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Tanzania Economic Update

Spreading the Wings:

From Growth to Shared Prosperity



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Abbreviations and Acronyms

ASDP	Agricultural Sector Development Project
FAO	Food and Agriculture Organization
FDI	Foreign Domestic Investment
GDP	Gross Domestic Product
ICT	Information Communication Technology
IMF	International Monetary Fund
OECD	Organization for Economic Cooperation and Development
REPOA	Research on Poverty Alleviation
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
TPDC	Tanzania Petroleum Development Corporation
TANESCO	Tanzania Electric Supply Company
TSHS	Tanzania Shillings
USD	United States Dollars
VAT	Value Added Tax

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Foreword

Tanzania continues to stand out as a model of sound economic performance in the African continent, with a growth rate of over six per cent in 2011 and 2012, surpassing other regional economies and demonstrating impressive resilience to the global economic crisis. In addition, the fiscal deficit declined in 2011/12 for the first time in four years to 5.0 percent of GDP.

Yet individual rural families tell a different story: the failure of growth to impact those who make up 80 per cent of the population in Tanzania. Despite impressive macro-fiscal performance, and decades of concerted efforts to lift rural masses out of poverty, agricultural incomes have stagnated, with aggregate agricultural production growing barely faster than the population. Growth in Tanzania has been concentrated in a few capital-intensive sectors such as mining and telecoms, and soon natural gas – failing to produce widespread job creation, failing to raise incomes of the masses, and failing to reduce poverty.

This is the second issue of the 'Tanzania Economic Update Series'. The series aim to engage a broad audience in a discussion of the state of the economy in general, as well

as in specific debates of topical importance in Tanzania. The current issue seeks to get the discussion going on how to achieve the structural transformation of the rural economy so that rural households can also benefit from the country's remarkable growth performance.

The experience of some successful countries, notably Vietnam and Malaysia, has shown that widespread rural poverty does not have to be enduring. The present update points to three forces that have the potential to produce transformational impact in Tanzania. These are agricultural commercialization; diversification toward high value products and off-farm activities; and migration toward urban centers. The Update frames questions and attempts to provoke debate on one of the most important and until now intractable challenges facing Tanzania. As a partner of the country, our sincere hope is that the Update will offer valuable input into a fruitful conversation.

Philippe Dongier

Country Director
Tanzania, Burundi and Uganda



Key Messages

In terms of macroeconomic indicators, Tanzania has been a top performer. Over the past year, its economy has grown at a rate of more than six percent. It has achieved significant reductions in its fiscal deficit. Despite some volatility at the end of 2011, its financial indicators, with the exception of the inflation rate, are now mostly indicative of good economic performance, as they have been throughout much of its recent history. Given the current global context, Tanzania's economic performance must be applauded.

However, there is another side to this story. Growth has been increasingly concentrated and it is generated through a limited number of capital-intensive activities. In addition, growth has become increasingly dependent on Government spending rather than on private investment and job creation. And despite the economy's growth, poverty remains prevalent and stagnant.

Tanzania must leverage its remarkable macroeconomic stability to achieve more inclusive growth. This can be achieved by integrating rural households, constituting approximately two thirds of the total population and 80 percent of the poor, into the country's growth processes. International experience shows that a number of countries, including Malaysia

and Vietnam, which in the past had very similar characteristics to Tanzania have achieved inclusive growth of this sort. In these and other similar cases, three factors played a critical role in bringing about positive transformation: i) agricultural commercialization; ii) diversification toward high value products and off-farm activities, and iii) migration toward urban centers.

Part I: The state of the economy: recent developments and short-term outlook

■ *In economic terms, Tanzania was a rock of stability in 2011/12. It recorded solid growth and strengthened fiscal discipline despite increases in the rate of inflation.*

Tanzania recorded a rate of economic growth of 6.5 percent in 2011/12, much better than the rate recorded by regional economies. The Government demonstrated great flexibility in the face of emerging signs of fragility and started to adjust its fiscal and monetary policies in November 2011. As a result of these adjusted policies, the overall fiscal deficit declined for the first time since 2008/9, to 5.0 percent of GDP. The balance of payments remained under control, with relatively stable international reserves, with higher capital inflows compensating for the deterioration in the trade balance.



In 2011/12, the Government stabilized the level of its expenditures, focusing less on recurrent expenditure and more on development spending, with significant allocations to the development of infrastructure. Tax collection levels were high due to a combination of improvements in administration and the broadening of the tax base as a result of the higher rate of inflation and increased imports.

The inflation rate reached two-digit figures in 2011/12, peaking at almost 20 percent at the end of 2011. By August 2012, this rate had declined to approximately 15 percent, a lower deceleration than anticipated given the prudent monetary policy. The explanation for this could be the volatile food and energy prices as well as inertia in some other domestic prices. Prevalent uncertainties on world food and energy markets and pressure on the Government to increase wages in the public sector may prevent inflation from returning to single digit figures before 2013.

- *Tanzania's economic prospects look positive over the period for 2012-14 when its GDP is forecast to grow at a rate of 6.5-7.0. However, the threat of exogenous risks cannot be ignored.*

The economy is expected to continue to expand along its recent historical path so long as there are no significant changes and as long as it is not impacted by significant exogenous shocks.

However, the economy remains vulnerable to climatic conditions and commodity price fluctuations. A close monitoring of gold and crude oil prices is warranted, given the importance of gold prices on export performance and of crude oil prices on import performance.

Similarly, international food prices could have a significant impact. These prices increased by more than 30 percent in the period from June to August 2012. The impact on Tanzania, however, is difficult to predict due to the uncertainty surrounding domestic harvests, but with food accounting for half of the Consumer Price Index, these increases will almost certainly affect domestic inflation.

- *In 2012/13, fiscal policy will remain the main instrument to promote economic growth, through the combination of higher spending and an increasing shift towards expenditure on infrastructure. The private sector's expansion should remain biased toward capital-intensive sectors with the exception of the construction sector which will benefit from the Government's infrastructure program and from increasing FDI in extractive industries.*

The recently approved 2012/13 budget has reaffirmed the Government's willingness to commit to a higher level of expenditure on infrastructure projects. The main breakthrough is the explicit use of non-traditional sources of funding, including non-concessional sources, to finance the new pipeline project between Mtwara and Dar es Salaam. As a result, development expenditures are expected to account for more than 40 percent of the total budget, the highest level recorded since 2000. While the priority placed on infrastructure will help close the existing gap in the energy and transport sectors, this expenditure must be balanced with the need to allocate resources to the education and health sectors. Finding the right balance between expenditure on infrastructure and the social sectors will be a central issue for Tanzanian policymakers in years to come.

Over the next two to three years,

The economy is expected to continue to expand along its recent historical path so long as there are no significant changes and as long as it is not impacted by significant exogenous shocks.



economic expansion will be driven by the banking, mining and telecommunications sectors. The construction sector will benefit from the high levels of public expenditure on infrastructure. Higher FDI in extractive industries will also lead to an increased number of large construction projects. However, the growth rate of labor-intensive sectors such as agriculture and manufacturing is not expected to increase significantly, especially if local firms continue to suffer from energy shortages. Many initiatives currently being developed, including those related to the Special Economic Zones and SAGCOT, are not expected to have a significant impact on the country's growth for at least the next three to four years. Similarly, activities related to the exploitation of Tanzania's massive natural gas reserves will not commence for at least seven to ten years.

- *To ensure fiscal and debt sustainability and the optimal use of public resources, close monitoring of public accounts is required. This monitoring should extend to public agencies and enterprises operating in the energy sector such as TPDC and TANESCO, which account for a large share of public spending.*

The prospect of increasing tax revenues in the short term is limited, unless the Government acts to eliminate or reduce existing tax exemptions.

Although the Government improved its fiscal position in 2011/12, significant fiscal risks remain. The prospect of increasing tax revenues in the short term is limited, unless the Government acts to eliminate or reduce existing tax exemptions. The Government has, however, not included measures to address this issue in the 2012/13 budget, relying instead almost entirely on the imposition of higher tax rates. The level of official foreign aid will continue to decline as a proportion of the total budget, as it has since 2008/9, although it will remain approximately constant in dollar denominated terms. Finally, domestic and

external financing will become constrained by pressures resulting from the rapidly increasing level of debt service payments.

In view of the declining proportion of the budget constituted by aid inflows and limited domestic resources, access to new sources of funding for infrastructure projects is a welcome development. However, the optimal use of such funds is heavily dependent on the capacity to select and implement appropriate projects. The use of such funds also requires careful debt management. As a matter of urgency, the Government must strive to improve its capacities in these areas through technical assistance programs and a reinforcement of the legal and institutional frameworks, amongst other means.

The experience of successful emerging countries shows that fiscal transparency is the best safeguard against excess borrowing and inappropriate use of public resources. Comprehensive monitoring and reporting is particularly vital for the energy sector, given the projected level of gas revenues and the uncertainty surrounding the financial situation of the public agency, TANESCO.

- *Economic growth has not yet reduced poverty rates, especially in rural areas. Broadening the growth base will bring the benefits of economic growth to all Tanzanians.*

Rapid economic growth and stability has generated high dividends for Tanzania in recent years, driving increases in per capita income of 70 percent over the past decade. However, these benefits have not been evenly shared. Many households have been left out, as seen from the poverty rate which has remained stagnant at around 30 percent of the population since 2001. Not only does this create equity and social

concerns, it ultimately threatens future economic growth. Pro-poor growth has played a vital role in driving the economic successes of Brazil, Malaysia, Vietnam and other emerging countries.

To leverage growth and to reduce poverty, Tanzanian leaders should focus on facilitating increased access to employment. Growth in GDP alone will not be enough to reduce poverty and to facilitate a comprehensive socio-economic transformation. With the vast majority of Tanzania's poor living in rural areas, it is imperative that strategies are implemented to engage rural households more fully into income generating processes.

Part 2: Fighting rural poverty: no other way for Tanzania

- *Tanzania's macroeconomic success has not been felt by the majority of the rural population that is still living in extreme poverty.*

Tanzania remains today a poor and predominantly rural country with approximately 30 million people, or about 75 percent of the total population living in rural areas. These rural households constitute 80 percent of the country's poor. Reducing rural poverty has proven to be an elusive goal, despite the country's impressive macroeconomic performance and despite the attempts by the Government and donors to boost agricultural production over the past decades. Since 2001, the level of poverty in rural areas has remained stagnant at around 37-40 percent.

While the rate of poverty is subject to debate, there is no doubt that most rural households live today in similar conditions to those of their parents or even their grand-parents in decades past. Most rural households have no electricity, no motor vehicles, no concrete

houses, and no access to roads. The major improvements over generations are limited to a significantly increased primary school enrolment rate and to increased access to telecommunications facilitated through the extensive use of mobile phones.

- *Successful economies have implemented systems to connect their farmers to markets. To facilitate growth and equity, they encourage the cultivation of high-value, non-traditional crops and manage migration flows toward urban centers.*

Thirty and 40 years ago respectively, Vietnam and Malaysia had a socio-economic profile similar to Tanzania's today. However, these two countries managed to achieve rapid and broad-based economic growth by developing income-generating opportunities for their rural populations. The average rate of growth in the agricultural sectors of the two countries has been 2.5 times higher than in Tanzania today. Their farmers have also gradually diversified and ventured into the cultivation of high value products and in non-farm activities. Concurrently, increased urbanization in these countries has created new job opportunities for rural migrants. In addition, urbanization has helped to establish backward and forward linkages between the rural and urban areas.

- *Rather than minor adjustments, fighting rural poverty requires a major policy shift that involves: (i) agricultural commercialization; (ii) diversification; and (iii) urbanization.*

Tanzania has made some progress in all of these three areas. However, much more needs to be done. The successful commercialization of agriculture will require a concerted effort to reduce transport costs; to assist farmers to acquire new

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technologies through innovative market based mechanisms, and to develop a cost effective logistical chain. It also requires the consistent implementation of the appropriate macroeconomic and fiscal policies. For Tanzania to successfully diversify its economy, it must push the development of livestock and fisheries and encourage innovative activities on and off farm.

The rate of urbanization in Tanzania has accelerated over the past few years creating new opportunities for rural migrants. This has helped to moderately improve their living conditions. However, more can be achieved through the proper management of this phenomenon by: (i) the development and implementation of safety net systems for the migrants who do not succeed; (ii) the improvement of the business environment for individual and small and medium enterprises operating in cities; and (iii) the implementation of innovative mechanisms to encourage financial and technological transfers from urban to rural areas.

- *The challenge for Tanzanian policymakers is to stimulate these three transformational forces and to manage them appropriately over the long-term.*

There is no single blueprint for the achievement of socio-economic transformation that applies to all countries and each country, including Tanzania, needs to define its own path. Indeed, although urbanization has been a major driver of the development process in many emerging countries, including China and South Korea, others like Vietnam, India and Thailand have defied this trend. These have instead continued to expand their rural labor force over the past few decades and have achieved significant economic growth in the process. However, based on its natural endowments and its enormous agricultural potential, Tanzania can find inspiration in the experiences of successful countries. Learning from these countries will help Tanzania to define its own path to a successful socio-economic transformation.



1

The State of the Economy



Part 1: The state of the economy

Main points

- Tanzania's economy performed extremely well in 2011/12, recording solid growth and fiscal discipline despite rising inflation.
- The country's economic prospects are positive with its GDP forecast to grow at a rate of 6.5-7.0 over the period 2012 - 2014. However, the exogenous threats cannot be ignored.
- In 2012/13, fiscal policy will remain the main instrument to promote economic growth. This will be achieved through a combination of higher spending and increasing prioritization of expenditure on infrastructure. The expansion of the private sector will continue to be in capital-intensive sectors, except for the construction sector which will benefit from the Government's infrastructure development program and from foreign investments in the extractive industries.
- To secure fiscal and debt sustainability and to ensure the optimal use of public resources, close monitoring of public accounts is required. This monitoring should extend to public agencies and enterprises operating in the energy sector, particularly TPDC and TANESCO, which account for a large share of public spending.
- For now, economic growth has not had a significant impact on reducing poverty rates especially in rural areas. Broadening the growth base will ensure that more Tanzanians benefit from economic growth.



In terms of its macroeconomic indicators, Tanzania has achieved impressive results in an uncertain global context. With a GDP growth rate of 6.5 percent during 2011/12 and manageable fiscal and current account deficits, Tanzania has performed better in these terms than most developed countries and better than many fast emerging economies, including China, India, and Brazil. In addition, the Tanzanian authorities demonstrated a high degree of flexibility by adjusting their fiscal and monetary policies appropriately in response to changing conditions in November 2011 when inflation rose and the exchange rate suffered increased volatility.

With the recent discoveries of significant gas reserves in addition to its mineral resources, Tanzania's long-term economic prospects appear promising as these assets are already attracting potential foreign investors. However, the benefits derived from the exploitation of these natural resources will not materialize in another seven to 10 years and close attention to macroeconomic management during the interim period is crucial. Over the next couple of years, the rate of economic growth should reach 6.5 to 7 percent, consistent with the performance in recent years. However, this forecast assumes both the absence of major domestic and external shocks and the implementation of appropriate fiscal policies. Such policies require finding the right balance between borrowing to finance infrastructure projects and ensuring the sustainability of debt. The Government will also have to maintain its commitment to prudent fiscal and monetary policies in an increasingly politically charged environment, with the next presidential and parliamentary elections scheduled for 2015.

Growth must become more inclusive. Not only will this facilitate the achievement of social equity, it will also drive rapid and sustainable economic development into the future. Despite its economic achievements, Tanzania has failed to achieve pro-poor growth. A significant proportion of rural households remain poor, with little or no expectation of improving their circumstances. Not only is this wrong and inequitable, it also acts as a constraint against future economic growth making it difficult to achieve without the full participation of a greater proportion of Tanzanians. To overcome this constraint, the Government should place a higher priority on job creation and poverty alleviation especially for those who live rural areas and/or for new migrants to urban centers.

1.1 Recent Developments up to mid 2012

Over the past fiscal year, Tanzania's macroeconomic performance has been impressive with the economic growth rate maintained at a respectable 6.5 percent and the fiscal deficit reduced for the first time since 2008/9 (Figures 1-4). These results were achieved despite a backdrop of increased domestic inflation; a volatile external environment characterized by unstable commodity prices, the OECD fiscal crisis, and a general slowdown in the East African Community area; and despite severe energy shortages and massive flooding that ravaged the highly populated business capital of Dar es Salaam.

Fiscal and monetary policies were significantly transformed in November 2011. After years of accommodating policies, the authorities adopted a policy of fiscal prudence in response to growing inflation, an unstable exchange rate, and increasing fiscal

In terms of its macroeconomic indicators, Tanzania has achieved impressive results in an uncertain global context.

pressures. These policies helped to stabilise most financial variables as seen from the fact that since the beginning of 2012, these have returned to the positive state that has been typical of recent years. However, some threats to the economy remain, especially the fiscal balance that remains fragile and the inflation rate that has declined more slowly than expected. In addition, a lower rate of growth in the volume of manufacturing exports might suggest a diminishing level of competitiveness.

At the structural level, since 2008, economic growth has become increasingly driven by a few non-labor-intensive sectors and by fiscal expansion rather than through broad-based private investment. Not only do these signs of fragility require increased monitoring and vigilance they also suggest that a number of policy actions are required if economic expansion is to facilitate more job creation.

Figure 1: GDP Growth has shown remarkable resilience

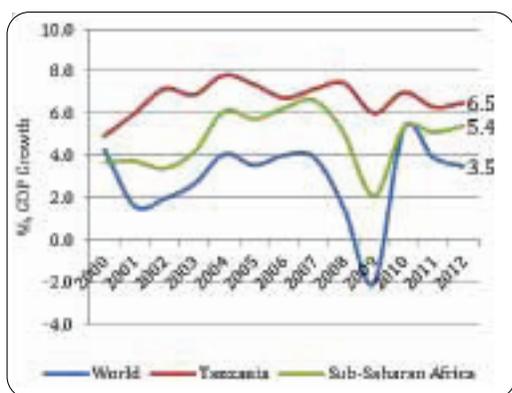


Figure 2: ...even though inflation has been on the rise...

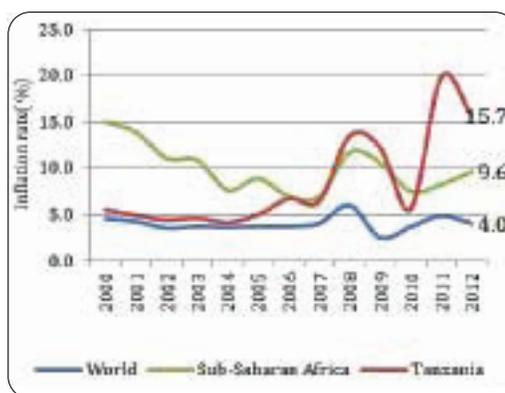


Figure 3: The fiscal deficit declined for the first time since 2007/8...

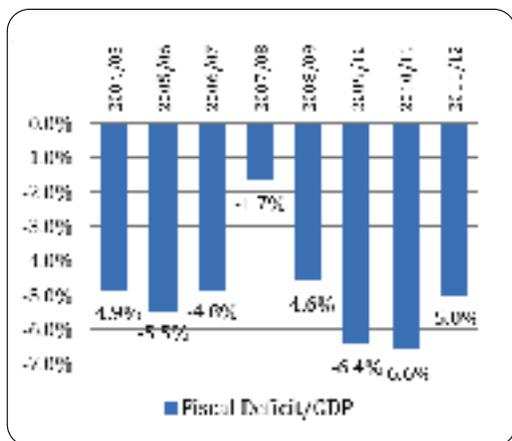
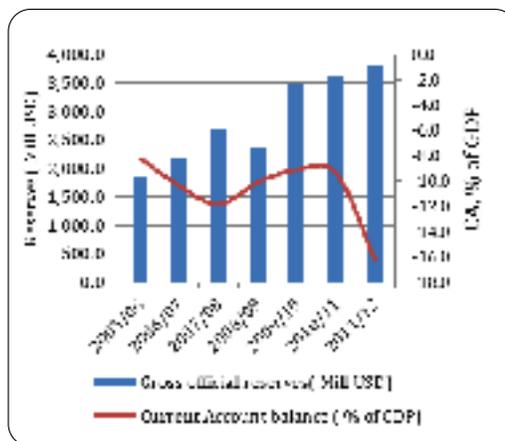


Figure 4: ...while the Balance of Payments remained under control



Source: World Bank, IMF, and Ministry of Finance



Since the beginning of the global crisis in 2008, Tanzania has demonstrated remarkable resilience with the economy continuing to expand rapidly.

Economic growth: a remarkable resilience

Since the beginning of the global crisis in 2008, Tanzania has demonstrated remarkable resilience with the economy continuing to expand rapidly and failing to succumb to the high degree of volatility that most developing countries have experienced. Unlike in neighboring Kenya and Uganda, the rate of growth of GDP has remained relatively high and stable over the past three years (see Figure 5). Amongst other factors, this remarkable stability has as its basis the rapid and constant population growth, which fuels constant aggregate demand growth; a high level of political stability; and the relative isolation of the Tanzanian economy that protected it

from external financial shocks.

After a brief dip in 2010/11, Tanzania's economy has bounced back over the past few months. Partly driven by the high level of performance of the telecommunications, banking and mining sectors, the quarterly rate of growth in GDP was 7.1 percent for the period from January to March 2012. This is up from 6.1 percent for the same period one year ago (see Figure 6). However, the agricultural, manufacturing and construction sectors recorded lower rates of growth than the overall economy. The rates of growth recorded by the real estate and wholesale trade sectors also declined by 0.6 and 4.7 percentage points respectively over the same period.

Figure 5: Higher and more stable GDP growth in Tanzania than in Kenya and Uganda

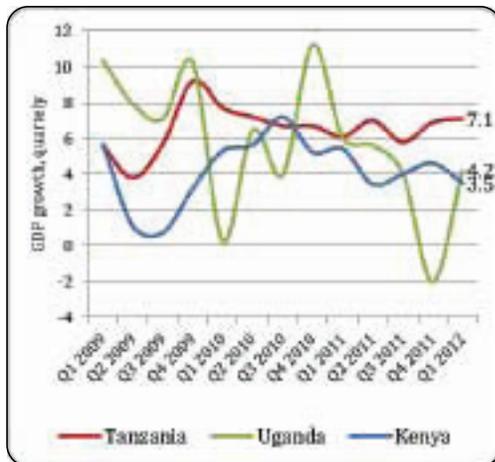
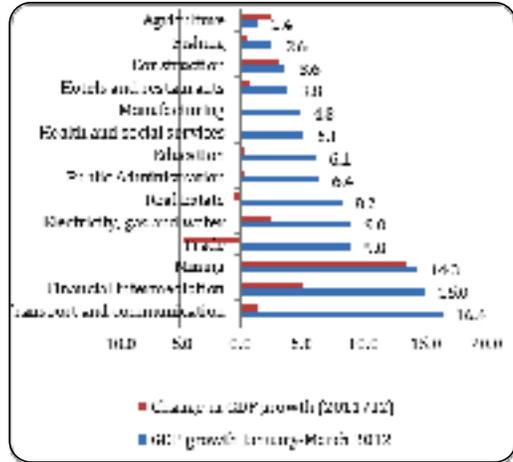


Figure 6: GDP quarterly growth, Jan – Mar 2012



Source: World Development Indicators (2012) and National Bureau of Statistics.

In terms of demand, the rate of growth is less driven by the private sector and the export sector.

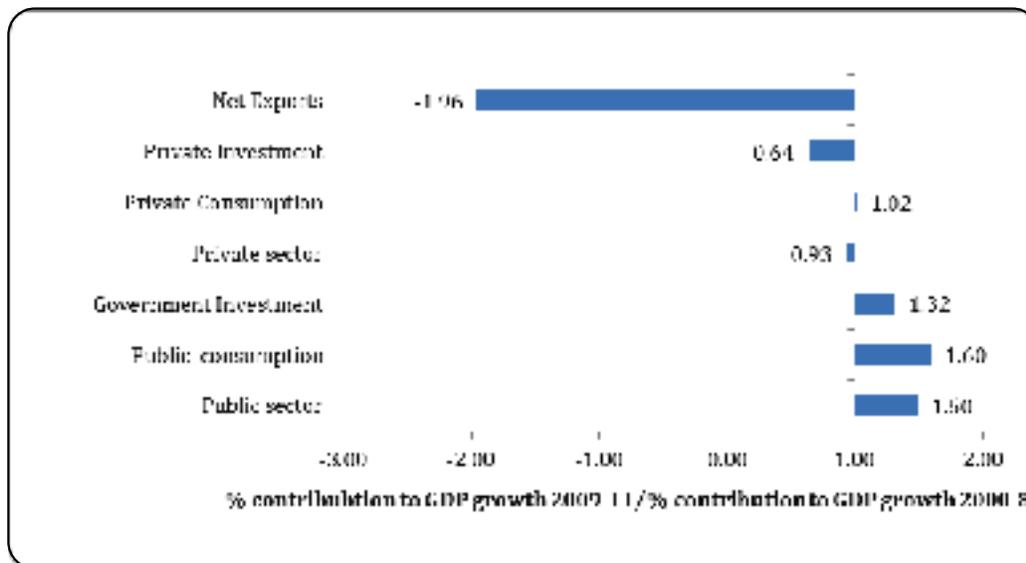
Rather, it is increasingly being driven by the public sector (see Figure 7). The Government's contribution to demand has increased, accounting for more than half of economic growth during 2009-11. This compares to the period from 1998 to 2008 when the Government's contribution accounted for only one third of growth. In the same period, the contribution of the private sector declined significantly. This decline was mostly due to the lower level of private investment resulting from the more volatile environment; the lack of significant improvements in the business climate; and possibly from crowding out by the Government in the financial sector with the Government borrowing extensively on the domestic market in 2009/10 and 2010/11. The contribution of the external sector has declined as a result of the larger trade deficit, which increased by 40 percent in the period from 2009 to 2011.

Tanzania's remarkable macroeconomic performance has to be qualified on two counts.

First, the increase in GDP appears less impressive when adjusted to take into account the rapid expansion of the population. The per capita GDP growth which stood at around 3.5 percent in 2011/12 is just above the average rate for the Sub-Saharan Africa region. Secondly, with the exception of the construction industry, economic growth has been concentrated in capital intensive rather than labor intensive sectors. The expansion of the telecommunications, banking, and transportation sectors has had a number of positive impacts on the economy, but these sectors make a relatively insignificant direct contribution to employment creation. In total, these sectors employ less than one percent of Tanzania's workforce. By contrast, the relatively weak agricultural (including fisheries) and manufacturing sectors account for more than 80 percent of formal and informal employment.

The expansion of the telecommunications, banking, and transportation sectors has had a number of positive impacts on the economy, but these sectors make a relatively insignificant direct contribution to employment creation.

Figure 7: The Public sector as the driver of growth



Source: Ministry of Finance

Note: This figure measures the changes in the contribution of each component of GDP between the 2000-08 and 2009-11 periods. For example, the public sector has increased its contribution to GDP growth by 1.50 between these two periods, growing from 37 percent to 55 percent.

As is the case everywhere, measuring economic growth in Tanzania is difficult. Detailed and comprehensive data are needed to draw a meaningful picture of economic activities over time. Currently, GDP growth in Tanzania is measured on the basis of the economic structure that prevailed in 2001 (see box). At that time, the mobile telephone and mining sectors were still relatively nascent, while the service industries (tourism, banking) were also just emerging. The informal economy which may account for up to 56 percent of official GDP is also by definition not well captured by official data.¹ Finally, the evolution of most activities between two benchmark years is captured by proxies that are often inadequate and outdated.

Tanzania's National Bureau of Statistics with the support of the World Bank and other partners has launched a new benchmarking exercise to more accurately characterize the structure of the economy. This exercise may result in significant changes to the manner in which national GDP is calculated. A similar exercise resulted in a dramatic re-evaluation of the economy of Ghana where the value of GDP was revised upwards by 60 percent raising the country's estimated per capita income from USD 753 to USD 1318.² Concurrently, Tanzanian authorities need to use better

indicators to extrapolate production growth between two benchmarking exercises.

Shortcomings in the measurement of GDP in Tanzania

Measuring GDP and GDP growth requires a benchmark that defines the structure of the economy. Subsequently, an array of indicators is used to capture the evolution of the economy over time. Today, the methodology used in Tanzania suffers from two major shortcomings:

Outdated characterization of the structure of the economy: The last benchmarking of the Tanzanian economy was conducted in 2001 at a time when there were almost no cell phone companies; only a few mining operations; and with the services industries in their infancy. A larger share of the population was living in rural areas. It is necessary to characterize the structure of the economy and to define the share of each sector and the relations between them more meaningfully as well as to reconcile supply and demand sides of the economy at the industry and commodity level. International best practice suggests that such a process should be conducted at least every five years.

Inadequate indicators for annual and quarterly projections: Only one-third of total economic growth is measured by observed data, while the remainder is estimated by proxies of unequal quality. For example, TANESCO data is used to measure energy output, while the contribution of other more recent electrical power generating operators is not included. Similarly, the growth of the telecommunications sector is defined by a proxy based on postal activities and not by cell phone activities. Agricultural outputs are generally based on routine crop reports which are generally acknowledged to be inaccurate.

1 See, H. Ahumada and F. Alvaredo, *The Monetary Method and the Size of the Shadow Economy: A critical Assessment*, Review of Economy and Wealth, Serie 53, N. 2, 2007 or F. Schneider and D. Enste, *Shadow Economies around the World: size, causes, and consequences*, IMF working paper, 00/26

2 For details, see http://www.statsghana.gov.gh/docfiles/news/Rebasing_of_Ghana's%20National_Accounts_to_Reference_Year_2006.pdf

Double-digit inflation: one time event or structural phenomena?

Double-digit inflation occurred in the last quarter of 2011 in Tanzania after a decade of relatively stable prices.³

During this quarter, the rate of inflation surged to almost 20 percent, driven mainly by higher food and energy prices. In recent months, the rate of inflation has pulled back from this peak, although not as rapidly as initially expected. In August 2012, the rate still stood at 14.7 percent (see Figure 8).

While the increased inflation rate was primarily the result of higher food and energy prices, to a less extent the depreciation in the value of the local currency also contributed.

When inflation was measured without reference to energy and food prices, the rate rose considerably less dramatically, from 7.2 percent to 8.8 percent between July 2011 and 2012.

Energy prices increased as the combined result of higher global crude oil prices and the hiking of the domestic tariff on electricity. Food prices which account for half of the Consumer Price Index increased

dramatically because of the relatively poor local harvests in 2010/11; the lower level of food imports; the food production deficit in Kenya that stimulated (official and non-official) exports; and the lagged impact of regional and world food prices (see Figure 9). Between August and October 2011, the value of the local currency depreciated by about 20 percent, resulting in higher prices for imported goods.

The decline in the inflation rate over recent months has been the combined result of the imposition of a less accommodating monetary policy and of falling energy and food prices. Monetary expansion (M3) has fallen from more than 25 percent to about 10.0 percent over the past six months. Over the same period, global energy prices have declined, impacting energy prices locally. Local food prices have also decreased by a cumulative 6 percent since early 2012. This has been the combined result of the higher level of higher food imports (with increases of more than 40 percent compared to the first six months of 2011); improved domestic harvests; and lower international food prices.

While the increased inflation rate was primarily the result of higher food and energy prices, to a less extent the depreciation in the value of the local currency also contributed.

Figure 8: Inflation up and down

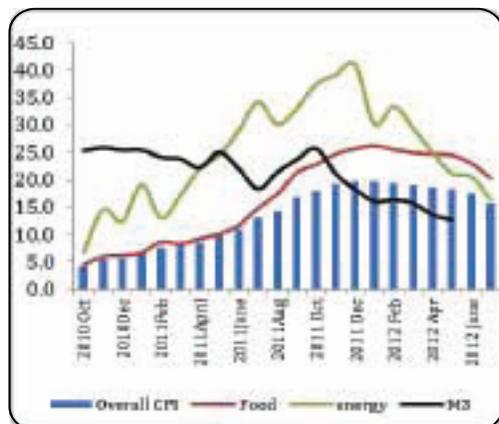
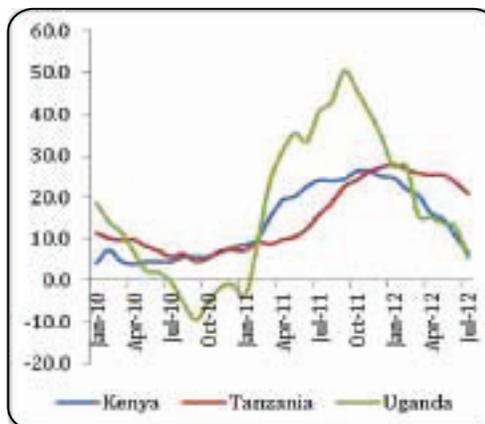


Figure 9: Food prices in East Africa



Source National Bureau of Statistics and Central Bank.

³ The only exception is 2008 when prices rose by 13.5 percent.



The high inflation rate has had a real impact on the lives of many Tanzanians. The accumulated increase in food prices of more than 50 percent in the period from December 2011 to May 2012 translated to a real fall in poor urban households' income of up to 25 percent (assuming that they are not food producers). By contrast, the income of net agricultural producers should have increased during this period. On the other hand, the increase in energy prices did not have such a significant and direct impact since the rate of access to electricity amongst the 60 percent of poorest households is a mere two percent.

At least in the short term, the Government has benefited significantly from the surge in inflation. Firstly, the Government was able to collect a higher level of taxation revenue, since higher prices automatically increase the value of the tax base. Secondly, the real value of wages paid to public servants declined because of the absence of indexation during the year. Thirdly, inflation led to lower real interest rates thus reducing the public sector's borrowing costs. These three factors assisted the Government to implement the fiscal adjustments that took place during the last six months of 2011/12.

Fiscal performance under control

In terms of fiscal performance, Tanzania did better this year than in previous years. Tanzania's overall fiscal deficit declined for the first time since 2007/8, returning to its historical levels of 5.0 percent of GDP after a significant increase in the period from 2009 to 2011. This decline in the fiscal deficit was the result of higher than expected Government revenues and of largely successful endeavors to control recurrent expenditures. As a consequence of these combined factors, public borrowing, principally on the domestic

market, was contained in 2011/12. This was a welcome development particularly considering that public debt increased by the value equivalent to 12 percent of GDP in the period from 2007/8 to 2010/11.

The Government continued to increase the value of its domestic revenues with this value increasing by 25 percent in nominal terms during the last fiscal year. Intensified tax collection efforts, particularly in the mining sector; the higher value of imports; and inflation played a significant role in achieving this increase in domestic revenues. In particular, these last two factors resulted in an automatic broadening of the tax base. In fact, when adjusted to account for inflation, VAT revenues grew slower in 2011/12 than in 2010/11, suggesting an increase in the value of tax exemptions (notably on imports).⁴

The Government stabilized the total value of public expenditure at a sum equivalent to 26.5 percent of GDP in 2011/12 but the adjustment effort was unequally distributed across Ministries. The total budget was only executed at 75 percent compared to the level initially approved by Parliament, down from 93.5 percent and 83.5 percent in 2009/10 and 2010/11 respectively. Five ministries and the unallocated spending category 'debt and government services' contributed to half of the total fiscal adjustment throughout the fiscal year. These five ministries were by decreasing order Finance, Water, Health, Education and Energy.⁵ When the comparison is done for the level of executed expenditures by

⁴ For example, the total value of imports (excluding oil) in local currency increased 1.6 faster than VAT receipts collected on imports during 2011/12. This difference can only be explained by an increase in the level of exemptions.

⁵ These figures exclude the Ministry of Defense, the State House, the President's office, and the National Service.

Tanzania's overall fiscal deficit declined for the first time since 2007/8, returning to its historical levels of 5.0 percent of GDP after a significant increase in the period from 2009 to 2011.

Ministries (not taking into account their weight in the budget), the largest cuts were found in the Ministry of Water (40 percent of approved budget), the labor and commercial Courts (around 50 percent each), the Ministry of Finance (60 percent), the Ministry of Justice (60 percent) and the Ministry of Labor (60 percent). By contrast, the Ministries of Transports, of Work and Home Affairs were allowed to fully spend their initial budgetary envelop. Among the other important spending Ministries, the execution level of expenditures was equal to approximately 85 percent in Education, Agriculture and Energy while it was only 73 percent in Health.

The stabilization of public expenditures was achieved through control of the wage bill and through a large cut in non-wage recurrent expenditures. The Government reduced its level of expenditures on transfers to public agencies and local governments and on goods and services by a sum equivalent to approximately 2 percent of GDP compared to 2010/11. The measures implemented to achieve this reflect the Government's willingness to limit non-priority spending amidst the severe cash constraints encountered during the year. However, the reduction was unequally distributed with significant cuts in maintenance and equipment spending (only 50 percent of the level approved by Parliament in August 2011) followed by allowances (65 percent) and education as well as health materials (around 75 percent)

, while current grants and subsidies to public agencies and other parastatals as well as interest payments were fully paid. The transfers to local governments were also reduced by about 18 percent compared to the level approved initially by Parliament, with a proportionally bigger cut in the regions of Dar es Salaam and Arusha. The large decline in maintenance and transfers to local governments might have been justified to stabilize the budget in the short term but, if maintained, will affect negatively the country's stock of human and physical capital and so offset the current effort to invest more in infrastructure.

Expenditure on infrastructure development increased by 1.7 percent of GDP over the past year despite the Government's tight moneypolicies. By decreasing order, public investment was executed by the Ministry of Work (37.2 percent of total), Finance (16 percent), Energy (12.7 percent), Health (6 percent), Agriculture (5.4 percent), and Transports (4.9 percent) – counting for 82 percent of total development expenditures. This increased expenditure was principally funded by domestic financing with the level increasing by a value equivalent to 1.8 percent of GDP compared to 2010/11. The total value of externally financed development projects remained stable at a sum equivalent to approximately 5 percent of GDP. While this is slightly lower than in previous years, external financing still accounts for approximately 60 percent of total public sector development.

The stabilization of public expenditures was achieved through control of the wage bill and through a large cut in non-wage recurrent expenditures.

Figure 10: The Stabilization of the Budget in recent years

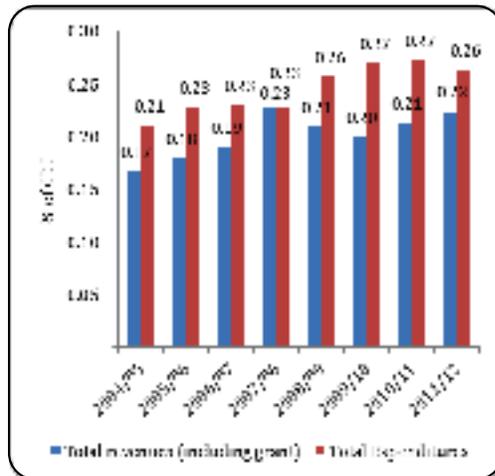
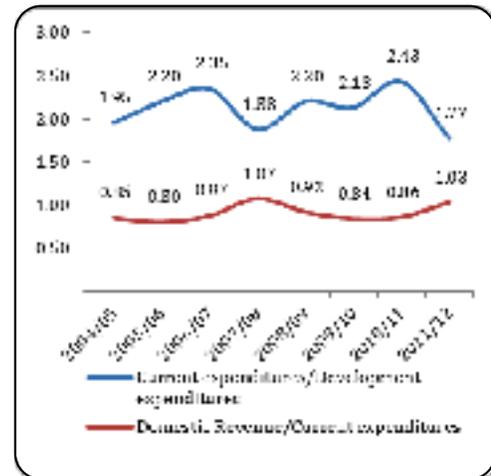


Figure 11: In a sounder fiscal environment



Source: Ministry of Finance

The Government improved the sustainability of fiscal policy by: reducing the level of recurrent expenditures as a proportion of the budget; and increasing the level of expenditure on development, particularly infrastructure.

The strength of fiscal accounts is generally measured by: (i) the ratio between domestic revenues and recurrent expenditures; and (ii) the ratio between recurrent expenditures and development expenditures.

The first indicator captures the golden rule that borrowing should only be used to finance investment spending, while the second indicator measures the Government's contribution to the accumulation of physical capital in the country. These two ratios improved in Tanzania during 2011/12, in contrast with the trend observed between 2008/9 and 2010/11 (see Figure 11). The rate of expansion in development expenditures (56 percent in nominal terms) was three times faster than in recurrent expenditures (16.8 percent in nominal terms).

While the level of public debt has remained under control, an increasing proportion of external financing consists of non-concessional borrowing (see Figure 16).

The proportion of external financing consisting of official aid declined from its peak of 45 percent of total expenditures in 2007/8 to 28 percent in 2011/12. This decline is principally the result of rapidly growing public expenditure rather than a lower level of inflows of aid in absolute, dollar-denominated terms. With improved access to international private capital, the Government borrowed a proportionally higher value of non-concessional funds to close the gap. The value of such non-concessional funds increased from Sh 154 billion in 2010/11 to Sh 801 billion in 2011/12. Despite this increased borrowing, the total value of loans remained under the ceiling agreed upon with the IMF. Net borrowing on the domestic market did not exceed a value equivalent to one percent of GDP even though short-term refinancing needs increased dramatically, by up to 15 percent, due to previous debt.

One threat to public finance is the fragile financial situation of the energy sector.

As the situation is not accurately characterized by the Government's accounts, the precise costs incurred by the emergency power plan are unknown. In addition, the public enterprise, TANESCO, also suffers from a chronic operational deficit and accumulated arrears which may not have been completely mitigated by the 40 percent increase in electricity tariffs imposed in January 2012. Ultimately, these accumulated deficits may have significant costs for the Central Government in view of its contingent liabilities.

Higher trade deficit but funded by capital inflows

The deterioration in the current account deficit by an equivalent 4 percent of GDP was balanced by higher capital inflows, resulting in stable international reserves over the past year. However, this apparent stability masks a series of movements that

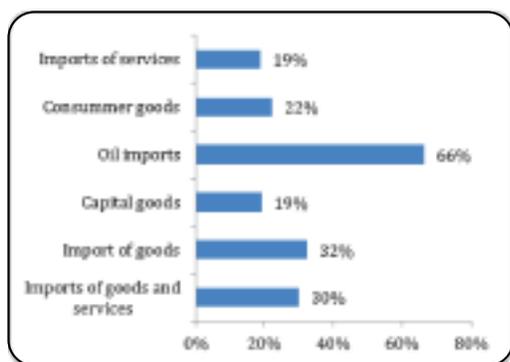
may become a source of concern for the authorities. These concerns may involve the relative real appreciation in the value of the local currency; the decline in the value of manufacturing exports; and the growing sensitivity of the trade balance to changes in gold and crude oil prices on international markets.

The trade deficit worsened significantly over the past year mainly as a result of the increased level of imports

(up by 30 percent, see Figure 12). The surge in the value of energy imports, which increased by 66 percent, was necessary to offset the decline in output from hydropower. At the same time, the higher value of capital goods imports is linked to FDI inflows resulting from expenditure by mining and gas companies on material and equipment unavailable in Tanzania. The increase in the value of imports of consumption goods can be explained by the increased food prices, which increased by more than 40 percent in the first six months of 2012.

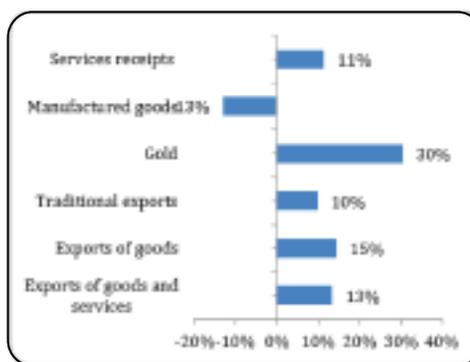
One threat to public finance is the fragile financial situation of the energy sector.

Figure 12: Import growth, 2011/12



Source: Ministry of Finance

Figure 13: Export growth, 2011/12



The rate of growth in the value of exports declined to one third of the figure recorded in 2010/11 (see Figure 13). This disappointing performance was mainly the result of the decline in the volume of manufacturing exports; a decline amounting to 13 percent in the period from 2010/11 to 2011/12. Slower growth in regional economies has been an exacerbating factor, limiting the demand for Tanzanian products. Concurrently, the appreciation in the value of the local currency by approximately 15 percent over the past six months, and unreliable electricity supply has contributed to a decline in the level of competitiveness of many Tanzanian manufacturing industries.

The actual and potential values of Tanzania's mineral resources are extremely high. The attraction of these resources has pushed up capital inflows from USD 2.1 billion to more than USD 3 billion in the period from 2010/11 to 2011/12. Encouraged by recent discoveries, private companies operating in the mining and gas/oil sectors have increased their level of investment to approximately USD 1.5 billion. This amount is still low for a natural resource based economy although the value of investments could rise dramatically in future years. The Government has also increasingly borrowed from foreign banks, with the value of these loans up by USD 630 million in the period from 2010/11 to 2011/12.

1.2 What's Next: Economic Outlook

Barring detrimental changes to policy and exogenous shocks, Tanzania's economic performance should remain stable over the next few years. The short to medium term outlook is reviewed below along with the risks and opportunities. The discussion focuses in particular on fiscal policy as the main instrument that the

authorities will use to promote economic growth but also on the need to broaden its basis toward more labor intensive sectors.

Prospects for 2012/13 and 2013/14

The Tanzanian economy is expected to continue to expand at the rate of approximately 6.5 to 7 percent in the next few years, which is consistent with its performance over the past decade (see Table 1). This forecast is based on recent trends. The acceleration in quarterly GDP growth during January-March 2012 seems to have been continued in more recent months. Over the period from April to July 2012, the economy has seen simultaneous increases in the value of manufacturing exports (up by 23 percent); of capital goods imports (seven percent); of Value-Added Tax receipts (14 percent); and of development expenditures (91 percent). In principle, all these factors closely correlate with economic growth in Tanzania.⁶ The only negative factor has been the reported deceleration in M3 growth (-5 percent).

The Central Bank's commitment to reducing inflation is strong. Despite this commitment, it is likely that only a gradual decline in inflation will be achieved. Food prices have again jumped on international markets, increasing by approximately 25 to 30 percent in the period from June to August 2012. The impact of these increases will be transmitted to local markets in the next few months. Energy prices have

⁶ Recently, the IMF has statistically found that variations in quarterly GDP in Tanzania are well captured by the combination of five indicators: manufacturing exports, capital imports, development spending, M3, tourist receipts and VAT receipts. This combination reflects the importance of trade liberalization as well as fiscal and monetary policies on economic growth. *Source:* M. Opuku-Afari and S. Dixit, *Tracking Short-term Dynamics of Economic Activity in Low-Income Countries in the Absence of High-Frequency GDP Data*, IMF Working Paper, wp/12/119

remained volatile on world markets, increasing by approximately 10 percent at the end of August 2012. Domestically, upward pressures on prices have become apparent in the cost of restaurant meals, clothing and leisure activities. There has also been growing demand from public servants in the education and health sectors for increased wages. All these factors may make it difficult for the Government to achieve its goal of a single digit inflation rate by the end of 2012.

Table 1: Macroeconomic indications: recent trends and projections.

	2008/9	2009/10	2010/11	2011/12	2012/13	2013/14
Real GDP growth	6.2	7.3	6.5	6.4	6.7	7.0
Inflation (CPI, %)	11.8	10.5	7.0	17.2	10.8	8.0
Broad money (M3)	18.5	25.1	22.0	11.8	17.3	17.5
Revenue (excluding grants)	16.2	15.9	16.5	17.5	18.8	18.8
Total Expenditure	26.1	27.5	27.0	26.4	28.1	26.5
Overall balance (including grants)	-4.6	-6.4	-6.6	-6.4	-5.5	-4.5
Investment	30.6	30.6	34.5	38.2	39.1	37.2
Current account balance	-9.0	-9.0	-9.4	-16.2	-16.2	-14.0
Gross official reserves (US\$ million)	2,930	3,483	3,610	3,779	4,061	4,370

Source: World Bank and IMF.

Highlights from the 2012/13 Budget

The approved 2012/13 Budget demonstrates fiscal restraint, with a projected deficit of 5.5 percent of GDP. This level of deficit is in line with the IMF program. The fiscal framework is built on the combination of:

- A significant increase in domestic revenues (by 16 percent in real terms compared to the executed 2011/12 budget);
- A modest expansion of recurrent expenditures (in particular the wage bill) of only 3 percent in real terms;
- A decrease in the level of development expenditures implemented by the Government (by 5 percent in real terms) as a result of declining aid inflows;
- A combination of domestic and foreign financing, in line with the ceiling agreed upon under the IMF program.

The above budget framework, however, does not capture all public expenditures. In particular, it does not include expenditures by public enterprises and agencies. For example, the Tanzanian Petroleum Development Corporation (TPDC) will execute a new pipeline involving a total expenditure of USD 1.2 billion, of which \$ 800 million (or 10 percent of total public expenditure) will be spent during 2012/13. If the TPDC's expenditure on the pipeline is taken into account, total public expenditures increase by 13.7 percent in real terms, while the consolidated fiscal deficit of the State will reach 8.3 percent of GDP.



Infrastructure spending and economic growth

The stock of infrastructure in Tanzania is one of the lowest in Sub-Saharan Africa, slightly above the level reported in Madagascar and Burkina Faso. Tanzania has 2.1 times fewer paved roads than Uganda; it produces 10 times less electricity per capita than Mozambique, and owns 15 times fewer fixed phone lines per capita than South Africa. These shortfalls are major bottlenecks for economic growth as they make it more difficult for firms to do business given the constraints with regard to moving goods and people.

The Government's effort to focus on the development of infrastructure is warranted given the success of most emerging countries that have allocated a significant share of their resources for this purpose. For example, Korea, Malaysia and Chile have each spent roughly two dollars on infrastructure projects for each dollar spent within the social sectors in their early stages of their development, with this ratio becoming more balanced in subsequent stages.

Using the calibration results from a World Bank's paper, it is estimated that Tanzania could increase its per capita growth by 2 and 5 percent respectively if it could reach the level of infrastructure development in Uganda and South Africa. These figures are indicative, and do account for quality of spending but merely illustrate the close relationship between the stock infrastructure and economic growth.

Source: C. Calderon et L. Serven, *Infrastructure and Economic Development in Sub-Saharan Africa*, World Bank Working Paper Series, N. 4712, 2008 or B. Moreno and N. Bayraktar, *How Can Public Spending Help You Grow?*, World Bank Policy Research Working Paper 5367, 2010

As in recent years, fiscal policy will remain the main instrument to stimulate economic growth.

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The recently approved 2012/13 Budget includes measures to facilitate both fiscal expansion (with expenditure increasing by 14 percent in real terms compared to the 2011/12 budget) and a shift from recurrent expenditure toward development expenditures (with the proportion of the latter increasing from 36 percent of the total to 43 percent when the projected pipeline project is included in total expenditures). The objective of this budget is to boost the aggregate demand in the short-term and to boost the aggregate supply in the longer-term. This will be achieved through major improvements in infrastructure. This strategy appears appropriate, based on the successful

experience of many emerging countries. If Tanzania was to expand its infrastructure to the level reached by Uganda and Vietnam in the telecommunications, energy and roads sectors, Tanzania's annual growth rate could increase by 3 percent and 5 percent respectively (see box).

The Government is allocating an increasingly large proportion of its expenditure on infrastructure spending, if the planned pipeline project is included.

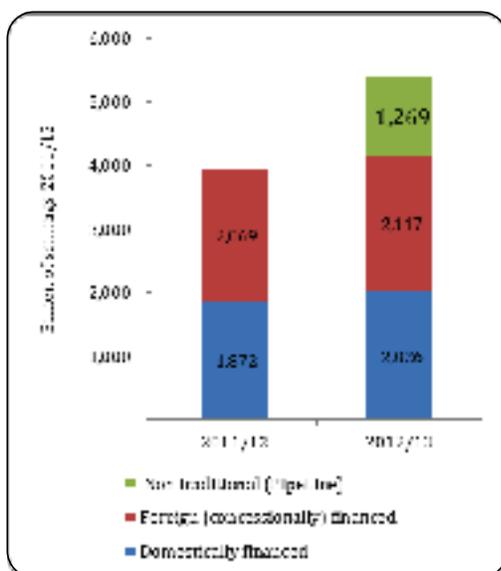
The Government will facilitate this increased expenditure by using non-traditional sources of financing (see Figure 14). The major breakthrough consists of the use of non-traditional funds to build the new pipeline, with the total value of the project standing at USD 1.2 billion. At the same time, recurrent expenditures

will be maintained at a constant level in real terms, with a slight increase in the wage bill. This increase amounts to only 3 percent in real terms (see Figure 15). The only exception will be the relatively large increase in interest payments (up by 36 percent in real terms) due to the rapid increase in the public debt stock over the past few years.

Driven by projected economic growth and by policy and administrative reforms, real domestic revenues should increase by approximately 16 percent in 2012/13. Unfortunately, the increased revenues will be principally derived through the introduction of new taxes or increases in the rates of existing taxes, rather than the elimination or reduction of tax exemptions.

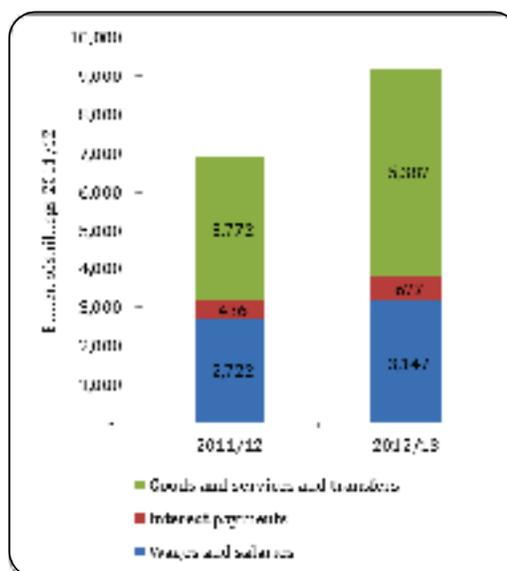
The level of tax exemptions is not expected to decline significantly, despite the recent statements by the Controller and Auditor General's Office and despite the Government's commitment to reduce these exemptions to a value of 1 percent of GDP by 2015. Tax collection remains highly concentrated on a few firms around the Dar es Salaam agglomeration. While more than 800,000 firms are registered at the Tanzania Revenue Authority, only a small fraction of these firms currently make significant contributions to tax revenues. Approximately three quarters of all tax revenues are collected from businesses based in the Dar es Salaam region. While such a degree of concentration is not unexpected in developing countries, it indicates that there are significant opportunities for expanding the tax base.

Figure 14: Higher development spending with a shift toward non-traditional funding



Source: Ministry of Finance

Figure 15: Controlled recurrent expenditures with flat wage bill but growing interest payments





With interest from foreign investors and with the expectation that mineral prices will remain high on global markets, the mining sector should also continue to expand.

The private sector will continue to expand over the next 2 to 3 years. However, growth will be concentrated in capital intensive rather than labor intensive sectors. In particular, driven by increased demand and improved technologies, the telecommunications and banking sectors should continue to grow at a relatively rapid pace. With interest from foreign investors and with the expectation that mineral prices will remain high on global markets, the mining sector should also continue to expand. The construction boom is expected to continue given the rapid and ongoing urbanization, particularly in Dar es Salaam, and with the Government's commitment to increased expenditure on infrastructure. Apart from the construction of the proposed pipeline, it is difficult to calculate the impact of FDI in the gas sector on construction activities, because the timing and magnitude of the cash flows associated with these investments remain uncertain. In line with recent trends, other sectors that will make increasingly significant contributions include tourism and retail trade.

The manufacturing and agricultural sectors employ approximately 80 percent of the total labor force in Tanzania. However it is not expected that these two labor-intensive sectors will record an increased rate of growth in the near future. While there are some incipient indications of trends that may lead to increased growth in the future, particularly the use of new technologies and agglomeration effects resulting from urbanization and regional integration, their impact on Tanzania's economy is likely to only become apparent in the medium term future.⁷

⁷ For more details on those trends, see First Tanzania Economic Update, February 2012.

The general business environment remains poor. Tanzania's failure to improve in this regard is reflected by its stagnant Doing Business ranking. While the Government has implemented some promising initiatives to encourage private business activities, the results of these initiatives are not expected to become manifest for at least three to five years. One such initiative involves the development of the special economic zone in Bagamoyo, which will be the first of such zones. However, this zone is not slated to become operational before 2016/17. The development of large commercial agriculture zones (e.g. SAGCOT) will take several years to reach completion because of the complexity of these projects and due to the requested level of investment in infrastructure. The boost in public infrastructure resulting from the Government's increased allocation to development, particularly in the area of roads and energy, is a welcome development. However, new projects, such as the pipeline, will not reach completion for at least 2 to 3 years. The expected boom in the mining and gas sectors will not have a significantly large short-term impact on the local economy, except in the construction sector and for a limited number of local suppliers.

The external balance is expected to remain under control, with the current account deficit in the range of a value equivalent to 16 percent of GDP. The main uncertainty relates to imports whose prices are directly impacted by energy prices. In terms of exports, the manufacturing sector is likely to recover and record improved performance as a result of increased regional demand and the stabilization of the real exchange rate. The volume of other exports is expected

to increase in line with recent trends, barring major changes in commodity prices especially gold prices. Capital inflows will increase as a result of a gradual increase in FDI inflow and a higher level of public borrowing on foreign markets. While substantial investments in the gas sector are expected, the timing of these investments remains uncertain. In any case, most of the increase in FDI will have a neutral impact on the balance of payments. For each dollar of FDI, it is estimated that approximately USD 0.8 to 0.9 will be used to finance imports, especially in the early stages of large mining projects.

Risks to the outlook

Tanzania remains vulnerable to the impact of external and domestic shocks. In addition, deviations by policymakers from the appropriate fiscal and economic policies could have serious negative consequences. Despite its relative isolation, the Tanzanian economy is vulnerable to exogenous shocks. These shocks include changes in climatic conditions, volatile commodity prices, and decreased aid inflows. The impact of a slowdown in the global economy was discussed in the first Economic Update. In particular, the balance of payments is vulnerable to global fluctuations in gold and crude oil prices on world markets since these commodities account for approximately one third of the total value of exports and imports respectively. The management of these macroeconomic risks requires fiscal prudence, including the maintenance of sufficient international reserves to manage pressures on the local currency.

Exogenous shocks have the potential to impact the fiscal balance. In particular, these shocks could result in a lower than expected level of tax collection because of a decline in growth or increases

in public expenditures in case of natural catastrophes. Unfortunately, fiscal buffers have been almost completely depleted as a result of the rapidly increasing public debt. This will be exacerbated by the expected slowdown in aid inflows over the next few years. Domestic borrowing is also highly constrained by the shallowness of the local financial market. To illustrate the public accounts' sensitivity to a shock, it has been estimated that a decline of 10 percent in domestic revenues would result in an increase in the financing gap of almost Tshs 1 trillion. This is equivalent to an overall deficit of 7.3 percent of GDP, or 10.1 percent if the expenses associated with the pipeline are included in public accounts.

The fiscal framework is also vulnerable to endogenous risks embedded in the strategic choices adopted by the authorities. These include the following: (i) the excessive use of non-concessionary financing for investment projects and possibly the increasing risk of quasi-fiscal crisis in the energy sector; (ii) the unbalanced allocation of resources between infrastructure and social sectors; and (iii) internal pressures on wages.

The Government's access to new sources of financing for infrastructure projects is a positive development. However, for such financing to have the most beneficial impact, two prerequisites must be fulfilled. The first is the existence of the capacity of public administration to manage public investment projects efficiently. In particular, capacities are required to address the following issues: (i) *the marginal productivity of infrastructure*: this capacity relates to the Government's ability to select good projects and to the (relative) scarcity of infrastructure services; (ii) *the user cost of public infrastructure capital*: this capacity relates to the efficiency of public procurement (e.g., waste and corruption),

Tanzania remains vulnerable to the impact of external and domestic shocks.



the marginal cost of borrowing, and maintenance costs; and (iii) *the Government's ability to capture returns on investment*: this capacity relates to both cost recovery achieved through the implementation of user fees and tax collection capacity.⁸

After years of neglect, the priority for Tanzania should be to strengthen capacities in these areas in the Ministry of Finance and in-line ministries (or agencies).⁹ In addition to capacity building, associated institutional and legal frameworks need to be subject to analysis and perhaps reform in order to better demarcate and define the responsibilities of the various associated ministries and agencies.

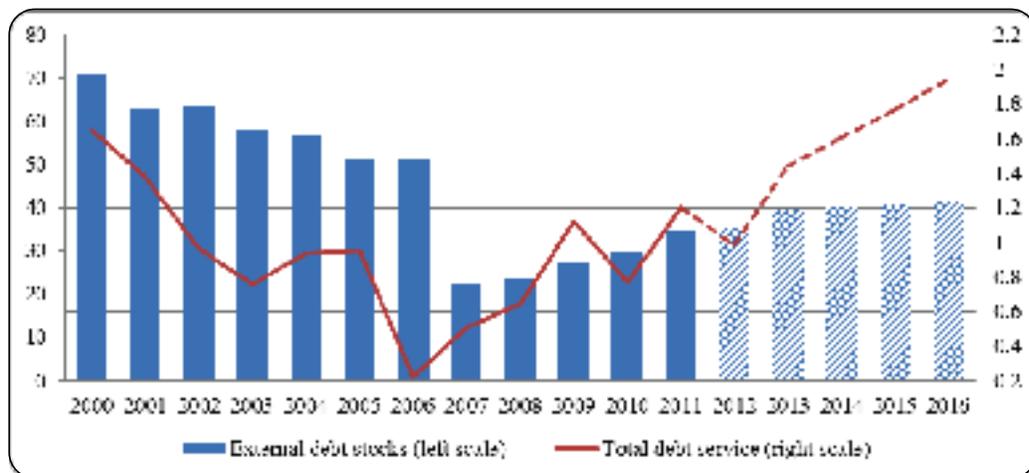
The second prerequisite relates to the Government's ability to maintain debt and fiscal sustainability over time.

Experience in other countries has shown that the authorities are sometimes tempted to borrow excessively from private markets at non-concessionary terms.

In Tanzania, this risk might be exacerbated by the prospect of significant future gas revenues and by political pressures in the context of the forthcoming Presidential elections in 2015. The achievement of short-term fiscal sustainability is often the main challenge due to the rapidly increasing debt service payments (see Figure 16).¹⁰ Equally worrisome for Tanzania is that accountability is diffused among several entities, resulting in sub-optimal debt monitoring and evaluation. In addition, there are a number of out-of-budget loans and contingent liabilities that are not included in the public debt figures.

The achievement of short-term fiscal sustainability is often the main challenge due to rapidly increasing debt service payments.

Figure 16: The rising external debt stock and annual debt service, in % of GDP



8 For more details, see L. Serven, *Fiscal Discipline And Infrastructure Spending*, July 2008.

9 For example World Bank's 2010 Public Expenditure Review and World Bank/IMF joint mission in February 2012)

10 The total debt service payment will reach 2 percent of GDP by 2016, up from 0.8 percent in 2010, and back to the levels recorded in the early 2000s. This projection is based on prudent behavior from the authorities since the debt to GDP ratio is assumed to remain around 45 percent from 2013 onwards.

The best means of achieving sound fiscal policy is through the implementation of systems to ensure transparency.

Following good practices elsewhere, the Government should make information related to the integrity of public sector operations readily available for public perusal. In particular, all information related to borrowing terms and the viability of publicly financed projects should be available so that key stakeholders can monitor how the Government is utilizing public money, both at present and in the future. This basic principle of good governance recommended by the IMF manual on fiscal transparency and by OECD governance guidelines has been implemented by many Latin American countries, including Costa Rica and El Salvador, as well as many Asian countries including Malaysia and the Philippines. However, this principle has not yet been implemented in the vast majority of African countries. This includes Tanzania.¹¹

The Tanzanian authorities should move toward a consolidated presentation of their financial accounts.

Specifically, this should include those of the main parastatal agencies operating in the energy and mining sectors. Focusing exclusively on the central Government financial accounts will become increasingly misleading, as illustrated by the recent example of the pipeline project in the 2012/13 budget. In order for Tanzania to strengthen the oversight of the parastatal sector and to better manage fiscal risks, it is vital to improve the monitoring and evaluation of the fiscal performance in the wider public sector. In particular, such monitoring and evaluation should cover TPDC's financial accounts, as this entity

¹¹ <http://www.oecd.org/dataoecd/33/13/1905258.pdf>. This would be not only good management but it would also be in line with the Open Government data initiative as well as Budget Transparency.

will account for approximately 10 percent of total public expenditure in 2012/13. Another top priority is the inclusion of the financially fragile state-owned electricity company, TANESCO, which also implements a significant proportion of the country's public investment program.

The second fiscal risk arises from the priority given to the development of infrastructure, perhaps at the expense of the development of the education and health sectors.

The 2010 World Bank's Public Expenditure Review (PER) and the first Tanzania Economic Update examined the challenges facing the education sector and the increasing importance of ensuring the quality of the outputs of this sector. Similar challenges and issues are also apparent in the health sector, as is discussed in the forthcoming 2011 PER. In both sectors, the Government can obtain better value for money with existing levels of expenditure. However, to achieve the required results, it will also need to increase expenditure to finance the development of additional schools, equipment, teachers and medical staff, amongst other priorities. Increasingly, the Government will face a high level of dilemma related to the allocation of resources between infrastructure and social sectors in the most cost effective manner.

The third fiscal risk relates to the need to control the expansion of the public sector's wage bill.

While this is a vital goal, it is also extremely challenging. The Government has announced that the real wage bill will remain almost flat in 2012/13. At the same time, the rapid inflation rate has eroded the purchasing power of many civil servants. As a result, civil servants are increasingly demanding higher wages, particularly those civil servants employed in the education and health sectors. In addition,

Following good practices elsewhere, the Government should make information related to the integrity of public sector operations readily available for public perusal.



the authorities have also announced that they will hire 75,000 new civil servants. These recent developments emphasize the urgent need to implement a number of measures, including a detailed examination of the salary structure and incentive system within the public sector.

In the short to medium-term, Tanzania's growth trajectory might also be perturbed by the country's structural deficit in energy.

Not only few firms and households have today access to electricity (approximately 16 percent) but supply has been periodically affected by the ongoing financial and management shortfalls in the public enterprise TANESCO. Insufficient and unreliable access to energy will reduce the competitiveness of the private sector, while TANESCO's financial distress may force the Government to intervene by borrowing or subsidizing excessively this sector, putting a strain on the budget. In the longer term, the Government should develop and implement an investment strategy that will make the effective use of recently discovered natural gas reserves, together with hydropower and other energy sources that are abundant in the country.

Finally, Tanzania's growth may suffer from negative consequences as a result of excessive dependence on the public sector.

The expansion of the public sector is unlikely to lead to the creation of the necessary number of jobs in the short to medium terms. On the other hand, public spending particularly with a stronger emphasis on infrastructure may facilitate the development of private activities. Thus, a higher level of public

spending may enhance the human and capital stocks in the country and so stimulate long-term productivity gains. In the transition, however, complementary actions will be required to ensure a broad participation in the growth process and a concurrent reduction in poverty rates.

1.3 Toward Pro-poor Growth

The Tanzanian economy experienced strong, rapid growth over the past decade. As a result, the country's per capita income increased from USD 310 in 2000 to more than USD 540 in 2010.¹² Macroeconomic stability has also brought significant dividends in terms of economic growth, perhaps as much as 1.3 percentage points in annual per capita GDP growth.¹³ However, despite this sustained growth and stability, Tanzania is still a poor country, with approximately one third of its population living below the subsistence level.

How long can Tanzania's economy continue to grow without achieving significant reductions in poverty?

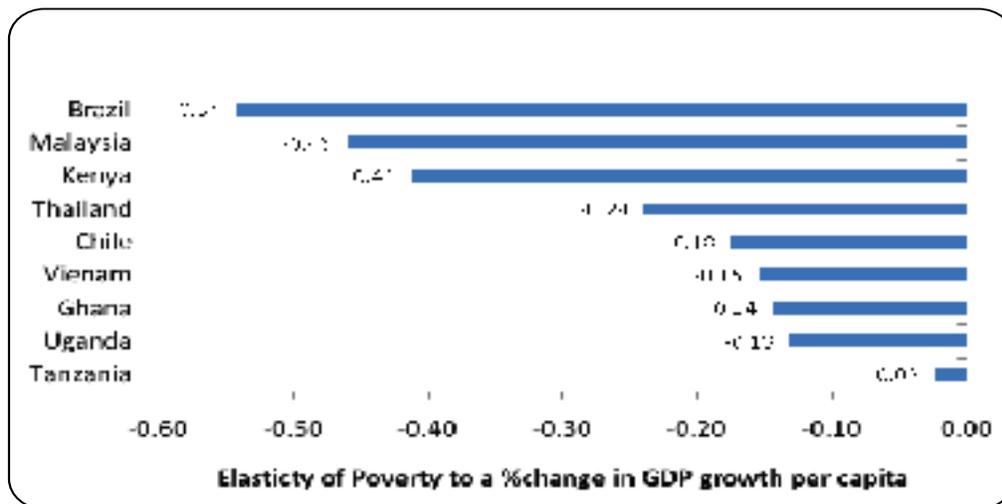
Successful developing countries, particularly in East Asia, have experienced economic growth and reductions in poverty at the same time. However, this correlation remains elusive in Tanzania. Over the past decade, the country's rapid and constant economic growth has resulted in only marginal reductions in the poverty rate. This is in sharp contrast with Brazil and Malaysia, or even poor countries such as Vietnam, Uganda, and Ghana (see Figure 1.6). This lack of inclusion of poor Tanzanians in economic growth has been a missed opportunity, which threatens to undermine Tanzania's goal of becoming a middle income country by 2025.

¹² As measured by the World Bank's Atlas methodology.

¹³ For a summary, see. N. Laoyza et al., *Macroeconomic Volatility And Welfare In Developing Countries: an introduction*, The World Bank Economic Review, vol. 21, n.3, 2007.

Tanzania's growth may suffer from negative consequences as a result of excessive dependence on the public sector.

Figure 17: More growth, less poverty in successful countries during the 2000s



Source: World Bank, 2012

There are two main – and possibly interacting – explanations for the limited impact of economic growth on poverty rates in Tanzania.

Firstly, economic growth has been largely driven by capital-intensive sectors, particularly the mining, telecommunications, and banking sectors. These sectors have had only a marginal effect on employment, which means they have not facilitated broad-based participation. The low level of correlation between GDP growth and poverty reduction can be explained by the relatively slow expansion of the agriculture and manufacturing sectors, with these sectors providing employment for almost four out of five workers in Tanzania.

The second explanation is that economic growth will indeed have an impact on poverty, but that this impact will be delayed.

According to this view, the Government's high level of investment in social services, particularly education and health, will improve the country's human capital stock in the longer term. It can be argued that it will take roughly one generation for these investments in education and health

improvements to translate into productivity gains and to facilitate comprehensive social and economic transformation. According to this view, poverty rates will decline more rapidly when the country has reached a sufficient level of human development and income per capita. In short, the first view calls for specific actions to promote job creation, while the second argues that pro-poor growth will automatically become a self-reinforcing process.

Pro-poor growth, or inclusive growth, is important in terms of the achievement of social justice.

However, it is also a significant factor for the achievement of sustainable growth. There are at least three arguments to support the case that the prevalence of poverty acts as a constraint to economic growth in a country such as Tanzania. The first argument is that generalized poverty results in weak demand. Indeed, by definition, the poor have unfulfilled demands. They do not spend to meet these demands because of cash constraints. This limits the impact of their expenditure on overall consumption levels and on overall demand. This effect partially explains the relatively weak rate



of growth expenditures related to personal consumption. The rate of growth in such expenditures has been consistently lower than the rate of growth of GDP in Tanzania. This effect is most apparent among the poorest segments of the population, or those classified as being in a condition of extreme poverty, comprising approximately 16 percent of the total population.

The second argument relates to supply, notably the supply of two major factors of production, capital and labor.

Indeed, the capacity of the poor to save and thus make productive investments is weak (see Sachs et al., 2004). This is not compensated for by access to financial credit since the poor are generally excluded from financial markets for reasons related to risk and lack of guarantees (moral hazard).¹⁴ Similarly, the poor generally have fewer opportunities to invest in human capital, which is considered by many economists to be of primary importance for the achievement of long-term economic growth. This constraint limits their capacity to adapt and to use new technologies. In addition to the cash constraints, the poor are more vulnerable to risks that oblige them to abandon their studies. These factors explain why skilled workers in Tanzania make up less than 5 percent of the total labor force. It also suggests that the economy will remain on a sub-optimal growth path over time, unless this issue is addressed.¹⁵

The third argument relates to the political economy of poverty. If a substantial part of the population remains in a permanent state of poverty, without

enjoying the benefits of economic growth, it is likely that they will stop supporting the economic reforms that generate growth.

These arguments help explain how poverty in Tanzania is preventing the economy from achieving the growth rates that would propel it towards emergence.

To illustrate the magnitude of this phenomenon, it has been estimated that a 10 percentage point decrease in poverty would increase annual per capita growth by 0.8 to 1.1 percentage points. If Tanzania were able to reduce its poverty level to the equivalent of Uganda's, its per capita growth rate would have been 0.9 percent faster.¹⁶ With a poverty rate equivalent to that of Vietnam's, it would have been possible to increase its per capita growth rate by approximately 2 percent per year. Of course, these simulations should be interpreted with caution. However, they illustrate the magnitude of the harmful effects of the lack of pro-poor growth in Tanzania.

To harness growth for poverty alleviation, Tanzanian leaders should focus on specific reforms to achieve this goal.

The gradual improvements in the stock of human capital and of infrastructure and the increased deployment of new technologies will help broaden the growth base in Tanzania. However, these effects will become manifest only in the longer term. The experience of successful countries, most notably in East Asia, but also in Africa (for example, Mauritius and Tunisia) have shown that growth in GDP alone is not enough to achieve poverty reduction and fundamental socio-economic transformation. Specific reforms are needed to ensure inclusive growth and the creation of increased opportunities for the majority

If Tanzania were able to reduce its poverty level to the equivalent of Uganda's, its per capita growth rate would have been 0.9 percent faster.

14 J. Sachs et al, *Ending Africa's Poverty Trap*, Brooking Papers on Economic Activity, I, 2004.

15 For a macro-economic model that takes into account the effects of poverty on the savings rate and on investments in physical and human capital, see Galor et Zeira, *Income Distribution and Macroeconomics*, Review of Economic Studies, 1993.

16 H. Lopez and L. Serven, *Too Poor To Grow*, World Bank 2005. Their simulations underestimate the total effect of poverty on growth as they do not take into account the indirect effect of poverty on education and on access to infrastructure.

of Tanzanians.

There are many complementary policy options that Tanzania could use to promote pro-poor growth.

These include the improved control of population growth, particularly in the poorest households; improvements in the general business climate to encourage the establishment and expansion of businesses; the development of more inclusive financing mechanisms; and initiatives aimed at better redistributing the benefits of growth. Amongst other means, a broader based redistribution of the benefits of growth could be achieved through improved tax collection systems and through the implementation of measures specifically intended to benefit the poor. Amongst others, such measures could include safety nets to protect rural migrants to urban centers. However, these crosscutting options should be accompanied by specific actions to promote the development of labor-intensive activities in the country. Ultimately, economic growth will only translate into material benefits for the majority of the population through employment income. Thus, the challenge facing the Government is to ensure that economic growth is leveraged to create employment opportunities for a far greater proportion of Tanzania's population.

An increasing number of studies have focused on the promotion of activities to foster job creation in Africa, including in Tanzania, over the past few years.¹⁷ Most of these studies attempt to identify specific labor-intensive sectors on which the Government should focus its policy actions. In general, these studies concluded that the focus should be

¹⁷ See for example, the recent The African Economic Outlook 2012: *Promoting Youth Employment*, African Development Bank and OECD, 2012. McKinsey Global Institute, *Africa At Work: Job Creation And Inclusive Growth*, 2012.

on the manufacturing sector, given the role of this sector in the successful transition of many emerging countries.¹⁸ These conclusions are also drawn on the basis of the perceived comparative advantages of many African countries, with relatively abundant cheap unskilled labor. In Tanzania, this focus on the manufacturing sector may not be entirely appropriate. Most Tanzanians are still employed in the agricultural sector, while potential manufacturing jobs will emerge in urban centers. Such spatial dichotomy must be integrated into the design of pro-poor growth strategies in Tanzania.

Since the vast majority of poor Tanzanians live in rural areas, strategies should focus on how to integrate rural households into income-generating processes.

The next section will explore three channels by which this may be achieved, and these are: (i) raising agricultural productivity, as this remains the most direct means to increase rural households' income; (ii) diversifying the activities of rural households away from the cultivation of traditional crops and towards the cultivation of high-value products and off-farm activities; and (ii) managing rural migration to the cities more effectively, as this migration may be leveraged to promote synergies between urban and rural households. These three factors have played a significant role in the development of many successful countries and are already beginning to impact on development patterns in Tanzania. The main challenge for the Tanzanian Government is to leverage these forces and to manage them so that they complement each other to facilitate the goal of transforming Tanzania into a middle-income country by 2025.

¹⁸ A recent World Bank's study, makes a specific case for specific actions on five sectors: textile, leather, meat processing, agribusinesses and wood processing, see Africa Development Forum, *Light Manufacturing in Africa*, H. Dihn, V. Palmade, V. Chandra, and F. Cosar, 2012.

Most Tanzanians are still employed in the agricultural sector, while potential manufacturing jobs will emerge in urban centers.

2

Fighting rural poverty: no other way around for Tanzania



Part 2: Fighting rural poverty: no other way around for Tanzania

Main points

- In macroeconomic terms, Tanzania is a success story. However, its success has not translated into improved conditions for a large proportion of rural households, who constitute approximately 30 million people or about 75 percent of the total population. A significant proportion of these households live today under conditions very similar to their parents or even their grandparents.
- Successful countries are those that have connected their farmers to markets, encouraged them to produce high-value products rather than traditional crops, and managed migration flows toward urban centers.
- Fighting rural poverty requires a major policy shift. Simply tinkering at the edges will not do it. The shift must be toward: (i) agricultural commercialization, (ii) diversification and (iii) urbanization.
- The challenge for the Tanzanian policymakers is not only to stimulate these three transformational forces, but also to manage them appropriately over time.

Poverty arithmetic is an important tool for the comprehensive evaluation of the economic performance of a country. This is particularly true in Tanzania, where, despite the impressive macroeconomic performance, more than 11 million individuals can be classed as rural poor (see Table 1). The high level of rural poverty persists despite the fact that the country is, arguably, blessed with good rains and fertile soils, and that it has placed agriculture at the center of successive national strategies.

Table 2: Tanzania is a poor rural country

	1992	2000	2007
Share of rural population (%)	80.5	77.7	74.9
National poverty rate (%)	38.6	35.6	33.4
Rural poverty rate (%)	40.8	38.6	37.4
Poor (mil.)	10.5	12.1	13.7
Rural poor (mil.)	8.9	10.2	11.5

Source: World Development Indicators



As elsewhere in the world, the level and extent of poverty in Tanzania is subject to debate.

More comprehensive data to describe the situation in Tanzania will be generated from the 2012 Household survey. However, regardless of the results of this survey, there is little doubt that most rural households are living today under conditions similar to their parents or their grandparents of generations past (see box). The vast majority of rural households do not have access to electricity and piped water. These households do not use cars or motorcycles. Without radios and televisions, they do not benefit from information provided through these means. The only notable area in which dramatic improvements have been made is through the rapid and growing use of mobile phones, which are now utilized by approximately 50 percent of rural households.

Living conditions in rural areas of Tanzania have not improved because many households have not been included in the economic growth patterns.

Sectors that have driven economic growth, such as finance, construction, telecommunication, and mining, have not created a significantly large number of jobs in rural areas. As yet, with the exception of the impact of increased mobile telecommunications coverage and deployment, these sectors have not had a significant indirect impact on the rural population. Farmers are still isolated due to insufficient roads that make it hard to sell their produce and/or to purchase necessary inputs. Only 5 percent of rural households live less than 2 kilometers from a paved road in poorer districts. Trunk roads are generally in a poor condition and result in most areas being inaccessible during the rainy season. Despite the dramatic increase in the use of mobile phone technology, the lack of connectivity continues to impact development in rural areas. This lack of

connectivity prevents most households from taking advantage of their improved educational attainments or from responding appropriately to market incentives.

How does a rural household live?

- No electricity (96.6 percent of total rural population)
- No refrigerator (99.2 percent)
- No television (96.4 percent)
- No motor vehicle (96 percent)
- No bank account (92.8 percent)
- No concrete floor (80.5 percent), no concrete walls (94.2 percent)

Source: NPS and DHS, 2010

To include rural households in growth processes, Tanzania's policy makers should seek inspiration from the experience of countries that had similar characteristics to Tanzania's before their economic transformation.

Successful emerging countries of this sort show that transformation is predicated on rural households being able to: i) produce more agricultural products and so to generate higher incomes; ii) diversify, particularly by producing high-value products rather than traditional crops and by generally being more creative. This is a vital means of enabling rural households to generate additional value added and to diversify the risk associated with too great a dependence on a limited range of activities; iii) migrate to cities, as rural migration provides a direct way to escape poverty by improving access to jobs and basic services.

Facilitating the inclusion of rural households into the country's growth process should be at the core of the policy debate in Tanzania.

Facilitating broad-based inclusion will become even more important with the

Rural households are living today under conditions similar to their parents or their grandparents of generation past.

recent discoveries of natural gas reserves, as experience shows that without proper management, the activities of extractive industries can exacerbate income inequality. Thus, the authorities should implement a redistributive fiscal policy through the efficient management of revenues derived from gas. While the revenues derived from the exploitation of these reserves are not expected to be available for seven to 10 years, the role of fiscal policy in the context of investment allocation needs to be addressed before this occurs.

2.1 Three transformational forces to fight rural poverty

The experience of successful emerging countries shows that simultaneous increases in agricultural production; diversification from traditional crop activities; and urbanization can facilitate pro-poor growth.

The combined effect of these three factors has enabled countries such as Malaysia and Vietnam to reduce poverty while at the same time achieving rapid economic growth over the past decades. In the early 1960s and 1970s, these two countries shared many of the same characteristics that define Tanzania today. These include a large, unproductive agriculture sector; a

high dependence on traditional crops; and a predominantly rural population. Forty and 30 years later respectively, these two countries report a per capita income that is respectively 14 and 2.5 times higher than that recorded in Tanzania (see Figure 18).

In terms of their respective development patterns, the divergence between Tanzania and these two successful Asian countries can be explained by the differences in their patterns of agricultural production; the degree to which they have implemented diversification; and the manner in which they have handled urbanization (see Figure 19). Malaysia and Vietnam have seen rapid increases in their agricultural production, with Malaysia's value added per worker growing by 5 percent per year and Vietnam's by more than 3 percent. By contrast, Tanzania has recorded increases in agricultural value added per worker of only 1.5 percent per year over the period from 1990 to 2010 period.¹⁹ Malaysia and Vietnam have also diversified more rapidly, increasing their level of non-traditional crop production by 18.9 and 22 percent respectively per year. Finally, the urbanization rate of these two countries has been 1.6 times faster in Malaysia than in Tanzania and 1.2 times faster in Vietnam.

The experience of successful emerging countries shows that simultaneous increases in agricultural production; diversification from traditional crop activities; and urbanization can facilitate pro-poor growth.

¹⁹ The comparison using the FAO agricultural production indexes provide the same differences, with Malaysia and Vietnam growing 1.8 and 2.1 faster per year than Tanzania respectively over the past 40 years.

Figure 18: Different paths of economic development.

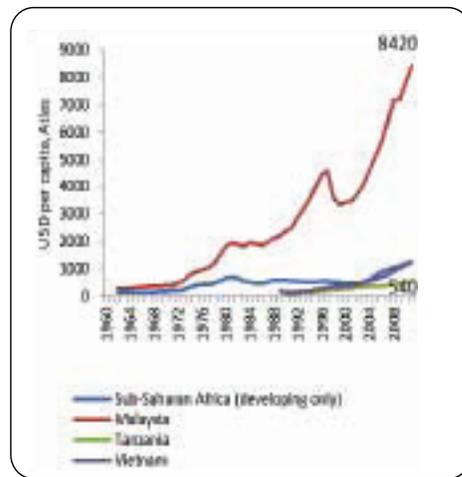
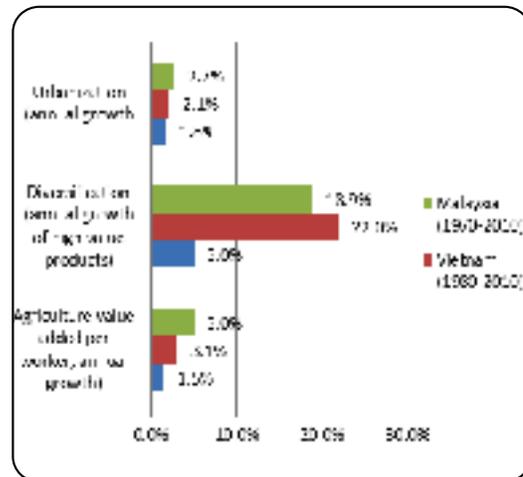


Figure 19:....entrenched in divergent patterns of agriculture growth, diversification and urbanization



Source: World development and FAO

Arguably, these three factors have facilitated Malaysia’s and Vietnam’s successful reduction in poverty.

Each factor has not only had a significant impact on economic growth patterns, their combined effect has had a significant impact on the poverty landscape. These factors have mutually reinforced each other: the increase in agricultural production has helped ensure food security in urban areas, while successful migrants have helped generate productivity gains in agriculture activities through financial and technological transfers.²⁰ The economic diversification of farmers has strengthened the link between the rural and urban worlds by developing upstream and downstream activities in labor-intensive sectors such as agro-processing and in the retail trade sector.

These factors operate at the household level. For a poor rural household, the path to an improved

livelihood will almost certainly involve one or more of the three following behaviors: (i) increased production; (ii) diversification to include new activities; and (iii) migration to a new location where members of the household expect to find opportunities to increase their income. This implies that rural households should attempt to spread their earning activities over a range of on-farm and off-farm activities in order to minimize their risks and to raise their returns to available labor. However, while it may be rational for households at the individual level to improve their livelihoods in this fashion, attempts to implement them without proper coordination may be detrimental at the macro-level. For example, an excessive number of individuals might decide to move simultaneously to an urban center in the belief that there are job vacancies.²¹ Such an uncoordinated action might endanger agricultural production and food security in cities. It could also result in

²⁰ China’s rural migrants sent home nearly US\$30 billion in 2005. To provide context, this sum is more than the amount that China or any other country receives from international cross-border flows during that year. Source: R. Murphy, Domestic Migrant Remittances in China: Distribution, Channels, and Livelihoods, IOM, 2007.

²¹ Individuals may decide to migrate because previous migrants from the community will reduce their initial job search costs in the cities. For more details, see S. Rozelle, E. Taylor, and A. deBraw, *Migration, remittances and agricultural productivity in China*, The American Economic Review, 89 (2), 1999.

congestion as well as other risks associated with having an increased number of newly arrived migrants forced into urban poverty without the appropriate safety nets.

The three factors may interplay in a different fashion in different contexts and in different countries.

Therefore, there is no single blueprint for their management. For example, urban migration has been the driving force in China. However, for countries such as Tanzania, with rich natural endowments of arable land and favorable climatic conditions, urban migration may not be such a vital factor. This is demonstrated by the case of Thailand, where the number of stable jobs in the agricultural sector grew from 519,000 in 1960 to almost three million in 2008. This was the result of continuous expansion of agriculture onto previously uncultivated land and a focus on labor-intensive crops such as rice.²² Therefore, the challenge for Tanzanian policymakers will be not only to stimulate these three forces but also to manage them appropriately over the long-term.

These differences emphasize that Tanzanian policymakers face significant challenges in the management of these factors. These policymakers need to establish clear directions to determine how these three transformational forces can create new opportunities for the country in their own specific context. A few possible means for achieving this goal is set out in the following sections.

2.2 Force I: Agriculture Commercialization

To reduce rural poverty it is vital to increase the income of rural households. The most direct means

22 McKinsey Global Institute, Africa At Work: Job Creation And Inclusive Growth, 2012.

of achieving this goal is to increase agricultural production, given that the vast majority of rural households are employed in the agricultural sector. Vietnam doubled its level of per capita agricultural production in the period from 1990 to 2010.²³ Over the same period, it reduced its level of rural poverty from 66 percent to 18 percent of the rural population.

The level of per capita agricultural production in Tanzania has remained stagnant since 1970, despite the fact that the country now produces more maize and less cassava (see Figure 20).

Today, the level of per capita agricultural production in Tanzania is one of the lowest in the world. The yields of maize which constitutes the main crop in Tanzania, are on average almost half, three or 3.5 times lower than in Zambia, Vietnam or Malaysia respectively (see Figure 21).

In Tanzania, as in many Asian countries, smallholders' farms are generally at least as productive as large farms.²⁴ This is in principle good news given that the vast majority of the rural population derives its livelihood from such farms and cannot therefore be discounted in any effort to improve the country's agricultural productivity. However, for a number of reasons, these farms have made little progress in terms of improving the conditions of the rural poor. The list of explanations for this is long, including the limited use of modern tools; the limited use of fertilizers; unreliable irrigation schemes; and unsecure property rights. These reasons are all valid. However, they can also be described as the *consequence* rather than the *cause* of the current state

23 As measured by the FAO's per capita Production Index (FAOSTATS).

24 «The inverse correlation between productivity and farms' size has been reported in many countries, including in Tanzania. For more details, see D. Larson, K. Otsuka, T. Matsumoto, and T. Kilic, *Should African Rural Development Strategies depend on Smallholders Farms?*, World Bank, Policy Research Working Paper, 6190, September 2012.

The level of per capita agricultural production in Tanzania has remained stagnant since 1970.

of disarray in rural areas. In other words, it remains to be explained why many farmers have failed to acquire the above mentioned technologies despite successive national

strategies and massive financial support from development partners over the past decades.

Figure 20: Tanzania --Low agricultural production growth, little rural poverty alleviation

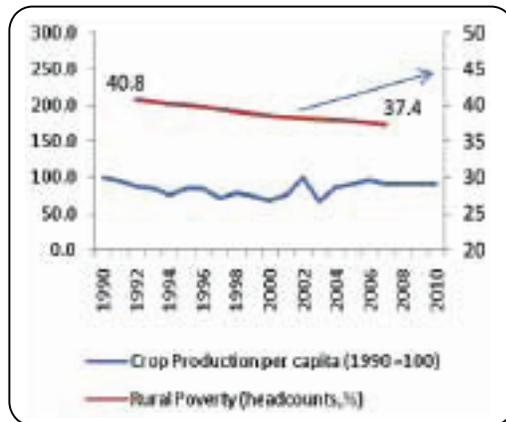
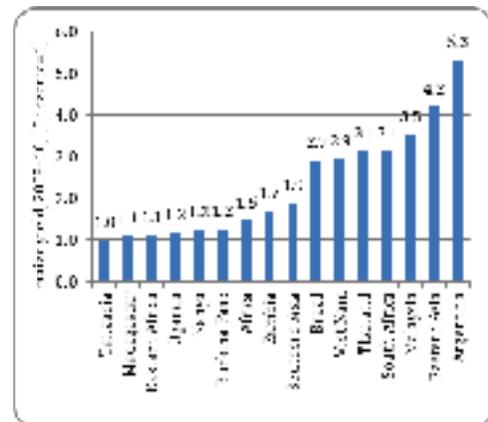


Figure 21: One of the lowest agricultural productivity in the world



Source: FAOSTAT and World Development Indicators

Note: Crop production is measured in quantity, while rural poverty figures have been extrapolated for missing observations using a weighted-moving average

Limited opportunities for commercialization are at the heart of small farmers’ problems in Tanzania.

At present, most farmers do not commercialize their production. Approximately three quarters of all maize and approximately a half of all paddy is consumed within the village in which it is produced. In fact, most small farmers do not produce enough to sell; their entire output is barely sufficient for their own use (auto-consumption). When they do produce an excess, farmers face high transport and marketing costs.

Those constraints against commercialization point to a deeper problem with Tanzania’s agricultural development.

Many smallholder farmers do not see the benefits in increasing their production by acquiring new technologies.

The attitude is: *Why should we strive to increase production if we cannot make significant profits from our hard work?*

There is strong evidence that opportunities for commercialization and increased productivity go together.²⁵

For example, it has been found in countries as diverse as Madagascar, Colombia and Guinea that connected farmers are up to twice as productive as isolated ones.²⁶ In Tanzania, the regions with the highest level of connectivity and the greatest opportunity for commercialization have also been the most productive. The underlying principle is that smallholder farmers are more motivated to increase

²⁵ For a critical view, see for example, H. Biswanger and M. Gautam, *Toward an Internationally Competitive Tanzanian Agriculture*, March 2010.

²⁶ Source: The World Bank, *Agriculture Markets in Madagascar: Constraints and Opportunities*, 2011.

their productivity when they are likely to earn increased incomes from so doing.

This evidence suggests that increased income for farmers can be achieved through a combination of incentives and actions aimed at encouraging market access and higher productivity. This implies the achievement of four objectives:

- 1. Connect farmers by reducing transportation costs;**
- 2. Help farmers to acquire technology;**
- 3. Make sure that the logistics chain is working;**
- 4. Ensure consistency in Government policies.**

Those objectives are not necessarily new for Tanzanian policymakers who have integrated them in various initiatives at different points in time.

However, if each objective is important individually, combining them effectively is critical for developing agricultural production. For example, stimulating the use of improved inputs by subsidies might be a waste of public resources if farmers are then penalized by roadblocks and excessive taxation. The priorities will also differ depending on variations in crops and locations. In some regions, water management is the main issue, while in other areas, transportation costs are a more significant factor. These examples illustrate the need for the authorities to think flexibly and to be responsive to context in the formulation and implementation of policy to achieve these objectives. Below are a number of possible directions based on international experience and on the results of past initiatives in Tanzania which may still apply in different contexts.

Objective 1: Connect farmers by reducing transportation costs.

“The majority of rural roads are impassable, making it difficult to take our coffee to markets”, lamented Mr. Sibuti, a farmer in Tarime. His sentiments echo those of many farmers. On average, a Tanzanian rural household is 32.5 km away from the nearest market place. In addition, only 0.8 percent of these households own a truck or a car to transport their output. Overall, transport costs for farmers are 1.4 higher in Tanzania than in Kenya and 2.3 times higher than in Uganda.²⁷ In 2007, the Government conducted a 'view of the people' survey that found, in rural areas, the lack of roads was perceived as the most significant problem. This was followed by issues related to the availability of basic goods, food prices, the availability and/or cost of firewood, access to markets and access to electricity, in that order.

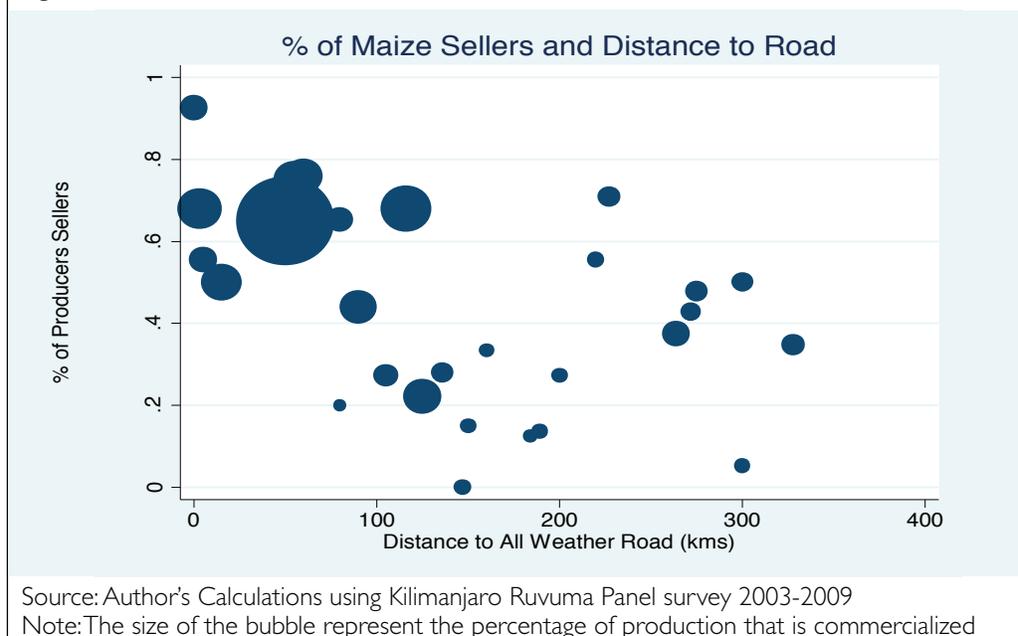
Lower transportation costs help increase the level of commercialization of agriculture.

The propensity of Tanzanian rural households to commercialize is higher when they are closer to a road (see Figure 22). Similar results were found in Colombia where a reduction in transit time led to a 50 to 200 percent improvement in yields. Not only do lower transports costs help farmers to transport their products from the farm to markets, but they enable sellers to reach them more effectively. These combined effects create a virtuous circle, with increased access to markets and inputs increasing productivity and income which in turn provides traders with increased incentives to meet the needs of farmers through the provision of inputs, which in turn results in further increases in productivity.

“The majority of rural roads are impassable, making it difficult to take our coffee to markets”.

²⁷ Source: Tanzania Growth Diagnostic, Partnership for Growth, 2011.

Figure 22: Distance to Roads matters for sellers



In the Kilimanjaro region, as recently as 2009, only one household out of five lives within two kilometres of a paved road.

The road network is seriously underdeveloped in rural Tanzania.

The road density is three times lower than in Kenya and Uganda. Not only is the extent of the road network extremely limited, the quality of this roadwork is also often extremely poor, with only an estimated five percent of the road network being in good condition. When they do exist, roads are often of limited utility (5 percent are in good conditions). As a result, small farmers cannot transport their goods, bring in inputs, and benefit from market developments. This lack of mobility is illustrated by the fact that in the Kilimanjaro region, as recently as 2009, only one household out of five lives within two kilometers of a paved road. Similarly, in the poor region of Ruvuma, a mere five percent of the population has such access.

Since 2008, the Government has placed increased emphasis on road building and maintenance. Since that year, the budget allocation for roads has increased fivefold, reaching Tsh 2.1 trillion in the 2011/12 budget. This sum is equivalent to the budget allocation for the education

sector.²⁸ Comprehensive improvements to the transportation infrastructure will also require improvements to the ports and railways, which are crucial for successful agriculture commercialization. Railways are the cheapest and most effective means of overland transportation while the ports, especially Dar es Salaam, facilitate the importation of required inputs and the export of agricultural and other produce.

Investments in the building and rehabilitation of rural roads probably offer the highest rates of return, at least for public investment projects.²⁹ In terms of transportation costs, it is often the 'final mile' connecting primary producers to networks that is most significant. While the unit cost of building and maintaining those roads is relatively low,

²⁸ Up to 2000, Tanzania had about 4,000 kilometers of paved national roads; in 2005 it was about 5,000 kilometers and currently there are more than 7,000 kilometers of paved national highways. About 3,000 kilometers of ongoing upgrading projects are likely to be completed by 2015. Most of the upgrading projects are within the main transit corridors and roads connecting regional centers to Dar es Salaam.

²⁹ "Public Expenditure, Growth and Poverty Reduction in Rural Uganda", Fan S et al., (IFPRI, 2004).

the number and extent of roads required is so vast that the Government will have to prioritize expenditure in this area. In the determination of priorities, the authorities should focus on locations where roads are expected to produce the largest short term positive impact so that the support for road building is consolidated through a demonstration of its benefits. A number of clusters have already been identified by the Government. However, authorities should also balance their expenditure on new roads with investments in the maintenance of the existing road system. This is often neglected, with only five percent of the national road network considered to be in good condition. The temptation for policymakers is often to prioritize new projects, as these projects are higher-profile and more visible, at the expense of maintenance.

The Government should find additional sources of funding to facilitate road building. Roads are public goods and will continue to depend largely on public financing. However, there are opportunities for public-private and other partnerships. Potential partners in the private sector include large farmers and potential investors. Joint infrastructure projects (road, ports) should also be at the center of the ongoing discussions with mining and gas companies. Of course, these companies will build new infrastructure primarily for their own needs. However, with the right incentives, they could be encouraged to extend such infrastructure to benefit other local users. The Rio Tinto project in the South of Madagascar has developed a series of such joint initiatives with the central and local authorities and the initiatives are improving electricity and transport networks in the region. In

addition, remittances from urban migrants can be used creatively (see more in a later section). Finally, neighboring partners or regional bodies may be involved in the co-financing of regional corridors.

Transport costs can also be reduced by eliminating unnecessary roadblocks and delays, including delays at the port. In spite of progress over the past decade, transportation of merchandise within Tanzania continues to be hindered by numerous avoidable obstacles. A recent study on the so-called Dar corridor found a total of 36 police checkpoints, six weighbridges and two customs checkpoints between Dar es Salaam and Tunduma on the border with Zambia.³⁰ The average waiting time at the port of Dar es Salaam (including anchorage and dwell time) exceeded 20 days in 2012. Such obstacles are often unnecessary and illegal, and more characteristic of rent-seeking behaviors and corruption than of a rational way for the Government or groups to collect revenues. The Government needs to strengthen its efforts to eliminate those obstacles through better cooperation with local authorities who remain largely dependent on revenues derived from such destructive means.

Lastly, high transport costs are also due to the low volumes of transactions and the fragmented transport chain. The small scale and fragmented structure of crop production makes it necessary to assemble larger volumes for wholesale trade from a number of farms and this can be achieved by improving storage capacities (see below on warehousing). Overall, this and other benefits might be achieved by organizing farmers in associations.

The Government should find additional sources of funding to facilitate road building.

30 V. P. Msamba (2012), *Non-Tariff Barriers Along the Dar Corridor*, Baseline Survey.



Objective 2: Help farmers to acquire technology

While reducing transportation costs will work towards motivating farmers to increase their productivity, additional measures are also required. Reduced transportation costs will enable farmers to access markets and reduce the cost of their inputs, thus helping them to increase their productivity. While reducing transportation costs is a vital prerequisite, additional measures are required to assist farmers to improve their productivity. Without these measures, there is a danger that improved roads will remain an underutilized resource.

The vast majority of farmers operating in Tanzania are small crop-holders who use obsolete technology, barely producing enough to feed their household. As mentioned earlier, small farmers lack modern tools, good seeds, fertilizers, and reliable irrigation schemes. The immediate key target must therefore be to move these farmers 'from hoe to plough', utilizing either animal-drawn or tractor services. In the medium term, if Tanzania wants to compete internationally, farmers will have to (i) adopt the best new varieties for every major crop; and (ii) improve water and fertilizer use through the maximization of fertilizer and water use efficiencies. However, Tanzanian farmers do not need a radical jump in productivity to gain additional income from agriculture. To illustrate, if their average yields in maize were to reach those reported today in Zambia or in Vietnam, their level of production would multiply by 1.7 and 2.9 respectively.

For many years, the Government has focused on direct state interventions to reduce the cost of the inputs used by small farmers. In particular, subsidies are still widely used in Tanzania to reduce

the price of fertilizers. The Government also sponsors community-driven programs to build new infrastructure in villages. At present, the Government is considering the establishment of a new public owned agricultural bank to provide cheaper credit to farmers. At this stage, there is a need to evaluate the cost-effectiveness of such programs. For example, voucher programs designed to subsidize the use of fertilizers by farmers have been criticized in Tanzania and in other countries on the grounds of the difficulty of effectively targeting beneficiaries and of avoiding the political capture of the process.³¹ These evaluations should examine the concrete results of these programs on the ground and compare their cost effectiveness with other options, including public investments in rural roads and in improving storage capacities.

The Government should consider the use of mobile telephone technology as a means to deliver assistance. Mobile phone use is booming, with 50 percent of people in rural areas now using them. This facilitates new methods of conducting business by farmers and other rural dwellers, utilizing virtual rather than physical connectivity. With mobile telephone technology, previously isolated farmers are now only a button away from receiving money or information regarding markets trends and prices. Through the use of mobile technology, and consistent with the results found in Mozambique, Kenya, and Uganda, it has been shown that farmers in Rungwe district have significantly increased their levels of marketed production.³² It has been shown that these farmers have managed to sell at higher prices through

³¹ Source: L. Pan and L. Christiaensen, World Development, WHO is vouching for the input voucher Policy Research Working paper, The World Bank, N. 5661, May, 2011.

³² The reverse causality is also true since cell phone coverage is better in areas with higher population density, and so better market linkages.

Small farmers lack modern tools, good roads, fertilizers and reliable irrigation schemes.

the use of cell phones because they have better access to price information and thus better bargaining power.³³ New technology also enables small farmers to reach out to markets. Recent initiatives have shown, for example, that the virtual distance between services providers (banks and wholesalers) can be reduced significantly with these new communication tools. In Sri Lanka, the partnership between CISCO and village communities contributed to the connection of 1,000 villages in 2009.

Assistance to farmers can also be provided through facilitating farming contracts with large farmers. Contracts of this sort are used to link smallholder farmers with large farmers and/or processing companies. Small farmers can obtain cheaper inputs, improved access to modern technologies, and the use of transportation and marketing channels previously only available to large farmers. The large farmers and/or processing companies benefit from higher quality, more stable outputs from small farmers. Contract farming is still a nascent phenomenon in Tanzania involving only 1.4 percent of farmers.

However, contract farming has produced promising results in the tobacco and, more recently, the cotton sectors. For example, contracted farmers in the tobacco industry are using more chemical fertilizers, receive more credit, and have better access to new technologies. As a result, they have been selling more of their products and generating higher incomes.

The synergies between smallholders and large farms should be at the center of the new SAGCOT

33 For details, see A. G. Mwakaje, *Information and Communication Technology for Rural Farmers market Access in Tanzania*, Journal of Information Technology Impact, vol. 10, n.2, 2010.

initiative launched by the Tanzanian Government (see box). Large scale farms can help provide technology (including services) and financial transfers to the entire rural community. They can also create economies of scale that will reduce transportation and marketing costs by integrating smallholders into major international supply chains. Lastly, they can create new job opportunities in rural areas if investments are directed at utilizing previously unexploited arable land.³⁴ However, the integration of large scale and smallholders' farms will require the formulation of appropriate policies on land rights, integrated water management, access to inputs and finance, distribution infrastructure, and trade policies.

Southern Agricultural Growth Corridor of Tanzania (SAGCOT)

Initiated at the World Economic Forum on Africa in May 2010, SAGCOT is an international partnership of global agriculture businesses such as Unilever, Yara International, Diageo, Syngenta, Dupont, Monsanto, donor agencies including USAID, the World Bank, and the Alliance for a Green Revolution in Africa, the Food and Agriculture Organization and the Tanzanian Government.

SAGCOT's main objective is to provide opportunities for smallholder producers to engage in profitable agriculture. Approximately 350,000 hectares are expected to be brought into profitable production, leading to 420,000 new employment opportunities created in the agricultural value chain, and annual farming revenues expected in the range of \$1.2 billion per year.

The development of ICT and farm contracts, as a means to assist farmers, is linked to market incentives. Thus, they require the State

34 Recent estimate for Africa is that large scale farming has the potential to create up to six million additional jobs. See McKinsey Global Institute, *Africa At Work: Job Creation And Inclusive Growth*, 2012.

The development of ICT and farm contracts, as a mean to assist farmers, is linked to market incentives.

In Tanzania, logistical costs are generally high, with low volumes preventing the emergence of economies of scale.

to play a new role. Rather than intervening directly, the authorities should become regulators, playing a role to address market deficiencies, such as the lack of access to reliable information by cell phone users or the asymmetric bargaining power between small and large farmers. Concretely, the role of the Government should be to facilitate the formation of farmers' communities or associations (affinity based, resource-based or activity based) so that smallholders can better defend their rights and interact more effectively with large investors. Well managed, the use of ICT and farm contracts can help increase the quantitative and qualitative supply response of farmers to improved market access, including those who currently survive through subsistence farming. The success of similar initiatives in India and Sri Lanka has enabled billions of smallholder farmers, including women, to move out of poverty by creating partnerships between farmers, wholesalers, and service providers. Such partnerships have proved to be more cost-effective and sustainable than direct interventions by the State.³⁵

Objective 3: Ensure that the logistics chain is working effectively

The next step is to make sure that the entire logistics chain, from farmers to wholesalers, retailers, and customers, is working properly.

Of course, the chains are a diverse mosaic, and vary significantly for different groups of farmers, products, and locations. A few common patterns can nonetheless be identified.

³⁵ See for example, A. Brizzi, *The Power Of Community Driven Innovations: The Power Of Voice And Scale*, the World Bank, Stockholm, 2009.

In Tanzania, logistical costs are generally high, with low volumes preventing the emergence of economies of scale. This is a significant reason for the absence of large wholesalers and traders in many rural areas. For many small farmers, gaining access to markets remains a remote possibility. Even when wholesalers and traders visit their locations, they pay low prices to farmers because of high fixed costs that reduce their margin.³⁶ Partly for this reason, the state has often played a direct role by buying grain (NFRA) or setting floor prices (cashew).

Traders may take advantage of their dominant position relative to small farmers. Small farmers are generally not well informed regarding market prices and have little or no bargaining power. This lack of bargaining power explains that poor producers of maize and sorghum receive a farm-gate price that is 30 and 80 percent lower respectively than that paid to wealthier farmers.³⁷ Another example is that farm-gate prices were on average 30 percent lower for Tanzanian coffee farmers in Kagera compared to farmers operating in an adjacent valley in Uganda Rakai in 2008-10.³⁸

The appropriate response is to encourage economies of scale by pushing up the volume of transactions and empowering small farmers. One way to achieve this goal is to increase storage capacity. This will not only enable the scaling up of volumes, it would also enable farmers to wait for the optimal moment to sell their products. A

³⁶ Small farmers are dealing with collectors, who are intermediaries with larger wholesalers. Those are small, and so have high fixed costs.

³⁷ The situation differs widely across crops, with almost no price differences between poor and rich farmers in paddy, groundnuts, and bean. Source: National Panel Survey, 2008/9.

³⁸ Source: World Bank, background study for Poverty Assessment, 2011

complementary means of achieving this goal is to encourage cooperation between small and large farmers, as discussed earlier, particularly those of the latter group who have already developed their own logistics channel. This can be achieved through the use of smart cost sharing arrangements, including those involving matching grants or warehouse receipt systems (see box). Such arrangements, which should be based on market incentives and close partnerships between partners, will probably be more cost effective than direct interventions from the State.

Warehouse receipt system

Through the Agricultural Sector Development Programme (ASDP), the Government introduced Warehouse receipt System (WRS) to help farmers address some of the access to market challenges. In WRS, farmers are organized to form primary cooperatives societies, provided with storage facilities linked to Warehouse Receipt System (WRS). In the WRS cooperative societies receive seasonal loans from commercial Banks using their crop in storage as collateral. The loan is used to pay farmers 60 percent of what is projected as selling prices after 3-4 months, depending on the crop. When the crop is sold farmers receive the remaining share, less operational costs.

The recent review indicates encouraging preliminary results. For example, in the Singida and Iramba districts, farm gate price for sunflower increased from about Sh 210 per kilogram in 2009/10 to over Sh 650 per kilogram in 2010/11. Similar positive impacts have also emerged in others crops such as cashew nuts and coffee.

Secondly, the low level of competition needs to be addressed by closer monitoring and the implementation of the appropriate regulations. This needs to be complemented by systems

to achieve improved dissemination of information. For example, the Government could publish a monthly report card to publicize the margin between the prices charged by intermediaries at each step of the value chain. Promoting systems to facilitate data distribution through mobile phones would help foster a high level of transparency and improve competition. Homogenous information is a primary condition for ensuring fair trade. The publication of such information would help reduce farmers' perceptions that they are often cheated by traders and would help to correct market imperfections. To achieve this, it is necessary to set and implement regulations, particularly to define areas of responsibility for the publication of this information. At present, it is not clear which regulatory agency is responsible for monitoring and correcting market imperfections or abuse in marketing channels in Tanzania. The Government should focus on demarcating these information and regulatory responsibilities and refrain from direct interventions in the logistical chain to the fullest extent possible.

Step 4: Ensure consistency in Government policies

To a significant degree, production and marketing decisions are dependent on the quality of policy-making. While farmers are affected by a wide range of policies, two policies in particular have attracted much attention over the past years, these being export bans and local taxation. These policies not only penalize farmers, they are also inconsistent with the Government's strategy of promoting commercial agriculture.

In recent years, the Government, as in a number of other countries, has periodically banned the export of its staple crop, maize. This ban, recently

Promoting systems to facilitate data distribution through mobile phones would help foster a high level of transparency and improve competition.



While the government has provided small farmers with vouchers to enable them to purchase cheaper fertilizers, at the same time, it has negated the benefits of this through the imposition of excessive and multiple taxes as well as cumbersome procedures.

eliminated, has been justified for a long time as a measure to ensure national food security and to protect citizens from food prices increases. Such a ban might arguably be justifiable as a means of protecting consumers in the short term. However, it creates significant costs for farmers who lose revenues as a result. It also undermines incentives to increase their production in the longer run, leading to significant losses in potential production levels, in the range of 8 to 10 percent for maize by 2017.³⁹ Bans are also inconsistent with the use of public money to support programs for farmers. For example, in 2010/11, many villages located in close proximity to the borders with DRC, Zambia, or Kenya recorded increased levels of production of maize as a result of good rainfalls and the increased use of fertilizers as a result of the voucher subsidy system. However, these farmers could not sell most of their increased output because of the export ban and were only able to make sales through informal channels with a relatively high degree of risk. This resulted in huge losses for farmers and wasted the financial resources of the Government. Rather than through such bans, poor urban consumers should be protected through direct transfers. Such direct transfers would be more equitable for consumers and would penalize farmers less.

Local taxation is often excessive and penalizes small farmers. While the Government has provided small farmers with vouchers to enable them to purchase cheaper fertilizer, at the same time, it has negated the benefits of this through the imposition of excessive and multiple taxes as well as cumbersome procedures. There are multiple non-tariff measures applied on agricultural products. Many of these are

justified in terms of achieving hygiene and other standards, but others are redundant or excessive. The local tax (“cess”) imposed on grain movements by districts, and even villages, amounts to no more than 1.5 to 2 percent of the wholesale value for each transaction. This may sound insignificant. However, if a farmer’s profit amounts to only 10 percent of its production value, the cess is equivalent to 20 percent of the profit. Worse, its multiplicity contributes to delays and illegal rent seeking. This local tax also contributes to the bias against rural activities, since SMEs in urban areas are not required to pay a similar tax. An effective tax system involves not only low rates but also, and above all, simplicity, neutrality, and clarity.

2.3 Force 2: Diversification from traditional crop production

Throughout rural Africa, successful transformation has been predicated on diversification away from traditional crop production. For example, the success of Kenya’s horticulture exports has been broadly acknowledged. Other examples of successful transformation of rural areas involving such diversification are seen across the continent. These include Mali’s mango exports and Burkina Faso’s green beans production. In many African countries, rural households have started to engage in productive activities other than farming. For example, such activities have involved finding jobs in the hospitality or mining industries.

Tanzania’s rural households have not benefited from such opportunities, although encouraging signs are emerging through pilot projects in various locations in the country. Such pilot projects should be scaled up if they are to have a significant impact on rural poverty patterns in the near future.

³⁹ For more details on costs and benefits associated to export bans in Tanzania, see X. Diao, A. Mabiso, A. Kennedy: *Economywide Impact of maize Export Bans on Agricultural Growth and Household welfare in Tanzania – A dynamic CGE Model Analysis*, June 2012.

The lack of diversification of the Tanzanian agricultural sector contrasts sharply with the case of Kenya, which is perhaps the “champion diversifier” in Africa.

In 1970, both countries relied overwhelmingly on traditional crop production, with such crops accounting for two thirds of production in Tanzania and four-fifths in Kenya (Table 3). Forty years later, in Kenya, traditional crops constitute only one third

of its agricultural production output. By contrast, the picture has remained almost unchanged in Tanzania. Diversification to non-food products (such as meat, honey) and high value items (such as tomatoes, avocados) has enabled Kenya to increase its overall agricultural production 2.5 times faster than Tanzania. Diversification is not merely about substitution, but rather about complementarities, which acts as a catalyst for the whole agricultural sector.

Table 3: Diversification away from subsistence agriculture: Kenya vs. Tanzania (% of total production, otherwise indicated)

	TANZANIA		KENYA	
	1970	2010	1970	2010
Crops (maize, wheat, coffee, etc.)	62	63	82	32
High value products (vegetables, fruits, flowers, etc.)	15	10	6	16
Non crop (meat, fish, honey, etc.)	24	27	12	53
TOTAL (USD million)	1868	5473	915	5673

Source: FAOSTAT

In Tanzania, farming continues to be the main occupation of the vast majority of households in rural areas.

Approximately 8 out of 10 rural households own their own farm or are employed on another farm, and engage in almost no other income generating activities. Only the wealthiest households engage in non-farm activities, amongst which such activities contribute to approximately one quarter of their income. The non-farming occupations in which such households engage generally include retail trading and low-skilled manufacturing, such as brick making and the construction of small-scale infrastructure. Ghana, by comparison, reports a higher rate of off-farm activities in its Northern rural areas, where such activities contribute to approximately one third of incomes. In Thailand, the proportion of income derived from non-farming activities in rural areas grew from approximately 20 percent in the

1970s to more than 40 percent in recent times. The expansion of non-farm revenues is useful to complement agricultural income and can serve as a hedging strategy in times of distress.

Shifting production toward high value agricultural products or off-farm activities is likely to create more jobs and incomes in rural areas.

Staple foods such as grains and sorghum employ between ten and 50 people per 1000 hectares. The production of horticultural commodities is much more labor-intensive: growing 1000 hectares of olives or oranges requires 300 and 800 people, respectively.⁴⁰ Off farm activities, such as hospitality and retail services, are labor-intensive and so will increase wage payments and create job opportunities for rural households.

Diversification is not merely about substitution, but rather about complementarities, which acts as a catalyst for the whole agricultural sector.

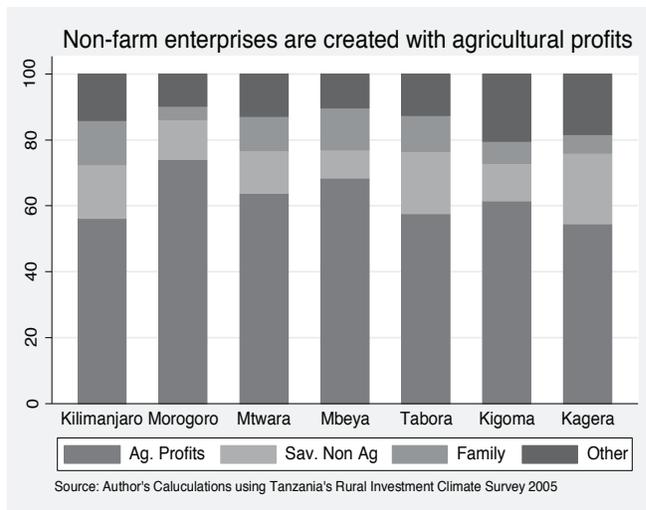
⁴⁰ Source: McKinsey, Africa at work, op. cit.

Diversification should not threaten domestic food security.

Experience has shown that traditional agriculture, high value crops, and off farm activities can reinforce rather than substitute for each other. On the one hand, off-farm activities

information and skills gaps requiring Government partnerships and possibly strategic interventions to close. In many cases, transformation should be based not on radical departures, but on encouraging rural households to develop on existing activities. Thus, diversification could involve:

Figure 23: Linkages between farm and off-farm activities



- The development of traditional activities other than crops, such as fishing and livestock;
- Encouraging farmers to be more innovative and to explore new high-value products;
- Encouraging non-farm activities that are emerging in rural areas, including tourism and mining, which offer new opportunities for employment and linkages.

Breaking Tanzania's vicious circle of low diversification can bring significant benefits to Tanzania's rural economy.

can increase and stabilize farmers' incomes, with these farmers being able to use additional income to purchase equipment and input for their farming activities. On the other hand, off-farm activities are often built on successful agricultural activities, since approximately half of the funds necessary to fund start-ups are derived from agriculture profits (see Figure 23). This double causality is well illustrated by Kenya, where overall agricultural production and diversification have both increased much faster than in Tanzania since 1970.

Breaking Tanzania's vicious circle of low diversification can bring significant benefits to Tanzania's rural economy.

Access to markets and productivity gains are both required to push farmers into diversified activities. However, this may not be enough. For many rural households, there are obvious

As a basis for developing traditional activities other than agriculture, Tanzania has the third largest stock of livestock in Sub-Saharan Africa.

In addition, fishing is a significant traditional activity, with Tanzania having approximately 1,424 km of oceans coastline and borders on two of the largest lakes in the continent. Despite these assets, these sectors contribute to only 3.7 and 1.4 percent respectively of the country's GDP. Tanzania is a net importer of milk and meat and exports four times less fish products than Senegal. This is a lost opportunity at the macroeconomic level and for rural households. Expanding these sectors would enable farmers to improve their incomes and hedge their risks. It would also create new market opportunities for downstream activities, such as wood, fish or meat processing. Utilizing these assets, diversification would create job

opportunities both in villages and in urban centers. In order to ensure sustainability, this diversification would have to be managed in an environmentally friendly manner:

Thinking out of the box: The success of butterfly exports

Twice a week, representatives from the Amani Butterfly Project collect butterfly pupae from member farmers in the East Usambara Mountains. The collected pupae are sorted and packed into cardboard boxes for export to European and US markets, where each is sold for between \$1 (about Sh1,600) and \$2.50 (Sh4,000). In a community where households typically earn less than \$400 a year in cash income, income derived from the sale of this product is significant.

In 2010, the Amani project was selling a total of 50,000 pupae a year. At the prices stated above, this generated total revenues of between \$50,000 and \$125,000, of which approximately 70 per cent went to farmers.

Tanzania should gradually diversify into higher value agricultural products. After two decades of efforts to achieve diversification, Kenya has emerged as one of the leading producers of beeswax (ranking sixth in the world), avocados (9th) and citrus fruits (10th). However, the lesson to be learned from Kenya's experience is to start small and to build gradually to avoid unrealistic expectations.⁴¹ Tanzania's agricultural sector has already begun to move towards a similar process of diversification, albeit starting from a low base.

Examples include the development of successful start-ups of modern avocado farms in Mbeya, flower farms in Arusha, and the butterfly farms in East Usambara Mountains (see box). The success of such programs could create a virtuous circle, leading to the emergence of new activities in Tanzania on a larger scale.

New opportunities for increased non-farm revenues are emerging in the tourism, mining and gas sectors, and from the 'green economy'. The level of investment required to support job creation in those sectors is relatively low once problems related to land use and development rights are solved. Building linkages with the tourism industry and mining companies should create job opportunities and result in increased incomes for rural households. Similarly, the higher level of attention given to the sustainable management of protected areas should create new employment opportunities for local communities. Such activities not only create jobs directly, they also encourage the development of secondary activities. For example, tourism and mining may stimulate local agricultural production levels, since tourists and mining employees may create an increased demand for particular food products. To meet this demand, hygiene and quality standards must be improved to satisfy these potential new consumers. While meeting the standards may be challenging, it also encourages rural households to expand their skills sets and capacities.

Building linkages with the tourism industry and mining companies should create job opportunities and result in increased income for rural households.

41 In Ethiopia, the horticultural exports started when one person started a rose farm. Today, 75 farms produce US\$200 million in exports and have created 50,000 jobs.

2.4 Force 3: Migration to urban centers

*"It has been hard to set up a life here," Rolens says. "I came here by myself and had to wait until I had enough money to bring my wife and family. We all live in one room, but it is better life than in the village."*⁴² Similar stories are told by countless rural migrants to Dar es Salaam.

On average, living conditions are significantly better in urban areas than in rural areas.

In Tanzania, as elsewhere in the world, one of the means for rural households to move out of poverty is to migrate to an urban center. On average, living conditions are significantly better in urban areas than in rural areas (see box). The growing influx of rural Tanzanians to Dar es Salaam and to other secondary cities is driven by a search for better living conditions. As a result of this influx, Dar es Salaam is the ninth fastest growing city in the world.⁴³

Rural-Urban Divide

By living in an urban center, a Tanzanian household is not only on average 3.4 km closer to health facility but on average it will also have:

- 13 times more chances of being connected to the national electricity grid
- 2.7 times more chances of accessing piped water
- 5.4 times more chances of having a bank account
- 4.4 times more chances of using an improved pit latrine
- 10 times more chances of completing secondary and higher education

Source: DHS, 2010

Migration from rural areas is often motivated by a search for higher incomes.

On average, migrants are more likely to be employed in wage employment than those remaining in the countryside or even those who are already urban residents. Migrants who have lived less than five years in the city have nine times the chance of finding wage employment than those remaining in rural areas, and 1.5 the chance of a non-migrant urban worker (see Figure 24). Non-migrants in rural areas remain employed on farms, while non-migrants in urban areas are predominantly employed in non-wage activities.

At first glance, the success of rural migrants, particularly relative to non-migrant residents, may appear surprising.

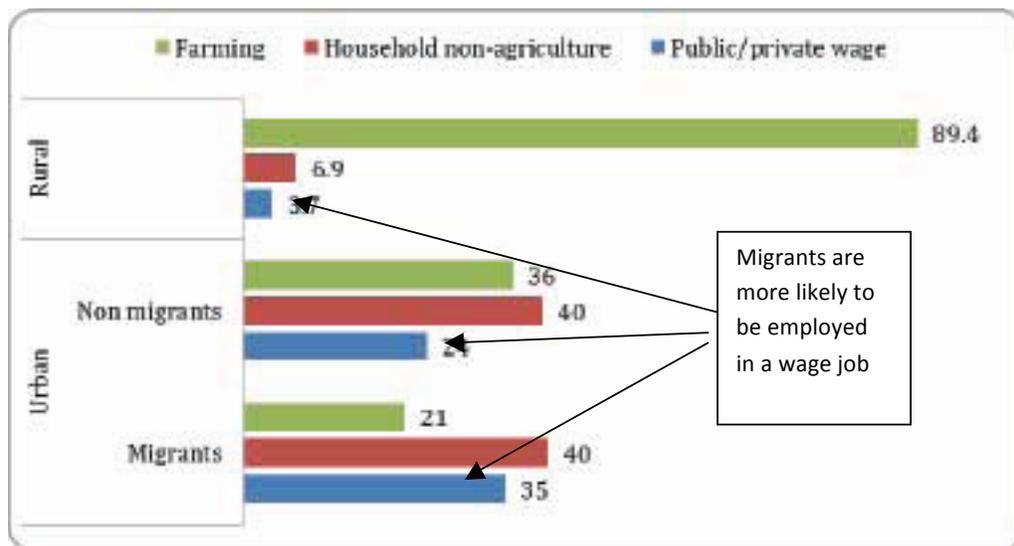
However, this relative success can be explained by the migrants' general profile. Such migrants generally have a higher than average level of education. They are also highly motivated to find a job because of their responsibilities to their households, including those who stayed in rural areas.⁴⁴ In Tanzania, as in most of Africa, the decision to migrate is made not so much of the individual level, but at the collective level, usually to maximize the benefits for the larger family group. Thus, a collective decision is made for the most likely candidate to succeed to migrate, because such a candidate will bring a higher level of benefits to the family. Of course, migration is not always the result of a rational decision. Rather, it can be the result of push factors such as sudden catastrophes (at the individual level or at the community level) or of individual preferences.

42 Source: BBC new magazine, July 31 2012. <http://www.bbc.co.uk/news/magazine-18655647>

43 Source: <http://www.citymayors.com/>

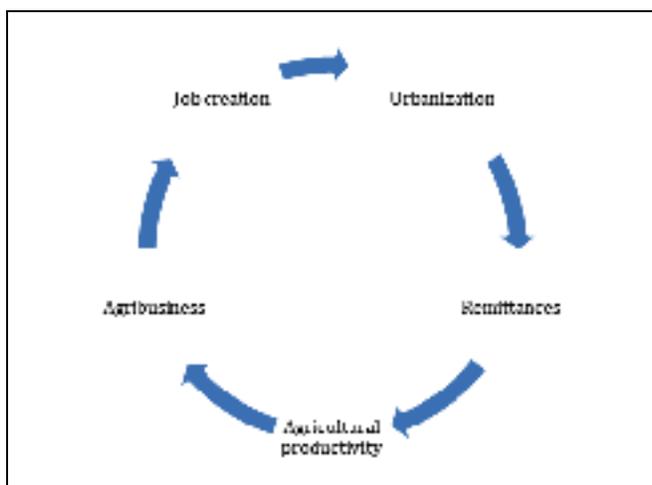
44 Already in the late 1990s, two researchers of the University of Dar es Salaam had found that over 90 percent of migrants had completed primary education and one quarter of them had attended secondary schools. Source: A. Liviga and R. Mekacha, *Youth Migration And Poverty Alleviation: A Case Study Of Petty Traders*, REPOA, Research Report No. 98.5.

Figure 24: Job Profile by location, in % of total employment



Source: The Household Enterprise Sector in Tanzania, J. Kweka and L. Fox, World Bank, 2011

Figure 25: Synergies between rural and urban world



lack of access to basic services such as education, water and health. Such symptoms are already readily apparent in many Tanzanian cities, including Dar es Salaam. The divisions in Tanzania's lopsided economy, with a tiny rich elite and a vast poor majority, are reflected in its cities. The poorer residents, while living better than in villages, crowd into dilapidated downtown areas or sprawling slums, many without running water or basic services.

Uncontrolled urbanization presents the risk of increased congestion exacerbated by the lack of access to basic services such as education, water and health.

The accomplishment of many migrants does not mean that they will all succeed in cities. Unfortunately, urban misery is visible in the streets of many neighborhoods of Tanzania's large cities. Such poverty is often more dramatically shocking than rural poverty because of the absence of traditional safety nets. Uncontrolled urbanization presents the risk of increased congestion exacerbated by

International experience shows that the linkages between urban and rural areas are consolidated by successful migration. On the one hand, agriculture enables the feeding of the urban population. Thus, it is vital for national food security. In addition, agriculture can also contribute to the development of downstream agribusiness activities which



Urban households can also facilitate the transfer of technologies and create new market opportunities for farmers.

create additional jobs in urban centers.⁴⁵ On the other hand, urban households can contribute to the expansion and improvement of the agricultural sector. In Tanzania, the level of internal remittances from urban to rural areas was approximately Sh21,500 per year in 2010. While this is still relatively low, in the Kilimanjaro region, for example, internal remittances make up almost half of the monetary income of rural households.⁴⁶ A portion of this income may be used to improve the productive capacity of these rural households.⁴⁷ Urban households can also facilitate the transfer of technologies and create new market opportunities for farmers. These synergies are illustrated in Figure 25.

At the household level, rural migrants often generate significant benefits for their own households. At the macro level, rural migrants also generate broader economic benefits to the economy. Economic theory states that output growth can be generated from the reallocation of resources into higher productivity activities or from productivity gains within sectors. Urbanization can be

⁴⁵ To take the illustration of the flour industry, wheat counts for two-thirds of the production costs and is today 60-90 percent more expensive per ton in Tanzania than in China. In spite of its natural comparative advantages and cheap labor, no industry will blossom as long as Tanzania cannot bring cheap commodities to urban centers where manufacturing plants are expected to be located. Source: The World Bank, *Light Manufacturing Study*, 2011.

⁴⁶ In China, domestic remittances contributed approximately 20 per cent of total rural income in 2004 and 2005. Source: Huang, P., and S. Zhan, *Internal Migration In China: Linking It To Development*, In *Migration, Development and Poverty Reduction in Asia*, F. Laczko and I. Pinto-Dobernic (eds), Geneva: IOM Research and Publications Department, 2005

⁴⁷ For a positive view on the contribution of remittances to agricultural productivity in Mexico, see J. Edward Taylor and Alejandro López-Feldman, *Does Migration Make Rural Households More Productive? Evidence from Mexico*, ESA Working Paper No. 07-10 www.fao.org/es/esa/March_2007. Many migrants remit money not only to care for their rural family members but also to maintain a stake in the rural community and its resources for when illness, the lack or failure of an urban job, family circumstances or old age force them back to the village.

viewed as the reallocation of labor from the underutilized agricultural sector to more productive activities in manufacturing and services in urban areas. In China, such a shift has resulted in increased GDP growth and lifted millions of households out of poverty.⁴⁸ Leveraging similar patterns of migration could enable Tanzania to come closer to achieving the same level of employment opportunity creation as many East Asian countries and other successful emerging markets.

To facilitate the successful transformation of Tanzania's rural economy, Tanzanian policymakers can help through three main policy directions. The first involves supporting migrants to find jobs and adequate conditions when they arrive in cities. There is an urgent need to improve the business environment for small and medium enterprises by reducing the costs of registration of such businesses. Skills training programs coupled with programs to facilitate access to finance should be implemented to encourage young entrepreneurs. Concurrently, the Government should ensure that infrastructure and services are adapted to meet the needs of these newcomers, to guarantee their smooth social and economic integration into urban centers. Of course, such actions may encourage a higher level of migration to the cities. However, the costs of inaction are likely to be even greater. Otherwise, large numbers of dissatisfied, unemployed youths could become a significant cause for concern, with the potential to create or exacerbate social and political unrest in urban areas.

In addition to improving the business environment, it is necessary to help rural migrants who fail to

⁴⁸ For more details, see Barry Bosworth and Susan M. Collins, *Accounting for Growth: Comparing China and India*, *Journal of Economic Perspectives*—Volume 22, Number 1, Winter 2008.

find decent employment in urban areas.

While most migrants are likely to succeed in cities, some will not manage the transition successfully. Simple arithmetic can illustrate the potential magnitude of this problem: if only one out of five migrants fails to find employment or to establish a business and falls into urban poverty, this would amount to an additional 40,000 urban poor every year, or 200,000 after five years. The authorities need to step in, perhaps through partnerships with the private sector, to build decent infrastructure and housing. There is also an urgent need to establish adequate safety nets for those who fail to secure a living. In urban centers, traditional solidarity mechanisms operate to a significantly lower degree than in rural areas. Official social security programs are extremely limited, and are mainly intended to benefit workers in the public sector. As shown by the experience of many countries, targeted community-driven social programs can be a useful means to manage urban poverty, including urban poverty created by a sudden influx of rural migrants. Such programs may benefit the urban poor by providing jobs to members of vulnerable groups and by helping to build or maintain small infrastructure projects at the community level.

Thirdly, the Government should adopt measures to stimulate the synergies between the urban and rural worlds.

Such measures are important for managing the flow of migration to cities and for limiting the possible 'brain drain' in rural areas. Economic opportunities can be enhanced in rural areas by facilitating the creation of linkages between businesses established by migrants with agricultural production centers.

In Thailand, programs have been implemented to establish a connecting infrastructure between villages and secondary cities. The flow of remittances from urban households can be effectively used to finance farmers and/or to build infrastructure in villages for the benefit of the community.

The authorities can help promote the efficient use of such funds through the development of incentive systems. The Government could also coordinate the use of such transfers to overcome the serious risk of underinvestment in collective infrastructure or social projects (e.g., storage/processing facilities, schools, health centers or road maintenance) or other projects unlikely to be sponsored by individual migrants.

While most migrants are likely to succeed in cities, some will not manage the transition successfully.

Statistical Annexes



I. Key macroeconomic indicators

Indicator	Unit	2005	2006	2007	2008	2009	2010	2011*	2012 Proj
Population (Mainland)/2	Millions	36.2	37.5	38.3	39.4	42.9	43.7	45.0	46.3
Per capita Income/2	US\$	390.7	382.2	439.3	525.4	498.1	524.0	523.6	540.0
GDP Growth/2	%	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.5
Gross Domestic Savings/1	(as a % of GDP)	16.2	14.5	12.8	16.1	17.0	19.3	20.1	19.9
Gross Investments/1	(as a % of GDP)	25.1	27.6	29.6	29.8	29.0	30.6	34.5	38.2
Inflation/2 (period average)	%	4.4	7.3	7.0	10.3	12.1	7.2	12.7	15.1
Exchange Rate/2 (period average)	TZS/US\$	1,128.9	1,251.9	1,245.0	1,197.2	1,320.3	1,410.2	1,573.6	1,586.0
External Sector									
Exports - Goods & Services/1	Mil. US\$	2,843.4	3,148.7	3,565.6	4,526.7	4,660.1	5,247.0	6,497.8	6,746.1
Imports - Goods & Services/1	Mil. US\$	-3,852.7	-4,679.6	-5,684.5	-7,541.9	-7,875.9	-8,334.4	-9,919.7	-10,460.3
Current Account Balance/1	Mil. US\$	-703.9	-1,171.7	-1,575.6	-2,255.7	-2,237.9	-2,047.0	-4,214.0	-4,909.0
Balance of Payments (Overall balance)/1	Mil. US\$	55.5	346.2	232.6	500.2	18.1	478.0	101.0	200.0
Foreign Reserves/1	Mil. US\$	2,247.4	1,863.2	2,157.3	2,660.0	2,930.0	3,483.0	3,610.3	3,779.0
External Debt/2	Bil. US\$/1	8.1	8.2	4.7	5.8	7.0	8.2	10.0	9.2
Foreign Direct Investment/1	Mil. US\$	689.0	669.3	492.3	490.8	1,100.0	998.0	1009.0	1633.0
Tourism Earnings/2	Mil. US\$	823.6	862.0	1,037.0	1,198.8	1,160.0	1,250.0	1,324.8	1,472.0
Monetary Sector									
Average Deposit Rate/1	%	4.7	6.7	8.7	8.3	8.0	6.6	6.2	N/A
Average Lending Rate/1	%	15.2	15.7	16.1	15.0	15.0	14.5	15.0	N/A
Growth in Money Supply (M2)/1	%	26.8	25.9	20.5	26.6	19.5	26.2	19.1	14.5
Government Finance									
Total Domestic Revenue/1	(as a % of GDP)	11.8	12.5	14.1	15.9	16.2	15.9	16.4	17.5
Tax Revenue/1	(as a % of GDP)	10.8	11.5	13.0	14.7	15.3	14.6	15.2	15.5
Non-Tax Revenue/1	(as a % of GDP)	1.1	1.1	1.1	1.2	0.9	1.2	1.3	1.7
Total Expenditure/1	(as a % of GDP)	22.3	22.8	23.0	22.8	26.1	27.5	27.0	26.4
Recurrent Expenditure/1	(as a % of GDP)	15.4	15.7	16.1	14.9	17.7	18.8	19.2	16.9
Development Expenditure/1	(as a % of GDP)	6.3	7.1	6.9	7.9	8.4	8.6	7.9	9.6
Grants/1	(as a % of GDP)	6.8	5.4	4.9	6.9	5.1	4.6	4.7	4.9
Fiscal Balance (after grants)/1	(as a % of GDP)	-3.6	-4.9	-4.0	0.0	-4.6	-6.4	-6.6	-5.0

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 31th.

* Preliminary Actual

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

2. Growth and structure of the economy

Economic Activity	2005	2006	2007	2008	2009r	2010r	2011*	2012 Proj:
Real GDP growth rates (%)								
Agriculture and fishing	4.3	3.8	4.0	4.6	3.2	4.2	3.6	4.1
Industry and construction	10.4	8.5	9.5	8.6	7.0	8.2	6.9	7.6
Services	8.0	7.8	8.1	8.5	7.2	8.2	7.9	7.3
Gross domestic product at market prices	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.5
Shares of GDP (%) 2001 prices								
Agriculture and fishing	27.7	27.0	26.2	25.5	24.8	24.1	23.6	23.2
Industry and construction	20.2	20.5	20.9	21.2	21.4	21.6	21.8	22.1
Services	46.4	46.9	47.3	47.8	48.3	48.8	49.1	49.6
FISIM and net taxes	5.7	5.7	5.6	5.6	5.5	5.5	5.4	5.2
Contribution to real GDP growth (%)								
Agriculture	1.3	1.1	1.1	1.2	0.8	1.0	0.8	1.0
Industry	2.0	1.7	1.9	1.8	1.5	1.8	1.5	1.7
Services	3.7	3.6	3.8	4.0	3.4	3.9	3.8	3.6
FISIM and net taxes	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Shares of GDP by type of expenditure (%)								
Final consumption expenditure	83.8	85.5	87.2	83.9	83.0	78.7	79.9	80.1
Households	66.3	68.0	67.9	66.4	65.5	62.6	61.8	62.3
Government	17.6	17.5	19.3	17.4	17.5	16.1	18.1	17.8
Gross capital formation	25.1	27.6	29.6	29.8	29.0	32.0	31.6	31.1
Gross fixed capital formation	24.7	27.2	29.2	29.4	28.4	31.5	31.2	30.7
Changes in inventories	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.5
Net exports	-8.9	-13.1	-16.9	-13.6	-11.9	-10.7	-11.6	-11.2
Gross domestic saving (% of GDP)	16.2	14.5	12.8	16.1	17.0	21.3	20.1	19.9
Public	-3.0	-2.1	-1.4	1.1	0.5	1.9	1.5	2.7
Private	19.2	16.6	14.2	15.1	16.6	19.4	18.6	17.2

Source: NBS, IMF and World Bank estimates

Key: * Preliminary actual, Proj= Projections

3. Quarterly GDP growth rates 2002-2012

Year	Quarter	Agriculture	Fishing	Mining and quarrying	Manufacturing	Electricity	Construction	Wholesale and retail trade	Hotels and restaurants	Transport & Com'cation	Financial inter-mediation	Real estate and business services	Public admin	Educat'n	Other services	FISIM	All indust. at basic prices	Taxes on products	GDP at mkt prices
2002		4.9	6.8	16.9	7.5	5.6	11.9	8.3	6.4	6.8	10.1	7.1	9.2	7.0	6.0	8.8	7.2	7.2	7.2
2003		3.1	6.0	17.1	9.0	6.7	13.8	9.7	3.2	7.1	10.7	6.5	9.6	2.8	6.0	11.7	6.9	6.9	6.9
2004		5.9	6.7	16.0	9.4	7.1	13.0	5.8	3.6	10.5	8.3	6.8	13.6	4.0	6.0	10.1	7.8	7.8	7.8
2005		4.3	6.0	16.1	9.6	8.5	10.1	6.7	5.6	9.4	10.8	7.5	11.4	4.0	6.1	11.8	7.4	7.4	7.4
2006		3.8	5.0	15.6	8.5	-0.5	9.5	9.5	4.3	8.6	11.4	7.3	6.5	5.0	6.8	14.9	6.7	6.8	6.7
2007		4.0	4.5	10.7	8.7	10.1	9.7	9.8	4.4	10.1	10.2	7.0	6.7	5.5	6.9	15.3	7.2	6.9	7.1
2008		4.6	5.0	2.5	9.9	5.6	10.5	10.0	4.5	10.8	11.9	7.1	7.0	6.9	7.0	11.0	7.4	7.8	7.4
2009		3.2	2.7	1.2	8.0	7.9	7.5	7.5	4.4	23.1	9.0	6.8	4.4	7.1	5.6	8.7	6.0	5.8	6.0
2010		4.2	1.5	2.7	7.9	11.7	10.2	8.2	6.1	12.2	10.1	7.0	6.5	7.3	5.8	9.1	7.1	6.7	7.0
2011		3.6	1.2	2.2	7.8	1.9	9.0	8.1	4.6	11.3	10.7	6.5	6.8	7.4	4.7	11.2	6.4	6.5	6.4
2002	1	1.0	13.1	16.8	3.5	6.2	11.0	1.9	5.4	5.2	27.5	3.9	7.7	8.8	9.3	25.2	4.7	0.7	4.4
	2	4.0	12.2	14.9	-0.6	5.0	9.6	7.1	10.9	5.0	11.0	7.0	9.3	6.6	6.0	4.8	5.8	7.5	5.9
	3	9.5	2.9	16.1	12.1	-5.4	19.0	6.3	5.5	5.5	3.9	8.1	10.0	5.7	4.5	-3.0	8.8	7.1	8.7
	4	0.3	-1.5	20.4	14.0	15.6	8.3	18.0	4.5	11.8	-3.3	9.5	9.8	7.0	4.4	7.8	9.2	12.9	9.5
	Annual	4.9	6.8	16.9	7.5	5.6	11.9	8.3	6.4	6.8	10.1	7.1	9.2	7.0	6.0	8.7	7.2	7.2	7.2
2003	1	2.5	3.2	7.8	13.7	0.0	8.1	2.8	4.9	8.5	-15.6	5.7	9.1	1.4	5.3	-20.3	5.4	11.5	5.8
	2	2.2	-2.3	15.6	9.4	15.6	20.6	2.9	2.6	11.1	11.9	6.9	9.2	3.1	6.4	10.0	6.3	5.6	6.3
	3	4.1	11.1	21.7	5.3	20.6	14.2	11.4	1.6	8.5	21.7	7.2	9.6	4.0	6.5	24.5	7.3	4.4	7.1
	4	2.4	14.5	25.2	8.6	-4.7	11.5	19.8	4.0	0.2	34.3	6.3	10.5	2.6	5.9	48.1	8.4	6.8	8.3
	Annual	3.1	6.0	17.1	9.0	6.7	13.8	9.7	3.2	7.1	10.7	6.5	9.6	2.8	6.0	11.7	6.9	6.9	6.9
2004	1	4.6	6.8	18.3	7.5	-2.7	30.5	8.9	-0.8	4.5	16.4	6.4	12.2	5.3	5.6	21.2	8.0	4.6	7.8
	2	8.8	0.2	18.0	7.7	5.6	4.0	3.2	3.9	2.8	4.8	1.0	13.6	3.1	5.4	6.4	6.4	4.0	6.2
	3	5.5	5.5	15.5	14.2	10.6	3.9	2.0	4.4	10.5	3.9	6.0	14.3	3.8	5.9	5.1	6.8	14.9	7.3
	4	2.6	15.5	11.8	7.9	15.4	16.6	8.6	7.4	25.9	9.2	13.1	14.3	3.8	6.9	9.3	10.5	7.0	10.2
	Annual	5.9	6.7	16.0	9.4	7.1	13.0	5.8	3.6	10.5	8.3	6.8	13.6	4.0	6.0	10.1	7.8	7.8	7.8
2005	1	3.4	16.8	7.5	9.1	11.4	-4.8	3.5	3.6	7.1	1.4	7.6	13.5	3.1	6.8	3.0	5.7	5.4	5.7
	2	3.5	12.9	3.1	12.5	5.7	5.1	8.8	5.2	15.7	16.1	7.6	12.0	4.0	6.0	21.5	7.3	12.7	7.7
	3	5.8	-7.1	12.3	6.0	6.8	29.8	7.3	2.6	14.2	3.6	14.7	10.8	4.5	5.7	7.5	8.7	3.1	8.4
	4	2.9	2.5	44.8	11.3	10.1	12.1	6.9	11.8	1.5	22.2	1.0	9.7	4.5	5.8	15.1	7.3	9.3	7.5
	Annual	4.3	6.0	16.1	9.6	8.5	10.1	6.7	5.6	9.4	10.8	7.5	11.4	4.0	6.1	11.8	7.4	7.4	7.4
2006	1	3.3	0.2	17.8	13.5	0.9	25.2	2.8	0.2	22.7	23.1	15.4	7.9	6.8	6.3	25.7	9.7	10.9	9.8
	2	6.7	6.5	19.9	10.9	3.3	10.5	21.4	3.3	6.0	0.9	3.5	6.7	5.6	7.1	3.5	8.8	9.5	8.9
	3	4.0	20.2	23.7	7.2	2.1	-0.9	9.6	4.8	0.5	19.1	8.2	5.9	5.2	7.2	17.3	5.7	4.9	5.7
	4	-2.2	-5.9	3.4	3.6	-7.6	5.9	5.7	8.8	5.6	5.0	2.0	5.5	2.3	6.6	14.7	2.9	3.2	2.9
	Annual	3.8	5.0	15.6	8.5	-0.5	9.5	9.5	4.3	8.6	11.4	7.3	6.5	5.0	6.8	14.9	6.7	6.8	6.7
2007	1	3.3	14.4	18.2	4.7	9.7	5.9	16.0	3.8	-14.2	-24.1	3.6	6.2	6.7	6.4	-26.2	4.8	-0.5	4.5
	2	3.5	-7.1	8.9	9.8	12.7	-1.5	4.8	4.2	8.0	11.0	15.2	6.8	4.9	6.5	15.8	5.9	4.9	5.8
	3	5.3	-4.4	5.2	9.1	7.6	6.2	7.7	6.2	26.0	19.5	2.7	7.0	3.3	6.9	30.2	7.0	10.1	7.2
	4	2.0	18.9	11.0	11.0	10.6	28.5	11.5	3.3	25.2	32.7	8.0	6.9	7.2	7.6	38.9	11.2	11.7	11.3
	Annual	4.0	4.5	10.7	8.7	10.1	9.7	9.8	4.4	10.1	10.2	7.0	6.7	5.5	6.9	15.3	7.2	6.9	7.1
2008	1	11.2	-21.3	-1.9	7.0	2.7	8.0	10.2	4.5	13.4	18.7	7.3	7.0	2.6	7.8	25.3	6.9	9.1	7.1
	2	2.0	13.8	15.3	5.3	-2.1	-1.8	12.2	3.6	9.0	12.7	8.1	7.8	8.0	7.2	11.2	6.9	10.3	7.1
	3	1.5	30.8	4.5	10.2	6.3	34.0	12.0	3.5	8.1	11.4	7.7	7.3	8.2	6.8	9.6	9.0	6.4	8.9
	4	11.5	-0.5	-6.9	16.2	15.6	2.6	6.6	6.4	13.1	7.9	5.3	5.9	9.0	6.5	5.1	6.4	6.0	6.3
	Annual	4.6	5.0	2.5	9.9	5.6	10.5	10.0	4.5	10.8	11.9	7.1	7.0	6.9	7.0	11.0	7.4	7.8	7.4
2009	1	-0.1	11.7	-29.2	8.4	7.0	7.4	11.5	3.0	10.1	9.5	8.7	4.7	7.9	5.9	9.9	5.5	7.3	5.6
	2	2.7	7.8	-18.0	8.3	10.7	-0.6	4.7	3.9	13.7	18.3	6.5	3.9	6.8	5.8	20.3	4.0	0.4	3.8
	3	6.7	-3.0	29.7	7.3	11.2	-5.4	7.8	4.9	5.7	16.8	3.9	4.0	6.5	5.5	15.8	5.9	2.9	5.7
	4	-1.3	-3.6	24.5	8.2	3.4	27.6	6.6	5.6	14.4	-6.1	8.1	5.0	7.2	5.1	-7.6	8.9	12.0	9.2
	Annual	3.2	2.7	1.2	8.0	7.9	7.5	7.5	4.4	23.1	9.0	4.9	4.4	7.1	5.6	8.7	5.8	5.8	5.8
2010	1	1.9	9.4	28.3	4.5	5.1	8.6	9.0	3.5	11.3	9.8	13.1	6.5	5.9	5.6	10.5	7.6	9.0	7.7
	2	3.0	1.9	20.5	7.5	10.0	24.0	9.6	7.3	6.6	14.6	5.6	7.0	7.1	6.3	12.9	7.3	4.3	7.2
	3	5.7	-1.5	-12.3	9.0	13.0	13.2	7.4	7.0	12.9	10.1	3.8	6.7	7.8	6.1	7.2	7.0	2.6	6.7
	4	5.4	-3.6	-9.1	8.2	9.7	27.2	7.1	6.5	17.2	6.0	5.2	5.8	8.3	5.2	6.5	6.4	10.4	6.7
	Annual	4.2	1.5	2.7	7.9	9.5	10.2	8.2	6.1	12.2	10.1	7.0	6.5	7.3	5.8	9.1	7.1	6.7	7.0
2011	1	-1.2	2.1	0.8	4.6	6.6	0.4	13.7	3.1	15.1	10.0	8.8	6.0	5.7	5.2	13.5	6.2	5.8	6.1
	2	5.9	0.3	5.6	8.5	10.3	4.9	5.3	2.7	16.6	10.0	6.4	6.3	5.2	4.0	15.3	6.8	10.4	7.0
	3	5.1	1.5	1.2	12.0	-4.3	-5.4	6.6	5.3	11.7	11.0	5.9	6.9	9.4	4.1	8.8	5.7	8.2	5.8
	4	-0.2	1.0	1.0	5.8	-3.6	31.8	7.2	6.7	4.2	11.6	4.6	8.0	9.2	5.4	7.9	7.3	2.8	6.9
	Annual	3.6	1.2	2.2	7.8	1.9	9.0	8.1	4.6	11.3	10.7	6.5	6.8	7.4	4.7	11.2	6.4	6.5	6.4
2012	1	1.4	2.6	14.3	4.8	9.0	3.7	9.0	3.8	16.4	15.0	8.2	6.4	6.1	5.1	16.0	6.9	9.9	7.1

Source: National Bureau of Statistics



4. Fiscal framework as percent of GDP

	2005/06		2006/07		2007/08		2008/09		2009/10		2010/11		2011/12		2012/13
	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Actual	Budget	Prelim	Budget
Total domestic revenue	12.2	12.5	12.7	14.1	15.3	15.9	17.9	16.2	16.9	15.9	17.8	16.4	17.7	17.5	18.8
Tax revenue	11.2	11.5	11.7	13.0	14.0	14.7	16.8	15.3	15.6	14.6	16.2	15.2	15.8	15.8	16.7
Nontax revenue	1.0	1.1	1.0	1.1	1.4	1.2	1.1	0.9	1.3	1.2	1.5	1.3	1.8	1.7	2.1
Total expenditure	23.8	22.8	24.6	23.0	26.3	22.8	26.9	26.1	29.8	27.5	31.0	27.0	32.1	26.4	28.1
Recurrent expenditure	15.6	15.7	15.7	16.1	16.6	14.9	17.6	17.7	20.7	18.8	20.0	19.2	19.6	16.9	18.7
Development expenditure	8.2	7.1	8.9	6.9	9.6	7.9	9.3	8.4	9.1	8.6	11.0	7.9	12.5	9.6	9.4
Overall deficit before grants	-11.6	-10.3	-12.0	-8.9	-10.9	-6.9	-9.0	-9.9	-12.9	-11.6	-13.2	-10.6	-14.5	-9.0	-9.3
Grants	6.1	5.4	7.4	4.9	7.4	6.9	5.4	5.1	6.7	4.6	5.8	4.7	6.9	4.9	3.8
Programme	2.1	2.0	2.4	2.5	2.7	2.7	2.0	3.0	2.7	3.1	1.8	3.0	2.8	2.5	1.7
Project	2.0	1.9	2.2	1.2	3.0	2.8	2.3	1.7	2.7	1.5	3.4	1.1	2.9	2.5	1.4
Basket support	1.4	1.0	1.1	0.6	0.8	0.9	0.8	1.0	0.9	0.9	0.6	1.0	1.0	1.1	0.5
HIPC, MDRI (IMF, IDA and Afdb)	0.6	0.5	1.7	0.6	0.9	0.5	0.2	0.3	0.4	0.1	0.0	0.0	0.0	0.0	0.0
Overall deficit after grants	-5.6	-4.9	-4.6	-4.0	-3.5	0.0	-3.6	-4.8	-6.2	-7.0	-7.4	-5.9	-7.6	-4.0	-5.5
Expenditure float	0.0	-0.9	0.0	-0.7	0.0	-1.3	0.0	-0.8	0.0	-1.4	0.0	-1.4	0.0	0.0	0.0
Adjustment to cash	0.0	0.4	0.0	-0.1	0.0	-0.3	0.0	1.0	0.0	2.0	0.0	-0.7	0.0	-1.0	0.0
Overall balance	-5.6	-5.5	-4.6	-4.8	-3.5	-1.7	-3.6	-4.6	-6.2	-6.4	-7.4	-6.6	-7.6	-5.0	-5.5
Financing	5.6	5.5	4.6	4.8	3.5	1.7	3.6	4.6	4.9	6.4	7.4	6.6	7.6	5.0	5.5
Foreign (net)	3.5	3.3	3.8	3.7	3.6	3.2	3.5	3.6	3.3	4.6	5.6	3.1	6.1	4.2	7.2
Domestic (net)	2.1	2.1	0.8	1.1	-0.1	-1.5	0.1	0.8	1.6	1.9	1.8	3.6	1.0	0.8	-1.7

Source: Ministry of Finance

5. Provisional Monthly Government Expenditures FY 2011/12

	Budget	Provisional Monthly Actual Government Expenditures FY 2011/12- Selected Items												
		July	August	September	October	November	December	January	February	March	April	May	June	Total
Total Expenditure	12,639,939.14	527,934.57	631,411.15	1,148,302.64	1,025,801.99	925,949.56	914,843.96	528,624.80	701,161.03	841,449.48	549,763.78	844,384.61	2,231,078.21	10,870,705.79
Recurrent Expenditure	7,714,330.18	377,950.49	394,665.28	650,632.36	606,506.30	475,256.24	559,441.56	462,821.27	528,410.35	662,979.81	414,852.06	547,384.08	1,248,715.64	6,929,615.47
Wages and salaries	2,835,185.68	223,730.70	227,354.94	228,692.87	220,395.65	219,726.40	225,627.52	225,389.58	226,063.16	229,245.89	229,707.88	233,107.50	233,042.11	2,722,084.20
Interest	308,696.23	1,217.46	33,108.23	33,151.34	28,056.48	30,260.03	58,310.70	1,916.93	69,083.20	10,368.03	5,392.37	24,260.23	141,192.08	436,317.08
Domestic	220,625.99	914.88	31,582.35	15,444.48	26,550.39	19,851.79	50,447.45	1,530.47	57,353.60	312.99	-	14,646.08	126,491.20	345,125.68
Foreign	88,070.24	302.59	1,525.88	17,706.86	1,506.09	10,408.24	7,863.25	386.45	11,729.61	10,055.04	5,392.37	9,614.15	14,700.87	91,191.41
CFS others	715,723.79	42,831.64	31,507.41	35,717.82	44,942.87	16,561.37	91,233.08	67,158.01	43,540.63	74,762.22	63,667.12	46,430.49	116,188.39	674,541.04
Goods, services and transfers	3,854,724.48	110,170.69	102,694.72	353,070.33	313,111.30	208,708.45	184,270.26	168,356.75	189,723.36	348,603.66	116,084.69	243,585.86	758,293.07	3,096,673.14
Other goods and services	3,131,922.33	57,785.23	49,349.23	291,999.98	252,963.77	147,177.57	121,230.56	105,618.91	125,286.04	287,644.65	55,969.85	182,973.81	691,549.98	2,369,549.59
Development Expenditure	4,925,608.97	149,984.08	236,745.87	497,670.28	419,295.69	450,693.32	355,402.39	65,803.52	172,750.68	178,469.67	134,911.72	297,000.53	982,362.57	3,941,090.32
Local	1,871,472.00	70,000.00	155,134.25	365,630.73	134,663.12	233,567.26	34,414.97	28,593.27	28,352.00	68,014.76	46,548.97	185,623.50	521,768.89	1,872,311.73
Foreign	3,054,136.97	79,984.08	81,611.62	132,039.54	284,632.56	217,126.06	320,987.42	37,210.25	144,398.68	110,454.91	88,362.75	111,377.03	460,593.68	2,068,778.60
o/w basket grants	392,000.00	-	-	2,497.84	87,495.39	79,471.03	88,097.75	6,049.10	546.99	-	225.97	23,407.39	1,201.60	288,993.04
o/w basket loans	296,000.00	6,804.26	920.69	-	54,691.54	-	22,239.86	-	2,646.36	18,426.31	3,964.62	-	62,517.60	172,211.24

Source: Ministry of Finance

6. Balance of Payments (percent of GDP unless otherwise indicated)

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 Pre:	2012/13 Proj:
1. CA balance (including transfers)	-8.2	-10.4	-11.9	-10.1	-9.0	-9.5	-16.3	-16.2
Exports of Goods	12.5	13.4	15.3	15.6	16.7	20.1	21.6	20.7
o/w Gold	4.8	5.4	5.5	4.4	6.5	7.2	8.8	9.2
Import of Goods	-24.0	-28.6	-31.6	-29.2	-28.9	-33.8	-41.2	-38.8
Services (net)	1.1	2.4	2.1	0.8	0.7	1.0	0.5	0.7
Trade balance	-10.4	-12.7	-14.2	-14.1	-12.2	-13.7	-19.5	-18.1
Income (net)	-1.2	-1.1	-1.2	-1.3	-1.3	-0.1	-0.9	-1.5
Current transfers (net)	3.4	3.4	3.6	4.5	3.9	3.3	3.6	2.8
2. Capital and financial account	9.3	9.8	11.3	11.0	11.9	10.9	15.6	17.2
Capital account	4.1	31.6	3.6	1.8	2.2	2.6	3.6	2.7
Financial account	5.2	-21.7	7.7	9.2	9.7	8.3	12.0	14.5
o/w Direct investment	4.7	3.2	2.6	5.2	4.3	1.9	6.3	5.9
3. Overall balance	2.4	1.5	2.6	0.1	2.1	1.4	0.8	0.9
Gross international reserves (Mil USD)	1863	2157	2660	2930	3482.6	3610.3	3710.2	4061.4
In months of imports (current year)	4.8	4.6	4.2	4.5	5.0	4.3	3.5	3.4

Source: BoT, IMF and the World Bank

7. Monthly Imports of Goods and Services 2011-2012 (in US\$ million)

	2011												2012					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total Imports of Goods and Services	815.7	672.7	932.0	779.9	1037.0	968.2	1046.6	1301.5	930.6	1017.2	1092.5	1399.1	1112.5	989.3	983.4	958.5	1039.0	1066.2
Imports of goods (c.i.f.)	703.1	575.0	835.5	696.6	962.4	881.3	947.6	1210.0	821.4	900.0	984.8	1281.8	996.8	878.1	869.9	853.4	955.3	965.8
Imports of goods (f.o.b.)	639.8	523.3	760.3	633.9	875.8	802.0	862.3	1101.1	747.5	819.0	896.2	1166.5	907.1	799.0	791.6	776.6	869.4	878.9
Capital goods	231.4	218.3	285.8	244.4	307.8	312.8	282.5	347.2	274.2	290.2	326.2	439.7	276.2	283.5	275.9	259.8	338.9	330.9
Transport equipment	68.0	70.3	90.2	75.8	84.6	98.7	82.4	93.2	92.7	71.1	98.2	83.3	68.4	85.6	83.7	76.4	97.9	105.8
Building and construction	44.8	52.1	58.7	55.6	85.9	72.1	59.0	83.4	46.3	61.3	62.9	75.6	61.4	65.4	60.7	50.2	78.6	69.9
Machinery	118.6	95.9	136.9	113.0	137.3	142.0	141.1	170.6	135.2	157.8	165.1	280.8	146.3	132.5	131.5	133.1	162.4	155.2
Intermediate goods	251.2	152.4	278.6	245.8	410.8	330.8	379.0	574.9	311.7	324.4	356.6	522.8	402.5	333.4	325.0	340.6	336.9	340.3
Oil imports	181.2	99.4	198.5	180.0	339.6	269.3	294.2	479.7	233.4	261.4	258.2	433.8	321.5	249.6	271.3	239.5	264.1	279.4
White products	181.2	99.4	198.5	180.0	339.6	269.3	294.2	479.7	233.4	261.4	258.2	433.8	321.5	249.6	271.3	239.5	264.1	279.4
Fertilizers	16.0	5.2	6.5	13.8	10.9	2.8	29.3	26.6	18.4	9.8	18.7	18.6	12.1	16.6	2.3	3.1	3.0	1.8
Industrial raw materials	54.0	47.8	73.6	52.0	60.3	58.7	55.5	68.6	59.9	53.2	79.7	70.4	68.9	67.2	51.4	98.0	69.8	59.1
Consumer goods	157.0	152.4	195.7	143.5	157.0	158.2	200.6	178.8	161.4	204.2	213.2	203.8	228.2	181.9	190.6	176.1	193.4	207.5
Food and foodstuffs	53.0	49.0	71.5	54.4	34.4	38.7	62.9	38.9	34.7	72.8	33.8	59.0	87.0	50.1	55.7	64.3	59.2	55.0
All other consumer goods	104.0	103.4	124.2	89.1	122.6	119.5	137.7	139.9	126.7	131.4	179.4	144.8	141.1	131.8	134.9	111.7	134.2	152.5
Miscellaneous	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Imports of services	175.9	149.4	171.7	146.0	161.2	166.2	184.3	200.4	183.1	198.2	196.3	232.6	205.4	190.3	191.8	182.0	169.6	187.3
Transportation	63.4	53.5	76.1	64.7	86.2	78.4	85.3	108.4	75.8	81.0	88.5	112.0	92.2	79.8	79.6	79.3	87.4	92.4
Passenger	1.6	2.6	3.1	2.9	1.6	1.4	2.6	2.7	2.1	2.4	2.4	3.2	4.8	3.0	2.5	2.6	2.7	2.6
Freight	61.4	50.2	72.9	60.8	84.0	76.9	82.7	105.6	71.7	78.6	86.0	108.1	87.0	76.7	75.9	74.5	83.4	89.0
Other	0.4	0.7	0.1	1.0	0.6	0.1	0.0	0.1	2.0	0.0	0.1	0.7	0.4	0.1	1.1	2.2	1.2	0.7
Travel	84.5	73.7	72.5	58.8	53.6	61.6	73.1	65.9	80.5	92.2	90.7	91.5	91.3	79.6	78.3	63.5	57.9	66.5
Communications services	1.7	1.8	2.8	1.6	1.7	2.2	1.6	1.4	1.3	1.5	1.7	1.5	2.9	3.2	3.6	3.7	3.5	3.7
Construction services	3.0	0.0	0.4	0.3	0.2	5.8	1.7	4.1	3.4	0.2	0.4	1.4	0.0	0.1	0.2	1.1	2.4	0.2
Insurance services	6.2	5.8	6.5	5.0	6.0	4.2	6.6	6.1	6.4	6.7	6.9	7.6	7.0	6.6	6.2	6.6	6.9	7.1
Financial services	0.4	0.4	0.3	0.4	0.3	0.5	0.2	0.3	0.2	0.3	0.3	0.2	0.8	1.1	1.0	1.0	1.1	0.5
Computer and information services	0.7	0.7	1.3	0.9	0.9	1.4	1.1	0.5	1.5	0.9	1.5	1.4	1.1	2.2	1.8	2.1	1.1	2.4
Other business services	14.6	13.1	11.2	13.2	11.6	11.3	13.7	12.7	13.2	14.5	5.5	16.0	9.2	12.1	19.9	21.1	8.3	8.5

Source: Bank of Tanzania

8. Monthly Exports of Goods and Services 2011-2012 (in US\$ million)

	2011												2012					
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Total Exports of Goods & Services	618.5	481.5	546.6	469.8	516.1	510.6	570.8	612.1	668.3	600.7	568.2	633.0	576.6	589.3	613.2	552.1	619.5	714.2
Exports of goods	426.3	309.3	391.1	305.3	350.4	329.8	329.1	378.8	449.9	381.6	362.6	419.5	378.3	415.4	442.3	370.6	435.7	506.0
Traditional exports (values)	137.3	64.6	66.3	49.0	18.3	12.4	9.9	21.0	43.7	64.6	86.7	94.7	85.4	97.6	74.5	73.2	62.4	47.3
Coffee	23.7	18.3	20.5	10.8	8.0	4.4	4.4	2.5	4.7	11.6	18.2	15.6	18.5	18.1	24.4	14.3	7.8	5.5
Cotton	0.2	1.4	2.8	0.5	0.7	0.8	1.6	6.2	18.1	18.6	8.0	2.7	3.9	6.3	6.0	9.9	3.8	2.5
Tea	3.6	4.3	4.8	3.5	6.5	5.0	3.1	2.8	3.1	2.7	4.4	3.3	6.3	4.7	4.6	5.6	7.8	4.3
Tobacco	62.4	29.7	35.8	33.9	2.9	2.3	0.8	5.9	12.3	24.9	36.3	34.0	33.7	47.3	31.1	17.0	8.8	19.6
Cashewnuts	47.2	10.9	2.3	0.2	0.0	0.0	0.1	0.0	0.0	0.2	12.9	33.2	13.8	14.8	6.1	22.3	32.6	14.9
Cloves	0.2	0.1	0.2	0.2	0.0	0.0	0.0	3.6	5.4	6.5	6.9	5.9	9.2	6.4	2.2	4.2	1.6	0.6
Non-traditional exports	289.0	244.6	324.8	256.3	332.1	317.3	319.2	357.8	406.2	317.0	275.9	324.8	292.9	317.8	367.8	297.3	373.3	458.7
Minerals	175.7	130.2	200.3	143.3	185.7	188.3	199.9	229.6	266.5	201.9	166.3	196.4	157.6	181.7	231.4	123.9	165.6	266.2
Gold	172.8	124.3	196.5	136.2	178.1	185.2	195.2	222.0	260.2	198.2	163.5	191.9	153.7	180.3	227.7	115.1	159.0	264.0
Diamond	0.2	3.6	0.2	0.1	4.4	0.1	0.0	0.2	1.5	0.4	0.0	0.0	0.0	0.0	0.1	5.4	0.0	0.1
Other minerals	2.8	2.3	3.6	6.9	3.1	3.0	4.7	7.5	4.8	3.2	2.7	4.6	3.9	1.4	3.7	3.4	6.6	2.2
Manufactured goods	68.9	71.0	66.1	72.7	97.8	71.7	57.3	72.4	76.5	57.7	61.2	88.1	83.7	62.2	69.3	88.0	107.0	98.4
Cotton Yarn	1.4	0.6	0.4	0.1	0.3	0.2	0.1	0.2	0.2	0.5	0.6	0.3	0.6	0.3	0.1	0.5	0.5	0.2
Manufactured Coffee	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.2	0.1	0.2	0.0	0.0	0.1	0.2	0.0
Manufactured Tobacco	0.9	1.6	1.4	1.3	1.5	1.7	1.2	1.9	1.6	0.9	1.6	1.2	1.7	1.2	2.1	2.0	2.2	1.3
Sisal Products	0.6	0.6	1.0	0.7	0.8	0.9	0.9	0.9	3.3	0.6	0.7	0.7	1.0	0.6	0.5	0.8	1.0	0.5
Other manufactured goods	65.8	68.2	63.3	70.6	95.1	68.9	55.0	69.3	71.2	55.6	58.2	85.8	80.2	60.1	66.6	84.7	103.2	96.4
Fish and Fish Products	12.2	13.8	14.0	13.1	11.6	11.6	10.0	10.5	9.7	10.2	9.5	11.5	13.3	14.6	14.9	17.0	15.9	13.2
Horticultural Products	2.8	5.5	3.6	3.0	2.9	5.3	2.4	2.4	2.1	2.1	2.2	2.0	2.8	2.7	2.6	2.0	2.2	2.0
Other Export Products	21.5	19.3	18.4	17.3	23.3	35.6	47.2	37.8	43.3	35.3	26.6	21.5	23.4	30.4	34.1	58.4	64.8	60.0
Re-Exports	7.9	4.8	22.4	6.9	10.9	4.8	2.3	5.0	8.2	9.8	10.1	5.3	12.1	26.1	15.4	7.9	17.8	18.8
Services receipts	192.2	172.2	155.5	164.5	165.7	180.8	241.7	233.3	218.4	219.1	205.6	213.5	198.3	173.9	171.0	181.5	183.9	208.2
Transportation	40.9	40.0	42.8	46.9	44.2	43.6	42.7	40.5	37.9	39.5	39.5	48.5	42.9	41.7	40.6	41.2	47.3	47.6
Passenger	3.3	2.7	2.8	2.9	2.8	2.3	1.6	2.4	2.5	2.3	1.9	2.7	2.4	2.6	3.7	2.9	3.1	3.2
Freight	31.7	32.2	35.2	39.4	36.3	35.1	33.6	33.9	31.5	32.0	33.1	36.0	35.1	33.9	30.6	32.7	39.2	37.4
Other	5.9	5.1	4.8	4.6	5.1	6.2	7.5	4.2	3.9	5.2	4.5	9.8	5.4	5.2	6.3	5.6	5.0	7.0
Travel	113.5	103.1	86.7	90.7	93.4	101.6	155.2	150.0	146.4	135.3	139.4	141.6	128.3	116.5	97.9	102.5	105.5	114.8
Communications services	3.0	2.7	3.2	2.6	2.7	2.8	2.5	2.6	2.7	3.6	3.7	3.5	3.3	3.5	3.7	3.8	3.9	3.7
Insurance services	2.2	2.8	1.9	2.3	2.4	2.2	3.1	1.9	1.8	2.0	1.5	2.1	1.9	2.0	2.8	2.9	3.4	3.9
Financial services	0.3	0.2	1.3	1.1	0.8	0.5	0.3	0.8	0.7	0.3	1.1	0.5	0.9	1.4	1.0	1.3	0.6	0.8
Computer & information services	0.2	0.2	1.7	0.7	0.2	0.3	0.3	0.5	0.3	0.4	0.5	0.6	0.5	0.1	0.9	1.0	0.1	0.5
Other business services	28.3	19.5	15.8	17.1	19.1	26.2	35.1	33.1	23.1	32.1	17.2	10.9	18.7	7.8	20.9	26.5	18.3	34.0

Source: Bank of Tanzania

9. Inflation rates

Percentage changes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012*
CPI (annual average)	5.1	4.6	4.4	4.1	4.4	7.3	7.0	10.3	12.1	7.2	12.7	14.0
CPI (end-of-period)	4.9	4.4	4.6	4.1	5.0	6.7	6.4	13.5	12.2	5.6	19.8	9.0
Food (end of period)	6.1	2.9	5.8	5.0	7.2	6.6	6.6	18.6	14.5	7.3	15.1	9.6
Non Food (end of period)	1.5	8.8	1.1	2.9	2.0	6.8	6.2	5.8	8.5	3.8	9.7	8.6

Source: NBS Tanzania

* Projections

10. Monthly Food Crop Prices (wholesale) in Arusha, DSM and Mbeya: Tshs per 100 kg

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	Salaam	Mbeya
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	-
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	-
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
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	-
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	-
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
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	-
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	-
Dec-11	42,500	45,400	40,600	159,000	162,750	170,100	84,000	121,000	98,750	120,800	150,750	155,300	57,100	63,000	-
Nov-11	39,846	46,904	40,346	156,923	155,769	175,846	76,423	112,308	92,308	117,885	151,538	149,154	50,769	68,308	-
Oct-11	40,250	47,896	39,917	151,458	142,083	148,500	73,542	108,333	93,750	107,083	141,625	143,125	48,833	71,750	-
Sep-11	43,308	47,673	38,385	143,462	128,500	114,769	76,154	96,923	83,269	124,808	127,269	121,000	53,000	78,731	-
Aug-11	43,778	51,778	37,636	134,444	132,944	109,591	73,889	98,333	77,273	107,222	133,222	121,136	55,611	73,333	-
Jul-11	49,636	50,313	37,227	130,000	124,583	108,500	80,000	92,000	89,545	106,000	128,000	115,682	49,688	75,208	-
Jun-11	43,000	41,500	33,000	125,000	115,000	90,000	60,000	85,000	45,000	100,000	111,500	120,000	45,000	40,000	-
May-11	46,904	44,271	38,375	122,292	122,500	108,125	71,667	86,875	82,083	109,167	127,500	123,292	49,500	65,208	-
Apr-11	40,000	42,700	37,135	116,750	128,000	112,250	70,000	84,722	65,500	105,000	112,250	124,500	52,889	59,480	65,000
Mar-11	35,875	40,625	39,206	111,875	115,625	113,125	75,000	75,000	63,438	94,429	128,125	135,000	54,375	57,500	70,000
Feb-11	32,361	39,000	33,500	109,000	111,300	104,650	60,556	79,722	60,100	108,056	109,550	121,000	42,278	57,750	50,800
Jan-11	31,083	35,479	32,208	117,667	99,167	97,833	57,917	93,917	51,375	100,625	99,167	100,938	41,250	65,000	25,000

Source: Ministry of Trade, Industries and Marketing

I 1. Average wholesale prices (January 2011 to July 2012):Tshs per 100 kg

	2011												2012											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June	July	Aug				
Maize	41,915	44,639	41,994	42,195	42,453	42,381	42,970	42,970	42,381	42,453	42,381	42,970	44,259	42,449	42,919	46,935	52,440	52,326	52,072	50,311				
Rice	112,200	126,505	121,561	129,661	143,233	154,469	164,221	164,221	143,233	143,233	154,469	164,221	175,178	178,627	191,719	204,025	183,586	165,444	160,325	158,089				
Beans	110,667	112,420	116,519	119,917	124,831	130,469	132,200	132,200	124,831	124,831	130,469	132,200	132,641	126,981	121,523	229,077	128,113	129,575	130,790	126,323				
Round Potatoes	49,737	49,737	60,189	59,205	59,770	64,742	66,665	66,665	59,770	59,770	64,742	66,665	67,193	60,939	60,080	62,383	70,651	69,925	79,904	69,915				
Bullrush Millet	56,773	67,526	65,284	59,166	67,642	68,199	59,361	59,361	67,642	67,642	68,199	59,361	43,697	58,815	57,042	57,769	62,546	62,060	72,807	64,094				
Finger Millet	68,750	78,486	71,047	69,542	74,426	75,817	78,456	78,456	74,426	74,426	75,817	78,456	76,082	78,364	75,628	78,307	81,506	82,218	89,443	88,832				
Sorghum	54,821	59,133	53,589	53,839	54,671	54,582	53,550	53,550	54,671	54,671	54,582	53,550	45,585	55,956	55,387	63,630	60,627	65,201	58,975	57,379				
Wheat	78,875	89,977	86,354	81,252	81,139	88,128	88,154	88,154	81,139	81,139	88,128	88,154	80,709	84,577	99,394	99,692	103,446	106,811	87,829	82,954				

Source: Ministry of Trade, Industries and Marketing

I 2. Inflation rates (selected items of the CPI basket)

Items	2011												2012											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug				
All items (end period)	6.4	7.5	8.0	8.6	9.7	10.9	13.0	14.1	16.8	17.9	19.2	19.8	19.4	19.7	19.4	19.0	18.7	18.2	17.4	15.7	14.9			
Food	6.7	8.6	8.3	9.2	10.1	11.7	14.8	17.4	21.3	22.8	24.7	25.6	25.5	26.2	25.5	24.9	24.7	24.5	22.9	20.3	18.5			
Non food	6.1	6.1	7.7	7.8	9.3	10.0	10.8	10.2	11.5	12.2	12.6	12.7	11.8	11.8	11.8	11.5	11.3	10.5	10.5	10.0	10.3			
Energy and Fuel	19.1	13.0	17.2	22.1	24.5	29.0	34.2	30.1	33.1	37.4	39.2	41.0	41.0	30.1	33.5	29.4	24.9	21.2	20.5	16.3	16.9			
Transport	17.7	11.1	13.6	13.4	15.7	18.8	21.3	19.7	21.7	22.0	23.5	24.8	24.8	18.8	19.5	17.4	16.2	14.7	14.6	12.5	14.4			
Housing,water,electricity and Gas	7.2	13.9	14.5	13.6	14.1	14.4	14.5	13.9	14.2	15.4	15.3	14.6	14.6	14.4	8.2	9.0	9.1	9.1	9.0	8.7	8.6			
Furnishing, housing equipment and maintenance	0.3	0.3	3.3	3.9	8.0	8.4	9.9	8.8	10.8	11.8	12.0	11.2	10.9	10.9	10.9	9.7	8.6	6.7	5.9	4.7	3.8			
Excluding food and energy	4.4	5.2	6.3	5.7	7.1	7.2	7.4	7.3	8.2	8.5	8.8	8.7	9.0	9.0	8.6	8.8	9.0	8.7	8.8	8.8	9.2			

Source: NBS Tanzania

13. Exchange and Interest rates.

	Nominal Tshs/USD*	Nominal Tshs/EUR*	T-Bill Rate %	EREER Index
11-Jan	1,486.8	1,998.2	7.1	90.3
11-Feb	1,505.5	2,058.0	6.6	89.6
11-Mar	1,508.5	2,118.2	5.5	89.1
11-Apr	1,510.4	2,181.1	4.8	88.6
11-May	1,521.5	2,187.9	4.5	89.2
11-Jun	1,562.0	2,281.4	4.8	87.9
11-Jul	1,577.3	2,259.8	6.4	88.3
11-Aug	1,617.0	2,313.5	7.3	88.3
11-Sep	1,636.5	2,258.9	7.8	90.5
11-Oct	1,671.0	2,294.6	11.6	91.3
11-Nov	1,656.2	2,246.3	15.2	92.4
11-Dec	1,613.2	2,107.3	18.2	98.4
12-Jan	1,588.4	2,050.1	17.9	100.0
12-Feb	1,589.3	2,112.7	13.0	99.0
12-Mar	1,589.3	2,106.5	13.4	100.4
12-Apr	1,585.1	2,085.8	14.4	103.5
12-May	1,585.1	2,027.3	14.4	106.5
12-Jun	1,584.9	1,983.9	13.8	108.0
12-Jul	1,583.9	1,945.0	13.4	108.3

Source: IMF and Bo T

* Period average

14. Monetary Indicators

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12 Projections
Monetary Aggregates							
M3 as % of GDP	26.0	26.7	26.7	29.6	32.4	34.3	33.7
M2 as % of GDP	17.6	18.2	19.5	21.8	24.1	24.8	24.1
M3 growth rate (%)	31.3	20.1	18.1	18.5	25.1	22.0	16.1
M2 growth rate (%)	26.8	25.9	20.5	26.6	26.2	19.1	14.5
Domestic credit							
Total Domestic credit (% of GDP)	9.7	10.8	13.2	17.3	19.5	23.3	23.3
Total domestic credit growth (%)	24.7	42.3	15.7	43.4	29.0	37.5	17.8
Private Sector credit (% of GDP)	11.7	14.0	16.0	17.2	17.2	18.6	18.5
Private Sector credit growth (%)	31.3	34.5	32.9	33.1	16.7	25.2	16.7
Interest rate structure/1							
Overall T-bills rate (period average, %)	10.7	11.6	13.4	8.1	7.1	8.3	N/A
Average lending rate (%)	15.2	15.7	16.1	15.0	15.0	15.0	N/A
Average deposit rate (%)	4.7	6.7	8.7	8.3	8.0	6.2	N/A

Source: IMF and BoT

1/ Data in calendar year, e.g 2005/06= 2006



