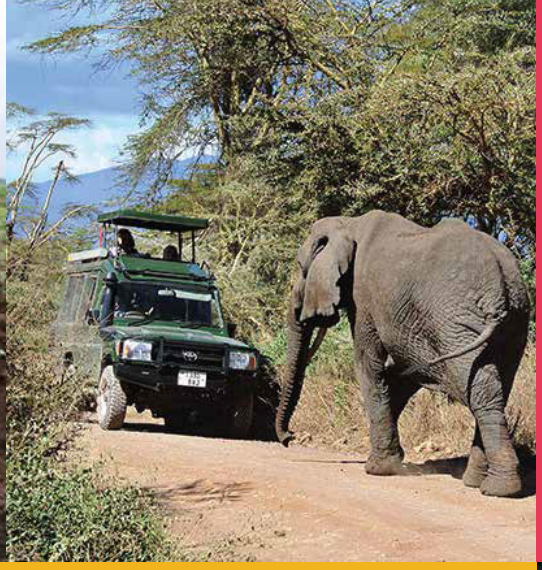


TANZANIA
DTIS UPDATE 2017

BOOSTING GROWTH AND PROSPERITY THROUGH AGRIBUSINESS, EXTRACTIVES, AND TOURISM

EIF Enhanced Integrated Framework
Trade for LDC development

WORLD BANK GROUP

1818 H Street NW
Washington DC 20433
Telephone: 202–473–1000
Internet: www.worldbank.org

Contents

BOXES

FIGURES

TABLES

Acknowledgments

At the request of the Government of Tanzania, the World Bank Group took the lead role in preparing this Diagnostic Trade Integration Study (DTIS) Update under the umbrella of and financing through the Enhanced Integrated Framework (EIF) with additional financing from the World Bank. The EIF brings together partners and resources to support least-developed countries in using trade for poverty reduction, inclusive growth, and sustainable development, and is supported by the EIF Trust Fund donors. The core members of the team were Robert Kirk (lead technical consultant); Barak Hoffman and Bede Lyimo (implementation of the 2005 DTIS action matrix); Carmine Soprano (small-scale trade and gender); Guillermo Arenas (trade performance); Alina Antoci and Olivier Hartmann (transport and trade facilitation); John Keyser (trade in agriculture); Nicolas Maennling and Willison Mutagwaba (mining and extractives); Scott Wayne and Shaun Mann (tourism); Josaphat Kweka (Zanzibar). The task team leader of the report is Maryla Maliszewska. The comments and guidance from Simon Hess and the EIF Board are gratefully acknowledged.

The analysis in the report benefited greatly from very helpful comments and feedback provided by Paul Brenton, Loraine Ronchi, Gozde Isik, Paolo Zacchia, Nora Dihel, Catherine Masinde, Jose Guilherme Reis, and Martin Humphreys. Guidance provided by the Country Director Bella Bird, Yutaka Yoshino, Steven Dimitriyev, Preeti Aurora, and Neema Mwingu is gratefully appreciated. The report also benefited from

inputs from several local consultants: Herman Hishamu, Tahir M. Ahmed, Lutengano Mwinuka, Festo Maro, Moses Njole, and Samwel Maregeri.

The DTIS update was elaborated in close cooperation with counterparts in the Government of Tanzania. The team acknowledges the leadership and support of Professor Adolph Mkenda, Permanent Secretary in the Ministry of Industry, Trade and Investment (MITI) and his successor Professor Elisante Ole Gabriel, as well as the Deputy Permanent Secretary in the MITI Professor Joseph Buchweishaija. We are also grateful to Ali Khamis Juma, Permanent Secretary and Nana Mwanjisi, Director of Policy and Planning at the Zanzibar Ministry of Industry, Trade and Marketing. The National Implementation Unit of the EIF team consisting of Bede Lyimo, Augustino K. Likwelile, Natasha Ngowi, and Rita Magere provided useful comments on the concept note and the report, assisted the team in the selection of local consultants, led national consultations and co-organized the kickoff, prevalidation, and validation workshops.

The DTIS update team would also like to thank the numerous stakeholders from the public and private sectors and donors who provided helpful insights during the team missions undertaken in 2015 and 2016, at the kickoff workshop in Dar es Salaam in November 2015, at the workshops on preliminary results organized in November 2016 in Dar es Salaam, Stone Town, and Arusha, consultations with the donors in January and August 2017, private and public sector consultations in September and October 2017, and the validation workshops in November 2017 in Dar es Salaam and Stone Town.

The team gratefully acknowledges the logistical support provided by Deliwe Ziyendammanja, Gloria Sindano, and Grace Mayala. Patrick Ibay has skillfully edited the report and generated the data visualizations.

Executive Summary

This Diagnostic Trade Integration Study update focuses on the trade-related constraints holding back Tanzania from diversifying and increasing its regional and global trade.

The Tanzania Diagnostic Trade Integration Study (DTIS) 2017 identifies priority actions in support of the country's strategy to deliver broad-based growth through trade integration. The study seeks to (a) take stock of the progress in implementing the action matrix adopted in the DTIS 2005; (b) provide an in-depth focus on agribusiness, mining, and tourism; (c) identify obstacles to the realization of the full development potential of agriculture and tourism in Zanzibar; and (d) prepare an updated action matrix. While the report focuses on agribusiness, mining, and tourism, it more broadly addresses the issues of regional integration, trade facilitation, small-scale trade, and gender. The report identifies a package of measures that will support Tanzania's effective delivery of its Integrated Industrial Development Strategy 2025.

I. Further trade reforms are needed for diversification, job creation, and poverty reduction

a. Growth has been strong, but it needs to be higher and more broad-based to eradicate poverty

Growth has not been high enough to absorb the fast-growing labor force. Tanzania has achieved an annual real rate of growth of 6.4 percent over the past 15 years, which is forecast to continue through 2018. Tanzania's high rate of growth—driven largely by the construction, transport, communications, and financial services—has outperformed growth in its East African Community (EAC) partners. And yet it has not been sufficient to absorb the 700,000 annual new entrants to the labor market, resulting in underemployment or employment in low-productivity jobs.

Poverty remains widespread. The poverty rate fell from 34 percent in early 2000s, but, at 28.2 percent in 2015 (or 12 million Tanzanians still living below the national poverty line), it remains high. Moreover, while the pace of reduction has been rapid in Dar es Salaam, driven by employment in nonfarm activities and by increased asset ownership, it has been much slower in rural areas and smaller cities.

b. Trade potential has not been fully utilized

- Trade has expanded, but export base has remained narrow.

Trade has increased over the past decade. Tanzania's world market shares of goods and services exports doubled from 0.02 percent to 0.04 percent between 2004 and 2014. Its trade openness rose from an average of 44 percent in fiscal 2005 to an average of 48.6 percent in fiscal 2015, making it the most open economy in the EAC (above Kenya at 47.9 percent, Uganda at 46.1 percent, Rwanda at 45.8 percent, and Burundi at 38.5 percent). However, Tanzania is still below the openness level consistent with its per capita income, and trade growth of 6.2 percent recorded in the past decade was slower than in some other EAC countries (9.5 percent in Uganda and 9.3 percent in Rwanda).

Despite the emergence of new products, trade is still largely dependent on mineral and traditional agricultural exports. These traditional products accounted for 80 percent of exports on average, between 2005 and 2015, with the five largest destinations—India, South Africa, China, Kenya, and the Democratic Republic of Congo—accounting for almost 60 percent of total exports. Mineral exports increased rapidly between 2005 and 2012 driven by higher gold prices, but have subsequently declined in line with fluctuations in international commodity prices. Agricultural exports are relatively diversified, including cereals, seeds, fruits, vegetables, and fish and—since 2000 reforms in agricultural marketing—tobacco, coffee and cashew. The diversity in agricultural exports is not matched by a range of manufactured products. Manufacturing exports are almost entirely accounted for by knitted apparel exports to the United States, which are duty-free under the African Growth and Opportunity Act and have more than doubled from US$17 million in 2014 to US$37 million in 2016.

- The regional trade potential has not been fully exploited.

Trade with the EAC has remained relatively low for an economic union. In 2015, Tanzania sourced only 4 percent of its imports from within the EAC and exports accounted for 10.5 percent, growing slower compared to other regions (from 3 percent to 8 percent to the rest of Africa, between 2010 and 2015). There is therefore considerable potential for increasing exports to neighboring countries, but the relatively low degree of trade integration reflects the continued high trade costs.

- Trade costs have been a major impediment

Trade costs have been high and unpredictable. The costs of exporting products from Tanzania to its major markets remained high through 2005 to 2014, with average bilateral trade costs recording only a modest decline from 310 to 275 percent. Average trade costs exceeding 150 percent for agricultural commodities for the 10 largest export partners in 2013 result in trade being crowded out or diverted to informal channels.

High costs divert trade to informal channels. A substantial portion of Tanzania's trade goes unrecorded. Comparing mirror trade data (that is, the value of Tanzania's exports to EAC partner countries' import data for the same products) reveals substantial gaps, indicating that informal exports from Tanzania to partner EAC countries could account for as much as US$262 million. Other estimates show that approximately 500,000 tons of maize were informally exported to Kenya in 2014, amounting to more than US$150 million in value. This is in addition to the dozens of thousands of metric tons of other crops, such as rice, dry beans, coffee, and cloves that are regularly exported to neighboring countries through informal channels.

This 'missing trade' has a disproportionately negative impact on small farmers and traders, and women in particular. Women play a key role in small-scale, informal agricultural trade. Estimates indicate that they may represent up to 70–80 percent of the total population of cross-border traders in East Africa, including in Tanzania. They typically reside in remote border locations, often live below the poverty line, can be single mothers or heads of households, and cross-border

trade may be their main or unique source of livelihoods. Women also tend to be less educated than their male counterparts, experience lower access to finance, skills, machinery, logistics, and distribution networks, and face gender-specific cultural biases and harassment. As a result, they are disproportionately affected by formal restrictions and informal trade hurdles.

c. Diversification through exploiting links from traditional sectors is key to higher and more broad-based growth.

Agriculture provides the main source of income for approximately 80 percent of the population. However, investment and growth in this strategic sector, which remains vital to reduce rural poverty, continue to be held back by unnecessary trade regulations. Tanzania has numerous regulatory agencies and complex trade rules that increase the costs of doing business, slow down farmers' access to new and improved inputs, and prevent smallholders from competing on a level playing field with larger firms. Virtually all the regulatory agencies target 100 percent physical inspection, testing, and certification, rather than adopting a risk-based approach. Limitations on marketing, the use of consignment-based export permits for maize, and the risk of a sudden policy change all serve to discourage investment.

Tanzania is endowed with large mineral and fossil fuel deposits, but the recent decline in commodity prices has delayed new investments, including in downstream processing. Tanzania is known for its high-grade gold reserves and a wide range of precious minerals including Tanzanite. The sector consists of large-scale mining, gas projects, and artisanal and small-scale mining. A significant provider of jobs, in particular, artisanal mining employs almost 700,000 people, with 27 percent being women. Deepening the links from the mining and extractive sector through encouraging downstream processing has a potential to increase value added from mineral and fossil fuel deposits. But the decline in commodity prices has resulted in the postponement of new investments, including the further development of offshore gas deposits.

Tourism is the sector with the highest job creation potential, but to date, this is not being realized. Tourism accounts for 60 percent of the trade in services receipts and provides jobs for over 450,000 people. With world-class wildlife and landscapes, Tanzania has a natural comparative advantage to grow the sector and develop much stronger links to agriculture, and other sectors. Recent studies have identified tourism's potential to generate additional jobs by developing a range of products in beach, adventure, conference, and cultural heritage tourism. By diversifying its product range, Tanzania can reach beyond the existing low volume, high-value strategy that channels tourists to the northern circuit. Tourism is also an important source of livelihood and employment for women in Tanzania, yet they face an array of gender-specific constraints ranging from occupational segregation to salary gaps and harassment in the workplace. In addition, sector-wide constraints generally experienced by small-scale operators such as poor access to finance, limited and/or inadequate skills, and difficulties in coping with a complex fiscal and regulatory environment tend to be particularly burdensome for women.

II. Key elements of the enhanced strategy to reduce trade costs

Driving trade costs down is key to promoting international competitiveness and export diversification. Lowering Tanzania's trade costs requires three key steps aimed at broadening the economies competitiveness and expanding trade in goods and services:

1. Reduce the trade barriers limiting access to markets for exporters, and reform regulations that increase the price of imported inputs. Removing the barriers to regional trade in the EAC and Southern Africa Development Community (SADC) will disproportionately benefit the poor.
2. Improve the quality and transparency of trade-related regulations by eliminating redundant regulations that no longer address public safety and welfare concerns, simplify and streamline procedures that remain, and improve administrative efficiency through strengthening capacity and targeting resources through applying risk management.
3. Address logistics bottlenecks that increase supply-chain costs and prevent many poor people in rural areas to participate and benefit from trade. This requires investment in both physical infrastructure and regulatory reform to remove the existing policy hurdles.

a. Reduce trade barriers limiting access to export markets

In addition to specific sector recommendations, the key task is to simplify and streamline trade permits to reduce the regulatory burden on small businesses and smallholders. While the rules apply to all firms, their impact varies—they are particularly burdensome for small firms. Large firms and multinational companies benefit from economies of scale and frequently employ staff to comply with multiple regulatory requirements. Most permits can only be obtained in Dar es Salaam or occasionally at branch offices in regional centers—a serious barrier for small businesses. Similarly, inspection costs are just not economical for small consignments.

b. Regulatory reform to address nontariff barriers

Nontariff barriers imposed at the border and "behind the border" contribute to Tanzania's high trade costs. These include technical barriers to trade, sanitary and phytosanitary requirements, customs procedures, rules of origin, trade, and transport regulations. Regulations are justified to deliver public policy objectives (health, safety, and security). The problem is not with the principle of regulating—that is necessary. However, mandatory regulations should not be extended to address quality issues—these are best addressed through voluntary standards. This would allow the Tanzania Bureau of Standards (TBS) to focus their scarce resources on ensuring product safety. The high trade costs largely result from the way the regulations are administered. Cumbersome and duplicative procedures, suspicion against private sector traders, the importance of revenue levied at the border (from value-added tax on all imports as well as tariffs on third-country imports), in conjunction with technical and staffing capacity shortages result in high trade costs.

Increasing coordination, including information sharing between all the agencies involved in border clearances, will reduce trade costs at the border. Ensuring that all parties have ready access to accurate information on the regulations and administrative processes required for importing and exporting through a National Trade Portal can reduce costly clearance delays.

Simplifying and streamlining border and regulatory border policies will increase revenue and reduce trade costs. Tanzania should continue to modernize customs clearance procedures through implementing the national electronic single window system and adopting the EAC Protocol on One-Stop Border Posts. It is also important for Tanzania, with its commitment to continue upgrading Dar es Salaam Port, to introduce the port community system. Improvements in electronic data management and electronic processing will permit Tanzania to increase the use of risk management and risk profiling.

Risk Management is an effective strategy for curbing the regulatory burden while strengthening enforcement of health and safety norms. Risk management allows for the most efficient use of scarce technical personnel and infrastructure and enables safer trade. Poor targeting of regulatory resources is costly. Subjecting already tested and authenticated products to retesting takes resources away from identifying and targeting higher-risk consignments. Requiring all regulatory agencies to adopt a risk management strategy will reduce the regulatory burden for compliant producers and traders and enable the Tanzania Revenue Authority (TRA), the TBS, and other regulatory bodies to ensure increased safety and security. This could be assisted through requiring regulatory agencies to publish statistics on inspection, testing, or compliance rates. The World Customs Organization's Revised Kyoto Convention and the recently concluded World Trade Organization's Trade Facilitation Agreement require members to adopt effective risk management systems.

c. Reduce logistics costs

Tanzania continues to face higher logistics costs and more time-consuming processes relative to most of its regional neighbors. Logistics refers to the management of firms' supply chain and is a key component in determining their competitiveness. This relates to the efficiency and reliability of transport infrastructure, border agencies, transport regulators, and services providers. In 2016, Tanzania was ranked 180 (out of 189 countries) for ease of trade across borders, owing to long delays and extensive documentation requirements. In 2016, Tanzania remained 80 percentage points away from the frontier (best performance). Encouraging the growth of the private sector requires a more supportive business environment. This requires the TRA to continue to introduce trade facilitation reforms, including increasing

reliance on risk management as a tool for restricting the number of costly physical inspections. Further, regional collaboration is key in reducing the trade costs. The experience of the EAC One-Stop Border Posts indicates that supporting physical facilities with necessary institutional and regulatory reforms is key to reduction of border crossing times.

d. Sector recommendations

In agriculture, Tanzania needs to simplify and introduce transparent marketing arrangements for exports crops such as maize. The imposition of product specific export bans discourages investment, reduces the prices paid to growers, and exacerbates price fluctuations. Government concerns over food security have resulted in export restrictions being imposed at short notice on basic commodities. Increasing policy predictability and improving access to information on trade restrictions and procedures would permit Tanzania to expand production and become a reliable exporter to the region. Limitations on marketing (which preference selling to state-owned commodity boards), the use of consignment-based export permits for maize, and the risk of sudden policy change all serve to discourage investment.

Deepening links from the mining and extractive sector would enable Tanzania to increase the benefits from their large mineral and fossil fuel deposits. Restrictions on exports of raw tanzanite and the recently imposed export bans on the export of gold and copper ores aim to encourage additional processing and value-added activities in Tanzania. Deepening links and achieving economic diversification is indeed essential for Tanzania's development. But this will be more effectively achieved by directly addressing the constraints that inhibit investment in downstream processing. This includes addressing the business-enabling environment challenges, skill shortages, or other supply constraints. In particular, this includes reducing the current uncertainty over investment incentives, increasing clarity over the local content regulations, increasing access to primary mining licenses, and addressing skill shortages. Going forward, it is important to develop clear guidelines on mainstreaming gender equality concerns into the artisanal and small-scale mining (ASM) governance structures. Specific constraints face the ASM sector, such as lack of recognition in the current policy framework, widespread informality and use of unlicensed intermediaries, poor links with larger, more established value chains, and social and environmental risks associated with ASM techniques. Female artisanal miners then face gender-specific constraints, ranging from precariousness of their mineral rights, limited access to government-funded credit schemes for ASM operators, and higher risks of harassment and cheating by fellow miners and/or intermediaries.

Capitalizing on tourism's potential requires streamlining the institutional management of the sectors and a fast adoption of the new National Tourism Strategy. The tourism sector faces a series of development challenges, including an unclear legal and regulatory environment which constrains both the approval and expansion of new and existing investments. The Ministry of Natural Resources and Tourism has insufficient resources to effectively regulate the sector, manage existing assets and implement development strategies. Creating more jobs and links throughout the economy requires actions focusing on addressing the skills shortage, ensuring land access for commercial development, streamlining the business-enabling environment, implementing the new National Tourism Strategy, and streamlining the institutional management of the sector.

e. Zanzibar

Zanzibar is renowned for its tourism and high-quality cloves, and both agriculture and tourism have the potential to create thousands of new jobs. Zanzibar has a young population, with more than half of the total 1.45 million under the age of 15. The Revolutionary Government of Zanzibar Development Vision 2020 and the Strategy for Growth and Reduction of Poverty (Draft MKUZA III) both highlight the importance of expanding the tourist sector and increasing productivity and value added in agriculture. With more than two-thirds of the population dependent on agriculture for their livelihood, increasing productivity is essential for achieving a broad-based reduction in poverty.

Improvements to the business-enabling environment are required. The business-enabling environment remains challenging with high costs and

time-consuming processes crowding out small businesses from formal registration. Streamlining business registration and licensing, property registration and tax administration are identified as priority actions. Zanzibar has the potential to realize significant growth in the cloves, seaweed, fisheries, and livestock subsectors. Increasing investment and deepening the links throughout the economy from tourism requires improved coordination and planning across government. The report recommends the creation of a delivery unit with responsibility for developing and implementing the Zanzibar tourism strategy.

III. Lessons learned from the 2005 action matrix and the dissemination of the new action matrix

Despite significant progress, many regulatory and policy issues identified in the 2005 action matrix remain valid. The DTIS update reviews the progress on implementing the 2005 DTIS action matrix and seeks to build on the lessons learned. Poor follow-up from the 2005 DTIS stemmed from systemic failures across a wide range of stakeholders. Fundamentally, there was no ownership for implementing the recommendations by senior government policy makers or officials. Further, there was little vocal private sector support for the recommendations and, finally, the relationship between development partners and the Ministry of Trade was characterized by divergent priorities.

The new Second Five Year Development Plan - 2016/17–2021/22 identifies these implementation challenges and stresses the importance of learning from the experience. This positive development bodes well for the DTIS Update which has been characterized from the outset by active engagement from senior government officials, the National Implementation Unit and dialogue with the private sector. The DTIS update provides an opportunity for development partners to support Tanzania realize its goal of increasing economic competitiveness through improving the trade environment.

Despite progress in improving many aspects of the business-enabling environment and committing to regional integration, many of the constraints identified in the earlier DTIS remain. Even with the improvements under the Big Results Now program the business environment remains challenging with Tanzania ranking lower that Kenya, Rwanda, and Uganda on the 2016 Doing Business indicators. As an active member of the EAC, Tanzania implemented the Common External Tariff in 2004 and joined the common market in 2010. The commitment to regional integration also includes participation in the SADC Free Trade Area, the Tripartite Free Trade Area and engaging in the negotiations for a Continental Free Trade Area. Removing the tariff and nontariff barriers to regional trade has the potential to shift Tanzania onto a higher growth trajectory with real benefits from accessing a much larger market. This would create jobs and reduce poverty.

Commitment to reducing corruption, improving government efficiency, and economic diversification to deliver jobs are positive. The election of President John Magufuli in November 2015 ushered in a strong commitment to reduce corruption and strengthen public administration. Improved efficiencies within the TRA resulted in larger tax revenues in 2016. The commitment to deliver results quickly has resulted in new policies and regulations being implemented with immediate effect. These include measures targeting 'abuses' or 'corruption' and policies aimed at promoting economic diversification, however, rapid implementation can result in the government overlooking the unintended consequences for both existing and potential future investors. It is important to assess the regulatory impact prior to implementation.

This DTIS update presents an updated action matrix that summarizes the recommended policy reforms. The draft matrix was discussed by a wide variety of stakeholders, from the government, the private sector, and civil society at validation workshops in Dar es Salaam, and Stone Town in November 2017 and then after which the action matrix was finalized. Taken together, the action items will contribute to reducing trade costs, thereby enabling Tanzanian businesses and farmers to compete more successfully in regional and global markets and realize Tanzania's goals of expanding and diversifying exports for augmented growth and job creation.

The action matrix is prioritized according to the likelihood of implementation based on stated commitments, the expected payoff in terms of economic impact, and the likely timing.

TABLE E.1: DTIS Priority Action Matrix

Identified constraint	Monitoring indicators	Responsibility	Difficulty, payoff, and priority timeframe	Existing initiatives
TRADE POLICY AND TRADE FACILITATION				
Action 1. Phase out export taxes and export bans.				
Export restrictions	Tariffs or restrictions repealed	MOF, MITI, MOA and MLF	D = M P = H T = ST	None
Action 2. Establish dedicated gender desks at relevant government institutions, strengthen the capacity of women's sector associations through capacity building, and convene regular consultations to gather their inputs on ongoing policy processes.				
Limited participation of women representatives in trade policy-making processes	• Gender desks established, staffed, and funded • Training courses and awareness-raising campaigns delivered and policy dialogue	• MITI, MOA, MEM, MNRT, TRA, immigration, police • Women's business associations	D = L P = H T = ST	A gender desk already exists at the MEM.
Action 3. Establish a National Trade Portal as the 'go to' place for information on all trade requirements including links to TBT, SPS, Commodity Boards.				
Difficulty in obtaining accurate (and legally enforceable) information on existing trade rules and procedures	Trade Portal established, available online, and used by all agencies	TRA, MITI, MOA, MLF and regulatory agencies	D = L P = M T = MT	Individual agencies are at various stages of developing their own websites and trade portals (for example, the TRA).
Action 4.1. Update the Trade Facilitation Assessment. **Action 4.2.** Assess TANCIS' effectiveness as an automation tool and undertake a feasibility study on efficacy of its use as the basis for the NSW (underway). **Action 4.3.** Approve the EAC OSBP Bill. **Action 4.4.** Provide training on risk management. **Action 4.5.** Increase stakeholder engagement in the Cargo Release Monitoring.				
• Multiple agencies with repetitive and duplicative procedures. • Absence of effective risk management practice in multiple regulatory agencies.	• Trade Facilitation Assessment updated • Feasibility study completed	TRA, MITI, and regulatory agencies	D = L P = H T =MT	• DFID is funding the baseline survey for implementation of the NSW. • The World Bank is designing a private sector project, which includes support to the TRA to implement the NSW.
Action 5.1. Implement and raise awareness of the EAC STR at all EAC borders; initiate negotiations for a STR for other EAC borders. **Action 5.2.** Publicize the Traders Charter. **Action 5.3.** Establish toll free hotline for reporting abuse.				
High trade costs crowd out small traders from formal trade.	• Reports on use of STR (disaggregated by border and gender) • Traders Charter Published • Hotline established (annual report listing trainings, complaints resolved/outstanding)	TRA, MITI with others including regulatory agencies (TBS)	D = L (agreement in principle under EAC to implement STR) P = H T = MT	• The government already committed to EAC STR; Zambia has similar STR framework. • Traders Charter being promoted with Zambia at Tunduma.

(Table continues next page)

TABLE E.1 *(continued)*

Identified constraint	Monitoring indicators	Responsibility	Difficulty, payoff, and priority timeframe	Existing initiatives
AGRICULTURE				
Action 6.1. Establish an "agriculture trade portal" as a place to go for information on trade requirements including SPS requirements, free (clickable) TBS standards if mandatory, online application forms for all trade permits, and mandatory public notice of all trade restrictions or trade bans. **Action 6.2.** Mandatory trade requirements and trade restrictions (for example, export bans) must be transparent and well-advertised.				
Nontransparent and/or limited access to agricultural trade policies and procedural requirements.	Platform established. All trade requirements including positive list of products requiring export license published, percent of permits needed for agriculture trade available online, number of clickable TBS standards, number of hits per month.	MOA, MLF and MITI to lead with TBS, TFDA, TAEC, TFRA, TOSCI, and others	D = M (Technology exists but many agencies involved, each with own) requirements. P = H (Many benefits, particularly for small scale trade.) T = MT (for full platform, short for several specific improvements.)	Individual agencies at various stages of developing own website and trade portals (for example, TFDA).
Action 7. Through the "agriculture trade portal" establish a way for all trade permits and other procedures to be completed electronically from anywhere in Tanzania.				
Many trade permits, trade licenses, and registration certificates can only be fulfilled by traveling to each agency's headquarters. This affects all, but is a particular burden to small traders who lack effective economies of scale.	Platform established. Number and range of trade permits issued per month.	MAFC and MITI to lead with TBS, TFDA, TAEC and, TFRA, TOSCI, and others	D = M (Technology exists but many agencies involved, each with own) requirements. P = H (Many benefits, particularly for small-scale trade.) T = MT	Individual agencies at various stages of developing own website and trade portals (for example, TFDA, TBS).
Action 8. Stimulate an ongoing national dialogue on benefits of risk-based approaches to risk management leading to actual procedural and regulatory reforms.				
Overlapping and/or unnecessarily rigid technical regulations. Specific constraints listed below .**	Successful engagement with key agencies measured by adoption of risk-based approaches (see below)	MITI	D = M (Easy to organize workshops and trainings, more difficult to get follow-up) P = L (Real improvement depends on actual reform, not just dialogue) T = Start immediately, then ongoing.	Limited use of risk-based approaches by some agencies. Contrary to global best practice, most effort focused on strengthening inspection capacity to achieve 100 percent coverage.
Action 9.1. Allow for existing public and private test data from other countries to be used in granting product registration. **Action 9.2.** Eliminate the need for domestic trials where efficacy is already known and/or can be left to private competition (for example, mandatory farmer preference trials for seed, trials for new combinations of NPK, mandatory multi-year and multi-location trials for new agrichemicals).				
Time consuming and expensive procedures for approving crop inputs (new varieties of seed, new fertilizer products, new agrichemicals)	Time required to release new varieties of seeds, fertilizer, and pesticides. Average number of new products registered before and after reforms.	MAF, TOSCI, TFRA, and TPRI (with TBS and TFDA and others where needed).	D = M to H (Some steps can be simplified without legislative reform. Requires change of mindset, rents earned from current system would be lost) P = H T = NT to MT	• Domestication SADC Seed Agreement underway. Acceptance of some varieties of potato seed from neighboring countries. EAC protocol on mutual recognition of test results being developed. • New fertilizer Act pending (shorter registration period, no testing of NPK combinations.
Action 10.1. Each agency to eliminate mandatory inspections and product registration requirements that do not have a direct and justifiable health or safety objective. **Action 10.2.** TBS and TFDA to agree on mutual recognition of each other's product registration and testing procedures (possibly leading to a merged or single-window system).				

(Table continues next page)

TABLE E.1 *(continued)*

Identified constraint	Monitoring indicators	Responsibility	Difficulty, payoff, and priority timeframe	Existing initiatives
Overlap between TBS and TFDA product registration and inspection requirements.	• Number of inspections reduced. • System for mutual recognition of each other's procedures put in place.	TBS and TFDA***	D = M to H (Political economy of each organization favors multiple fees. National law mandates both TBS and TFDA to perform similar functions.) P = H T = NT to MT	Dialogue on MOU between TBS and TFDA ongoing for long time. Despite some progress, overlapping and unnecessarily ridged technical regulations remain in force. Note that many other overlaps exist (e.g. Dairy Board, Govt. Chemist, OSHA, etc.).
Action 11. Review and revise standards for at least 5 strategic commodities making clear distinction between aspects that must be complied with on health and safety grounds and voluntary aspects used to determine product value. Suggest focusing on crops of greatest relevance to smallholder farmers and small traders in regional markets.				
All standards for food products treated as mandatory technical regulations yet include nonessential quality aspects contrary to WTO SPS and TBT agreements.	Number of TBS standards revised.	TBS (with TFDA to minimize and eliminate duplicate requirements)****	D = M (Requires political will and information on how standards are used.) P = H (Many benefits for small traders and consumer safety as a result only regulating (and inspecting for) what truly matters.) T = NT to MT	Review of EAC maize standard and other product standards currently underway through East Africa Grain Council.
Action 12. Consistent with international best practice, TAEC to adopt a risk-based approach to agrifood inspections based on acceptance test results from internationally-accredited laboratories and spot inspection of products from areas with little or no risk of radiation exposure and for known traders who previously passed the test. Fees for all traders significantly reduced due to fewer physical inspections.				
Mandatory radiation testing for all agrifood imports and exports.	Develops and implements guidelines for a risk-based inspections; records the number of tests and interceptions.	TAEC with MITI	D = M (Technically but loss of revenue may require the government subvention.) P = H (for small traders); M to H (for consumers due to more effective border control); L (large traders who can afford current fees) T = NT then ongoing.	Very limited. Some collective certification of radiation-free areas for exports.
Action 13.1. Eliminate market restrictions to provide space for private sector engagement with small farmers. **Action 13.2.** Existing state channels may continue but should be competitive and without monopolistic protection. As appropriate, government may introduce guidelines for market behavior.				
Closed markets (official monopolies, single channels, and other controls) for cloves, coffee, cashew, cotton, and other major exports discourages large and small-scale private investment.	Elimination of existing monopolies and other market restrictions.	MAFC, MITI, and others.	D = H (Vested interests and mistrust of private sector may prevent real progress.) P = H (Many long-term benefits.) T = MT	Varies. Cloves currently 100 percent state monopoly with little or no sign of change. Cashew warehouse receipts "competitive" at buying stage but only through single channel. Coffee offers various export routes but with heavy control by TCB.
Action 14.1. Eliminate administrative controls on domestic trade. **Action 14.2.** Improve monitoring of national food supply to head off potential shortages. **Action 14.3.** Reduce tariffs to fall within the agreed standard EAC CET tariff bands.				
Permits required to transport food and other agriculture products across district borders.	Domestic trade restrictions abolished.	MAFC, MITI, and district authorities with TAMISEMI (local government authority under PM's office)	D = M to H (Requires trust that any food security risk will be offset by price signals and other systems.) P = H (Would attract large and small investment in production.) T = NT	None known.

(Table continues next page)

TABLE E.1 *(continued)*

Identified constraint	Monitoring indicators	Responsibility	Difficulty, payoff, and priority timeframe	Existing initiatives
High tariffs on a small number of strategic products (for example, rice and sugar)	Reduced tariffs published and enforced.	MOF, MAFC, and MITI	D = H (Large mills and farmers will lobby for maintaining protectionist policies; difficult to build a consensus as benefits widely dispersed.) P = H (Many long-term benefits.) T = NT to MT	None. Current efforts focus on enforcing tariffs and preventing smuggling.
MINING AND EXTRACTIVES				
Action 15. Implement a transparent and predictable taxation regime and revenue management system with timely reimbursements.				
Uncertainty of timely reimbursement of duties and VAT constrains financial planning for EI	TRA reports	TRA	D = M P = M T = ST	The WB had a Tax Modernization Project in Tanzania from 2006–11 supporting the TRA.
Action 16.1. Improve educational system. **Action 16.2.** Provide vocational trainings. **Action 16.3.** Scale-up support programs for SMEs. **Action 16.4.** Coordinate support initiatives with EI companies. **Action 16.5.** Increase flexibility of the labor law to allow for on-the-job training by foreigners where needed.				
Skilled labor shortages, deficient access to finance, and infrastructure constraining potential to increase local value added along the EI value chain.	Needs and gaps identified and published.	MOEVT, MOLE, MITI, MOWTC, MEM, MOF, Local Content Unit	D = H (these are long-term engagements that require significant resources) P = H (could broaden industrial base and transfer knowledge and technology T = MT	• Integrated Mine Technical Training Program • Vocational training for construction and the oil and gas sector • Study to assess opportunities in local content for the construction of the LNG facility • WB's Tanzania Education and Skills for Productive Jobs Program and the Sustainable Management in Mineral Resources project
Action 17.1. Publish clearly defined and consistent regulations. **Action 17.2.** Alignment of duties and tariffs. **Action 17.3.** Employment regulations that facilitate on the job training.				
Conflicting trade and local content policies (exemptions for EI companies on inputs, but not extended to potential suppliers; export ban on tanzanite yet tariffs levied on inputs required for cutting and polishing; and restrictions on employing skilled foreign trainers).	Local content regulations revised and published.	MITI, MEM, MOLE, Local Content Unit	D = M (requires coordination among various entities) P = H T = ST	Not aware of initiatives addressing this constraint
Action 18.1. Review SOEs' roles and responsibilities **Action 18.2.** Consider merging STAMICO and the mining entity in NDC **Action 18.3.** Separate out regulatory and commercial functions to the extent possible, and fully clarify the roles of the TPDC now that the functions are separated **Action 18.4.** Put in place clear financial rules for state-owned companies				
Conflicting roles of SOEs	SOE annual report and PURA and EWURA annual reports.	MEM and MITI	D = H P = M/H T = MT	Natural Resource Charter Benchmarking Exercise currently being completed

(Table continues next page)

TABLE E.1 *(continued)*

Identified constraint	Monitoring indicators	Responsibility	Difficulty, payoff, and priority timeframe	Existing initiatives
Action 19.1. Establish a legal distinction between small-scale and artisanal mining activities **Action 19.2.** Roll out awareness raising campaigns **Action 19.3.** Reward formalization through support initiatives **Action 19.4.** Decentralize the enforcement authority to regional and district offices, and invest in staffing and capacity building for Zonal Mining Offices **Action 19.5.** As part of PML application process, require successful applicants to commence mining operations, or face license revocation. **Action 19.6.** Strengthen Gender Desk at MEM				
• Slow formalization process of the ASM sector and inadequate enforcement of compliance. • Access to PMLs and to finance is particularly limited for women in ASM.	Statute establishing legal distinction published MEM reports on awareness campaigns, formalization, and PML activity, disaggregated by gender.	MEM, MITI, Tanzania Chamber of Mine, TAWOMA	D = H (formalization of the ASM sector is difficult to achieve) P = H (has the potential to improve the quality of life largest part of people engaged in the EI sector in Tanzania) T = MT to LT	• The government has been following dual approach of attracting investment in the LSM sector and supporting the ASM sector • The MEM is setting aside mining areas for the ASM sector and will provide geological data • The Tanzania Investment Bank provides ASM grants • The WB supports the government in ASM issues through the Sustainable Management in Mineral Resources project
TOURISM				
Action 20.1. Develop a new tourism policy that informs and prioritizes actions in a new national tourism strategy; and develop and implement a legal framework that increases inter government coordination and cooperation focused on specific targets for investment, job creation, and fiscal revenue. **Action 20.2.** Develop and implement a formalized coordination mechanism for public-private dialogue in tourism sector to develop a result and issue a driven work program.				
The legal, regulatory, and governance framework for the tourism sector is constraining its potential to deliver jobs, investment, and increased revenue. Weak and inconsistent Policy and Planning Development.	• Draft Tourism Policy published • Task Force Reconstituted -record of meetings	MNRT and other relevant government agencies at national, regional, and local levels, TCTP.	D = L P = H T = ST	Consultants and Task Team Appointed and the New National Strategy is being prepared
Action 21. Undertake a labor supply gap analysis and develop programs and support measures for public and private training institutions to produce required tourism labor force.				
• Shortage of skilled labor for improved tourism experiences is lacking due to weak education and training programs. • Work permits for international expertise are difficult to obtain.	• Undertake labor supply gaps analysis • Develop programs and support measures for public and private training institutions to produce tourism required labor force	MNRT, TTB, Tanzania Tourism Confederation	D = M P = H T = MT	
Action 22. Adopt and implement the BRN-BE Lab recommendations in tourism sector, especially a one stop-shop for tourism registration, licensing, and tax payments.				
The business-enabling environment for tourism is challenging, with multiple permits required across multiple agencies at the local and national levels.	Number of recommended actions implemented.	MNRT, TTB, MITI, MOF, Bank of Tanzania, HAT, Tanzania Tourism Confederation	D = M P = M T = ST	FYDP II commitment to improve the BEE.

(Table continues next page)

TABLE E.1 *(continued)*

Identified constraint	Monitoring indicators	Responsibility	Difficulty, payoff, and priority timeframe	Existing initiatives
Action 23. Harmonize concession procedures and policies				
Unsecured tenure in protected areas for tourism accommodation investors	Number of concessions successfully identified, taken to market, and investments realized.	MNRT, Tanzania Investment Center, Wildlife Management Areas	D = M P = H T = ST	The WB's Resilient Natural Resource Management for Growth project and USAID's southern Tanzania project. ICAS II program
Action 24. Strengthen data-collection capacity of relevant government institutions, and conduct industry surveys to capture gender-disaggregated statistics, including on salary gaps and occupations.				
Lack of gender disaggregated data for the tourist sector	• Number of M&E staff appointed and trained • Gender-disaggregated industry surveys conducted and data available on-line	MNRT, MITI, Tanzania National Bureau of Statistics, Bank of Tanzania	D = M P = M T = MT	None
Action 25.1. Develop a tourism sector backward links strategy. **Action 25.2.** Develop capacity building program for relevant institutions to strengthen tourism backward link.				
Limited links between tourism sector and other sectors which constrain the sector to grow.				
ZANZIBAR				
Action 26. Consider introducing a simplified tax regime for MSMEs, administered by a single entity and implemented through streamlined procedures (including, where possible, the use of mobile-money-based payments).				
Existing tax administration is challenging (two revenue authorities: TRA and ZRB)	• One-stop MSME development center established. • Number of MSMEs registered with the new center. • Percent increase in revenues collected from MSMEs.	Ministry of Trade, Industry and Marketing; TRA; ZRB; ZNCCIA	D = M P = M T = MT	MKUZA III Commitment
Action 27. Establish a National Trade Portal as the 'go to' place for information on all trade requirements including links to TBT, SPS, and ZSTC				
Difficulty in obtaining accurate (and legally enforceable) information on existing trade rules and procedures	Trade Portal established, available online, and used by all agencies.	ZRA, Ministry of Trade Industry and Marketing, Ministry of Agriculture and Fisheries, MLF and regulatory agencies	D = L P = M T = MT	Individual agencies are at various stages of developing their own websites and trade portals (for example, the ZRB).
Action 28. Remove the mandatory requirement for farmers to sell cloves to ZSTC				
Monopoly of Zanzibar State Trading Corporation for purchase of cloves	Sales data from Clove Industry and Government Statistics	MOF and ZSTC	D = H P = H T = LT	Potential long run goal. In the short run ZSTC to increase transparency on pricing and strengthen support services.

(Table continues next page)

TABLE E.1 *(continued)*

Identified constraint	Monitoring indicators	Responsibility	Difficulty, payoff, and priority timeframe	Existing initiatives
Action 29.1. Regulatory agencies implement risk-based approaches. Stimulate an ongoing national dialogue on the benefits of risk-based approaches to risk management leading to actual procedural and regulatory reforms. **Action 29.2.** Ensure mutual recognition between mainland Tanzania and Zanzibar for all agricultural products. **Action 29.3.** TAEC adopts a risk-based approach to agrifood inspections based on acceptance test results from internationally accredited laboratories and spot inspection of products from areas with little or no risk of radiation exposure and for known traders who have previously passed the test.				
• Overlapping and/or unnecessarily rigid technical regulations. • Absence of risk management strategies for using scarce technical and staffing resources efficiency. • Mandatory radiation testing for all agrifood imports and exports.	• Successful engagement with key agencies measured by adoption of risk-based approaches. • TAEC develops, publishes, and implements guidelines for risk-based inspections. • ZAEC quarterly and annual reports listing inspections, interceptions, and test results	Ministry of Agriculture and Fisheries, ZBS TAEC	D = M P = H T = ST (ongoing)	• Limited use of risk-based approaches by some agencies. Contrary to global best practice, most efforts focused on strengthening inspection capacity to achieve 100 percent coverage. • Very limited. Some collective certification of radiation-free areas for exports.
Action 30. Investment in laboratories and technical capacity. Ensure mutual recognition for all agricultural products accredited by mainland Tanzania regulatory agencies.				
Weak SPS infrastructure and technical capacity constrains animal-based exports and links to the tourism sector		Ministry of Agriculture and Fisheries, ZSTC, private sector	D = M P = H T = MT	
Action 31.1. Create a delivery unit responsible for the development of a strategy and its implementation **Action 31.2.** Strengthen data collection system and skills in the Ministry of Tourism				
Tourism strategy and tourism destination development and management. Insufficient recent tourism related data	• Strategy developed and adopted • Delivery unit formed and meeting regularly, tourism data (gender disaggregated) developed and published • Destination management entity established	Ministry of Tourism leading but in partnership with the private sector and other government departments	D = M P = H T = ST	
Action 32. Ensure existing incentives are transparent and not discretionary.				
Weak incentives for investment in the fishery sector	Record of investment flows to the fishery sector	Ministry of Agriculture and Fisheries, Investment Promotion Agency	D = M P = H T = MT	

Notes: D = difficulty; P = payoff; T = priority timeframe; L = low; S = small; M = medium; H = high; ST = short-term; MT = medium-term; LT = long-term; MNRT = Tanzanian Ministry of Natural Resources and Tourism; TCT = Tanzania Cultural Tourism Program; PPD = public-private dialogue; TTB = Tanzania Tourist Board; MIT = Tanzanian Ministry of Industry and Trade; MOF = Tanzanian Ministry of Finance; USAID = U.S. Agency for International Development; BRN-BE = Big Results Now-Business Environment; HAT = Hotels Association of Tanzania; and ICAS = Investment Climate Advisory Services; TAEC = Tanzania Atomic Energy Authority (Zanzibar Office); ZBS = Zanzibar Bureau of Standards; ZNCCIA = Zanzibar National Chambers of Commerce and Industries Association; ZRB = Zanzibar Revenue Board; ZSTC = Zanzibar State Trading Corporation.

* In some cases genuine reform may require Acts of Parliament to eliminate overlapping mandates.

** Similar overlaps likely exist with the Zanzibar Bureau of Standards and the Zanzibar Food, Drug and Cosmetic Board.

*** Legislative reform may be needed to eliminate overlapping responsibilities.

**** May require working with other EAC countries on regional standards.

Abbreviations

AGITF	Agricultural Inputs Trust Fund
AN	ammonia nitrate
ASA	Agriculture Seed Agency
ASDP II	Agriculture Sector Development Programme Phase Two
ASM	artisanal and small-scale mining
ASYCUDA++	Automated SYstem for Customs Data
AWOTTA	Association of Women in Tourism Tanzania
BITs	bilateral investment treaties
BOT	Bank of Tanzania
BPRA	Business and Property Registration Agency
BPS	bulk procurement system
BRN-BE Lab	Big Results Now - Business Environment Lab
CAADP	Comprehensive African Agriculture Development Program
CBT	Cashewnut Board of Tanzania
CDF	Coffee Development Fund
CEM	Country Economic Memorandum
CET	common external tariff
CGCLA	Chief Government Chemist Laboratory Agency
CNG	compressed natural gas
CoC	certificate of conformity
COMESA	Common Market for Eastern and Southern Africa
CTE	cultural tourism enterprise
CTS	compliant trader scheme
DAP	diammonium phosphate
DB	Doing Business
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EAPP	East African Power Pool
EATWCA	East African Tourism and Wildlife Coordination Agency

EI	extractive industries
EIF	Enhanced Integrated Framework
EITAA	Extractive Industry Transparency and Accountability Act
EITI	Extractive Industries Transparency Initiative
EPZA	Export Processing Zone Authority
EPZs	export-processing zones
ESSA	Electronic Smart Subsidies in Agriculture
EU	European Union
EWD	exwarehouse declaration
EWURA	Energy and Water Utilities Regulatory Authority
FBD	Forest and Beekeeping Division
fob	free on board
FTA	free-trade area
FYDP II	Second National Five Year Development Plan
GATS	General Agreement on Trade in Services
GDP	gross domestic product
GLTFP	Great Lakes Trade Facilitation Program
GTL	gas to liquid
HS	Harmonized System
ICF	Investment Climate Facility
ICT	information and communication technology
IGAD	Intergovernmental Authority on Development
IOCs	international oil companies
LDCs	least-developed countries
LGAs	local government authorities
LNG	liquefied natural gas
LPI	Logistics Performance Index
LSM	large-scale mining
MAFC	Ministry of Agriculture, Food Security and Cooperatives
MALF	Ministry of Agriculture, Livestock and Fisheries
MDAs	mineral development agreements
MEM	Ministry of Energy and Minerals
MITI	Ministry of Industry, Trade and Investment
MITM	Ministry of Industry, Trade and Marketing
MMCF	million cubic feet
MMSCFD	million standard cubic feet per day
MNRT	Ministry of Natural Resources and Tourism
MOF	Ministry of Finance and Planning
MOFD	Ministry of Finance and Development
MOU	memorandum of understanding
MTPA	million tons per year
MW	megawatt
NAIVS	National Agricultural Input Voucher Scheme
NAP	National Agricultural Policy

NCT	National College of Tourism
NDC	National Development Corporation
NEPAD	New Partnership for Africa's Development
NESW	National Electronic Single Window
NGUMP	Natural Gas Utilization Master Plan
NIU	National Implementation Unit
NMB	National Microfinance Bank
NPPAC	National Plant Protection Advisory Committee
NRDS	National Rice Development Strategy
NRGI	Natural Resource Governance Institute
NTFC	National Trade Facilitation Committee
NVRC	National Variety Release Committee
OPVs	open-pollinated varieties
OSBPs	One-Stop Border Posts
PAD	prearrival declaration
PARTS	Pesticide Approval and Registration Technical Subcommittee
PCS	Port Community System
PMD	postmanifest declaration
PML	primary mining license
PORALG	President's Office Regional Administration, Local Government
POS	port operating systems
PSA	production sharing agreement
PURA	Petroleum Upstream Regulatory Authority
PVoC	preexport verification of conformity
QDS	Quality Declared Seed
R&D	research and development
RAC	Radioactivity Analysis Certificate
RECs	Regional Economic Communities
S&DT	special and deferential treatment
SACCOS	savings and credit cooperative societies
SADC	Southern Africa Development Community
SAGCOT	Southern Agricultural Growth Corridor of Tanzania
SAPP	South African Power Pool
SBT	Sugar Board of Tanzania
SDL	Skills Development Levy
SEZs	special economic zones
SMEs	small and medium enterprises
SPS	Sanitary and phytosanitary
SSA	Sub-Saharan Africa
STAMICO	State Mining Corporation
STR	Simplified trade regime
TACTO	Tanzania Association of Cultural Tourism
TAEC	Tanzania Atomic Energy Commission
TAFFA	Tanzania Freight Forwarders Association
TAFSIP	Tanzania Agriculture and Food Security Investment Plan
TALA	Tourism Agency Licensing Authority
TANCIS	Tanzania Customs Integrated System
TANESCO	Tanzania Electric Supply Company
TASTA	Tanzania Seed Trade Association
TBS	Tanzania Bureau of Standards

TBS	Tanzania Bureau of Standards
TCB	Tanzania Coffee Board
tcf	trillion cubic feet
TCT	Tourism Confederation of Tanzania
TCTP	Tanzania Cultural Tourism Program
TEUs	twenty-foot equivalent units
TFA	Trade Facilitation Agreement
TFDA	Tanzania Food and Drugs Authority
TFRA	Tanzania Fertilizer Regulatory Authority
TFS	Tanzania Forest Service
TIC	Tanzania Investment Center
TICTS	Tanzania International Container Termina lServices
TMAA	Tanzania Minerals Audit Agency
TMB	Tanzania Meat Board
TNBC	Tanzania National Business Council
TOSCI	Tanzania Official Seed Certification Institute
TPA	Tanzania Ports Authority
TPDC	Tanzania Petroleum Development Corporation
TPRI	Tanzania Pesticide Research Institute
TRA	Tanzania Revenue Authority
TRA	Tanzania Revenue Authority
TRIMs	Trade-Related Investment Measures
TRS	Time Release Study
TTB	Tanzania Tourist Board
TTF	Tourism Task Force
TTIS	Tanzania Trade Integration Strategy
TWB	Tanzania Women's Bank
UN	United Nations
UNWTO	United Nations World Tourism Organization
USAID	U.S. Agency for International Development
VAT	value added tax
VDF	Village Development Fund
WEF	World Economic Forum
WRS	warehouse receipt system
WTO	World Trade Organization
WTTC	World Travel and Tourism Council
WVA	Weight Verification Authority
ZACPO	Zanzibar Cloves Producers Organization
ZBS	Zanzibar Bureau of Standards
ZFDA	Zanzibar Food and Drugs Authority
ZFDB	Zanzibar Food and Drugs Board
ZIPA	Zanzibar Investment Promotion Agency
ZMO	Zonal Mines Offices
ZNCCIA	Zanzibar Chamber of Commerce and Industries Association
ZPRP	Zanzibar Poverty Reduction Plan
ZRB	Zanzibar Revenue Board
ZSSF	Zanzibar Social Security Fund
ZSTC	Zanzibar State Trading Company
ZSTC	Zanzibar State Trading Corporation

1 Introduction

This Diagnostic Trade Integration Study (DTIS) update focuses on the trade-related constraints holding back Tanzania from diversifying and increasing its regional and global trade. The recent rapid growth has been driven by capital-intensive investments which have created relatively few jobs, however, the government is committed to realizing broad-based job creation throughout the country. Expanding income in the rural areas highlights the importance of increasing agricultural productivity, advancing regional trade, and increasing value-chain links to agricultural processing. The mining and extractives and tourism sectors have continued to grow, however, both face challenges in increasing their links within the economy.

This DTIS update takes stock of the progress in implementing the priority recommendations from the earlier DTIS (2005)—specifically focusing on the action matrix agreed upon at the stakeholder meeting—and focuses on identifying and quantifying the trade costs constraining Tanzania's competitiveness within regional and international markets, with a special focus on agriculture, mining, and tourism. This provides the basis for developing and presenting a streamlined and updated action matrix.

"This Diagnostic Trade Integration Study update focuses on the trade-related constraints holding back Tanzania from diversifying and increasing its regional and global trade."

Tanzania has sound macroeconomic fundamentals. The overall budget deficit is modest at 3.3 percent in fiscal 2014, and inflation remains below 5 percent. The 2015 elections resulted in some fiscal slippage, however, the overall deficit remained modest as capital expenditure was under budget. Since acceding to the presidency in November 2015, President John Magufuli has prioritized increasing Tanzania's relatively low rate of tax revenue collection. Tanzania faces a relatively favorable macro-economic outlook which provides the government with a

historic opportunity to address many of the challenging regulatory and policy constraints that keep trade costs high and inhibit growth.

The commitment to maintaining macroeconomic stability and improving the business-enabling environment are prerequisites for benefiting from a trade-led growth strategy. Increasing investment in internationally competitive value-added activities also requires a reduction in trade costs. This DTIS update identifies and quantifies specific trade costs that determine the availability and price of inputs and the ability of producers to compete in regional and international markets. The study focuses on trade policies, including regulatory issues impacting trade, trade facilitation, and transport, and policies affecting agriculture, mining and extractives, and tourism services.

Although infrastructure constraints remain, and investment is required, it is also necessary to focus on "soft infrastructure." It is important to note at the outset that the earlier DTIS was largely ineffective in addressing many of the broader issues requiring policy changes and regulatory reforms. This DTIS update has taken place against the backdrop of the commitment from the government to more actively encourage private sector investment in a more open and transparent framework.[1] The DTIS update focuses on specific trade-related policy and regulatory issues, many of which are in the mandate of the Ministry of Industry, Trade and Investment (MITI). Although many trade costs stem from "behind-the-border" regulatory structures and processes in line Ministries (that is, agriculture, energy).

Chapter 1 provides a short introductory overview of the key themes contained in the main report.

Chapter 2 provides a succinct briefing on the current macroeconomic situation and summarizes the status of the business-enabling environment. It takes stock of the progress made in implementing of the 2005 action matrix and includes a political economy assessment of obstacles to policy reforms.

Chapter 3 describes Tanzania's current trade policy and trade performance, highlighting the narrow commodity composition and relatively modest change in the share of intra-East African Community (EAC) trade. A review of the existing tariff schedules noting the high levels of protection on a small number of sensitive products including sugar, rice, and textiles. The chapter also presents evidence from the new World Bank/UNESCAP database on trade costs.

Chapter 4 focuses on trade procedures, border clearances, and trade logistics. Ensuring efficient and predictable border clearances are essential for delivering regional and global competitiveness. The Tanzania Revenue Administration has made significant progress since the earlier DTIS in modernizing customs procedures, however, serious challenges remain. The high rate of physical inspections, more than 80 percent at the land border with Kenya, should be a source of concern. The long-standing commitment to streamline border agencies and establish a single-window has yet to be implemented, further, Tanzania is the only EAC-member state yet to ratify the One-Stop Border Post Memorandum of Understanding. Tanzania should prioritize introducing a comprehensive risk assessment program with related post clearance audit, the Authorized Economic Operator scheme, and other reforms as part of a strategy for implementing the World Trade Organization's Trade Facilitation Agreement.

Chapter 5 takes a more in-depth look at recent performance in the agriculture sector, which accounts for 30 percent of gross domestic product and is the main source of income for 80 percent of the population (42 million people). The chapter looks at agriculture through a trade lens. The agriculture sector is required to comply with a complex web of trade rules, including licensing of imported inputs, export licenses, export restriction, and limitations on trade between districts within Tanzania. The discussion focuses on farmers' access to agricultural inputs including seeds, fertilizer, and equipment, as well as on regulatory and procedural constraints faced by small-scale agricultural traders across borders.

Chapter 6 focuses on the regulatory framework in the gold, tanzanite, and natural gas subsectors. Gold is Tanzania's largest export by value, natural gas will potentially become the largest export when the offshore deposits are developed, and tanzanite is uniquely found in the country. The government is keen to encourage value addition in these three subsectors and, in the case of tanzanite, has actively intervened to limit exports of the raw stones. The chapter examines the impact of the

existing incentive regime and regulations on investment and competitiveness. The key development challenges include the uncertain and weak business-enabling environment, the local content regulations aimed at encouraging upstream links, the unintended consequences of interventions aimed at encouraging downstream value-added activities, and the absence of regional coordination. Particular attention is also given to the role of artisanal and small-scale miners in Tanzania's mining sector and to the specific set of challenges they face, including those that disproportionately affect women.

Chapters 7 takes a more detailed view of the tourism industry in Tanzania. With the Morogoro and other world-renowned game reserves, a long scenic coastline, and Mount Kilimanjaro, Tanzania is well-placed to benefit from tourism. Despite these natural assets, Tanzania is performing below its potential. The chapter focuses on the constraints holding back further growth and increasing linkages across the economy. The chapter focuses on the business-enabling environment and the policy and regulatory framework governing the tourism sector, including in relationship to constraints that specifically affect small-scale tourism businesses. This work represents an input to the ongoing review of the Tourism Policy and the updating of the National Tourism Strategy. The chapter also analyzes a number of gender-specific constraints currently faced by Tanzanian women in tourism.

Finally, **chapter 8 focuses on Zanzibar and looks more in-depth at the opportunities for expanding the key sectors of agriculture and tourism**. The scenic beauty of Zanzibar and its cultural heritage as the "spice island," provides a strong basis for expanding tourism. To date, most of the investments have developed tourist "enclaves" with few links to the rest of the economy. The discussion focuses on how Zanzibar can unlock the development potential of the tourist sector to generate more jobs and deliver broad-based growth. A tourism-led development strategy requires a "whole of government approach" that supports integrated planning and policy, and backed by clear and transparent regulations to ensure efficient management of public infrastructure (roads, airports, environment regulations). The agriculture discussion focuses on cloves and spices, fisheries, and seaweed. The complexity of the business-enabling environment, with cumbersome and multiple licensing procedures, is identified as a serious constraint for all businesses. The high cost of registration and burdensome tax administration can be prohibitive for many small businesses.

Notes

1. Examples include the "Big Results Now" initiative and the constituent sector Labs, which included the government, the private sector, and experts, and the Second Five Year Development Plan - 2016/17–2021/22, which recognized the importance of learning from earlier mistakes and called for comprehensive evaluations.

2 Macroeconomic Overview, Business-Enabling Environment, and the 2005 DTIS Lessons Learned

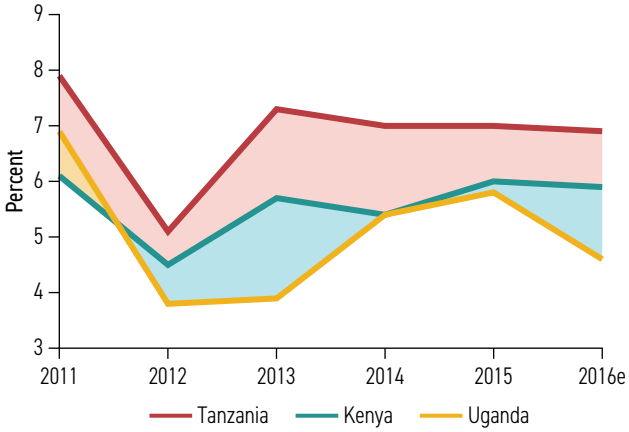
This chapter provides a brief macroeconomic summary of recent trends and the medium-term outlook, followed by a summary of the business-enabling environment drawing on the Doing Business Indicators of the World Bank, which permits countries to be ranked relative to each other and relative to global best practice. This chapter includes a review of Tanzania's experience in implementing the recommendations validated in the original Diagnostic Trade Integration Study (DTIS), finalized in 2005. It also summarizes the key lessons learned from the 2005 DTIS, noting how this DTIS update will assist with realizing the policy vision of the Second National Five Year Development Plan (FYDP II). Finally, the chapter concludes with a brief summary of the DTIS focus areas.

Macroeconomic Overview

Tanzania's economic growth remains high relative to other developing countries, despite signs of softening in the growth outlook. Tanzania's economic performance continues to rank among the highest in the region. The real gross domestic product (GDP) growth rate has consistently outpaced its East African Community (EAC) peers (figure 2.1). In 2016, the country's real GDP grew by 7 percent, marginally below the earlier forecast of 7.2 percent. Growth in agricultural production increased in the first three quarters of 2016 compared with the same period in 2015, while nonmanufacturing industry growth decelerated. The services sector expanded by 7.6 percent in the first three quarters of 2016 period, roughly a percentage point higher than recorded in the same period in 2015. Towards the end of 2016, high frequency data suggest a difficult environment, including weakening business sentiment, slowing credit growth, and slow

"Tanzania's economic growth remains high relative to other developing countries, despite signs of softening in the growth outlook. Tanzania's economic performance continues to rank among the highest in the region."

FIGURE 2.1: Growth continues to outpace East African Community comparators, 2011–16



Source: World Bank World Development Indicators.
Note: E = Estimate.

pace of budget implementation, particularly for development expenditure.

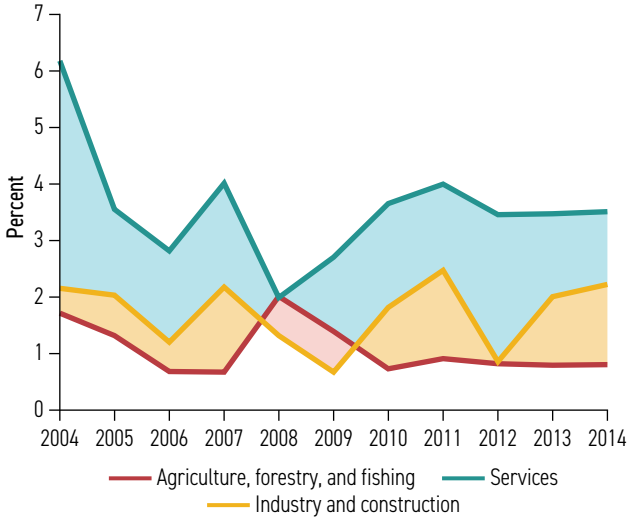
Over the past 15 years, Tanzania averaged an annual (real) rate of growth of 6.4 percent, which is forecast by the International Monetary Fund to continue in the medium-term through to 2018. The high real rates of economic growth since 2000 have been driven largely by construction, transport, communications, and financial services sectors, which are relatively capital intensive. In the period 2010–15, industry and construction services registered annual average increases of 9.4 and 7.4 percent, respectively. These are all relatively capital-intensive sectors and, except for construction, created few new jobs. The labor-intensive agricultural sector registered much lower average growth rates (see figure 2.2). Agriculture accounts for one-third of GDP, it remains the largest sector, followed in size by trade or distribution (10.1 percent), construction (9.6 percent), and manufacturing (7.6 percent). These relatively high growth rates have reduced poverty levels. However, with most of the growth occurring in capital-intensive sectors, the economy has only absorbed a fraction of the more than 700,000 people entering the labor market each year. The 2015 national poverty headcount ratio indicates that 28.2 percent of Tanzanians remain poor, with higher rates in the rural (agricultural) areas (World Bank 2015). Removing the barriers to investment and productivity growth across the economy, and particularly in agriculture, extractives, and tourism, are necessary for realizing broad-based and transformative economic growth that could remove millions out of poverty.

Agriculture continues to provide a livelihood for approximately two-thirds of households[1] while accounting for 31 percent of GDP in 2015. Agricultural productivity remains low with the recent modest growth stemming from increasing land cultivation rather than increasing yields. Agricultural products generated more than 40 percent of total export earnings in 2014. Crops are the largest agricultural subsector and has been growing at a higher rate (average 4.9 percent between 2008 and 2013) than livestock (3.4 percent), forestry and hunting (4 percent), and fishing (3.4 percent).

Services contribute more than 40 percent of GDP. Most services in Tanzania are nontradeable services which results in services exports contributing only 7 percent of GDP in 2013, notwithstanding their relatively high contribution to value added. Wholesale and retail trade remains the largest service sector at just over 10 percent of GDP. Transport and storage is the second largest at 4.3 percent of GDP. During the period 2008–15, transport, communications, and financial services grew much more rapidly than other service sectors. In the six years ending in 2013, communications averaged an annual growth rate of 17.7 percent.

The economy continues to adjust to government policies including tighter fiscal controls and improving accountability of public institutions. Since taking office in October 2015, President John Magufuli has spearheaded a strong policy direction of improving public administration and clamping down on corruption. Improved tax

FIGURE 2.2: Growth contribution by major sectors, 2004–14



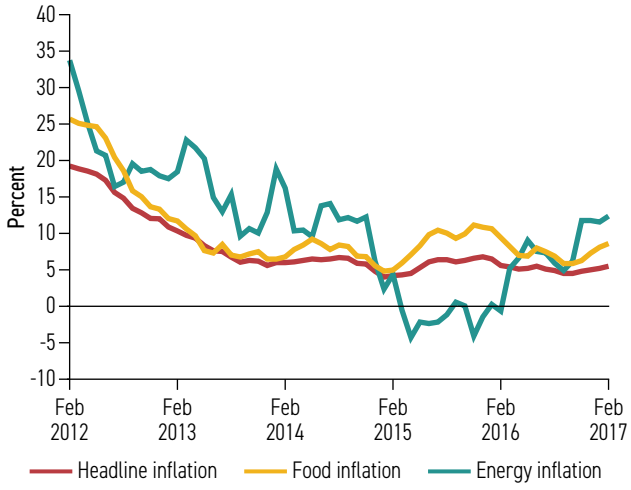
Source: Derived from Tanzania National Bureau of Statistics 2015.

administration has led to a substantial increase in the domestic revenues collected in 2016. In the past year, the central government has put in place legislation to regulate compensation and wages for the broader public sector. This has strengthened the capacity of the core administration to regulate the broader public sector. While these public administration reforms are critical in strengthening accountability, they could also impact the private sector via two channels. First, the private sector relies significantly on government demand for goods and services, and policies that limit this demand will decrease private sector activity. Second, policy adjustments, if they occur frequently, could cause uncertainty for the private sector, and this uncertainty could dampen private sector investment decisions, with negative implications for future growth. These implications would mean that the government should be more explicit about, and pay more attention to, the potential unintended consequences of government policies on the private sector.

Headline inflation has remained low and around the authorities' target limit of 5 percent, although it may increase in the medium-term. At the end of February 2017, the rate stood at 5.5 percent, up from the figure of 4.5 percent recorded in October 2016 and remained almost unchanged from the rate recorded in February 2016 (figure 2.3). The recent gradual increase in headline inflation has been driven by upward trending food and energy prices. The rate of food inflation notched up from 5.1 percent in February 2016 to 8.7 percent in February 2017, due mainly to the increase in prices of cereals, such as maize grains and flour, rice and beans. Moreover, energy and fuel inflation edged up from 4.4 percent at the beginning of 2016 to about 9 percent in May 2016 and to nearly 12 percent in February 2017 on account of rebounding global oil prices.

The current account has narrowed significantly, as exports grew modestly and imports fell significantly, especially for capital and transport goods. The current account deficit stood at US$1.8 billion for the year ending January 2017, down from US$3.8 billion recorded for the year ending January 2016 (figure 2.4). The total value of exports of goods and services increased by 5.1 percent, led by strong performance in the export of minerals, traditional crops, and tourism receipts. In particular, the value of gold exports recorded considerable growth of 29.8 percent due to increase in both export volume and

FIGURE 2.3: Inflation remained low, Feb 2012–Feb 2017

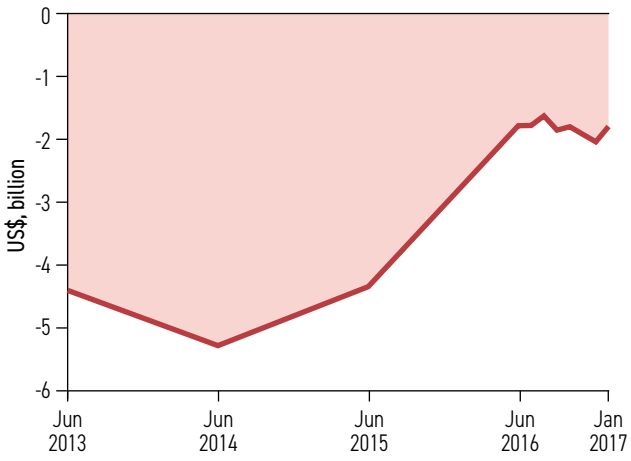


Source: Derived from IMF DataMapper

prices. Moreover, during the same period, receipts from tourism and transportation increased by 5.2 percent due to an increased number of tourist arrivals and volume of transit goods to neighboring countries. The total value of imported goods and services declined by 15.3 percent between the year ending January 2017 and the corresponding period in 2016. All major import categories declined, especially in capital and transport goods, except for industrial raw materials. The slow execution of budgeted development spending partly explains the decline in capital imports.

The fiscal 2017 budget called for a fiscal deficit increase to accommodate higher levels of public investment and the clearance of verified arrears. The deficit target of

FIGURE 2.4: Narrowing current account deficit, Jun 2013–Jan 2017



Source: Derived from IMF DataMapper.

4.5 percent of GDP was one percentage point higher than in fiscal 2016, reflecting plans to control recurrent expenditures, increase revenue, and borrow more to invest in development projects. Recurrent spending is slated to decline by about 2 percent of GDP. Domestic revenue collection is budgeted to increase to 16.9 percent of GDP from the 14.8 percent outturn in fiscal 2016. The target for overall public expenditure is 22.7 percent of GDP, 3.4 percentage points higher than in fiscal 2016. Moreover, the budget reprioritized resources toward increased development spending, with a target of 46 percent of overall spending compared to the figure of 23 percent recorded in fiscal 2016. If realized, development spending would rise to 10.4 percent of GDP, compared to 4.4 percent in fiscal 2016. The planned increase in development spending is set to be directed to projects identified under the FYDP II, including the construction of the Central Corridor Standard-Gauge Railway and the expansion of the Dar es Salaam Port. However, the overall budget figure for development spending overstates the shift, as it includes some funds allocated for the clearance of verified arrears, as well as budget lines previously defined as recurrent spending.

Despite improved domestic revenue collection, the government is facing significant challenges in implementing the fiscal 2017 budget. Between July and December 2016, revenue collection increased by 28 percent compared to the same period in 2015, mainly due to improved tax administration efforts. Similarly, expenditures were 6.4 percent higher over the same period. However, spending has fallen significantly short of budget targets. Through December 2016, overall budget execution against the target for fiscal 2017 was 28 percent. In particular, development expenditure through December 2016 was only 20 percent of the annual target. This underspending curtails the intended stimulus to economic activity, envisaged in the budget. Development budget underspending is largely explained by external financing shortfalls. This shortfall was largely explained by delays in project preparation and implementation that curtailed concessional financing, as well as very limited nonconcessional external borrowing given a cautionary approach by the government due to high costs.

Fiscal risks remain the key macroeconomic risks in the medium-term, including the risk of underspending negatively impacting growth. The government's growth projections are based on the budget's expenditure targets being fully realized, especially development spending. This underspending curtails the intended stimulus to economic activity, envisaged in the budget. Mobilizing concessional external financing going forward remains critical to execution of the budget and realizing investment plans. However, this requires acceleration of preparation and implementation of planned projects and programs, including policy and institutional reforms. Lastly, despite government efforts to clear arrears (with suppliers, pension funds, and state-owned enterprises), its level remains significantly high, at 6.3 percent of GDP (equivalent to T Sh 6.5 trillion) at end-June 2016, hence presenting a public finance credibility issue and contingent liability-related fiscal risks.

Additionally, lower credit growth to the private sector, increasing nonperforming loans, and perceptions of weak economic conditions by business executives add further uncertainty to the growth outlook. The deceleration in domestic credit growth to both the government and private sector has prompted the Bank of Tanzania to reduce the discount rate recently. Net credit to the government contracted by 6.4 percent (year-on-year) in January 2017 compared with 12.4 percent increase in the corresponding period in 2016. Similarly, credit to the private sector declined from 25.3 percent to 5.1 percent between these two periods. The ratio of nonperforming loans to total loans edged up to 9.5 percent at end-December 2016 from 6.4 percent at end-December 2015, reflecting a downward risk to banks' profitability and future lending. Moreover, banks have been navigating the new environment created by the government's decision to centralize public institutions' bank accounts at the Bank of Tanzania rather than at commercial banks, leading to a decline in deposits estimated to be around T Sh 600 billion. The directive has affected banks' liquidity at least in the short-term.

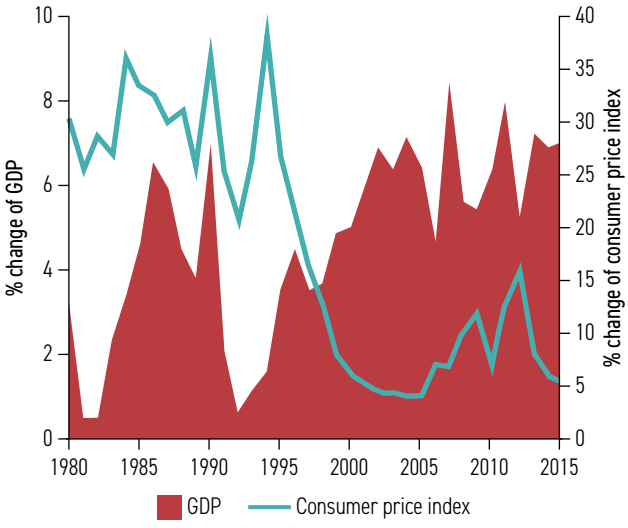
The macroeconomic fundamentals are basically sound. In fiscal 2017, total public debt was 34.2 percent of GDP, the current account deficit declined significantly to 2.4 percent, and the overall fiscal deficit was 4.5 percent. Tax revenue collection increased from 12.4 percent of GDP in 2015 to 15.8 in fiscal 2017, although it remains one of the lowest in the region. During 2015, the Tanzanian shilling depreciated by approximately 20 percent against the U.S. dollar, however, this largely reflected the strengthening of the U.S. dollar as the Tanzanian shilling remained relatively stable against

other major currencies (for example, euro). Through 2015, Tanzania made progress in addressing several outstanding fiscal issues, including developing a strategy to address budgetary suppliers and pension arrears and finalizing the policy paper on good principles for a fiscal framework for managing revenues from natural gas. While the recent election resulted in a degree of fiscal slippage, the budget shortfall was relatively modest as capital expenditure was slower than budgeted.

Inflation has declined from 26 percent in 2005, to 11 percent by 2012, to 4.7 percent by 2014, and in October 2016, headline inflation was 4.5 percent (figure 2.5). This has been due to prudent monetary policy, a favorable food situation, and declining fuel prices. Driven by gold and tourism (or travel) receipts, exports have remained strong, and imports have continued to increase, primarily due to imports of capital and intermediate goods, particularly oil, resulting in a current account deficit of approximately 11 percent of GDP. While capital inflows continued, foreign reserves declined by 10 percent during fiscal 2015. In fiscal 2017, the fiscal deficit was 4.5 percent of GDP which was marginally larger than the 3.5 percent in the previous fiscal year.

Lower oil prices have resulted in a positive terms-of-trade shock that reduced the size of the current account deficit. However, as a potential future exporter of oil and natural gas, reduced commodity prices have pushed out the timelines for the foreign direct investment required for extracting the resources.

FIGURE 2.5: Real GDP and inflation, 1980–2015



Source: Derived from the Tanzania National Bureau of Statistics 2015.

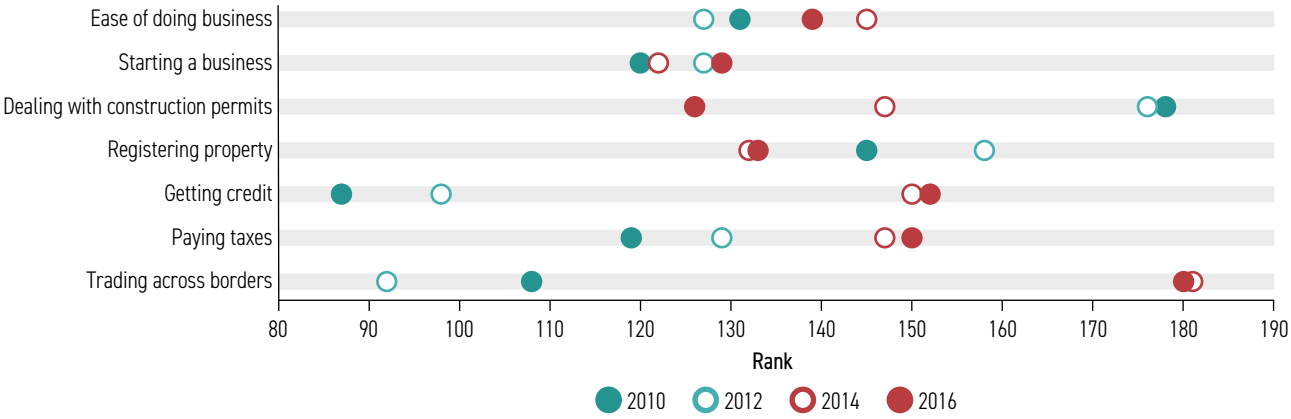
Macroeconomic performance through 2016 remained strong, with real GDP increasing by 7 percent (MOFD 2017). The president's commitment to address evasion has boosted tax revenue, however, as noted, spending was under budget owing to external financing constraints and delays in spending authorizations. The banks have high capital and liquidity ratios and are generally profitable, however, the percentage of nonperforming loans increased to 8.7 percent (in June 2016). Most of the increases were in the manufacturing and real estate sectors, however, agriculture remained the largest sector. The average rate of nonperforming loans masks significant variations within the banking sector. The Bank of Tanzania is committed to strengthening the resilience of the banking sector through increasing minimum capital levels, increasing the number of bank examiners, and reconstituting quarterly meetings of the Tanzania Financial Stability Forum.[2]

The macroeconomic outlook remains favorable. The International Monetary Fund's Policy Support Instrument (PSI) forecasts a growth rate of 7 percent through fiscal 2017. This is underpinned by continued growth in the services sector and an increase in public investment as new infrastructure projects get underway. Capital expenditures are budgeted to more than double to 11 percent of GDP, however, implementation challenges are expected to result in a more modest increase. The PSI has identified fiscal policy implementation as a potential short-term risk to the favorable economic outlook. Specifically, tightening liquidity with slow or delayed budget disbursements resulting from external financing shortfall, and the risk of growing domestic arrears if public investment runs ahead of improvements in public financial management.

Business-Enabling Environment

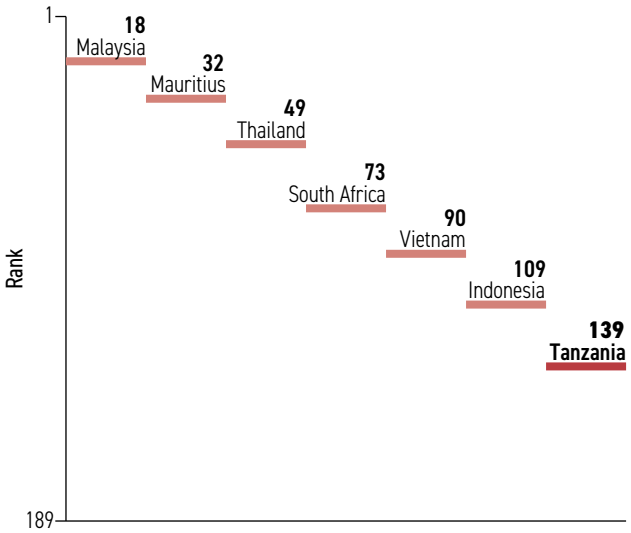
The business environment in Tanzania remains challenging. The World Bank's 2016 Doing Business (DB) report ranks Tanzania 139 out of 189 countries (see figure 2.6); it ranked lower relative to Kenya (108), Rwanda (62), and Uganda (122). Figure 2.7 shows Tanzania's DB ranking relative to South Africa, Mauritius, and nonregional comparator countries. This shows that Tanzania is ranked lower against both Indonesia and Vietnam and significantly lower than Mauritius. Enabling Tanzania to benefit more fully from the export and growth opportunities offered by both the regional

FIGURE 2.6: Doing Business Indicators, 2010–16



Source: Derived from World Bank Doing Business data.

FIGURE 2.7: Doing business indicators: Overall, Tanzania and selected countries, 2016



Source: Derived from World Bank Doing Business data.

and global economy requires improving the business environment; facilitating trade and regional integration within the East African Community (EAC) and the Southern African Development Community (SADC); and making credit more readily available and affordable, especially to smallholders. The relatively low rankings for registering property and paying taxes indicate the necessity of addressing governance and accountability issues. The government has taken positive steps to strengthen macroeconomic fundamentals and has committed to improving tax compliance, however, ensuring the benefits of economic growth are distributed more widely requires further reforms to the incentive structure facing small businesses and small holders. Increasing policy certainty and predictability requires the government and districts to reduce and streamline many of the remaining regulatory barriers to establishing and operating commercial enterprises.

Since 2010, Tanzania's overall ranking on DB has fluctuated around the 70th percentile as improvements in dealing with construction permits and registering property were offset by relative deteriorations in other criteria. The trading across borders indicator shows a significant decline over the period 2010–16, with Tanzania moving from the 60th to the 95th percentile relative to 189 countries.

Trading Across Borders

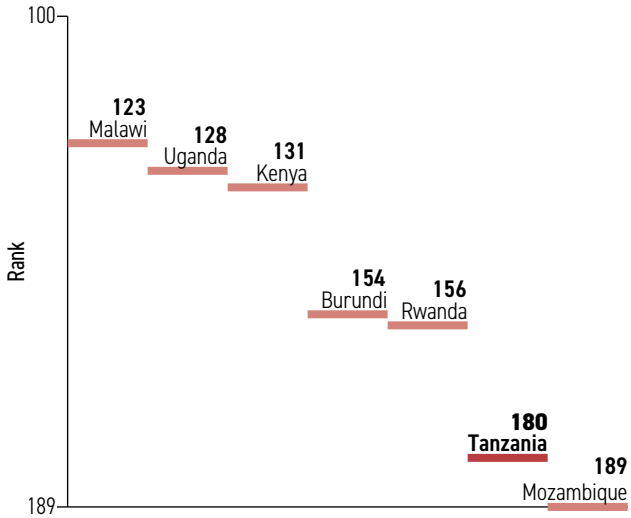
Despite infrastructural improvements and customs modernization, in fiscal 2016, Tanzania remains in the bottom 5 percent of performers of trading across borders DB indicator. Following the introduction of electronic data interchange and improved border cooperation recorded in the 2006 DB report, no further reforms in trading across border were recorded until 2012, when the prearrival declaration system and electronic submission of customs declaration were introduced. In 2013, importing became more onerous with the requirement to obtain a certificate of conformity prior to the goods being shipped. The 2015 and 2016 DB reports, recorded improvements as infrastructure was upgraded at the port of Dar es Salaam and the Tanzania Customs Integrated System was rolled out, respectively. Notwithstanding these recent improvements, relative to best practice, Tanzania has fallen behind on the trading across borders measure. Since 2014, it has slipped from the 60th to the 20th percentile. The DB reports for 2015

and 2016 show the time required to import remained broadly constant at 26 days, while the cost of compliance increased by 6.8 percent. Over the same period, the time required for exporting a container declined from 18 days to 8 days while the cost increased by 32.6 percent.

The cost of importing and exporting a container (in real U.S. dollars) declined over the period 2006–14. The DB reports present a consistent series of trading costs for the period 2006–14. During this period, the cost of importing—defined as the cost of clearing one 20-foot container—declined by 6.3 percent in real terms, while the cost of exporting declined by almost 30 percent. During the same period the divergence between import and export costs increased from 11.5 to 48 percent.

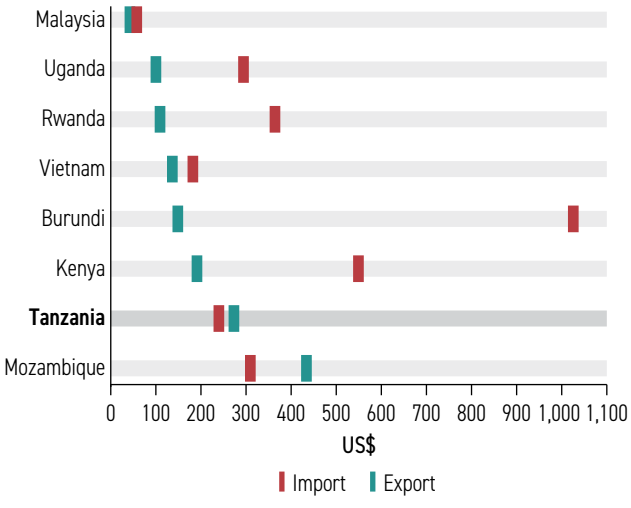
For a country with a major port, Tanzania has a very low ranking on the trade facilitation component of the DB indicators. With a DB ranking of 180 in 2016 (figure 2.8), Tanzania has the lowest ranking within the EAC (which includes the landlocked countries of Burundi and Rwanda). Trading across borders is Tanzania's weakest indicator in the DB,[3] whether measured relative to other countries (180th out of 189 countries) or relative to the best performing country (0.2/1.00). Tanzania, with relatively sound infrastructure, does not appear to be benefiting from its geographical location (figures 2.9 and 2.10 show the relatively high compliance and customs clearance costs). Indeed, landlocked Burundi, Rwanda, and Uganda all have lower documentary compliance costs for exports. It is also notable that in Tanzania documentary compliance for exports is larger than for imports. In the rest of the EAC documentary compliance costs for imports are significantly larger than for exports. East Africa generally has high import compliance costs with Burundi being an outlier. It is notable that all the fast-growing export comparators in South East Asia have significantly lower costs when compared with the EAC. Tanzanian exports appear to face particularly onerous customs compliance costs (figure 2.10), indeed the country is an outlier within the region.

FIGURE 2.8: Doing business indicators: Trading across border, Tanzania and selected countries, 2016



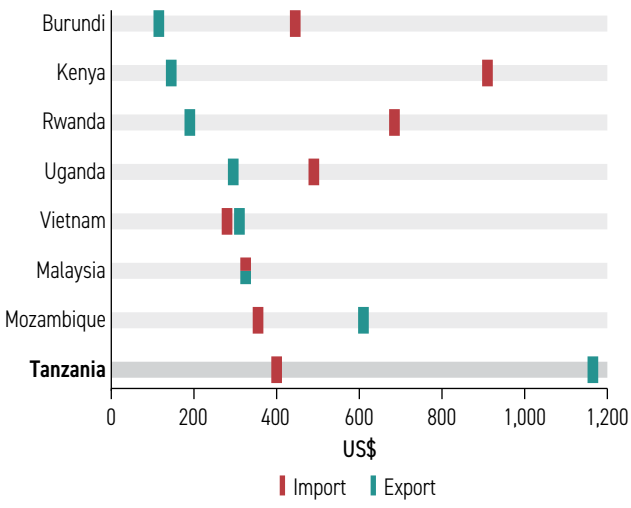
Source: Derived from World Bank Doing Business data.

FIGURE 2.9: Documentary Compliance Costs for Imports and Exports, Tanzania and Selected Countries, 2016



Source: Derived from World Bank Doing Business data.

FIGURE 2.10: Border Compliance Costs for Imports and Exports, Tanzania and Selected Countries, 2016



Source: Derived from World Bank Doing Business data.

Trade and Poverty

Between 2007 and 2012, the basic needs poverty level declined from 34 percent to 28.2 percent. A World Bank (2015) report estimated that 28.2 percent of the population were unable to meet their basic consumption needs, while 9.7 percent were extremely poor and could not meet their basic nutritional needs, during the same period. They estimated that poverty declined by 1 percent per year from 2007 to 2012. The report found that, in the same period, the poor benefited disproportionately from the rapid economic growth. The pro-poor growth resulted from improvements in the endowments (better education, improved access to services, and better communications) and increased returns from economic activities (through improved access to markets).

Despite these positive developments, poverty remains widespread in the rural areas, where 85 percent of the poor live. The number of people defined as living in poverty remains very sensitive to the poverty line. Increasing the rate by US$0.50 per day will change the rate by more than 20 percent. Using the international poverty line of US$1.25 per person per day increases the incidence to 43.5 percent (2011/12).

Increasing trade through reducing trade costs has been a key element in reducing global poverty. Bartley Johns and others (2015) highlighted the critical importance of reducing trade costs to further integrate markets as a pathway for reducing poverty. The report highlighted strategies for ensuring the poor benefit from increased trade openness.

Trade is a critical enabler of economic growth and higher growth is necessary for poverty reduction. Reducing tariffs and removing nontariff barriers are necessary, but must be integrated with measures aimed at addressing specific constraints faced by the poor. The poor are frequently excluded from markets and face specific challenges. The report focuses on four characteristics that impact the ability of the poor to benefit from trade. These are rural poverty, fragility and conflict, informality, and gender. Internal barriers to trade in rural areas, including licensing, local taxes, marketing restriction, and organizational requirements, may represent prohibitive barriers to poor farmers. Women often face specific constraints, both within the household and in society which may constrain their ability to participate in economic activities.

The DTIS update seeks to identify the specific constraints facing the poor from participating more fully in the major economic sectors selected for more detailed assessment, namely in agriculture, mining and extractives, and tourism.

Implementation of the 2005 DTIS Action Matrix

The final report and validated action matrix for the earlier DTIS were submitted in November 2005, following approval at a National Validation workshop. The 2005 DTIS report assessed both domestic and external constraints to Tanzania's integration into the world economy, with a detailed review of trade policies and trade performance, trade-related institutions, the state of trade facilitation and transport, identification of the issues and opportunities in the major agricultural sub sectors, and the opportunities for export diversification.

Tanzania implemented reforms validated in the earlier action matrix across a range of areas. The earlier DTIS was formally approved by cabinet in 2007, after which, national consultants reviewed the action matrix and developed the Tanzania Trade Integration Strategy (TTIS). Following further internal discussions, finalized in 2009, with the revised prioritized action matrix covering the period 2009–13. The Second National Development Strategy for Growth and Poverty Reduction (MKUKUTA II) and MKUZA for Zanzibar, covering the period fiscal 2011 to fiscal 2015, recognized trade as an engine of economic growth and envisaged Tanzania becoming a regional trade and logistics hub. The Ministry of Industry, Trade and Investment (MITI) established the Projects and Programs Coordination Unit as the Enhanced Integration Framework (EIF) National Implementation Unit (NIU) and recruited a project coordinator and project analyst. The NIU has strong participation from key stakeholders in both the government and the private sector. An EIF Tier 1 project was launched in 2013.

Despite positive reforms, many of the constraints identified in the earlier DTIS remain. Notwithstanding this progress, Tanzania experienced challenges in addressing the large number of constraints identified by the

earlier DTIS.[4] The 2005 DTIS adopted an economy-wide approach while also examining selected subsectors in more detail. The subsector studies included agricultural export crops (cashews, coffee, cotton, and tea), horticulture and floriculture, tourism, spices, and fish. In addition to the logistical challenges in implementing such a large and diverse group of policy and regulatory reforms, the subsequent inability to establish a TTIS earmarked fund also constrained implementation.[5] Thirdly, significant regional and global developments, including natural resource discoveries and rapid changes in commodity prices, require the updating of the action matrix in the earlier DTIS.

The 2005 DTIS had too many action items. It listed 124 actions that were tailored for individual commodities. In hindsight, this approach provided little guidance on the overall directions for trade policy and, for various reasons, was difficult to implement. Since the earlier DTIS, there have been significant developments nationally, regionally, and at the global level. The update provides an opportunity for Tanzania to better align its trade policy and strategies with its commitment to economic diversification and poverty reduction.

The DTIS update builds on lessons from the earlier study. The 2005 DTIS did not realize many of its ambitious recommendations. The 2017 DTIS update need not suffer the same fate. This section discusses the reasons for the poor follow up to the 2005 DTIS and assesses prospects for implementing the recommendations in the DTIS update. In general, there are solid reasons to believe the DTIS update can have a more positive impact on Tanzania's trade policy than the 2005 DTIS.

The DTIS update is timely with the government's commitment to improving the business environment and promoting economic diversification. Starting in the early 1990s, the Tanzanian government began implementing a wide range of reforms to liberalize and privatize the economy, as well as improve governance and public administration. Although many of these changes were necessary, they often faced significant resistance and strained government capacity. By the early 2000s, the government's interest in further reform began to wane and momentum in implementation stalled. The release of the 2005 DTIS occurred near the beginning of this policy shift. The DTIS update is occurring in a very different policy environment. Demands for improved governance and economic competitiveness are much stronger today than they were a decade ago, and the new administration has a strong commitment to achieving these goals. The DTIS update can therefore play a very positive role in assisting the new government in achieving its stated economic competitiveness priorities as articulated in its chief economic policy statement, the FYDP II.

Poor Follow-Up on the 2005 DTIS

The poor follow-up to the 2005 DTIS stemmed from systemic failures across a range of stakeholders. The most basic reasons for weak implementation were because (1) no level of government took ownership of implementing the recommendations, (2) there was little vocal private sector support for the changes, and (3) the relationship between development partners and the MITI deteriorated due to divergent priorities. The poor follow-up on the DTIS was not specific report, but consistent with many similar plans over the past ten to fifteen years. The FYDP II forthrightly acknowledges the most typical challenges for the Tanzanian government to implement development plans, like the DTIS.

The 2005 DTIS action matrix suffered from a lack of ownership and a disagreement between the donors and the MITI over programming. Many of these problems were evident in attempts to implement the 2005 DTIS recommendations. That the DTIS was a low priority did not mean that weak implementation was inevitable, however. To understand why requires examining the actions of the actors charged with overseeing the implementation of the DTIS recommendations, the Development Partners Group (DPG) and the Department of Policy and Planning within the MITI.

There was a lack of ownership from the MITI, in part resulting from reform fatigue. More specifically this included: policy indecision, frequent changes in leadership within the MITI, and lack of staff capacity resulted in little urgency to address the issues the DTIS raised. For example, there were four ministers between 2005 and 2010. Along the same lines, a KPMG's (2010) assessment of the MITI concluded that the ministry suffered from high levels of staff turnover and numerous vacancies; both severely impeded its effectiveness. Consequently, instead of prioritizing recommendations in the DTIS, the

BOX 2.1: Implementation Challenges Identified in the FYDP II: Lessons Learned

- Policy incoherence, instability, and unpredictability, specifically "weak alignment of policies, procedures, planning, and coordination, reflected in lack of consensus among key stakeholders and ultimately policy reversal."
- Corruption
- Weak prioritization, "mostly in the design stage where everything is considered as 'priority.'"
- Inadequate mobilization of financial resources
- Inadequate decentralization
- Weak systems for follow-up, monitoring, and evaluation
- Delayed decision making, in particular, a "combination of policy incoherency, policy instability and unpredictability, on one hand and corruption on the other hand, result in slow decision-making process…Slow in decision making has repelled investors, especially international investors with several country options for investment destinations."

Source: Extracted from MOF (2016).
Note: FYDP II = Second Five Year Development Plan.

MITI asked various donors to choose the programs they wished to support.

Secondly, there was a disagreement over resource management between the DPG, who wished to target specific projects, and the MITI, who requested broad budget support to implement their priorities. In an attempt to bridge the divide between these two differing sets of priorities, the DPG offered to support a basket fund if the MITI created a qualified and fully-staffed NIU. At the time, the NIU had seven people and the DPG suggested growing the office to between 15 and 20 people. The MITI responded that the Public Service Management Department was unlikely to approve this request. Concurrent to these negotiations, the EIF Secretariat approached the MITI and offered to fund the capacity-building component as a separate project. The MITI agreed to this approach, but the DPG objected to it because it would remove their ability to shape that aspect of the program. The DPG subsequently asked the EIF Secretariat to channel its resources to the basket fund. The MITI rejected this option and chose to have the EIF directly support the capacity-building efforts of the NIU. In response, in 2012, the donor facilitator, between the DPG and the MITI over the DTIS implementation, withdrew its support. DPG-MITI talks have not occurred since then. Rather, the DPG is channeling their support to individual government initiatives and to private sector efforts.

There was no organized private sector pressure on the MITI to implement the 2005 DTIS. In part, this was because, at the time, there were few sector-wide trade associations that possessed the capacity to collectively engage with their government counterparts to address policy challenges. Consequently, in general, follow-up actions from the DTIS tended to occur only in areas where preexisting donor interest intersected with recommendations from the report. Two clear examples are the Southern Agricultural Growth Corridor of Tanzania (SAGCOT) and the horticulture sector. The SAGCOT emerged out of Kilimo Kwanza (Agriculture First), a top priority of the previous administration. The Tanzanian government announced it at two high-profile venues: the 2010 World Economic Forum (WEF) Summit on Africa in Tanzania and the 2011 WEF annual meeting in Davos. Because the program seeks to facilitate private sector investment in Tanzania, it received a large amount of support from the WEF. Success in horticulture exports, by contrast, was a result of a clear investment opportunity that required little effort from the government and investors faced no domestic opponents.

Lessons from the 2005 DTIS

Principal lessons from the experience of the follow-up on the 2005 DTIS include:

- **Government priorities matter**. The scope for reform and opportunities for engagement with the Tanzanian government are largely determined by the strategic priorities of the president. Currently, there is considerable interest and pressure from the new administration to improve trade policy and the business-enabling environment to promote investment, create jobs, and deliver improved living standards to the majority of the people.
- **Ensure ownership from the MITI.** There were early signs that the MITI did not feel the 2005 DTIS reflected its priorities. Although the initial validation workshop secured high-level participation from the MITI, momentum slowed soon after. Identifying the key personnel within the MITI and their priorities is critical. Active participation, for example, in prioritizing recommendations and sectors, as well as

determining ex ante the key MITI staff responsible for implementation seems useful. In addition, an agreed upon realistic implementation timetable can also help set expectations.

- **Reach out to private sector supporters**. Unlike in 2005, there now exists a much more powerful set of private sector stakeholders that are likely to support the recommendations in the DTIS update. It would be useful to engage them from the beginning of the process, such as through commenting on drafts and having active participation in validation workshops. This might also include hosting a workshop solely for the private sector.
- **Manage donor-MITI relations**. Problem of reform fatigue notwithstanding, more substantial progress in implementation was possible if the DPG and counterparts from the MITI would have overcome their differences. From the MITI's perspective, donors were pursuing an agenda that was inconsistent with the priorities of the Tanzanian government. Donors, by contrast, did not sense that the MITI was serious about addressing its staff capacity shortcomings. Overtime, these differences led to accusations of ulterior motivations on both sides, as well as causing the MITI to embrace a course of action—accepting standalone funds from the EIF Secretariat—that led to talks over DTIS implantation to collapse. Finding a neutral arbiter to resolve the conflict early might have led to a much more positive outcome.

Policy Vision of the Administration and the DTIS Update

The DTIS update presents an excellent opportunity to support the government to realize its own priorities. The DTIS update identifies the policy, regulatory, and institutional actions required for delivering the FYDP II goals of job creation, economic transformation, and industrialization. The DTIS update is occurring at the early stages of enacting the Tanzanian government's new economic policy, the FYDP II. The document is candid in its assessment of the poor outcomes of previous similar national development plan.

> *Weak implementation has been a persistent setback for Tanzania. The FYDP sets down several reasons; including incoherent policies and procedures, weak prioritization and sequencing of initiatives, vested interests, weak engagement of stakeholders in planning and implementation stages, weak resource mobilization strategies as well as supervision, monitoring and evaluation.*

The administration has made it clear that the FYDP II will not suffer from these shortcomings. It devotes an entire chapter to developing an implementation strategy and demonstrates a coherent theoretical focus by drawing on experiences of countries it wishes to emulate, especially in East and Southeast Asia, as well as a few in Sub-Saharan Africa.

DTIS Update Focus Areas

The DTIS update can advance FYDP II priorities. The most promising way to ensure the DTIS update does not meet the same fate as its predecessor is to use it as an opportunity to help the new government advance FYDP II priorities.

> *FYDP II has put more emphasis on industrialization and openness to the regional and global trade than before. This will require concerted efforts to...ensuring availability of conducive environment for doing business and investment. The envisaged industrialization... has to be based on the country's comparative advantages, upgrading and innovativeness with a focus to integrating into the regional and global value chains...(FYDP II)*

The DTIS update presents the opportunity for development partners to assist the Tanzanian government to achieve its goals on trade policy reform and improved economic competitiveness. The FYDP II benchmarks to reach these objectives include increased exports of agricultural products, greater agricultural processing, and improvements to a range of DB indicators, such as regulatory reforms to improve trade facilitation and the business environment.

The DTIS update has five focus areas, agribusiness, mining, regional integration, tourism, and trade facilitation largely overlap with the FYDP II priorities and/or build on existing private sector interest:

- **Agribusiness***:* Agribusiness has a prominent position in the FYDP II, including targets for maize, rice, cotton (and textile production), sisal, leather, grapes,

horticulture, edible oils, beef, poultry, chicken, dairy, and fisheries, as well as improvements in rural infrastructure, capacity-building, and addressing market failures. These goals are building on improvements in the agro-processing industry that have occurred over the past few years. The most prominent example is horticulture exports. Export-quality dairy products, nuts, wine, and edible oils are also becoming more common. For these reasons, the DTIS focus on agriculture overlaps strongly with the FYDP II.

- **Mining and extractives:** The new government's policies on small-scale mining are the least developed. The FYDP II only has two paragraphs on planned interventions. In addition, the Ministry of Energy and Minerals is at a very early stage in developing a new minerals policy. The World Bank can therefore play a useful role in assisting the government to develop a more comprehensive plan for developing this part of the mining sector.
- **Regional integration***:* The outlook for improvements in regional integration are promising. The most important change is Tanzania's much improved relations with Rwanda. Although the auspicious outlook for EAC integration is still in its early days, it has already moved beyond rhetoric. The clearest examples are several recently announced joint infrastructure projects with Kenya, Rwanda, and Uganda. There are also opportunities for increased regional trade with SADC economies, particularly with the Democratic Republic of Congo and Zambia.
- **Tourism:** While tourism is not an FYDP II priority, reforms to create a more competitive tourism sector seem promising. First, the trade associations within the sector are strong, largely share the same vision, and have a clear set of reforms they desire. Second, the two main government agencies covering the sector, the Ministry of Natural Resources and Tourism and the Tanzania Tourism Board, are very supportive of the needs of the sector. Third, the Minister of Finance has stated publicly that tourism will be the pilot sector for reforming the business environment.
- **Trade facilitation***:* The FYDP II unambiguously states that it seeks to achieve export-led growth and improve the trade policy environment. Yet the government is equally as committed to stopping the importation of substandard and sometimes hazardous goods. Therefore, Tanzania's trade policy regime still needs to find an appropriate balance between ensuring consumer safety and facilitating private sector development. The FYDP II does not discuss how the government will meet these competing priorities. The DTIS update therefore represents an excellent opportunity to advance this dialogue.

Notes

1. When indirect income from agriculture (distribution, services, storage, and so on) is included agriculture provides the main income source for approximately 80 percent of the population.
2. In December 2015, the Bank of Tanzania had non-performing loans data on only 27 of the 49 registered banks.
3. The other indicators include: starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, enforcing contracts, and resolving insolvency.
4. One hundred twenty-four action items were identified and validated in the 2005 DTIS action matrix.
5. Many development partners were constrained by their country's policies from contributing to a multidonor basket fund.

References

Bartley Johns, Marcus, Paul Brenton, Massimiliano Cali, Mombert Hoppe, and Roberta Piermartini. 2015. *The Role of Trade in Ending Poverty.* Geneva: World Trade Organization.

KPMG. 2010. Politics and Change in Tanzania: *An Analysis of Actors, Reforms and Social Processes*. Amsterdam: KPMG.

MOF (Tanzanian Ministry of Finance and Planning). 2016. National Five Year Development Plan 2016/17 – 2020/21. MOF, Dar es Salaam.

MOFD (Tanzanian Ministry of Finance and Development). 2017. Ministry of Finance and Development Budget Speech. June 8. MOFD, Dar es Salaam.

World Bank. 2015. *Tanzania Mainland Poverty Assessment (Vol. 2)*. Washington, D.C.: World Bank.

3 Trade Policy and Trade Performance

This chapter outlines aggregate trends in export performance since the earlier Diagnostic Trade Integration Study (DTIS) 2005, comparing Tanzania with its regional partners, and focusing on intraregional trade. This is followed by a discussion of trade policy focusing on Tanzania's existing trade agreements prior to describing the structure of nominal protection, which measures the price-raising impact of tariffs under the general tariff, and other duties that are applied. This is followed by a summary of the trend in Tanzania's trade costs with regional partners using the new World Bank trade costs database, before discussing recent findings on the relationships between trade and poverty. Finally, the chapter concludes with recommendations aimed at reducing the policy bias against exports.

The overview of Tanzania's trade performance is based on the United Nations Comtrade data and draws on the recent World Bank report "Uncovering Drivers for Growth and Diversification of Tanzania's Exports and Exporters." The DTIS documents the changes in both the commodity composition and the geographical direction of imports and exports.

"The share of traditional and nontraditional exports was broadly constant from 2010 to 2015. With the rapid increase in exports from the mining sector, the share of traditional exports (tea, coffee, cotton, tobacco, cloves, and cashew) declined from a peak of 60 percent in 1998 to 21 percent in 2003."

The 2005 DTIS review of export performance, over the period 1990–2003, identified tourism and gold exports as the major growth sectors. In 2003, tourism and gold were the largest and second largest items, respectively. Over the same period, nontraditional merchandise exports increased much more rapidly than the traditional agricultural exports and, by 2003, accounted for 80 percent of total merchandise exports. Nontraditional exports included gold, fish and fish products, and horticulture exports. Throughout the period 1990–2003, most of Tanzania's exports were destined for developed industrial economies with the European Union (EU) accounting for over 60 percent and Japan 10 percent.

India and China accounted for 9.9 and 2.6 percent, respectively. Virtually all of Tanzania's metal ore exports were destined for Japan, while cotton, cashew nuts, and vegetables went to India. Although regional exports to Kenya, Malawi, and Zambia remained modest—accounting, in aggregate, for 9.2 percent of total exports in 2003—their share had more than doubled since 1990.

The share of traditional and nontraditional exports was broadly constant from 2010 to 2015. With the rapid increase in exports from the mining sector, the share of traditional exports (tea, coffee, cotton, tobacco, cloves, and cashew) declined from a peak of 60 percent in 1998 to 21 percent in 2003. According to a report by the Bank of Tanzania (BOT 2016), traditional exports declined further to just above 15 percent in fiscal 2012 after which they increased to 18.5 percent in fiscal 2015. The report also found that the decline in the price of gold resulted in a decline in the total value of nontraditional exports (minerals, manufacturing, floriculture, horticulture, and fish) over the period fiscal 2012 to fiscal 2014. The decline in gold receipts were offset by increased revenue from travel services, primarily tourism, which exceeded US$2 billion in fiscal 2015 (BOT 2016).

General Duty Schedules and Tariffs

Tanzania is a founding member of the World Trade Organization (WTO), the East African Community (EAC), and the Southern African Development Community (SADC). Tanzania plays an active role at the WTO, regularly submitting notifications to the Technical Barriers to Trade committee and participating in the least-developed countries (LDCs); African; and African, Caribbean, and Pacific groups. Tanzania served as the LDC focal point on the Trade Facilitation negotiations prior to the agreement. On the continent, Tanzania is implementing the EAC Customs Union, the SADC Free Trade Area, and is actively participating in the negotiations for the EAC-Common Market for Eastern and Southern Africa (COMESA)-SADC Tripartite Free Trade Area. It participates in the United States-EAC Trade and Investment Framework Agreement and has concluded (but not signed) the EAC-EU Economic Partnership Agreement.

Tanzania has applied the EAC common external tariff (CET) since 2005 on all most-favored-nation imports. (Table 3.1 shows Tanzania's tariff structure.) The EAC's CET has three bands of zero percent on raw materials and capital goods, 10 percent on intermediate goods, and 25 percent on final goods. Tariffs on a small number of sensitive products (61 tariff lines) are higher than 25 percent and thus do not comply with the three-tier structure of the CET. Agricultural products account for the majority of sensitive items and include milk (60 percent), wheat (35 percent), corn (50 percent), rice (75 percent or US$345 per metric ton), and sugar (100 percent or US$ 460 per metric ton). Some manufacturing products like cement (35 percent), primary cells and batteries (35 percent), matches (50 percent), and Khanga, Kikoi, and Kitenge fabrics (50 percent) are also included in the sensitive list. In 2010, after a five-year transitional period to allow for tariff adjustment in some countries, imports among EAC members were fully liberalized.

The tariff structure has not changed much since the adoption of the CET in 2005 with the exemption of the sensitive products. Tanzania's tariff schedule has 5,437 tariff lines with the vast majority of them falling in one of the three standard CET rates: 37 percent of tariff lines pay zero duties, 21 percent pay a 10 percent tariff, and 40 percent pay a 25 percent duty. About one percent of tariff lines are part of the sensitive list and pay tariffs above 25 percent. In the WTO, Tanzania bound 13.5 percent of tariffs at 120 percent, comprising all agricultural products (as defined by the WTO) and one-tenth of one percent of nonagricultural products also at 120 percent.

Table 3.2 shows the most-favored-nation rates minimum and maximum tariffs and standard deviation by the main sectors. The animal and vegetable products and

TABLE 3.1: Tanzania's Tariff Structure

No. of tariff lines	CET (%)	% of tariff lines
2,011	0	36.90
1,170	10	21.50
2,194	25	40.40
13	35	0.20
1	40	0.02
19	50	0.35
16	60	0.29
4	75	0.07
9	100	0.17
Total = 5,437		

Source: Derived from World Integrated Trade Solution.
Note: CET = Common External Tariff.

TABLE 3.2: Sector Groups Ex Ante Most-Favored-Nations Tariffs

HS code	Sector	%	Min.	Max	STD
01-05	Animal products	25.5	0	60	9.16
06-15	Vegetable products	19.2	0	75	11.52
16-24	Foodstuffs	23.7	0	100	14.58
25-26	Minerals	4.1	0	25	7.02
27	Mineral fuels	5.8	0	25	7.65
28-38	Chemicals	2.9	0	40	7.25
39-40	Plastic and rubber	10.6	0	25	9.90
41-43	Hides and skins	14.1	0	25	7.95
44-49	Wood	13.2	0	25	10.25
50-63	Textiles and clothing	20.8	0	50	9.24
64-67	Footwear	21.9	0	25	8.20
68-71	Stone and glass	18.6	0	25	9.11
72-83	Metals	9.6	0	35	9.08
84-85	Machinery and electrical	6.1	0	35	8.86
86-89	Transport equipment	6.9	0	25	9.86
90-98	Miscellaneous	14.7	0	25	11.36

Source: Derived from World Integrated Trade Solution.
Note: HS = Harmonized System.

foodstuffs sectors contain the highest maximum tariffs and have the highest standard deviation. This reflects the high level of tariff protection provided to the sugar, corn, wheat, milk and rice sectors.

High tariffs charged on some goods risk reducing the competitiveness of downstream industries or the incentives for domestic production. For instance, sugar—which is a key input for many food products like baked goods, fruit juices, carbonated drinks, preserved fruits, among others—attracts a very high tariff (100 percent or US$ 460 per metric ton) that could impact the competitiveness of industries that use it as an input. Although usually duties for sugar imported by industrial users are reduced under the Duty Remission Scheme, it seems that only a few firms benefit from the scheme (25 firms in 2014) as the process to apply or lobby for inclusion in the scheme might be beyond the resources of many small- and medium-sized firms. Similarly, tariffs on textiles inputs that range from 10 to 25 percent might reduce the prospects of developing a domestic apparel industry which has proven a good way of generating jobs in other African countries.

Tariff Policy and the Use of Rebates

Tanzania has multiple schemes offering import duty remission for exporters. Export promotion programs include duty drawback, manufacturing under bond, export processing zones (EPZs), and special economic zones (SEZs). All of these have different incentives and minimum export requirements apply under all three schemes. Under the duty drawback scheme, duties charged on imported inputs used for producing goods for export (or for transfer to an EPZ) are refunded. The manufacturing under bond scheme provides for the exemption of all duties and taxes on imports of capital requirement and inputs used in the manufacture of exports and is designed for companies producing solely for the export market.

The Export Processing Zone Authority (EPZA) was launched in 2006 to manage and implement the EPZ and SEZ schemes. The legislation was modified in 2011 by the Economic Zones Laws Act, which provides for a wide range of fiscal incentives including the remission of customs duty, value-added tax, and other taxes on raw materials and capital goods used in the EPZ. Provision was also made for providing lower port charges (relative to the cargo box rate) and firms were permitted to sell up to 20 percent of their goods to the domestic market. The EPZA incentives are only available to new investors. To date, six industrial parks have been designated.[1] Investments are concentrated in agriprocessing, light engineering, apparel production, and mineral processing, with exports destined for the United States (under the African Growth and Opportunity Act), the EU (under the Cotonou Agreement), South Africa (under SADC), and India (most-favored nation).

Duty rebates and remission are widespread. In fiscal 2014, trade taxes accounted for 15.5 percent of total tax revenue. The average statutory (ex ante) import tariff weighted by imports was estimated at 7.85 percent in 2005 and 6.54 percent in 2015. An earlier study estimated the collection rate in 2014 at approximately 4 percent (Cunningham and others 2015). The difference between the ex ante rate and the ex post rate is explained by the widespread use of rebates.

Incentive Regime

The escalating tariff structure and the widespread use of rebates creates a large dispersion in protection levels. For those firms using largely imported inputs, with relatively low domestic value added, the ability to obtain duty rebates creates substantial incentives to sell into the EAC market rather than to produce for export. While

the nominal rate of protection (as measured by the price raising effect of the tariff) may be relatively modest in most cases (10 or 25 percent), the effective rate of protection provided to a firm may be much higher. The effective rate of protection measures the combined effect of price distortions (caused by tariffs) on both the inputs and the outputs. It measures the proportion by which a firm's value added at domestic prices differs from that would be realized if the prices of its products and inputs were not distorted through tariffs. Positive effective rates of protection indicate that domestic industries can operate with a higher level of value added that would be the case with lower tariffs. This increases domestic profitability and/or permits reduced levels of efficiency which limits future expansion into potential export markets. Even relatively modest tariff rates (10 percent) can generate significant effective protection in the domestic market. A simple example is shown in box 3.1.

Activities with high levels of protection will grow at a lower rate, and create fewer jobs than sectors with lower rates of effective protection. Lowering tariffs on both inputs and outputs, including final products, will significantly reduce the effective rate of protection and moving towards a more uniform tariff, through gradually phasing out some of the tariff peaks (defined by the WTO as all tariffs exceeding 15 percent) will reduce the dispersion of effective rates.

Export Duties

Tanzania levies an export tax on three items, raw hides and skins, cashew nuts, and wet blue leather. The rate of export duty on raw hides and skins is 80 percent or US$0.25 per kilogram, whichever is larger. This policy aims to ensure the 7 privately owned tanneries can access their raw materials at low prices. The export tax serves to reduce the prices paid to farmers and discourages the production of higher-quality hides and skins. The export tax should be reduced with the aim of being phased out as tanneries upgrade their equipment and increase their competitiveness (Dinh and others 2013). There is a 10 percent export tax on wet blue leather aimed at encouraging the domestic leather processing industry. This measure depresses the profitability of the tanneries as most of the tanneries only process to the wet blue stage. The export tax on cashew nuts also has the unintended effect of depressing the prices paid to smallholders and farmers. The revenue collected from taxing exports accounted for 0.18 percent of total tax collected in 2012.

Regional Integration

Tanzania is implementing the EAC Customs Union CET with exceptions for selected agricultural commodities (wheat and corn, processed pulses, wheat flour, olive oil), iron and steel structures, grinding and cutting machinery, and vehicles.

BOX 3.1: Example of Effective Rate of Protection

A food-processing factory, employing 75 persons, produces cooking oil for the domestic market. Its main input is the bulk import of sunflower oil, which enters duty free. Other inputs, such as bottles, containers, and packaging materials and consumables, are conservatively assumed to be purchased at world prices, as are nontraded goods, such as electricity, water, and security charges. The total value of all inputs accounts for 70 percent of the total value of the ex-factory price of the cooking oil. Sunflower cooking oil is protected in the domestic market with a tariff of 20 percent.

The firm produces 3 million liters of oil at US$2 per liter per year in domestic prices. Assuming all production is sold domestically, this generates an annual turnover of US$6 million. At world prices, 70 percent by value is either imported or sourced locally. With a zero tariff on the inputs, the firm pays 0.7 of the total sales at world prices, which is 0.7[(US$6 million (0.83)] for all its inputs, US$3.499 million. Assuming it sells all its production domestically at US$6 million, it then realizes domestic value added of US$2.501 million which is shared between employees (labor) and the owners (returns on capital). However, if the firm were to sell its product overseas, it would have to sell at world prices (US$1.67 per liter) because other countries also protect their domestic cooking oil production with a 20 percent tariff. Therefore, any sales outside the East African Community would only realize 83 percent of the price achieved in Tanzania. Assuming the firm were to sell all its production overseas, its total revenue would decline to US$4.998 million. Although it would have a positive value added, it would be reduced significantly to 16.5c per liter relative to producing for sale in the domestic market where value added would be 83.1c per liter. The firm would try and expand its domestic production before entering foreign markets as the former is much more profitable. If the firm could sell duty free (though Southern African Development Community tariff preferences) into neighboring markets, which were also protected by a tariff on the final product, this would also be more profitable than selling to the world market.

Under these assumptions, value added on sales in the domestic market is more than double the value added on sales in the foreign market. The effective rate of protection is 125 percent.

On the EAC Common Market Scorecard, Tanzania scores the lowest on trade, but has registered the most improvement between 2013 and 2015. Tanzania is not yet complying with the directive that customs authorities issue the Certificates of Origin, and nonrecognition of the certificates by border officials remains a problem. The EAC Scorecard lists four persistent nontariff barriers: lack of harmonization of working hours for customs, lack of coordination among institutions involved in testing, lack of harmonization of road user charges, and various monetary charges levied on the export of milk. EAC partner states have designated 58 goods as 'sensitive', which renders them eligible to declare tariffs above the EAC maximum CET of 25 percent.

The SADC Free Trade Area removed most tariffs by 2012, however, restrictive rules of origin on key agricultural and labor-intensive sectors continue to limit the potential for trade creation. The SADC has advanced towards a fully-fledged free-trade area (FTA), which was launched in 2008, and aimed to attain maximum tariff liberalization in 2012. In 2011, audit of the FTA observed a tripling of intra-SADC trade in the last decade, although exports were noted to be mainly coming from South Africa. The SADC Regional Economic Integration Support program has ambitious plans that include a common market by 2015, a monetary union by 2016, and a single currency by 2018. However, increased cooperation is more likely in specific sectors, particularly energy and transport. There are relatively advanced plans for member countries to link their power grids to help to create a regional power pool, and further proposals to develop cross-country infrastructure projects are also expected.

The SADC FTA aims to facilitate the movement of goods through regulatory and administrative measures. These include, harmonized customs procedures and customs classifications; increased custom cooperation; reduced costs by introducing a single, standardized document (single administrative document) for customs clearance throughout the region and establishing One-Stop Border Posts (OSBPs). For example, the OSBPs in Tanzania and the Democratic Republic of Congo is close to completion; however, it remains to be analyzed whether they are achieving their objectives.

As a member of both the EAC and SADC, Tanzania may have a special role to advance regional integration through the Tripartite. Following the SADC-COMESA-EAC Tripartite Summit held in June 2011 in Johannesburg, there are ongoing attempts for instituting the Tripartite FTA negotiations. This DTIS review will inform the in-depth analyses regarding the priority barriers to trade in goods, especially nontariff measures, the top barriers to trade in services, the main improvements in trade facilitation and business environment, and the necessary capacity building activities. This DTIS update aims to identify specific actions that will reduce trade costs and deepen economic integration in the region.

Barriers to deepening regional integration in East Africa are mostly at the policy level, and there is a disconnect between commitments made under regional agreements and implementation on the ground. Numerous studies have been carried out on regional integration issues in terms of trade and transport. One of the most recurring findings of these studies is that the barriers to regional integration in the subregion are not just physical, but that there are a number of institutional barriers currently impeding integration efforts. The costs to address these barriers, given the necessary political will and commitment, are modest compared to some of the other investments required, but the potential benefits are significant. In the EAC, one significant institutional impediment is the lack of coordination and complementarity between the trade and transport policies of the various states. Countries have committed themselves to developing harmonized and complementary policies, however, these commitments generally remain on paper only, while each state still approaches policy development as a domestic exercise, reflecting only national priorities (Mousley and others 2014).

There is scope for complementarity between the DTIS update and ongoing and pipeline regional integration projects in East Africa. For instance, a project of the World Bank, aims to support EAC countries, including Tanzania, to eliminate barriers to regional trade in goods and services, covers similar regional integration issues as this DTIS update. The DTIS has identified a range of constraints holding back increasing regional and international trade. The World Bank project will focus on removing nontariff barriers (such as unnecessary requirements and fees), simplifying regulations and procedures and applying them in a transparent and predictable way, and improving access to information and new technologies.

Trade Performance

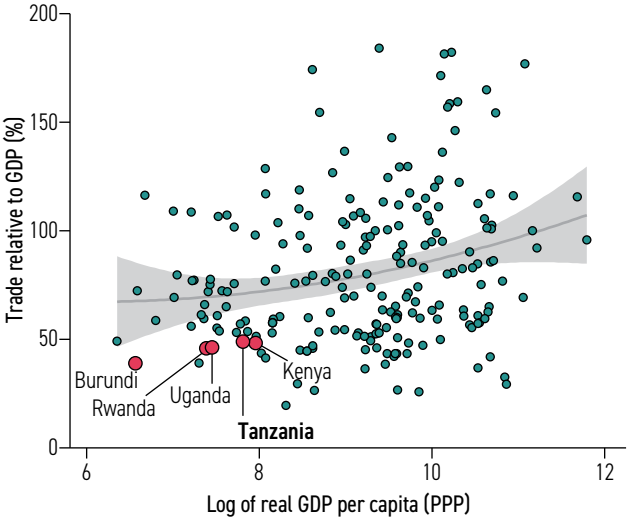
This section provides an overview of Tanzania's recent trade performance. Beginning with a summary of Tanzania's trade openness in comparison with its regional partners, prior to discussing the evolving geographical direction of imports and exports and the changing commodity composition since 2005. The review of trade performance over the past decade is based on the commodity composition of trade at the Harmonized System (HS) 6-digit level from the United Nations Comtrade database.[2] There is considerable anecdotal evidence that trade flows are consistently underreported at borders and trade statistics risk providing an incomplete picture of the actual trade flows, particularly for trade with neighboring countries. In order to shed light on one aspect of this underreported trade, this DTIS update examined mirror trade data for EAC intra-regional trade as imports from the EAC were compared with partner exports.

Although Tanzania became more open to trade over the last decade, its openness is still below the level expected of a country at its per capita income. Tanzania's total trade openness has improved modestly over the last decade, rising from an average of 44 percent in fiscal 2005 to an average of 48.6 percent in fiscal 2015. As a result, Tanzania is the most open economy in the EAC, slightly more open than Kenya (47.9 percent), Uganda (46.1 percent), Rwanda (45.8 percent), and Burundi (38.5 percent). However, Tanzania is still below the trend line suggesting that its openness to trade is below the level suggested by its per capita income (figure 3.1).

The world market share of Tanzania's goods and services exports doubled over the last decade, although it started from a small base. Tanzania saw an increase in its world market share of goods and services exports from 0.02 percent to 0.04 percent between 2004 and 2014 (figure 3.2). Among its EAC peers, Tanzania showed the third highest compound annual growth rate of 6.2 percent, compared to Uganda (9.5 percent), Rwanda (9.3 percent), Kenya (1.1 percent), and Burundi (6.1 percent).

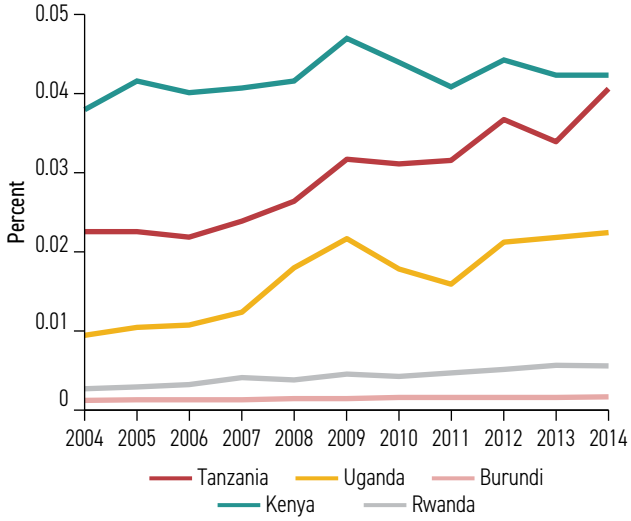
Tanzania remains dependent on agriculture and minerals exports, which accounted for a combined 80 percent of total exports on average between 2005 and 2015. Mineral exports increased rapidly between 2005 and 2012 as a result of the high prices fetched by the most important mineral export in the country (gold) and declined afterwards as a consequence of the dip in international prices. Agricultural exports grew at modest rates during the first part of the last decade (7.4 percent annualized rate between 2005 and 2011), but growth accelerated considerably between 2012 and 2015 (20.8 percent annualized rate). Manufacturing exports remained below 20 percent during the last decade, with very little changes in participation in total exports and the possible exemption of a small uptick in textiles and apparel exports towards the end of this period.

FIGURE 3.1: Openness to Trade, 2014–15



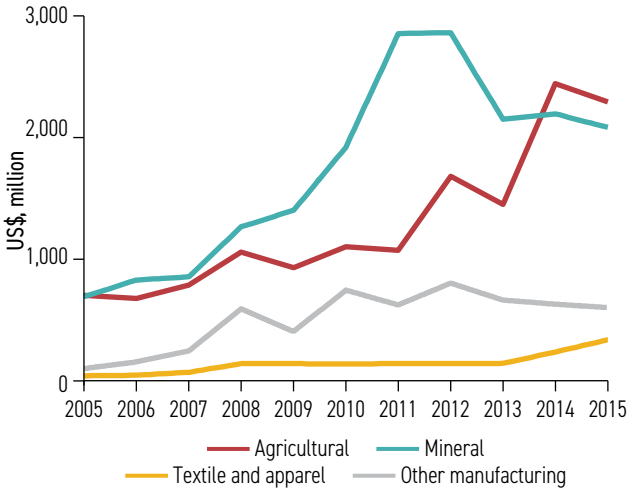
Source: Derived from World Bank World Development Indicators.

FIGURE 3.2: Share in World Exports of Goods and Services, 2004–14



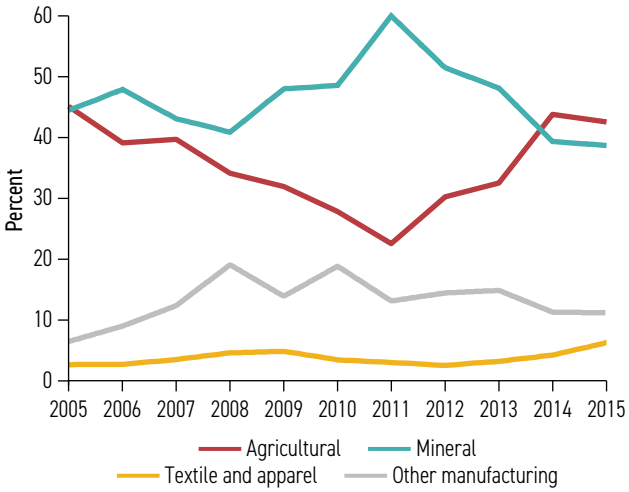
Source: Derived from World Bank World Development Indicators.

FIGURE 3.3: Exports by Sector, US$ million, 2005–15



Source: Derived from United Nations Comtrade.

FIGURE 3.4: Share of Total Exports by Sector, 2005–15



Source: Derived from United Nations Comtrade.

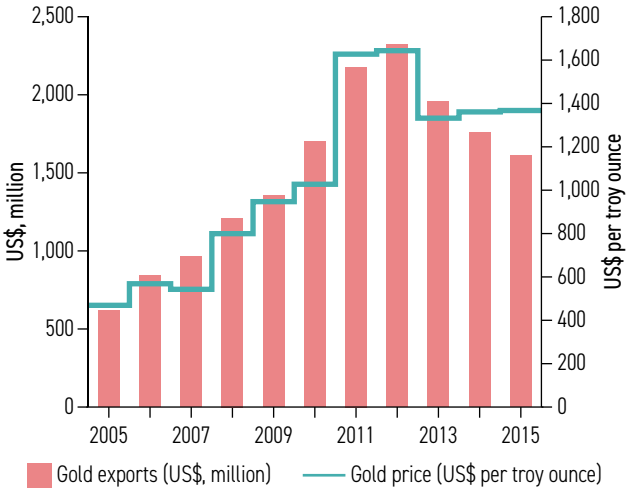
Overall, although the relative shares of agricultural and mineral exports diverged during part of the last decade, they both accounted for similar shares of total exports between 2005 and 2015 (about 40 percent).

The performance of mineral exports was closely linked to the price of gold in international markets. Because gold represented between 90 and 95 percent of mineral exports over the last decade, the growth of sectoral exports closely followed the price developments of this product: when gold prices increased sharply between 2005 and 2012, exports of gold recorded their best performance, and when the price declined after 2012, exports declined as well (although at a less steep pace thanks to increased production). Besides gold, Tanzania also exported some industrial ores (mainly copper and manganese), limestone, diamonds, and other gems during the last decade. Exports of tanzanite fluctuated between US$10 million and US$35 million during the decade.

The majority of the growth recorded by agricultural exports was due to increasing imports from India and Asian countries (mainly China and Japan). The Association of South East Asian Nations+3 countries (26 percent) and India (28 percent) accounted for more than half of the growth of agricultural exports between 2005 and 2015. Although regional trade increased its relative importance in agricultural exports, it only accounted for 16 percent of agricultural export growth during this period (6 percent to the EAC, 7 percent to the SADC, and 3 percent to the rest of Africa). In terms of overall growth of agricultural exports, the intensive margin (exports of old products to old regions) accounted for 43 percent of total growth, the introduction of old products to new regions accounted for another 36 percent, while the contribution of new products was modest between 2005 and 2015 (21 percent).

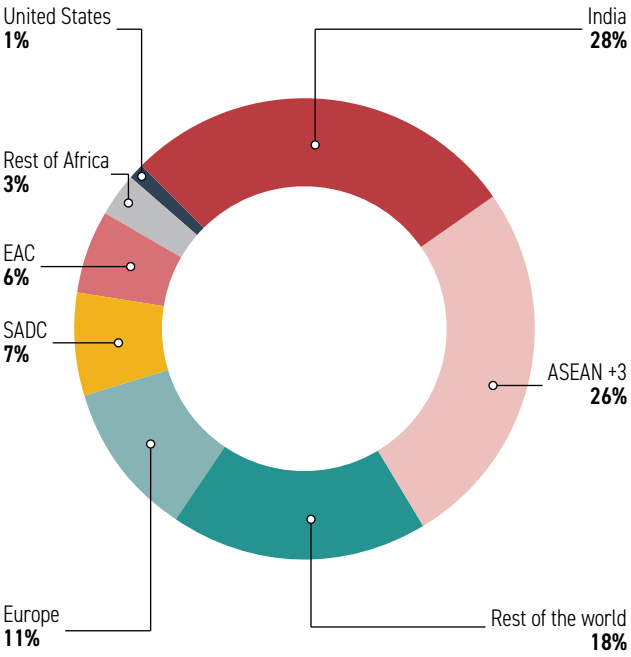
Exports to India increased significantly over the last decade, replacing Europe as the most important destination for Tanzania's exports over the last decade. Exports to India grew from US$78 million to US$1,149 million between 2005 and 2015, with export growth accelerating in the second part of the decade (23.7 percent annual growth between 2005 and 2010 compared to 38.4 percent between 2010 and 2015). Exports to Europe grew

FIGURE 3.5: Gold exports and price, 2005–15



Source: Derived from United Nations Comtrade.

FIGURE 3.6: Growth Decomposition in Agricultural Exports, 2005–15



Source: Derived from COMTRADE data on WITS
Note: ASEAN+3 = Association of South East Asian Nations plus China, Japan, and the Korea, Rep.

at lower rates during this period (16.3 percent between 2005 and 2010 and -8.4 percent between 2010 and 2015), which translated in a loss of relative export shares. Regional exports also decelerated in the second part of this period, with exports to the EAC growing at only 3 percent between 2010 and 2015 after growing at 34.8 percent in the previous five-year period, while exports to the SADC countries grew more slowly in the latter period (10.7 percent and 8 percent, respectively) (table 3.3).

Tanzania has a well-diversified basket of agricultural exports, including cereals, seeds, fruits, vegetables and fish. Table 3.4 shows Tanzania's top 20 exported products at the HS 6-digit level and the main destinations for those products in 2015. Although the export basket seems well diversified in terms of agricultural products, manufacturing products are largely missing from this table. In terms of destinations, it is worth highlighting that no regional group or country dominates the importation of more than three or four of these products which reflects in good diversification of destination markets as well.

TABLE 3.3: Tanzanian Exports, by Main Destination, US$ million, 2005–15

	Value (US$ million)			Total exports (%)			Annual growth	
	2005	2010	2015	2005	2010	2015	2005–10	2010–15
India	78	226	1,149	5.1	5.8	21.6	23.7	38.4
EAC	112	494	574	7.3	12.7	10.8	34.6	3.0
Kenya	80	306	443	5.2	7.8	8.3	30.6	7.7
Uganda	21	48	50	1.4	1.2	0.9	18.3	0.8
Burundi	8	53	39	0.5	1.4	0.7	46.9	-5.7
Rwanda	3	87	41	0.2	2.2	0.8	94.3	-14.0
SADC	317	528	777	20.6	13.5	14.6	10.7	8.0
South Africa	292	431	675	19.0	11.0	12.7	8.1	9.4
Congo, Dem. Rep.	13	141	198	0.9	3.6	3.7	60.2	7.1
Zambia	9	55	44	0.6	1.4	0.8	44.5	-4.4
Mozambique	7	18	19	0.5	0.5	0.4	20.5	0.6
Europe	568	1,209	778	36.9	31.0	14.6	16.3	-8.4
Germany	78	139	226	5.1	3.6	4.2	12.3	10.2
Switzerland	146	710	154	9.5	18.2	2.9	37.2	-26.3
Belgium	37	95	149	2.4	2.4	2.8	20.9	9.4
ASEAN+3	241	985	967	15.7	25.2	18.2	32.5	-0.4
China	99	657	562	6.4	16.8	10.6	46.1	-3.0
Japan	72	216	230	4.7	5.5	4.3	24.5	1.3
Vietnam	3	43	70	0.2	1.1	1.3	65.8	10.6
Rest of Africa	34	258	399	2.2	6.6	7.5	49.9	9.1
United States	18	48	51	1.2	1.2	1.0	21.9	1.1
Rest of the world	169	158	625	11.0	4.0	11.7	-1.3	31.7

Source: Derived from COMTRADE data on WITS.
Notes: ASEAN+3 = Association of South East Asian Nations plus China, Japan, and the Republic of Korea; EAC = East African Community; SADC = Southern Africa Development Community.

BOX 3.2: Intra-Regional EAC Trade Mirror Trade Data

In principle, transit trade through countries should not be included in the imports and exports data, and exports from Country A to Country B should be equivalent to imports to Country B from Country A. In practice, it is reasonable to expect some differences in cases where the borders operate completely independent and also for delays which may result in the same products being classified into different time periods by the two countries. Further exports are usually valued as free on board (FOB) which reflects the ex-factory sale price, while imports are valued with the costs of the carriage, insurance, and freight (FOB). In the case of the East African Community (EAC), which operates a Common External Tariff, each country's Revenue Authority records imports on intra-EAC trade as they are responsible for levying value-added tax (VAT) on most products. The Revenue Authority also has a responsibility to record the value of exports, however, except for a very small number of products (hides and skins, cashew nuts) there are no export taxes. Given the mandates of the respective revenue authorities there is an incentive to accurately record imports.

Using import data reported by each of the EAC countries and then comparing the mirror data (exports from the originating country) highlights large disparities. Kenya, Tanzania, and Uganda all record significantly larger exports to EAC countries than is reflected in the mirror import data. The ports of Mombasa and Dar es Salaam serve as major entry points for the hinterland economies of Rwanda and Uganda. Goods destined for Rwanda from Kenya also transit through Uganda. Goods destined for neighboring economies outside the EAC, including the Democratic Republic of Congo also transit through Tanzania and Rwanda.

In 2013, approximately US$555 million were recorded as exports by Kenya (US$234 million), Tanzania (US262 million), and Uganda (US$142 million) to other EAC economies that were not matched by the corresponding import data.

Exports from Tanzania to Kenya and Uganda are much higher than the corresponding imports, by US$93 million (41 percent difference) and US$66.5 million and US$45.3 million, respectively. This may reflect exports that should have been classified as in transit to a third country via Mombasa (or through Uganda to Rwanda or the Democratic Republic of Congo), or perhaps products that were informally exported from Tanzania to avoid export permits (required for all agricultural products), or were destined for the domestic Kenyan or Ugandan markets, and importers declared lower values to reduce their VAT payments.

Tanzania sourced 3.2 percent of its total imports in 2013 from the EAC, and exported 9.6 percent of total exports. While Kenya sourced only 2 percent of its imports from the EAC, intra-regional exports accounted for 22.9 percent of the total.

Source: Derived from United Nations Comtrade data.

TABLE 3.4: Tanzania's Top 20 Exported Products, 2015

HS-6 code	Product description	US$ million	Africa	ASEAN	EAC	Europe	India	SADC	ROW
710812	Gold in unwrought forms non-monetary	1,431	–	0.0	0.0	9.7	37.7	46.0	6.5
261690	Precious metal ores and concentrate	469	–	76.0	–	23.0	1.0	0.0	0.0
230230	Bran, sharps, and other residues of wheat	263	–	2.3	0.0	–	–	–	97.7
80130	Cashew nuts, fresh or dried	251	–	17.4	0.0	0.2	79.3	0.1	3.0
151550	Sesame oil and fractions	219	–	100.0	–	–	0.0	–	0.0
240120	Tobacco, partly or wholly stemmed/s	213	1.0	8.2	–	85.9	–	0.4	4.6
560729	Twine, cordage, ropes, cables of sisal or other textile fibres of the genus agave	172	–	0.7	98.2	0.6	0.0	0.1	0.4
71390	Dried leguminous vegetables, shelled	171	–	2.0	–	1.0	92.3	0.2	4.4
90111	Coffee, not roasted or decaffeinate	155	1.6	32.9	0.1	43.3	–	2.5	19.6
120740	Sesamum seeds	130	–	99.9	–	–	0.1	–	0.0
271000	Petroleum oils, etc., (excluding crude)	101	0.3	0.0	11.2	0.0	–	3.8	84.8
30490	Frozen fish meat (excluding fillets)	96	0.0	21.6	2.1	52.9	–	0.0	23.3
30232	Fresh or chilled yellowfin tunas	66	–	–	–	–	100.0	–	0.0
720410	Waste and scrap, cast iron	63	–	0.3	0.0	1.8	97.7	–	0.1
240220	Cigarettes containing tobacco	47	–	–	0.0	87.1	–	12.9	0.0
90240	Black tea (fermented) and partly fermented	45	0.1	1.0	43.2	25.5	0.2	5.3	24.7
530310	Jute, etc. (excluding flax, hemp, and ramie)	40	8.1	28.2	40.2	5.0	3.3	0.1	15.1
30420	Frozen fish fillets	40	–	18.4	1.3	56.2	–	0.0	24.2
71310	Dried peas, shelled	37	–	–	0.0	–	97.6	0.5	1.9
701090	Glass; (not ampoules), used for the conveyance or packing of goods	36	7.6	–	50.6	7.5	0.0	34.2	0.0

Source: Derived from United Nations Comtrade database.

Notes: ASEAN = Association of South East Asian Nations; EAC = East African Community; HS = Harmonized System; SADC = Southern Africa Development Community; ROW = rest of the world.

Trade in Services

Tanzania is missing out on the global services revolution. Tanzania, along with Kenya and Uganda, is active in exporting services relative to manufactured exports. Comparing the scale of services relative to the export of goods, Tanzania is lagging behind countries such as Mauritius, which seems to have taken advantage of the global services revolution and export services such as communications, international call centers, and finance. In Mauritius, the average ratio of services exports relative to goods exports increased by 66 percent during fiscal 2006 to 2013 period. Table 3.5 shows the scale of services exports relative to goods exports for countries in the EAC and SADC groups. It suggests that the scale of services exports relative to goods exports for Tanzania declined over the last few years since the earlier DTIS. This contrasts to most EAC and a few SADC countries in the region that are taking advantage of innovations in services technology to integrate into the global and regional economies.

Tanzania's value of per capita services exports has nearly doubled since 2006, while per capita goods exports have increased two and half times, largely reflecting increased mining and extractives, manufacturing, and agricultural products (table 3.5). However, in comparison to countries such as Kenya, Botswana, Mauritius, Namibia, Seychelles, and South Africa, Tanzania's per capita services exports is low. Similarly, goods exported per capita appear to be very low when Tanzania is compared with most of the SADC countries, except Madagascar and Malawi.

Tanzania's compound annual growth rate in goods and services exports increased from 15 percent in 2005 to 18 percent in 2013 (figure 3.7). Among the regional comparator countries, Tanzania's export growth in the goods sector, although not exemplary, is not amongst the lowest. Over the same period, since the 2005 DTIS, Tanzania's exports in the goods sector grew by an average of 15 percent per year, while its imports grew by an average of 18 percent per year. Comparatively, exports of Rwanda, Zambia, and the Democratic Republic of Congo have grown by an average of over 20 percent per year between 2005 and 2013.

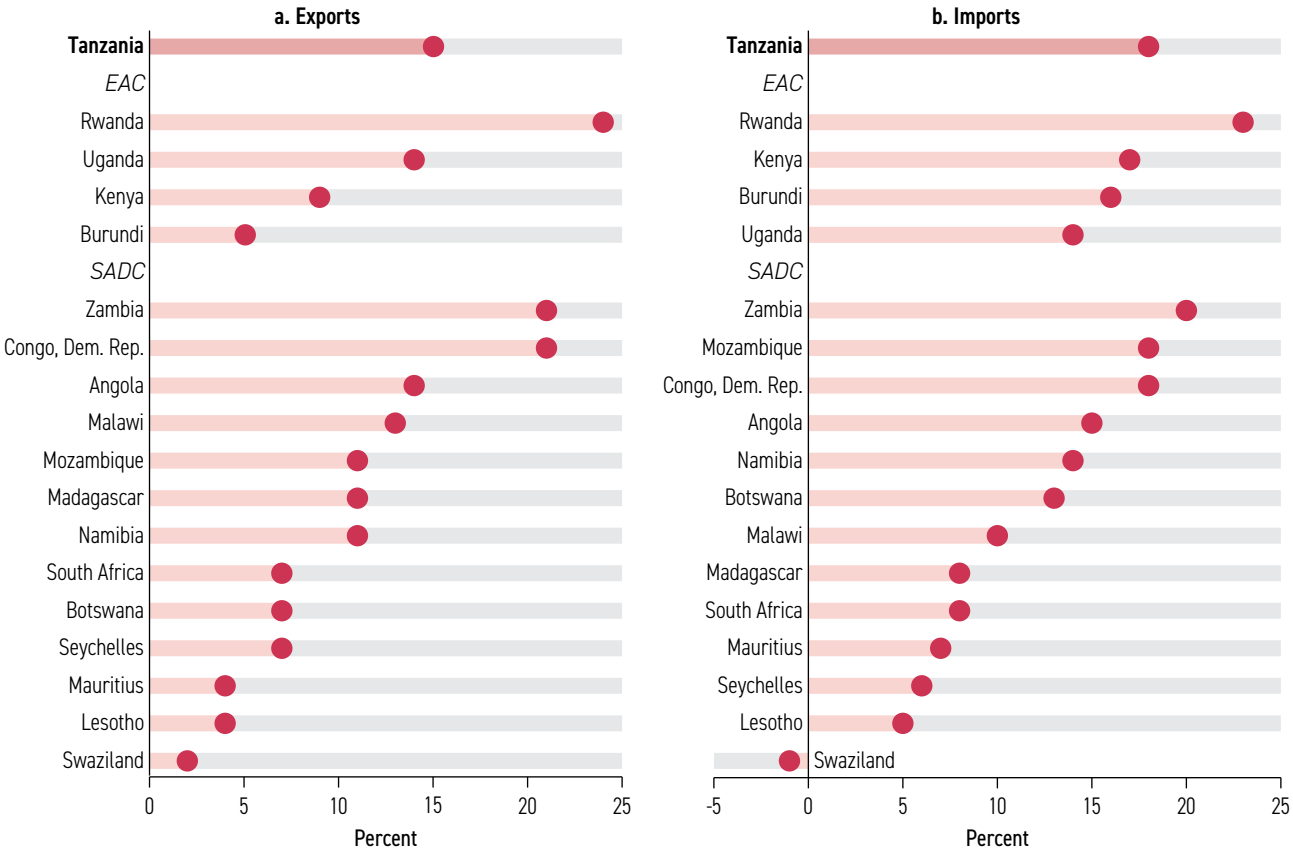
Tanzania is a net exporter of services and this has been growing over time, largely driven by the growth of the tourism sector.

TABLE 3.5: Tanzania's Goods and Services Exports to the EAC and SADC, US$ millions/thousands per capita

	Services and goods exports		Services exports per capita		Goods exports per capita	
	FY2006	FY2013	FY2006	FY2013	FY2006	FY2013
Tanzania	**77**	**54**	**35**	**62**	**46**	**115**
EAC						
Burundi	58	107	4	11	8	11
Kenya	62	79	59	113	96	143
Rwanda	124	72	18	40	14	56
Uganda	49	78	18	60	38	76
SADC						
Angola	3	2	49	49	1,659	3,297
Botswana	18	6	425	200	2,377	3,383
Lesotho	5	7	19	32	350	441
Madagascar	65	76	32	57	48	76
Mozambique	18	27	17	43	97	156
Mauritius	74	124	1,336	2,711	1,814	2,194
Malawi	11	9	5	7	48	81
Namibia	20	22	230	439	1,155	1,968
Swaziland	15	13	216	191	1,423	1,527
Seychelles	104	84	4,777	5,160	4,589	6,141
South Africa	20	17	261	327	1,283	1,868
Congo, Dem. Rep.	15	3	7	4	47	147
Zambia	9	5	22	37	265	699

Source: Derived from World Bank World Development Indicators.
Notes: EAC = East African Community; SADC = Southern African Development Community.

FIGURE 3.7: Compound Annual Growth Rate in Services Exports, 2005–13



Source: Derived from World Bank World Development Indicators.
Notes: Kenya and Malawi's compound annual growth rate is calculated for the period between 2005 and 2012 due to nonavailability of data for 2013; EAC = East African Community; SADC = Southern African Development Community.

Characteristics of Exporters in Tanzania[3]

Export growth can be differentiated by the extensive margin, which refers to growth from new products or new destinations (or both), and the intensive margin, which refers to increases of existing exports to existing destinations. Brenton and Newfarmer (2007) applied this growth decomposition to global bilateral trade flow data for the period between 1995 and 2004. For low-income economies in Sub-Saharan Africa, the extensive and intensive margins accounted for 57 and 43 percent of the growth, respectively. This implies that there is significant scope for further expansion through product and market diversification.

Almost two-thirds of Tanzania's export growth in the period 2000–10 came from the extensive margin. This growth was almost equally split between exporting new products to existing markets and existing products to new markets. There were virtually no new products exported to new markets. The growth in the extensive margin is particularly strong for manufacturing exports. This is primarily agricultural inputs (fertilizer) and agribusiness selling to regional markets including the EAC, Eastern Democratic Republic of Congo, and SADC. Approximately 70 percent of aggregate growth in manufacturing exports were destined for regional markets in the EAC and SADC. Over the period 2005–10, Asian markets accounted for 30.1 percent of the overall growth in manufacturing exports. The expansion of exports to regional and Asian economies accounted for two-thirds of total exports growth during the same period. Reforms in agricultural marketing stimulated larger increases in the exports of tobacco, coffee, and cashew to existing markets. Table 3.6 shows Tanzania's leading products' destination, by growth margin.

Exports from Tanzania are destined for relatively few countries and consist of a relatively small number of products. The index of export market penetration is defined as the ratio of the actual number of bilateral trade flows to potential bilateral trade flows. In 2014,

Tanzania's exports to its top five partners (India, South Africa, China, Kenya, and Democratic Republic of Congo) accounted for almost 60 percent of total exports by value. Out of exports to 155 countries in 2014, only 77 countries recorded values of US$1 million or larger. In 2005, Tanzania exported to 135 countries, with only 54 countries having values larger than US$1 million. Exports of minerals and precious metals and vegetables are destined for a small number of countries, with 10 countries accounting for 98 and 79 percent of total exports, respectively.

Exporters are more likely to be larger, longer established, and foreign owned. In 2006, the World Bank's Enterprise Surveys reported that regular exporters were larger than the average company, had been established longer, and had a higher probability of being either fully or partially foreign owned.

Trade Costs

Trade costs may be defined broadly as the difference between the producers' export price from one country and the price to consumers in the country of destination. This gap between export and import prices may be explained by a wide range of factors, including transport costs, border-related barriers (tariffs, charges, and regulatory compliance costs), retail and wholesale distribution costs, currency barriers, language differences, information costs, and security barriers. In their comprehensive review of the literature on trade costs, Anderson and Van Wincoop (2004) reported a figure of 170 percent ad valorem for trade costs for a developed country. Extensive further work over the past decade using the gravity model of trade sought to quantify the relative importance of the different factors comprising trade costs. Arvis and others (2013) used a more 'top down' approach[4] to identify trade costs by focusing on actual production and trade data between countries. The World Bank collected information on trade flows and production data from 178 countries and developed a database of trade costs. Data is available for Tanzania and its major trading partners. This data disaggregates trade costs into two broad sectors, agriculture and manufacturing, as well as providing the aggregate costs.[5] The trade costs are measured in ad valorem equivalents as the price raising effect of borders relative to domestic production between two countries.[6]

TABLE 3.6: Leading Products: Destination, by Growth Margin

Product category	Destination
Existing products to current destination	
Gold	Switzerland, South Africa
Tobacco	Germany, Belgium, Russian Federation, Poland
Petroleum	South Africa
Cotton	Indonesia, Thailand
Textile	Kenya
Sesame seeds	Japan
Coffee	Japan, United States, Russian Federation
Cashew	India
Wheat flour	Congo, Dem. Rep.
Fish	United Arab Emirates
New products to current destination	
Natural gas	Kenya
Fertilizer	Rwanda
Coffee/Tea-makers	Kenya
Boring Machines	Congo, Dem. Rep.
Diammonium phosphate	Kenya, Congo, Dem. Rep.
Urea	Kenya, Rwanda, Congo, Dem. Rep.
Paper	Kenya, India
Sesame Oil	China, Japan
New destination of existing products	
Tobacco	Morocco
Cotton	Morocco
Textiles	Liberia

Source: World Bank 2013.

The database shows that trade costs, are much higher for developing countries that for developed economies. Secondly many developing economies have reduced their trade costs although at a slower rate than for the OECD economies. The rapidly growing economies of East Asia and the Pacific registered much larger declines in trade costs than economies in Africa. When trade costs were broken down into the different factors trade facilitation and logistics and 'behind the border' regulatory measures were found to be particularly significant. Indeed, the costs of maritime transport connectivity and logistics performance taken together is larger than geographical distance in determining trade costs. The significant of regulatory measures highlights the importance of improving regulatory efficiency for promoting international competitiveness and export diversification.

Data on trade costs is available for Tanzania's bilateral trade with 83 countries, accounting for more than 95

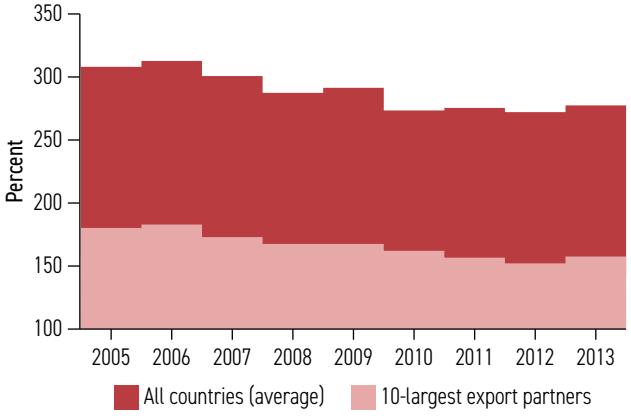
percent of total exports over the period 2005–13. During the period 2005–13, Tanzania's average bilateral trade costs (shown in figure 3.8) registered a modest decline from approximately 310 to 275 percent. Tanzania's 10-largest export partners in 2013, accounting for almost three-quarters of total exports, had, on average, broadly constant trade costs at 150 percent.

When bilateral trade costs are shown (figure 3.9) for individual trading partners, both within the region and extra-regionally, there are wide variations. Further, several regional countries, including the Democratic Republic of Congo and Burundi, record higher trade costs than external trade partners on other continents. South Africa and Kenya have some of the lowest bilateral trade costs with Tanzania, although it is noticeable that there has been limited change over the past decade. Bilateral trade costs with India have declined 58 percent through the period 2005–13, and India's share of Tanzania's trade increased significantly.

Tanzania's trade costs with neighboring countries recorded the largest reductions over the period 2005–13 (figure 3.10). Bilateral trade costs with Rwanda declined by almost 150 percent and by 90 percent with Mozambique. Although trade costs with Burundi remained high they declined by almost 50 percent. These are positive results and highlight the potential opportunities for significantly increasing regional trade, albeit from a relatively low base, by removing bottlenecks that previously crowded out bilateral trade.

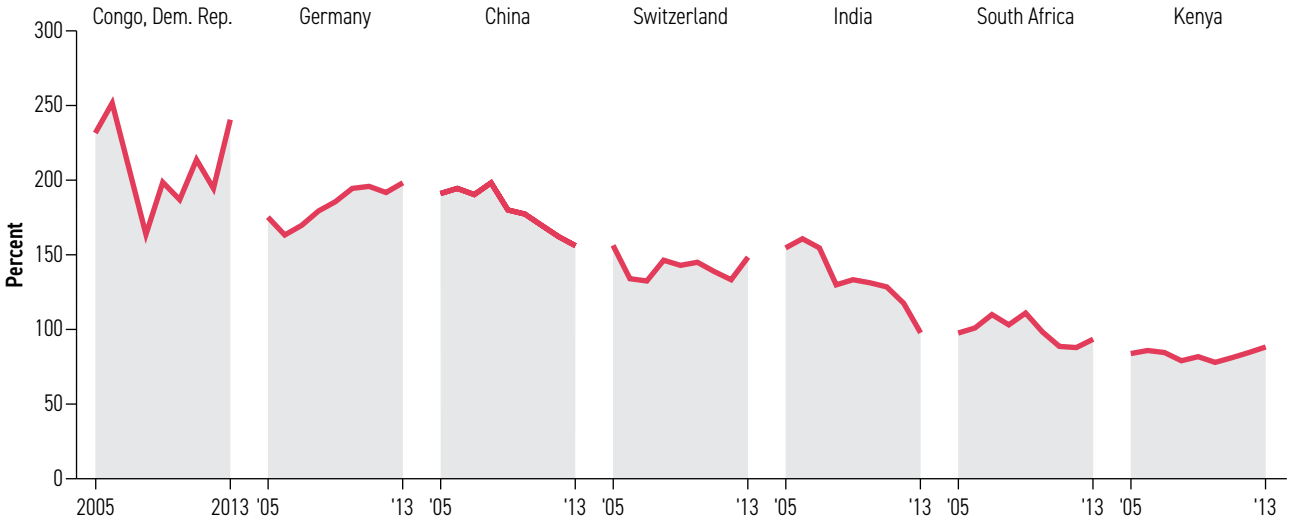
Breaking out the trade costs between the agricultural sector (figure 3.11) and manufacturing (figure 3.12) highlights the 'thickness' of borders for agricultural trade within East Africa. With the geographical factors remaining constant since these costs are largely determined by exogenous factors such as the geographical distance, language, membership to the EAC or SADC. The difference in trade costs results from endogenous trade costs, including, tariffs, nontariff measures, and logistics performance. While bilateral manufacturing trade costs for Rwanda and Burundi declined significantly to be closer to Uganda's trade costs, agricultural trade costs within the EAC were more variable and were almost twice as high with Kenya, Uganda, and Burundi all recording above 150 percent in 2013.

FIGURE 3.8: Progress on Reducing Trade Costs, 2005–13



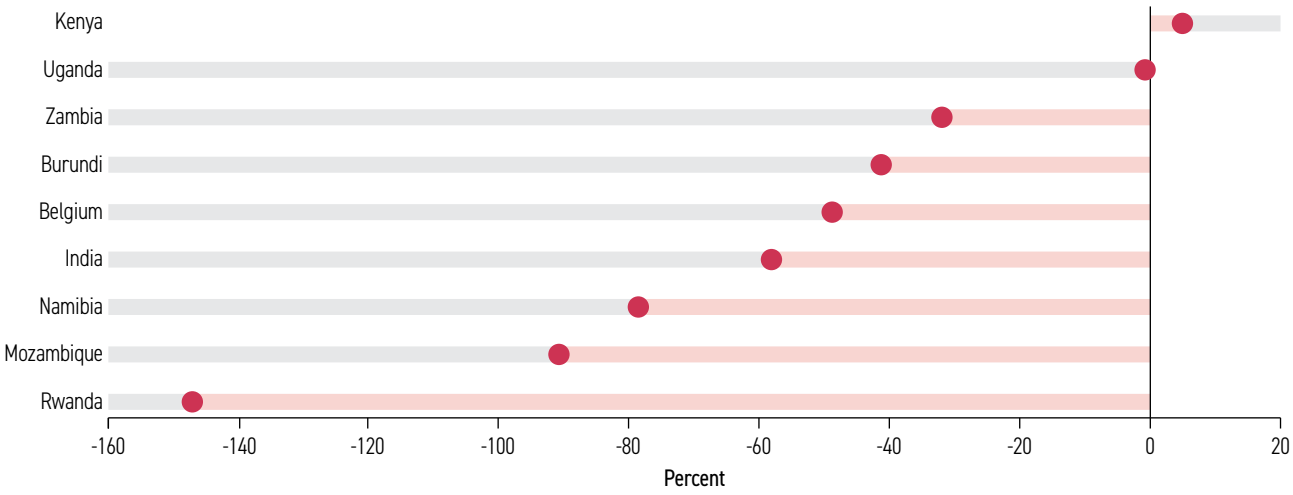
Source: Derived from World Bank Trade Costs database.

FIGURE 3.9: Bilateral Trade Costs with Major Trading Partners, 2005–13



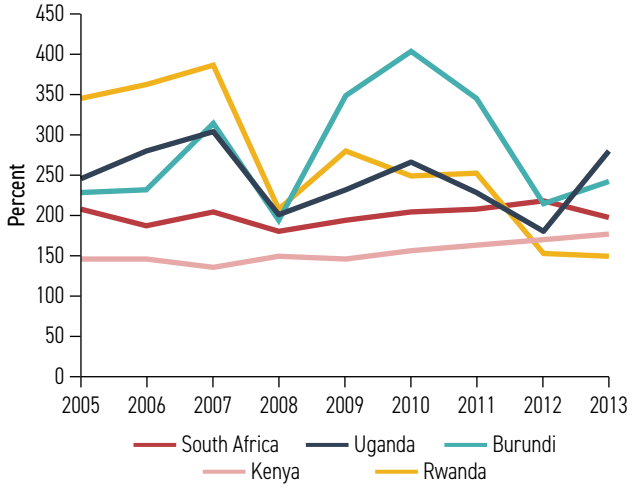
Source: Derived from World Bank Trade Costs Database.

FIGURE 3.10: Change in Bilateral Trade Costs, 2005–13



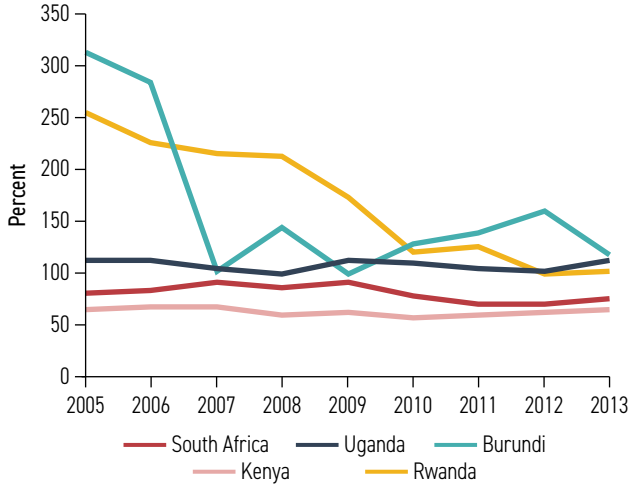
Source: Derived from World Bank Trade Costs database.

FIGURE 3.11: Bilateral Trade Costs, Agriculture, 2005–13



Source: Derived from World Bank Trade Costs Database.

FIGURE 3.12: Bilateral Trade Costs, Manufacturing, 2005–13



Source: Derived from World Bank Trade Costs Database.

Recommendations

Reduce the very high tariff peaks. The existing sensitive sectors with tariff peaks above the EAC CET maximum tariff of 25 percent range from 35–100 percent should be phased out. The existing tariff policies result in an incentive structure that discourages expanding production for exports, encourages production for the domestic market, and results in higher prices for basic foodstuffs, which reduces living standards and has a disproportionate negative impact on the poorest groups.

Reduce the maximum CET to 15 percent. Reducing the number of EAC CET tariff bands to two, zero, and 15 percent would considerably reduce the anti-export bias of the existing CET. Reducing trade taxation, while Tanzania (and other EAC economies) face serious revenue challenges and budget deficits, requires coordinating any external tariff reform with broader tax reform. This would also need to be coordinated with all the EAC partners.

Phase out export taxation. Export taxes and export bans are aimed at encouraging additional domestic value added. In all cases, export taxes have the unintended result of ensuring the domestic supplier receives a lower price for their products. Promoting links and additional value added would be better served through reducing trade costs.

Notes

1. Hifadhi (Dar es Salaam), Millennium Business Park EPZ (Dar es Salaam), Kisongo (Arusha), Kamal Industrial Park SEZ (Bagamoyo), Global Industrial Park SEZ (Dar es Salaam), and Benjamin William Mkapa SEZ (Dar es Salaam).
2. The trade data was downloaded from the World Integrated Trade Solutions website http://wits.worldbank.org/.
3. This section is based on Yoshino and others (2013).
4. Following the inverse form of the gravity model as developed by Novy, Dennis (2013) Gravity redux: measuring international trade costs with panel data, Economic Inquiry, Vol. 51 (1).
5. The World Bank-United Nations Economic and Social Commission for Asia and the Pacific Trade Cost database can be accessed at http://databank.worldbank.org/data/reports.aspx?source=escap-world-bank-international-trade-costs.
6. There are challenges with the accuracy of the underlying data, namely the extent to which net exports take account of reexports and the data on the value of products produced and sold domestically. Furthermore, it is assumed that the intra-sectoral elasticity of substitution remains constant across the economy, countries, and over time. Given the data challenges and the necessary simplifications required to operationalize the model, the data must be considered illustrative rather than representing precise measurements.

References

Anderson, James and Eric van Wincoop. 2004. "Trade Costs." *Journal of Economic Literature* 42 (3): 691–751.

BOT (Bank of Tanzania). 2016. *Bank of Tanzania Annual Report 2014/15*. Dar es Salaam: BOT.

Cunningham, Victoria Frances Kernot, Mahjabeen Haji, N., andJustina Kajange. 2015. *Tanzania Economic Update: Why Should Tanzanians Pay Taxes? The Unavoidable need to Finance Economic Development*. Washington, D.C.: World Bank.

Dinh, Hinh T., Celestin Monga, Jacques Morisset, Josaphat Kweka, Fahrettin Yagci, and Yutaka Yoshino. 2013. *Light Manufacturing in Tanzania: A Reform Agenda for Job Creation and Prosperity*. Washington, D.C.: World Bank.

Mousley, Peter, Clive Harris, and Victoria Rigby-Delmon. 2014. *Building Integrated Markets within the East African Community: EAC Opportunities in Public-Private Partnership Approaches to the Region's Infrastructure Needs*. A World Bank study. Washington, D.C.: World Bank.

Novy, Dennis. 2013. "Gravity Redux: Measuring International Trade Costs with Panel Data." *Economic Inquiry* 51 (1): 101–121.

Yoshino, Yutaka, Olivier Cadot, Francis Ratsimbazafy, and Julie Regolo. 2013. *Uncovering Drivers for Growth and Diversification of Tanzania's Exports and Exporters*. Washington, D.C.: World Bank.

4 Border Management, Trade Logistics, and Transport

Border management and trade logistics are key determinants of trade costs. For Tanzania, trade facilitation is critically important at the national, regional, and global levels, since the port of Dar es Salaam is one of the key entry points for Tanzania and Central, Eastern, and Southern Africa. Thus, strategies to improve trade facilitation and logistics impact on national, regional, and international competitiveness. Tanzania straddles both Eastern and Southern Africa and has a long coastline on the Indian Ocean with access to major shipping lanes. It shares borders with seven countries, five of which are landlocked or quasi-landlocked with borders along two lakes (Victoria and Tanganyika). Tanzania—with the strategically located port of Dar es Salaam providing access to the broader Central-Eastern and Southern Africa region—has an opportunity to benefit from the growing volumes of trade from China and the rest of the Asia region.

This chapter focuses on both the trade facilitation and logistics processes, including transport. The chapter seeks to highlight key issues related to the border clearance process (customs and other border agencies), port-related and logistics industry issues, and transport. The chapter focuses on identifying priority actions, including simplifying documentation, inspections, and procedures and reducing clearance time for imports and exports.

Tanzania has implemented a range of trade facilitation and logistics measures since the earlier Diagnostic Trade Integration Study (DTIS) 2005 for the country, and has achieved improvements in its trade facilitation and logistics environment. Effectively implementing the government's commitment to improving the business-enabling environment through harmonizing and simplifying the legislative, regulatory, and administrative

"Border management and trade logistics are key determinants of trade costs. For Tanzania, trade facilitation is critically important at the national, regional, and global levels, since the port of Dar es Salaam is one of the key entry points for Tanzania and Central, Eastern, and Southern Africa."

provisions regarding importing and exporting promises to deliver further significant reductions in trade costs.

The 2013 World Trade Organization (WTO) Trade Facilitation Agreement (TFA) presents an opportunity for Tanzania to accelerate trade facilitation reforms. The TFA contains provisions for expediting the movement, release, and clearance of goods traveling across borders through effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. It also sets out measures to promote cooperation among customs and border authorities on customs compliance issues. As the TFA moves towards ratification[1] and implementation, countries around the world will be required to begin implementing the technical requirements of the agreement; speedup customs procedures; make trade easier, faster, and cheaper; provide clarity, efficiency, and transparency; reduce bureaucracy and corruption; and use technological advances.

Effectively implementing the TFA will deliver trade facilitation benefits to the private sector through streamlining border agency cooperation. The TFA provides for protecting legitimate public objectives in areas such as revenue collection, community protection, and national security. This can only be achieved by ensuring that all the relevant government agencies involved in facilitating trade are actively engaged in the implementation process, and that there is wide consultation with other stakeholders.

Tanzania's Trade Logistics and Trading Across Borders Performance

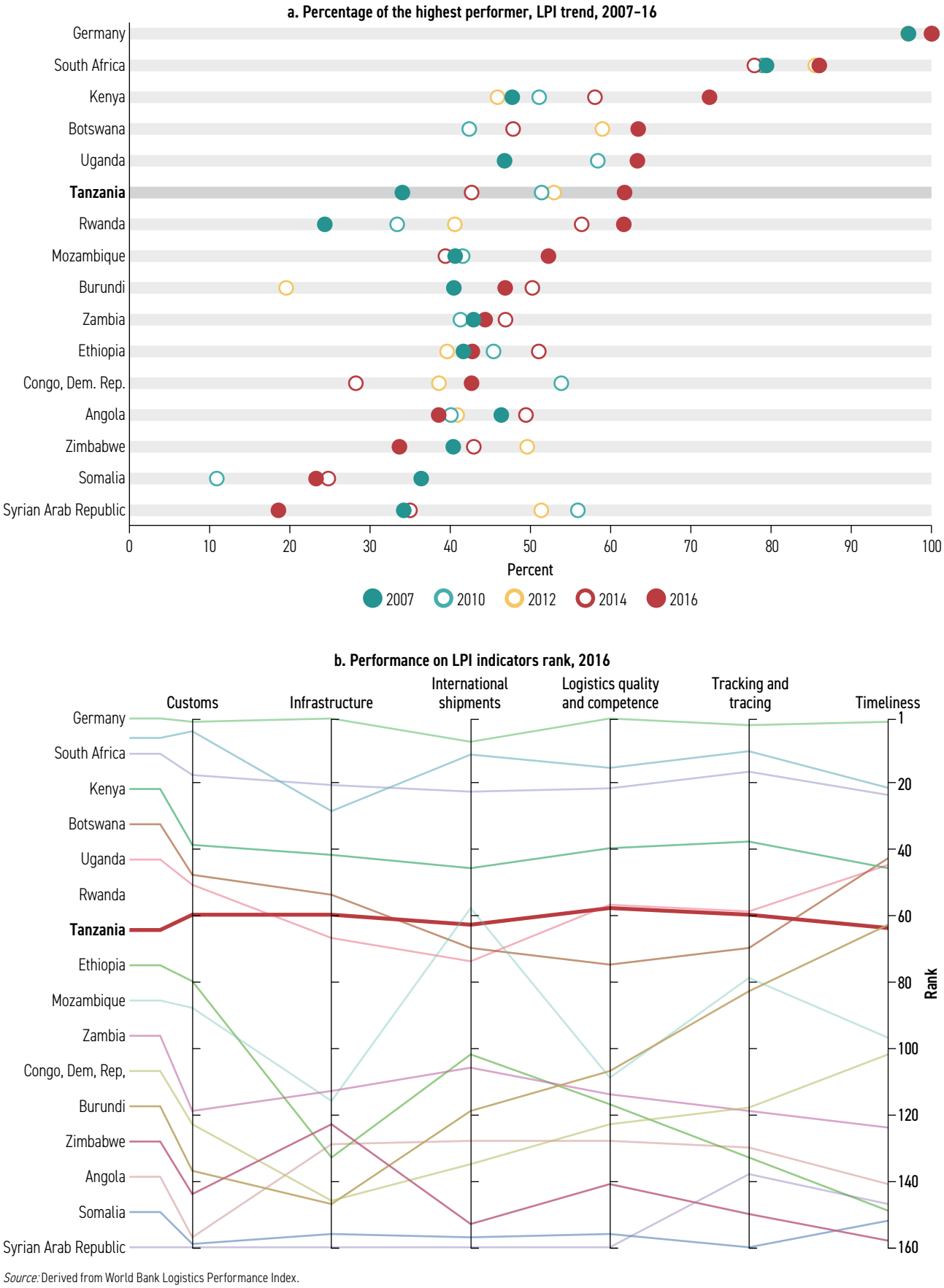
Notwithstanding recent progress, Tanzania's customs and logistics performance metrics indicate the importance of continuing with customs modernization, regulatory streamlining, and strengthening government and private sector capacity. The World Bank's Logistics Performance Index (LPI) ranks countries on a range of trade facilitation measures based on the perception of business users.[2] Figure 4.1, panel a, shows that Tanzania consistently performs lower than its neighboring countries and trading partners, at about 62 percent as a percentage of the highest performer in 2016, Germany. This rating has increased since the first edition of the LPI in 2007, when performance was at about 34 percent of the highest performer. The performance in all areas of the LPI measures is slightly higher than other countries in the East Africa region, with performance in timeliness, international shipments, customs, infrastructure, and tracking and tracing being the lowest, while logistics quality and competence is an area where improvement is slightly more visible (figure 4.1, panel b).

The LPI performance indicators show that organizing supply chains in Tanzania carries a higher cost and is more time consuming relative to most neighboring countries. Logistics is about managing supply chain, which efficiency and reliability are determined by how well transport infrastructure, border agencies, and transport regulators, as well as services providers, are interacting in a predictable and efficient manner. In this regard, Tanzania's LPI score suggests that it needs to close the gap in the quality of logistics and trade facilitation with neighboring countries if it wishes to maximize the opportunities from trade openness and eliminate the binding constraints for trade and investment in the country.

The 2016 Doing Business (DB) survey ranked Tanzania 180 (out of 189 countries) for ease of trading across borders, due to long delays and extensive documentation requirements. Tanzania's performance on the DB's trading across borders indicators therefore remains low, at about 80 percentage points away from the frontier (constructed from the best performances across all economies and across time).[3] The latest measurement is almost a 40-percent decrease since it was covered in 2013 (figure 4.2, panel a). Streamlining documentation for exporting and importing may further encourage trade with Tanzania.

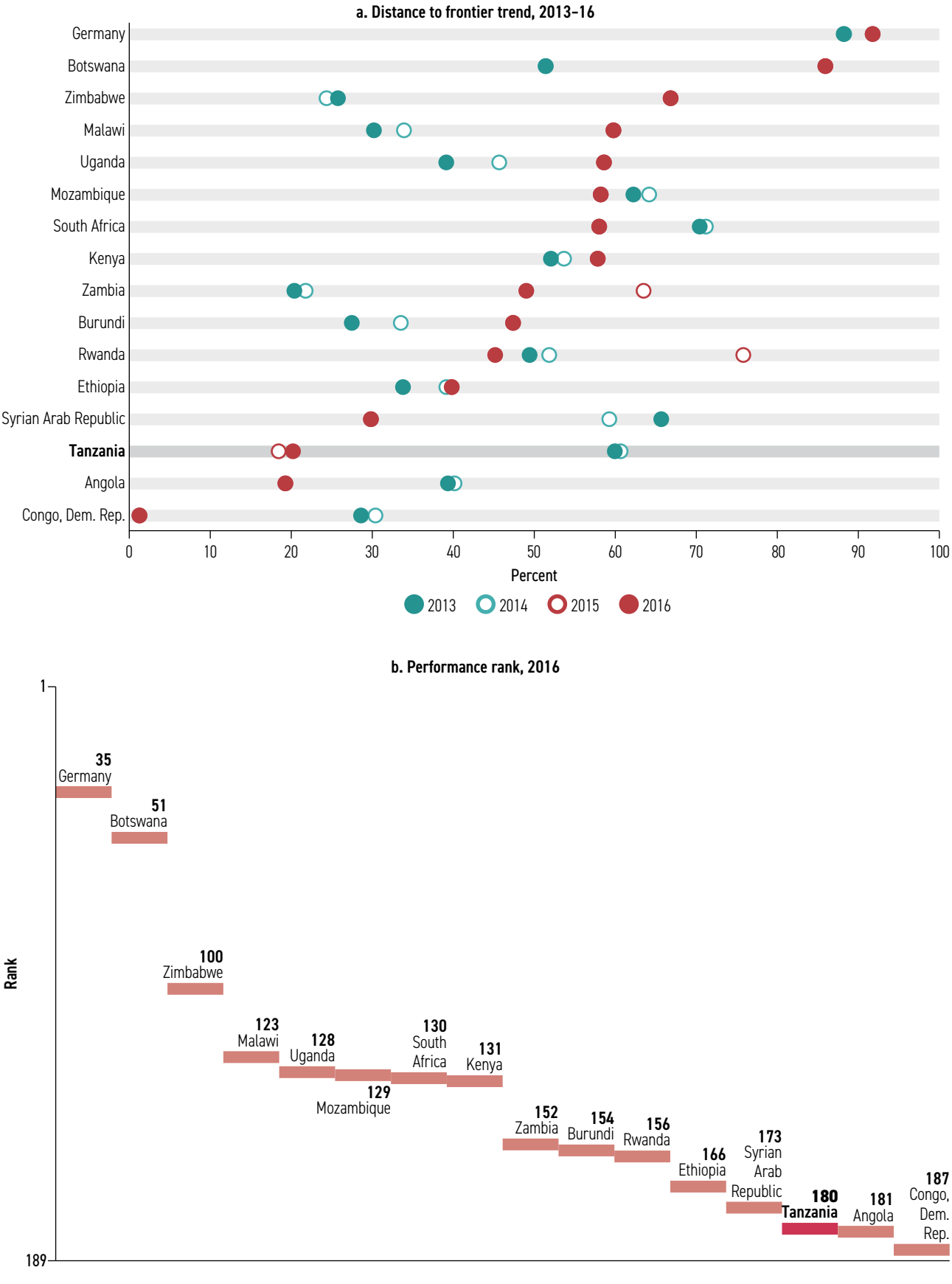
Growing the private sector requires a more supportive regulatory business environment. While Tanzania ranks relatively well compared to most other countries in the East Africa region, in DB 2016, its investment climate has slipped in some areas over recent years and there is substantial room for improvement. Figure 4.3 shows that Tanzania's overall DB ranking has very slightly improved from 140 in 2015 to 139 (out of 189 countries) in 2016, and Tanzania's "distance to frontier" scores on the overall DB have deteriorated from 44 in 2013 to 48 in 2016, while the scores for other countries in the East Africa region registered a modest improvement over the same period.

FIGURE 4.1: Logistics Performance Index, Tanzania and Selected countries 2007–16



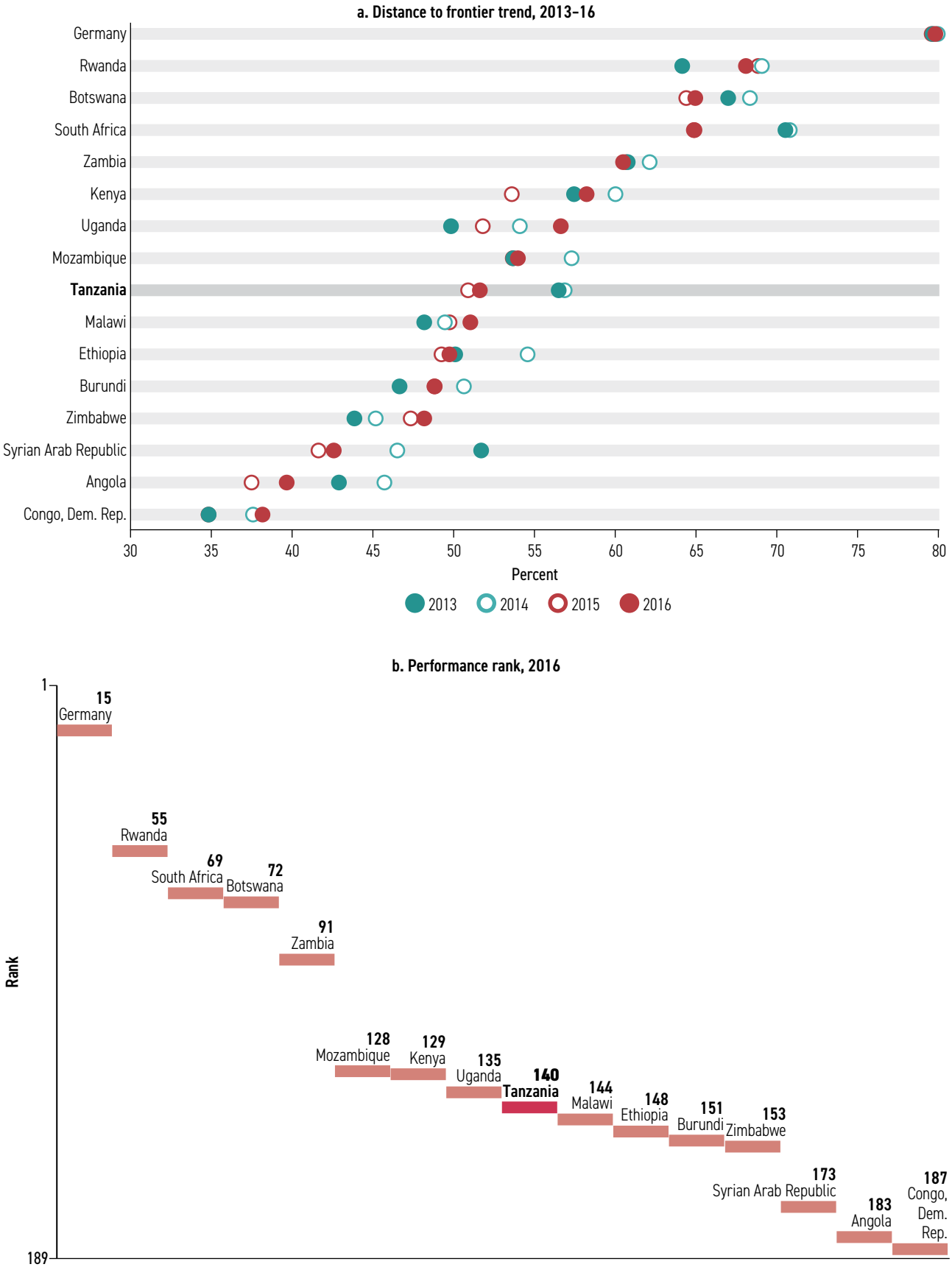
Source: Derived from World Bank Logistics Performance Index.

FIGURE 4.2: Doing Business Trading Across Borders Indicator, Tanzania and Selected Countries



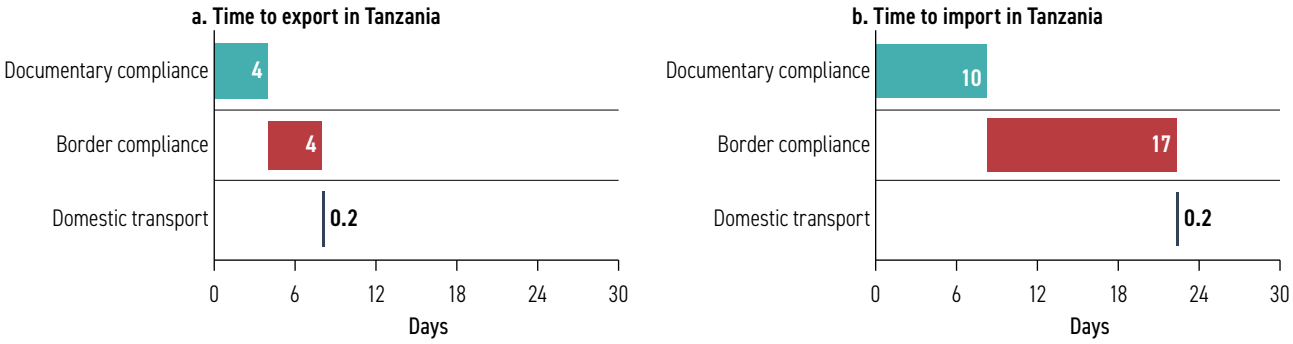
Source: Derived from World Bank Logistics Performance Index.

FIGURE 4.3: Doing Business Overall Indicator, Tanzania and Selected Countries



Source: Derived from World Bank Logistics Performance Index.

FIGURE 4.4: Trading Across Borders, Time to Trade Subindicators, 2016



Source: Derived from World Bank Doing Business data.

Tanzania's border procedures continue to rely on physical inspection and unnecessarily bureaucratic procedures. Notwithstanding recent improvements relating to the new customs clearance software (Tanzania Customs Integrated System [TANCIS]), the length and complexity of procedures continue to impose additional costs on both importers and exporters, which slow down and discourages formal transactions while encouraging parallel trade. The increased use of information and communication technology (ICT) needs to be linked to reviewing procedures and regulations that enable traders to benefit from more reliable and faster clearance times while ensuring customs integrity.

Unnecessary and duplicative customs procedures and the Tanzania Ports Authority's (TPA) inefficient port operations crowd out trade and divert trade to alternative ports. In today's globalized world, making trade between economies easier is increasingly important for business. Excessive document requirements, burdensome customs procedures, inefficient port operations, and inadequate infrastructure, all lead to extra costs and delays for exporters and importers, all stifle trade potential. Simplified, transparent trade procedures are therefore a key component of good trade policy and a vital measure for economic growth. Outdated bureaucracies suppress trade and entrepreneurship, discourage investment, and encourage corruption and small and medium-size enterprises are particularly vulnerable to these difficulties. There are also quite significant differences in productivity between the TPA port operations and the Tanzania International Container Terminal Services (TICTS) concession. The berths managed by the TPA handles 420 twenty-foot equivalent units (TEUs) per ship day at berth compared to 730 TEUs per ship day for the berths managed by the TICTS concession.

Reducing trade costs will improve the import and export environment and promote growth. Reviewing, streamlining, and simplifying regulations and procedures for trade facilitation, would be an important short-term action needed to meet the increased demand for timeliness in export and import, and improve the overall business environment in Tanzania.

This chapter identifies trade facilitation initiatives that would reduce trade costs. The chapter reviews the existing level of trade facilitation along with noting ongoing programs with the aim of identifying issues where Tanzania could implement changes that would reduce trade costs. Lessons from other countries highlight the importance of adopting a coordinated approach to customs modernization as isolated initiatives are rarely successful.

Trade Facilitation Agreements

Tanzania is committed to implementing the TFA through its active membership in the East African Community (EAC). Tanzania is an active member of the EAC and the Southern African Development Community (SADC) Free Trade Area, and has been a member of the WTO since 1964. Customs policies and administrative regulations are driven by the EAC Customs Management Act of 2004 and the EAC Customs Management Regulations of 2006, Despite assenting to the EAC Customs legislation, many of the measures have not been implemented.[4] Tanzania has not acceded to the Revised Kyoto Convention; however, the core principles of the convention are embodied in the EAC legislation and regulations.

Tanzania continues to face many challenges to reduce trade costs as outlined in the recent Trade Facilitation

Assessment (validated in March 2015). Identified priorities included the importance of ensuring all trade-related information be readily available, installing an automated cargo-tracking system, establishing procedures and alert systems for the "trade enquiry" points, developing the legal framework for the proposed One-Stop Border Posts, harmonizing procedures and training for implementing the National Electronic Single Window (NESW), funding the implementation of the National Trade Facilitation Committee, and, at the port, implementing a Port Community System. In 2012, the WTO's Trade Policy Review Mechanism highlighted risk management as a serious constraint, noting that the Tanzania Revenue Authority (TRA) subjected 20 percent of imports to scanning and classified 40 percent of imports as high risk (WTO 2012). Concerns over revenue loss have resulted in the TRA increasing the rate of physical inspections.

The 2014 TFA needs assessment was never published and now requires updating. A TFA needs assessment was carried out at the national level and a draft report was prepared, but the report is yet to be published.[5] This was undertaken in early 2014, when the TRA was using ASYCUDA++ (Automated SYstem for CUstoms DAta) as their automated declaration processing system. At the end of 2014, the TRA transitioned to a new bespoke customs clearance software: TANCIS. Given the importance of declaration processing and cargo clearance to trade facilitation, it would be useful to update the TFA needs assessment. This might include a new Time Release Study (TRS), as well as interviewing key stakeholders.

Updating the TFA needs assessment would provide an opportunity for broader stakeholder consultation. Discussions with the Ministry of Industry, Trade and Investment (MITI) and other stakeholders indicated that the TFA needs assessment process did not follow a rigorous consultation process with all key stakeholders (for instance, the TRA and the Tanzania Freight Forwarders Association [TAFFA] were not fully aware). The new National Trade Facilitation Committee (NTFC) provides an appropriate institutional vehicle for driving the process.

The TFA has built-in flexibility to accommodate developing-country constraints. The TFA, concluded in December 2013, recognizes the needs of developing and least-developed countries. Section II of the TFA provides those countries with special and differential treatment (S&DT) with respect to implementing the provisions and the treatment that other members accord them. A key aspect of the S&DT mechanism is the possibility for developing and least-developed countries to categorize the substantive obligations into three categories.[6] Each category provides different levels of flexibility for the preconditions for implementation and the implementation period. Tanzania notified the TFA category A articles in May 2015.[7] These included articles 1.4 (Notification), 5.2 (Detention), 7.5 (Post Clearance Audit), 9 (Movement of Goods Intended for Import Under Customs Control), 10.5 (Preshipment Inspection), 10.6 (Use of Customs brokers).

At the regional level, in early 2015, the United Nations Conference on Trade and Development and the German Society for International Cooperation initiated an EAC trade facilitation project which aims to develop strategic planning on trade facilitation at both the national and regional levels and strengthening existing national and regional trade facilitation bodies. In July 2016, a follow-up workshop was held in Dar es Salaam for representatives from the key border agencies and private sector stakeholders. Building on the momentum of the workshop, Tanzania set up the NTFC with 52 members.

BOX 4.1: WTO Trade Facilitation

The WTO Trade Facilitation includes the following:

- Requirements for the publication of laws, regulations, and procedures, including Internet publication
- Provision for advance rulings
- Disciplines on fees and charges and on penalties
- Prearrival processing of goods
- Use of electronic payment
- Guarantees to allow rapid release of goods
- Use of "authorized operator" schemes
- Procedures for expediting shipments
- Faster release of perishable goods
- Reduced documents and formalities with common customs standards
- Promotion of the use of a Single Window
- Uniformity in border procedures
- Temporary admission of goods
- Simplified transit procedures
- Provisions for Customs cooperation and coordination

Source: Extracted from the WTO Agreement on Trade Facilitation.

Border Management Agencies

The TRA is the lead agency responsible for managing the borders and customs clearances. Established in 1995, the TRA is responsible for managing the assessment, collection, and accounting of all central government revenue. It is a semi-autonomous body that operates in conjunction with the Ministry of Finance and Planning and is the leading agency in managing the borders. According to the WCO (2015), Tanzania reported 289,221 declarations with a staff complement of 1,964 In fiscal 2016 (ending in June 30), the TRA collected T Sh 5,351 billion (approximately US$2,432 million).

Since its inception, the TRA has evolved from a tax administration that focused only on revenue collection to an organization that gives special attention to the type of services provided to its customers. It has achieved it by rationalizing the tax system and administration to make them simpler and more transparent with the aim of increasing both voluntary compliance and government revenue. According to the TRA, in 2015, 3.7 percent of the total registered importers (1,804) contributed to over 80 percent of revenues and is expected to reach 4 percent in 2016.

More than 70 percent of all trade is processed through the port of Dar es Salaam. Clearances are authorized at 86 customs stations, including 25 seaports, and 8 airports, although more than 90 percent of all clearances are through 9 major border stations. The TRA also operates 6 transit-monitoring stations. All the major entry points use electronic clearance.

Currently, customs control is premised on the outdated concept of prioritizing real-time physical inspection, rather than making extensive use of risk assessment. The purpose of risk management is to secure and improve traders' compliance: higher risk of noncompliance should be subject to more stringent controls while lower risk should be awarded with simplified and more user-friendly controls. However, in the case of Tanzania, there is no clear indication to illustrate that a sound risk management approach is being applied in the clearance of cargos. All containers are subject to compulsory physical scanning, which increases costs and slows down port clearance times.[8] Preliminary formal discussions with senior customs and TPA staff and the private sector (including a representative from the customs brokers association) indicated that over 80 percent of cargo is still being selected for inspection. The very high incidence of physical inspection indicates the absence of sound risk management. The cargo selected for physical inspection, will take much longer to clear than with non-physical inspection. Therefore, information on the delay or speed of clearance procedures is vital to assess the efficiency of border management. This is also reported in the recent TFA needs assessment, where article 7.4 (risk management) was not fully aligned (category A) with requirements of the TFA.

The TRA implemented a Customs Modernization Action Plan for 2009–12, introduced the modular TANCIS in 2014 and is currently preparing their next Corporate Plan (2017–22).

The TRA risk-based system is not functioning effectively. Following international best practices, which shows that risk-based cargo clearance systems facilitate increase compliance and improve efficiency, Tanzania introduced risk assessment more than a decade ago and training was provided under the Customs Modernization Strategy 2009–10 to 2012–13. Imports are channeled using the traffic light system of classification. The three categories are: green for low risk and no inspection, yellow for medium risk with a document inspection, and red for high risk and subject to both documentary and physical inspection. However, following several high-profile smuggling cases, the Ministry of Finance introduced a Directive in 2013 requiring 100 percent cargo inspection. When the TRA upgraded their electronic customs clearance system in 2014 to the TANCIS, it included a more robust and more effective risk management module. However, the 2013 Directive has hampered full implementation of TANCIS.

The Ministry of Finance issued a letter to the TRA in April 2015, indicating its decision to repeal the earlier Directive and allow the TRA to implement the risk-based inspection system, thus gradually reducing the rate required for physical inspections at the port in Dar es Salaam. As a first phase of the risk-based system implementation, the TRA will inspect at least 80 percent of all import cargo, with the expectation that the rate will be reduced further depending on the progress in controlling fraud cases in customs declarations. At the same time, with external technical assistance, TRA has adopted its capacity-building action plan in

implementing its risk-based customs management under TANCIS. Full implementation of the risk-based inspection system would facilitate cargo customs clearance and reduce the average time to export and import. TFA Article 7.4 requires that a risk-based approach be applied to cargo clearance.

At the national level, a compliant trader scheme (CTS) for importers became operational in Tanzania in July 2007, (operationalized in 2008), which included, at the beginning, 55 traders or operators, who accounted for 60 percent of the revenue collected.[9] In 2012, a two-year pilot for a regional CTS in the EAC started in the five member countries, with each country authorizing three traders, for a total of 15 traders within the region.[10]

Border agencies controls are mandated by a national regulatory framework, with specific policy objectives, such as revenue collection, trade and industry policy, fair competition, health and safety, and security. Since the available resources mobilized by border agencies are limited, reasonable selection of cases for inspection is one solution to facilitating trade while maintaining and improving the quality of control.

Tanzanian Customs Integrated System

Modern technologies—notably ICTs—enable border agencies to process their work in an expedited and accurate manner. Information technology (for example, customs declaration processing system) can assist border agencies to verify large volume of declared data, screen by preset criteria, calculate the amount, and produce management reports in an expedited and accurate manner. Communication networks allow traders to submit data from their premises and enables different computer systems to be interfaced, such as electronic fund transfer with commercial banks, and "single window" with multiple agencies' processing systems.

Tanzania used different versions of ASYCUDA for nearly 15 years. However, with continuous demand from the business community to increase the quality and efficiency of customs service, in 2011, a strategic decision had been taken to develop a comprehensive automated system tailored to meet all user needs. It became clear that the introduction of advanced ICTs would be crucial to achieve the desired balance between trade facilitation and effective control. Furthermore, these advances were aimed at increasing the competitiveness of Tanzanian exporters, attracting further foreign investment, and fully exploiting new business opportunities.

This resulted in the development of the TANCIS, which was rolled out in 2014. The project was co-financed by the Tanzanian government and the Investment Climate Facility (ICF). TANCIS was designed as a web-based system that will facilitate moving towards paperless operations and reduce the costs of doing business by facilitating increased transparency, reliability, and efficiency. TANCIS is a modular-based system with over 35 different modules developed, covering a varied array of operations. The TRA is the custodian and administrator of TANCIS. This new system has automated many regulatory activities, enabling the TRA (and potentially other key border agencies) to effectively and efficiently perform their respective regulatory functions. To date, TANCIS is only being utilized by the TRA. These include, issuance of licenses, electronic lodgment of declarations,[11] electronic payment, issuance of receipts and account management, monitoring movement of transit cargo, monitoring bond operations, and so on. The system has also enabled electronic connectivity between the TRA and all the registered stakeholders to allow for direct trader input.[12]

Anecdotal evidence shows that with the implementation of TANCIS, cargo clearance time has reduced. However, the TRA has not carried out a TRS or a study to assess the impact of TANCIS on cargo clearance. The preimplementation predictions of the time between lodging of documents to issuance of customs release orders at the port in Dar es Salaam was expected to reduce from 4 days to 1 day, while goods clearance time was expected to reduce from 5 days to 1 day for export goods and from 9 to 5 days for import goods.

In terms of better performance measurement, it is also essential to carry out regular reviews of the overall time it takes to clear the border as well. These measurements will enable the preparation of reliable border performance indicators (which are usually based on the aggregated time spent at the border station and in queues, if any), so that any new measures could be practically assessed in real time, and early identify any discrepancies and take corrective actions.

National Single Window and TANCIS

Following the implementation of the TANCIS, in 2014, the software appears to have proved itself as a reliable and versatile automated system, catering to the needs of both the public and private sectors in Tanzania. The system illustrates a considerable degree of flexibility, enabling system changes as and when needed, based on user requirements.

The Tanzanian government is exploring the possibility of establishing TANCIS as the platform for a NESW in Tanzania, which appears to have the functionalities for a single-window platform with some modifications. The TRA has been entrusted with responsibility for taking the lead role in planning and implementing the NESW and several other government agencies are currently interfacing with TANCIS.

The Tanzanian government has committed to transitioning to multi-agency integration through connecting the TRA customs clearances through TANCIS with other agencies involved in regulating imports, such as the Tanzania Bureau of Standards (TBS), the Tanzania Food and Drugs Authority, and the immigration authorities.

It is therefore critical that the Tanzanian government and key stakeholders work to develop a vision for implementation of the NESW in accordance with Article 10.4 of the TFA. Institutional integration has taken place (notably through the concept of one agency coordinating the others at a border station, or placing all technical agencies in the same office as customs). Cross-border collaboration exists on the surface, but needs to be strengthened—notably in terms of mutual recognition of findings and moving to joint operations.

Single Window: Coordination, Transparency, Security, and Information Technology

Implementation of the NESW remains a priority for Tanzania. The main tasks of the team responsible for implementation include:

- The development of the NESW for port and customs clearance;
- Preparation of a roadmap for the NESW;
- Compiling information on decrees and procedures for export, import, customs, and port clearance;
- Socialization, technical assistance and capacity-building;
- Selection and implementation of an information technology and payment system for the NESW; and
- Pilot tests of the NESW in various locations.

Implementing a NESW in the Dar es Salaam Port requires effective inter-agency coordination, and is very different from the Port Community System required for improved port functioning. The introduction of the NESW system in the Dar es Salaam Port and the other TPA-managed ports, requires TANCIS (managed by the TRA) to be linked to the Port Community System which is being procured (and would be managed by the TPA). A steering committee will be established by the Tanzanian government to oversee the implementation of the NESW and to adopt the necessary regulations and/or laws.

The NESW process would involve traders submitting an electronic form (request for approval) to the relevant agency (or agencies). These agencies would therefore need to reengineer their processes so that they can provide a one-day turnaround for approvals compared to 12–15 days before the NESW. The agency would then provide an electronic approval to the trader and simultaneously supply a copy to customs, who would electronically insert the approval and license details into the electronic customs declaration—thus saving time and costs to the trader. Once customs conclude their inward goods approval process with the Dar es Salaam Port, traders would then receive an electronic confirmation that their goods are available for collection from the port. This will require internal cooperation to ensure that all the authorities and agencies responsible for border controls and procedures cooperate with one another and coordinate their activities in order to facilitate trade.

Port Community System

Efficient ports and modern shipping require a comprehensive management information system that links all members of the port community. The port of Dar es Salaam requires a Port Community System (PCS). The PCS functions as a hub bringing together all the port management information systems that includes an Automatic Identification Systems, a Vessel Traffic Management System, and a Port Operating Systems (POS). Such systems, when combined with a Port Community System acting as the hub, are able

to offer a wide range of advantages to the transport sector in the country and the region by improving the efficiency and productivity of port operations. The benefits of these improvements pass not only to port operators but also to port customers including shipping lines, freight forwarders, and shipping agents. At the national level, the entire port community and those who depend on it can benefit from the provision of an enhanced and economic logistic chain for international shipping. PCS, at the national level, can provide logistic chains, which improve the coordination and cooperation of land transport, maritime transport, and the ports operations in the region. By linking all members of the port community, the network system is of benefit to the TRA, police, immigration authorities, the Ministry of Works, Transport and Communications, MITI, and many others. For the TPA, the benefit from implementing a modern, comprehensive, and integrated Port/Terminal IT System will result in less paperwork, less time and effort spent, better decision-making, reduction of unnecessary cost, increase of productivity, less error and redundancy, and an increase in overall satisfaction for the port's stakeholders.

Other Border Management Agencies

The TPA, the Ministry of Agriculture, the Tanzania Food and Drugs Authority, the TBS, the Ministry of Energy and Mineral, and the Ministry of Natural Resources and Tourism are some of the key agencies that regulate and administer cross border trade.

Standards are managed by the TBS, which is a government agency under the MITI for mainland Tanzania; Zanzibar has its own Standards Bureau. The main functions of the TBS (as set out in the Standards Act of 2009) are to undertake measures to control the quality of products and to promote standardization in industry. More specifically, the TBS is responsible for developing and publishing the national measurement standards, establishment and maintenance of the national measurement standards, providing testing services, operating a product certification scheme, and administering technical regulations (that is mandatory standards). The TBS is a member of the International Organization for Standardization and International Electrotechnical Commission and, in the region, the EAC Standards Committee and the SADC Standards Cooperation.

Ensuring easy access to technical regulations and standards is essential for competitiveness. A recent assessment of the National Quality Infrastructure and Technical Regulations Regime (Kellerman, 2016) found the standards development process to be "largely compliant" with the WTO's Technical Barriers to Trade Agreement. Standards are provided in hard copy to local enquiries and through a print on-demand system for foreign requests. Approximately 40 percent of the older national standards are not available in electronic format. The TBS website contains a list of 602 mandatory standards that was put online in December 2016.[13] The Standards Catalogue (online) has not been updated since June 2009. Ensuring the availability of up-to-date standards information is essential for competitiveness and should be available for purchase on line. The technical regulations should be available free of charge online.

Transparency, Information, and Communication Mechanisms

Obtaining accurate information on trade regulations and procedures is onerous and time consuming. There are more than 30 agencies involved with cross-border trade clearances, with about 102 different trade-related documents covering different types of licenses, permits, certificates, and approvals. Considerable work is required to ensure traders have access to all the regulatory and procedural information required for importing and exporting goods. Although many regulatory agencies maintain a website, the information is often incomplete, outdated (for example, the TRA website lists the 2012 Tariff Schedule), and difficult to find. Ensuring easy access to accurate and relevant information reduces trade costs. The World Bank Group is assisting several countries—building on work with Lao People's Democratic Republic, Lesotho, and Malawi—to develop integrated Trade Information Portals, where all the relevant information on laws, regulations, procedures, forms, and tariff rates and fees can be obtained via one easy-to-search website.

Publication of the trade information described in the TFA is the responsibility of multiple government ministries and agencies who administer laws, regulations, and directives related to trade. Various legal acts or formal policies define the scope of their respective responsibilities. Best practice examples of trade facilitation

reform highlight the importance of adopting a holistic approach. Ad hoc and incremental reforms often fail to demonstrate much improvement at the national macro level. For instance, coordination and partnership among stakeholders is essential. Illustrative examples include: 24-hours-a-day, 365-days-a-year operation; goods description harmonization; single payment of fees; single window; and one-stop border posts. None of these can be realized without active stakeholder participation.[14] From the perspective of change management, stakeholder engagement is imperative for ownership on reform initiatives that will reduce the conflict costs in reform operations.

Advance consultation and notification is important for businesses. Article 2 of the TFA requires members to provide opportunities and an appropriate time period for all interested parties to comment on the proposed introduction or amendment of laws and regulations related to the movement, release, and clearance of goods, including goods in transit. In Tanzania, however, the private sector reported that they are rarely consulted when the government takes any decisions related to trade. For instance, discussions with the MITI and other stakeholders indicated that the TFA needs assessment process did not follow a rigorous consultation process with all key stakeholders (for instance, the TRA and the TAFFA were not fully aware of the consultation).

Moreover, several conflicts of interests and conflicting roles were identified in various structures in Tanzania, which not only create opportunities for corruption but also reinforces and increases inefficiencies as many gain from them. Thus, reducing existing conflict of interests that contribute to increase the risk of collusive behavior at the expense of end-users could reduce the power of current "winners" who profit from the status quo.

Economic operators make business decisions by collecting and assessing information that would affect their possible trade transactions in terms of cost and time before they conclude sales. Transparency of information is therefore based on the accessibility of information on import, export, and transit rules, regulations, and procedures. Such information includes administrative information (for example, office opening hours and locations), formalities, prohibition (or restrictions), licensing (or certificate requirements), applicable duties (or taxes and fees) and charges, penalties, enquiry points, and appeal mechanisms.

For instance, while laws and regulations are often drafted by sponsoring ministries or on an agency basis, in many cases, enforcement is delegated to another ministry or agency. In order to secure the accessibility in such a structure, information on the hierarchy and pertinent laws and regulations should also be available to the interested parties.

Moreover, availability of recourse or appeal mechanisms, when the border agency's rulings are against the interpretation of the economic operator, also enhances predictability. Ideally, there should be at least two paths for recourse: administrative and judicial. For instance, the benefit of administrative appeal mechanisms is the expedited process and expertise they can bring.

Port Efficiency and Border Clearances

Dar es Salaam Port is the gateway to East Africa and its efficiency matters to Tanzania and the region. The port—the fourth-largest in East Africa after Durban, Mombasa, and Djibouti—is the main sea port and cargo entry point to Tanzania, yet, is also one of the least efficient ports. Over 90 percent of cargo is imported and exported from Tanzania through the port of Dar es Salaam. The port also serves as the entry point to Burundi, Democratic Republic of Congo, Malawi, Rwanda, Uganda, and Zambia (which are landlocked countries). The port has 11 berths and handled about 15 million tons of cargo in 2016.

Inefficient port and customs operations in Tanzania are increasing the time and trade costs associated with international transactions. This represents a major constraint to doing business. All containers are being scanned and are subject to customs physical inspection, which has caused huge delays in the port. No risk management is applied currently, thus compliant containers are being physically inspected as well. There are more than 30 other government agencies involved in administering and regulating cross-border trade, and there is a lack of coordination between all these agencies, which causes further delays. There is also no clear plan for reducing the number of agencies at the border.[15] It is reported that, on average, the clearance time per container is 12–15 days.

Reviews by the TPA, the World Bank, and others have all highlighted the potential for improving operational and spatial efficiency within the port. The TradeMark East Africa program is currently assisting the TPA with funding for new access roads and security gates. The World Bank has supported the TPA in designing the Dar es Salaam Maritime Gateway project to support Tanzania to realize the goal of unlocking the potential of the Central Corridor and increasing the capacity of the port to 22 million tons per year. There is also funding provided to introduce a new port community system, and terminal operating systems where necessary.

Release Time at the Tanzania Borders

The main clearance plans for TANCIS are PMD (post manifest declaration), PAD (prearrival declaration), and EWD (ex-warehouse declaration). Knowing under which clearance plan the declaration has been handled is critical to understand the meaning of the release time. In the following example, based on data from Dar es Salaam port for 2015, the "time to declare" is the difference between the arrival time of the ship in the port and the time the declaration is lodged, the "time to release" is the difference between the time the declaration is lodged and the customs release, and the "time to exit" is the difference between the customs release and the actual exit from the port (or the off-dock container yard). The "dwell time" is the difference between the arrival of the ship and the exit of the container from the terminal (either port terminal or off-dock container yard). The results are as follows (IM4 is clearance for Tanzania, IM8 is transit):

- EWD: the container exits the port well before the declaration is lodged, which is shown by the negative time to exit.
- PAD: the declaration is lodged prior to the arrival of the ship (this is the most common scenario).
- PMD: the declaration is lodged after the arrival of the ship (sometimes well after).

To measure customs performance for releasing goods, it is the PMD plan which is the clearest indicator, in the PAD, the release cannot take place before the actual arrival of the goods, and therefore the release time is influenced by the degree of anticipation of the declarations, and EWD is a specific regime benefitting a limited set of traders.

On average, release times are long, over 10 days. This is partly explained by the dominance of the Red channel, but even for Green, the release time remains over three days. For transit, the performance is better. The detailed breakdown is shown in Table 4.1

TABLE 4.1: Dar es Salaam Customs Clearance Time by Channel

Customs regime	Number of containers	Time to declare (days)	Time to release (days)	Time to exit (days)	Dwell time (days)
Clearance for Tanzania	131,578		15.1	-3.0	19.2
EWD	12,525	91.2	6.6	-78.4	20.2
Green channel	516	46.9	5.0	-49.2	17.3
Red channel	860	82.9	15.2	-79.3	17.1
Yellow channel	11,149	94.1	6.0	-79.7	20.6
PAD	104,978	-4.6	16.7	4.6	16.6
Green channel	17,846	-2.6	11.6	7.5	16.5
Red channel	84,367	-5.1	17.9	3.8	16.6
Yellow channel	2,765	-1.0	11.6	9.4	20.1
PMD	14,075	18.2	10.9	8.1	37.2
Green channel	2,710	16.7	3.5	16.5	36.7
Red channel	10,520	18.7	13.3	5.3	37.3
Yellow channel	845	17.7	5.6	15.6	38.9
Transit	48,170	5.1	3.0	9.7	17.8
PAD	21,653	1.1	5.4	8.9	15.4
Green channel	75	0.8	0.9	2.5	4.2
Red channel	11	1.9	7.2	1.9	11.0
Yellow channel	21,567	1.1	5.4	9.0	15.4

(Table continues next page)

TABLE 4.1 *(continued)*

Customs regime	Number of containers	Time to declare (days)	Time to release (days)	Time to exit (days)	Dwell time (days)
PMD	26,517	8.4	1.0	10.3	19.7
Red channel	9	3.8	6.2	5.2	15.1
Yellow channel	26,508	8.4	1.0	10.3	19.7
Total	179,748	5.4	11.9	0.4	18.8

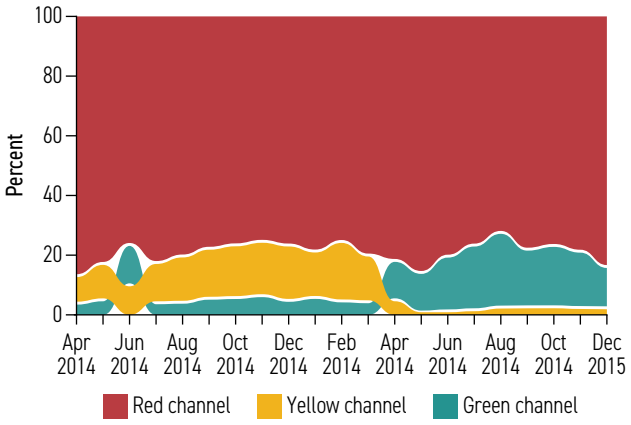
Source: Data received from TRA for Dar es Salaam Port.
Notes: EWD = ex-warehouse declaration; PAD = prearrival declaration; PMD = post manifest declaration.

The routing of the declarations at the Dar es Salaam Port for the PMD is indicated in figures 4.5 and 4.6. The proportion of the Red channel is very high, but some declarations in the Yellow channel passed to the Green channel. This proportion is linked to the Tanzanian government's directive that requires 80 percent of containerized cargo be subjected to physical examination and 20 percent be subjected for other risk criteria, implemented since 6th May 2015, instead of the 100 percent physical verification that was enforced before.

Dar es Salaam and Kilimanjaro Airports

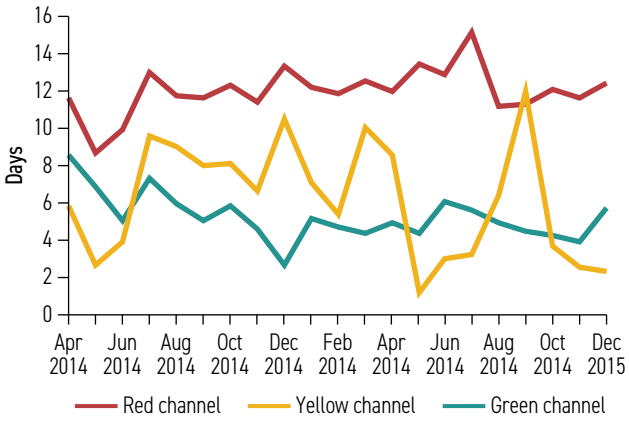
The routing for declarations at the two airports (Dar es Salaam and Kilimanjaro) are shown in figures 4.7 and 4.8. The impact of the directive on physical examination

FIGURE 4.5: Dar es Salaam Port: Share of Containers by "Risk" Channel, Apr 2014–Dec 2015



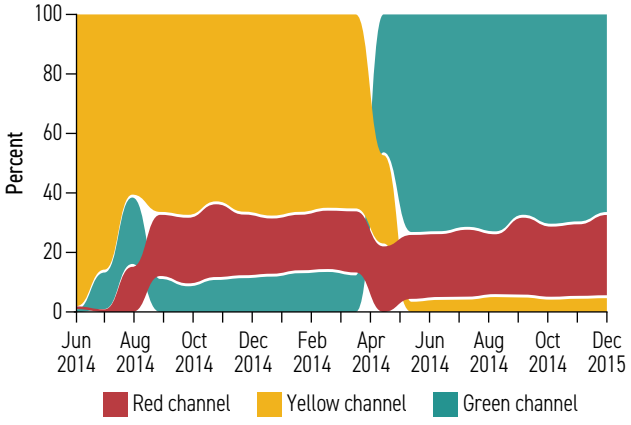
Source: Derived from Tanzania Revenue Authority data.

FIGURE 4.6: Dar es Salaam Port: Release Time by "Risk" Channel, Apr 2014–Dec 2015



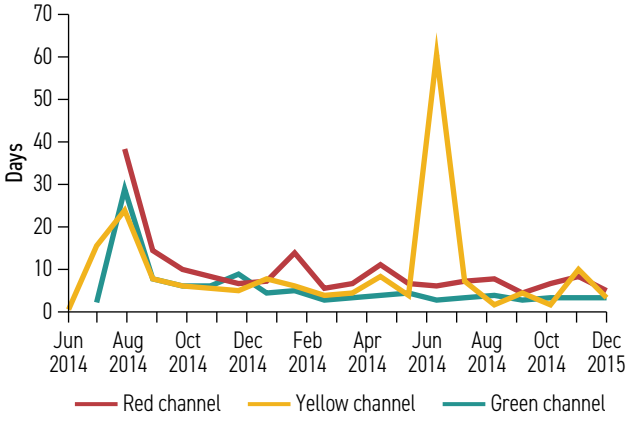
Source: Derived from Tanzania Revenue Authority data.

FIGURE 4.7: Dar es Salaam and Kilimanjaro Airports: Imports by "Risk" Channel, May 2014–Dec 2015



Source: Derived from Tanzania Revenue Authority data.

FIGURE 4.8: Dar es Salaam and Kilimanjaro Airports: Release Time by Risk Channel, days, May 2014–Dec 2015



Source: Derived from Tanzania Revenue Authority data.

is very noticeable at the airports, where the proportion of Green channel increased to 70 percent.

Namanga Land Border with Kenya

The situation at the land border with Kenya is more worrying. Figures 4.9 and 4.10 indicate very long release times. In the absence of corresponding information on the physical movements of the trucks, it is difficult to assess the impact of such long times in the duration of the border crossing.

One-Stop Border Post Framework for the EAC[16]

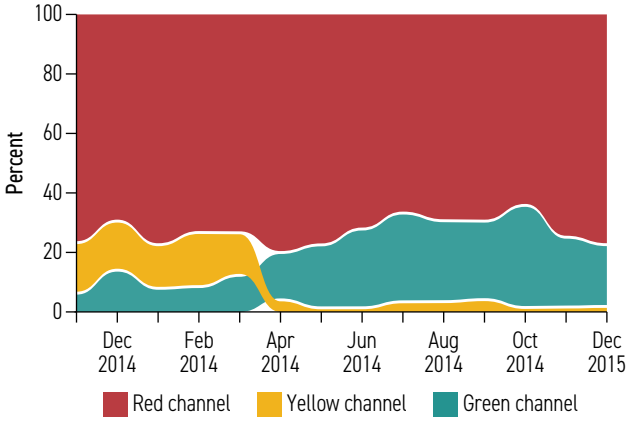
Land borders are often considered as obstacles, and a variety of remedies have been experimented. A solution has emerged at the continental level in Africa, the One-Stop Border Post (OSBP), also known as Joint Border Post in West Africa. The conversion of mainland Tanzania border crossings into OSBPs has now been included in the action plan of most Regional Economic Communities (RECs) (notably West African Economic and Monetary Union, Economic Community of West African States, EAC, SADC, and Common Market for Eastern and Southern Africa). Since the first pilot programs for the establishment of OSBPs, the collective experience of the RECs, corridors, and development partners had been compiled in the OSBP Sourcebook published in 2011, largely drawing lessons from the EAC OSBP program. Since then, many more borders have been earmarked for conversion into OSBP, but on numerous instances, expectations and benefits failed to fully materialize.

Baseline surveys for the main Northern Corridor borders between Kenya, Uganda, and Rwanda, and also in support to the ECOWAS Joint Border Post Program, measured the time spent at the border decomposed step-by-step to identify areas for improvement (Fitzmaurice and Hartmann 2013). In the specific case of the East Africa surveys, a preliminary attempt at evaluating the savings for the trucking industry and the shippers had been made, enabling a comparison of the cost of establishing an OSBP versus its benefits on high-volume corridors.

The surveys clearly show that the necessary institutional and regulatory reforms are often more important than upgrading the physical facilities for the reduction of border crossing times, and that improving the institutional and regulatory framework is critical when designing border-crossing interventions.

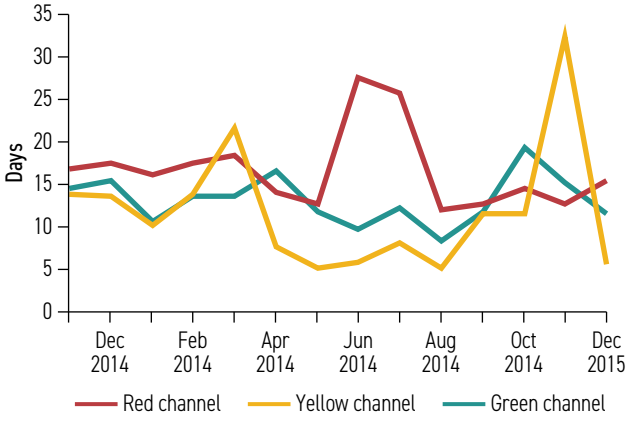
The EAC OSBP program is part of the EAC infrastructure development program developed in 2006. Under the OSBP Program, the EAC Secretariat, along with the EAC partner states and development partners, identified a number of border posts across the region for conversion into OSBPs. The development of a Regional Legal Framework was central in that program, so that a common approach and vision for establishing OSBPs in the region can be achieved. The EAC Secretariat prepared a policy paper on OSBPs in

FIGURE 4.9: Namanga Land Border with Kenya: Imports by Risk Channel, days, Nov 2014–Dec 2015



Source: Derived from Tanzania Revenue Authority data.

FIGURE 4.10: Namanga Land Border with Kenya: Release Time by Risk Channel, days, Nov 2014–Dec 2015



Source: Derived from Tanzania Revenue Authority data.

2010, to inform discussions among stakeholders on the necessity and appropriateness of a dedicated EAC OSBP Act. To this end, the OSBP policy paper provided a basis for the approval by the EAC Council of activities for the formalization of the EAC OSBP Act, including enactment by the EAC Legislative Assembly and assents from the heads of state of the EAC partner states. In 2010, the EAC carried out a study of the legal requirements for the introduction of OSBPs in the region. The study reviewed the existing legal instruments and policies to determine the optimal legal framework for implementing OSBPs in the EAC. In addition, the study analyzed laws and regulations governing the operations of border control agencies with a view to determining the requirements for border operations under the OSBP framework. The study also involved the preparation of a legal framework for the EAC that could be applied at all internal OSBPs in the region (that is, border crossings between pairs of EAC Partner States).

By September 2015, the EAC OSBP Bill had been assented to by four of the five EAC heads of states. In order to facilitate implementation of the EAC OSBP Act upon full assent, the EAC has embarked on the process of developing the EAC OSBP Regulations even before the full assent to the OSBP Bill. Using the same rationale, the development of EAC OSBP regional procedures commenced in August 2015, while awaiting the enactment of the OSBP Act.

The EAC OSBP program covers the following Tanzania borders:

1. With Kenya: Namanga, Taveta-Holili, Lunga Lunga-Horo Horo, Isibania-Sirari
2. With Uganda: Mututkula-Mutukula
3. With Rwanda: Rusumo-Rusumo
4. With Burundi: Kobero-Kabanga

Under the wider Tripartite Regional Integration Program, additional borders of Tanzania are earmarked for conversion into OSBPs:

1. With Zambia: Tunduma-Nakonde
2. With Malawi: Kasumulu-Songwe
3. With Mozambique: Unity Bridge (Mtambaswala-Namoto)

Based on the success of the conversion of the Northern Corridor borders into OSBPs, the dramatic reduction of border crossing time enabled trucking operators to utilize more efficiently their trucks, therefore containing the increase in costs, and in some instance, even contributing significantly to the reduction of transport prices.

Small-Scale Trade

Small-scale cross-border trade, with emphasis on facilitating trade across borders, fosters shared economic growth, promotes regional integration, and contributes to achieving food security, as it primarily involves agricultural products. Small-scale trade is also a major source of livelihood for many, especially in rural areas, and particularly for women: estimates indicate that up to 70–80 percent of the small-scale cross-border traders on the subcontinent are female. Therefore, small-scale cross-border trade facilitation holds significant potential for poverty eradication, as well as for women economic empowerment and for the achievement of gender (economic) equality. For cross-border traders, obtaining permits and complying with all the approvals required for exporting is prohibitive and crowds out their participation in the formal sector.

Dar es Salaam Maritime Gateway Project

The Dar es Salaam Port serves as the 'anchor' connecting the landlocked countries of the interior via the Central and Dar Corridors to global markets. The Central Corridor runs 2,170 km from Dar es Salaam and links Uganda, Rwanda, Burundi, and Democratic Republic of Congo, and Central and Northern Tanzania. The Dar Corridor, forms part of the North-South Corridor for 1,900 km from Dar es Salaam to Kapiri Moshi in Zambia, and connects Tanzania, Malawi, Zambia and the Democratic Republic of Congo. Increasing the capacity and efficiency of the Dar es Salaam Port promises to benefit Tanzania and the broader region.

The Dar es Salaam Maritime Gateway Project aims to improve the effectiveness and efficiency of the Dar es Salaam Port. The project has two components: improvements to the physical infrastructure and institutional strengthening and implementation assistance. The project will result in reduced ship waiting times, higher rates of berth occupancy, increased throughput (boxes per hour), and reduced vessel turnaround times.

The Great Lakes Trade Facilitation Program

The facilitation of trade among the Great Lakes countries was identified as a key priority. This initiative seeks to promote regional peace and stability through programs to improve livelihoods in border areas, promoting cross-border trade and strengthening economic interdependence. The Great Lakes Initiative has two pillars: the first pillar is designed to address vulnerable groups and improve community resilience, and the second pillar focuses on economic cooperation and regional integration. The second pillar seeks to support the countries in the region by providing small-scale infrastructure, removing barriers to trade and economic integration, providing employment (especially for youths), and raising agricultural productivity to alleviate poverty.

The Great Lakes Trade Facilitation Program (GLTFP) is designed to contribute to pillar II, by supporting interventions that facilitate and promote cross-border trade in the border regions of the Great Lakes countries—and in particular, borders between eastern and southern Democratic Republic of Congo and its Great Lakes neighbors. The program takes a holistic approach to facilitating trade in both goods and services, by supporting modest infrastructure improvements at selected borders and lake ports, and policy and border management reforms that make the region more attractive for trade-related investment.

The GLTFP is designed in two phases. The first phase focuses on the border crossings and border areas between the Democratic Republic of Congo, Uganda, and Rwanda. The second phase seeks to promote economic development in the Great Lakes border areas, particularly between the Democratic Republic of Congo, Burundi, Tanzania, and Zambia, through targeted trade facilitation and trade promotion reforms. There is tremendous potential to improve livelihoods, generate good jobs, and promote regional stability and cooperation through trade facilitation reforms, but the precise nature of the reforms and interventions will depend upon each country's particular context and strategic objectives.

EAC Operation to Accelerate Regional Integration in the East Africa

The overall objective of this project is to contribute to regional integration through policy reform, infrastructure developments and capacity building in agriculture, trade in services, small trade, and ICT connectivity to (i) improve access to farm inputs by streamlining and harmonizing fertilizer and seeds standards, (ii) increase regional trade in services by easing labor mobility; (iii) improve access of small-scale traders to regional markets by easing cross border trade; (iv) improve connectivity through access to ICT solutions; and (v) improve country level and regional capacity to monitor and implement policy reforms.

Project beneficiaries will primarily be (i) farmers; (ii) services providers in selected sectors as well as consumers and users of such services; (iii) cross-border traders, especially women, vulnerable families in borderland areas; and (iv) national and regional policy institutions tasked to monitor and implement policy reforms that accelerate regional integration.

This project seeks to create new and more stable market opportunities for poor farmers, facilitate the movement of services providers, and improve the border trade environment, with a particular focus on small-scale traders. There is substantive potential to improve livelihoods, create jobs, and promote regional cooperation through trade facilitation reforms, but the precise nature of interventions will depend upon each country's particular context and strategic objectives.

Role of the Private Sector in Trade Facilitation and Logistics

Consultation and collaboration with the private sector is a key aspect in trade facilitation and logistics reform process. Without understanding private sector's concerns and the barriers that prevent them from starting, operating, and growing their businesses, no government can claim to set up a comprehensive reform agenda that will bring a real difference to its people. Successful governments have established effective platforms that allows regular consultations between the public and private sectors to better understand private sector's concerns and thus making them an important part of

the reform process. Discussions revealed limited routine consultation between TRA and RPA and the private sector on proposed reforms. The port community council is effectively moribund. Consultation and dialogue needs to be more widespread, ranging from having private sector membership in steering committees and working groups, to a broader consultative process including businesses.

Availability, Quality, and Performance of Logistics Services

There are 680 licensed freight forwarders in Tanzania, who are also members of the TAFFA. They are licensed by the Customs Department. Freight forwarders are required to complete a week -long training course specializing in classification and valuation. Consideration could also be given to rating and classifying freight forwarders and publishing a performance table. This would provide useful information to traders and also act as a spur to improve efficiency and compliance.

The effects of trade liberalization and trade facilitation are undermined if logistics services providers impose high and additional fees, taking advantage of government regulations on the compulsory use of such services and control on market entry or market access. Some of the government regulations for instance affect traders' choice of logistics services providers. For example, in the trucking sector, the service quota licensing, limits market entry and freight charges tend to be higher than in competitive environments. National requirements on services can force transshipment at the border or one-way empty transport (trucks can move goods only one-way since they cannot pick up goods in the destined foreign country). The issue is important for all countries in the region including both the landlocked and transit economies.

Recommendations

This chapter highlighted key issues that need to be addressed across the trade facilitation and logistics supply chain, focusing on identifying quick wins, including simplifying documentation, inspections, and procedures and reducing clearance time for imports and exports. Improving trade facilitation and logistics performance is at the core of the economic growth and the trade and competitiveness agenda, and with the TFA has now been formally recognized as one of their key pillars for development.

Discussions with the private sector and the public agencies involved in the clearance process suggest that overall, in Tanzania, there is a strong need for improved and predictable processes for regulatory processes, and increased coordination between trade-related agencies and with the private sector, with concrete support for trade facilitation and logistics and policies to support the entire supply chain approach—from port to end user. Ensuring the availability of accurate information on the regulations and administrative processes required for importing and exporting goods is very important. Establishing and maintaining a trade information portal is a proven tool for ensuring all traders, both large and small, domestic, regional and international have ready access to the required information.

Realizing more efficient border clearance requires further improvements in both customs procedures (by the TRA) and other border control agencies. For customs, even though the TRA currently applies some risk management, physical inspection rates remain very high and risk management is solely carried out by the customs department at the port terminal, with the information flow being given from customs headquarters and the risk management channels do not necessarily correspond to international standard risk management channels. However, in modern risk management systems, risk assessment can take place at all levels.

Areas where potential reforms were identified include:

- **Link to multilateral initiatives:** Revisit findings in the TFA needs assessment report and examine the current situation specially, in relation to Article 1 (publication and availability of information), Article 7 (release and clearance of goods), Article 10 (formalities connected with importation, exportation, and transit), and Article 11 (freedom of transit).
  - Building on the challenges outlined in the recent Trade Facilitation Assessment, which established the level of alignment of Tanzania's trade-related laws and administrative practices with all articles of the TFA and assessed current trade facilitation practices and systems and challenges, leverage the gap analysis and identified constraints and validate

the gaps, including the status and capacity of all relevant agencies, and identify what are the important actions and a sequence for implementation and coordinating the sequence across the government agencies and the private sector.

- **Legal framework:** Undertake a legal framework review of border-related legislation and ensure that relevant provisions of the legislative framework are reviewed against international best practice in trade facilitation (WCO; General Agreement on Tariffs and Trade; revised Kyoto Convention; WTO TFA).

- **Risk Management systems:**
  - Provide assistance to expand risk management in customs to other key border-related agencies, in selected activities related to risk management implementation across all agencies, including for the creation of a customs risk management unit.
  - Provide assistance to further develop the second phase for the Compliant Trader Program (national) and African Economic Outlook (regional) and assistance to integrate scanner image analysis capability into risk management methodology.

This work will leverage support on risk management already provided to the TRA by ICF for procurement of the TANCIS.

- Conduct a comprehensive TRS at the port of Dar es Salaam in consultation with the WCO (to identify specific areas for assistance that could feed into: Customs Reform and Modernizations Strategy and TRA 5th Corporate Plan for 2017–18).
- Carry out an assessment of the effectiveness of TANCIS as an automation tool in facilitating cross-border trade.
- Conduct a feasibility study on using TANCIS as the platform for NESW in view of the text in Article 10.4.1 of the TFA and assist the government and key stakeholders to develop a vision for implementation of a NESW.
- Implement a national trade information portal.
- Link to regional initiatives on trade facilitation, this includes the EAC and other neighboring countries including the Democratic Republic of Congo and Zambia.

Notes

1. The TFA will enter into force once two-thirds of the 162 WTO members have completed their domestic ratification process and, as of August 3, 2016, 90 countries have already ratified the agreement. The number of country-by-country ratifications is fast approaching the total of 108 required for the TFA to go into effect (WTO 2017).
2. The six LPI indicators comprise two main categories: areas relating to policy regulations impact on inputs to the supply chain (customs, infrastructure, and quality of logistics services) and service delivery performance outcomes (timeliness, international shipments, and tracking and tracing).
3. An economy's distance to frontier is reflected on a scale from 0 to 100, where 0 represents the lowest performance and 100 represents the frontier. For example, a score of 75 in DB 2014 means an economy was 25 percentage points away from the frontier constructed from the best performances across all economies and across time. A score of 80 in DB 2015 would indicate the economy is improving.
4. For example, the legislation provides for a transit guarantee scheme throughout the EAC, however, this is not yet operational.
5. At the WTO's Ninth Ministerial Conference, held in Bali, Indonesia, on December 3–7, 2013, the 160 members unanimously adopted the TFA. This agreement, which became known as the Bali Package, aims to lower global trade barriers. It is the first agreement reached through the WTO that was approved by all its members.
6. The WTO TFA categories are as follows: Category A measures that a member will implement by the time the agreement enters into force (least-developed countries can take an additional year), Category B measures for which the member will need additional time to implement, and Category C measures for which the member will need additional time and technical assistance or capacity building to implement.
7. Preparatory Committee on Trade Facilitation - Notification of category A commitments under the TFA - Communication from Tanzania, WT/PCTF/N/TZA/1, Document # 15-2551.
8. The TPA does not have the capacity to effectively interpret the images to assess risk. The present requirement for mandatory scanning collects revenue, adds to delays, and contributes little to increasing security.

9. Currently, 65 traders/operators are registered under the CTS.

10. Though in the initial phase, Kenya and Tanzania only had 2 operators for a total of 13 operators for the pilot.

11. According to the TRA, the following Customs functional systems has TANCIS integrated: Prearrival Declaration, Customs Licensing Application Management, Oil Monitoring System, ASY-SCAN (web applications in ASYCUDA++ to facilitate e-documents), ASY-BANK (web applications in ASYCUDA++ to facilitate e-banking), and Exemption Tracking System.

12. TANCIS has also interfaced with few other TRA systems such as the Central Motor Vehicle Registration System, Driver's license, iTAX system, and tax identification number, as well as other key stakeholders' systems.

13. The TBS Standards Catalogue can be accessed at http://www.tbs.go.tz/standards/.

14. Stakeholders include service providers and service users, public and private sectors.

15. At the proposed One-Stop Border Post at Kasane-Kasumulu, Malawi has issued an order reducing the number of border agencies to four, however, to date, there has been no comparable decision by Tanzania.

16. A full case study of the EAC OSBP framework is included in the OSBP Sourcebook 2nd edition, May 2016.

References

Fitzmaurice, Mike and Olivier Hartmann. 2013. "Border Crossing Monitoring along the Northern Corridor." Sub-Saharan Africa Transport Policy Program Working Paper No. 96, World Bank Group, Washington, D.C.

Kellerman, Martin. 2016. *Reforming Tanzania's National Quality Infrastructure to Drive Competitiveness in Regional and World Trade*. Washington, D.C.: World Bank.

WCO (World Customs Organization). 2015. *World Customs Organization Annual Report 2015-2016*. Brussels: WCO.

WTO (World Trade Organization). 2012. "Trade Policy Review of the East African Community: Tanzania." Trade Policy Review WT/TPR/S/271/TZA.

WTO (World Trade Organization). 2017. "Trade Facilitation Agreement Facility." WTO, Geneva. http://www.tfafacility.org/.

5 Agriculture: Trade and Regulatory Policies

Agriculture is of vast strategic importance to Tanzania. Together with fisheries, agriculture accounts for around 31 percent of Tanzania's gross domestic product and provides income for some 80 percent of the population (or around 42 million people) in 2016.[1] The country is endowed with an abundance of fertile land, good rainfall, and other natural conditions well suited to producing a wide range of staple foods and high value agriculture products. With less than 25 percent of arable land utilized, Tanzania is thus in a strong position to leverage agriculture both as an engine for poverty reduction and as a driver of economic growth and trade revenue. Growth in agriculture has a disproportionate effect on reducing poverty. Countries with a track record of high agricultural growth have experienced substantial reductions in poverty rates.[2]

"Agriculture is of vast strategic importance to Tanzania. Together with fisheries, agriculture accounts for around 31 percent of Tanzania's gross domestic product and provides income for some 80 percent of the population (or around 42 million people) in 2016."

Despite the importance of agriculture, the sector has lagged the rest of the economy leaving many stuck in poverty. For more than 20 years, agriculture has grown at half the rate of the rest of the economy. Since the 2005 DTIS, agriculture value added grew by just 3.7 percent, on average, compared with 8.6 percent and 7.5 percent annual average growth in industry and services, respectively (World Development Indicators, World Bank 2016) Although long-term structural transformation away from agriculture is not a problem providing more people earn their livelihood in other sectors, Tanzania remains predominantly rural, and the country's strong performance in other sectors has not been sufficient to mitigate rural poverty. As described in the World Bank's (2015) Mainland Poverty Assessment, the Tanzania's National Strategy for Growth and Reduction of Poverty (MKUKUTA) has given high priority to eradicating extreme poverty and promoting broad-based growth. Through this strategy, Tanzania continued to record a decline in basic needs poverty.[3] Although

this is a significant achievement, most of these gains have been in urban areas and rural poverty remains pervasive. Inequality between rural and urban areas has grown sharply over the past decade and more than 80 percent of the poor and extreme poor in Tanzania are now rural.[4] The government's Agriculture Sector Development Programme Phase Two (ASDP II) finalized in September 2015 identifies the need for a "major policy shift" to boost agricultural growth. The ASDP II highlights the necessity of increasing agricultural commercialization and encouraging the cultivation of high-value, nontraditional crops.

Taking advantage of the opportunities to increase Tanzania's agricultural exports will benefit both Tanzanian farmers and their trading partners, especially those in the EAC. As highlighted in the World Bank (2012) publication, Africa can Feed Africa, fragmented regional markets impose a cost on Tanzania and are increasingly being recognized as a significant contributory factor driving the region's growing dependence on food imports from the rest of the world. With increased trade in agricultural products and increased regional integration (with lower trade costs) Africa could easily feed itself creating countless new and remunerative jobs for small traders and small farmers alike.

Increasing productivity through reducing trade costs and streamlining regulations will support Tanzania in building resilience against potential climate changes. The National Climate Change Strategy in 2012 seeks to strengthen the resilience of the agriculture sector to cope with variations in rainfall and temperature. It identified the importance of promoting drought resistant crops, strengthening weather forecasting, pest risk management, and postharvest processes. Work by the International Food Policy Research Institute shows that changing rainfall patterns will result in some areas increasing their yields while other will lose. With increasing rainfall rice yields were forecast to double. These changes, of course, are not confined to Tanzania's borders but occur in neighboring countries too making regional trade integration one of the best strategies for coping with climate change.

In 2015, Tanzania adopted a 10-year Climate Smart Agriculture Program which identifies six strategic priorities. These include, improving productivity, building resilience and mitigation, promoting integrated value chains, strengthening research, improving agricultural advisory services, and improving institutional coordination. Realizing higher farm level productivity requires improving access to higher quality agricultural inputs-seeds and fertilizer, providing farmers with good quality technical advice, and making it easier for farmers to sell their products.

This chapter adopts a trade lens to the agricultural sector by focusing on the policy and regulations for agricultural inputs and cross border trade. This chapter aims to: (i) increase understanding on the regulatory and administrative barriers to sourcing agricultural inputs at competitive prices; (ii) consider how existing trade regulations affect the competitiveness of Tanzania's agriculture and have an asymmetric impact on smallholder farmers and small traders, while also addressing the unintended consequences of the high tariffs on sugar and rice; and (iii) identifying throughout how existing regulations and policies serve as specific constraints impact on smallholders and small-scale cross-border traders.

The report identifies four priority trade policy and regulatory cross-cutting constraints which contribute to increasing trade costs. High trade costs reduce agricultural competitiveness which in turn results in lower levels of investment and lower productivity advances. These include: (i) unpredictable application of export bans and a continued reliance on state marketing channels; (ii) high levels of protection and taxes; (iii) complex and nontransparent regulations which limit access and increase the price of agricultural inputs; and (iv) institutional challenges in complying with sanitary and phytosanitary (SPS) measures.

1. Unpredictable application of export bans and a continued reliance on state marketing channels

The imposition of export bans at short notice creates market uncertainty, discourages investment, and increase price volatility. Export bans reduce rural incomes and are rarely effective at reducing price volatility. Even when the export ban is lifted, as long as smallholders believe there is a threat that it may be reinstated at short notice, investment in expanding production will be curtailed. Export bans are difficult to enforce as large price differences across East Africa encourage informal trade.

Reliance on state-controlled market channels that restrict how major commodities are traded is another important barrier to agriculture growth and poverty reduction. Continued reliance on export bans for maize is a particularly contentious area of agriculture policy. Despite numerous studies and reports from Tanzania and elsewhere that show export bans contribute to price volatility, harm poor producers, and are rarely successful in preventing food from leaking across borders, Tanzania and other governments continue to impose trade restrictions when they fear food insecurity. During the 2015–16 El Niño event, Tanzania imposed an export ban on maize due to pockets of food insecurity expecting that surplus food would flow to these areas rather than across the border to other places affected by the drought. Without the use of trade restrictions, however, price signals would normally be sufficient to attract maize to the affected areas and/or to inform government that a relief effort is needed. While the ban may have helped keep some maize in the country, regional grain traders and farmer representatives claim there was a very strong negative impact on farmers in surplus zones who could have exported through legal channels but were forced to accept lower prices from cross-border dealers driven to smuggle.

Other examples of challenges associated with closed-market channels in Tanzania include:

- Cloves can only be exported by the Zanzibar State Trading Company (ZSTC) which enjoys a 100 percent monopoly on the trade of this commodity. While ZSTC has taken important steps to streamline its operations in recent years, this policy prevents private firms from competing for business, even with ZSCT, through provision of value added services and price incentives to farmers.
- Coffee was ostensibly liberalized in 1994 with the introduction of private buying by large multinational companies, yet all coffee must still be sold on Moshi Auction run by the Tanzania Coffee Board (TCB) or through a direct export contract approved by the TCB. Cross-border exports that would benefit from higher prices outside the TCB system are not allowed and coffee may only exit Tanzania though the ports of Dar es Salaam or Tanga.
- A warehouse receipt system (WRS) for cashew was introduced in 2007 and is now mandatory whereby all cashew sales are through auctions managed by the Cashewnut Board of Tanzania. While the WRS is credited by many for having stamped out collusion and increased competition between processors, cashew buyers and exporters say that the grading done by warehouses is unreliable thereby depressing prices as they factor in this risk. Large buyers also say that closure of all marketing outlets other than WRS has led them to stop support to farmers with new trees and extension advice needed to boost yields and quality. For their part, some growers have complained of being paid in installments rather than on the spot, which leads the poorest producers to sell for cash on the informal market even at a low price. Rather than make WRS sales mandatory, therefore, a better approach to consider would be to allow other private channels to exist alongside the WRS, and to compete with the WRS, so that farmers and buyers each decide which outlet is best for them.

2. Reliance on high tariffs to protect sensitive industries does little to promote investment and may undermine long-term growth

The DTIS update also finds that Tanzania should consider moving away from the use of very high tariffs to protect sensitive areas of agriculture. Under the EAC Common External Tariff (CET), most forms of sugar and rice benefit from 100 percent and 75 percent tariff protection, respectively (or a minimum tariff of US$200 per ton, whichever is greater). The Tanzanian government states that temporary tariff protection is required for local producers who are unable to compete on the global market owing to structural barriers including outdated seed, inefficient irrigation systems, old processing equipment, and poor roads. While the need for investment in these areas may be clear, it is equally apparent that these high tariffs have created strong incentives for smuggling. Despite recent efforts to crack down on illegal activity, such efforts are likely to be difficult and expensive to sustain, particularly as there are legal exceptions to the CET by mainland Tanzania's neighbors (including an exception that allows Zanzibar to import rice at only 25 percent duty and Kenya to import rice from Pakistan at 35 percent duty). Moreover, the high level of tariff protection, serves to undermine the incentive to make the investments required for increasing competitiveness in the medium and longer term.

3. Opportunities for rural poverty reduction are constrained by unnecessary trade regulations

Although there are many factors that help explain why rural poverty in Tanzania is proving more stubborn to address than urban poverty, this DTIS update clearly shows that opportunities for agriculture growth are constrained by complex and overlapping trade regulations. Over the years, Tanzania has created numerous regulatory agencies and complex trade rules that add to the cost of doing business, delay farmer access to new types of inputs, and prevent small entrepreneurs from competing on equal footing with large companies. Adding to the problem, few (if any) regulatory authorities use genuine risk-based approaches to meet their objectives and instead aim for 100 percent inspection and certification of all traded consignments. Continued reliance on crop marketing boards and consignment-based export permits for maize and other strategic commodities along with the ongoing risk of trade bans and sudden policy changes further undermines the potential for growth by making large and small investments in new technology, forward contracting, and private storage risky.

Tanzania's trade rules are particularly burdensome for small businesses and prevent Tanzanians from sharing in the country's own prosperity. Whereas large firms and multinational companies generally enjoy economies of scale to employ staff to navigate the regulatory environment, small traders wishing to break into business do not, so are easily shut out. Although some trade and regulatory permits are free, many agencies charges fees for their services. Moreover, most permits can only be obtained from the agency's headquarters or, occasionally, through a few branch offices. Consignment-specific import and export licenses, for instance, are only issued by the Ministry of Agriculture, Livestock and Fisheries (MALF) in Dar es Salaam. Although these permits are free, small traders in distant locations must mail their application or travel several hundred kilometers to wait in the city and hope for a favorable outcome while the application is processed. Similarly, the Tanzania Bureau of Standards (TBS) explained that a trader who wishes to export any quantity of grain is required to contact the nearest branch office and pay the costs for an inspector to visit the storage site and certify the product in person. Such requirements are uneconomical for traders with small consignments and impractical for the agencies to implement. Tanzania's trade procedures, therefore, effectively force many small local entrepreneurs into the informal economy where there are no product controls and problems with corruption and harassment easily arise.

Limited transparency of trade rules is a further problem for agriculture. Although many regulatory agencies have made good progress in posting information on their websites, limited transparency of Tanzania's trade rules remains an important constraint.[5] TBS standards, for instance, must be purchased from headquarters even though all standards in agriculture are mandatory technical regulations. For its part, the Tanzania Food and Drugs Authority (TFDA) now posts many forms and guidelines on its website yet traders say these are incomplete and very technical, so are difficult to understand. As a staff member of one parastatal marketing board put it "it took us more than four months of constant investigation to find out what is needed to register our products and we are a government agency so could always get an appointment. Imagine how long it would take an ordinary person to find out what is required." Some people met for the DTIS preparation went even further to allege the lack of transparency in all regulatory agencies is a source of corruption since officials can cite an endless number of obscure and difficult to prove rules, even imaginary rules, to charge extra fees or elicit bribes for noncompliance.

Minimizing the regulatory burden on agriculture trade could therefore be of major economic and social benefit to Tanzania. Minimizing the costs of regulatory compliance in both time and money could not only lead to higher farm gate prices that incentivize farmers to raise crop yields and supply more raw material for processing, but would directly benefit some of the poorest individuals most. Of particular note, many small farmers and small traders are poor women who are likely to be particularly disadvantaged by burdensome rules and regulations due to low levels of literacy, time constraints due to family commitments, and gender biases in distribution networks. Both simplifying and streamlining the requirements for domestic and regional agriculture trade is therefore essential for poverty reduction and for small entrepreneurs to grow and prosper. Organizing small farmers into cooperatives as Tanzania has done in the past may be seen to overcome the problem of high trade costs and poor economies of scale, but

does not provide the opportunities local entrepreneurs need to grow and compete on their own.

The Tanzanian government is working to address these bottlenecks and deserves credit for progress made so far. While many large and small private operators met for the DTIS Update described the regulatory environment in Tanzania as burdensome, government has made headway in addressing some important constraints. Fertilizer regulators, for instance, point to the drafting of new rules in 2011 that eliminate the need for field-testing each NPK[6] combination. Similarly, Tanzania has made good progress in ascribing to regional protocols on seed trade including the Southern Africa Development Community (SADC) Harmonized Seed System and harmonized standards for seed certification of the East African Community (EAC).

While these and other reforms are important, there is still much to be done. While the Tanzania Fertilizer Regulatory Authority (TFRA) states it is implementing the new 2011 regulations described above, it notes that these regulations have not been signed by the minister thereby creating uncertainty for the private sector over which set of rules to follow. Similarly, the Tanzania Seeds Act of 2003 is not aligned with the regional approach to variety release and seed certification. To date, seven new varieties of potato seed have been allowed into Tanzania after just one season of national testing through an agreement with Kenya and Uganda to recognize each other's test data. Unfortunately, however, this agreement has yet to be put into practice with other major crops including maize, rice, sugar, and pulses that are much more important to poverty reduction, food security, and overall trade performance. For these crops, the Tanzania Official Seed Certification Institute (TOSCI) still requires a minimum of two seasons of national performance trials before a variety can be recommended for acceptance.

Elimination of regulatory overlaps may require Parliamentary intervention. In late 2016, the MALF requested all regulatory agencies dealing in agriculture and food products to submit a list of key functions, instructions on how to comply, and details of how much each service costs. According to senior officials, the aim of this exercise was to identify areas of overlap to see what could be streamlined right away and what kinds of higher-level action may be required to address the situation. Regulatory overlap between TBS and TFDA, for instance, is a well-known bottleneck whereby each agency maintains separate product registration and inspection requirements in the name of food safety. Dialogue between these agencies has been ongoing for some time to agree on the division of responsibility. Various MOUs and other agreements between the agencies have been reached, yet with overlapping legal mandates such an approach can only go so far and there is now growing recognition that parliamentary intervention is needed to address the ambiguity and remove the overlap once and for all.

Greater use of risk-based approaches in all areas of regulatory management would be an efficient way to ensure consumer safety and good reputation of Tanzania's exports. Most regulatory agencies met during the DTIS Update said they are working to computerize their operations and have plans to expand coverage with additional inspectors at more borders. Computerization and decentralization that brings services closer to users is important, yet with each agency still aiming for 100 percent inspection the current approach is not efficient does little to reduce mandatory fees, eliminate institutional overlap, alleviate the burden on overstretched inspectors and laboratories, or speed border crossing times for nonrisky goods. Aiming for full coverage is an elusive goal at best and many countries with significantly more resources to spend on border controls than Tanzania have opted instead to utilize risk-based strategies as the most effective way to protect consumers and fulfill their regulatory objectives. Risk-based approaches to regulatory management therefore not only help to improve trade competitiveness, but are essential for consumer protection (see box 5.1).

Risk-based approaches could be implemented with little cost and would be a good way to address the regulatory bottlenecks to agriculture trade and rural economic expansion in Tanzania. Consistent with international best practice, a systematic approach to spot inspections based on risk profiles of commodity types, places of origin, and even individual traders could make much more effective use of available resources. Such procedures would help Tanzania focus its resources to achieve higher levels of protection while lowering the burden on small traders and creating new opportunities for economic growth and poverty reduction in rural areas. Increased willingness of to accept and use other country

BOX 5.1: Applying Risk Assessment, Risk Management, and Risk Communication

Risks may be defined as the potential damage caused by a hazard, harmful product, or harmful service. Government agencies are responsible for ensuring compliance with regulations aimed at ensuring agreed levels of health and safety protection. Given resource constraints, even in the most developed economies, a 'zero-risk' outcome is not feasible. The challenge for governments and regulatory agencies is to use their scarce technical and physical resources to minimize the risk to public health and safety.

Risk assessment, risk management, and risk communication are important tools for ensuring that regulations are effective and efficient. Risk assessment is a key tool for identifying the extent of the potential harm (in terms of product safety, sanitary and phytosanitary dangers, revenue loss, environmental damage, and so on). Risk management focuses on the design and implementation of measures aimed at addressing the risks and may include testing, inspection, or suppliers' declaration based on the risk profile of the product and importer. Risk communication refers to the approaches to educating and informing producers and consumers of the risks. Ensuring effective public understanding of the nature of the risks and the applied risk management techniques can increase the public acceptance of the risk elements.

Regulatory agencies need to allocate their scarce resources (laboratories, professional staff) to addressing the most serious risks. Whether the risk is foregone revenue through tax evasion, harmful food products, ineffective fertilizer, or mislabeled seeds, or environmental damage through toxic pollution, the regulator will maximize public safety through applying risk assessment, risk management, and risk communication.

test data, including private test data for crop inputs and finished commodities would also increase efficiency through saving scarce regulatory resources and lowering the costs of introducing new and more productive technologies for agriculture and agro-processing.

4. **Building capacity for SPS compliance to increase regional trade in animal-based products.**

Tanzania faces serious institutional challenges in complying with SPS measures for livestock and dairy). This limits the opportunities for expanding livestock and dairy trade. Valuable lessons can be learned from the response of Tanzania to the European Union (EU) export ban on Nile perch. With targeted donor support and the commitment of the government and the private sector resources focused on strengthening traceability and compliance with mandatory EU requirements for those firms exporting. This targeted approach on addressing buyer demand was successful and Tanzania was the first East African economy to recommence exporting Nile perch.

Following this overview of main findings, the chapter is organized in four sections. Section 2 looks at recent agricultural sector performance including the important role played by women in agriculture production and trade. Section 3 summarizes Tanzania's agricultural policy and institutional framework with a focus on the major trade and regulatory challenges affecting the ability of Tanzanian agriculture to further increase exports to the region and internationally. This is followed by Section 4 which highlights recent trends in the maize, rice, sugar, cashew, and fisheries agricultural subsectors that are important to Tanzania as staple crops for food security and as key exports dominated by smallholders. Finally, section 5 presents the recommended priority actions aimed at addressing the constraints to growing the agricultural sector through increasing trade and reducing poverty.

Recent Sector Performance

The Tanzanian government is committed to encouraging investment in agriculture and agro-industry and increasing productivity for jobs and poverty alleviation. The Tanzania Agriculture and Food Security Investment Plan (TAFSIP) sets out the framework for prioritizing investment in agriculture to achieve the goals developed in the Tanzania Development Vision (2025), the Poverty Reduction Strategy Paper, the National Strategy for Growth and Reduction of Poverty I and II, and the FYPD II. This is reinforced in the more recent National Agricultural Policy (NAP) of 2013 that commits to developing "an efficient, modern, commercial, competitive, and profitable agricultural industry." The recently released ASDP II (2016) details the policies, strategies and priority support areas for public and private investment aimed at advancing agricultural growth. Since the 2005 DTIS, the Tanzanian government has implemented a series of reforms aimed at improving the business enabling environment for agriculture to stimulate investment, enhance productivity and increase links to agro-processing.

To date, the commitment to improving productivity and promoting investment through the overarching agricultural programs have focused on improving planning and coordination aimed at strengthening the efficiency of government parastatals and regulatory bodies. This includes the multiple initiatives and programs including ASDP II and TAFSIP linked to the Comprehensive African Agriculture Development Program (CAADP). Prior to ASDP II and the NAP, phase I of the ASDP (2006–13) aimed to improve farmers' access to knowledge, technologies, market systems, and infrastructure, and to increase private investment through improving the policy and regulatory framework. The ASDP was relatively more successful in introducing streamlined planning and coordination through central government and parastatals than at increasing the role of the private sector. More recent initiatives have continued to try to provide the private sector with a more prominent role, but regulatory reform has been very slow.[7] These include the former President Kikwete's Kilimo Kwanza[8] Resolve and Big Results Now (BRN), the Southern Agricultural Corridor of Tanzania (SAGCOT)-New Partnership for Africa's Development (NEPAD) initiative, and the USAID's Feed the Future. The BRN prioritized three crops—rice, sugar, and maize—and focused on improving agricultural productivity, increasing market efficiencies, and strengthening analytics and accountability.

While the government's strategy and policy documents highlight the importance of increasing agricultural production and trade through private investment, implementation remains slow. The NAP highlights both the opportunities for increased intra-regional trade within the EAC and SADC in food and crops and the importance of "eliminating intra-regional trade barriers." It notes the importance of working towards increased cooperation in standardization, quality management, metrology, and testing of agricultural products. The NAP identifies the importance of agreeing mutually recognized certification marks along with other methods of quality conformity assessment that reduces trade costs. The NAP illustrates the commitment of the Tanzanian government to continue with regulatory reforms aimed at creating more efficient agricultural markets. However, to date the commitment has not been matched by implementation. Reducing input costs and increasing competitiveness require the Tanzanian government to simplify and streamline the many regulatory hurdles imposed on all farmers and traders.

BOX 5.2: The Tanzania Agriculture and Food Security Investment Plan

The Tanzania Agriculture and Food Security Investment Plan (TAFSIP) is the 10-year (2011–21) sector-wide investment plan aimed at meeting the Comprehensive African Agriculture Development Program's target of 6 percent annual growth in agricultural sector gross domestic product. The TAFSIP provides the framework for prioritizing investment aimed at driving Tanzania's agricultural development. It represents the financing mechanism and framework for implementing the Agricultural Sectors Development Strategy and the Agricultural Strategic Plan for both mainland Tanzania and Zanzibar. The TAFSIP is aligned with both Vision 2025 (for the mainland) and Vision 2020 (for Zanzibar), it is the key policy and strategic statements including MKUKUTA/MKUZA, Kilimo Kwanza, and the Agricultural Transformation Initiative.

Source: Derived from the TAFSIP (2011).

The regulatory burden is prohibitive for many small holders and small traders—they are unable to comply. Larger farmers and traders are able to comply with the regulatory requirements and pass on the costs to consumers. However, for smallholders' and small traders' regulatory compliance eliminates the value added and either discourages economic activity or encourages informal trade.

The Tanzanian government has identified a wide range of constraints holding back investment and increasing productivity in agriculture,[9] which must be addressed for Tanzania to realize the potential and opportunities for future growth. The government places liberalizing agricultural markets and increasing reliance on "the private sector as the engine of growth in crop production, processing, and marketing." Since the 2005 DTIS, the government has implemented major reforms aimed at reducing the role of commodity boards in marketing and has strengthened government institutions providing outreach and extension services, however, further reforms are required. The following sections look at this challenge in more detail focusing on export licenses, agricultural tariffs and taxes, regulatory policies governing the availability and prices of agricultural inputs, and the role of the TBS and the Tanzania Atomic Energy Authority in regulating imports and exports of agricultural products.

Despite regulatory bottlenecks and other constraints, Tanzania enjoys a large and growing agriculture trade surplus. Since the 2005 DTIS, officially recorded

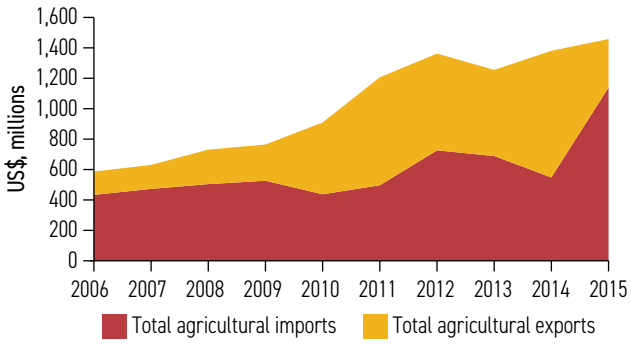
agriculture exports grew by 138 percent overall and by an average of 9 percent per year between 2006 and 2015 (see figure 5.1). Agriculture imports have also grown, yet Tanzania enjoys a much larger agriculture trade surplus now than at the start of the same period. In the years from 2006 to 2008, for instance, recorded agriculture imports equaled 63 percent of recorded exports whereas between 2013 and 2015, recorded agriculture imports stood at just 59 percent of recorded exports.

Agriculture accounts for nearly half of Tanzania's total merchandise exports. Figure 5.2 shows that agriculture and fisheries together accounted for 47 percent of total recorded merchandise exports between 2006 and 2015. From 2007 to 2012, agriculture's contribution to total exports fell by nearly 65 percent, but has since increased and now accounts for about 50 percent of total exports. While livestock production is focused on the domestic market, vegetables and nongrain cash crops are largely destined for export markets, both growing by 75 percent over the ten years to 2014. More than 75 percent of total output is produced by smallholders, with average farm sizes ranging between 0.2 and 2 hectares depending on the district.

Tanzania exports a diverse range of agriculture commodities to buyers around the world. As shown in table 5.1, Tanzania's traditional cash crops (tobacco, coffee, cashew, and cotton) along with fishery products continue to lead the way in agriculture accounting for 52 percent of total recorded agriculture exports from 2006 to 2015. In addition to these commodities, the country exports many other products, with sesame, dried legumes, groundnuts, and animal feeds having grown rapidly in recent years. India, China, and Japan are the largest export markets for higher-value cash crops while regional markets are important for food staples including sugar, rice, oilseeds, and fish. Virtually all cashew nuts are exported in unprocessed form to India and other countries in Asia where there are processing plants with spare capacity (in 2013, India and Vietnam accounted for 84 and 12 percent of cashew imports, respectively.[10] China is the destination for more than 80 percent of sesame exports, while coffee is mainly destined for Japan and Italy, followed by Germany, United States, and Belgium.

Much of Tanzania's agriculture trade is unrecorded. Because of various regulatory barriers in Tanzania

FIGURE 5.1: Tanzania's Agriculture Trade Balance, 2006–15

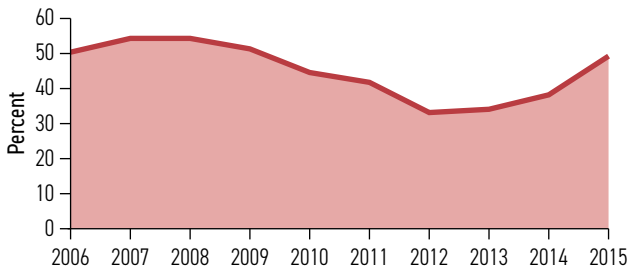


Source: Derived from United Nations Comtrade data.

including reliance on commodity specific export licenses and multiple registration and inspection requirements, much of Tanzania's agriculture production is exported through informal channels not captured in official trade records. Maize, for instance, ranks as the 20th most valuable agriculture export in table 5.1 with an average annual export value of just US$5.3 million over the period covered. In January 2015, however, the East Africa Food Security and Nutrition Working Group reports that at least 500,000 tons of maize was exported from Tanzania to Kenya through informal channels in 2014.[11] Based on a conservative price of US$300 per ton, these exports could easily have been worth more than US$150 million placing maize as the seventh most valuable export in 2014 ahead of cotton and on a par with legumes and coffee. Similarly, live animals and meat products do not figure in the top 20 list of recorded agriculture exports due to challenges of export licensing and sanitary certification but are known to be important in informal export markets.

Regional markets are particularly important for poverty reduction. Regional markets in the EAC and other neighboring countries are very often served by small traders

FIGURE 5.2: Agriculture, Share of Merchandise Exports, 2006–15



Source: Derived from United Nations Comtrade data.

TABLE 5.1: Tanzania's Top 20 Agriculture Exports, 2006–15

Product description	2006 (US$ million)	2007 (US$ million)	2008 (US$ million)	2009 (US$ million)	2010 (US$ million)	2011 (US$ million)	2012 (US$ million)	2013 (US$ million)	2014 (US$ million)	2015 (US$ million)	Total, 2006–15 (US$ million)	Share of total agriculture exports (%)
Tobacco	119.9	161.7	154.4	188.6	221.8	326.2	340.7	384.0	424.9	448.0	2,770.4	19.2
Fish/shellfish	187.6	218.0	221.4	168.2	167.6	174.8	172.5	151.5	190.6	156.3	1,808.5	12.5
Coffee	84.2	123.6	120.9	169.5	138.0	221.8	175.8	182.4	167.2	184.8	1,568.2	10.9
Cashew	65.5	56.8	96.3	94.3	146.6	134.5	175.7	188.0	207.2	319.2	1,484.1	10.3
Cotton	101.2	58.7	125.2	112.4	147.0	98.3	159.7	174.8	103.1	35.7	1,116.0	7.7
Sesame	23.7	30.4	53.9	77.0	80.2	88.6	118.7	180.8	241.8	191.1	1,086.1	7.5
Dried legumes	28.9	54.0	77.7	85.5	119.7	82.9	107.1	139.8	165.0	178.3	1,038.9	7.2
Spices	10.5	10.0	18.5	22.2	18.6	94.9	54.2	27.7	64.0	21.3	342.0	2.4
Animal feed	13.0	17.0	20.4	19.8	34.4	27.9	47.2	71.8	53.1	31.8	336.5	2.3
Tea	20.7	17.3	30.3	26.0	27.8	33.3	36.4	37.4	30.9	39.0	299.1	2.1
Cocoa	24.0	12.7	15.8	24.5	32.5	40.9	28.6	19.9	34.5	41.7	275.0	1.9
Edible oils and fat	7.5	10.9	22.9	19.0	24.7	35.1	36.8	22.0	27.0	17.2	223.1	1.5
Cut flowers/foliage	19.1	33.3	29.9	23.2	17.3	17.1	16.1	18.1	17.7	14.6	206.4	1.4
Sugar/sugar prep/honey	23.3	39.9	24.6	12.7	19.2	13.1	16.6	24.7	1.9	1.3	177.2	1.2
Rice	1.5	9.0	8.8	7.0	26.0	22.4	8.0	13.0	17.0	10.5	123.1	0.9
Seed/fruit/spores sowing	3.9	4.2	5.7	7.3	7.2	9.9	12.0	14.4	19.2	18.7	102.6	0.7
Hide/skin/fur, raw	9.5	10.4	10.2	3.4	3.7	10.2	8.9	4.4	4.6	3.2	68.4	0.5
Vegetables, fresh/chilled	6.5	3.8	5.0	4.0	5.1	4.3	5.7	10.1	10.7	9.3	64.6	0.4
Groundnuts	0.2	6.5	10.7	7.0	4.0	3.5	11.2	14.9	11.3	3.6	73.0	0.5
Maize	10.2	13.5	4.6	2.8	1.9	2.5	2.5	8.7	4.1	2.0	53.1	0.4
Total	761.1	892.0	1,057.3	1,074.5	1,243.4	1,442.1	1,534.4	1,688.4	1,795.6	1,727.6	13,216.3	91.5
Total agriculture exports	835.8	999.0	1,160.0	1,186.4	1,349.8	1,656.0	1,639.3	1,824.0	1,935.1	1,865.0	14,451.4	100.0
Share of top 20 exports (% of total agriculture exports)	91.1	89.2	91.1	90.6	32.1	87.1	93.6	92.6	92.8	92.6	91.5	

Source: Derived from United Nations Comtrade data.

with close links to smallholder farm communities. Many of these traders are women who use the revenue from trade to eke out a basic living for their family. They trade in regional markets because of attractive prices but are often blocked by Tanzania's regulatory framework so face many constraints and higher costs than if there were simple, risk-based systems in place to allow the use normal border channels. With both coffee and cloves, there has been widespread smuggling to markets in Uganda and Kenya respectively where prices are higher due to simpler and more streamlined regulatory procedures. A 2010 value chain study of Robusta coffee in Kagera, for instance, found that farmers just across the border in Rakai, Uganda, were earning considerably more from coffee than growers in Tanzania and were using the money to invest in new trees and other productive assets.[12] Tanzania meanwhile was working hard to enforce mandatory sales through the TCB sanctioned channels when there was a clear opportunity for poverty reduction by providing growers in Kagera legal access to this more lucrative foreign market.

Tanzania's agriculture is dominated by small-scale subsistence farmers. Over 80 percent of the arable land is used by smallholder farmers, and only about 1.5 million hectares is under medium- and large-scale farming. Smallholders operate on an average of 0.2 to 2 hectares of land depending on the district. Much of the country's livestock production is from traditional agro-pastoralists and around 8 percent of formally recorded fishery exports are of dried and smoked fish produced by artisanal fishers.[13] Smallholders are major growers of maize, rice, Robusta coffee, cashew, pulses, and other leading exports. Cash crops including tea, sugarcane, Arabica coffee, tobacco, sisal, and some horticultural crops including cut flowers and fresh vegetables for export to Europe are produced by commercial farmers along with smallholders.

Women play an important role in Tanzania's agricultural sector. According to the 2014 Integrated Labor Force Survey, Tanzanian women account for almost 52 percent of the total population employed in agriculture: they

typically work as farmers "on own farm" or as "unpaid family helpers," although in this latter role, they largely outnumber men by a proportion of more than 2:1 (NBS 2014). In addition, women are heavily involved in agricultural cross-border trade—evidence shows that they can represent up to 70–80 percent of the country's total population of cross-border traders, of whom the majority regularly trade in agricultural and livestock products (along with other goods). Low agricultural productivity, poor agro-processing skills, limited availability of adequate machinery and equipment, restricted access to finance, markets and (price) information, high duties or levies, and cumbersome procedures tend to particularly affect women, thus often forcing them into subsistence-level production and informal trade, and preventing them from graduating into the formal economy and evolving into highly-productive, dynamic, profitable agricultural exporters.

Much of the agricultural produce in Tanzania is exported in raw or unprocessed form,[14] and infrastructure and logistics constraints also reduces product freshness and lowers values. The 2011 TAFSIP prepared as an activity of the CAADP under the NEPAD identifies inadequate processing and value-addition facilities as a major constraint to growth.[15] A dearth of storage facilities and incomplete cold chains prevent farmers and distributors from preserving freshness which also represents a foregone value-added opportunity. For instance, Tanzania produces around 2.75 million tons of fruit per year but only 4 percent is processed with the result that much of the production spoils and goes to waste. Only around 10 percent of cashew nuts are processed domestically, and, despite growing oilseed production, Tanzania still imports most of the processed edible oil it consumes each year. Maize processing holds the largest share of small entrepreneurs, especially in rural areas. Some processing, such as oilseeds and cotton require large capital, hence, it is mainly dominated by large enterprises.

Agricultural productivity remains low despite the potential for significant expansion. As in much of Africa, increases in the value of agricultural production has primarily resulted from increasing the cultivated area and, to a lesser extent, from switching to higher value cash crops. To date, increasing yields have exerted a marginal impact on aggregate growth. Agricultural productivity remains low by international standards, while links to agro-industrial processing also remain modest. Low productivity results from many factors including trade barriers that delay or limit access to new types of inputs, raise the costs of crop production and marketing, and lead to uncertainty over price and basic market access.

Tanzania's agriculture imports are dominated by edible oils, wheat, and sugar. As shown in table 5.2, edible oils, wheat, and sugar have together accounted for more than two-thirds of total agriculture imports between

TABLE 5.2: Tanzania's Top 10 Agriculture Imports, 2006–15

Product description	2006 (US$ millions)	2007 (US$ millions)	2008 (US$ millions)	2009 (US$ millions)	2010 (US$ millions)	2011 (US$ millions)	2012 (US$ millions)	2013 (US$ millions)	2014 (US$ millions)	2015 (US$ millions)	Total, 2006–15 (US$ millions)	Share of total agriculture exports (%)
Edible oils and fat	228.5	274.3	223.1	130.8	212	319.8	296.5	233	427.1	258.8	2,603.9	28.4
Wheat	120.4	233.5	182	209.3	291.9	404.4	244.1	307.1	319.3	222	2,534.1	27.6
Sugar/sugar prep/honey	41.7	67.4	41.6	57	92.6	126.1	184.1	148	117.5	114.1	990.1	10.8
Maize	51.3	2.3	8.7	8.3	15.7	15.4	39.4	38.4	19.9	30	229.4	2.5
Tobacco	5.6	6.2	8.3	15	2.9	8.7	19	34.2	32	15.2	147.2	1.6
Rice	21.9	5	16.4	11.2	0.5	15.8	11.4	33.7	3	8.9	127.7	1.4
Dairy products and eggs	3.8	4.9	5.5	7.9	8.8	12.3	16.5	14.1	26.7	11	111.4	1.2
Flour or wheat	1	0.3	0.6	17.2	31.1	21.7	0.1	0.4	28.6	2.4	103.6	1.1
Fish/shellfish/etc.	1	2.3	3.9	4	4.6	3.4	3.4	9.4	18.1	17.4	67.6	0.7
Meat and preparations	2.1	0.6	3.3	4.8	4	8.4	7.9	8.5	15	8	62.7	0.7
Total	477.3	596.8	493.3	465.6	664	936.1	822.7	826.7	1,007.4	687.8	6,977.6	76.0
Total agriculture imports	582.3	739.6	692.2	640.4	867.3	1,192.5	1,130.4	1,070.7	1,334.0	928.8	9,178.2	100.0
Share of top 10 imports (% of total agriculture imports)	82	81	71	73	77	78	73	77	76	74	76	

Source: Derived from United Nations Comtrade data.

2006 and 2015. Wheat is mainly a temperate crop, so is only suited for production in certain locations, mainly on large commercial farms with irrigation capacity. Sugar also requires irrigation but is well-suited for production in Tanzania with its tropical and semi-tropical climate. In total, the country consumes about 420,000 tons of sugar per year, whereas domestic production stands at about 300,000 tons, leaving a 100,000-ton deficit to be made up by imports. The government imposed tight restrictions on sugar imports in mid-2016 with the aim of encouraging local producers to fill the gap.

Of the leading import categories, oilseeds likely offer the best potential for increased participation by smallholder farmers. Sunflower, soybeans, rapeseed, and other oil crops are reasonably straightforward to produce and have good potential for local processing into cooking oil with the cake used as an ingredient in stock feed. As with other commodities that have good potential for import substitution, however, problems in Tanzania with the slow release of new varieties of seed and other inputs makes rapid expansion difficult, and is an area of trade policy that should be addressed.

Agricultural Policy and Institutional Framework

This section is organized in six sections focusing on the requirements for obtaining export licenses, agricultural tariffs and taxes, agricultural inputs, standards and technical regulations, sanitary and phytosanitary measures, and the mandatory radiation testing.

Export Licenses

Export licenses are required for all major food crops (maize, rice, sugar) and are used to monitor and regulate trade in staple foods. The requirement to obtain a letter authorizing the export of food applies to virtually every commodity (TANEXA 2012). Government officials assert that the permit system is intended to promote food security and to monitor the quantity of staple foods. Food security is monitored through the MUCHALI system.[16] If the assessments indicate that domestic food availability may be insufficient, this may trigger an increase in imports and/or a quota on food exports. It may also result in certain local government districts banning or restricting food exports from their locality thereby restricting the domestic movement of staple foods as well as limiting exports. Delinking domestic food markets from regional and world markets creates price volatility and undermines the stated objective of promoting food security.

The process to obtain export permits remains cumbersome and effectively discriminates against smallholder farmers and small traders. The MALF is responsible for approving import and export permits. Each exporter is required to go through the steps outlined in box 5.3. In practice, this process is so cumbersome that it is ignored by most traders who choose to rely on secondary markets by paying a fee to the forwarding and clearing agents for a permit. The Tanzanian government has attempted to streamline the procedures and now allows a trader to apply directly to the MALF, although, actual practices have changed little as regional commissioners, and Clearing and Forwarding agents try to maintain their rent-seeking behavior. The procedures are particularly onerous, in many cases prohibitive, as traders

BOX 5.3: Procedures for Obtaining an Export Permit for Staple Foods

1. The Regional Commissioner Office requires a letter of validation, which must be issued by one designated officer.
2. Traders are then required to obtain a letter of validation from the Tanzania Revenue Authority (TRA), which is used to verify the Ministry of Agriculture, Livestock and Fisheries (MALF) permit at the border post.
3. Traders must obtain the export permit from the MALF in Dar es Salaam (not available anywhere else in Tanzania). Only one person in the MALF is authorized to sign permits—delays may occur.

Additionally, when exporting any agricultural product, the trader must show the following documents:

- Business license (issued by the local government authority),
- Import or export license (issued by the Ministry of Industry and Trade),
- Tax Clearance certificate (issued by the TRA),
- Tanzania Food and Drugs Authority certification of safety of food and drugs,
- Mark of Origin (issued by Tanzania Bureau of Standards [TBS]),
- Quality Standard Certification (issued by the TBS),
- Phytosanitary Certificate (required for raw agricultural produce issued by the MALF),
- Certificate of Radiation Analysis (issued by the Tanzania Atomic Energy Commission).

Source: Derived from information from the Tanzania Exporters Association, the Tanzania SERA project, and other sources.

in outlying districts have to travel to Dar es Salaam to obtain the permit. Only large traders have the capacity and economies of scale needed to comply with these requirements leaving local entrepreneurs shut out from business in their own country.

Obtaining the permit represents a challenge and is prohibitive for small- and medium-scale traders. Research conducted by the Tanzania Exporters Association found that 61 percent of respondents were negatively affected by the export permit issuing process (TANEXA 2012). Food export traders were required to go through five different steps to obtain a letter of authorization (TANEXA 2012; Amin and Stryker 2013). They were required to travel to the district, regional, and to the Ministry of Agriculture, Food Security and Cooperatives (MAFC) headquarters in Dar es Salaam for various procedures. The permit was issued in Dar es Salaam and this process took 2–4 weeks depending on where the exporter is based (TANEXA 2012). Such procedures have a particularly onerous impact on women for whom it is even more difficult to travel from their home location than for men and leave many rural Tanzanians trapped in poverty.

The export permit process should be simplified. In October 2014, the Tanzanian government allowed each region to issues export permits, however, the process was fraught with administrative difficulties and continued to be time consuming so was reversed after a few months. Currently the permit process remains with the MALF in Dar es Salaam with the objective of increasing efficiency and eliminating rent seeking behavior. Under the current system, traders are required to mail their application or travel to Dar es Salaam to obtain a permit. Traders are also expected to obtain a letter of validation from the TRA and the regional commissioner's office continues to require a letter of validation. Each of the steps not only make it difficult for poor individuals to play an active part in their own economy as traders, but also results in higher costs even for large traders, thereby taking away from the prices that can be paid to farmers.

All traders are also required to have a general export license. This license is required for all exporters by Tanzanian law, and must be renewed annually for approximately US$300. For small traders who wish to export goods to neighboring countries, this can be a sizeable share of annual turnover and represents a major hurdle. Furthermore, the license is only issued by the Ministry of Trade and Industry in Dar es Salaam. Given the size of the country, some traders from the north may have to travel over 1,000 kilometers to Dar es Salaam to obtain the license. Only larger traders bother to obtain an export license, smaller traders pay a fee to the license holder and uses their license to move the goods across the border.[17]

These high transaction costs effectively discriminate against small-scale traders obtaining an export license. While this is undoubtedly onerous, it is not clear how procedures are enforced, which makes the rules unpredictable and nontransparent and creates opportunities to elicit illegal payments. The export permit system has resulted in the trade being dominated by specialized clearing and forwarding agents who have the "know how" to obtain all letters of authorization to export food. They then allow traders to use them to export their foodstuffs for a fee (TANEXA 2012; Amin and Stryker 2013).

Tanzania's trade procedures result in smallholders receiving lower prices for their crops. The additional direct and indirect costs resulting from the export permit system are effectively added to the marketing costs, which are already high in Tanzania.[18] Traders pass on any additional costs created by the Tanzanian permit system to the farmers. Tanzania exports maize to Kenya, which is a significant importer from both the region and global markets. For Tanzania to export, their products must be competitive in the Kenyan market—this limits the ability of the traders to pass on the increased marketing costs. This will shift the burden of the higher marketing costs (and any other costs) on to the Tanzanian farmer by offering a lower purchase price. The existing permit system effectively reduces farmers' living standards and does not contribute to food security.

Export regulations also increased the cost of exporting for traditional exporters. Box 5.4 outlines how existing regulations impact the export of coffee.

Agricultural Tariffs and Taxes

The EAC Common External Tariff (CET) for most agricultural inputs is zero, while agricultural crops, which are produced in Tanzania, have been protected. Cane or beet sugar and chemically pure sucrose in solid form

BOX 5.4: Limitations on Export Marketing: The Example of Coffee

The Tanzania Coffee Board (TCB) is responsible for regulating the sector and for managing the export market auctions. In principle, farmer groups may sell directly to external buyers, however, they are required to obtain an export permit, which is issued by the TCB. The export permit is issued after the TCB have verified the quality of the coffee (must be classified as premium grade) and the offer price should be above the auction price. Farmers who bypass the TCB marketing are still required to pay "voluntary" deductions to the Coffee Development Fund (CDF) for farmer development and coffee research, and the district levy (which ranges from 0–5 percent, according to district). Buyers are also responsible for paying US$0.1 per kilogram to the CDF. Direct exporters are required to pay an additional Export Permit Fee of US$5 per ton. Obtaining the export permit takes approximately seven days.

The TCB is responsible for issuing 14 different licenses, including approved export warehouses and coffee curing plants. The marketing regulations result in the Tanzanian farmer receiving a lower price relative to the price in neighboring Uganda. There is considerable evidence that Tanzanian farmers export coffee unofficially to Uganda. Currently, Tanzania is allocating scarce government resources aimed at reducing unofficial coffee exports rather than streamlining its own marketing system and allocating resources to improving productivity in the coffee sector.

TABLE 5.3: Tanzania's Agriculture Common External Tariff

Product	Common external tariff
Milk (powder or solid)	60
Cashew nuts	25
Coffee	25
Tea	25
Maize (corn seed)	25
Rice or paddy (in the husk)	75
Raw cane sugar	35
Sugar (and sugar for industrial use)	100
Tobacco	25
Fertilizer	0
Cotton	0
Cotton (sewing thread)	25
Agricultural machinery	0
Tractors	0

Source: Derived from World Integrated Trade Solution.

attract a CET of 35 to 100 percent. Importation of sugar for industrial use attracts 100 percent CET to encourage use of locally or EAC-produced sugar for industrial use. Rice attracts a CET of 75 percent and dairy 60 percent. The dependence on high tariffs to promote priority agricultural sectors does not encourage increased competitiveness. Protecting local markets creates a bias against competing in export markets and does not encourage productivity enhancing investments.

The CET for imported palm oil is low to meet domestic demand since both local production and production throughout the EAC remains low. However, imported rice is charged 75 percent to protect local producers from the competition of efficient producers in Pakistan, Vietnam, and so on. Similarly, imported processed maize flour is charged at 25 percent to promote and protect the milling industry in the EAC. The dairy industry is protected with a high tariff of 60 percent. Products in which Tanzania has a comparative advantage, such as cashew nuts, coffee, tea, and tobacco, all have a tariff of 25 percent. Imposing tariffs on these competitive sectors serves to discourage agro-industrial expansion and diversification by increasing the input costs, although this is mitigated by the EAC and SADC preferences whereby many inputs and agricultural commodities, including maize, rice, and others, can be imported duty free.

The EAC aims to simplify cross-border trade for small traders through adopting the Simplified Trade Regime (STR). The STR may be utilized by all traders crossing borders with less than US$2,000 of goods. This has the potential to significantly benefit many small cross-border traders, however, surveys indicate a very low utilization rate. Box 5.5 provides more detail. It is recommended that the border agencies (TRA and others) publicize the STR.

Export Taxes on Agricultural Products

Export taxes are levied on a very small number of products with the aim of encouraging their use in downstream processing in domestic industries. Export taxes are levied on raw hides and skins at 60 percent of the free on board (FOB) value or T Sh 600 per kilogram, whichever is higher, and raw cashew nuts are taxed at 10 percent of the FOB value or US$160 per ton, whichever is higher.

District Cess Taxes

Local government authorities (LGAs) levy a tax on agricultural products shipped from their area. This levy, known as a cess, is collected on all bags that are moved,

BOX 5.5: The EAC Simplified Trade Regime

When the East African Community (EAC) Customs Union Protocol entered into effect, internal tariffs and import duties on EAC-originated goods were eliminated in partner states. Whilst the provision offers clear opportunities for boosting Tanzania's intra-EAC trade, including in agricultural and livestock products, fulfilling the conditions to benefit from such preferential treatment can be challenging for smallholder farmers and small-scale agricultural traders, especially women—particularly in relationship to meeting the EAC rules of origin, producing a valid single-entry document and, where necessary, paying for the services of a clearing agent.

In response to those challenges, and with the aim of facilitating the intra-EAC movement of goods often traded at small-scale level, a Simplified Trade Regime (STR) has been introduced as part of the EAC Customs Union. The scheme provides for a simplified clearance procedure for consignments (a) that originated within the EAC, (b) of commercial value not more than US$2,000, and (c) included in an official list of eligible products (of which most are agricultural and livestock commodities). Farmers and traders who meet those basic requirements are entitled to clear their goods free of import duties through the EAC Simplified Certificate of Origin. This, in turn, is a simplified version of the single-entry document, typically issued by customs authorities at the border, which should be simple enough for any small-scale trader to fill without the assistance of a clearing agent.

While the aim of the STR is noble, and is likely to have contributed to increasing small-scale trade within the EAC, including in agricultural and livestock products, awareness on the benefits of the regime tend to be low among intended beneficiaries. Enforcement by border officials can also be intermittent and problematic.

For instance, a series of field surveys conducted by the Eastern African Sub-Regional Support Initiative for the Advancement of Women in 2012 with women cross-border traders at selected EAC borders, including Mutukula (Tanzania and Uganda) and Namanga (Tanzania and Kenya), showed that more than half (and sometimes up to three quarters) of survey participants were not aware of the STR, or the preferential treatment available under the EAC Customs Union. More than 80 percent of women at Mutukula indicated they were still being charged duty by customs officers.

While lack of awareness tends to be high among small-scale traders, and can induce them to avoid the formal border and use bush crossing routes even for goods that would not attract duties, officials can also exhibit poor knowledge of existing trade regimes—or, in some cases, deliberately refuse to apply them to extort illicit payments from traders. Extensive sensitization among both traders and officials, and regular monitoring of the enforcement of trade facilitation measures on the ground, becomes, therefore, of paramount importance to fully exploit the export and growth opportunities available within the EAC, including for small-scale agricultural traders, especially women.

regardless of whether the maize is sold or transported from the area. If a farmer or trader moves the maize from one town to another, they must pay the tax on each bag. If the maize is moved to another region in Tanzania, the tax doubles to around US$1.50 per bag (see box 5.6). In practice, many farmers seek to evade the cess, and, with limited enforcement capacity, evasion is widespread. Widespread evasion also encourages corruption with officials extorting payments from farmers in return for "looking the other way."

Cess taxes represent a major source of income for LGAs. Nyange and Tschirley (2014) found that twelve LGAs rely on produce cess for more than 50 percent of their own local revenue. Their reduction or removal is likely to directly impact their ability to deliver services to their constituencies. The Tanzanian government has committed to removing the cess, however, in the short run, this is unlikely because most districts depend on the revenue from the cess for their social services. In the short run, the Tanzanian government's reforms focus on increasing collection efficiency through utilizing digital and mobile payments. The government could also improve efficiency by introducing a uniform cess for each LGA. This will eliminate market distortions between districts.

BOX 5.6: Local Taxes and Levies: The Case of Maize in Southern Tanzania

Local traders in the Kasanga area are required to pay a tax on "moving" maize, which discourages trade with Zambia. The district government in Mtai levies a tax (US$0.70 per bag) on local traders for moving maize for all purposes. The levy is collected on all bags regardless of whether the maize is sold or transported from the area. If a farmer or trader moves maize from one town to another, they must pay the tax on each bag. If the maize is moved to another region in Tanzania, the tax doubles to around US$1.50 per bag. When they take several bags to sell and do not sell everything they must camp overnight or pay the moving tax again to take the crop back to their farm. Each time they return to the market to sell the maize they are taxed. This adds to the urgency of a quick sale thereby depressing prices for already poor farmers. One trader reported paying the moving tax three times per bag until he finally sold the product for a loss.

Agricultural Inputs—Regulatory Environment

Tanzania's competitiveness in agriculture trade starts with the farmers' access to productive inputs, including seeds, fertilizers, pesticides, and farm machineries. As in other areas of the economy, regulations governing trade in agricultural inputs in Tanzania are cumbersome. These procedures slow farmers' access to new varieties of seeds and agrichemicals help raise productivity. Although testing procedures for fertilizer have now been eased, until recently, every single combination of NPK fertilizer and supplemental micronutrient required a minimum of three years of domestic field trials at multiple test sites before it could be sold to farmers, although the nutrients required by the crops is a well-understood area of agriculture science and it is not necessary to test whether different combinations of nutrients will be effective in Tanzania or in any other country. There is also little need to test new varieties of seeds or agrichemicals that are already known good performers in neighboring countries and have scientific data from these and other places to show how they would perform in Tanzania. After much dialogue, Tanzania, Kenya, and Uganda agreed in the early 2000s to accept new varieties of seeds approved in any one of the other two countries after one season of domestic field trials, but so far, only seven varieties of potato have been registered in Tanzania through this arrangement.

Seeds

Tanzania has made good progress in allowing private sector participation in seed trade. Compared with many African countries where restrictions on variety ownership and multiplication remain in place, Tanzania allows the private sector to participate in seed production and marketing. Approximately 25 percent of seeds were provided by the formal sector in 2013.[19] The Seed Act (2003) allows qualified private firms to produce, import, and sell registered varieties of seeds in Tanzania and there are now several large and small seed companies operating in the country. Through the Seed Act, private firms are permitted to maintain their own varieties, thereby leaving the state-operated Agriculture Seed Agency (ASA) to provide breeder material for public varieties including varieties developed by national and international research institutes.

Many small seed companies rely on foundation material produced by ASA. While large international seed companies maintain their own varieties, breeder material produced by the ASA is widely used by smaller domestic companies. Firms say that the quality of the ASA foundation material is usually good, but sometimes complain that the supply is not regular, making it difficult to plan business operations. According to the Tanzania Seed Trade Association (TASTA), another important issue is that the ASA has so far declined to grant individual companies exclusive rights to the varieties it maintains. In TASTA's view, exclusivity is needed for successful commercialization of public verities—first, so the firm has a reason to invest in marketing the variety, and, second, so there is a strong incentive to ensure multiplication is done correctly. This argument makes good sense. The International Maize and Wheat Improvement Center has awarded exclusive rights in Tanzania for some of its varieties, and TASTA has been calling on the ASA to do the same since 2011.

Most private seed companies are focused on the production and marketing of maize hybrids. Not only is maize the most widely grown crop in Tanzania, but because maize hybrids are ill-suited to recycling, seed companies dealing in this product are more likely to enjoy a steady flow of repeat customers compared with other crops and varieties. For maize, therefore, TASTA is generally bullish and reports much higher adoption rates of hybrids and open-pollinated varieties (OPVs) now than in the early 2000s. According to sector experts, the entire national market for improved maize seed, including hybrids and OPVs, is around 8,000 tons now, against just 1,000 tons in early 2000s. Nevertheless, to put this in perspective, 8,000 tons of improved-maize seed is only enough to plant about 320,000 hectares, which is less than 8 percent of the 4.2 million total hectares given to this crop each year. Most farmers therefore have no choice other than to rely on self-saved seed or uncertified seed bought in local markets. Commercial seed sales may have grown overall, but distribution networks are thin and patchy outside the major production centers. For other important smallholder crops, including rice, oilseeds, pulses, and legumes, adoption rates remain very low in all areas, with few new varieties or other kinds of improved seed available anywhere in the country.

Despite the strategic importance of improved seed, the government continues to levy value-added tax (VAT) on this input while some district authorities charge

cess. These taxes persist despite recommendations by the President's Office Regional Administration, Local Government (PORALG) and private sector for seeds to be exempted from tax. The MALF and the TASTA developed recommendations for improved tax treatment of seeds and seed packaging materials that were presented to the Ministry of Finance in April 2014. These recommendations were: (1) to exempt all types of seed packaging material including jute bags, plastic bags, and paper bags from VAT, import duties, and excise taxes; (2) to exempt seeds from local crop produce cess; and (3) to make seeds VAT exempt because of being an agricultural input. These recommendations were not implemented. The office of the Prime Minister and the PORALG issued a circular to all local government authorities to exempt seeds from crop cess, yet, at the time of data collection, several district authorities were continuing to levy cess. Moreover, the proposal to remove VAT and cess on seed packaging materials was not approved in the 2016 finance bill. Hence, VAT at 18 percent continues to be levied on seeds and seed packaging materials. Packaging materials are also subject to an excise duty of 50 percent. Whereas, some district authorities do not charge cess on seed packaging materials, others charge 3–5 percent cess.

Seed companies have also complained about the structure of costs for seed labels. All commercially marketed seeds in Tanzania are required to bear an official label issued by the TOSCI. The seed firms maintain this has helped to combat the problem of counterfeit seeds and have welcomed recent reductions in the price of the seed label, however, they also identified an important problem in that that there is no distinction in the price of labels for hybrid seeds (where the marketing margins are large) and OPV seeds (where the margins are thin). The TASTA and others identified the label requirements as a disincentive to produce and market OPVs despite the strategic benefit of these seeds to poor farmers, who can neither afford to buy new seeds each year nor the fertilizer needed to make the expenditure on hybrids worthwhile. Furthermore, the TASTA explained that the price of a seed label is fixed regardless of the size of the seed pack, which increases the costs disproportionately for farmers who buy seeds in small quantities. According to the TASTA, the labeling policy has so far only been enforced for maize seeds even though all seed types of seeds are meant to bear an official TOSCI label.

Cumbersome procedures for introducing a new variety introduction are another important constraint to the seed sector and agriculture growth and poverty reduction, more generally. As explained by the TOSCI, testing and registration of a new variety of seed requires a minimum of five seasons testing, including two seasons of farmer preference trials, two seasons of "DUS" testing to ensure the variety is distinct (D), uniform (U), and stable (S), and one season of national performance tests. The rules vary for different species of plants, but each set of trials must normally be conducted in four to five distinct locations under the supervision of authorized seed scientists. Once all the tests are complete, a technical committee must meet to study the results and make a recommendation to the National Variety Release Committee (NVRC) whether to approve the variety. The technical committee and the NVRC are expected to meet twice a year, but this is not always possible due to a shortage of funds, which delays the release of new varieties. Multiplying the seed for commercial sale can only begin after the NVRC has formally approved the registration. Depending on the crop, multiplication can take a further three to four seasons before the variety is available to farmers.

The variety release process could be streamlined and this would contribute to increasing farmer incomes. Apart from the requirement for farmer preference trials, which is somewhat unusual and slows the process by two seasons, the requirements for DUS testing and national performance trials are comparable to those in many other countries. Many other countries, particularly in Africa, however, also have problems with slow access to new varieties, and the fact that other countries also require many tests does not necessarily make this the best solution for Tanzania. While it is reasonable to accept that governments have a responsibility to ensure the verities of seed sold to farmers are known good performers, this condition can be satisfied through other more streamlined procedures. The United States, for instance, does not require registration trials and, in South Africa, variety registration is automatic after only one season of DUS tests. Another good example is Turkey, which relaxed controls on variety registration in 1982 by deciding to accept test results from private seed companies. Within five years, the cumulative number of maize hybrids available to farmers increased four-fold and, by 1992, average per hectare maize yields were 1.4 tons above prereform trends, adding an estimated

US$97 million per year to agriculture value added (Gisselquist and Pray 1999). Similarly, in Bangladesh, automatic acceptance of new verities from India helped raise average maize yields from less than one ton per hectare in 1991 before the reforms to more than six tons per hectare from 2010 thereby adding an estimated $125 million per year to farmer incomes (Harun-Ar-Rashid, 2012). Tanzania has the potential to reap substantial gains in productivity and farmer incomes from streamlining its variety release procedures.

Tanzania has been working towards the adoption of regionally harmonized seed rules aimed at improving the seed trade. Since at least the late 1980s, Tanzania has participated in several regional initiatives aimed at harmonizing the procedures for variety release and seed certification. These include efforts launched through the Association for Strengthening Agricultural Research in Eastern and Central Africa, the EAC, and the SADC. Despite good progress in agreeing on regional standards for variety testing and certification, and for the establishment of regional variety catalogs and regional seed certificates, implementation of these agreements has been slow to take off. At least as early as 2009, Tanzania agreed with Kenya and Uganda to accept new varieties registered in either one of these two countries after just one season of domestic trials. To date, however, only seven varieties of potato seed have been accepted in Tanzania through this arrangement.[20] Varieties of other major crops including maize, groundnuts, rice, sorghum, pigeon peas, and others, continue to be put through the full set of farmer preference trials, DUS tests, and national performance tests even when the variety is a known good performer in a neighboring country.[21] Harmonization of trade rules is by nature a slow process, not only because of depending on regional neighbors to reform, but also because of having to build new systems to implement the regional standards and amend domestic legislation to conform to regional agreements.

Limited capacity to implement advanced seed standards constrains agricultural productivity. Despite Tanzania's national seed lab being a nonaccredited member of the International Seed Testing Association for many years, and recent upgrades aimed at achieving full international accreditation to facilitate seed exports, limited capacity to monitor quality in domestic markets remains an important constraint. Compared with developing advanced labs to enable seed exports, investing in systems that support even basic improvements to domestic seed supply is arguably more important for a country with low productivity and occasional food security concerns. Beyond the problem of limited funds to pay for meetings of the National Performance Trial Technical Committee and the NVRC, as discussed earlier, resources for inspection of seed plots required by Tanzania's own seed legislation and regional harmonization agreements is extremely limited. In the Arusha zone, which is a major area for seed production, there are just four seed inspectors, five junior inspectors, and one vehicle. Full certification of maize seed requires the seed plot to be visited at least three times at very specific and narrow stages in the growing season so is extremely challenging under the best of circumstances. Even in the EU, this is only made practical by allowing private inspectors to work under official supervision. In Tanzania, such provisions do not exist. On top of their field inspection duties, Tanzanian seed inspectors are also meant to undertake market surveillance work to prevent counterfeit seeds from being sold to farmers. Both the TASTA and the TOSCI reported this to be a widespread problem in Tanzania.

As in other areas of trade policy, achieving meaningful improvement in seed supply requires greater use of simple, risk-based approaches to regulation and enforcement. Adopting simplified procedures for known good performing varieties from neighboring countries would be an effective way of accelerating farmer access to improved technology. Another approach would be to allow private companies to certify their own seeds for domestic sale.[22] Tanzania could also make wider use of other less time consuming and resource intensive requirements for seed certification such as the Quality Declared Seed (QDS) standards developed by FAO. Tanzania already permits village seed groups to produce and sell QDS in local markets. QDS is still produced according to set standards, but demands fewer inspections, thus making this system a practical way to alleviate pressure on the TOSCI while still achieving an acceptable level of quality assurance. Current regulations in Tanzania, however, only allow QDS to be sold in the immediate farm area. The SADC seed regulations, which Tanzania has ascribed to, allow for international trade of QDS for both emergency and commercial purposes, but Tanzania regulations do not. According to the TOSCI, the purpose of QDS in Tanzania is to improve

seed trade at the village level only and not on a wider scale. If QDS is truthfully labeled as QDS, however, farmers know what they are getting no matter whether they buy the seed in a village, district, or even national or international market, and it is a more reliable choice than buying seed from unknown sources without any labeling or certification. Allowing QDS to be more widely available would also permit village seed producer groups the opportunity to grow their enterprise into larger seed businesses thereby creating a possible route out of poverty for rural Tanzanians.

Fertilizer

Fertilizer use in Tanzania remains low at approximately 9 kilograms per hectare. To put this in context, the annual nutrient depletion rate of soil nutrients was estimated at 41 kilograms per hectare for nitrogen, 4 kilograms per hectare for phosphorus, and 31 kilograms per hectare for potassium (MALF 2007). Although 9 kilograms per hectare is a substantial improvement from the average of 5.5 kilogram per hectare from 2005–09 (IFDC 2012), it is far below the level required to maintain soil fertility.[23] Less than 7 percent of the planted area uses inorganic fertilizer and much remains to be done to encourage use of this important input. The low use of fertilizer is frequently explained as resulting from a combination of high prices and supply constraints.

The introduction of subsidized inputs in fiscal 2010 increased fertilizer use. As shown in figure 5.3, fertilizer use in Tanzania has risen significantly since the 2005 DTIS was prepared but has been volatile with large annual swings, particularly in recent years. About 80 percent of the fertilizer in Tanzania is used to grow maize, tobacco, and rice. Traditional export crops, such as cotton, tea, tobacco, and coffee, also use fertilizer. In large part, the upsurge in fertilizer use from 2009 can be attributed to the introduction of the National Agricultural Input Voucher Scheme (NAIVS). The NAIVS aimed to increase maize yields, crop diversification, and food security to households. Eligibility is restricted to farmers registered as a farmers' organization. In 2014, the NAIVS was modified to become the Electronic Smart Subsidies in Agriculture (ESSA), which enables farmers to acquire specific inputs to the value of the e-voucher at approximately half the market price. The reentry of private sector suppliers (for example, Yara) has contributed to ensuring quality fertilizer is readily available.

Most fertilizers are imported. Currently, there are 20 importers. The three dominant importers are Yara, Export Trading Group, and Premium Agro-Chem, which together account for more than 70 percent of total fertilizer imports to Tanzania. Urea, diammonium phosphate (DAP), and NPK granular compounds account for 84 percent of all fertilizer products used in the country (IFDC 2012). Local production at the Minjingu phosphate deposit, southwest of Arusha, is modest, but sustains the manufacture of organic hyper-phosphate for the domestic and local market. There are no economically viable deposits of potassium in Tanzania.

In May 2016, Tanzania announced plans to build a US$3-billion fertilizer factory in partnership with private investors. According to a statement from the President's Office, "the factory will use natural gas to manufacture fertilizer and will be built in joint venture with a group of investors from Germany, Denmark, and Pakistan" (Ng'wanakilala 2016). According to the statement, the plant will be built in southern Tanzania near big offshore gas finds and is expected to be commissioned in 2020. Natural gas is one of the hydrocarbon sources of Ammonia, a key ingredient of nitrogenous fertilizer. The official statement notes that, once built, the plant would become the largest in Africa with the capacity of producing 3,800 tons of ammonium nitrate per day while employing up to 5,000.

FIGURE 5.3: Fertilizer Use in Tanzania, 2005–14

Source: Derived from FAOStat (accessed April 20, 2017).

To be profitable at such a large scale, Tanzania must develop regional and other export markets. With an expected production capacity of 3,800 tons per day, total production at the new plant would be nearly seven times more than total national consumption of all fertilizer types at present. Although there is good potential (and much need) to grow the domestic market for fertilizer, recovery of the US$3 billion investment requires steady production and steady sales at far higher levels than Tanzania can realistically sustain. Presently, however, Tanzania's own fertilizer standards are not aligned with global standards or standards in neighboring EAC countries. Fertilizer manufacturers and blenders in Kenya and Uganda have alleged that these differences are used by Tanzania for protectionist purposes. With such perceptions, EAC countries and others may naturally resist opening their markets to exports from Tanzania at a time when market development and regional integration should be a high strategic priority.

Although progress has been made in simplifying trade procedures, registration requirements still limit private competition and product choice. All types of fertilizer in Tanzania are required to be registered by the TFRA. Until recently, product registration by each importer, including every new combination of NPK, required three seasons of domestic field trials at a cost of US$10,000 per season. This policy effectively blocked custom blending of fertilizer based on soil analysis (that is, "precision farming"), and forced one regional firm that hoped to develop this business model in Tanzania out of the market. Testing requirements have since been eased through new regulations drafted in 2011 whereby only "new products" (described by the TFRA to mean organic fertilizer and foliar fertilizers, though others have cited different definitions) require three seasons of field tests and can be reduced to just one season if the product has been registered in another EAC country. While this is a significant improvement on the old system, and TFRA says it is implementing the new regulations, the TFRA also notes that the minister has yet to sign the 2011 regulations into legal effect. This situation causes considerable uncertainty for private operators who rightly question which set of rules to follow. Even under the new guidelines for reduced testing, one large firm said that when it proposed to import with added sulfur it was required to submit the product for field trials even though there is abundant scientific evidence to show that sulfur is beneficial to crop growth and is commonly added to urea in other countries.

The unfavorable regulatory environment increases total costs. Fertilizer importers in Tanzania face very demanding standards that raise prices unnecessarily and make trade with regional neighbors difficult. These requirements limit competition and make it difficult for new entrants to come into the market. There are no harmonized standards for fertilizer in the EAC, and, in at least two important areas, Tanzania's own fertilizer standards are more demanding than standards in other EAC countries and even more demanding than global fertilizer standards.

Unnecessarily demanding mandatory standards increases costs. The technical regulations governing moisture content are a good example. The international standard for moisture in fertilizer is around 1.5 percent depending on the product, but in Tanzania the moisture limit is pegged at 1 percent for all products. Authorities at the TFRA say this is because Dar es Salaam is humid so it is necessary to have very low moisture content at the time of import. Many other countries and port cities around the world, however, also have a hot humid climate and use the global standard. Private operators say that caking (the main risk of moisture in fertilizer) does not happen until moisture is well above 1.5 percent. Moreover, importers say the best way to comply with Tanzania's demanding requirement is to import product in prepacked bags since humidity can easily drift above 1 percent if offloaded in bulk. Prepacked fertilizer is more expensive to ship and more difficult to handle than bulk fertilizer. From this perspective, Tanzania's own trade requirements contribute to increasing total costs.[24]

Tanzania's standards on heavy metal contamination are also inconsistent with global practice. Cadmium, for instance, is commonly found in DAP fertilizer for which the international standard is set at a limit of 20 parts per million. In Tanzania, however, the limit is fixed at just 7 parts per million. The TFRA informed the DTIS team that Tanzania has adopted international standards for heavy metal contamination yet private importers were adamant this is not the case and pointed to the case of cadmium as one clear example. Like the standard for moisture, Tanzania's more restrictive heavy metal limits is another cause of high prices. To meet the local

requirement, firms must place special orders for DAP for Tanzania's strict specification and test it to a much higher standard than for most other markets around the world.

Tanzania's tight standards discourage local blending—an effective strategy keeping fertilizer prices down. Most fertilizers contain less than 45 percent active ingredient with the rest being inert filler. Not all filler is "optional" because of how elemental N, P, and K exist in their natural state, but maybe 10–30 percent inert filler could be added locally through domestic blending. This is important since inland transportation easily accounts for 40–60 percent of the retail price of fertilizer and 10–30 percent of this cost could be saved by blending product around the country using local clay and other inert material as filler. In the United States, nearly all fertilizer is made this way. Unfortunately, with almost zero tolerance for any kind of nutrient defect or foreign material contamination, domestic blending is not a practical business model for Tanzania.

As the DTIS was being finalized, new plans for a bulk procurement system (BPS) were announced. With the stated objective of achieving improved economies of scale at the import stage to save costs, new regulations for the bulk procurement of fertilizer were announced on February 10, 2017, and published in the Government Gazette on February 17, 2017. Private sector operators say there was little or no consultation before the BPS was announced and that the system is likely to stifle competition and have very negative impact on the fertilizer businesses. The government has asserted that the prices charged by private sector are "too high" and claim the BPS will help improve transparency and keep prices down.

The BPS is modeled on the system for importing petroleum to Tanzania. Under the BPS, prequalified firms will submit tender proposals to import the entire national supply of selected fertilizer products based on the pooled demand of all distributors and agro-dealers. The chosen importer for each product will be selected by a tender committee. Potential importers, distributors, and agro-dealers must meet the set criteria to participate in the system. Distributors are required to mobilize finance to pay the importer for their share of the consignment in advance. Failure to pay the importer on time or to comply with other prescribed procedures will attract large minimum fines and other heavy penalties. Based on the tendered price, estimated transport costs, and allowed markup, the Fertilizer Bulk Procurement Authority and the TFRA will set maximum wholesale and retail prices at different locations in the country.[25]

The BPS will introduce new business risks which could have a negative impact on fertilizer supply. Rather than achieve cost savings to bring prices down, the new system creates many business risks and could lead some firms to curtail rural distribution resulting in more limited availability, less choice, and higher prices to farmers. Especially that the new policy was announced abruptly and with little consultation, there is a high risk of disrupting existing supply networks and increasing food insecurity. Private competition is critical for a fertilizer market to be efficient, yet BPS favors large firms and imposes heavy penalties that are likely to discourage small enterprises from participating in this business. Prepaying for pooled imports far in advance also carries a huge financial risk that is made worse by heavy penalties for noncompliance. Unlike petroleum, fertilizer demand is seasonal and can change abruptly depending weather patterns.

Policy priority should focus on addressing constraints that increase costs of importing and distributing fertilizer. Large firms already import fertilizer in large consignments, which limits the scope for further price reductions through centralized (bulk) procurement. At the same time, and as noted earlier, there are many regulatory factors in Tanzania that discourage competition and lead to high costs. These include tighter tolerance limits on moisture content, nutrient defect, and heavy metal contamination. These are all examples of regulations that directly lead to higher prices. These regulations raise import prices and also discourage domestic blending, which in turn prevents significant savings on transport costs from being realized. With transport accounting for 40–60 percent of the price of fertilizer delivered to the farm this is a significant cost. The current regulations risk making AN and other fertilizer exports from Tanzania uncompetitive. Addressing the underlying causes of high prices promises to effectively reduce prices, which will improve availability, increase total nutrient use, augment productivity, and raise rural incomes across a wider range of small and low-income farmers.

Agrichemicals

The procedures for registering new kinds of agrichemicals is unnecessarily cumbersome. Insecticides, herbicides, fungicides, and other chemicals are widely used by the horticulture industry and other major crops including tobacco and cotton. Chemicals are not widely used in maize production in Tanzania but are used during storage to prevent insect infestation. The Tanzania Pesticide Research Institute (TPRI) is responsible for approving all types of agrichemicals. To be registered, the TPRI performs multiyear and multilocational field trials that last from one to three full calendar years, depending on the product. These tests aim to determine whether the product performs according to the manufacturer's specification. Only domestic test data supplied by the TPRI may be used to make this evaluation. Even if the product is a known good performer in another country with a similar climate, it must be tested domestically by the TPRI.

Approval of test results can be a lengthy process. Once all field trials are complete and the data have been analyzed, a technical report is sent to the Pesticide Approval and Registration Technical Subcommittee (PARTS) for review. Based on the outcome of this review, the PARTS submits a recommendation to the National Plant Protection Advisory Committee (NPPAC) on whether the product should be registered and granted admission to Tanzania. The NPPAC makes the final decision on registration. Both committees are meant to meet twice a year but the TPRI says this is not always possible due to a shortage of funds. Money for product registration is paid by the applicant, but these proceeds go to the general government account and not to the TPRI. There is also, on occasion, insufficient funding for field trials, which lengthens the testing and registration process. Test data are not shared with the registrant who is eventually provided a letter from the NPPAC that only states whether the product was accepted or rejected.

Once a product is approved, import procedures are demanding and expensive. Importing a registered agrichemical to Tanzania requires the importer to declare how much product they expect to bring in over a six-month period and to obtain an import permit for each consignment. To obtain the import permit, the importer must provide the TPRI a proforma invoice, pay a 0.5 percent cess, and a US$125 inspection fee for every three tons. At the border, a TPRI inspector may examine the product and draw samples for analysis by the TPRI lab in Arusha. While the product is being analyzed, the importer must hold the cargo in a bonded warehouse to ensure it is not sold to the public before analysis is complete.

There are onerous procedures for product registration and border approvals and testing, but limited attention and resources allocated to market surveillance. Like seed and fertilizer, counterfeiting and adulteration of agrichemicals can happen at any stage in the supply chain before the product reaches the end user. According to the TPRI, there are eight authorized inspectors to cover the entire country who travel on a seasonal basis. The last prosecution for selling counterfeit products was in 2011. To improve inspection capacity, the TPRI told the DTIS team that they had asked the MALF to allow all TPRI scientists (many of whom spend considerable time in the field with spare days during registration trials) to be allowed to perform market surveillance work. This proposal, it seems, was never answered.

There are many practical and low-cost opportunities to improve farmer access to agrichemicals, enhance quality control, and reduce prices. Like seed, Tanzania could expedite the acceptance of new agrichemicals with little risk or danger by accepting international test data. There is little reason to perform field trials on every new product when the product is widely used elsewhere and scientific data from credible sources already exist to show whether it is safe and effective. Redirecting resources that are currently used for repetitive and largely unnecessary field trials to more productive purposes, such as market surveillance work, could also be highly beneficial with significant impact on farmer confidence and willingness to invest in these products.

Agricultural Spare Parts, Equipment, and Machinery

Many key agricultural inputs do not benefit from the blanket exemption from VAT. The Finance Act 2012 waived VAT on irrigation equipment, tractors, farm implements (including spare parts), and milk processing products. However, the waiver was inadequately communicated and implemented by the TRA. The VAT Act 2014, which took effect on July 1, 2015, exempted agricultural implements (such as tractors, harrows, spades, forks) and inputs (for example, fertilizers, pesticides, and insecticides), implements for fisheries and bee-keeping and dairy equipment.[26] Farmer and agribusiness

representatives and others have, however, raised concerns about the completeness of the list of inputs that qualified for exemption in this act. Agriculture nonstate actors have indicated that the list does not include several key agriculture inputs including irrigation and water harvesting equipment, rice processing equipment, special planting material tools including plastic bags and seed trays, milk processing supplies and equipment, and many other packaging and planting materials.

Agricultural mechanization is a priority, but progress remains slow, the list of tax exemption inputs requires updating. The first phase of the ASDP, from 2003 to 2015, prioritized agricultural mechanization to increase production and trade competitiveness. Different programs were established to facilitate farmers to acquire machineries. At the district level, farmers acquired farm machinery (for example, tractors and power tillers) through District Agriculture Development Plans. At the national level, the Agricultural Inputs Trust Fund (AGITF) was established. The AGITF is a government financial institution which was established to provide low interest rate loans for farm inputs including machineries (Lyimo 2011; PASS Trust 2013). The total number of tractors used across the country increased from 7,210 in fiscal 2006 to 10,283 in 2015 (statistics from the mechanization department of the MAFC).

The Finance Bill 2016 addressed some of the previous concerns, but continues to exclude key agricultural equipment. The finance bill of 2016 proposed adding: machinery used for agricultural, horticultural or forestry (except lawn mower or sports ground rollers and parts); and harvesting or threshing machinery. However, proposals by nonstate actors for exception for some other key agriculture equipment are yet to be considered. Examples of some of those pending proposals includes adding to the exclusion list plant protection substances, storage, postharvest and cooling facilities, and agro-nets, as well as spare parts for technologies (that is, greenhouse and irrigation, and so on); and applying tax exemption on other agricultural equipment (dam liners, pipes for irrigation, and so on).

Standards and Technical Regulations

Many mandatory technical regulations should be amended to become voluntary standards. The TBS has made all standards in agriculture into mandatory technical regulations on health grounds. Mandatory technical regulations should be restricted to specific traits impacting public health and safety and security. Including all standards at mandatory regulations creates additional work, increases compliance costs, and leaves less resources for the TBS to focus on higher risk products.

The National Standardization System is administered by the TBS. The TBS is responsible for formulating national standards and technical regulations. Once approved, technical regulations are published in the official Government Gazette and become compulsory. By conflating national standards as compulsory technical regulations the TBS ends up regulating many product attributes that should not be mandatory, including the size and shape of grains. Tanzanian standards and technical regulations are generally adapted from international standards, and mainly cover food and agriculture, chemicals, textiles and leather, engineering, the environment, and general techniques.

Mandatory technical regulations should be readily and freely available. The TBS sells the standards, which, in effect, are only available from their Head Office in Dar es Salaam. Like any law, all mandatory technical regulations should be publicly available at no cost to the consumer. Further, there are considerable overlapping responsibilities between the TBS and the TFDA—both regulate the same products. This adds to the time and resources required for obtaining approval to register even very basic food products and release crop inputs. Overall, the existing national quality infrastructure imposes unnecessary costs on producers through over regulation, which adds to trade costs, undermines competitiveness, and effectively crowds out small traders from participating in the formal sector.

The requirement for Preexport Verification of Conformity (PVoC) imposes increased costs on exporters with no improvement in market access. The TBS requires certain products to obtain PVoC prior to exporting from Tanzania. All products subject to PVoC must obtain a certificate of conformity (CoC), issued by an authorized PVoC service provider in the country of export prior to shipment. The CoC confirms that the products comply with the relevant Tanzanian technical regulations or approved equivalent international or regional standards. The PVoC procedure applies to products subject to technical regulations, which includes used textiles, toys, furniture, safety equipment,

and electrical products. Given the absence of international accreditation for testing by the TBS, the PVoC requirement increases costs for a redundant test as most international importing markets will require the products to be retested.

The TFDA provides testing services for 37 mandatory food safety parameters for cereal grains. The total published cost on the TFDA website for testing all 37 parameters is US$2,105, which is equal to the value of about seven tons of maize and greater than the US$2,000 limit on STR transactions, effectively barring small traders from participating in this business, legally.

Sanitary and Phytosanitary Measures

SPS measures seek to protect human, animal, and plant health from pests and diseases, and additives or contaminants in foods and beverages. SPS measures are included in the food safety standards enforced by the government, and the various biosecurity controls enforced at all border entry points aimed at keeping out pests and diseases. The World Trade Organization's (WTO) SPS Agreement only addresses SPS measures that provide for the control of traded food and plant and animal products, it is mutually exclusive with the WTO Agreement on Technical Barriers to Trade. This can result in the same product having to comply with multiple regulatory agencies. For example, while maximum pesticide residue levels are an SPS matter, nutritional value requirements are not and represent are an area for possible technical regulation instead. Food safety and quality issues thus require extensive inter-agency cooperation between multiple regulatory agencies.

Tanzania's food safety regime is fragmented, costly, and ineffective. The TBS administers the technical regulations relating to food quality, and the TFDA is responsible for all the safety and health issues. In practice, however, many TBS standards cover health and safety issues, such as the maximum level of mycotoxins allowed in maize. This regulatory overlap results in suppliers having to comply with two sets of requirements, make payments to both for multiple test results. The 2011 Confederation of Tanzania Industries study on food safety regime identified 11 regulatory authorities responsible for more than 20 pieces of legislation (CTI 2011). The onerous compliance costs (estimated at more than US$15 million) resulted in higher prices to consumers as firms passed on the increased cost of doing business. This reduces Tanzania's competitiveness within the EAC and the global market, while resulting in higher prices for foodstuffs for all Tanzanians.

Lake Victoria fisheries is a good example of how SPS issues can be addressed successfully. In 1996, Tanzania experienced SPS restrictions with the EU ban on fish exports due to concerns over cholera and pesticide residues. Faced with the potential collapse of the fishing sector around Lake Victoria, the government and the private sector, with financial and technical support from the EU, implemented wide ranging reforms, which successfully addressed the food safety issues and resulted in the ban being lifted in 1998. However, following concerns over fish poisoning with pesticide the ban was reimposed from April 1990 to January 2000. Once market access was threatened, Tanzania implemented the reforms and investments necessary for achieving compliance with buyer demand more rapidly than either Kenya or Uganda. The solution focused on certifying export-oriented firms and processors. This focus on meeting buyer demands for those firms exporting to the EU met buyer demands and did not require compliance with EU standards for the whole industry.

The livestock sector has the potential for significant growth and value addition with improved animal health and animal disease management. Tanzania has 25 million cattle, the third-largest herd in Africa, and a relatively large population of sheep and goats. The bulk of Tanzania's livestock may be divided between smallholders and pastoralists. More than half of all households keep livestock, however, only one percent would be classified as livestock farmers. With demand for meat expected to triple by 2030, the Government of Tanzania Livestock Modernization Initiative (2015) considers the sector represents an attractive investment opportunity for meat production, dairy products, and leather. Tanzania is a net importer of dairy, beef, pork, poultry, meat, and eggs. The sector is characterized by low growth rates, high mortality (from disease), low reproductive rates, and poor quality of the final products. Further, there is a shortage of modern slaughter capacity with many of the existing facilities representing a health risk. The 2010 National Livestock Sector Development Strategy identified three series of strategic interventions aimed at addressing key constraints holding back investment and growth. These include controlling livestock diseases and improving public

health, strengthening support services (veterinary, disease surveillance, preparedness, and control measures, and improving the incentives (business-enabling environment) for private investment along the livestock value chain.

Strengthening animal-based SPS management would help increase commercial livestock farming and livestock productivity. Currently, there is limited commercial livestock farming with the bulk of the meat and milk consumed in rural areas being traded through informal and unregulated channels. Tanzania experiences several transboundary diseases on the World Organization for Animal Health's list A. Improved control measures and improved access to veterinary services will be required before Tanzania can obtain official access to regional, and some international markets, for its livestock and livestock products. In addition to strengthening animal-based SPS management, improvements are required in the marketing system to ensure more efficient price transmission.

Livestock import and export regulations need to be streamlined. The import and export of live animals and meat products is regulated by the Tanzania Meat Board (TMB). All businesses importing and exporting live animals and meat products are required to be registered with the TRA and the TMB. Export and import procedures are available on-line, which also notes that "some of the conditions are subject to amendment or cancellation by the Director of Veterinary Service or other competent authorities (boards, the TFDA) at any time and without prior notice being given." There are no references to the criteria that must be met for taking action "without prior notice." The TMB Clearance Certificates for each imported meat consignment are 2 percent of the FOB value plus US$1 per kilogram of meat for a veterinary license. Prior to each shipment, the importer is required to pay for a survey and sampling to test for lead and salmonella in an International Organization for Standardization-approved laboratory, and submit the results to the TBS. The TBS will issue a Certificate of Conformity against the sampling results. Once the shipment arrives, the importer has to submit a sample to the Atomic Energy Authority who will test for radiation. The goods will only be cleared for sale after receiving the clearance from the Atomic Energy Authority. To date, the atomic energy authority has not rejected one agricultural consignment. Increasing investment and commercialization in the livestock requires the existing SPS framework to be simplified and streamlined.

Strengthening food safety is necessary for increasing links between agriculture and tourism. The growing tourism sector has the potential to generate significant backward links to the horticulture, livestock, poultry, and fisheries sectors. Poor quality and irregular supply limit the links. Specific SPS constraints identified include a lack of training on good hygiene practices, weak surveillance and monitoring system, and weak inspectorate capacities.

Radiation Testing for Agriculture and Foodstuff Imports and Exports

The Tanzania Atomic Energy Commission (TAEC) requires all imported agricultural and food products to be screened prior to issuing the Radioactivity Analysis Certificate, which is required before the goods can be released into Tanzania. The TAEC, established in 2003, is responsible for promoting nuclear technology for economic development and for regulating radioactivity contamination in foodstuffs. The TAEC has one laboratory in Arusha and a facility for screening in Dar es Salaam.

BOX 5.7: Obtaining a Radioactivity Analysis Certificate

Prior to shipment, the trader has to send a sample to the Tanzanian Atomic Energy Commission (TAEC) to obtain prior approval. However, prescreening is only available at the Dar es Salaam and Namanga border points. If the product is perishable, the trader may bring the sample directly to the border where the TAEC will use a "quick detection facility."

The fees for testing are: for imports below T Sh 10 million, a flat fee of T Sh 35,000; for values from T Sh 10 million to T Sh 1 billion, the fee is 0.4 percent of the free-on-board value; and for larger than T Sh 1 billion values, a flat fee of T Sh 4 million.

Exports are tested at 50 percent of the import rates. Although many export markets require a Radioactivity Analysis Certificate (RAC), the TAEC laboratory is not accredited internationally so the exports must be retested on entry (for example, to Japan). The TAEC has a monopoly on testing, no private internationally-accredited company is allowed to issue the Tanzanian RAC.

The TAEC takes between 20–50 samples each day, and issues between 400–1,000 certificates per month. The screening of perishables takes 2–3 hours in Arusha and 1 day in Dar es Salaam.

Since the introduction of the compulsory testing, the TAEC has had no positive test results.

The absence of risk assessment increases costs and reduces the focus on high-risk consignments. Compulsory radiation testing increases costs and diverts resources from addressing higher potential risks. The testing of all food imports for radioactivity increases trade costs, creates a demand for increased testing and laboratory facilities, and takes scarce resources away from addressing potentially higher risks. The blanket testing policy does not distinguish those originating from low-risk areas or those that had previously been tested. The mandatory testing appears to serve no public policy objective other than to raise revenue towards funding the salaries of the TAEC. Since testing is required for a batch of imports, this requirement discriminates against small traders who have to pay a flat fee of approximately US$17.50 on any value up to US$500. In practice, this encourages evasion, and there is evidence that even medium and large traders offload a truck at the border and send the goods across informally before reloading on the other side.

Selected Agricultural Sectors: Growth and Structural Change

This section presents a brief overview of the major trends in maize, rice, sugar, and cashew production and fisheries. Maize and rice are the main staple food crops in Tanzania grown by smallholders for both household consumption and sale in the market. Both rice and sugar receive high levels of trade protection as the Tanzanian government seeks to encourage self-sufficiency. Fisheries remains an important subsector and provides a livelihood for several million people. While each sector experiences specific constraints, it is apparent that the cross-cutting value chains issues addressed in the previous section are central to increasing investment and productivity in agriculture and expanding links with manufacturing. Realizing the objectives set down in FYDP II and the TAFSIP requires improvements in the policy and regulatory environment.

While not comprehensive these subsectors constitute the main source of income for more than half of the rural population and for the poorest two-thirds of the population. Addressing constraints to increasing productivity in these subsectors would contribute to reducing poverty in the rural areas. Fisheries represents an important growth sector around the inland lakes where more than a third of the total population reside and is also a significant potential source of income for Zanzibar.

Maize

Maize is primarily grown by smallholders as both a household staple and cash crop. More than 4.5 million households (80 percent of the total crop growing households) reported selling maize. In 2016, smallholders produced 85 percent of the total maize crop of 6.7 million metric tons (MALFD 2016). Over the past decade, maize yields averaged 1.3 tons per hectare, this is 20 percent less than the average for Sub-Saharan Africa and 2.8 times lower than the world average. Recent aggregate increases in maize production have largely resulted from expanding area under production rather than increasing yields. Maize production continues to be dependent on rainfall, with most smallholders using recycled seeds and little fertilizer.

Despite low productivity, Tanzania remains a large producer and has the potential to sell into regional markets. Due to the abundance of fertile land and large number of farmers growing maize, Tanzania is well placed to supply this staple food to Kenya, which has a structural deficit. Tanzania's official maize exports rarely exceed 3 percent of total production (less than 100,000 tons per year) and could increase significantly without being a threat to domestic food security.

The government has a record of introducing export bans at short notice. Between 2002 and 2014, Tanzania imposed five exports bans. The first two bans spanned between January 2004 to January 2007, except for a brief three-month period at the beginning of 2006. A five-month export ban was put in place in 2008, and a ban, which lasted almost two years, was in effect during 2009 and 2010. The duration of the last ban during this period lacked transparency. It was announced in March 2011, but only became effective in July and, in October, it was announced it would be removed, yet it was only ended in December 2011. The export bans (with exception of the ban in 2002) were introduced at times of high maize prices in neighboring countries and removed when prices were low. This is consistent with the government imposing export bans in response to food security concerns caused by production shortfalls or price increases (USAID Feed the Future Initiative 2014), but this also means that farmers with

a surplus are unable to benefit from trade and, in turn, disincentives other farmers from working to grow a surplus in the future.[27]

Even when there was a ban in place, export trade persists, albeit with much lower profit margins for Tanzania. Mirror trade data between Kenya and Tanzania show large volumes of maize are exported from Tanzania even when there is an official ban. Some maize may stay in the country because of the ban, but the border is simply too porous and the demand in Kenya is too strong to stop all exports. When there is a ban in place, therefore, Tanzanian farmers and traders say they are forced to accept low prices due to the market risks. Kenyan importers, however, say their profits surge when Tanzania imposes a ban because of being able to use the risk as a reason for paying Tanzanian farmers and local aggregators less.

Export bans are rarely effective at stopping exports yet increases seasonal price variability by depressing prices at harvest and limiting the seasonal price increase prior to the next harvest. Analysis of the 2011 export ban shows it had a larger impact on maize prices than the previous export bans causing maize prices to be 8.8 percent lower for every month that the ban was in effect than without the ban. The analysis also showed that while the effect of the ban was relatively muted in the Southern Zone, all the other five zones experienced an impact that was large and significant (USAID Feed the Future Initiative 2014). Lower maize prices may be popular with urban consumers in the short run, but ultimately discourage production, harming them in the long run. Bans also reduces rural incomes and work against rural poverty reduction (as noted, over 70 percent of the population reside in the rural areas where poverty is much deeper and more pervasive compared with urban areas).

The threat of export bans is an important constraint to growth. History matters. The use of export bans on maize and other strategic commodities since the 1980s to try to ensure domestic food security has continued to influence investment decisions even after the bans were lifted. While there are numerous studies showing that export bans fail to increase food security and always result in much lower prices for farmers,[28] the government has persisted with this policy. An export ban is usually imposed with immediate effect. This causes market uncertainty and makes it difficult, if not impossible, for traders to negotiate forward contracts with growers and international buyers. The most recent export ban on maize was introduced in 2014, which was lifted on September 9, 2016, although consultations reveal that during late 2015, a new ban was announced before lifting the previous one. Consultations further reveal that maize traders were not given prior notice of the ban, and that those already holding export permits were not allowed to use the permits since the ban was with immediate effect. Some traders argue that they were not informed of the ban, and, subsequently, incurred losses due to their prenegotiated export contracts.

The threat of future export restrictions is sufficient to discourage investment by small farmers and traders. Periodic export bans and uncertainty over the possible reimposition of export restrictions are a major disincentive to increasing maize production. Ad hoc bans cause significant market uncertainty for private sector traders and ultimately make them less responsive to future opportunities for trade and investment. This discourages investment in fertilizer, improved seeds, and the uncertain supply further discourages investment in storage facilities (warehouses). The inability to sell in neighboring markets suppresses the income of a large number of smallholders who are prevented from obtaining higher price.

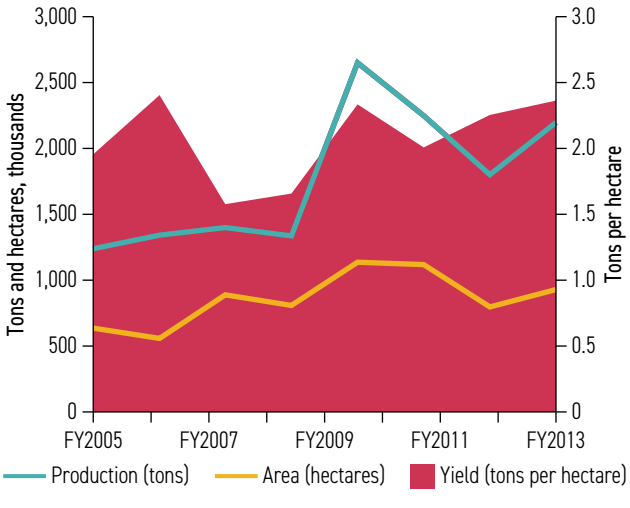
Insufficient and low-quality grain storage continue to serve as a constraint to efficient maize marketing. Despite some recent private investments in storage and expansion of the warehouse receipts system, lack of adequate storage facilities and marketing opportunities remains a major feature of Tanzanian agriculture. Postharvest losses of up to 30–40 percent in some rural areas continue to be reported (Suleiman and Rosentrater 2015). Weaknesses in storage and handling also result in increased health risks from aflatoxin in the processed flour from maize, wheat, and cassava. Studies by the TFDA have documented levels of aflatoxins in maize that exceed the recommended maximum limits by the TBS (TFDA and Abt 2012). With increasing attention given to aflatoxin through mandatory EAC standards, poor handling and lack of storage is a fundamental constraint to Tanzania's ability to compete with global suppliers in regional markets.

Rice

After maize, rice is the second most important cereal crop in Tanzania. Many types of farmers grow rice. Medium and large farmers typically produce rice for market sale, while small farmers grow primarily for their own consumption. Figure 5.4 shows the main trends in rice production, area, and yields over the period 2005–13. Rice production is a major source of employment, and income for many farming households (NBS 2007/08). The National Agricultural Sample Census of 2002/03 reported that 42 percent of rice production is marketed, with medium- and large-scale farmers accounting for 87 percent (Minot 2010).[29] In the agricultural census,[30] rice was the second most widely grown cereal crop after maize in terms of production area. Rice is grown by many smallholder farmers using traditional seed varieties. Rice is grown in three main ecosystems (SAGCOT 2010): rain fed lowlands (68 percent): average productivity 3.5 tons per hectare; rain fed uplands (20 percent): average productivity 1.2 tons per hectare; and irrigated rice cultivation (12 percent): average productivity 3.8 tons per hectare.

Tanzania has a long history of donor-sponsored investment in irrigation systems for rice. Most irrigated plots are part of small, village-level schemes; however, some are part of large-scale schemes that were formerly state-managed farms (Minot 2010). Nearly half of the country's rice production is concentrated in the regions of Morogoro, Shinyanga, Tabora, Mwanza, and Mbeya. The top four rice-producing regions are in the northern part of the country (Maro and Witwer 2014).

FIGURE 5.4: Rice Production, Area, and Yields, FY2005–13



Source: Tanzanian Ministry of Agriculture, Livestock and Fisheries Development

Owing to its strategic importance, rice was among the three commodities included in the BRN initiative, launched by President Kikwete. Under this initiative, production was expected to increase by 290,000 tons (Maro and Witwer 2014). Three sites were earmarked by the SAGCOT for rice production promotion; Ngalima site with 5,126 hectares, Kihansi site with 5,200 hectares, Mkulanzi site with 63,000 hectares. The priority on increasing rice production under the BRN was consistent with the vision of the 2009 National Rice Development Strategy (NRDS), developed as a component of ASDP 2013 and the Tanzania Development Vision 2025, which sought to commercialize subsistence production. The NRDS identified improving irrigation and water harvesting technology as major strategic thrusts.

Rice is one of the top five commodities in intraregional EAC trade. Consumption of rice in the EAC grew at an average rate of 4 percent per year over the ten-year period to 2012, and according to analysis by Kilimo Trust (2014), rice consumption is projected to continue to grow in the foreseeable future. Rising per capita incomes and rapid urbanization in recent years have resulted in a substantial increase in annual per capita rice consumption by nearly 20 percent to about 25–30 kilograms per year (Kilimo Trust 2014). This growth in per capita rice consumption has stimulated both domestic production and the trade in rice.

There are good prospects for increased rice production and trade in the EAC. Tanzania is the largest consumer of rice in the EAC, with annual consumption standing at approximately 1.18 million tons, or nearly 65 percent of total EAC production. Kenya is the second-largest consumer at 370,000 tons annually, and is structurally deficit in the commodity with local production estimated to be only around 125,000 tons (or just 33 percent of total consumption needs), providing a good opportunity for Tanzania to export to a nearby market (Short and others 2012).

The EAC market represents a significant opportunity for Tanzania to increase rice exports. Currently, only 3 percent of the rice imported into Kenya comes from Tanzania. Formal sector figures show that Tanzania exports 27,000–37,000 tons annually to other EAC countries and 17,000–25,000 tons to other African countries, including Malawi, the Democratic Republic of Congo, South Sudan, and Zambia. This is equivalent to 3.5

percent of total EAC rice consumption. On top of these volumes, informal trade is considerable because traders seek to circumvent burdensome trade procedures that prevent them from trading officially. Most of Tanzania's rice imports come from Far East Asia.[31]

The EAC continues to rely on high tariff protection for rice rather than focusing on increasing competitiveness through lowering input costs. In 2015, the EAC increased the CET on imported rice to 75 percent or US$200 per metric ton. This was a policy reversal from Tanzania's prior tariff of 15 percent and represented a return to the high levels of protection applied by the EAC from 2005 to 2011 (see box 5.8). While these tariffs may provide temporary relief to local producers, they do little (or nothing) to address underlying competitiveness constraints and may even serve to forestall the kind of improvements Tanzania needs to realize its full potential in this commodity and become a major regional exporter. The slow introduction of new varieties of rice seed and regulations that prevent fertilizer companies from marketing fertilizer types specifically tailored to the crop and individual soil types are good examples of self-made regulatory barriers to increased production and expanded export trade.

Through 2005 and 2011, high tariffs on rice enabled large-scale traders, who could obtain import rebate permits, to capture large rents as they can import rice at world prices which can then be sold into a protected market. This undermined the stated intent of protecting smallholders who, with low productivity, were unable to compete with the imported rice. Following the decision of the Tanzanian government to reduce rice tariffs in 2013 from 35 percent to 15 percent, local producers and rice stakeholders (Rice Council of Tanzania) lobbied for the EAC CET to be increased to 75 percent on infant industry grounds.[32] Low productivity resulting from using outdated seeds and expensive and insufficient fertilizer undoubtedly constrains the ability of Tanzania's rice producers to be internationally competitive. However, applying a high tariff does not address the root cause of the high input costs while failing to "protect" producers from widespread exemptions and trade diversion via Zanzibar. Further, a tariff increases the price of a basic staple and has an adverse impact on the lowest income groups.

BOX 5.8: Tanzania Rice Tariffs Fluctuating from 2005 to 2015

From 2005 to 2011, the East African Community (EAC) applied a tariff level of 75 percent to promote import substitution. The earlier high tariff levels had increased prices in the protected market, and the large gap between international prices and prices in the EAC encouraged substantial lobbying to import under rebate. Further, Zanzibar applied a much lower tariff (12.5 percent) and the Tanzanian government granted import rebates. In 2013, Tanzania reduced the tariff on rice from 35 to 15 percent, which continued the move away from the earlier EAC policy of high tariff protection aimed to promote increase production. In 2015, the EAC increased rice tariffs to 75 percent.

Source: Derived from Barreiro-Hurle (2012) and project interviews.

Sugar

Tanzania has the potential to expand sugar production. Tanzania has the right geographical conditions for growing sugar yet does not grow enough to meet domestic demand and imports more than US$100 million of sugar per year (see table 5.4). During preparation of the DTIS update, the government announced tight restrictions on sugar imports with the aim of stimulating increased local production and achieving self-sufficiency by 2020. The stated aim is to promote local production by levying high tariffs and quantitative restrictions on imports. Tariffs and quantitative restrictions increase the price of sugar, a basic staple, in the domestic market. They also allow the sugar industry to realize higher prices thereby minimizing the incentives to address underlying structural constraints that hinder long-term competitiveness gains.

Between 1998 and 2001, the total area under sugar cane cultivation expanded rapidly following the privatization of sugar processing companies. There are currently four milling companies in Tanzania (Kilombero Sugar Company, Mtibwa Sugar Estates, Tanganyika Planting Company, and Kagera Sugar). The government has 25 percent equity in Kilombero Sugar Company and Tanganyika Planting Company, which are majority owned by Illovo, a subsidiary of Associated British

TABLE 5.4: Tanzania Sugar Imports and Exports, US$ million, 2013–14

	2013	2014
Imports	132.8	96.6
Exports	95.3	61.4

Source: Derived from United Nations Comtrade data.
Note: The harmonized system code for sugar is 1701.

Foods, and Alteo from Mauritius. Super Group, a Tanzanian firm owns Mtibwa Sugar Estates and Kagera Sugar. Taken together, therefore, the sugar industry is concentrated in the hands of a very few owners. Kilombero Sugar is the largest miller accounting for half of total cane processed. These four companies in aggregate can produce approximately half of the total domestic demand of 600,000 tons (420,000 raw sugar for domestic consumption and 170,000 for industrial use).

The sugar milling industry continues to be protected by high tariffs. The Sugar Board of Tanzania's (SBT) new strategy aims to support the mills to increase productivity. The government justifies the 100 percent tariff on imported sugar as necessary for the sector to develop yet this has been the strategy for the past decade. It would be useful to identify the bottlenecks and develop an action plan aimed at increasing the industry's competitiveness. There is considerable opportunity for the existing mills to improve their productivity to move towards international best practice. Increased competitiveness would enable tariffs to be reduced without increasing imports. As production area expands, there have been reports of declining sucrose levels in the sugar cane reaching the factory, which hurts the cane grower for whom price is linked to the percentage sucrose. Ideally, sugar cane must be processed within 30 minutes of cutting to prevent natural sucrose depletion. Despite these basic economics of the industry, the Sugar Board has so far resisted licensing second mills within an 80-kilometer radius of an existing mill. Inefficiencies in the milling industry along with the political influence of the millers have thus enabled these firms to pass on the high processing costs to consumers with little competition or pressure to undertake much needed investments.

The SBT continues to act as a single channel for export marketing and sets quotas for imports. Through an agreement with the EU, sugar has been exported to the EU at higher prices than those prevailing in the EAC. The SBT licenses sugar exporters and requires the export price to exceed the import price, they also prescribe the maximum quantity of sugar that can be exported, after considering domestic production and demand. The SBT specifies the maximum amount of sugar that "needs" to be imported during a 12-month period and licenses and registers all importers. There are 3 categories of importer: Category A large importers (more than 60 metric tons) for domestic consumption, Category B large importers for industrial use, and Category C less than 5 metric tons.

Existing policies have raised prices for consumers, undermined the stated incentives for sugar producers, and created incentives for large traders to capture windfall rents from importing under rebate and selling into a protected market. The policies of the Tanzanian government confuse the incentives and interests facing producers and consumers. High tariff protection reduces the incentive for producers to improve their productivity (efficiency) as they can sell at higher prices into both the EU market and the domestic market, however, the price in the domestic market is uncertain as the government permits imports under rebate. Sugar is permitted to be imported through the Dar es Salaam port with a license which waives the duty. In January 2013, the MALF issued licenses for 35,000 tons of sugar yet later allowed 85,000 tons to be imported impacting on the price. Large traders aim to maximize the price at which they sell into the domestic market and have resorted to withholding sugar in warehouses to drive up prices. Consumer complaints of sugar shortages have occurred periodically over the past decade. The combination of high consumer prices and the large rents being made by large scale importers in conjunction with a nontransparent process for allocating import quotas by the SBT has contributed to the decision by the Tanzanian government (in early 2016) to directly import sugar to meet the shortfall in supply.

Reducing the tariff on sugar and liberalizing the market for sugar would encourage efficiency, promote growth, and benefit consumers. A FAO (2012) report on incentives and disincentives in the sugar sector recommended liberalizing the sugar trade and reducing the tariff. With large numbers of people dependent on sugar growing and processing for their livelihood, it is essential that regulatory reforms, including tariff reductions, be closely related to increasing efficiency and competitiveness. Committing to more open and transparent policies at the regional level (EAC) or multilaterally at the WTO level will contribute to preserving existing jobs while encouraging increased investment and expansion of the sector.

Cashew

Tanzania is a leading producer of cashew nuts, with exports accounting for 10 percent of the global trade.

Cashew is primarily grown by an estimated 300,000 smallholders in the coastal areas. Tanzania is one of the largest producers of cashew nuts in Africa and with world demand growing the sector has the potential to increase exports significantly. Virtually all production is exported in raw unshelled form for processing to India, Vietnam, and Brazil, with less than 10 percent being processed in Tanzania. With raw cashews selling for approximately US$1 per kilogram, compared to US$6 per kilogram for processed nuts, the government has sought to encourage increased value added and processing in Tanzania. Approximately 150,000 tons of cashew nuts are exported each year.

Cashew marketing and exports are controlled by the Cashewnut Board of Tanzania (CBT), a statutory monopoly, which regulates and promotes the quality, marketing, and export of raw and processed nuts. Fitzpatrick (2012) characterized the cashew industry as low productivity and low value added. The government subsidizes inputs (seedlings, fertilizer), however, these are distributed through local governments and primary cooperative societies and often arrive late and in insufficient quantities. The costs of transporting cashew nuts from the farm gate to licensed warehouses under the CBT's warehouse receipt system and then on to the ports for export are high and further reduce farmer income.

The CBT introduced the Warehouse Receipt System in 2007. Fitzpatrick (2012), in a consultancy for the Agricultural Non State Actors Forum, concluded that single-channel marketing through the CBT works to reduce profits for smallholders growing cashew. A recent paper by Akyoo and Mpenda (2014) is less critical of the WRS, although still notes that high transaction costs associated with "cooperative monopolies" negatively impacts farmer profits. The authors placed the structural and institutional weaknesses on "clandestine buyer collusion and predatory pricing at the expense of local processing." It was envisaged that the WRS would increase competition between processors and enable farmers to obtain improved prices. However, the requirement for producers to use the CBT WRS has inhibited competition. Further, although private traders have the right to participate in the WRS, Fitzpatrick notes that local cooperatives and domestic political interests sought to limit private participation. This sometimes results in farmers choosing to sell for cash at lower prices on the informal market. Large cashew farmers expressed concern over the reliability of CBT grading and noted their inability to obtain compensation when products are wrongly classified.

The main constraints holding back further development of the cashew sector stem from its existing structure and regulation. While the auction system may have helped increase competition between buyers at the point of sale, regulations governing cooperatives serve to undermine the incentives for investing in domestic processing. The operation of the auction system results in processors competing for raw materials at the same time as the peak demand from Indian processor. The requirement that all cashew nuts must be sold via the cooperative union and auction system increases transaction costs and prevents farmers and farmer groups from developing commercial relationships, including outgrower arrangements along the supply chain. Under this regulatory framework any new processor would be unable to guarantee the supply of raw cashews.

The net price received by cashew farmers is reduced by relatively high taxes, high cooperative operating costs, and high export margins deducted by traders. The farmer receives between 67–80 percent of the auction sale price, however, when the cost of shipping the cashews from the warehouse to the port is included, the return declines to 57–65 percent of the auction sale price. Cashew farmers pay approximately 15 percent to the cooperatives and logistics firms.

The unique market structure of the cashew sector requires more work before concluding on the efficiency of the cooperatives. A more detailed assessment is required before drawing conclusions on the efficiency of the charges levied by the cooperative and logistics firms, as the cashew sector has several characteristics which have the potential to drive down prices to the farmer. Firstly, the international cashew market has been plagued by collusion which would also serve to reduce prices to farmers. Further, the existence of many small-scale producers will reduce prices to farmers as aggregators have to cover their costs and, thirdly, high internal transport costs will also drive down farmgate prices, as will a lack of awareness of grading by the farmers.

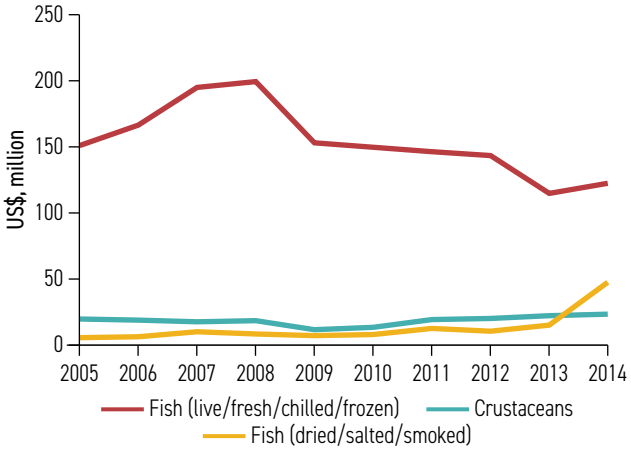
The export tax on raw cashews has the unintended effect of lowering prices to smallholders, and the existing marketing regulations and the compulsory use of the WRS serve to reduce the incentives for investing in processing facilities. The Tanzanian government introduced an export tax in 1998 at 3 percent of the FOB price, in 2005, this was increased to 10 percent with 6.5 percent earmarked for inputs and research and development, and, in 2011, it was further increased to 15 percent, with the aim of encouraging more investment in domestic processing.

Fisheries

The fisheries sector remains a major employer with substantial growth potential constrained by wide ranging regulations restricting licenses and ownership. Fish and fish products remain a significant export from Tanzania, accounting for 3 percent of total merchandise exports in 2014 and providing employment for 121,000 people in the mainland and 25,000 people in Zanzibar. This represents a relative decline from 15 percent in 2003 reported in the earlier DTIS. Fish remains a major source of protein for a third of the population. The trend in fish exports over the past decade is shown in figure 5.5.

The sector is dominated by artisanal inland fishing of Nile perch, tilapia, and dagaa from lakes Victoria, Tanganyika, and Nyasa. The marine fisheries catch sardinallas, mackerel, and tuna from the Indian Ocean. Europe and Asia are the major markets for Nile perch and shrimp, while dagaa fish are mainly sold within the region.

FIGURE 5.5: Tanzania Fisheries Exports, 2005–14



Source: Derived from Tanzania National Bureau of Statistics.

The fisheries sector is heavily regulated and restricts artisanal fishing to Tanzanian nationals. Restrictive entry requirements for artisanal fishing inhibits competition, restricts investment, and is against the spirit of the EAC single market. The stated objective of the fisheries sector regulation of 2009 is the sustainable development and the protection and conservation of resources. Primary or artisanal fishing is reserved for Tanzanian nationals, however, there are no nationality requirements for fish processing. The Ministry of Livestock and Fisheries in Dar es Salaam issues the licenses to foreign investors and for all fishing vessels over 11 meters, while regional and district offices are empowered to license national investors and vessels of less than 11 meters. The fees for foreign-owned ships are double those for local vessels. Further, nationals are charged lower fees for export licenses. The Tanzanian government also levies an export royalty on a FOB basis by the weight and grade of the product, which discourages competition.

As in other areas of agriculture, major challenges facing the fisheries sector include the existing high government royalties on fish products, multiple and duplicated taxes, surcharges, and levies on fish products levied at the local and national level.[33]

Addressing Constraints to Growth

Taking a trade lens to agriculture, this chapter has focused on access to agricultural inputs and cross-border regulations, fees, and taxes. The priority recommendations for addressing the constraints to expanding growth in the agricultural sector are summarized below.

The unpredictable imposition of trade bans creates market uncertainty and discourages investment. Imported agricultural inputs, such as seeds and fertilizer, remain heavily regulated, although the government has committed to streamline the regulations to enable quicker and more cost-effective access to higher productivity seeds and a wider range of fertilizers.

Obtaining accurate information on existing charges and tariffs and regulatory requirements applying to both the import and export of agricultural inputs and products remains challenging. There is no one source for all relevant information, producers and traders are required to contact multiple regulatory agencies. Establishing a National Agricultural Portal would address this constraint.

Reducing the barriers to accessing a wide range of agricultural inputs at competitive prices requires the government to streamline existing procedures and to remove the duplication of responsibilities across multiple regulatory agencies. Reforming the Seed Act and the Fertilizer Act to allow the fast track registration of new seed types and removing restrictions on fertilizer and types of fertilizer will encourage more efficient production.

Promoting increased commercialization amongst smallholders and encouraging small traders requires the government to reduce the implicit biases that effectively diminish and crowd them out from many agricultural markets. The government should review all the licenses, fees, and documentary requirements with the aim of reducing transaction costs.

Reducing the regulatory burden on small traders will encourage informal traders to declare their goods while crossing the border. This process may be facilitated through adopting a code of conduct that specifically aims to eliminate the uncertainty facing small traders of being subject to misinformation and harassment at the border. The Charter for Cross-Border Traders aims to address many of the challenges faced by small traders when moving goods across borders. Launched by the World Bank in response to an explicit request by local stakeholders, the charter introduces a mutual framework of rights and obligations that symmetrically applies to both traders and officials: it sets basic principles of transparency, efficient processing, fair treatment, and zero tolerance to corruption, and translates them into action through capacity building, extensive dissemination, and the introduction of toll-free line systems. Ultimately, the charter aims to facilitate small-scale cross-border trade, to improve relations between officials and traders, and to create the conditions for the latter to gradually formalize, thus contributing to increased customs revenues—additionally, the initiative provides for a number of gender-sensitive principles and interventions that intend to specifically address challenges faced by women cross-border traders (Brenton and others 2014).

With support from the World Bank and in close cooperation with the respective governments, traders' associations, and border agencies, the charter was successfully piloted in Malawi and Zambia, where, in some cases, it contributed to major increases in formal small-scale trade transactions recorded by customs authorities, and to visible improvement in the relations between traders and officials. Additionally, charter pilot work was also initiated at two border posts in Tanzania, where the initiative greatly benefitted from close collaborations with the Ministry of Industry, Trade and Investment, Tanzania Trade Development Authority, and local government authorities, as well as traders' associations, private sector representatives and regional organizations, such as the Dar es Salaam Corridor Committee—such work could be expanded and replicated elsewhere in the country, as part of the measures taken to improve conditions at the border and facilitate the movement of small-scale traders and their goods. Finally, in 2014, the charter was also adopted by the Common Market for Eastern and Southern Africa as an official regulation, under the name of "Regulations for the Minimum Standards for the Treatment of Small Scale Cross-Border Traders." Similarly, and possibly as part of efforts related to the charter, resources should be devoted to enhancing the capacity of small-scale traders and officials, particularly in relation to the preferential trade conditions currently available under the EAC Customs Union, to special regimes such as the EAC STR, and to cross-border (agricultural) traders in Tanzania.

In March 2016, the World Bank approved a US$70 million project to support Tanzania's agricultural sector through linking smallholder farmers to agribusiness to facilitate job-based growth. The project supports the SAGCOT and seeks to provide 100,000 smallholder farmers with new technologies, marketing practices, and expanded partnerships with more experienced agribusinesses. The recommendations in the action matrix complement the new agribusiness project while also supporting the principles of the NAP, which commits to increasing the role of the private sector in production, marketing, and pricing decisions to promote increased cross-border trade in crops and value-added agricultural products.

Notes

1. World Development Indicators (database), World Bank, Washington, D.C. (accessed December 19, 2016), http://data.worldbank.org/data-catalog/world-development-indicators.
2. Economic reforms in Uganda encouraged rapid

expansion in coffee production and significantly reduced poverty levels in the rural areas. For a summary, see World Bank (2007).

3. The poverty rate began to decline under the previous plans, 2001–07 and 2007–12.

4. The ASDP II highlights low land and labor productivity in the agricultural sector as constraints on agricultural growth (p.3). Increasing agricultural productivity would be expected to raise living standards in the rural areas.

5. Even in agencies with a good website, the information is not always kept up to date. For example, the Tanzania Revenue Authority website currently provides the Tariff Schedule for 2012 (accessed January 11, 2017), www.tra.go.tz/.

6. NPK refers to the value of the three macronutrients used by the plants, these are N-nitrogen, P-phosphorus, and K-potassium.

7. The World Bank Enabling Business for Agriculture (EBA) scores countries on both the quality and efficiency of their regulatory systems. For 2017, it is possible to compare Tanzania against 61 other countries across eight indicators (seed, fertilizer, machinery, finance, markets, transport, water, and information and communications technologies). The EBA was launched in 2014 and aims to allow countries to take stock of their regulatory environment and encourage change (analogous to the World Bank Doing Business Indicators).

8. Agriculture First in Swahili.

9. See section 1.3 of the National Agricultural Policy (2013).

10. Using COMTRADE Mirror Data.

11. Joint Cross Border Market and Trade Monitoring Initiative (2015).

12. Keyser and others (2010).

13. According to UN Comtrade data, dried and smoked fish almost certainly understate the true importance of these products because they are widely traded through informal channels.

14. For more information, see the U.S. Department of Commerce's International Trade Administration's website at https://www.export.gov/article?id=Tanzania-Agro-Processing.

15. United Republic of Tanzania (2011).

16. For a detailed explanation, see Amin and Stryker (2013).

17. Since each trader requires a license, this is not compliant.

18. World Bank (2009).

19. USAID-EAT (2013).

20. Information from industry sources.

21. No official reason has been given for the nonimplementation of the agreement on mutual recognition.

22. As is the case in Zambia.

23. In 2006, the Africa Union's Abuja Declaration on Fertilizer in Africa set a target of 50 kilograms per hectare by 2015.

24. It should also be noted that domestic transport costs contribute a large share of the total costs.

25. "The Fertilizer (Bulk Procurement) Regulations, 2017," The Fertilizer Act (CAP .378).

26. The exemptions in the revised VAT Act 2014 do not cover milk processing supplies and equipment and therefore might negate the recent productivity improvements in the dairy industry (personal discussion with an officer from Tanzania Dairy Board).

27. There are numerous studies examining the impact of export restrictions on food security. The consensus from the detailed case studies finds that export bans have been ineffective and may carry significant costs as the lower prices discourages farmers from increasing production.

28. For example, Diao and others (2013) or USAID Feed the Future (2012).

29. Small-scale farmers account for only 13 percent of all the rice sold in the market.

30. This is the most recent published survey.

31. Far East Asia includes imports originated from the Arabic peninsula countries, as it is considered that imports from Asia transit through these countries on their way to Tanzania.

32. Policy Dialogue on Tanzania Rice Chain Stakeholders in the EAC Common Market, September 2015.

33. High levels of taxation were identified as a major cross-cutting constraint in the 2005 DTIS, pp.146ff.

References

Akyoo, Adam and Zena Mpenda. 2014. "Policy Imperatives for Control of Market Exchange Failure in the Cashew Nut Industry in Tanzania." *European Scientific Journal* 2 (February): 313–325.

Amin, Mukhtar and Dirck Stryker. 2013. *Impact of Export and Import Permits on Staple Food Trade in Tanzania*. Cambridge: Associates for International Resources and Development.

Brenton, Paul, Nora Dihel, Mombert Hoppe, and Carmine

Soprano. 2014. *Improving Behavior at Borders to Promote Trade Formalization: The Charter for Cross Border Trade*. Africa Trade Policy Note 41. Washington, D.C.: World Bank.

Cagley, Jessica Henson, Grugerty, Mary Kay, and Plotnick, Robert. 2009. "Political Economy of Fertilizer Policy in Tanzania." Paper prepared for the Farmer Productivity Team of the Bill and Melinda Gates Foundation. University of Washington, Seattle. https://evans.uw.edu/sites/default/files/Evans_UW_Request%2075_Political%20Economy%20of%20Fertilizer%20Policy_Tanzania_2%20November%202009_0.pdf.

CTI (Confederation of Tanzania Industries). 2011. "Challenges of Unreliable Electricity Supply to Manufactures in Tanzania." Policy research paper, Dar es Salaam, CTI.

Diao, Xinshen, Adam Kennedy, Athur Mabiso, and Angga Pradesh. 2013. "Economywide Impact of Maize Export Bans on Agricultural Growth and Household Welfare in Tanzania: A Dynamic Computable General Equilibrium Model Analysis." IFPRI Discussion Paper 1287, International Food Policy Research Institute, Washington, D.C. http://ebrary.ifpri.org/cdm/ref/collection/p15738coll2/id/127796.

Fitzpatrick, James. 2012. *Advocating for Effective Regulation of the Cashew Nut Industry in Tanzania*. Dar es Salaam: Agricultural Non-State Actors Forum.

Gisselquist, David and Carl Pray. 1999. "Deregulating Technology Transfer in Agriculture: Reform's Impact on Turkey in the 1980s." World Bank Policy Research Working Paper No. 2086, World Bank, Washington D.C.

Harun-Ar-Rashid, Mohafez Ali, and David Gisselquist. 2012. *Private-sector Agricultural Research and Innovation in Bangladesh Agriculture: Overview, Impact, and Policy Options*. Washington, D.C.: International Food Policy Research Institute.

IFDC (International Fertilizer Development Center). 2012. *Tanzania Fertilizer Assessment*. Muscle Shoals: IFDC.

Joint Cross Border Market and Trade Monitoring Initiative. 2015. *East Africa Crossborder Trade Bulletin Volume 8*. Nairobi: Joint Cross Border Market and Trade Monitoring Initiative. http://www.fews.net/sites/default/files/documents/reports/Quarterly%20GHA%20Cross%20Border%20Trade%20Bulletin%20January%202015.pdf.

Keyser, John, Henry Chalu, and Fiona Namutembi. 2010. *Kagera-Rakai Parallel Value Chain Analysis of Coffee and Maize*. Washington, D.C.: World Bank.

Kilimo Trust. 2014. 2014. *Expanding Markets for Rice in the East African Community (EAC) Region: Great Opportunity for Actors in Locally Produced Rice*. Kampala: Kilimo Trust.

Lyimo, Mark. 2011. "Country Presentation on Agricultural Mechanization in Tanzania." Workshop presentation on "Boosting Agricultural Mechanization in Rice-Based Systems in Sub-Saharan Africa," Saint Louis, June 6–8.

MAFC (Ministry of Agriculture, Food Security and Cooperatives). 2013. *National Agricultural Policy*. Dar es Salaam: MAFC.

MALF (Tanzania, Ministry of Agriculture Livestock and Fisheries). 2007. *Agricultural Sector Development Programme*. Dar es Salaam: MALF.

Maro, Festo and Megan Witwer. 2014. *Technical Note: Analysis of Price Incentives for Rice in Tanzania for the Time Period 2005-2013*. Rome: Food and Agriculture Organization of the United Nations.

Minot, Nicholas, 2010. "Staple Food Prices in Tanzania." Paper prepared for the Common Market for Eastern and Southern Africa Policy Seminar on "Variation in Staple Food Prices: Causes, Consequence, and Policy Options," Maputo, January 25–26. https://ageconsearch.umn.edu/bitstream/58555/2/AAMP_Maputo_24_Tanzania_ppr.pdf.

NBS (Tanzania National Bureau of Statistics). 2014/15. *Annual Agricultural Sample Survey*. Dar es Salaam: NBS.

———. 2007/08. *Crop Sector National Report Census of Agriculture*. Dar es Salaam: NBS.

Ng'wanakilala, Fumbuka. 2016. "Tanzania to begin building $3 bln fertiliser plant this year." *Reuters*, May 20. http://www.reuters.com/article/tanzania-investment-idUSL5N18H192.

Nyange, David and David Tschirley. "Agricultural Taxation in Tanzania with Special Reference to Produce Cess: Inception Report on Key Issues and Study Design." Presentation at local government area crop cess stakeholder study inception meeting, Ministry of Agriculture, Food Security, and Cooperatives, Dar es Salaam, January 30. https://web.archive.org/web/20151117181454/http:/fsg.afre.msu.edu/gisaia/Tanzania/Tanzania_Crop_Tax_Study_inception_workshop_Jan2014.pdf.

PASS Trust. 2013. *Private Agricultural Sector Trust Guidelines*. Dar es Salaam: PASS Trust.

SAGCOT. 2010. *SAGCOT Investment Blueprint*. Dar es

Salaam: SAGCOT.
Suleiman, Rashad A., Kurt A. Rosentrater, and Carl J. Bern. 2013. "Effects of Deterioration Parameters on Storage of Maize: A Review." *Journal of Natural Sciences Research* 3 (9): 147–165.
Suleiman, Rashad A., Kurt A. Rosentrater, and B. Chove. 2017. "Understanding Postharvest Practices, Knowledge, and Actual Mycotoxin Levels in Three Agro-Ecological Zones in Tanzania." *Journal of Stored Products and Postharvest Research* 8 (7): 73–84.
TANEXA (Tanzania Exporters Association). 2012. *Problems of Official Food Export Permits to East Africa Community (EAC) and Southern African Development Community (SADC) the Case of Tanzania*. Dar es Salaam: TANEXA.
URT (United Republic of Tanzania). 2011. Tanzania Agriculture and Food Security Investment Plan (TAFSIP) 2011–12 to 2020–21.
Nkwame, Marc. 2014. "Tanzania: Seed Production Set to Increase to 300,000 Tonnes." *All Africa*, November 3. http://allafrica.com/stories/201411030846.html.
USAID-EAT (United States Aid Agency for International Development-Enabling Agriculture Trade Project). 2013. "SeedCLIR Tanzania: Pilot Report." USAID-EAT, Washington, D.C. http://eatproject.org/docs/tanzania_seedCLIR.pdf.
USAID Feed the Future Initiative. 2012. "Time to Re-Think the Food Crops Export Ban." SERA Policy Research Brief, USAID, Washington, D.C.
———. 2014. "Drivers of Maize Prices in Tanzania." SERA Policy Research Brief, USAID, Washington, D.C. http://pdf.usaid.gov/pdf_docs/PA00MD2P.pdf.
World Bank. 2007. *World Development Report 2008: Agriculture for Development*. Washington, D.C.: World Bank.
———. 2009. *Eastern Africa - A Study of the Regional Maize Market and Marketing Costs*. Washington, D.C.: World Bank.
———. 2012. *Africa Can Help Feed Africa: Removing Barriers to Regional Trade in Food Staples*. Washington, D.C.: World Bank.
———. 2016. *World Development Indicators*. Washington DC: World Bank.
———. 2016. "Great Lakes Trade Facilitation Project." Background paper, World Bank, Washington, D.C.

6 Extractive Industries

"Tanzania is endowed with large mineral and fossil fuel deposits. It is known for its high-grade gold reserves (which have been mined since the precolonial era) and its gemstone deposits that include tanzanite (uniquely found in the country), diamond, ruby, garnet, tourmaline, sapphire, topaz, and emerald."

Tanzania is endowed with large mineral and fossil fuel deposits. It is known for its high-grade gold reserves (which have been mined since the precolonial era) and its gemstone deposits that include tanzanite (uniquely found in the country), diamond, ruby, garnet, tourmaline, sapphire, topaz, and emerald. Further, metallic mineral deposits include iron ore, copper, cobalt, and silver. Industrial minerals, such as clay, limestone, and gypsum, are being consumed by local industries, and granite can be found in various regions. In 2010, Tanzania grabbed the headline news with the discovery of around 47 trillion cubic feet (tcf) of offshore gas deposits in the southern part of the country, adding 8.1 tcf of onshore gas reserves (Uongozi Institute 2015).

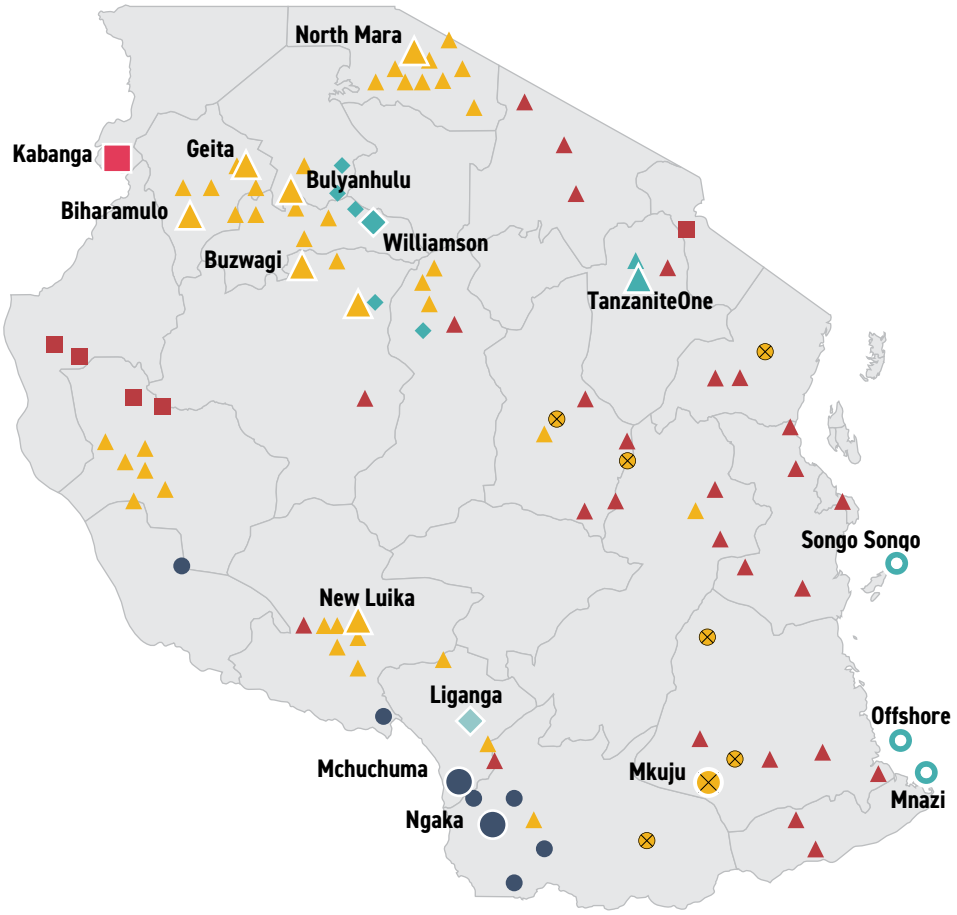
The extractive industries (EI) sector in Tanzania is made up of large-scale mining (LSM) projects, gas projects, and artisanal and small-scale mining (ASM). The LSM sector is composed of nine mines that are currently in operation: six gold mines (Geita, New Luika, North Mara, Buzwagi, Bulyanhulu, and Biharamulo), one tanzanite mine (TanzaniteOne), one diamond mine (Williamson), and one coal mine (Ngaka) that primarily supplies the domestic cement industry. Most of the gold projects are located in the northern part of the country (see figure 6.1) and are owned by foreign investors. The remaining projects in figure 6.1 are in preproduction stage (Kabanga nickel mine, Liganga iron-ore mine, Mkuju uranium mine, and Mchuchuma coal mine). The onshore gas fields in Songo Songo and Mnazi (in shallow waters along the east coast of Tanzania and are linked via pipeline to Dar es Salaam) already produce gas for industrial use. In addition, to become economically viable, the offshore gas deposits require the construction of a liquefied natural gas (LNG) facility to process the gas for export purposes.

Although minerals make up Tanzania's largest export earnings, it only accounts for a small share of gross domestic product (GDP) and revenues. In 2015, minerals accounted for 24 percent of Tanzania's total exports.[1] Of the precious mineral exports, gold is by far the country's largest export by value. Tanzania is the fifth-largest gold producer in Africa, following South Africa, Ghana, Mali, and Sudan. The existing gas projects are currently supplying the domestic market only, but if the offshore gas deposits are to be developed, LNG will become a major export commodity. In 2015, mining contributed 4 percent to GDP. The LSM sector paid T Sh 381 billion worth of taxes and royalties in 2015,[2] or about 4 percent of the country's total internal revenue.[3]

The ASM sector is a significant source of income for a large proportion of the population, is key for poverty reduction, and provides employment for women. According to the 2012 census, around 680,000 people were employed in the ASM sector, with 27 percent being women. This compares with only around 7,300 national employees in the LSM sector,[4] highlighting the importance of the ASM sector plays in Tanzania. ASM activities are mainly clustered around the gold and precious stone-producing regions in the northern part of the country. Clashes between LSM companies and ASM miners are common. Although the ASM sector is estimated to produce about 10 percent of total gold production in Tanzania, much of it is not declared and therefore bypasses the authorities.[5]

Falling international commodity prices have also affected Tanzania. The World Bank Metals and Minerals index has fallen by 41 percent and gold prices by 25 percent since 2011.[6] Apart from having an adverse impact on government revenues from operating mines, the price downturn also meant that no new projects have come onstream in the last four years. This follows a global trend of mining companies looking to cut costs by reducing operating expenses, slashing exploration

FIGURE 6.1: Extractive Industries in Tanzania



Source: Reprinted with permission from the Tanzania Minerals Audit Agency.

budgets, and delaying capital expenditures. LNG prices have fallen by around 50 percent since peaking in 2014.[7] This could further delay the final investment decision by BG Group and Statoil to develop the offshore gas deposits until long-term LNG prices are more certain.

This chapter focuses on three subsectors: gold, tanzanite, and natural gas. These subsectors were selected because gold is currently Tanzania's largest export by value; gas will potentially become an important export commodity if the offshore deposits are developed; and tanzanite is uniquely found in the country, which has resulted in the government imposing export restrictions on rough stones. Special attention is also placed on the ASM sector given its importance in the Tanzanian context, as well as on the specific constraints affecting women in small-scale and artisanal mining.

This chapter is structured as follows: Section 1 outlines the institutional framework of the EI sector in Tanzania. Section 2 is an overview of the current market structure and trends. Section 3 highlights key challenges that the country needs to overcome to benefit from the opportunities along the value chain of the three subsectors. And, finally, section 4 provides priority recommendations to the Tanzanian government on how the identified challenges may be overcome.

Institutional Framework

This section provides a brief overview of the most recent policies, regulations, and the main government agencies involved in the mining and the gas sectors.

The Mining Policy of 2009 and the subsequent Mining Act of 2010 are the principal documents guiding the mining investments in Tanzania. Major international investments in Tanzania are regulated through mineral development agreements (MDAs) signed between the Ministry of Energy and Minerals (MEM) and the mining companies. These are negotiated on a case-by-case basis. Two state-owned companies were set up during and after independence (which continues to play an important role today):

- **National Development Corporation (NDC).** Established in 1962 to finance critical development projects and take over the Colonial Development Corporation. Its mission is to implement strategic industrial development projects through partnerships with the private sector. It is a joint-venture partner in the development of industrial minerals, such as coal, iron, nickel, and uranium.
- **State Mining Corporation (STAMICO).** A public parastatal under the MEM that was created in 1972 to take over selected mining projects from the NDC. Today, STAMICO is a joint-venture partner of TanzaniteOne (the largest tanzanite mine). TanzaniteOne has 100 percent ownership of several gold and coal mining projects, and has a role to support ASM miners.

Another important player in the mining sector is the Tanzania Minerals Audit Agency (TMAA), which was established in 2009 under the Minerals Department of the MEM. This semi-autonomous institution is responsible for conducting financial and environmental audits, and to support the Tanzania Revenue Authority (TRA).

The Mining Act of 2010 has strong local ownership requirements:[8]

- A "primary mining license" (PML) holder for the ASM sector will only be granted to Tanzanian citizens, or to a company whose members and directors are exclusively Tanzania citizens.
- A "mining license" (with a capital investment between US$100,000 and US$100 million) may be granted to a foreigner, so long as at least 50 percent of the mining license is held directly by a Tanzanian citizen.
- A "special license" (with a capital investment above US$100 million) requires holders to, in consultation with the MEM, offer shares to the public through a listing with the Dar es Salaam stock exchange.

In the oil and gas sector, the Petroleum Act of 2015 is the primary legislation guiding upstream and midstream investments. In preparation for the potential LNG developments, in 2015, the Tanzanian government passed the Petroleum Act, the Oil and Gas Revenues Management Act, and the Transparency and Accountability Act. The Petroleum Act creates the Petroleum Upstream Regulatory Authority (PURA), which is responsible for monitoring and regulating the upstream segment. The Petroleum Act also makes the Local Content Policy for Oil and Gas Industry of 2014 binding, which aims to increase employment and domestic value addition along the petroleum value chain. The required participation of the Tanzania

Petroleum Development Corporation (TPDC)—the national oil company—is also made explicit in all oil and gas investments going forward. Tanzania has a model production sharing agreement (PSA), which provides the basis for negotiations between the international oil companies (IOCs) and the TPDC.

To develop the gas-related midstream and downstream activities, Tanzania has developed the National Natural Gas Policy of 2013, which subsequently led to the Natural Gas Utilization Master Plan (NGUMP) of 2015 under the National Energy Policy of 2015. The NGUMP provides preliminary gas demand estimates based on household demand projections and potential industrial projects that could be developed using the natural gas resources. These estimates are meant to guide negotiations with the IOCs regarding how much of the gas should be reserved for domestic use. The downstream activities, including those by the TPDC, are regulated by the Energy and Water Utilities Regulatory Authority (EWURA). Finally, the Tanzania Electric Supply Company (TANESCO) plays a central role in the gas sector given that the national power utility company will be the main off-taker of the gas for power generation.

Tanzania is a compliant member of the Extractive Industries Transparency Initiative (EITI), and is committed to further increase transparency in the sector. Tanzania joined the voluntary EITI in 2009, which requires the disclosure of revenues from the extraction of its natural resources (mining, oil, and gas). The country became a compliant member in 2012, and published its 5th and 6th annual reports in November 2015. The drive for transparency was solidified through the passing of the Extractive Industry Transparency and Accountability Act (EITAA) of 2015, which requires for concessions, contracts, and licenses to be published, and foresees for the disclosure of beneficial ownership. It will be necessary for subsequent regulations to clarify some of the requirements in the EITAA to avoid room for misinterpretations and to align the definitions with other legislations.

Apart from the national legal framework, Tanzania is also a signatory to the World Trade Organization (WTO) and 20 bilateral investment treaties (BITs). As highlighted in subsequent sections of this chapter, these international commitments may be in conflict with some of Tanzania's upstream and downstream policies.

Market Structure and Trends

To understand the current institutional framework outlined in section 1, with its strong local content provisions, one has to trace how the EI sector developed over time. This section provides a brief overview on how the market structure evolved, and explains what links have been created along the value chain of the gold, tanzanite, and gas sectors. Given their structural differences, LSM and ASM are discussed separately.

Large-Scale Mining

LSM Gold Mining Sector

Gold mining is the largest EI sector in Tanzania. It traces its history back to the country's colonial era, and was put under state control through the state-owned company STAMICO after independence.[9] LSM gold mining activities gradually declined thereafter, and ASM emerged as the main gold production method, which was further supported by the Mining Act of 1979 that allowed mining permits in designated areas.[10] With the 1986 structural adjustment program and the ensuing National Investment Promotion Act of 1990, the Tanzanian government opened up the mining sector to foreign investors. MDAs signed in the 1990s, the Mineral Policy Act of 1997, and the Mining Act of 1998 provided generous tax incentives to attract international companies to explore mineral deposits and develop mines. The MDAs also included stabilization clauses, which provided investors with guarantees that the fiscal regime would remain unchanged for the lifetime of the project.[11] This led to an explosion in gold exploration by foreign junior mining companies, and, between 1998 and 2003, six major gold mines were commissioned (APPP 2011). The legislation prioritized foreign direct investment, which resulted in major clashes between international investors who were awarded concessions where ASM miners had been operating.

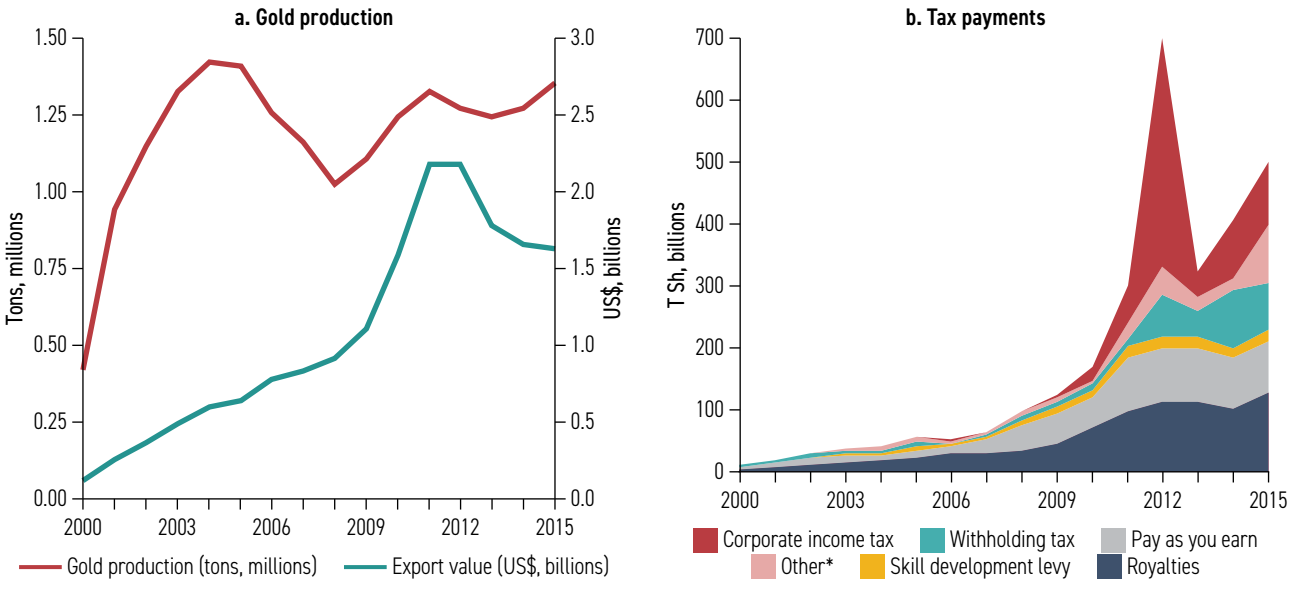
The expected benefits from the LSM sector were not met. Government revenue receipts from the sector were lower than expected due to the fiscal incentives granted under the MDAs. Tax leakages due to abusive transfer pricing mechanisms and limited capacity to audit the mining companies were reported.[12] Links to the domestic economy were limited due to the country's lack of experience and expertise in providing goods and services to the mining sector at a standard required

by international investors. Ultimately, this resulted in the passing of the Mining Policy of 2009 and the ensuing Mining Act of 2010, which only increased the fiscal burden and placed more importance of local content regulations on the LSM sector. While previously signed MDAs did include stability clauses that exempt existing LSM projects from having to abide with new regulations, public pressure led to some of the terms being renegotiated.[13] For example, higher royalty rates were introduced that were charged at gross value instead of netback value as stipulated in the MDAs. Because of these changes, increasing gold prices, as well as increased auditing capacity through the creation of the TMAA in 2009, tax receipts increased significantly after 2010). Figure 6.2 shows all payments by companies including royalties, the pay-as-you-earn on incomes of its employees, skill development levy, withholding tax on dividends, corporate income taxes, and other taxes (value added taxes, import and excise duties, and service levies).

The increased fiscal burden puts Tanzania on par with its peer gold-producing countries. One of the arguments to justify the increase in taxes in the Mining Act of 2010 was that Tanzania had established itself as a gold mining jurisdiction, and hence could increase the fiscal burden to be in line with peer gold-producing jurisdictions. A recent assessment by the International Mining for Development Centre suggests that the average effective tax rate of Tanzania is comparable to peer developing-country fiscal regimes in Africa and Latin America, and should therefore not be too onerous on investors.[14] Changes regarding the valuation point of royalties (from netback value to gross value) and the introduction of ringfencing requirements that disallows companies from offsetting costs from one project to another were also introduced to reduce the opportunities for tax leakages. While the latter may have a dampening impact on further exploration given that these costs cannot be offset against producing projects, a World Bank study on transfer pricing in the African mining industry confirms that ringfencing is common in the majority of jurisdictions where the EI sector is active.[15]

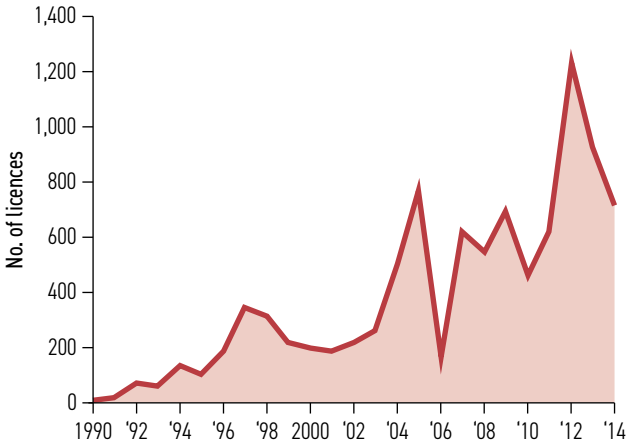
Although only one LSM has come onstream since the Mining Act of 2010 was passed, the interest in the sector does not seem to have been negatively affected. Figure 6.3 shows that there was a peak of prospecting licenses being awarded in 2012, and a sharp drop thereafter. This pattern closely follows the international exploration budget spending, which saw an increasing trend until 2008, when the financial crisis caused a short slump in spending before peaking again in 2012.[16] With the sharp fall in commodity prices thereafter, exploration budgets of mining majors were cut across the board. It should be noted, though, that since the passing of the Mining Act, only one LSM gold project—the New Luika gold mine—has been commissioned in 2011.

FIGURE 6.2: Gold Production and Tax Payments, 2000–15



Source: Derived from the Tanzania Minerals Audit Agency.
*Other taxes are made up of value-added taxes, import and excise duties, and service levies.

FIGURE 6.3: Awarded Prospecting Licenses, 1990–2014



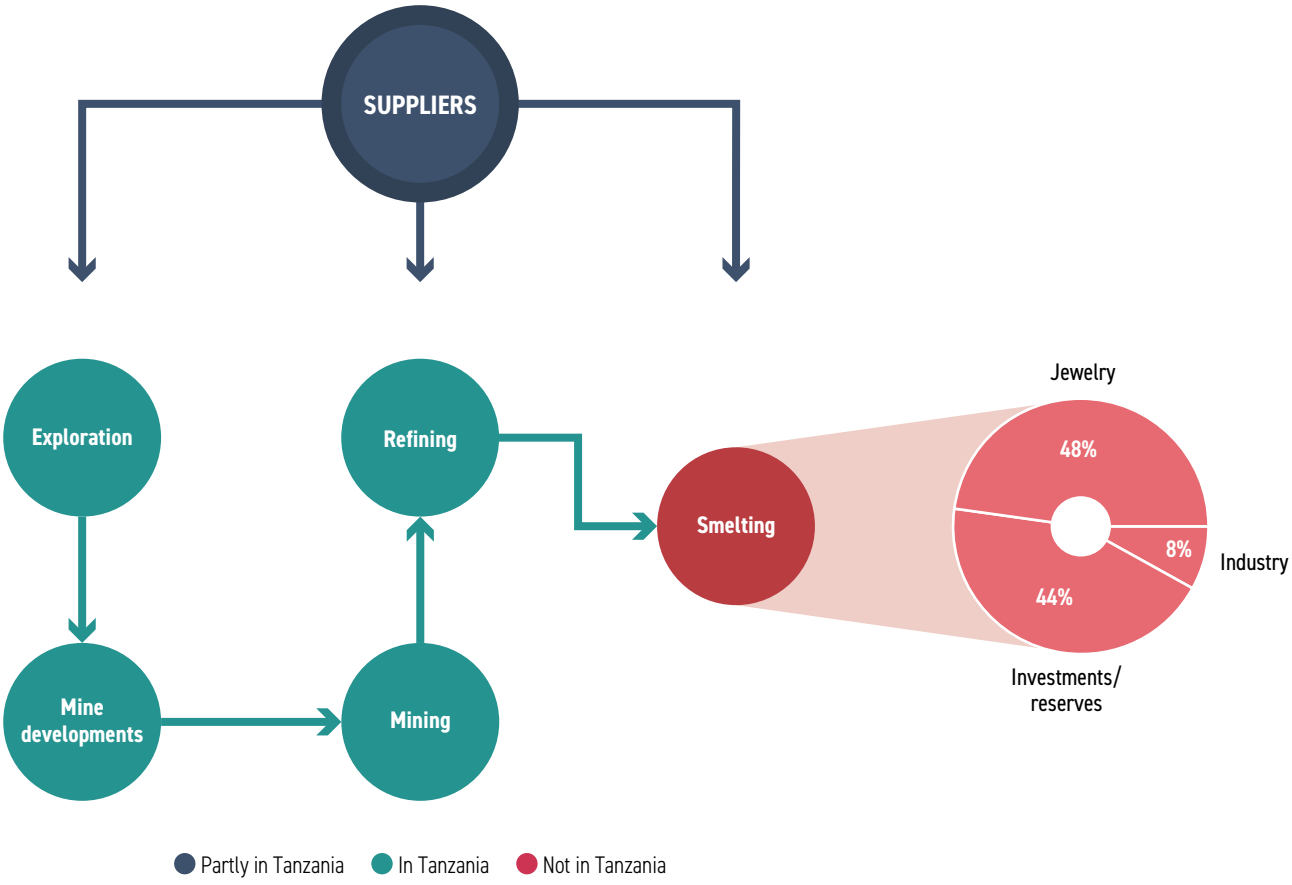
Source: Derived from MEM (2014).

Today, gold production in Tanzania is dominated by Acacia Mining (previously African Barrick Gold) and AngloGold Ashanti. In 2015, Acacia (operates 3 mines) and Anglogold Ashanti (operates the largest gold mine) produced 53 and 40 percent of Tanzania's total gold exports by value, respectively.[17]

The gold value chain encompasses activities related to mining, with no smelting, or further downstream beneficiation occurring in the country. As figure 6.4 indicates, exploration, mine development, mining, and refining are undertaken in Tanzania. The gold output of the mine site is processed into gold concentrate and gold doré. In 2014, these outputs were exported to smelters in South Africa (47 percent), India (37 percent), Switzerland (9.6 percent), and Australia (5.8 percent).[18] It was estimated that, in 2013, 48 percent of global gold output went to jewelry production, with the largest consuming countries being India and China. This was closely followed by investment demand and central bank reserves with 44 percent. 8 percent of the gold output was used for industrial purposes due to its characteristics of electrical conductivity, malleability, and resistance to corrosion.[19] Past the refining stage, Tanzania is not significantly involved in any of these downstream production sectors.

Apart from government revenues, the biggest potential contribution of the LSM gold sector in Tanzania is to

FIGURE 6.4: Gold Value Chain in Tanzania



provide a springboard to a vibrant supplier sector in the country. In 2015, Acacia estimated that 80 percent of its total value creation (US$889 million) went to goods and services payments. This compares to US$54 million payroll taxes, US$38 million royalty payments, and US$16 million of other tax payments to the government in the same year.[20]

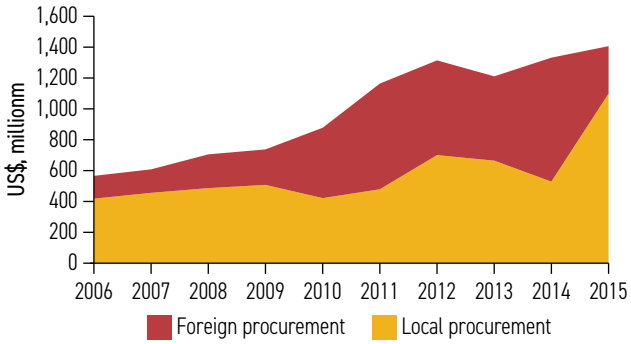
Both the Mining Policy of 2009 and the Mining Act of 2010 recognizes the importance of creating upstream links. To promote integration of the mineral sector in the domestic economy, the Mining Policy stipulates the requirement for mining companies to procure goods and services locally, with the government supporting and promoting Tanzanians to supply the required quality standards. It also states the objective of promoting research and development (R&D) and training, with both companies and the government having to support training centers to upgrade the skills necessary for the sector. The ensuing Mining Act requires companies to submit local employment, training, and procurement plans when applying for prospecting or mining licenses.

However, the integration of the LSM gold mining sector into the local economy through supplier links, to date, has been limited. Supplies required for exploration, mine development, and mining and refining operations have increasingly been sourced from companies that are registered in Tanzania (which explains the increase in local procurement in the national local procurement statistics shown in figure 6.5). However, these companies often only act as trade intermediaries with little value added to the domestic economy. Local value added is limited to few goods and services given that there is a scarcity of domestic suppliers that can satisfy the high-standard requirements of LSM companies. During the exploration phase, local firms have provided services in clearing access to sites, catering, vehicle rentals, and supply and management of camps. During the operational phase, domestic companies are primarily engaged in catering, security, transport services, and camp management. Where possible, mining companies have tried to outsource these activities to nearby communities of the project to create employment opportunities and gain the social license to operate.[21]

LSM Tanzanite Mining Sector

Tanzanite is a rare gemstone known only to be found in a small area near Mount Kilimanjaro in the Manyara

FIGURE 6.5: LSM Foreign and Local Procurement, 2006–15



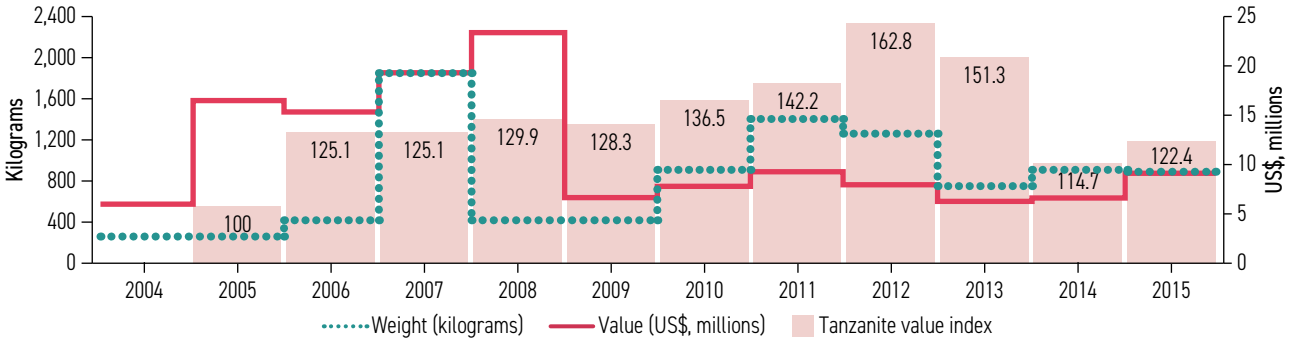
Source: Derived from the Tanzania Minerals Audit Agency.

region of northern Tanzania. It has been mined in the region since the 1960s. With STAMICO taking control of the mining sector in 1971, production records decreased resulting from falling grades and theft. (It is estimated that by 1989, 30,000 artisanal miners were working in the area.) In 1990, due to the rise in artisanal miners, the Tanzanian government demarcated the area into four blocks: Block A was awarded to a medium-sized local private firm (Kilimanjaro Mines), blocks B and D were awarded to ASM, and block C was awarded to STAMICO.

Due to STAMICO's lack of means to develop block C, the license was sold to private investors. After continued exploration and feasibility studies, in 2001, African Gem Resources Limited started its mine production in block C. Then, in 2004, TanzaniteOne Limited acquired the company. In 2013, to comply with the Mining Act of 2010 (which requires that at least 50 percent of shares must be owned by Tanzanians in the gemstone sector), the owner of TanzaniteOne—Richland Resources—entered into a 50:50 joint venture with STAMICO to renew the mining license for a further 10 years. In 2014, Richland Resources sold its 50-percent share in TanzaniteOne to national investors Sky Associates Group Limited.

Tanzanite makes up the bulk of registered gemstone production in Tanzania, with TanzaniteOne being responsible for about 40 percent of the declared output.[22] With the exception of a peak in 2007, TanzaniteOne's tanzanite production has increased gradually over the years (see figure 6.6). However, the grade of the tanzanite produced has fallen, and, with it, the value of the gemstones. This explains why the value of tanzanite production has fallen, even though its price increased.[23] The mining project has been plagued with conflicts, with ASM entering the mining concession. This has restricted plans

FIGURE 6.6: TanzaniteOne Production, 2004–15



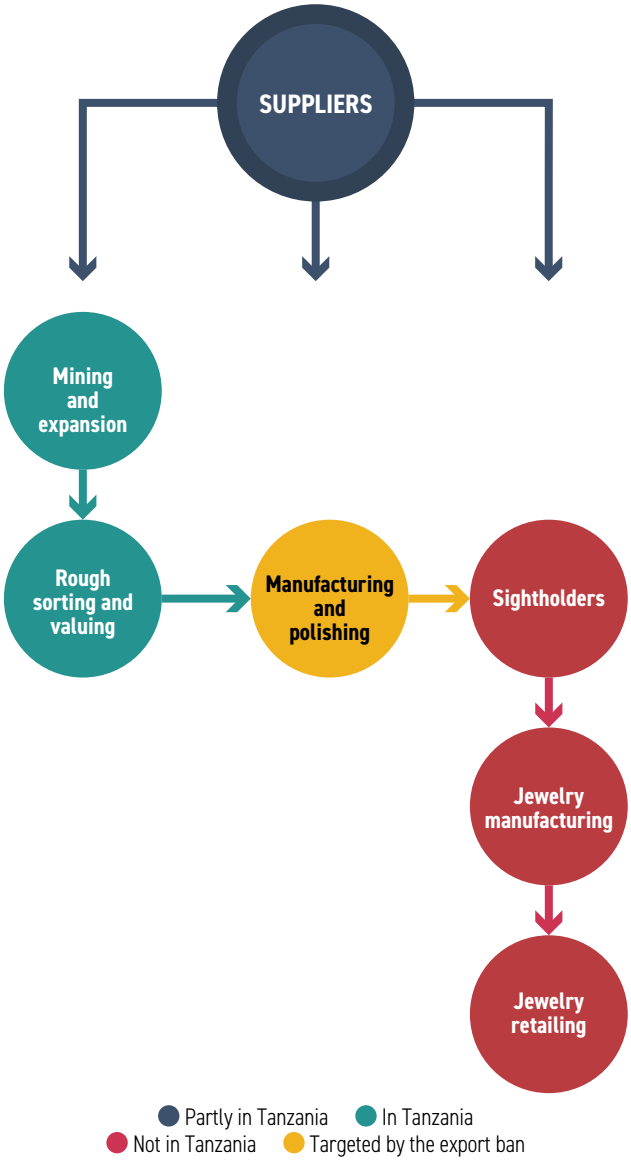
Source: Derived from the Tanzanian Ministry of Energy and Minerals and Gemval.

to access high-grade deposits within the concession. In 2013, Richland Resources declared a loss of US$4.5 million "primarily as a result of the severe impact of the illegal mining on mining infrastructure and production quality."[24] In its 2014 annual report, Richland Resources also cited the lack of support from the Tanzanian government in addressing the security situation, and loss of property due to conflicts with ASM as some of its primary reasons for selling its shares of the project and exiting the Tanzanian market.

In 2010, the Tanzanian government imposed an export ban on rough tanzanite over 5 grams (or 1 carat) in size to move downstream in the value chain and build up its cutting and polishing industry. It has been estimated that cutting and polishing of tanzanite can increase the price of the gemstone by 30–300 percent, depending on the quality.[25] To further incentivize value addition in the country, the government charges a lower royalty rate of 1 percent for cut tanzanite compared with 5 percent for rough tanzanite (only relevant for tanzanite below 5 grams in size). Dealers are also required to own at least two cutting machines.

Figure 6.7 illustrates the tanzanite value chain: the green squares represent the activities that are currently being undertaken in the country, the orange square represents the activities that were targeted by the export ban, while the red squares represent the activities that are primarily occurring outside of Tanzania. The value chain commences at the mine site. Given that Tanzanite has only been found in a 7-square-kilometer area around Mount Kilimanjaro, it is unlikely that there will be more opportunities for mine development in the near future (unlike in the gold value chain). The focus of TanzaniteOne is to expand production into areas that are thought to have high-grade tanzanite pockets within its concession. The reserves are estimated to extend the

FIGURE 6.7: Tanzanite Value Chain in Tanzania



life of the mine for a further 15 years. Sorting and valuation are done on site. Prior to the export ban, tanzanite were sold to a number of large sightholders who are able to make long-term sourcing commitments. Due to the export ban, Richland Resources built a new lapidary factory at Merelani with a capacity of 200,000 stones per year—sufficient to process all the company's production, subject to the export ban.[26] As a result, the company established new sightholder agreements to supply jewelry manufacturers with polished and cut tanzanite. It is estimated that around 80 percent of tanzanite's final retail market is based in the United States, with China's market growing rapidly in recent years.[27]

Artisanal and Small-Scale Mining

The ASM sector is a major employer in rural Tanzania, and its importance has increased over the years. According to the censuses, the population of ASM miners has increased consistently from 150,000 miners in 1987, to 550,000 in 1996, and 680,385 in 2012. About 58.2 percent of the ASM population worked in gold production, followed by building materials (23.6 percent), and colored gemstones (12 percent). Other mineral commodities including copper, diamonds, and salt, accounted for 6.1 percent. The rapid increase can be attributed to the economic restructuring in the 1980s that saw a lot of people being laid off from work.

A significant portion of goods and services for ASM is sourced locally. Handheld tools (such as picks, chisels, hammers, crowbars, and other working tools) are fabricated on site or sourced locally. Rudimentary grinding mills are also fabricated in dedicated centers close to the mining sites. More advanced drilling equipment, reagents used for processing purposes, and generators are imported from abroad. In terms of services, pit owners tend to contract-out blast services. Timbering works in all underground excavations are also often outsourced to specialized groups. An emerging, major area of contractual work is courier service, whereby young men (and a woman) are hired to manually carry bags of ore from the pits downhill to the distribution centers. Other services include catering for mine workers. At times, these services are paid for by mineral proceeds rather than money.

The Mining Act of 2010 highlight efforts by the Tanzanian government to formalize the ASM sector. To address problems related to conflicts with the LSM sector, environmental degradation, health and safety, and increasing revenue collection from ASM activities, the government has embarked on formalizing the sector. The Mining Act simplifies the process for obtaining an ASM license. Unlike in the previous mining legislation of 1998, where ASM mineral rights were issued through a centralized system, the Mining Act of 2010 has decentralized the system. All PMLs can be issued from the Zonal Mines Offices (ZMO). ASM mineral rights applicants can also make their applications through the District office, which is then forwarded to the ZMO for evaluation and issuance of a license. The requirements to obtain a license are not onerous, and the procedure for application has been simplified. The required payments include a registration fee of T Sh50,000 (US$23) and preparation fee of T Sh50,000.

The Mining Act includes provisions for mineral rights reserved for the ASM sector. According to the budget speech of the Minister of Energy and Minerals on May 19, 2016, the MEM has set aside two areas of 7,731 hectares for ASM activities. In addition, the government is planning to set-aside ASM areas, selected in collaboration with other mining and exploration companies, of up to 12,000 hectares during the financial year 2016–17. The Mining Act also provides licenses for processing, smelting, and refining (which were not covered by the Act of 1998). These licenses allow people who do not have mineral rights to get involved in ASM activities. Furthermore, better guidance were included for broker and dealer licenses.

Women in Mining: ASM Gender Considerations

Women accounted for 27 percent of people engaged in the ASM sector. They are mostly laborers—carrying, crushing, and sieving ore. In search of left over gold and trash gemstones, women also sieve mud, or process old tailings and crushed rock, which are often contaminated with mercury.[28] Support services, such as water and food retailing and accommodation are dominated by women.[29]

Women are less likely to be working in the pits digging for ore. Although some may express interest in being considered for such employment, high risks associated with working in the pits—such as threats of exploitation by mine owners, underground harassment and sexual assault, occupational risks, and frequent fights among male miners—tend to act as strong deterrents.[30]

Women are increasingly owning mineral rights—that is, acquiring PMLs or concessions, as well as working as pit owners or managers (leased by PML holders) and as brokers or dealers. However, women's ownership of mineral rights in Tanzania tends to remain significantly lower than men's, because of limited understanding of PML application rules and requirements, lack of capital, poor mining and entrepreneurship skills, and cultural or traditional values. The latter, is especially strong in certain areas: a 2010 case study on gender and ASM in Mererani[31] (tanzanite-mining site located near Arusha) showed that, even when women do hold PMLs for ASM plots, they usually require the services of a "shemeji" (brother-in-law) for protection, site management, and underground-supervision purposes. As a result, many female PML holders face the risks of being cheated or robbed by their own shemejis, managers, and workers. And, indeed, the study revealed that the risk of tanzanite theft in Mererani is greater for women than their male counterparts. More generally, women covered by the study indicated that, even if they own a PML, sometimes, their husbands make final decisions concerning the mine site and its related benefits. Cases of women having their ASM plot or license contested following the death of their male partners by family members were also cited. This is due to cultural beliefs that prohibit women from inheriting their spouse's properties.

ASM Gold Mining Sector

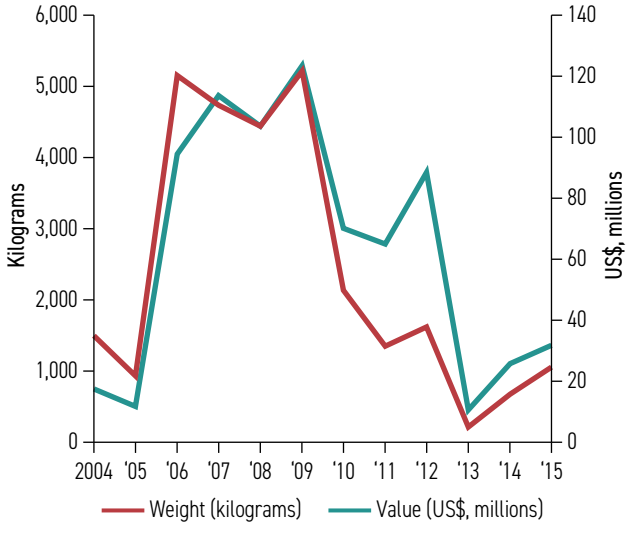
There are big discrepancies between mineral production figures declared by ASM to the Tanzanian government with those estimated by independent studies. Figure 6.8 shows the officially-declared gold production and associated values by the ASM sector for the years 2004–15. However, a recent baseline survey carried out in the Geita region, which is home to the largest-ASM production center, estimated that official statistics only account for 2.5 percent of actual production in 2012.[32] The majority of ASM gold operations in the Geita region were found to be illegal, and PML holders were under-declaring their production figures to avoid paying royalties. Consequently, official statistics underestimate the actual total quantity of gold produced in the country by ASM.

The value chain and level of organization among licensed and unofficial ASM operations are similar. Figure 6.9 shows an example of the value chain and trading routes of the ASM gold operations in the Geita region. Top-level organization revolves around the PML holder. The PML holder, either an individual or a company (mainly limited liability companies), is the overall controller of the operations, and divides the area into small parcels. These parcels are then leased to the so-called "pit owners" who hire the workers, and are in charge of all mining operations in the pit. Claim holders employ security guards (in most cases, relatives) to make sure pit owners do not understate their production figures. Earnings are obtained through a sharing scheme whereby the claim holder takes 30–40 percent of the earnings as royalty. An additional 30 percent of the proceeds are charged where the PML holder is also the provider of working tools and meals for the workers. Leaving the rest of the proceeds (30–40 percent) to be shared among the workers.

The recovered ore is manually crushed, then ground using mills and concentrated by washing on sluice boxes. It is then panned and amalgamated to obtain a gold-mercury mixture. These activities are performed at processing centers located near the mining pits. In most cases, mine workers do not have enough capital to cover these services and therefore sell some of their ore to financiers (measured in sacks weighing 50 kilograms). The financiers are composed of PML holders, mill owners, licensed brokers, or individual business people.

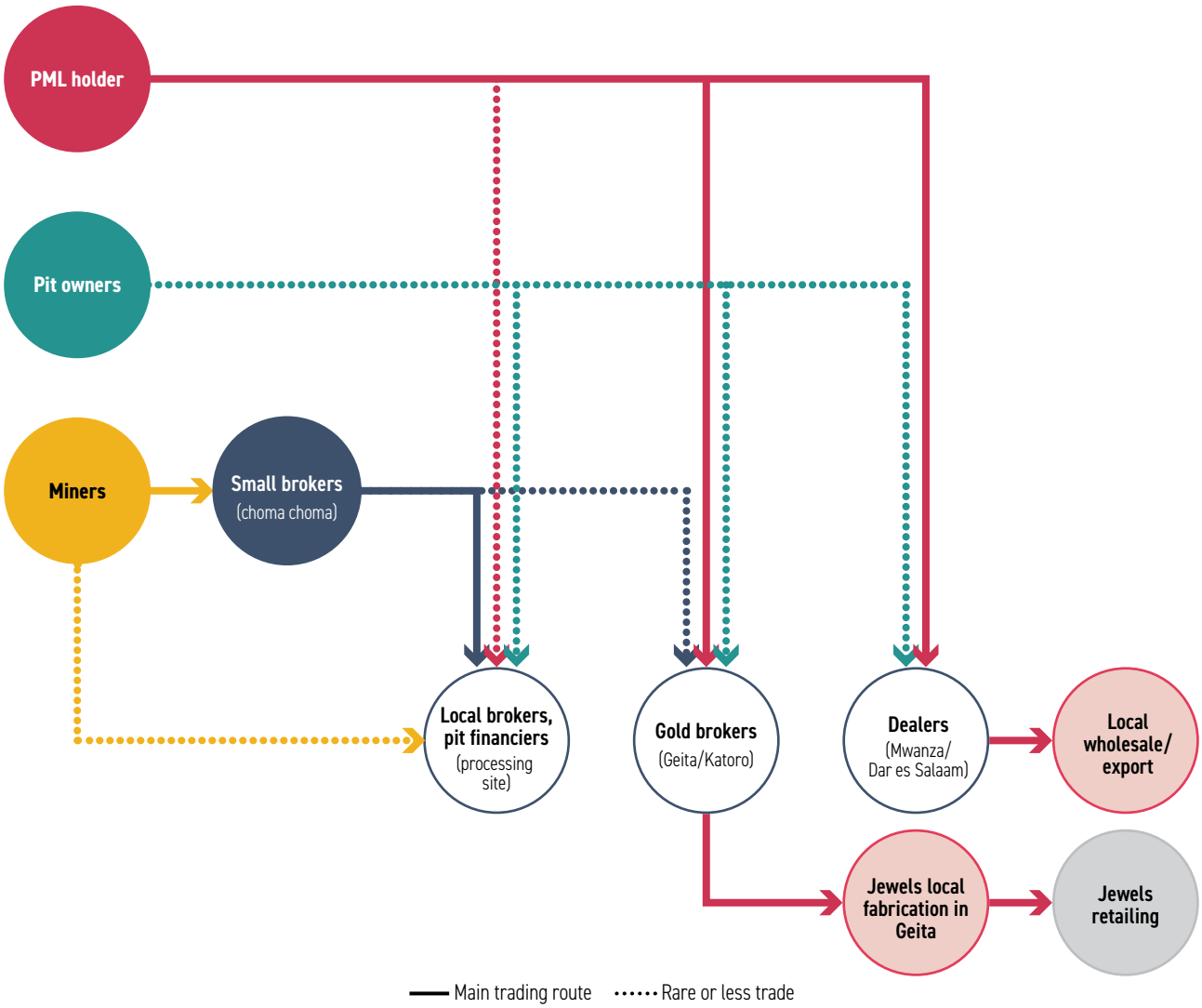
Royalties are collected from dealers and traders rather than at the mine level—which creates a strong incentive

FIGURE 6.8: Declared ASM Gold Production, 2004–15



Source: Derived from the Tanzanian Ministry of Energy and Minerals.

FIGURE 6.9: Typical Value Chain of ASM Gold Sector



Source: Derived from MTL (2013).
Note: ASM = artisanal and small-scale mining; PML = primary mining license; and DSM = Dar es Salaam.

for under-reporting by this group. There are three types of buyers. Unlicensed small buyers that travel to remote mine sites to buy gold, who are supported by larger brokers, which may or may not have a license. In the Geita region, it was estimated that in 2013, there were around 4,500 small buyers, 1,600 unlicensed brokers, and 155 licensed brokers.[33] This shows the importance of the role that small buyers play in the ASM gold value chain. The number of unlicensed brokers is also a testimony to how much gold is traded informally. The third group of buyers is made up of traders and dealers, who export gold.

Mwanza, Dar es Salaam, and (to a lesser degree) Zanzibar are the three main trading centers for gold in Tanzania. In Dar es Salaam, there were 22 registered gold dealers in 2013. Only 4 of the 11 registered gold dealers in Mwanza renewed their licenses for the year 2013–14. There is little information available about how much gold from the ASM sector goes through official channels. Even for official dealers and traders, there is a strong incentive to under-report purchases and sales, as the royalty rate of 4 percent is applied at this level. There is anecdotal evidence that the Zanzibar route is used for exports to Dubai, which is the favored export route by those looking for less strict customs inspections.

The gold price along the ASM value chain is determined by the international market. Big dealers in Dar es Salaam are said to pay a price of around 3–4

percent lower than the London Bullion Market prices for 22-carat gold. This further suggests that underreporting is a common practice, given that a 4 percent royalty would wipe out any profits. Major upcountry gold dealers, who receive credit from Dar es Salaam, make their margin from purchasing gold from miners based on the price recommendations from the buyers in Dar es Salaam on that particular day.

Tanzanite ASM Sector

As in the ASM gold sector, the ASM tanzanite sector employs significantly more people than the large-scale operator TanzaniteOne. It is estimated that around 4,000 people are directly employed in the ASM areas compared with 600 at TanzaniteOne under the operation of Richland Resources (Mayala and others 2016).

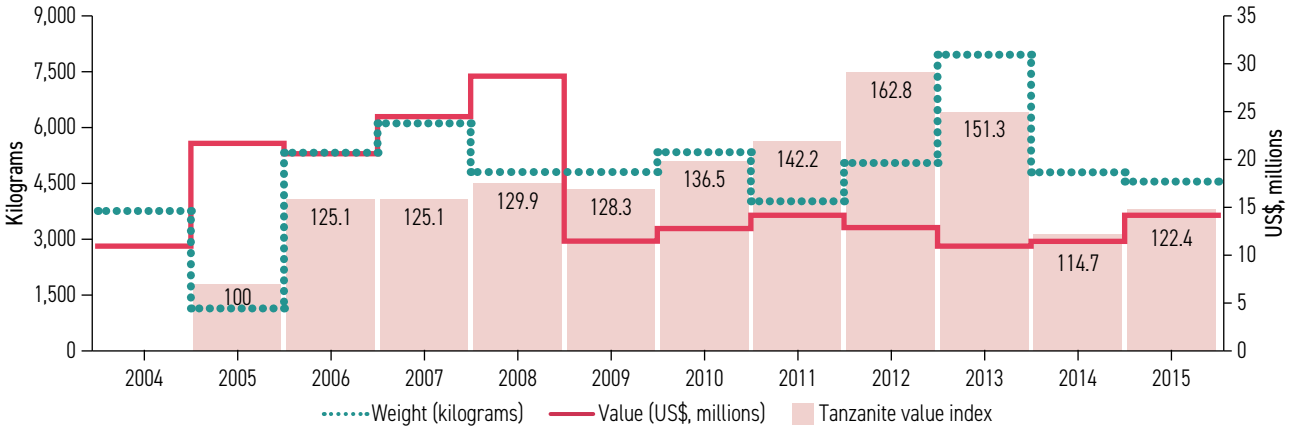
The ASM-tanzanite sector is more organized than the ASM-gold sector, but production and revenues are even more volatile. In tanzanite mining, one can easily distinguish between "artisanal" miners and "small-scale" miners. Most of the small-scale tanzanite miners are formal entities (registered, licensed), and are in the Tanzanian government's taxation network. The majority of artisanal-mining participants are informal and work in collaboration with small-scale mining firms.

ASM in Mirerani is restricted to blocks B and D. Although these two blocks employ almost the same number of people, production from block B represents more than 95 percent of the total ASM tanzanite production. This can be associated with the fact that mining started in block D, and the pits have gone very deep, thus affecting the overall production of the poorly-equipped small-scale miners.

Production is very volatile as tanzanite mineralization is found in "pockets." Operations among pits vary significantly depending on the mining equipment used and the number of labor employed. Similarly, prices for tanzanite vary as these are dictated by the uniqueness of the particular stone or gem. This explains the volatile nature of tanzanite production by the ASM sector outlined in figure 6.10.

Significant value addition can be achieved by the tanzanite ASM sector with minimum capital investment. At the pit level, the organizational aspects of tanzanite production by the ASM sector is similar to that of gold. The differences become apparent at the sales, processing, and trading stages. Miners have a right to sell to anyone who can offer the best price for a particular stone rather than entering into a price agreement with financiers. Rough tanzanite is sold directly by operators to brokers and dealers. For these groups, the only processing involved is the sorting of stones to grade them according to quality, which determines the selling and buying price. Gemstone cobbing (the process of trimming rough gemstones to remove attached rocks or cracked parts) is practiced by several brokers and dealers in the course of sorting and grading, which may increase the value of the stones by 45–200 percent.[34] Care must be taken not to destroy the good-quality stones thereby reducing its market value. About 30 percent of the brokers in Dar es Salaam and 60 percent in Arusha practice cobbing of tanzanite before selling.

FIGURE 6.10: Declared ASM-Tanzanite Production, 2004–15*



Source: Derived from the Tanzanian Ministry of Energy and Minerals.
*Because of frequent underreporting and smuggling, this figure should be analyzed carefully.

Price signals for the tanzanite sector are less transparent than for gold. Licensed owners still use the traditional approach of presenting gemstone samples to big brokers and dealers in search of market indicative prices. Despite this approach by the lease owners, it was established by a baseline survey in 2012 that miners with erratic (or unreliable) production usually have problems selling their products, and, in most cases, they end up getting lower prices from local gemstone brokers. While most mine workers and brokers sell their tanzanite in rough form, most PML holders and mineral dealers have established lapidaries in Arusha for cutting and polishing before exporting. Arusha is the main gemstone-trading center in East Africa; it buys up the majority of tanzanite from the ASM sector.

Gas Sector

As of April 2016, gas initially in place in Tanzania is 57.25 TCF; it is composed of 10.12 TCF in onshore discoveries and 47.13 TCF in deep offshore discoveries.[35] Natural gas is currently produced in Songo Songo Island and Mnazi Bay with more than 80 percent being used for power generation. The Songo Songo gas field (operated by PanAfrican Energy) delivers gas to Dar es Salaam via a 225-kilometer pipeline that was completed in July 2004, when the project started commercial production. The 150 million cubic feet (MMCF) of gas produced per day is primarily used for power generation at Songas Ubungo power plant in Dar es Salaam.[36] The plant generates about 180 megawatts (MW). Some of the gas also supplies a local cement plant (Wazo Hill), as well as 34 other industrial companies and power plants in Dar es Salaam (see annex 6A).[37] Gas production at the Songo Songo gas field is expected to increase to 185 MMCF per day once Orca Exploration Group finishes its infrastructure work on the Songo Songo offshore platform.[38]

The Mnazi Bay gas field (operated by Wentworth Resources Ltd. and Maurel & Prom Co.) started production in 2006, and supplies the Mtwara power plant. In September 2014, a US$1.3 billion transnational pipeline was completed to connect the Mnazi Bay gas field to Dar es Salaam. As a result of increased off-take opportunities, production has increased and is about to reach 70–80 MMCF per day to supply TANESCO's power plants in Dar es Salaam (Kinyerezi I, Ubungo II, and Symbian).[39] With this project, the Tanzanian government aims to address the current power shortages.[40] According to TANESCO, in 2015, Tanzania's installed capacity was 1,516 MW (out of which gas-fired power amounted to 711 MW, thermal power 243.4 MW, and hydropower 561 MW).[41] The national strategic plan for energy targets 2,000 MW of new gas-fired electricity power generation by 2018.[42]

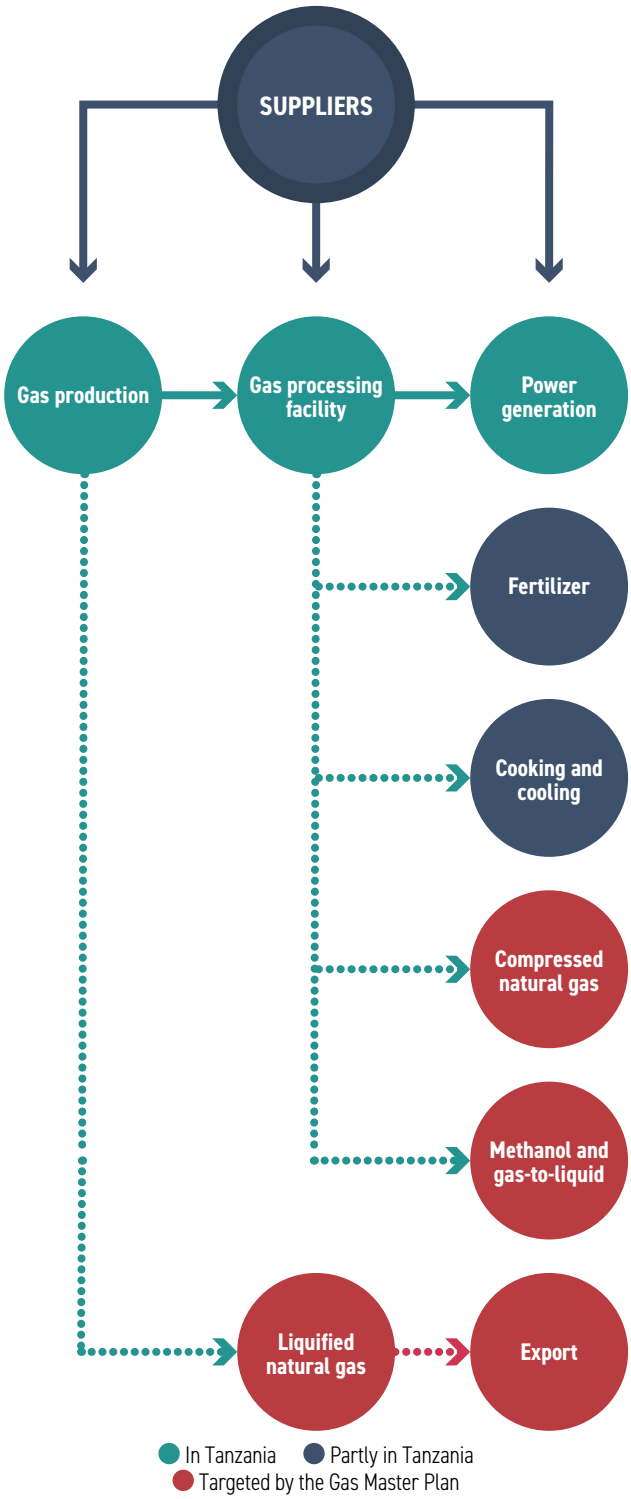
In 2010, significant offshore gas resources were discovered in southern Tanzania. The BG Group, in partnership with Ophir Energy and Pavilion Energy, discovered about 17 TCF of recoverable gas resources. Statoil, in partnership with ExxonMobil, discovered about 22 TCF of natural gas in the same area.[43] A consortium of these IOCs have proposed to build a 10-million-tons-per-year (MTPA) LNG plant in partnership with the TPDC to develop the gas fields.[44]

Originally, gas production was set to start in 2020, but regulatory roadblocks and the fall of international gas prices have delayed the final investment decision. Since 2014, LNG prices have plummeted due to numerous gas exporting projects coming onstream and lower than expected demand from major Asian customers like China and Japan.[45] As a result, several LNG projects worldwide were abandoned or put on hold. Against this backdrop, Tanzania's LNG project is unlikely to come onstream within the originally planned timeframe.[46]

The potential upside of the delay in gas production coming onstream provides Tanzania with more time to prepare its economy to take advantage of potential opportunities along the gas value chain. (Figure 6.11 visualizes the gas value chain in Tanzania.) Although there are suppliers to the current oil and gas operations, the upstream links are few and shallow, similarly to the mining sector. The majority of gas is currently being used for power generation and (to a lesser extent) for cooking and for the production of fertilizers. LNG, compressed natural gas (CNG), methanol, and gas-to-liquid (GTL) are industries currently not present in Tanzania but are targeted by the Gas Master Plan.

Preparing the economy to benefit from both upstream and downstream links takes time. Upstream links to suppliers require a careful assessment of the gas supply chain opportunities and support mechanisms to prepare local businesses to meet the standards required by the IOCs. Promoting downstream links to make use of the gas domestically requires a careful assessment of the economic feasibility and extensive coordination and

FIGURE 6.11: Gas Value Chain in Tanzania



negotiation with potential investors. Further, construction of the required infrastructure (such as connecting pipelines) will also take time to be built.

There is significant potential for the domestic economy to benefit from the construction of the LNG plant.

According to a World Bank-European Union-UKAID funded study,[47] construction of the LNG plant will result in the creation of a significant number of direct, indirect, and induced jobs. Majority of these jobs are expected to be created in the areas (Mtwara, Lindi) near the construction site, and will be composed mainly of unskilled and semi-skilled labor. Certain support services will likely be based in Dar es Salaam and other urban centers. The study estimates the cost of the LNG project to be around US$15–20 billion over 7 years, with the bulk of the procurement spending occurring between the 3rd and 6th years. The potential for local content (under current capacity) is estimated at around 8 percent of the total project cost. With targeted technical support to small- and medium-sized enterprise development, this local capture may approach 20 percent, generating approximately US$800–1,100 million in domestic value added (profits plus labor payroll), approximately US$750–1,000 million in locally purchased goods, and an average of 4,000–5,000 local jobs during the project's life (with a peak of 6,500 in the 4th year). Eleven sectors were identified in the study as having the highest potential for local content. In terms of goods sourced domestically, the largest potential lies with the supply of bulk materials, such as sand, aggregate, and cement. Industries that already exist in the country (such as food production, catering, and business support services) could supply the gas projects if they are supported to increase their organizational and technical capacities to be able to comply with the stringent quality and delivery standards. The study also identifies some high-skilled opportunities for local subcontracting in the fabrication and installation of supporting infrastructure for the LNG trains and tanks. The study concludes that the objective of a local content strategy should be to develop transferable skills that suppliers can apply beyond the construction phase of the LNG plant and which will help diversify the economy.

The construction of the Uganda-Tanzania oil pipeline may provide an opportunity to scale-up locally procured goods and services prior to the development of the LNG facility. As previously mentioned, the potential upshot of the delay in the investment decision of the IOCs is that it provides additional time to develop skills to increase local content during the construction of the LNG plant. In March 2016, Uganda chose the Tanzania export route for its oil. The 1,400-kilometer long pipeline will connect Uganda's western oil region with Tanzania's Tanga

port. The project estimated to cost around US$4 billion and is expected to create around 15,000 jobs during the construction phase.[48] This project could create sufficient demand for Tanzanian businesses to scale-up production and invest in skills and technology upgrading. These capabilities could then serve the LNG and domestic gas businesses. However, if both projects were to be developed simultaneously, there would likely be a significant shortage of businesses that could service them. This would drive-up prices for in-country services and reduce the opportunities to maximize local content.

On the downstream side, Tanzania's Gas Master Plan considers several domestic uses for the gas to spur economic development. Natural gas has been used for power generation and industries since 2004, and, to a much lesser extent, by institutions and households starting in 2009. Ninety percent of Tanzania's energy requirement for cooking and heating are supplied from traditional fuels, mostly biomass involving firewood and charcoal, which contributes to a high-deforestation rate of around 350,000 hectares per year. Tanzania also imports fuel for energy and transportation, methanol (50 tons per year) for the petrochemical industry, and 90 percent of its fertilizers (with only 10 percent being produced domestically).[49] Thus, while LNG exports are the preferred option for the IOCs' given off-take and price certainty, the Tanzanian government aims to reserve natural gas for domestic use as an opportunity to reduce deforestation, lower its reliance on imports, improve access to energy, and foster economic development by attracting industries that use gas as a primary input. There are various projects listed in the Gas Master Plan including a fertilizer plant, a methanol plant, a dimethyl ether plant, a CNG plant, a GTL plant, and a methanol-to-gasoline plant. Furthermore, the Gas Master Plan outlines the opportunity of an iron-steel complex using direct-reduced iron process. In its 30-year demand analysis (see table 6.1), the Gas Master Plan includes all domestic projects, and estimates that total domestic demand will be higher than LNG (considering 2 LNG trains of 5 mtpa each) and regional pipeline exports.

Development Challenges

Tanzania faces a number of challenges that prevents the EI sector from further contributing to the country's economic development. The key challenges outlined in this section are: (1) a weak business-enabling environment that constraints the EI sector and its links; (2) an unclear regulatory framework for upstream links; (3) downstream beneficiation policies that may have unintended consequences; (4) state-owned companies that have conflicting roles and are lacking financial self-sustainability; (5) difficulty to formalize the ASM sector; and (6) the lack of regional coordination and integration.

Weak Business-Enabling Environment

Constraints in the EI sector and its Links

The uncertainty of government reimbursements constrains financial planning for EI companies in Tanzania. Key obstacles for the mining sector raised by the Tanzania Chamber of Minerals and Energy include the erosion of fiscal incentives, the lack of stability and predictability of duties and tariffs, and protracted reimbursements.[50] Although the effective tax rate resulting from the Mining Act of 2010 are in line with international gold-producing jurisdictions, as previously highlighted in section 1, unpredictable duties and reimbursements are problematic. According to the MDAs, the mining sector benefits from value added tax (VAT) exemptions and fuel levy reductions, which is not uncommon for the sector. However, mining companies have had protracted disputes with the TRA regarding delayed and contested reimbursements. According to the industry,

TABLE 6.1: Gas Demand Projections in the Gas Master Plan, 2015–45

User	Demand (tcf)
Domestic	
Electricity	8.0
Households	0.5
Institutions	0.1
Compressed natural gas vehicle	0.6
Industries	3.6
Petrochemicals	
Fertilizer/Ammonia	0.7
Methanol	1.1
Gas-to-liquid	1.8
Dimethyl ether	0.3
Methanol-to-gasoline	0.4
Total	17.2
Export	
Liquefied natural gas	11.1
Pipeline	3.1
Total	14.2
Total domestic and export demand	31.4

Source: Derived from Tanzania's Gas Master Plan, 2015.
Note: TCF = trillion cubic feet.

the reimbursement decisions are slow and inconsistent with arbitrators and law courts that cannot be relied upon. This has created uncertainty, and the disputes have led to increasing hostility between the Tanzanian government and investors. The reimbursement claims are significant as highlighted in the recent corporate tax payment agreement between the TRA and Acacia Mining, which puts VAT reimbursements for the company at US$80 million.[51]

Unreliable power supply has increased operating costs for mining projects. Even mining projects that are connected to the power grid have installed backup generators due to power outages. In 2011, African Barrick Gold estimated that power-related problems resulted in a loss of production of 35,000–40,000 ounces of gold due to plant downtime and additional maintenance. As a result, heavy fuel oil power generation capacity were installed at the mine sites.[52] The Geita mine produces its own power, with fuel costs making up a significant percentage of its total operating costs.[53] It is estimated that if TANESCO were able to guarantee mining companies reliable power access, the average mine would be able to save around US$15 million per year, and new mines would become more competitive.[54] These mining projects could provide important anchor costumers for TANESCO to further develop Tanzania's electricity sector. However, for this to occur, TANESCO needs to improve its precarious financial situation and regain the trust of the private sector.

Skills deficiencies and the lack of access to infrastructure and finance, constrains the opportunities in the EI sector and its links. Tanzania's educational system is weak, which has resulted in severe skills shortages. There is a particular shortage of certified artisans and technicians. Among the existing suppliers, business management skills are deficient in terms of bookkeeping, financial management, tax compliance, reporting, documentation, and tendering. Suppliers also suffer from restricted access to finance; poor access to infrastructure; noncompliance with health, safety, and environmental standards, as well as industry and product standards.[55] This has led to late deliveries (or no deliveries at all), poor quality of deliveries, and inability to honor contracts, which in turn has increased the cost of doing business for the mining and gas companies operating in Tanzania.

Clear and transparent property and mining rights encourages investment. Equal treatment for all investors and due process for removing or amending mining licenses and property rights are essential building blocks for attracting direct foreign investment. Recent developments regarding the revoking of a mining license from Tancoal and reallocating it to Dangote Cement raise concerns over possible special treatment and risk a deterioration in the business environment. While the agreements with Tancoal and TPDC are not in the public domain, and it is not clear whether appropriate compensation and tariffs will be paid, however, the apparent special arrangements for an individual company is concerning. Specific details are outlined in box 6.1.

Unclear Regulatory Framework to Create Upstream Links

The local content legislation for the mining sector lacks a definition of what is meant by "local content," and there are no targets, monitoring mechanisms, incentives nor sanctions to achieving local content plans. This lack of definition may result in different interpretations regarding the development of upstream links and lead to potential misunderstandings among stakeholders. The high proportion of local content in figure 6.5 suggests that TMAA's definition includes all products that are sourced from companies that are registered in Tanzania. However, it could be argued that value addition in Tanzania is necessary to qualify as being local. This would lead to a very different picture regarding the proportion of domestically-sourced goods and

BOX 6.1: Coal Mining License Reallocation

On March 11, 2017, the Ministry of Minerals and Energy awarded a ten-square-kilometer coal mining license to Nigeria's Dangote Cement after President John Magufuli had issued an ultimatum to government officials in order to secure an area in the coal rich region of Ngaka. The concession was part of Tancoal's license, which is a joint venture between Australian Intra Energy Corp (70 percent) and the state owned National Development Corporation (30 percent). This comes after Dangote Cement had suspended operations at its new Mtwara cement plant in December due to high power costs. The president has also ordered the Tanzania Petroleum Development Corporation to supply the cement plant with gas from its nearby developments. Negotiations were unsuccessful prior to the president's directives, but it was reported that consensus has been reached shortly thereafter.

Source: Aziana Post (2017).

services. Furthermore, without a framework in place to implement increasing local content, it will be difficult to achieve the objectives of such policy.

The Petroleum Act of 2015 provides the legal framework for local content in the gas sector, but some provisions need clarifications, and various legislations needs to be aligned. In preparation for the LNG developments, the Tanzanian government passed the Petroleum Act of 2015, which makes the Local Content Policy for Oil and Gas Industry of 2014 binding. However, there is a lack of alignment between the two documents, and it is unclear how they are compatible with the PSAs signed with the IOCs in 2013. The requirements and principles are more extensive in the Local Content Policy and in the PSA model than in the Petroleum Act. For instance, in the Petroleum Act, the license holder and contractor must submit various planning documents "in accordance with an approved local content plan." However, the local content plan itself is not specified. In contrast, the model PSA describes (clearly) what needs to be included in the local content plan—details of the procurement of Tanzanian goods, materials, and services; a detailed plan and program for recruitment, employment, and training of Tanzanian nationals; and a plan for the transfer of skills, knowledge, competence, and know-how to Tanzanian nationals—and stipulates that the plan should be submitted to the TPDC for approval. Similarly, the Local Content Policy outlines a collaborative exercise with the industry to develop baseline information on current capabilities for Tanzanian-owned companies to become suppliers. The Petroleum Act could refer to the Local Content Policy and indicate that the procurement plan should be based on the results of this exercise, which is key to any successful implementation of local content requirements. The Local Content Policy also makes clear that preference should be given to goods "produced" in Tanzania by local companies while the Petroleum Act includes goods "available" in Tanzania. Consequently, the Petroleum Act allows the procurement of imported goods to meet the local content obligations of the contractor.

There are conflicting trade policies that may hinder domestic procurement. Foreign investors in the EI sector benefit from VAT and import duty exemptions or reductions. However, these are not extended to potential local suppliers. Thus, locally-fabricated supplies have a competitive disadvantage over internationally-sourced supplies.[56] While the Mining Act of 2010 has increased the import duties after the development stage of a project, these rates are still lower than those paid by local companies.

The joint-venture provision (a type of local content measure widely seen as effective in promoting domestic value addition) is convoluted in the Petroleum Act. Sections 220 (2) and (3) stipulates that when goods and services are not available in Tanzania, "such goods shall be provided by a company which has entered into a joint venture with a local company," which shall own a share of at least 25 percent of the joint venture. However, according to subsection 220 (9), the definition of a local company implies that it can be a joint venture whose Tanzanian participation is at least 15 percent. The combination of these provisions could result in a 15 percent joint venture, which itself only has a 25 percent interest in a joint venture providing the goods and services.[57]

BOX 6.2: Joint Ventures: A Policy Tool to Create Upstream Links

A World Bank-European Union-UKAID (2015) study recommends joint ventures as a way to leverage opportunities in the construction of the liquefied natural gas facility. Specifically, opportunities lie in concrete works, electrical works, equipment hire, and scaffolding. The study suggests for local firms to team up with globally-recognized concrete manufacturing companies where the local firm could finance its equity, be committed to an operational role in the contract delivery, and, possibly, acquire capital assets after the delivery of the project.

Encouraging joint ventures is also the approach that Trinidad and Tobago—a country that is often considered as having successfully increased local content within its oil and gas sector—has adopted. In its Local Content and Local Participation Policy Framework of 2004, implemented through product-sharing contracts signed with an international oil company (IOC), Trinidad and Tobago requires that when an IOC wants to conduct design engineering work in the country, an international engineering firm is invited to incorporate in Trinidad and Tobago through a joint venture with a local engineering firm.

In Malaysia, foreign companies who want to supply goods and services to the upstream sector are required to do so through an agency agreement or through a joint-venture agreement with a local company. In the agency agreement, the local company is less committed financially and operationally than in the joint-venture agreement, but, in turn, benefits less from capacity development.

Sources: World Bank-European Union-UKAID (2015) and World Bank (2016).

Such result would go against the intended outcome of a local content provision that is deemed to be of great importance to increase domestic value addition.

The WTO commitments and BITs Tanzania signed up to constrains the policy space for the government to impose binding local content regulations. Tanzania's domestic legal framework is subject to international law, which is regulated by the WTO agreement and by bilateral and multilateral agreements. WTO's Trade-Related Investment Measures (TRIMs) prohibit: requiring companies to purchase or use products of domestic origin; limiting the amounts of imported products that an enterprise may purchase or use depending on the volume or value of local products that the enterprise exports; restricting foreign exchange necessary to import (for example, restricting the importation by an enterprise of products used in local production by restricting its access to foreign exchange); and restricting exports through quotas. As a least-developed country, Tanzania is required to implement TRIMs by 2020, to the extent consistent with its individual development, financial and trade needs, and administrative and institutional capabilities, subject to notification to the General Council.

Tanzania has signed 20 BITs of which 11 are in force. The 2013 BIT with Canada is the most restrictive.[58] It prevents Tanzania from requiring foreign investors from Canada and beyond[59] "(a) to export a given level or percentage of a good or service; (b) achieve a given level or percentage of domestic content [undefined[60]]; (c) purchase, use or accord a preference to a good produced or service provided in its territory, or purchasing a good or service from a person in its territory; (d) relate the volume or value of imports to the volume or value of exports or to the amount of foreign exchange inflows associated with that investment; (e) restrict sales of a good or service in its territory that the investment produces or provides by relating those sales to the volume or value of its exports or foreign exchange earnings; (f) to transfer technology, a production process or other proprietary knowledge to a person in its territory; or (g) to supply exclusively from the territory of the Party a good that the investment produces or a service it provides to a specific regional market or to the world market."[61]

Tanzania cannot make advantages (undefined) conditional on the realization of b, c, d, e, either; it, however, can make advantages conditional on the realization of training and R&D programs.[62] Lines b, c, and f are particularly relevant to Tanzania, and can prevent the implementation of several local content-related requirements of the Mining Act (Art. 10(4)(e), 29 (3)(e), 34 (l)(f), 41(4)(g-h), 42(1)(d), 44(d)(f), 49.2(f-h), 50.1 (c), 52), the 2013 Petroleum Model Production Sharing Agreement (Art 19-21) and the Petroleum Act (Arts. 220-222).

Downstream Beneficiating Policies May Have Unintended Consequences

The Tanzanian government is particularly interested in creating downstream links from its tanzanite and prospective gas resources. The major challenge related to the enforcement of tanzanite value addition domestically is that it may lead to increased smuggling. As for the development of the natural gas reserves, one of the key negotiation points with the IOCs will be how much of the gas needs to be allocated to the domestic economy. This will be a fine balancing act to encourage the IOCs to move ahead with their proposed investments, which will primarily be based on LNG exports, and leveraging the gas for power and diversification purposes domestically.

Tanzanite Export Ban May Result in Smuggling and Requires Government Support Initiatives

Although the Tanzanian government has a strong leverage to develop the cutting and polishing industry in Tanzania (see box 6.3), downstream processing requirements for tanzanite come at a cost. The necessary infrastructure and skill base to cut and polish tanzanite are costly and will have to be funded by the government, by the investor, or by a combination of both. The Tanzanian government has received donor financing to develop the Tanzania Gemological Center in Arusha to offer various courses on lapidary, gemology, jewelry design, jewelry manufacturing, and gem carving. As noted before, TanzaniteOne has built a cutting and polishing facility to process its share of tanzanite. In both cases, costs are at least partly borne by the state. Donor funding could be allocated elsewhere, and the investments by TanzaniteOne are tax deductible, thereby reducing the company's tax payments. The bigger concern, however, is the impact of the export ban on illegal smuggling. No royalties are paid on smuggled stones. Furthermore, these are sold at a discount thereby affecting global market prices for tanzanite. The additional requirement to cut and polish tanzanite domestically may push miners to smuggle larger tanzanite out of the country.

BOX 6.3: Policy Options to Move Downstream in the EI Value Chain

Apart from improving the general business environment that may make it profitable for downstream activities to develop organically, there are three policy measures available to governments that want to encourage downstream beneficiation extractives industries. These include export restrictions, such as the rare-earth export restrictions by China); making downstream processing a determinant for allocating concessions, such as assigning a certain proportion of the cutting and polishing of diamonds domestically to renew DeBeer's diamond concessions in Botswana; and using incentives to make downstream industries viable, such as incentives granted by Mozambique to attract the Mozal Aluminum smelter). The first two policy measures are likely to make the jurisdiction less attractive to potential investors and should therefore only be pursued by countries that have strong leverage—either because of a large domestic market for the product, or because the resources are so attractive that investors will continue to be interested, or both. The tanzanite sector has good prerequisites to pass this test, given that the tanzanite cannot be found in other countries, and because gemstone demand is thought to be inelastic and therefore less price sensitive than other commodities.

Source: CCSI (2016).

Since the export ban took effect, more tanzanite is cut in Tanzania, but the impact on smuggling is unclear. It is still too early to make assessments on the impacts of the tanzanite-export ban. Up to now, the number of gem cutters has increased to 350 in 2013, compared with 180 in 2003.[63] Most gem cutters are self-employed, offering their services to mineral brokers, who in recent years have started to sell cut and polished gemstones. The majority of lapidaries are found in Arusha. Exports of certified cut stones have also increased since the ban. However, a baseline survey found that nearly 95 percent of all mined gemstones were still being exported in rough form in 2013,[64] suggesting that the introduction of the certificate of origin and declaration of Mirerani as a controlled area seem to have had a limited impact on the smuggling of tanzanite.

Supporting policies to develop the cutting and polishing sector that also address the smaller players, needs to be put in place. Now, there is only one small gem-cutting training school in Arusha, which does not have the capacity to train sufficient people to cut and polish the rough tanzanite being produced. While TanzaniteOne has a direct government stake in the project through STAMICO, and is therefore likely to benefit from support initiatives, smaller players may not qualify. It was reported that import duties on cutting and polishing equipment, for example, are still in place. Furthermore, labor laws to employ foreigners have recently become more stringent, making it more difficult to employ gem-cutting expertise from abroad to teach Tanzanians. The Botswana experience shows that supporting policies are likely going to be required for a long time to make the downstream sector more competitive. Even after significant support by Botswana's government for the last 22 years since the original agreement with DeBeers to allocate a proportion of output for domestic processing, it is estimated that it is still two to three times more economic to cut and polish diamonds in India than in Botswana.[65]

Tanzania's export ban on rough Tanzanite may be at odds with its WTO commitments. The WTO prohibits quantitative restriction on exports, which includes bans. A recent example of a ruling against export restrictions in the EI sector is the case of China. In 2012, the United States, the European Union, and Japan filed a complaint against China for its measures related to the exportation of the rare earths tungsten and molybdenum. In 2014, the WTO ruled against China and, as a result, the export quotas had to be removed. While the tanzanite sector may be of less strategic importance than rare earths for importing countries (which makes it less likely for another country to take Tanzania to the WTO appellate body), the Tanzanian government should still be aware that this is a risk of this policy.

Recently introduced export bans on exporting unprocessed ores aimed at encouraging downstream processing may have an unintended negative economic impact on investment and growth for both large scale and artisanal mining. The 2011 feasibility study commissioned by the Tanzania Minerals Audit Agency (TMAA), outlines several constraints that make a copper concentrate project in Tanzania economically unviable[66]. If this is the case export bans aimed at kick-starting in-country processing may not result in the expected benefits in terms of value addition and employment. For small scale miners, without large balance sheets the ban could result in the companies going under. Furthermore,

smelting requirements may render marginal projects unviable resulting in less exploration and investments in the affected sectors. There is also the possibility that three large-scale nickel projects, that are scheduled to commence in the next few years, may be affected[67]. Furthermore, a decline in investor confidence may have a longer lasting impact on the wider economy. See box 6.4 for a more specific outline of the new regulations.

Domestic Allocation of the Offshore Gas Deposits Will Be One of the Key-Negotiating Points with the IOCs

The offshore gas reserves in Tanzania will be developed based on off-take agreements made for the export of LNG. The projects will not be viable when only relying on national demand because there are several risks for the IOCs in supplying the domestic economy. First, domestic gas demand can fluctuate if local power plants and distribution lines are not operating reliably at the contracted capacity. Second, local long-term demand projections are often aspirational. As such, there is the risk of these estimates not materializing. Third, domestic prices are often controlled by the Tanzanian government. Usually there are no take-or-pay clauses in the sales contract with government-agency buyers, and gas companies are reliant on the utilities to pay on time. Even if there were such clauses, they would not be easily enforceable. Fourth, international financiers will be hesitant to finance a project with unallocated gas supply given that they require sale guarantees that warrant the back-payment of the loans.

The domestic gas allocation needs to be agreed in advance and should not be altered thereafter. Egypt's case (see box 6.5) illustrates that when IOCs sell LNG through long-term contracts, governments should not try to capture gas for domestic use, which in the original investment agreement was allocated for export. Governments should commit to a certain portion of gas (whether quantified in volume or percentage)[68] for domestic use and off-take this gas for the agreed compensation. These issues need to be agreed upon before the final investment decision, when flexibility is highest. If domestic gas is to be increased over time on a sliding-scale basis to accommodate the progressive increase in demand, the transporting infrastructure will have to be developed for a larger capacity than initially needed, which will affect the economics of field development. In exchange of such flexibility, investors usually request subsidies and incentives. Alternatively, the government could choose to build up domestic gas infrastructure at

BOX 6.4: Copper and Gold concentrate export ban

On March 3, 2017, Tanzania imposed an unexpected ban on unprocessed copper, nickel and silver ores to "...make sure that mineral value-addition activities are carried out within Tanzania."[a] AngloGold Ashanti's Geita and Acacia's North Mara mines are unaffected by the ban, as these sites export gold doré. Although, 45 percent of Acacia's Bulyanhulu and 55 percent of the Buzwagi mine revenues are banned from export, resulting in an estimated revenue loss for the company of US$1 million a day.[b] This comes at an inopportune time for Acacia mining, which has been in merger negotiations. Endevour mining has withdrawn from merger talks since.[c] It is estimated that the export ban could shut in 240,000 ounces or more of gold production in 2017. The ban would make Bulyanhulu unprofitable and materially affect Acacia's financials as a whole.[d] Apart from Acacia mining, small-scale mining companies that export concentrate were hit by the ban. At least 60 containers of copper and seven containers of nickel from small-scale companies have been seized by port authorities resulting in large losses according to Tanzania Small-Scale Miners Association chairman.[e]

While the ban suggests a long-term government measure to pursue downstream beneficiation domestically, the prime minister's recent statement indicates that this is a temporary measure to "satisfy ourselves if the tax we get from the business is what we actually deserve"[f] and may be used to increase the government's bargaining power in the protracted tax dispute with Acacia mining, which is the main company affected by the ban.[g and h] A special investigation of mineral concentrate found in containers at the Port of Dar es Salaam, Inland Container Depot and the mine sites found significantly higher levels than had been declared to the Tanzania Minerals Audit Agency. In light of the large under declaration of concentrate and the related tax loss, a special committee recommended to maintain the ban on concentrate. Acacia mining has committed to cooperate with the government to resolve this issue.

The result of this measure, however, will not only affect Acacia mining, but also small-scale miners and potential future investments. It is therefore recommended that such trade policies are not used for negotiation purposes with individual companies.

a. URT (2017)
b. Morcombe (2017).
c. Yeomans (2017).
d. West (2017).
e. Citizen (2017).
f. Citizen (2017).
g. Sanderson, Hume, and Aglionby (2017).
h. Reuters (2016).

BOX 6.5: Why Domestic Gas Allocation Should Not Be Changed after an Agreement: The Case of Egypt

Egypt provides an example of liquefied natural gas (LNG) projects being shut down due to not meeting the international oil companies' (IOC) and buyers' contractual demands. In 2005, the country started exporting LNG from a two-train plant operated by the Egyptian LNG (ELNG) consortium, which was composed of the BG Group and the state-owned Egyptian General Petroleum Corporation. However, the rise in domestic demand caused the Egyptian government to progressively divert gas from LNG exports to the domestic market. This led to the shutdown of the Damietta LNG plant,[a] which prevented the plant from honoring its export contracts. The fall in LNG exports resulted in declining export revenues and with the country subsidizing the gas for the domestic market, it soon ran short of money to pay the agreed offtake price. In response, the IOCs reduced exploration and production activities. In 2014, ELNG shut down entirely.

Source: U.S. Energy Information Administration (2015).
a. The Damietta Plant is owned and operated by Segas, a joint venture of the Spanish utility Unión Fenosa (40 percent), Italian oil company Eni (40 percent), and the Egyptian companies Egyptian Natural Gas Holding Company and Egyptian General Petroleum Corporation (10 percent each). Until the shutdown, the plant was only being supplied with gas from the Egyptian grid.

a later stage from revenues received from LNG exports. Disregarding the approach used, it is important to retain the LNG attractiveness. Extensive discussions, consultations, and negotiations are needed to agree on the best course of action about the domestic gas use.

To be well equipped for the domestic gas allocation negotiations, the Tanzanian government needs to review gas demand projections, and assess under which minimum gas allocation for exports the IOCs will be willing to move ahead with its investments. The Gas Master Plan of 2015, with its demand projections based on population growth and potential industrial projects is a step in the right direction, but further in-depth feasibility studies are needed given that the plan is aspirational. This is recognized in the Gas Master Plan. According to the current gas demand and supply analysis, which assumes that 70 percent of the discoveries will be recovered (about 38.6 TCF), the available reserves can suffice to serve both the export and domestic demand envisioned by the Gas Master Plan for 30 years in almost all scenarios. The Gas Master Plan concludes that it is important to "promote development of discovered reserves and investment in the infrastructure to deliver natural gas to the identified market." While the development of infrastructure will certainly enable the use of the gas by the domestic economy, the Tanzanian government should also assess under which minimum gas allocation to LNG exports the IOCs will accept to operate. By some accounts, an allocation of 11.1 TCF (out of 31.4 TCF) might not be sufficient for IOCs to achieve economies of scale out of a dry gas field (the presence of liquids would have improved the economics of the project).[69]

In its analysis, the Tanzanian government will also need to prioritize gas monetization projects. Currently, the Gas Master Plan lists a number of projects that would increase power demand. The government should prioritize the projects that would have larger positive impacts on the economy along with a review of its viability. Power-generation projects have several advantages over other domestic gas uses. First, electricity production projects tend to have the second best netback value after LNG.[70] Second, the availability of competitively priced and reliable power source is critical to improve the business environment and attract other industries (including those proposed in the Gas Master Plan). Third, the populations in the gas-rich regions of Mtwara and Lindi are among the poorest with the lowest access to electricity rates. Securing access to power will be fundamental to attain the social license to operate and mitigate the risk of production disruptions.[71]

CNG projects have the advantage of being viable at smaller scales, thereby creating an opportunity to progressively replace expensive and polluting alternative fossil fuels. PanAfrican has, for instance, piloted application of CNG to vehicles, hotels, and industries. CNG is also an interesting gas option for transportation that travel distances up to 2,000 kilometers.[72] Mozambique has piloted it with the Matola Gas Company delivering CNG to industrial customers via trucks.[73] Some of the

TABLE 6.2: Gas Demand Scenarios versus Discovered Reserves

Scenario	Consumption (tcf) 2015–35	Consumption (tcf) 2015–45	Against 38.5 tcf (%)	Remaining reserves/ production – 2045 (years)
Base case				
2 trains	14.9	31.4	81	3.82
3 trains	16.9	36.1	94	1.28
4 trains	17.8	39.8	103	(0.66)
High case				
2 trains	15.9	33.4	87	2.57
3 trains	17.9	38.2	99	0.19
4 trains	18.9	41.8	108	(1.63)

Source: Tanzania's Gas Master Plan, 2015.
Note: TCF = trillion cubic feet

other projects in the Gas Master Plan are only likely to be commercially viable if planned at the regional level (see regional section).

The State-Owned Companies' Conflicting Roles and The Financial Self-Sustainability is Not Guaranteed

As highlighted in the institutional framework section, the state-owned companies and the regulators that are particularly relevant for Tanzania's EI sector are STAMICO and NDC in mining, TPDC and PURA in the upstream and midstream gas sectors, and EWURA and TANESCO in the downstream gas sector. Because NDC is not involved in the gold, tanzanite, and gas subsectors, this study has not closely reviewed the state-owned company. However, the challenges regarding its conflicting roles as a commercial entity and as a regulator also seem to be relevant, as highlighted in the Natural Resource Governance Institute's (NRGI) recently published transfer-pricing study.[74]

STAMICO's conflicting responsibilities may adversely impact the economic benefits obtained from the projects it is involved in. STAMICO's objectives include:

- To increase investment in the mining industry and promote corporate services and image;
- Increase provision of exploration and drilling services as a tool to identify prospective areas for mining and income generation;
- Transform the ASM sector into a well-organized, mechanized, productive, and environmentally responsive subsector;
- Improve human resource management and administration; and
- Address the cross-cutting issues including, but not limited to, HIV/AIDS pandemic, environmental conservation, and gender mainstreaming in the mining activities.

These objectives conflict with one another. For example, owning 50 percent of TanzaniteOne and being the operator of the only large-scale tanzanite mine, STAMICO should aim to run operations as efficiently and profitably as possible. At the same time, the state-owned company is meant to support the ASM sector. One of the main constraints faced by TanzaniteOne has been regular trespassing of artisanal miners into block C, leading to loss of value and endangering operations for both TanzaniteOne employees and artisanal miners. Furthermore, production and marketing should be streamlined—as is done in the diamond sector—by limiting the release of tanzanite and influencing its market prices. Although TanzaniteOne has long had an interest in regulating tanzanite sales by acting as an intermediary that buys up rough tanzanite from surrounding mines, there is little incentive for the ASM miners to promote TanzaniteOne as a monopoly buyer and seller. By bypassing the government and smuggling undervalued tanzanite out of the country, these unlicensed-tanzanite sales have had an adverse impact on licensed sales.[75] These conflicting interests and roles by STAMICO will make mediation between the two parties difficult.

STAMICO is subsidized by the Tanzanian government. The budgetary allocation for the state-owned company has increased over the last years to support mining operations that are running at a loss. Employment numbers at TanzaniteOne have doubled since STAMICO took over its operations.[76] Although STAMICO's strategic plan for 2014–15 to 2018–19 foresees that "the sources of finance for the corporation include government subventions, loans from financial institutions, and own revenue from investments. Government subventions are provided in an interim period to help STAMICO take off and eventually become a self-sufficient corporation which will contribute to the government basket,"[77] the government has yet to define on what basis these subventions will be reduced. The efficiency of state-owned companies is highly dependent on where the funding comes from, given that there is less of an incentive to run profitably when the state will buffer potential losses. Furthermore, clear rules regarding revenue streams are critical to lower opportunities for revenue mismanagement. STAMICO scores low (31st out of 45 state-owned companies) in NRGI's 2013 Resource Governance Index, which measures the institutional and legal setting, reporting practices, safeguards and quality controls, and the enabling environment.[78]

The Petroleum Act of 2015 enables the TPDC to focus on commercial functions, but there are still provisions that attribute noncommercial roles. The Petroleum Act separates the commercial function from the regulatory function, both of which were held by TPDC prior to the Act. This has been welcomed by the IOCs.[79] However, there are some provisions that need clarification. There is an unclear use of the word "exclusive" about TPDC's powers, which creates a risk of conflicting interpretations

of the roles of TPDC, PURA, and EWURA, and may lead to accountability challenges.[80] Section 10(2) grants TPDC "exclusive rights over natural gas midstream and downstream value chain," while Section 45 gives TPDC "exclusive right over all petroleum rights granted." These are conflicting statements. It is also unclear how TPDC can be a license holder and partner in oil projects with no conflict of interests and without hurting the effectiveness of PURA.[81] Furthermore, the requirement for state participation is also unclear due to the contradiction between Section 219 and Section 45. The former suggests a participating interest of 100 percent, while the latter 25 percent. Even a 25-percent interest might be high given "(i) the current human and financial capacity of TPDC, (ii) the practice with existing offshore gas projects, and (iii) other financial obligations, including the royalty and the profit oil/gas split."[82]

TANESCO's precarious financial situation has increased costs to do business for the mining sector and may be a key constraint when negotiating the domestic gas allocation with the IOCs. As outlined in the business-enabling environment subsection (section 3), the mining sector has had to invest in backup-power generation due to unreliable power supply, which has resulted in increasing capital and operating costs. TANESCO's poor financial situation is one of the main contributors for deficient maintenance and investment in the Tanzanian-power generation and transition infrastructure, which has led to insufficient power supply and load shedding.[83]

TANESCO's reliability and financial sustainability will also play a key role when negotiating the domestic allocation of gas with the IOCs. Successful utilization of gas for domestic power generation assumes that TANESCO will be a credible and financially-sustainable utility offering reasonable prices for the gas (as closer to market price as politically feasible), paying on time, investing in distribution and generation infrastructure and maximizing the certainty of revenues to the gas companies. This requires TANESCO to regain the trust of the private sector and address its financial deficits and operating loss, which amounted to US$139 million in 2012, bringing cumulative losses to US$503 million or 2 percent of GDP.[84]

Formalization of the ASM Sector is Proving Difficult

Conflicts between the LSM companies and displaced ASM communities have been chronic and long lasting. Hostilities between these two groups date back to the 1990s, when concessions were awarded to foreign investors and resulted in evictions of artisanal miners. Acacia's and AngloGold Ashanti's mining projects have been at the center of violent conflicts with artisanal miners trespassing the concession areas. Multiple deaths have been reported over the years. For the LSM sector, these conflicts have resulted in loss of property, disrupted production, higher operating costs due to security reasons, and international reputational damage. At the Luika gold mine, an average of 2–6 mine stoppages are experienced per year due to ASM conflicts. In 2009, African Barrick Gold claimed that illegal mining resulted in the loss of 2,400 hours' worth of production.[85] An ICMM study concluded that ASM conflicts are "possibly the single most important factor that negatively colors attitudes to the international mines."[86] Reputational risk is primarily related to security-related incidents and environmental impacts, which are difficult to trace back to the source. For example, there have been allegations of mercury pollution by the LSM sector, though, their processing facilities do not use mercury as an input.

The Sustainable Management of Mineral Resources Project by the World Bank is currently working together with Acacia and AngloGold Ashanti to improve the relationship between the LSM and ASM sectors. Among other activities, the project supports ASM geological, processing, health and safety, responsible supply chain, and gender mainstreaming activities for registered ASM operations in areas surrounding the LSM concessions.[87]

Environmental and health problems related to the ASM sector are devastating. While the pits are small and individually may not have a significant impact, at the cumulative level, ASM regions present a major environmental and health concern. To access the mining areas and service its operations, large areas of forests have been cut down. Water contamination results from leakages of heavy metals from the processing areas. The use of explosives also contributes to contamination of surface and groundwater. The amalgamation of gold is often carried out in open, and leads to mercury being disposed directly into soils. With most of the mining areas being surrounded by major rivers and lakes that provide fish for neighboring and downstream villages, these practices have also raised health concerns for people not directly involved in ASM. The health impacts on those directly working in the ASM sector are even more severe. Underground drilling, ore loading, and

surface crushing and grinding are all dry processes that generate dust, which can lead to respiratory problems and lung disease. The direct exposure to mercury vapor may be fatal.

ASM operations have been linked to negative social impacts and human rights violations continue. Most ASM areas have high rates of crime and violence. Local authorities are ill-equipped to respond with increased pressures on welfare services and policing requirements leading to self-regulation. There have been extensive reports of human rights violations in the form of child labor. In 2003, it was found that 2,723 children, between the ages of 12 and 15 years, were working in the tanzanite mines of Mirerani (ILO-IPEC 2003 and Urassa 2007). The majority of children were employed in the reprocessing of tailings, manual crushing and grinding, and washing on sluice boxes. These activities are thought to have the worst health impacts with exposure to mercury. Although there have been improvements following intervention and awareness campaigns by various stakeholders, child labor continues to be a major concern.

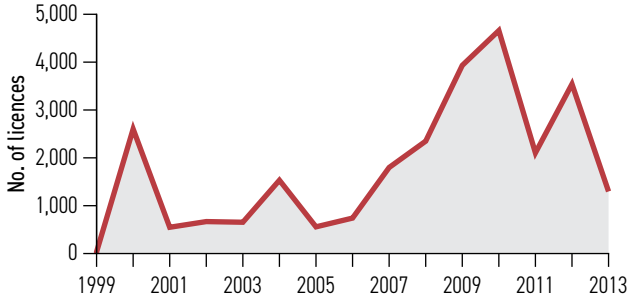
The ASM sector faces a chronic shortage of capital. The numerous requirements, such as collateral, exploration results, a project feasibility study, and a registered business name cannot be met by most miners. Whilst financial institutions have expressed willingness to provide such services; no programs are tailored to meet the financial needs of the ASM sector. The lack of direct access to credit finance, poor business and project management skills, makes investment very difficult. The previous administration tried to address this by providing loans to individual groups, such as equipment purchase loans or hire- purchase schemes. Three companies were provided with such loans in Chunya (in southern Tanzania), Singida (in central Tanzania) and Geita (in north-western Tanzania). Although ASM equipment has been imported for these schemes, to date, none of them are working and this facility has been closed. The failure of these schemes can be traced back to a lack of knowledge in dealing with ASM operators, the lack of miners being able to pay the hiring rates, poor infrastructure in mining areas and vandalism.

Although the number of licensed ASM activities have increased over the years due to the changes in the Mining Act of 2010, the number of new entrants into the sector outweighs the capacity to formalize. According to the censuses carried out in 1996 and 2011–12, between 1996 and 2012, an average of 8,200 people per year entered the sector, and a total of 25,723 PMLs were issued to ASM (an average of 1,600 licenses per year); thus, for every formalized miner, an additional 4 informal miners enter the ASM sector (figure 6.12). The fact that licensed miners do not develop their areas (instead, they lease it out to individuals who in turn hire teams to mine and pay royalty to the license owners) complicates the formalization process. With the legislation not binding license holders to invest into the operations, they instead hire other people to carry out mining and give them a share of the production. This leads to exploitation of those who are hired by licensed mineral rights holders and force them to seek higher earnings from informal operations.

As such, despite the increase in the number of licenses issued, most operations on the ground are still regarded as being informal, because they do not follow safety, occupational health, or environmental regulatory requirements. In addition, the chaotic nature within a licensed area due to a large number of pits run by individual investors in an uncoordinated manner, makes it difficult for the government to collect the due rent. Based on these scenarios, it can be concluded that more than 50 percent of the ASM operations can be categorized as informal operations.[88]

While the Mining Act of 2010 could be improved in some areas (particularly on the environmental provisions),[89] the major problem of formalization is limited awareness and lack of enforcement of the rules. Whilst the conditions for the formalization of ASM activities have been simplified and are not difficult, there is a general lack of awareness of the procedures necessary to achieve this.

FIGURE 6.12: Primary Mining Licenses Issued, 1999–2013



Source: Derived from the Tanzanian Ministry of Energy and Minerals.

Furthermore, given the limited number of auditors responsible to enforce the Mining Act, activities go unmonitored. The holder of a broker's and dealer's license, for example, is to keep full and accurate records of all transactions undertaken, and they must submit them to the relevant authorities, according to the law. There are also clear regulations that foresees the nonrenewal of these licenses if there is lack of compliance. The environmental regulations set a number of standards that limits pollutant discharging, limits the use of cyanide leaching, rehabilitation requirement prior to abandonment, and sets a fine of up to T Sh1 million (US$465), or imprisonment for a period not more than six months for breaching these standards. However, the enforcement of these provisions has been poor, thus allowing dealers to only declare the minimum returns required to maintain their licenses, and environmental degradation and health impacts still being a major concern in the sector.

Artisanal mining and small-scale mining activities are not distinguished, which results in plot allocations for artisanal miners being too large and makes policy targeting difficult. Artisanal miners are thought to employ manual, low-technology mining, while small-scale miners use some degree of mechanization. As such, small-scale mining activities tend to be larger operations with greater sophistication and higher revenues. The Mining Act of 2010 stipulates that the maximum plot size covered by a PML is 5 hectares for building materials and 10 hectares for other minerals. This plot size is comparable to other countries for small-scale activities, but is too large for artisanal mining. As a result, artisanal license holders (including women) often divide their plot into several smaller pits, and subleasing them to (unlicensed) pit operators, from whom they informally collect royalties. Due to staffing constraints and/or to the remoteness of certain artisanal sites, the government is unable to closely monitor those arrangements—as a result, it may fail to collect royalties itself thus facing significant revenue losses.

A number of challenges specifically affect women miners. Many women do not hold PMLs but are employed as mine workers: sometimes in activities within formal enterprises of PML holders such as established small-scale mines, or as individual operators who must link with other actors along the mineral value chain such as crushers or mineral brokers. As a result, women do not have a secured tenure, nor the capital or the necessary technologies to access high quality and mineable resources; they also cannot use their mineral rights as collateral to access credit, or to enter into joint ventures with larger, more established (licensed) partners. Finally, they tend to be excluded from strategic policy interventions such as government-funded credit schemes (which generally target formal ASM miners in possession of a license), and are thus condemned to operate in a trap of informality, subsistence-level profits, and very limited growth opportunities. This, in turn, severely limits their ability to contribute to government revenues through royalty payments. Policy interventions aimed at regulating and formalizing the ASM sector, and related services such as credit, technology, and environmental safety support, would need to ensure that the entire range of ASM operators is reached, including artisanal miners that are unlicensed—especially women. Short of this, those interventions run the risk of only benefitting the more established ASM entrepreneurs, whilst leaving (female) operators behind.

Beyond formalization, other difficulties currently affecting Tanzanian women in ASM: First, they usually exhibit limited education and poor mining and entrepreneurial skills, including budgeting (financial skills) or the ability to prepare a business plan—this forces many, including PML holders, to rely on others—especially men—for support, and subsequently exposes them to cheating. In addition, mineral transactions in ASM rural sites are often not transparent, with limited information on value and prices available to miners, which is particularly damaging for women, who are usually not skilled in the grading of minerals, are unable to meet the cost of accessing more reliable markets, and therefore may have to settle for unfairly low prices. Limited ownership of and/or control of resources and assets (capital, land, house, tools, and so on) also affects women miners' ability to access credit, making them more vulnerable to exploitative arrangements in the mining site. For instance, because of the dependence on ball mills for ore processing, many women are forced to share the proceeds instead of payment for the costs involved. Health risks are also particularly alarming for female ASM miners. For instance, lack of modern equipment or protective gear exposes them to dust in ore processing, or to hazards associated with the direct handling of mercury for gold amalgamation. Finally, ASM women face double vulnerability in case of resettlement or reloca-

tion due to LSM projects, because they often do not have formally-recognized land and/or mineral rights, they are usually exposed to exclusion without compensation.

Lack of Regional Coordination Limits the Opportunities to Create Links from the EI Sector

More upstream links could be captured at the regional level with increased integration. Countries in the Southern African Development Community (SADC) and the East African Community (EAC) have put in place (or are working to develop) local content policies for the EI sector. Although the 2012–32 EAC Industrialization Policy and the 2015–63 SADC Policy, indicate an industrial development roadmap for the region, the strategies fall short of providing mechanisms to coordinate national local strategies in the EI sector. This is a missed opportunity given that the Regional Economic Communities (RECs) in Africa could enable access to larger markets for suppliers and make regional procurement more viable for EI companies. Alignment in the definition of local content, for example, could simplify the operating requirements imposed on EI companies in the region. Allowing EAC suppliers to count towards the local content targets of its member states could reward local content achievements at the regional level. This would require countries to steer away from a local definition that refers to "local-local" or national level, and enter in reciprocal agreements, which often only RECs can broker.

RECs could also play an increasing role in trade and investment negotiations. International trade agreements often ban the recourse to local content provisions to improve the domestic economy. By negotiating those agreements on behalf of its member states, RECs could increase individual states' collective bargaining power and ensure that trade agreements do not contravene development policy objectives.[90]

Lastly, RECs could help build a pool of workers at the regional level that companies could draw from by: promoting the harmonization of training curricula and certification across the region, the creation of technical partnerships between countries to ensure the exchange of technical experts, the co-financing of R&D and technology centers, and the facilitation of labor mobility through less bureaucratic labor law and work permit procedures.[91]

Regional coordination is required to address tanzanite smuggling. International control mechanisms such as the Kimberley Process and the conflict minerals provisions, track diamonds, gold, tungsten, cassiterite, and wolframite. Other minerals such as gemstones and tanzanite are left out. Tanzania has introduced a certificate of origin for tanzanite to curb smuggling. However, without the recognition of other countries for the certificate and proper enforcement, this effort will not have its intended outcome. Given that a lot of tanzanite is being smuggled through Nairobi, the Tanzanian government, through the MEM and its Kenyan counterpart, are discussing ways to address the smuggling of tanzanite. Apart from recognizing the certificate of origin, the two governments discussed the alignment of royalty rates charged on rough stones that do not have a certificate of origin. An agreement on these points would make it less attractive to smuggle tanzanite through Nairobi.

The East African Power Master Plan notes that member countries have built their power systems in isolation from each other. Although there are some interconnectors, the volume of power trade is negligible and "exporting parties have frequently been unsuccessful in their commitments to deliver the power in accordance with their contractual obligations because of deficits in their systems."[92] Significant cost savings can be achieved by cooperating with neighboring countries on regional power projects. The power-infrastructure funding gap of Tanzania is estimated to be around 1–5 percent of its GDP.[93] Pooling energy resources through regional power trade can reduce this funding gap. Operating cost savings in the South African Power Pool (SAPP) and East African Power Pool (EAPP) are estimated to be in the order of 5 percent and 6 percent, respectively, if energy trade occurred whenever the benefits outweigh the costs associated with system expansion.[94] These cost savings result from cheaper hydropower making up a larger proportion of the energy mix, a reduction of losses due to power outages, and greater diversification of the energy mix reducing the potential for disruptions. These costs savings would result in the interconnector investments being recovered in under a year in the SAPP, and over a 3 to 4 year period in the EAPP.[95] Box 6.6 highlights the importance of Tanzania role in the Zambia-Tanzania-Kenya interconnector project.

BOX 6.6: The Zambia-Tanzania-Kenya Interconnector: To Facilitate Power Trade Between the SAPP and the EAPP

The interconnector is proposed to connect Pensulo (in Zambia) and Isinya (in Kenya), covering a distance of 1,600 kilometers, with a capacity of 400 megawatts. This initiative is led by the Common Market for Eastern and Southern Africa-East African Community-Southern African Development Community tripartite body. In 2014, the energy ministers from Kenya, Tanzania, and Zambia signed a memorandum of understanding that outlined key milestones to ensure the completion of Phase I of the Zambia-Tanzania-Kenya interconnector by the end of 2016, and the commissioning date for Phase II for December 2018.

The memorandum requires each country to build the power infrastructure within their borders, with Zambia being responsible for the overall coordination of the project. The countries are also required to establish trading mechanisms. In December 2015, Zambia commissioned the 381-kilometer Kasama-Pensulo section for a cost of US$153 million. The construction of the 442-kilometer Singinda-Iringa (Tanzanian) section is expected to be completed in June 2016. However, progress for other sections of the transmission line has been slower. There is still lack of funding for the Iringa-Mbeya-Tunduma (Tanzania) Nakonde-Kasama-Pensulo-Kabwe (Zambia) sections.

Source: Trademark Southern Africa 2012.
Notes: SAPP = South African Power Pool; EAPP = East African Power Pool.

At the regional level, there may be sufficient gas demand at competitive prices to warrant investment in a transnational pipeline transmission network. By analyzing the potential costs of a gas backbone transmission network across eight countries (Mozambique, Malawi, Tanzania, Kenya, Uganda, Rwanda, Burundi, and Ethiopia) originating in the gas fields of Mozambique and Tanzania, and modeling gas prices that are competitive with what is currently being paid by consumers in the region, Demierre and others (2014) suggest that "demand projections, estimates of infrastructure cost, and consumption estimates offer market opportunities for gas at prices competitive to LNG exports."

For the baseline scenario, the required capital investment is estimated at US$57 billion for an infrastructure system that brings gas to the city gate at a cost of US$8 per million British Thermal Units. The study recognizes that the system would take time to fully develop, but even at a 25-percent penetration rate as a primary resource in the energy system, the pipeline infrastructure is projected to be economically viable. When fully developed, the system could deliver 2.9 TCF per year to the 8 countries in the region and an additional 1.3 TCF to South Africa. The study asserts that while it is possible to build the infrastructure incrementally to keep overall initial investments low, the longer-term total costs of this solution would be higher, and the gas producers would not be assured long-term bulk markets. The study thus asserts that (1) the regional demand helps make the business case for a substantive allocation of the gas to East African domestic markets, and (2) the materialization of this regional demand will come from the construction of a regional backbone transmission network.

Some of the projects identified in the Gas Master Plan of Tanzania are only likely to be commercially viable if these investments are coordinated at the regional level. The Gas Master Plan includes investments in a GTL plant to save on fuel imports. However, GTL plants are very expensive projects, which have only been implemented in Qatar, Malaysia, and South Africa. As such, they require a large demand to be viable that only the regional market can meet. Apart from the demand question, the viability of a GTL plant is dependent on high oil prices, which makes these projects unfeasible in the current price scenario even at the regional level. While there is technological progress to build small modular GTL reactors to satisfy the demand of small markets, the profitability of these still need to be proven.

Similarly, fertilizer projects needs to be coordinated given that many neighboring countries also hope to attract large investments. Tanzania produced fertilizer in Tanga, but this project shut down in 1991.[96] The availability of increased gas reserves has renewed interest in operating an ammonia-based fertilizer plant in Kilwe. Wentworth Resources and Maurel & Prom have shown interest in a combined methanol and urea plant in Mtwara.[97] Neighboring Mozambique is also looking to attract investors in fertilizers as set out in its Gas Master Plan, and Kenya is already producing fertilizer.

As for methanol production, both Tanzania and Mozambique are considering such plants, as they can promote industrialization by serving as a feedstock for the petrochemical industry. In Mozambique, Insitec of Mozambique (25 percent) and GigaMethanol of Germany (75 percent) have put together a US$3.5 billion proposal to produce 3.5 million tons of methanol per year.[98] This is enough to cover Mozambique's needs and leave a surplus for exports.

While the previous paragraphs highlighted the potential opportunities that arise from regional integration to further develop the EI sector and upstream or downstream links in Tanzania, cooperation at the regional level is often hampered by political economy constraints. Energy security issues are a big constraint to the development of regional pipelines and interconnectors, given that countries do not want to depend on their neighbors for energy supply. In the context of regional-content policies, countries with a less-developed supplier base, such as Tanzania, will face competition from countries that have more experience in supplying the EI sector, such as Zimbabwe, Zambia, Kenya, and South Africa.[99] Over time, these countries have built more sophisticated skills; the mining companies operating in Tanzania often have long-term relationships with suppliers situated in those countries, which has been facilitated by the lowering of transportation costs.[100] There is also stiff competition for large-scale downstream industrial projects, which makes agreement as to where it should be built difficult.

Progress at the regional level is slow and, often, only occurs when national interests of the most powerful countries within the region align. The "implementation of regional initiatives takes place when in line with key 'national interests' as defined by the ruling elites"[101] of the regional hegemons. Within the EAPP and the Intergovernmental Authority on Development (IGAD), Ethiopia is a key stakeholder, while South Africa plays a dominant role within SADC. The alignment of interests is also dependent on the areas of cooperation. Peace and security, for example, has been more successfully driven at the IGAD and the African Union given that political leaders understand that inaction can lead to constant instability and violent conflicts. In contrast, regional integration in the areas of trade, industrialization, energy, and gender remains aspirational and appear less urgent. While potential electricity exports often see the long-term benefits of regional energy pools such as the EAPP and SAPP, priority is placed on the development of their domestic energy sectors in the short-term. However, there are successful regional gas infrastructure initiatives such as the West African Gas Pipeline that connects Nigeria, Benin, Togo, and Ghana, or the gas pipeline from Mozambique (Temane and Pande) to South Africa (Secunda). As highlighted in box 6.7, the Mtwara Development Corridor may be a project where interests align and which may help to drive regional integration.

Addressing the Constraints

This section provides recommendations to address the identified constraints previously outlined. Apart from recapping the identified constraints and the suggested actions to address them, the entities responsible, potential indicators to measure success, the difficulty and potential payoff of implementing the suggested actions, and existing initiatives are listed in table E.1.

Recommendations

Implement a transparent and predictable taxation regime and revenue management system. While the effective tax rate from the Mining Act is in line with Tanzania's peer gold-producing countries and therefore should not be too onerous for the gold LSM sector, the government should streamline VAT and duty reimbursements to guarantee financial predictability and clarity of processes. The government should continue its drive to increase transparency of the sector and its efforts to improve audit capacity.

Coordinate with the EI sector and implement support policies backed by resources to accomplish the objectives set out in the policies. In order to achieve intended results of the local content regulations and the export ban on tanzanite, the Tanzanian government needs to work closely with the EI sector to determine which targets are viable and how they can be achieved. Skills development and vocational training programs, access to finance schemes, and other support programs have to be backed by resources. Regulations without the backing of financed support services that builds a skilled industrial base will result in EI companies preferring to pay fines for not meeting local content targets and traders to smuggle tanzanite. Within the gas sector, capacity should be built to benefit from the pipeline and LNG construction. While the fall in international gas prices may delay the investment decision for a LNG plant, the government should move forward with support programs to prepare domestic suppliers given that it takes significant time to build the necessary expertise. The strategy should be based around building transferrable knowledge and skills that can also be used in other sectors post-LNG construction phase. The recent decision of Uganda to move forward with the Tanzania-gas-pipeline export route may provide an opportunity to sequence these investments and provide continuous opportunities for trained workers.

BOX 6.7: The Mtwara Development Corridor: A Potential Driver for Regional Integration

The corridor-based approach helps stakeholders pool resources, and partner behind a narrowly defined corridor system. Components of a corridor include hard infrastructure, soft infrastructure, and rules of operation. If successful, such initiatives can build trust and cooperation among participating countries, create opportunities leading to "spillovers" for broader transport sector reforms, and lead to the harmonization of transport programs. The Mtwara Development Corridor is regaining momentum due to the offshore gas developments, which foresees the expansion of Mtwara port.

The corridor involves the governments of Tanzania, Mozambique, Malawi, and Zambia, and impacts around 14 million inhabitants. In addition to servicing the gas industry, the corridor could service Wentworth Resource's prospective gas-based methanol and urea plant, the proposed iron and coal projects in Mchuchuma and Liganga, and the offshore oil and gas developments in Northern Mozambique, as well as serve as a transit point for timber exports from Malawi and copper, gypsum, and manganese exports from Zambia (table B6.5.1). The Tanzanian government is exploring the idea of turning Mtwara's Economic Development Zone into a Special Economic Zone to develop Mtwara as a regional hub. As discussed previously, the success of this corridor will depend on the alignment of interests between regional champions and between public and private interests. By itself, the Tanzanian government cannot ensure the success of this corridor; however, it can facilitate conversation and coordination among the actors that will benefit from this it.

TABLE B6.5.1: Cargo Assessment for Mtwara Port

	New cargoes		
Existing cargoes	Confirmed with stakeholders	Potential	Not viable
• Container – cashew • Offshore supply base cargo	• Container – import general cargo • Cement exports • Gas-related cargoes – Methanol and urea plant exports • Nickel	• Construction and project cargoes • Gas-related cargoes – liquefied natural gas exports • Gypsum • Transit traffic • Container transhipment • Uranium/gypsum/copper	• Biodiesel – Jatropha • Woodchips • Hard wood

Source: URS analysis.

Note: Table cells with red text are cargo flows included in the cargo forecasts to form basis of the Financial and Economic Appraisal of the project while the cells with green text are future cargo flows to be considered for later phases of development at Mtwara port.

Sources: Interview with Bruce Byiers and Jan Vanheukelom, August 2012 Feasibility Study for the Expansion of the Existing Port at Mtwara, October 2012.

Restructure TANESCO to ensure that the private sector regains trust in the public utility company. TANESCO plays a critical role in reducing energy costs for the LSM sector, and increasing power reliability for companies along the EI value chain. It will be crucially important for the negotiations of the domestic gas allocation with the IOCs given that it will be the off taker for power generation. TANESCO will need to improve its dire financial situation for it to be considered a credible offtaker.

Clarify the local content regulations. The local content legislation for the mining sector does not define what is meant by local content, and there are conflicting provisions between the local content policy and law for petroleum when it comes to joint ventures and the submission or implementation of local content plans. These policies need to be aligned in the updated regulations currently being drafted to avoid misunderstandings and achieve the intended policy objectives.

Align trade policies with local content and downstream-beneficiation policies. Domestic suppliers should not pay higher import duties for items that the international EI companies (or international suppliers) are exempted from—such duties will make domestic supplies less competitive. Furthermore, the Tanzanian government should not impose tariffs on goods that are required for cutting and polishing tanzanite to support the policy objective of domestic processing. The aim should be to make processing as competitive as possible to make smuggling less profitable.

Ensure that local content policies do not conflict with international commitments. Tanzania is part of the WTO, and it has signed numerous BITs that restrain it from using certain local content measures and export quotas. In particular, the Canada-Tanzania BIT has several restricting provisions. Given that the performance requirements are extended to investors "of a nonParty

in its territory," the treaty could be used by investors from other jurisdictions. The Tanzanian government should aim to either renegotiate the Canada-Tanzania BIT, or make local content regulations not binding to avoid the possibility of companies taking Tanzania to court through this BIT.

The Tanzanian government should assess the viability of the proposed downstream projects within its Gas Master Plan. One of the most important negotiating points between the government and the IOCs is how much gas will be reserved for the domestic market. If the government asks for too much, the IOCs will not move forward with the investment, but if it asks for too little, it will be a missed opportunity to drive economic development. Therefore, it is of the utmost importance to study the viability of the projects proposed in the Gas Master Plan, regional supply opportunities and decide on a negotiating strategy with the IOCs.

Minimize the potential for conflicting interests within and among state-owned companies, and put in place clear financial rules for these companies. STAMICO's numerous objectives will make it difficult to become a profitable entity. To the extent possible, commercial, national development, regulatory, and policy roles should be separated. This also applies to NDC and—to an extent—to TPDC (although the Petroleum Act aims at separating TPDC's commercial and regulatory functions). Given the limited human and financial resources, as well as the overlapping roles in the mining sector, the Tanzanian government should review whether to merge the mining entities within NDC and STAMICO. With increasing amount of money flowing through the state-owned companies, it will also be increasingly important to ensure that clear financial rules are put in place.

Make a legal distinction between small-scale and artisanal mining activities. This will help target government support to these two groups with very different capabilities and needs. Price differentiations for licenses and smaller plot area sizes may also help with the formalization of artisanal miners. Factors for differentiation could include size of the area of mineral right holding, capacity, knowledge, asset ownership, equipment, and organizational capabilities.

Awareness-raising campaigns should be rolled out to increase formalization of the ASM sector. Although current procedures to access mineral rights are simple, they are not known to the majority of Tanzanians. The Zonal and District offices that are strategically located to reach the participants are usually poorly resourced and are therefore not effective. A program could be aired on Swahili radio, television, and through newspapers targeting the wider public. Such mechanisms could also be used to raise awareness around health, gender, and environmental issues, as well as informing tanzanite miners about pricing trends. Support services, such as training, credit and ASM equipment leasing schemes, as well as improved geological information access in designated areas, should be offered to reward formal operations that comply with the regulations.

Enforcement mechanisms should be decentralized to improve monitoring and oversight of ASM activities. Enforcement of ASM regulations should be decentralized to be effective. Currently, the sector is administered from the office of the Commissioner for Minerals in Dar es Salaam through its regional and District offices. Although there are more than 20 offices throughout the country that are close to the ASM areas, it disassociates the sector from the decentralized local government structure. Most local governments consider the ASM sector as a central government issue, yet security problems in mining areas, environmental management and monitoring, safety issues, immigration into local communities and its impacts, are all impacts felt at the local level. Under the formalization program, efforts should be made to decentralize the sector and involve the local governments in its administration (for monitoring and enforcement purposes). The Zonal and District offices can remain, they can provide guidance and training for the local government mining managers (or officers). Decentralization of monitoring tasks may also reduce smuggling and underdeclaration of profits given that local authorities are more likely to know who is operating in their constituency.

Targeted policy measures are necessary to address the specific needs of women in ASM—many of whom operate informally. It is important to develop clear guidance on how to mainstream gender equality concerns into the country's ASM governance structures, giving attention to the different categories of women engaged along the entire ASM value chain. For that purpose, it could be useful to set national targets for the empowerment of women in ASM, including, for example, number of female

PML holders, number of ASM plots owned and managed by women, number and value of loans disbursed to female ASM applicants. This, in turn, might require strengthening the capacity of the MEM, especially its Gender Desk, in areas such as gender mainstreaming into policy design, gender-disaggregated data collection and gender-sensitive monitoring and evaluation.

Finally, it may be appropriate to develop or finalize the proposed National Corporate Social Responsibility Policy to guide LSM-ASM collaborations, and incorporate a clear gender clause that entails skills and technology advancement specific for women in ASM. ASM and LSM collaborations already exist in Tanzania, mostly on capacity building for ASM miners provided by larger operators, however, these collaborations are usually left to the discretion of the LSM players, and rarely include measures that address the specific needs of women miners.

The regional perspective provides significant opportunities for Tanzania. Many of the proposed downstream gas industrial projects will only be viable at the regional level:

- Electricity cost savings are to be expected from a regional power pool approach, regional markets may provide significant off-take demand for gas,
- A regional content strategy may facilitate LSM investment and provide additional market opportunities for Tanzanian suppliers, and
- Smuggling of minerals will only be achieved if coordinated with neighboring countries.

However, implementing successful regional projects requires participating countries to address challenging political economy issues. If Tanzania wants to become a prominent actor of regional integration in East Africa, Tanzanian policymakers must consider the interests of key national stakeholders beyond the formal mandates of the RECs. It will be important "to distinguish where regional organizations play a major role in terms of political legitimacy, and where they can play a more practical role in terms of implementation."[102] In identifying sectors, partners, and scope of regional interventions, the country will have to determine priorities for implementation in areas where there is a clear coalition of interests and incentives, building on national concerns, and on "where there are identifiable key national and regional champions, such as regional hegemons, charismatic leaders, and private sector interests."[103]

Notes

1. http://atlas.media.mit.edu/en/profile/country/tza/#Exports.
2. TMAA (2015).
3. NBS (2014).
4. TMAA (2015).
5. World Bank (2015).
6. http://databank.worldbank.org/data/databases/commodity-price-data.
7. Japan import price data (World Bank).
8. CCSI (2014).
9. SID (2009).
10. UNEP (2012).
11. APPP (2011).
12. Readhead (2016).
13. African Barrick Gold (2013).
14. Trench and others (2015).
15. World Bank (forthcoming).
16. SNL Metals & Mining's exploration budget database.
17. TMAA (2015).
18. http://atlas.media.mit.edu/en/visualize/tree_map/hs92/export/tza/show/7108/2014/
19. Profundo (2015).
20. Acacia Mining PLC (2016).
21. Mjimba (2011) and CMI (2016).
22. TMAA (2010).
23. www.gemval.com.
24. London Stock Exchange, RNS Number : 4275K, Richland Resources Ltd, 25 June 2014.
25. MTL (2013).
26. Richland Resources Ltd. (2013).
27. Mayala and others (2016).
28. Ministry of Energy and Minerals [2014] - Minister's Budget Speech 2014/2015, Ministry of Energy and Minerals, Dar es Salaam.
29. MEM (2011).
30. Ibid.
31. Eftimie and others (2010).
32. MTL and others (2012).
33. MTL (2013a).
34. MTL (2013b).
35. Speech of the Minister of Energy to the Parliament about estimated revenues and expenditures for 2016/2017 (April 2016)

36. www.offshoreenergytoday.com.
37. www.songas.com, www.panafricanenergy.com, and Tanzania's Gas Master Plan.
38. Offshore Energy Today (2016).
39. http://www.ippmedia.com/frontend/?l=86226.
40. The Exchange (2015).
41. MEM (2015).
42. http://www.ippmedia.com/frontend/?l=86226.
43. EIA (2015).
44. Ng'wanakilala (2016).
45. Cunningham (2015).
46. Katakey (2015).
47. WB-EU-UKAID (2015).
48. BBC News Online (2016).
49. MEM (2015).
50. Tanzanian Chamber of Minerals and Energy.
51. http://www.acaciamining.com/~/media/Files/A/Acacia/press-release/2016/Agreement percent20to percent20Prepay percent20Corporate percent20Tax percent20- percent20Final.pdf.
52. African Barrick Gold (2011).
53. Doya (2012).
54. Banerjee and others (2015).
55. WB-EU-UKAID (2015).
56. Hansen (2013).
57. NRGI (2016).
58. Available here: http://investmentpolicyhub.unctad.org/Download/TreatyFile/636.
59. The treaty prevents performance requirements "*in connection with the establishment, acquisition, expansion, management, conduct or operation of an investment of an investor of a Party or of a non-Party in its territory.*" Through this clause, investors from other countries may use the Most-Favoured National Treatment Clause, which all BITs have to gain access to the Canadian BIT provisions.
60. Domestic content is undefined making it subject to interpretation by the tribunal and the scope of domestic content can be become wide-ranging under the liberal interpretation. It can include employment and training requirements for instance.
61. Tanzania – Canada BIT, Article 9(1)
62. Tanzania – Canada BIT, Article 9(4)
63. MTL (2013).
64. Ibid.
65. Grynberg (2015).
66. http://www.tmaa.go.tz/uploads/A_Study_on_Viability_to_Construct_a_Copper_Concentrate_Smelter_in_Tanzania1.pdf.
67. http://www.resourcegovernance.org/blog/challenge-adding-value-tanzania%E2%80%99s-mining-sector
68. Sometimes, setting a percentage is not possible when gas production volumes are uncertain. A country might be better-off setting a volume.
69. Interview with gas expert
70. Franza (2013).
71. Ibid.
72. Ibid.
73. Ibid.
74. Readhead (2016).
75. Dodgson (2016).
76. TMAA (2016).
77. STAMICO (2014).
78. For a more comprehensive explanation of the methodology used visit: http://www.resourcegovernance.org/resource-governance-index/methodology.
79. Statoil comments on the Petroleum Act.
80. NRGI (2016).
81. Ibid.
82. Ibid.
83. Banerjee and others (2015).
84. Ibid.
85. Hall (2010).
86. ICMM (2007).
87. World Bank (2014).
88. MTL (2013).
89. For example, the environmental management plan for the processing license is not subject to the requirements under the Environmental Management Act of 2004, and as such does not need to get approval from the National Environment Management Council.
90. Toigo (2015).
91. Toigo (2015).
92. EAPP (2014).
93. TMSA (2012).
94. Ibid.
95. Ibid.
96. www.fertilizer.co.tz.
97. Franza (2013).
98. Hanlon and Uvunga (2015).
99. Kenya may fear the competition of Tanzania after the discovery of the gas and the increase in traffic at the port of Dar-es-Salaam relatively to the port of Mombassa (Vanheukelom and others 2016).
100. Mjimba (2011).
101. Vanheukelom and others (2016).
102. Vanheukelom (2016).

103. Ibid.

References

Acacia Mining PLC. 2016. *Annual Reports & Accounts 2015*. Dar es Salaam: Acacia Mining PLC.

African Barrick Gold. 2011. "Update on the Tanzanian Grid Power Situation." African Barrick Gold, December 9. http://www.acaciamining.com/~/media/Files/A/Acacia/press-release/2011/2011-12-09.pdf.

_____. 2013. "African Barrick Gold PC ("ABG") Reports Full Year 2012 Results." African Barrick Gold, February 13. http://www.acaciamining.com/~/media/Files/A/Acacia/reports/2013/fy2012-preliminary-results.pdf.

APPP (Africa Power and Politics Programme). 2011. "The Investment and Business Environment for Gold Exploration and Mining in Tanzania." Background paper, APPP, London.

Banerjee, Sudeshna Ghosh, Zayra Romo, Gary McMahon, Perrine Toledano, Peter Robinson, and Inés Pérez Arroyo. 2015. "The Power of the Mine: A Transformative Opportunity for Sub-Saharan Africa." *Directions in Development*. Washington, D.C.: World Bank.

BBC News Online. 2016. "Uganda Picks Tanzania for Oil Pipeline, Drops Kenya Plan." *BBC News Online*, April 23. http://www.bbc.com/news/world-africa-36121081.

CCSI (Columbia Center on Sustainable Investment). 2014. "Local Content Laws & Contractual Provisions: Tanzania - Mining." New York: CCSI. http://ccsi.columbia.edu/files/2014/03/Local-Content-Tanzania-Mining-CCSI-July-2014.pdf.

_____. 2016. "Linkages to the Resource Sector: The Role of Companies, Government and International Development Cooperation." Bonn and Eschborn: Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)

CMI (Chr. Michelsen Institute). 2016. *Local Content in the Tanzanian Mining Sector*. Bergen: CMI.

Cunningham, Nick. 2015 "LNG Glut Set To Worsen Considerably Over Next 3 Years." *Oil Price*, November 11. https://oilprice.com/Energy/Gas-Prices/LNG-Glut-Set-To-Worsen-Considerably-Over-Next-3-Years.html.

Dodgson, Linsday. 2016. "Tanzanite: How Tanzania Can Profit from Mining Its Rare Stone." *Mining Technology*, April 26. https://www.mining-technology.com/features/featuretanzanite-how-tanzania-can-profit-from-mining-its-rare-stone-4698401/.

Doya, David Malingha. 2012. "AngloGold Tanzania Unit May Pay $200 Million in Taxes This Year." *Bloomberg*, October 26. https://www.bloomberg.com/news/articles/2012-10-26/anglogold-tanzania-unit-may-pay-200-million-in-taxes-this-year.

EAPP (East Africa Power Pool). 2014. "EAPP Regional Power System Master Plan." Abidjan: EAPP.

Eftimie, Adriana, Katherine Heller, John Strongman Jennifer Hinton, Kuntala Lahiri-Dutt, Nellie Mutemeri, Chansouk Insouvanh, Michael Godet Sambo, and Susan Wagner. 2012. *Gender Dimensions of Artisanal and Small-Scale Mining A Rapid Assessment Toolkit*. Washington, D.C.: World Bank.

EIA (U.S. Energy Information Administration). 2015. "Egypt: International Energy Data and Analysis." Washington, D.C.: EIA.

Franza, Luca. 2013. "Gas in East Africa: Assessing the Potential for Various Stakeholders." Energy Paper, Clingendale International Energy Programme, The Hague.

Grynberg, Roman. 2015. "Botswana Diamond Workers Bleed." *Mail & Guardian*, February 20. https://mg.co.za/article/2015-02-19-botswana-diamond-workers-bleed.

Hall, Aaron. 2010. *Tanzania's Gold Sector: From Reform and Expansion to Conflict*. Falls Church, VA: Foundation for Environmental Security and Sustainability.

Hanlon, Joseph and Adriano Nuvunga. 2015 "Gas for Development or Just for Money?" Good Governance, Transparency and Integrity, Edition No. 08. Center for Public Integrity, Maputo.

Hansen, Michael W. 2013. "Reaping the Rewards of Foreign Direct Investment: Linkages Between Extractive MNCs and Local Firms in Tanzania." Working Paper 2013:22, Danish Institute for International Studies, Copenhagen. https://www.diis.dk/files/media/publications/import/extra/wp2013-22_extractive-mncs-tanzania_michael-w-hansen_web.pdf.

Trench, Allan, Chris Gemell, Tony Venables, Michael Curtis, and John Sykes. 2015. "Evaluating the Attractiveness of Fiscal Regimes for New Gold Developments: African and South American Peer Country Comparisons." Action Research Report, International Mining for Development Centre, Brisbane. http://www.eisourcebook.org/cms/

April%202016/Fiscal-Regimes-for-New-Gold-Developments-Completed-Report.pdf.

Katakey, Rakteem. 2015. "Tanzania Sees Decision on $15 Billion LNG Project in Three Years." *Bloomberg*, June 19. https://www.bloomberg.com/news/articles/2015-06-19/tanzania-sees-decision-on-15-billion-lng-project-in-three-years.

MacDonald, Catherine and Alan Roe. 2007. "Tanzania Case Study: The Challenge of Mineral Wealth – Using Resource Endowments to Foster Sustainable Development." International Council on Mining and Metals, London.

Mayala, Laurent Paul, Marcello M. Veiga, and Mohammad Babaei Khorzoughi. 2016. "Assessment of Mine Ventilation Systems and Air Pollution Impacts on Artisanal Tanzanite Miners at Merelani, Tanzania." *Journal of Cleaner Production* 116 (March): 118–124.

MEM (Tanzanian Ministry of Energy and Minerals). 2011. "Report on the Baseline Survey on Artisanal and Small-Scale Mining Activities and Preparation of an ASM Database." MEM, Dar es Salaam.

_____. 2014. "Minister's Budget Speech 2014/2015." MEM, Dar es Salaam.

_____. 2015. *Natural Gas Utilisation Master Plan 2016 - 2045*. Dar es Salaam: MEM.

Mjimba, Vuyo. 2011. "The Nature and Determinants of Linkages in Emerging Minerals Commodity Sectors: A Case Study of Gold Mining in Tanzania." Making the Most of Commodities Programme Discussion Paper No. 7, Centre for Social Science Research, University of Cape Town, Development Policy and Practice, and Open University.

MTL. 2013. "Assessment of the Politics of ASM Gold Supply Chain in Geita Region, Volume I: Main Report", Study carried out by MTL Consulting Co. Ltd. for AngloGold Ashanti, Geita Gold Mining Limited.

MTL and Others. (2012): MTL Consulting Company Limited, Tandiscovery Mineral Consulting Co. Ltd and PaulSam Geo-Engineering Co. Ltd. "Baseline Survey on Artisanal and Small Scale Mining (ASM) Activities and Preparation of an ASM Database" Study carried out as part of the "Sustainable Management of Mineral Resources Project (SMMRP) for the Ministry of Energy and Minerals under financing of the World Bank (Credit Support No. 4584-TA).

Mwami, J.A., Sanga, Nyoni. 2002. "Investigating the Worst Forms of Child Labor No. 15, Tanzania Children Labor in Mining: A Rapid Assessment" Geneva: International Labour Organization, International Programme on the Elimination of Child Labour.

NBS (Tanzania National Bureau of Statistics). 2014. 2014 Tax and Government Finance Statistics Report - Tanzania Mainland. Dar es Salaam: NBS.

Ng'wanakilala, Fumbuka. 2016. "Tanzania Finalises Land Deal for Delayed LNG Project." *Reuters*, January 29. https://www.reuters.com/article/tanzania-energy/tanzania-finalises-land-deal-for-delayed-lng-project-idUSL8N15D0MS.

NRGI (Natural Resourge Governance Institute). 2016. "Tanzania's 2015 Extractive Sector Legislation: Recommendations for Effective Implementation." New York, NY: NRGI.

Offshore Energy Today. 2016. "Orca Wraps Up Offshore Program on Songo Songo." *Offshore Energy Today*, February 22. https://www.offshoreenergytoday.com/orca-wraps-up-offshore-program-on-songo-songo/.

Profundo. 2015. "Options for Sustainability – Strategic Gold Chain Assessment." Amsterdam: Profundo.

Readhead, Alexandra. 2016. "Case Study: Transfer Pricing in the Extractive Sector in Tanzania." New York: Natural Resource Governance Institute.

Richland Resources Limited. 2013.

SID (Society for International Development). 2009. "The Extractive Resource Industry in Tanzania: Status and Challenges of the Mining Sector." Nairobi: SID.

STAMICO (Tanzania State Mining Corporation). 2014. "Strategic Plan: 2014/15 – 2018/19." Dar es Salaam: STAMICO.

The Exchange. 2015. "Mnazi Bay Starts Distributing Natural Gas." *The Exchange*, September 4. https://www.exchange.co.tz/mnazi-bay-starts-distributing-natural-gas/.

TMAA (Tanzania Minerals Audit Agency). 2010.

_____. 2015. *Tanzania Minerals Audit Agency Annual Report*. Dar es Salaam: TMAA.

TMSA (TradeMark Southern Africa). 2012. "Regional Solutions to Providing Electricity in the COMESA-EAC-SADC Tripartite Region." Pretoria: TMSA.

Toigo, Pietro. 2015. "Can Extractive Resources Help Integrate Africa?" *Industrialisation and Trade Corner* (blog), December 7. https://www.afdb.org/en/blogs/industrialisation-and-trade-corner/post/can-extractive-resources-help-integrate-africa-15156/.

UNEP (United Nations Environment Programme). 2012. "Analysis of Formalization Approaches in the Artisanal and Small-Scale Gold Mining Sector Based on Experiences in Ecuador, Mongolia, Peru, Tanzania and Uganda – Tanzania Case Study." Nairobi: UNEP.

Uongozi Institute. 2015. "State of the Extractive Sector of Tanzania Report." Dar es Salaam: Uongozi Institute.

Urassa, J.E. 2007. "Promoting Community Based Initiatives for Vulnerable and Disadvantaged Children Mererani Ward, Simanjiro- Manyara." Dar es Salaam: Open University of Tanzania.

Vanheukelom, Jan, Bruce Byiers, San Bilal, and Sean Woolfrey. 2016. "The Political Economy of Regional Integration in Africa: What Drives and Constrains Regional Organisations?" European Centre for Development Policy Management, Maastricht.

WB-EU-UKAID (World Bank, European Union, and UKAID). 2015. "Promoting Private Sector Linkages to the Natural Gas Value Chain in Tanzania." WB.

World Bank. 2014. "Innovative Small-Scale Mining Initiative Kicks Off in Tanzania." World Bank, November 24.

———. 2015. "Tanzania - Sustainable Management of Mineral Resources Project : Additional Financing." Washington, D.C.: World Bank. http://documents.worldbank.org/curated/en/846261468304269754/Tanzania-The-Sustainable-Management-of-Mineral-Resources-Project-additional-financing

———. 2016. "Maximizing Domestic Value Added in the Oil and Gas Industry: Sharing Lessons Learned Through Public Private Dialogues in Tanzania." World Bank, Washington, D.C.

———. Forthcoming. "Transfer Pricing in the African Mining Industry: A Reference Guide for Practitioners." Washington, D.C.: World Bank.

Annex 6A

TABLE 6A.1: List of Companies Connected to Natural Gas and Consumption

Company name	Natural gas consumption (mmscfd)
a) Industries	
Bautech - 1	0.002
Said Salim Bakhresa	0.005
Soap and Allied Industries Limited	0.011
Bora Industries Ltd.	0.014
Tanzania Cutleries	0.018
VOT Tanzania Ltd.	0.026
Simba Plastic Ltd. (SILAFRICA)	0.039
Dar Brew	0.042
YUASA Batteries (GAIA ECO SOLUTION)	0.055
A-One	0.058
Namera industries	0.060
MMI Steels - 3	0.066
MMI Steels - 2	0.068
Tanpack Tissues	0.079
Azam Bakeries Limited	0.083
Iron & Steel	0.089
Serengeti Breweries	0.093
OK Plast Limited	0.097
SBC Limited - PEPSI	0.098
Steel Masters	0.103
Kamal Steel Ltd.	0.109
Aluminium Africa Ltd.	0.120
MMI Steels - 1	0.153
TZ-CHINA TEXTILE (URAFIKI)	0.170
Murzah 1	0.223
Tanzania Cigarette Company	0.298
Murzah 2	0.325
Tanzania Breweries Ltd.	0.400
NIDA TEXTILE	0.408
Murzah 4	0.450
Murzah 3	0.457
Nampak Tanzania Ltd.	0.268
East Coast Oils & Fats	0.477
Kioo Limited	2.244
TPCC (Wazo Hill)	10.000

Company name	Natural gas consumption (mmfscd)
b) Institutions	
Keko Prison	0.006
Movernpick Hotel (Tanruss Investment)	0.032
TPDC Estate	0.001
c) Power plants	
Ubungo Turbines (UGT 6)	41.390
Ubungo I	17.820
Symbion B	4.724
Tegeta (45 megawatts)	7.850
Ubungo II	14.580
Symbion DSM	16.420
Kinyerezi I	12.900

Source: Tanzanian Ministry of Energy and Minerals.
Note: MMSCFD = million standard cubic feet per day.

7 Tourism

Tourism is the sector with the highest employment generation potential (World Bank 2014). Recent studies showed that when the price of gold—Tanzania's largest export by value—fell, the country's fiscal and foreign-exchange revenues were primarily supported by tourism (DFID 2016). Despite this positive outlook, tourism in Tanzania has mostly performed at a fraction of its potential. The sector is poorly managed, underinvested, under-resourced, and lacks a coordinated all-of-government approach and vision. Tourism in the country is generally viewed by the public sector as a source of tax revenue, and policies to ensure sustainability and social and economic inclusion are absent, or, at best, remain unimplemented.

Developing new areas and products that can expand the tourism value proposition (for investors, tourists, and citizens) are significant challenges that require concerted political will and collective vision, policy, strategies, reforms, and both public and private sector investments. The need for this pathway has been recognized by the private sector for some time and is now part of the Tanzanian government's agenda, which the World Bank and other partners support. A review of the existing Tourism Policy and a new National Tourism Strategy are supported by a World Bank-sponsored Private Sector Competitiveness Project.[1] This Diagnostic Trade Integration Study (DTIS) for Tanzania is therefore a timely input to these important new initiatives. In 2015, more than a million tourists travelled to Tanzania, contributing (directly and indirectly) nearly 12 percent of gross domestic product (GDP), making it the country's largest export services sector (WTTC 2016). Travel and tourism-related services receipts totaled US$2.2 billion, representing more than 25 percent of the country's total exports and 60 percent of the country's services receipts (WTTC 2016 and MNRT Statistics). In 2015, the

"Tourism is the sector with the highest employment generation potential."

industry directly supported 467,000 jobs, and, through backward links, was responsible for more than 1.3 million jobs or 12.2 percent of the nation's total employment.[2] And, in 2014, Tanzania earned more per visitor (US$1,770) than each of its main competitors, Kenya (US$643), Uganda (US$628), Botswana (US$634), and South Africa (US$978).[3]

Over 80 percent of Tanzania's leisure tourism is generated by the country's world-class wildlife and landscapes of the "northern circuit"—Ngorongoro Conservation Area, Serengeti, Lake Manyara, Tarangire, and Mount Kilimanjaro National Parks—and the island of Zanzibar's beaches and resorts. According to data from the Tanzania National Parks Authority and the Ngorongoro Crater Conservation Area, more than 70 percent of visits to the country's protected areas are concentrated in Ngorongoro Crater, Serengeti, Tarangire, and Lake Manyara National Parks (MNRT statistics).

Analysis by the World Bank (2015a) identified tourism's potential to generate "additional jobs by developing products in beach, adventure, conference, and cultural-heritage tourism, and broaden its appeal to tourists by diversifying beyond the current low-volume, high-value strategy that is so heavily weighted toward the wildlife-based northern circuit." The study concluded that the tourism sector is "hobbled by outdated policies, an unclear vision, and a disabling business environment," and thus, "Tanzania does not benefit fully from the full range of opportunities that the tourism sector offers."

This chapter analyzes the issues highlighted by recent reports produced by the World Bank and other development partners. It examines Tanzania's current competitiveness through the lens of a typical tourism value chain and extensive interviews with private sector tourism associations, investors, and operators. The next sections highlight key areas where reforms could support Tanzania's ability to sustain existing tourism growth and expand into new areas and products. Four specific areas for actions have been identified: (1) improving the tourism policy and legal and regulatory environment for public sector governance and business operations; (2) human resource development in both the public and private sectors; (3) access to finance, especially for small and medium enterprises (SMEs); and (4) access to land for new tourism investment and security of tenure in protected areas.

Tourism Growth Trends, Market Segments, and Sector Assets

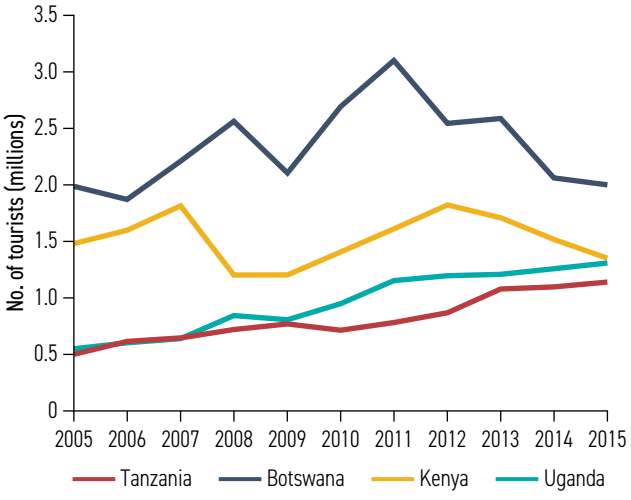
Growth Trends

In just a decade, Tanzania's tourism numbers have more than doubled, from about 500,000 in 2005 to over 1.2 million in 2015 (figure 7.1). Growth in numbers has been steady and less volatile than competitor destinations (such as Kenya or Botswana). Although Tanzania underperforms its competitors in terms of tourist volume, it is doing better in terms of value per tourist—demonstrating that Tanzanian companies are able to charge a premium and the prevailing low-volume, high-value tourism policy is effective. The flipside, however, is that it has constrained the growth and diversification of the country's tourism products and operators beyond the higher-premium offers; the policy and existing legislation actually raised barriers to entry for smaller operators, in effect, tethering growth of the products and operators in the northern circuit.

Market Segments and Sector Assets

Most of Tanzania's tourism growth has been driven by the northern circuit's world-class natural and wildlife assets and Zanzibar's beaches and resorts. There are growing trends towards cultural, marine, and adventure (especially bicycling and trekking) tourism. However, wildlife viewing remains the country's main attraction, with more than 44 percent of its land area comprised of game reserves and national parks. There are 16 national parks, 29 game reserves, and 40 controlled conserva-

FIGURE 7.1: International Arrivals to Tanzania, Kenya, Uganda, and Botswana, 2005–15

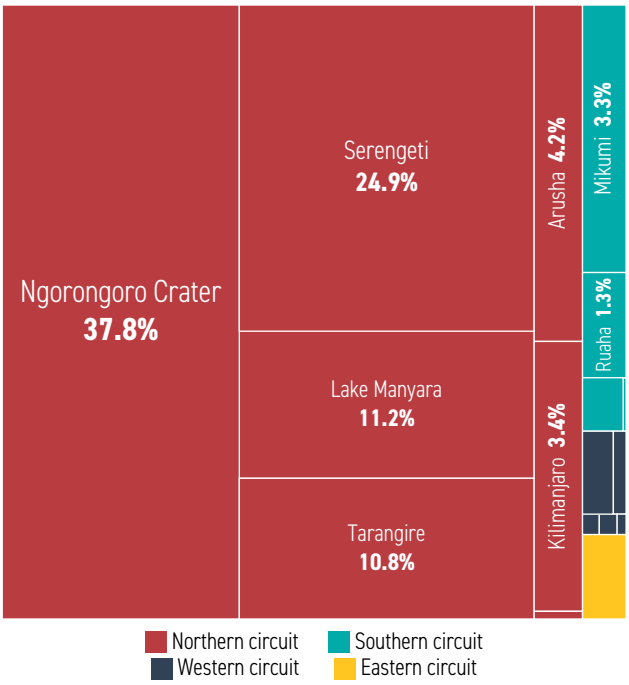


Source: Derived from United Nations World Tourism Organization.

tion areas and marine parks that constitute the potential nature-based product offer. Although Ngorongoro Crater's area is less than 1 percent of the Serengeti's, it gets more visitors. Figure 7.2 shows this skewed tourist visitation in Tanzania.

Among the 91 members of the Hotels Association of Tanzania (HAT), which include some of the most established operators in the country, most are concentrated in the north. HAT members with properties in the protected areas have 220 establishments (5,650 rooms and 10,543 beds). Among these establishments, 66 percent are concentrated in northern destinations, which, as figure 7.2 shows, attract over 90 percent of all visits to wildlife areas. However, HAT members are increasingly looking at southern destinations for opportunities. They now have 75 facilities (34 percent of the total) with 1,081 rooms (24 percent) and 2,236 beds (27 percent) in the protected areas, which receive less than 7 percent of all visits to wildlife areas. Overall occupancy rates in southern Tanzania are significantly lower than the north. Table 7.1 shows that the northern destination regions (Arusha and Kilimanjaro) account for the second-highest concentration of accommodations, rooms, beds, and employees after Dar es Salaam: 17 percent of establishments, 20 percent of rooms, 24 percent of beds and employees. Dar es Salaam accounts for 24 percent, 34 percent, and 32 percent, respectively (Tanzania Tourism Statistical Bulletin 2014).

FIGURE 7.2: Total Visitors to Protected Areas, 2014



Source: Derived from the Tanzanian Ministry of Natural Resources and Tourism.
Note: Others not shown on the figure - northern circuit: Mokmazi = 1.1%; southern circuit: Udzungwa Mountains = 0.6%; Kitulo = 0.05%; western circuit: Saanane = 0.7%; Katavi = 0.3%; Gombe = 0.1%; Mahale Mountains = 0.1%; Rubondo Island = 0.05%; eastern circuit: Saadani = 1.1%.

This imbalance is assessed in a strategy commissioned by the U.S. Agency for International Development (USAID) and the government of Tanzania.[4] The strategy aims to assist with the potential for further development of southern Tanzania's tourism circuits and products. The World Bank is assisting through a project that also focuses on southern Tanzania, with an emphasis on the development and conservation of nature-based tourism, enhanced local economic benefits, and improved landscape management.[5]

Further, security of tenure in protected areas, infrastructure within and around tourist attractions, more frequent air access, availability of local labor, and viable tourist products, have been defined by the private sector as the binding constraints to further development in the south.[6]

Cultural tourism experiences are becoming more popular as add-ons to safari visits. Over 700 tour operators in Tanzania offer cultural-tourism activities. The Tanzania Cultural Tourism Program (TCTP) has helped create over 42 "cultural tourism enterprises" (CTEs) in communities near Arusha, Dodoma, Kilimanjaro, Lindi, Mara, Manyara, Mbeya, Morogoro, and Tanga. They are supported by the Tanzania Tourist Board (TTB), the Tanzanian Ministry of Natural Resources and Tourism (MNRT), the United Nations World Tourism Organization (UNWTO), the Tanzania Private Sector Foundation-Cluster Competitiveness Program, the Food and Agricultural Organization of the United Nations, and the Centre for Development of Enterprises. With their support, the CTEs offer opportunities such as local life experiences, traditional dances and ceremonies, sampling of local cuisine, home-stays, handicrafts, community development initiatives, indigenous knowledge, historical heritage, nature walks, and local folklore.7 All of these experiences are becoming important links in the country's tourism value chain, thus offering expanded opportunities for more local microenterprise, jobs, and incomes.

As these initiatives progress, especially for expanding tourism in the southern region, it will be critical to define

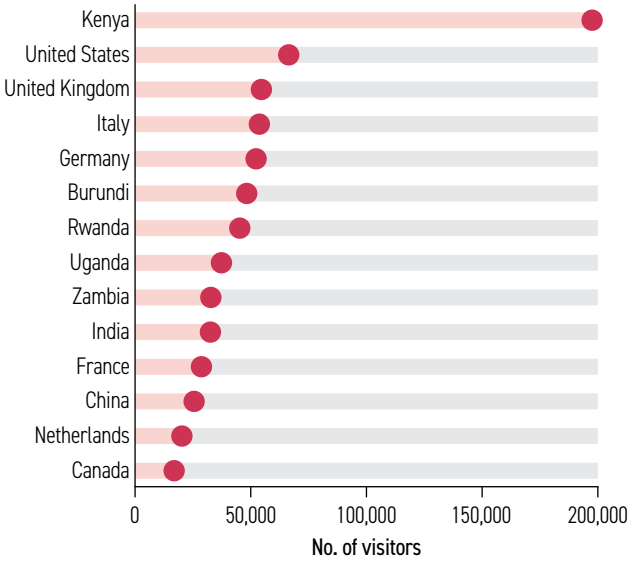
TABLE 7.1: Number of Tourist Standard Accommodation Establishments around Tanzania, 2013

Region	No. of establishments	No. of rooms	No. of beds	No. of employees
Arusha	127	3,394	5,188	3,513
Dar es Salaam	291	8,758	10,231	6,470
Kilimanjaro	79	1,766	2,711	1,357
Tanga	80	1,061	1,403	848
Mwanza	54	1,490	1,579	1,133
Mara	8	123	142	45
Morogoro	50	1,107	1,183	1,051
Pwani	28	617	495	485
Lindi	15	161	219	161
Mtwara	38	493	544	366
Iringa	28	591	805	418
Manyara	63	1,152	1,270	699
Mbeya	82	1,442	2,760	1,905
Tabora	49	581	585	274
Singida	68	796	832	328
Dodoma	140	2,138	2,185	1,066
Njombe	10	1	127	71
Total	**1,210**	**25,793**	**32,259**	**20,190**

Source: Derived from Tanzania Tourism Statistical Bulletin.

market segments and test assumptions that these offers will appeal to the country's main generating markets (see figure 7.3). Among these markets, the world's highest spenders (from largest) are China, the United States, Germany, the United Kingdom, France, Canada, Italy, and the Netherlands.[8] The United States and the traditional markets of Western Europe are by far the most dominant consumers of the Tanzanian tourism experience, and these, along with the fast-growing Chinese market, should be the focus of market research and promotion activities.

FIGURE 7.3: Origin of International Visitors, 2015



Source: Derived from United Nations World Tourism Organization.
Note: The data records the total number of nonresident visitors by nationality, which includes nontourists. Tourists account for 77 percent of all international visitors to Tanzania.

Tourism Policy and Institutional Framework

Tanzania's most recent National Tourism Policy is nearly 20 years old and dates from September 1999. Overall, the policy was a sound document that outlined several economic, social, environmental, and cultural objectives, as well as multiple specific policy strategies, all of which sought to ensure sustainability and maximum benefits for the country and its citizens. The strategies proposed for the core areas in the policy were all logical actions, however, they lacked implementation plans, appropriate resources, and institutional capacities to carry them out.

Overall responsibility for the tourism policy and its implementation in Tanzania lies with the MNRT on the mainland and the Ministry of Tourism in Zanzibar. Despite the sound rationale and best practice of all the tourism and related areas of responsibility (wildlife, antiquities, forests, national parks, and so on) being consolidated under the umbrella of the MNRT, there is significant fragmentation and overlap in mandates and responsibility within the different functional divisions

and organizations under the ministry, and between the MNRT and its bodies and other ministries.

The MNRT is organized in four major operating divisions:

1. **Tourism Division:** The division is responsible for sector policy and planning, manpower training, classification and licensing of hotels and tourism agencies, and supervises the Hotel and Tourism Training Institute and the TTB. Important sections for investors within the division are the Tourism Training Unit, the Tourism Agency Licensing Authority (TALA), and the Hotel Board (the latter two being responsible for licensing and controlling travel agencies, tour operators, and accommodation facilities).
2. **Wildlife Division:** The division is responsible for all wildlife management outside designated parks and conservation areas and issues regarding hunting concessions and licenses. Management is split between the department and six parastatals:
   - Tanzania National Parks
   - Ngorongoro Conservation Area Authority
   - College of African Wildlife Management, Mweka
   - Serengeti Wildlife Research Institute: covers research for the whole country
   - Tanzania Wildlife Company
   - Tanzania Wildlife Authority: responsible for managing wildlife outside national parks
3. **Tanzania Forest Service (TFS):** The division was formed out of the Forest and Beekeeping Division (FBD) within the MNRT. It has taken over the responsibilities of the FBD for the management of national forest reserves (natural and plantations), bee reserves, and forest and bee resources on general lands. The FBD is responsible for the development of forest policy, laws, and regulations.
4. **Antiquities Division:** The division is responsible for managing the country's cultural heritage and patrimony.

Across all departments, the MNRT lacks the resources to effectively regulate the sector, manage assets, and implement development strategies. The different divisions operate as silos and are protective of their mandates to the extent that policies are often conflicting, particularly with respect to private sector operations in and around wildlife areas. For example, terms and conditions in concession contracts and fees are inconsistently applied.

Development Challenges

Policies and Governance

The multiple tourism development challenges faced by Tanzania are undermined by the inconsistent implementation of existing policies and the absence of a common all-of-government vision and direction for tourism development, which is further compounded by an unclear legal and regulatory environment, where approvals for new investments (or ongoing business operations) take too long and appear to be discretionary. Overall, the main issues could be summarized as:

- The general lack of capacity, motivation, and direction within each division and agency due in part to the constraints of the public service regulations;
- Each division within the MNRT takes an independent-silo approach—overlooking the critical cooperative and synergistic demands of the sector;
- Obvious inefficiency and duplication of governance, administration, and operational expenses;
- The lack of effective consultation, advisory, and engagement mechanisms with the private sector;
- The devolution of powers to regional governments without proper guidelines, protocols, or mechanisms for coordination;
- The TALA enterprise licensing and registration scheme is focused more on fees and tax collection than standards and quality assurance—which is its most important purpose;
- Coastal areas with tourism development potential are under the jurisdiction of at least four overlapping government agencies and ministries, making decisions about land use and approvals for investment very difficult to reach;
- Key teams are missing qualified professionals, especially on project management, destination planning, engineering, legal, and digital marketing;
- Competent and qualified staff cannot be retained and motivated because of public service salary constraints; and
- Fees collected from the tourism industry, such as the training levy, are not channeled appropriately to their decreed purposes.

For Tanzania to fully realize its tourism potential, these are the critical binding constraints that it needs to address: a clear tourism vision, a new policy, a strategic action plan, updated laws and regulations, and compe-

tent and resourced institutions to implement the action plan. Perhaps, most of all, the tourism sector requires a strong political economy and consistent inter-ministerial dialogue—a process that requires leadership from the top level of the government.

Public-Private Dialogue

In 2014, a Tourism Task Force (TTF) was initiated through the Tanzania National Business Council (TNBC). This important public-private dialogue initiative has resulted in a series of concrete recommendations to address the growth and inclusion challenges of the tourism sector in the country. They were presented to the Tanzanian government through the Tourism Confederation of Tanzania (TCT). The TCT is an umbrella organization that represents the private business sector (subsector associations) involved in the travel and tourism industry in the country; it is the unified voice of the industry. Members include the HAT, the Intra-African Travel and Tourism Association, Tanzania Air Operators Association, the Tanzania Association of Cultural Tourism (TACTO), the Tanzania Association of Tour Operators, the Tanzania Hunting Operators Association, the Tanzania Professional Hunters Association, the Tanzania Society of Travel Agents, the Tanzania Tour Guides Association, the Tourism Professional Hospitality Association of Tanzania, the Zanzibar Association of Tourism Investors, and the Zanzibar Association of Tour Operators.

While still existing on paper, the TTF and the TNBC have been dormant since the change of government in May 2015. These dialogue and advocacy platforms should be revived and formalized through memorandum of understandings (MOUs) with the respective local and national government bodies.

General Agreement on Trade in Services

Through an international trade lens, the General Agreement on Trade in Services (GATS) offers a framework for examining the challenges and opportunities for increasing and sustaining Tanzania's tourism competitiveness. Under the GATS, 125 World Trade Organization-member countries committed to liberalize tourism services as a means of trade and thus economic expansion and development (although there has been no further action by any member since 2004).[9] The GATS framework focuses on two key areas of liberalization: Improving "market access" and extending "national treatment" to foreign services and service suppliers, thus offering foreign suppliers the same treatment as nationals. Countries have committed to liberalize services in general, and tourism, specifically according to market access and national treatment through four "modes of supply" for three tourism subsectors (hotels and restaurants, travel agencies and tour operators services, and tourist guides services) and an open-ended "other" category. Box 7.1 shows the tourism service commitments for Tanzania and regional competitors.

Tanzania made three commitments for the tourism subsectors in terms of market access or national treatment:

1. Partial liberalization for only four-star hotels and above for market access.
2. Commercial presence: Acquisitions of domestic firms and mergers by foreigners are subject to approval by Cabinet. The acquisition of land by foreigners or domestic companies, which are deemed foreign because of foreign equity ownership, is subject to the same approval.
3. Presence of natural persons: Unbound, except for measures concerning senior managers who possess skills unavailable in Tanzania.

Market access for four-star hotels (and above) is symbolically positive, suggesting that higher-end investments are welcomed, but there's been no investments of this kind in the past decade. Foreign acquisitions of domestic firms and land are subject to approval regardless of the commitment on commercial presence. And the presence of natural persons, thus international movement of labor, is most relevant for the industry at the management level, but that is not included. Commitments on tourism services do not necessarily reflect liberalization leading to increased arrivals and/or receipts. Table 7.2 lists the GATS tourism commitments for Tanzania and their regional comparators in the East African Community (EAC) and the Southern African Development Community (SADC).

Regional Integration

Opportunities

Regional integration aims to increase trade and investment and promote competitiveness for all member countries of the EAC. Streamlining policies

BOX 7.1: Understanding GATS Terminology

A specific commitment in a services schedule is an undertaking to provide market access, and national treatment for the service activity in question on the terms and conditions specified in the schedule. When making a commitment a government, therefore, binds the specified level of market access and national treatment, and undertakes not to impose any new measures that would restrict entry into the market or the operation of the service. In many cases, the binding listed the existing restrictions, or even listed additional restrictions to provide for policy space. Consequently, commitments cannot be used to infer liberalization.

The four "modes of supply" are:

MODE 1: Cross-border trade. This is the delivery of a service from the territory of one country to the territory of another country. In tourism, an example would be a company such as the United Kingdom-based Safarihub selling travel packages online for delivery in Tanzania.

MODE 2: Consumption abroad. This covers the supply of a service of one country to the service consumer of any other country. Mode 2 is the actual consumption of the service purchased and delivered in mode 1, thus wherein a person travels to a foreign country to consume the tourist services. In other words, consumption in Tanzania of Safarihub's package would be considered consumption abroad.

MODE 3: Commercial presence. This covers services provided by a supplier from one country in the territory of another country. An example is the establishment abroad of a branch of a hotel chain or tour operator, thus the &Beyond Ngorongoro Crater Lodge, which is owned by the South Africa-based &Beyond company.

MODE 4: Presence of natural persons. This covers services provided by a supplier from one country through the presence of natural persons in the territory of another country. An example would be the &Beyond Ngorongoro Crater Lodge hiring a foreign manager. Cross-border movement of labor relates to this mode.

Source: Derived from the WTO Trade in Services website https://www.wto.org/english/tratop_e/serv_e/serv_e.htm.
Notes: GATS = General Agreement on Trade in Services.

TABLE 7.2: EAC and SADC: GATS Tourism Commitments

Country	Hotels and restaurants	Travel agencies and tour operators	Travel guides	Other
EAC countries				
Burundi	Extensive	Extensive	Extensive	Extensive
Kenya	Extensive	Extensive	Extensive	No commitments
Rwanda	Extensive	No commitments	No commitments	No commitments
Tanzania	Partial	No commitments	No commitments	No commitments
Uganda	Partial	Partial	No commitments	No commitments
Competing SADC countries				
Botswana	Partial	Partial	No commitments	No commitments
Mozambique	No commitments	No commitments	No commitments	No commitments
Mauritius	Partial	Partial	Partial	Partial
Namibia	Full	Full	No commitments	No commitments
South Africa	Partial	Extensive	Partial	No commitments
Zambia	Extensive	Extensive	Extensive	Extensive
Zimbabwe	Extensive	Partial	Partial	No commitments

Source: Derived from World Trade Organization.
Notes: EAC = East African Community; SADC = Southern African Development Community; and GATS = General Agreement on Trade in Services.

and regulations can lead to increased coordination and pooling of resources especially for the following tourism-related improvements: improved road and air access, fewer visa restrictions, increased cross-border movement of people and goods, more harmonization of national policies and standards, more coordinated trade and investment promotion, as well as on safety and security—all of which bodes well for increasing the volume and benefits of EAC regional tourism.

Potential improvements from regional integration could increase intra-regional travel. This is important because, as of 2014, over 40 percent of Tanzania's international arrivals were from East Africa (see table 7.3).

In 2014, as table 7.4 shows, EAC countries received 4.7 million international arrivals and earned US$3.9 billion. Among the EAC countries, Tanzania accounted for nearly half of all tourism receipts and a quarter of all arrivals.

TABLE 7.3: International Arrivals to Tanzania from Eastern and Southern Africa, 2009–14

Country or region	2009	2010	2011	2012	2013	2014	Growth, 2009–14 (%)
Eastern Africa	304,856	334,986	354,635	411,065	456,552	458,695	50.5
Kenya	177,929	193,474	171,473	183,269	193,078	188,214	5.8
Burundi	14,581	17,440	34,341	43,194	34,873	51,553	253.0
Rwanda	14,331	14,754	17,676	25,199	46,637	50,038	250.0
Uganda	32,826	31,869	32,634	36,583	39,488	36,420	11.0

Source: Derived from United Nations World Tourism Organization 2016 Yearbook of Tourism Statistics.

As table 7.4 shows, intra-regional travel is already substantial. The no-visa requirement for EAC citizens and uni-visa for non-EAC citizens visiting EAC countries are helping to increase the flow of tourists. Although most of these arrivals were for visiting family and friends, Kenya, Uganda, and Rwanda are preparing strategies to target more leisure visitors from EAC countries; tapping the EAC market is a development that Tanzania could also benefit from actively pursuing. EAC regional integration is also relevant for tourism development because policy coordination in areas such as safety and security standards and programs, adoption of international hotel classification standards, and joint marketing of East African tourism would enable countries to pool their financial resources and expertise for greater benefits and thus increased tourism access, demand, and competitiveness.

Strategic Interventions

Strengthening coordination on regional tourism policy and marketing was addressed in Article 115 of the EAC Treaty, which requires member states to develop a regional strategy for tourism promotion, with the development objective of "ensuring equitable distribution of benefits" from sustainable tourism and wildlife resources. Yet, no EAC state has developed a specific regional strategy (individually or as a group). Nevertheless, the treaty identified several strategic interventions for action, which could provide a foundation for the EAC-member state regional strategies. Although all of the proposed interventions would certainly be a boost to tourism, a feasible starting point are the following top-priority interventions from the treaty:

- Market and promote East Africa as a single tourist destination, which, since 2006, has been partially occurring via the East African Tourism and Wildlife Coordination Agency (EATWCA) at international tourism fairs.
- Operationalize the EATWCA, which was created as an implementing agency for EAC tourism activities, including the implementation of the EAC Tourism and Wildlife Marketing Plan and Strategy of 2007.

In addition to these priority strategic interventions, a World Bank (2016a) study recommends increasing EAC coordination for improving and sharing statistics and research. It recommended several other interventions,

TABLE 7.4: Total Tourist Arrivals and Receipts in EAC Countries, 2014

		International tourist arrivals		Total international tourism receipts		Market share of SSA (%)	
Destinations	Receipts per visitor (US$)	Total no. (million)	Change, FY2015 (%)	Total (US$, billion)	Change, FY2015 (%)	Arrivals	Receipts
World	1,041	1,200	4.4	1,250	–	–	–
Sub-Saharan Africa	751	34.2	-0.6	25.7	–	2.8 (of world)	2.1 (of world)
EAC	–	4.7	–	3.9	–	13.7 (of SSA)	15 (of SSA)
Tanzania	1,770	1.13	4.7	2	16.5	3.3	7.80
Kenya	643	1.26	-12 (2013)	0.811	-13.7	3.7	3.16
Uganda	628	1.26	4.9	0.792	-40.7	3.7	3.10
Rwanda	329	0.926	7.2	0.305	3.8	2.7	1.20
Burundi (2010)	28	0.142	–	0.4	79.0 (2013/12)	0.4	0.02

Source: Derived from United Nations World Tourism Organization.
Notes: EAC = East African Community; SSA = Sub-Saharan Africa.

but improved research would provide the data needed to achieve other interventions such as improved crisis management and the creation of multi-country itineraries based on market demand and interest.

The EATWCA could both stimulate and benefit from increased statistics and research coordination. It was created as an implementing agency for EAC tourism activities, and, logically, an expanded entity should be the host site for the research portal mentioned earlier. Armed with the best possible data and research from each country, the agency would also be better positioned to achieve the other interventions, notably, joint marketing and the development of regional initiatives, especially related to routes and circuits, which would generate more operator and investor confidence and interest.

Increasing Economic Links

Tanzania's Tourism Value Chain

For Tanzania to become more competitive and provide expanded benefits from tourism, the multiple links across the tourism value chain (figure 7.4) should be strengthened.

Figure 7.5 is an illustrative example of the tourism value chain in Tanzania, it is based on estimates from the chief financial officer of a Tanzanian company that owns and operates multiple camping sites and lodges in the country, along with full food and beverage services and tour operations.

The value chain analysis in figure 7.5 highlights the following:

- Only US$5,226.80 is relevant to Tanzania.
- The consumer price of US$8,000 for the eight-day package only shows what the consumer was willing to pay for a safari experience in Tanzania, such as US$1,000 per day.
- The US$2,773.20 is "not a leakage" to the economy of Tanzania. These are fees retained by a company operating in another country.
- These are standard commission fees paid to retail and wholesale buyers and sellers.

The only time it can be considered a "partial" leakage is if there was transfer pricing between vertically-integrated companies that sell in the source market and operate safaris and accommodation in Tanzania, but even then, the companies operating in the source market have costs and pay taxes locally.

For Tanzania to get a share of the US$2,773.20, consumers would need to book directly with in-country agents and/or suppliers, such as the lodge and local tour operators. This would require a stronger internet presence and consumer confidence in Tanzanian service providers. The current business model for most tourism businesses in Tanzania is to be represented and marketed abroad through agents and brands in the source markets. Consumer protection laws in source market countries would have to be enforceable in Tanzania, including through the insurance and reinsurance markets.

The costs of the eight-day safari to the operator in Tanzania are as follows:

- Total US$633.84 per day
  - US$200 per day in food and lodging (31.5 percent of total)
    - US$123.5 per day transport (19.48 percent of total)
    - US$133 per day company overhead and local office operating costs (20.98 percent of total)
    - US$65.75 per day in salaries (10.1 percent of total)
    - US$73.26 in government taxes, fees, and levies (11.56 percent of total) (This does not include elements of overheads, salaries, and lodging fees that might also include taxes and fees to the government.)
- The same company operates safaris in Kenya and Uganda and they indicated that on average, Tanzanian safaris are 30–35 percent more expensive to operate. The reasons cited were:
  - Longer distances and high fuel costs
  - Unreliable and expensive electricity
  - Higher labor costs due in part to lower productivity
  - Higher resupply and repair and maintenance costs in lodges

Although input costs are proportionately high in Tanzania, taxes and levies for operating tourism companies are lower compared to other countries in the region. This brief value chain analysis has not been sufficient to explain why input costs are high and further analysis is recommended.

FIGURE 7.4: Typical Tourism Value Chain

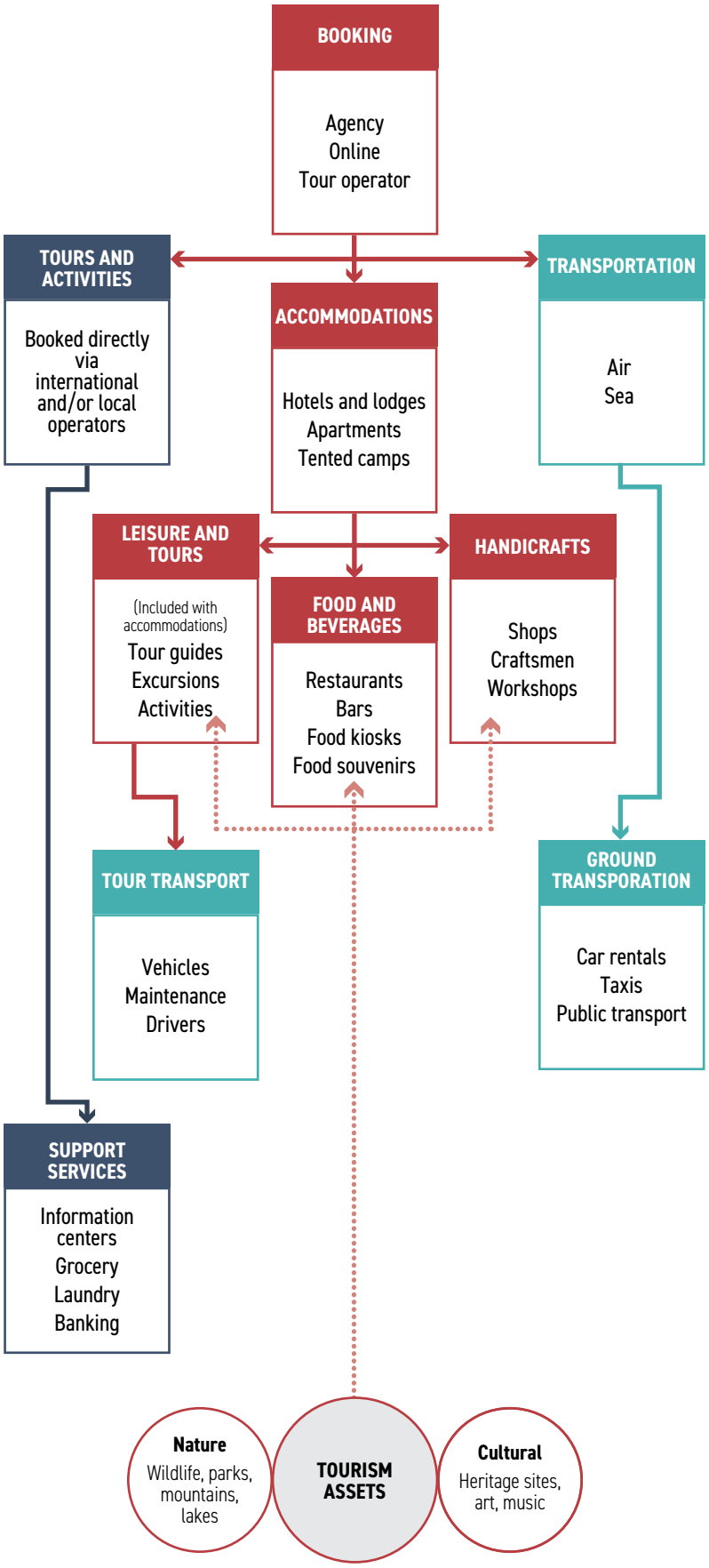
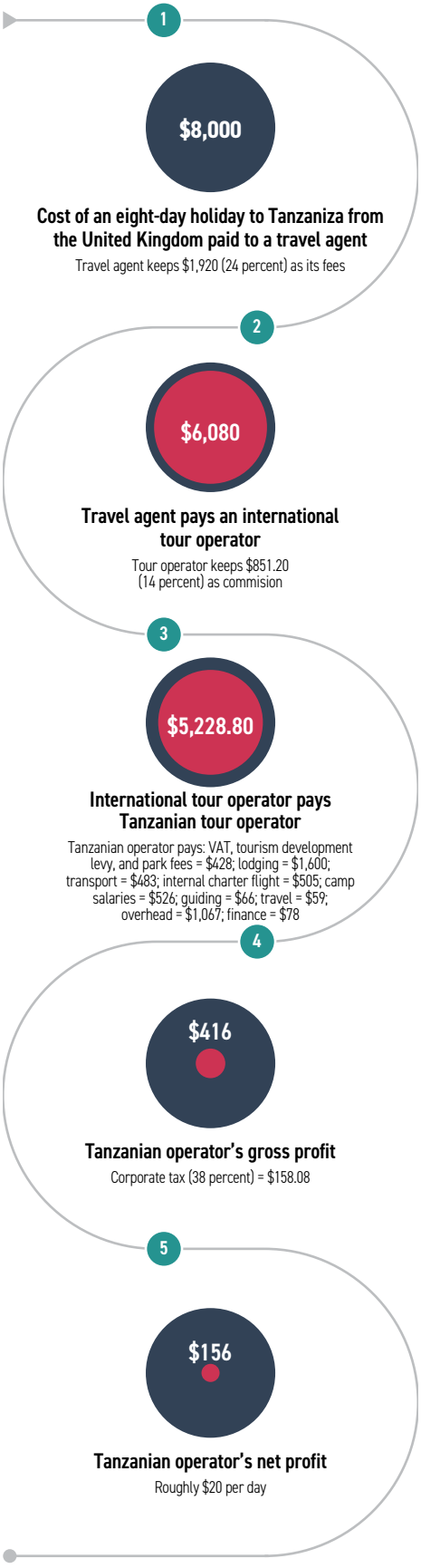


FIGURE 7.5: Illustrative Operator Value Chain for Tanzania



Integrate with Local Communities

Tourism can be an important source of local employment, income generation, and overall economic growth, as well as essential for conservation of natural and cultural heritage. Tourism-related assets (particularly wildlife) are typically not valued by communities as assets and are often subject to poaching and encroachment.[10] Protected areas are sometimes regarded by the communities as restricting grazing and farming and thus restricting their livelihoods.

When communities are supplying goods, services, and activities for tourism (for example, food, beverages, handicrafts, guiding, cultural demonstrations, lodging services, and so on), the influx of tourists could benefit them. This influx could also stimulate a new (or expanded) export market for some of the goods, especially food and beverage. Numerous efforts are underway to help develop local communities to tap the tourism value chains for their benefit.

The Tanzania Cultural Tourism Program facilitates increased cultural experiences in multiple communities across the country for both tour and lodging operators and independent travelers. They helped establish the CTEs throughout the country, which provide local income generating opportunities such as tour guides, CTE coordinators, traditional dance and music performances, storytelling, accommodations, and direct sale of locally produced goods such as handicrafts, food, and beverages. The CTEs have the potential to scale-up and expand their service offerings, increasing visitor engagement with communities and local purchases by operators.

Increasing Local Purchases

In December 2015, the United Nations Industrial Development Organization and the International Trade Centre, in collaboration with the Tanzanian Ministry of Industry and Trade, organized a workshop on "Strengthening Tourism Market Linkages for Tanzanian Producers and Processors"; which was based on a United Nations Inter-Agency Cluster on Trade and Productive Capacity project.[11] Although "only 60 percent of produce sold to the tourism industry is being sourced locally," the workshop noted that in Kenya and South Africa, more than 90 percent of produce is locally sourced.[12] And yet, 22 percent of all tourism spending in Tanzania is for food and beverages.[13] The latter is substantial, but with only 60 percent of all produce sourced locally, there is also opportunity for growth.

Increased sales to the tourism industry are constrained by the following factors: [14]

1. Lack of direct communication channels due to the absence of standardization measurements, which makes it difficult to assure quality control of products;
2. Lack of a legal framework to enforce compliance with contracts;
3. High informality in the sector, which results in insecurity for farmers and for companies entering into contract-farming; and
4. Inefficiencies in the supply chain, as a result of lack of knowledge on integrated pest management, market information, farmers not being organized, poor irrigation infrastructure (limits production of off-season crops), weak management systems, and limited availability of organic pesticides.

Additional challenges cited by tourism-industry stakeholders include:

- Lack of consistent and dependable product quality,
- Unreliable delivery times,
- Inferior or inadequate product packaging,
- Prices are sometimes lower and delivery more predictable for imported items, and/equipment—such as laundry and kitchen appliances—have to be procured internationally.

International visitors expect hotels, tour operators, and restaurants to provide services, facilities, and food and beverages that meet international standards. With visitors, able to instantly broadcast negative reviews to hundreds—if not thousands—of people over TripAdvisor, Facebook, Twitter, or other social media channels, upholding these standards is assumed. However, meeting these standards can be a challenge for local producers.

Nevertheless, there are companies and producers who are increasingly meeting these standards and selling to the industry. These include:

- **Natureripe Kilimanjaro**: Mango juice and jam, cashews, and honey.

- **Masasi Food Industries Company**: Tomato ketchup, mango juice, mango slice pickle, mixed fruit jam, pineapple jam, and bottled water.
- **Darsh Industries**: Processed fruit products, including tomatoes; now selling to 10 hotels.

Opportunities for Increasing Visitor Engagement with Local Communities

Cultural Tourism in Tanzania

Cultural tourism is one of the fastest growing tourism segments worldwide, which is yet to realize its full potential for Tanzania. Cultural tourism offers one of the few economic opportunities for remote communities to reduce poverty, create employment, and stimulate regional development (Silberberg 1995). It also offers the opportunity for rural areas to showcase their cultural traditions (such as festivals, rituals), values, and lifestyle.

The CTEs throughout Tanzania have provided an excellent platform for this market segment to grow. The Cultural Tourism Program estimates that at least 1,500 people are employed in cultural tourism ventures as coordinators, tour guides, food providers, dancers, and handicrafts producers. Cultural tourism also includes home-stays and demonstrations of handicrafts production and herbal medicine rituals. Local communities benefit, not only from employment and income generation, but also through the revenue generated for their Village Development Funds (VDFs), which support community development projects. Although the majority of CTEs are concentrated in the northern destinations, they offer useful models for developing and maintaining cultural tourism offers, as well as managing the VDFs for the entire country. An estimated 70,000 annual visitors participate in cultural tourism activities in the northern part of the Tanzania. According to a baseline survey conducted by the TTB and the TCTP, in 2014, over 712 licensed tour operators in Tanzania include cultural-tourism activities in their itineraries.[15]

Tanzania Association for Cultural Tourism Organizers

The Arusha-based Tanzania Association for Cultural Tourism Organizers (TACTO) is an independent association that works with a range of cultural tourism providers. It empowers disadvantaged communities to transform their lives through the development of sustainable micro-enterprises that offer cultural tourism products to tourists.

A Best Practice Example for Cultural Tourism in Tanzania: Mto wa Mbu CTE

The Mto wa Mbu CTE is between Arusha and Ngorongoro Conservation Area, ideally situated as a stop for visitors on their way to the parks. It employs 50 people including local guides, who lead visitors on multiple activities: climbing Balaa Hill; tours of a Maasai Boma, market, village, and farm; tours of the Miwaleni waterfall and lake; biking to Lake Manyara; cultural dance performance; local food production; and local brewing. Traditional lunches are prepared and served by local women in their homes. Local farmers sell their products including bananas and other fruits to the tourists and accommodation establishments. According to the ITC (2015), 50 percent of the food sourced in Kilimanjaro and the northern safari circuit is produced locally, accounting for around US$5 million per year for the local farmers.

According to Elirehema Maturo, TCTP coordinator for the TTB-Arusha Branch, the Mto wa Mbu CTE earns up to US$0.3 million per year. It contributes 20 percent of its annual revenue to surrounding villages through the VDFs, which supports community projects such as school construction, health centers, and clean water projects. The CTE also supports the women who make lunches for the visitors, bicycle hire groups, guides, and souvenir shop owners. In addition, the TCTP provides grants to around 300 farmers within the Mto Wa Mbu area to enable them to preserve their rice fields. The TCTP has also set up a microfinance scheme for small vendors to borrow from US$30 up to US$200. Lastly, the TCTP has supported the establishment of eight "roots-and-shoots" environmental clubs in Mto Wa Mbu, for 2,100 youths in the area villages.

Similar CTEs and cultural tourism programs have been established in the areas of Longido, Mulala, and Tengeru. Some of the revenue generated supports school construction, as well as a dispensary (Mulala) and orphanage (Tengeru).

BOX 7.2: Nomad Tanzania

Nomad Tanzania, one of the country's major tour operators, insists on maximum support of local communities through their day-to-day operations, as well as the Nomad Trust, which channels guest contributions to community and conservation support efforts. Examples of their community support activities include:

- **Microfinance loans** for their local guides to buy their own safari vehicles. They then hire the guides and their cars, allowing them to earn double.
- **Internal staff development and promotion** so that all have the opportunity to realize their own ambitions within the company. Some of their guides, for example, started as waiters or room stewards.
- **Rigorous guide training** for old and new guides to advance their knowledge of wildlife, bush craft, photography, and basic hospitality skills to make them amongst the best in the African safari industry.
- **Concession fees** are paid to Nduara Loliondo, a Maasai community area that serves as an important buffer zone bordering the Serengeti National Park to ensure that wildlife can move unhindered through the area. This helps create an incentive to look after the game that passes through.
- **Eco-loos**: In some of their especially remote locales, water bowsers must travel 80 kilometers each day to collect enough water for the guests to take a shower. To reduce the burden on sensitive habitats, they have adopted eco-toilets that use a minimum amount of water and environmentally sound digesters.
- **Home-grown vegetables**: In the remote Mahale Mountains, the locale is a 24-hour ferry journey from the nearest town (or a four-hour flight), where most of their camp food comes from. Through the Nomad Trust, they have set up a near-by community vegetable garden, which now supplies most of their vegetables, and provides valuable income for the local community.
- **Support for local organizations and businesses**: Most of the furniture in their Lamai locale, for example, was made by a company that has been training former street kids to become expert carpenters.

In addition to Nomad Tanzania, other tour operators and organizations are conducting similar efforts throughout the country. Tanzanian operator, Classic Tours & Safaris, and international operators such as Micato, Overseas Adventure Travel, and Abercrombie & Kent also include community support, as well as community visits in their programs.

Small-Scale Tourism and Gender Considerations

Small-Scale Tourism

According to a survey, apart from a few large hotels and tour operators, with more multiple accommodation facilities, most operators in Tanzania are small scale (MITI and FSDT 2012). At the time of the survey, in September 2010, there were an estimated 3.1 million businesses owned by 2.7 million people, with 54 percent in rural areas and owned by women. Services, which would include tourism, comprised 30 percent of all the businesses. The survey found the following challenges for small-scale businesses:

- Only 43 percent keep records (mostly basic and patchy). Only 4 percent are formally registered (Tanzania Business Registry) and 5 percent have Tax Identification Numbers.
- 68 percent are single-employee businesses (including the owner).
- Education of owners: 74 percent completed primary education and only 7 percent have secondary education or higher.
- Business running skills: 72 percent had no training and only 21 percent and 7 percent had business and technical training respectively.
- Access to finance: Only 20 percent have formal access to finance and 69 percent are excluded.
- 91 percent of owners did not take a loan to start their businesses.
- Only 0.4 percent have insurance.
- On reasons to run business: 72 percent said they did it for survival reasons whereas 20 percent run their business part time.

Barriers to accessing finance include financial illiteracy, lack of collateral, lack of record keeping, informality, banks take a long time to process the loan, strict regulations, and lack of proper products for small businesses.[16]

Among these challenges, addressing the lack of business skills is a top priority because it would enable the businesses to operate more effectively and professionally, and thus become more knowledgeable of and eligible for finance. Training and capacity building are needed for record-keeping, business operating skills, and financial planning. Increasing local purchases and community engagement, as mentioned previously, could help spread the benefits of tourism—but not if 57 percent of the businesses do not keep records, only 5 percent pay taxes, and only 0.4 percent have insurance.

The lack of the latter (especially) would disqualify any prospective tour operator or transport operator from contracting with tour operators from the European Union (EU) and North America, as well as operators from other parts of the world.

Tour operators in the EU, for example, are subject to the EU Package Travel Directive, which places full liability on the operator if anything goes wrong; that operator would, therefore, want to be sure that the Tanzanian operator who is serving their clients is sufficiently insured.

Limited Number of Suppliers in Tanzania

With very few SMEs insured and operating professionally in Tanzania, it is not surprising that the MNRT reported (see table 7.5) a relatively small number of registered and licensed suppliers. Kenya, for example, has over 600 licensed tour operators (nearly double the number of Tanzania's) and over 400 luxury and four-star tented camps (more than 10 times of Tanzania's). Kenya received only 130,000 more international visitors than Tanzania (1.26 million for Tanzania and 1.13 million for Kenya), but of the total, they received nearly 300,000 Americans compared to 70,000 for Tanzania in 2013. The low numbers for Tanzania suggest that there is a potential for increasing the number of suppliers, particularly those who cater to the American market, which tends to spend more for East African trips. Further, given the much lower number of American visitors in Tanzania, this also suggests an opportunity to increase extensions from Kenya to Tanzania. Table 7.5 provides the number of registered businesses by category; none of which are large-scale, apart from perhaps the town hotels.

TABLE 7.5: Number of Registered Tourism Businesses

Business type	No. of businesses or properties
Campsites	14
Car hire	23
Air charter services	3*
Caravan	1
Cottages	2**
Handling agent	4***
Horseback riding	2
Balloon safari	2
Hunting safari organizers	39
Lodges	223
Mobile camps	6
Mountain climbing	118
Photographic safari	6
Professional hunter	128
Serviced apartment	1
Tented camp	35
Tour operators	322
Town hotels	74
Travel agents	77

Source: Tanzanian Ministry of Natural Resources and Tourism.

*There might be more, but since they have no license from the Tanzanian Ministry of Natural Resources and Tourism, they are not reflected here.

**Unclassified.

***Many might be operating illegally.

The MNRT stated that additional properties, not accounted for in table 7.5, are either unregistered and/or considered unsuitable for tourists. In addition to the registered properties, there are now more than 200 listings on Airbnb (a home-rental website), which include apartments, houses, and formal accommodations (such as lodges). These private accommodations are not yet required to register as businesses and thus pay the same taxes and fees as licensed formal accommodations. Airbnb is becoming more popular worldwide, so the tax and licensing issue, which is being raised in cities around the world, will no doubt also become an issue for Tanzania as well. Airbnb is working with municipalities to help collect taxes upon payment, a practice that may also work for Tanzania.

Further, table 7.5 does not include independent and semi-independent safari and mountain guides, porters, and cooks. The guides alone, according to Emanuel Mollel, Secretary General of the Tanzania Tour Guides Association, number as many as 6,500, while porters and cooks are 33,500. The association is attempting to create an umbrella organization of guides, cooks, and porters that would include the 800 members of the Tour Guides Association. Such an organization could be helpful for organizing training, product development, marketing, and start-up financing, as well as ensuring registration and licensing.

Registration and Fee Requirements

All tourist agents are required by the Tourist Agents Act (Licensing Regulations) of 1969 to be registered and licensed to offer tourism services in Tanzania. Tourist agents are registered and licensed based on the following classifications (see also table 7.6):

- **Tour operators**. For citizens, the operator requirements include having "suitable office premises...a

fleet of not less than five road worth[y] vehicles [that are] not more than five years old…comprehensively insured." Start-up operators are thus automatically excluded. Noncitizens must have no less than 10 new vehicles.

- **Car hire, travel agent, and mountain climbing or trekking operations**. Must be 100 percent Tanzanian owned.
- **Hunting safaris**
- **Tour guides**. Must be a Tanzanian national and "have adequate experience as reasonably required in this profession." Contrary to the nationality requirement, noncitizens are also eligible to be guides.[17]

For aspiring Tanzanian entrepreneurs who wish to launch class "A" and class "C" businesses, these fees are probably beyond their reach. The registration and licensing processes in Tanzania are more extensive, costlier, and lack transparency relative to those in Kenya and Rwanda. Through a more streamlined licensing, such as in both of the latter countries, costs could be reduced in Tanzania, thus enabling more small business growth in tourism.

Labor Mobility in the EAC

The EAC Treaty includes a "common market protocol on the free movement of labor or workers," which allows workers from any EAC country to accept employment in other EAC countries. They cannot be discriminated against based on their nationality; they can travel freely without visas between EAC-member countries' borders. According to the protocol, all five member countries committed to open up for professionals. Tanzania has not specifically liberalized for mode 4—presence of natural persons—which would facilitate cross-border movement of labor from other EAC-member countries, but it is generally open for professionals, technicians, and associate professionals. It is "unbound" on commitments, except for measures concerning senior managers who possess skills that are unavailable in Tanzania.

Tanzanian Women in Tourism

Tackling trade-related constraints and promoting export-led growth in the tourism sector can provide significant opportunities for women. In Tanzania, tourism can help poor women break the poverty cycle through formal and informal employment, entrepreneurship,

TABLE 7.6: Classification of Tourism Businesses

Applicable business types	License fees
Class "A"	
• Proprietors, owner-drivers, and self-employed drivers of passenger vehicles used in a tourist agent's business • Tour or safari operators • Safari outfitters • Motor vehicle for hire enterprises offering tour transport facilities • Big-game fishing outfitters and operators • Proprietors of safari, hunting, or sightseeing lodges and proprietors of tented, camps catering for tourists • Travel bureau or booking office, which offer tour safaris other than those of an airline, and operates international air tour and does not carry on any tourist activities in Tanzania • Professional safari photographers • Mountain climbing	• For foreign operators that are less than 50 percent Tanzanian owned = US$5,000. • For majority Tanzanian owned = US$2,000.
Class "B"	
• Professional hunters; • Persons letting-out vessels, whether manned or not; • Proprietors of enterprises offering camps and camping equipment for hire; • Professional and self-employed guides and couriers; and • Any other business of a tourist agent, not otherwise classified.	• For Tanzanian citizens = US$200. • For noncitizens = US$1,000.
Class "C"	
Tourist hotels	US$1,000
Exclusive clubs	US$2,500
Unclassified hotels	US$200
Class "D"	
Curio shops	US$200

Source: Tourist Agents Licensing Act, Amendment 3, 2011.

training, and community betterment. In addition, due to its low-entry barriers, flexible working hours, and availability of part-time arrangements, the sector offers opportunities that may be particularly suitable to the needs of women, including the possibility of balancing work and household responsibilities, and of working from home, for example, on artworks, handicrafts, and so on. A number of gender-specific constraints, however, still prevent women from fully unleashing their trade and economic potential in Tanzania's tourism sector, and from benefitting in the same way their male counterparts do—in some cases, those constraints may also contribute to perpetuating and/or reinforcing certain gender stereotypes, biases, and gaps.

Employment is arguably the single most important benefit which tourism offers to Tanzanian women. Employment can provide income, economic and social empowerment, and health benefits for women and their families throughout the country. As is the case in other sectors, however, access to tourism-related employment may be gender based, and suffer from stereotyping and sex segregation into different occupations. Even where women are the main tourism workers, they tend to be often found in menial, semi-skilled, domestic and service type occupations such as housekeeping, reception, and other services. Due to lack of unionization, these jobs usually require low skills, are low paid, and tend to have the lowest security of tenure and benefits.

In the tourism-related food industry, women are often at the bottom of the hierarchy as restaurant helpers, cooks (not chefs) and waitresses. In the travel sector, similarly, women would typically have access to seasonal, part-time, or minimum-wage employment, and be employed, for instance, as travel agents in small travel agencies. The airline industry is also an example of a segregated sector: women may dominate sales, ticketing, and flight attendant positions, yet the majority of airline chief executive officers, managers, and pilots are likely to be men. Tour guiding offers a similar picture: the profession is traditionally male dominated, and whilst the number of female guides is progressively increasing in the country, they may face discrimination and/or difficulties due to a mix of factors, including the remoteness of some tour locations (and women's subsequent inability to leave the household for long periods), the lack of trust from tour operators and sometimes tourists, or the limited availability of separated accommodation at tour camps (where female guides may be asked to share dorms with their male colleagues).

Tourism also offers significant employment opportunities to women in the informal sector, yet here, too, gender hierarchies exist. Women may informally provide a wide range of services to tourists, such as washing clothes, petty trading, cooking, and childcare, and also often be involved in the production and marketing of ethnic handicrafts—on the other hand, men may more frequently provide skilled, higher-profit informal services, such as tour guiding, boat touring, and so on.

One of the factors constraining women into low-skill, low-pay tourism jobs is limited access to higher education and training. According to World Bank data[18], female enrollment rate in tertiary education in Tanzania was at 2.7 percent in 2013, and of those women who managed to reach tertiary education that year, only a modest 25 percent enrolled in services programs (which include tourism). Access to finance can also be a major constraint for women trying to enter the tourism sector: as a result of several factors including poor credit records (or lack thereof), limited access to collaterals, and mistrust from loan officers. It may be indeed difficult for prospective female tourism entrepreneurs to secure the necessary financing.

It is also important to emphasize that (reliable) gender-disaggregated data on education, training, employment, and income of women in Tanzania's tourism sector, as well as compelling analysis of gender gaps in each of those areas, is chronically lacking, both at the national and international levels. This severely limits the possibility to make informed decisions and to craft (trade) policies that appropriately respond to the needs of female players in the industry.

The Asilia Africa Travel Company (which runs 20 luxury camps and lodges in Kenya, Tanzania, and Zanzibar) described the following reasons for the gender imbalance:

- Women are sometimes reluctant to put themselves forward for what are traditionally considered men's roles [due to] different factors—dislocated geography, perceived nature of the work, and a family's reluctance to allow their daughters or wives to work in a predominantly male environment far from home; and
- The inherent limitations on account of being a woman

in Tanzania—there is less societal belief in their capabilities, less support for them, and by extension, they have less belief in themselves, less confidence. These limitations are exacerbated further by practical restrictions—relatively few women in Tanzania drive, for example, many camps lack facilities to accommodate female staff.

Finally, voice and agency of women in tourism has been traditionally limited in Tanzania. In 2011, the Association of Women in Tourism Tanzania (AWOTTA) was formed to help get women more involved in the tourism industry. According to Mary Kalikawe, owner of Kiroyera Tours and chair of AWOTTA, "Women have been invisible and unheard for too long, yet they are the backbone, strength and wisdom of our country," she said, "there is a very big gender imbalance in the sector, especially in lucrative positions, say taxi drivers—there are no female taxi drivers in Tanzania whereas this is a facility used by all tourists, tour guides too, a big skew towards men due to the nature of the job and on the boards for advising government, again very few women, so there is very little heavyweight representation for them."[19]

Human Resource Development

The key human resource challenge is to develop and offer higher quality, more competitive tourism experiences and services in Tanzania. This requires skilled labor, which is lacking due to weak education and training programs and disincentives for the industry to formally hire and train workers.

In June 2015, the World Bank highlighted in the Country Economic Memorandum (CEM) the need to generate employment as critical for reducing poverty. The CEM stated that "[c]reating better conditions for obtaining secure and decent earnings is the most direct and sustainable way to lift out of poverty the 28 percent of Tanzanians (12 million people) still living below the poverty line."[20] Tourism was cited as one of the best existing and potential sources for accomplishing this.

The challenge has worsened due, in part, to Tanzania's growing population that is outpacing improvements in the education system. Between 1990 and 2014, the country's population more than doubled from 25.46 million to 51.82 million, and is forecast to grow annually by 3 percent (World Bank 2016). According to research from the International Growth Center and the Tanzanian President's Office Planning Commission, "around 55 percent of the country's population could be low-skilled, 33 percent medium-skilled, and 12 percent high-skilled." While the country aspires for middle-income status by 2025, "the proportion of the high-skilled working population will need to increase fourfold and the proportion of the medium-skilled labor will need to be more than double" (Moyo and others 2010). And yet, as reported in the Labor Force Survey (2014), only 6.1 percent of Tanzanians have reached any degree of postprimary education. Technical and vocational training programs are underdeveloped and only a handful of firms offer on-the-job training."[21]

For over one million people—over 10 percent of the total employment—in Tanzania and Zanzibar, tourism is already providing jobs, directly and indirectly. According to the World Travel and Tourism Council's (WTTC) 2016 report on Tanzania[22], in 2015, the industry directly supported 386,500 jobs (3.4 percent of the total employment) and indirectly 1.1 million jobs (10.3 percent of the total employment). By 2026, travel and tourism is forecast to indirectly generate 1.5 million jobs (10.2 percent of the total employment).

However, despite this positive estimate, tourism industry representatives cite the lack of skilled labor as a serious constraint for sustainable growth overall, especially for the industry.[23] The main workforce weaknesses are in business skills, understanding visitor needs and expectations, customer service, and online communications (Christie and others 2013). The lack of skills also extends to ancillary industries critical for tourism such as marketing, architecture, design, and information communications technology (Pio 2016). Richard Rugimbana, CEO of the Tanzania Confederation of Tourism, and Lathifa Sykes, CEO of the HAT, both stressed this as a high-priority issue. Foreign labor and improved local training programs would address the issue.

When labor is unavailable locally, tourism firms have to hire foreign workers, but eight laws govern the issuance of work permits for these workers. Even if these workers were available and could be formally hired, they are subject to both mandatory social contributions and the 5 percent Skills Development Levy (SDL), which the World Bank (2014) has cited as "extremely high by international and regional standards." The SDL is charged based on

the gross pay of all payments made by the employer to the employees. It is important to understand that the SDL is due and payable by an employer. In South Africa, for example, the equivalent levy is only 1 percent of salaries. Revenues from the 5 percent SDL in Tanzania are supposed to be used to fund skills training programs, but that is only partially the case. Consequently, as the CEM (2014) emphasizes, "[t]he combination of these restrictive policies provides a disincentive to use formal labor and as such to train and retain skilled workers."[24]

For tourism, the postsecondary National College of Tourism (NCT) in Dar es Salaam, with a branch in Arusha, aims to be a main source of skilled labor. NCT administrators and tourism industry representatives, however, noted that the college does not have the financial and human resources to provide all the trained and skilled staff currently needed by the industry. The Jambiani Tourism Training Institute in Zanzibar faces similar challenges.

The NCT's budget for full operations is US$1.5 million, which comes from several sources—29 percent is subsidized by the Tanzanian government, 36 percent from the Tourism Development Levy, and the remaining 35 percent from tuition and additional assistance. However, in 2015, college officials explained, the college received only 29 percent of their total request from the government and in 2016, they received only 6 percent.

Finance and Land

Access to Finance Issues

Access to finance from banks and investors for tourism businesses in Tanzania and Zanzibar is difficult and/or costly, and thus a significant development challenge. According to the Bank of Tanzania, there are 39 bank groups registered in the country, including branches of international banks, such as the Bank of India, Barclays, China Commercial Bank, and Citibank.

One of the largest, in terms of customer base and branches (more than 150), is the National Microfinance Bank PLC (NMB), which offers SMEs loans ranging from US$7,500 to US$750,000. NMB loans can be used as a working capital loan or for longer-term investment needs. The bank emphasizes their flexibility on repayments for businesses with irregular cash inflows. Their loans, however, are not for start-up businesses. Eligibility for their loans requires at least three years in business, a steady cash flow, a proper recording system, capability to operate a profitable business, and the necessary permits and licenses for operations. The extent of their lending to tourism-related businesses has not been publicized.

The Tanzania Women's Bank (TWB) began to assist women entrepreneurs to access loan finance in 2009. The bank offers loans for small businesses that can provide three years of audited accounts, a tax clearance certificate, business plan, and certificate of registration. As with the NMB, although TWB specializes in SMEs, their loans are not for start-up businesses. However, they also lend to and manage the accounts of savings and credit cooperative societies (SACCOS). SACCOS exist throughout Tanzania, especially in rural areas, and might serve as local sources of tourism-related financing.[25]

Interviews with a private banking sector specialist in Tanzania reaffirmed the lack of bank financing for tourism enterprises.[26] He said that, in 2015, the bank made only two loans for tourism businesses; in 2014, no loans were made. The average size of the loans was just over US$1.5 million for a term of five to seven years at an interest rate of 7.5 percent. No special program exists for SMEs or tourism businesses.

The banking sector in Tanzania does not offer specific tourism products. They only provide standard short-term loans or credits that are available to everyone. Interest rates are still high—ranging from 18 to 22 percent. Even worse, nothing is available for start-ups. Ongoing businesses may be able to secure specific facilities based on how well their business is performing, but it is not applicable to all. A lack of familiarity and understanding of the tourism sector may account for some of reticence of banks and microfinance groups to lend to tourism-related enterprises.

Land

In Tanzania, land is not readily available (or identifiable) for investors since only 10 percent is registered and titled. Both the Tanzania Investment Center (TIC) and the Zanzibar Investment Promotion Agency (ZIPA) explained the process to obtain land for tourism development. For both mainland Tanzania and Zanzibar, there is no land bank, land information system, or list of avail-

able land for development, so investors have to first identify available land themselves.[27] Over 90 percent of the country's land is public "general" land and not specifically titled. Land is available for lease, usually from District Councils, on a 90-year lease. In Zanzibar, a land bank existed based on a tourism master plan, but, according to ZIPA, "the land is almost finished now" for tourism development.

Foreign investors can obtain land for investment through the TIC, where a "derivative right" is granted. There are two main ways how investors can obtain land for investment:

1. Apply for land acquisition from the village, then follow all the necessary steps required until the land is transferred from village land to general land and given to the TIC to prepare a derivative right for the investor.
2. Purchase a parcel of land from individuals or companies, then, once the buyer and the seller have agreed upon the price, the seller is required to surrender the land title to the commissioner for lands to reissue it in the name of the TIC, which will eventually prepare a derivative right for an investor.

This process is based on the Land Act of 1999,[28] which states that all land shall continue to be public land and remain vested in the president as trustee for and on behalf of all the citizens of Tanzania. The law recognizes three types of land in Tanzania:

1. *General land* is surveyed land usually located in urban and near-urban centers.
2. *Village land* is usually land in villages and within villages in rural Tanzania. Some village land is surveyed, but the majority is unsurveyed. Village land cannot be used for investment until it is transferred into general land.
3. *Reserved land* includes that reserved for forestry, national parks, public recreation grounds, and so on.

Most of the land is unregistered and without title, which leaves residents and investors with uncertain "property rights and makes enterprises and individuals vulnerable to losing their land and delay[ing] their investment plans." The lack of secure property rights reduces access to long-term financing, as immobile assets cannot be used as collateral for borrowing from financial institutions. It also contributes to increased transaction costs, as parallel channels have to be used to acquire and secure land property rights. Obtaining official land titles is possible, but costly (3 percent of the property value for notarization plus legal fees) and can only be issued in Dar es Salaam.[29] Documents and permits, which are only issued in Dar es Salaam, represent a prohibitive hurdle for small investors, traders, or farmers who reside outside the commercial hub.

The second land-related issue concerns protected areas specifically. Policies for granting accommodation concessions inside protected areas are not consistent across the different categories of protected area and are subject to sudden change. Many operators in the private sector cited this issue as the single largest obstacle to new investments.

Business-Enabling Environment

Taxes

In general, the business-enabling environment for tourism is challenging due to the multiplicity of taxes, levies, and fees, and a confusing, often overlapping collection system spread across multiple government entities from the local to the national levels. In 2013, the Tanzanian National Business Council found through a Big Results Now-Business Environment Lab that the "multiplicity of laws and regulations, licenses, permits and certifications; as well as the involvement of regulatory bodies/institutions with duplicative mandates; hampers enterprises' competitiveness and limits their growth potential. Most procedures are burdensome and lack transparency. Businesses are unable to access clear information about which licenses they need to obtain as well as what requirements they need to comply with to obtain a license. In turn, the requirements to retain a license create the need for numerous decentralized inspections."[30] Similar concerns have been expressed by the HAT and the TCT. Basically, disorganization and lack of transparency are costing the industry extra time and money to untangle the complex multiple taxes, levies, and fees.

In fiscal 2015, two World Bank initiatives analyzed the business environment for tourism, and especially focused on licensing fees and taxes—an initiative that reviewed all tourism-related taxes and fees and "the

elephant in the room," an economic update on tourism in the country. The latter aptly summarized the business environment for tourism as follows:

> *"[It] is currently neither conducive to the development of productive partnerships and viable business operations nor amenable to investment. In particular, levies and taxes within the tourism sector are unpredictable, uncertain, and often duplicative. For example, the number of tourism licenses, levies, and fees can range from 10 for travel agencies, to 115 for air operators."*[31]

From discussions with the industry, however, the cost of these taxes and fees was not the primary issue. Rather, the more important issue for them was the confusing and overlapping processes and procedures involved with obtaining licenses and permits and paying the various taxes (listed in box 7.3) to different authorities. With a more efficient and transparent system in place, the Tanzanian government's collection costs and the private sector's compliance costs would probably be reduced, and more business could be conducted, thus resulting in more tax and fee revenue for the government.

Incentives

Incentives, according to the Tanzania Investment Act of 1997, mean tax relief and concessional tax rates are accessible to investors. Tax incentives, however, are determined by the Income Tax Act of 2008 and the EAC Customs Management Act 2004 (which actually resulted in abolishing income tax holidays). Tax incentives are now granted to investors through enhanced capital deductions and allowances (TIC 2014).

1. Wholly owned by a foreign investor or if a joint venture, the minimum investment capital is not less than US$300,000 (or the T Sh equivalent); or
2. If locally owned, the minimum investment capital is not less than US$100,000 (or the T Sh equivalent).

Whilst both requirements may appear to be relatively high, the one set for local investors can be particularly burdensome for micro, small, and medium enterprises (MSMEs)—especially considering that, out of more than 2.7 million MSMEs covered by the 2010 survey, almost 95 percent had a start-up capital of less than US$500.

> *"Specifically, the government will rationalize tax incentives to remove most costly ones, consolidate all tax exemptions in the tax laws and repeal incentives that harm or contravene the EAC common market agreements. Further, the government will harmonize SEZ incentives to the approved EAC Incentives Policy."*[32]

Tourism businesses can import duty-free, four-wheel-drive vehicles built for tourism purposes and hotel equipment (which is engraved or printed or marketed with the hotel's logo) (TIC 2014). Other items that are "deemed capital goods"—such as building materials, utility vehicles, and other equipment—are exempt from 75 percent of import duties that is due. Until the beginning of July 2016, these goods were also exempt from 45 percent of the value-added tax that is payable.

Overall, these capital incentives have been insufficient to attract increased tourism investment. The last major hotel investment in Tanzania was more than 10 years ago. At that time, tourism was the lead sector for foreign direct investments. However, at least three multi-property tourism investments are in progress by investors who believe that projects based on the quality of Tanzania's wildlife attractions will be profitable.

Visas

Visas are not required for EAC citizens traveling between EAC countries; they are required for

BOX 7.3: Tanzania Major Taxes and Fees

- The Income Tax Act allows for 50 percent capital allowances for plant, machinery, and equipment used to provide services to tourists and in a hotel.
- Corporate tax is 30 percent.
- Withholding tax on interest = 10 percent.
- Withholding tax on dividends = 10 percent.
- Income tax for individuals = 13 percent to 30 percent.
- Income tax for nonresident individuals = 20 percent.
- All employee benefits are taxable.
- Skills and development levy = 5 percent of total gross salary and wage payments by employers to employees.
- Value added tax is 18 percent on all taxable goods and services.
- The Tourism License from the Tourism Agency Licensing Authority = All operators must pay US$5,000 up front and own a minimum of five vehicles.

noncitizens. Single regional visa and visa-on-arrival schemes in the EAC and the SADC country blocs have been initiated and are expected to help boost arrivals within each region. In fact, according to the UNWTO,[33] by easing visa requirements and thus reducing international travel costs, Tanzania and other countries in the EAC and beyond could see more growth in jobs and their GDPs. UNWTO-WTTC[34] research also has shown that improving visa processes could generate an extra US$206 billion in tourism receipts and create as many as 5.1 million additional jobs in Group of Twenty countries. Developing countries, such as in the Association of Southeast Asian Nations region, could realize US$12 billion in international tourism receipts by the end of 2016. The research also notes that visas, which are expensive or difficult to obtain, can be a disincentive for tour operators and independent travelers to include a country in their itineraries—thus opportunities lost. Overall, East Africa is on track to realize these benefits—it is the second-most open subregion globally according to the UNWTO. However, Tanzania has not joined the East Africa single visa scheme yet, reportedly due to concerns about security and disproportionate revenue sharing.

Air and Land Access

Tanzania is cooperating regionally on improved ground transport (roads and rail) through the Infrastructure Consortium for Africa, which includes initiatives for improved eastern and central transport corridors. The country is also cooperating with the Northern Corridor Integration Projects, which links the EAC landlocked countries (Uganda, Rwanda, Burundi, and South Sudan) with the Port of Mombasa in Kenya; it also serves northern Tanzania. Lastly, Tanzania signed a MOU with Rwanda and Burundi for the development of a regional rail network. Improved ground transport will reduce travel time between countries and thus further encourage tour operators to offer multi-country itineraries.

Air service liberalization has proven to benefit economies and tourism in Africa. As of May 2014, Tanzania has signed bilateral air-services agreements with 13 countries, including the main generating countries of Germany, the United Kingdom, Switzerland, and the United States, and initialed agreements with 38 other countries.

Addressing Constraints to Growth

Table 7.7 is a summary of existing World Bank projects and programs related to tourism in Tanzania. The priority action matrix for tourism (table E.1), identifies three top priorities—such as those actions that could clearly have immediate impacts on tourism growth and are more within the existing capacity for implementation.

Existing World Bank Projects and Programs

Since 2015, the World Bank has conducted three tourism studies in Tanzania, one of which is focused on expanding tourism development into southern Tanzania, another focused on taking stock of taxes impacting the industry, and a third provides an economic update of tourism in the country. In addition to these studies, the following are in-progress or under production: a new national tourism strategy, a multi-sector education and training skills development program, a report on streamlining the regulatory framework, advisory services to promote private sector growth in tourism, and a development program for nature-based tourism in southern Tanzania.

The DTIS process can be helpful in coordinating all of these efforts towards a single integrated national level tourism development program. The program should be developed in close consultation with the MNRT so that the result can be managed and implemented by local staff. Table 7.7 presents as summary of projects targeting the tourism sector. Ensuring effective coordination and complementarity across initiatives is essential.

Priority DTIS 2017

Policies, laws, regulations, and governance. For further tourism development in Tanzania, it will be essential that improvements are made through inter-governmental coordination and communication; public-private dialogue; and policies and legal and regulatory frameworks are reviewed, with the aim to improve elements of competitiveness and streamline investment and business operating procedures. The need for cooperation, coordination, and alignment is very important in a sector like tourism, which affects and is affected by almost everything that happens in an economy and society.

TABLE 7.7: World Bank Tourism Initiatives for Tanzania

Project, program, or analytics	Description	Status (as of June 2017)
Private Sector Competitiveness Project	Development of a new national tourism strategy	Under tender
Program-for-Results: Education and Skills for Productive Jobs	Strengthens institutional capacity to expand and improve training in tourism (and other sectors).	Under preparation
Development Policy Operation: Business Environment and Competitiveness for Jobs	Improving the business environment for tourism (and other sectors) via streamlining the regulatory framework.	Completed and now closed.
Assist in Determining the Taxation System in Tourism	A list of all taxes, levies, and charges paid by tourism sector has been posted on the Tanzanian Ministry of Natural Resources and Tourism's website.	Completed
Advisory Services: Promoting Inclusive and Private Sector-Led Growth in Tanzania Though Business Environment Improvements	Increasing competitiveness, investments and jobs in tourism.	Under preparation
Investment Lending: Resilient Natural Resource Management for Growth Project	Developing and conserving nature-based tourism in Southern Tanzania (such as Ruaha National Park, Mikumi National Park, Udzungwa National Park, and Selous Game Reserve), enhancing local economic benefits and improving landscape and watershed management.	Under preparation
Tanzania Tourism Futures: Harnessing Natural Assets (Study)	Study on opportunities and constraints of diversifying tourism into the southern circuit, especially in Ruaha.	Completed September 2015
Tanzania Economic Update: The Elephant in The Room: Unlocking The Potential Of The Tourism Industry For Tanzanians (Study)	Economic update on tourism.	Completed January 2015

Public and private sector workforce development. Tourism cannot develop and progress without sufficiently-trained human resources. By enabling Tanzanians and (especially) Tanzanian SMEs to access better tourism education and training, more businesses will hire them and, in turn, improve the quality and competitiveness of their services and product offerings. This means, ensuring, at a minimum, that the NCT receives the budget that is allocated to them. The capacity building should also be applied to government officials, particularly those involved with tourism.

- Increase access to training and capacity building, especially for business management, financing, and product development for SMEs.
- Apply the funds as already allocated by the Ministry of Finance to support the NCT, or consider developing a public-private partnership.
- Support the AWOTTA with their needs assessment, which will help focus on priority training and skills needs.

Access to finance. Improved access to finance would benefit a range of tourism businesses. The establishment of a USAID-type credit guarantee for banks and microfinance groups would enable them to lend more to tourism businesses.

- Establish a program similar to the USAID-supported Development Credit Facility, which provides credit guarantees to financial institutions, and programs that provide credit and lending for tourism enterprises and operations in Tanzania.

Business-Enabling Environment. A one-stop-shop approach is needed for tourism businesses, ideally accessed, as much as possible, online. This will reduce administrative costs for the Tanzanian government and compliance costs for the private sector, and enable more sustainable and competitive growth.

- Streamline and rationalize the tax collection process to reduce overlapping and duplicative functions and administrative costs, and facilitate payments through the establishment of a one-stop-shop, similar to what exists in Rwanda and Kenya.

Access to land. There is a shortage of land that is readily available for the development of tourism infrastructure. Policies for granting concessions in protected

areas are not harmonized and are not secure.

- Land surveys and a central database should be finalized
- Improved security of tenure in protected areas for accommodation investors

Notes

1. From the Projects and Operations (database) of the Private Sector Competitiveness Project Additional Financing for Tanzania, World Bank, Washington, D.C., http://projects.worldbank.org/P145971?lang=en.
2. WTTC (2016) and statistics from the MNRT.
3. WTTC (2016) and statistics from the MNRT.
4. Dalberg Global Development Advisors and Solimar International (2015).
5. Mira-Salama (2017).
6. Dalberg Global Development Advisors and Solimar International (2015).
7. tanzaniaculturaltourism.com.
8. UNWTO Tourism Barometer, 2016 https://www.e-unwto.org/doi/pdf/10.5555/unwtotfb0834010020112015201611.
9. For more information, visit the WTO's Documents Online website at http://bit.ly/1RGM5Hw.
10. The Swahili word for wildlife is "nyama" or meat.
11. From the Programs and Projects (database) of the Trade Sector Development Programme: Market Value Chains Relating to Horticultural Products for Responsible Tourism Market Access Project, International Labour Organization, Geneva, http://www.ilo.org/addisababa/countries-covered/tanzania/WCMS_412362/lang--en/index.htm.
12. UNIDO and others (2015).
13. UNIDO and others (2015), p. 10.
14. UNIDO and others (2015).
15. Summary from Elly Maturo, Cultural Tourism Program, April 26, 2016.
16. MITI and FSDT (2012)
17. http://tanzaniatouristboard.com/forms/Tourism_licence_TALA_forms.pdf.
18. https://data.worldbank.org/indicator/SE.TER.ENRR.FE?locations=TZ.
19. Positive Impact (2016).
20. World Bank (2015b).
21. University 1.3 percent, tertiary nonuniversity 1.8 percent, and vocational training 3 percent MOF (2015).
22. Travel & Tourism Economic Impact 2016 Tanzania, World Travel & Tourism Council, London, p. 1
23. February 2016, interviews with representatives from the Tanzania Confederation of Tourism, the Hotels Association of Tanzania, and individual hotel managers.
24. World Bank (2014), p. 22
25. FSDT (2014).
26. Interview with Barclays Tanzania.
27. The Integrated Land Management Information System (ILMIS) is being implemented as part of the World Bank's Private Sector Competitiveness Project.
28. Land Act 1999, Chapter 113.
29. World Bank (2015b).
30. World Bank (2015b), p. 18
31. World Bank (2015c).
32. World Bank (2015b).
33. Travel & Tourism Economic Impact 2016 Tanzania, World Travel & Tourism Council, London, p. 1 and the Visa Openness Report 2015, UNWTO, Madrid, p.
34. UNWTO and ITC, 2015, Tourism and Trade: A Global Agenda for Sustainable Development, Geneva.

References

Christie, Iain, Eneida Fernandes, Hannah Messerli, and Louise Twining-Ward. 2014. *Tourism in Africa: Harnessing Tourism for Growth and Improved Livelihoods. Africa Development Forum*. Washington, D.C.: World Bank and Agence Française de Développement. https://openknowledge.worldbank.org/handle/10986/18688.

Dalberg Global Development Advisors and Solimar International. 2015. *A Strategy for Tourism Development in Southern Tanzania*. U.S. Agency for International Development, Washington, D.C.

DFID (U.K. Department for International Development). 2016. *Quarterly Economic Memorandum*. DFID, London.

FSDT (Financial Sector Deepening Trust). 2014. *GIS Census of Financial Access Points - Highlights 2014*. Dar es Salaam: FSDT. http://www.financialaccess-maptz.com/downloads/FinAccessMAPBOOK-web.pdf.

ITC (International Trade Centre). 2015. *Tourism and Trade: A Global Agenda for Sustainable Development*, Geneva: ITC. http://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/Tourism_and_Trade__low%20res_2014-2015-335.pdf.

Mira-Salama, Daniel. 2017. Tanzania - Process Framework for the Resilient Natural Resources Management for Tourism and Growth Project:

Resettlement Plan. http://documents.worldbank.org/curated/en/711321501869603123/Process-framework

MITI (Tanzanian Ministry of Industry, Trade and Investment) and FSDT (Financial Sector Deepening Trust). 2012. National Baseline Survey Report for Micro, Small, and Medium Enterprises in Tanzania.

MNRT (Tanzanian Ministry of Natural Resources and Tourism). 2014. The 2014 Tourism Statistical Bulletin. MNRT, Dar es Salaam.

MOF (Tanzanian Ministry of Finance). 2015. *The 2014 Integrated Labour Force Survey*. National Bureau of Statistics, Dar es Salaam.

Moyo, Mujobu, Rebecca Simson, Arun Jacob, and François-Xavier de Mevius. 2010. "Attaining Middle Income Status: Tanzania—Growth and Structural Transformation Required to Reach Middle Income Status by 2025." International Growth Center, London and Tanzanian President's Office Planning Commission, Dar es Salaam.

Pio, Alex. 2016. "Trade in Tourism Services and Regional Integration in Southern and Eastern Africa." In the *Unexplored Potential of Trade in Services in Africa,* edited by Nora Dihel and Arti Grover Goswami, 159–185. Washington, D.C.: World Bank.

Positive Impact. 2016. "Women in Tourism: Why the Inequality?" *Asilia* (blog), Asilia Africa, March 8. http://www.asiliaafrica.com/women-in-tourism-why-the-inequality/.

Silberberg, T. 1995. "Cultural Tourism and Business Opportunities for Museums and Heritage Sites." Tourism Management, 16(5), pp. 361-365.

TIC (Tanzania Investment Centre). 2014. *Tanzania Investment Guide*. Dar es Salaam: TIC.

UNIDO (United Nations Industrial Development Organization), International Trade Centre, UN Inter-Agency Cluster on Trade and Productive Capacity, Swiss Confederation State Secretariat for Economic Affairs, and Tanzanian Ministry of Industry and Trade. 2015. *Strengthening Tourism Market Linkages for Tanzanian Producers and Processors*. Workshop report. Dar es Salaam, December 10. http://unctad.org/meetings/en/Miscellaneous%20Documents/ditc-ted-10122015-WorkshopReport.pdf.

UNWTO (United Nations World Tourism Organization) and ILO (International Labour Organization). 2013. *Economic Crisis, International Tourism Decline and its Impact on the Poor*. Madrid: UNWTO.

UNWTO (United Nations World Tourism Organization). 2013. *The Cost of Closed Doors*. Madrid: UNWTO.

———. 2015. *World Tourism Barometer*. Madrid: UNWTO.

World Bank. 2014. *Tanzania – Country Economic Memorandum*. World Bank, Washington, D.C.

———. 2015a. *Tanzania Economic Update*. World Bank, Washington, D.C.

———. 2015b. Program Document for a Proposed Credit to the United Republic of Tanzania for the First Business Environment for Jobs Development Policy Operation. World Bank, Washington, D.C.

———. 2015c. *The Elephant in the Room: Unlocking the potential of the tourism industry for Tanzanians, Economic Update*. World Bank, Washington, D.C.

———. 2016. "The Unexplored Potential of Trade in Services in Africa." Edited by Nora Dihel and Arti Grover Goswami. World Bank, Washington, D.C.

———. 2016. *World Development Indicators*. World Bank, Washington, D.C.

WTTC (World Travel and Tourism Council). 2016. *Travel and Tourism Economic Impact - Tanzania*. WTTC, London.

8 Zanzibar

"Zanzibar is known internationally as a major exporter of spices and a significant tourist destination. The recent high growth rates have had a modest impact on poverty reduction which remains at 44 percent."

This chapter focuses on agriculture and tourism in Zanzibar, the two key sectors of the economy for job creation and poverty reduction. Zanzibar is known internationally as a major exporter of spices and a significant tourist destination. The recent high growth rates have had a modest impact on poverty reduction which remains at 44 percent. A relatively high rate of population growth combined with limited formal sector employment has resulted in the Zanzibar government prioritizing the growth of agriculture and tourism. With a population of 1.45 million in 2015, on a total land area of 2,654 square kilometers on the two islands of Unguja and Pemba, and with almost half the population under the age of 15, the government is committed to improving the challenging business environment. Since the union with the mainland in 1964, Zanzibar has been a semiautonomous nation within the United Republic of Tanzania. It implements its own development plans and is responsible for its own financial affairs.

More than two-thirds of the Zanzibar population depend on agriculture for their livelihood. Zanzibar, known internationally as the "Spice Island," for its cloves and other spices, also produces cassava, sweet potatoes, rice, corn, plantains, citrus fruit, and coconuts. There is a sizable artisanal fishing industry. In recent years, seaweed, which is mostly grown in the eastern part of Zanzibar, has also become an important export commodity. Despite the success with seaweed, exports are limited. Zanzibar imports most basic foodstuffs, including rice, cooking oil, sugar, and wheat and flour from outside the region and maize from mainland Tanzania.

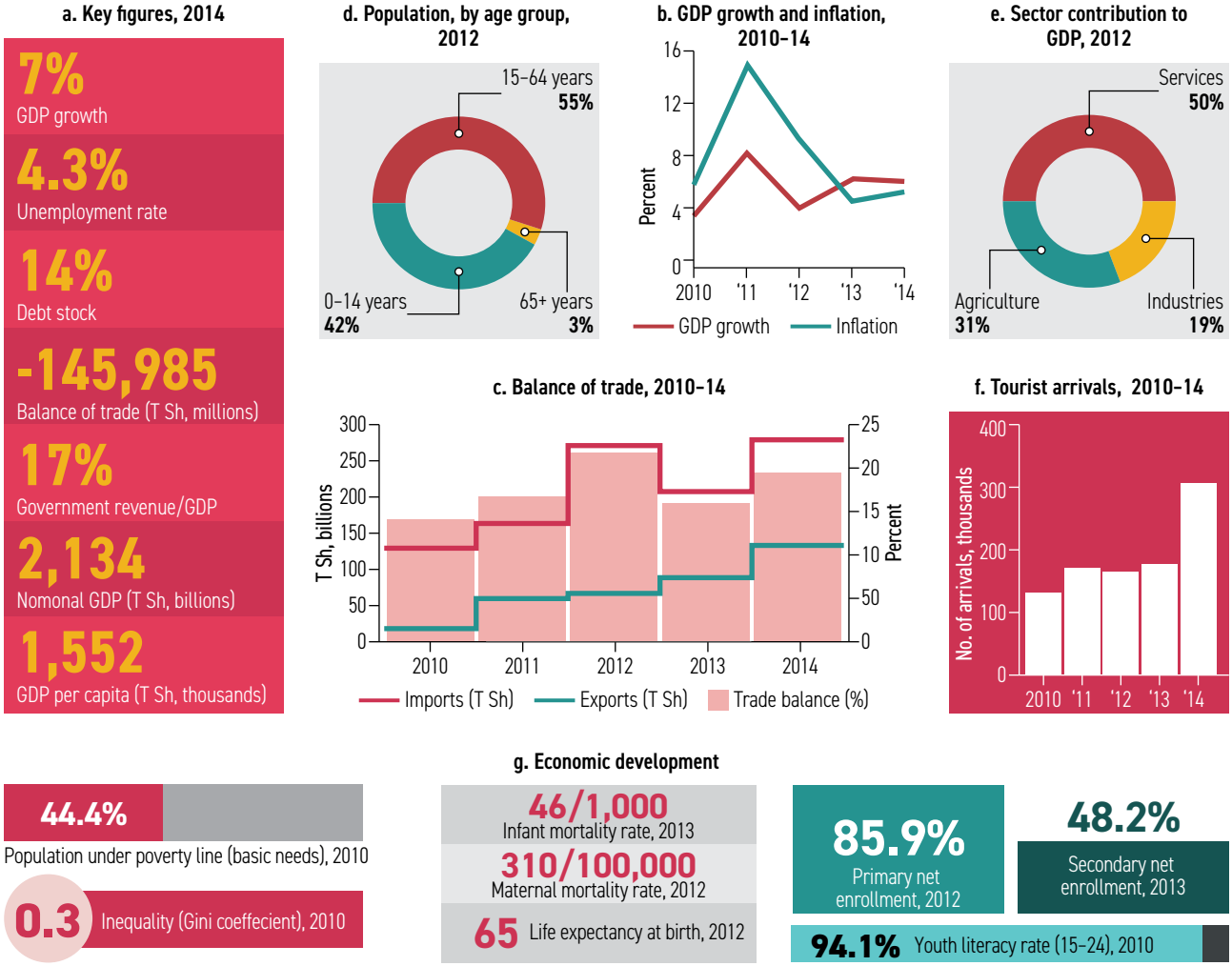
The Zanzibar Development Vision 2020, released in 2000, envisaged Zanzibar as a middle-income

country by the end of the period. This long-term socioeconomic development goal was updated in 2010 with an emphasis on eliminating absolute poverty while reaffirming the commitment to achieve middle-income country status. The Vision guided the design of the ambitious Zanzibar Poverty Reduction Plan (ZPRP), covering the period 2002–05 and the subsequent Zanzibar Strategy for Growth and Reduction of Poverty phase I (widely known in its Swahili acronym as MKUZA I 2005–10). The successor strategies, MKUZA II and, now since June 2016, the Draft MKUZA III, all highlight the importance of continuing growth of the tourism sector and to increase value added in agriculture to realize Vision 2020.

The Zanzibar economy is dominated by the services sector, which account for almost half of gross domestic product (GDP) (45 percent), followed by agriculture (28 percent) and industry (17 percent). Over the past decade, the services sector, dominated by tourism, has continued to grow while the share of agriculture, forestry, and fishing stagnated and industry declined. The recently released MKUZA performance review report (2016) and Zanzibar Socio Economic Survey Report for 2015 recorded high aggregate annual growth rates of 6–7 percent which has resulted in a 69 percent increase in average GDP per capita over the period 2009–15 (from US$555 in 2009 to US$939 in 2015).

The high growth rate has not translated into a broad-based reduction in poverty, particularly in the lagging sectors of agriculture and fisheries. Less than 20 percent of the active working age population (between 15–65 years old) was employed in the formal sector. The Informal Sector Survey (2013) recorded approximately 350,000 people working on informal activities out of

FIGURE 8.1: Zanzibar's Economy Factsheet



Source: Derived from MKUZA III.

a total population of 1.45 million (2016). With over 40 percent of the population aged 14 or younger, Zanzibar faces the challenge of expanding the labor market to absorb school leavers and graduates. There are also significant gender imbalances in the labor force, with women having both a lower employment rate and lower education levels. In Zanzibar, just over 75 percent of women are "engaged in the labor market whether employed or unemployed," compared with 83.8 percent of the men (OCGS 2014a). And only 6.7 percent of women had formal training of any kind beyond and/or instead of primary school. Men had a higher employment rate than women, 78.4 percent versus 58.3 percent respectively. Of the women employed, 44 percent were working in services with 9.6 percent working in accommodations and food services.

The Zanzibar government forecasts annual economic growth of 4–7 percent in the medium-term (3–5 years). The MKUZA review did not expect Zanzibar to achieve a 10 percent economic growth. They noted that, in 2014, growth was 7 percent, and growth rates over the last decade rarely exceeded this number, typically remaining within the four to seven percent range. Furthermore, the outlook for 2016 was not particularly favorable as production of both cloves and rice (Zanzibar's major crops) were expected to decline. Further, political uncertainty ahead of the election in 2015, which was subsequently postponed to January 2016, also suppressed investment.

Mobilizing private investment and increasing government efficiency are key to advancing broad-based growth. Large fiscal deficits will continue to constrain public investment and serve to highlight the importance of increasing public sector efficiency and improving the policy environment to encourage increased private sector investment.

Business-Enabling Environment

Starting a business and registering property in Zanzibar remain challenging. The 2010 Doing Business (World Bank) survey reported that starting a business costs more than the global average and totaled more than two-thirds of average income per capita. The relatively high cost and time-consuming registration requirements effectively crowd out many small businesses from entering the formal sector.

The Zanzibar government has begun to streamline business and property registration, but further simplification is still required. The Business and Property Registration Agency (BPRA), was established in 2012 as a dedicated office for registering businesses and properties and has started the process of setting up an online business registration system. The Companies Act, Insolvency Act, and Company Business names and regulations are all under review. The BPRA faces many challenges including understaffing and a shortage of resources to effectively implement its mandate. Staff shortages in record management result in delays with time allocated to document search.

Many sectors are required to register with multiple agencies. In addition to registering with the BPRA, many activities are required to obtain additional registration from other government agencies businesses. These include businesses engaged in food, drugs, and cosmetics. The Zanzibar Food and Drugs Board (ZFDB) registers all businesses engaged in food, drugs, and cosmetics, while also issuing import and export permits. The ZFDA does not have an accredited laboratory and experiences serious staffing constraints, which limits its capacity to effectively discharge its mandate. The Zanzibar Bureau of Standards (ZBS) was established to increase conformity assessment with approved standards, however, to date, there are only two products with the ZBS mark and 50 approved standards. Further there appears to be limited coordination with the Tanzania Bureau of Standards (TBS) on technical regulations.

Starting a business is also not easy in Zanzibar, and it is even less so in the case of smaller enterprises. The World Bank's Doing Business in Zanzibar (2010) report showed that complying with all the registration requirements takes 10 procedures, 28 days, and about US$355 (or 72 percent of Zanzibar's income per capita at that time) to set up a limited liability company. While incorporation with the Registrar General's Office, in Zanzibar, is relatively simple and takes less than one week (six days), the postincorporation procedures—such as preparing a company seal, applying for all required tax numbers from the Tanzania Revenue Authority (TRA) and the Zanzibar Revenue Board (ZRB), obtaining a business license, registering with the Zanzibar Social Security Fund (ZSSF) and with the National Insurance Corporation, and submitting employees' contracts

at the Labour Commission—can take up to 18 days to complete.

Zanzibar remains one of the most difficult places in the world to register property. In 2010, it required 10 procedures, which would take about 39 days and cost 20.2 percent of property value. It ranked 170th out of 183 economies measured in the 2010 Doing Business report, which placed it in the bottom 10 percent globally. In comparison, in Dar es Salaam, a property transfer required nine procedures, which would take 73 days but cost much less—just 4.4 percent of property value—ranking ahead of Zanzibar at 145th place. Compared to 34 other small island economies measured by Doing Business, Zanzibar fell in the bottom third and would rank 27th.

Zanzibar Tax administration remains complex and burdensome for private businesses. Businesses are required to pay taxes separately to the TRA, the ZRB, and municipal and district councils. Whilst the TRA administers central government taxes in the mainland as well as Union taxes in Zanzibar, the ZRB collects inland consumption taxes other than customs, excise, and income taxes on behalf of the Zanzibar government. Among those, the main ones include value added tax (VAT), excise duty local, hotel levy, restaurant levy, tour operation levy, stamp duty, airport service charge, seaport service charge, road development fund, petroleum levy, fuel sector development fund, road license fees, motor vehicle registration fees, driving license fees, ministry collections, and parastatal contributions. Zanzibar taxpayers must transact with multiple authorities, and deal with a multiplicity of taxes, levies, and fees—the cost of compliance, in terms of both time and financial resources, becomes higher than it could be when taxes are administered under a single umbrella, and particularly burdensome for small businesses. This increases the likelihood of tax evasion, with subsequent significant revenue losses for the government.

Access to finance is another major constraint for micro, small, and medium enterprises in Zanzibar. In 2010, the island would rank 167th on the ease of getting credit amongst the 183 economies measured by the Doing Business—compared to other small island economies, Zanzibar would rank 30th out of 35. Despite the existence of a securities registry in Zanzibar, the Registrar General's Office, information is neither centralized nor indexed by grantor's name, making it hard to obtain quality information on the movable assets used as collateral. Further, Zanzibar's credit system limits the type of assets that can be pledged as collateral (for instance, account receivables or future—or after—acquired assets are not admissible as collateral).

Zanzibar offers fiscal incentives to all investors—however, they need to be more transparent and automatic with the Zanzibar Investment Promotion Agency (ZIPA) empowered to act as a one-stop shop. Although available for all investors, many local investors are unable to meet the requirements. Registering for incentives requires (a) minimum investment capital requirement; (b) application procedures for issuance of investment certificate; (c) investment certificate fee; and (d) approval of incentive application. Whilst the procedure for securing an investment certificate can be burdensome, a minimum capital requirement for local investors, ranging from US$10,000 to US$300,000, is not attainable by many small businesses. Further, the entire process of obtaining an incentive can be extraordinarily lengthy,

BOX 8.1: Zanzibar Business Licensing System

The Ministry of Trade, Industry and Marketing review of trade licensing identified 87 separate acts, regulations, and bylaws relating to business licenses. Almost 240 licenses and permits are issued by multiple authorities. Licenses and permits are valid for 12 months and are required to be renewed annually. One business or commercial activity frequently requires multiple licenses from a wide range of different regulatory bodies and government authorities. There is no coordination between the different agencies, and many of the licensing requirements are outdated. The processes required to obtain a license are varied, with many being rather opaque, and there is no provision for complaining or appealing.

The review described the existing system of issuing business licenses as "unfriendly, costly, cumbersome, and time consuming." The review recommended establishing a single licensing authority to increase transparency and to streamline the process.

Onerous licensing requirements create incentives for small businesses to operate informally. Zanzibar has 5,000 companies in business but the Zanzibar Revenue Board (ZRB) only has records on 3,000 companies. This means significant revenue is being foregone by the ZRB.

The report recommended a series of reforms aimed at increasing transparency and reducing the cost through streamlining the process and providing for licenses to be valid for 36 months.

ranging between three and six months to obtain approval (ZNCCIA 2013a). The ZIPA aims to function as a one-stop shop for investors (both domestic and foreign), however, the Ministry of Finance has intervened in the decision-making process. This reduces the transparency of the published incentives and encourages rent-seeking behavior.

Zanzibar's investment law offers what the Chamber of Commerce considers to be generous tax and duty-free incentives for approved foreign and national investors in the free zones. This includes a 10-year holiday from corporate taxation followed by 10 years at 25 percent. In addition, Zanzibar investors are also eligible for incentives offered by the Tanzania Investment Act of 1997, the Income Tax Act of 2008, and East African Community (EAC) Customs Management Act 2004, which removed income tax holidays (except for firms located in free zones).

Zanzibar Trade

Almost two-thirds of imports are sourced from mainland Tanzania. In 2015, Zanzibar's total imports declined by more than 40 percent to US$78 million from 2014 as major infrastructural projects were completed. Over 60 percent of imports are sourced from the mainland. In 2015, imports from the mainland totaled US$47.7 million. Most of the goods from mainland Tanzania are agricultural produce, mainly vegetables, meat, and rice. Clothes, electronics, and building materials are primarily sourced from Asia, the Middle East, Kenya, and, to a lesser extent, Europe and the United States.

Merchandise exports are relatively modest at less than 4 percent of GDP, while tourism accounts for more than a quarter of GDP. Exports of merchandise rose from 3.9 percent of GDP in 2009 to 6.0 percent in 2014. When services, especially tourism, are included, this percentage increases significantly. Historically, cloves have been the major export, although recently, fish and seaweed have increased in importance. Recently, Zanzibar has begun exporting a range of new projects including charcoal, timber, foods, commodities, and veterinary medicines. Exports from Zanzibar to mainland Tanzania of US$200 million in 2015 significantly exceeded imports. Many of these are reexports from Zanzibar to the mainland and include wheat flour, milk, wheat bran, and sweet potatoes.

BOX 8.2: Zanzibar Fiscal and Other Incentives

Fiscal incentives include corporate tax relief, investment allowance on capital expenditure, reinvestment allowances capital expenditure, preferential tax rates for withholding tax on dividends, royalties, and interest, preferential rates on indirect taxes, and double deductions of approved and/or specified costs and expenses. The nonfiscal incentives include access to land, priority connections to utilities, transportation, and communication services, employment of expatriates not available locally, benefits accruing from duty-free access to the mainland, the East African Community and Southern Africa Development Community markets.

Zanzibar maintains reduced tariffs on rice and sugar, has its own investment regime, and independent policies for government procurement, privatization, completion policy, and intellectual property rights. The EAC Common External Tariff applies to the United Republic of Tanzania, however, Zanzibar has a dispensation to maintain much reduced tariffs on the imports of rice and sugar destined for domestic consumption. The Zanzibar government justifies the exceptions to the common external tariff as benefiting Zanzibar consumers, however, the volumes imported consistently exceed domestic demand. The informal leakage of rice from Zanzibar to the mainland is estimated at 30,000 tons per year, which is modest relative to the scale of the import licenses issued to major mainland importers.[1]

The trade between Zanzibar and mainland Tanzania faces fiscal as well as institution arrangement challenges. These include the requirement of payment of tax differences on cargo that is traded from Zanzibar to the mainland where traders are required to pay additional costs. Further, the payment of extra tax to goods sold in the mainland. Zanzibar Freight Forwarders complain of the need to apply for an export permit with authorities in the mainland for all goods that are exported through Dar es Salaam port. However, from July 1, 2017, it was reported that the tax difference would be settled in Zanzibar prior to shipment to the mainland. This would obviate the need for clearing the same goods on the mainland.

International trade and customs management are union issues, while internal trade and industry and consumer protection are the responsibility of the Zanzibar government. Zanzibar passed the Standards Act in 2011, which

provided for the establishment of the ZBS in 2012. Prior to 2012, standards issues were managed through the TBS. Since international trade is harmonized between the mainland and Zanzibar, the TBS risks duplicating procedures on intra-union trade, which increases compliance costs. The ZBS has sought to minimize duplication through close collaboration with the TBS. The ZBS does not have any accredited laboratories and remains seriously understaffed.

The ZBS's good cooperation with the TBS allows resources to focus on specific Zanzibar issues. The ZBS applies all the TBS standards in Zanzibar. The ZBS and the TBS have established a task force to coordinate and harmonize administrative and procedural issues.[2] Further, the TBS director general sits on the ZBS board. When the ZBS participates in external meetings such as the International Organization for Standardization (where they have observer status), they join with the delegation from the TBS. The Zanzibar quality assurance scheme is equivalent to the TBS scheme and managed by the same private conformity assessment company. Given the financial and technical resource constraints facing the ZBS, their strategy of working closely with the TBS is sound. However, ZBS's lack of capacity also creates challenges in ensuring effective day-to-day cooperation with the TBS. The Zanzibar private sector highlighted the importance of the ZBS coordinating and working more closely with other trade facilitation agencies to reduce delays and streamline approvals. Given the dearth of technical and financial resources, the ZBS should aim to build expertise in areas of specific commercial interest to Zanzibar, for example, seaweed and fisheries while harmonizing with the mainland TBS for most products.

Sanitary and phytosanitary (SPS) administration requires improved coordination and technical capacity building. There is a lack of inter-agency coordination between the multiple agencies responsible for regulating agricultural and food products include the ZBS, Zanzibar Food and Drugs Authority (ZFDA), the Chief Government Chemist Laboratory Agency (CGCLA), and the Weight Verification Authority (WVA). The ZFDA and the CGCLA largely mirror the functions of their counterparts on the mainland. All of these regulatory agencies face shortages of technical capacity and trained personnel, which limits their ability to enforce the SPS. There is also a need to increase awareness of the importance of SPS and food safety through the provision of outreach and improved information and notification mechanisms.

Export permits are required for all agricultural products. All exporters must be registered with the Ministry of Industry, Trade and Marketing (MITM), obtain an export permit from the Ministry of Agriculture, Livestock and Fishing (MALF) and a certificate of origin from the Zanzibar Chamber of Commerce and Industries Association (ZNCCIA). The MALF levies a royalty of 1–2 percent ad valorem on all agricultural exports. For exports to third countries, the ZNCCIA charges their members US$13.75 (T Sh 30,000) while nonmembers pay US$18 for the certificate of origin. Issuing the EAC certificate of origin costs US$2.25.

All exported containers pay a US$100 weighing fee. The WVA requires all exports to obtain a certificate prior to shipping. The WVA charges US$100 per container for weighing the goods and issuing the certificate.

Agriculture

The population of Zanzibar is mainly dependent on the agricultural sector for their livelihood. Agriculture employs approximately 60 percent of the nation's labor force, it accounts for 27 percent of GDP and generates half of the foreign exchange. Agriculture has the potential to drive economic growth in Zanzibar. MKUZA II aimed to increase growth of the agriculture sector from 4.4 percent to 10 percent. The agriculture sector grew by an average of 2.5 percent in the five-year period ending in 2014, which is barely equivalent to the rate of population growth. Agriculture sector growth has varied widely over the past decade as the largely rain fed crop production fluctuated with the changes in the weather. Most recently, this included a very poor harvest in 2012. Zanzibar remains vulnerable to climate change.

Growth in the crops subsector has not kept pace with population growth. The crops subsector averaged an annual growth of 0.66 percent between 2010 and 2014. As the largest subsector (see table 8.1) it exerts a strong influence on the aggregate growth trend. The other components of forestry, livestock, and fishing have experienced a relatively stable average growth of 3.70 percent, 5.02 percent, and 6.08 percent, respectively, over the same period. In 2014 and 2015, fisheries and livestock experienced similar growth rates of 8.2 and 7.5

TABLE 8.1: Food Crops Value Produced in Zanzibar, 2014 and 2015

	2014		2015	
Type of crop	Amount (tons)	Value (T Sh billions)	Amount (tons)	Value (T Sh billions)
Paddy	29,564	22.5	29,083	22.8
Cassava	158,704	43.5	132,641	37.4
Banana	57,437	30.7	47,495	26.1
Yams	2,116	1.1	2,409	1.3

Source: Derived from OCGS (2015).

percent, respectively. Although in aggregate, agriculture sector growth was below the 10 percent anticipated growth rate and has thus been unable to make a considerable contribution to poverty reduction.

The review of MKUZA II highlights the limited involvement of the private sector in the provision of support services, value addition, and processing in the agricultural sector. The review attributes the relatively poor performance of the agricultural (agribusiness) sector to a wide range of factors, including inadequate budget for policy implementation, low incentives to farmers which discourage investment, underperforming agribusiness and small and medium enterprises, poor marketing structures, declining soil fertility, and infestation by pests and diseases. Other factors include inadequate finance to obtain productivity-enhancing inputs or capital, limited availability of support services such as research and extension, and lack of appropriate technologies forcing the majority to produce only for subsistence. The report also notes the weak links between producers and research institutions and providers of extension services, and poor links along value chains.

The sector has low productivity and high postharvest losses. Along with low domestic production of agricultural commodities is the persistent problem of higher levels of postharvest losses, particularly of food crops, because of poor handling, inadequate processing, and poor storage technology and facilities. The average postharvest losses for rice, cassava, vegetable (tomatoes), and fish is 13, 26, 42, and 25 percent per year, respectively.

Cloves and Spices

Clove exports still account for close to 50 percent of total exports and provide a livelihood for more than 8,000 farmers. Zanzibar cloves are exported to Europe and South East Asia. Zanzibar also produces a range of other spices, including cardamom, bird's eye chilis, cinnamon, ginger, nutmeg, pepper, turmeric, and vanilla, though in very limited quantities. Private investment research estimated the global market for seasoning and spices was US$12.7 billion in 2012 and forecast an average annual growth rate of 4.8 percent.[3] With the mature markets of the European Union (EU) and the United States accounting for half of total world spice trade, the report noted rapid growth rates in Asia, particularly India. While the aggregate spice trade is growing rapidly, the bulk clove market is more unstable as it is dominated by demand from Indonesia, which is also the largest producer. The EU and India pay a premium for higher-quality cloves. This demand for high quality cloves has been increasing, however, Zanzibar has largely continued to sell into the bulk clove market. The world demand for clove oil estimated at 5,000 tons per annum (Duclos 2012), exceeds existing production levels. Zanzibar has an opportunity to increase value addition through improving clove quality and processing the essential oils. Approximately, 50 percent of spice farmers are smallholders and do not produce for clearly defined grades and standards (Mahmoud 2013).

Clove farmers are required to sell their productions to the Zanzibar State Trading Corporation (ZSTC). The ZSTC has operated a compulsory monopsony marketing system since the private sector, Clove Growers Association, was eliminated in 1968. The ZSTC was modernized in 2011.[4] The new legislation provided for ZSTC to operate commercially and to purchase cloves from farmers for 80 percent of the export price. The new ZSTC operated with a much smaller staff and required an annual government subvention, subsequently ZSTC has operated profitably (see table 8.2). While the prices paid by ZSTC improved significantly after 2011, farmers continue to complain about the lack of transparency in the marketing and pricing of the crop. The Zanzibar Cloves Producers Organization (ZACPO), which represents the smallholders, continues to lobby for increased transparency and more stakeholder involvement in the setting prices.[5] The ZAPCO has also requested the Zanzibar government to actively promote the spice sector through more effectively regulating "buyer collusion," which, they argue, reduces prices to the producer.

Recent reforms guarantee farmers 80 percent of the price obtained by the ZSTC while maintaining the ZSTC monopoly. The increase in the ZSTC purchase price

TABLE 8.2: Quantity and Price of Cloves, 2011–15

Financial year	Quantity purchased (tons)	Quantity Sold (tons)	Average price per kg (T Sh)	Value of purchases (T Sh billion)	Value of sales (T Sh billion)	Ratio of sales to purchases
2012	4,852.9	4,063.0	14,939.5	72.5	93.8	1.29
2013	1,503.3	2,185.0	12,439.3	18.7	32.5	1.73
2014	5,375.4	5,230.9	14,008.3	75.3	94.9	1.26
2015	2,826.5	2,766.0	14,010.3	39.6	53.3	1.35
2016	5,764.8	5,667.0	14,033.4	80.9	98.2	1.22

Source: Derived from Zanzibar State Trading Corporation official data.

(from US$3 to US$10 per kilogram) during fiscal 2012, coincided with a large increase in the price of cloves on the international market resulting from the downturn in production by Indonesia (the largest producer in the world).[6] The price was fixed for the year (and paid) in Tanzanian shillings. The ZSTC classifies cloves into three grades and offers lower prices for the second and third grades. In fiscal 2013, the price was adjusted downwards to reflect the changes in international prices.[7] The Tanzanian shilling has continued to fluctuate against the U.S. dollar and, over the period 2012–16, has depreciated by approximately 38 percent. The increase in the ZSTC purchase price to 80 percent of the export price has significantly reduced the proportion of production that is sold on the informal market.

Does the ZSTC address the incomplete and missing markets for credit and technical advice? Officials from the MITM justify the ZSTC's continued monopsony by asserting that it protects the incomes of small clove farmers from large price fluctuations. The ZSTC stated that farmers will receive the agreed price in Tanzanian shillings (for that year), regardless of the change in global market, and will be paid the full amount in cash on sale. The ZSTC also rationalize the continued compulsory requirement by referring to their provision of services that will enable clove farmers to increase their incomes. The services include: the provision of seedlings; the transport of cloves from the farm to the marketing points; the supply of subsidized dying equipment; the provision of soft loans to farmers; provision of accident insurance; technical advice on harvesting; and annual award for the best performing farmers. The MITM estimates the value of these additional services as equivalent to approximately 12 percent of the price paid.

Clove farmers wished to have the freedom to choose where to sell their product. Hilal (2013) interviewed 30 clove farmers in six villages in Pemba (where 90 percent of the cloves are grown). The interviewees were selected to include those with 5–10 years of experience and those with 20–30 years. Most of the farmers interviewed expressed concern over the competence of the ZSTC in providing the necessary support. Specifically, farmers were unable to access credit and were very critical of the quality of the extension advice. When the farmers were asked why they considered the marketing restrictions as a constraint they responded, "that the board was not competent in implementing their tasks such as provision of loans [and] extension services..." The farmers stated their wish to have the freedom to choose where they sell their produce.

Low productivity, credit constraints, and weak extension services characterize the sector. Productivity in the clove sector remains low at 1,365 per hectare. This is approximately half the recommended level of 2,700 per hectare. The low productivity is consistent with the reports (from the farmers) of the inadequate extension services. Many farmers have limited knowledge on the prevention of clove tree diseases, poor harvesting practices reduce the yield as does production mishandling, and the absence of advice on the replanting of seedlings leads to unnecessary wastage.

Essential Oil Distillery in Pemba

Zanzibar accounts for 10 percent of the world trade in clove stem oil and has potential for future growth—providing the market is liberalized. The present state-owned distillery in Pemba is the sole producer and exporter of clove oils. The distillery produces between 2,500–3,000 tons of oil yearly, extracted from: clove stems and leaves. Presently, the oil distillery has extended its operations to include the production of other oils including: eucalyptus (utilized in medicine and perfumery), cinnamon, sweet basil, lemongrass, and bitter orange (extracted from orange tree leaves) (see table 8.3). Plans are also currently underway to start the

TABLE 8.3: Production of Essential Oils in Pemba, Kilograms, 2016

Fiscal year	Clove stem	Clove bud	Lemon grass	Cinnamon leaf	Eucalyptus citriodora	Eucalyptus camaldulensis	Basil oil	Clove leaf
2007	9,914.0	362.0	46.96	165.76	481.5	186.0	24.3	1,558.85
2008	3,290.8	–	66.691	64.81	739.1	325.0	4.25	991.61
2009	19,319.9	–	58.65	80.0	504.0	471.5	–	520.8
2010	7,957.0	–	55.34	35.75	661.5	426.5	18.0	671.9
2011	13,549.0	–	61.2	61.5	416.5	395.5	9.4	299.0
2012	28,88.5	–	48.2	11.4	719.5	554.5	18.9	–
2013	18,231.0	–	46.8	104.5	253.5	454.0	7.0	1,258.5
2014	11,895.0	–	48.8	42.8	635.5	472.5	6.45	2,042.5
2015	23,500.0	–	45.97	140.0	659.0	–	7.0	1,266.0

Source: Derived from Zanzibar State Trading Corporation data.

production of rose water and bath salt for export purposes. The 2014 Zanzibar Clove Report considers that market trends are favorable for growth of the Zanzibar clove industry. At present, Indonesia produces 70 percent of the world clove oil, followed by Madagascar, with Zanzibar's share standing at 10.4 percent.

The ZSTC faces the challenge of improving both the quantity and quality of services to smallholders that will enable them to increase their productivity. Increased transparency over price setting in conjunction with assisting farmers to increase the quality of their product (and hence obtain higher prices) will all work towards improving the willingness of farmers to choose to sell their cloves to the ZSTC. The ZAPCO, established in 2004, welcomed the new (2011) reforms and a more commercial ZSTC, however, as noted earlier, they wished for more transparency and information on production and marketing.

The Zanzibar government should monitor the ZSTC to ensure it supports increasing productivity in the clove sector. Justifying the continuation of the ZSTC monopsony on cloves from an economic perspective requires the ZSTC to enable clove farmers to increase their productivity through addressing credit and technical constraints as well as price discovery. The experience of state marketing boards under monopsony indicates that they generally fail to eradicate the constraints facing farmers and producers. It is important for the government to monitor the performance of ZSTC. Should productivity fail to increase, the Zanzibar government may wish to consider further regulatory reforms, including removal of their monopsony privilege.

Performance of Livestock Subsector

The livestock sector has been growing at more than 5 percent per year over the past six years. The MKUZA II review highlights the importance of the livestock sectors as a source of growth. It contributes almost one-third of agricultural GDP and about 13 percent of the total GDP. The sector has continued to grow, however, in the absence of better quality data, it is difficult to say whether this represents an increase in the quality of livestock products or simply an increase in the number of animals. Average annual growth in the livestock subsector has been 5 percent over the past five years and by 7.5 percent in 2014 and 2015. Although some of this increase may be explained by improved data collection methods, efforts by the government to empower livestock keepers to vaccinate, improved collaboration between the livestock keepers and the Zanzibar government in increasing the availability of drugs are all potential contributing factors.

Growth in the dairy subsector is linked to the increased use of cross-bred cows with higher productivity. The success of the Tsetse Fly Eradication Program and Livestock Development Project has alos encouraged increased investment in improved breeding stock. Milk production and productivity increased from 7–11 liters per cow per day in 2014 to 14 liters in 2015, and total production grew by 17 percent albeit from a relatively low base of 30,000 liters.

The livestock sector faces poor animal health services, a shortage of efficient abattoirs, and weak domestic purchasing power. During the period 2010 to 2015, no new slaughterhouses were constructed and the seven that

exist are poorly equipped. There continues to be poor delivery of good animal health services. Other major constraints include the continued practice of traditional livestock husbandry, land limitation, weak extension services, fodder shortages, animal diseases, low investment, and a dearth of improved breeds of dairy cows and milk goats.

Fisheries Subsector

The fisheries sector has underperformed other sectors of the economy with its share of GDP declining in the past decade, while the share of the population relying on fishing for their livelihood increased from 20 to 25 percent. Average growth in the fisheries sector has been lower than expected for much of the period of implementation of MKUZA II. The apparent high growth in 2014 stems from the one-off adjustment from moving seaweed production from the crops subsector to the fisheries subsector within the GDP calculations. This subsector contributed about 5 percent to agricultural GDP and 2.5 percent to the overall GDP in 2015 from 4.6 percent in 2007, which shows a negative trend. The subsector employed about 25 percent of the population in 2015 as compared to 20 percent in 2007, either as fishers or as providers of supportive fisheries services. In 2010, fishermen earned a premium of 84 percent over the annual average income—US$765 compared to US$415. In 2014, production of fish in Zanzibar amounted to about T Sh 127 billion, more than 15 times the total value derived from the production of seaweed. The value of fish catch in 2007 was T Sh 34.6 billion, showing a steep increase in the value over the period. At the same time, the share of seaweed in export of marine products was over 95 percent in 2015.

Now, the sector is dominated by small artisanal fishing. Expanding employment and creating more value-added investments in downstream processing requires investing in larger-scale deep sea fishing and onshore cold storage facilities. Artisanal fishing is mainly carried out close to shore and it is hard to regulate. In 2010, 84 percent of all fishing vessels operating were propelled by sail, poles, or paddles, only 15.6 percent were motorized. Dhows and planked boats are used in Unguja and outrigger canoes are more common in Pemba. The Zanzibar government provides boats and fishing equipment to artisanal fishermen. Improved fishing equipment along with increasing the number of fishermen and vessels may lead to overfishing in these waters. However, to date this had not occurred, rather, there has been an improvement in marine conservation (in the Menai, Chwaka, Mnemba, and Pemba areas). There has been no significant improvement in fish processing; investments in this area would enable storage and the export of higher-value fish. Postharvest losses through poor handling remains a serious problem and have been estimated at 25–50 percent of the catch (Hoof and Kraan 2017). This is due to ill-treatment on board, poor processing facilities and practices, and losses further up the marketing chain through lack of an effective cold chain for transport. Currently, the fish catch in Zanzibar does not meet domestic demand and fish is imported from China. Large-scale investment in the fisheries sector in Zanzibar requires approval from both the Zanzibar government and the government on the mainland. To date, there appears to be limited awareness of the major constraints holding back investment in the fisheries sector.

Zanzibar requires an updated fishery policy addressing government and management issues, including links with tourism and conservation issues. Much has changed since the 1985 fishery policy, which focused on increasing the supply of fish, creating jobs, and conserving marine resources. The Fisheries Act dates from 1988 and the regulations from 1993. Increased population growth and growing demand from the tourism sector have increased fish prices. Fish is no longer considered a cheap source of protein for lower-income groups. The strong demand for fish from the tourist industry is encouraging more artisanal entrants to the sector. There is increasing competition for land and beach landing sites between the tourism and fishing sectors. There is no up-to-date assessment of the state of the fish stocks since the 1980s. The Zanzibar government is currently preparing a Fisheries Policy (first draft, June 2014) with the support of the EU Smartfish Initiative. The policy document notes the potential for fisheries to play a larger role in the economy, and recognizes the necessity of addressing governance and management issues, with the aim of increasing the formalization of fisheries activities, promoting artisanal fishing, developing aquaculture, and promoting value addition.

Seaweed Subsector

Seaweed is Zanzibar's second-largest export and the largest marine export product. Further, approximately two-thirds of seaweed farmers are women. Increasing

seaweed production has the potential to contribute to poverty reduction. Almost two-thirds of seaweed production take place in Pemba, and is either Cottonii or Spinosum seaweed. Between 1990 until 2012, Zanzibar spinosum seaweed production grew from about 800 to more than 15,000 tons per year. A November 2016 report to the National Seaweed Committee estimated that 23,654 farmers were employed in the sector, consisting of 10,258 men and 13,393 women. The cottonii seaweed (genus Kappaphycus) which commands a higher price, has been plagued by repetitive crop failures despite substantial farm development effort since the late 1980s. During 2012, total Zanzibar cottonii production was only about ninety tons, which was less than 1 percent of total seaweed production. A recent survey by the ZAPCO, a seaweed farmer organization in Pemba, considered the prospects for expanding cottonii production to be poor owing to a combination of environmental concerns[8] and the technical information required for successfully increasing productivity. Innovative methods of farming in deep water return higher growth rates than the off-bottom method, which remains widespread.

Seaweed has multiple uses and world demand continues to grow. Seaweed are used to extract carrageenan, which is used as an emulsifier, stabilizer, and gelling input in the food, pharmaceutical, and cosmetics industries. Seaweed value-added products produced in Zanzibar and marketed commercially include soaps, seaweed powder, body creams and powder. Foreign investors from Denmark, the Philippines, and the United States are involved in international marketing.

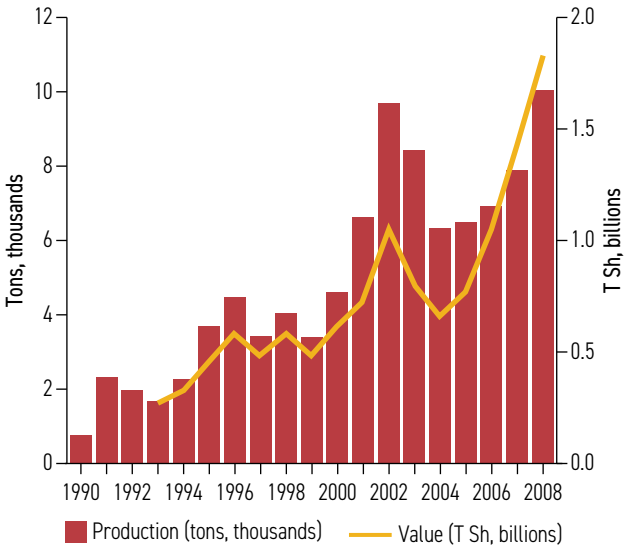
In 2012, estimated income from seaweed production was US$25 per month, such low prices discourage private investment and research into improved productivity and switching to higher-value varieties, ensuring it remains largely the preserve of small-scale informal activity. Zanzibar exported about 16,700 tons of spinosum in 2015 (the trend since 2010 is shown in table 8.4). The average production per farmer was approximately 100 kilograms per month, which at farmgate prices ranging from T Sh 300–400 per kilogram (US$0.19–0.25 per kilogram) would yield a gross monthly income per farmer from seaweed of US$19–25. The bulk of such income went to farmers' labor, but some farmers incurred costs of planting material, transport, and other operating costs.

TABLE 8.4: Production of Seaweed in Zanzibar, 2010–15

Year	Production (tons)	Value (T Sh millions)
2010	12,516	2,983
2011	13,040	5,533
2012	15,088	6,063
2013	11,044	4,135
2014	13,302	6,008
2015	16,724	9,469

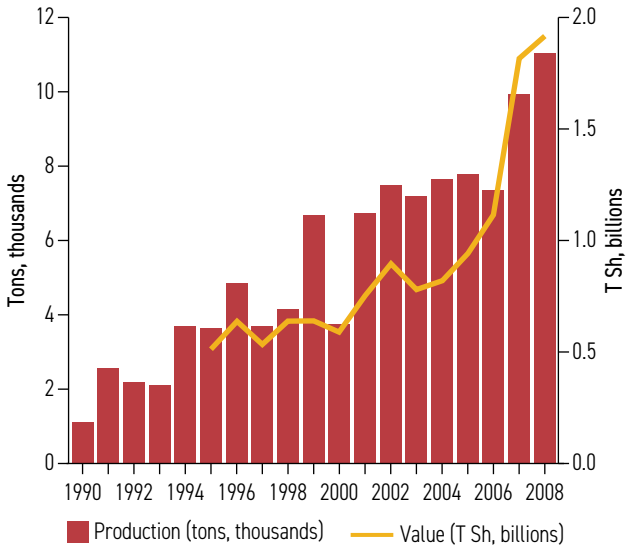
Source: Derived from the Department of Fisheries and Marine Resources.

FIGURE 8.2: Trends in Seaweed Production and Value, 1990–2008



Source: Derived from Msuya 2013.

FIGURE 8.3: Trends in Seaweed Exports from Zanzibar, 1990–2008



Source: Derived from Msuya 2013.

Information from farmers during the previous 2005 DTIS in Pemba revealed that Zanzibar seaweed was ultimately purchased by companies that used it as raw material for the manufacture of refined alcohol-precipitated iota carrageenan. This carrageenan was sold primarily to dentifrice and food ingredients markets. Recent increases in seaweed purchase prices from T Sh 400 per kilogram in 2014 to T Sh 700 per kilogram in 2015 were linked to the availability of better equipment for processing and handling of the seaweeds. Prices fluctuate with cottonii selling (depending on the quality) for more than double the price of spinosum (Hoof and Kraan 2017). Improving the quality of the seaweed through extension work and disease monitoring, promises to significantly increase farmer incomes.

The earlier DTIS noted the absence of domestic processors as a major constraint along with the inability to offer both cottonii and spinosum. The studies of Msuya (2013) and the earlier DTIS identified a number of constraints, including the costs associated with transporting seaweed from farms to the drying areas, the challenges with drying seaweed during rainy periods, low seaweed prices that farmers say is not proportional to the amount of work and investment they put into producing the seaweed, inadequate market volume for the amount of spinosum that farmers can produce (associated with limited markets for the iota carrageenan that is made from spinosum), and health problems, such as backaches, itching eyes, dry skin and other issues related to long exposure under the sun and in the sea. Generally, occupational hazards are higher in aquaculture than in agriculture. Increasing awareness and understanding of the health and safety risks will assist with the development of appropriate mitigation measures.

The seaweed sector has the potential to expand production and increase value addition. Currently, virtually all the seaweed is dried and then exported for further processing. International agencies, including the Food and Agriculture Organization and United Nations Industrial Development Organization, have identified opportunities for improving productivity through better farming and postharvest handling, and transforming the seaweed into value-added products (such as powder, seaweed soap, body creams, and food). The Task Force on Seaweed Development would benefit from a study tour to Indonesia and the Philippines, which have successfully grown their seaweed industry.

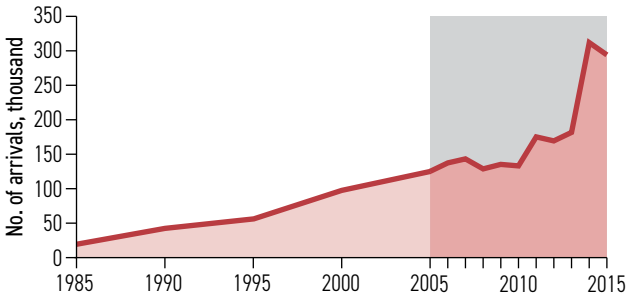
Tourism Sector

Zanzibar's tourism sector is showing signs of stagnation. While Zanzibar is home to a diverse range of natural attractions and cultural heritage that have a global tourism market, the first generation (over the past 25 years) of public and private tourism investments have not created a strong enough economic platform to support Zanzibar's longer-term development objectives as outlined in the Zanzibar Vision 2020, the Zanzibar Growth Strategy, and the National Strategy for Growth and Reduction of Poverty (MKUZA I and II). For instance, by 2020, the Zanzibar government hopes that 50 percent of all employment will be generated by tourism (ZCT 2014); currently, tourism supports a little over 10 percent of all jobs in Zanzibar (the industry directly supports 11,500 jobs and an additional 45,000 engaged in tourist-related activities (RGOZ 2013), which is about 10.7 percent of total employment—just over 528,000 recorded in the 2014 Integrated Labour Force Survey). In addition, by 2020, the government hopes to record 500,000 tourist arrivals from roughly 300,000 in 2016. Achieving these targets will require careful planning and focused investment driven by committed leadership.

Tourism growth has not been planned in Zanzibar and this has placed enormous pressure on an already strained infrastructure platform that includes water, energy, waste management, roads and access, and human and natural resources. The organic tourism growth that has occurred, largely led by accommodation investments, has also been opportunistic and has not been properly linked with the rest of the economy. Zanzibaris has not benefitted from tourism as much as they might, and the industry has had some negative environmental and social consequences. Tourism is inherently multi-sectoral, and to be successful, needs integrated planning and policy making, and strong governance structures to guide and monitor sector growth.

Tourism arrivals are growing, but yield is not. Figure 8.4 shows tourism arrivals to Zanzibar have increased steadily since 1985, with 294,243 international arrivals in 2015. The growing value of tourism-related services in Zanzibar from 2007 to 2014 is shown in figure 8.5. The contribution of tourism to Zanzibar's GDP has steadily grown as well, from T Sh 72.2 billion in 2007 to T Sh 200 billion in 2014 (OCGS 2014b)—approximately one-fifth of Zanzibar's economy (see table 8.6).

FIGURE 8.4: International Arrivals to Zanzibar, 1985–2015



Source: Derived from the Zanzibar Commission for Tourism.

TABLE 8.5: Average Length of Stay for International Tourists, 2010–14

	2010	2011	2012	2013	2014
Seychelles	10.4	10	9.9	10.2	10.2
Maldives	7.6	7	6.7	6.3	6.1
Mauritius	–	–	–	10.8	10.9
Sri Lanka	10.0	10	10.0	8.6	9.9
Zanzibar*	–	–	6.1	6.0	6.0

Source: Derived from UNWTO (2016).
*The calculation for Zanzibar is based only on surveys of departing tourists from the international airport. Considering that 59,000 tourists arrive by ferry or cruise ship and are likely to be short-stay visitors (cruise ships only for half a day), the real average length of stay is likely much lower.

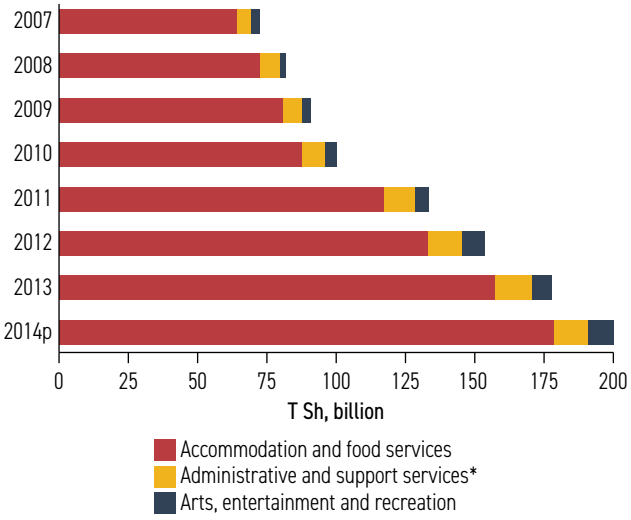
TABLE 8.6: Contribution of Tourism to Zanzibar GDP, 2007–14

Tourism segment	2009	2010	2011	2012	2013	GDP contribution (T Sh billions)
Accommodation	62.4	70.5	87.9	93.8	104.4	124.4
Food and beverage services	18.0	17.3	29.1	39.6	52.9	54.4
Administrative and support services*	7.7	8.3	11.0	12.4	13.0	12.9
Arts, entertainment, and recreation	2.8	3.6	5.8	7.7	8.0	8.2
Total	90.9	91.4	133.8	153.5	178.3	200**

Source: Derived from OCGS (2014b).
*Includes travel agencies and tour operators.
**Equivalent to US$91.2 million.

Zanzibar earned approximately US$294 per visitor in 2014,[9] which is about half of what competitors in the region earned. Kenya, for example, earned US$643 and Uganda US$628 per visitor. However, expenditure per visitor data cannot reliably be calculated because nearly half of the international tourists are short-stay visitors. (More than half of all visitors [168,136] arrived directly to Zanzibar through the international airport, while 67,000 arrived on domestic flights and 59,000 by cruise ship and ferry.) Without disaggregated data, it is difficult for the government to develop tourism growth strategies.

FIGURE 8.5: Zanzibar Tourism-Related Services, 2007–14



Source: Zanzibar Commission for Tourism.
Note: P = projection.
*Includes travel agency and tour operator services.

Regional Integration

Increasing regional cooperation throughout East Africa on public goods and services would stimulate additional tourism. The private sector has begun joint marketing through the East Africa Tourism Platform. Increasing coordination on safety and security standards and programs, and adopting internationally standardized hotel classifications standards would all contribute to increasing the attractiveness of Zanzibar as a tourist location. While a visa-on-arrival scheme operates at Zanzibar's international airport, the tourism sector would benefit from introducing a single regional visa. To date, Tanzania and Zanzibar have not joined the East Africa single-visa scheme.

Regional Labor Mobility

The EAC Common Market Protocol for the Free Movement of Labor/Workers, which allows workers from any partner state to accept employment within any other EAC country, is also applicable to Zanzibar, although as mentioned earlier, Tanzania has not specifically liberalized for mode 4, "presence of natural persons." The tourism sector experiences difficulties in recruiting skilled and experienced staff for higher-level positions, and faces hurdles in obtaining work permits for expatriate staff. Enabling the movement of workers in the EAC would allow the tourism sector to grow more rapidly.

Access

Air service liberalization has benefited Zanzibar with 11 airlines offering direct services (compared to 28 airlines serving the mainland.). Although the airport has undergone expansions and improvements over the past decade, it will continue to need additional improvements. A new airport terminal is scheduled to open in 2018.

Enhanced Links

Both the Zanzibar government and local tourism industry are trying to diversify beyond the beach resort segment with more excursions and activities. For Zanzibar, these experiences include ecotourism (Jozani, Ngezi, and Kiwengwa forests), marine tourism (kite surfing, scuba diving, snorkeling, and dolphin watching), and cultural tourism (handicrafts, cuisine, monuments, and museums) have the potential of becoming important links in Zanzibar's tourism value chain and thus offering expanded opportunities for more local microenterprise, jobs, and incomes. Zanzibar has the potential to significantly increase the contribution of tourism to the economy growing and diversifying potential income generating and job growth opportunities for Zanzibar's international tourism value chain.

There are substantial opportunities for increasing the links with local communities. Tourism can benefit the communities when, as some already are, they are supplying goods, services, and activities for tourism—for example, food, beverages, handicrafts, guiding, cultural demonstrations, lodging services, and so on. One 30-room hotel, purchasing fish and meat locally, was spending approximately US$500 per day.

Considerable potential exists for developing incremental value-added activities in-country. For example, the Zanzibari operator will earn approximately US$45 more per person for excursions. On average, each of his customers purchases three excursions—Moto Handicraft Museum and Workshop in Pete, Jozani Forest, and Stone Town—at US$35 per person. The operator receives on average US$15 per person after payments to the village or local restaurant for lunch, admission fee to Jozani or, if his own guides are unavailable, US$10 for a licensed guide. From the $45 (or $30 if the operator has to pay for an independent licensed guide) the tour operator is also required to pay 18 percent VAT, thus leaving him US$44.25. The cultural tourism excursion to the Moto Handicraft Museum and Workshop includes a lunch, and offers opportunities for increasing visitor engagement with and purchases from local communities. Some of the activities include learning batik design, weaving demonstrations, and experiencing a traditional Swahili lunch.

Development Constraints

Supply Side Constraints

Skilled Labor

Zanzibar faces similar challenges to the mainland, namely a shortage of skilled labor to develop and offer higher quality, more competitive tourism experiences and services. This is lacking for the same reasons—weak education and training programs and disincentives for industry to formally hire and train workers. The Jambiani Tourism Training Institute, for example, trains 300 students a year, 100 of whom drop out before graduation. Even at 300, though, it is not enough to meet demand because the institute is not providing the skills that are needed by the industry.[10] The main workforce weaknesses are in business skills, understanding visitor needs and expectations, customer service, and online communications (Fernandes and other 2013). Improved local training programs would address the issue.

Capital

Access to finance from banks and investors for tourism businesses in Zanzibar is generally not a binding constraint for medium- and large-scale operators, however, it remains a constraint for microenterprises. Zanzibar is attracting investment. From 2010 to 2014, almost US$723 million was invested in 84 hotel and restaurant projects in Zanzibar, with nearly half of that capital invested in 2014 alone, the highest amount invested in that period. However, for hotel investors, the minimum amounts needed for the Zanzibar Investment Promotion Agency approval—a requirement for all projects—is US$0.3 million for local investors and US$2.5 million for foreign investors. For other tourism-related projects, local investors must invest at least US$0.005 million and foreigners US$0.5 million. For local entrepreneurs who are starting new businesses, this can be a serious barrier to entry, one that perhaps constrains new product development and innovation.

Potential Action: Provide incentives to local and foreign investors to assist with the financing of small-scale local

entrepreneurs, especially those whose product ideas would add value to the offers of their hotel and restaurant developments.

Land

There is a dearth of new land available for tourism in Zanzibar because of past land allocations. New developments are required to be on existing development sites. The ZIPA have noted, "the land is almost finished now" for tourism development. Nevertheless, since 2010, the agency has approved 84 tourism-related projects, which are moving forward, all of which presumably secured the rights and permits from the Ministry of Lands to invest and develop or redevelop plots for tourism.

Potential Actions: Establish a centralized land registry and regional one-stop shops for land registration. This would assist potential tourism investors and developers. Update the Land Registration Act of 1954 in line with the National Land Information System that the World Bank's Competitiveness Program is supporting (Christie and others 2013).

Demand Constraints

The business-enabling environment facing investors and operators in the tourist sector suppresses demand. Major constraints include a multiplicity of taxes, levies, and fees and a confusing, often overlapping collection system spread across multiple government entities from the local to the island-wide levels. In 2013, the Tanzanian National Business Council, through the Big Results Now - Business Environment Lab (BRN-BE Lab), reported on the "multiplicity of laws and regulations, licenses, permits and certifications...the involvement of regulatory bodies/institutions with duplicative mandates; hampers enterprises' competitiveness and limits their growth potential" (Fernandes and others 2013). This remains a major challenge for investors in the tourism sector. Increasing transparency by making information on licensing requirements more readily and easily accessible is also important.

Simplifying taxation and reducing the multiplicity of levies and fees are a priority. The priority reform areas identified by the BRN-BE Lab for the mainland are also relevant to the Zanzibar tourism sector, especially realigning of regulations and institutions, simplifying taxation and reducing the multiplicity of levies and fees, and improving labor law and skills development.[11] These areas were, to an extent, reiterated in a ZNCCIA (2013b) study. It emphasized the "triple aims of (i) greater clarity, (ii) less complexity, and (iii) sound tax structure." It also provides a list of tourism-related taxes and fees (shown in box 8.3).

Zanzibar ranked behind its regional competitors on tax issues. The ZNCCIA (2013b) study included a useful comparison with the tax regimes of other small island economies in terms of the ease of paying taxes which ranked Zanzibar 103. The rankings of the regional comparators are particularly noteworthy, with Zanzibar significantly behind the Maldives, Mauritius, and Comoros. "In [the] Maldives, a typical medium-size company makes one payment, pays 9.1 percent of its commercial profit in

BOX 8.3: Tourism-Related Taxes and Fees

- **Zanzibar Revenue Board**
  Taxes include:
  - hotel levy - 18 percent
  - value added tax - 18 percent
  - stamp duty - 3 percent
- **Tanzania Revenue Authority**
  Taxes include:
  - income tax - 30 percent
  - pay as you earn, stamp duty, withholding tax, skills development levy on gross payroll - 5 percent
- **Lands tax:** Rental per hectare annually
- **Zanzibar Social Security Fund**: Social Security fund for all employees - 10 percent
- **Commission for Tourism**: From US$1,000 to US$15,000 per year depending on the size of the company
- **Zanzibar Investment Promotion Agency**: Annual payment for investment license, from US$500 to US$1,500
- **Fisheries:** US$5 per tourist per day to enter marine reserves; 30 percent goes to the local community
- **Community Fund**: One percent of turnover payable to local authority (new tax)
- **District Council**
  - Liquor license: from T Sh 1.5 million to T Sh 2.5 million per year
  - Signage: from T Sh 100,000 to T Sh 500,000
- **Port Authority**: Boat licenses for boat and radio
- **Environment**: Regional Inspections certificates from T Sh 100,000
- **Food safety**: Regional Inspections certificates from T Sh 100,000
- **Good governance**: Public broadcast TV or music (new) from T Sh 2,000,000 to T Sh 5,000,000

Source: Derived from ZNCCIA (2013b).

TABLE 8.7: Ranking for Ease of Paying Taxes for Selected Small Island Economies, 2015

Country	Ranking
Maldives	1
Singapore	4
Mauritius	12
Timor-Leste	20
Seychelles	32
Comoros	40
Dominican Republic	70
Fiji	80
Zanzibar	103
Jamaica	178

Source: Derived from World Bank's Doing Business.

taxes, and spends less than one hour per year on tax compliance, whereas in Zanzibar Town, such a medium-size company makes 48 payments, pays 40.8 percent of its commercial profit in taxes, and spends 158 hours per year on tax compliance" (ZNCCIA 2013b).

The private sector is actively engaged in highlighting the importance of tax reform to support future growth and profitability in the tourism business. The Zanzibar Association of Tourism Investors, which counts 100 members representing all types of businesses, was conducting a tax review study to prioritize issues and actions.[12] The results of this study are expected to reinforce the priority for improving the tax regime and will assist with identifying specific actions.

Potential actions and solutions:

- Improved tax collection and licensing system: A one-stop shop for industry licensing.
- Establish online registration of businesses.[13]
- Streamline the list of public charges (licenses, permits, taxes, levies, fees, and so on) applicable to the tourism sector that is published on the Ministry of Natural Resources and Tourism website through a government-initiated process that is based on private sector participation.

Small-Scale Tourism

In the tourism sector, most operators are small scale, apart from a few large hotels. Zanzibar counts 407 accommodation establishments accounting for 8,263 rooms (of which 33 percent do not meet international standards) and 34 restaurants, few of which provide international level service (ZCT 2014). There are also now more than 300 listings on Airbnb, which include apartments and houses. For the latter, the lack of registration, taxation, and licensing requirements will become issues as this accommodation option continues to grow in popularity.

It is important to use registered local guides and operators. The government requires all operators and guides to be registered. This has the potential to create employment for small Zanzibari businesses, however, there was some concern that foreign tour group managers had sold and organized island tours directly rather than through locally licensed operators. (insert end note reference). It is important for the ZTC to effectively monitor compliance by the registered guides and operators. Zanzibari women are involved in small-scale trade, selling handicrafts and food products to tourists. This provides for an uneven income flow due to seasonality (especially in the case of trade in food and vegetable products), and, only in a minority of cases, provides for a sustainable livelihood in the long-term.[14]

Women appear to be discouraged from being more engaged in the tourism sector through providing indirect services, such as tour guides for cultural heritage sites and translation and marketing services. However, they are also constrained by the low-education levels, cultural and resource constraints. As typically, men own the resources (land, capital, cars, boats, and/or fishing equipment) required for engaging in tourism-related activities or services. Women's property or inheritance rights may be subject to discriminatory provisions resulting from concessions, made by the government and courts, to customary and Islamic law. For instance, while the Tanzania Marriage Act provides for certain inheritance and property rights for women residing on the mainland, it does not apply in Zanzibar (Gregerson 2006). Also, since property and production assets are often used as collaterals in the context of bank loan applications, women's ability to access credit can be severely limited.

Policy actions are required to facilitate women's access to finance, jobs, training, and markets, as well as to increase their voice and agency in the tourism industry.

Notes

1. In 2013, the mainland Ministry of Industry and Trade issued licenses for 85,000 tons.
2. Though the ZBS and the TBS are scheduled to meet quarterly, due to funding, they rarely do.
3. www.transparencymarketresearch.com/seasoning-market.html.
4. The Clove Act No. 39 of 1968 was repealed and replaced by the 2011 Act.
5. Masare (2016).
6. International prices surged to US$13 per kilogram.
7. The difference between first grade and third grade widened from T Sh 1,000 to T Sh 4,000 per kilogram. In fiscal 2012, first and third grade were T Sh 15,000 and T Sh 14,000, respectively, and in fiscal 2013, it was T Sh 14,000 and T Sh 10,000, respectively (Hilal, 2013).
8. Seaweed production is very sensitive to sea temperature increases due to climate change.
9. Calculated by dividing the total estimated earnings from tourism by the number of visitors and the average length of stay.
10. February 2016, interviews with Dr. Miraji Ussi of the Zanzibar Tourism Commission, Fatma Khamis, executive secretary of the Zanzibar Association of Tourism Investors, and hotel managers.
11. Program Document for a Proposed Credit, the United Republic of Tanzania for the First Business Environment for Jobs Development Policy Operation, June 2015, p. 13.
12. Interview with Fatma Khamis, executive secretary of Zanzibar Association of Tourism Investors, February 23, 2016.
13. ZNCCIA (2013b), p. 18.
14. Ali Amour, chairman of the Zanzibar Association of Tour Operators and chief executive officer of Fisherman Tours, gave two examples of illegal selling and excursions undercutting locally licensed operators and guides. However, it appears that at least one case the manager was charged and deported.

References

Christie, Iain, Eneida Fernandes, Hannah Messerli, and Louise Twining-Ward. 2014. *Tourism in Africa: Harnessing Tourism for Growth and Improved Livelihoods. Africa Development Forum*. Washington, D.C.: World Bank and Agence Française de Développement. https://openknowledge.worldbank.org/handle/10986/18688.

Duclos, T. 2012. Le giroflier de Madagascar. l'exotisme par excellence ! Expression cosmétique, 13, 208-213.

Gregerson, Brittany. 2006. "Brittany Gregerson on Islam and Gender Relations in Zanzibar." JYAN Blog, October 1. https://berkleycenter.georgetown.edu/posts/brittany-gregerson-on-islam-and-gender-relations-in-zanzibar.

Hilal, Zuweina Abdulla, 2013. The Implications of Prevailing Marketing System in Production and Export: The Case of Cloves Production in Zanzibar, Research Paper, Institute of Social Studies, The Hague.

Hoof, Luc van and Marloes Kraan. 2017. Scoping Mission Marine Fisheries Tanzania: Mission Report, Research Report C004/17, Wageningen University.

Mahmoud, Issa Ibrahim. 2013. Inclusion of Small-Scale Farmers in the Spice Value Chain in Zanzibar, Tanzania, Research Paper, Institute of Social Studies, The Hague.

Masare, Alawi. 2016. "Clove Growers' Plea to Isles Govt." *The Citizen*, October 13. http://www.thecitizen.co.tz/magazine/businessweek/Clove-growers--plea-to-isles-govt/1843772-3415274-7vqja8/index.html.

Msuya, F. 2013. "Social and Economic Dimensions of Carrageenan Seaweed Farming in the United Republic of Tanzania." In Social and Economic Dimensions of Carrageeena Seaweed Farming, edited by D. Valderram, J.Cai, N. Hishamunda, and N. Ridler, 15–146. Fisheries and Aquaculture Technical Paper No. 580. Rome, FAO.

OCGS (Office of the Chief Government Statistician Zanzibar). 2014a. "Zanzibar Integrated Labour Force Survey, 2014." OCGS, Zanzibar.

———. 2014b. "Annual National Accounts Zanzibar, 2007–2014." OCGS, Zanzibar.

RGOZ (Revolutionary Government of Zanzibar). 2013. "Tourism in Zanzibar." RGOZ, Zanzibar. http://www.zanzibar.go.tz/index.php?rgo=tourism

World Bank. 2010. *Doing Business in Zanzibar 2010*. Washington, D.C.: World Bank.

ZCT (Zanzibar Commission for Tourism). 2014. "Zanzibar Destination: Five Years Marketing Plan (2015–2020)." ZCT, Zanzibar.

ZNCCIA (Zanzibar National Chamber of Commerce, Industry and Agriculture). 2013a. *Study for Developing Incentives and Better Regulations of Local Businesses in Zanzibar*. Zanzibar: ZNCCIA.

———. 2013b. *Improving Tax Regime and Business Environment in Zanzibar*. Zanzibar: ZNCCIA.


TANROAD