

Tanzania Economic Update

Who Wants a Job?

The Magnetic Power of Cities





Table of Contents

Foreword.....	v
Acknowledgments	vii
Key messages	ix
Part I: The State of the Economy	1
1.1 Recent Developments.....	3
1.2 Outlook: Short to medium-term prospects	15
1.3 The Next Challenge: Creating Jobs for Faster and More Equitable Growth....	21
Part II: Promoting Growth and Job Creation in the Context of Urbanization	29
2.1 A profile of Businesses in Tanzanian cities	32
2.2 Small Businesses, Big Challenges.....	35
2.3 How to Harness the Potential for Growth of Urban Businesses.....	43
Statistical Annexes	53
1. Key Macroeconomic indicators 2005-2013.....	54
2. Real GDP growth rates 2000-2013.....	55
3. Shares of economic activities in GDP (current market share) 2000-2013..	56
4. Quarterly GDP growth rates 2002-2013	57
5. Fiscal framework as a percentage of GDP 2007/8-2013/14	58
6. Provisional monthly government expenditures 2013/14	58
7. Balance of payments (percentage of GDP unless otherwise indicated) 2005/6 – 2013/14.....	59
8. Monthly imports of goods and services (US\$ million) 2012-13.....	59
9. Monthly exports of goods and services (US\$ million) 2012-13	61
10. Inflation rates 2011-2014	61
11. Monthly food crop prices (Wholesale) 2012-14	62
12. Average wholesale prices 2012-14	63
13. Interest rates structure 2012-14.....	64
14. Monetary aggregates 2005/6-2013/14.....	65
15. National debt developments	65
16. Poverty by geographic regions.....	66

List of Figures

Figure 1: GDP growth robust at an average close to seven percent	3
Figure 2: Tanzania’s growth remains high compared to her neighbors.....	3
Figure 3: Sector growth in the first three quarters of 2013	4
Figure 4: Sectoral composition of growth.....	4
Figure 5: Inflation has declined significantly in recent years	7
Figure 6: Decline in broad money and private sector credit growth over the last couple of years.....	7
Figure 7: Tanzania’s exchange rate dynamics	8
Figure 8: Higher reserves, lower current account deficit	8
Figure 9: The shift from aid to private capital inflows	8
Figure 10: The Government missed its fiscal target in 2012/13.....	11
Figure 11: Domestic revenues have flattened in 2012/13.....	11
Figure 12: Unpleasant reality check: More recurrent expenditure, less development expenditure in 2012/13	12
Figure 13: Public debt and debt service on the rise	13
Figure 14: Tax revenues have been lower than budgeted in the first three quarters of 2013/14.....	14
Figure 15: Low execution of public spending in the first three quarters of 2013/14....	14
Figure 16: Public debt service payments.....	21
Figure 17: Net present value of Public Debt to GDP.....	21
Figure 18: Tanzania has one of the lowest earning rates per worker in the world (2012, US dollar)	22
Figure 19: Rapid urbanization in Tanzania.....	23
Figure 20: As nations develop, the population is concentrated in towns and cities ..	25
Figure 21: Firm concentration around urban centers.....	27
Figure 22: The gradual transformation of the Tanzanian Economy	31
Figure 23: Number of non-farm enterprises (2010/11).....	32
Figure 24: Growth of non-farm enterprises, 2008/9-2010/11	32
Figure 25: A snapshot of education levels in Tanzania.....	37



List of Tables

Table 1: Export and Import performance in 2012 and 2013, in US\$ million	9
Table 2: Macro-economic projections (% of GDP, unless otherwise indicated)	15
Table 3: Dar’s growth is outpacing the country	24
Table 4: Number of households owning durable goods in Dar es Salaam	26
Table 5: Summary of improvements needed to harness the growth of urban businesses	43

List of Boxes

Box 1: Pulse of the Economy	5
Box 2: The potential impact of natural gas on Tanzania’s domestic businesses	16
Box 3: Ghana as a Cautionary Tale.....	20
Box 4: Capturing the Benefits of Dar es Salaam’s Rapid Urbanization is important for the National Economy, but there are significant hurdles	24
Box 5: Growing demand for goods in urban areas.....	26
Box 6: X-ray of businesses operating in urban centers	33
Box 7: Small urban non-farm businesses as a vector of employment: Let the numbers speak.....	34
Box 8: From household enterprise to conglomerate.....	35
Box 9: Growing small businesses in an environment of distrust.....	36
Box 10: Two examples of excessive administrative burden.....	41
Box 11: Swahiliwood: Tanzania’s movie industry as a growing niche.....	44
Box 12: Tanzania Virtual Business Incubator	46
Box 13: Promoting financial inclusion through technology	50



Foreword

True to its performance over the past decade, Tanzania's economic growth has continued on sound footing. With GDP growth anchored at seven percent, inflation in the range of six percent, and a much improved current account balance, the country's economy has outperformed those of many other developing and industrialized countries.

However, some clouds have recently appeared on the horizon. In 2013 Tanzania reported its weakest export growth since the late 1990s. While this slowdown is principally the result of lower commodity prices on international markets (particularly gold), it is a stark reminder that Tanzania remains vulnerable to external shocks. Of greater concern is the deterioration of the overall fiscal deficit which reached 6.8 percent of GDP – one percent higher than initially targeted in 2012/13. Over the first three quarters of the current year, the fiscal situation has remained fragile. The ambitious revenue targets were missed by almost US\$ 1 billion resulting in cuts in the purchase of goods and services as well as much needed investment projects. The composition of public expenditures is thus increasingly biased toward wages and

debt-service payments at the expense of development spending. The Government has also continued to accumulate arrears with suppliers and pension funds, which reached almost five percent of GDP at end-March 2014.

Although fiscal developments warrant concern, recent history reminds us that Tanzanian policymakers have been able to navigate through stormy skies before, notably during the agitated times of the global financial crisis in 2008/9. Nonetheless, the stakes are high this time around because public debt and debt-service payments have increased rapidly, while the fiscal space has been reduced, forcing expenditure adjustments. This is taking place not too long before the November 2015 national elections, which may limit the scope for fiscal adjustment.

This fifth economic update also examines prospects for economic prosperity in the context of rapid urbanization; in particular, how the growth of cities can be harnessed to create productive jobs for a labor force that is expected to double in the next 15 years. By 2030, Dar es Salaam will be a mega city of over 10 million people. As demonstrated



by many countries in the world, cities encourage the creation and expansion of businesses by reducing distances between suppliers and customers. Can Dar es Salaam and other Tanzanian urban areas become thriving cities? Can they avoid becoming metropolis slums?

Urbanization comes with significant challenges, notably in terms of increased pressure on infrastructure, housing, and service provision. The quality of the business climate in urban Tanzania will need to be improved, as most small and large entrepreneurs suffer from the

uncertainty, corruption, and insecurity that characterizes the business environment. This economic update argues that these challenges need to be addressed with a sense of urgency. As with the previous editions, I hope that this latest economic update will help stimulate a debate among stakeholders in Tanzania on what is unquestionably a central topic for the country's future.

Philippe Dongier

Country Director for Tanzania, Uganda and Burundi

Abbreviations and acronyms

BoT	Bank of Tanzania
BRN	Big Results Now
DART	Dar es Salaam Rapid Transit
DAWASCO	Dar es Salaam Water and Sanitation Company
DSA	Debt Sustainability Analysis
EAC	East African Community
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GPS	Global Positioning System
HBS	Household Budget Survey
HIPC	Heavily Indebted Poor Countries
ICT	Information and Communication Technology
IDA	International Development Association
ILO	International Labour Organization
IMF	International Monetary Fund
KWFT	Kenya Women's Finance Trust
LGA	Local Government Authority
LNG	Liquefied Natural Gas
MFI	Microfinance Institutions
MoF	Ministry of Finance
NBS	National Bureau of Statistics
NPS	National Panel Survey
NSSF	National Social Security Fund
OECD	Organization for Economic Co-operation and Development
PPPs	Public-Private Partnerships
PSI	Policy Support Instrument
PSPF	Public Service Pension Fund
REPOA	Policy Research for Development
SMEP	Small and Micro Enterprise Programme
TANESCO	Tanzania Electrical Supply Company
TZS	Tanzanian Shilling
US\$	United States Dollars
VAT	Value Added Tax
VBI	Virtual Business Incubator
WDR	World Development Report

Acknowledgment

This fifth edition of the Tanzania Economic Update was prepared by Jacques Morisset in close collaboration with Victoria Cunningham (Part I) and Mahjabeen Haji (Part II). The authors are grateful for comments and inputs provided by Emmanuel A. Mungunasi, Andre Bald, Loy Nabeta, Paolo Mauro, Thomas Baunsgaard, Megha Mukim, and Yutaka Yoshino.

The report also benefited from the insights of two peer reviewers, Paolo Zacchia and Luc Christensen. The team received guidance from Albert Zeufack and Philippe Dongier. Irfan Kortschak provided copy editing services, Justina Kajange provided other invaluable assistance during the report's preparation (Photography: Angela Ambroz & Venance Nestory).

Key messages

By 2027, more Tanzanians will live in urban areas than in the countryside, and Dar es Salaam will be a megacity with a population in excess of 10 million. The growth of most emerging nations has been characterized by similar patterns of transformation, involving the movement of a significant proportion of the population away from rural areas and agriculture, and towards manufacturing and services in the cities. The process of urbanization creates great opportunities for growth and transformation in Tanzania. Indeed, cities can play a significant role in fostering equitable economic growth and creating productive job opportunities, reducing distance and expanding markets.

But urbanization also comes with significant challenges. In particular, these arise from the lack of a conducive environment to foster the growth of small businesses, which in turn is related to the uncertain rule of law, excessive bureaucracy, corruption and rent seeking, congestion and lack of basic services. These challenges can be addressed through the implementation of smart policies to facilitate positive growth in urban areas. The growing concentration of the population in urban areas also

requires the provision of adequate social and physical infrastructure. Unfortunately, in all of these areas, Tanzania is at risk of falling behind.

Part 1: The State of the Economy

In 2013, the rate of economic growth increased to seven percent, which is close to Tanzania's 10-year average and significantly higher than the rate achieved by other EAC countries. Inflation decreased to about six percent, after rising to almost 20 percent at the end of 2011. The balance of payments improved, largely due to a sharp increase in private capital inflows. These private inflows compensated for the slight deterioration in the trade balance and decreases in aid inflows. The level of international reserves was equivalent to the value of more than four months of merchandise imports at the end of 2013. These achievements emphasize the strengths of the Tanzanian economy. With the recent discovery of massive natural gas reserves, the country has become increasingly attractive to international investors.

On a less positive note, in 2013, Tanzania reported her weakest export performance

since the late 1990s. The value of gold exports declined by 20 percent due to a decline in international prices, while the value of several agricultural exports also declined, though to a lesser extent. These developments highlight Tanzania's persistent vulnerability to variations in commodity prices on international markets.

Additionally, and of greater concern, the overall fiscal deficit deteriorated sharply to levels equivalent to 6.8 percent of GDP in 2012/13. Not only did the Government miss its initial target by more than one percent of GDP, its most significant failure to achieve its targets since the 2008/9 global financial crisis, but also the reasons for the failure are rather alarming. The level of collection of domestic revenues was poor, while the ratio between current expenditures and development expenditures deteriorated. Although expenditures were forecast to rise, the balance between recurrent and development expenditure has not been as expected, with recurrent expenditures increasing at a more rapid rate than development expenditures. A large proportion of the deficit was funded by commercial borrowing on the domestic market. The value of these loans was higher than the target agreed upon with the IMF by 1.2 percent of GDP. These loans were still insufficient to close the fiscal gap, since arrears including with pension funds, grew to almost four percent of GDP by the end of June 2013.

The first three quarters of 2013/14 proved to be equally problematic. In spite of the Government's commitment to reducing the

fiscal deficit, only 82 percent of the revenue target was achieved, with the total value of collected revenues almost US\$ 1 billion less than initially envisaged. As a result, the authorities had to cut or postpone the implementation of a number of investment programs as well as goods and services purchases. Despite these measures, the total value of arrears continued to grow, reaching almost five percent of GDP at the end of March 2014. This excludes arrears accumulated by public enterprises such as TANESCO with their suppliers. If taken into consideration, these could add up to two percent of GDP to the total value of the Government's arrears.

While these developments may not have immediate consequences, they nevertheless signal discontinuity from Tanzania's recent history of prudent macroeconomic and fiscal management. If left unaddressed, they could have serious implications including jeopardizing the implementation of the 'Big Results Now' initiative, which depends heavily on the Government's capacity to finance priority investment projects. Indeed, Tanzania can remain on a positive growth trajectory into the future, so long as the Government can consolidate its fiscal deficit. Economic growth, projected to stay at around seven percent, should continue to be driven by the same rapidly expanding sectors as in previous years. The rate of inflation is expected to stabilize at around five percent per annum, provided the economy is not negatively impacted by food and energy price shocks. The current account deficit should remain at around 12-14 percent

of GDP, with the deficit being financed by growing private capital inflows. The revenues from investments related to the exploitation of natural gas are not expected to begin flowing before 2016 or 2017, if the decision is confirmed by foreign companies.

The Government has reiterated its commitment to bringing down the overall fiscal deficit to about five percent of GDP in 2013/14, and then to around 4.5-5.0 percent of GDP in subsequent years. While Tanzania's track record speaks for itself, more efforts are required to collect a higher level of revenues from Value Added Tax; to better control current expenditures; and to prioritize public investment in line with the BRN initiative. The fiscal risks are still high, as the authorities may have to service the growing value of arrears with sources such as pension funds in order to deal with the fragile situation of several public enterprises.

Beyond the fiscal adjustment, the Government will have also to address the structural transformation that has resulted from rapid population inflows into urban Tanzania. There is a pressing need to create productive jobs for the fast-growing labor force, particularly in urban areas. Today, there are approximately 23 million Tanzanians on the job market, with this number projected to reach 45 million by 2030. Action should be taken to ensure that Tanzania's cities, particularly Dar es Salaam, become thriving metropolises rather than metropolis slums.

Part 2: Promoting Growth and Job Creation in the Context of Urbanization

Tanzania's rapid urbanization is contributing to the transformation of the economy and its labor force. Already, there are visible signs of change with the contribution of the agricultural sector to GDP declining relative to that of other sectors. New businesses are thriving in urban areas and grew twice as fast as businesses in rural areas between 2008/09 and 2010/11.

Today, the number of non-farm businesses in urban Tanzania is estimated to be in excess of two million, with the number growing rapidly. The unemployment rate is quite low, at around four percent. However, this low rate disguises the fact that many people do not have productive jobs with sufficient earnings to sustain themselves above the poverty level. While there are a number of large successful firms in urban areas, a significant proportion of employment in these areas is provided by small, unproductive non-farm enterprises that lack the capacity to expand and become competitive.

They are small, young, fragile, informal and unspecialized businesses and are operated by owners with limited skills. These owners have been described as 'reluctant entrepreneurs', as they often establish businesses for the sole reason that they have no other option for survival. Typically, these enterprises are involved in general trading activities and are not well equipped to expand and become competitive. They are not very profitable and the average



business reports monthly profits of less than TZS 282,000 (US\$ 176). About 90 percent of these businesses have less than two employees (including the owner), and operations are sporadic over the year. Only four out of 10 businesses survive, and most never expect to grow.

Success for Tanzania rests with its ability to transform a fraction of these firms into vectors for economic growth and job creation. For the moment growth is neither feasible nor realistic. They are not capable of growing past a certain point. For many of them even mere survival is problematic. On the other hand, a smaller share of dynamic firms with potential to achieve improved growth and profitability are generally managed by higher skilled owners with better access to transportation, markets and basic infrastructure such as electricity; in addition to better access to, and ability to utilize, external capital. The challenge for Tanzania therefore is to replicate the success stories of the few dynamic firms that have managed to flourish despite the odds and to encourage others to emulate their example.

Larger firms are more likely to have the capabilities to overcome the challenges inherent in operating in Tanzania's business environment. On the other hand, small-scale entrepreneurs with limited human and financial resources are disproportionately burdened with these constraints. The average Tanzanian completes only seven years of education, with only around 12 percent of the population completing secondary education. This is reflected in the country's young and relatively

uneducated labor force, and by the limited ownership of property and assets. A labor force with a low level of skills and facing the constraints related to the business environment creates further obstacles for the development of small businesses.

Moreover, access to credit is difficult, as traditional bank financing is often not available to small businesses due to the high transaction costs associated with managing small loans. This has led to the widespread use of informal and semi-formal sources of credit that can be expensive too in their own way. Congestion costs are also disproportionately high. For example, residents of Dar es Salaam spend approximately 34 percent of their average monthly incomes on transportation, limiting the resources and productive time available for operating a business.

The business environment is characterized by excessive administrative burdens, corruption, and sticky labor laws, all of which act as disincentives to the formalization of business and hiring outside the household. The prevailing distrust in the business environment is fostered by inconsistent and erratic changes in policies, with costs embedded in the uncertain rule of law. The unpredictable functioning of the judicial system combined with the lack of clearly defined property rights over land used for business premises leads to more time being spent on risk mitigation strategies rather than on productive business activities.

Despite these multiple challenges, small urban businesses have great potential to



grow. However, there is no single blueprint for success. Rather, a minimal set of improvements should target constraints that hinder businesses from achieving economies of scale and agglomeration effects. These include (i) alternative methods of building skills for firms; (ii) reducing congestion costs; (iii) reducing excessive administrative procedures and insecurity; and (iv) breaking the trap of informality.

Time is of the essence. While urbanization creates opportunities, the rapid influx of people into urban areas is placing rapidly increasing pressure on existing services and infrastructure. While Tanzania has made some progress, it must nevertheless strive harder if it is to achieve its aspirations of becoming a middle income country and fostering equitable growth that benefits all of its citizens.

1

The State of the Economy



Part I: The State of the Economy

- ◆ In 2013, the Tanzanian economy followed the same positive trajectory as in recent years, growing at a rate of about seven percent and with inflation leveling at six percent. Despite the fact that exports recorded their worst performance in the past 10 years, the balance of payments improved slightly during the year, with higher private capital inflows compensating for the deterioration in the trade balance.
- ◆ However, the overall fiscal deficit reached a value equivalent to 6.8 percent of GDP in 2012/13, which is 1.3 percentage points higher than initially targeted by the authorities. This deterioration is explained by lower than envisaged levels of revenue collection and a relatively high level of recurrent expenditures rather than by an increase in development spending. A large proportion of the deficit was financed by public non-concessional borrowing and through the accumulation of arrears with contractors and pension funds.
- ◆ Looking to the future, no major changes are expected in Tanzania's growth path, so long as the Government successfully implements measures to consolidate the deficit at around 4.5-5.0 percent of GDP. The authorities must strive to improve revenue collection, an area in which poor performance has been recorded over the past two years. The authorities must also control current expenditures to provide fiscal space for their ambitious public investment programs and to maintain fiscal and debt sustainability over time.
- ◆ Despite Tanzania's good macroeconomic performance over the past decade, it has been unable to generate a sufficient number of productive jobs providing decent salaries. Unique opportunities can however, be seen in the agglomeration effects of the ongoing rapid urbanization for firms to develop and create productive jobs, which in turn will stimulate economic growth through productivity gains and higher demand for local products.



1.1 Recent Developments

In 2013, the Tanzanian economy continued to grow at a good rate of approximately seven percent. At the same time, inflation leveled to approximately six percent. However, despite this excellent performance, some clouds have appeared on the horizon. Firstly, the rate of growth in the value of exports declined to approximately one percent. This was largely due to decreases in global commodity prices, particularly the price of gold, which dropped to its lowest level since the late 1990s. The impact of commodity prices on Tanzania's growth demonstrates its continued vulnerability to external shocks and to volatility in the price of its major export commodities.

Secondly and more importantly, the fiscal deficit deteriorated from 3.7 percent of GDP in 2011/12 to 6.8 percent in 2012/13. Without significant increases in domestic revenues, recurrent expenditures

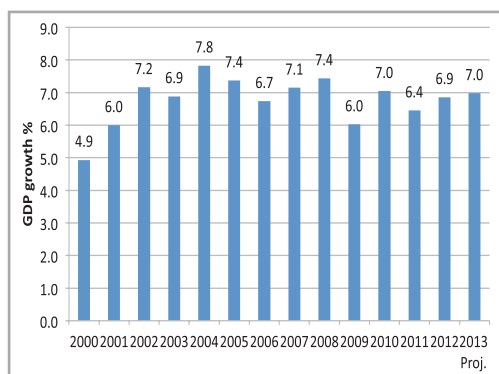
grew by more than 2.5 percent of GDP, while development expenditures declined by approximately 0.7 percent of GDP. While this deficit was largely financed by growing public commercial debt, it was also accompanied by a significant increase in arrears which are now estimated to reach a value equivalent to four percent of GDP. These arrears have been accumulated principally with road contractors and pension funds.

Economic growth remained robust with leveled inflation

In 2013, Tanzania continued to achieve rapid, stable economic growth. The rate of growth stood at approximately seven percent, which is consistent with Tanzania's ten-year historical average (see Figure 1) and significantly higher than the rate of growth achieved by neighboring Uganda and Kenya (see Figure 2).

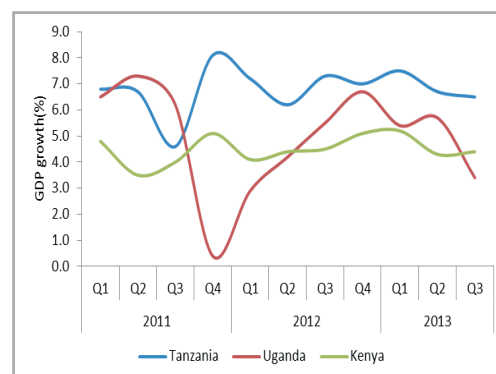
In 2013, the rate of growth stood at approximately seven percent, which is consistent with Tanzania's ten-year historical average.

Figure 1: GDP growth robust at an average close to seven percent



Source: World Bank, IMF.

Figure 2: Tanzania's growth remains high compared to her neighbors

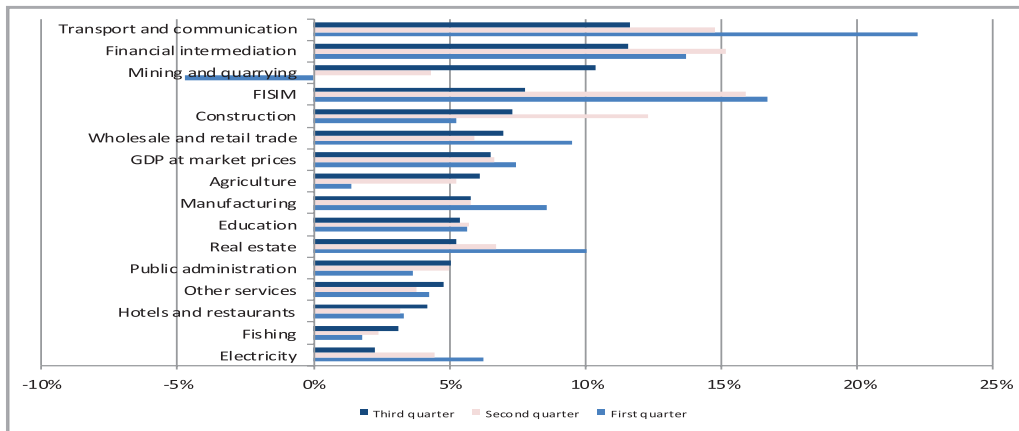


As with recent years, economic growth in 2013 was driven by growth in a few select sectors, particularly the ICT, financial services, construction, trade and mining sectors (see Figure 3). With the exception of mining, activities within these sectors are largely concentrated in urban areas. They are also relatively capital intensive, creating a limited number of jobs, except through construction activities. By contrast, the rate of growth of the labor-intensive agricultural sector, which employs three quarters of the workforce and

contributes to approximately 25 percent of GDP (see Figure 4), remained lower than that of the overall economy. The consistently lower-than-average rate of growth of the agricultural sector explains the relatively slow decline of poverty in rural areas and the accelerated pace of migration from rural to urban areas. Because these two phenomena have had and will continue to have a significant impact on Tanzania's economic and demographic profile, they will be described in greater detail in later sections of this update.

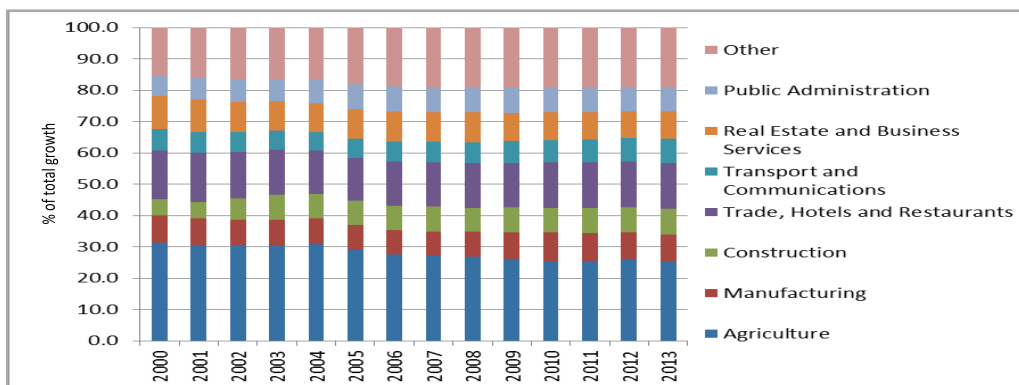
The consistently lower-than-average rate of growth of the agricultural sector explains the relatively slow decline of poverty in rural areas and the accelerated pace of migration from rural to urban areas.

Figure 3: Sector growth in the first three quarters of 2013



Source: Tanzania National Bureau of Statistics

Figure 4: Sectoral composition of growth



Source: Tanzania National Bureau of Statistics

According to the KPMG/World Bank ‘Pulse of the Economy’ survey, Tanzanian business people remain optimistic regarding the overall performance of the economy, with 64 percent of survey respondents stating that the economy performed better or the same in 2014 than in the previous year (see Box 1). The majority of survey respondents were

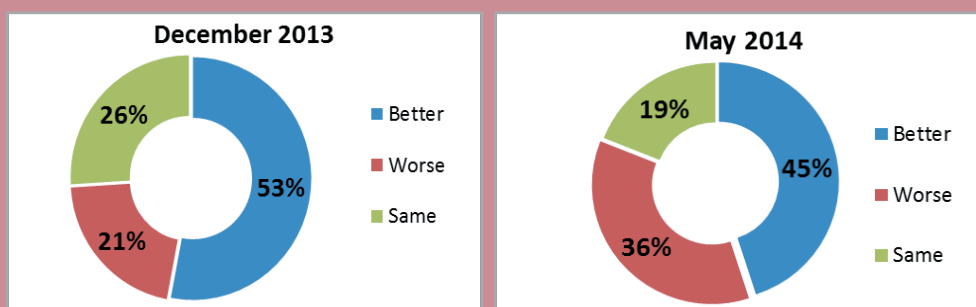
also relatively positive regarding the prospects of their own businesses next year. However, the level of optimism of respondents was significantly lower than in December 2013, with only around half of these respondents expressing the belief that 2015 would be better than 2014, compared to more than 80 percent six months ago.

Box 1: Pulse of the Economy

The views of the business managers of the top 100 mid-sized companies in Tanzania have been collected every six months since April 2013 ().*

How do you believe the Tanzanian economy is performing compared to last year?

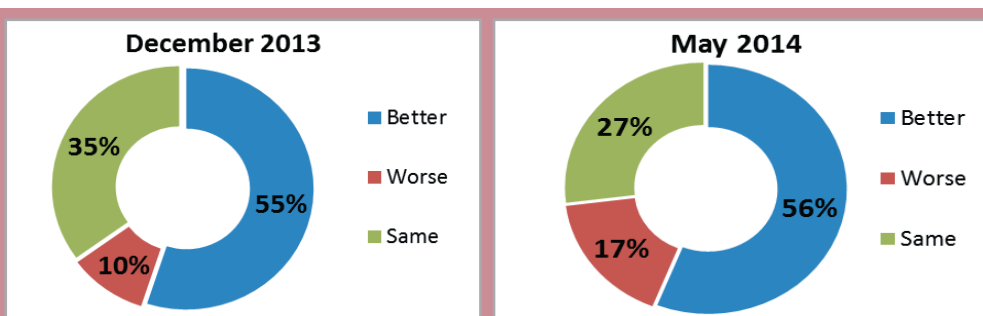
While still optimistic, the majority of business leaders are less positive about the state of the economy now than they were six months ago. According to the survey, 64 percent of business managers still believe that the economy is doing at least as well as last year. However, this is a decline from the 79 percent who expressed a similar opinion in December 2013. Of the survey respondents, 36 percent felt that the performance of the economy has declined, a significant increase from the 22 percent who expressed a similar opinion only six months ago.



How do you expect the Tanzanian economy to perform in the coming year?

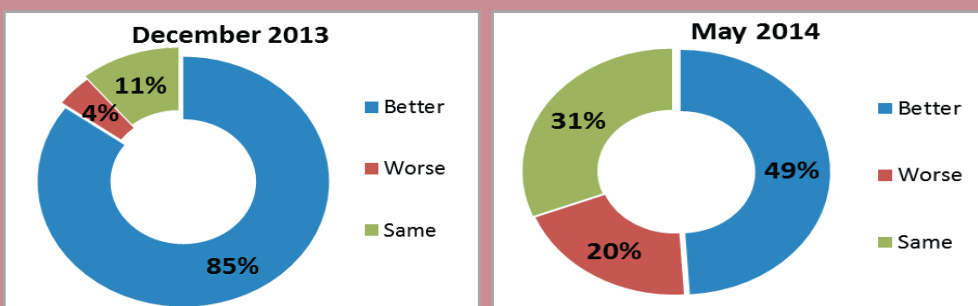
Nevertheless, managers continue to be optimistic regarding the future prospects of the economy, with 83 percent of respondents expressing the belief that the economy will remain the same or improve over the coming year. On the other hand the proportion of respondents who claimed that the performance of the economy will decline over this period has increased by eight percent over the past six months.

However, the level of optimism of respondents was significantly lower than in December 2013, with only around half of these respondents expressing the belief that 2015 would be better than 2014.



How do you think that your own business will perform during the next 12 months compared to its current level of performance?

The most notable result of the survey was the significant decrease over the past six months in the proportion of business managers who were optimistic that the performance of their own businesses would improve over the next 12 months. The proportion of business managers expressing this optimism declined from 85 percent six months ago to 49 percent. More than half of the respondents believed that the level of performance of their own businesses would either stay the same or decline.



(* Data was compiled by KPMG, through electronic questionnaires. Responses were anonymous.

Source: KPMG/World Bank

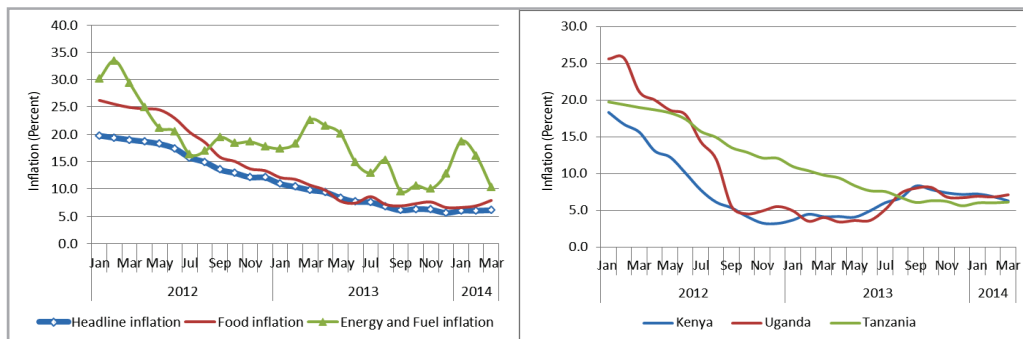
The rate of inflation continued to decline over the year, reaching 6.1 percent in March 2014. From a peak of 20 percent recorded in December 2011 during the global food and fuel price spike (see Figure 5), Tanzania’s rate of inflation is now lower than that of neighboring Kenya and Uganda. While electricity tariffs increased by an average of 40 percent

in January 2014, this had only a limited direct impact on the overall inflation rate, due to its relatively low weight in the households’ consumption basket, as only 18 percent of households having access to electricity.¹ Food inflation, which accounts for approximately half of the overall price index, has mostly continued to decline over the past 18 months.

Food inflation, which accounts for approximately half of the overall price index, has mostly continued to decline over the past 18 months.

¹ Second round effects may exist in the longer term such as higher cement prices.

Figure 5: Inflation has declined significantly in recent years



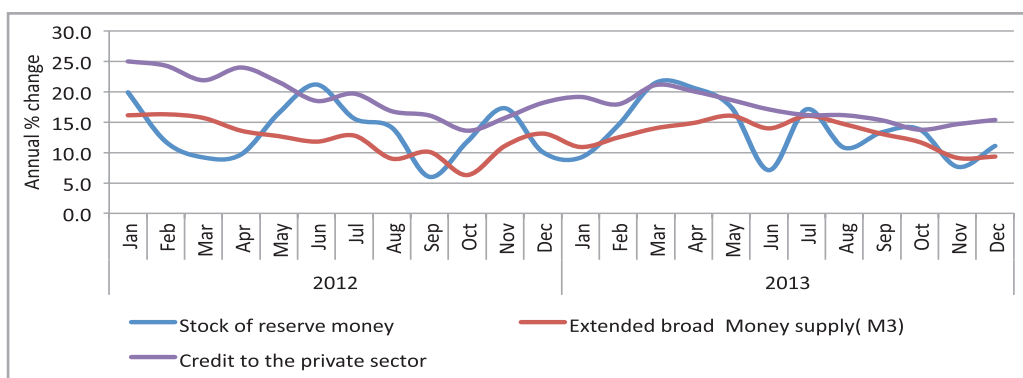
Source: BoT/IMF

The steady decline in the rate of inflation has been achieved largely through the prudent application of monetary policy. The rate of growth of broad money reached only 10 percent in 2013, while the rate of growth of nominal private sector credit reached 15.3 percent (see Figure 6). These figures are consistent with the measures implemented by the Bank of Tanzania to tighten reserve money as a means to control inflation. However, a

substantial increase in real interest rates occurred as inflation declined faster than nominal rates, leading to a slower rate of growth in the value of credit to private sector. The stickiness of the nominal rates is partly explained by the prudent behavior of commercial banks and, perhaps, by the lack of competition in the credit market, which remains highly fragmented in spite of the increasing number of commercial banks operating in Tanzania.

In 2013, the steady decline in the rate of inflation helped to moderate the strong trend towards appreciation in the real rate of exchange.

Figure 6: Decline in broad money and private sector credit growth over the last couple of years

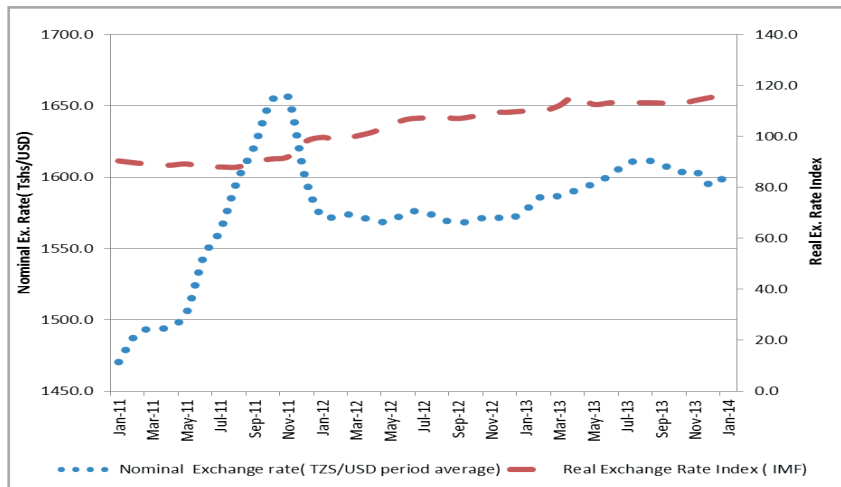


Source: BoT.

In 2013, the steady decline in the rate of inflation helped to moderate the strong trend towards appreciation in the real rate of exchange (see Figure 7). This is good news given that the real rate of exchange index appreciated by almost 30 percent between 2011 and 2013,

largely due to the positive inflation differential between Tanzania and her main trade partners. This recent development has helped maintain Tanzanian exports' competitiveness during a period when lower commodity prices negatively affected the value of some of its main exports.

Figure 7: Tanzania's exchange rate dynamics



Source: IMF and World Bank

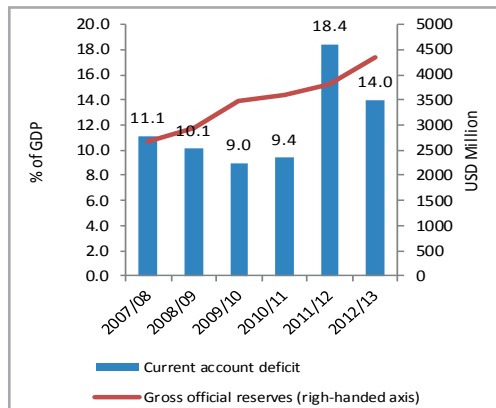
Stable external balance but weak export performance and shift from aid to private capital inflows

Tanzania's external balance improved slightly during 2013, with the level of international reserves increasing to

approximately US\$ 4.5 billion by the end of the year, a figure sufficient for four months of imports (see Figure 8). However, this apparent stability masks the slowdown in the rate of growth of exports and the underlying shift in financing from official aid to private capital inflows (Figure 9).

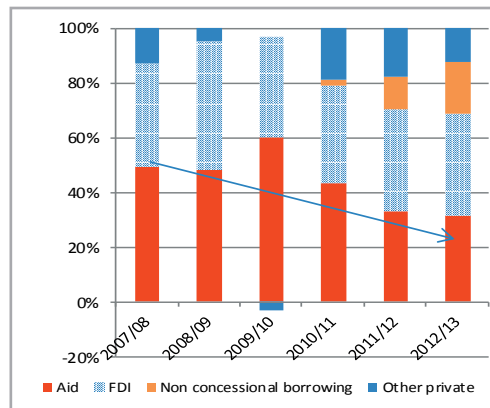
Indeed, lower average global gold prices have led to a decline in the value of Tanzania's gold exports by almost 20 percent since 2012.

Figure 8: Higher reserves, lower current account deficit



Source: IMF

Figure 9: The shift from aid to private capital inflows



The performance of exports was weak in 2013, largely due to lower commodity prices on international markets. Indeed, lower average global gold prices have led

to a decline in the value of Tanzania's gold exports by almost 20 percent since 2012. The value of agricultural exports also fell sharply. This is largely explained by the

declining prices of all agricultural exports, with the exception of tobacco. The volume of exports of cotton, sisal and tobacco all declined by more than 30 percent, which compounded the decline in the value of agricultural exports. Fortunately, this decline was compensated for by an increase in the value of re-exports, demonstrating the significance of Tanzania's role as a hub for seven neighboring countries. At the same time, the value of the revenues derived from tourism also increased. While the overall performance of exports is not a cause for alarm, it nonetheless represents the lowest

rate of growth since the late 1990s. However, despite this low rate of growth, the current account balance improved by approximately four percentage points of GDP in 2012/13 compared to the previous financial year when the high cost of oil imports resulted in a significant increase in the overall value of imports. The current account deficit still remains at a relatively high level compared to levels recorded in Tanzania's recent history and to its neighboring countries. This imbalance reflects the high level of domestic investment relative to the level of domestic savings.

While the overall performance of exports is not cause for alarm, it nonetheless represents the lowest rate of growth since the late 1990s.

Table 1: Export and Import performance in 2012 and 2013, in US\$ million

	2011/12	2012/13	% change		2011/12	2012/13	% change
Exports, goods & services	7318.2	7507.9	2.6%	Imports, goods and services	12936.3	12869.1	-0.5%
Agricultural exports	761.1	819.9	7.7%	Capital goods	3725	3456.1	-7.2%
Coffee, value	145.7	204.6	40.4%	Transport Equipment	1038.7	1132.5	9.0%
Cotton, value	87.6	159.3	81.8%	Building and construction	774.8	825.2	6.5%
Tea, value	52.7	58.2	10.4%	Machinery	1911.5	1498.3	-21.6%
Tobacco, value	271.9	227.7	-16.3%	Intermediate goods	4548.2	4762.1	4.7%
Cashew nuts, value	150.9	138.6	-8.2%	Oil imports	3586.1	3922.8	9.4%
Minerals	2387	2002.6	-16.1%	Fertilizers	160.3	140.3	-12.5%
Gold	2330.7	1888.2	-19.0%	Industrial raw materials	801.7	699	-12.8%
Manufactured goods	922	1006	9.1%	Consumer goods	2339.6	2261.6	-3.3%
Fish and Fish Products	150.5	140.1	-6.9%	Food and foodstuffs	673.4	655.6	-2.6%
Horticultural Products	27.7	52.3	88.8%	All other consumer goods	1666.2	1606.1	-3.6%
Other Export Products	559.2	522.5	-6.6%	Imports, services	2321.2	2387.1	2.8%
Re-Exports	155.1	160.4	3.4%	Transportation	1149.2	1058.5	-7.9%
Services receipts	2448.4	2804	14.5%	Travel	983.6	998.8	1.5%
Transportation	509.9	703	37.9%				
Travel	1533.3	1629.5	6.3%				

Note: Declines above 10% are highlighted in red, while increases above 10% in green. Source: BoT

In 2013, the current account imbalance was increasingly financed by private capital inflows. Until recently, official aid was the largest source of capital inflows, accounting for almost 50 percent of total capital inflows in 2007/8. Gradually, however, the relative proportion of FDI inflows has increased, followed more recently by the relative proportion of public commercial borrowing. These two last sources of financing accounted for approximately 56 percent of total capital inflows in 2012/13, compared to only 38 percent in 2007/8. The increase in the proportion of private capital inflows and commercial borrowing is a tribute to the development of the Tanzanian economy with international investors showing increasing interest in the country. However, it has significant implications for fiscal and debt management as discussed in the next section.

Unexpected deterioration in the fiscal deficit

In 2012/13, the Government failed to achieve its fiscal target by a wide margin (see Figure 10). The Government set the initial target for its overall fiscal deficit at 5.5 percent of GDP, which was subsequently revised to 5.8 percent. However, the realized figure is as high as 6.8 percent. This failure to achieve the target is at variance with Tanzania's track record of prudent fiscal management, with the Government meeting or exceeding its targets in 2010/11 and 2011/12. The only other time in the past decade that the Government failed to achieve its targets

was in 2008/9 when the global financial crises forced the authorities to revise their fiscal policy in the middle of the year.

The underlying causes of the deterioration in the fiscal balance are reason for concern.

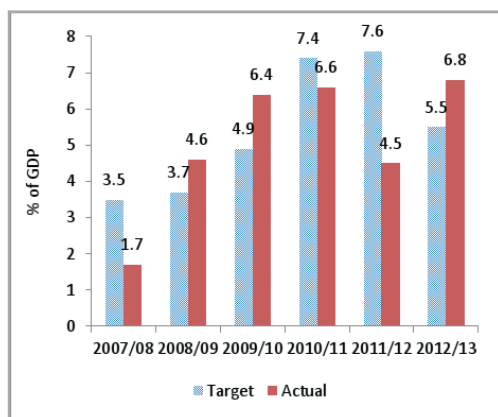
The first cause was the low level of collection of domestic revenues (see Figure 11) due to weak tax administration and the fact that easily achievable improvements have already been implemented, making further improvements increasingly difficult. In earlier years, Tanzania achieved excellent increases in its levels of collection of domestic revenues, with the total value of these revenues increasing by more than six percent of GDP in the period from 2005/6 to 2011/12. However, the value of these revenues actually declined by the equivalent of 0.1 points of GDP in 2012/13 compared to the previous financial year. During this last year, the value of all forms of tax and non-tax revenues declined or remained flat, with the exception of corporate income tax which increased due to the higher level of collection from mining companies. The weak performance in the collection of VAT was surprising and cannot be explained by policy changes. Rather, it is likely that poor performance in this area was due to an increase in exemptions² or a high level of evasion.³ This issue requires further attention from the authorities and emphasizes the need to adopt and implement the revised VAT Act recently approved by Cabinet as soon as possible.

During this last year, the value of all forms of tax and non-tax revenues declined or remained flat, with the exception of corporate income tax, which increased due to the higher level of collection from mining companies.

² The Tanzanian authorities are working on reducing tax exemptions, in part through the public expenditure review process. However, levels remain high compared to her neighbors.

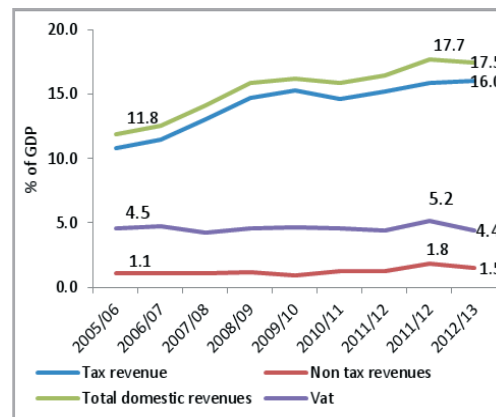
³ VAT exemptions (including those for gas-related equipment) were introduced in the Finance Act 2012.

Figure 10: The Government missed its fiscal target in 2012/13



Source: IMF and MoF

Figure 11: Domestic revenues have flattened in 2012/13.

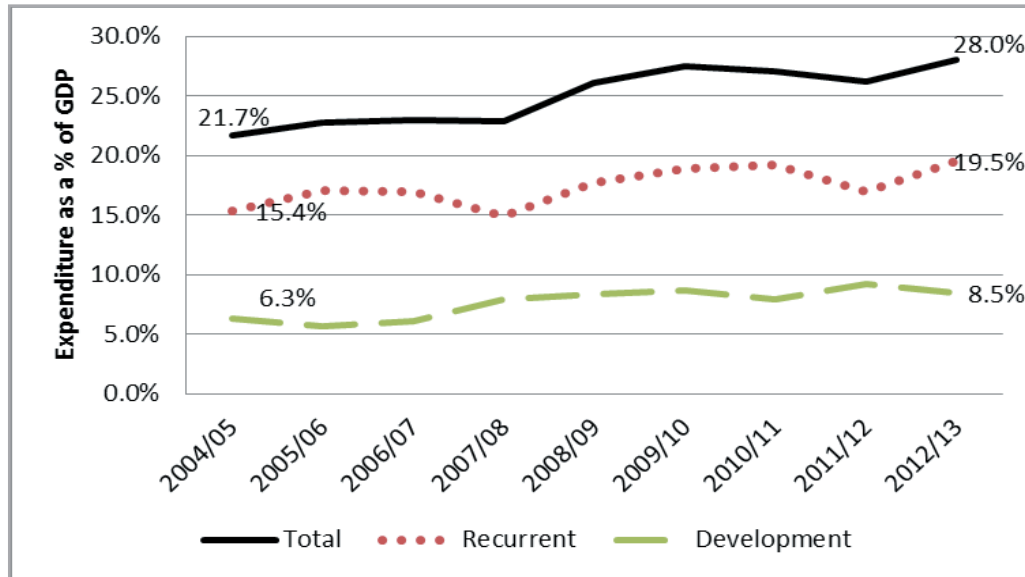


Overall expenditure is growing at a far more rapid rate than development expenditure whose value as a proportion of GDP is falling.

The second cause was the increase in public expenditure by the equivalent of 1.2 percent of GDP in the period from 2011/12 to 2012/13. While increased levels of expenditure were expected under the terms of the approved budget, it was intended that this would be primarily the result of increased expenditure on the public investments necessary to address infrastructure bottlenecks. This strategy is central to the implementation of the Big Result Now initiative launched in mid-2013. However, the executed budget demonstrates that increases were not primarily driven by such investments (see Figure 12). Rather, the biggest contributing cause for the increase in public spending was a rise in the value of recurrent

expenditures. The value of recurrent expenditures increased by 2.5 percent of GDP, mainly due to a higher wage bill and the cost of transfers to public enterprises, particularly TANESCO. By contrast, the value of development expenditures declined by 0.7 percent of GDP. Overall expenditure is growing at a far more rapid rate than development expenditure whose value as a proportion of GDP is falling. As a result, the ratio of development expenditure to recurrent expenditure declined significantly in 2012/13, in stark contrast to the increases recorded in the previous year. This may have implications for productivity and value for money given that development expenditure, if invested wisely, generates higher returns than recurrent expenditure.

Figure 12: Unpleasant reality check: More recurrent expenditure, less development expenditure in 2012/13



Source: IMF, Tanzania Authorities, and World Bank

The third cause is embedded in the deep structural transformation of the Tanzanian economy. For most of the 2000s, economic growth was principally driven by an expansive fiscal policy, which in turn was made possible by ongoing increases in external aid. Indeed, the size of the central administration budget jumped from 15.2 percent of GDP in 2000/1 to 27 percent in 2009/10. Over the same period, the value of aid inflows increased from three percent of GDP to approximately 10 percent, an average rate of 12 percent per year. This rapid increase ended in 2010/11 when aid inflows stabilized at approximately nine percent of GDP. This has had strong implications for the Government, which has had to look for other sources to finance its fiscal policies.

In the absence of significant increases in the collection of domestic revenues⁴, the Government has financed its funding gap through commercial borrowing on both domestic and international markets. As a result, public debt has risen by 10 percent of GDP since 2008/9, reaching US\$ 12.4 billion (or 40.9 percent of GDP) at the end of June 2013 (see Figure 13). Debt service payments have increased significantly from three percent of total public expenditure in 2009/10 to more than eight percent in 2013/14, reverting to pre-HIPC levels and limiting the fiscal space available to the Government. In February 2013, the authorities issued a US\$ 600 million bond in addition to contracting a number of loans with international agencies and banks, including a loan of US\$ 1.2 billion from

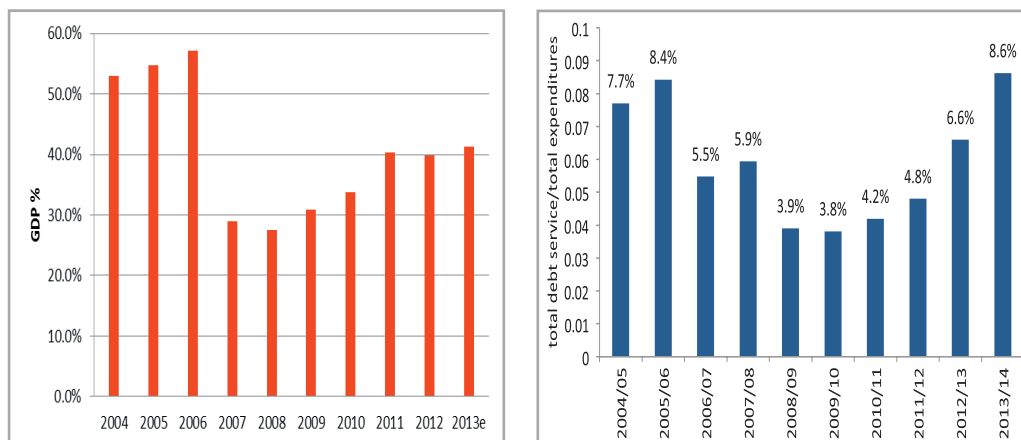
Debt service payments have increased significantly, from three percent of total public expenditure in 2009/10 to more than eight percent in 2013/14.

⁴ The first intent from the authorities was to boost domestic revenues. Revenue targets were overly ambitious in the approved 2012/13 and 2013/14 budgets. For example, the 2012/13 budget projected an increase of over three percent of GDP in domestic revenues. However, as described in the text, the performance has been far from initial targets.

China to finance the gas pipeline currently under construction. Concurrently, the total value of the Government's domestic loans reached almost three percent of GDP in 2012/13, higher than the ceiling agreed upon under the IMF PSI program.

Not only was the value of the overall fiscal deficit equivalent to approximately 6.8 percent of GDP, but the value of the arrears accumulated with suppliers and pension funds was estimated to reach four percent of GDP.

Figure 13: Public debt and debt service on the rise



Source: IMF and World Bank

During 2012/13, a portion of the fiscal deficit was financed through the accumulation of arrears. Over the year, the value of the central government's accumulated arrears with private suppliers rose significantly, reaching 1.2 percent of GDP by the end of June 2013. This figure did not include the value of accumulated arrears with the Public Service Pension Fund (PSPF), which are estimated to reach up to US\$700 million, or an additional two percent of GDP. Neither does it include the value of arrears accumulated by government agencies and public enterprises such as TANESCO, whose accumulated arrears reached a value close to 1.4 percent of GDP by the end of December 2013⁵. These arrears will have to be paid eventually, absorbing a significant proportion of

public resources in the future. In addition, arrears between the Government and its contractors were applied unilaterally, which may result in a loss of confidence that may have long-lasting negative consequences, including higher borrowing costs and/or an unwillingness on the part of contractors to do business with the Government.

By the end of June 2013, the Tanzanian Government's fiscal situation was clearly fragile. Not only was the value of the overall fiscal deficit equivalent to approximately 6.8 percent of GDP, but the value of the arrears accumulated with suppliers and pension funds was estimated to reach four percent of GDP. In June 2013, Parliament approved a budget whose goal was to consolidate the fiscal deficit at five percent

⁵ In principle, the central government is not responsible for the arrears contracted by public agencies and enterprises. However, in reality, it is generally the lender of last resort as illustrated by the recent experience with TANESCO. At the verge of bankruptcy in 2011, the Government had to help this enterprise through massive direct transfers from the budget and by guaranteeing the commercial debt contracted by this enterprise.

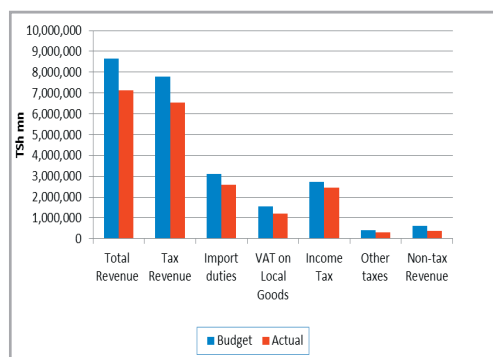
of GDP, a sharp adjustment compared to 2012/13. This target was expected to be realized, in spite of the significant projected increases in both current and capital public expenditure, through ambitious targets for the collection of domestic revenues, with projected increases in these revenues by more than three percent of GDP.

Despite these ambitious expectations, the Government continued to miss its revenue target by a significant margin, collecting only 82 percent of the budgeted revenues between July 2013 and March 2014 (see Figure 14). While this poor performance is partially explained by legal complications associated with the introduction of new taxes in the banking and communication sectors, it occurred for all taxes including custom duties, VAT on local goods, and income taxes. Overall,

the authorities collected almost US\$1 billion less than target during this period. To address the shortfall, the authorities have reacted by reducing the level of public expenditures (see Figure 15), with the result that slightly less than two thirds (about 61 percent) of programmed development expenditure were executed by March 2014. The largest cuts were made in the disbursements of goods and services and transfers and in development spending. By contrast, public wages and interest payments were almost fully paid. As a result, the shift towards the increased proportion of recurrent expenditure relative to development expenditures was accentuated during this period. The cash pressure on the budget increased as the arrears continued to rise, reaching almost 2.5 percent of GDP (excluding pensions) by the end of March 2014.

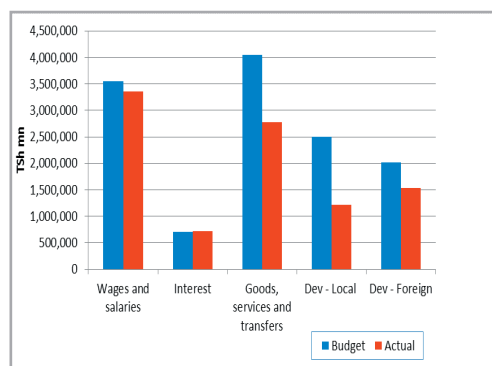
The cash pressure on the budget increased as the arrears continued to rise, reaching almost 2.5 percent of GDP (excluding pensions) by the end of March 2014.

Figure 14: Tax revenues have been lower than budgeted in the first three quarters of 2013/14



Source: MoF

Figure 15: Low execution of public spending in the first three quarters of 2013/14



In early February 2014, during the mid-term review of the budget, the Government reaffirmed its commitment to reducing the fiscal deficit to five percent of GDP by the end of the current

fiscal year. However, the achievement of this target will require serious efforts in terms of revenue collection and further cuts in expenditure. The Government faces a significant challenge to finance

the 'Big Results Now' initiative. This will require careful consideration of the trade-offs between recurrent and development expenditure, in addition to a sustained effort to improve revenue collections.

1.2 Outlook: Short to medium-term prospects

In the absence of major domestic and external shocks, the economy is projected to achieve a growth rate of approximately seven percent in the coming year, a figure consistent with

its historical trajectory. However, it will be challenging for the authorities to make the necessary adjustments to preserve fiscal space, particularly given the Government's ambitious public investment program, the 'Big Results Now' initiative. It may also be difficult to achieve fiscal control in light of the next general elections, which are scheduled for November 2015. However, despite these difficulties, failure to control the growing public sector deficit carries risks in both the short and long term.

Table 2: Macro-economic projections (% of GDP unless otherwise indicated)

	2010/11	2011/12	2012/13 (e)	2013/14 (p)	2014/15 (p)	2015/16 (p)
Real GDP growth	6.7	6.7	7.0	7.0	7.0	7.0
Inflation (CPI, %)	7.0	17.8	11.3	6.1	5.3	5.1
Broad money (M3)	22.0	11.8	13.0	--	--	--
Revenue (excluding grants)	16.4	17.6	17.6	18.6	19.3	19.5
Total Expenditure	27.0	26.3	27.8	27.2	27.5	27.1
Overall balance (including grants)	-6.6	-5.0	-6.8	-5.2	-4.9	-4.0
Investment	34.5	35.5	34.4	33.4	32.1	31.5
Current account balance	-9.4	-18.4	-14.3	-14.5	-13.3	-12.3
Gross official reserves (US\$ million)	3,610	3,797	4,351	4,633	5,153	5,641

Source: World Bank and IMF

It is likely that the Tanzanian economy will continue to grow at a rate of approximately seven percent per annum over the next few years, with this growth largely driven by the same sectors that have driven growth in the recent past. The communications, finance, and retail sectors should continue

to benefit from the sustained increases in domestic demand resulting from technological change and from the process of urbanization. The contribution of the construction sector to growth should be increasingly significant, as a result of the execution of large investment projects

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funded by the public sector and through PPPs. Some of these crucial projects include the reconstruction of the port of Dar es Salaam, the rehabilitation of the railways on the central corridor, and the construction of several energy plants. The development of the natural gas industry should also drive growth, although this impact is unlikely to be significant before 2016 (see Box 2).

Box 2: The potential impact of natural gas on Tanzania's domestic businesses

The recent discoveries of massive offshore reserves of natural gas in the south of Tanzania have the potential to have a radical impact on the nation's economy. While final decisions are still to be made, there are three main gas companies involved in deep water exploration in Tanzania (British Gas, Statoil and ExxonMobil) and these are projected to invest US\$20-25 billion over the next 10 years.

However, it is important to maintain realistic expectations regarding the impact of these investments on local development and direct job creation. First, the exploitation of natural gas and the fiscal revenues derived are not expected to flow before 2022-2023. Second, the natural gas industry is not labor-intensive and is expected to create only 300 to 500 direct jobs in the operational phase. Third, the needs of the gas industry in terms of skills are very specific. While unskilled and low skilled jobs will be created, many positions will require particular skills that are currently difficult to find in Tanzania. Industry standards governing matters such as health and safety are often high, so training will have to be provided to enable Tanzanians to become employable in the industry.

Local private sector growth, and therefore job creation, may occur through the development of two types of linkages:

(1) Up/midstream linkages: Judging from international experience with other projects of this magnitude, the LNG plant construction should generate between 8,000 and 10,000 direct jobs over a period of four to six years, starting in 2016 when final investment decisions will be made. These jobs will involve a variety of skill levels and activities related to gas infrastructure development. More importantly, the investment will also be likely to create new demand for supporting and related economic activities, including construction, food production, and business services. Thus, the exploitation of natural gas will create a significant amount of indirect employment, potentially in the range of 20,000 to 35,000 jobs. Although the number of indirect jobs will drop significantly once the construction phase is over, a well-thought out strategy will minimize the impact of this by connecting these jobs to other sectors and by improving the competitiveness of the local private sector to increase their market nationally, regionally and internationally.

The development of the natural gas industry should also drive growth, although this impact is unlikely to be significant before 2016.

The rate of inflation is projected to stabilize at around five percent. However, this projection is based on the assumption that there will be no food price shocks, as food prices contribute to more than 50 percent of the Consumer Price Index.

(2) Downstream linkages: The availability of additional natural gas in the domestic market creates an opportunity to attract and develop energy intensive industries, such as cement and fertilizer production. If sufficient incentives for investors are put in place, including fair pricing systems, reliability of access to gas, and ease of doing business, several industries that use gas as a feedstock could decide to set up operations in the country. In turn, this would create more job opportunities.

In addition to these two types of linkages, the gas industry will also result in the development of new infrastructure such as ports, which, if strategically planned, could be used to create and boost other economic activities, including through the development of growth poles and special economic zones. Such a strategy has been recently applied by Madagascar, in partnership with Rio Tinto, and in Mozambique, with some degree of success in each case.

Furthermore, once substantial fiscal revenues are generated by the industry, the Government will have the opportunity to promote the development of physical and human capital in the country, both of which are key factors for enhancing the overall productivity of the economy and for increasing the number of available productive jobs. This, however, supposes an agreement on how to distribute those revenues between the experience of central and local governments, as well as the existence capacities to manage and absorb those revenues.

These induced jobs, defined as direct and indirect jobs created by the reinvestment of revenues from the oil and gas industry, can also be estimated by using multipliers developed in previous studies. The ratio of induced to direct jobs could potentially vary from between 6.6 to 8.4, which means that the number of induced jobs created could reach from 60,000 to 80,000 jobs.

Source: Tanzania Country Economic Memorandum, 2014

The rate of inflation is projected to stabilize at around five percent. However, this projection is based on the assumption that there will be no food price shocks, as food prices contribute to more than 50 percent of the Consumer Price Index. Monetary policy should remain cautious, as in recent years.

On the external side, the current account deficit will remain relatively high, at 12-14 percent of GDP. This should continue to be financed by a combination of official aid, FDI, and commercial loans. The trend will be towards an increased contribution of private capital inflows, particularly through the expected massive FDI inflows associated with the extractive industries.

Exports should increase, driven by regional trade, as long as commodity prices (principally gold) remain relatively stable.⁶ Imports will continue to grow at a rate of around 7-10 percent in the next couple of years, in line with the projected growth of the economy, with an elasticity of one between imports and GDP growth being the rule of thumb for Tanzania. It is worth reiterating that the massive FDI inflows associated with the exploitation of natural gas are not expected to begin before 2016. The net impact of these inflows on the balance of payments is likely to be limited, as international experience indicates that approximately 90 percent of inflows of this nature are usually used to finance imports, as neither the equipment nor the materials necessary for these technology-intensive investments are not available in Tanzania.

This baseline scenario assumes that the Government will consolidate its overall fiscal deficit at around 5.0-5.5 percent of GDP in 2013/14 and at around five percent in 2014/15, stabilizing the total public debt at around 45 percent of GDP. These targets, however, will not be easy to achieve. The level of revenue collection is expected to improve during 2014 due to the recent agreement reached with telephone companies to replace the proposed subscriber identity module (SIM) card tax with a higher excise tax rate of 17 percent, up from the current rate of 14.5 percent. However, it is vital that the new VAT Act is implemented as soon as possible, as it

will reduce loopholes and exemptions. Further attention should also be given to the collection of import duties, given the surprisingly weak performance in this area despite the continued and sharp increases in imports over the past two years. On the expenditure side, the biggest challenge will be to control the wage bill and to reallocate a larger proportion of resources toward the priorities defined in the BRN initiative. This will require close monitoring, particularly given that aid inflows are not projected to increase over the next couple of years and that significant revenues will not be derived from the exploitation of natural gas for some time. Despite these challenges, Tanzania has demonstrated a good record in terms of macroeconomic and fiscal management over the past decade. If this can be maintained, it is likely that the fiscal deficit will be brought under control.

The achievement of this fiscal consolidation will enable Tanzania to maintain its status as a low distress country. The latest IDA-IMF Debt Sustainability Analysis (DSA) shows that Tanzania's risk of debt distress is low.⁷ However, this result has become more sensitive to fiscal consolidation (see baseline scenario in Figures 16 and 17). This increased sensitivity, while manageable, is explained by the recent rapid increase in non-concessional borrowing by the public sector. This risk highlights the importance of a sound debt management strategy, a conservative approach to non-concessional borrowing, and improvements to the

Massive FDI inflows associated with the exploitation of natural gas are not expected to begin before 2016.

⁶ World Bank's latest projections forecast a declining trend in gold prices for the next decade, but this trend is quite modest.

⁷ For details, see IMF, April 2014.

authorities' capacities to plan and execute public investments in order to ensure future debt and fiscal sustainability.

Managing Risks

The recent volatility in commodity prices has made Tanzania's ongoing vulnerability to external shocks abundantly clear. While increasing diversification in terms of Tanzania's trading partners and products has helped to reduce this vulnerability, variations in gold and oil prices continue to have a significant impact on the trade balance. To a large extent, the decline in gold prices explains the stagnant performance of exports in 2013, due to the contribution of this commodity to the total value of merchandise exports. Similarly, oil accounts for about one-third of the total value of imports. The increase in the value of commercial debt also exposes the country to variations in international interest rates.

While the Tanzanian authorities should continue to monitor external events, they should prioritize the management of issues on the domestic front, given the potential of these issues to exacerbate cash pressures on the overall state budget. While these fiscal risks are not new, they are yet to be addressed. The most important risk relates to the increasing value of arrears, which is now estimated to reach more than four percent of GDP. These arrears are concentrated in public works, particularly transportation, and pension funds. The accumulation of these arrears has begun to create problems, leading to cash constraints for

several construction companies and one of the most important pension funds (PSPF). If the central Government does not repay all these arrears immediately, any solution, including rescheduling, will still absorb a significant share of public resources in the future. To illustrate, the amount of arrears accumulated with road contractors was equivalent to approximately 70 percent of the budget allocated to the Ministry of Works in the approved 2013/14 budget.

Another source of concern is the financial fragility of several public agencies and enterprises. While significant progress has been achieved within TANESCO, with a 40 percent average increase in electricity tariffs implemented in January 2014, the value of arrears accumulated by this enterprise with suppliers and gas developers remains significant at around \$320 million in May 2014. Furthermore, the TANESCO deficit is sensitive to a number of factors outside the Government's control. For example, an increase in world oil prices would automatically lead to higher power generation costs thus exacerbating the TANESCO deficit. Other enterprises, such as the water company DAWASCO, have also accumulated arrears which might over time lead to additional pressures on the State's finances.

Dealing with these risks will require additional efforts in terms of fiscal management. Hence the Government may be tempted to postpone fiscal adjustments until after the elections of November 2015. It may even be tempted to wait for the fiscal revenues that are expected from

The accumulation of these arrears has begun to create problems, leading to cash constraints for several construction companies and one of the most important pension funds (PSPF).

the exploitation of off-shore natural gas. risk-free as illustrated by the example of
However, neither of these two options are Ghana very recently (see Box 3).

Box 3: Ghana as a Cautionary Tale

Over the past few years, the fiscal situation has significantly deteriorated in Ghana through a combination of political expenses and borrowing against current and future oil revenues. As a result, the overall fiscal deficit increased from 4.3 percent of GDP in 2011 to 11.8 percent of GDP in 2012, despite a 2012 target of 6.7 percent.

Ghana's fiscal overspend has led to a significant increase in debt service payments, which may in turn bring instability on the financial market. The increase in Government borrowing has resulted in higher interest rates and the gradual crowding out of credit to the private sector. Concurrently, the local currency has lost about 20 percent of its value against the dollar over the last six months.

Source: Bank of Ghana, 'Annual Report', 2012

In order to evaluate the risks associated with postponing the fiscal adjustment, it is possible to envisage two scenarios.

The first scenario assumes that the overall deficit level will remain at its 2012/13 level (where the primary balance is 3.6 percent of GDP) for the period from 2013/14 to 2020/21, while the second supposes that the adjustment will take place after the general election.⁸ The first scenario, obviously extreme, shows that the Government will run into problems long before it derives revenues from the

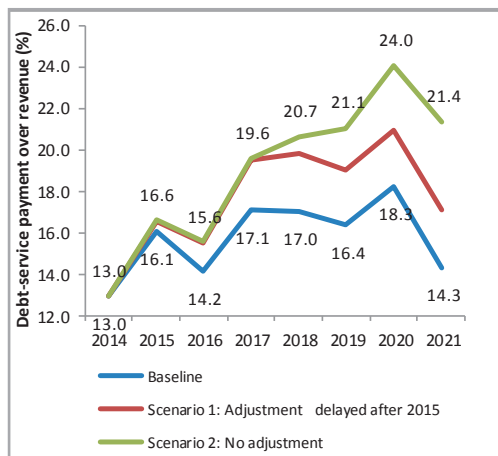
exploitation of natural gas. The debt service level will increase rapidly, reaching 20 percent of projected domestic revenues by 2020, or almost six percent above the baseline scenario (see Figure 16). The ratio between net present value debt and GDP will also increase, exceeding the 50 percent threshold by 2021 (see Figure 17). In other words, Tanzania would no longer be classified as a low debt distress country and a significant proportion of public resources would need to be used to service the debt.

In other words, Tanzania would no longer be classified as a low debt distress country and a significant proportion of public resources would need to be used to service the debt.

⁸ The overall deficit is maintained to 6.8 percent of GDP in 2013/14 and 2014/15, and is brought down to 5 percent of GDP in 2015/16 and 4.5 percent subsequently. A primary balance of 3.6 percent is equivalent to a fiscal deficit of 6.8 percent.

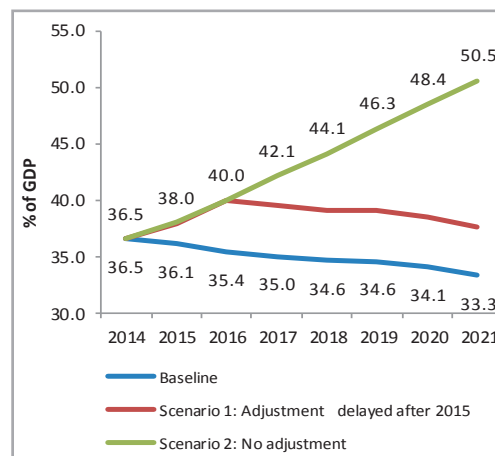


Figure 16: Public debt service payments



Source: World Bank.

Figure 17: Net present value of Public Debt to GDP



The second scenario shows the trade-off involved if the Government postpones fiscal adjustment. While there is some fiscal space to postpone the fiscal adjustment up to 2016, the money spent in the next two years will have to be financed through additional borrowing, involving loans that will have to be repaid later. This has implications for debt-service payments, which would increase by an accumulated value of US\$ 1.2 billion in the period from 2015 to 2021 (see Figure 16 for the trend).

employment opportunities in productive sectors that provide decent salaries for its expanding workforce. As a result, the vast majority of workers remain confined to employment within very small non-farm businesses, the so-called household enterprises, and in subsistence farming. However, the rapid urbanization process creates an opportunity to generate employment opportunities through multiple agglomeration effects within firms and sectors of activities. A number of countries have successfully leveraged the urbanization process to achieve this, as the 2009 World Development Report clearly demonstrates.⁹

While there is some fiscal space to postpone the fiscal adjustment up to 2016, the money spent in the next two years will have to be financed through additional borrowing.

1.3 The Next Challenge: Creating Jobs for Faster and More Equitable Growth

Tanzania will have to manage its fiscal consolidation in the coming years. At the same time, it must strive to create a greater number of productive jobs for its fast-growing labor force. So far, the country has failed to create sufficient

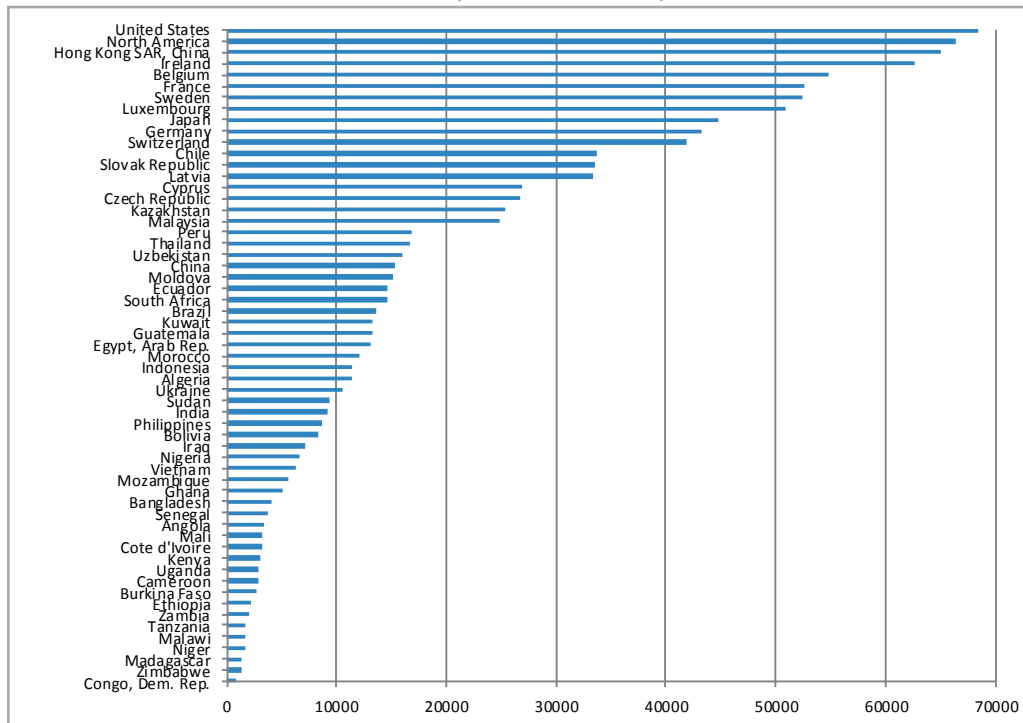
Tanzania’s failure to generate a sufficient number of employment opportunities in productive sectors is clearly reflected by the country’s average wages, which are still among the lowest in the world (see Figure 18). The low average wages are

⁹ World Bank, “World Development Report: Reshaping Geography”, 2009.

reflected by the still relatively high levels of poverty, especially in rural areas (close to 35 percent in 2012). The correlation between poverty and average per worker earnings is not surprising, given that the most direct way for a household to escape poverty is to generate a sufficient,

long-term income from labor. A recent World Bank study shows that the most effective means for a country to alleviate poverty and create shared prosperity is to improve average labor incomes through the creation of additional jobs with higher average salaries over time.¹⁰

Figure 18: Tanzania has one of the lowest earning rates per worker in the world (2012, US dollar)



Source: World Bank

Tanzania's labor force is expanding rapidly, with an average of almost one million new workers entering the labor market every year. Approximately three quarters of these new entrants into the workforce are absorbed by the agricultural sector. However, with the rapid pace of urbanization, this picture is changing fast.

The process of urbanization is evident in any of the country's cities. According to some reckonings, Dar es Salaam is the second most rapidly expanding city in the world, with secondary cities such as Arusha and Mwanza also growing fast. The 2012 population survey shows that approximately 15 million Tanzanians, or 27 percent of

According to some reckonings, Dar es Salaam is the second most rapidly expanding city in the world, with secondary cities such as Arusha and Mwanza also growing fast.

¹⁰ Gabriela Inchauste, João Pedro Azevedo, Sergio Olivieri, Jaime Saavedra, and Hernan Winkler, "When Job Earnings Are behind Poverty Reduction", November 2012.

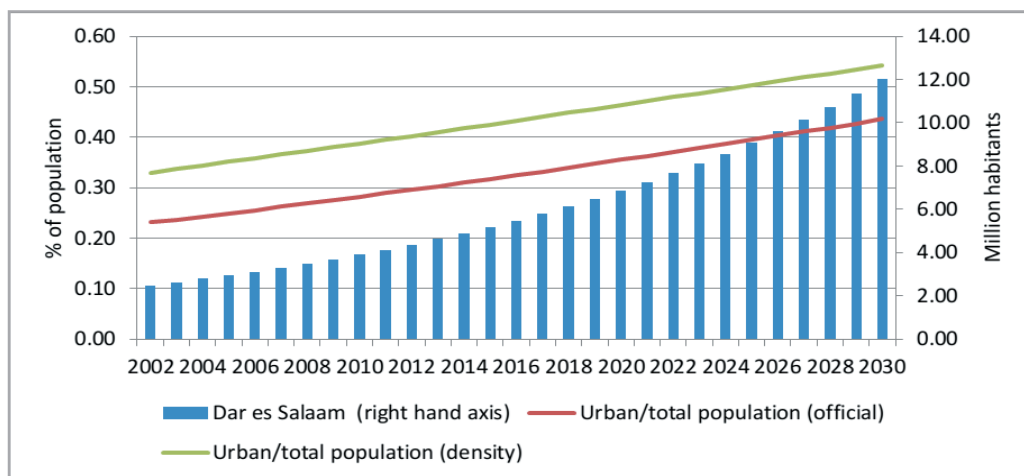


Residents of rural areas move to cities because educational and employment opportunities are limited in rural areas, but also because life is also generally better in urban centers.

the total population, live in urban areas.¹¹ This is a significant increase compared to 1990, when the urban population was only 4.5 million, or 18 percent of the total population¹². In fact, these published figures underestimate the magnitude of urban expansion, as many new migrants continue to be registered as living in rural areas despite their spending significant periods in the cities. Furthermore, these figures are based on the static administrative definition of urban areas which fails to capture the fact that many rural areas are

themselves being transformed into urban areas, particularly those in close proximity to cities. A better means of distinguishing between rural and urban areas would be on the basis of population density. Using the estimates provided by a 2009 World Bank study,¹³ it can be extrapolated that approximately 20 million Tanzanians, or 45 percent of the population, currently lives in areas with a population density higher than 150 people per square kilometer. This figure will reach 45 million, or 54 percent of the total population by 2030 (see Figure 19).

Figure 19: Rapid urbanization in Tanzania



Note: The projections are extrapolated using the growth rates reported between 2002 and 2012. The share of urban population is measured by two alternative definitions: (i) the official definition used by the National Bureau of Statistics in the Census; and (ii) the OECD cut-off point of 150 people per km².

Source: Authors calculations based on 2012 population census

A significant driver of urban growth is the rapid rate of population growth, which in turn compounds the effect of migration from rural to urban areas. Tanzanians are migrating from rural areas to urban areas because of both push

factors and pull factors. Residents of rural areas move to cities because educational and employment opportunities are limited in rural areas (push factor), but also because life is also generally better in urban centers (pull factor), as evidenced

¹¹ Source: 2012 Population census.

¹² World Development Indicators, 2014

¹³ E. Muzzini and W. Lindeboom, "The Urban Transition in Tanzania: Building the Empirical Base for Policy Dialogue," Stock No. 37274, World Bank, Washington, DC, 2008).

by the lower poverty rate in Dar es Salaam, which stands at 4.1 percent, compared to an average of 33.3 percent in rural areas. Urban workers are more likely to settle in wage employment in the private and public sector or to establish more profitable businesses. They are also more likely to be able to access electricity and

other basic services. For example, in urban areas, approximately 85 percent of urban households have access to improved water supplies, compared to only 43 percent of households in rural areas. Similarly, 34 percent of urban households have access to electricity, compared to only 1.3 percent of households in rural areas.¹⁴

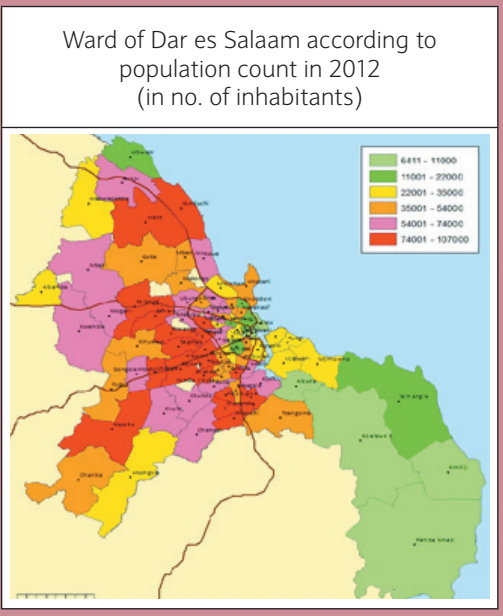
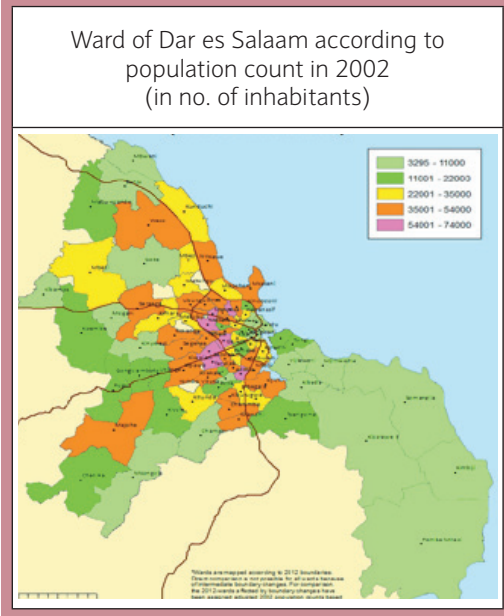
Box 4: Capturing the Benefits of Dar es Salaam’s Rapid Urbanization is important for the national economy, but there are significant hurdles

Dar es Salaam is growing fast - its population increased at an average rate of 5.8 percent annually, from 2.5 million inhabitants to 4.4 million between 2002 and 2012.¹⁵ At this rate, Dar es Salaam’s population will reach 10 million by 2027, attaining ‘mega city’ status. In general, the increased population has been absorbed by outward expansion, and its form shaped by sprawl and informality. This is leading to the proliferation of unplanned areas, the creation of more ‘slums’, and greater congestion in the city.

Table 3: Dar’s growth is outpacing the country

	Dar es Salaam	Mainland Tanzania
1967-78	7.8	3.2
1978-88	4.8	2.8
1988-2002	4.3	2.9
2002-2012	5.8	2.7

Source: ‘Population Growth and Spatial Expansion of Dar es Salaam’ RurbanAfrica (2013)



¹⁴ Tanzania NPS 2010/11

¹⁵ Population Growth and Spatial Expansion of Dar es Salaam’ RurbanAfrica (2013).

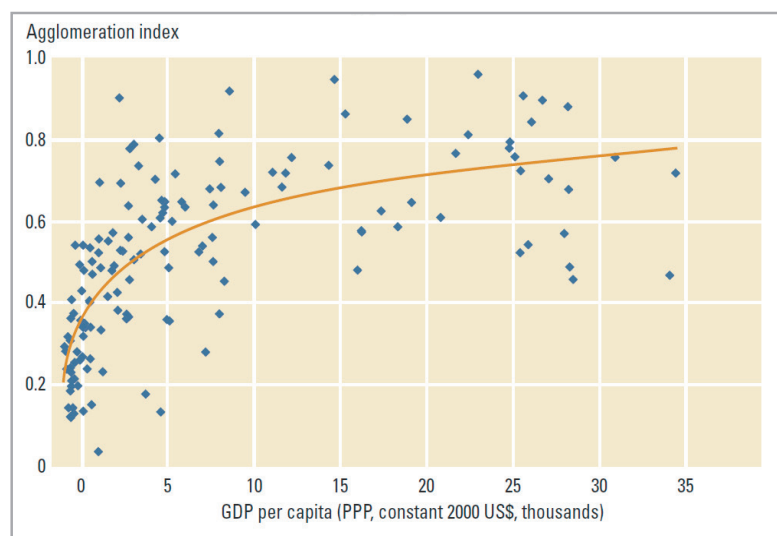
If the urbanization process is managed well, tremendous benefits can be captured from the agglomeration effects. And given the importance of Dar es Salaam for the national and regional economy, it is critical to change current urban development trends. However, Dar es Salaam has fundamental barriers limiting the quality and potential of its future development. These include backlogs in infrastructure investments; underperforming own-source revenue collection systems; the mushrooming of informal settlements; sprawling energy intensive settlement patterns; the absence of effective metropolitan planning and governance arrangements; and capacity constraints for management and service delivery. All of these factors impact the current and future quality of life, business environment, competitiveness, opportunities for jobs, and achievement of poverty alleviation goals. These issues need to be addressed while they are still manageable in order for Dar es Salaam to build a foundation for its future status as mega-city.

Source: 'Population Growth and Spatial Expansion of Dar es Salaam' Rurban Africa (2013)

The rapid pace of urbanization in Tanzania is not unusual. As nations develop, urbanization is a common phenomenon. However, the rate of urbanization has been faster in Africa than in Asia, with the rate of urban growth in Asia from 1900s-2010 standing at 3.5 percent, compared to the rate of 4.9 percent in Africa.¹⁶ Across the globe, per capita incomes are on average five times higher in those nations in which more than 50 percent of the population lives in urban areas than in countries in which the majority of the population lives in rural areas (see Figure 20).

As nations develop, urbanization is a common phenomenon.

Figure 20: As nations develop, the population is concentrated in towns and cities



Source: WDR 2009

¹⁶ R. Jedwab, L. Christiaensen, M. Gindelsky, "Rural Push, Urban Pull and... Urban Push? New Historical Evidence from Developing Countries," Institute for International Economic Policy Working Paper Series, IIEP-WP-2014-4, January 2014.

The increasing concentration of the population in urban areas is caused by the widespread expectation that economic conditions are better in these areas, which itself offers additional opportunities for business and for job creation.

Economic theory has demonstrated that the concentration of potential customers and workers in a reduced space can help businesses to grow faster through so-called agglomeration effects, with these effects occurring within and between firms.¹⁷ Through proximity, firms may reduce their internal transaction and transport costs, making them more competitive. They can also recruit qualified employees more easily and benefit from better access to infrastructure and resources such as electricity and roads. At the sector level, economies of scale can be achieved by grouping activities such as the training of workers, and developing joint energy infrastructure and transport modes.

As a result, cities have been by far the most dynamic areas of economies around the world.

The urbanization of the Tanzanian economy has already started. Today, it is estimated that economic activities in urban areas contribute to approximately half of the country's GDP. Non-farm businesses, located in cities, have been growing at an average rate of 12-15 percent per year between 2008 and 2011, partly due to the growing customer market for durable goods (see Box 5). It is expected that the number of such businesses will double in approximately seven years. The concentration of businesses around urban areas is illustrated by Figure 21, which shows the concentration of businesses in the textile and agribusiness sectors around urban areas. Most of these businesses are located within the Dar es Salaam agglomeration and in Arusha/Kilimanjaro, in close proximity to customer and supply markets.

As a result, cities have been by far the most dynamic areas of the economy in most countries around the world.

Box 5: Growing demand for goods in urban areas

The combination of rapid economic growth and urbanization has led to an increase in the demand for durable assets in Dar es Salaam over the past 10 years.

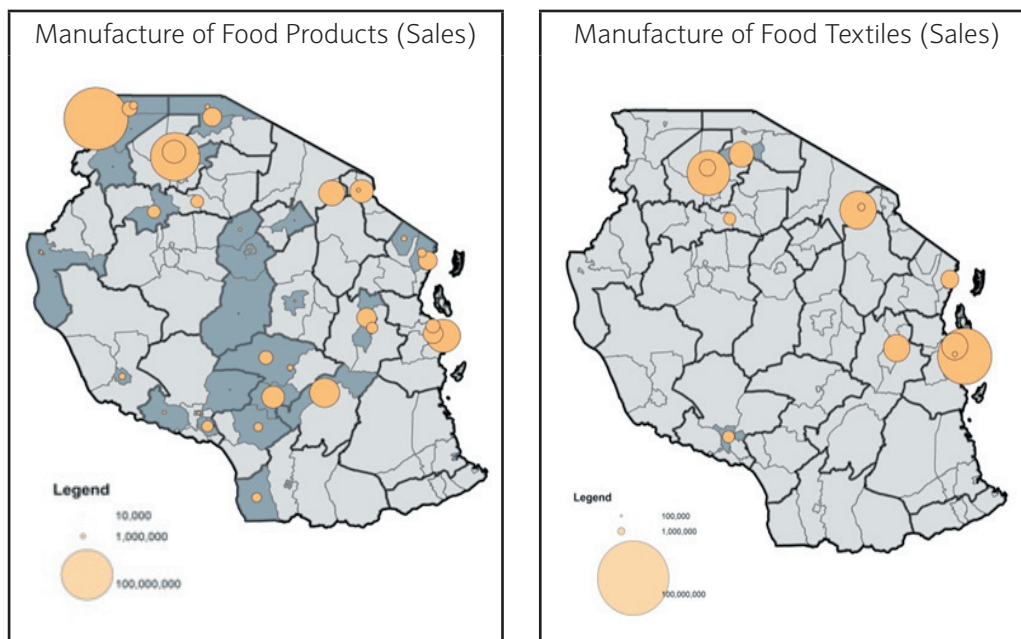
Table 4: Number of households owning durable goods in Dar es Salaam

Durable goods	2001/2002	2011/12
Fridge/Freezer	85,939	360,884
TV	85,558	620,786
Video	63,902	427,539
Computer	5,971	106,535
Stove (electric/gas)	57,088	115,174
Car	25,077	63,629

Source: Household Budget Surveys, 2001/02 and 2011/12

¹⁷ For a good review of this literature, see Ciccone, Antonio & Hall, Robert E, "Productivity and the Density of Economic Activity," American Economic Review, American Economic Association, vol. 86(1), pages 54-70, March 1996.

Figure 21: Firm concentration around urban centers



Source: Tanzania Country Economic Memorandum, 2014

However, success is not automatic, as the enabling conditions necessary for new firms to emerge and for existing firms to expand must be in place.

The increasing concentration of population and firms in urban areas can be leveraged to enable Tanzania to fulfill its ambition of achieving middle-income status by 2030. Many other countries around the world have successfully facilitated their transition to emergence through such means. However, success is not automatic, as the enabling conditions necessary for new firms to emerge and for existing firms to expand must be in place. This is not a trivial issue for a country ranked close to the bottom in the 2014 edition of the Doing Business Report. The second part of this economic update will pay close attention to how Tanzania can address this challenge in urban areas.

A word of caution is necessary. Given that Tanzania will become a predominantly urban nation in the near future, a focus on the development of urban areas is warranted. However, this should not be at the expense of the rural sector. At present, most Tanzanians continue to live in rural areas. Even if their number is declining each year, the Government must attend to their needs. But the Government will only achieve this by facilitating the transformation of the agricultural sector from subsistence to commercial farming. This transformation will also be crucial to bringing food to urban markets and creating additional jobs along the value chain. These synergies between the rural and urban sectors are important for Tanzania's economic development.¹⁸

¹⁸ These synergies between rural and urban economies were discussed in details in the Second Economic Update. They are also analyzed in the forthcoming World Bank, *Tanzania Country Economic Memorandum, "Productive Jobs Wanted"*, 2014.

2 Promoting Growth and Job Creation in the Context of Urbanization



Part II: Promoting Growth and Job Creation in the Context of Urbanization

- ◆ The rapid rate of urbanization in Tanzania has led to the growth of non-farm businesses, with the number of businesses increasing by almost 15 percent per year. Tanzania's structural transformation is clearly under way.
- ◆ Most urban businesses are small, informal, unspecialized, young and fragile. Such businesses are unlikely to become vectors of growth and employment in the coming years. However, if only 20 percent of these businesses were able to add a single additional employee, this would lead to the creation of almost 400,000 new jobs in urban areas every year.
- ◆ Running a small business in urban Tanzania is a difficult endeavor. While key constraints vary according to the nature of the business, its sector of activity, and its geographical location, the most important include: (i) the lack of the required skills of the labor force; (ii) the lack of access to external finance; (iii) the cost of connectivity; (iv) the burdensome and insecure administrative environment; and (v) the weak rule of law.
- ◆ There is no blue print for harnessing the potential for growth of urban businesses, but a minimal set of improvements is needed to address the low level of skills in the labor force, high congestion costs, administrative barriers and insecurity, and obstacles that hinder businesses from achieving economies of scale. Such efforts will require a significant policy change at the core, rather than at the margins, and strong leadership from both the public and private sectors.

"I can't make ends meet by farming these days," laments Robert Umala, a young farmer from Western Tanzania. "All my friends are moving to the city to find work. There is a better future there." Securing a job with decent pay is the aspiration of around 800,000

Tanzanians who enter the labor market every year. Productive jobs, or jobs that "yield sufficient returns to labor such that the worker and his/her dependents are permitted a level of consumption above the poverty line,"¹⁹ are the most reliable means for poor members of society to

¹⁹ International Labor Office, Employment Sector, "Understanding deficits of productive employment and setting targets: a methodological guide," ILO Employment Sector, Geneva, 2012



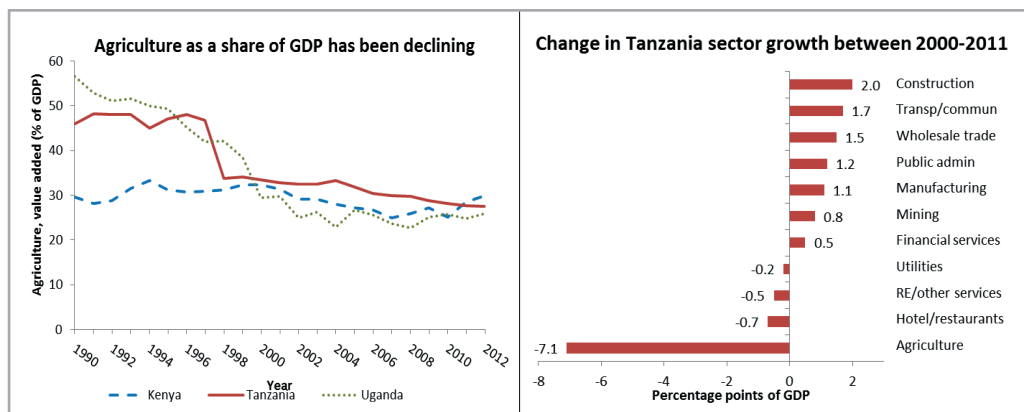
escape the poverty trap. For many poor Tanzanians, securing such jobs involves migration to the urban centers. Thus, over the past few years, a large number of migrants from rural areas have made the move to Dar es Salaam or to secondary cities such as Arusha and Mwanza to seek improved economic opportunities.

recent years, the contribution of the agricultural sector to GDP has declined relative to that of other sectors, with this decline expected to continue into the future. Other signs of transformation over the past decade include changes in the concentration of economic activities across different sectors (see Figure 22). While the contribution of the agricultural sector to overall economic output has declined significantly over the last decade, the contribution of sectors such as manufacturing, construction, trade and services has increased.

Today, a significant proportion of urban employment is provided by small non-farm enterprises.

The rapid process of urbanization is contributing to the transformation of the Tanzanian economy and its labor force. Over

Figure 22: The gradual transformation of the Tanzanian Economy



Source: World Bank, IMF.

In recent years, non-farm businesses have accounted for a large proportion of job opportunities. In Tanzania’s urban centers, it is estimated that there are more than two million such businesses. However, the process of urbanization alone will not necessarily lead to the creation of additional productive jobs. The rate of explicit unemployment in Tanzania is low, at around only four percent. However, this figure is extremely misleading, because it contains no indication of the number of people who are not employed in secure, productive jobs that provide decent salaries.

Rather than securing such work, migrants from rural areas in particular face the risk that they will make the transition merely from subsistence farming to subsistence employment in cities. A significant share of urban employment is provided by small non-farm enterprises that are largely unproductive and ill-equipped to expand and become competitive.

Tanzanian policy makers have to build upon the opportunities created by urbanization to promote the growth of productive businesses and the creation

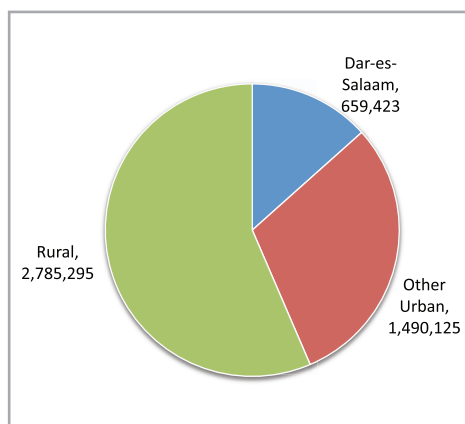
of productive employment opportunities. However, this is easier said than done. Creating such opportunities will require a significant policy change at the core, rather than at the margins, to allow for the emergence of a new class of productive businesses in Tanzanian cities.

2.1. A profile of Businesses in Tanzanian cities

At present, approximately three million businesses operate in Tanzania's urban

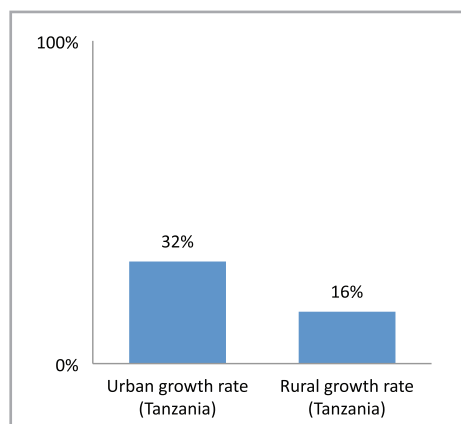
centers, including two million non-farm businesses (see Figure 23). The concentration of businesses in cities has been growing over time, with the evidence showing that the rate of growth of such businesses over a two-year period (2008/09 - 2010/11) was twice as high in urban areas as in rural areas (see Figure 24). Similarly, over the same period, the total number of non-farm businesses increased by 23 percent, while the number of farms declined by three percent.²⁰

Figure 23: Number of non-farm enterprises (2010/11)



Source: Tanzania NPS (2008/09 and 2010/11)

Figure 24: Growth of non-farm enterprises, 2008/9-2010/11



The vast majority of urban non-farm businesses are unspecialized and involved in general trading activities. However, in recent years, the fastest-growing sectors have been the communication, financial services and transport sectors. These specialized sectors offer new job opportunities for young and educated workers and have the potential to harness a higher level of synergy between sectors. For example,

the development of mobile technologies and the increasing sophistication of the transportation sector have allowed many business owners to track their goods and to establish better connections between suppliers and customers. There has also been a high level of dynamism in the construction and manufacturing sectors, although these sectors have also been characterized by high levels of volatility.

The development of mobile technologies and the increasing sophistication of the transportation sector have allowed many business owners to track their goods.

²⁰ Source: Tanzania National Panel Surveys, 2009/09 and 2010/11.

They operate for limited periods each day, and are often extremely fragile.

Most businesses in urban areas consist of small, informal and unproductive enterprises. These enterprises, often referred to as ‘household enterprises’²¹ are typically not well equipped to expand and become competitive, as most involve self-employment and are run from household premises. Of the two million non-farm businesses operating in urban areas, almost 90 percent of their owners state that they are self-employed. They are generally informal and unspecialized, with largely unskilled operators. They operate for limited periods each day, and are often extremely fragile (see Box 6 for details).

Box 6: X-ray of businesses operating in urban centers

1. **Small**
 - About 93 percent of urban enterprises report two employees or less, with approximately 84 percent confined in self-employment;
 - Only 0.4 percent report more than 10 employees;
2. **Unskilled**
 - Only three percent of business owners have post-secondary education (mostly in Dar es Salaam);
3. **Informal**
 - Only a small percent of firms are registered (1.5 percent), but many more pay other fees, with 20 percent reporting some relationship with administration (professional registration, local authority license, daily license);
4. **Unspecialized**
 - About 60 percent of urban businesses operate in the areas of general trade and non-farm based agriculture;
 - Specialized services sectors such as communication and financial services represent only 2.7 percent of firms;
5. **Young**
 - A quarter of all non-farm businesses are less than a year old;
 - Two thirds of businesses are less than five years old;
6. **Fragile**
 - Forty percent of businesses have a survival rate of less than five years;
 - Only 6-8 percent of non-farm businesses grow;
 - On average, a firm operates for eight months in a year.

Source: Tanzania Country Economic Memorandum, 2014

²¹ J. Kweka and L. Fox, “The Household Enterprise Sector in Tanzania: Why It Matters and Who Cares,” World Bank Policy Research Series, n. 5882, 2011.

Most business owners in urban areas are termed ‘reluctant entrepreneurs’.²² That is, they become entrepreneurs because wage employment is not an option and self-employment is their only means of survival. The businesses operated by these reluctant entrepreneurs achieve low levels of profitability, with approximately 90 percent of such businesses reporting a monthly profit of less than TZS 282,000 (US\$ 176), and with the average firm reporting monthly profits of only TZS 150,000 (US\$ 94).²³ With these low profits, these businesses are barely capable of providing a livelihood to the operator and are extremely unlikely to generate

productive employment opportunities. The small share of firms that are profitable tend to be managed by owners with a higher level of skills and better access to transport (to access markets), access to basic infrastructure (electricity and mobile phones), and access to external capital.

Increasing the level of productivity of these businesses could have a dramatic impact on Tanzania’s economy. If only 20 percent of existing small firms in urban Tanzania were capable of providing employment to a single additional employee each year, close to 400,000 additional jobs would be created in urban areas (see Box 7).

Box 7: Small urban non-farm businesses as a vector of employment: Let the numbers speak

Total urban non- farm businesses	2m	
fraction of firms with 2 or less workers	x 0.93	
	1.86m	firms accounted for almost all job creation between 2008/9 and 2010/11
GOAL: Get a higher share of small firms to stimulate job creation		
If 20% of existing firms (with 2 or less workers) double their workforce	= 372,000	New jobs created

The businesses operated by these reluctant entrepreneurs achieve low levels of profitability.

Source: Calculations based on Tanzania NPS 2008/9 and 2010/11

Larger businesses also play an important role in driving employment growth. While large urban businesses consist of a small proportion of the total number of urban enterprises, there are approximately 8,840 enterprises that employ more than ten workers.²⁴ These firms are likely to create jobs that are more

productive, as they are more likely to achieve economies of scale and to have the capacity to provide training and other support for professional growth. Such businesses also create opportunities to develop linkages between large and small businesses, notably through suppliers’ networks.

²² Banerjee, A. and E. Duflo, “*Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty*”, Penguin Books, ISBN 978-1-58648-798-0, 2011.

²³ Tanzania National Panel Survey for 2010/11

²⁴ Tanzania National Panel Survey for 2010/11

Small scale entrepreneurs face multiple operational constraints on a daily basis, with most lacking the capacity to deal with them adequately.

However, given that the overwhelming majority of Tanzanian enterprises are small businesses; equitable growth will only be achieved through the transformation of these firms in a manner that enables them to become vectors of economic growth and job creation. Of course, not all firms will grow and create more productive job opportunities. For most of Tanzania's existing businesses, the prospect of such growth is neither feasible nor realistic. Many

businesses are not capable of growing past a certain point, with a greater proportion struggling merely to survive. Rather, the goal for Tanzania is to replicate the success story of the few firms that have managed to thrive, flourish and grow despite the odds. These firms can provide some insight into how the process of urbanization in Tanzania can be leveraged to facilitate equitable growth, as well as create productive employment opportunities (see Box 8).

Box 8: From household enterprise to conglomerate

In 1968, Said Salim Awadh Bakhresa opened a shoe repair shop in Dar es Salaam. Forty years later, his family owns the largest industrial conglomerate in the country. During the 1970s, he built on his original business to open restaurants and bakeries. He entered into milling and then the food and beverage business in the 1980s, before diversifying into manufacturing (polypropylene woven sacks) and transport in the 1990s and 2000s. The company now employs more than 2,000 people and has an annual turnover exceeding US\$ 600 million per year.

Source: Manson, K. "Family businesses in Tanzania take on international giants." Financial Times, September 30, 2013.

2.2 Small Businesses, Big Challenges

The operation of a small business in Tanzania clearly involves significant challenges. Small scale entrepreneurs face multiple operational constraints on a daily basis, with most lacking the capacity to deal with them adequately.

The example of Victoria, a small business owner in the Dar es Salaam area, illustrates the climate of distrust within which small urban businesses operate (see Box 9). At the end of the day, Victoria has to spend more time on dealing with constraints related to the business environment rather than in productive business activities.

Box 9: Growing small businesses in an environment of distrust

Victoria is in the fifth year of running a small electronic equipment business in Dar es Salaam. The business operates on a small margin and has not grown to the point where she can afford to hire an extra hand. Her often justifiable lack of trust in the environment she operates in acts as a major constraint against growing her business. For example, she has to implement a standard policy of requiring 100 percent upfront payment for goods purchased from her in order to guard against the risk of not being paid after the merchandise is delivered. Such a policy, while perhaps necessary, is detrimental to the expansion of business as clients who do not have the necessary resources to pay upfront could be driven away.

This lack of trust extends to employees. If Victoria had the resources to hire an extra worker, she would only recruit from her family circle or at least from her own ethnic group. But the employment of workers from affinity groups may not result in high levels of efficiency, as workers thus employed are not necessarily the most competent for the job.

Distrust also restricts her access to credit, which is vital for expansion. With no access to credit, firms are forced to postpone crucial investment and other decisions. The informal loan sharks who have the capacity to provide credit often end up raising interest rates to ridiculous levels, as they face high levels of default and do not trust the borrower to repay the loans provided. At the same time, a small businessperson such as Victoria has a strong fear of borrowing, because she feels the terms and conditions of any loan that she is able to secure are designed to ensure that she will forfeit whatever asset she borrows against.

Distrust in the general environment is exacerbated by the common occurrence of armed robberies and theft in business districts. While Dar es Salaam does not face the same level of criminality as Nairobi or Lagos, the level of insecurity has nonetheless increased considerably in recent years. Bigger businesses have the capacity to protect themselves through insurance and better security systems, but smaller businesses are simply unable to do so, as they lack the capability and resources.

Source: Morisset, J. (September 2013), "Is Trust a Crucial Factor in Business Success," World Bank Blog Post, in Future Development Economics to End Poverty. Available here: (<http://blogs.worldbank.org/futuredevelopment/trust-crucial-factor-business-success>)

The key constraints that businesses in Tanzanian cities face vary according to the type of business, sector of activity, and importantly, geographical location.

For example, while a significant proportion of migrants from rural to urban areas end up in Dar es Salaam, an even larger proportion end up in rural towns and secondary cities. Those that migrate to

Dar es Salaam generally see more dramatic increases in consumption; however, there may be other advantages for migrants to secondary cities, including closer location to the village of origin, lower transport and other costs, and less saturated markets. Thus, a discussion of the development of secondary cities as a path towards more inclusive growth is necessary.

The key constraints that businesses in Tanzanian cities face vary according to the type of business, sector of activity, and importantly, geographical location.



The constraints that are faced by small business owners in Dar es Salaam are fundamentally different from those in secondary cities.

The constraints that are faced by small business owners in Dar es Salaam are fundamentally different from those in secondary cities. For example, congestion costs are a key issue in Dar es Salaam, but less so in secondary cities. For those in secondary cities, the lack of connectivity with regional and global markets often represents the biggest obstacle. Similarly, limited and unreliable supply of electricity is a major constraint for highly intensive energy industries, such as cement and fertilizer producers, but a marginal constraint for a small trader.

3. Cost of connectivity;
4. Burdensome administrative environment;
5. Uncertain rule of law.

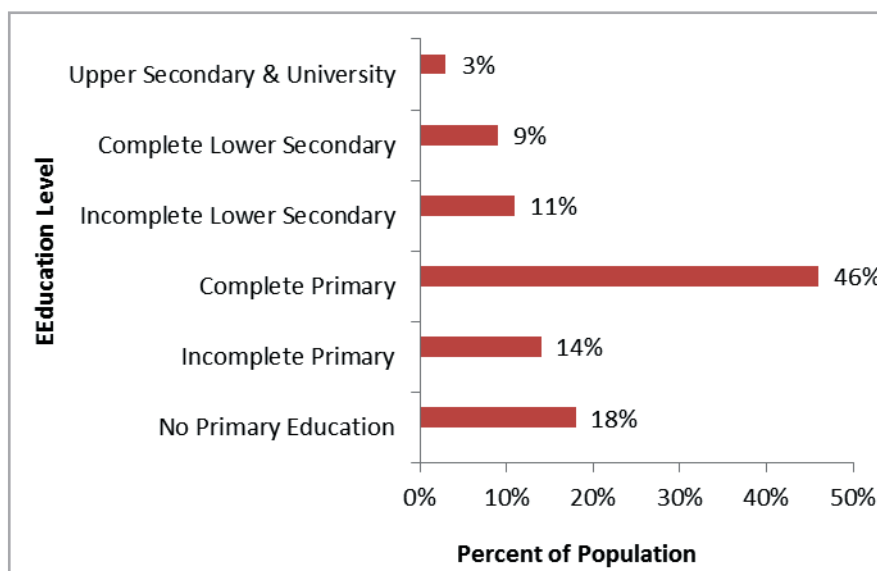
Underdeveloped skilled labor force

On average, Tanzanians complete only seven years of any formal education, with only 12 percent of the population having completed secondary education (see Figure 25). Small business owners in Tanzania are generally younger and less educated than average, with most of these owners under the age of 35. They also possess limited property (80 percent have no rental or property rights on the premises from which they operate) and few assets (only 1.2 percent own motor vehicles; 0.5 percent own computers; 0.3 percent own machinery; and 17.3 percent own any office equipment).²⁵

With this variation in mind, the constraints faced by small businesses in Tanzanian cities may include the following:

1. Undeveloped skills of the labor force;
2. Lack of access to external finance;

Figure 25: A snapshot of education levels in Tanzania



Source: Tanzania National Panel Survey, 2010/11

²⁵ Tanzania National Panel Survey, 2010/11

The low level of education among business owners is not compensated for through the hiring of skilled employees.

Indeed, only ten percent of firms employ workers other than members of the owner's household.²⁶ While family members of the owner may or may not be competent workers, they are hired mainly on the basis of trust rather than their possession of the necessary business and/or technical skills.

While many businesses do not hire workers external to the household because of the trust issue, deficiencies in the functioning of the labor market are also a factor.

The cost of identifying and hiring external workers with the appropriate skills is significant for small enterprises due to the lack of available mechanisms to share information. The costs associated with the formal process of hiring employees also acts as a disincentive to hiring externally.

Overregulation reduces the competitiveness of the labor market and creates disincentives for growth and formalization.

Sticky contractual arrangements between firms and workers, with restrictions on fixed-term contracts, for example, make it more difficult to hire workers. Another example is the over taxation of labor through mandatory contributions to pension funds, with these contributions set at 20 percent of the employee's wage, and the high skill development levy, set at five percent,

which must be paid by employers. This tax burden discourages hiring and acts as a disincentive for businesses to move out of the informal sector.

Difficulties accessing finance

Traditional bank financing, whether secured or cash-flow based, is often unavailable to small businesses, mainly due to the high transaction costs involved. Commercial banks are unlikely to provide very small loans, mainly due to the high level of fixed costs involved in administering such loans. At the same time, small entrepreneurs do not have the knowledge and time to satisfy all the requirements set by commercial banks. This explains why only ten percent of firms in Tanzania are able to access formal external finance.²⁷ The average amount of loans is also very low.

The low level of access to formal credit has led to the development of informal and semi-formal channels of credit.

These channels essentially reduce transaction costs and bridge the gap, albeit imperfectly, between supply and demand for credit. In Tanzania, these semi-formal initiatives in urban areas include: (i) microfinance institutions; (ii) supplier/trade credit; and (iii) mobile banking options.

(i) Microfinance institutions:

Microfinance institutions (MFIs) provide financial services to Tanzanian households and small enterprises, mostly in the form of microcredit. While

At the same time, small entrepreneurs do not have the knowledge and time to satisfy all the requirements set by commercial banks.

²⁶ Tanzania National Panel Survey for 2010/11

²⁷ World Bank, Tanzania Country Economic Memorandum, "Productive Jobs Wanted", 2014.

Today, the MFIs in Tanzania collectively serve a client base of approximately 400,000 businesses, which accounts for only five percent of the total estimated number of businesses that may require external finance.

the microfinance industry in Tanzania is relatively young and limited in scale, it has expanded over the past decade, providing a semi-formal financing mechanism for small businesses with lower transaction costs than commercial banks. However, due to the relatively high risk of default, increased operational costs, low population densities, and lack of infrastructure, MFI activities are concentrated mostly in urban areas, leaving rural areas largely underserved.²⁸ Today, the MFIs in Tanzania collectively serve a client base of approximately 400,000 businesses, which accounts for only five percent of the total estimated number of businesses that may require external finance.²⁹

(ii) **Supplier/trade credit:** Supplier credit is typically used as a means of short-term financing, with a supplier filling an order without requiring cash up-front on delivery. Unlike microfinance, supplier credit is practiced widely in both urban and rural areas. Approximately 50 percent of households report using trade credit from traders, buyers, processors, retail kiosks, and through non-monetary loans. In addition to

other types of trade credit, a majority of households (92 percent) use credit from retail kiosks and a quarter of households use non-monetary items in trade credit, which includes items such as radios.³⁰ One of the main prerequisites for supplier credit is trust, which is created through repeated transactions or membership in an affinity group, which reduces the risk of default.

(iii) **Mobile banking:** The rate of usage and level of access to mobile telephones is high in Tanzania, with approximately 70 percent of households owning or using mobile phones.³¹ A high proportion of users of mobile telephones engage in mobile money transactions, with an estimated 20 percent of mobile phone owners using mobile phones to send or receive money.³² For many households, mobile-based remittances serve as a primary point of entry into semi-formal financial systems and the use of financial services.³³ The benefits of mobile banking include lower transaction costs and lower levels of risk of delivery and default, given that information can be collected on payment history

²⁸ Transparent Pricing in Tanzania website: (<http://www.mftransparency.org/microfinance-pricing/tanzania/>)

²⁹ PRIDE MicroFinance Tanzania website: (<http://www.pride-tz.org/>)

³⁰ Tanzania Finscope Survey Data, 2009

³¹ Mobile phone access includes both households that own mobile phones and those that can readily access one when needed. Source: Tanzania Finscope Survey Data, 2009.

³² World Bank, Tanzania Country Economic Memorandum, "Productive Jobs Wanted", 2014.

³³ World Bank, "Global Financial Development Report 2014: Financial Inclusion," Washington, DC: World Bank, 2014.

through mobile phone usage. This reduction in transaction costs is especially significant in areas with low population densities and low per capita incomes, which describes most cities outside of Dar es Salaam. One of the significant potentials of mobile technologies lies in the opportunity for the development of partnerships with microfinance and traditional bank financing service providers.

The costs of urban congestion

Many small businesses operate in limited spaces and in sectors that have low entry and exit barriers. These sectors include food preparation, trade in fruits and vegetables, retail, construction, repairs, internet cafes, and a myriad of other activities that can be carried out at home. Access to a wider customer base is also constrained due to factors such as limited areas of operation, lack of available space, and the high costs of congestion, which make it difficult to relocate within the city.

A recent study on the Dar es Salaam agglomeration indicates that on average, people spend 170 minutes per day in travelling. This is equivalent to a loss of US\$ 17 per month, which is approximately

34 percent of average monthly incomes.³⁴ These costs are certainly lower in secondary cities, making them perhaps a more attractive target for business development, even though agglomeration effects would be more limited there than in Dar es Salaam.

Administrative burden

Another disincentive for small businesses is the administrative burden in Tanzania.

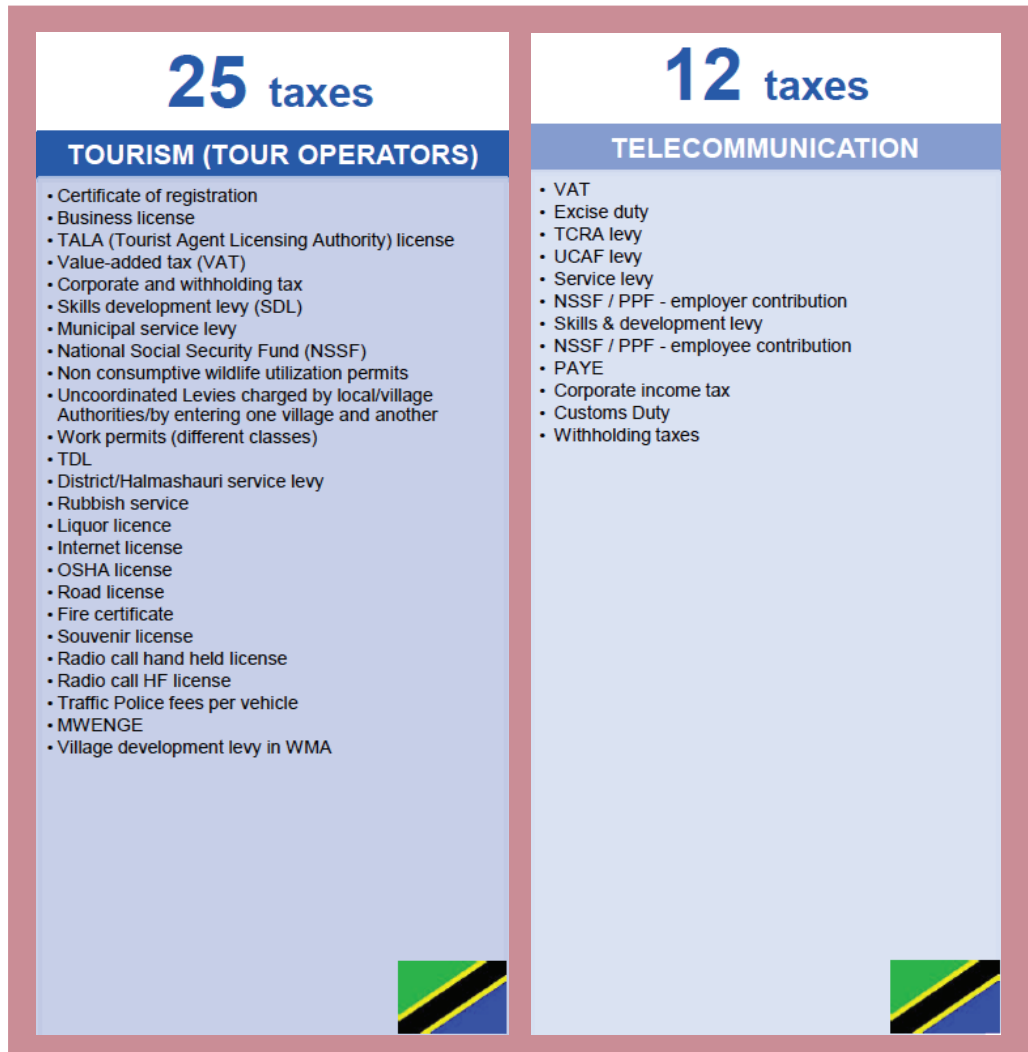
The cumulative costs of doing business in Tanzania reflect the unfavorable business environment in the country. These costs are evident in processes such as establishing a business; obtaining permits; registering property; obtaining credit; and hiring workers. These and other processes involve a range of idiosyncratic fees and levies at the local government level. Therefore, it is no surprise that Tanzania ranks close to the bottom of the 2014 Doing Business report, coming in at 145th out of 189 economies, with no significant progress in recent years. In comparison, neighboring economies such as Rwanda, Zambia, and Kenya were ranked at 32nd, 83rd and 129th place respectively, all higher than Tanzania.³⁵ Examples of excessive administrative burden in different sectors in Tanzania can be seen in Box 10.

Therefore, it is no surprise that Tanzania ranks close to the bottom of the 2014 Doing Business report, coming in at 145th place out of 189 economies.

³⁴ For more details, see: Tanzania Economic Update, "Raising the Game – Can Tanzania Eradicate Extreme Poverty?" Issue 4, World Bank, December 2013.

³⁵ World Bank, Doing Business Report, 2014. Available online: (<http://www.doingbusiness.org/data/exploreeconomies/tanzania/>)

Box 10: Two examples of excessive administrative burden



Equally important is the fear of government involvement in the firm's operations.

Source: "Big Results Now" (BRN) Lab, March 2014

While formal firms are also affected by excessive and idiosyncratic administration costs, informal businesses may incur even higher bureaucracy and corruption costs. There may be implicit collusion between the few large businesses in Tanzania and political interests that skew the availability of resources to the disadvantage of smaller businesses, keeping them from growing. Often, smaller businesses, particularly those in the informal sector, are disproportionately

penalized by the uneven playing field, as they have less bargaining power when negotiating penalties and fees with government officials and municipalities, and a smaller political voice. They are also less likely to have the financial and human resources to deal with excessive regulation.

There are three common but misleading assumptions made about the burden associated with excessive administrative procedures:

(i) **Businesses are affected only by the monetary costs of administration:**

Equally important is the fear of government involvement in the firm's operations. Recent studies have indicated that many informal firms resist registration due to the fear of increased oversight and interference, even if the costs of registration are minimal.³⁶

(ii) **Procedures are equal for all types of businesses:**

A great deal of attention has been given to the reduction of registration costs, notably through the creation of one-stop shops. This addresses only the one-time cost to firms, not the frequent and recurrent administrative costs associated with trade, transport, employment, sales, and permits to be renewed on a recurrent basis;

(iii) **Average administrative costs matter most to firms:**

Except for extremely high costs, business owners are more concerned regarding sudden changes or the unpredictability associated with the implementation of regulations and procedures. In Tanzania, cases have been recorded of businesses shutting down operations due to sudden, unexpected changes in taxes or regulations.

Uncertain rule of law

As illustrated by the example of Victoria (Box 9), Tanzania's business environment

is characterized by high levels of mistrust.

Firms have developed different strategies to cope with this including employing only family members but oftentimes such measures only result in higher financial and opportunity costs. Rather than focusing on achieving productivity gains through innovation and other means, businesses spend a disproportionate amount of time on protecting themselves in the context of higher levels of uncertainty and distrust.³⁷

This lack of trust has significant implications for potential investments in human and physical capital.

Most businesses will be reluctant to invest in equipment, land, or real estate development in a highly uncertain context. Similarly, they are unlikely to invest in the training of their workers.

In Tanzania, this mistrust unfortunately also clouds people's perceptions of the institutions that are supposed to protect them.

A survey conducted in 2009 showed that almost 90 percent of Tanzanians believed that the police force and the judicial system were corrupt.³⁸ Even when protections exist in theory, implementation has often been inconsistent and widely seen as such.

Secondly, there is a lack of legitimacy of property rights, particularly with regard to land used for business premises.

Small businesses operating in urban areas are faced with scarcity of operating space and the absence of recognition

Consequently, many businesses are forced to operate from their owners' homes or to remain mobile to avoid sanctions.

³⁶ Bruhn, M. and D. McKenzie "Entry regulation and formalization of microenterprises in developing countries", World Bank Policy Research Working Paper 6507, Washington, D.C., June 2013.

³⁷ Bruhn, M. and D. McKenzie "Entry regulation and formalization of microenterprises in developing countries", World Bank Policy Research Working Paper 6507, Washington, D.C., June 2013.

³⁸ There is a growing literature arguing that the uncertainty around the cost of investment is more important than the cost itself. See Dixit and Pindyck, for a seminal contribution.



of property rights. Consequently, many businesses are forced to operate from their owners' homes or to remain mobile to avoid sanctions. Such businesses need space to expand and grow. They also need secure property rights so that they are able to use land as collateral for loans. Their problems are exacerbated by the decentralized local government system which has multiple and idiosyncratic levies on traders though with little legitimacy, transparency or accountability.

Harnessing the potential for growth of urban business is a significant challenge. While there is no blue print for success, a minimal set of improvements is needed to address issues such as the low level of skills, high congestion costs, administrative barriers and insecurity, and obstacles that hinder businesses from achieving economies of scale (see Table 5). This list is not exhaustive, but it is difficult to envision greater productivity and business success without higher levels of employer and employee skills; better access to markets at reasonable costs; a more secure business environment; and some incentives for small businesses to grow beyond the household enterprise level.

Harnessing the potential for growth of urban business is a significant challenge.

2.3 How to Harness the Potential for Growth of Urban Businesses

Table 5: Summary of improvements needed to harness the growth of urban businesses

Objectives	Actions
Build skills	<ol style="list-style-type: none"> 1. Develop combined training and financing programs for small business owners; 2. Provide outsourcing mechanisms to small business owners; 3. Training on the job.
Reduce congestion costs	<ol style="list-style-type: none"> 4. Improve strategic urban planning and implementation, including large investment projects such as railways; 5. Increase virtual connectivity. 6. Promote the development of special zones in cities.
Reduce excessive administrative procedures and insecurity	<ol style="list-style-type: none"> 7. Reduce administrative burden; 8. Improve security in the business environment; 9. Facilitate access to land and business premises.
Break the trap of informality to achieve economies of scale	<ol style="list-style-type: none"> 10. Encourage external hiring by improving information availability and reducing regulatory costs. 11. Build financial infrastructure and support new initiatives to enable access to external finance. 12. Encourage small firm associations and small business incubators.

These suggestions for improvement cannot be considered individually. Rather, it is the synergies achieved through their combined effect that will have a real transformative impact. For example, even the most skilled craftspeople will not be able to operate optimally if they cannot access a market for crafts beyond their own neighborhood due to high transport costs. Rent-seeking officials can kill an informal but potentially profitable business with solid market networks through harassment and the imposition of local non-transparent levies. Improvements would come as a result of a combined package of actions. Achieving improvements will also require determination and patience, as well as realistic expectations. Only a small fraction of low-skilled workers can be expected to leverage the skills they derive from training programs. Bureaucrats will not easily relinquish their ability to impose levies on businesses, as such levies often represent their main source of income. Recent experience in countries as diverse as Senegal³⁹ and the Dominican Republic⁴⁰ suggests that training programs should be targeted to start-ups and young

enterprises, which are generally more dynamic and more responsive to training and financial assistance programs.⁴¹

All these actions are cross-cutting, because they affect the vast majority of businesses operating in urban areas, especially the small ones. However, some targeted actions might be required to improve the demonstration impact with rapid results to counter the limited absorptive capacity of both the public and private sector. In that context, the recent World Bank's Country Economic Memorandum (2014), using a combination of sophisticated new analytical tools, has identified a few sectors in which Tanzania may have an existing or latent comparative advantage. These sectors include some manufacturing subsectors (metal scrapping, leather) and services (tourism, logistics). It has to be kept in mind that this list is indicative, as many dynamic industries including those in Tanzania, are more the result of spontaneous creation than state planning, as illustrated by the example of the booming film industry (see Box 11).

Only a small fraction of low-skilled workers can be expected to leverage the skills they derive from training programs.

Box 11: Swahiliwood: Tanzania's movie industry as a growing niche

The Tanzanian film industry is a nascent and largely informal industry, but one that is expanding rapidly and gaining popularity within the Tanzanian population. Currently, there are about ten new low-budget movies being produced each week in Tanzania, with about 4-6 released onto the market which consists mainly of Swahili-speaking countries within the East African Community.

³⁹ World Bank, Senegal Country Economic Memorandum, "Looking for Work – the Road to Prosperity", 2007

⁴⁰ Drexler, A., G. Fischer, and A. Schoar, "Financial Literacy Training and Rule of Thumbs: Evidence from a Field Experiment", Development Economics, 7994. CERP, London, UK, 2010

⁴¹ Bruhn, M. et al., "What Capital is Missing in Developing Countries?", American Economic Review: Papers & Proceedings, Vol.100:2, 2010



There is encouraging evidence that managerial and technical skills can be fostered among small entrepreneurs by combining both training and financing programs.

Production: There are about 50 independent producers in Tanzania, of whom around 70 percent are based in Dar es Salaam. Most production companies consist of a single producer, with other crewmembers being hired on a freelance basis. A typical production house can produce a complete low budget/low quality film in a short period of time, often in less than a week. The cost of production for a budget film is also low, typically amounting to less than US\$ 5,000.

Distribution: While there are about 24 small distributors in the market, there is one leading distributor, Steps Entertainment, which has a near-monopoly on distribution networks around the country, and its own chain of wholesale outlets. Distributors often invest in films prior to production and are responsible for public relations, advertising, and duplication costs and services.

Target audience: There about 10,000 video exhibition halls (bandas) and approximately 25,000 video rental libraries across the country that mainly target lower income segments of the population. The cost of renting a movie from these outlets is approximately TZS 500 (US\$ 0.31), while the cost to watch a movie in a banda is TZS 100-200 (US\$ 0.06 - 0.13). With an average of about 62 customers per day, a banda generates revenues of approximately TZS 12,000 per day (US\$ 7.50).

Potential for growth: Within this fast growing niche industry, there are some potential opportunities for building industry infrastructure and creating jobs along the value chain. Demand appears high, with 76 percent of interviewed outlet owners stating that they had achieved three-fold growth in the last three years.

Source: (1) Kamin, Louise, "Swahiliwood: A Platform for Enter-Educate Feature Films", MFDI, September 2011 (2) Interviews with MFDI creative staff and founder, John Riber.

The actions below illustrate how the four objectives can be achieved: ⁴²

Objective 1: Build skills for business owners

To enhance the personal assets of Tanzanian entrepreneurs, two complementary measures are proposed below. The third proposed measure is for firms with external employees.

Action 1: Develop evidence-based training programs for small business owners. There is encouraging evidence that managerial and technical skills can be fostered among small entrepreneurs by combining both training and financing programs. The Harambee program in South Africa is an example of such a successful vocational initiative.⁴³

⁴² For fuller details, see World Bank, Tanzania Country Economic Memorandum, "Productive Jobs Wanted", 2014.

⁴³ McKinsey Global Institute, Africa at Work: "Job Creation and Inclusive Growth", August 2012

In Tanzania, the PRIDE program has shown positive outcomes in terms of developing better levels of business knowledge, increased sales, and returns on profits of about 20-30 percent.⁴⁴ The recent experience of the virtual business incubator in Tanzania for young female entrepreneurs is also encouraging (see Box 12).

Box 12: Tanzania Virtual Business Incubator (VBI)

The Tanzania VBI supports the growth of businesses owned by women through the provision of training and business development services to strengthen skills related to entrepreneurship. Approximately 550 women-owned enterprises were targeted in the textile, tailoring, handicrafts, poultry, processing, food vending, trade, and services sectors. Participants paid nominal fees for training and travel to training locations, and were offered two types of training:

- Basic program with class-based entrepreneurship and product development training; and,
- Technical assistance program consisting of personal coaching and mentoring to small groups or at their business premises.

Analysis is still ongoing, but initial results indicate progress in terms of the following indicators:

1. **Profits:** Significant improvements reported in average monthly sales and profits over the period June 2009 - June 2012;
2. **Business registration:** More than 40 percent of the 100 women visited in June 2012 had registered or were in the process of registering their business;
3. **Improvement in premises/bookkeeping:** Some businesses improved their premises in accordance with regulatory requirements, while others had implemented better bookkeeping systems;
4. **Access to finance:** More than 70 percent of women involved in the program have opened savings accounts or accessed loans through banks.

Source: World Bank Gender Note Module 3 (<http://www.worldbank.org/en/topic/gender>)

Action 2: Provide outsourcing mechanisms to small business owners, who cannot be expected to accumulate all the necessary skills for the development of their businesses. For example, a good carpenter is not necessarily an efficient manager. Therefore, outsourcing some tasks may benefit the operations of a small business. Some initiatives elsewhere have shown considerable success, including those involving the provision of subsidies to encourage small firms to use consulting services for financial and accounting tasks in Ghana, Mexico, and India.⁴⁵

⁴⁴ Berge, L. et al. "Human and financial capital for microenterprise development: Evidence from a field and lab experiment," Discussion paper, Institut for Samfunnsøkonomi, ISSN: 0804-6824, 2011.

⁴⁵ Mckenzie, D. "What Are We Learning from Business Training and Entrepreneurship Evaluations around the Developing World?" Policy Research Working Paper 6202, World Bank, Washington, DC., September 2012.

The recent experience of the virtual business incubator in Tanzania for young female entrepreneurs is also encouraging.

The development of special zones for businesses is critical to address congestion costs and to encourage agglomeration effects.

Action 3: Incentivize on-the-job training.

In addition to vocational training, on-the-job training must be further encouraged in Tanzania. So far, generally only large firms provide such training for their employees. For small and growing companies, the costs of providing on-the-job training may be prohibitive. Government support is justified, as private sector initiatives may exclude small informal firms and entrepreneurs. In Kenya, the Jua Kali voucher program had positive impacts on the level of skills received and employment gained. In this case, beneficiaries received a voucher that was exchanged to pay a training provider, covering 90 percent of training costs.

Objective 2: Reduce congestion costs

A combination of improved urban planning practices and strategic investments are a priority to improve connectivity – particularly in a metropolitan region like Dar es Salaam. Cities need to improve urban planning practices so that they can build infrastructure necessary to accommodate the growing number of people and future business expansion. Catalyst investments like the Dar es Salaam Rapid Transit (DART) are central for transforming the city's growth, improving mobility, and providing better quality services (and alternatives to cars). Further investments in urban roads are needed, also with a priority on securing future right of ways before they are lost to encroachment.

The challenges related to urban congestion in Dar es Salaam can be addressed by improving both physical and urban connectivity within the city and by promoting strategic development outside

of Dar es Salaam, particularly in secondary cities.

Action 4: Improve physical connectivity.

The combination of strategic planning and the implementation of transformative investment projects should be a priority. For example, the DART project should improve urban mobility by: (i) improving the mode of collective transportation; and (ii) constructing trunk roads, bus stations and terminals, and pedestrian walkways. In Dar es Salaam, it is important to improve existing transportation service networks with better systems for payment collection, assuring riders of seats, an expansion of routes, marked buses, and a central mechanism for user feedback/complaints.

Action 5: Promote virtual connectivity.

The widespread usage of mobile phones has already changed the manner in which many enterprises, including small ones, conduct their business. Mobile phones are widely leveraged to transmit market information; to stay connected with suppliers and customers; and, increasingly, to conduct financial transactions. They can also be used in other innovative ways. For example, GPS systems can track buses and inform customers of arrival times and delays by SMS. Such tracking systems can also monitor the movements of goods in trucks. Technological innovations create opportunities to reduce transaction and transportation costs and to significantly increase efficiencies for business owners.

Action 6: Promote the development of special zones in cities.

The development of special zones for businesses is critical to address congestion costs and to encourage agglomeration effects. This can be achieved not only around Dar es

Salaam but also in secondary cities. In Dar es Salaam, opportunities for development exist in both the outskirts of the city (for example, through the establishment of special economic zones in Bagamoyo), and through the development of strategic connective infrastructure within the city (for example, the bridge to Kigamboni which should be operational in mid-2015). The development of cities in other areas of Tanzania is also critical, given the current patterns of rural-urban migration, which show that a greater portion of rural migrants within Tanzania move to secondary cities rather than to the business capital, Dar es Salaam. This pattern of urbanization has implications for poverty reduction, with evidence from rural Kagera, Tanzania, over the period 1991/94–2010⁴⁶ suggesting that approximately half the households that moved out of poverty did so by moving away from agriculture into secondary cities rather than to the capital city. This highlights the need to develop infrastructure both in the outskirts of the capital and in secondary cities, not only to reduce congestion in large cities, particularly Dar es Salaam, but also to achieve poverty reduction for a larger proportion of the Tanzanian population.

Objective 3: Reduce excessive administrative procedures and insecurity

Today, small businesses spend a significant portion of their financial and human resources on dealing with excessive administrative burden and on mitigating risk in an insecure business environment. The two following actions aim to address

the costs associated with administrative procedures and to improve the security of the business environment.

Action 7: Reduce administrative burdens.

Reducing administrative costs involves bringing administration closer to businesses through a process of decentralization. In particular, it may involve the establishment of one-stop shop business centers that would be available through premises operated by district, municipal and town councils, with simplified and standardized procedures being defined so that different local authorities follow the same set of procedures and guidelines in the registration of a business. Another related measure would be to reduce the number of central and local agencies that collect revenues through fees and inspections. Finally, higher levels of transparency and efficiency could be achieved through the publication of the performance of all administrative agencies that interact with businesses. By making this information public, the Government could achieve higher levels of accountability and develop a sense of competition between agencies, with the highest performer being recognized and possibly rewarded by top policy makers every year.⁴⁷

Action 8: Improve security in the business environment.

Security is a typical public good. Government involvement may be required to disseminate security information; to invest in critical infrastructure such as streetlights and storage facilities; and to strategically place trained police forces. The Government

Higher levels of transparency and efficiency could be achieved through the publication of the performance of all administrative agencies that interact with businesses.

⁴⁶ L. Christiaensen, J. De Weerd, Y. Todoc, "Urbanization and poverty reduction: the role of rural diversification and secondary towns," *Agricultural Economics* 44 (2013) 447–459, March 2013.

⁴⁷ McKinsey Global Institute, "Africa at Work: Job Creation and Inclusive Growth", August 2012

Often, firms will not hire external workers because the search process is lengthy and the associated costs are high.

may also indirectly encourage businesses to achieve improved security through measures such as providing financial incentives for business associations to collectively invest in security.

Action 9: Facilitate access to land and business premises. The vast majority of small businesses are run from households, often taking up space on sidewalks or public land in urban areas. Others are run from small workshops, without any secure property or rental rights. Measures to strengthen property rights for business owners involve complex considerations. A first concrete step may be to simplify existing registration procedures that act as a barrier for small entrepreneurs. The pilot project undertaken in Ilala district in Dar es Salaam aims at legitimizing small entrepreneurs by providing a secure workspace through a close partnership between the local authorities and business leaders. While the pilot project is still ongoing, initial results have been encouraging.⁴⁸

Objective 4: Break the trap of informality to achieve economies of scale

Dynamic firms are those that are able to achieve economies of scale, allowing them to reduce their fixed costs in order to become competitive. Good policy can support the achievement of economies of scale, despite the fact that the achievement of such economies of scale is difficult for small informal firms. There are three main means by which improved economies of

scale may be achieved, these include: (i) hiring workers external to the household; (ii) accessing external sources of finance; and (iii) participating in business associations that reduce the transaction costs involved in obtaining information. These three channels require businesses to become more visible and formal, but they also provide incentives for businesses to expand internally and/or to group together through the establishment of partnerships, alliances, business organizations, and other means.

Action 10: Encourage external hiring by improving information availability and reducing regulatory costs. Policymakers can encourage active external hiring by reducing the associated costs. This could be achieved through improving search mechanisms for potential employees and lowering regulatory costs. Often, firms will not hire external workers because the search process is lengthy and the associated costs are high. There is no central database and the few existing employment agencies do not target small businesses. The Government can play a coordination role and provide employment and information services through the creation of a National Research Observatory for Employment and Qualifications, as Tunisia did in 2000 in order to develop a labor market information system and database to provide information related to the skills available in the labor market.⁴⁹ The current taxation of five percent on labor (used to partially finance labor training programs) is also too high by international standards.

⁴⁸ Awinia, C. "Structural Barriers, Constraints, and Urban Youth Employment; the Case of Ilala Municipality, Dar es Salaam." Research Report

⁴⁹ Fourcase. "Labour market and training observatories in the Maghreb countries," Vocational Training Policy Analysis, ISSN 0378-5068, , B., 2006.

Action 11: Support new initiatives to enable access to external finance.

For smaller businesses, semi-formal channels of finance can serve as a stepping stone towards access to formal finance. To promote a more robust system of semi-formal financing, the Government could promote clusters by developing firm associations and economic zones to leverage supplier credit; by supporting microfinance institutions; and by creating an enabling environment for mobile banking platforms.⁵⁰ The use of

technology with more financial channels has shown potential in the region (see Box 13). Concurrently, innovative financing instruments can help to leverage better access to formal credit for businesses, including leasing, which can provide more affordable financing for capital assets such as equipment and vehicles. Lower transaction costs could also be achieved by the development of a unique national ID system and an effective credit bureau, as indicated by the success of Rwanda with such a system.⁵¹

Box 13: Promoting financial inclusion through technology

Tanzania ranks second highest in terms of the rate of mobile financial transactions in Africa. At the end of 2013, Tanzania had over 11 million active mobile money subscribers (approximately 44 percent of the country's adult population), with 74,000 mobile money agents spread over 19 percent of the country's total landmass. This has spurred the use of innovative platforms for collaboration between MFIs and mobile phones.

For example, MFIs such as Tujijenge in Tanzania have started to use mobile platforms such as Vodacom to collect loan repayments. A borrower with less than US\$1,800 in loans from Tujijenge now has to use M-Pesa (Vodacom's mobile money platform) for loan repayment. In Kenya, several MFIs offer the repayment of loans via mobile banking platforms for both individual and group loans. These include Small and Micro Enterprise Programme (SMEP) and Kenya Women's Finance Trust (KWFT), who started using M-Pesa in 2009 for loan repayments. M-Kesho is another product which results from a partnership between Safaricom (M-Pesa) and Equity Bank, and allows customers to save more (by enabling deposits at all M-Pesa outlets) and to accrue interest on their accounts. These are examples that can be emulated in Tanzania as demand grows for more sophisticated financial products in the semi-formal financing space.

Sources: (1) Presentation by Governor of BoT, "Taking MFS to the Next Level in Africa: Tanzanian Experience", AMPI, February 2014; (2) T. Beck and S. Maimbo, eds, "Financial Sector Development in Africa: Opportunities and Challenges." Directions in Development, Washington, DC: World Bank, 2012.

⁵⁰ Kweka, J. "Commercial Banking and Financial Inclusion in Tanzania: Are There Options?" Draft Report, World Bank, Washington DC, December 2013.

⁵¹ Berg, G. and M. Fuchs., "Bank Financing of SMEs in Five Sub-Saharan African Countries: The Role of Competition, Innovation, and the Government," World Bank Policy Research Working Paper No. 6563, August 2013.

For smaller businesses, semi-formal channels of finance can serve as a stepping stone towards access to formal finance.

Action 12: Encourage small firm associations and incubators.

At present, only one in four small Tanzanian enterprises claims membership with an industry association.⁵² This is despite the fact that small firm associations and incubators have the potential to improve the business and operating environment for small businesses in several ways. Associations have the potential to act as a visible and central representative body for businesses to facilitate their interactions with local government authorities; to advocate for improved working, regulatory, and infrastructure conditions; and to address specific industry related issues. Being part of an association may also increase small firms' bargaining power with suppliers and distributors. Last but not least, small business associations are important for the collection and dissemination of information amongst members. They can promote the process of formalization by providing support for registration and by providing access to networks of suppliers and traders to establish better market linkages. Such linkages can support the hiring and training of workers at lower cost and encourage the development of industry standards without government intervention.⁵³

Implementation is key to success. No segment of society can tackle the problems of small business growth in cities on their own, nor can it be done in an environment of weak institutions. Indeed, implementation of actions for

small business growth in urban areas requires coordination between the public sector and various stakeholders in the private sector, with support from development partners. At the same time, the development of secondary cities and connective infrastructure is crucial to reduce congestion and the pressure on public services in Dar es Salaam, as well as to promote inclusive and shared growth, given the large proportion of Tanzanians that migrate to secondary cities.

Institutional strengthening in the education, legal, financial, and public works sectors will promote the development of an environment that enables the growth of small businesses.

There are tentative but encouraging signs that Tanzania is beginning to take some action towards developing such an environment. For example, the newly established Delivery Bureau based in the President's office has produced a set of proposals to improve the Business Environment as part of the BRN initiative. However, implementing actions to achieve change involves significant challenges and timing is a crucial determinant of success for improving the business and institutional environment.

For Tanzania, time is of the essence, as both urbanization and population growth are proceeding at a rapid rate. While urbanization creates opportunities, the rapid influx of people into urban areas

While urbanization creates opportunities, the rapid influx of people into urban areas is placing increasing pressure on existing services and infrastructure.

⁵² Source: Ministry of Trade and Industry, MSMEs Survey, 2013.

⁵³ Buys, A.J. "Key success factors for business incubation in South Africa: the Godisa case study," South African Journal of Science, Vol 103:9-10, October 2007.



is placing increasing pressure on existing services and infrastructure. With weak institutions and a poorly functioning business environment, there is a real risk that rather than Tanzania's cities becoming thriving metropolises, they will become metropolis slums. While Tanzania has made some progress, it must also strive harder if it is to achieve its aspirations of becoming a middle income country and of fostering equitable growth that benefits all of the country's citizens.

Statistical Annexes



Annex 1: Key Macroeconomic indicators 2005-2013

Indicator	Unit	2005	2006	2007	2008	2009	2010	2011	2012	2013
Population (Mainland)/2	Millions	37.6	38.7	39.9	41.1	42.3	43.6	44.8	44.9	46.1
Per capita Income/2	US\$	390.7	382.2	441.3	524.1	525.2	538.1	550.1	570.0	625.0
GDP Growth/2	%	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9	7.0
Gross Domestic Savings/1	(as a % of GDP)	16.2	15.3	13.6	14.6	16.6	19.3	19.3	18.0	18.8
Gross Investments/1	(as a % of GDP)	23.9	26.4	28.7	29.7	29.4	30.6	34.5	35.5	34.4
Inflation/2 (period average)	%	4.4	7.3	7.0	10.3	12.1	7.2	12.7	16.0	7.9
Exchange Rate/2 (period average)	TZS/US\$	1,128.9	1,251.9	1,245.0	1,196.8	1,319.9	1,432.3	1,579.5	1,571.7	1,597.6
External Sector										
Exports - Goods & Services (f.o.b)/1	Mil. US\$	2,843.4	3,148.7	3,565.6	4,526.7	4,660.1	3,805.0	4,896.0	5,562.4	5,440.7
Imports - Goods & Services (f.o.b)/1	Mil. US\$	-3,852.7	-4,679.6	-5,684.5	-7,541.9	-7,875.9	-6,596.0	-8,011.6	-10,615.1	-10,482.0
Current Account Balance/1	Mil. US\$	-703.9	-1,171.7	-1,575.6	-2,109.7	-2,124.2	-2,046.7	-2,214.7	-4,258.3	-4,105.9
Balance of Payments (Overall balance)/1	Mil. US\$	55.5	346.2	232.6	500.2	18.1	477.6	100.7	199.6	457.4
Foreign Reserves/1	Mil. US\$	1,968.6	2,136.9	2,157.3	2,660.0	2,929.8	3,482.6	3,610.0	3,797.1	4,359.9
External Debt/2	Bil. US\$/1	8.1	8.2	4.7	5.8	7.0	8.1	9.6	10.4	12.4
Foreign Direct Investment/1	Mil. US\$	691.5	671.8	495.0	917.4	1,102.7	991.1	1,012.8	1,633.9	1,793.8
Tourism Earnings/2	Mil. US\$	823.6	862.0	1,037.0	1,198.8	1,159.8	1,254.5	1,353.2	1,563.6	1,472.0
Monetary Sector										
Average Deposit Rate/1	%	4.7	6.7	8.7	8.3	8.0	6.6	6.8	9.5	8.7
Average Lending Rate/1	%	15.2	15.7	16.1	15.0	15.0	14.5	15.0	15.6	15.8
Growth in Money Supply (M3)/1	%	19.6	31.3	20.5	19.8	17.7	25.4	22.0	10.9	14.9
Government Finance										
Total Domestic Revenue/1	(as a % of GDP)	11.8	12.5	14.1	15.9	16.2	15.9	16.4	17.6	17.5
Tax Revenue/1	(as a % of GDP)	10.8	11.5	13.0	14.7	15.3	14.6	15.2	15.8	16.0
Non-Tax Revenue/1	(as a % of GDP)	1.1	1.1	1.1	1.2	0.9	1.2	1.3	1.8	1.5
Total Expenditure/1	(as a % of GDP)	22.3	22.8	23.0	22.8	26.1	26.9	27.0	26.2	28.0
Recurrent Expenditure/1	(as a % of GDP)	15.4	15.7	16.1	14.9	17.7	18.8	19.2	17.0	19.5
Development Expenditure/1	(as a % of GDP)	6.3	7.1	6.9	7.9	8.4	8.6	7.9	9.2	8.5
Grants/1	(as a % of GDP)	6.8	5.4	4.9	6.9	5.1	4.6	5.2	5.0	3.6
Fiscal Balance (after grants)/1	(as a % of GDP)	-3.6	-4.9	-4.0	0.0	-4.6	-6.4	-6.8	-3.7	-6.8

Source: IMF, World Bank and Tanzania Authorities (MoF, BoT, NBS).

Note

/1 Fiscal year is used, and it ends June 30th of the mentioned year

/2 Calendar year is used, and it ends in mentioned year December 31 th.

Annex 2: Real GDP growth rates 2000-2013, per cent

Economic Activity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture and Fishing	4.5	4.9	5.0	3.2	5.9	4.4	3.9	4.0	4.6	3.2	4.1	3.4	4.2	4.2
Crops	4.7	5.3	5.6	3.2	6.6	4.4	4.0	4.5	5.1	3.4	4.4	3.5	4.7	4.5
Livestock	3.9	4.0	2.8	2.2	4.1	4.4	2.4	2.4	2.6	2.3	3.4	3.9	3.1	3.8
Forestry and Hunting	4.8	3.6	3.3	3.0	2.7	3.6	4.6	2.9	3.4	3.5	4.1	3.5	2.4	3.3
Fishing	2.9	4.8	6.8	6.0	6.7	6.0	5.0	4.5	5.0	2.7	1.5	1.2	2.9	2.2
Industry and construction	4.5	6.6	9.4	10.9	10.9	10.4	8.5	9.5	8.6	7.0	8.2	6.9	7.8	7.5
Mining and quarrying	14.3	13.9	16.9	17.1	16.0	16.1	15.6	10.7	2.5	1.2	2.7	2.2	7.8	6.9
Manufacturing	4.8	5.0	7.5	9.0	9.4	9.6	8.5	8.7	9.9	8.0	7.9	7.8	8.2	7.7
Electricity and water	5.6	5.5	5.6	6.7	7.1	8.5	-0.5	10.1	5.6	7.9	9.5	1.9	5.9	4.5
Electricity	6.2	5.9	6.2	7.2	7.5	9.4	-1.9	10.9	5.4	8.4	10.2	1.5	6.0	4.4
Water	3.4	3.5	2.8	4.5	5.2	4.3	6.2	6.5	6.6	5.6	6.3	4.0	5.4	4.9
Construction	0.8	7.6	11.9	13.8	13.0	10.1	9.5	9.7	10.5	7.5	10.2	9.0	7.8	8.6
Services	5.4	6.4	7.7	7.8	7.8	8.0	7.8	8.1	8.5	7.2	8.2	7.9	8.0	8.2
Trade, hotels and restaurants	4.3	6.2	8.0	8.6	5.4	6.5	8.7	9.0	9.2	7.1	7.9	7.6	7.3	8.0
Trade and repairs	4.3	6.4	8.3	9.7	5.8	6.7	9.5	9.8	10.0	7.5	8.2	8.1	7.7	8.3
Hotels and restaurants	4.1	4.8	6.4	3.2	3.6	5.6	4.3	4.4	4.5	4.4	6.1	4.6	4.8	6.3
Transport and communication	4.6	5.6	6.8	7.1	10.5	9.4	8.6	10.1	10.8	11.0	12.2	11.3	12.5	13.4
Transport	4.3	4.9	5.9	5.0	8.6	6.7	5.3	6.5	6.9	6.0	7.0	6.7	7.1	6.2
Communications	5.6	8.7	10.4	15.6	17.4	18.8	19.2	20.1	20.5	21.9	22.1	19.0	20.6	22.8
Financial intermediation	3.9	6.9	10.1	10.7	8.3	10.8	11.4	10.2	11.9	9.0	10.1	10.7	13.2	12.2
Real estate and business services	4.9	4.2	7.1	6.5	6.8	7.5	7.3	7.0	7.1	6.8	7.0	6.5	6.7	6.4
Public administration	10.7	10.5	9.2	9.6	13.6	11.4	6.5	6.7	7.0	4.4	6.5	6.8	5.8	5.1
Education	4.0	11.4	7.0	2.8	4.0	4.0	5.0	5.5	6.9	7.1	7.3	7.4	6.5	5.9
Health	5.1	5.6	8.6	8.7	7.8	8.1	8.5	8.8	9.0	6.7	6.9	5.4	5.6	5.6
Other social and personal services	3.1	3.1	2.1	2.0	3.0	2.6	3.7	3.2	3.1	3.2	3.5	3.0	3.8	4.2
FISIM	1.4	2.5	8.7	11.7	10.1	11.8	14.9	15.3	11.0	8.7	9.1	11.2	12.7	10.9
Net taxes	4.9	6.0	7.2	6.9	7.8	7.4	6.8	6.9	7.8	5.8	6.7	6.5	7.3	6.1
Total GDP	4.9	6.0	7.2	6.9	7.8	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9	7.0

Source: NBS

Annex 3: Shares of economic activities in GDP (current market share) 2000-2013, per cent

Economic Activity	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Agriculture and Fishing	31.3	30.7	30.3	30.3	30.9	29.0	27.6	27.2	26.9	26.6	26.4	26.0	26.1	25.9
Agriculture	29.5	29.0	28.6	28.7	29.5	27.6	26.2	25.8	25.7	25.4	24.9	24.6	24.7	24.5
Crops	21.7	21.4	21.4	21.8	22.4	20.5	19.2	19.0	19.0	18.4	17.8	17.4	17.6	17.6
Livestock	5.1	5.0	4.8	4.7	4.8	5.0	4.8	4.7	4.7	4.8	4.7	4.6	4.6	4.4
Forestry and Hunting	2.7	2.5	2.4	2.3	2.3	2.2	2.2	2.1	2.0	2.2	2.4	2.5	2.5	2.6
Fishing	1.8	1.7	1.7	1.6	1.5	1.4	1.3	1.3	1.2	1.3	1.4	1.4	1.4	1.4
Industry and construction	17.9	18.0	19.6	21.0	20.8	20.8	20.8	21.2	21.0	21.2	21.5	21.9	22.1	22.2
Mining and quarrying	1.5	1.8	2.1	2.4	2.6	2.9	3.2	3.5	3.4	3.3	3.3	3.3	3.5	3.3
Manufacturing	8.8	8.4	8.3	8.3	8.1	7.9	7.8	7.8	7.8	7.9	8.1	8.4	8.4	8.5
Electricity and water	2.5	2.6	2.5	2.3	2.2	2.1	2.0	2.0	2.1	2.1	2.1	2.2	2.2	2.2
Electricity	2.1	2.2	2.0	1.9	1.8	1.7	1.5	1.6	1.7	1.7	1.8	1.8	1.9	1.8
Water	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3
Construction	5.2	5.2	6.8	8.0	7.9	7.8	7.8	7.8	7.7	7.9	8.0	8.0	8.1	8.3
Services	45.3	45.5	44.2	42.7	42.0	42.5	43.3	43.3	43.8	43.8	43.9	44.0	43.9	44.3
Trade, hotels and restaurants	15.6	15.8	15.0	14.4	13.7	13.4	14.0	14.2	14.2	14.1	14.4	14.5	14.5	14.6
Trade and repairs	12.8	13.0	12.4	12.0	11.4	11.0	11.4	11.5	11.6	11.6	12.1	12.2	12.3	12.1
Hotels and restaurants	2.8	2.8	2.6	2.4	2.3	2.5	2.6	2.7	2.6	2.5	2.3	2.3	2.3	2.5
Transport and communication	6.7	6.6	6.3	6.1	6.0	6.2	6.4	6.6	6.7	7.0	7.2	7.5	7.6	8.2
Transport	5.5	5.4	5.0	4.8	4.6	4.4	4.3	4.2	4.2	4.6	5.1	5.3	5.3	5.8
Communications	1.2	1.2	1.2	1.3	1.5	1.7	2.1	2.3	2.5	2.4	2.1	2.2	2.3	2.4
Financial intermediation	1.6	1.5	1.7	1.7	1.6	1.7	1.7	1.6	1.6	1.7	1.8	1.8	1.8	1.8
Real estate and business services	10.7	10.3	9.7	9.4	9.1	9.5	9.6	9.5	9.6	9.3	8.8	8.6	8.5	8.4
Public administration	6.6	7.0	7.2	7.2	7.7	8.0	8.0	7.9	8.2	8.1	8.0	8.0	7.8	7.8
Education	2.1	2.1	2.0	1.8	1.7	1.6	1.5	1.4	1.3	1.4	1.4	1.4	1.4	1.4
Health	1.2	1.3	1.5	1.4	1.4	1.5	1.5	1.6	1.5	1.6	1.6	1.7	1.7	1.7
Other social and personal services	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.6	0.6	0.6	0.6	0.6	0.6	0.6
FISIM	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1.0	-1.0	-1.2	-1.1	-1.2	-1.1	-1.2
Net taxes	6.5	6.7	6.7	6.9	7.2	8.6	9.3	9.3	9.4	9.6	9.3	9.3	9.0	8.7
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: NBS, IMF and World Bank

Source: NBS

Annex 5: Fiscal framework as a percentage of GDP 2007/8-2013/14

	2007/08		2008/09		2009/10		2010/11		2011/12		2012/13		2013/14	
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Projected
Total domestic revenue	15.3	15.9	17.9	16.2	16.9	15.9	17.8	16.4	17.7	17.6	18.8	17.5	20.8	19.9
Total expenditure	26.3	24.5	26.9	25.9	29.8	26.9	31.0	27.0	32.1	26.2	28.1	28.0	30.1	29.1
Overall deficit before grants	-10.9	-8.6	-9.0	-9.7	-12.9	-11.0	-13.2	-10.6	-14.4	-8.6	-9.3	-10.5	-9.3	-9.2
Grants	7.4	6.9	5.4	5.1	6.7	4.6	5.8	5.2	6.9	5.0	3.8	3.6	4.3	4.2
Overall balance	-3.5	-1.7	-3.6	-4.6	-6.2	-6.4	-7.4	-6.8	-7.6	-3.7	-5.5	-6.8	-5.0	-5.0
Financing	3.5	1.7	3.6	4.6	4.9	6.4	7.4	6.6	7.6	5.0	5.5	6.8	5.0	5.0
Foreign (net)	3.6	3.2	3.5	3.8	3.3	4.6	5.6	3.1	6.1	4.2	7.2	5.3	5.1	6.0
Domestic (net)	-0.1	-1.5	0.1	0.8	1.6	1.9	1.8	3.6	1.0	0.8	-1.7	1.5	-0.1	-1.1

Source: MoF

Annex 6: Provisional monthly government expenditures 2013/14

TSh mn	Budget	Actual 2013/14											Actual 2013/14
Item	2013/14	July	August	September	October	November	December	January	February	March	July-March		
Total Revenue (inc LGAs) /1	11,537,522.6	673,045	715,612	943,483	761,451	717,261	775,260	852,220	737,295	954,449	7,130,076		
Total Expenditure /2	16,710,973.1	810,180	808,046	883,757	1,418,715	809,216	1,303,529	837,183	1,490,713	1,239,779	9,601,118		
Recurrent expenditure	11,065,984.0	711,723	675,694	601,558	844,550	729,846	855,219	735,560	738,651	950,298	6,843,099		
Wages and salaries	4,763,196.0	360,261	367,138	374,696	377,131	368,587	379,300	378,991	374,623	375,857	3,356,584		
Interest payments	997,690.8	38,901	98,920	48,560	75,847	100,875	113,135	64,318	81,941	91,651	714,148		
Domestic	620,264.8	30,745	95,717	32,946	62,090	76,004	68,025	50,897	70,154	42,596	529,174		
Foreign	377,426.0	8,156	3,203	15,614	13,757	24,871	45,110	13,421	11,788	49,055	184,974		
Other goods and services	5,305,097.1	312,561	209,636	178,302	391,572	260,384	362,784	292,251	282,087	482,790	2,772,367		
Dev. Expenditure and net lending	5,644,989.1	98,457	132,352	282,199	574,165	79,370	448,310	101,623	752,062	289,481	2,758,019		
Local	2,952,920.2	0	0	227,679	524,535	0	133,732	79,646	12,625	243,631	1,221,848		
Foreign	2,692,068.9	98,457	132,352	54,520	49,630	79,370	314,579	21,977	739,436	45,850	1,536,171		

Source: MoF and BoT

Note: /1 Includes LGAs

/2 Exclude Amortization and Expenditure Float, includes Road fund and Retention expenditures

Annex 10: Inflation rates 2011-2014

Period	Headline Overall Index	Food & Non Alcoholic Beverages (Exclude Food consumed at Restaurants)	Transport	Housing, Water, Electricity, Gas & Other Fuel	Furnishing, Housing Equipment & Routine Maintenance of House	Clothing & Footwear	Restaurants and Hotels	Miscel. Goods and Services	Alcoholic and Tobacco	Communication & Entertainment	Education	Recreation & Culture	Health
Weight (%)	100.0	47.8	9.5	9.2	6.7	6.72	6.4	4.5	3.3	2.1	1.7	1.3	0.9
2011-Jan	6.4	7.1	0.3	17.7	7.2	5.8	2.9	4.0	1.8	-0.2	2.2	3.5	0.6
Feb	7.5	9.2	0.3	11.1	13.9	8.6	3.9	1.1	2.9	-1.3	3.2	3.6	2.1
Mar	8.0	8.6	3.3	13.6	14.5	9.5	5.7	4.0	2.7	-1.8	2.8	3.8	1.4
Apr	8.6	9.7	3.9	13.4	13.6	9.4	5.2	3.4	5.6	-2.0	2.2	3.1	1.4
May	9.7	10.4	8.0	15.7	14.1	9.8	7.4	3.8	6.8	-2.2	3.1	2.4	2.0
Jun	10.9	12.3	8.4	18.8	14.4	9.8	6.7	2.8	5.8	-2.0	3.5	3.6	1.5
Jul	13.0	15.9	9.9	21.3	14.5	9.4	6.8	3.5	5.0	-1.4	4.2	3.1	1.6
Aug	14.1	18.6	8.8	19.7	13.9	9.4	8.0	3.5	5.2	-1.3	4.8	2.7	1.9
Sep	16.8	22.5	14.2	21.7	14.2	9.6	11.5	6.5	5.7	-1.8	5.8	1.1	2.3
Oct	17.9	24.0	11.8	22.0	15.4	10.7	12.8	7.0	5.6	-1.6	5.6	2.3	4.1
Nov	19.2	26.1	12.0	23.5	15.3	11.2	13.2	7.8	5.1	-1.7	5.7	3.3	3.5
Dec	19.8	27.1	11.2	24.8	14.6	10.6	13.6	8.6	5.8	-1.2	5.9	3.2	3.0
2012-Jan	19.7	27.8	10.9	18.8	14.4	12.5	12.8	9.1	6.3	-0.4	2.9	4.5	3.4
Feb	19.4	26.7	10.9	19.5	8.2	13.9	15.8	12.1	8.3	-0.8	4.8	8.7	2.5
Mar	19.0	25.7	9.7	17.4	9.0	15.0	18.2	12.3	9.3	-0.7	4.8	9.1	2.8
Apr	18.7	25.3	8.6	16.2	9.1	15.4	18.8	12.8	9.3	-0.7	4.7	9.1	3.2
May	18.2	25.3	6.7	14.7	9.1	15.5	17.5	13.2	8.7	-0.7	4.7	9.2	3.2
Jun	17.4	23.5	5.9	14.6	9.0	15.1	17.8	13.1	11.7	-0.9	4.7	11.7	3.3
Jul	15.7	20.8	4.7	12.5	8.7	15.0	16.1	10.8	18.0	-1.6	4.7	11.9	3.7
Aug	14.9	18.8	3.8	14.4	8.6	14.4	16.0	11.6	20.4	-1.7	4.7	11.0	3.3
Sep	13.5	15.6	1.7	16.5	8.3	13.4	17.5	8.3	20.3	-1.7	4.7	11.3	3.0
Oct	12.9	14.9	2.7	17.4	7.9	12.4	16.3	8.4	20.3	-1.8	4.7	11.1	2.3
Nov	12.1	13.4	2.3	17.3	8.4	12.0	16.1	8.0	21.3	-1.7	4.7	10.8	2.9
Dec	12.1	13.1	3.2	17.1	8.2	11.6	15.7	9.1	22.8	-1.9	4.7	10.5	3.4
2013-Jan	10.9	11.9	2.7	15.3	7.2	9.8	13.5	8.8	23.0	-1.9	4.2	8.9	2.9
Feb	10.4	12.0	2.5	16.3	6.1	7.9	9.0	6.6	18.9	-0.4	2.1	3.6	3.0
Mar	9.8	11.1	1.3	20.4	5.1	6.4	6.8	5.0	17.4	-0.4	2.2	3.1	3.7
Apr	9.4	10.2	4.2	19.9	4.6	5.8	5.9	5.2	17.7	-0.6	2.2	3.5	3.2
May	8.3	8.0	7.5	19.0	4.4	5.3	5.5	4.9	18.0	-0.7	2.2	3.5	3.0
Jun	7.6	7.6	7.1	15.4	4.0	5.2	5.5	4.8	15.0	-0.6	2.2	0.3	2.9
Jul	7.5	8.0	7.5	14.4	3.8	5.2	5.9	5.9	12.0	-0.1	2.4	0.2	2.7
Aug	6.7	6.5	9.0	14.3	3.5	5.2	4.9	4.9	10.6	0.0	2.4	0.7	2.9
Sept	6.1	6.5	7.8	9.6	3.2	4.9	2.2	6.5	10.4	0.0	2.4	0.4	2.9
Oct	6.3	6.9	9.3	9.0	3.3	4.6	2.9	6.0	10.7	0.2	2.4	0.5	2.8
Nov	6.2	7.2	8.6	8.7	2.5	4.4	2.7	5.6	9.9	0.1	2.4	0.7	2.1
Dec	5.6	6.0	8.2	10.2	2.3	3.9	2.2	4.0	7.8	0.5	2.4	1.0	1.5
2014-Jan	6.0	6.0	8.9	14.9	2.0	3.9	1.7	4.1	7.1	0.5	5.9	0.6	1.8
Feb	6.0	6.2	9.0	13.3	1.8	3.5	1.5	4.6	7.1	0.5	5.3	1.2	2.0
Mar	6.1	7.2	8.7	9.0	1.8	3.3	1.7	5.2	7.1	0.5	5.3	1.3	2.1
Apr	6.3	7.8	5.3	9.2	2.5	3.2	2.2	7.7	6.8	0.7	5.3	0.8	3.6

Source: NBS

Annex 11: Monthly food crop prices (Wholesale): Tanzania shillings per 100kg 2012-14

Month-Year	Maize			Rice			Wheat			Beans			Sorghum		
	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya	Arusha	Dar es Salaam	Mbeya
Jan-12	44,500	48,052	40,500	165,962	183,962	183,500	84,038	121,231	100,385	137,308	140,308	160,615	50,731	61,962	-
Feb-12	41,654	46,808	40,423	167,115	188,769	202,615	78,654	122,042	108,846	186,154	139,808	164,000	52,654	65,808	-
Mar-12	45,286	46,923	40,231	185,714	202,038	206,000	82,679	108,192	125,000	140,000	136,615	139,077	50,500	57,462	70,000
Apr-12	51,727	51,773	39,909	194,091	221,136	216,000	82,045	107,500	125,682	128,273	138,682	110,682	50,909	55,227	-
May-12	58,885	63,308	45,654	183,462	179,231	182,308	80,846	108,462	127,692	178,346	130,385	114,077	51,462	63,962	-
Jun-12	51,769	56,519	43,500	160,577	160,385	181,308	79,731	109,038	93,077	134,423	136,538	122,654	62,692	69,077	50,000
Jul-12	54,000	60,692	45,000	145,577	170,385	188,808	83,269	105,654	84,308	116,154	137,500	112,692	60,769	69,038	-
Aug-12	53,200	60,250	46,750	148,000	143,350	190,250	78,650	95,000	92,050	99,250	148,300	129,500	56,250	71,050	-
Sep-12	54,188	60,000	50,417	155,208	152,083	182,500	63,875	99,167	102,292	106,667	145,833	133,333	50,750	76,458	-
Oct-12	55,981	65,192	52,750	160,000	173,654	188,500	74,846	98,462	100,000	114,423	141,731	135,417	52,154	77,308	-
Nov-12	61,404	72,769	56,115	162,308	183,269	201,231	73,269	102,115	103,846	115,000	153,462	149,808	50,462	85,385	-
Dec-12	67,708	80,045	65,583	172,500	188,409	217,500	76,542	115,000	112,500	117,500	156,818	151,458	56,833	87,182	152,500
Jan-13	70,083	84,292	73,792	171,458	201,625	229,375	75,500	130,417	118,333	126,250	160,417	160,792	54,792	81,542	-
Feb-13	71,333	90,167	71,000	170,833	190,208	197,250	76,875	125,909	110,000	107,292	168,125	149,292	53,833	93,750	-
Mar-13	69,875	83,458	72,708	174,167	181,042	182,875	78,167	127,500	113,333	104,167	162,292	127,500	60,833	85,125	-
Apr-13	67,682	78,909	72,136	167,273	156,818	127,364	85,227	127,727	114,091	120,455	154,773	113,864	65,000	85,250	-
May-13	55,308	72,962	52,346	156,923	145,385	128,654	84,846	124,583	115,000	117,269	151,923	110,000	68,125	85,962	100,000
Jun-13	47,222	62,111	44,333	133,889	144,444	130,278	83,611	119,444	113,611	114,445	150,833	104,167	75,500	99,722	-
Jul-13	50,100	59,133	44,700	130,000	143,833	126,333	85,167	101,833	105,833	110,167	150,000	110,333	68,167	112,500	-
Aug-13	51,167	57,900	48,400	125,700	134,833	107,500	118,283	108,333	95,567	106,700	145,167	112,667	69,833	87,833	165,000
Sep-13	51,133	57,667	47,533	130,000	134,000	99,667	76,167	126,000	92,500	114,667	149,333	110,000	64,667	93,833	-
Oct-13	51,841	55,727	47,000	130,000	137,500	103,182	75,500	125,000	90,000	121,773	146,591	108,864	136,227	89,545	-
Nov-13	50,942	49,923	48,077	130,000	134,808	110,000	76,923	106,923	90,000	126,538	152,500	118,654	55,385	67,538	-
Dec-13	51,909	52,818	45,864	128,409	140,000	109,091	78,591	108,636	102,273	135,364	150,682	129,545	57,364	65,318	-
Jan-14	50,250	54,792	44,625	130,000	143,958	114,167	80,688	108,750	105,000	132,625	156,458	132,708	62,333	69,167	-
Feb-14	50,773	53,864	45,364	127,727	128,182	114,318	79,318	109,091	107,000	139,545	157,727	135,000	60,773	70,364	-
Mar-14	49,750	57,750	47,458	130,000	148,042	128,750	78,667	98,542	110,000	146,875	167,708	135,000	56,417	70,364	-
Apr-14	50,400	56,000	41,850	130,000	143,625	139,000	77,900	115,625	113,500	136,500	164,250	135,100	57,000	72,375	-

Source: Ministry of Industry, Trade, and Marketing (MITM), Government of Tanzania

Annex 12: Average wholesale prices: Tanzania shillings per 100kg 2012-14

<i>Month-Year</i>	<i>Beans</i>	<i>Maize</i>	<i>Rice</i>	<i>Round Potatoes</i>	<i>Sorghum</i>
Jan-12	132,641.5	44,259.4	175,178.1	67,193.2	45,585.9
Feb-12	126,981.7	42,449.1	178,627.8	60,939.2	55,956.3
Mar-12	121,523.1	42,919.4	191,719.2	60,079.6	55,387.4
Apr-12	120,567.1	46,934.9	204,025.4	62,383.3	63,629.9
May-12	128,112.8	52,440.3	183,585.5	70,651.3	60,627.3
Jun-12	129,574.6	52,326.0	165,444.2	69,924.5	65,201.0
Jul-12	130,789.9	52,071.6	160,325.4	79,904.4	58,974.9
Aug-12	126,322.8	50,311.1	158,089.2	69,914.6	57,378.6
Sep-12	126,923.2	54,291.1	163,317.9	67,353.8	61,793.2
Oct-12	123,121.1	54,879.9	163,039.9	67,434.9	53,238.6
Nov-12	135,724.2	65,340.6	176,828.6	96,841.5	65,089.4
Dec-12	139,497.6	72,880.4	185,619.9	85,499.2	75,584.3
Jan-13	144,225.0	76,740.0	188,418.0	82,023.3	75,278.5
Feb-13	136,129.4	77,393.4	182,480.2	76,765.4	85,059.5
Mar-13	126,420.9	72,966.3	175,430.1	68,324.3	88,903.2
Apr-13	124,975.2	66,273.4	159,200.1	64,973.3	82,143.4
May-13	123,689.8	55,949.3	139,257.6	65,567.1	93,086.6
Jun-13	127,741.7	49,486.3	131,541.7	65,769.5	85,444.4
Jul-13	125,467.5	50,113.3	128,382.4	67,660.5	105,733.3
Aug-13	123,313.3	52,107.8	123,407.5	68,823.2	86,053.9
Sep-13	121,427.0	53,095.0	120,391.0	66,017.0	73,765.0
Oct-13	131,525.1	53,252.0	117,913.9	65,684.0	74,869.2
Nov-14	135,023.0	53,242.4	120,073.1	66,896.2	76,770.4
Dec-13	136,601.1	54,648.8	121,897.8	69,589.4	74,456.0
Jan-14	137,264.5	56,152.2	124,104.1	72,145.3	75,424.5
Feb-14	137,264.5	56,152.2	124,104.1	72,145.3	75,424.5
Mar-14	141,476.6	50,631.8	128,952.7	69,177.7	70,264.0
Apr-14	138,796.2	49,970.1	135,418.1	67,985.9	68,285.4

Source: Ministry of Industry, Trade, and Marketing (MITM), Government of Tanzania

Annex 16: Poverty by geographic regions

	Poverty Headcount	Distribution of the Poor	Distribution of the Population
	HBS 2011/12	HBS 2011/12	HBS 2011/12
Poverty Line/1 = TSh 36,482			
Urban	15.5	15.9	28.8
Rural	33.3	84.1	71.2
Regions			
Urban	21.7	14.4	18.7
Rural	33.3	84.1	71.2
Dar es Salaam	4.1	1.5	10.1
Total	28.2	100.0	100.0
Poverty Line/1 = TSh 36,482			
Urban	6.0	17.7	28.8
Rural	11.3	82.3	71.2
Regions			
Urban	8.7	16.7	18.7
Rural	11.3	82.3	71.2
Dar es Salaam	1.0	1.0	10.1
Total	9.7	100.0	100.0

Source: NBS

1/ Monthly expenditure per adult



