Tanzania

Overall macroeconomic performance has been strong, with inflation declining to single digits and gross domestic product (GDP) growth projected at about 7% in the medium term. The main drivers of growth are telecommunications, transport and financial intermediation, manufacturing and construction, and trade.

Continued emphasis on sound economic management and strengthening political governance could ensure that the newly found natural gas resources will indeed play an important role in Tanzania's socio-economic transformation over the medium term.

While the structure of the economy has undergone some changes over the years, the slow progress in poverty reduction – largely due to underperforming agriculture and significant infrastructure bottlenecks – indicates that Tanzania is at best in the process of transformation.

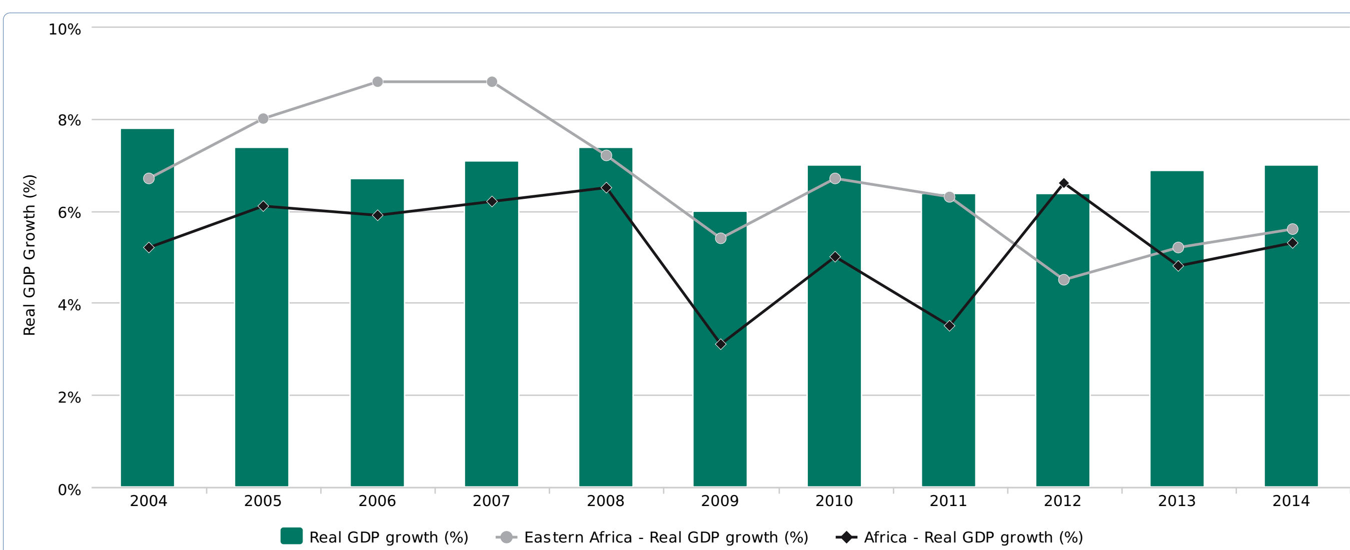
Overview

Tanzania continues to do well in maintaining overall macroeconomic stability – which, along with institutional and policy reforms, has been a fundamental factor behind the strong economic growth rates. The main drivers of growth have been agriculture, manufacturing, wholesale and retail trade, transport and communication activities. The economy has also continued to record strong export growth. Tanzania's medium-term growth prospects are around 7%, significantly boosted by natural gas discoveries.[1]

Nevertheless, underperformance in the agriculture sector – which employs 75% of the workforce – has been a key factor in jobless growth and chronic underemployment. Rapid aggregate GDP growth has not led to substantial reductions in poverty or improvements in overall socio-economic conditions for most of the population. Agricultural growth must be accelerated to achieve more effective poverty reduction. The business environment could be further boosted by heightening Tanzania's attractiveness to local and foreign investors through strengthening its human resource base and reinforcing overall institutional capacity and efficiency. However, while fiscal consolidation has been successful, the increased accumulation of quasi-fiscal arrears (notably in the energy and transport sectors) is a concern. Finally, overall growth prospects in the medium term depend heavily on solving Tanzania's chronic energy crisis. Key risks to Tanzania's growth and fiscal outlook stem from heightened financial difficulties of the power utility Tanzania Electricity Supply Company (TANESCO). If left unaddressed, these risks could result in further power outages and an additional fiscal burden.

The newly found natural gas resources could provide impetus for future development. Wise management of the additional fiscal revenues is crucial to ensure inclusive sharing of windfall gains and benefits. In particular, resources from extractive industries should be used to develop other job-intensive sectors and avoid risks associated with jobless growth, which will require extensively upgrading the country's legal and institutional framework and preparing sectoral investment plans. Timely completion of the ongoing constitutional review will also help ensure smooth elections in 2015.

Figure 1: Real GDP growth 2013 (East)



Figures for 2012 are estimates; for 2013 and later are projections.

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Table 1: Macroeconomic indicators

	2011	2012	2013	2014
Real GDP growth	6.4	6.4	6.9	7
Real GDP per capita growth	3.4	3.3	3.8	3.9
CPI inflation	12.7	16.1	8.4	6.9
Budget balance % GDP	-6	-9.1	-3.9	-3.1
Current account % GDP	-11.9	-11.1	-11.9	-10.8

Figures for 2012 are estimates; for 2013 and later are projections.

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Recent Developments & Prospects

Table 2: GDP by Sector (percentage of GDP)

	2007	2011
Agriculture, forestry & fishing	-	-
Agriculture, hunting, forestry, fishing	30	27.7
Construction	8.6	8.8
Electricity, gas and water	2.2	2.4
Electricity, water and sanitation	-	-
Extractions	-	-
Finance, insurance and social solidarity	-	-
Finance, real estate and business services	12.3	11.4
General government services	8.7	8.8
Gross domestic product at basic prices / factor cost	100	100
Manufacturing	8.6	10.2
Mining	3.9	3.7
Other services	2.8	2.7
Public Administration & Personal Services	-	-
Public Administration, Education, Health & Social Work, Community, Social & Personal Services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Social services	-	-
Transport, storage and communication	7.2	8.2
Transportation, communication & information	-	-
Wholesale and retail trade, hotels and restaurants	15.7	16
Wholesale, retail trade and real estate ownership	-	-

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Tanzania’s economy recorded an annual average growth of 6.4% in 2011, sustaining the momentum and growing by an estimated 6.8% in 2012. The economy has remained relatively resilient to both internal and external shocks. The main drivers of growth are agriculture, manufacturing, wholesale and retail trade, transport and communication activities. The economy has also continued to record strong export performance (USD 8.7 billion in 2012, 18% higher than the USD 7.4 billion recorded in 2011) driven largely by gold exports. This has helped maintain an official reserve position of approximately four months’ worth of imports of goods and services in 2012.

In the medium term, Tanzania’s growth prospects have been significantly enhanced by natural gas discoveries. With proven recoverable gas resources of about 33 trillion cubic feet (tcf), Tanzania could receive an estimated USD 10-15 billion in the next decade. These discoveries (which could lead to establishment of a liquefied natural gas [LNG] plant) continue to broaden foreign direct investment (FDI) prospects, further boosted by the country’s proximity to fast-growing Asian economies (particularly India), which could be an attractive destination for LNG exports. For example, in 2012 the British Gas (BG) Group – already a major investor –

revealed plans to step up its presence by investing USD 500 million in Tanzanian natural gas exploration.

Real GDP growth is projected at 6.9 % in 2013 and 7 % in 2014, driven mainly by investments in the natural gas sector as well as continued expansion of the services and manufacturing sectors. The ongoing implementation of the 532-kilometre natural gas pipeline project (valued at about USD 1.2 billion) from Mtwara to Dar es Salaam may also boost growth in the medium term. The services sector – which accounts for about 50% of GDP – is projected to grow by 8.5% in 2013 and a further 8.9% in 2014, driven by fast growth in trade and repairs (estimated growth 10.4% in 2013 and 11.2% in 2014), communications (estimated growth 19.2% in 2013 and 2014) and financial intermediation (estimated growth 10% in 2013 and 10.5% in 2014). The industry and construction sector is projected to grow at 9.8% in 2013 and 10.2% in 2014, largely driven by manufacturing (estimated growth 11.3% in 2013 and 11.8% in 2014), transport (estimated growth 7.8% in 2013 and 8% in 2014) and construction (estimated growth 9.8% in 2013 and 9.6% in 2014).

The agriculture sector's mixed growth record (3.1% in 2011) is largely dependent on hard-to-predict rainfall patterns. Urgently required structural challenges include improving smallholder agriculture productivity and modernising the sector overall through such measures as supplying fertilisers and improved seeds, providing agriculture financing and scaling up investments for irrigation. The current structure of agricultural growth favouring large-scale production of rice, wheat and traditional export crops is a challenge. Accelerating agricultural growth in a wider range of sub-sectors is necessary to strengthen poverty reduction through growth. With these caveats in mind, the sector – which employs about 75% of Tanzania's labour force and contributes 27.7% of GDP – is optimistically projected to grow by 5.1% in 2013 and a further 5.2% in 2014.

Tanzania's overall growth prospects in the medium term depend heavily on improving its energy situation. Hydropower accounts for about 55% of energy sources and TANESCO continues to deliver power at high cost – not only because it needs to purchase expensive electricity generated by independent power producers in order to remedy the shortage, but also because it is plagued by inefficiencies in distribution and revenue collection. While energy generation stabilised somewhat in 2012, it worsened in early 2013 and the sector is currently considered on the brink of collapse. With financial arrears in the order of about 1.3% of GDP, TANESCO would need significant investment amounts to overhaul its antiquated production, transmission and distribution infrastructure. In Dar es Salaam (the major industrial and commercial capital) alone, TANESCO needs to replace most of the transformers (over 35 years old) serving the city centre. Authorities view the successful completion of the Mtwara-Dar es Salaam gas pipeline project as a solution to the current problems thanks to the expansion of much-needed gas-to-electricity generation.

Macroeconomic Policy

Fiscal Policy

Tanzania's fiscal position has strengthened significantly after three consecutive years of difficulties, especially in meeting revenue targets, and growing fiscal deficits. Domestic revenue for fiscal year 2011/12 exceeded the budget target by about 4% – a notable improvement from the previous three fiscal years with collections 10% below target. The 2012/13 budget puts expenditures at TZS 15.1 trillion (Tanzanian shillings), an 11.8% increase over the TZS 13.5 trillion budgeted for 2011/12. The general composition of the budget has remained unchanged from the previous two fiscal years, with 70% of the budgeted resources allocated for recurrent expenditures and 30% for development expenditure.

The 2012/13 budget was reconsolidated to manage expenditure growth and keep fiscal deficits within the levels recommended under the policy support instrument (PSI) framework of the International Monetary Fund (IMF). The budgeted expenditure for 2012/13 is 28.4% of GDP, down from 32% of GDP in the 2011/12 budget. The planned deficit for 2012/13 is 3.9% of GDP, in line with the PSI, compared to over 9.1% of GDP in the previous two budgets. Domestic revenues are expected to increase from 6.9% of GDP in 2011/12 to 18% of GDP in 2012/13. Increased tax revenue performance and reduction in non-priority spending have been vital to the ongoing fiscal consolidation process. Infrastructure and social sector investments remain priorities.

Unlike in previous fiscal years, recurrent budget in 2012/13 will be fully covered by recurrent resources, the sum of domestic revenues and grants. With more than 70 000 new recruitments expected in education, health, agriculture and other sectors, the wage bill is likely to exceed the planned level of about 6.5 % of GDP. Tanzania aims to adhere to a cash budgeting system while avoiding inflationary financing of the deficit and keeping domestic and non-concessional external borrowing within allowable PSI limits. Net domestic financing for 2012/13 is budgeted at 1% of GDP, in line with PSI, and planned non-concessional borrowing to finance the deficit is budgeted at around 3% of GDP. Fiscal targets continue to prioritise infrastructure and energy in order to address critical constraints to growth – the primary focus for most of the planned external non-concessional financing. One area of concern has been the increased accumulation of quasi-fiscal arrears, notably in the energy and transport sectors.

Table 3: Public Finances (percentage of GDP)

	2009	2010	2011	2012	2013	2014
Total revenue and grants	21.5	20.5	21.2	48.8	20.6	19.8
Tax revenue	15.8	14.6	15.2	34.8	15.2	15
Oil revenue	-	-	-	-	-	-
Grants	4.7	4.6	4.7	10	3.9	3.3
Total expenditure and net lending (a)	25.7	27.5	27.2	57.8	24.5	22.9
Current expenditure	17.7	18.8	19.2	37.5	16.5	15.6
Excluding interest	16.8	18	18.2	35.2	15.2	14.2
Wages and salaries	6.1	5.7	6.7	14.6	5.9	5.5
Interest	0.9	0.8	1	2.3	1.3	1.4
Primary balance	-3.3	-6.1	-4.9	-6.7	-2.6	-1.7
Overall balance	-4.2	-7	-6	-9.1	-3.9	-3.1

Figures for 2012 are estimates; for 2013 and later are projections.

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Monetary Policy

The Bank of Tanzania continued to implement a tight monetary policy to reduce inflationary pressures. In line with objectives of supporting economic growth and maintaining price stability, the annual growth rate of average reserve money was 11% by end-2012 – significantly lower than the 19% target in 2012 and 19.8%

growth in 2011. In addition, annual growth in extended broad money was 13.1% – lower than the Bank of Tanzania's 2012 target of below 19% and 2011 growth of 18.2%. The Bank of Tanzania maintained a constant 12% discount rate and its Lombard rate averaged 13.9% in 2012, with a maximum of 26.4% in January and a minimum of 4.9% in November. The overall savings deposit rate averaged 2.9% in 2012, while the overall lending rate averaged 15.5% in 2012. In line with these developments in money supply and interest rates, private-sector credit grew 18.2% in 2012, slightly lower than the 20% target and significantly lower than the 27.2% growth recorded in 2011. Most of the credit was held in personal activities, trade, manufacturing, agriculture and transport and communication activities.

In 2012, the improved food supply and relatively stable energy situation (both important expenditure items in the CPI) coupled with prudent monetary policy helped ease inflationary pressures on the economy, with annual headline inflation falling consistently from a decade high of 19.8% in December 2011 to 12.1% in December 2012. Headline inflation has nevertheless remained in the double digits, largely because of high food and energy prices. Core inflation (excluding food and energy) averaged 8.8% in 2012, with a maximum of 9.2% in August 2012 and a minimum of 8.6% in February 2012. Similarly, Tanzania enjoyed currency stability throughout 2012, with the weighted average exchange rate reported by the Bank of Tanzania fluctuating between TZS 1 574 and TZS 1 592 per US dollar throughout the year.

Looking ahead, the Bank of Tanzania has signaled its aim to increase its inflation forecasting capacity and shift gradually to interest rate targeting instead of monetary targeting. The exchange rate policy will remain determined by the market, with limited interventions to smooth short-term fluctuations.

The private banking sector in 2012 remained sound and profitable and capital adequacy ratios are above regulatory standards. The main challenges included an increase in non-performing loans and relatively high net rate interest margins. Certain areas remain to be addressed, such as prevention of money laundering and continued strong oversight of banking.

Economic Cooperation, Regional Integration & Trade

Tanzania remains an active participant in a number of regional trading agreements and regional economic communities, the most important being the East African Community (EAC) and Southern African Development Community (SADC). The country has made considerable progress in promoting participation and accelerating regional integration through tariff reduction, in conformity with signed protocols. It is implementing the EAC Common Market Protocol (operational since July 2010) and has prepared a National Strategy for Implementing the Common Market Protocol. It continues to play an important role in the SADC member states' process of establishing a common market.

The country continues to engage actively in the framework of regional arrangements to support customs and trade facilitation – notably within the EAC – through simplifying customs procedures and enacting other measures to facilitate trade. While tariff barriers have been removed thanks to implementation of the regional customs union, Tanzania continues to work with the other members to remove non-tariff barriers and facilitate cross-border regional trade. Construction of a one-stop border post at Namanga (Kenya/Tanzania border) is underway to simplify the movement of goods between the two countries. As Tanzania continues to implement a fully operational EAC customs union, in 2012 it entered into an agreement with Kenya to establish non-stop (24-hour) trading across the two countries' borders.

Tanzania's exports of goods and services reached USD 8.7 billion in 2012, an increase of about 17.4% over the USD 7.4 billion recorded in 2011. Imports of goods recorded a modest 5.3% increase, from USD 12 billion in 2011 to USD 12.7 billion in 2012. As a result, the current-account balance improved slightly, narrowing by 13.6% from USD 3.97 billion in 2011 to USD 3.44 billion deficit in 2012. Surprisingly, Tanzania's export performance exceeded that of Brazil, Tunisia, Mauritius, Malaysia, Korea and Thailand over 2000-12. Tanzania's total merchandise export grew approximately fivefold, reaching USD 5.2 billion in 2012. This rapid growth has been driven by higher prices on world markets for Tanzanian traditional agricultural export commodities such as coffee, tobacco and sisal and by the rise of gold prices from USD 383 million in 2002 to over USD 2 billion in 2012. Manufacturing exports grew from 7% of total merchandise exports in 2002 to 20% in 2012. A key feature of Tanzania's export performance has been market diversification away from the EU. Over 2000-11, exports to the EU dropped from approximately 50% to 30% of total exports, while exports to Asia rose from 23% to almost 30%; more importantly, exports to African countries grew from under 10% to over 30%.

Despite these positive developments, Tanzania remains vulnerable to external shocks. First, exports remain concentrated: gold now accounts for over 40% of total merchandise exports and a drop in world gold prices could significantly reduce Tanzania's total merchandise exports earnings. Second, the rapid annual growth over 2000-12 came from a very low base, as the share of goods and services exports in the GDP was only around 13%. Third, the vast majority of merchandise exports are products such as minerals and unprocessed agriculture goods, with low value added and minimal direct impacts on jobs and technology development in the domestic economy. Consequently, a slowdown of global and regional economic activity could adversely affect export growth, FDI and market financing. By late 2012 there was mounting pressure on the balance of payments, largely due to the high oil import bill. Because of structural deficiencies in the energy sector, about 33% of Tanzania's current energy production relies on fuel-powered emergency power plants.

Table 4: Current Account (percentage of GDP)

	2004	2009	2010	2011	2012	2013	2014
Trade balance	-7.6	-13.4	-12.3	-15.2	-13.8	-14.3	-12.9
Exports of goods (f.o.b.)	11.1	13.6	18.9	20.2	18.5	17	17.6
Imports of goods (f.o.b.)	18.7	27	31.2	35.4	32.4	31.3	30.5
Services	1.2	1.5	1.1	0	0	0	0
Factor income	-0.9	-0.3	-0.2	-0.1	-0.1	-0.1	-0.1
Current transfers	4.6	3.3	3.7	3.4	2.9	2.5	2.2
Current account balance	-2.8	-9	-7.7	-11.9	-11.1	-11.9	-10.8

Figures for 2012 are estimates; for 2013 and later are projections.

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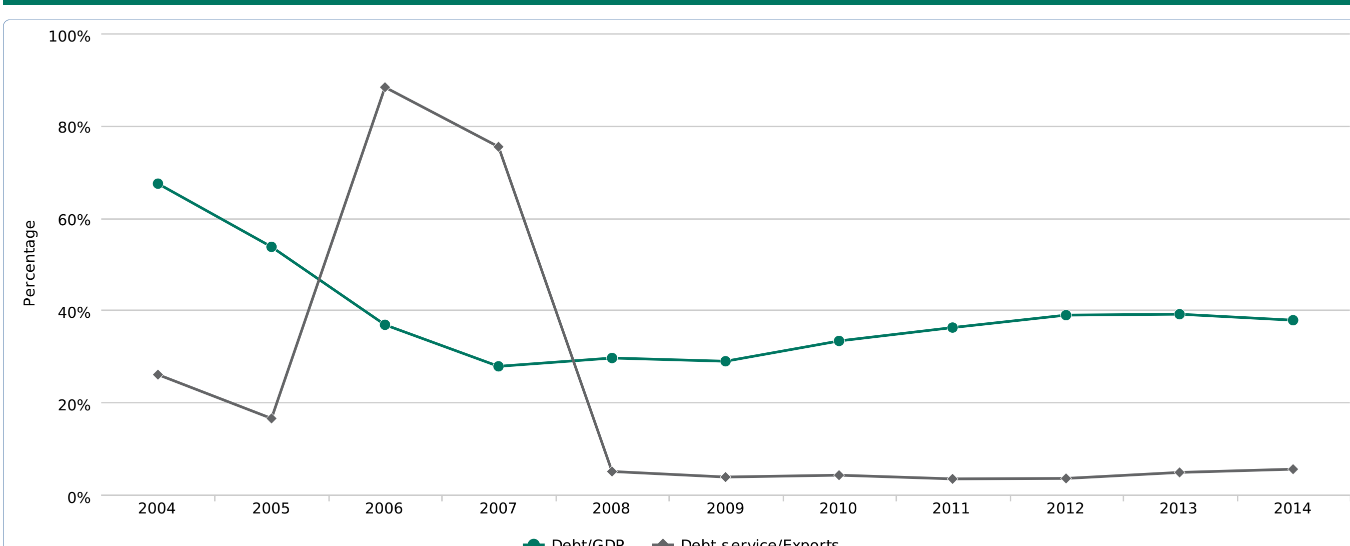
Debt Policy

Tanzania's external debt stock increased by about 7.3% from USD 10.6 billion at end-2011 to USD 10.7 billion at end-2012 thanks to newly disbursed external debt to the government and accumulation of interest arrears by the private sector. By December 2012, Tanzania's external debt stood at 37.3% of GDP. Yet the recent debt sustainability analysis undertaken by both the government and IMF/World Bank shows that Tanzania faces low levels of debt distress, with debt projected to remain within sustainable limits in the medium term. Moreover, the country could strengthen its debt sustainability by exploiting potentially large deep-water natural gas resources over the coming decade – a factor that is currently not incorporated in baseline debt sustainability analyses.

However, debt indicators are sensitive to borrowing in non-concessional terms. The huge financing needs to implement the Five Year Development Plan could imply an increase in borrowing on non-concessional terms as well as public-private partnership arrangements that may have near-term implications on public debt service. Given that debt sustainability is sensitive to terms of borrowing and utilisation, non-concessional borrowing should be used to finance high-priority investment projects. Current non-concessional loans are intended to support development projects, especially infrastructure development. Tanzania continues to control issuance of guarantees on loans to public institutions in order to maintain public debt sustainability.

Figure 2: Stock of total external debt and debt service 2013



Figures for 2012 are estimates; for 2013 and later are projections.

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Economic & Political Governance

Private Sector

The national development strategies and plans – which are driving a paradigm shift in Tanzania's socio-economic development – recognise the private sector as an engine of growth. Tanzania has done well in some areas while lagging behind in facilitating private businesses. Its ranking in Transparency International's Corruption Perception Index improved from 116 out of 178 countries in 2010 to 102 out of 174 in 2012, against the backdrop of heightened investigation of high-profile corruption cases.

Even though the implementation of the pre-arrival declaration system and electronic submission of customs declarations made trading across borders faster, and the elimination of business licence requirements by health, town and land officers made starting business easier, the increasing costs of construction permits and difficulties in importing goods have made doing business more difficult. Hence, Tanzania's ranking in the ease of doing business index remained relatively stable at 127th out of 183 countries in 2012 compared to 134th out of 185 countries in 2013. Tougher conditions for doing business could dampen business expansions and new investments, adversely affecting growth and employment generation.

The current nationwide rate of 16% access to electricity is very low and even lower (3.6%) in rural Tanzania, curtailing the development of small enterprises. Heavy reliance on hydropower makes Tanzania (which experiences frequent dry spells) vulnerable to weather patterns and recurrent power cuts remain a key constraint to private businesses. Expanding the country's electricity-generation capacity with diversified alternative energy sources is vital, as is addressing the national power utility company TANESCO's operational issues to improve efficiency and ease the fiscal burden. Congestion at the Dar es Salaam port stemming from rapid traffic growth has become a critical drag on port efficiency, since at 140% the demand-to-capacity ratio well exceeds the standard 80% mark. Addressing all infrastructure gaps (estimated at USD 2.4 billion per year over the next decade) will be challenging.

Financial Sector

Tanzania has made significant progress in the financial sector. Net credit to the private sector increased from about 10% of GDP in 2005 to 17% of GDP by 2012. With a 17.4% return on equity, 73% net interest margin and 7.5% non-performing loan ratio, the banking sector remained highly profitable. Moreover, a healthy 18.5% capital adequacy ratio in 2012 – well above the 10% minimum requirement – and a 39% liquidity ratio indicate a healthy banking sector by international standards, underscoring several years of successful financial sector reforms. Yet the financial sector remains small by regional standards, and at 31.7% financial deepening is far lower than in most emerging economies.

Bank lending to major economic sectors continued with robust growth, particularly in trade, building and construction and agriculture. With a 20% growth rate, trade financing remained the most dynamic. The liberalisation of financial and telecommunication services seems to be paying off as both traditional financial services and innovative services (delivered through mobile banking) continue to grow, with increasing impact on financial inclusion. The number of users of mobile financial services soared from 14 000 in 2008 to 21 million in 2011. Banking regulations are underway to extend the outreach of microfinance and financial co-operatives through non-banking retail outlets.

Micro-insurance regulations are being drafted to provide a framework for insurance products catering to low-income households and micro-enterprises. While these developments are noteworthy, limited access to financial services in rural areas has become a binding constraint for small entrepreneurs. Formal banking services need to be improved to cater to about 90% of the rural population that are otherwise left out of regular financial services. Although several microfinance initiatives are operating in the country, they lack access to financial capital allowing them to lend at affordable rates. The resulting high interest rates (over 33%) have made borrowing costlier and deprived rural communities of such services.

Public Sector Management, Institutions & Reform

Tanzania has made progress in domestic accountability, particularly for oversight institutions such as the Controller and Auditor General's (CAG) Office and Parliament. After several years of reforms, the National Audit Office is now close to full African Organisation of Supreme Audit Institutions (AFROSAI III) accreditation.

Yet public sector accountability, transparency and institutional capacity to manage public services remain key challenges. Core reforms in public services, anti-corruption, public financial management (PFM) and local government continued to be implemented with mixed results. Though steps have been taken to manage pension funds, their actuarial position remains weak and potential fiscal risks persist. Tanzania has introduced anti-money laundering legislation. Implementation of Phase II of the public service reforms ending in 2012 was stalled by institutional capacity constraints and lack of prioritisation, which need to be considered when carrying out Phase III of the reforms.

Tanzania has a well-established budget planning process, but execution is sometimes off track. The build-up of arrears due to overcommitment and the lack of adherence to financial rules has put pressure on fiscal targets. Weaknesses in cash flow management, which the CAG partly attributes to weak public procurement, are another concern. The government amended the Public Procurement Act of 2004 in 2011 to make it more compatible with emerging needs and strengthen the Public Procurement Regulatory Authority's regulatory functions.

While some progress has been made in devolution, local government reforms have been slow due to human resource capacity constraints. The functioning of local government authorities has also been constrained by late disbursement of funds through the Local Government Capital Development Grant system. The slow progress in reforms – particularly in PFM and procurement – and low transparency and accountability have triggered a decline in foreign assistance inflows through General Budget Support.

Natural Resource Management & Environment

Natural resources constitute a significant share of GDP. While mining, fishing, forestry and hunting accounted for 5.5% of GDP (and mining alone for 3.3%) in 2011, sectors such as nature-based tourism and hydropower generation also contributed substantially. With heavy investments expected in the natural gas industry in coming years, natural resources' contribution to the economy is expected to grow rapidly.

Yet even though natural resources are increasingly being exploited for economic gains, Tanzania's progress in ensuring environmental sustainability is slow. While the Environmental Management Act of 2004 and Environmental Impacts and Audit Regulations of 2005 provide for conducting environmental and social impact assessments, the Mining Act (2010) attempts to ensure a fair sharing of benefits from natural resources. Given the increasing importance of natural resources in economic development, it is crucial that effective public regulation exists to ensure sustainable development while buffering against environmental disasters and resource conflicts.

While Tanzania is close to achieving the Millennium Development Goal 7 (MDG 7) target of improving access to improved drinking water in urban areas (83% access in 2009 against a target of 84% by 2015), access in rural areas remained low (57.1% in 2009 against a target of 74% by 2015) and progress has remained stagnant since 2005 in both urban and rural areas. Access to improved sanitation facilities nationwide stood at 13% in 2010, compared to 7% in 2004 – far behind the MDG targets.

Political Context

Tanzania enjoys political stability and has continued to maintain its reputation for peace. With civil and political rights entrenched in the Constitution and a policy of decentralisation by devolution, regular elections have ensured that the government follows the majority voice. Yet recent developments are cause for anxiety, as contested election processes and outcomes and bans on political rallies in 2011-12 have sometimes led to political hostilities and recent violence against journalists raises concerns about the safety of the media. In the face of growing allegations of intra-party corruption, the ruling Chama Cha Mapinduzi party in 2011 introduced a transformational agenda aiming to eradicate corruption from its ranks. The recent overlooking of top party officials for posts within the party is considered part of this process.

Despite progress, several issues pose challenges to Tanzania's democratic governance. These include the dominance of the executive, despite the separation of power enshrined in the Constitution; allegations of corruption and inefficiency against the judiciary; and exceedingly restrictive legal framework and institutional arrangements hindering a well-functioning multi-party system. The ongoing constitutional review is expected to address these issues as it examines the compatibility of the existing Constitution with principles of popular sovereignty, democracy, the political system and good governance.

Social Context & Human Development

Building Human Resources

Human resource gaps pose a significant constraint to Tanzania's efforts to unleash its growth potential. High levels of child malnutrition (39% of under-five children are stunted and 16.8% are wasted) affect human capital development. The 2011 primary enrolment has dropped to 94% (compared to 95 % in 2010 and the 2006 peak of 97%) and so has the completion rate (from 69.3% to 64.4%). The *Poverty and Human Development Report 2011* relates this drop to "truancy" and institutional violence. Although improving (from 1:51 in 2010 to 1:48 in 2011), the teacher/pupil ratio indicates large class sizes. Key challenges include fostering an enabling learning environment, remedying the shortage of teachers and equipment, and providing incentives for teachers, especially in remote areas with limited access to roads.

The secondary school net enrolment ratio increased from 29.9% in 2010 to 32.1% in 2011; higher education enrolment increased by 17% in 2010/2011; enrolment in vocational training rose by 26% due to a doubling of intake by non-governmental institutions; and enrolment in technical education rose 69% in 2011. The recent drop (from 90% in 2007 to 50.4% in 2010) in the share of students passing the Form 4 examinations and the low levels of learning in primary schools are particularly disturbing. Another area of concern is the growing number of college graduates who are ill-prepared for the labour market.

Tanzania is on target for achieving MDG4 of reducing child mortality. While under-five mortality has dropped (from 112 per thousand live births in 2004 compared to 81 in 2010), infant mortality has also declined (from 68 to 51 per thousand live births) during the same period. However, Tanzania has been able to effect a turnaround from a deteriorating trend in maternal mortality, with 454 maternal deaths per one hundred thousand live births in 2010 compared to 578 in 2005. While progress has been made in reducing the incidence rate of HIV/AIDS to 5.7% (compared to 6.8% in 2005), it remains as high as 15% in some regions. Tanzania's HIV/AIDS and Malaria Indicator Survey 2012 indicates an increase (from 25% in 2008 to 72% in 2011/12) in the proportion of under-five children sleeping under insecticide-treated bed nets and a drop in malaria prevalence (from 19.1% in 2006 to 10% in 2011/12). It also reveals improved HIV/AIDS awareness, access to antiretroviral drugs and use of condoms, which may contribute greatly to reducing HIV/AIDS prevalence. But low access to safe drinking water and improved sanitation continue to pose health challenges (such as diarrhoea for children).

Poverty Reduction, Social Protection & Labour

Tanzania's National Development Strategies and Plans articulate an agenda for reducing poverty, which is considered a priority policy challenge. Nevertheless, the Household Budget Survey 2007 indicates high poverty in Tanzania (33% overall, 37.6% in rural areas), despite the country's continued strong aggregate economic growth. National Panel Survey (NPS) estimates for 2011 suggest a further deterioration over 2009-11. Economic growth that is not broad-based, high inflation rates and rapid population growth may explain the deterioration in headcount poverty. NPS data reveal a marginal deterioration in inequality, with the Gini coefficient rising from 0.36 in 2009 to 0.37 in 2011.

A host of strategies to reduce poverty are still weakly implemented due to capacity constraints, low political will and commitment and a weak institutional environment. The "Kilimo Kwanza" or "agriculture first" initiative is yet to generate a big boost in income and employment generation in the agricultural sector. The Southern Agricultural Growth Corridor of Tanzania, an initiative to enhance public-private partnerships in agricultural transformation, is progressing slowly due to policy incoherence and low transparency, especially in taxation and land issues.

While official employment data are no longer available since the Integrated Labour Force Survey data were released in 2006, NPS data for 2011 indicate an increase in labour force participation combined with a deterioration in employment. Youth underemployment is high. The quality of education remains low, opportunities for skills development are limited and prospects of greater employment creation in the private sector lag behind expectations. On the other hand, the lack of opportunities stemming from weak agricultural sector growth and high expectations push rural youth to migrate to cities. With over 42% of the population under the age of 15, Tanzania is under immense pressure to create employment opportunities to absorb a growing number of youth who will enter the labour market in coming years. Unleashing private sector potential could be one avenue for addressing such demands.

The absence of an effective social protection system compounds the problem of high poverty. The existing mechanisms are narrow and mostly confined to formal sector enterprises; they exclude the informal economy, which employs the majority of workers. Only 3% of the labour force in Tanzania is covered by a formal social security system; further, the existing mechanisms are not financially viable due to mismanagement. The absence of resolute reforms entails a looming risk of bankruptcy for the three public pension funds covering workers in the public sector, a problem aggravated by delays in pension reforms stemming from their political unattractiveness. While undertaking these reforms, Tanzania may need to finalise drawing up the National Social Protection Framework, which has been stalled since 2011.

Gender Equality

Tanzania has made some commendable progress in advancing gender equality. It has already achieved the MDG

3 target of promoting gender equality in primary and secondary schools. Meanwhile, the gender gap in university enrolment (accounting for 42% of tertiary education) dropped from 32.1% in 2008 to 28.4% in 2011, even though the gap at the tertiary level remained at 32%. Women's labour force participation is also quite high (88.2% in 2011 against 90.0% for men) with a narrow gender gap of about 2.3%, although the gap in skilled labour is larger (22%). Meanwhile, women's representation in Parliament (36% after the 2010 general elections) remained relatively high in the regional context.

While Tanzania has undertaken major reforms (including legal reforms of family and land laws) to protect women's rights, inequalities persist. Among others, a major overhaul of Tanzanian inheritance laws is still required to adequately protect the rights of widows and female children. Only 38% of widows (compared to 66% in Rwanda and 92% in Cambodia, for example) are able to inherit their deceased husbands' assets. Domestic violence against women is prevalent and they are less likely to report such incidents due to fear and embarrassment.

Thematic analysis: Structural transformation and natural resources

Tanzania has abundant natural resources. Mineral extraction grew an average of 10.8% annually after 2000, but has dropped to below 3% since 2008. Mineral resources (particularly gold) have been a major source of industrial production over the years. Gold exports increased from USD 620 million in 2001 to USD 1.8 billion in 2011 due to price increases in the global markets. Recent gas findings and new mineral discoveries are expected to boost extractive industry growth.

Loopholes in mining contracts undermined the fiscal gains Tanzania should have reaped from recent mining operations. The enactment of the Mining Act 2010, which increased the royalty on minerals (such as gold) from 3% to 4% and introduced a provision for the government to own a stake in future projects, is expected to correct this problem. However, strengthening institutional and audit capacity will be crucial to ensure that such gains are realised. The majority of the population also did not experience positive spillover effects (in terms of employment generation, increased income and human development) from natural resource extraction endowments.

After initial discoveries of 6 tcf of natural gas in 1974, Tanzania commenced commercial production for the first time in 2004. The country made major new discoveries in 2012 and explorations are ongoing. As of June 2012, confirmed new discoveries of both onshore and offshore natural gas stood at 33 tcf and 26 production-sharing agreements had been signed with 18 gas exploration companies. Although some degree of uncertainty surrounds the level of expected revenue, the proven natural gas reserves could earn up to an estimated USD 2.5 billion a year – 46% of Tanzania's estimated total fiscal revenue for 2012/13 – with revenue from newly found gas reserves flowing in over 2020-40. Thanks to these new natural gas discoveries, Tanzania is expected to move to 34th place in the global ranking (and 5th in the continent) of countries with significant gas reserves.

Tanzania has seen major structural changes in its economy over the last two decades. Agriculture's share in GDP dropped 22.5%, from 30.6% in 2001 to 23.7% in 2011. During the same period, the share of manufacturing in GDP increased 10.7%, from 8.4% to 9.3%, although the sector still accounts only for one-tenth of total output. The services sector expanded from 41.7% to 48%. The new growth frontiers, such as communications, construction and electricity and mineral extraction (including gas), will likely further enhance this transformation.

While the structure of the economy has changed, the expected broad-based wealth creation and poverty reduction have been mild. The agriculture sector – which remains the largest employment sector, absorbing 74% of the labour force – still significantly affects growth. The manufacturing sector remains small, while the new growth sectors (such as mining) act as enclave economies with little employment generation. As a result, rural households (the majority of which depend on agriculture for a living) constitute 80% of the poor. In other words, Tanzania remains predominantly an agrarian economy; other developments are essentially a transformation in the making.

Plans to exploit natural resources for socio-economic transformation are articulated in Tanzania's national development strategies, such as the Five Year Development Plan and the Long Term Perspective Plan, in achieving middle income status as envisaged by Tanzania Development Vision 2025. These plans have been further strengthened by the recent findings of natural gas. In 2012, Tanzania drafted a Natural Gas Policy to guide the development of the gas industry and ensure that benefits are maximised and contribute to economic transformation. This depends on several factors, such as the efficiency and cost-effectiveness of natural gas supply; its contribution to national coffers; effective utilisation of resources generated by the industry in transforming agricultural and industrial sectors; and effective management of the industry to minimise its adverse effects on the environment and communities. The above requires extensively upgrading the country's legal and institutional frameworks, strengthening transparency and accountability and establishing open mechanisms for contract scrutiny.

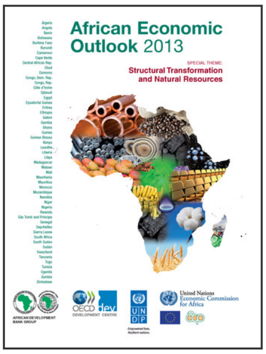
Jobless growth is another major risk. Addressing human resource gaps (especially in technical skills required by industry), infrastructure, revenue management skills and health and safety are important. Establishing links with other domestic sectors to facilitate spillover gains will also be crucial.

The implications of gas and other mineral discoveries on ongoing reforms are a major concern as they could derail core reforms and induce fiscal indiscipline. Gains from recent reforms and the benefits derived from natural resources could be short-lived if core reforms are stalled. Environmental issues are also a major concern, as proper measures are not yet in place to safeguard from the adverse effects of heavy resource extraction. Legislation related to environmental impact assessments and their public scrutiny should be strengthened to minimise environmental damages from extractive industries. Similarly, technical skills and domestic institutional capacity should be shored up to address environmental ramifications.

Proper resettlement and compensatory mechanisms are also needed to safeguard communities displaced by the extractive industry. Despite existing laws, Tanzania demonstrates weak enforcement of compensatory and resentment mechanisms; effectively safeguarding land acquisitions through legal arrangements is vital to this issue. The domestic availability of technological know-how, capital and management skills would make public-private partnerships beneficial in implementing some industry-related activities. Nevertheless, a risk-sharing mechanism for public-private partnerships needs to be in place, since such arrangements commonly carry risks.

Notes

1. Following large discoveries of natural gas in 2012, the government raised estimates for recoverable gas resources from around 29 trillion cubic feet in June 2012 to 33 trillion cubic feet in December 2012.



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