaka Coal power project and others.

Electricity power is lifeline to the economy and social amenities, particularly power for homes, industry, social and administrative activities. Frequent power failures, shortages and voltage fluctuations in Tanzania are a major drawback to growth of manufacturing activities as indicated in QER-I of 2015. That QER further elaborated that losses in manufacturing due to power problems total around TZS 31.7 billion per year. In addition, significant taxes to government are missed and about 7,340 jobs might have been lost in the past few years, attributed to power shortages.

In recognition of its importance, the government has continued to accord high priority to the power sector. It is one of the key components of the BRN concept. Due to scarcity of financial resources[55], however, strict prioritization will have to be made in the actual allocation of public funds in the 2015/16 Budget. These among others include use of the natural gas and the rural electrification programme, it being understood that the bulk of financing of big investment projects will rely heavily on private financing or PPP[56] arrangements. A major part of government finance will be underpinned by donors who have already shown keen interest in supporting the energy sector, such as China, USA, AfDB and the World Bank. According to TanzaniaInvest, Tanzania has power projects planned or underway worth about US$ 16.8 billion[57].

[55] It is noted that under the 2015/16 Budget, by 20 May 2015 out of TZS 375.76 billion allocated to MEM as a whole, thus including energy and mining votes, only 35% had been disbursed.
[56] PPP = Public Private Partnership.
[57] TazaniaInvest 14 December 2014

SPECIAL THEME PAPER ON THE 2015/16 BUDGET: A SUMMARY AND CRITIQUE

[This paper was prepared by Dr Hoseana Bohela Lunogelo[58]]

INTRODUCTION

Tanzania's population depends overwhelmingly on agriculture production: 75% of the population is in rural areas. According to the 2014 national economic survey, Tanzania has maintained a high economic growth (GDP), averaging 6.8% over the last two decades. In 2014 Tanzania's GDP grew by 7% compared to 7.3% in 2013.

The analysis of sectoral contribution to GDP in 2014 shows that, services had the highest share of 41.3% followed by the agriculture (28.9%), manufacturing and construction (21.7%-of which manufacturing contributed 5.6%). In 2014, fastest rates of growth were recorded in the construction sector, which grew by 14.1% compared to 14.6% in 2013; followed by transport and storage by 12.5%; financial services and insurance by 10.8% and trade and repairs by 10.0%. Agriculture, which supports the livelihoods of most Tanzanians expanded by 3.4% compared to 3.2% recorded in 2013.

The attainment of the above economic performance has been facilitated by, among others, supportive government strategies, policies and plans which include the five year development plan, Tanzania vision 2025, MKUKUTA II, BRN and sectoral programmes. The national Budget in this context is therefore a key instrument in implementing the set policies and programmes of the country.

This Special Theme Paper or Brief summarises the main features of the 2015/16 Government Budget and the extent it has met stakeholder expectations. The Brief also provides a critique on gaps and areas that seem to have been underrated. It is noted that some of the points expounded in great detail in this Brief have been evoked in transient fashion in the preceding chapters of the current QER.

UNDERLYING PERSPECTIVES OF THE 2015/16 BUDGET

(a) The Influence of Overarching Policies in the Preparation of the 2015/16 Budget

The preparation of the 2015/16 budget was guided by, among many factors, the country's medium and long term socio-economic development perspectives, mostly taking into account the final budget for implementing the 2011/12 -2015/16 Five Year Development Plan (FYDP), which is coinciding with the end of MKUKUTA II; and the general election for a "fifth phase" government (i.e. starting October 2015 to October 2020). Part of the costs for the general election include issuance of new biometric voter registration cards and paying terminal benefits for members of parliament and councilors whose term expires at the end of August 2015.

The government has also prioritised completion of ongoing rural electrification and water supply projects, which are essentially seen as vote winners in addition to being critical in improving the quality of human development. Other priority projects and programs with a higher multiplier effects under the Big Results Now (BRN) initiative include attaining food surplus in the agricultural sector, improving the country's transportation network, with emphasis in connecting districts and feeder roads, science education in secondary schools, improved health care and business environment.

In order to succeed in implementing these programmes, the question of domestic financial resources mobilization has also been given priority. This included taking a new stance on discretionary tax exemptions, adopting a new VAT Act and new strategies for identification of super strategic investors not only for the purpose

[58] Dr. Lunogelo is former ESRF Executive Director and currently is Senior Research Fellow at the ESRF. The original paper has been edited slightly by the QER Technical Editor in order to fit it into the entire QER in respect to size and to harmonize the information provided throughout the QER.

of tax collection, but also for the purpose of employment creation among Tanzanians.

(b) Influence of 2014/15 Key Performance Features in the Preparation of the 2015/16 Budget

Performance of indicators and pillars for the 2014/15 budget, such as fiscal discipline, inflation control and revenue collection for 2014/15 formed the basis for formulating the 2015/16 budget, including projections for economic growth. Until end of April 2015 during the 2014/15 financial year, actual revenue collection was only TZS 8,640.9 billion, thus falling short by 30.8%t to reach the set target of TZS 12,495.5 billion (**Table-7**). LGAs contribution had also fallen short by 35.3% to reach the respective collection target of TZS 458.5 billion.

Table-7: Revenue Collection Performance in 2014/15 by April 2015

	% of Target	Actual (TZS Bil)	Target (TZS Bil)
Central Govt Revenue	69.2%	8,640.9	12,495.5
Non-Tax Revenue	62.1%	534.4	859.9
LGA Own Revenue	64.7%	296.7	458.5

Source: MOF Minister's Budget Speech for 2015/16.

For the FY 2014/15, the Government had expected to receive TZS 2,941.5 billion as grants and concessional loans from Development Partners (DPs), However, as indicated earlier in this QER, until April 2015, the actual budget support (GBS) contributions received amounted to TZS 408 billion, which was only 13.9% of the promises[59]. The most obvious and negative consequence of the combined shortfalls in revenue collection by government and failure to keep donor promises was under-deployment of financial resources for development programmes, which by March 2015 had received only 38% of the expected resources by end of June 2015.

REVENUE RESOURCES

(A) Budget Resource Constraints Regarding Domestic Revenue Collection and Donors' Wavering In Providing GBS

The government had planned that during 2014/15 it would raise more revenue from existing sources, in addition to identifying new sources; as well as strengthening tax collection systems. This included the deployment and widening the number of outlets that use Electronic Tax Devices (EFDs), introducing special taxes on usage of mobile phones (whose revenue could be directed to rural energy and vocational training) and mandating LGAs to collect property taxes. There were also plans to implement recommendations from a study to eliminate tax exemptions, streamline transit cargo management to plug loopholes for dumping, rationalise tax holidays for foreign investors and apply new levels of royalty fees for mining ventures. Unfortunately the plans were not fully implemented as planned.

To start with, small and middle sized businesses staged a countrywide boycotting of the EFDs, citing various reasons including the high cost of the devices, programmed language and unfriendly protocols in EFDs application. This came as a surprise because the gadgets have been in use more than five years on a pilot basis and the Ministry had assumed it was high time it was rolled out to cover more traders. The Treasury also failed to eliminate import duty and VAT exemptions to the same level of other EAC member-states. It also backed down on the simcard tax initiative as MPs protested under the pretext of safeguarding the interest of common people.

In order to cover up for the underperformance in the 2014/15 fiscal year, the government resorted to relatively more expensive commercial loans on the domestic and foreign markets. The country's debt stock by end of 2014 consisted of 73.2% as external debt and 26.8% as internal debt.

[59] This translates to TZS 40.8 billion per month, and therefore could be projected to TZS 489.6 billion by end of June 2015, or equivalent to 16.64% of the FY 2014/15 target.

The depreciation of Tanzanian shilling against the US Dollar has worsened the burden of servicing the accumulated interest on arrears on the debt.

What is worrying for the 2015/16 Budget is the ambition to raise revenue to as much as TZS 22.48 trillion, an increase of 15% compared to the previous year's Budget of TZS 19,853.3 billion (table-8). The main reason for the worry is that although GOT had planned to collect TZS 12,495.5 billion from own sources, in 10 months by end of April 2015 it had collected 70.9%, which is only TZS 8,640.9 billion. This is equivalent to TZS 865.1 billion per month. By extrapolation, the government could realistically manage to collect only TZS 10,369 billion instead of the annual projection of TZS 12,495.5 billion for 2014/15 until end of June 2015.

This translates to about 85% of target for 2014/15. This means if government was to be more pragmatic, it would have raised its own revenue budget by 15%[60] to just TZS 12,175 billion (literally freezing at 2014/15 budget levels). And given that external donors had also failed to meet their obligations, there was also no basis to raise the bar for resources from external sources. But then it would appear the political calculus, especially in an election year, demands that government demonstrate a more optimistic stance and ambition so as to fulfil all unfinished businesses.

Consequently, GOT set a high goal to raise own sources, to about TZS 14.82 trillion. In this endeavour, however, the government plans to reduce the Budget for development expenditure by 26% to about TZS 5.92 trillion in 2015/16[61], thus lower than the Budget of TZS 6.47 trillion in the previous year. The government decided to reduce its expectation from donors, although not very drastically, considering that it was expecting to receive only 16.64% of DPs' commitments for the development budget for the FY 2014/15[62].

Table-8: Comparison of Levels of Approved Budget for FY2015/16 Compared to Actual Collections in FY2014/15

	Column1	Column2	Column3	Column 4
	Approved Budget for 2014/15 (TZS Billions)	Estimated Actual Performance of 2014/15 Budget (TZS Billions)	Approved Budget for 2015/16 (TZS Billions)	Percent Increase Compared to Estimated Actual Budget Performance in Previous Year (Col.3 minus Col.2 over Col.2)
Total Budget	19,853.3	16,875.3	22,480	33.2 %
Domestic (own) Revenue	12,495.5	10,369.0[a]	14,820	42.9 %
Local Government Own Sources	458.5	356.04[b]	521.9	46.6 %
Development Budget	6,470.0	3,093.7[c]	5,919.1	91.3 %
External (DPs) Support	2,941.5	489.6[d]	2,322.5	374.4 %

Notes: [a]projected to June 2015 based on actual collection of TZS 8,640.9 by end of April 2015. [b]based on actual collection of TZS 296.7 by end of April 2015 (had attained only 65% of the FY target). based on actual disbursement of TZS 2,578.1 by end of April 2015. [d]based on 13.9% target performance by end of April 2015 and projection of TZS 489.6 billion or 16.64% by end of June 2015.

(B) The Merits or Downside of New Taxes and Tax Exemptions Announced in the 2015/2016 Budget

The reform of the tax regime, comprising imposition of new and varying tax rates, reviewed fees, levies and charges imposed through various laws, aim at improving collection systems and administration in order to enhance Government revenue collections. Among the new taxes and tax

60 Just to cover for inflation and depreciation of the TZS against the USD.

61 Compared to a budget of TZS 6.47 trillion in the 2014/15 budget, which by March 2015 had been funded by less than 40% of the fiscal year's target. The government therefore decided to be more pragmatic in this area by reducing by 26% the budget for this financial year.

62 Donors were expected to provide TZS 2.942 trillion as grants and concessional loans during the FY 2014/15. However, until April 2015 they had released only TZS 408 billion (13.9% of the promised amount).

exemptions which are expected to have impact on the revenue collection and tax administration systems include:

Income Tax Changes

In this area, it was particularly observed that the Government has further reduced Pay-As-You-Earn (PAYE) lowest tax rate from 12% to 11% so as to benefit low income earners. Cumulatively, this is a 41% tax reduction over a period of nine years in an effort to reduce citizens' tax burden. In the same spirit, the government has increased the minimum monthly wage from TZS 170,000 to TZS 265,000. This move will translate into a net increase of TZS 12,350 per month for employees.

Tax Exemptions on Loans and Bonds

The Government has also removed tax exemptions on contracts between the government and various institutions on non-concessional loans with effect from 1 July 2015. This is geared towards increasing the revenue by TZS 47,212.2 million. Purchasers of bonds issued by the East African Development Bank in the Tanzanian domestic capital market will also be exempted from tax payments. This measure is intended to enhance the Bank's ability to offer low cost loans for investment in various development projects, such as infrastructure projects.

Effecting Change in the Value Added Tax (VAT) Act 2014 from 01 July 2015

The new VAT Act has exempted the following items: agricultural implements and inputs; fisheries implements; medicine or pharmaceutical products; and, capital goods. The VAT Act 2014 has also reduced the powers of the Minister Finance or TRA Commissioner to grant exemptions on payment of VAT, with a view of boosting revenue collections.

Customs duty charges

The government has also recommended the following changes in the administration of Common External Tariff (CET) and suggested new exemptions for one year (**Table-9**):

Table-9: Special Tax Rates Applicable in FY2015/16

	Type of Tax applied for under CET	Commodity or Item	EAC CET Rate	Applied Special Tax Rate
1.	Extension of CET exemption for 1 more year	Wheat grain	35%	10%
		Raw materials for soap manufacture	10%	0%
		Passenger buses for more than 25 passengers	25%	10%
		Plastic tubes for toothpaste	10%	25%
		Steel products (bars, rods, angle bars, shapes and sections)	10%	25%
2.	New Exemptions applied for one year	raw materials (semolina) to make pasta and spaghetti		0%
		sticks used to make match sticks (under duty remission scheme)		0%
		Glucose syrup identifiable products (HS code 1702.30.00) used in manufacturing candy products		0%
		fibers used in making fishing nets		0%
		Goods for the Armed Forces Canteen Organization and goods imported for office use only by the Armed forces, Police and Prisons Forces		0%
3.	Special import duty rates per ton	Sugar (US$ 200 to US$ 460 per ton)	USD 200	USD 460
		Rice (US$ 200 to US$ 345 per ton)	USD 200	USD 345
		Industrial Sugar	10%	50%[a]

Note: [a]*50% import duty paid on entry and a refund of 40% is given on proof of its usage in local industries.*

For sugar imports meant for industrial use a special procedure introduced such that importers will deposit 50% of the value as import duty but will get a refund of 40% following provision of proof of proper use. This has been taken to discourage diversion of tax exempted industrial sugar into ordinary domestic use.

The government also raised the duty on imported sugar from USD 200 per metric tons to USD 460 per metric ton or 100 per cent of the CIF value whichever is greater. It also raised the duty on imported rice from USD 200 US dollar per metric tons to 345 US dollar per metric tons or 100 per cent of CIF value whichever is greater (**Table-9**).

Railway Development Levy (Infrastructure levy)

The Railway Development Levy of 1.5% of Cost, Insurance and Freight (CIF) value of all imports except exempted goods under EACMA will be used for the Railway Infrastructure Improvement project. The government plans to spend USD 14.2 billion to construct a new rail network in the next five years cofinanced with commercial loans.

This will be part of plans to make optimal use of the country's strategic geographical positioning to become a regional transport hub. The plans go in tandem with upgrading of existing railways network to serve growing economies in the land-locked heart of Africa[63].

Modifications of Tax Exempt Items under the Tanzania Investment Centre Act

The government has removed from exemption list on deemed capital goods under the Tanzania Investment Centre Act items such as flexible tubes, hives and hosepipes, having a minimum burst pressure of 27.6 MPa (HS Code 3917.31.00). This is because the said goods are now manufactured in Tanzania, and there is need to protect and promote local industries, to increase employment and government revenue.

Also removed from the list of exemptions are lorry trailers, which are now locally assembled. The TIC Act has also been revisited such that strategic investors are now required to meet the following qualifications:

(a) Capital threshold of not less than $300 Million or its equivalent in cash and assets.

(b) Capital should be processed in local financial institutions including local insurance companies.

(c) The strategic local investment should create employment for not less than 1,500 local citizens, including a satisfactory number of local employees in the top management.

(d) Generate foreign currency or to manufacture alternative products to those imported.

(e) Semolina/spaghetti to enjoy reduced customs duty for one year.

Vocational Education and Training Act

This entails reintroduction of the exemption of Skills and Development Levy (SDL) on the agricultural sector, in order to give tax relief on agricultural activities that depend largely on farm labour, before getting the benefit from investments in agriculture. It will give a sigh of relief for farmers!

The Export Levy Act

This is an increase of export levy on export of raw hides (reduced last year); and introduction of export tax on wet blue leather at 10% of FOB value, both aimed at discouraging exportation of unprocessed hides.

The Gaming Act

(a) The Government has proposed to charge the following taxes and fees with regard to betting and lottery in order to increase the Government revenue by TZS 12,275.2 Million.

(b) Imposition of 18% WHT on the winning prizes.

[63] See more details of this also in the main QER text above in the Infrastructure Section)

(c) Imposition of fee on principal license on sports betting of $30,000 or equivalent in.

(d) Imposition of fee on principle license on slot machines of $10,000 or equivalent in TZS.

(e) Issue of Certificate of suitability on confirmation of suitability. The fee for the certificate is TZS 1,000,000.

(f) Setting procedures for registration for gaming facilities and charging registration fees for annual inspection of devices to protect players and to detect machines not fulfilling the standards; and annual inspection of devices to protect players and to detect machines that do not adhere to the standards.

The New Petroleum Act 2015

As mentioned earlier in the Section on Inflation, GOT proposed the imposition of a new Petroleum Act. It entails levy increases justified by need to raise revenue for financing REA's rural electrification projects. **Table-10** clarifies the content of these changes.

Table-10: Proposed Fuel Levy Charges to Finance Rural Energy and Rural Roads for 2015/16

	Old Tax, TZS per litre	New Tax, TZS per Litre	Distribution of Revenue	
			Rural Energy	Rural Water
Diesel	50	100	50	50
Petroleum	50	100	50	50
Kerosene	50	150	100	50
Products for the Armed Forces and Prisons	Exempted	Taxable		

The new road and fuel toll levies resulted in the following (**Table-11**):

Table-11: Road and Fuel Toll Levy New Charges in FY2015/16

Fuel type	Old Tax rate, TZS per Litre	New Tax rate, TZS per Litre
Diesel	263	313
Petroleum	263	313

The Treasury Registrar Powers and Functions Act

The Act has been amended to set operating expenditure ceiling for all government institutions, parastatal and agencies that operate without government subsidies. The maximum expenditure will be limited to 60% of gross earnings; and 70% of the remainder has to be sent to the Government Consolidated Fund. There is a proposal by which other institutions, parastatals and agencies that currently contribute 10% of their earnings will now contribute 15%. This will provide glass ceiling alert.

(C) Government's Determination to Reduce Aid Dependency

The challenge that the government faced in accessing GBS funds in the first two quarters of the 2014/15 budget has cast a shadow on the realism of depending on GBS funds in its budget. The Government has reduced donor dependency from 24% in 2004/05 to 6.4% in 2015/16 coupled with efforts to improve domestic revenue collection and management of the obtained financial resources. However there are still challenges in achieving this goal.

For example, the 2014/15 tax revenue collections were only 12% of GDP, which is lower compared to Kenya's level of more than 18%. There are still major challenges in preventing tax evasion and the failure of large parastatals such as Tanzania

Electric Supply Company (TANESCO), Air Tanzania Ltd (ATCL), Tanzania Railways Ltd (TRL) and Tanzania Zambia Railways (Tazara) to wean themselves off Treasury bailout grants. Other challenges include the depreciation of the shilling against the US Dollar and decline in the prices of major mineral exports such as gold.

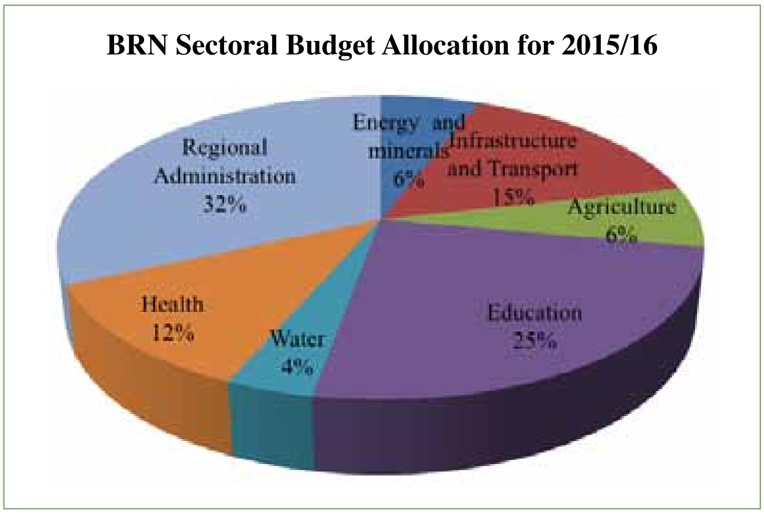
BUDGET ALLOCATION AND EXPENDITURE ISSUES

Allocation of 2015/16 Budget and its Link to Financing Big Development Expenditure Programs in the Sectors Indicated in BRN

The 2015/16 budget prioritizes investments in projects and programs with higher multiplier effects as articulated in the FYDP and already identified under the Big Results Now (BRN) Initiative ending 2015/16 (**Chart/Graph-3**). The National Key Result Areas under BRN initiatives include: energy, water, agriculture, transport, education and resources mobilization. For the year 2015/16 budget the health care and business environment is also included as National Key Result Areas.

Allocation to **energy and minerals** is TZS 916.7 billion (5.7% of the budget)[64], out of which TZS 447.1 billion is for the rural energy sector. Other notable allocations in **Infrastructure and Transport which** was allocated TZS 2,428.8 billion, which is 15.1% of the budget, of which TZS 322.4 billion is for transport infrastructure; TZS 608.5 billion is for construction and rehabilitation of roads and bridges; and TZS 9.5 billion for construction and improvement of harbours. In the a**gricultural** sector TZS 1,001.4 billion (6.2% of the budget) is allocated for strengthening irrigation infrastructure, construction of warehouses and markets in different areas. In **education** TZS 3,870.2 billion (24% of the budget) is allocated to finance quality education and improve educational infrastructure.

CHART / GRAPH - 3: Sector allocation for 2015/16



Out of this amount, TZS 348.3 billion is for advancing loans to higher education students. In **water** TZS 573.5 billion (3.6% of total budget) is allocated for enhancing urban and rural water infrastructure. In the **health sector** a total of TZS 1,821.1billion (which is 11.3%of the budget) is allocated for improving health services that include procurement of medicines, prevention of epidemic diseases, child vaccination, construction of dispensaries and control of AIDS and malaria. In **regional administration**: a total of TZS 4,947.8 billion is allocated, which is an increase of TZS 448.8 billion compared to 2014/15 budget. LGAs are

[64] The percentage to total budget excludes the Consolidated Fund Services. The same applies for the percentages referred in other sectors

expected to collect their own-source revenue amounting to TZS 521.8 billion. Likewise, the Government continues to facilitate LGAs in revenue collection through the use of Information Communication Technology (ICT), improving different legal aspects and build staff capacity so as to strengthen estimation and revenue collection.

MEASURES TO ADDRESS THE PERENNIAL PROBLEM OF ACCUMULATION OF DEBT ARREARS AND IMPROVE ALLOCATIONS FOR LGAS

Given the shortfalls in revenue collections to match the TZS 19.8 trillion budget in the 2014/15 fiscal year, the Government had to secure commercial loans on the domestic and foreign markets. Consequently, Tanzania's debt stock increased by about 21% to reach USD 19.48 billion (or TZS 35.01 trillion), of which external debt accounted for 73.2% of the national debt. The borrowed funds were directed to financing development projects, covering for the depreciating TZS against the US dollar and servicing accumulated interest on external loans. The government is prepared to address the problem of debt accumulation (arrears) mainly through more responsible borrowing (see **BOX-1**) and continued efforts on strategic domestic revenue generation, with more emphasis on new tax reforms such as abolishment of tax exemptions on all goods. The aim is to ensure equity and tax efficiency so as to minimize loopholes for favouritism and corruption in granting discretionary tax exemptions **(See Box-2)**. However, there will be strategic tax exemptions granted only to strategic investors in a transparent manner to be approved by the parliament, in additional to putting in place appropriate monitoring and evaluation mechanisms of their performance and impact on jobs creation.

> ***Box - 1:***
>
> ***Bank of Tanzania Act on Borrowing***
>
> *The Act has ben amended to enable the Government to borrow 1/8th of the previous year's government revenue, instead of the average of the preceding three year's revenue.* ***This will compel the Government to rationalise its expenditure as borrowing will be linked to ability to raise domestic revenue.***

> ***Box - 2:***
>
> *"The issue of eliminating tax exemption has been on the drawing board for the past five years as government keeps on promising to study the situation before fully implementing recommendations. The same delays have been experienced in rationalisation of sitting allowances, travel allowances and other bonuses given to public employees, which impacts a heavy burden on government's recurrent expenditure".* Author's comments.

Despite the fact that allocations to Budget Expenditure Votes have been cut, the budget deficit has increased to 4.2% of GDP in order to create space for the Government to meet its obligations including payments of verified arrears to contractors, employees' and part of PSPF liability for the 2015/16 financial year payment of TZS 163 billion to other pension funds.

The Ministry of Finance will sign performance contracts with Tanzania Revenue Authority Senior staff, with a view to ensure that the revenue collection target is achieved. Furthermore, the Government will strengthen efforts to avert tax evasion through enforcing the use of EFDs **(Box-3)** in all business transactions and the introduction of the Tanzania Customs Integrated System (TANCIS) and Centralized Price Based Valuation System, so that those systems are used throughout the United Republic of Tanzania.

These systems will significantly reduce tax evasion and eliminate the need for TRA to reassess the value of goods declared for entry into Tanzania Mainland from Zanzibar.

Non-tax revenue collections will also be improved by taking various measures including; the issuance of electronic payment on payments of charges, fine, fees, and payments made to central Government, Local Government Authorities and all Government Agencies. Ministries, Government Agencies and Local Government Authorities will have their monthly allocation reduced to the tune of the amount they fail to collect in the respective month. Other radical moves, which the government intends to implement, include:

- ✓ MOF to sign performance contracts with LGAs in order to promote effective revenue collection.

- ✓ To speed up valuation of buildings in urban centres, and also review the system of using revenue collection agencies in Local Government Authorities.

- ✓ Public corporations and agencies will be closely monitored by the Treasury Registrar in order to ensure that dividends due to the Government are paid, and surplus income is deposited into the Consolidated Fund .

Box - 3:

"In order to promote the use of EFD machines and enforce tax payment compliance, the Government will no longer do business with suppliers, contractors and other service providers who do not pay taxes promptly. Further, the Central Government, Government Agencies and Local Government Authorities will not award contracts to any suppliers, contractors and service providers who do not use EFD machines"- Minister for Finance, Budget Speech, June 2015.

- ✓ Rates for travel for the public institutions and Government agencies will be reviewed.

- ✓ Claims by suppliers without supporting LPO issued from IFMS will not be recognized as valid claim.

- ✓ Continue to emphasize on adherence to Public Procurement law to avoid awarding contracts not supported by availability of funds and thus minimize accumulation of arrears.

- ✓ Fund allocation to votes will depend on availability of fund and submission of expenditure reports.

- ✓ Settlement of arrears will be effected after verification by the Internal Auditor General. These measures are aimed at addressing the problem of accumulation of arrears.

Government resolve and discipline in reducing expenditures and its pursuit for value for money in public PROCUREMENTS

The completion of Budget Act of 2014 was expected to be enforceable starting from 1 July 2015. Treasury Registrar Powers and Functions Act, CAP 370 was amended to impose operating expenditure ceiling on all public institutions which operate without Government subvention. The main purpose of this measure is to restrict expenditures so that these institutions contribute to the Government budget significantly (Box-4). The proposed ceiling of expenditure does not exceed 60% of their gross collections and 70% of the remaining amount will be remitted to the Treasury while 30% is to be retained for development of the institutions.

It was also proposed that public institutions which were remitting 10% of the gross income to the Treasury to remit 15% of their gross income. The use of the EFDs by all Government institutions and agencies in procuring goods and services will enhance discipline. All Government institutions, agencies and local Government authorities will submit their budget estimates to the Paymaster General for scrutiny and approval; verification of arrears and claims will be undertaken; bulk procurement from producers instead of agents has started being implemented and has proved to be effective for saving revenues.

Box - 4:

"One of the areas, which has been a source of leakage of government funds is the continued use of opened cheques and/or cash payments to customers, especially in cases of compensation of citizens' assets such as farms and houses. Government should encourage anyone demanding payment from it to have a bank account into which payments should be effected".

In strengthening controls of public expenditure, the Government will continue to expand the use of Tanzania Inter-Bank Settlement System (TISS) whereby all regions in Tanzania Mainland are now connected. The Government will further expand TISS to all Local Government Authorities during 2015, for the purpose of enhancing control over public expenditures.

The Minister for Finance stressed that "… procurement of imported goods and services which are locally available should be discouraged. Where importation of some goods and services are indispensable, MDAs, RSs, LGAs, PCs and PIs should budget for payment of all related taxes and duties".

STAKEHOLDERS' REACTIONS TO THE 2015/16 BUDGET INITIATIVES

The Budget speech solicited supporting comments from the public, but it met some reservations from , especially MPs from opposition parties.

(a) The most protracted debate was centred on the merits and demerits of Budget proposals, including special fuel charges on fuel aimed at raising money for financing rural electrification. Even then, the necessity by the government to collect about TZS 139.78 billion for rural electrification projects was never questioned. MPs expressed concern that the measure (particularly fuel levy on kerosene), would make life more difficult to Tanzanians. They contended that the increase in fuel levy, would lead to new fuel-induced inflation. It was argued that higher fuel prices will compound the already increased cost of living as a consequence of exchange rate pressure on the Tanzanian Shilling. However, those in favour counter-argued that the welfare losses due to the increased fuel levy will be cancelled by benefits from a wide roll-out of electricity to rural households, which will stimulate economic production and enhance the quality of life in rural areas, and ultimately the demand for kerosene will be lessened. The benefit of rural electrification is a subject that has been studied intensively and there are plenty of examples of how that has helped to foster growth and prosperity in many countries by stimulating economic activities, promoting job creation and leading to better quality life.

(b) The Tanzania Truck Owners Association (TATOA) was concerned that the higher fuel levy on petrol and diesel will reduce the competitiveness of Tanzania's road transporters in the country. It is argued in a TATOA communiqué[65] that, "Our competitors in South Africa, Namibia, Mozambique, and Zambia and in other countries enjoy a more favourable business environment. This is because our fuel

[65] The Citizen newspaper of 24 June 2015

imports are based on the US dollar, which has appreciated by 33% over the past year, and by 54% over the last five years. The stronger dollar takes away any advantages we would have gained as a nation from the falling fuel prices." This cost will inevitably translate into higher transport costs and will be passed on to the final consumer both in Tanzania and the hinterland countries that use the Dar es Salaam Port as their gateway to international trade". It was further argued that the Tanzania shilling had depreciated by at least 26% since January 2015, compared to the Ugandan and Kenyan shillings that respectively experienced a fall of 20.9% and 10.9% over the same period.

(c) Stakeholders from The Policy Forum were concerned about how attentive the allocations were to the education's sector needs and challenges, especially in dealing with inadequate capitation grants, unresolved teachers' grievances within the sector and how the policy for providing "fee-free education" will work. This is because failure to allocate adequate funds has already begun to cause some tensions between parents/guardians and school officials with the former defaulting on their commitments to make school contributions. Government set the capitation grant per pupil or student at TZS 10,000 for primary schools in 2002 and TZS 25,000 in 2004 for secondary schools, respectively. The cost of living has since gone up and the value of the Tanzanian shilling has continued to fall. It would not be practical for Government to insist on maintaining the same level of capitation grant when its value (in terms of purchasing power) has decreased. According to the Big Results Now (BRN) implementation report for the 2013/2014 financial year, the government was only able to provide an average of TZS 4,200 instead of TZS 10,000 per primary school learner and TZS 12,000 instead of TZS 25,000 per secondary school learner.

(d) Stakeholders also expressed pessimism on the efficacy of the proposed rebate system to curb malpractices by traders who divert imported industrial sugar for domestic use. The same applied to the seriousness in streamlining imported rice to fill domestic rice supply gap. This is because there was no evidence of apprehended traders who had misused import permits to cause flooding of imported sugar and rice in the domestic market.

(e) Although Legislators passed the Budget, some MPs from the opposition parties thought that it was not realistic enough. They wondered how the government will finance the TZS 22 trillion-budget for the 2015/2016 financial year given the evidence that the Budget for 2014/15 could not be fully funded. Evidence availed by MPs showed that 80% of the 2014/2015 development funds for the PMO-RALG, for example, did not reach the intended projects, just two months before the end of the fiscal year. Some Legislators cited specific cases including that of Katavi region, where the Parliament had approved over TZS 2 billion from the Road Fund for improving the roads, but only TZS 600 million had been disbursed. In Mpanda, a total of TZS 1.1 billion was approved, but only TZS 231 million was disbursed. The chairman of Parliamentary Committee on RALG noted that a total of TZS 1.18 trillion was approved last year as development budget for the entire 2014/2015 financial year. Out of the money, the PMO and its institutions were to receive a total of TZS 431.658 billion while regional authorities were to get TZS65.599 billion and district, city and municipal councils were to get a total of TZS 682.6 billion. Until end of March 2015, three months before the end of financial year, PMO and its institutions had received 54%, while the regional authorities had received only 18% of the budgeted development funds; while only 23% of the approved funds had reached district, cities and municipal councils. He was quoted concluding that "Legislators have challenged the Government on how domestic funds can be collected to reach the target if the budget did not have a clear focus on expanding tax base, otherwise implementation of the budget will remain a dream and the country will continue to seek aid from donor countries". The Minister responsible for the water sector reported that only 36% of the nationwide projects were implemented, leaving behind 64% due to lack of funds.

(f) Developments in the gas sector will be crucial for the economic development of the country; but there remains concern and lack of clarity about how the gas policy will be implemented and just how the benefits from gas revenues will benefit Tanzania.

RECOMMENDATIONS AND CONCLUSION

The general view of stakeholders was that the 2015/16 budget projection did not provide realistic enough solutions to the perennial problem of inadequate funding of the budgets approved by Parliament due to failure to collect adequate domestic revenue and there were many unfilled promises by DPs. Some observers described the estimates as "business as usual" by raising the budget estimates without proven realistic mechanisms for raising requisite revenue and enforcing discipline on the expenditure side.

The doubts on Government's ability to collect TZS 14.82 trillion from domestic sources are reinforced by the fact that 2015/16 is an election year where any unpleasant measures to either "expand the tax base" or "tighten the belt" are politically not tenable as they may scare away voters. Otherwise it is recommended that current efforts to match the targets set in the five-year development plan with adequate funds should be encouraged; so are efforts to reduce non-priority spending.

The current approach under BRN where borrowed funds are directed to productive sectors instead of recurrent expenditure should be the norm. However, the government should desist from adding on domestic private sector debts to avoid the risk of suffocating private sector operations and fuelling inflation.

The Ministry of Finance should work in tandem with the President's Office, Planning Commission (POPC) and the Parliamentary Budget Committee, to streamline regulatory frameworks for guiding budget formulation and implementation with the objective of sorting out the chronic problem of formulating and practicing underfunded budgets.

The government should come up with a system of strictly and realistically matching revenue with expenditure and timely pursuing any agreed measures to improve tax collection and tax revenue management. The government should also strictly impose conditions to wean off financially dependent institutions such as TANESCO, which if well managed should be providing income to the government.

Plans to enable and strengthen LGAs' ability to identify revenue sources and effectively collect taxes are overdue. Suggestions had been offered in previous budgets to the effect that LGAs should enter into partnership with local players for joint interventions intended to expand the tax base and collect more revenue; but little appear to be happening. It would seem that there are some political economic considerations preventing the LGAs from proactively improving their mandates to collect more revenue.

There are some concerns, which were also raised by the special report by the Controller and Auditor General, that most of PPP projects mooted by LGAs lack the necessary attributes that would either induce the private sector to seriously invest their resources, or LGAs optimally benefit from such ventures due to skewed income sharing formula.

The government's intention to adopt a more equitable tax waiver for all goods beneficial to ordinary citizens such as agricultural and fisheries equipment and inputs, medicines and hospital equipment, educational and capital goods for investments is a welcome move.

It also plans to make public all special waivers granted so that the public can know who are the beneficiaries. That should be done through newspaper adverts and public notice boards instead of limiting to the ministry's website as mentioned by the Minister in her budget speech.

In conclusion, despite the above deflated view on the prospects for successfully raising enough domestic revenue to finance the 2015/16 Budget, the government should be commended for taking some innovative bold steps, some of which have been long overdue.

These include moves to eliminate import duty exemptions, collection of real estate property taxes, rationalise allowances for public sector employees, special taxes for the development of infrastructural services (e.g. railways, rural energy and rural water) and eliminate tax loopholes in exemptions meant for transit cargo and industrial inputs (e.g. industrial sugar).

It remains to be seen, however, if there will be sufficiently strong political resolve to surmount the obvious political considerations typical of an election year in an under-developed economy like Tanzania.

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ANNEX: ACRONYMS

(for those frequently used in the Report)

BRN	Big Results Now
CET	Common External Tariff
CIF	Cost Insurance and Freight
CPI	Consumer Price Index
DfID	Department for International Trade
DRC	Democratic Republic of Congo
DSE	Dar es Salaam Stock Exchange
DPs	Development Partners
EAC	East Africa Community
EACMA	East African Customs Management Act 2004
EWURA	Energy Water Regulatory Authority
EFD	Electronic Fiscal Device
FDI	Foreign Direct Investment
FOB	Free on Board
IFMS	Integrated Financial Management System
FY	Financial Year
FYDP	Five Year Development Plan
GBS	General Budget Support
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
GOT	Government of Tanzania
ICT	Information and Communication Technology
IMF	International Monetary Fund
IPTL	Independent Power Tanzania Limited
KILIMO	Ministry of Agriculture
LGA	Local Government Authority
MAFC	Ministry of Agriculture Food and Cooperatives
MDA	Ministry, Department and Agency
MEM	Ministry of Energy and Mining
MER	Monthly Economic Bulletin of the Bank of Tanzania
MOF	Ministry of Finance
ODA	Official Development Assistance
PMO	Prime Minister's Office
POPC	President's Office Planning Commission
PPP	Public-Private Partnership
PSPF	Public Sector Pension Fund
QER	Quarterly Economic Review
RALG	Regional Administration and Local Government
SDL	Skills Development Levy
TANAPA	Tanzania National Parks Authority
TaCRI	Tanzania Coffee Research Institute
TANCIS	Tanzania Customs Integrated System
TANESCO	Tanzania Electric Supply Company
TATOA	Tanzania Truck Owners Association
THDR	Tanzania Human Development Report
TIC	Tanzania Investment Centre
TISS	Inter-Bank Settlement System
TZS	Tanzanian Shillings
VAT	Value Added Tax
TAZARA	Tanzania Zambia Railways
THDR	Tanzania Human Development report
TPA	Tanzania Ports Authority
TRA	Tanzania Revenue Authority
TRL	Tanzania Railways Line
TZS	Tanzania Shilling or TShilling
UTT	Unit Trust of Tanzania

(Footnotes)

1 Note that this figure differs from that found in Table-5 due the different sources of data being used.

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