

4 Tanzania

Herman Mecky Mpangile

I. Introduction

Tanzania is a country located eastern coast of Africa, which known as the 31st largest country in the world. The official name is The United Republic of Tanzania, because its Government system is a unitary republic government formed by the union of Tanganyika and Zanzibar in 1964. A vast country covering an area of square kilometers 945,090 (World Bank, 1996), Tanzania was, in 2002, estimated to have a population of about 33 million people (2002 Census). The following countries share common borders with Tanzania: Kenya, Uganda, Burundi, Rwanda, Zambia, Zaire, Malawi and Mozambique. On the eastern side, Tanzania borders the Indian Ocean. Presently, the country maintains a rather unique government structure. The country is blessed with natural resources (especially huge deposit of minerals), large arable land, many attractive features and manpower. Despite all these gift of nature and sustainable strong economic performance but most of her people lives below the poverty line.

Geography and Climate

Tanzania is lies immediately south of the equator and cover 945,090 square km. It is located in Eastern Africa between longitude 29^o and 41^o East. Latitude 1^o and 12^o South and bordered with Kenya and Uganda on north, west Burundi and Democratic Republic of Congo, south with Zambia, Malawi and Mozambique and in the eastern part with Indian Ocean. Tanzania is the largest of the East Africa countries both in land area and population (i.e. Kenya, Uganda and Tanzania). Has a spectacular landscape of mainly three physiographic regions namely the Islands and the coastal plains to the east; the inland saucer-shaped plateau; and the highlands. The Great Rift Valley that runs from north east of Africa through central Tanzania is another landmark that adds to the scenic view of the country. The rift valley runs to south of Tanzania splitting at Lake Nyasa; one branch runs down beyond Lake Nyasa to Mozambique; and another branch to north-west alongside Burundi, Rwanda, Tanzania and western part of Uganda. The valley is dotted with unique lakes which includes Lakes Rukwa, Tanganyika (African Deepest lake), Kitangiri, Eyasi and Manyara. The uplands includes the famous Kipengere, Udzungwa, Matogoro, Livingstone, and the Fipa plateau forming the southern highlands. The Usambara, Pare, Meru, Kilimanjaro (the highest peak in Africa), the Ngorongoro Crater and the Oldonyo Lengai, all form the northern highlands. From these highlands and the central saucer plateau flow the drainage system to the Indian ocean, Atlantic ocean, Mediterranean sea and the inland drainage system.

Tanzania has a tropical type of climate. In the highlands, temperatures range between 10^oc and 20^oc.during cold and hot seasons respectively. The rest of the country has temperatures never falling lower than 20^oc. The hottest period spreads between November and February (25^oc - 31^oc) while the coldest period occurs between May and August (15^oc - 20^oc).

Two rainfall regimes exist over Tanzania. One is unimodal (December - April) and the other is bimodal (October -December and March - May). The former is experienced in southern, south-west, central and western parts of the country, and the later is found to the north and northern coast. In the bimodal regime the March - May rains are referred to as the long rains or Masika, whereas the October - December rains are generally known as short rains or Vuli.

Natural Resources

Tanzania`s untapped natural resources especially huge deposit of minerals, arable land and natural tourist attractions features offer a wide range of investment opportunities and economic development. The country is internationally renowned for its abundance of wildlife attractions, unexploited mineral reserves and a large track of arable land for agriculture.

Tanzania is the continent`s third largest gold producer after South Africa and Ghana. The country also

has a variety of major minerals such as diamonds, base metal (such as nickel, cobalt and copper), gemstones (such as Tanzanite, ruby and sapphire). According to geological survey Tanzania also found to have huge oil and gas reserve both onshore and offshore.

The country has extensive arable land suitable for agricultural production. It is been covered by 88million hectares of suitable agriculture land of which 60 million hectares are suitable for livestock production. Only 15% of Tanzania arable land is utilized, mainly by smallholder farmers. Rivers, lakes and streams suitable for irrigation are found in every region of Tanzania. The major cash crops include coffee, cotton, tea, tobacco and cashew nuts as well as horticultural and floricultural products. The main food crops are maize, rice, pulses and wheat.

Tanzania is the only country in the world to allocate more than 25% of its total area to wildlife parks and game reserves which are heavily stocked with a wide range of flora and fauna. It has 14 national parks, 17 game reserves, 50 game-controlled areas, a conservation area, two marine parks and two marine reserves. Tanzania is one of the unique destinations on the African continent. Ngorongoro Crater is one of the world's greatest natural spectacles. Kilimanjaro mountain, the highest permanently snow-capped free standing mountain in Africa. The Selous National Park, the largest national park in Africa. The exotic Islands of Zanzibar and other finest game sanctuaries of Serengeti, Tarangire, Lake Manyara, Ruaha and the Marine Park of Mafia Island are only but a few of the living examples.

Brief History and Political Structure

In the 19th century, Germany colonized Tanganyika while Zanzibar had for a long time been under Arab dominion. After the First World War, Britain governed the two territories as protectorates until 9th December 1961 when Tanganyika regained her own self-rule. As for Zanzibar, the British handed self-rule to a minority Arab clique in Zanzibar in 1963 necessitating the majority Africans to achieve independence through violence in 1964. United Republic of Tanzania is the has two central governments namely, the Union Government and the Revolutionary Government of Zanzibar. The former is responsible for all union matters in the whole of Tanzania, as well as non-union matters on the mainland (i.e.Tanganyika). The capital city of the Tanzania Government (i.e. the Union Government) is situated in Dodoma central part of Tanzania but most government offices are located in the former capital city-Dar es salaam, a modern coastal city with a population of about four million people. The country is a republic with an elected executive president as head of state and commander in chief of the armed forces. A vice president who is also elected together with the president as a running mate (US-style) deputizes the head of state. The president may appoint a Prime Minister and other ministers from among members of parliament and assign each one a specific portfolio of government business.

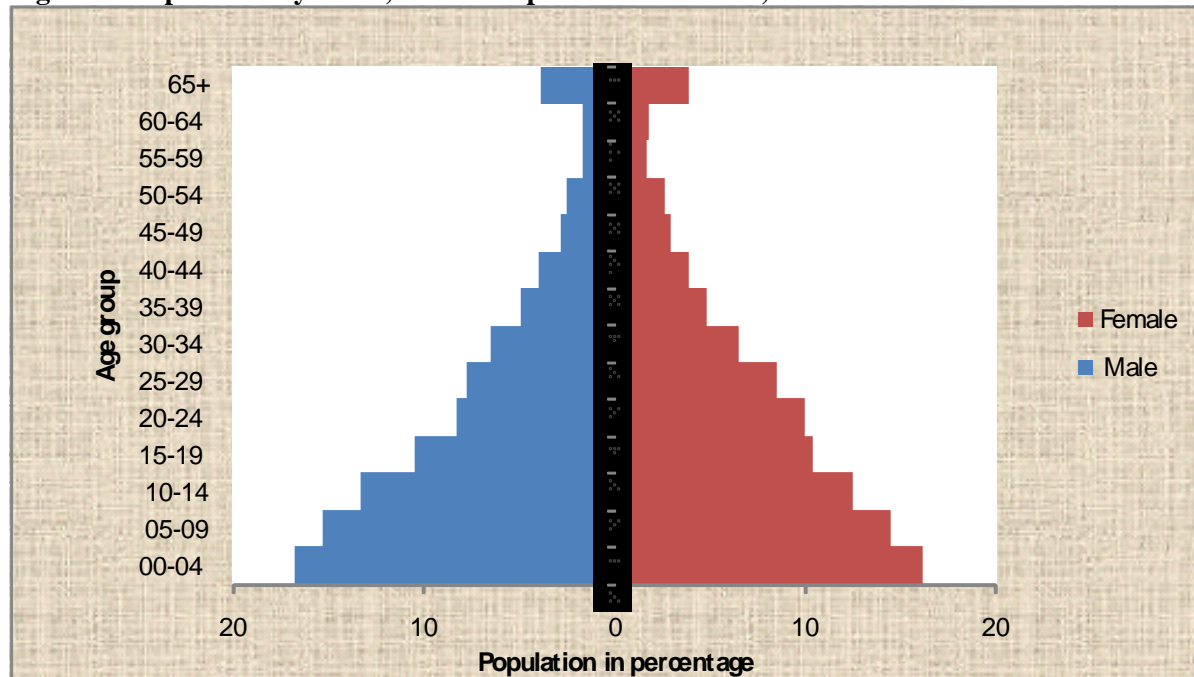
The State is made up of the three independent organs that together manage the Republic's affairs. These organs are the Executive, the Judiciary and Legislature. The constitution of the United Republic of Tanzania (1977) embraces the principles of rule of law, separation of powers and political pluralism. The country is divided into twenty-six regions, six in Zanzibar and the remaining twenty-one on Tanzania mainland (Tanganyika). Each region is headed by a Regional Commissioner, who is a presidential appointee. A local government exists in each administrative region and classified into two categories namely Urban authorities (responsible for urban areas) and Rural authorities or District councils.

People and Culture

Tanzania has so far undertaken four population censuses since independence in 1961. The first census in 1967 reported a total population of 12.3 million whereas, according to the 2002 census, the population has increased to 34.4 million and currently it has been reported that country's population has hit 39.4 million, an increase of 4.9 million five years after the last census (2002). In 1967, the average population density was 14 persons per square kilometer; by 2002, it had increased to 39 persons per square kilometer. The high growth rate of the population (about 2.92% as 2002) in Tanzania is brought about by high fertility and declining mortality levels. According to the 2002 Population and Housing Census, the life expectancy at birth for Tanzanians is 51 years. The population comprises 51 percent women and 49 percent male. The population of Tanzania has continued to be predominantly rural (about 77%) despite the fact that the

proportion of urban residents has been increasing over time. The proportion of urban residents was just 6 percent in 1967 compared with 23 percent in 2002. The most density regions including Mwanza (2.67mil), Shinyanga (2.62), Dar es salaam (2.55mil), Mbeya (2.24mil), Kilimanjaro (2.02mil) and Capita city Dodoma has 1.71 million while Zanzibar islands total population is about 1million.

Figure 1: Population Pyramid, United Republic of Tanzania, 2002



The population of Tanzania consists mostly of members of more than 120 black African groups/tribes, the majority of which speak a Bantu language. The largest ethnic groups are the Sukuma and the Nyamwezi. Other groups of significant size include the Haya, Ngonde, Chagga, Gogo, Ha, Hehe, Nyakyusa, Nyika, Ngoni, Yao, and Masai. The population also includes people of Indian, Pakistani, and Goan origin, and small Arab and European communities which counted to be 1 percent of population. Swahili and English are the official national languages of Tanzania, but many people continue to use the language of their ethnic group. Tanzanian's Social fabric charm is the prime attraction for cultural and eco-tourism. The folklore, the traditional "ngomas" and the dancing styles vary from one tribe to another. When dancing, the Makonde vibrate their bottoms in "Sindimba" frenzy and the "Zaramo" bounce the undulating "Mdundiko" procession. The Maasai in their leaping dance going simultaneously with rhythmic chant of their deep voices which can scare even a lion! The use of live snakes by the "Sukuma" such as embracing huge pythons and struggling with during the "Bugobogobo" dance turn such occasions into unforgettable scenes to a visitor. Each of the 120 tribes has its ngoma and dancing all of which styles are quite fascinating and sometimes sexy.

Various dressing styles are also rare attractions to a visitor. The Masai men put a light toga-like drape inadequately covering their lithe bodies while carrying traditional weapons such as spears, clubs and large knives. The Maasai women, on the other way, heavily load their necks, arms, legs and ears with jewelry ranging from beads to metal ornaments. Again, the Makonde people indulge in filing their teeth and tattooing their faces and bodies a combination of which appear tantalizing! Makonde are the masters in their carvings which depict human struggles, conflicts, love, passion, good, evil and cooperation all of which are very attractive and mind provoking indeed.

II. Overview of Macroeconomic Activity and Fiscal Position

Tanzania is among developing country with per capita income below the poverty line of around Tshs. 548,388 (i.e. 500usd) in 2007 at current prices. The country has sustainable economic performance for several years, solidifying its position as a mature stabilizer. Tanzania has realize high growth rate of more than 7 percent (2007), low inflation rate maintained single digit since 1998, a comfortable level of international reserves and sustainable external debt which generally was supported by prudent macroeconomic policies and far-reaching structural reforms.

The new statistical data released currently using 2001 Price Index shows that there is huge difference in GDP contributions by sectors for the past 10 years (1998-2008). Agricultural sector contribution to GDP decline from 30.3 percent to 25.4 percent while service sector increases from 45.2 percent to 46.9 percent. Other sector shows an increasing pattern. The declining of agricultural sector in GDP contribution explained to be due to the fast growing of other sectors (Services, Mining, etc) while agricultural sector growing very slowly.

The structural reform agenda has focus on economic liberation, improved public financial management and revenue administration, and financial sector development is an important action done by the authority. Also infrastructure investment and structural policies to enhance the business environment contributed to a solid productivity growth.

Table 1: Shares of Domestic Product by Kind of Activity – at Market Current Prices

ECONOMICACTIVITY	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Agriculture, Hunting and Forestry	30.3	30.2	29.5	29	28.6	28.7	29.5	27.6	26.2	25.3
Grops	22.9	22.6	21.7	21.4	21.4	21.8	22.4	20.5	19.2	19
Livestock	4.4	4.4	5.1	5	4.8	4.7	4.8	5	4.8	4.7
Hunting and Forestry	2.9	2.8	2.7	2.5	2.4	2.3	2.3	2.2	2.2	2.1
Fishing	2	1.9	1.8	1.7	1.7	1.6	1.5	1.4	1.3	1.3
Industry and Construction	18.5	18.3	17.9	18	19.6	21	20.8	20.8	20.8	21.2
Mining and Quarrying	1.4	1.4	1.5	1.8	2.1	2.4	2.6	2.9	3.2	3.5
Manufacturing	9.7	9.1	8.8	8.4	8.3	8.3	8.1	7.9	7.8	7.8
Electricity, gas	1.8	1.9	2.1	2.2	2	1.9	1.8	1.7	1.5	1.6
Water supply	0.4	0.4	0.5	0.5	0.5	0.4	0.4	0.4	0.4	0.4
Construction	5.2	5.6	5.2	5.2	5.8	8	7.9	7.8	7.8	7.8
Services	44	44.9	45.3	45.5	44.2	42.7	42	42.5	43.3	43.3
Trade and repairs	13	13.1	12.8	13	12.4	12	11.4	11	11.4	11.5
Hotels and Restaurants	2.8	2.9	2.8	2.8	2.6	2.4	2.3	2.5	2.6	2.7
Transport	5.4	5.6	5.5	5.4	5	4.8	4.6	4.4	4.3	4.2
Communications	1.1	1.2	1.2	1.2	1.2	1.3	1.5	1.7	2.1	2.3
Financial Intermediation	1.7	1.6	1.6	1.5	1.7	1.7	1.6	1.7	1.7	1.6
Real Estate and business services	9.5	10	10.7	10.3	9.7	9.4	9.1	9.5	9.6	9.5
Public administration	6.7	6.4	6.6	7	7.2	7.2	7.7	8	8	7.9
Education	1.9	2.1	2.1	2.1	2	1.8	1.7	1.6	1.5	1.4
Health	1	1.1	1.2	1.3	1.5	1.4	1.4	1.5	1.5	1.6
Other social and personal services	0.9	1	0.9	0.9	0.8	0.7	0.7	0.7	0.7	0.6
Gross value added before adjustments	94.8	95.3	94.6	94.2	94.1	94	93.7	92.3	91.7	91.6
less FSM	-1.5	-1.2	-1	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-1
Gross value added at current basic prices	93.3	94.1	93.5	93.3	93.3	93.1	92.8	91.4	90.7	90.7
add Taxes on products	6.7	5.9	6.5	6.7	6.7	6.9	7.2	8.6	9.3	9.3
GDP (At current market prices)	100	100	100	100	100	100	100	100	100	100

Source: National Bureau of Statistic

II.1 Macroeconomic Activity

II.1.1 International Environment

Tanzania economy remains positive despite inflationary pressure and hiked oil prices. The international reserves remain sufficient for five months. The external sector performance has been positive, although the export sector remains vulnerable to exogenous factors such as climatic conditions and terms of trade

shocks, highly influenced by the increase in oil prices in the world market and a severe drought at home.

A: Trade balance

Tanzania has been facing trade deficit (Negative Balance of Trade) almost more than two decades. The currently statistics released by Bank of Tanzania shows that there is an increase of both imports and exports of goods but at the different rates. While imports of goods rose by 27.2 percent, export rose by 12.2 percent by this year (2007) from previous year. The reason for rise of imports is an increase of high domestic demand and importation of goods such as telecommunication equipments, food, pharmaceuticals and oil. In the other side, the rise of exports is due to an increase of nontraditional exports (such as manufactured goods) and traditional exports includes mineral products (such as Gold, Diamonds, Tanzanite etc), fish and fish products, horticulture products. The current situation compared to 1998 exports has changed a lot. Traditional exports dropped from 30.8 percent to 8.5 percent in 2007 while Nontraditional exports (especially Gold exports) has been increased from 69.2 percent to 91.5 percent in 2007. The value of goods exported to the European Union (EU) market and Switzerland increased slightly from USD 755.7 million in 2006 to USD 759.3 million in 2007, equivalent to an increase of 0.5 percent. In 2007, the value of goods imported from European Union (EU) and Switzerland increased from USD 833.5 million in 2006 to USD 1,274.6 million, equivalent to an increase of 52.9 percent. The balance of merchandise trade between Tanzania and EU registered a deficit of USD 515.2 million in 2007.

In 2007, the value of goods exported to East African Community (EAC) countries increased to USD 173.1 million from USD 117.7 million in 2006, equivalent to an increase of 47.0 percent. The increase was mainly attributed a 58.4 percent increase in exports to Kenya. However, exports of goods to Uganda decreased to USD 19.3 million in 2007 from USD 20.5 million in 2006. On the other hand, the imports of goods from East African Community (EAC) countries decreased by 38.9 percent from USD 174.4 million in 2006 to USD 106.6 million in 2007. The balance of trade between Tanzania and East Africa Community (EAC) countries registered a surplus of USD 66.5 million in 2007. The surplus obtained was attributed to exports to Burundi, Rwanda and Kenya.

The value of exports to Asian Continent, including China, Japan, India, Hong Kong and United Arabs Emirates increased from USD 200.7 million in 2006 to USD 378.2 million in 2007, equivalent to an increase of 83.5 percent. Moreover, imports of goods from those countries amounted to USD 1,960.2 million. The imports mainly constituted capital goods such as machine; transport and telecommunication; industrial raw materials; and consumer goods like clothes, furniture and medicines.

In 2007, the value of goods exported to USA decreased from USD 20.7 million in 2006 to USD 2.8 million, equivalent to a decrease of 86.5 percent.

The value of goods exported to SADC countries decreased from USD 341.1 million in 2006 to USD 300.8 million in 2007, equivalent to a decrease of 11.8 percent. That situation was caused by a decrease in export of goods to Southern African countries. The value of imports from SADC countries increased from USD 625.9 million in 2006 to USD 656.2 million in 2007. Such increase was attributed to imports from South Africa.

Table 2: Balance of Trade between Tanzania and Regional Grouping

(in Million USD)									
Regions/ Year	1999	2000	2001	2002	2003	2004	2005p	2006p	2007p
EU	-177.4	31.3	52.8	118.6	210.5	176.7	3.9	-77.8	515.2
SADC	-182.5	-176	-200.6	143.6	-233.7	-213.4	-103.2	-284.8	-355.4
EAC	-75.4	-58.3	63.9	-57.1	-35.6	-42.3	-64	-56.7	66.5

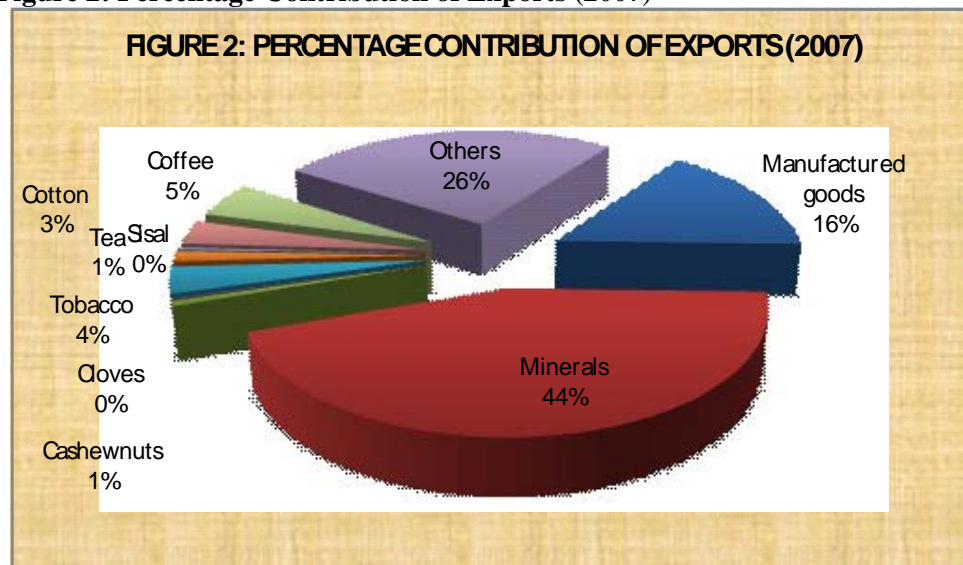
Source: Bank of Tanzania

Exports:

The table above shows that the value of merchandize exports increased to USD 2,021.0 million in 2007, from USD 1,743.4 million in 2006, equivalent to an increase of 15.9 percent. The increase was mainly attributed to non-traditional exports, especially gold. The value of traditional exports increased from USD

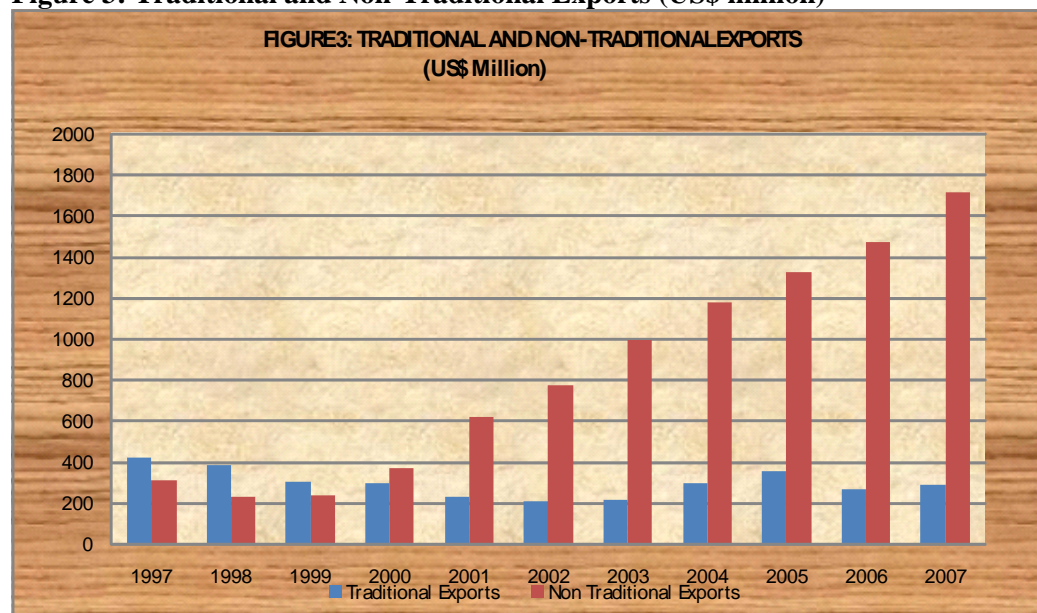
267.1 million in 2006 to USD 290.1 million in 2007, equivalent to an increase of 8.6 percent. The increase was due to the increase in the price of coffee, cotton, tobacco and sisal in the World Market. Coffee exports increased and was leading in national foreign currency earnings by an average of 33.8 percent, followed by tobacco by 25.1 percent, cotton by 22.9 percent, tea by 9.9 percent, cashew nuts by 4.5 percent, cloves by 1.5 percent, and sisal by 2.3 percent.

Figure 2: Percentage Contribution of Exports (2007)



The value of nontraditional exports increased from USD 1,468.8 million in 2006 to USD 1,716.5 million in 2007, equivalent to an increase of 16.9 percent. This increase was mainly contributed by exports of minerals especially gold. Likewise, there was increase in exports of manufactured goods, particularly sisal product and cotton fiber. The value of horticultural and flower product exports increased to USD 19.1 million in 2007 from USD 15.4 million in 2006, equivalent to an increase of 24.2 percent. Export of non-traditional goods contributed 85.5 percent of all exports in 2007 compared to 84.5 percent in 2006.

Figure 3: Traditional and Non-Traditional Exports (US\$ million)



Imports

In 2007, the value of goods imported (fob value) increased from USD 3,864.0 million in 2006 to USD 4,826.9 million, equivalent to an increase of 24.9 percent. This increase was mainly due to the increase in importation of consumer goods. The value of imports of capital goods increased from USD 1,435.1 million in 2006 to USD 1,738.7 million in 2007, equivalent to an increase of 21.2 percent.

Imports of transport equipment increased by 28.1 percent; building and construction equipments increased by 23.3 percent; plant and machinery increased by 16.6 percent. The increase of imports of capital goods was due to the expansion of economic activities in building and construction; mining; transportation; communication; and manufacturing in the country.

The value of intermediate goods imported increased from USD 1,576.9 million in 2006 to USD 1,993.0 million in 2007, equivalent to 26.4 percent. The increase was mainly attributed to the increase in the value of imports of petroleum products by 31.3 percent and industrial raw materials by 13.9 percent. The increase in the value of petroleum imports was caused by a rise in oil prices in the world market.

Furthermore, the importation of fertilizer continued to increase from USD 53.9 million in 2006 to USD 59.1 million in 2007, equivalent to an increase of 9.3 percent. In 2007, the value of consumer goods imported increased from USD 852.0 million in 2006 to USD 1,095.2 million, equivalent to an increase of 28.5 percent. This substantial increase in imports of consumer goods was mainly attributed to the increase in imports of food and food stuff by 20.9 percent. The imports of other consumer goods including pharmaceuticals, plastic products, clothes, paper and rubber products, increased by 31.7 percent.

B. Balance of Payment

Deficit in the balance of merchandise trade in 2007 increased by 32.5 percent, to USD 2,820.3 million from deficit of USD 2,128.1 million in 2006. The increase in the deficit was mainly contributed by the increase in value of goods imported, that exceeded the increase in the value of exports. The balance on services decreased from USD 278.7 million in 2006 to USD 240.4 million in 2007, equivalent to a decrease of 13.7 percent. The decrease was contributed by a decrease of receipts from tourism sector. However, cargo transportation services decreased from USD 343.7 million in 2006 to 331.9 million in 2007.

The deficit in the balance of various receipts and payments including compensation of employees, investment income and interest payments decreased to USD 79.0 million in 2007, from USD 93.1 million in 2006, equivalent to a decrease of 15.1 percent. This decrease was due to a decrease in interest rate and income payments abroad. The balance on current transfers which comprises money transfers; aid and debt relief under the HIPC initiative registered a surplus of USD 617.3 million in 2007 compared to USD 589.3 million in 2006, equivalent to an increase of 4.8 percent. This increase was mainly contributed by a 6.2 percent increase in grants (current transfers) to the Government from USD 560.3 million in 2006 to USD 595.2 million.

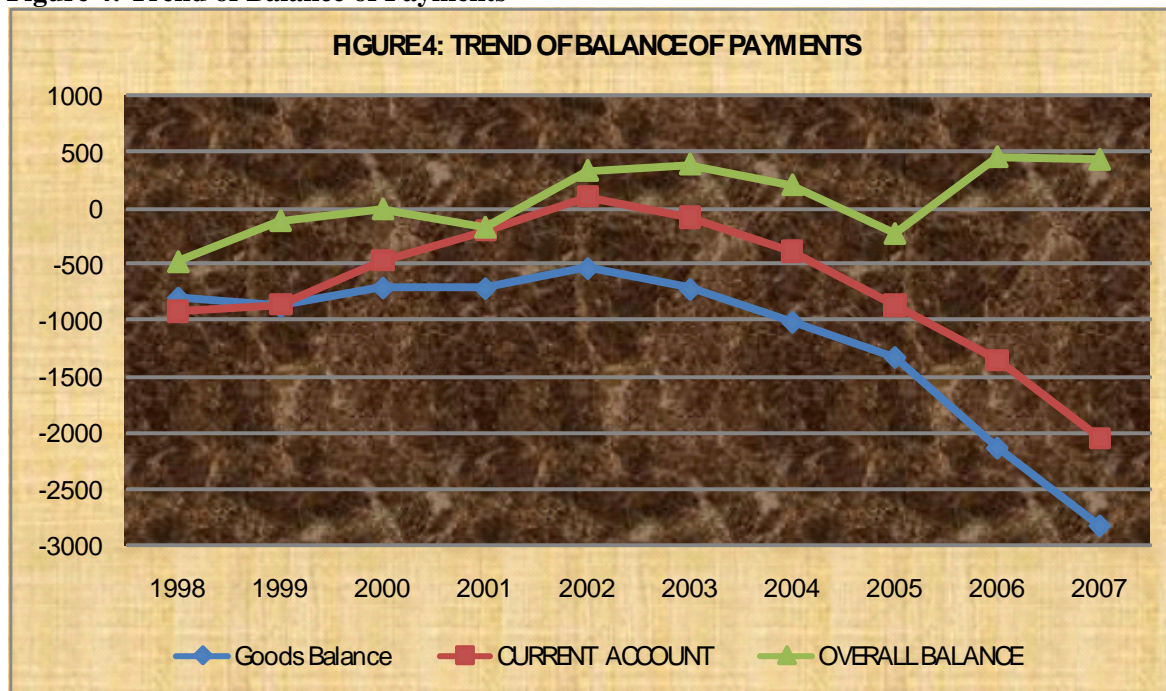
Table 3: Balance of Payment

(in USD million)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Likely Outturn
Goods Balance	-793.6	872.1	-704.3	-709	-531.7	-717.4	-1010	-1321.8	-2128.1	-2820.3
Exports (fob)	588.5	543.3	663.3	851.3	979.6	1216.1	1473	1675.8	1736	2006.6
Imports (fob)	1382.1	1415.4	1367.6	15603	1511.3	1933.5	2483	2997.6	3864.1	4826.9
Service Balance	-450	-225.3	-52.2	266.1	287.6	222.1	158.9	61.8	278.7	240.4
Receipts	538.8	622	643.8	915.4	920.1	947.8	1134	1269.2	1528.1	1714
Payments	988.8	847.3	696	649.3	632.5	725.7	974.7	1207.3	1249.4	1473.6
Income	-105	-99.3	-103.9	-152.3	-88.9	-149.1	-119.1	-104.1	-93.1	-79
Receipts	44.4	49	50.4	55.3	67.9	87.1	81.8	80.9	53.7	80.8
Payments	149.4	148.3	154.3	207.6	156.8	236.2	200.9	185	146.8	159.8
Current Transfers	427.3	336.6	390.8	395.3	431.3	556.9	586.7	496.4	589.3	617.4
Inflows	454.2	445.2	463.7	474.8	494.3	619.9	651.7	563.9	655.2	689.4
Government	421	411.4	427.8	418.4	427.7	553.3	582	478.5	560.3	595.2
Other sectors	33.2	34.2	35.9	56.4	66.6	66.6	69.7	85.4	94.9	94.2
Outflows	26.9	109	72.9	79.5	63	63	65	67.5	65.9	72
CURRENT ACCOUNT	-921.3	-860.1	-469.6	-199.9	98.3	-87.5	-383.2	-867.6	-1353.2	-2041.5
Capital Transfers	252.4	270.6	330.4	1003.6	785.7	692.8	460	393.2	5217.7	957.8
Inflows	252.4	270.6	330.4	1003.6	785.7	692.8	460	393.2	5217.7	957.8
Outflows	0	0	0	0	0	0	0	0	0	0
Financial Account	510.5	613.3	572.5	-427	255.4	61.2	275.6	807.6	-3840	1365.1
Direct Investment	172.2	516.7	463.4	467.2	387.6	308.2	330.6	494.1	597	640.5
Portfolio Investment	0	0	0	8.2	2.2	2.7	2.4	2.5	2.6	2.8
Other Investment	338.3	96.6	109.1	-902.4	-134.4	-249.7	-57.4	311	-4439.6	721.8
Errors and Omissions	-313.3	-132.7	-439.5	-544	-806.8	-277.4	-146.3	-555.4	428.8	148.6
OVERALL BALANCE	-471.7	-108.9	-6.2	-167.3	332.6	389.1	206.1	-222.2	453.3	430
Financing	471.7	108.9	6.2	167.3	332.6	389.1	206.1	222.2	453.3	430

Source: Bank of Tanzania

Figure 4: Trend of Balance of Payments



Balance on Current Accounts

The balance on current account that comprises balances on merchandise trade, service, various receipts and payments as well as current transfers, registered a deficit of USD 2,041.6 million in 2007, compared to a deficit of USD 1,353.2 million in 2006, equivalent to an increase of 50.9 percent. Expansion of the deficit was mainly caused by expansion of deficit in the merchandise trade due to the increase in imports (compared to exports) and increase in payments to international corporations.

Balance on Capital Transfers

In 2007, the balance on capital transfers, that comprises foreign aid investments and debt cancellation from development partners under HIPC Debt relief and MDRI decreased to a surplus of USD 957.6 million, from surplus of USD 5,217.7 million in 2006. This condition was due to the fact that more debts were cancelled by development partners in 2006 compared to 2007.

Balance of Investment Payments

The balance of Investment Payments that comprises Foreign Direct Investments and foreign loans registered a surplus of USD 1,365.1 million in 2007 compared to a deficit of USD 3,840.0 million in 2006.

Overall Balance of Payment

In 2007, the overall balance of payment had a surplus of USD 430.0 million, compared to a surplus of USD 453.3 million in 2006. This surplus was mainly attributed by debts relief from development partners during that period.

C. Exchange Rate and Exchange System

The national currency is the Tanzanian shilling (shortened as Tshs.). Tanzania is operating under a free-floating exchange rate policy since 1994. In this respect, the shilling exchange rate against any foreign currency is determined by the market forces—demand and supply of the currencies being traded in the market. The Bank participates in the market with an objective of promoting an orderly foreign exchange market and for liquidity management objectives, without any specific target on the level of the exchange

rate. Contrary to the period prior to the reforms (highly controlled exchange rate-1985), the foreign exchange regime has now been allowed to float enabling open market forces to determine the value of the Tanzanian shilling vis-à-vis major foreign currencies.

Tanzania's real effective exchange rate (REER) has depreciated sharply since end-2000, reversing the appreciation that took place in the second half of the 1990s. The external sustainability approach, suggest that Tanzania's REER is currently modestly undervalued relative to its estimated equilibrium level. Looking forward, a modest trend appreciation of the equilibrium REER is expected, consistent with continued high GDP growth and an expected recovery in terms of trade. In addition, capital inflows to Tanzania could be significantly higher than currently expected, to take advantage of Tanzania's natural resources and strong policy framework. If so, these inflows would contribute to an additional appreciation by as much as 20 percent of the equilibrium REER.

In 2007, average value of the Tanzania Shilling to the US\$ averaged sh.1, 244.1 per US\$, compared to an average of sh.1, 253.9 per US\$ in 2006. Moreover, the value of the Tanzania Shilling at the end of December 2007 was sh.1, 132.1 per 1US\$. The increase in value of Tanzania shillings against the US\$ was due to increase in foreign currency in the country, implementation of monetary policy that gears on controlling broad money supply (M2) as well as reforms strategies undertaken by the BOT.

Table 4: Trend of Exchange Rates of the Tanzania Shillings against the USD

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Shs/USDollar,end of year	716.1	799.5	888	946.9	1047.4	1107.3	1126.3	1258.5	1265
Shs/USDollar,average the of year	686.6	798.1	830.5	931.2	1003.4	1089.4	1122.7	1182.9	1277.4
%Nominal Charge,end of year	7.70%	16.20%	4.10%	12.10%	7.80%	8.60%	3.10%	5.40%	8.00%

Source: Bank of Tanzania

D. Foreign Direct Investment

Comprehensive economic and political reform measures, undertaken since mid 1986, have progressively brought about an efficient economic management, financial discipline, and a framework for dynamic, high growth economic. Today the economy of Tanzania is poised to reap the benefits of these reforms. Tanzania has managed to regain the confidence of foreign investors. The country is now among the most Foreign Direct investment (FDI) destination in Africa. According to The World Investment Report prepared by the United Nations Conference on Trade and Development (UNCTAD), Tanzania has ranked number 12 among the major FDI receiver African countries. In 2007, the Government continued to strengthen the business environment in the country whereby Tanzania was ranked 130th position out of 178 countries in reducing the cost of doing business compared to 142nd position out of 175 countries in 2006. In addition, the cost of doing business in the country was reduced to 91.7 percent in 2007 from 161.3 percent in 2006.

In 2007, the value of Foreign Direct Investment (FDI) was USD 512.5 million compared to USD 150.86 million in 1995, equivalent to an increase of 70.6 percent and is about an increase of 8.0 percent when you compared to 2006. The United Kingdom continued to lead among countries with more investment in 2007 with 59 projects; China 40; United States of America 27; Kenya 25; Germany 21; South Africa 19; India and Netherlands 16 projects each.

Table 5: Foreign Direct Investment (1995-2007)

Year	The Value of FDI (in US\$ million)
1995	150.85
1996	148.64
1997	157.8
1998	172.2
1999	516.7
2000	463.4
2001	467.2
2002	387.6
2003	308.2
2004	330.6
2005	447.6
2006	474.5
2007	512.5

Source: Tanzania Investment Centre

E. Borrowing From Abroad

By end-December 2007, the national debt stock stood at US\$ 7,041.3 million compared to US\$ 7,188.4 million, at end-December 2006, equivalent to a decrease of 2.0 percent. Out of that amount, external debt amounted to US\$ 5,367.7 million, equivalent to 72.6 percent, while domestic debt amounted to US\$ 1,673.5 million, equivalent to 23.8 percent of total debt.

As at end-December 2007, total external debt amounted to US\$ 5,367.7 million compared to US\$ 5,748.8 million in the period ending December 2006, equivalent to a decrease of 6.6 percent. Out of this, US\$ 4,057.4 million was principal and the remaining US\$ 1,310.4 million was interest arrears. The Central Government continued to be the largest borrower, owing US\$ 3,249.6 million, or 80.1 percent of the total debt, while private sector and parastatals owed 637.0 million (15.7 percent) and US\$ 170.8 million (4.2 percent) respectively.

In 2007, Tanzania continued to receive debt relief under the enhanced Highly Indebted Poor Countries (HIPC) initiative and International Financial Institutions. As at end-December 2007, the Government had received debt relief as follows: multilateral institutions - US\$ 2,301.7 million; Paris Club - US\$ 867.6 million; non-Paris Club members - US\$ 184.6 million; and debt rescheduling - US\$ 171.2 million.

In the first half of 2007/08, actual debt service amounted to US\$ 46.07 million. Out of that, principal payments were US\$ 27.17 million and interest payment was US\$ 18.9 million.

The authority will continue to refrain from non-concessional funding. Moreover, improvement in debt management will aim to lower debt service costs to the government.

II.1.2 Domestic Environment

The new Tanzanian economic development shows dramatic economic growth for ten years since 1998. The main reason for the growth is the implementation of economical changes/development for more than twenty years (since 1986). Those economic development can directly shown in the four economic areas namely; Economic Policies, Sources of Economic Growth, Sources of Export sales and Financial sector development.

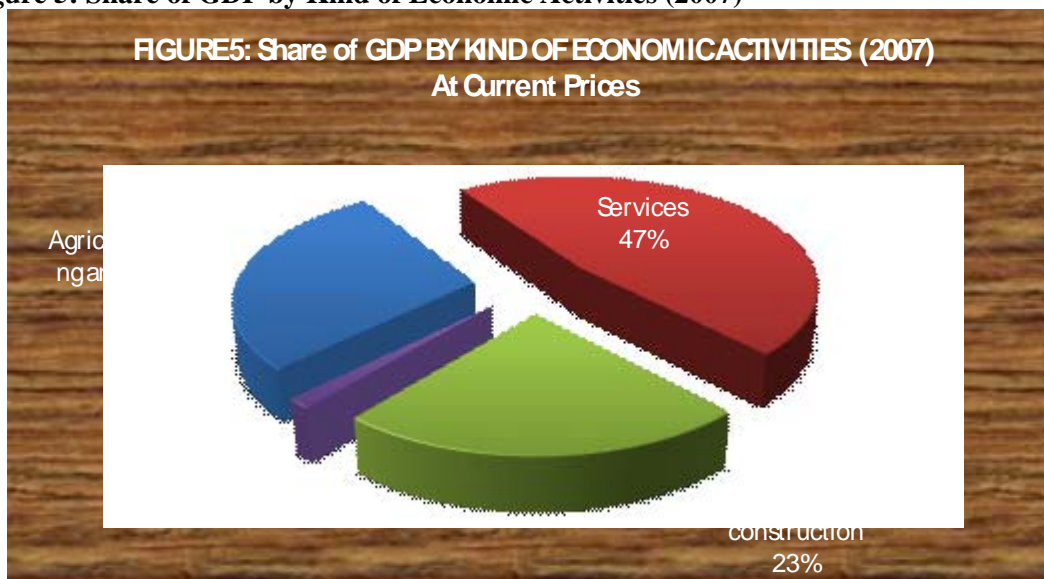
In part of economic policy, the release of statistical data using the new 2001 prices shows the huge differences in sector's growth and contribution in the national basket (GDP).

The contribution ratio of sectors to GDP ten years ago has been changed. The agricultural sector which occupies large part of population seems to deteriorate from 29.6 percent in 1998 to 24.6 percent in 2007. Either the Financial sector is now shows to be more stable and grow fast. The number of Banks and

Financial institutions has been increased from two Banks to 34 with 338 branches. Currently, the private sector`s loans has grown from 4.4 percent in 2001 to 13.9 percent (2007) of GDP.

Industry and Construction sector has been increased to 23.1 percent in 2007 from 17.7 percent in 1998, also Services sector has been increase to 47.3 in 2007 from 45.2 percent in 1998. The decline in contribution to GDP by agricultural sector does not mean that there is decline in production by the sector but the dramatic growth of other sectors while agricultural sector not improved much.

Figure 5: Share of GDP by Kind of Economic Activities (2007)



A. Economic Growth Rate

In 2007, the Gross Domestic Product in real terms grew by 7.1 percent compared to 6.7 percent previous year, 2006. The growth was mainly attributed to the increase in agriculture; construction and industry; and service activities. The Gross Domestic Product amounted to shs20,948,403 million in 2007 at current prices The population of Tanzania Mainland was estimated at 38.2 million in 2007, thus per capita income was shs.548,388 in 2007 at current prices Per capita income therefore increased by 14.6 percent at current prices. The economic outlook remains positive despite inflationary pressure and hiked oil prices. After attaining a real growth of 7.1 percent in 2007, the economy is projected to grow at the rate of 7.8 percent during 2008 mainly driven by continued good weather conditions and sustained strong performance in manufacturing, trade, construction and mining activities.

Figure 6: Real Growth Rate at constant 2001 Prices



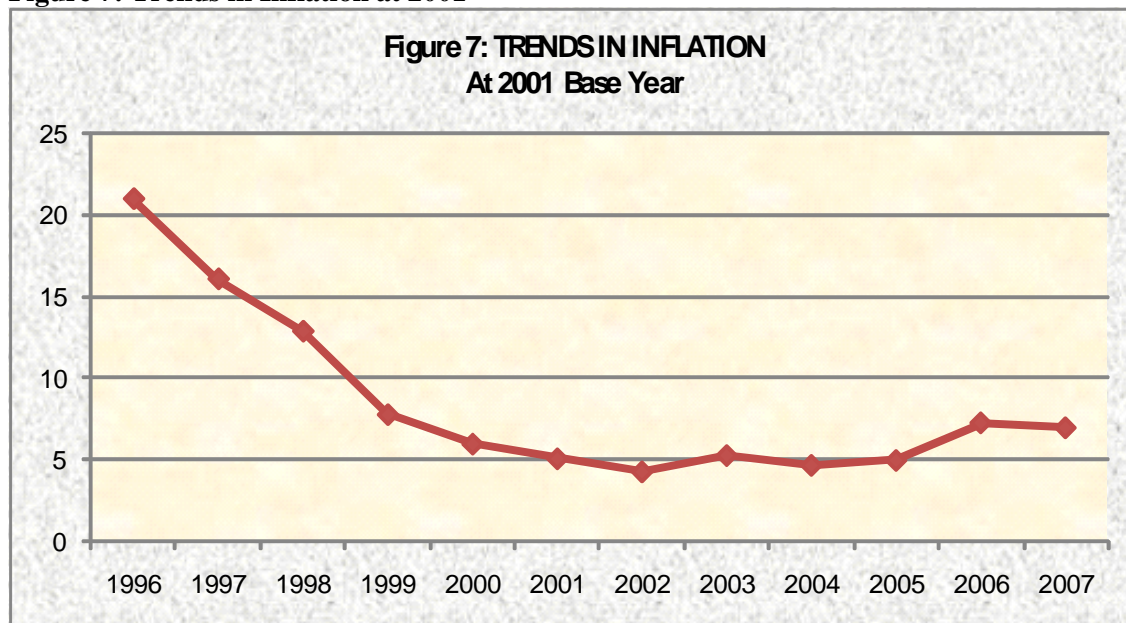
B. Inflation Rate

The Tanzania inflation rate in 1994 was reached 34 percent and decline up to single digit and maintained this trend for nine years (1999-todate). In 2007, the economy experienced some inflationary pressures emanating mainly from rising oil and food prices in the world market. Despite these pressures, overall inflation as measured by the Consumer Price Index (CPI) declined to an annual average of 7.0 percent in 2007 compared to 7.3 percent in 2006.

Despite the relatively good rainfall in most parts of the country during the 2006/07 season, food inflation remained at an average rate of 7.0 percent in 2007 as it was in 2006. On the other side, average non food inflation was lower in 2007 compared to 2006 and thus resulted into low average inflation rate. Nonetheless, the price indices for: beverages and cigarettes; education; sports and recreation; services and other household requirements; and furniture and household utensils increased. The price indices for: transport; electricity, kerosene and water; clothing and footwear; rent; and health services increased at a lower rate in 2007 compared to 2006.

The analysis of price indices by income-groups revealed that the rate of inflation increased for middle and high income groups in 2007. In these groups, inflation rates increased by an average of 11.5 and 13.4 percent in 2007 compared to 9.2 and 11.8 percent in 2006 respectively. This was on the account of increased prices of goods and services commonly consumed by these groups which include beverages and cigarettes, education, recreation and entertainment, transport and services and other household requirement. For the lower income group, inflation rate increased by 9.3 percent in 2007 compared to 10.3 percent in 2006 due to the decrease in the prices of goods and services commonly consumed by this group including health services, electricity, kerosene and water; food and rent.

Figure 7: Trends in Inflation at 2001



C. Investment

In 2007, a total of 701 projects worth Tshs. 7,221,666 million were registered compared to 679 projects registered in 2006 that worth shs. 7,052,749 million. Out of total projects registered, 533 were new while 168 were for rehabilitation and expansion of existing facilities. Project ownership showed that, 378 were owned by local investors; 147 foreign investors; and 178 were on joint ventures.

The economic activities related to tourism attracted more investors in 2007, with 212 projects worth USD 2,322.09 million. Other economic activities which attracted investors include: manufacturing with 192 projects worth USD 509.81 million; transportation with 101 projects worth USD 603.27 million; commercial buildings with 91 projects worth USD 358.88 million; agriculture with 27 projects worth USD 142.45 million; services with 21 projects worth USD 42.16 million; human resources with 19 projects worth USD 28.69 million; telecommunications with 12 projects worth USD 621.67 million; natural resources, energy and financial institutions with six projects each; broadcasting with five projects; and petroleum and minerals with three projects.

Regional distribution of projects in 2007 showed that Dar es Salaam attracted more investors with 390 projects, followed by Arusha with 123 projects. Projects in other regions like Mwanza 39; Coast 29; Kilimanjaro 25; Shinyanga 15; Mbeya and Iringa 13 projects each; Morogoro 12; Tanga and Dodoma 8 projects each; Kagera 7; Lindi five; Mara four; Tabora and Mtwara three projects each; Singida and Manyara two projects each; Kigoma, Rukwa and Ruvuma one project each.

In other hand, the Capital formation at current prices increased from shs 4,957,781 million in 2006 to shs. 6,209,741 million in 2007, equivalent to an increase of 25.3 percent. In 2007, the ratio of capital formation to Gross Domestic Product at current prices was 29.6 percent compared to 27.6 percent in 2006.

D. Capital Stock

Tanzania Stock Market known as Dar es Salaam Stock Exchange (DSE) was incorporated in September 1996 as a private company limited by guarantee and not having a share capital under the Companies Ordinance (Cap. 212). The DSE is therefore a non-profit making body created to facilitate the Government implementation of the economic reforms and in future to encourage the wider share ownership of privatized and all the companies in Tanzania and facilitate raising of medium and long-term capital.

The formation of the DSE followed the enactment of the Capital Markets and Securities Act, 1994 and the establishment of the Capital Markets and Securities Authority (CMSA), the industry regulatory body

charged with the mandate of promoting conditions for the development of capital markets in Tanzania and regulating the industry.

Trading activities at the DSE commenced on 15th April 1998 after two years of background preparatory work under the stewardship of the Government through the Capital Markets and Securities Authority. The opening of the Trading Floor coincided with the listing of TOL Limited (formerly Tanzania Oxygen Limited), as the first company on the new Exchange.

The main objectives of the DSE is to provide a responsive securities market which mobilizes savings and channels them into productive sectors, encourages saving cultures that contributes to the country's economic growth and facilitates wider access to resources.

During 2006/07, ten companies were listed at DSE compared to eight companies in 2005/06, three of which were cross listed companies. Furthermore, there were five listed corporate bonds (The East African Development Bank, The Eastern and Southern Africa Trade and Development Bank, BIDCO Oil and Soap Limited, Barclays Bank Tanzania Ltd and Standard Chartered Bank Tanzania Ltd) and 12 government bonds. During the period under review, the DSE launched the DSE's Automated Trading System.

Capital formation in 2001 prices increased from shs. 2,938,620 million in 2006 to shs. 3,358,305 million in 2007, equivalent to an increase of 14.3 percent. In 2007, the ratio of capital formation to Gross Domestic Product at current prices was 29.6 percent compared to 27.6 percent in 2006. Capital formation in buildings construction activities, in 2001 prices increased from shs. 1,012,774 million in 2006 to shs. 1,076,793 million in 2007, equivalent to an increase of 6.3 percent in 2007. This was largely due to increased growth rate in nonresidential and residential building construction from 3.7 percent and 11.1 percent in 2006 to 7.0 percent and 11.7 percent in 2007 respectively. The growth rate of capital formation in rural construction dropped from 22.1 percent in 2006 to 18.8 percent in 2007.

Other construction works including land improvements, roads and bridges, and water supply increased from shs. 717,158 million in 2006 to shs. 851,973 million in 2007, at 2001 constant prices, equivalent to an increase of 18.8 percent. The increase in growth was driven by land improvement activities which grew by 28.8 percent; water supplies 11.0 percent; and roads and bridges by 9.7 percent.

Importation of capital equipments increased from shs. 1,163,673 million in 2006 to shs. 1,384,410 million in 2007 at 2001 constant prices, equivalent to an increase of 19.0 percent. The import value of transport equipment increased by 16.9 percent compared to 10.4 percent in 2006. In addition, imports of machinery and other equipment increased by 20.0 percent in 2007 compared to 26.8 percent in 2006.

Investment in fixed capital that includes buildings, other construction works and capital equipment increased from shs. 2,893,605 million in 2006 to shs. 3,313,177 million in 2007, at 2001 constant prices, equivalent to an increase of 14.5 percent. The increase was contributed by: importation of capital equipment; other construction works; and buildings by 19.1, 18.3, and 6.3 percent respectively.

The value of change in stock was shs. 45,128 million in 2007 compared to shs. 45,015 million in 2006, equivalent to an increase of 0.3 percent. The value of change in stock at current prices increased from shs. 74,292 million in 2006 to shs. 90,728 million in 2007, equivalent to an increase of 22.1 percent.

Capital formation in the public sector increased from shs. 1,418,222 million in 2006 to shs. 1,638,992 million in 2007 at current prices, equivalent to an increase of 15.6 percent. The public sector's contribution to capital formation was 26.4 percent in 2007 compared to 28.6 percent in 2006. Capital formation in private sector increased from shs. 3,465,267 million in 2006 to shs. 4,480,021 million in 2007, at current prices, equivalent to an increase of 29.3 percent. Contribution of private sector to capital formation was 72.1 percent in 2007 compared to 69.9 percent in 2006.

Table 6: Capital Formation by Public and Private Sectors – at Current Prices

(shs Million)

Sector	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Public Sector:										
Central Gov't	128078	169972	373308	413099	568022	753610	953157	1039910	1134578	1352763
Parastatals	28088	39680	38137	44896	59405	72745	119245	162413	141822	141570
Institutions++	29457	39139	50049	55642	72900	89624	120042	138362	141822	144659
Total Public Sector	185624	248791	461494	513637	700327	915979	1192444	1340685	1418222	1638992
Private Sector	707077	982726	871869	1033463	1050490	1372817	1903078	2618878	3465267	4480021
Total Fixed Capital	892701	1231517	1333363	1547100	1750817	2288796	3095522	3959563	4883489	6119013
Increase in Stocks	9914	35276	37576	40643	44596	43387	57845	64405	74292	90728
Total Capital Formation	902615	1266793	1370939	1587743	1795413	2332183	3153367	4023968	4957781	6209741

++ Includes non-profit making organization

Source: National Bureau of Statistics

E. Money Supply

In 2006/07, broad money supply (M2) increased to shs. 3,538,166 million in June 2007 from shs. 2,945,529 million in June 2006, equivalent to an increase of 20.1 percent. This was accounted for by an increase in demand deposits, saving deposits and currency in circulation outside banks. However, the increase in M2 was lower compared to 24.5 percent in the same period in 2005/06, following continued tight monetary policy measures implemented by the Bank of Tanzania (BOT) to avert inflationary pressures experienced during the period. The increase in time deposits was lower compared to an increase of other deposits. The rate of increase of currency in circulation outside banks was 22.6 percent in 2006/07 compared to 16.5 percent in 2005/06. In addition, demand and saving deposits increased by 17.4 and 25.0 percent in 2006/07 compared to 18.7 and 35.9 percent 2005/06 respectively.

Table 7: Money Supply --Tanzania Mainland

	For the period ended June								Change 2006 2007	
	2000	2001	2002	2003	2004	2005	2006	2007	Amount	%
Base Money (M0)	339928	375045	429384	473704	590441	734912	856181	1049609	193428	22.6
Demand Deposits	261303	316210	386192	507444	595622	793920	942660	1106663	164003	17.4
Narrow Money (M1)	601231	691255	815576	981148	1186063	1528833	1798841	2156272	357431	19.9
Time Deposits	152291	171598	218602	246719	269133	328711	455180	517776	62596	13.8
Savings Deposits	203021	236184	399348	330917	401130	508964	691508	864118	172610	25
Broad Money (M2)	966543	1099037	1333524	1558784	1856325	2356508	2945529	3538166	592637	20.1
Foreign Currency Deposits	302471	373888	464366	647109	746609	899976	1353523	1651819	298296	22
Extended Broad Money (M3)	1259014	1472905	1797890	2205893	2602935	3266484	429952	5189985	890933	20.7
Net Foreign Assets	707352	1001412	1293645	1871286	2134183	2279294	3073175	3541533	468458	15.2
Net Domestic Assets	551662	471490	750102	334607	458752	987131	1225876	1648352	422476	34.5
Net Domestic Credit	696538	647342	684920	858203	1123588	1504012	2169467	2477743	308276	14.2
Net Claims on Government	383098	268920	202879	199679	157607	284638	512629	217422	-295207	-57.6
Lending to Non-Govt Sectors	313438	378422	482041	658524	965961	1219374	1656838	2260321	603483	36.4
Other items(Net)	-144875	-175852	65181	-523596	-654836	-516881	-943591	-829391	114200	-12.1

Source: Bank of Tanzania

By end-December 2007, broad money supply (M2) increased to shs. 4,112,108 million, from shs. 3,538,166 million, at end-June 2007, equivalent to an increase of 16.2 percent. The increase was largely on account of increase in demand deposits by 46.4 percent. Extended broad money supply (M3) increased from shs. 4,299,052 million in June 2006 to shs.5,189,985 million in June 2007, equivalent to an increase of 20.7 percent. This growth rate is within the program target of 24.0 percent for the year ending June 2007. By December 2007, M3 reached shs. 5,827,718 million, equivalent to an increase of 12.3 percent. Following the appreciation of the shilling against the US\$, M3 increased marginally and subsequently reduced the foreign currency deposits.

Domestic credit increased from shs. 2,169,467 million in June 2006 to shs.2,477,743 million in June 2007, equivalent to an increase of 14.2 percent. This was attributed to the increase of credit to the private sector. However, by end-December, 2007, domestic credit declined to shs.2,474,726 million, equivalent to a decrease of 0.12 percent.

During 2006/07, total deposits in commercial banks increased to shs. 4,140,376 million from shs.3,442,871 million in 2005/06, equivalent to an increase of 20.3 percent. The composition of total deposits was as follows: foreign currency deposits- 39.9 percent, demand deposits- 26.7 percent, saving deposits- 20.9 percent and time deposits- 12.5 percent.

F. Employment

The trend of labour force revealed that there is an increase of 2.8 million people in labour force, equivalent to 16.0 percent for the past five years, basing on the analysis of the Integrated Labour Force Surveys 2000/01 and 2005/06. Furthermore, the analytical results of 2005/06 survey showed that, there were 20.6 million active people in the labour force in Tanzania Mainland compared to 17.8 million people in 2000/01.

The analytical results of ILFS 2005/06 showed that, 18.3 million people were employed, of which 9.0 million were male while 9.3 million were female. Employment in Agricultural activities was 77.0 percent in 2006 compared to 84.0 percent in 2000/01. This reflects a decline of employment in the agricultural activities by 8.0 percent for the past five years. The decline of employment in agricultural activities was due to increase in other economic activities whereby: informal sector employed 9.3 percent compared to 5.7 percent in 2000/01; government employed 2.4 percent in 2006 compared to 2.2 percent in 2000/01; Domestic work employed 3.5 percent in 2006 compared to 3.1 percent, in 2000/01; parastatals employed 0.4 percent in 2006 compared to 0.5 percent in 2000/01; and other activities employed 8.0 percent in 2006 compared to 2.4 percent in 2000/01.

Table 8: Employment by Sector

(By Percentage)

Sector	2000/ 2001			2005/ 2006		
	Male	Female	Total	male	Female	Total
Central/Local Government	3	1.5	2.2	3.3	1.6	2.4
Parastatals	0.8	0.2	0.5	0.5	0.2	0.4
informal Sector	6.7	4.6	5.7	10.4	8.2	9.3
Other Sectors	6.7	2.1	4.4	11.5	4.2	8
Agriculture	80.7	87.6	84.2	72.9	79.9	76.5
Domestic work	2.1	4.1	3.1	1.4	5.5	3.5
Total	100	100	100	100	100	100

Source: Integrated Labour Force Survey, 2005/06

Based on the national definition of unemployment, the analytical report of ILFS 2005/06 revealed that 1.0 million male and 1.3 million female were unemployed, equivalent to 11.0 percent compared to 12.9 percent in 2000/01. In Dar es Salaam city, 31.4 percent of active labour force was unemployed in 2005/06 compared to 46.0 percent in 2000/01. Unemployment in other urban centres was 16.3 percent in 2005/06 compared to 26.0 percent in 2000/01, and in rural areas was 7.1 percent in 2005/06 as compared

to 8.0 percent in 2000/01. Unemployment for youth aged between 15 and 35 years has declined from 16.0 percent in 2000/01 to 13.0 percent in 2005/06. The rate of unemployment for male youth has declined from 14.0 percent in 2000/01 to 12.0 percent in 2006, and that of female youth declined from 17.0 percent in 2000/01 to 14.0 percent in 2005/06.

Table 9: Unemployment Rate +10 Years by Different Definitions -- in 2001 and 2006

Group	DSM		Other Urban cent		Villages		Total	
	2001	2006	2001	2006	2001	2006	2001	2006
A. Looking for work (Strick Internat Definition)	20.6	16.6	4.4	3.4	0.7	0.7	2.3	2.8
B. Available but not looking for work	5.7	4.4	5.5	2.9	2.1	0.9	2.8	1.6
A+B: Relaxed International Definition	26.4	21	9.9	6.3	2.8	1.6	5.1	4.3
C. With marginal attachment	20.1	10.3	15.9	10	5.6	5.5	7.8	6.3
A+B+C: Tanzania Definition	46.5	31.3	25.9	16.3	8.4	7.1	12.9	11

Source: Integrated Labour Force Survey, 2005/06

In 2007, the government continued to implement the National Employment Creation Program which was launched in 2006. The program aimed at creating over one million jobs by 2010. As of November 2007, over 401,390 new jobs were reported to be created by various stakeholders. In addition, 209 small entrepreneurs from informal sector participated in the 9th East African Labour Force Trade Fair held in Nairobi on October 2007. Furthermore, the government continued with implementation of the National Economic Empowerment and Job Creation Program. Under the Program, loans valued shs. 32.3 billion was advanced to 38,097 entrepreneurs through CRDB and NMB banks. Likewise, nine district councils have benefited from training program aimed at enabling the citizens to create self employment for poverty reduction.

Furthermore, the government continued with the coordination of strengthening business environment for informal sector's entrepreneurs which went in line with construction of business centres in Dar es Salaam. Also, the government continued to implement the informal sector activities formalization program so as to create more employment opportunities. Moreover, the government had expanded employment services by launching employment center in Mwanza that would cater for employment services in the Lake Zone.

II.2 Fiscal Position

Revenue has performed strongly so far and foreign assistance has been ample and front-loaded. But to safeguard the domestic financing objective the authorities need to be ready to respond flexibly revenue flag later in the year. Further strengthening public financial management is critical to ensure that public resources are used effectively, including in priority areas such as education and infrastructure.

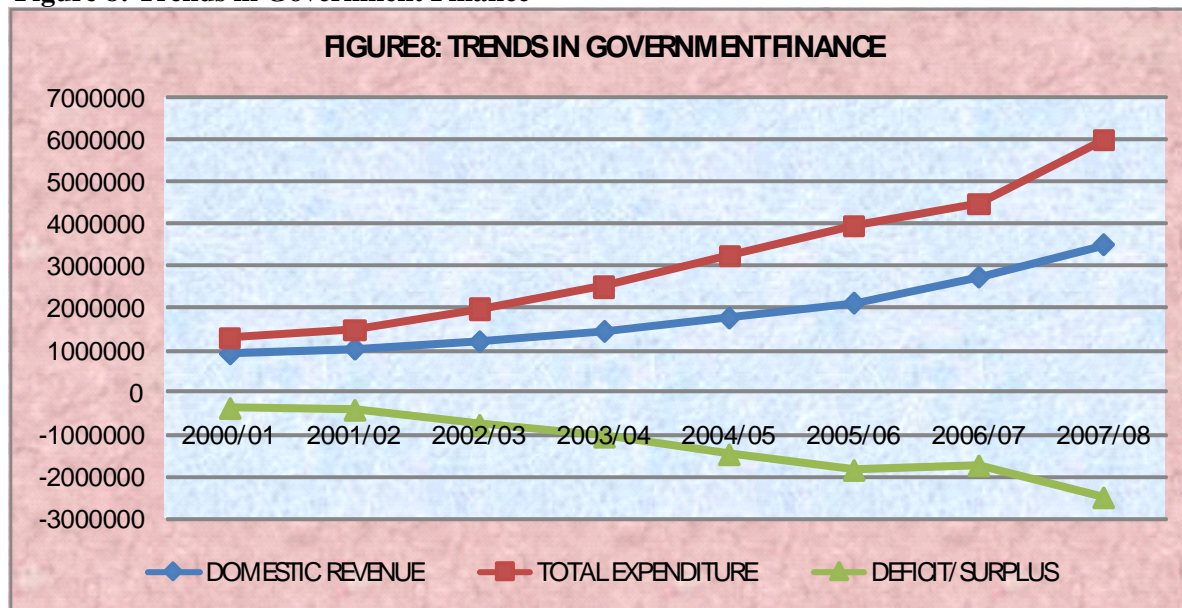
The government continued with its efforts to raise revenue through improvements in tax administration and monitoring of taxpayers compliance, while structuring its expenditure in line with pro-growth initiatives, poverty reduction, and infrastructural development. During 2008/09, improvements in public expenditure management, domestic revenue collection, and operational efficiency will continue to top the priority list of the government. Relying on effective utilization of domestic revenue (18.5 percent of GDP) and foreign assistance (at 9.6 percent of GDP), the government aims to spend 28.2 percent of GDP on development and recurrent activities.

Table 10: Trend of Government Finance

	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2007/2008	2007/08
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Budgeted	July-Dec	Likely Outturn
A. DOMESTIC REVENUE	929625	1042945	1217517	1459303	1773710	2124844	2739022	3502583	1699038	3502583
1. Tax Revenue	827789	938478	1105746	1342798	1615248	1946433	2529439	3188415	1591963	3188415
Import Duty and Excise Duty	250397	266322	293695	352320	350532	452406	765644	968997	451206	968997
Sales Tax (Local & Imports)	0	0	0	0	0	0	0	0	0	0
Value Added Tax (VAT)	301983	351894	424338	548572	731597	845790	861050	1044703	547765	1044703
Imports	182143	208675	249864	315958	439796	502437.3	431614	504929	268293	504929
Domestic	119840	143219	174484	232814	291801	343353	429436	539774	279472	539774
Income Tax	194013	219852	276050	366651	465455	581244	790877	872089	472325	872089
Other Taxes	81396	100410	111663	123500	132040	136954	218581	427268	187195	427268
Refunds Accounts				-48245	-64376	-69961	-106713	-124641	-66527	-124641
2. Non-Tax Revenue	101836	104467	111771	116505	158462	178411	209583	314168	107074	314168
B. TOTAL EXPENDITURE	1307213	1482767	1989538	2516943	3248352	3972607.8	4474680	5998083	2880507	5998083
1. Recurrent Expenditure	1020961	1118156	1488641	1780115	2017490	2681882.5	3187469	3796988	1550230	3796988
2. Development Expendit	286253	344611	500897	736828	1230862	1310745	1337211	2201096	1330277	2201096
Local Funds	35069	50236	95662	133041	239551	296100	503291	739204	412534	739204
Foreign Funds	251184	294375	405235	603787	991211	1014645.2	833920	1461893	917743	1461893
C. DEFICIT/SURPLUS (A-B)	-377589	-419822	-772021	-1057640	-1474642	-1847764	-1735658	-2495496	-1181469	-2495496
D. FINANCING	401001	419822	772020	1045883	1474642	1847764	1735660	2495500	1181469	2495500
1. External Sources	380575	501949	822027	1053531	1416618	1604640.6	1689337	2509489.68	1947108	2509490
Grants	293436	383479	622392	494889	992975	1043422	971547	1690673	974758	1690673
Basket Support				84331	156745	82302	47331	80320	122465	80320
Import Support/OGL Loans	39933	33171	151331	0	65396	257677	266946	273796	362415	273796
Project Loans	127554	154184	149719	509456	308592	328956	433203	504260	499748	504260
Amortization (foreign)	-80348	-68885	-101325	-45145	-107090	-107716	-29690	-39760	-12277	-39760
2. Internal Sources	20428	-82127	-50007	-7548	58024	243123	46323	-13990	-758639	-13990
Non-Bank Borrowing	16160	36574	8500	21357	144954	219241	212475	0	-622628	0
Banking Borrowing	-18855	-59181	-44763	0	0	129645	25533	0	0	0
Proceeds from Privatization	26693	0	0	9767	0	33309	0	15000	0	15000
Payment of Arrears		-59107	0	0	0	0	0	-15000		-15000
NBC Bonds		0	0	0	0	0	0	0	0	0
Recapitalization	0	0	0	0	0	0	0	0	0	0
Adjustment to Cash	-3772	1139	65901	50776	53211	37104	-60370	0	100704	0
Amortization (local)	0	-1552	-251	0	0	-19001	0	-13990	-2310	-13990
Expenditure float	-23412	0	-79394	-89548	-140141	-157174	-131315	0	-241407	0

Source: Ministry of Finance and Economic Affairs

Figure 8: Trends in Government Finance



II.2.1 Government Expenditure

In 2007/08, the Government planned to spend a total of shs. 5,998,083 million, equivalent to 26.9 percent of GDP. Out of that, shs. 3,796,986 million, equivalent to 63.3 percent was for recurrent expenditure, while shs. 2,201,096 million, equivalent to 36.7 percent was for development expenditure. Allocation for recurrent expenditure was as follows: wages and salaries shs. 1,180,814 million, equivalent to 23.9 percent; goods and services shs. 2,069,883 million, equivalent to 42.0 percent; and the Consolidated Fund Services (CFS) shs. 1,681,801 million, equivalent to 34.1 percent.

In 2007/08, the budget allocated to the health sector was 6.2 percent compared to 6.0 percent in 2006/07. Agriculture, forestry, fishing and hunting sectors were allocated 2.5 percent compared to 3.3 percent in 2006/07. The allocation to public order and safety sector, decreased to 3.2 percent in 2007/08, from 4.1 percent in 2006/07. The budgetary allocation to economic services sector (business, tourism, and other services) increased from 2.5 percent in 2006/07 to 5.1 percent in 2007/08. The allocation to minerals, manufacturing and construction sectors increased to 9.9 percent in 2007/08 from 1.3 percent in 2006/07. Out of that amount, 99.2 percent was allocated to construction sector alone. Allocation to the education sector increased to 9.1 percent in 2007/08, from 8.8 percent in 2006/07. Budget allocated to transport and communication, and energy sectors decreased from 9.4 and 9.5 percent in 2006/07 to 1.3 and 5.6 percent in 2007/08 respectively.

Allocation to general services including administration, economic grants, and economic services sector increased from 42.1 percent in 2006/07 to 44.6 percent in 2007/08. Likewise, the budgetary allocation to the defense sector decreased to 4.2 percent in 2007/08 from 5.0 percent in 2006/07. The allocation to social security, welfare affairs and services increased slightly from 1.4 percent in 2006/07 to 2.7 percent in 2007/08. The allocation to other economic affairs and services increased to 1.5 percent in 2007/08 from 1.0 percent in 2006/07. Allocation to housing and community amenity affairs and services was 3.8 percent in 2007/08 compared to 4.1 percent in 2006/07.

In the first half of 2007/08, actual debt service amounted to US\$ 46.07 million. Out of that, principal payments were US\$ 27.17 million and interest payment was US\$ 18.9 million. In other hand, In 2007, domestic debt valued at shs.361.3 billion was paid. Out of that, shs. 328.2 billion were principal and shs. 33.1billion was interest.

II.2.2 Public Borrowing

In 2007/08, the Government estimated to receive grants and foreign loans including debt relief amounting to shs. 2,226,115 million, equivalent to 46.0 percent of the national budget. During the July – December 2007 period, the Government received grants and foreign loans amounting to shs. 1,945,074 million, equivalent to 113.0 percent of the estimate for the period. Out of that, shs. 973,632 million, equivalent to 50.1 percent were grants, and shs. 971,442 million, equivalent to 49.9 percent were foreign loans.

By March 2008, the government received grants amounting to shs. 1,026,595 million, which was 27.0 percent less of the estimates for the period. Out of that, 57.8 percent was for programs; 23.6 percent for projects; 9.1 for budget support; and 9.5

percent was debt relief under the MDRI arrangement. Also by that time, the government received loans amounting to shs.1,179,005 million, equivalent to 72.0 percent above the estimates of shs. 683,953 million for the period. Out of that amount, shs.363,415 million was for programmes, shs. 682,660 million for projects and shs.151, 583 million was for Basket Support.

II.2.3 Aggregate Tax Revenue

Actual domestic revenue collection for the period July–December 2007 amounted to shs. 1,759,035 million, equivalent to 1.0 percent above the estimate of shs. 1,735,967 million for the period. Out of the amount collected shs. 1,651,961 million was tax revenue and shs. 107,074 million was non-tax revenue. During the period between July 2007 and end March, 2008, actual domestic revenue collection was shs. 2,656,157 million compared to shs. 2,002,400 million over the same period in 2007, equivalent to an increase of 32.6 percent. Tax revenue contributed 93.3 percent to total revenue collected during this period, while non-tax revenue contributed 6.7 percent. The monthly average revenue collection increased from shs. 222.5 billion in 2006 to shs. 295.1 billion in 2007. The trend in domestic revenue was satisfactory due to continued efforts to improve efficiency in tax administration, particularly in the collection of Value Added Tax (VAT) on both imported and domestic goods, and income tax. In terms of total revenue collections by TRA, international trade taxes still remain high in relative importance accounting for around 44% of total tax revenue. On the other hand, taxes on domestic consumption are on the decline while taxes on income are peaking up.

III. Tax Structure

III.1. Institutions and Reality

The Tanzania Central Government has two primary avenues of budget resources domestic revenue, which includes both tax and non-tax revenues and External Assistance, which comprises of grants and loans from bilateral or multilateral agencies. From 1992, Tanzania faced serious fiscal problems arising from the gap between stagnant revenues and public expenditures swollen by large government expenditures.

Prior to establishment of Tanzania Revenue Authority tax collection had been a function of three revenue departments within the Ministry of Finance (MOF), and, as such, fell within the normal civil service framework. The rationale for the TRA's inception was; weaknesses in tax administration and tax policy formulation; widespread tax evasion; the desire to limit political interference and to free tax administration from civil service constraints; one of the lowest tax ratios in Sub-Saharan Africa (averaging 11.3% from 1990 to 1995); and a fiscal deficit (after grants) of 5% and 7.9% of GDP in FY 1994 and FY 1995, respectively.

Despite the establishment of the Tax Revenue Authority (TRA) in 1996, tax collection revenue remained dismally low in 1997/98, Tanzania's tax revenue of 12.4 percent of GDP was among the lowest in the region. Tax evasion was endemic as a result of institutional weaknesses in the TRA, poor infrastructure, and antiquated business processes. Tax Administration Project was designed to raise tax revenues without increasing tax rates by improving the tax collection capacity of the Tanzanian

government. It focused on efficiency improvements in the tax administration, improving the legal framework, and broadening the tax base. The nature and scope of tax reforms that have been carried out in recent years and the manner in which they have affected the tax shares.

The inception of Tanzania Revenue Authority, a number of tax reforms have taken place in relation to taxes on incomes, international trade taxes and taxes on domestic consumption. The landmark reform in relation to taxes on international trade has been the restructuring of the import tariff to base it on the degree of processing. The reform sought to encourage more primary processing in the country, but also brought about transparency and predictability of the tariff structure.

Consumption tax reforms are epitomized by the introduction of VAT in 1998/99 and the abolishment of VAT on petroleum in 2006/07. The major income tax reform was the restructuring of the PIT rates in 1998/99 and the introduction of a presumptive three-band tax structure for small individual income taxpayers (2000/01). The only major restructure of the excise duty, apart of the normal indexation to inflation was done in 2006/07 for adjusting rates upward on petroleum imports. Almost in every fiscal year of TRA's operation a number of reforms have been implemented to fine-tune the tax structure.

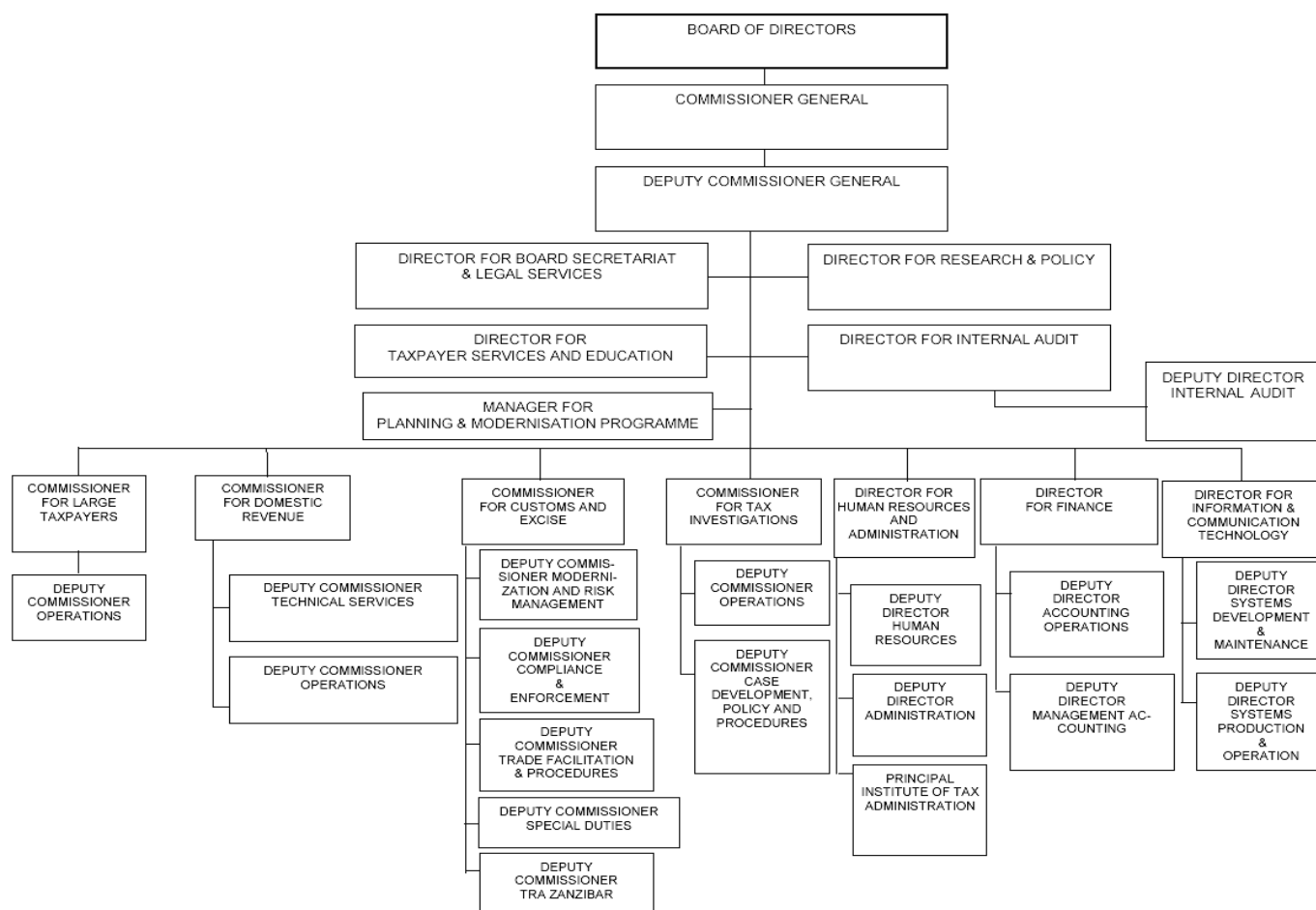
Currently, the majority of domestic revenue collected in Tanzania is in the form of tax revenues, which accounted for 93.3% of the total Central Government domestic revenue. These tax revenues are collected by the Tanzania Revenue Authority (TRA), an executive agency under the Ministry of Finance. The TRA is mandated to collect major taxes including Income Tax , Value Added Tax , Import Duty and Excise Duty. Under the major three tax departments namely; Large Taxpayer, Domestic Revenue and Customs and Excise department, between 2006/07 and 2007/08 Tanzania has witnessed an average increase in Central Government tax revenues to GDP about 14%. These increases have primarily been attributed to economic growth and substantial improvements in the tax administration.

TRA is under the direction and control of a Board of Directors, which is headed by a Chairman who is appointed by the President of the United Republic of Tanzania. The board is responsible for the formulation and implementation of the policies of the Tanzania Revenue Authority. It is also responsible for advising the Minister for Finance on the fiscal policy of the country and tax matters in particular. The Board consists of ten members including the Chairman. Five members are ex-officio, that is, they sit on the Board by virtue of their positions. These are: Permanent Secretary - Ministry of Finance (Union Government), Principal Secretary - Ministry of Finance (Zanzibar Government), Governor of the Bank of Tanzania, Permanent Secretary- Presidents Office Planning and Privatization, Commissioner General of TRA. In addition to the five ex-officio members, the Minister for Finance also appoints from the public other members to the Board on the basis of their professional knowledge, experience and competence in the relevant areas of finance, commerce or economics. The tenure of office for the members is three years and the non-ex-officio members can be re-appointed only once.

The Commissioner General is the Chief Executive of the Authority. He is responsible for the day-to-day operations of the Authority subject to the general supervision and control of the Board. The Commissioner General is assisted by a Deputy Commissioner General and heads of departments in performing his duties. Some Heads of Departments are in turn assisted by Deputy Commissioners / Directors at the head office level.

Figure 9:

TANZANIA REVENUE AUTHORITY ORGANISATION STRUCTURE



III.2. Tax System

The Central Government taxes comprise direct and indirect taxes. The direct taxes account for around 30% of total tax revenue, while the indirect taxes account for 70% of total tax revenue. Direct taxes include the Personal Income Taxes (PIT), Corporate Income Tax (CIT) and Withholding Taxes on business, capital and investment incomes. The indirect taxes comprise taxes on international trade transactions and on domestically produced goods and services, namely the value added tax, excises and import duties.

The tax base and rate structure of the Tanzanian tax system has been rationalized and streamlined with a view to instituting a fair, simple, equitable, efficient and taxpayer/investor-friendly tax regime. A number of nuisance taxes have been abolished, the regulatory framework has been harmonized, an incentive regime has been put in place and the rates have been gradually reduced. To attract investment the Government has abolished protectionist excises, replaced the distortionary Sales Tax with Value Added Tax and removed the two-tier Corporate Tax that provided for a reduced rate for residents and higher rate for non-residents for a single rate.

The United Republic of Tanzania Constitution recognizes the two parties of the union, namely Zanzibar and the Mainland Tanzania. As such, the Constitution has identified union taxes and non-union taxes. While Tanzania Revenue Authority collects the Union taxes, the Zanzibar Revenue Board collects all non-union taxes in Zanzibar. Taxes on income imposed under the Income Tax Act 2004 and custom duties

under the East African Customs Management Act 2004 are union taxes, whereas domestic consumption taxes including the Value Added Tax, Excise Duties, hotel levies, stamp duties, motor vehicle taxes, and other charges are non-union taxes.

Integration of TRA Operations aims at providing services at the shortest time at the least cost possible with minimal inconveniences to the taxpayer. The departments are now organized on functional basis rather than by tax type, as was the case previously. Now there are three revenue departments namely; Large Taxpayers Department (LTD), was established in October 2001, started with 100 taxpayers. The number of taxpayers was increased to 370 in July 2006. Second; Domestic Revenue Department, with effect from July 2005 TRA has integrated VAT and Income Tax Departments to form this department and lastly Customs and Excise department

III.3. The Method for Estimates and Collection

The tax estimation and collection is mostly based on self assessment system, thus is; taxpayer calculate their tax obligations and pay, then authority will review the assessment before issuing the final clearance. They also focus on penalties for non-payment or late payment of taxes; resolution of disputes; tax audit and investigation; tax revenue recovery measures and tax-related offenses.

TIN is Taxpayer Identification Number. It is unique number allocated to a taxpayer to be used by him or her as his or her identity in all his or her business transactions. The law requires every person, who has income is chargeable to tax, to register with the Commissioner for a taxpayer identification number (TIN). The registration of taxpayer identification number is free of charge at any tax Office The registered person shall use the taxpayer identification number in all business transaction and tax records. The taxpayer has an obligation to file tax returns and pay taxes within the prescribed time, ensure the accuracy of the tax returns, import duty entries submitted and refunds claims lodged and make timely payment of the taxes due

Employees pay their monthly income tax under PAYE system during the year of income (the calendar year) that starts on 1st January and ends on 31st December of every year. Employees' salaries and all other payments or benefits which are paid to him or her are subject to the PAYE tax scheme and the amount of tax withheld by employers is remitted to the Commissioner of Income Tax on or before the 7th day of the month following the month of deduction. An employee whose income is wholly comprised of emoluments from the employment does not need to complete tax returns. However if he has other sources of income, the Income Tax Law requires him to file a return of income to the income tax office.

All goods and services supplied or imported into Tanzania are taxed at a standard rate of 20% (VAT rate) unless they are zero rated, exempted or acquired by persons who are entitled to special relief. In an effort to provide some relief for those in the lower income group, certain basic necessities are exempt under Second Schedule to the VAT ACT. Also persons and organizations listed in the Third Schedule to the ACT are entitled to relief from VAT. In addition to the goods listed above some essential services are also exempted from VAT. Persons registered with the VAT Department are responsible for the collection and payment of the tax to the Commissioner for VAT. Persons with annual taxable turnover below the registration threshold (Tshs 40,000,000) and Persons with businesses making only exempt supplies of goods and/or services are not liable to register for VAT.

Tanzania recognizes the importance of investment to stimulate economic growth and create a potential for a sustainable future revenue generation. Consequently, the government has offered a tax incentive regime conducive to investment provided for in the various tax statutes, i.e. the Income Tax Act of 2004, Value Added Tax Act of 1997 and the East African Customs Management Act 2004. Tanzania is a member of the East African Community Customs Union involving five countries, viz. Kenya, Tanzania, Uganda, Rwanda and Burundi. As a result, incentives provided for under the East African Customs Management Act 2004 must be negotiated and agreed at a tripartite meeting of the EAC Partner States.

To improve efficiency in VAT refunds repayment claims, all claims are now classified into three categories namely, gold, silver and non-gold silver with effect from 1st October 2004. The Gold category covers regular payment traders who meet the qualifying criteria and their claims are settled within 30 days from the date of lodgment. The Silver category is for regular payment traders not meeting the gold

criterion. Claims are settled within 30 days from the date of lodgment for two consecutive claims but full-scale audit is prerequisite for the third claim settlement. The Non-Gold Silver category is for the claimants who require thorough audit before affecting their refund claims. This system has to a very large extent solved the problem of delayed tax refunds.

In order to reduce the cost of tax collection to both TRA and the taxpayers, TRA is implementing a system of collecting taxes through commercial banks since July 2004. The realized benefits include lower cost of revenue collection to TRA and move to one bank account per region. The Tanzania Interbank Settlement System (TISS) has been introduced at the Large Taxpayers Department as well as the Dar es Salaam Custom's Service Centre (for payments more than Shs 10 million or USD 10,000) as well as for refund payments. This has led to the elimination of revenue float between commercial banks and the Bank of Tanzania.

III.4. Statutory Tax Rates for Various Tax Base

The tax base and rate structure of the Tanzanian tax system has been rationalized and streamlined with a view to instituting a fair, simple, equitable, efficient and taxpayer/investor-friendly tax regime. A number of nuisance taxes have been abolished, the regulatory framework has been harmonized, an incentive regime has been put in place and the rates have been gradually reduced. To attract investment the Government has abolished protectionist excises, replaced the distortionary Sales Tax with Value Added Tax and removed the two-tier Corporate Tax that provided for a reduced rate for residents and higher rate for non-residents for a single rate.

The potential revenue base is the structure of existing taxes and the contribution of various taxes to total tax revenues. The major taxes are VAT, excise duties, import duties, income taxes, and other tax as well as non-tax charges.

Value Added Tax, which came into effect on July 1st 1998, under the Value Added Tax Act, 1997, replaced the previous sales tax, hotel levy and receipt-based stamp duty. It is charged at a single rate of 20% on all businesses, with an annual turnover of Shs 40 million or more per annum, and on all imports. Some economic sectors however are exempt from VAT under the First and Second Schedules of the VAT Act, 1997.

Excise duties, governed by the Excise (Management and Tariff) Act Cap 147, are charged on ten categories of items: petroleum products, cigarettes, beer, soft drinks, motor vehicles with engine capacity above 1500cc, spirits and Konyagi, mobile telephone, plastic bags, Digital Satellite Television and non-utility motor vehicles aged ten year or more from date of manufacture. Most duty rates are specific, except for motor vehicles, mobile telephones, plastic bags, Digital Satellite Television and cigars. The rates are often revised upward to capture the erosion of real revenue due to inflation. With abolition of VAT on petroleum in year 2006/07 the rates were adjusted significantly to take care of the revenue loss from VAT. Over time the number of excisable items has been gradually increasing after being drastically reduced in 1999, retaining only the traditional ones. Diesel and petrol also attract a user charge, called fuel levy, at the rate of Shs 200 per litre.

Import duties are chargeable on merchandise imports at ad-valorem rates of 0%, 10% and 25% depending on the degree of processing of the item imported. There are also a number of items that attract higher rates than the three rates on protection arguments. The various reforms undertaken in the international trade sector and Tanzania's participation in various regional groupings that requires intra-regional preferential discounts, including SADC and EAC are mainly behind this trend. Tariff reforms (rate structure) and growing exemptions with in-built propensity to abuse and evasion have also had a bearing on the observed trend of revenues from import duties.

The captive base of the **income taxes** is the corporate and individual incomes. Under the Income Tax Act (ITA), 1973, all incomes accruing from businesses and employment are subject to income tax. The rate structure for income taxes comprises three different categories: the three-band turnover tax (presumptive tax for small traders), the 4-band Personal Income Tax (PIT) used mostly for PAYE, and the corporate tax chargeable at 30% of corporate profit. Also Withholding taxes on business and capital incomes such as dividends, interest and royalties are also applicable at the rates ranging 10 percent to 20

percent.

The tax rates are fairly progressive, meaning that the more income you earn the more PAYE tax you pay. There are four rate bands as follows:- 15%, 20%, 25% and 30%. No PAYE is charged on monthly income which exceed Tshs. 80,000/=

Table 11: Individual Income Tax Rates (w.e.f. 1st July 2008)

Monthly Income	Tax Rate
Where income does not exceed sh.100,000/-	NIL
Where total income exceeds sh.100,000/= but does not exceed sh.360,000/-	15% of the amount in excess of sh.100,000/-
Where total income exceeds sh.360,000/- but does not exceed sh.540,000.00	39,000/- plus 20% of the amount in excess of sh.360,000/-
Where total income exceeds sh.540,000 but does not exceed sh.720,000/-	Sh.75,000/- plus 25% of the amount in excess of sh.540,000/-
Where total income exceeds sh.720,000/-	Sh.120,000/- plus 30% of the amount in excess of sh.720,000/-

III.5. Tax Revenue by Composition

As was noted earlier, since the inception of Tanzania Revenue Authority, a number of tax reforms have taken place in relation to taxes on incomes, international trade taxes and taxes on domestic consumption. The major reform amongst them, however, do need to be recognized. The landmark reform in relation to taxes on international trade has been the restructuring of the import tariff to base it on the degree of processing. The reform sought to encourage more primary processing in the country, but also brought about transparency and predictability of the tariff structure. Consumption tax reforms are epitomized by the introduction of VAT in 1998/99 and the abolishment of VAT on petroleum in 2006/07. The major income tax reform was the restructuring of the PIT rates in 1998/99 and the introduction of a presumptive three-band tax structure for small individual income taxpayers (2000/01). The only major restructure of the excise duty, apart of the normal indexation to inflation was done in 2006/07 for adjusting rates upward on petroleum imports. Almost in every fiscal year of TRA's operation a number of reforms have been implemented to fine-tune the tax structure.

Table 12 and Figure below summarizes the impact these reforms had on the shares of tax revenue originating from taxes on international trade, incomes and domestic consumption. Taxes on international trade, whose average share in total collections in 1999/00 was 39%, have gained in relative importance, stabilizing at about 44% of total collections. While a number of reforms undertaken in relation to import duty structure have reduced its share to total tax revenue but the growth of revenues from excise duties and VAT from imports have more than compensated for the loss emanating from it, the share in total revenue of value added tax and excise duty on imports has increased notably from 18% of total collection in 1999/00 to 30% of total collections in 2006/07. The gain in VAT revenues in the last two years is mainly attributed to the introduction of VAT on petroleum products.

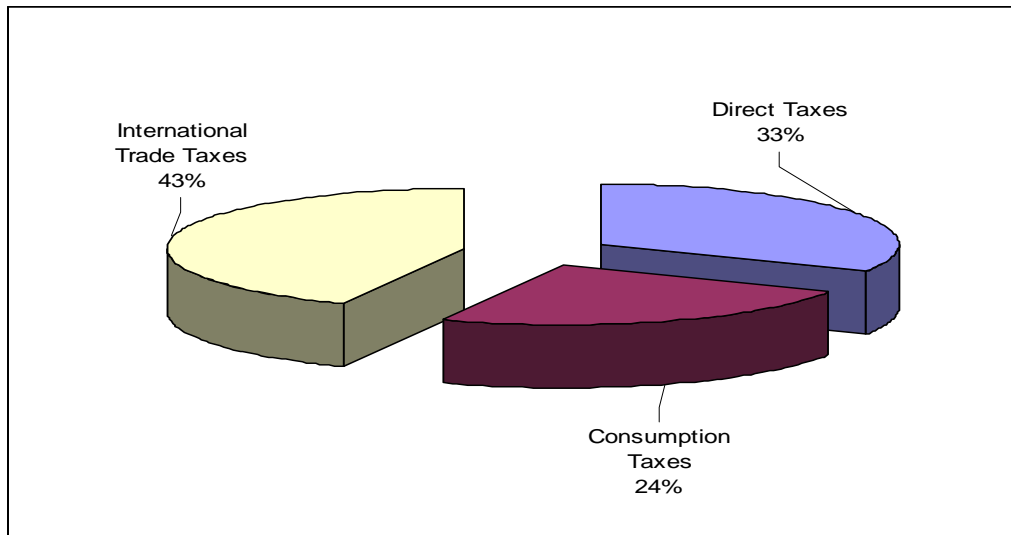
Taxes on income account for around 30% of total collections with their shares relatively stable. The share of all taxes on domestic consumption as percentage of total collections, which averaged 37% for the period 1991/92 – 2000/01 and amounted to 30% of total taxes in 1999/00 have declined in importance, even after subsequent years, recording 24% in 2006/07. This is not a good trend, as domestic consumption needs to respond to growth in GDP. , Most of the fall however has been replaced by increase in taxes on income, which makes it a less serious problem (but worth attention).

Table 12: Composition of Tax Revenue (as % of Total Collections)

	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05	2005/06	2006/07
Tax Revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Direct Taxes	31.3%	25.1%	26.2%	27.3%	29.2%	30.3%	31.6%	32.6%
P.A.Y.E.	10.1%	10.8%	11.9%	12.2%	13.2%	13.9%	14.3%	15.6%
Individuals	1.7%	1.5%	1.4%	1.4%	1.3%	1.5%	1.6%	1.2%
Corporate Taxes	7.5%	5.4%	5.8%	6.8%	7.9%	9.1%	10.1%	10.2%
Others (SDL, W/Taxes, Rental Taxes, Capital Gain Tax, Gaming Tax & Misc. Collections)	12.0%	7.4%	7.0%	6.9%	6.8%	5.8%	5.7%	5.6%
Indirect Taxes	68.7%	74.9%	73.8%	72.7%	70.8%	69.7%	68.4%	67.4%
Consumption Taxes	30.0%	26.8%	27.2%	27.3%	25.5%	25.2%	24.7%	24.2%
Excises (Domestic)	9.3%	8.0%	7.7%	7.4%	6.7%	6.6%	6.7%	6.7%
Local VAT	17.6%	16.3%	17.0%	17.6%	16.5%	17.1%	16.5%	16.1%
OTHER Domestic Taxes & Charges	3.1%	2.6%	2.6%	2.3%	2.3%	1.5%	1.5%	1.4%
International Trade Taxes	38.7%	48.0%	46.7%	45.4%	45.3%	44.5%	43.7%	43.2%
Import Duties	12.3%	11.3%	9.2%	9.5%	9.5%	6.3%	8.8%	9.6%
Excise Duties	3.1%	10.0%	10.7%	8.9%	8.7%	7.6%	6.3%	11.9%
VAT on Imports	15.1%	21.1%	21.3%	21.9%	22.1%	26.0%	24.9%	17.7%
Others (Fuel Levy & Non-tax revenues)	8.1%	5.7%	5.4%	5.2%	4.9%	4.6%	3.8%	4.0%

Source: Various Monthly Flash Reports

Figure 10:



IV. Country Specific Fiscal Issues

Despite the achievements in economic growth, revenue collection, and provision of social services particularly in the areas of education and health, Tanzania continues to face challenges. One of the challenges is our economic growth rate is still low compared to the actual needs, especially considering the population growth rate at about three percent per annum. The Gross Domestic Product is amounted to shs 20,948,403 million in 2007 at current prices. The population was estimated at 38.2 million in 2007, thus per capita income was shs.548,388 in 2007 at current prices. Accelerated rate of economic growth is needed in order to enhance domestic revenue and improve government ability to provide public service.

Increase Government Revenue and reduce donors` dependent assistance.

Tanzania currently tax revenue contributed 93.3 percent to total revenue collected, while non-tax revenue contributed 6.7 percent. During 2007/08, the government budget continued to focus on the implementation of the Tanzania Development Vision 2025 and the National Strategy for Growth and Reduction of Poverty (NSGRP), and therefore contribute to national development. The government planned to collect domestic revenue amounting to shs. 3,502,583 million, equivalent to 14.5 percent of GDP. Tax revenue was estimated at shs.3,188,415 million, while non-tax revenue was estimated at shs. 314,168 million. Loans and grants including debt relief under HIPC were estimated at shs. 2,226,115 million, equivalent to 46.0 percent of the national budget. As we can see, almost 46 percent of its national budget rely on foreign financial sources especially loan and grants from Tanzania development partners. Much dependent on foreign aid may reduce to the strategy of need for Government leadership and ownership of the development process. The Government is responsible for setting priorities and determining the choice of technical assistance needed, without unnecessary influence by Development Partners.

Business environment for investors and Tax incentives

The World Investment Report for 2007 published by the United Nations conference and Trade and Development, It indicates that Tanzania flow of foreign direct investment has increased over the past year from USD 522m (2006) to USD 600m (2007). Tanzania is still ranked in the top leading destinations in Africa among the top dozen. Much has been done over the past decade to improve the investment climate. In the other hand, the government losing a lot of tax revenue through the umbrella of tax incentives. There are loopholes for tax avoidance and taxpayers (investors) use this not to pay tax by using Tanzania Investment Center Certificate. There is a need for need for the authority to revise those exemptions and introducing tightening procedures for providing exemptions.

Decrease of agriculture sector spending

The 80 percent of Tanzania population is supported by agricultural sector while the sector grow very slow comparing to other sectors. Government seems not to make much effort on agricultural sector. As per 2007/08 national budget, the government allocate only 2.5 percent compared to 3.3 percent to agriculture sector in 2006/07. Currently the share of agriculture sector to GDP is 25.8 percent; it is small compared to other sectors which don't support large population.

National Debt

In 2007, the national debt stock stood at US\$ 7,041.3 million compared to US\$ 7,188.4 million, in 2006, equivalent to a decrease of 2.0 percent. Out of that amount, external debt amounted to US\$ 5,367.7 million, equivalent to 72.6 percent, while domestic debt amounted to US\$ 1,673.5 million, equivalent to 23.8 percent of total debt. In 2007/08, actual debt service for external debt amounted to US\$ 46.07 million. Out of that, principal payments were US\$ 27.17 million and interest payment was US\$ 18.9 million. On the same year period a domestic debt valued at shs.361.3 billion was paid. Out of that, shs. 328.2 billion were principal and shs. 33.1 billion was interest. This trend shows a little improvement of strategic on reducing external debt and increasing domestic debt which seems to hurt the economy in future.

V. Conclusion: Where We Stand and Where We Go

Tanzania economic outlook has quickly changed in the last ten years due economic development implementations almost for 20 years. The economy continues to perform well with economic growth exceeded 7 percent in 2007 and medium-term prospects are strong. In the short term, Tanzania faces three key challenges: maintaining fiscal stability in the face of uncertain financing; dealing with inflationary pressures; and addressing governance weaknesses and strengthening public accountability.

The 2008/09 budget faces financing uncertainty as development partners look to the government to undertake agreed steps to address governance issues. The program provides some limited room for domestic financing in case of a temporary shortfall in foreign assistance.

Inflationary pressures in recent months reflect primarily developments in international fuel and food prices. Monetary policy will need to accommodate onetime shocks while containing broader inflationary risks with the objective of gradually bringing inflation down to its medium-term objective of 5 percent.

Addressing governance weaknesses is critical to restoring confidence of both development partners and private investors.

Good progress has been made so far. Further steps should include strengthening the governance of the Bank of Tanzania and other government bodies.

Looking ahead, structural and institutional reforms should aim at further raising Tanzania's growth potential. Public priorities appropriately focus on improving infrastructure and strengthening public services in health and education. Strategy to increase sources of government revenues has become an important issue. Tanzania budget currently financed 46 percent by external sources and 54 percent using our domestic sources. It is time now for Tanzania to look for new sources of revenue to finance national budget. One way is to introduce the new type of bond, Sovereign Bond to building infrastructures all over the country. Also government should encourage companies to register in the stock market and sale their stocks (IPO). The government currently realized the foreign remittances from Tanzanians' relatives to be 313 million US dollar as one of revenues sources from abroad. The Loan Syndication is another source for infrastructure development. In this type of financing, banks and financial institution are jointly give huge loan to a big company in order to build or extend infrastructure.

The framework for the 2008/09 budget, approved by the government, aims at lowering the overall budget deficit (before grants) from an expected 11.2 percent of GDP this year to 10.3 percent next year. Ongoing strengthening of tax administration will help consolidate the significant revenue gains made in recent years, which are expected to lift the revenue/GDP ratio to 16.2 percent of GDP, an improvement by 5 percentage points since 2002/03. However, while current spending is expected to remain broadly unchanged compared with last year's budget, the approved budget framework provides for a lower level of development expenditure (by about 1 percent of GDP), reflecting uncertainty regarding the availability of foreign financing as donors look to the government to undertake agreed steps to address governance issues. In the face of this uncertainty, the authorities intend to allow a deviation of up to about 1 percent of GDP above the zero net domestic financing norms in the event that a shortfall in donor support in 2008/09 is confirmed.

The Government implemented a range of policy and institutional reform measures, including continued efforts to improve the business environment, broadening the tax base through registration of new tax payers, restructuring of the tax system and close monitoring of implementation of institutional reforms currently being implemented by the Tanzania Revenue Authority (TRA) under its five-year corporate plan that has led to significant improvement in revenue collection through the use of modern technology, improved efficiency at the Large Tax Payers Department, and strengthening supervision and performance at the Customs Department. Implementation of these measures has also enhanced efficiency in the collection of non-tax revenue by sector ministries and independent government departments.

Agriculture sector is important for Tanzania economic development but still perform under its capacity. The government should put more efforts to make sure that this sector grows faster than other sectors. More resources and incentives should be directed to agriculture sector in order to attract more people. The authority has to spend much to build reliable infrastructure and find ways of reducing market costs and

increase quality of agricultural products. Also there is a need for the government to transform subsistence agriculture into Agribusiness.

References

Bank of Tanzania (BOT); www.bot-tz.org
Economic Survey (Tanzania) 2007, available at BOT website
Ministry of Finance and Economic Affairs; www.mof.go.tz
Tanzania National Bureau of Statistics , www.nbs.go.tz
Tanzania national website; www.tanzania.go.tz
Tanzania Investment Centre (TIC); www.tic.co.tz
Tanzania Revenue Authority (TRA); www.tra.go.tz