TANZANIA
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TANZANIA

- **Growth in real GDP is estimated at 7.2% in 2016 with the same rate projected for 2017, driven mainly by strong performance in industry, construction, services, and information and communication sectors.**
- **Fiscal position has remained healthy and ongoing efforts by the government to improve revenue mobilisation as well as efficiency in public spending will help in maintaining the good performance.**
- **While the level of industrialisation in Tanzania is low, the government's medium-term development programme is focused on nurturing industrialisation as a means of achieving economic transformation, and the government has demonstrated a strong commitment to implement the programme successfully.**

Overview

The 2014 growth rate of 7% was maintained in 2015, with an improvement to an estimated rate of 7.2% in 2016. This record makes Tanzania one of the best performing and most stable economies in Africa. The major sources of growth were the services, industry, construction, and information and communication sectors. External development assistance was one of the main sources of finance for development projects. In the medium term, growth is projected to remain strong, driven by the same sectors. The fall in the international price of oil has had a positive impact, reducing the pump price of gasoline and industrial oil. This has also reduced the price of electricity, thereby boosting industrial production.

Growth is projected to stabilise at around 7% in the medium term as the performance of the major sectors are expected to remain stable and reinforced by increasing government investment in infrastructure. The availability of gas for electricity generation from the Mtwara pipeline, completed in 2015, will supply more regular and cheaper power to industries.

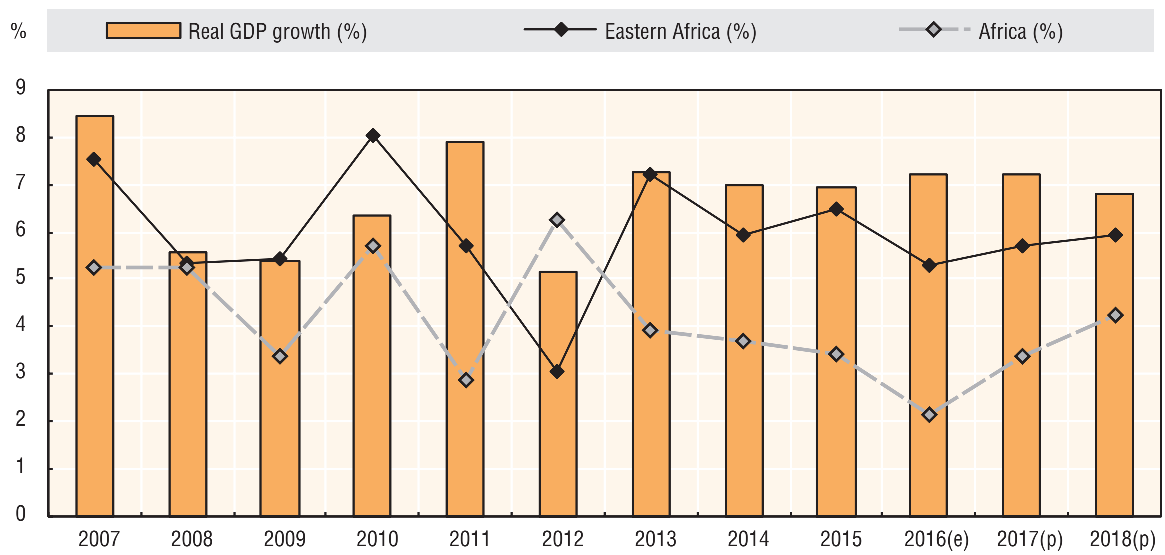
Tanzania showed an enviable model of democracy with a peaceful national general election that led to the current government of President John Magufuli and members of the national parliament. The government has launched a five-year development programme that seeks to achieve full industrialisation of the country by 2025. Tanzania ranks permanently among the top half of countries in Africa on governance. The major strengths of governance in Tanzania are in the areas of safety and rule of law, national security, participation, and human rights and gender; its major weaknesses are in human development (health and education) and infrastructure.

In terms of human development, Tanzania ranks 151 out of 188 countries with the Human Development Index (HDI) value of 0.521, as of 2014. This value is still low and positions the country in the low human development category. Caloric availability at the household level has hardly improved since 1997 and chronic malnutrition is estimated to be an underlying cause of over one third of the deaths of under-five year olds (Tanzania Human Development Report, 2014). A major challenge remains in the education sector, as the quality of education is low and characterised by an increasing number of dropouts as well as a lack of competencies and decline in morale and motivation of teachers.

After a long period of stagnation, the poverty headcount declined from 34.4% in 2007 to 28.2% in 2012, while extreme poverty fell from 11.7% to 9.7% (Household Budget Survey of 2011/12). The reduction in poverty appears more substantial if one uses the international poverty line of USD 1.90 per person per day. Based on this measure, the headcount ratio dropped from 59.9% to 48.8% between 2007 and 2012. The favourable performance in economic growth and poverty reduction was accompanied by narrowing inequality: the Gini index declined from around 0.39 to

0.36 between 2007 and 2012. Evidence on the shared prosperity indicator suggests that inequality reductions were mainly driven by a larger increase in the consumption accruing to the bottom quintiles. The government supports poor households through the Tanzania Social Action Fund (TASAF) Productive Social Safety Net Programme (PSSN), conditional cash transfers and public works programme. These programmes are expected to contribute to a reduction in the level of poverty in the medium term.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic indicators**

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	7.0	7.2	7.2	6.8
Real GDP per capital growth	3.8	4.1	4.1	3.7
CPI inflation	5.6	5.2	5.1	5.0
Budget balance % GDP	-3.3	-3.5	-4.6	-4.6
Current account % GDP	-9.8	-5.6	-7.5	-7.5

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Tanzania's economic performance in the past ten years has stabilised at about 6.5%. A growth rate of 7% was maintained in 2015, with an improvement to an estimated rate of 7.2% in 2016. The major sources of the growth performance were services, industry, construction, and information and communication sectors. External development assistance was one of the main sources of finance for development projects. In the medium term, growth is projected to continue to be strong, driven by the same sectors. The fall in the international price of oil has had a positive impact on growth in Tanzania, reflecting in reduced pump price of gasoline and industrial oil. This has also reflected in a reduction in the price of electricity, thereby boosting industrial production.

Growth is projected to stabilise at about 7% in the medium term, as the performance of the major sectors is expected to be stable and the government increases investment in infrastructure.

The availability of gas for electricity generation from the Mtwara pipeline, completed in 2015, will provide more regular and cheaper power to industries. The Dangote cement plant that started operation in 2015 is one of the major private sector investments contributing to cheaper input supply for construction and other sectors. Also, government support to agriculture is expected to contribute to overall GDP growth in the medium term, in particular the introduction of out-grower schemes by government agencies and private sector firms and the provision of fertiliser and other inputs to farmers. The government has demonstrated a commitment to public-private partnerships in agriculture, infrastructure and services. Foreign investors are showing interest in these arrangements.

Despite the high growth rate, reduction in poverty has been slower because the rate of growth in the agricultural sector that is the major employer of labour (about 66%) has been lower than the national average, growing at an average of less than 4% compared to the average growth of 7% for all sectors. The latest household budget survey (2011/12) showed that about 28% of Tanzanians are poor. The major problem of the agricultural sector is its dependence on rainfall – farm output varies with changes in weather. There are few large-scale commercial farmers with the capacity to develop irrigation facilities. This is an area that requires support from the government and development partners. The African Development Bank is leading the change agenda with an approval in late 2016 of a huge investment facility for lending to private farmers by the Tanzania Agriculture Development Bank.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2011	2015
Agriculture, forestry, fishing and hunting	31.3	31.5
of which fishing	2.2	2.4
Mining and quarrying	5.4	4.4
of which oil	...	...
Manufacturing	8.1	5.7
Electricity, gas and water	1.1	1.5
Construction	9.6	14.8
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	12.7	12.7
of which hotels and restaurants	1.5	1.1
Transport, storage and communication	8.0	6.8
Finance, real estate and business services	10.9	10.0
Public administration and defence	6.7	7.0
Other services	6.0	5.6
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Tanzania's fiscal position has remained strong in line with the government's efforts to control expenditures and keep the deficit within sustainable limits. The fiscal deficit for FY 2015/16 was about 3.5% of GDP, lower than the 4.2% of GDP planned in the budget. During FY 2015/16, the government took bold measures to ensure fiscal discipline, including significant reduction in non-priority recurrent spending, as well as curbing leakage of resources by cleaning the public service payroll of "ghost workers". Also collection of domestic revenue improved in FY 2015/16 as revenue targets were fully met. Government has been prudent in borrowing and net domestic financing was kept within 1.5% of GDP as a deliberate policy to avoid crowding out the private sector in the credit market. The government's total revenues (including grants) averaged 15.5% of

GDP over the past three fiscal years, while recurrent expenditure has averaged 13.5% of GDP with capital spending averaging 5% of GDP over the same period.

In the FY 2016/17, total spending is expected to increase by about 31%, driven mainly by expansion in development expenditure. The envisaged expansion in capital budget will be channelled to improve basic infrastructure for the provision of water, power and transportation for industrial development, as well as raising production of agricultural produce for food and industrial raw materials. About 26% of planned spending will be channelled to transport infrastructure and energy.

Table 3. **Public finances (percentage of GDP at current prices)**

	2007/08	2012/13	2013/14	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Total revenue and grants	**17.5**	**15.5**	**15.7**	**14.0**	**15.0**	**15.8**	**15.3**
Tax revenue	11.3	12.5	13.2	12.6	14.0	13.5	13.3
Grants	5.3	2.7	2.1	1.2	0.5	1.8	1.6
Total expenditure and net lending (a)	**17.5**	**20.3**	**19.1**	**17.3**	**18.5**	**20.3**	**19.9**
Current expenditure	11.4	14.2	13.8	12.9	14.0	15.4	14.4
Excluding interest	10.5	13.0	12.5	11.4	12.4	13.7	12.6
Wages and salaries	3.8	5.0	5.3	5.5	5.9	5.8	5.0
Interest	0.9	1.2	1.3	1.5	1.5	1.7	1.8
Capital expenditure	6.1	6.1	5.3	4.4	4.5	4.9	5.5
Primary balance	**0.9**	**-3.6**	**-2.1**	**-1.8**	**-1.9**	**-2.9**	**-2.7**
Overall balance	**0.0**	**-4.8**	**-3.4**	**-3.3**	**-3.5**	**-4.6**	**-4.6**

Note: a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The Bank of Tanzania deploys a combination of policy instruments, including: sale of government securities, foreign exchange operations, repurchase agreements and stand-by facilities that include operating a discount window. The implementation of monetary policy through these instruments has remained sound, targeting an overall macroeconomic objective of price stability and economic growth. As a result, annual growth of money supply is less inflationary, having declined to 12.5% in 2015/16 from 13.1% in 2014/15, below the annual target of 16%.

Headline inflation was low in 2015/16 at 5.6%, from 6% in the previous period. Price stability was a result of several factors including the decrease in international oil prices, monetary policy prudence, and a bountiful commodity harvest. The foreign exchange market was also stable during the 2015/16 fiscal year.

Export earnings from goods and services as a percentage of GDP increased to 20.7% in 2015 compared to 18.8% in 2014. The main sources of export earnings were commodities, manufactures and tourism. On the other hand, imports (as a percentage of GDP) increased to 28.8% in 2015 from 28.3% in 2014. The increase in the import ratio was a result of an increase in imports of industrial inputs. As a result, in 2015 current account balance closed at a deficit of 9.8% (of GDP), from 9.5% in 2014.

Economic co-operation, regional integration and trade

Tanzania has remained committed to regional integration initiatives as one of the vehicles to achieve its national development aspirations. The country's participation in both the East African Community (EAC) and the Southern Africa Development Community (SADC) carries economic benefits, including the potential for increased trade and investment flows due to the elimination of both tariff and non-tariff barriers to trade. After signing and ratifying most of the protocols and agreements for regional economic integration and integration and co-operation, Tanzania has continued with implementation of the respective treaties, and remains a key player in other important initiatives for regional progress and stability – most notably, peace processes. Tanzania is currently chairing the EAC. Also, Tanzania has signed a number of preferential trade windows, including: African Growth and Opportunity Act (AGOA) of the United States (US), Everything but Arms (EBA) – of the European Union (EU), and bilateral agreements with several countries in a bid to expand export trade. However, benefits from regional integration and economic co-operation continue to be constrained by: low levels of competitiveness, the absence of adequate productive capacity, challenges in accessing finance, and the poor state of infrastructure. These challenges are also reflected in the Africa Integration Index report of 2016, where Tanzania maintains a low score of 0.363 (out of 1.00) for regional infrastructure, although it scores decently on trade integration (0.780), and movement of people (0.52).

After ratification of the EAC Common Market Protocol, which among other things provides for free movement of persons between the member states, Tanzania has continued to make progress in the implementation of the protocol. Necessary actions have been taken to harmonise national legislations and regulations to ensure effective implement of the protocol. The most recent developments include: amendment in migration laws and subsequent issuance of free visitors' passes for EAC residents, simplification of entry procedures and removal of work permits for EAC residents. In March 2016, Tanzania signed, together with other EAC partners, an agreement to start using a joint electronic passport for the entire EAC region, whose implementation begins in 2017. Currently, Tanzania is rolling out national identity cards that will simplify further the introduction of machine-readable and electronic national identification cards in all EAC Partner States.

Tanzania has continued to make progress in regional financial integration. In line with the signed and ratified East African Community Common Market Protocol, which among other things provides for free movement of capital between the partner states, Tanzania has already opened up its capital account to enable its citizens to invest in EAC markets, and allow investors from the region to participate in the local market. Following the amendment in Foreign Exchange (listed securities) regulation 2014, Tanzanians are now allowed to invest in the EAC region without requiring prior permission from the Bank of Tanzania and foreign investors are allowed to hold a 100% stake in locally listed companies. Following the lifting of capital controls to EAC residents, investors from the region contributed more than half of the increase in market capitalisation in Dar es Salaam Stock Exchange in 2015.

Table 4. **Current account (percentage of GDP at current prices)**

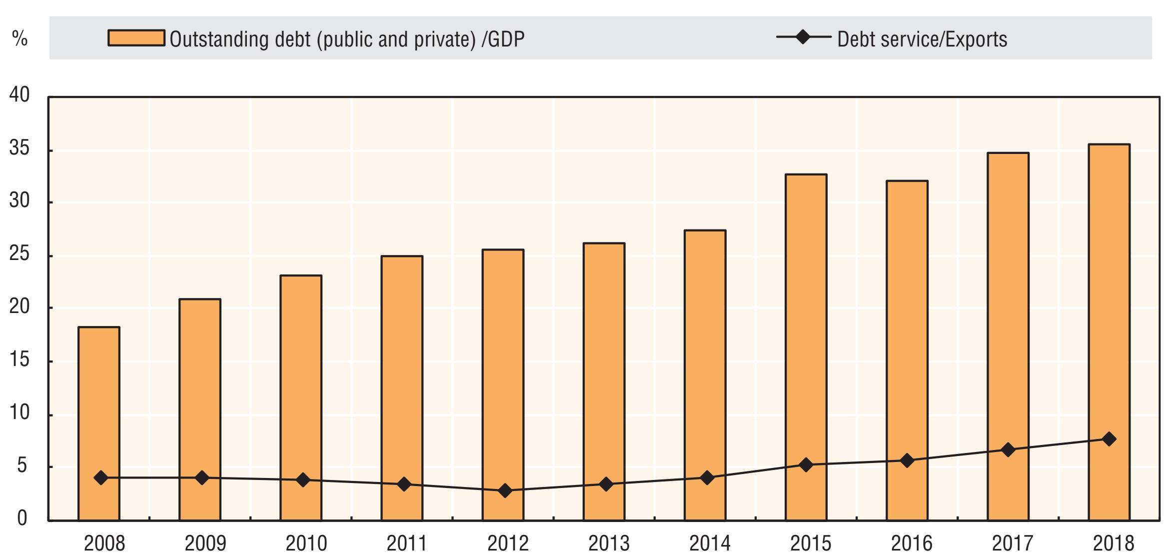
	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-11.1	-12.2	-11.2	-10.5	-9.7	-11.3	-13.6
Exports of goods (f.o.b.)	11.3	12.4	11.7	12.7	13.0	13.2	11.6
Imports of goods (f.o.b.)	22.3	24.6	22.9	23.2	22.7	24.5	25.2
Services	1.0	1.3	1.7	1.4	4.7	3.7	4.9
Factor income	-1.1	-1.5	-1.4	-1.7	-1.6	-1.3	-1.3
Current transfers	3.3	1.7	1.4	1.1	1.0	1.4	2.5
Current account balance	**-7.8**	**-10.6**	**-9.5**	**-9.8**	**-5.6**	**-7.5**	**-7.5**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

Tanzania's external debt increased by about 6% from USD 15.4 billion by end of fiscal year 2014/15 to USD 16.3 billion at the end fiscal year 2015/16. The increase has resulted from disbursements and accumulation of interest arrears. With these developments, by the end of June 2016, Tanzania's external debt stood at 32% of GDP in nominal terms. External debt constitutes the largest share (70%) of total debt. Domestic debt has stabilised around 8% of GDP over the past three fiscal years. However, Tanzania is currently under no risk of debt distress and based on the recent debt sustainability analysis – both by the government and International Monetary Fund/World Bank – the country's debt is projected to remain within sustainable limits in the medium term. The DSA indicates that external debt to GDP in Present Value (PV) terms is 20% against a sustainability threshold of 50%; the ratio (PV) of debt to exports of goods and services is 78 against a sustainability threshold of 200, while the ratio of debt service to domestic revenue is 4.3 against sustainability threshold of 22. The good debt parameters in short and medium term are explained partly by the existing debt structure, which is largely concessional, coupled with high growth forecast scenarios and ambitious revenue targets. In line with the Medium Term Debt Strategy (MTDS), adopted in December 2015, the government has continued to exercise caution in debt management to ensure the sustainability of the public debt. In recognition of the fact that debt sustainability is sensitive to the terms of borrowing and its utilisation, the government has maintained its stance to contract external debt only on reasonable terms and to ensure that all non-concessional borrowing is used to finance high-priority investment projects. In line with government's medium-term fiscal policy, the proceeds from non-concessional borrowing are used to support development projects, particularly infrastructure development. The government has also continued to control the issuance of guarantees on loans to various public institutions in order to maintain sustainability of the public debt.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source: IMF (WEO & Article IV).

Economic and political governance

Private sector

Tanzania's recognition of the private sector as an engine of growth is adequately backed by the ongoing reforms, which have continued to simplify the procedures and regulations for business, and make improvements on the necessary frameworks for market competition. In terms of the overall ease of doing business, Tanzania moved up 12 positions to rank 132 in the World Bank report *Doing Business 2017*, from rank 144 in *Doing Business 2016*. The cost of starting a business in Tanzania is estimated at 21.5% of income per capita, just marginally higher than Kenya (21.1% of income per capita), but significantly lower than Uganda (37.1% of income per capita). In the 2016-17 edition of Global Competitiveness Index, Tanzania scores 3.5 (out of 7) on burden of government regulation and is ranked 35 on this category. But Tanzania maintains a decent rank (60) on the effectiveness of anti-monopoly policy, with a score of 3.7, while it scores 4.7 (out of 7) and ranks 99 on the intensity of local competition. The ongoing reforms – under the government's roadmap to improve the business environment – are aimed at simplifying the establishment of businesses and promoting competition. They include: business registration and licencing reform; tax administration reform; regulatory reforms; and financial sector reforms. The existing legal and institutional framework includes: the Fair Competition Act 2003, as well as the Business Registration and Licencing Authority responsible for overseeing the registration and licencing of businesses.

In the context of the ongoing economic reforms, Tanzania continues to make a number of policy changes to establish appropriate and business friendly legal and regulatory frameworks. Several regulatory bodies have been established and are fully functional, including: the Fair Competition Commission (FCC) – to promote and protect competition; the establishment of the Energy and Water Utilities Regulatory Authority (EWURA), the Surface and Maritime Transport Regulatory Authority (SUMATRA); the Civil Aviation Regulatory Authority (TCAA) and the Communication Regulatory Authority (TCRA) – which are responsible for regulation of the natural monopolies or networks industries, mainly infrastructure and utilities monopolies. Tanzania's ranking in the World Economic Forum's *Global Competitiveness Report* (GCR), has continued to improve, to 116th position in the 2016-17 edition – demonstrating a trend of consistent improvements from 125th in 2013-14 to 121st in the 2014-15 edition, and further to 120th position in 2015-16 edition.

According to the *Global Competitiveness Report* 2016-17, government regulation is not overly burdensome to business in Tanzania. The country ranks 59 (out of 138 countries) on the burden of government regulation with a score of 3.5 out of 7. However, in the World Bank report *Doing Business 2017*, Tanzania performs dismally on paying taxes, ranking 154 out of 190 countries, with about 53 payments to be made per year, taking an estimated 195 hours per year (same number of hours as in Kenya and Uganda). State intervention in goods markets through controls and or subsidies are very rare in Tanzania, except for special cases where protection of specific groups of consumers is needed. Tanzania corporate governance legislation generally encourages disclosure and protects shareholder rights, although there are gaps in terms of enforcement and compliance, partly explained by few options including nascent domestic capital markets, and the high level of informality in the economy.

Financial sector

Tanzania's banking sector has remained sound throughout the past year, as reflected by financial soundness indicators, although it also faced risks due to declining asset quality. Over the past year, the banking sector remained profitable with improved operational efficiency. The Bank of Tanzania's financial stability report of March 2016 indicates that, apart from net interest margin (which slightly decreased from 67% to 65.6%), and Non-Performing Loans (NPLs), most of the financial indicators increased between September 2015 and March 2016. Operational overheads also declined, which is reflected in the ratio of non-interest expenses to gross income. Stress tests reveal that Tanzania's banking system remains resilient to credit, interest rate, and foreign exchange shocks. Returns to assets improved from 2.7% recorded in September 2015 to 3.2% recorded in March 2016. The banking sector has remained comfortably capitalised with a capital ratio of 18%, which is above the prudential requirement of 12.5%. Also, the sector has remained sufficiently liquid, with a liquidity ratio of 36.6% against a 20% prudential requirement. However, the asset quality declined slightly, with NPLs increasing from 6.8% in September 2015 to 8.3% in March 2016. Personal loans, and credit extended to agriculture and trade accounted for the largest share of NPLs.

Tanzania's financial sector has been one of the fastest growing sub-sectors in the economy, recording 10.8% and 11.8% growth in 2014 and 2015 respectively. However, the sector still lacks the depth and breadth to efficiently and effectively mobilise resources to propel economic growth. It remains characterised by a nascent stock market, a nascent insurance subsector, and limited instruments and institutions for long-term and development financing. Domestic credit provided by the financial sector has averaged around 20% of GDP over the past five years, which is significantly lower than the sub-Saharan Africa average of 60% of GDP. Also, Tanzania's ratio of financial assets to GDP is estimated at about 41%, in contrast to its neighbour Kenya whose financial assets to GDP are estimated at 108%. Tanzania's financial sector remains heavily dominated by the banking sector, which accounts for about 70% of financial assets. The role of stock markets still remains minimal as demonstrated by the level of market capitalisation (only 22% of GDP compared to Kenya's 40% of GDP).

Based on the Bank of Tanzania's financial stability report, the capital market experienced a slowdown between September 2015 and March 2016, with the turnover ratio declining from 1.3% to 0.6%. Also, during the same period, the Dar es Salaam Stock Exchange's (DSE) total market capitalisation as well as the all share index decreased; but both the level of the index and volume traded remained stable with no indication of significant risk.

Access to financial services in Tanzania continues to increase on the back of an expanding bank branch network, fast growth in mobile phone services, as well as the introduction of new solutions – most notably, agent banking. The findings of the most recent FinScope survey (2013) indicate that 74% of Tanzanians have access to at least one form of financial services. This high level of "access" is largely explained by rapid expansion of mobile money services over the decade. However, the use of banking services still remains low at 14% of population. Therefore, a majority of Tanzania's population uses informal financial services. The percentage of adults with an account in formal financial institutions is estimated at 19%, which is low compared to other countries such as Uganda (27%) and Namibia (58%), as of 2015. Although Tanzania's formal financial sector is generally characterised by a wide interest rate spread (for instance, banks' overall lending rates are 16%, while savings deposit rates are 3%), the sheer dominance of informal credit and savings is mainly explained by simplicity and availability, rather than interest rates (informal lending rates are usually very high, in some cases exceeding 35% per annum).

Tanzania's payment system operates smoothly without major interruptions and clearance of non-cash transactions is mainly done through Tanzania's Interbank Settlement System (TISS). Over the past year, the system has improved its availability, as illustrated by server and database uptime levels, and operated with adequate liquidity, thus minimizing operational and settlement risk. The Central Bank of Tanzania recently issued regulations to operationalise the National Payment System Act of 2015, with the aim of enhancing payment systems oversight. The Electronic Money Regulations 2015 will guide the licenced payment system providers charged with providing electronic money services. This regulation requires banks to adopt Europay, MasterCard and Visa (EMV) compliant card payment instruments. The essence of this regulation, which took effect in July 2016, is to minimise potential risks that may arise from provision of payment services and issuance of electronic money services.

Public sector management, institutions and reforms

Tanzania's administrative structure provides for a sound platform for effective service delivery and operational efficiency. The system of service delivery consists of the ministries, departments, agencies and local government authorities – all of which are constitutionally established by law. While the role of policy co-ordination rests with the respective ministries, it is the presence of decentralised systems that allows for responsive service delivery throughout the country. The current Five Year Development Plan focuses on the strengthening of efficient decentralised systems.

Tanzania has made progress in reforming its public service, but the overall quality of public service delivery continues to face several challenges, including insufficient manpower and inadequate capacity for efficiency. Low pay continues to be raised throughout government as the main challenge to attract, retain and motivate key categories of employees. In response to this challenge, implementation of Medium Term Pay Reform Strategy is currently underway, with a view to addressing the pay and incentive scheme in the public service. In the 2016/17 budget, the government reduced the income tax (Pay-As-You Earn) for employees (including public servants) on the lowest taxable income bracket from 11% to 9%. Since the beginning of 2016, the government has embarked on a comprehensive public sector pay-roll audit, following which thousands of "ghost workers" have been identified, and removed. The government estimates that about TZS 4.5 billion (Tanzanian Shilling) will be saved every month as a result of public sector payroll clean-up.

Tanzania continues to make progress in improving its systems of governance and accountability, as a key dimension of the ongoing reforms. Through various programmes, the functions of oversight institutions have been significantly strengthened over the past decade including: the National Audit Office; the Control and Combating of Corruption Bureau; Parliamentary Committees; the Court System; as well as designated Agencies. In Tanzania, the judiciary system is independent from executive influence (comprising the President, the cabinet and different levels of government machinery). The government's accountability to oversight institutions, including Parliament, has gained momentum in recent years. Sanctions have been applied in cases of irregularities and performance failures. Of particular importance has been the exposure of malpractices in the use of resources through the audit carried out by the Controller and Auditor General (CAG).

Natural resource management and environment

Tanzania's species inventory includes more than 300 mammal species, over 1 100 species of birds (one of the largest avifauna in Africa, with 56 species of global conservation concern) and over 360 species of fauna, of which 99 species are endemic. Tanzania has two areas designated by Conservation International as Global Biodiversity Hotspots, namely the Eastern Afro-montane forests (Eastern Arc and Albertine Rift components) and the Eastern African Coastal Forests. A current major threat to wild animals in Tanzania is poaching, particularly of elephants for tusks. The government has elevated the problem to a national disaster and more resources are being committed to fighting the menace.

Tanzania has also ratified several international legal instruments in the area of the environment including those initiated by the United Nations in 1982, the Montreal and Kyoto Protocols; it has also supported the adoption of the Rio Declaration. Tanzania collaborates with other countries in the region to promote sustainable development through the equitable sharing of resources. The programmes in which Tanzania collaborates include the Nile Trans-boundary Environmental Action Project and the Lake Tanganyika Sustainable Management Programme – which brings together Tanzania, Burundi, Congo and Zambia.

Tanzania improved its rank in the Environmental Performance Index (EPI) from 143 (out of 178 countries) in 2014 to 132 (out of 180 countries) in 2016 with an overall score of 58.34 (out of 100). The country's best-ranked indicators in EPI include: agriculture, forests, fisheries as well as biodiversity and habitat. The key environmental challenges in Tanzania include: deforestation, land degradation, loss of biodiversity, threat to the coastal and marine environment, and pollution. Although the country has the necessary policy, legal, and regulatory frameworks in place to address these challenges, implementation is constrained by inadequate capacities – both administrative and financial resources.

Political context

Tanzania achieved an enviable model of a peaceful transfer of power in 2015 in a national general election that produced the current government led by Dr. John Magufuli and members of the national parliament. The government has launched a five-year development programme that seeks to achieve full industrialisation of the country by 2025. Though the sub-national election process and outcome in Zanzibar were contentious and generated political tension in 2015, the situation has normalised and both the government and the opposition are working towards a sustainable political setting.

On the general outlook of governance in Tanzania, the 2016 Ibrahim Index on governance in Africa placed Tanzania at 18 out of 54 African countries with a score of 56.5 (out of 100). Tanzania features permanently among the first half of countries in the continent that performs better on governance. The major strengths of governance in Tanzania are in the areas of safety and rule of law, national security, participation, and human rights and gender; its major weaknesses are in human development (health and education) and infrastructure.

Social context and human development

Building human resources

The First Five Year Development Plan (2011/2012 -2015/2016) targeted improvement of human capital in terms of skills, competencies, knowledge and enhanced efficiency of labour. The Plan also emphasised interventions addressing the challenges facing the health sector, targeting equitable access to health services, better quality of health services, strengthening the management of the health system, and developing policies and regulations on human resources for health and social welfare coherent with government policies. There have been improvements in school enrolments, the teaching environment, health sector, and provision of clean and safe water in rural and urban areas. Some of the Plan's key achievements by 2015/16 were: the percentage of population with no education decreased from 46% of females and 34% of males in 1991-92 (Tanzania Demographic Health Survey, TDHS) to 24% females and 19% of males in 2015-2016 (THDS); 99 611 teachers were trained in government colleges between 2011 and 2014; women who delivered at health centres increased from 51% in 2010 to 63% in 2015/16; and women attended by skilled attendants giving birth increased from 50% in 2010 to 64% in 2015/16. Furthermore, health infrastructure improved rapidly, especially in rural Tanzania, increasing the number of health facilities with clean water, power, and improved sanitation from 5% in 2010 to 36% in 2014. Under-five child mortality per 1 000 live births declined from 81 in 2010 to 67 in 2015/16. Access to safe drinking water improved from 57% in 2010 to 61% in 2015/2016.

In terms of human development, Tanzania ranks 151 out 188 countries with the Human Development Index (HDI) value of 0.521 in 2014. This value is still low and positions the country in the lower human development category. Caloric availability at the household level has hardly improved since 1997 and chronic malnutrition is estimated to be an underlying cause of over one third of under-five year old deaths (Tanzania Human Development Report, 2014). The education sector remains a major challenge, as the quality of education is low and with increasing number of dropouts as well as a lack of competencies and decline in teacher morale and motivation.

Poverty reduction, social protection and labour

After a long period of stagnation, the poverty headcount declined from 34.4% in 2007 to 28.2% in 2012, while extreme poverty fell from 11.7% to 9.7%. The reduction in poverty appears more substantial if one uses the international poverty line of USD 1.90 per person per day. Based on this measure, the headcount ratio dropped from 59.9% to 48.8% between 2007 and 2012. The favourable performance in economic growth and poverty reduction was accompanied by narrowing inequality, the Gini index declined from around 0.39 to 0.36 between 2007 and 2012. Evidence on the shared prosperity indicator suggests that inequality reductions were mainly driven by a larger increase in the consumption accruing to the bottom quintiles. The annual consumption growth among the bottom 40, at 3.4%, was well above three times the growth among the top 60, at 1.0%.

The Tanzania Social Action Fund (TASAF) Productive Social Safety Net Programme (PSSN) has so far enrolled 1.1 million beneficiaries since its launch in 2012. TASAF programmes are estimated to have contributed to the reduction in extreme poverty headcount (food poverty line) from 11.7% in 2007 to 9.7% in FY 2011/2012, reducing cases of malnutrition and increasing access to education and health services. It has also improved human capital indicators such as the engagement of households in savings and economic activities.

One of the greatest national policy concerns is youth unemployment and underemployment. According to the 2014 Integrated Labour Survey, the youth unemployment rate is higher among females, at 12.3%, compared to males at 8.2%. The situation is particularly severe in urban areas, where the unemployment rate for females is 18.2% compared to 8.5% for males. In Dar es Salaam the unemployment rate for females is nearly three times that of males (32.2% compared to 11.3%).

Gender equality

Tanzania's performance in narrowing gender disparity in primary education has been remarkable since the early 1990s. Primary school enrolment ratios for girls and boys are almost equal though the gender balance deteriorates with transition to secondary and higher levels. Whereas the gender parity is almost one (1) up to lower secondary education level (Form 1 –IV), higher secondary (Form V –VI) and tertiary education levels' Gender Parity Indexes are less than one and 0.50, respectively. Challenges remain with regard to retention and performance of girls at all levels of education as early pregnancies and marriage continue to contribute significantly to school dropouts among girls in both rural and urban areas.

Despite government's sustained efforts to empower women, data shows that women are marginalised vis-à-vis land ownership, access to education, in particular at higher education levels, participation in employment, and earnings. According to the Economic Research and Social Foundation (2013), land insecurity among women smallholder farmers is very high in several parts of the country. The 2014 Integrated Labour Force Survey shows that; three-quarters of paid and self-employed employees in non-agriculture have informal employment (75.9%) with a significantly higher proportion of females (81.7%) than males (71.7%); the share of males in senior and middle management occupations (82.6%) is significantly higher than the share of females, at 17.4% (the tendency can be observed across all senior and middle management occupations); the unemployment rate is higher among females, at 12.3% compared to males at 8.2%, with severe disparities in urban areas; mean monthly income earned by females is less than that earned by males regardless of the type of employment; and women spend more time on unpaid care work than men and less on income generating activities.

Thematic analysis: Entrepreneurship and industrialisation in Tanzania

Industrial activity in Tanzania is low relative to some neighbouring countries. The share of the manufacturing sector in GDP is about 5% but recent years have witnessed major investments, such as the cement manufacturing plant at Mtwara and turnkey investments in gas production and an oil pipeline. However, even for the thriving sub-sector in industrial production, forward and backward linkages with other domestic players are weak. Other concerns of the sector include low productivity and an undeveloped value chain.

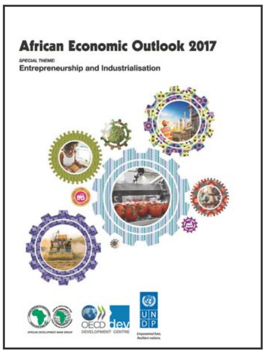
Agriculture, a major source of industrial input (65%), is underdeveloped and highly dependent on rainfall with irrigated farmland constituting only about 10% of productive land. Agricultural products that make up 30% of exports are mostly exported unprocessed as a result of the low level of industrialisation. The level of commercialisation in the agriculture sector remains low, and most farmers are engaged in small-scale farming mainly for subsistence. But in terms of foreign and medium to large-scale domestic entrepreneurship, the major activities are in tourism, manufacturing and mining. The major attractions of investors to tourism are political stability and peace in the country, coupled with the natural endowment of Kilimanjaro Mountain and well-managed national investments in wild life parks. The island of Zanzibar in the Indian Ocean is a haven to international holidaymakers.

The manufacturing sector is emerging and represented 5.2% of GDP in 2015. With a population of about 50 million people Tanzania presents a large domestic market for manufactures. The dual membership in both the East African Community (EAC) and the Southern African Development Community (SADC) enables manufacturers in Tanzania to access the markets in East and Southern Africa. But several factors constrain the development of the manufacturing sector. Supportive infrastructure for industrial value chain is weak in many areas. The road network and railway lines are uncompetitive but their negative impact on the industrial value chain is reduced by Tanzania's proximity to international waters for shipping of industrial inputs and outputs. Seaports services are also witnessing expansion and improved efficiency with an operational vision to match the efficiency of ports in neighbouring countries in the near future.

The policies and the environment for entrepreneurship and industrialisation in Tanzania are favourable in some sectors but weak in others. On the positive side, Tanzania ranks first on getting electricity among African countries (World Bank report, *Doing Business 2017*) and also one of the best in the continent in terms of enforcing contracts and getting credit. But starting a business is onerous. The most difficult challenges are on trading across border, getting construction permits and taxation. Despite these weaknesses, on average, the business environment is above the African average at 14th position out of 54 countries in Africa.

Tanzania's development plan for 2016/17 to 2020/21 is focused on the theme, Nurturing Industrialisation for Economic Transformation and Human Development. This policy marks the first time in the history of Tanzania that industrialisation and entrepreneurship feature at the forefront of national development. Some of the main objectives of the plan are to: i) build a base for transforming Tanzania into a semi-industrialised nation by 2025; ii) foster development of sustainable productive and export capacities; iii) improve the environment for doing business; iv) position the country as a regional production, trade and logistics hub; and v) promote the availability of requisite industrial skills.

The plan has a salient feature – what it calls "business unusual" spirit – to embrace and promote strategic partnerships with the private sector through facilitation of competitiveness, including provision of industrial infrastructure by the government. The pronouncements and the spirit of the new policy are new to Tanzania. The commitment to the implementation of the plan will redefine the role of entrepreneurship in the country. Time will tell if the plan is effective.



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