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Tanzania Economic Update

Opening the Gates

How the port of Dar es Salaam can transform Tanzania





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Abbreviations and Acronyms

AfDB	African Development Bank
BoT	Bank of Tanzania
CPI	Consumer Price Index
EAC	East African Community
EU	European Union
EUR	Euro
FDI	Foreign Direct Investment
GAPCO	Gulf Africa Petroleum Corporation
GDP	Gross Domestic Product
ICD	Inland Container Depot
IGC	International Growth Center
IMF	International Monetary Fund
MOF	Ministry of Finance
MPH	Movements per hour
NBS	National Bureau of Statistics
OECD	Organization for Economic Co-operation and Development
PCS	Port Community System
PSPF	Public Service Pension Fund
SDR	Special Drawing Rights
SUMATRA	Surface and Marine Transport Regulatory Authority
TANESCO	Tanzania Electrical Supply Company
TPA	Tanzania Ports Authority
TRA	Tanzania Revenue Authority
TICTS	Tanzania International Container Terminal Services
TSh	Tanzanian Shilling
UK	United Kingdom
USAID	United States Agency for International Development
USD	United States Dollars

Foreword

When we launched the Tanzania Economic Update series in February 2012, we had a simple objective in mind: to contribute to the policy debate within Tanzania by sharing non-technical economic analysis, preferably with a larger audience. The wide media coverage of the series as well as the interest in the blog show that indeed the debate has been gradually moving from ministerial corridors to the public arena.

This latest update foresees that the Tanzanian economy will maintain its resilience by continuing to grow at about 7 percent in the coming years. If some clouds are looming on the external and fiscal horizons, the update argues that the risks they pose should be manageable. A KPMG/World Bank pulse check survey of the economy – whose details are presented in this report – underpins this optimism. The majority of the country's top 100 mid-size enterprises believe that 2013 will be better than 2012; and 2014 better than 2013.

Nevertheless, a growing consensus today is that Tanzania needs to rely more than today on private enterprises to achieve faster and more equitable growth, as private enterprises are the ones that can provide jobs, build infrastructure, and bring new technology to the local economy. Many actions are needed on the policy front, especially to improve the business environment. Local firms need to trade across borders in order to develop their competitive edge and grow. While

Tanzania has gradually opened its economy since the early 2000s, it is also true that business coming in and going out of the country remains costly.

To reduce trade costs, the priority should be to transform the Port of Dar es Salaam. An efficient port is critical because approximately 90 percent of Tanzania's international trade goes through its gates. The port also happens to be the gateway for six neighboring countries. Almost all local firms that responded to the KPMG/World Bank survey are negatively affected by the performance of the port. Altogether, Tanzania and its neighboring countries could earn up to USD2.6 billion more per year, only by bringing the efficiency of the Dar es Salaam Port to the level of the port of Mombasa.

We suggest that the time for action is now. The new 'Big Results, Now!' initiative launched by the Government has put the port of Dar es Salaam at the center of the agenda. This is a welcome development for local and regional consumers and firms that heavily depend on the performance of the port in their daily endeavors.

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Key Messages

It is 2030, and a Chinese university lecturer is explaining how the economy of Tanzania, once a poor country, has grown and expanded to surpass the East Asian tigers. To his wide-eyed students, he explains how the country opened itself to the world in the 2000s, following which Tanzania's exports increased by a phenomenal 15 percent each year.

He explains how Tanzania leveraged its geographical location, modernized its ports, and built roads, making it the regional hub for six landlocked countries. Perhaps the most startling success, he tells his students, was the transformation of the port of Dar es Salaam from a low base to become the most efficient on the African continent.

This scenario for Tanzania's future is by no means impossible; if the appropriate actions are taken to improve the port of Dar es Salaam as a priority by the Tanzanian Government. The inefficient state of the port results in missed opportunities for local exporters while it imposes extra costs for consumers and investors on imported goods.

Fortunately, a number of recent initiatives may indicate a brighter future for the port and, thus, for the entire Tanzanian economy.

PART 1: THE STATE OF THE ECONOMY

Tanzania's economy has been growing steadily for the past 10 years. In 2012, the economy expanded by 6.9 percent, which is close to its more recent historical average. Most top business leaders believe that the economy is performing better in 2013 than in 2012 and are positive about the prospects for 2014, as revealed by the new *KPMG/World Bank 'Pulse of the Tanzanian Economy'* survey.

The growth in the economy has been unusually stable, by both regional and global standards. This stability is explained by three factors. First, five crucial sectors have been expanding rapidly, with these five sectors driving almost 60 percent of growth in GDP since 2008. These sectors include the communications sector, whose contribution to GDP has doubled since 2008.

The growth of this sector has transformed the manner in which Tanzanians trade and do business by facilitating a revolution in banking. With the rapid spread of mobile banking services, an estimated 45 percent of Tanzanian adults use their phone to receive and transfer money, with the cumulative value of these transfers reaching an estimated USD 1.4 billion per month.

Most top business leaders believe that the economy is performing better in 2013 than in 2012 and are positive about prospects for 2014.



Second, economic growth has been fueled by a steady increase in domestic demand, with this increased demand resulting from the rapid rate of population growth. With its current, constant rate of population growth of 2.7 percent per year, Tanzania's population is doubling every 25 years.

Third, Tanzania's economic performance has been fairly independent from net external trade, which is explained by the country's relative isolation from world markets.

Since early 2012, inflation has declined, dropping to 9.8 percent in March 2013. Lower food prices and prudent monetary policy have been the main contributors to this welcome development. However, this inflation rate is still double that of Uganda's and Kenya's. Furthermore, local food prices are significantly higher in Tanzania than in a sample of comparable developing countries.

This specifically harms Tanzania's poorest citizens, as basic foodstuffs constitute more than half of poor households' consumption baskets. For example, the local price of maize is 60 percent higher than in Brazil and South Africa, while one kilogram of rice is 40 percent more expensive than in Thailand.

Fiscal policy appears to be under control. However, there are clouds on the horizon signaling a higher overall deficit in 2012/13 than in 2011/12. The financial crisis in TANESCO, the state-owned electricity producer, has necessitated additional expenditure by the Government and will continue to do so in the future. The Government has also accumulated payment arrears equal to a value of about

1.5 percent of GDP, mostly with construction companies. At some point, these will have to be paid. At the same time, the Government has not met its revenue target, with the shortfall amounting to a sum equivalent to 0.7 percent of GDP in December 2012. In turn, this has led the Government to limit the execution of public expenditure in the first quarter.

The current account imbalance improved over the year, thanks to increased growth in the exports of agricultural and manufacturing products. However, there has been a shift away from aid and FDI inflows, balanced by increased non-concessional borrowing. This shift needs to be properly managed to preserve debt and fiscal sustainability in the future.

The forecast for 2013-15 is positive, with the rate of growth of GDP expected to continue along its recent notable trend. The boom in natural gas production may eventually result in an even higher rate of growth, but this will not occur for 7-10 years. Meanwhile, if it follows the example of successful emerging countries, Tanzania will have no other choice than to improve policy aspects in the areas of human development (Tanzania is currently ranked 152nd out of 182 countries on the HDI index); its business environment (134th out of 185 countries); and government effectiveness (135th out of 212 countries).

For the last two indicators, Tanzania's ranking has deteriorated over recent years. Corruption is also perceived as the most severe constraint by almost half of business leaders, a far higher proportion than the number who identified access to finance and infrastructure deficiencies as severe constraints.

With its current, constant rate of population growth of 2.7 percent per year, Tanzania's population is doubling every 25 years.

Downward economic risks are partially linked to the Government's spending, which is not fully immune from the political cycle. A look at the past 20 years (during which period four national elections have been held) indicates that public expenditures have always grown faster during pre-election and election years.

Resisting the temptation to increase the public deficit will be difficult in a period when the budget is also under pressure to close the financial gap in the energy sector, and to pay arrears to road contractors and pension funds.

Fiscal space has been eroded by the surge in public debt, which has increased from a value equivalent to 30 percent of GDP in 2008 to a projected value of 45 percent of GDP by the end of 2012/13. While this level of public debt is not excessive, its management requires careful attention.

For this reason, the authorities will need to achieve significant improvements in revenue collection to finance the ambitious investment programs for 2014 and 2015. Any marked departure from prudent public debt policy could result in fiscal and/or balance of payments problems.

Tanzania could improve its economic prospects if the country accelerated further the process of opening up the country to international trade. Over the past decade, the volume of exports and imports has grown by more than 15 percent almost every year. Increasingly, Tanzanian firms and consumers have been looking abroad to satisfy their needs for appropriate equipment and materials.

However, by global standards, Tanzania

is not a very open country, with its trade openness ratio roughly in the middle of the pack among 200 countries.

One constraint against the further expansion of trade has been high transport costs. Trade costs are 60 percent higher between Tanzania and China than between Brazil and China where the distance involved is almost two-fold. While a country's level of competitiveness is determined by multiple factors, affordable transport costs are indispensable to facilitate trade with international markets.

Approximately 90 percent of Tanzania's international trade transits through the Dar es Salaam port. A significant portion of regional trade, notably with Zambia and DRC, also passes through this port. If the port of Dar es Salaam were to become as efficient as Mombasa's, the Tanzanian economy would gain almost USD 1.8 billion per year, equal to approximately seven percent of its current GDP. Regional gains would be in the range of USD 800 million per year. This is equivalent to more than USD 40 per person, a significant sum compared to current average incomes.

PART 2: MODERNIZING THE DAR ES SALAAM PORT

The port of Dar es Salaam is inefficient. Reducing these inefficiencies has been a priority in recent national strategies. However, the implementation of necessary policy reforms and investments has been slow.

The lack of enthusiasm for reforms is explained by the asymmetric distribution of benefits and costs associated with the current inefficiency of the port, which is exploited by a handful while costing multiple consumers,

Tanzania could improve its economic prospects if the country accelerated further the process of opening up the country to international trade.

firms, and households across the country. While 96 percent of the senior managers at mid-size firms surveyed by *KPMG/World Bank* state that their businesses are affected by the port's performance, it represents a major constraint for only one-third of them. However, put together these costs amount to almost seven percent of Tanzania's annual GDP.

The performance of the port of Dar es Salaam has varied over time. As a result of privatization in the 1990s, the port became one of the most efficient in Sub-Saharan Africa, but its performance deteriorated gradually up to the mid-2000s.

The inefficiencies result in long delays, first at anchorage, and second in the series of operations necessary to exit merchandise from the port (the so-called 'dwell time').

The port authorities have recently renewed endeavors to implement reforms aimed at accelerating operations through, for instance, the establishment of an electronic single window system and the facilitation of the direct delivery of cargo.

Comparing the port of Dar es Salaam to that of Mombasa, the total cumulative cost of the delays and additional monetary costs in the former case are equivalent to a tariff of 22 percent on container imports and of about 5 percent on bulk imports.

The first delay faced by shipping companies is the time at anchorage. As of May/June 2012, container vessels were queuing for 10 days on average while waiting for a berth in Dar es Salaam, while the waiting time was less than one day in Mombasa.

Secondly, the port of Dar es Salaam is characterized by a long dwell time, taking

10 days on average to unload merchandise, clearing and transporting it from the port facilities in mid-2012. The excessive dwell time is mainly due to slow processes, including customs clearance processing, and excessive storage periods.

Shipper using the port of Dar es Salaam have to pay higher fees than in Mombasa to port operators and agencies for their services. The official port fees are on average 74 percent higher in Dar es Salaam than in Mombasa, principally as a result of higher wharfage charges.

The slow progress in implementing reforms is largely due to the unequal bargaining power between those who stand to win from a more efficient, better managed port and those who stand to lose, never mind that the national economy is the overall loser.

The first source of gain from the status quo relates to the existing storage tariff structure at the port, which does not encourage importers to remove their merchandise from port premises in a timely fashion.

The second source of gain from the status quo results from extremely prevalent corrupt practices (although anecdotal evidence suggests this has improved in recent months). Rent-seeking behavior has been exacerbated by the use of discretionary rules that contribute to the typical asymmetric information problem between administrators and users.

The third source of gain from the status quo is that it acts as an unofficial tariff barrier protecting local producers. For containerized cargo, the inefficiencies of the port facilities have the same impact as a tariff of 22 percent, or about three times the weighted

If the port of Dar es Salaam were to become as efficient as Mombasa's Tanzania would gain almost USD 1.8 billion per year.

A number of recent initiatives indicate political willingness to implement reforms.

average duty tariff on total merchandise trade in Tanzania.

Most of those benefitting from the current inefficient state of the port are among the largest firms in the country, with significant market power and influence.

Yet the cost of inaction is already too great for Tanzania and its neighbors. If the current situation is not remedied, the port of Dar es Salaam might lose its existing market share in regional trade, particularly when other ports and railways become operational in neighboring countries.

A number of recent initiatives indicate political willingness to implement reforms. If further momentum can be achieved and the port improved, this would result in a brighter future for the Tanzanian economy.

Recommendations to increase efficiency include the following: (a) Increasing end-users' awareness of costs related to port inefficiency; (b) reducing the bargaining or monopolistic power of those who currently benefit from the status quo; (c) reducing corruption; (d) motivating reformers; and (e) improving coordination.



1 The State of the Economy



Part I: The State of the Economy

- Since 2008, Tanzania's strong, steady economic growth has been driven by a small number of rapidly expanding sectors (communication, financial services, construction, manufacturing and retail) and by resilient domestic demand. Despite its low growth rate, agriculture is a driver of growth due to its large total share of GDP. The economy has a limited dependence on net external trade.
- In recent months, the fiscal and external balances have remained under control. However, this has been threatened by the parastatal electricity producer TANESCO's financial problems; the growing amount of payment arrears accumulated by the central administration; and the shift towards public non-concessional borrowing.
- The forecast for 2013-15 is broadly positive, as long as macro management remains prudent in the run up to the elections. That said, economic growth will remain constrained by Tanzania's weak performance in policy areas, including the business environment, human development, and government effectiveness.
- Tanzania's prospects would be much brighter if the country were to accelerate further the process of opening to international trade that was first initiated in the early 2000s and were it to capitalize on its move towards world markets. This would bring productivity gains and help the country consolidate its role as a regional hub.
- To achieve this, transport costs need to be reduced. In spite of Tanzania's favorable geographic position, it costs 60 percent more to trade between Tanzania and China, than between Brazil and China where the distance is two-fold.

In 2012, Tanzania's rate of economic growth continued to be high, reaching 6.9 percent.

The extremely high rate of growth in Tanzania's economy is based on strong and consistent macroeconomic fundamentals. Growth is largely driven by a few fast growing sectors and by steady domestic demand, while the contribution of net external trade remains marginal. Prospects for future growth are good, so long as fiscal and external vulnerabilities are managed well. Despite the insulating effect of the limited exposure to external trade, an increased openness to such trade could help propel the Tanzanian economy on a faster and more equitable growth trajectory, facilitating the achievement of double-digit economic growth and middle-income status. However, at present, one of the major constraints to expanding the contribution of international trade is excessive transport costs, which are often significantly higher than in other successful emerging economies. Ultimately, a country needs to be physically connected to the outside world in order to trade internationally.

1.1 Recent Developments: Renewed growth, declining inflation, concerns regarding debt sustainability

The continued expansion of a few fast-growing sectors and sustained domestic demand has pushed the rate of growth of GDP to 6.9 percent in 2012, close to historical averages and up from 6.4 percent in 2011. The rate of inflation has slowed, declining gradually to a single digit figure, although local consumers and investors are still affected by relatively high prices. Although

public finances appear under control, TANESCO's financial troubles resulted in substantial readjustments to the budget. Lastly, the shift towards non-concessionary borrowing has raised some concerns about the country's debt sustainability.

Tanzania's growth: Key sectors, limited volatility

In 2012, Tanzania's rate of economic growth continued to be high, reaching 6.9 percent (Figure 1). This is close to the historical average achieved over the past decade and up from 6.4 percent in 2011. This rebound has generated increased confidence, with 80 percent of surveyed top business leaders stating that the economy is performing at par or better now than last year in the new *KPMG/World Bank 'Pulse of Tanzania's Economy'* (see Box).

Tanzania's consistently high rate of growth is unique by regional standards.

Tanzania's economy has not been characterized by the same levels of volatility seen in the economies of Kenya, Uganda and most African countries. This is a testament to the positive impact of the limited use of 'stop and go' fiscal and monetary policies and of a relatively stable political environment. Neither was Tanzania's economic performance significantly impacted by the recent volatility in the global economy. From quarter to quarter, Tanzania's rate of growth in GDP in 2011/12 exhibited a remarkable stability, demonstrating the country's strong resistance to internal, regional and global shocks (Figure 2).

Tanzania's Economy: Strong, Consistent Growth

Figure 1: Annual GDP growth in Tanzania – a steady-state performance close to 7 percent

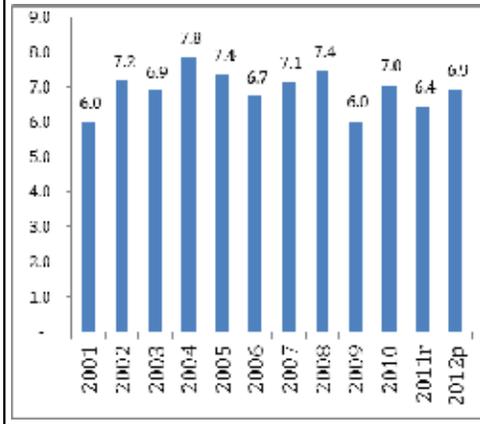
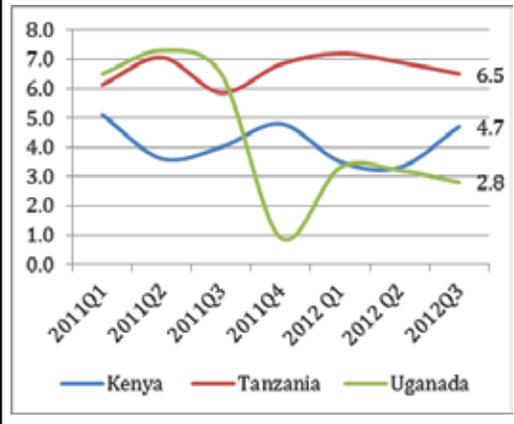


Figure 2: Quarterly GDP Growth -- faster and less volatile than Kenya and Uganda



Source: World Bank, IMF, and MoF

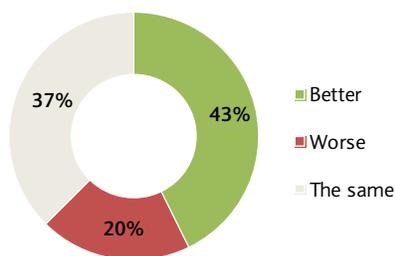
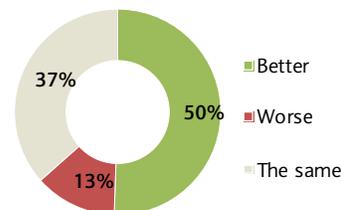
The key factors explaining Tanzania's strong and steady performance include: (a) the rapid growth of a number of economic sectors; (b) the fact that volatility has been confined to sectors with a limited overall impact on GDP; (c) the constant – although weak – growth of the agricultural sector; (d) the steady expansion in domestic demand; and (e) the country's limited exposure to external shocks.



THE PULSE OF THE TANZANIAN ECONOMY A KPMG -WORLD BANK INITIATIVE

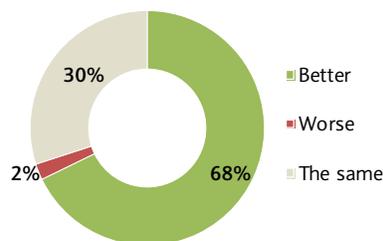
The views of the managers of the top 100 mid-sized companies in Tanzania were collected in early April 2013 (*). Almost half of these business leaders consider that the overall economy is performing better than last year. They are also positive about 2014, for the whole economy and their own business, with two-thirds of respondents believing that they will perform better in 2014 than in 2013. By far, corruption is viewed as the single most significant constraint to doing business, followed by taxes and regulation, access to finance, and trade barriers. By contrast, inadequate infrastructure, security and labor regulation were not regarded as severe constraints by the majority of the surveyed managers.

1. How do you believe the Tanzanian economy is performing compared to last year? A total of 43 percent of the respondents feel that the economy is performing better in 2013 than in 2012, while 37 percent feel it is the same and 20 percent said that it is now worse than 2012

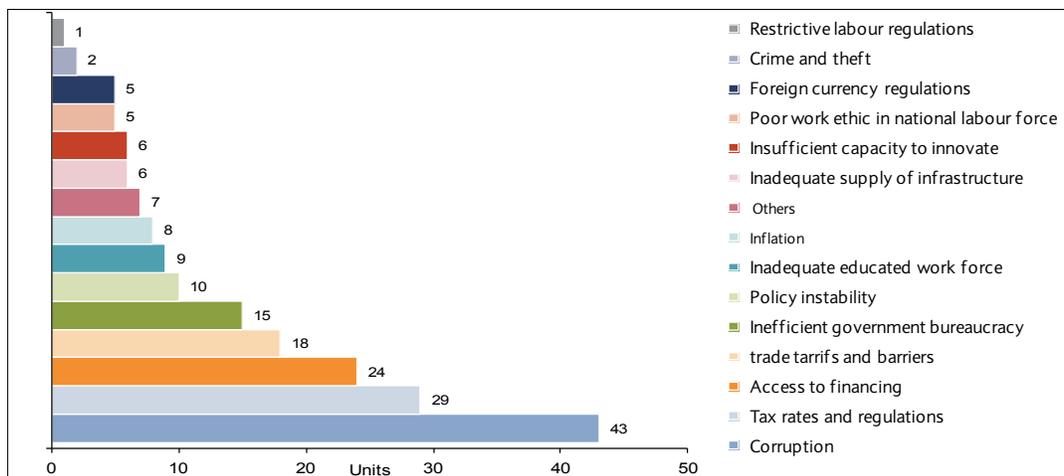


2. How do you expect the Tanzanian economy to perform in the coming year? There was optimism among the respondents, with 50 percent believing that the Tanzanian economy will improve in 2014. However, 13 percent of respondents believe that the economy will decline and 37 percent believe it will remain approximately unchanged.

3. How do you think that your business will perform during the next 12 months compared to now? 68 percent of the respondents believed that their business will perform better in the coming 12 months, while 30 percent believed that performance will remain roughly the same. Only 2 percent felt that their business will be worse off in the coming 12 months.



4. What do you see as the most problematic factors for doing business in Tanzania (max. 2 responses)? Corruption was considered to be the most significant constraint to doing business by 43 percent of respondents, followed by tax rates and regulations (29 percent) and access to finance (24 percent).



By far, corruption is viewed as the single most significant constraint to doing business, followed by taxes and regulation, access to finance and trade barriers.

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

On the supply side, a few rapidly growing economic sectors have made a steady contribution to Tanzania's growth. The communications sector has doubled its levels of activity in the period from 2008 to 2012 (see box).

Similarly, the financial sector; construction;

manufacturing; and the retail and wholesale trade sectors have all expanded by more than 30 percent since 2008. These five sectors have contributed to almost 60 percent of total GDP growth during this period, with the combined contribution of 15 other sectors amounting to 40 percent (see Figures 3 and 4).

A bank in your pocket: The mobile money revolution in Tanzania

The mobile phone is a truly innovative device, facilitating change not just in the way that people communicate and access information, but also in the way that they transact business. Mobiles are not only being used as radios and flashlights, they are also dramatically increasing access to banking and financial services by those who urgently need them.

Increasingly, people around the world, especially in Africa, are paying their school fees, healthcare and utility bills using mobile phones. Businesses use mobile phones to pay their staff and suppliers. Poor people who have never entered a bank are using mobile services to send or receive remittances and to save their money.

'Mobile money', as it has been dubbed, is growing at an amazing pace across Africa, particularly in East Africa, as shown by the following statistics for Tanzania:

- The total number of registered mobile customers surged from 14,000 in June 2008 to 19.4 million in November 2011. In the last year alone, the number of users increased by approximately one million, to 20.4 million in November 2012.
- The total value of funds stored in mobile accounts increased from Tsh3 billion in June 2009 to Tsh157.8 billion in November 2012.
- The total number of monthly transactions increased from 1.9 million in 2010 to 48 million in September 2012.
- The value of mobile transactions has increased exponentially, from Tsh1.4 million in 2007 to Tsh1.8 billion in 2010, to Tsh1.7 trillion in 2012. In the month of September 2012 alone, the aggregate value of mobile money transactions in Tanzania was equivalent to the value of approximately 14 percent of total deposits held by commercial banks.

Almost half of all adults in Tanzania in 2011 used mobile money at least occasionally. This is a much lower rate than in Kenya (73 percent) but significantly higher than in middle-income countries such as Brazil and Argentina (only 1 percent).

The dramatic growth of mobile money has attracted many investors. 'Big' communication companies and commercial banks are jumping on the bandwagon, sometimes through the formulation of strategic alliances. At the other end of the spectrum, small innovators have also developed new products, targeting new consumers and creating new ways to do business.

Atmost half of all adults in Tanzania in 2011 used mobile money at least occasionally.

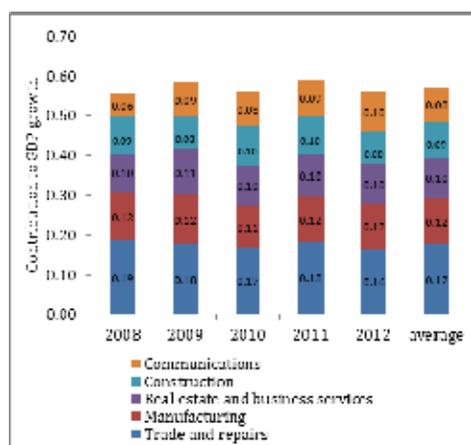


Another stabilizing factor has been the constant, albeit weak, performance of the agricultural sector. This sector, which contributes to almost one quarter of Tanzania’s overall GDP, has reported little variation in its annual growth rate, with this rate ranging from only 3.5 to 4.9 percent over the past few years, barely exceeding the population growth rate. Growth is largely driven by the expansion of cultivable

land, which in turn is highly correlated to population growth, rather than by variations in productivity. In the period from 2008 to 2011, climatic conditions, particularly rainfall, have been relatively stable in most regions¹ These factors explain the limited volatility of the economic performance of the agricultural sector and its stable contribution to overall GDP growth.

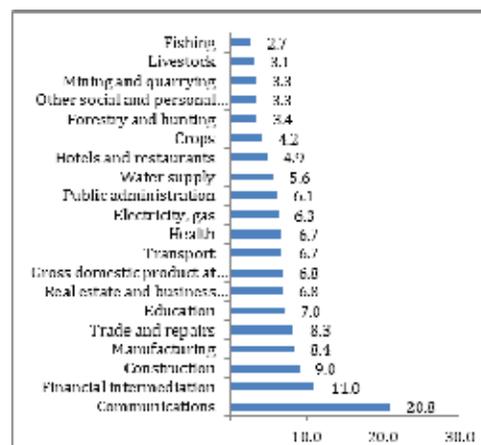
Tanzanian economic growth has been driven by a few, fast growing sectors

Figure 3: Two-third of GDP growth is explained by five sectors of economic activity



Source: National Statistical Office

Figure 4: Fastest Growing Sectors, average 2008-12



Expansion in domestic consumption has been largely driven by the rapid, steady growth in the country’s population and by the steady growth in average per capita incomes over the past decade.

To a large extent, Tanzania’s economic stability is explained by the steady expansion in domestic demand over the past decade, with growth in domestic consumption and investment accounting for almost 90 percent of economic growth in the period from 2002 to 2012 (see Figure 5). This is somewhat similar to the experience of a number of large developing countries, such as China, at comparable periods of their economic development. Expansion in domestic consumption has been largely driven by

the rapid, steady growth in the country’s population and by the steady growth in average per capita incomes over the past decade. Levels of domestic investment have been somewhat more volatile than levels of consumption, as the former is quite sensitive to fluctuations in the business environment. However, the decline in levels of domestic investment in the period from 2008 to 2012 has been offset by a higher level of public consumption, resulting in a stable contribution of aggregate domestic demand to GDP growth.

1 FAO’s data indicate that rainfalls were almost constant between 2008 and 2012. As an illustration, in the regions of Arusha and Mbeya –two agricultural centers – rainfall only varied by 18 and 27 percent, respectively, between the minimal and maximum values reported during this period.

The relatively steady level of growth in domestic demand in Tanzania contrasts with that of neighboring countries such as Uganda. Up to the mid 2000s, Tanzania and Uganda displayed somewhat similar patterns of economic growth. However, this is no longer true. In recent years, Uganda's aggregate domestic demand has fluctuated significantly as the result of dramatic changes in climatic conditions – affecting

the performance of the agricultural sector, which contributes to a much higher proportion of GDP than in Tanzania – and variations in fiscal policy (from expansive in 2009/11 to restrictive in 2011/12). By contrast, the contribution of Tanzania's aggregate domestic demand to economic growth has remained relatively stable over the period (Figure 6).

Tanzania and Uganda: Stability versus Volatility

Figure 5: Tanzania: Stable domestic demand drives economic growth

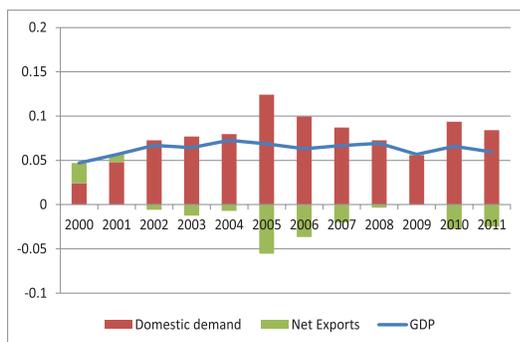
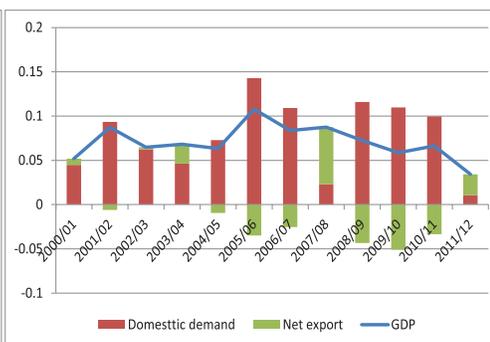


Figure 6: Uganda: Volatile domestic demand and external factors explain GDP fluctuations



Source: World Bank, IMF, and MoF.

Global volatility and other external factors have had relatively little influence on Tanzania's economic performance. One reason is that the local financial sector has been and continues to be weakly connected to global markets. Another explanation is that despite the recent increase in the volume of international trade, the economy remains relatively closed, as seen by the low negative contribution of net external trade to economic growth (on average a negative contribution of 20 percent in the period from 2000 to 2011, as can be seen from Figure 5). This contrasts significantly with the situation in Uganda, where the contribution of net exports to GDP growth varied from a positive 83 percent in 2007-8 to a negative 70 percent in 2009-10, which

was reflected by variations in its overall GDP during this period.

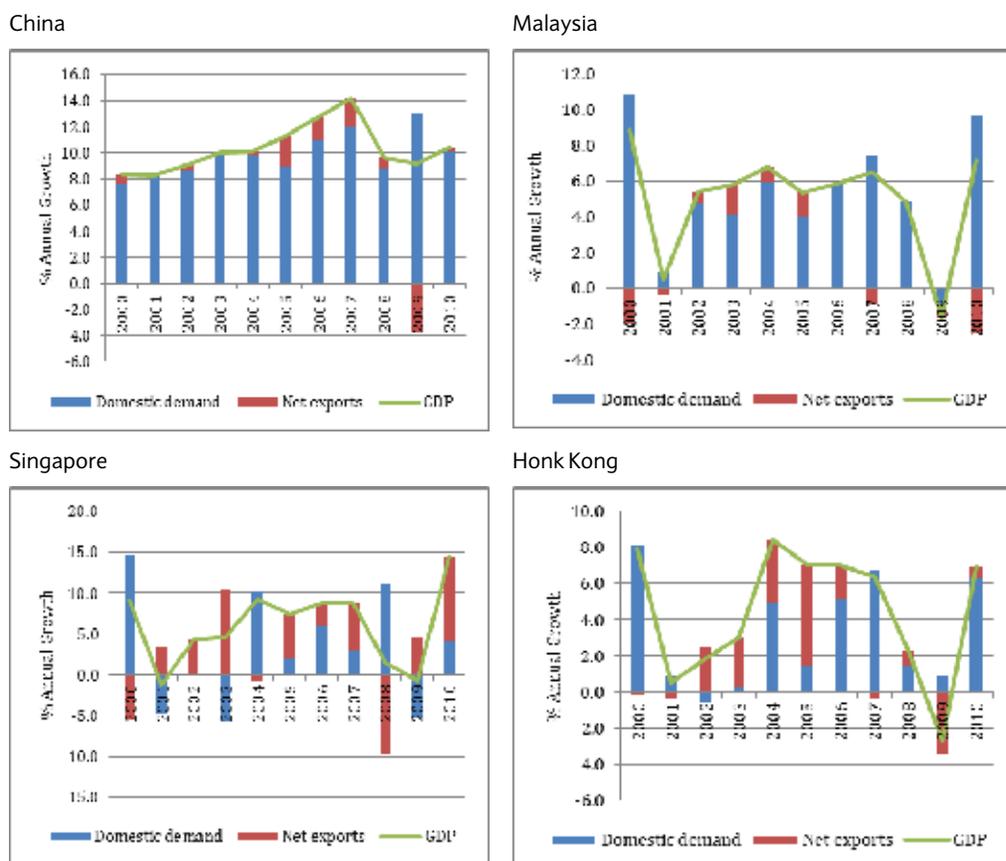
The marginal negative contribution of net external trade to Tanzania's economic performance has to be expected at the country's current stage of economic development. However, this does not mean that exports have not expanded rapidly in Tanzania over the past decade. Rather, it can be explained by the fact that for each dollar's worth of additional exports, there has been USD 1.4 of additional imports. The high rate of increase in imports can be explained in terms of the need of the domestic economy for capital goods, fuel, and technology and of the increased demand for more sophisticated products by consumers. From a national accounts' perspective, it also

translates into a disequilibrium between the high levels of domestic investment (equivalent to about 38 percent of GDP in 2012) and the low levels of domestic savings (only 20 percent of GDP in 2012), which thus needs to be funded by capital inflows (traditionally aid but increasingly FDI and non-concessional loans).

The relatively low contribution of net external trade to Tanzania’s economic growth contrasts with the experience of many successful emerging economies. In East Asia, net external trade has contributed

significantly to economic growth (Figure 7) in a number of countries, including Malaysia and China. Historically, in Malaysia, external trade has acted as a buffer, compensating for lower domestic demand in periods of crisis. In China, while aggregate domestic demand has been by far the main source of economic growth, external trade has also contributed significantly to growth. These examples show that the further extension of external trade in Tanzania can play a decisive role in the country’s effort to accelerate its economic growth rate.

Figure 7: Drivers of Growth: Domestic Demand and Net Exports in selected East Asian countries



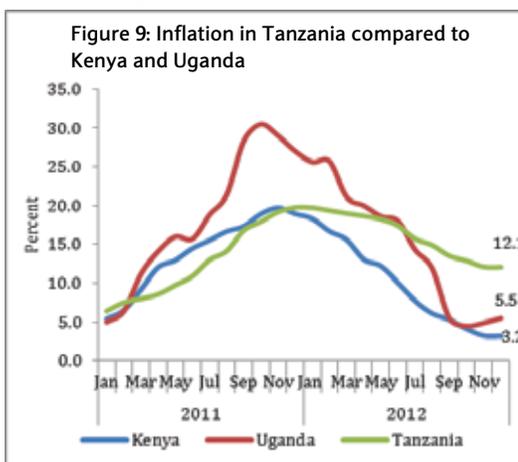
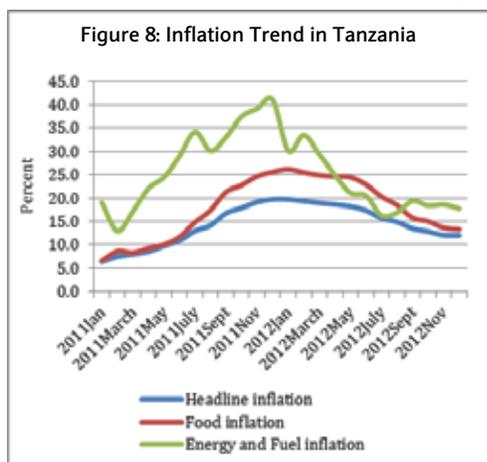
Source: UNCTAD

High prices: Physical obstacles and barriers to trade

Tanzania's overall rate of inflation has continued to decline over the past few months, down to 9.4 percent in March 2013 (see Figure 8). This decline is the combined result of lower food prices and the

tighter monetary policy implemented by the Central Bank. However, in regional terms, Tanzania's rate of inflation remains relatively high; it is 6.6 percent higher than the rate in Kenya and 8.9 percent higher than the rate in Uganda at the end of December 2012 (Figure 9).

Tanzania's rate of inflation is declining, but it is still higher than in Uganda and Kenya



The Bank of Tanzania has adopted a prudent monetary policy since November 2011, contributing to a gradual decline in the inflation rate. The tightening of monetary policy led to a slowdown in the expansion of credit to the private sector from 31 percent in October 2011 to approximately 12 percent in October 2012 (see Figure 10). However, since October 2012, the rate of expansion of private sector credit has rebounded. During the same period, similar patterns can be observed in Uganda and Kenya, with a drastic reduction in the expansion of credit at the end of 2011, followed by a reversal starting in September/October 2012 (see Figure 11).

Despite the decline in the rate of inflation, food prices remain relatively high in

Tanzania. Over the past three years, the local price of maize (the primary staple in Tanzania) was on average one-third higher in Tanzania than in Brazil. The gap is even higher for rice and wheat, with local prices more than double the price of similar commodities in India and Brazil.

Persistently high food prices have serious implications for household welfare, particularly amongst the poorest households. This is significant, considering that maize, rice, and wheat make up the bulk of food consumed by Tanzanian households. Typical expenditure on these items makes up a significant proportion of overall household expenditures, especially amongst the poor².

A simple quantitative example illustrates the overall effect of high individual food

The tightening of monetary policy led to slowdown in the expansion of credit to the private sector. However, since October 2012 the rate of expansion of private sector credit has rebounded.

2 In 2007, the budget share of food was inversely related to the household's wealth, declining from 66 per cent for the poorest to 50 per cent for the wealthiest. It was also lower in urban centers (53 per cent) than in rural areas (65 per cent).



prices: the food basket of a poor household in Tanzania consists of maize (60 percent), rice (30 percent) and wheat (10 percent). With current prices, the poor Tanzanian household would pay 110 percent more (per kilogram) than their counterpart in Brazil³.

*Impact of Central Bank policies on inflation and private sector credit:
Tight money policies followed by a gradual easing.*

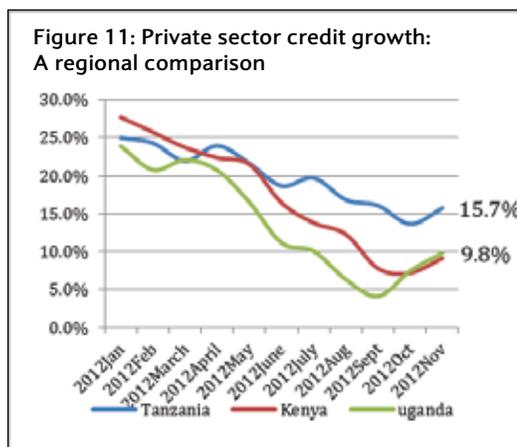
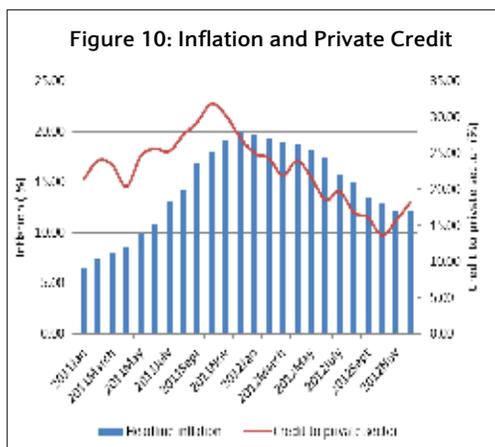


Table 1: Tanzanians pay more for food than in many other developing countries

USD per kg (wholesale), average 2009-12

	Tanzania	Uganda	Kenya	Thailand	Brazil	India	S. Africa
Maize	0.31	0.27	0.34	0.28	0.20		0.23
Rice	0.89	0.91		0.47	0.33	0.39	
Wheat	0.64				0.27	0.27	0.40

Source: FAO.

The high price of food is driven by a number of factors that vary depending on the products and players. One potential cause of the persistently high cost of food and other commodities in Tanzania might be the relatively high value of the local currency. At first glance, this appears straightforward: if the value of the Tanzanian Shilling was 50 percent lower relative to the US dollar (meaning the exchange rate would be equal to Tsh/USD 3,200 rather than 1,600), local food prices should be lower by 50 percent in US dollar terms and close to levels reported in other countries. A pineapple costing Tsh1,000 costs USD 0.63 at an exchange rate of Tsh/USD 1,600 but only

USD 0.31 at an exchange rate of Tsh/USD 3,200. However, this is an oversimplification. First, part of the effect of the devaluation would be transmitted to local prices as the result of the increased cost of imported goods, such as fuel. Second, even without devaluation, local and international prices should converge in the absence of constraints to international trade. Arguably, if the price of rice is significantly lower on international markets than in Tanzania, traders will increase their level of imports, which would bring local prices down over time by increasing supply. This has not yet occurred, or at least not to the extent that it has significantly reduced the gap between local and world prices.

3 For simplicity, we assume that wholesale prices are equal to retail prices.

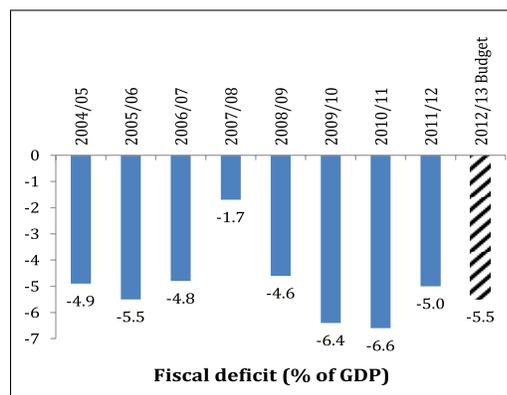
High local prices in East Africa, including Tanzania, are largely due to physical obstacles and to tariff and non-tariff barriers to trade. Amongst others, these barriers include relatively high transport costs resulting from infrastructure deficits and administrative obstacles. Today, it remains nearly two and a half times more expensive to import food from Vietnam to Tanzania than from Vietnam to Germany. In general, high transportation costs have an impact on food prices not only in international trade but also in domestic trade. In isolated regions, there is often a significant variation in food price patterns relative to patterns in world or national prices, with a higher level of sensitivity to

local factors, such as climate.⁴

Fiscal performance: Caution and good management required

In 2012/13, the overall fiscal deficit is projected to be higher than in 2011/12, in the range of 5.5 percent of GDP (Figure 12). During the first six months of the current fiscal year, the fiscal deficit was 25 percent lower than the initial target (Tsh943 billion vs. Tsh1,247 billion). However, fiscal revenues are likely to be lower than anticipated. The growing deficit in TANESCO and accumulated arrears has forced the Government to find additional fiscal space and will continue to do so into the future.

Figure 12: Overall Fiscal Deficit back on the rise



Source: MoF

By December 2012, the total value of revenue collected by the Government was seven percent below its budget target, equivalent to a gap of Tsh320 billion. In terms of revenue from taxes, revenues derived from income tax were eight percent higher than anticipated. By contrast, revenues derived from VAT were 10 percent lower than anticipated, while those from international transaction taxes, except for the fuel levy, were 8 percent lower. The

Table 2 : Revenue trends (December actual vs. December target)

	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Tax revenue	237%	105%	94%	92%	92%	101%	97%
Import duties	139%	97%	89%	92%	96%	90%	92%
VAT	180%	105%	101%	97%	84%	91%	90%
Excises	240%	110%	82%	85%	95%	93%	90%
Income Tax	150%	113%	94%	91%	92%	113%	108%
Other taxes	201%	88%	102%	91%	112%	119%	96%
Non Tax - others	101%	72%	82%	78%	66%	79%	66%
Non tax LGAs				0%	83%	68%	57%

value of non-tax revenues was 34 percent lower than targeted, mostly on account of delays in payments of dividends and land and office rents.

In terms of expenditure, the authorities have demonstrated restraint, maintaining levels of both recurrent and development expenditure below their initial targets. While expenditure on wages and interest payments was right on target, expenditure

4 See Paul Brenton, Defragmenting Africa, 2012.

on goods and services was down by 10 percent, while development expenditures were down by 11 percent, compared to the figures anticipated in December 2012. The slower disbursement rate in non-wage recurrent expenditures reflects tight control by Treasury. The delay in executing development expenditures, systematic every year, was nonetheless smaller than reported in 2011. To some extent, this may reflect the Government's willingness to implement investment projects faster and donors' actions to accelerate the availability of their funds.

Globally, the financing of the budget has been in line with initial plans.

By December 2012, grants and concessional funds were above targets, while external and domestic non-concessional borrowing were below the ceilings agreed with the IMF. Most donors have improved the timing of their budget support, disbursing funds in the first part of the fiscal year. As a result, disbursement associated with externally-funded investment projects has been faster than in previous years. There were nonetheless significant shortfalls in the disbursement of non-concessional external borrowing. Domestic borrowing has been relatively stable, in line with the annual target of one percent of GDP.

Over the past few months, fiscal management has been greatly affected by the financial difficulties of TANESCO, the state-owned electricity company.

As a result of poor investment decisions by TANESCO, weak management, and possibly poor rainfall, the Government was compelled to enter into contracts with private providers to purchase electricity on an emergency basis in mid-2011. This decision ensured the supply of electrical

power to the country, but at a high cost for TANESCO. In spite of a 40 percent increase in the average electricity tariff by January 2012 and in spite of the quasi-elimination of central Government arrears (by almost TSh 70 billion), the company has continued to lose approximately USD 30 million every month. The total value of TANESCO's arrears was USD 270 million in December 2012. Without significant intervention, this is expected to reach USD 500 million by June 2013.

The Government has been implementing measures to ease TANESCO's financial difficulties.

The most important move has been the design of an exit strategy, which will reduce energy production costs by substituting expensive fuel-based plants with cheaper gas-powered plants. Such a move should bring supply costs to the level of existing tariffs, thereby eliminating TANESCO's operational deficit. However, while this plan is basically sound, it will be some time before it has an impact, as the necessary new power and gas infrastructure will not become operational before the beginning of 2015. The challenge for the authorities is to make sure these investments are implemented on time.

Financing measures to prevent TANESCO's collapse has put pressure on the Government's budget and will continue to do so into the future.

Ultimately, somebody will have to pay for the measures implemented by the Government. This could be existing consumers through higher tariffs; future consumers through commercial borrowing; taxpayers through government subsidies; or suppliers through accumulated arrears. During 2012-13, the authorities have utilized all of these potential resources. The Government has increased

Most donors have improved the timing of their budget support, disbursing funds in the first part of the fiscal year.

electricity tariffs, which has contributed to an increase in TANESCO revenues of about USD 200 million. In addition, it has also helped TANESCO borrow on the domestic market (contributing approximately USD 65 million), delayed their payments to suppliers, and provided fiscal transfers that will eventually reach a value of approximately USD 300 million. The provision of fiscal transfers, while manageable, has forced the authorities to implement a budgetary reallocation by cutting non-priority spending (USD 200 million) and by marginally increasing their fiscal space (USD 100 million).

In addition to the situation with TANESCO, there has been a relatively large increase in payment arrears by the central Government. By December 2012, the total value of such arrears was more than Tsh650 billion, a sum equivalent to 1.5 percent of

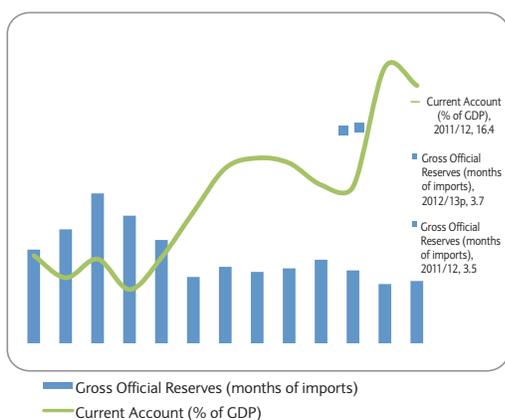
GDP, up from Tsh450 billion a year ago. The bulk of these arrears are from construction works (70 percent). These arrears have declined to TShs. 350 billion in march 2013, putting pressure on government's finances over the remainder of the fiscal year.

External balance: Shift in capital inflows

During the course of 2012, Tanzania's external balance remained under control, with a shrinking current account deficit helping to compensate for a slowdown in the growth of financial inflows. As a result, the exchange rate and the level of international reserves have remained approximately constant over the past 12 months. Despite this level of stability, Tanzanian policy makers decided, in early February 2013, to withdraw SDR 114 million from the IMF standby arrangement as a precautionary measure.

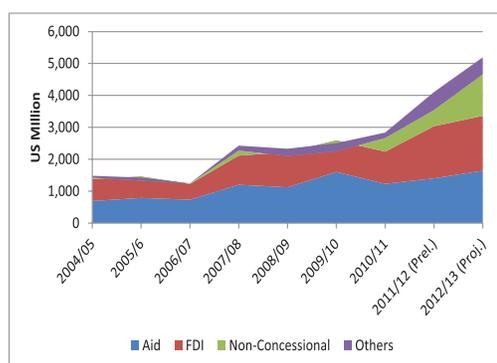
Tanzania's external balance remained under control, with a shrinking current account deficit helping to compensate for a slowdown in the growth of financial inflows.

Figure 13: Lower Current Account deficit and stable international reserves



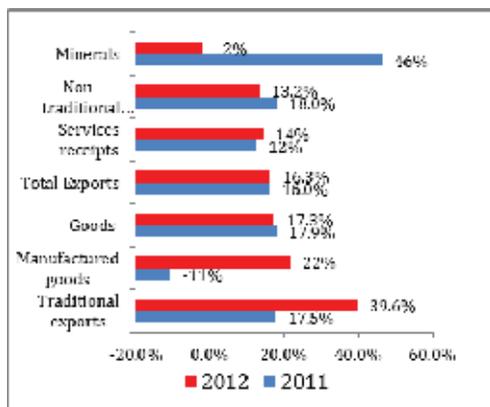
Source: BoT and World Bank

Figure 14: A Gradual shift in the Source of Foreign Capital



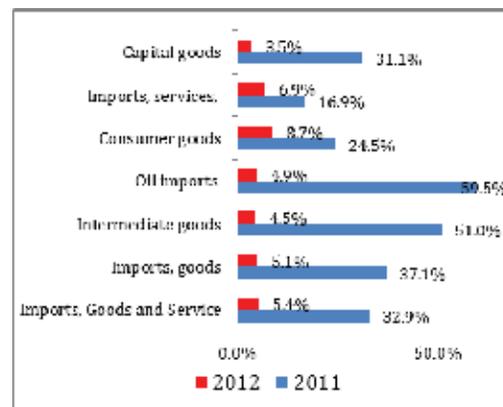
Fast growing exports and moderate expansion of imports in 2012

Figure 15: Export Growth, 2011 and 2012



Source: BoT

Figure 16 : Import Growth, 2011 and 2012



Tanzania’s trade imbalance declined in 2012, with significant increases in exports, particularly the export of agricultural commodities.

Tanzania’s trade imbalance declined in 2012, with significant increases in exports, particularly the export of agricultural commodities. Overall, the total value of exports increased by 13.2 percent between 2011 and 2012, a very significant achievement. This increase was largely the result of the increased volume of exports of agricultural commodities, particularly due to the result of an unprecedented surge in the sale of cotton, and of an increased volume of manufacturing exports. The increase in manufacturing exports in 2012 follows a decline in such exports of 11 percent in 2011. On the other hand, the export of minerals remained roughly constant, increasing by only two percent in 2012. Following significant increases in 2011, the level of imports remained approximately the same in 2012, increasing by only five percent, with limited changes in their composition.

The external risk for the Tanzanian economy is predominantly embedded in the capital account. This is evidenced by the gradual shift from aid to non-concessional borrowing over time, in particular in the past few years (see Figure 14). While

non-concessional borrowing was virtually non-existent prior to 2010/11, it increased significantly in 2011/12 and is projected to surge to close to USD 2 billion in 2012/13. This increase partly reflects Tanzania’s good macro-economic and fiscal management, which has facilitated the country’s access to internal finance markets. However, the increasing reliance on this source of external financing will need to be closely monitored given its implications for debt and fiscal sustainability (see more in the next section).

1.2 Economic Outlook: A need to improve the business environment, human capital and public administration

In the next few years, the Tanzanian economy is expected to remain on the same trajectory as in recent years. Achieving faster, more effective growth will require well-planned policy shifts. These must focus on making the business environment more attractive, on improving human capital, and on making public administration more effective. There are a number of downside risks, including risks related to the energy sector, public debt, and pension funds.

Tanzania has positive prospects for economic growth in 2012/13 and 2013/14, with the rate of growth forecast to be around 7 percent. About 50 percent of top business leaders believe the overall performance of the economy will improve in 2014 compared to 2013, while only 13 percent believe that it will decline (see KPMG/World Bank’s pulse of the economy).

Growth will continue to be driven by the same rapidly expanding sectors that have driven growth in recent years and by an increase in public investment (as part of the “Big Results, Now” initiative).⁵ In particular, the communication, financial, retail trade and construction sectors should continue to benefit from sustained increases in domestic demand as the result of technological changes and urbanization. However, due to the urban bias of these sectors, this growth may have a limited direct effect on millions of poor rural households.

Tanzanian policymakers must strive to ensure broad-based economic growth by accelerating the transformation of labor-intensive sectors, particularly the agricultural sector. New initiatives, such as the Southern Agricultural Growth Corridor Project, are expected to boost agricultural production through the promotion of linkages between large agribusiness companies and small holders. The manufacturing sector should be stimulated by the establishment and operation of new Special Economic Zones. The Government has begun to establish a solid basis for the optimal exploitation of the country’s mineral resources into the future. These initiatives are important, although their benefits will not be immediate. For example, large-scale natural gas production is not expected to begin for at least seven to 10 years, while the next Special Economic Zone, in Bagamoyo, should begin operations by 2016, at the earliest.⁶

In particular, the communication, financial, retail trade and construction sectors should continue to benefit from sustained increases in domestic demand as the result of technological changes and urbanization.

Table 3 : Macro-economic projections (% of GDP, otherwise indicated)

	2009/10	2010/11	2011/12	2012/13 (p)	2013/14 (p)	2014/15 (p)
Real GDP growth	6.5	6.7	6.7	6.9	7.0	7.3
Inflation (CPI, %)	10.5	7.0	17.8	11.7	6.9	5.3
Broad money (M3)	25.1	22.0	11.8	14.5	--	--
Revenue (excluding grants)	15.9	16.4	17.6	17.9	19.3	19.6
Total Expenditure	27.5	27.0	26.3	27.4	28.5	27.1
Overall balance (including grants)	-6.4	-6.6	-5.0	-5.8	-5.0	-4.4
Investment	30.6	34.5	38.1	39.2	39.0	38.5
Current account balance	-9.0	-9.4	-16.5	-15.4	-15.4	-14.3
Gross official reserves (USD million)	3,483	3,610	3,797	4,230	4,480	4,710

Source: World Bank

⁵ See footnote 34, for a short description of this initiative.

⁶ Short term benefits will emerge from FDI inflows necessary to finance the construction of infrastructure and plants around those projects. Although a large fraction of those funds will be used to purchase imports, their magnitude (in the range of USD 4-5 billion per year) means that they will impact significantly on the local economy, especially in the areas surrounding those projects.

Tanzania should strive to establish sound institutional and governance structures now to manage the exploitation of natural resources (mining, natural gas, etc.). As a fundamental first step, it should take the time to establish long-term priorities for an economic development that effectively distributes the benefits derived from Tanzania's natural resource wealth to all citizens.

In terms of the establishment of priorities for the country's long-term development, a number of lessons can be learnt from both economic theory and from international experience. A country is more likely to grow faster and better when its people are educated and in good health; when its business environment is favorable to firms' development; when its economy is connected to domestic and global markets; and when its public administration is able to manage public funds wisely and transparently.

There are huge variations in performance across countries in these four policy areas, with these variations having a significant impact on development outcomes (see Table 4).

In all of these four policy areas, developed countries rank relatively high, as Table 4 demonstrates. Singapore, for instance, is judged to have the best business environment in the world (1st), the best logistical performance (1st), and one of the most efficient public administrations (3rd). Only in terms of human capital development does it record a relatively low ranking (still 26th out of 182 countries in 2011). Of course, the sequencing of cause and effect is debatable: while good

performance in these areas may promote economic growth, it may also be true that it is easier for rich countries to achieve a high level of performance.

However, a number of emerging countries, including Thailand, Mauritius and Vietnam have recorded dramatic improvements in all four areas over the past few decades while at the same time recording very high levels of economic growth. As Tanzania should note, this rule holds for countries with rich natural endowments. Norway, Chile, Botswana and Malaysia have all successfully facilitated a transition from a dependency on natural resources to sustainable, broad-based growth as a result of parallel improvements in all four areas.

How does Tanzania rank in terms of its business climate; its human development; its public administration; and its level of connectivity? In 2011/12, in terms of the quality of its business climate, it ranked in the bottom 25 percent of countries around the world (134th out of 185 countries). It recorded an even lower ranking for human development (152nd out of 182 countries), while the performance of its public administration was ranked 135th out of 212 countries in 2011. The only relatively bright spot was its connectivity (88th out of 156 countries), thanks to its access to the ocean, which gives it a big natural advantage over landlocked countries. However, even in terms of this last factor, its current level of performance is disturbing, with increased delays in transportation that are visibly demonstrated by the long queues of vessels waiting at anchorage at the port of Dar es Salaam.

In 2011/12, in terms of the quality of its business climate, it ranked in the bottom 25 percent of countries around the world (134th out of 185 countries). It recorded an even lower ranking for human development (152nd out of 182 countries).

Table 4: World ranking in four policy areas

Countries	2011 Human Development Index	2013 Doing Business	2011 Logistical Performance Index	2011 Government Effectiveness
Tanzania	152	134	88	135
<i>Industrial countries</i>				
Singapore	26	1	1	3
USA	4	7	9	25
UK	28	4	10	17
<i>Emerging countries</i>				
Chile	4	45	39	35
Mauritius	77	30	72	55
Malaysia	61	16	29	41
Thailand	103	28	38	86
<i>EAC countries</i>				
Kenya	143	103	122	136
Uganda	161	125		133
Rwanda	166	63	139	89

Source: (1) hdr.undp.org/en/statistics/hdi/; (2) <http://www.doingbusiness.org/>; (3) www.worldbank.org/lpi; (4) <http://wbi.worldbank.org/wbi/>

Not only has Tanzania’s performance in terms of these four factors been poor, it has made little progress over time.

In terms of the quality of the country’s investment climate, the country’s ranking has actually declined, slipping 21 places over the past five years. The same is true in terms of rankings for government effectiveness, where Tanzania has slipped 15 places over the same period.

A similar lack of progress has also been reported in other East African economies, particularly Uganda and Kenya, with Rwanda being a notable exception to the general rule. In contrast to the other countries, Rwanda moved up from 150th place to 63rd place in the Doing Business rankings in the period from 2005 to 2013, while also recording significant improvements in terms of the effectiveness of its government and the quality of its human capital.

As a result, it has registered the highest per capita GDP growth rate among East African

countries since 2005, with the average rate of per capita growth in excess of 5 percent.

Tanzanian policymakers should remain clearly aware that economic development cannot be measured in terms of the availability of natural resources such as gold and natural gas. While the existence of these assets may facilitate broad-based growth, they by no means guarantee it. Such resources are only useful if they help the country accumulate and develop its assets. It is vital that the country’s leaders understand the challenges associated with facilitating this transformation.

Other economic variables, including the inflation rate, are expected to improve into the future. In the absence of unexpected shocks, the inflation rate should continue to decline, and then stabilize at around 5-7 percent over the next few years.

The Government should remain committed to fiscal sustainability by

While the existence of these assets may facilitate broad-based growth, they by no means guarantee it. Such resources are only useful if they help the country accumulate and develop its assets.

striving to maintain the overall deficit at a value equal to 5 percent of GDP in FY14 and at 4 percent in FY15. The achievement of these ambitious objectives will require spectacular improvements in revenue collection, the value of which is expected to increase from 17.9 percent of GDP in 2012/13 to 19.6 percent in 2014/15.

Such improvements are expected to come from the combination of higher excise taxes and lower exemptions. The achievement of these goals will help finance the ambitious investment programs since the level of public expenditure is expected to increase by two percentage points of GDP from 2012/13 to 2013/14.

While the Tanzania economy is not overexposed to global market volatility, it is not completely immune.

Higher reliance on domestic revenues appears necessary in the context of a lower level of inflows from grants and concessionary financing. While the Government will continue to utilize non-concessionary loans, this source of financing will be constrained by the existing level of public debt and its associated burden on the fiscal and external balances (see more in the following section, 'Risks to the outlook').

In terms of balance of trade, the current account imbalance is expected to stabilize at a level of around 13-14 percent of GDP. No major changes are likely in export and import growth over the next two years, even though commodity prices and the timing of

FDI inflows result in some uncertainty (see risks section).

Risks to the outlook: External factors, political economy, fiscal risks

Economic prospects are always subject to a number of risks. While the Tanzanian economy is not overexposed to global market volatility, it is not completely immune. Major fluctuations in commodity prices, notably gold and oil, will affect its trade balance. The magnitude and timing of anticipated FDI inflows in the natural gas sectors will also impact the local economy, especially in geographical areas where those investments will take place.

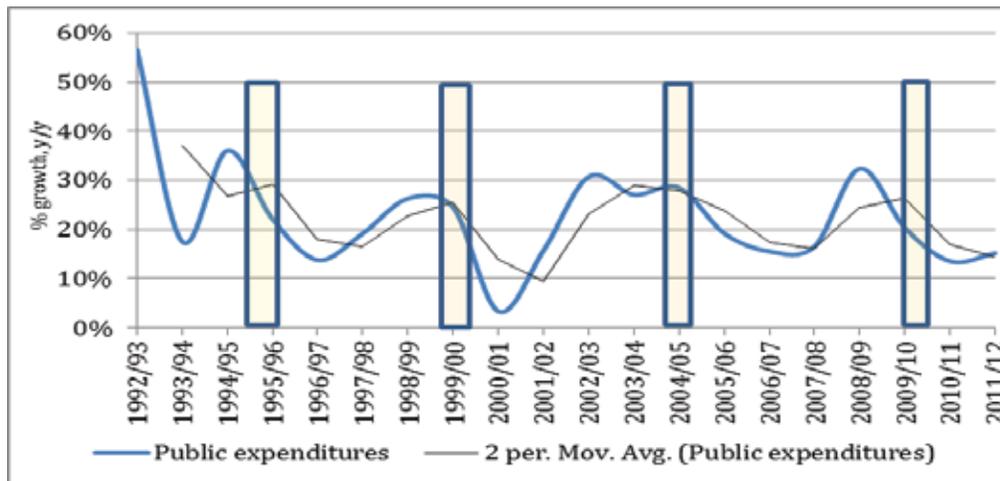
The new investments are expected to be in the region of USD 4-5 billion per year. Even if the majority of these funds are used to purchase imported goods, as is likely, their magnitude will modify the current equilibrium in the domestic financial markets and possibly have an impact on exchange rates.⁷ These potential impacts will have to be carefully managed by the authorities.

Tanzania's next national elections are scheduled for the second half of 2015.

These forthcoming elections are already influencing policy making, and will have an increasing influence as they draw nearer. International and past experiences in Tanzania have shown that fiscal policy is more likely to be expansionary during pre-election periods (Figure 17).

⁷ To illustrate; if only 20 percent of the annual expected FDI inflows was spent in Tanzania, this would still represent around USD 1 billion, which is equivalent to one-fifth of total banking credit today

Figure 17: The political cycle of public expenditures in Tanzania



Source: MoF

Three fiscal risks merit further attention. These are: (a) financial distress within the energy sector; (b) the central government's level of arrears payments, including those involving pension funds; and (c) excessive non-concessionary borrowing.

A brief summary describing TANESCO's financial situation was presented in a previous section. In the management of TANESCO's financial difficulties, the Government is facing two inherent uncertainties. First, the magnitude of the projected gap in TANESCO, the value of which will amount to approximately USD 300 million over the next few years, will require decisive actions that might not be popular, including possible new tariff increases or budget reallocations involving significant cuts in other areas. Second, the size of the TANESCO deficit is itself sensitive to a number of factors outside of the Government's control. For example, an increase in world oil prices will automatically lead to higher production costs and therefore to a higher TANESCO deficit. A combination of bad luck and delays in the

implementation of the investment program would add significant pressure to the Government's fiscal accounts.

The second risk relates to the accumulation of arrears by the central Government. To some extent debt and arrears are similar, as both are aimed at saving by postponing payments. However, their burden is different, since debt is repaid by future taxpayers, while the brunt of the burden of arrears is borne by suppliers. As described earlier, the value of Government's arrears has grown substantially, even though significant variations have been observed over time.

The high and growing level of government arrears described above fails to incorporate important categories of delayed obligations by the State, in particular to pension funds. The value of these arrears is estimated to be in the region of Tsh1.2 trillion as of December 2012 (see Box). This is already significant, equivalent to about 3 percent of GDP. However, the figure is expected to increase rapidly if the Government fails to act, underscoring the need for urgent reforms.

The magnitude of the projected gap in TANESCO, the value of which will amount to approximately USD 300 million over the next few years, will require decisive actions.

The Fragility of the Pension System

The Tanzanian pension system covers only five percent of the active population, with half of the eligible population being civil servants. In spite of this limited coverage, this system may soon impact the equilibrium of public finances. In short, the Government has been mortgaging its future by preserving a structure that provides a higher level of benefits to contributors than it can actually sustain over time.

Two main issues are at stake. First, public employees until 1999 were not required to contribute to their pensions, which were paid directly from the State budget. Unfortunately, so far, the Public Employees Pension Fund (PSPF) has been paying retirees on the Government's behalf, accumulating a debt estimated by the Controller and Auditor General at Tsh716 billion at the end of 2009/10, as well as extra obligations to the other pension funds to the amount of Tsh1.2 trillion in credit guarantees for loans that were borrowed and may never be paid back.

The Government must not only reimburse these debts but it must also pay for pre-1999 pensions, which are projected to be in the range of Tsh300-400 million per year.

Second, the current pension system is not sustainable over time – most of the funds are promising benefits that exceed the contributions paid in the medium to longer term.

Taken together, these problems will significantly affect fiscal management in Tanzania over the years to come. The authorities will have to reimburse their current debt with PSPF (about nine percent of projected current total expenditures in 2012/13) and continue to pay their pre-1999 obligations to retirees (about 2.2-3 percent of current total expenditures). If the pension system is not reformed, the Government will also have to fill the gap in the future. Over and above these, looms the Tsh1.2 trillion.

The cost of inaction is simply too high. It is imperative to settle the existing debts and to implement reforms of the overall pension system to ensure its sustainability over the longer term.

The acceptable level of debt is determined by a country's capacity to repay its accumulated debt over time.

The third and final fiscal risk is linked to the government's level of debt, the value of which stood at close to 40 percent of GDP by the end of 2012. At a casual glance, this level appears acceptable by international standards, with a number of OECD countries having debt-to-GDP ratios in excess of 100 percent. However, the acceptable level of debt is determined by a country's capacity to repay its accumulated debt over time. This capacity is limited for most developing countries, including Tanzania, because of the difficulty of refinancing its debt on financial markets at affordable cost and because of

fiscal constraints. For this reason, a relatively prudent fiscal policy is justified for the near future. The Government is forecast to borrow externally on a non-concessional basis around USD 1.3 billion during the next two fiscal years, a sum sufficient to finance a number of new investment projects, while at the same time keeping its debt level to a sustainable level of 46.8 percent of GDP by the end of 2014/15.

However, keeping the level of debt to a manageable level requires close attention from the authorities. Indeed, Tanzania's

infrastructure needs are so pressing that the Government might be tempted to borrow more to finance those projects, especially if the authorities fail to meet the ambitious revenue targets of 2013/14 and 2014/15. This situation might be further exacerbated by pressures related to the forthcoming elections and by the prospect of collecting

additional revenues from natural gas in the future (which might be used in advance to guarantee commercial debt). The trade-off between prudent debt management and sustained public investment will have to be closely monitored in the coming years (see Box).

The trade-off between prudent debt management and sustained public investment will have to be closely monitored in the coming years.

Limited Fiscal Room: The Danger of Excessive Non-Concessionary Borrowing

In the baseline scenario, prudent fiscal policy is forecast, with the overall deficit contained at five percent of GDP in 2013/14 and at four percent of GDP in 2014/15. This could be achieved by realizing spectacular improvements in revenue collection, which will limit the use of external non-concessionary borrowing to finance the ambitious public investment programs in order to close the fiscal gap. Accordingly, the total public debt to GDP ratio is projected to reach 46.8 percent of GDP by the end of June 2015. Similarly, the debt service-to-revenue ratio would be approximately equal to 15 percent.

To illustrate the danger of excessive non-concessionary borrowing, an alternative scenario was simulated in which the Government would opt to run an overall deficit of seven and six percent of GDP in the next two fiscal years respectively (in other words, with the revenue targets failing to materialize). This gap would be entirely funded by additional external non-concessionary borrowing. In that case, the total public debt to GDP ratio would increase by seven percent of GDP by mid-2015, reaching 53 percent. The debt-service to revenue ratio would also surge by 17 percentage points, absorbing nearly one quarter of public revenues. In other words, such borrowing would translate quite rapidly into a heavy fiscal burden, which in turn would limit the Government's capacity to spend on priority sectors.

Importantly, the danger of excessive borrowing lies in its permanent negative impact on public finances. While the Government can decide to adjust its expenses after 2015, the debt-service burden would remain high as it would be paid on the accumulated debt. It would take about 10 years for the Government to return to a debt service level equal to 15 percent of its revenues.

Further sensitivity analysis also indicates that the economy would become more vulnerable to shocks such as higher repayment terms on its debt (e.g., an increase in interest rates), slower economic growth, or deteriorating terms-of-trade.

1.3 Open Trade: Achieving economic growth, job creation and sustainable development

In Tanzania, well-designed outward orientated growth strategies are essential for growth, job creation and sustainable

development. Tanzania should therefore continue to implement open trade policies. To do this, among other measures, Tanzania needs to improve the country's level of physical connectivity with the rest of the world. In particular, it needs to improve

the port of Dar es Salaam, where current inefficiency is estimated to cost the country and its neighbors more than USD2.6 billion per year.

Outward looking, open trade strategies have been implemented by most developing countries that have successfully facilitated a transition towards a higher level of economic development. The economies of the East Asian tigers and dragons grew in tandem with a tremendous and sustained boom in their exports, as is also the case with emerging countries such as Chile, Tunisia, Botswana and Mauritius. Even fast-growing ‘big’ countries such as Brazil and China have relied on international trade to develop their economies. In parallel with export booms, these countries have also recorded

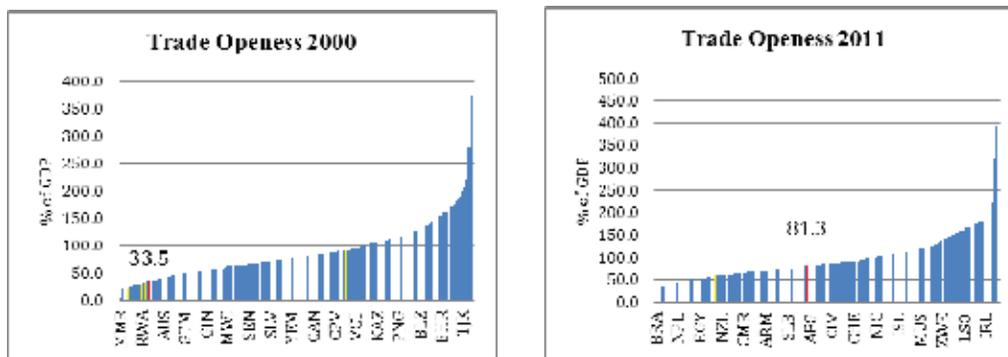
a significant increase in imports, particularly imports of capital goods to sustain their rising levels of private investment.

Tanzania has also opened up to international trade over the past decade.

Not only has its annual rate of growth in exports exceeded that of Brazil, Tunisia, Mauritius, Malaysia, Korea and Thailand in the period from 2000 to 2012, but also the total value of its imports is now equivalent to more than half of its annual GDP. As a result, while Tanzania was one of the most closed countries to international trade in 2000, by 2011, it was in the middle of the pack. Its degree of openness to international trade is now high by regional standards, although still low compared to emerging countries in East Asia. The graphs below illustrate this transition.

Tanzania’s degree of openness to international trade is now high by regional standards, although still low compared to emerging countries in East Asia.

Figure 18 : Tanzania: Increased openness to international trade since 2000



Source: World Development Indicators. Tanzania is in red and the other countries in the East African Community are in yellow.

The growth in Tanzania’s exports has been driven by:

- Higher prices for Tanzania’s products on world markets, accounting for two-thirds of the increase in traditional agricultural products (coffee, tobacco, sisal).
- The emergence of gold as a major Tanzanian export, with the value of gold

exports rising from USD 383 million in 2002 to more than USD 2 billion in 2012.

- An increased level of manufacturing exports, with such exports growing from seven percent of total merchandise exports in 2002 to 20 percent in 2012, after reaching a peak of 26 percent in 2010.

- Diversification of markets away from the EU, with the value of exports to the EU declining from 50 percent to 30 percent of total exports in the period from 2000 to 2011, and towards Asia, with the value of exports to Asia increasing from 23 percent to 30 percent of the total over the same period. Even more markedly, the volume of exports to African countries has increased from 10 percent of the total to more than 30 percent.
- Increased export of services, particularly transportation services (up by a factor of 10) and computer and information services (up by a factor of 9) between 2002 and 2012.

In parallel to the dramatic increase in exports, the volume of imports increased six-fold between 2001 and 2012 as a result of the following factors:

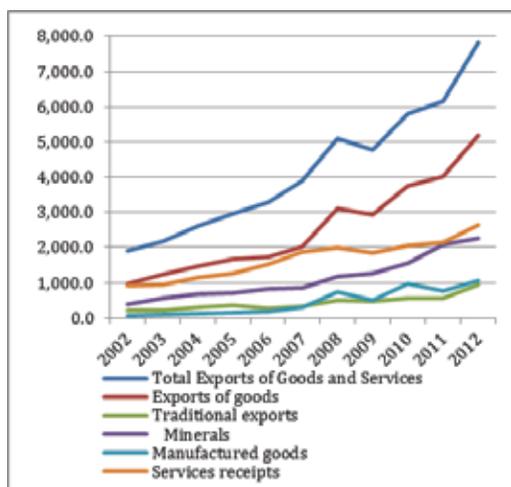
- The value of imports of fuel surged from USD 177 million in 2002 to USD 3,380 million in 2012. This increase has accelerated since 2009 as a result

of increased dependence on fuel-powered generation and relatively high international fuel prices. The total value of fuel imports accounted for approximately one-third of total merchandise imports in 2012, compared to only 11 percent in 2002.

- The value of imports of capital goods has increased, but at a slower pace than that of total imports over the past decade. The largest increase has been in construction materials, followed by machinery. Together, these imports accounted for approximately half of the total import of capital goods in 2012.
- Consumer goods imports have increased nearly fivefold over the past decade, with about one-third of the total imports in this category in 2012 being food products.
- There has been an increase in the import of freight services of more than 500 percent between 2002 and 2012; of communication services by 355 percent over the same period; and computer and information services by 322 percent.

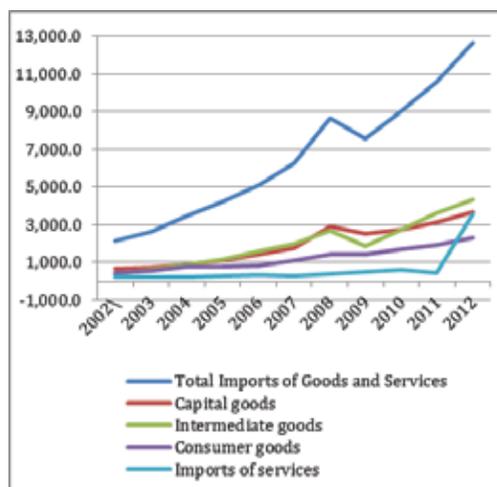
The growth in Tanzania's exports has been driven by the emergence of gold as a major Tanzanian export, with the value of gold exports rising from USD 383 million in 2002 to more than USD 2 billion in 2012.

Figure 19: Exports trends, 2002-2012, USD Million



Source: BoT

Figure 20: Imports trends, 2000-2012, USD Million



Openness to international trade should be good news. A significant body of evidence suggests that greater openness to international trade is, on average, associated with faster growth and increased economic productivity.⁸

Evidence from a number of countries indicates that trade has a direct impact on incomes: on average, an increase in trade volumes of 10 percent will raise output per working age person by four percent.⁹

Furthermore, in the 1990s, per capita income grew more than three times faster for developing countries that had lowered trade barriers than those who had not.¹⁰

Local businesses are able to achieve higher levels of sales, despite limited domestic demand, by selling their goods to consumers abroad. This allows them to realize economies of scale and expand at lower costs (see Box for coffee and tea). In the process, they improve their capabilities by learning from their foreign supply and marketing networks. For example, Murzah Oil Mills, the biggest producer of sunflower oil in Tanzania, has benefitted not just with the bottom line but also from the experiences of its international counterparts, from places such as India and Canada. Foreign competition can also generate a healthy dynamism, forcing exporting firms to adjust to survive.

Evidence from a number of countries indicates that trade has a direct impact on incomes: on average an increase in trade volumes of 10 percent will raise output per working age person by four percent

Tea or Coffee? Exports are key to expand market size

In 2012, coffee accounted for 19 percent of the value of traditional exports, earning over USD 1 billion per annum. Tanzania produces about 50,000 metric tons of coffee per annum, of which 70 percent is Arabica and 30 percent Robusta. Almost all of this produce is exported. Coffee is grown by approximately 450,000 families and an estimated 2 million people are employed directly or indirectly by the industry. Coffee provides the main source of income for 6 percent of the country's population. Tanzania is the 19th largest coffee producer in the world.

Tea contributes more than USD50 million to Tanzania's export earnings. More than three-quarters of Tanzania's tea is exported. Tea is grown by approximately 50,000 families and up to 2 million people are employed directly or indirectly by the industry. Tanzania is the fourth largest tea producer in Africa after Kenya, Malawi and Uganda. It produces about 32,000 metric tons per annum, or about 1 percent of the world's tea production.

Source: IGC (2012), *An Enterprise Map of Tanzania*.

On the import side, benefits are also expected through technology transfers, sharing of international expertise, sharing of international management skills, increased information and increased access to capital goods. For example, Tanzania's telecommunication

sector depends on imported equipment, largely from Germany, the UK, China, Malaysia, India and the US.¹¹ Imports create the widest range of inputs at the highest quality and lowest prices. By exposing local firms to greater competition, trade openness can force firms to lower costs,

8. A. Winters & Masters (2010), *Openness and growth: Still an open question*.

9. James Feyrer, *Trade and Income – Exploiting Time Series in Geography*, NBER Working Paper Series, 14910.

10. www.oecd.org/dataoecd/61/57/46353240.pdf.

11. 'Doing Business in Tanzania: 2011 Country Commercial Guide for US Companies'.

facilitating improvements in productivity and efficiency. Trade also increases diversity within the local market, encouraging a wider consumption basket.

Nevertheless, it has to be recognized that openness to international trade has its drawbacks as it can expose Tanzania to global shocks, both in terms of prices and quantities.

Those risks have become more visible over the past few years with the successive financial and fiscal crises in developed countries and with the increased volatility in world commodity prices. However, Tanzania's level of exposure has been relatively limited due to favorable terms of trade movements, with higher gold prices and stable oil prices on international markets, and due to increasing involvement in trade with emerging countries rather than with members of the OECD.¹² That said, the heavy reliance on the export of gold and the import of oil is currently a risk for Tanzania. Gold now accounts for more than 40 percent of the total value of merchandise exports. A sudden decline in world gold prices would have a dramatic impact on the total value of Tanzania's exports, with a decline in gold prices of 30 percent reducing this value by almost 15 percent. Similarly, with crude oil making up a third of the country's imports, an increase in the price of this commodity could be destabilizing.

Furthermore, Tanzania may not yet have maximized the benefits associated with openness to international trade.

One reason is that the vast majority of merchandise exports are low value-added products, such as minerals and unprocessed agriculture goods, which have

minimal direct impacts on the creation of employment and the development of technology in the domestic economy. In 2012, gold, tobacco and coffee together contributed to 52 percent of the total value of exported goods. Four other commodities (cotton, cashews, fish and tea) contributed to 13 percent of the remainder. In the future, the proportion of the value of unprocessed commodities to total exports will increase when exports of natural gas are scaled up in 2023-25. The lack of diversification is even higher with imports, with oil, foodstuff, freight, and transport equipment accounting for approximately half of the total value of imports. While there is no detailed breakdown of the enterprises that have imported capital goods, it is reasonable to assume that they have been purchased by a small number of large companies.

At present, Tanzania should diversify its exports and ensure that imports are made more accessible and cheaper for a large number of consumers and local firms.

Tanzania should diversify its exports, concentrating on exports involving more labor-intensive activities. This will ensure that the benefits of international trade reach a wider range of individuals through the generation of employment opportunities. Second, imports should be made more accessible and cheaper for consumers and local firms so that they can expand their consumption and investment choices at lower cost.¹³ To do this, there will need to be more efficient value chains for processed products, improved marketing and logistical networks, and increased competition between importers. Nevertheless, even with diversified exports and cheaper imports,

Tanzania's level of exposure has been relatively limited due to favorable terms of trade movements, with higher gold prices and stable oil prices on international markets, and due to increasing involvement in trade with emerging countries rather than with members of the OECD.

12 The risks associated with outward strategies are generally higher on capital flows that are highly sensitive to the condition of the global financial markets. Tanzania has relied marginally on portfolio flow to finance its current account imbalance and its banking system has remained isolated from international turbulences. For more explanations, see Tanzania's first Economic Update.

13 The price of basic consumer goods is in general higher in Tanzania than on world markets as reported earlier.

competitive firms will not be able to access the global market without effective, quick and low cost transport links.

The need for effective transport links is backed by both economic theory and international experience. The popular gravity model has shown that the intensity of trade between two countries is largely determined by distances and transport costs between them¹⁴ The two factors are obviously correlated, but not absolutely. In particular, virtual connectivity facilitated by the development of new technologies has reduced the importance of distance.

Also, the most direct route is not the cheapest one, especially in Africa. It is currently less costly to take a plane from Dar es Salaam to Maputo via Johannesburg than to fly directly between these two cities, despite the fact that Johannesburg is located considerably further away. The map in Figure 22 illustrates the trade costs between China and the rest of the world.¹⁵ It can be seen that the cost of trade between China and Africa is higher than between China and Brazil or France, despite greater proximity to the final destination in the former case.

In 2010, it was nearly 70 percent more expensive to trade between Tanzania and China than between Brazil and China, despite Brazil being nearly double the distance¹⁶ To address this, measures to reduce logistical infrastructure costs and other trade barriers must be implemented by the Government.

The priority for Tanzania should be to reduce its transport costs to facilitate trade with the rest of the world. Since approximately 90 percent of Tanzania's international transactions transit through the port of Dar es Salaam, improvements to this facility should be prioritized by policy makers. Although transport costs are partially determined by factors other than the port, it is difficult to foresee a large reduction in costs without a big improvement in port efficiency.

For example, it is estimated that it takes on average seven days to transport goods from Dar es Salaam to the Zambian border (counting for the poor infrastructure and administrative delays).¹⁷ By comparison, the waiting time, including anchorage and dwell time, at the port of Dar es Salaam was generally higher than 20 days (as of mid-2012).

The port of Dar es Salaam is important not only for Tanzania but also for her neighbors. Access to the ocean is a big natural advantage for Tanzania, since transport costs are automatically higher for Zambia, Eastern DRC, Burundi and Uganda, with all of these countries having to transit their merchandise through the port of Dar es Salaam. As a result, transit trade counts for as much as 50 percent of exports and 32 percent of imports, making the Dar es Salaam port the second most important gateway for regional trade in East Africa after Mombasa (Figure 22). Source: World Bank Databank

Tanzania should diversify its exports, concentrating on exports involving more labor-intensive activities.

14 James E. Anderson, *The Gravity Model*, Annual Review of Economics, vol. 3 (2011), 133-160.

15 Trade costs include exogenous factors such as geographical distance, transportation costs and common features between trading partners, such as language, history or participation in the same economic community. Trade costs also include endogenous trade costs such as logistics performance, trade facilitation bottlenecks (border control/transit systems with third countries), tariffs and non-tariff measures

16 <http://www.distancefromto.net/distance-from/Tanzania/to/China>

17 Source: V. P. Msamba, *Non-Tariff Barriers along the Dar Corridor*, 2012. This is the average time from the gate in Dar es Salaam to Kasumulu on the corridor

Figure 21: Bilateral Trade Costs with China, 2009

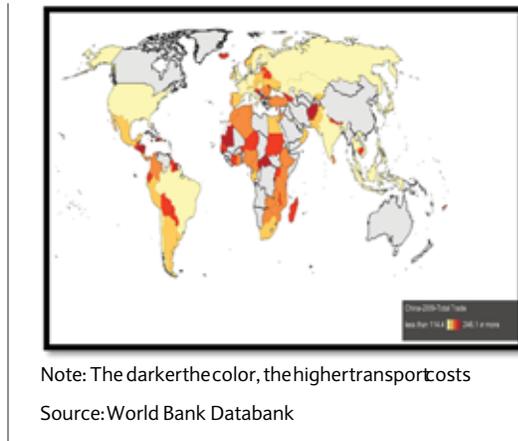
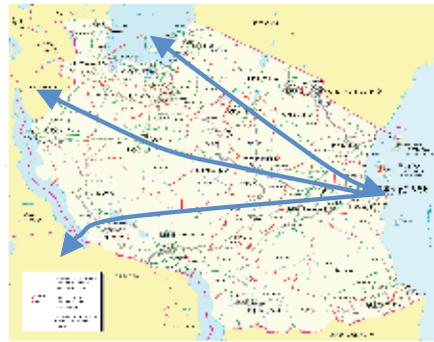


Figure 22: Tanzania' three main hinterland corridors



Reducing transport costs through the port of Dar es Salaam could be achieved through the realization of economies of scale and through internal efficiency gains. Regarding economies of scale, progress will be difficult to achieve in the near future because the volume of trade through this port remains small compared to large ports around the world. In 2010, Durban was six times busier, while Shanghai, the world's busiest port, was nearly 70 times busier than Dar es Salaam.

Part of the reason is that Tanzania remains far from the busy international trade routes, being ranked only 86th in UNCTAD's Liner shipping Connectivity index,¹⁸ behind South Africa (31st), Ghana (64th) and Kenya (85th) on the African continent.

Improvements in Dar es Salaam's port will therefore be critical for the country's

effort to reach out to the world.¹⁹ The Government must address the inefficiencies in the port to ensure Tanzania and its landlocked neighbors can maximize the benefits of trade through greater physical connectivity.

As a preamble to the analysis presented in the second part of this economic update, Tanzania and regional countries could earn as much as USD2.6 billion per year if the efficiency of the port was equal to that of the Mombasa port.

These benefits will occur through cheaper and more diversified imports, which will translate into monetary gains for local consumers and firms. In turn, this will stimulate the country's aggregate demand and productivity, resulting in a higher level of more equitable economic growth.

The priority for Tanzania should be to reduce its transport costs to facilitate trade with the rest of the world.

18 UNCTAD (2012) 'Review of Maritime Transport 2012. UNCTAD's liner shipping connectivity index is generated from five components: the number of ships; the total container carrying capacity of the ships; the maximum vessel capacity; the number of services; and the number of companies that deploy container ships on services to and from a country's port. The data is derived from Containerization International Online.

19 The port of Dar es Salaam is not the only option, as other ports are already operational or are envisaged along the coast in Tanzania. But these alternatives, while useful, will take time to be developed. Improving the efficiency of the Dar es Salaam, on the other hand, is a short-term priority.

2

Transforming the Port of Dar es Salaam to Drive Growth



Part 2: Transforming the Port of Dar es Salaam to Drive Growth²⁰

- The port of Dar es Salaam is the second largest in East Africa after Mombasa's. The current inefficient state of the port acts as a constraint against trade and limits economic expansion for both Tanzania and for neighboring landlocked countries.
- The port of Dar es Salaam is considerably less efficient than the Mombasa port. In 2012, if the port of Dar es Salaam had been as efficient as Mombasa's, Tanzania and its neighbors could have gained over USD 2.6 billion.
- Although the Tanzanian economy would benefit overall from a more efficient port, there has been resistance to reform by vested interests that are able to take advantage of the status quo.
- The authorities have initiated a set of actions, replacing top officials in the Board of the Tanzanian Port Authority and implementing simple but effective actions. These reforms have begun to generate a momentum for change.
- Looking forward, further actions are needed, notably by incorporating end-users in the reform decision process, strengthening competition among port operators, and reducing corruption.

In June 2012, an observer driving along the peninsula in Dar es Salaam would have seen up to 15 ships waiting in line for a berth in the port. While the scene was superficially photogenic, with the ships' lights twinkling like stars in the night, it was costing the economies of Tanzania and its neighbors more than USD 2.6 billion per year. Paradoxically, however, a small group

of individuals and business entities were profiting significantly from the inefficient state of the port.

The port of Dar es Salaam, the second largest in East Africa after Mombasa's, has significant scope for improvements.

The current inefficiencies act as a constraint against trade and hinder economic expansion both in Tanzania and in its

²⁰ This section is based on a recent World Bank study: J. Morisset, C. Moret, J. Regolo, How to Push Efficiency Enhancing Reforms in the Port of Dar es Salaam? The World Bank, November 2012. The study can be found at www.worldbank.org/tanzania/economicupdate. While references are listed in the text, information was also collected from face-to-face interviews during June of 2012, including with African shipping Limited General Manager, Diamond shipping Services Managing Director, GAPCO Managing Director, Maersk (Nyota) Managing Director, MOL (Inchcape) Operation Manager, NYK (Wosac) General Manager, Rais shipping Services Operations Manager, SDV (AMI) Managing Director, Seaforth Managing Director, Sturrock Operation Manager, Tanzania Freight Forwarder Association Management, Tanzania Railways Limited Managing Director, Tanzania Zambia Railway Managing Director, TICTS Commercial Manager, TPA Principal Planning Officer, TRA Trade Facilitation Manager.

The port of Dar es Salaam, the second largest in East Africa after Mombasa's, has significant scope for improvements.

neighboring landlocked countries. While the length of delays at the port fluctuate over time, average cumulative delays at anchorage and dwell time exceeded 20 days in mid-2012, compared to an international average of approximately 3-4 days. In addition, official and non-official fees were high, numerous and inconsistently applied.

The inefficiencies of the port also have a direct negative impact on the daily lives of Tanzanians. Households consume imported wheat and rice that enters the country through the port. The same is true of cars, gasoline, phones and computers. Patients in hospitals depend on imported medicines. Farmers depend on fertilizers purchased abroad. In total, the value of the merchandise passing through the port amounted to up to USD15 billion, a sum equivalent to 60 percent of Tanzania's GDP in 2012.

The lack of enthusiasm for reforms is largely due to the asymmetric distribution of benefits and costs associated with the current inefficiency of the port. While only a few players benefit from the inefficiencies, the real costs are diffused among multiple consumers, firms, and households across the country. Other contributing factors include a lack of awareness of the costs by most consumers and firms, the unequal distribution of these costs, time lags between costs and benefits associated with reforms, and the lack of capacities to coordinate decisive actions. These factors explain the extremely high level of inefficiency at the port of Dar es Salaam: they also suggest the directions that must be taken to implement efficiency-enhancing reforms.

On a positive note, there are signs that the Government is willing to implement the necessary reforms. A number of bold, positive measures have been initiated by

the authorities, such as the replacement of five directors of the Tanzania Port Authority. This has already resulted into significant improvements, reducing delays and, more importantly, reducing corruption. However, the Government must sustain this momentum to address persistent structural deficiencies.

2.1 How bad is the Port of Dar es Salaam?

Approximately 90 percent of Tanzanian trade transits through the port of Dar es Salaam. This port is also a gateway for international trade for East Africa's landlocked countries, including Zambia, Uganda, DRC, Rwanda and Burundi.²¹ The port's performance is important for a large variety of consumers and firms operating in Tanzania and in neighboring countries.

The recent KMPG/World Bank survey of senior managers at 100 mid-size companies indicates that 29 percent of these managers consider the inefficient state of the port to be a severe constraint. This is lower than the proportion that identified road quality as a severe constraint, but about the same as those that identified the efficiency of electrical energy supply and much higher than the proportion that identified the state of railways, air transportation and communications as constraints (see Box). Furthermore, the current state of the port is reportedly affecting all surveyed firms, although to different degrees depending on their activities.

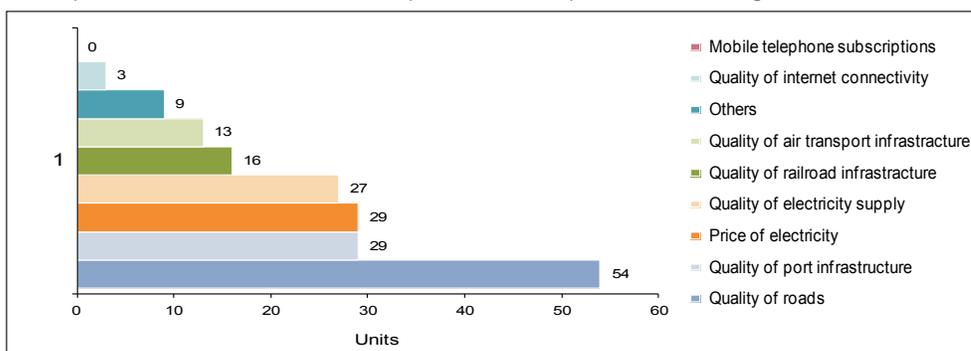
Given the strategic importance of the port of Dar es Salaam for Tanzania and the region, it is critically important to evaluate its performance in facilitating the efficient transit of goods. How does it compare with other ports in the region, particularly the port of Mombasa in neighboring Kenya?

21 Of all throughputs, 65 per cent is for Tanzania, 13 per cent for the DRC (mainly Katanga), 12 per cent for Zambia, 8 per cent for Rwanda and Burundi (4 per cent each), 2 per cent for Malawi and 1 per cent for Uganda.

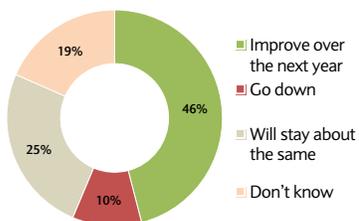
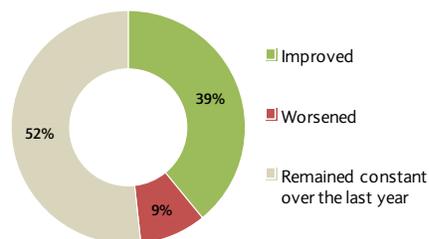
**SPECIAL TOPIC: DAR ES SALAAM PORT
A KMPG-WORLD BANK INITIATIVE**

The majority of surveyed senior managers at 100 top mid-sized Tanzanian businesses believe that in terms of the infrastructure that they require to conduct their businesses, transportation is the most important, considerably more important than energy and communication. Their main concern is the quality of roads (54 percent) followed by the quality of the port (29 percent). The performance of the port of Dar es Salaam affects almost all surveyed businesses (96 percent), with 35 percent of the managers stating that it was ‘extremely’ or ‘considerably’ important.

1. **What is the most problematic infrastructure constraint for your business?** With regards to infrastructure constraints to doing business, 54 percent of the respondents stated that the quality of roads was the most problematic factor. The cost of electricity and the quality of the port infrastructure both tied as the second most problematic factors, with 29 percent of respondents stating so.

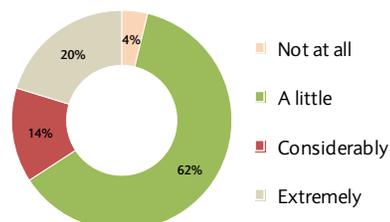


2. **How do you rate the performance of Dar es Salaam port in early 2013 compared to last year?** The majority of the respondents (52 percent) felt that the performance of the DSM port has remained constant over the last year, while 39 percent felt it had improved and 9 percent felt it had worsened.



3. **How will the performance of the port evolve next year?** Forty-six percent of the respondents stated that they believed that the performance of the port would improve over the next year, 25 percent stated that it would stay the same, 19 percent didn't know and 10 percent stated that performance would decline.

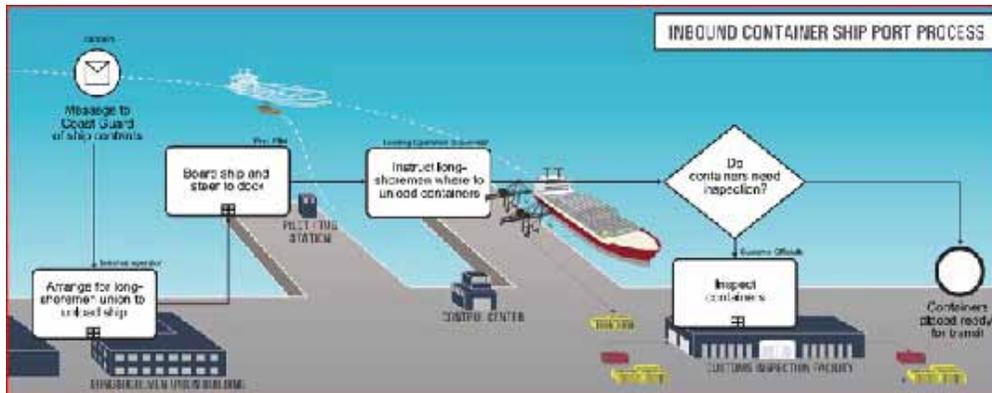
4. **To what extent does the current state of the port harm your business?** Sixty-two percent of the respondents said that the port's effectiveness harmed their business slightly, 20 percent said extremely, 15 percent said considerably and only 4 percent said that the port's effectiveness didn't harm their business at all.



An efficient port facilitates the transit of merchandise into and out of the country at the lowest possible cost and in the shortest possible time frame. For imports, the transit process is characterized by the following chain of operations: (a) anchorage; (b) berthing; (c) merchandise unloading;

(d) customs clearance, and (e) exiting the merchandise from the premises. The chain is reversed for exports. The faster the port is in handling this chain of operations, the lower the costs for importers and exporters and the greater the benefits for the economy.

Figure 23: The chain of transactions in the port



The quality of performance of the port of Dar es Salaam has varied over time. As a result of privatization in the 1990s, the port became one of the most efficient in Sub-Saharan Africa. However, its performance deteriorated gradually up to the mid-2000s and it is now very inefficient, despite renewed efforts by the port authorities to implement reforms, such as the establishment of an electronic single window system and the facilitation of direct delivery of cargo.

The inefficient state of the port can be measured by the delays and payments that users experience in the port of Dar es Salaam compared to those they would face in the port of Mombasa.²² By mid-2012, the main symptoms of the port's inefficiency were long delays, first at anchorage,

and secondly in the series of operations necessary to remove merchandise from the port (the so-called 'dwell time'). Port tariffs were also much higher than in Mombasa. For the five operations described above, the total cumulative cost of delays and additional monetary payments compared to Mombasa are equivalent to a tariff of 22 percent on container imports and of about five percent on bulk imports (see Table 5).

For energy imports, which make up 35.5 percent of total imports, the extra delays and fees on liquid bulk are equivalent to a tariff reaching up to 37 percent. Inefficiencies for exports, however, are lower due to limited customs processing and cheaper freight rates for outbound cargo.

The inefficient state of the port can be measured by the delays and payments that users experience in the port of Dar es Salaam compared to those they would face in the port of Mombasa.

²² The World Bank Logistical Index provides some information about the efficiency of the port in Tanzania. However, due to its wide scope and limited data availability this indicator remains imperfect for a throughput study of the port of Dar es Salaam. Our methodology is similar to the one adopted by Kent P. E. and A. Fox (2004). "The Broad Economic Impact of Port Inefficiency: A Comparative Study of Two Ports", USAID.

Table 5: Total additional costs due to the inefficiency of the port compared to Mombasa, (USD per ton or indicated), May-June 2012

		Bulk	Container
Local Imports	Direct monetary costs	11.4	16.2
	Cost of waiting at anchorage	8.6	57
	Cost of storage in the port	None	5.40
	Inventory cost	3.4%	15.9%
	Tariff equivalent (total)	5.2%	21.7%
Transit	Direct monetary costs	7.9	13.9
	Cost of waiting at anchorage	8.6	57
	Cost of storage in the port	None	2.8
	Inventory cost	3.4%	17.6%
	Tariff equivalent (total)	4.9%	22.8%

Note: The tariff equivalent is computed as the sum of the direct monetary costs, the cost of waiting at anchorage and the inventory cost, based on an average value of USD1'358 per ton for container imports and USD1'137 per ton for dry bulk imports

INEFFICIENCY IN NUMBERS



Container vessels queue an average of 10 days for berthing with another 10 days of well time.



The inefficiency of the port of Dar es Salaam is equivalent to a trade barrier of 22 percent on the merchandise imported by containerized cargo.



The first delay faced by shipping companies involves the time at anchorage. As of May/June 2012, container vessels were queuing for 10 days on average, and up to 25 days, while waiting for a berth in Dar es Salaam. By contrast, the waiting time was less than one day in Mombasa (see Table 6). The delays in Dar es Salaam was mainly due to congestion at the berth resulting from non-adapted unloading equipment, such as slow cranes²³ or too few cranes and to sub-optimal call sequencing of vessels (first come, first serve).

Bulk imports were also indirectly affected by the long waiting time for container vessels, since conventional berths have become increasingly congested due to the relocation of several container services in the TPA conventional terminal. Waiting time at anchorage reaches an average of 4.5 days for dry cargo, while there is no waiting time in Mombasa. This is in part due to a larger number of berths in Mombasa (16 compared to 11 in Dar es Salaam).

The first delay faced by shipping companies involves the time at anchorage.

²³ 14 MPH in Dar es Salaam compared to 18 MPH in Mombasa. This is the average net ship working rate at the Mombasa Container Terminal, which only handled 43 percent of all container volumes in the port. These rates can be compared with a net ship working rate of 40 TEU/Hour at Durban (Pier 1) and 47 TEU/Hour at Durban (Pier 2). In terms of annual throughputs by length of quay the Dar es Salaam Container Terminal Handled 451 TEU/m, Mombasa Container Terminal 533TEU/m, Mombasa other berths 356 TEU/m and Durban 694 TEU/m on Pier 1 and 846 TEU/m on Pier 2.

The excessive dwell time at the port of Dar es Salaam is due to slow processing, particularly the processing of customs clearances, and excessively long storage periods.

The second major cause of delays at the Dar es Salaam port is the excessively long 'dwell time', or the time taken to unload merchandise and to clear and exit it.

In mid-2012, the average dwell time at the Dar es Salaam port was 10 days. The delay for transit amounted to 17 days on average. By comparison, it takes about 3-4 days in Mombasa (and about 10 days for transit) and only 48 hours in many East Asian ports. These average figures mask significant variations, not only on the basis of different types of transactions and processes, but also over time. For example, the average dwell time in the TPA terminal was as low as five days in October 2011, while it exceeded 23 days in February 2011. There are some indications that the length of delays has declined quite significantly in early 2013, although it is not clear whether this is a sustainable improvement or whether it merely falls within the widely varying range. Surprisingly, there does not appear to be a significant correlation between the length of delays and the volume of traffic, which could be explained in terms of longer dwell times during periods of intense activity due to congestion.

The excessive dwell time at the port of Dar es Salaam is due to slow processing, particularly the processing of customs clearances, and excessively long storage periods. The efficiency of the customs

clearance process actually seems to have declined in recent years, with only 24 percent of shipments being cleared in 24 hours or less in April 2012, compared to 87 percent in February 2010. Long storage periods are partly explained by the lengthy customs clearance procedures; low storage fees; inadequate inland container depots (ICDs); congestion at the port gate; and customer and agent behavior.

These long delays created financial losses for shippers and shipping companies, resulting in increases to their inventory, storage and anchorage costs.

These costs may in turn be passed on to consumers. In terms of equivalence to tariffs, using the model developed by Hummels for 1,248 categories of goods (HS4 classification), inventory costs were calculated to be equivalent to a tariff of 0.76 percent per day for bulk imports and of 0.97 percent per day for container imports.²⁴ Storage fees, which are applied during the dwell time, were estimated to be around USD 5.4 per ton (and USD 2.8 per ton for transit) given a storage cost of USD 20 per day for a 20ft container (after a free storage period of seven days for local imports and of 15 days for transit).

The total annual anchorage costs were estimated to be around USD 252 million, or USD 57 per ton for imported containers and USD 8.6 per ton for bulk imports in 2012.

24 Hummels, D. (2007). "Calculating Tariff Equivalents for Time in Trade," USAID Report.

Table 6: Comparison of port efficiency for containers between Dar es Salaam and Mombasa, May-June 2012.

Containers								
Indicators:		Waiting time at anchorage	Cargo dwell time	Gross berth productivity	Cost/price for shipping companies	Cost/price for shippers	Total cost	Total cost
Unit:		days	days	MpH	USD per TEU	USD per TEU	USD per TEU	USD per Ton
Dar Es Salaam	Exports	none	6	14	118.2	263.0	381.2	29.9
	Imports	10	10	14	118.2	366.8	485.0	38.1
	Import transit	10	17	14	118.2	320.0	438.2	34.4
Mombasa	Exports	0	4	18	128.9	150.0	278.9	21.9
	Imports	0	4	18	128.9	150.0	278.9	21.9
	Import transit	0	9	18	128.9	132.0	260.9	20.5

Note: These figures have been collected during a field mission in May/June 2012 with the collaboration of the main port operators (TPA and TICTS) and interviews with several port users (see references).

In addition to the excessive delays, the cost of fees imposed by port operators and agencies in the port of Dar es Salaam are significantly higher than in Mombasa. The official port fees were on average 74 percent higher in Dar es Salaam than in Mombasa, mainly as a result of higher wharfage charges, with the port of Dar es Salaam charging fees in proportion to the value of the merchandise, while the port of Mombasa charges simple flat fees.²⁵ The total extra direct cost was approximately USD 16 per ton for container imports and USD 11.1 per ton for bulk imports in mid-2012.

The relative inefficiencies at the Dar es Salaam port compared to Mombasa are equivalent to an additional tariff of 22 percent on container imports and 5 percent on bulk imports. However, these costs do not include unofficial payments made by shippers and clearing agents, which in the port of Dar es Salaam may be significant. In this case, corruption is both a source of inefficiency and a direct result of inefficiency, with non-official payments becoming necessary to facilitate processes.

The magnitude of the potential for corruption within the port of Dar es Salaam can be illustrated by estimating how much an importer would be ready to pay to reduce delays. In principle, an importer with merchandise valued at USD 1,358 per ton may be prepared to pay up to USD 17.4 per ton to speed up the process of its container by one day, given that this is equivalent to the cost associated with an extra day's waiting time. For bulk imports, the equivalent cost of an extra day's waiting time for merchandise valued at USD 1,137 is USD 10.6 per ton.

Another way to estimate the possible level of corruption in the port is to examine the variations in the valuation of import invoices at customs. Data from the Tanzania Revenue Authority (TRA) show that the customs values associated with a set of relatively homogenous goods varied significantly in 2011. For example, the stated customs value for one kilogram of imported fertilizer ranged from USD 0.39 to USD 5 per kilogram, while global prices for this commodity ranged around USD 0.6-0.8 per kilogram. The ratio between the highest and

Corruption is both a source of inefficiency and direct result of inefficiency, with non official payments becoming necessary to facilitate the processes.

25 Tariff Book of Port Dues and Charges.

In 2012, the total global welfare loss resulting from inefficiencies at the port was estimated to reach a value of USD 1,759 million for the Tanzanian economy and USD 830 million for the economies of neighboring countries.

lowest reported customs value was 152 for rice and 33 for palm oil. While variations in the actual price of these commodities may be attributable to volatility in international prices and to variations in quality, it is reasonable to suspect that such wide-ranging variations may be the result of poor reporting or corrupt behavior.

2.2 Perverse Incentive Structures:

Rewarding inefficiency

By mid-2012, the costs associated with inefficiencies at the port of Dar es Salaam were equivalent to a tariff of 22 percent on containerized imports and five percent on bulk imports. This extra cost has significant implications for the Tanzanian economy and the economies of neighboring countries.

The cost of inefficiency for the economy

At the aggregate level, the estimated total welfare loss resulting from inefficiencies at the Dar es Salaam port can be calculated by examining the impact of equivalent tariffs on local producers, consumers, and the Government.²⁶ All of these parties suffer losses as a result of the higher final prices and the lower volumes of imports. As a result of the inefficiencies at the port, the cost of imported intermediary products is higher for local producers and the

purchasing power of consumers is eroded. With the increased cost of imported goods, the demand for these goods decreases, resulting in declines to consumption levels and to welfare. Thus, inefficiencies at the port contribute to a reduction in the value of imported goods by an estimated USD 2.4 billion, or 25 percent of the total volume of imports in 2012.

This lost potential also reduces tariff revenues for Tanzania and reduces benefits for port operators, who handle a lower volume of merchandise than would be the case were the port managed efficiently. Finally, the inefficiency of the Dar es Salaam port affects neighboring landlocked countries in a similar way, increasing transit costs and thus resulting in a lower volume of trade (For a summary of the global costs associated with the port's inefficiencies, see Table 7).

In 2012, the total global welfare loss resulting from inefficiencies at the port was estimated to reach a value of USD 1,759 million for the Tanzanian economy and USD 830 million for the economies of neighboring countries. Contributing to these losses, the port's inefficiencies resulted in losses to revenues collected by government agencies (TPA and TRA) to

26 While details on the methodology used to derive those estimated losses can be found in the background technical paper, it is worth emphasizing that the extra-tariff associated to the port inefficiency is assumed to be fully transmitted to end-user prices rather than to be absorbed by a reduction in the margins of intermediaries. This assumption reflects the market power of most intermediaries who are facing little competition from domestic producers. The average price elasticity of imports of 0.98 is aligned on the values found in recent studies on Tanzania and other Sub-Saharan economies but welfare losses remain significant for elasticity values ranging from 0.41 to 1.53. Simulations using different import demand price elasticities for specific categories of imports in Tanzania were also conducted with similar results. This approach remains illustrative as it fails to incorporate the multiple dynamic effects that are expected on the Tanzanian economy over time. For example, the port inefficiency increases the cost of imported fertilizers that will be therefore less used by farmers. While this initial cost is calculated, the substitution and complementary effects arising from this first-round impact are not to be included because they would require the use of a complex general equilibrium model. It was also assumed that importers behave the same way independent of the length of the delays and that variations in the port efficiency do not affect other bottlenecks along the trade transaction chain, e.g., congestion outside of the port, on the inland transport side.

a value of approximately USD 157 million. These losses are equivalent to approximately three percent of annual public revenues, representing a significant lost opportunity for the Government in terms of its ability to make additional investments in education, health and other vital public services to improve Tanzanian citizens' welfare.

Table 7 : The global cost associated to the port inefficiency in 2012, USD million

Impact	Local Imports	Transit	Total
Welfare loss	1'759.1	830.1	2'589.2
Excluding liquid bulk (petrol)	772.1	297.4	1'069.5
Imports decline	1'758.5	649.8	2408.3
Container	865.2	291.9	1167.1
Bulk	74.6	33.0	107.6
Liquid bulk (petrol)	818.7	324.9	1'143.6
Government revenues losses	154.6	2.4	157.0
TRA	148.8		148.8
Import duties	54.2		54.2
Tax revenues	84.6		84.6
TPA	5.8	2.4	8.2
TICTS revenues losses	12.0	5.4	17.4

Source: Morel, Morisset, Regolo (2012)

The costs associated with the inefficiency of the port have significant implications for households. Based on the average level of consumption by Tanzanian households, it is estimated that these households could have saved 8.5 percent of total expenditures, or USD 147 per year, if the port of Dar es Salaam had been as efficient as Mombasa's.²⁷ This shows that the inefficiency of the port not only has a significant negative impact on the country's economic growth, but also on the welfare of many Tanzanian households, particularly the poorest ones. The inefficiencies of the port contribute to an increase in food and energy expenditures that together account for three quarters of low income households' consumption basket.

The impact of the inefficiencies of the port on the Tanzanian economy can be further illustrated by a more detailed description of two strategic goods. The first example is cement, which constitutes a significant proportion of Tanzanian imports. Cement is the main input for a number of domestic activities, most notably construction (eight percent of total costs) and for the production of glass (five percent). The extra tariff of five percent due to the inefficiency of the port increases the price of imported cement, thereby providing significant protection for local producers, who are able to increase their prices due to the high cost of imports. As a result, the price of cement is much higher in Tanzania than in Kenya or other producer countries. The close relationship

Based on the average level of consumption by Tanzanian households, it is estimated that these households could have saved 8.5 percent of total expenditures, or USD 147 per year, if the port of Dar es Salaam had been as efficient as Mombasa's.

27 Leyaro V. (2009). "Commodity Price Changes and Consumer Welfare in Tanzania in the 1990s and 2000s", School of Economics, University of Nottingham, UK.

In particular, the storage tariff structure does not encourage importers to remove their merchandise from port premises in a timely manner.

between local and imported prices in the cement sector has been confirmed by many recent studies. As an example, local cement prices decreased from Tsh15,500 in June 2008 to Tsh10,500 in October 2009 when the Government decided to temporarily remove duty on the importation of cement from outside the EAC in 2008.²⁸

For fertilizers, the added cost due to the inefficiency of the port is equivalent to an extra tariff of 5.2 percent. Due to the limited competition faced by importers, this is almost fully passed on to consumers through higher retail prices. The increased cost of fertilizers leads to their under use, thereby contributing to low productivity and to lack of competitiveness in the agricultural sector. This sector is central to the Tanzania economy, contributing up to 25 percent of the GDP and providing employment to 75 percent of the working population. This cost also undermines the impact of the Government's subsidized fertilizer programs. While these programs are aimed at reducing the price of fertilizers for farmers, inefficiencies at the port contribute to increased prices. Therefore, from the Government's perspective, it might be more rational to improve efficiency at the port (a one-time cost) than to dedicate a significant amount of public resources on farmers' assistance programs every year.

Gains for targeted groups

Ports are generally good businesses if: (a) there is a sufficient volume of transactions to generate economies of scale and adequate returns on initial investments;

and (b) there is limited competition from other ports or other transport networks and between port operators. These two conditions are met in the case of the port of Dar es Salaam. The main stakeholders in the port of Dar es Salaam are the Tanzania Port Authority (TPA), which is the landlord authority and service provider; the Tanzania International Container Services (TICTS), a private container stevedoring contractor; and the Surface and Maritime Transport Authority (SUMATRA), the multi-sectoral regulatory agent.

While there is no doubt that the port of Dar es Salaam is an important source of revenue, it is difficult to determine who benefits from its current state of inefficiency and institutional set-up. Our analysis suggests that a number of parties stand to gain significantly from the current state of inefficiency as a result of: (a) the distorted incentive structure at the port; (b) the prevalence of corruption; and (c) the extra protection for local producers.

Some parties may gain from the conflict of interests in the existing incentive structure at the port. In particular, the storage tariff structure does not encourage importers to remove their merchandise from port premises in a timely manner. However, this structure benefits the Tanzania Port Authority (TPA), the Tanzania International Container Terminal Services (TICTS) and ICDs, since when dwell time exceeds the free storage period of seven days, each additional day of storage represents a direct additional profit for them. The total revenue from additional storage collected by the

²⁸ Fair Competition Commission of Tanzania, (2010). "Assessment of competition in the Tanzania Cement market", research and advocacy division.

TPA and TICTS reached a value of around USD 14.5 million in 2011. In addition, many ICDs generate a profit only when there is a long storage time, as it is estimated that merchandise must be stored for at least 14 days to cover the operating costs of most ICDs. Another example of perverse incentives is that the TPA is able to earn more revenues when TICTS becomes less efficient. When the berths managed by TICTS are congested, a portion of container traffic is redirected to the TPA berths, leading to an unusual situation where the landlord is competing against its own service provider. The additional revenue generated by container traffic for the TPA was estimated to reach a value of around USD 36.5 million in 2011.

Some parties may gain from corrupt practices made possible by the level of inefficiency of the port. Rent-seeking behavior has been exacerbated by the use of discretionary rules that contribute to the typical asymmetric information problem between administration and users.²⁹ Custom duties, invoice valuations, and port rules are frequently modified by agencies without any detailed explanations. Not only are users not well informed, but many agents apply unclear or out of date rules. This rent-seeking behavior is encouraged by the quasi-absence of controls and sanctions and poor enforcement of existing rules. TICTS has no real competitor except for TPA. Customs' officials have substantial discretionary powers in terms of clearing goods, since only one quarter of the total volume of imported merchandise goes through the green channel. In addition,

internal and external supervision is limited, with ineffective appeals mechanisms. As a consequence, discouraged traders often prefer to pay unofficial fees negotiated with officials.

Several conflicts of interests facilitate the likelihood of corrupt practices. For example, TICTS is a joint venture between an international private company and a number of local private investors. However, there is no clear information regarding the identities of these investors: in 2008, a major scandal revolved around the revelation that one of these investors was a top government official. The TPA plays a dual role as both operator and landlord. The Surface and Marine Transport Regulatory Authority's (SUMATRA) limited capacity and knowledge creates a high risk of corruption by agents and operators, since neither the formula nor the benchmark upon which the imposition of fees and charges is based on is transparent. Other conflicts are found in the cumulating roles of some local shipping agents that are also involved in forwarding and ICD operations, in contradiction to Tanzanian law. While there is no reason why shipping agents/lines should not participate in logistical activities, the law should be applied clearly and fairly.

Some parties are set to gain as a result of the extra-protection for local producers. For containerized cargo, this protection is equivalent to a tariff of 22 percent, or about three times the weighted average duty tariff on total merchandise trade in Tanzania. Such protection allows local firms to increase their margins or to produce inefficiently, with end users having to absorb the attendant costs. The extra-protection

Rent-seeking behavior has been exacerbated by the use of discretionary rules that contribute to the typical asymmetric information problem between administration and users.

²⁹ This information asymmetry is exacerbated by the fact that about 94 percent of port transactions (not in value) are generated by small importers (one or two container per year) who are generally much less informed than large companies.

Despite the large costs involved, several private investors and donors have already expressed willingness to finance most of the investment.

also favors importers, especially those who can act collusively. Monopolist importers can take advantage of variations in delays and operating costs by setting their prices to the highest possible cost, even if these costs are variable over time. Such profit maximizing behavior is more likely for goods that have relatively low price elasticity values, such as food. With few incentives to remove their goods from storage facilities in a timely manner, importers could also store their cargo in the port until the price peaks in an upward season. They can also create artificial shortages in the local market and delay deliveries until market prices rise.³⁰

2.3 Resistance to reform: Unequal bargaining power of winners and losers from the status quo

Tanzania and its neighbors could have gained approximately USD 2.6 billion in 2012 if the port of Dar es Salaam had been as efficient as the port in Mombasa.

Given that this should be a realistic target in the short to medium term, why are policy reforms to enhance efficiency moving so slowly? The conventional response is that the Government (or TPA) does not have sufficient financial resources to implement the necessary reforms. Several studies have estimated that the total

cost of reforms could range from USD 1-2 billion over a period of five years.³¹ These costs include the cost of developing and/or rehabilitating infrastructure within and outside the port and modifying existing systems.³² Despite the large costs involved, several private investors and donors have already expressed willingness to finance most of the investment.³³ In addition, there are several inexpensive reforms to the soft infrastructure of the port that could greatly improve the situation. Such ‘quick win’ reforms include reforms to the sequencing of vessels to improve the dwell time. The ‘Big Results Now’ laboratories³⁴ have looked at these in detail.

While financial constraints are part of the explanation for the slow progress in implementing reforms in the port of Dar es Salaam, the lack of progress is largely the result of the asymmetric bargaining power between winners and losers. In other words, the status quo is to a large extent maintained because winners are more powerful than losers in influencing decision makers, even if the level of the gains of the winners are much lower than the level of losses for the general economy.³⁵ In the port of Dar es Salaam, some major winners are themselves state entities,

30 Arvis, Jean-François, Gaël Raballand, and Jean-François Marteau (2010). « *The Cost of Being Landlocked: Logistics Costs and Supply Chain Reliability* », World Bank.

31 Dar es Salaam port identification of key constraints critical for improving economic growth and reducing poverty, January 2009. Tanzania National Audit Office and Public Financial Management Working Group.

32 Feasibility study for new container berths Dar es Salaam, (2009). CPCS Transcom International Limited.

33 Pre-feasibility study, review of PPP options and recommendations concerning the optimum option for establishment of a container freight station in Dar es Salaam (Kisarawe Freight Station), December 2010, Ecorys Nederland BV.

34 To speed up reforms in priority areas, the Tanzanian Government has committed itself to adopt and customize the Malaysian BIG FAST RESULTS model “to suit the Tanzanian environment” and to work with the Malaysian authorities to deliver this. This new approach was initiated in early 2013 through the organization of six ‘labs’ in education, transport, energy, revenue mobilization, agriculture, and water. These labs brought together stakeholders with the objective to identify key actions to be implemented before 2015. These actions will be monitored by the President’s office with high accountability from concerned Ministers.

35 Baldwin R. and F. Robert-Nicoud, (2007). “*Entry and Asymmetric Lobbying: Why Governments Pick Losers*”, Journal of the European Economic Association, MIT Press, vol. 5(5), pages 1064-1093, 09.

while stakeholders like TICTS enjoy a disproportionate amount of clout. Similarly, those benefitting from the extra-protection provided by port inefficiency are among the largest firms operating in the country, with significant market power and connections.

There are several explanations for the lack of bargaining power of those who suffer losses due to the inefficiency of the port. First, the losses are diffused among many end-users (consumers and investors) whose direct connections with policymakers are limited. For example, in the cement sector, losers consist of consumers, the bulk of whom consist of firms and households dispersed across the country. By contrast, there are only three major local cement producers, who benefit significantly from the status quo and who have a high level of influence.³⁶ Second, many consumers are not fully aware of the negative impact of port inefficiency on their own welfare. The marketing chain is long, with multiple intermediaries between the port and the consumers, including wholesalers and retailers. Third, the magnitude of the losses resulting from the inefficiencies varies significantly over time. For example, the cost associated with dwell time varies substantially across transactions.

In addition, there are coordination failures and time inconsistency issues. Coordination failures operate at two levels. The first level is within the port, where the responsibilities are diffused among different players, who often play conflicting roles (such as in the case of the TPA, who acts as both the operator and the landlord of the port). The second level is in port operators'

failure to incorporate the costs arising from inefficiency into their decision-making processes. This typical 'public good' problem leads to under-investment because the negative effects of the port's inefficiency are not taken into account by the port operators. Another example is found in the case of the TRA. Improved efficiency at the port would enable greater efficiency in tax collection, which in turn would substantially increase tax revenues. However, individual staff may lose as the result of reduced opportunities for rent-seeking. Consequently, there is no sense of urgency in favor of reforms.

Finally, the delayed impact of the benefits to be derived from improved port efficiency may partially explain resistance to reforms. While the gains will be significant in the long term, some actors might lose in the short term. In some cases, this relates to the perverse incentives described earlier. For example, TICTS and TPA would benefit from the higher volume of traffic over the long term. However, in the short term, these entities might lose up to USD 14 million per year in revenues derived from the imposition of fees for storage if average dwell times are reduced to less than seven days, considering that storage fees are only imposed for periods in excess of seven days.

2.4 Appetite for Change

Despite the intrinsic barriers to reform, there is now political will for change. Work has started at TPA to improve the efficiency and effectiveness of the port. The aim is to design and implement strategies that effectively facilitate the increased volume of

This typical 'public good' problem leads to under-investment because the negative effects of the port's inefficiency are not taken into account by the port operators.

³⁶ Fernandez, Raquel and Rodrik, Dani (1991). "Resistance to Reform: Status Quo Bias in the Presence of Individual-Specific Uncertainty." *American Economic Review*, 81 (5), pp.1146–55.

For Tanzanian policy makers, the modernization of the port of Dar es Salaam should be one of the top priorities for the economic development of the country.

trade and its changing nature through the development of an investment plan which makes TPA fully operational. The Minister of Transport has led some initial changes. In early 2013, the TPA Board was dismissed following investigations over the allegation of corruption by some of its members. This was followed by a restructuring of senior management.

In addition, the Government has implemented a number of other reforms that have had a significant positive impact on the efficiency of the port. The TPA has purchased three new mobile cranes, leading to a significant increase in moves per hour of up to 21 MPH (which is still low compared to facilities elsewhere in the world). Payments to TPA now have to be made through the banking system, rather than by cash, theoretically reducing opportunities for corruption. As a result of such measures, TPA's monthly revenues doubled between September and December 2012. Arguably, average waiting times at anchorage and dwell times also improved significantly in the first few months of 2013. However, it remains difficult to determine if this reflects seasonal factors, since these waiting times have been subject to significant fluctuations in the past, or if these reductions represent progress that can be sustained over time.

There is still significant scope for further improvements, for example through the provision of newer cranes in the TICTS. A feasibility study has been completed to identify how to modernize handling processes in a manner that addresses changing shipping and freight technology. The study includes a physical component that examines the viability of strengthening and lengthening quays. Detailed design work is ongoing and will take on board the

recommendations of the 'Big Results Now' transport laboratory. In summary, some improvements have been made, but there is still significant scope for positive change.

2.5 Recommendations: How to implement efficiency enhancing reforms
For Tanzanian policymakers, the modernization of the port of Dar es Salaam should be one of the top priorities for the economic development of the country. Achieving a level of efficiency in Dar es Salaam's port equivalent to that of Mombasa's, which is of average standard for African ports, could generate an estimated USD 1.7 billion in additional revenues for Tanzania, and about USD 800 million for its neighbors in the region. At around USD 2.6 billion per year, the cost of inaction is already too great. In addition, the port of Dar es Salaam might lose some of its existing market share in regional trade when other ports and railways become operational in neighboring countries.

This update concludes with five recommendations for enhancing the implementation of reforms in the port of Dar es Salaam. These suggestions do not list specific technical actions that could be implemented to improve port efficiency (For a description of such actions, see the box below). Rather, they propose a means for addressing the current low equilibrium and for pushing the rapid implementation of efficiency-enhancing reforms. While each objective is important, we believe that their combined impact is critical. Facilitating the achievement of this combined impact is central to the Government's recent 'Big Results Now' initiative, which has put improvements to the port at the center of the policy debate. This initiative has helped

to increase public awareness regarding the cost of the port's inefficiency and to pave the way for a new wave of reforms by bringing together port users, port operators, regulators and top policy decision-makers. However, a word of caution is necessary: the port is certainly the most important element of the logistical chain connecting Tanzania to the world, but it is not the only one. A chain can only be as strong as its weakest

link. Other elements in the chain also matter, such as transportation into and out of the port, notably in the Dar es Salaam area. While the Government should prioritize reforms to the port, it must also keep its eye on ensuring that the entire logistical chain enables a more efficient port to provide optimal benefits for all stakeholders in Tanzanian society.

There is a need to better explain and quantify the costs associated with the current situation to all stakeholders in Tanzania and in the sub-region.

What to do? Potential actions to improve the port efficiency

The discussion of proposed improvements in the port at Dar es Salaam is not a new conversation, and has been addressed by TPA, the Ministry of Transport, the World Bank, the EU, AfDB, Trademark EA and more recently in the BRN Labs. The following provides a summary aggregation of the key proposals from these various discussions:

1) Enhancing operational efficiency

- Introducing new standard operating procedures that reward good port-user behaviour, e.g. reducing the time it takes to move goods through the port
- 24/7 working windows for key stakeholders
- Maximizing spatial efficiency in the port area by restructuring and relocating facilities

2) Upgrade existing port facilities

- Construction of new multi-purpose (RoRo) berth at Gerezani
- Upgrading of grain silos
- Berth 1-7 modernization through concessioning to private operators (PPP), with separate container and bulk handling facilities
- Channel dredging works to improve access and efficiency of ship movements
- KOJ Relocation (berth 12), to improve safety and allow port expansion

3) Construct new port facilities

- Development of freight station at Kisarawe (PPP)
- Development of new berths 12-14, through concessioning to a private operator (PPP)
- Update the master plan for new capacity requirements, including study of new terminals at Vijibweni/Kigamboni, Tanga and Bagomoyo

The five recommendations for reform are as follows:

(a) Increasing end-users' awareness of costs related to port inefficiency:

Many end users are not aware of the negative impact of the inefficiencies at the port on their welfare. There is a need to better explain and quantify the costs associated with the current situation to all stakeholders in Tanzania and in the sub-region. The Government should take the lead in facilitating economic studies, mobilizing consumer groups and small business associations, conducting end-user surveys and creating a public awareness campaign including an information booklet setting out key processes and describing who is responsible for each of these processes.

(b) Reducing the bargaining power of those who currently benefit from the status quo:

This objective can be achieved by reducing existing conflicts of interest that contribute to the risk of collusive behavior at the expense of end-users. The first action should be to make the connections between TICTS and decision-makers transparent. This could be achieved by making public the names of the main local stakeholders of this company. The second action should be to eliminate the dual role of the TPA, which currently acts as both the landlord and as one of the two operators in the port. In addition, measures should be implemented to promote greater transparency in the financial accounts of the TPA.³⁷

Promoting a higher level of competition could also reduce the monopolistic power of current port operators. This can be achieved either through a 'big

bang' approach or through an incremental approach. The former would involve the introduction of new port operators and/or the privatization of the operating arm of TPA. The latter approach could be implemented by privatizing some activities, such as handling operations and maintenance, or by modifying some existing practices in the port that reduce the level of competition.

The following measures could be implemented, in descending order of priority: (a) modifying the call sequencing system for vessels from the current 'first come, first serve' system to fixed berthing windows for shipping lines;³⁸ (b) refocusing the role of SUMATRA by adopting transparent regulations based on benchmarks, rather than on discretionary rules; (c) revising the legal restriction preventing shipping companies from involvement in logistics activities, since the cost of fragmentation of logistics services is a key source of inefficiency (even though it might favor the use of local labor); (d) improving the efficiency of freight forwarders and clearing agents by removing inappropriate regulations, increasing transparency in their tariffs and activities, and penalizing those who operate outside the law. There is no clear reason for current regulations that stipulate that only local agents can clear cargo in Tanzania and that shipping agents and lines cannot participate in logistical activities.

(c) Reducing corruption: This would involve the imposition of a true zero-tolerance of corruption policy through a clear commitment from the top authorities, with serious monitoring and, when needed, credible sanctions. The use of benchmarks through an automated system would help monitor the performance of port operators

Promoting a higher level of competition could also reduce the monopolistic power of current port operators.

³⁷ Tanzania Port Authorities, Annual Report and Accounts 2009 – 2010.

³⁸ Of course one also has to ensure that any change from the first come first served principal at the port can be done equitably (and does not prevent new entrants into the market).

and the TRA. To reduce corruption, procedures should be simplified through the effective implementation and use of a one-stop clearing process.³⁹ In addition, the number of taxes and exemptions should be reduced. There is also a need to: (a) provide good remuneration packages and working conditions for customs agents to reduce the temptation to engage in corrupt practices; (b) intensify internal and external controls; and (c) implement credible sanctions in case of abuses or misuses. Customers should have access to independent and inexpensive appeal mechanisms.

The methodology used to calculate wharfage fees should be modified from a value-based system to a fixed-rate system. This would spare agents from the need to negotiate with clearing agents and importers and contribute both to speeding up the process and to reinforcing collaboration between private and public operators within the port. Another important action would be to revise the structure of storage fees so that the structure encourages importers to minimize the period in which their goods remain in storage.

Thus, the fee structure should penalize importers who store their merchandise for excessive periods, except if the cause of the delay is due to lengthy clearance processes. Importers who repeatedly abandon cargo should also be penalized, with the Government instructing the TRA to auction all abandoned cargo in a timely manner and allocating a budget for the destruction of cargo that cannot be auctioned or re-exported to points of origin after a delay.

(d) Motivating reformers: The staff of the TPA and TRA could be motivated by the introduction of performance-based incentives. Such an approach was implemented in the port of Douala in 2010 with successful results.⁴⁰ Since the implementation of such a system, the number of transactions cleared by tax and customs administration has increased by more than 10 percent and tax revenues have gone up by USD 16.5 million.

(e) Improving coordination: Coordination failures have long been recognized as a cause of inefficiency, with these failures justifying the creation of the Port Improvement Committee that attempts to regroup the most important players involved in the functioning of the port. However, this Committee chaired by the TPA is not efficient due to the conflicting interests of its members and to the dual role of the port authority. At the same time, there is a need to involve key players that are not directly involved in the functioning of the port but who are nonetheless affected by its level of performance.

The cost of inefficiency at the port is not absorbed by the port operators or authorities, but by end-users, including ordinary consumers, traders and farmers. Our recommendations are to (a) ensure that end-users are represented on the committee; (b) transfer the role of Chairman to the Minister of Transport (or a Champion outside of the port); and (c) strengthen the mandate of the Committee, so that it supersedes that of individual agencies operating in the port.

The fee structure should penalize importers who store their merchandise for excessive periods, except if the cause of the delay is due to lengthy clearance processes.

39 In 2006, Tanzania and Kenya governments commenced the establishment of 'Port Community system (PCS)' for both Mombasa and Dar es Salaam Port (financed by the East Africa Trade and Transport Facilitation Project). The PCS is severely delayed in Dar es Salaam port possibly due to lack of commitment by former TPA management."

40 Cantens T., G. Raballand, N. Strychacz and T. Tchouawou, (2010). « *A revised approach to customs reforms in Sub-Saharan Africa based on lessons from a performance contracts pilot in Cameroon?* », World Bank

Statistical Annexes



Annex 1: Key Macroeconomic Indicators

Indicator	Unit	2005	2006	2007	2008	2009	2010	2011	2012*	2013 Proj
Population (Mainland)/2	Millions	36.0	37.0	38.0	39.1	40.2	41.3	42.4	43.6	44.8
Per capita Income/2	US\$	381.5	376.1	429.7	514.4	516.6	538.7	545.9	629.1	691.5
GDP Growth/2	%	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9	6.5
Gross Domestic Savings/1	(as a % of GDP)	16.2	15.3	13.6	14.6	16.6	19.3	19.3	19.7	22.2
Gross Investments/1	(as a % of GDP)	23.9	26.4	28.7	29.7	29.4	30.6	34.5	38.1	39.1
Inflation/2 (period average)	%	4.4	7.3	7.0	10.3	12.1	7.2	12.7	16.0	9.0
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	1,583.1	1,624.8
External Sector										
Exports - Goods & Services (f.o.b)/1	Mil. US\$	2,843.4	3,148.7	3,565.6	4,526.7	4,660.1	5,247.0	6,497.8	6,746.1	6,746.1
Imports - Goods & Services (f.o.b)/1	Mil. US\$	-3,852.7	-3,436.4	-4,335.6	-6,020.8	-6,220.5	-6,595.7	-8,011.6	-10,617.3	-11,241.6
Current Account Balance/1	Mil. US\$	-703.9	-1,171.7	-1,575.6	-2,109.7	-2,124.2	-2,046.7	-2,214.7	-4,260.5	-4,910.5
Balance of Payments (Overall balance)/1	Mil. US\$	55.5	346.2	232.6	500.2	18.1	477.6	100.7	199.6	285.6
Foreign Reserves/1	Mil. US\$	1,968.6	2,136.9	2,157.3	2,660.0	2,929.8	3,482.6	3,610.0	3,797.1	4,061.4
External Debt/1	Bil. US\$/1	8.1	8.2	4.7	5.8	7.0	8.1	9.6	10.4	12.4
Foreign Direct Investment/1	Mil. US\$	689.0	669.3	492.3	914.4	1,100.1	987.7	1,009.1	1,632.6	1,793.4
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	1,629.6
Monetary Sector										
Average Deposit Rate/1	%	4.7	5.5	7.4	7.8	6.6	6.3	5.8	7.2	N/A
Average Lending Rate/1	%	15.2	15.0	16.4	15.4	15.1	14.7	14.8	15.1	N/A
Growth in Money Supply (M3)/1	%	19.6	31.3	20.1	18.1	18.5	25.1	22.0	11.8	17.3
Government Finance										
Total Domestic Revenue/1	(as a % of GDP)	11.8	12.5	14.1	15.9	16.2	15.9	16.4	17.6	18.8
Tax Revenue/1	(as a % of GDP)	10.8	11.5	13.0	14.7	15.3	14.6	15.2	15.8	16.7
Non-Tax Revenue/1	(as a % of GDP)	1.1	1.1	1.1	1.2	0.9	1.2	1.3	1.8	2.1
Total Expenditure/1	(as a % of GDP)	22.3	22.8	23.0	22.8	26.1	27.5	27.0	26.2	28.1
Recurrent Expenditure/1	(as a % of GDP)	15.4	15.7	16.1	14.9	17.7	18.8	19.2	17.0	18.7
Development Expenditure/1	(as a % of GDP)	6.3	7.1	6.9	7.9	8.4	8.6	7.9	9.2	9.4
Grants/1	(as a % of GDP)	6.8	5.4	4.9	6.9	5.1	4.6	4.7	4.5	3.8
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	-5.5

Notes:

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

/2 Calendar year is used, and it ends December 31st of mentioned year

* Preliminary actual

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

Annex 2: Growth and Structure of the Economy

Economic Activity	2005	2006	2007	2008	2009	2010r	2011r	2012*	2013 Proj:
Real GDP growth rates (%)									
Agriculture and fishing	4.4	3.9	4.0	4.6	3.2	4.1	3.4	4.2	4.2
Industry and construction	10.4	8.5	9.5	8.6	7.0	8.2	6.9	7.8	7.2
Services	8.0	7.8	8.1	8.5	7.2	8.2	7.9	8.0	8.4
Gross domestic product at market prices	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9	7.0
Shares of GDP (%) 2001 prices									
Agriculture and fishing	27.7	27.0	26.2	25.5	24.8	24.1	23.4	22.9	22.3
Industry and construction	20.2	20.5	20.9	21.2	21.4	21.6	21.8	21.9	21.9
Services	46.4	46.9	47.3	47.8	48.3	48.8	49.5	50.0	50.6
FISIM and net taxes	5.7	5.7	5.6	5.6	5.5	5.5	5.4	5.3	5.2
Contribution to real GDP growth (%)									
Agriculture	1.3	1.1	1.1	1.2	0.8	1.0	0.8	1.0	1.0
Industry	2.0	1.7	1.9	1.8	1.5	1.8	1.5	1.7	1.6
Services	3.7	3.6	3.8	4.0	3.4	3.9	3.8	3.9	4.2
FISIM and net taxes	0.4	0.3	0.3	0.4	0.3	0.3	0.3	0.2	0.2
Shares of GDP by type of expenditure (%)									
Final consumption expenditure	83.8	85.5	87.2	83.9	83.0	78.7	82.5	78.4	76.8
Households	66.3	68.0	67.9	66.4	65.5	62.6	66.1	61.6	59.8
Government	17.6	17.5	19.3	17.4	17.5	16.1	16.4	16.8	17.0
Gross capital formation	25.1	27.6	29.6	29.8	29.0	32.0	36.7	39.4	39.1
Gross fixed capital formation	24.7	27.2	29.2	29.4	28.4	31.5	36.1	38.8	38.5
Changes in inventories	0.4	0.4	0.4	0.4	0.5	0.5	0.6	0.6	0.6
Net exports	-8.9	-13.1	-16.9	-13.6	-11.9	-10.7	-19.2	-17.8	-15.9
Gross domestic saving (% of GDP)	16.2	14.5	12.8	16.1	17.0	21.3	17.5	21.6	23.2
Public	-3.0	-2.4	-1.7	1.0	0.2	1.7	2.9	3.1	2.9
Private	19.2	16.9	14.5	15.1	16.8	19.6	14.6	18.5	20.3

Key: * preliminary actual; Proj = projections

Source: National Bureau of Statistics, IMF and World Bank estimates



Annex 3: Quarterly GDP Growth Rates 2002-2012

Year	Quarter	Agriculture	Fishing	Mining and quarrying	Manufacturing	Electricity and Water	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	11.0	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	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		3.5	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		4.3	2.9	7.8	8.2	5.9	7.8	7.7	4.8	12.5	13.2	6.7	5.8	6.5	4.2	13.2	6.9	6.2	6.9
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	4.5	0.4	13.7	3.1	15.8	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	10.1	4.9	5.3	2.7	17.2	10.0	6.4	6.3	5.2	4.0	15.3	6.8	10.4	7.1
	3	5.1	1.5	1.2	12.0	-2.8	-5.4	6.6	5.3	11.6	11.0	5.9	6.9	9.4	4.1	8.8	5.7	8.2	5.9
	4	-0.2	1.0	1.0	5.8	-3.2	31.8	7.2	6.7	3.4	11.6	4.6	8.0	9.2	5.4	7.9	7.2	2.8	6.8
	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	1.9	2.6	14.3	4.8	9.7	3.7	9.0	3.8	16.4	15.0	8.2	6.4	6.1	5.1	16.0	7.0	9.9	7.2
	2	5.6	4.0	1.2	8.2	5.2	4.3	7.2	4.3	14.6	14.1	6.6	5.4	6.7	5.3	14.1	6.8	8.3	6.9
	3	4.4	2.3	-2.5	11.6	15.3	6.5	7.0	6.1	10.3	11.4	5.2	P	6.8	4.8	9.3	6.4	7.3	6.5

Source: National Bureau of Statistics

Annex 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	Prel Actual	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	17.6	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	1.8	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	26.2	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	17.0	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	9.2	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	-8.6	-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	4.5	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	2.1	1.8	1.8	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	1.6	4.1	2.0	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	0.7	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	-4.1	-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	-0.4	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	-0.5	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

Annex 5: Provisional Monthly Government Expenditures 2012/13

	Budget	Provisional Monthly Actual Government Expenditures FY 2012/13 - Selected Items						
	Annual	July	August	September	October	November	December	July-Dec 2012
Total Expenditure	13,812,246	615,601	743,921	1,029,441	1,244,746	1,182,267	1,207,375	6,023,351
Recurrent Expenditure	9,212,107	463,925	566,620	736,527	753,294	889,993	608,114	4,018,474
Wages and salaries	3,147,063	270,334	279,496	274,323	276,768	278,109	277,111	1,656,141
Interest	555,216	39,632	33,200	22,783	49,408	38,993	92,780	276,795
Domestic	335,169	33,442	29,000	21,113	24,016	33,685	69,458	210,714
Foreign	220,047	6,191	4,199	1,670	25,392	5,308	23,322	66,081
CFS others	810,141	19,382	40,402	48,729	81,228	53,318	54,650	297,709
Goods, services and transfers	4,699,686	134,577	213,523	390,692	345,891	519,574	183,573	1,787,829
Other goods and services	3,457,340	37,593	134,294	308,272	262,783	430,208	93,858	1,267,008
Development Expenditure	4,600,139	151,675	177,301	292,914	491,451	292,273	599,262	2,004,877
Local	2,213,608	71,962	137,699	200,000	300,000	40,000	199,569	949,230
Foreign	2,386,531	79,713	39,602	92,914	191,451	252,273	399,693	1,055,647
o/w basket grants	255,916	-	-	634	29,639	69,993	205,300	305,566
o/w basket loans	159,220	41,958	8,565	-	27,344	34,689	20,000	132,556

Source: Ministry of Finance

Annex 6: Balance of Payments (percent of GDP unless otherwise indicated)

	2005/06	2006/07	2007/08	2008/09	2009/10r	2010/11r	2011/12r	2012/13*	2013/14 Proj.
1. CA balance (including transfers)	-8.2	-10.4	-11.1	-10.1	-9.0	-9.4	-16.5	-15.4	-14.3
Exports of Goods	12.5	13.4	15.3	15.6	16.7	20.7	21.6	19.5	19.8
o/w Gold	4.8	5.4	5.5	4.4	6.5	7.6	8.9	7.6	7.3
Import of Goods	-24.0	-28.6	-31.6	-29.7	-28.9	-33.8	-41.1	-37.1	-36.4
Services (net)	2.1	2.1	2.1	0.8	0.7	0.7	0.5	0.8	1.4
Trade balance	-9.4	-13.1	-14.2	-13.3	-11.5	-12.4	-19.1	-16.9	-15.1
Income (net)	-1.2	-1.1	-1.5	-1.3	-1.3	-1.1	-1.0	-1.3	-1.7
Current transfers (net)	3.4	3.4	4.7	4.5	3.9	4.2	3.6	2.7	2.5
2. Capital and financial account	9.3	9.8	13.9	11.0	12.0	12.0	15.8	16.5	15.1
Capital account	4.1	31.6	3.6	1.8	2.2	2.4	3.0	2.4	2.1
Financial account	5.2	-21.7	10.4	9.2	9.7	9.6	12.7	14.1	13.0
o/w Direct investment	4.7	3.2	4.8	5.2	4.3	4.3	6.3	5.7	6.8
3. Overall balance	2.4	1.5	2.6	0.1	2.1	0.4	0.8	1.1	0.8
Gross international reserves (Mil USD)	1863	2157	2660	2930	3483	3610	3797	4230	4498
In months of imports (current year)	4.8	4.6	4.2	4.5	5.0	4.3	3.5	3.7	3.6

Key: * preliminary estimates; Proj = projections

Source: National Bureau of Statistics, IMF and World Bank estimates

Annex 7: Monthly Imports of Goods and Services 2012-2013 (in USD million)

	2012												2013	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Total Imports of Goods and Services	1112.5	989.3	983.4	958.5	1039.0	1066.2	1014.1	1011.0	1008.0	1004.9	1001.9	998.8	995.7	992.7
Imports of goods (c.i.f.)	996.8	878.1	869.9	853.4	955.3	965.8	925.9	927.7	929.4	931.1	932.9	934.6	936.3	938.1
Imports of goods (f.o.b.)	907.1	799.0	791.6	776.6	869.4	878.9	842.6	844.2	845.8	847.3	848.9	850.5	852.1	853.6
Capital goods	276.2	283.5	275.9	259.8	338.9	330.9	336.5	348.6	360.7	372.8	384.9	397.0	409.1	421.2
Transport equipment	68.4	85.6	83.7	76.4	97.9	105.8	108.0	114.2	120.4	126.6	132.7	138.9	145.1	151.3
Building and construction	61.4	65.4	60.7	50.2	78.6	69.9	71.5	73.5	75.6	77.6	79.6	81.7	83.7	85.7
Machinery	146.3	132.5	131.5	133.1	162.4	155.2	157.0	160.9	164.8	168.7	172.5	176.4	180.3	184.2
Intermediate goods	402.5	333.4	325.0	340.6	336.9	340.3	317.9	309.8	301.7	293.5	285.4	277.2	269.1	260.9
Oil imports	321.5	249.6	271.3	239.5	264.1	279.4	251.0	245.3	239.7	234.0	228.3	222.6	216.9	211.3
White products	321.5	249.6	271.3	239.5	264.1	279.4	251.0	245.3	239.7	234.0	228.3	222.6	216.9	211.3
Fertilizers	12.1	16.6	2.3	3.1	3.0	1.8	-2.7	-5.3	-7.9	-10.5	-13.1	-15.7	-18.4	-21.0
Industrial raw materials	68.9	67.2	51.4	98.0	69.8	59.1	69.6	69.7	69.9	70.0	70.2	70.3	70.5	70.6
Consumer goods	228.2	181.9	190.6	176.1	193.4	207.5	187.9	185.6	183.2	180.8	178.4	176.1	173.7	171.3
Food and foodstuffs	87.0	50.1	55.7	64.3	59.2	55.0	49.4	45.9	42.3	38.8	35.2	31.7	28.1	24.6
All other consumer goods	141.1	131.8	134.9	111.7	134.2	152.5	138.5	139.7	140.9	142.0	143.2	144.4	145.6	146.7
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
Imports of services	205.4	190.3	191.8	182.0	169.6	187.3	171.5	166.8	162.2	157.6	152.9	148.3	143.7	139.0
Transportation	92.2	79.8	79.6	79.3	87.4	92.4	87.5	88.1	88.8	89.5	90.2	90.8	91.5	92.2
Passenger	4.8	3.0	2.5	2.6	2.7	2.6	1.9	1.6	1.2	0.9	0.6	0.3	-0.1	-0.4
Freight	87.0	76.7	75.9	74.5	83.4	89.0	84.0	84.8	85.6	86.5	87.3	88.1	88.9	89.8
Other	0.4	0.1	1.1	2.2	1.2	0.7	1.6	1.8	1.9	2.1	2.3	2.5	2.6	2.8
Travel	91.3	79.6	78.3	63.5	57.9	66.5	52.5	46.7	40.9	35.0	29.2	23.4	17.6	11.8
Communications services	2.9	3.2	3.6	3.7	3.5	3.7	3.9	4.1	4.2	4.3	4.5	4.6	4.8	4.9
Construction services	0.0	0.1	0.2	1.1	2.4	0.2	1.5	1.8	2.0	2.3	2.5	2.8	3.0	3.3
Insurance services	7.0	6.6	6.2	6.6	6.9	7.1	6.9	6.9	6.9	7.0	7.0	7.0	7.1	7.1
Financial services	0.8	1.1	1.0	1.0	1.1	0.5	0.8	0.7	0.7	0.7	0.6	0.6	0.6	0.5
Computer and information services	1.1	2.2	1.8	2.1	1.1	2.4	2.1	2.2	2.3	2.4	2.5	2.6	2.7	2.8
Other business services	9.2	12.1	19.9	21.1	8.3	8.5	11.8	11.5	11.1	10.7	10.3	9.9	9.5	9.1

Source: Bank of Tanzania

Annex 8: Monthly Exports of Goods and Services 2012-2013 (in USD million)

	2012												2013	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Total Exports of Goods & Services	576.6	589.3	613.2	552.1	619.5	714.2	682.6	703.1	723.6	744.1	764.6	785.1	805.6	826.1
Exports of goods	378.3	415.4	442.3	370.6	435.7	506.0	487.4	505.4	523.3	541.2	559.1	577.1	595.0	612.9
Traditional exports (values)	85.4	97.6	74.5	73.2	62.4	47.3	43.7	35.2	26.7	18.2	9.7	1.1	-7.4	-15.9
Coffee	18.5	18.1	24.4	14.3	7.8	5.5	4.2	1.1	-1.9	-4.9	-8.0	-11.0	-14.0	-17.1
Cotton	3.9	6.3	6.0	9.9	3.8	2.5	4.3	4.0	3.7	3.4	3.1	2.8	2.5	2.2
Tea	6.3	4.7	4.6	5.6	7.8	4.3	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Tobacco	33.7	47.3	31.1	17.0	8.8	19.6	6.2	0.5	-5.2	-11.0	-16.7	-22.4	-28.1	-33.9
Cashewnuts	13.8	14.8	6.1	22.3	32.6	14.9	24.9	27.1	29.2	31.4	33.5	35.6	37.8	39.9
Cloves	9.2	6.4	2.2	4.2	1.6	0.6	-1.5	-3.1	-4.7	-6.3	-7.9	-9.4	-11.0	-12.6
Non-traditional exports	292.9	317.8	367.8	297.3	373.3	458.7	443.8	470.2	496.6	523.1	549.5	575.9	602.4	628.8
Minerals	157.6	181.7	231.4	123.9	165.6	266.2	226.4	237.5	248.6	259.6	270.7	281.7	292.8	303.9
Gold	153.7	180.3	227.7	115.1	159.0	264.0	220.8	231.5	242.2	252.9	263.6	274.3	285.1	295.8
Diamond	0.0	0.0	0.1	5.4	0.0	0.1	1.5	1.7	1.8	2.0	2.1	2.3	2.5	2.6
Other minerals	3.9	1.4	3.7	3.4	6.6	2.2	4.2	4.4	4.5	4.7	4.9	5.1	5.3	5.5
Manufactured goods	83.7	62.2	69.3	88.0	107.0	98.4	107.4	113.9	120.4	126.8	133.3	139.8	146.2	152.7
Cotton Yarn	0.6	0.3	0.1	0.5	0.5	0.2	0.3	0.2	0.2	0.2	0.2	0.1	0.1	0.1
Manufactured Coffee	0.2	0.0	0.0	0.1	0.2	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Manufactured Tobacco	1.7	1.2	2.1	2.0	2.2	1.3	1.8	1.8	1.9	1.9	1.9	1.9	2.0	2.0
Sisal Products	1.0	0.6	0.5	0.8	1.0	0.5	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.4
Other manufactured goods	80.2	60.1	66.6	84.7	103.2	96.4	104.7	111.2	117.7	124.2	130.7	137.3	143.8	150.3
Fish and Fish Products	13.3	14.6	14.9	17.0	15.9	13.2	15.4	15.6	15.7	15.9	16.1	16.2	16.4	16.6
Horticultural Products	2.8	2.7	2.6	2.0	2.2	2.0	1.8	1.6	1.5	1.3	1.1	0.9	0.8	0.6
Other Export Products	23.4	30.4	34.1	58.4	64.8	60.0	76.3	85.1	94.0	102.9	111.8	120.7	129.5	138.4
Re-Exports	12.1	26.1	15.4	7.9	17.8	18.8	16.4	16.5	16.5	16.5	16.6	16.6	16.6	16.6
Services receipts	198.3	173.9	171.0	181.5	183.9	208.2	195.2	197.7	200.3	202.9	205.5	208.0	210.6	213.2
Transportation	42.9	41.7	40.6	41.2	47.3	47.6	47.6	48.8	50.0	51.2	52.3	53.5	54.7	55.8
Passenger	2.4	2.6	3.7	2.9	3.1	3.2	3.4	3.6	3.7	3.8	4.0	4.1	4.2	4.4
Freight	35.1	33.9	30.6	32.7	39.2	37.4	37.8	38.6	39.4	40.3	41.1	42.0	42.8	43.6
Other	5.4	5.2	6.3	5.6	5.0	7.0	6.4	6.6	6.8	7.0	7.2	7.4	7.6	7.8
Travel	128.3	116.5	97.9	102.5	105.5	114.8	101.3	98.5	95.8	93.0	90.3	87.5	84.8	82.0
Communications services	3.3	3.5	3.7	3.8	3.9	3.7	4.0	4.1	4.2	4.3	4.4	4.5	4.6	4.7
Insurance services	1.9	2.0	2.8	2.9	3.4	3.9	4.2	4.6	5.1	5.5	5.9	6.3	6.7	7.1
Financial services	0.9	1.4	1.0	1.3	0.6	0.8	0.8	0.7	0.6	0.6	0.5	0.4	0.4	0.3
Computer & information services	0.5	0.1	0.9	1.0	0.1	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.6
Other business services	18.7	7.8	20.9	26.5	18.3	34.0	32.4	35.6	38.9	42.1	45.3	48.6	51.8	55.1

Source: Bank of Tanzania

Annex 9: Inflation Rates

Percentage changes	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013*
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	16.0	9.0
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	12.1	7.0
Food (end of period)	6.1	2.9	5.8	5.0	7.2	6.6	6.6	18.6	14.5	7.3	27.1	13.1	8.2
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	12.6	10.8	6.2

Key * projections

Source: National Bureau of Statistics

Annex 10: Monthly Food Crop Prices (wholesale): Tanzania TSh illings 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	Dar es Salaam	Mbeya
Feb-13	70,023	83,545	73,409	174,091	180,682	183,000	78,091	126,364	113,636	105,227	162,273	127,727	60,909	85,136	-
Jan-13	70,083	84,292	73,792	171,458	201,625	229,375	75,500	130,417	118,333	126,250	160,417	160,792	54,792	81,542	-
Dec-12	67,708	80,045	65,583	172,500	188,409	217,500	76,542	115,000	112,500	117,500	156,818	151,458	56,833	87,182	-
Nov-12	61,404	72,769	56,115	162,308	183,269	201,231	73,269	102,115	103,846	115,000	153,462	149,808	50,462	85,385	-
Oct-12	55,981	65,192	52,750	160,000	173,654	188,500	74,846	98,462	100,000	114,423	141,731	135,417	52,154	77,308	-
Sep-12	54,188	60,000	50,417	155,208	152,083	182,500	63,875	99,167	102,292	106,667	145,833	133,333	50,750	76,458	-
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

Annex 11: Average Wholesale Prices (2012-2013): Tanzania TSh illings per 100 kg

	2012												2013	
	Jan	Feb	March	April	May	June	July	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Maize	44,259	42,449	42,919	46,935	52,440	52,326	52,072	50,311	54,291	55,210	65,341	72,880	76,740	
Rice	175,178	178,627	191,719	204,025	183,586	165,444	160,325	158,089	163,318	163,244	176,829	185,620	188,418	
Beans	132,641	126,981	121,523	229,077	128,113	129,575	124,250	126,323	126,923	123,177	135,724	139,498	144,225	
Round Potatoes	67,193	60,939	60,080	62,383	70,651	69,925	75,909	69,915	67,354	67,255	82,315	85,499	82,023	
Bullrush Millet	43,697	58,815	57,042	57,769	62,546	62,060	72,807	64,094	61,838	31,440	66,156	74,301	83,102	
Finger Millet	76,082	78,364	75,628	78,307	81,506	82,218	89,443	88,832	92,429	93,878	94,003	100,854	110,271	
Sorghum	45,585	55,956	55,387	63,630	60,627	65,201	58,975	57,379	61,793	53,356	65,089	75,584	75,279	
Wheat	80,709	84,577	99,394	99,692	103,446	106,811	87,829	82,954	83,497	53,916	90,826	93,920	99,889	

Annex 12: Inflation Rates (selected items of the CPI)

Items	2012												2013		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	March
All items (end period)	19.7	19.4	19.0	18.7	18.2	17.4	15.7	14.9	13.5	12.9	12.1	12.1	10.9	10.4	9.8
Food	26.2	25.5	24.9	24.7	24.5	22.9	20.3	18.5	15.8	15.0	13.7	13.3	12.1	11.7	10.7
Non food	11.8	11.8	11.5	11.3	10.5	10.5	10.0	10.3	10.5	10.1	10.0	10.3	9.3	8.4	8.5
Energy and Fuel	30.1	33.5	29.4	24.9	21.2	20.5	16.3	16.9	19.4	18.4	18.6	17.8	17.4	18.3	22.6
Transport	10.9	10.9	9.7	8.6	6.7	5.9	4.7	3.8	4.8	2.7	2.3	3.2	2.7	2.5	1.3
Housing, water, electricity and Gas	18.8	19.5	17.4	16.2	14.7	14.6	12.5	14.4	16.5	17.4	17.3	17.1	15.3	16.3	20.4
Furnishing, housing equipment and maintenance	14.4	8.2	9.0	9.1	9.1	9.0	8.7	8.6	8.3	7.9	8.4	8.2	7.2	6.1	5.1
Excluding food and energy	9.0	8.6	8.8	9.0	8.7	8.8	8.8	9.2	8.9	8.6	8.5	8.9	7.9	6.7	5.9

Annex 13: Exchange and Interest Rates

	Nominal Tshs/USD*	Nominal Tshs/EUR*	T-Bill Rate %	EREER Index
2011-Jan	1,486.8	1,998.2	7.1	90.3
2011-Feb	1,505.5	2,058.0	6.6	89.5
2011-Mar	1,508.5	2,118.2	5.5	88.9
2011-Apr	1,510.4	2,181.1	4.8	88.7
2011-May	1,521.5	2,187.9	4.5	89.1
2011-Jun	1,562.0	2,281.4	4.8	87.7
2011-Jul	1,577.3	2,259.8	6.4	87.8
2011-Aug	1,617.0	2,313.5	7.3	87.7
2011-Sep	1,636.5	2,258.9	7.8	89.9
2011-Oct	1,671.0	2,294.6	11.6	91.0
2011-Nov	1,656.2	2,246.3	15.2	91.9
2011-Dec	1,613.2	2,107.3	18.2	97.8
2012-Jan	1,588.4	2,080.1	17.8	99.5
2012-Feb	1,589.3	2,088.1	13.0	98.5
2012-Mar	1,589.3	2,077.8	13.4	99.9
2012-Apr	1,585.1	2,068.8	14.4	101.7
2012-May	1,585.1	2,042.6	14.4	104.2
2012-Jun	1,584.9	1,977.2	13.8	106.4
2012-Jul	1,583.9	1,939.0	13.4	107.0
2012-Aug	1,578.4	1,946.9	12.5	107.3
2012-Sep	1,575.9	2,008.0	12.9	106.8
2012-Oct	1,578.0	2,022.6	12.9	108.1
2012-Nov	1,580.4	2,029.3	12.4	109.9
2012-Dec	1,578.4	2,060.5	12.9	109.9
2013-Jan	1,585.2	2,091.6	13.7	110.2
2013-Feb	1,594.6	2,130.0	13.4	111.3

Annex 14: Monetary Indicators

	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13 PoJ.
Monetary aggregates								
M3 as % of GDP	27.5	28.8	28.9	29.6	32.4	34.1	32.5	31.2
M2 as % of GDP	18.7	19.7	21.1	21.8	24.1	24.8	23.8	22.5
M3 growth rate (%)	31.3	20.1	18.1	18.5	25.1	22.0	11.8	14.5
M2 growth rate (%)	25.8	20.4	26.5	19.5	26.2	19.4	12.7	12.4
Domestic credit								
Total Domestic credit (% of GDP)	11.6	14.4	14.8	18.2	20.6	24.2	23.9	23.1
Total domestic credit growth (%)	24.8	41.7	21.1	42.5	29.2	36.0	15.9	15.4
Private Sector credit (% of GDP)	11.2	13.1	15.5	17.7	18.2	18.2	19.8	13.7
Private Sector credit growth (%)	31.3	34.1	38.6	32.8	17.6	24.3	18.5	17.4
Interest ratse structure/1								
Overall Tbills rate (period average, %)	12.4	13.5	11.2	10.6	5.0	5.3	12.8	N/A
Average lending rate (%)	15.0	16.4	15.4	15.1	14.7	14.8	15.1	N/A
Average deposit rate(%)	5.5	7.4	7.8	6.6	6.3	5.8	7.2	N/A

Source: IMF and BoT

1/ Data in Calendar Year, e.g. 2005/06 = 2006

Annex 15: Dar es Salaam Port: Cargo Traffic (000 tons)

Type of cargo	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Imports												
Containerised	727.2	849.7	895.9	1,024.1	1,265.2	1,372.0	1,347.2	1,915.7	2,171.7	2,056.0	2,596.9	2,962.8
General cargo	699.6	555.6	586.7	500.3	652.9	548.1	701.7	557.0	588.8	657.9	563.0	652.0
Dry Bulk	376.9	503.1	544.8	719.1	839.1	972.3	1,115.9	1,129.4	904.3	1,270.1	1,183.0	1,231.0
Liquid Bulk	1,254.2	1,573.8	1,603.4	1,798.3	2,006.4	1,936.6	2,060.7	2,074.4	2,142.3	2,645.6	3,208.9	3,623.8
Total	3,057.9	3,482.2	3,630.8	4,041.8	4,763.6	4,829.0	5,225.5	5,676.5	5,807.1	6,629.6	7,551.8	8,469.6
Exports												
Containerised	458.9	458.7	459.5	604.0	673.3	801.2	757.0	987.4	1,068.2	1,067.4	1,309.4	1,496.3
General cargo	219.9	168.4	211.2	238.0	187.4	172.8	205.6	282.4	122.0	148.2	78.5	208.6
Liquid Bulk	66.3	38.6	53.6	39.5	54.3	77.2	41.4	47.2	52.6	43.8	66.5	76.9
Total	745.1	665.7	724.3	881.5	915.0	1,051.2	1,004.0	1,317.0	1,242.8	1,259.4	1,454.4	1,781.8
Imports and Exports	3,803.0	4,147.9	4,355.1	4,923.3	5,678.6	5,880.2	6,229.5	6,993.5	7,049.9	7,889.0	9,006.2	10,251.4
Transshipment	31.5	93.4	168.7	245.8	375.6	404.9	428.1	433.8	354.5	213.0	103.4	138.6
Bunkers	1.6	0.3	0.7	-	-	-	-	-	16.8	0.9	0.4	-
Total Traffic	3,836.1	4,241.6	4,524.5	5,169.1	6,054.2	6,285.1	6,657.6	7,427.3	7,421.2	8,102.9	9,110.0	10,390.0
Container TEU's	124.6	141.7	141.4	167.7	199.3	228.7	240.6	334	373.5	353.7	412.0	476.7

Source: Tanzania Ports Authority

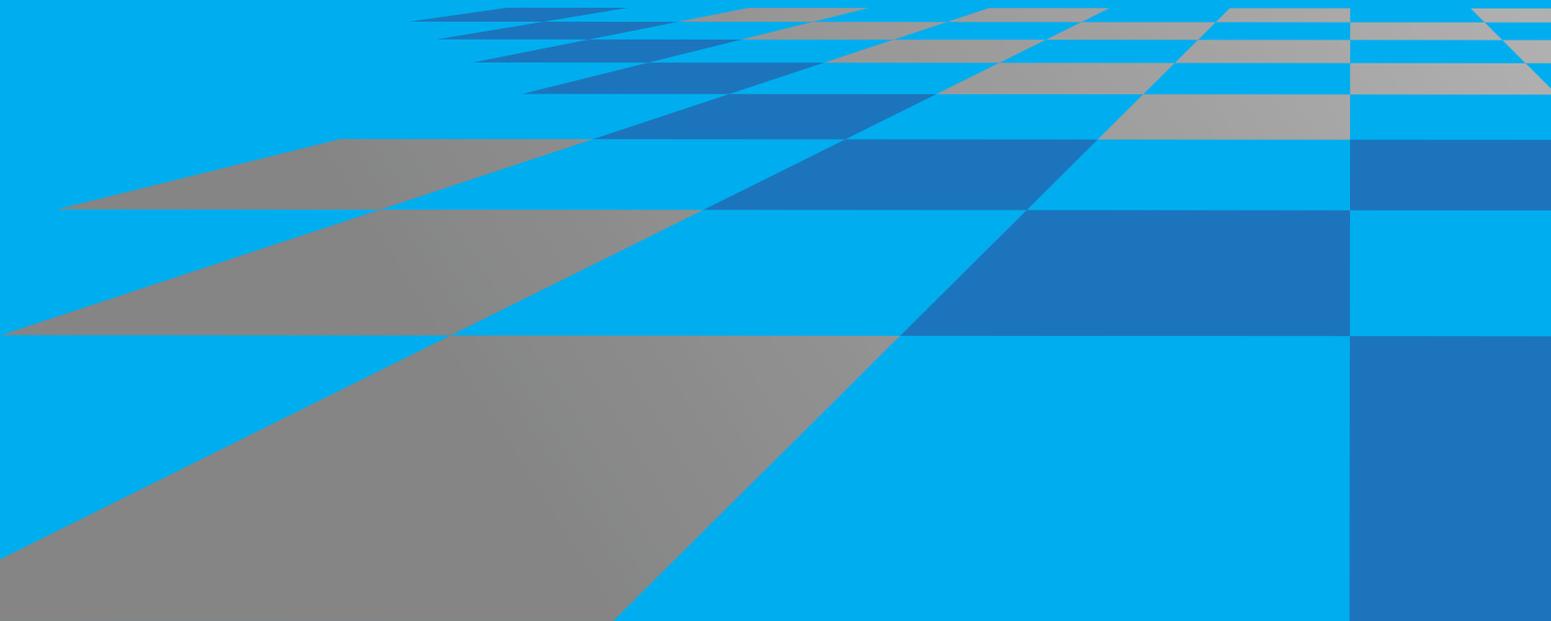
Annex 16: Dar es Salaam Port: Container Traffic (000 TEUs)

Type	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Imports												
Full	56.7	60.3	68.6	86.1	99.6	108.8	121.6	147.0	161.4	165.9	208.4	234.7
Empty	5.5	5.3	44.5	4.0	5.9	5.6	3.2	0.7	0.6	1.7	1.2	0.9
Exports												
Full	26.1	27.7	28.3	39.2	43.9	53.3	49.1	54.3	58.7	63.7	75.2	80.8
Empty	34.4	38.9	38.4	38.4	49.8	59.8	68.8	81.0	95.7	106.0	119.7	149.9
Transshipment												
Full	2.0	6.3	24.8	36.6	55.6	61.0	60.4	56.8	38.2	16.4	7.9	10.4
Empty	-	-	-	-	-	-	-	-	-	-	-	-
Total												
Full	84.8	94.3	121.7	161.9	199.1	223.1	231.1	258.1	258.3	246.0	291.5	325.9
Empty	39.9	44.2	82.9	42.4	55.7	65.4	72.0	81.7	96.3	107.7	120.9	150.8
Grand Total	124.7	138.5	204.6	204.3	254.8	288.5	303.1	339.8	354.6	353.7	412.4	476.7

Source: Tanzania Ports Authority







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