5 Tanzania

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I. Introduction

Tanzania, officially the United Republic of Tanzania is a country in East Africa. Before and after independence there were two separate countries; Tanganyika and Zanzibar. After independence and after Zanzibar Revolution[1] , Zanzibar merged with mainland Tanganyika on 26 April 1964. On 29 October of the same year, the country was renamed the United Republic of Tanzania ("Tan" comes from Tanganyika and "Zan" from Zanzibar). Tanzania is bordered by Kenya and Uganda to the north; Rwanda, Burundi, and the Democratic Republic of Congo to the west; Zambia, Malawi, and Mozambique to the south; and the Indian Ocean to the east. Kilimanjaro, Africa's highest mountain, is in northeastern Tanzania.

The population of Tanzania is estimated to be 47.4 million (2014) and it is highly diverse, composed of numerous ethnic, linguistic, and religious groups. Tanzania is a presidential constitutional republic, and since 1996, its official capital has been Dodoma, where the President's Office, the national Assembly and some government ministries are located. Dar es Salaam,[2] the former capital, retains most government offices. Before independence Tanzania was colonized by Germany and British until when it got its independence in 1961. The history of Tanzania can be traced back before co

I.1 History

I.1.1 Colonial Period

The colonial period in Tanzania has dates back from 15th century when Vasco da Gama, the Portuguese explorer visited the Tanzanian coast (island of Zanzibar) and later in the 16th century, the Portuguese occupied Zanzibar. Their occupation did not last for long as in 1699 the Portuguese were ousted from Zanzibar by Arabs of Oman who had returned to make it their own. So in the 18th century the Sultan of Oman reasserted Arab overlord ship of the East African coast, which became subordinate to Zanzibar.

By 1840 when Sultan Seyyid bin Sultan moved his capital from Oman to Zanzibar, trade in slaves and ivory flourished. In 1861, the Sultanates of Zanzibar and Oman separated on the death of Seyyid. During the 19th century, Europeans started to explore inland, closely followed by Christian missionaries. In 1884 the German Colonization Society began to acquire territory on the mainland in defiance of Zanzibar and 1890 Britain obtained protectorate status over Zanzibar, abolished the slave trade, and recognised German claims to the Mainland. German East Africa was formally established as a colony in 1897.

In the late 19th century, Imperial Germany conquered the regions that are now Tanzania (minus Zanzibar) and incorporated them into German East Africa. The post–World War I accords and the League of Nations charter designated the area a British Mandate. In 1954, Julius Kambarage Nyerere (The first president of Tanzania) transformed an organization into the politically oriented Tanganyika African National Union (TANU). TANU's main objective was to achieve national sovereignty for Tanganyika. A campaign to register new members was launched, and within a year TANU had become the leading political organization in the country. Nyerere became Minister of British-administered Tanganyika in 1960 and continued as prime minister when Tanganyika became independent in 1961.

[1] The Zanzibar Revolution occurred in 1964 and led to the overthrow of the Sultan of Zanzibar and his mainly Arab government by local African revolutionaries

[2] Tanzania’s largest and richest city, the largest city in eastern Africa by population, principal port and is a regionally important economic centre. It is Tanzania's leading financial centre with the Dar es Salaam Stock Exchange (DSE) being the country's first and most important stock exchange market

I.1.2 Post Colonial Period

British rule came to an end on 9 December 1961. On 9 December 1962, Tanganyika became a democratic republic under an executive president. After the Zanzibar Revolution , the archipelago merged with mainland Tanganyika on 26 April 1964. On 29 October of the same year, the country was renamed the United Republic of Tanzania ("Tan" comes from Tanganyika and "Zan" from Zanzibar). In 1967, Nyerere's first presidency took a turn to the left after the Arusha Declaration[3], which codified a commitment to socialism as well-as Pan-Africanism[4]. After the declaration, banks and many large industries were nationalized.

Tanzania was also aligned with China, which from 1970 to 1975 financed and helped build the 1,860-kilometre-long TAZARA[5] Railway from Dar es Salaam to Zambia. Nonetheless, from the late 1970s, Tanzania's economy took a turn for the worse, in the context of an international economic crisis affecting both developed and developing economies.

From the mid-1980s, the regime financed itself by borrowing from the International Monetary Fund (IMF) and underwent some reforms. Since then, Tanzania's gross domestic product per capita has grown and poverty has been reduced.

In 1992, the Constitution of Tanzania was amended to allow multiple political parties. In Tanzania's first multi-party elections, held in 1995, the ruling Chama Cha Mapinduzi (CCM) won 186 of the 232 elected seats in the National Assembly, and Benjamin Mkapa (The third president of Tanzania) was elected as president. The fifth General election after multiple political system was held on 25 October 2015 and the ruling part CCM worn by more than 58% of all votes. Thus currently the new president of Tanzania is Dr. John Pombe Magufuli.

I.2 Geography

Tanzania has 947,303 square kilometres (365,756 sq mi) and is the 13th largest country in Africa and the 31st largest in the world, ranked between the larger Egypt and smaller Nigeria. It borders Kenya and Uganda to the north; Rwanda, Burundi, and the Democratic Republic of the Congo to the west; and Zambia, Malawi, and Mozambique to the south. Tanzania is located on the eastern coast of Africa and has an Indian Ocean coastline approximately 800 kilometers (500 mi) long. It also incorporates several offshore islands, including Unguja (Zanzibar), Pemba, and Mafia. The country is the site of Africa's highest and lowest points: Mount Kilimanjaro, at 5,895 metres (19,341 ft) above sea level, and the floor of Lake Tanganyika, at 352 metres (1,155 ft) below sea level, respectively.

Tanzania is mountainous and densely forested in the northeast, where Mount Kilimanjaro is located. Three of Africa's Great Lakes are partly within Tanzania. To the north and west lie Lake Victoria, Africa's largest lake, and Lake Tanganyika, the continent's deepest lake, known for its unique species of fish. To the southwest lies Lake Nyasa. Central Tanzania is a large plateau, with plains and arable land. The eastern shore is hot and humid, with the Zanzibar Archipelago just offshore.

The Kalambo water falls in the southwestern region of Rukwa are the second highest uninterrupted fall in Africa and are located near the southeastern shore of Lake Tanganyika on the border with Zambia.

I.3 Climate

Climate varies greatly within Tanzania. In the highlands, temperatures range between 10 and 20 °C (50 and 68 °F) during cold and hot seasons respectively. The rest of the country has temperatures rarely falling lower than 20 °C (68 °F). The hottest period extends between November and February (25–31 °C or 77.0–87.8 °F) while the coldest period occurs between May and August (15–20 °C or 59–68 °F). Annual temperature is 20 °C (68.0 °F). The climate is cool in high mountainous regions.

[3] The Arusha Declaration and TANU's Policy on Socialism and Self Reliance (1967), referred to as the Arusha Declaration, is known as Tanzania's most prominent political statement of African Socialism, 'Ujamaa', or brotherhood

[4] Pan-Africanism is an ideology and movement that encourages the solidarity of Africans worldwide. It is based on the belief that unity is vital to economic, social, and political progress and aims to "unify and uplift" people of African descent

[5] Tanzania-Zambia Railway Authority

Tanzania has two major rainfall regimes: one is uni-modal (October–April) and the other is bi-modal (October–December and March–May). The former is experienced in southern, central, and western parts of the country, and the latter is found in the north from Lake Victoria extending east to the coast. The bi-modal regime is caused by the seasonal migration of the Intertropical Convergence Zone.

I.4 Wildlife and Conservation

Approximately 38% of Tanzania's land area is set aside in protected areas for conservation. Tanzania has 16 national parks plus a variety of game and forest reserves, including the Ngorongoro Conservation Area. In western Tanzania, Gombe Stream National Park is the site of Jane Goodall's ongoing study of chimpanzee behavior, which started in 1960.

Tanzania is highly biodiversity and contains a wide variety of animal habitats. On Tanzania's Serengeti Plain, white-bearded wildebeest (Connochaetes taurinus mearnsi) and others participate in a large-scale annual migration. Tanzania is also home to about 130 amphibian and over 275 reptile species, many of them strictly endemic and included in the International Union for Conservation of Nature's Red Lists of different countries. Tanzania has developed a Biodiversity Action Plan to address species conservation.

I.5 Political structure

I.5.1 Government

Tanzania is a one party dominant state with the Chama Cha Mapinduzi (CCM) party in power. From its formation until 1992, it was the only legally permitted party in the country. This changed on 1 July 1992, when amendments to the Constitution and a number of laws permitting and regulating the formation and operations of more than one political party were enacted by the National Assembly. Elections for president and all National Assembly seats were last held on 25^{th} October 2015 in which the ruling part CCM won by more than 58% of all votes.

I.5.2 Executive

The President of Tanzania and the members of the National Assembly are elected concurrently by direct popular vote for five-year terms. The vice-president is elected for a five-year term at the same time as the president and on the same ticket. Neither the president nor the vice-president may be a member of the National Assembly. The president appoints a prime minister, subject to confirmation by the assembly, to serve as the government's leader in the assembly. The president selects his or her cabinet from assembly members.

I.5.3 Legislature

All legislative power relating to mainland Tanzania and union matters is vested in the National Assembly, which is unicameral and has a maximum of 357 members. These include members elected to represent constituencies, the attorney general, five members elected by the Zanzibar house of representatives from among its own members, the special women's seats that constitute at least 30% of the seats that any party has in the assembly, the speaker of the assembly (if not otherwise a member of the assembly), and the persons (not more than ten) appointed by the president. The Tanzania Electoral Commission demarcates the mainland into constituencies in the number determined by the commission with the consent of the president.

I.5.4 Zanzibar

The legislative authority in Zanzibar over all non-union matters is vested in the House of Representatives (per the Tanzania constitution) or the Legislative Council (per the Zanzibar constitution).The Legislative Council has two parts: the President of Zanzibar and the House of Representatives. The President is Zanzibar's head of government and the chairman of the Revolutionary Council, in which the executive authority of Zanzibar is invested. Zanzibar has two vice-presidents, with the first being from the main opposition party in the house. The second is from the party in power and is the leader of government business in the House. The President and the members of the House of Representatives have five-year terms.

The President selects ministers from members of the House of Representatives, with the ministers allocated according to the number of House seats won by political parties. The Revolutionary Council consists of the president, both vice presidents, all ministers, the attorney general of Zanzibar, and other house members deemed fit by the president. The House of Representatives is composed of elected members, ten members appointed by the president, all the regional commissioners of Zanzibar, the attorney general, and appointed female members whose number must be equal to 30% of the elected members.

I.6 Foreign Relations

I.6.1 Bilateral Relations

Tanzania–China relations have strengthened in recent years as trade between the two countries and Chinese investment in Tanzanian infrastructure has increased rapidly. Relations with the United States are warm, with President Barack Obama visiting Tanzania in 2013.Tanzania's relations with other donor countries, including Japan and members of the European Union, are generally good, though donors are concerned about Tanzania's commitment to reducing government corruption.

I.6.2 Multilateral Relations

Tanzania is a member of the East African Community (EAC)[6], Southern African Development Community (SADC)[7].The EAC, the SADC, and the Common Market for Eastern and Southern Africa (COMESA)[8]

[6] The EAC is an intergovernmental organisation composed of five countries in the African Great Lakes region in eastern Africa: Burundi, Kenya, Rwanda, Tanzania, and Uganda. The organisation was founded originally in 1967, collapsed in 1977, and was revived on 7 July 2000

[7] The SADC is an inter-governmental organization headquartered in Gaborone Botswana. Its goal is to further socio-economic cooperation and integration as well as political and security cooperation among 15 southern African states. It complements the role of the African Union.

[8] The COMESA is a free trade area with twenty member states stretching from Libya to Swaziland. COMESA was formed in December 1994, replacing a Preferential Trade Area which had existed since 1981

II. Macroeconomic activity

II.1 International Environment

Tanzania has continued to maintain a healthy fiscal position, keeping the deficit at sustainable levels and managing expenditure growth in line with the broad objective of sustaining macroeconomic stability. In the medium term, the fiscal deficit is projected to be maintained at around 5-6% of GDP, while expenditures and government net lending are projected at around 25% of GDP, in line with targets of the Policy Support Instrument programme. Financing uncertainties emerged in the first half of fiscal year 2014/15 due to delayed disbursements of budget support funds by development partners, partly resulting in the frontloading of government domestic borrowing to finance development projects.

Spatial inclusion remains problematic in Tanzania, mainly due to regional disparities. The poorer regions are predominantly rural and their economies are much less diversified. Agriculture is the main economic sector in these areas, with low productivity and low-paying employment. As a result, per capita incomes in these regions are less than half that of Dar-es-Salaam, the wealthiest area. And the poverty rate is eight times higher than in Dar-es-Salaam. To increase spatial inclusion, Tanzania needs to boost earning opportunities for the rural population, mainly through improved productivity in agriculture supported by rural infrastructure investments, particularly rural roads, and improved overall connectivity between rural and urban areas

Table 1: Trends in selected macroeconomic Indicators, 2008 – 2013 (In percentage)

Description	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**
National Accounts						
Real GDP growth at market price	7.4	6.0	7.0	6.4	6.9	7.0
Nominal GDP growth at market price	18.3	13.8	14.5	16.2	19.1	18.9
Prices						
CPI inflation eop	13.5	12.2	5.6	19.8	12.1	5.6
CPI inflation pav	10.3	12.1	7.6	12.7	16	7.9
GDP deflator inflation (factor cost)	10.1	7.2	7.3	9.2	11.7	11.5
GDP deflator inflation (market price)	10.1	7.4	6.9	9.2	11.4	11.2
Money						
M3 growth rate	19.8	17.7	25.4	18.2	13.1	10
M2 growth rate	24.4	20.8	21.8	15	16	10.9
Growth rate of credit to private sector	44.6	9.6	20	27.2	18.2	15.3
Balance of payment						
Exports of goods to GDP ratio	17.3	15.2	18.8	21.1	21	21.7
Exports of goods and services to GDP ratio	26.9	23.8	27.6	30.6	30.2	29.3
Imports of goods to GDP ratio	33.8	27	31	40.8	36.2	33.2
Imports of goods and services to GDP ratio	41.9	35	39.1	49.9	44.5	42.7
Reserves months of imports (not in %)	4.3	5.7	5.4	3.7	3.8	4.5
Government						
Revenue to GDP ratio	15.9	16.2	15.4	16.3	17.6	17.1
Total government expenditure to GDP ratio	22.8	25.7	27	26.6	26.2	26
Current expenditure to GDP ratio	14.9	17.7	18.3	19	17	18.5
Development expenditure to GDP ratio	7.9	8	8.6	7.6	9.2	7.5
Official grants to GDP ratio	6.9	4.7	4.6	4.7	4.5	2.8
Deficit to GDP ratio (excl grants)	-8.6	-9.3	-11	-11.6	-9.6	-8.9
Deficit to GDP ratio (incl grants)	-1.7	-4.5	-6.4	-6.9	-5	-6.1
Overall deficit	-1.7	-4.5	-6.4	-6.9	-5	-5
Foreign borrowing to GDP ratio	3.2	3.6	4.6	3.4	4.2	3.5
Domestic bank borrowing to GDP ratio	-1.4	0.8	1.9	2.6	0.2	1.4

Source: Ministry of finance Tanzania

II.1.1 External Debt and borrowing

As at the end of June 2013/14 Tanzania's external debt stock was USD 14,021.2 million, an increase of USD 1,655.1 million over the amount recorded in the corresponding period in 2013. The increase was on account of new disbursements and accumulation of interest arrears. Out of the external debt stock, 88.5 percent was disbursed outstanding debt (DOD) and the remaining was interest arrears. The ratio of external debt stock to GDP in nominal terms was 42.5 percent, while that of public and private external debt to GDP was 35.0 percent and 7.5 percent, respectively (Table 2)

Table 2: External debt stock USD million

Year	2009/10	2010/11	2011/12	2012/13	2013/14
External Debt Stock	8,197.8	9,637.5	10,354.6	12,089.2	14,021.2
GDP, at Market Price	22,903.2	23,745.8	24,099.2	28,451.6	34,502.5
as % of GDP	35.8	40.6	43.0	42.5	40.6
Public External Debt Stock	6,471.4	7,791.4	8,440.0	9,958.7	11,802.6
as % of GDP	28.3	32.8	35.0	35.0	34.2
as % of External Debt Stock	78.9	80.8	81.5	82.4	84.2
Private External Debt Stock	1,726.4	1,846.1	1,914.6	2,130.5	2,218.6
as % of GDP	7.5	7.8	7.9	7.5	6.4
as % of External Debt Stock	21.1	19.2	18.5	17.6	15.8

Source: Bank of Tanzania Annual report 2013/14

II.1.2 Foreign Direct Investment

FDI consistently continued to be a dominant component of FPI. During the year 2012, Tanzania attracted FDI inflows amounting to USD 1,799.6 million, 46.4 percent higher than the amount received in 2011. Despite this increase, the level of inflows in 2012 was still lower than the peak of USD 1,813.3 reached in 2010 as a result of recovery from the global financial crisis which coincided with new inflows to the electricity and gas activities. The annual average inflow between 2008 and 2012 was USD 1,435.7 million. Large inflows in 2012 emanated from new equity and investment fund shares (i.e. equity capital) as well as increase in reinvestment of earnings. Loans from related parties, which is part of FDI inflows, recorded net outflows of USD 17.8 million reflecting more repayments of principal and interest than loans received during the year

Table 3: Foreign Direct Investment 2008 – 2012 (*USD Millions*)

	Inflows					Stocks				
Components	2008	2009	2010	2011	2012	2008	2009	2010	2011	2012
Equity and investment fund shares	178.4	397.2	464.7	304.1	909.0	2,896.4	3,293.5	3,758.3	4,062.4	4,971.5
Reinvestment of earnings	219.2	267.8	578.5	1,248.6	908.4	653.1	920.9	1,494.4	2,743.0	3,651.3
Long-term loan from related parties	722.2	257.7	162.5	-252.1	-132.5	3,037.1	3,294.8	3,457.3	3,205.2	3,072.7
Short-term loan from related parties	263.4	30.4	612.5	-71.2	114.6	359.0	389.4	1,002.0	930.8	1,045.4
Total FDI	1,383.3	953.1	1,813.3	1,229.4	1,799.6	6,945.6	7,898.7	9,712.0	10,941.3	12,740.9

Source: Tanzania Investment report 2013

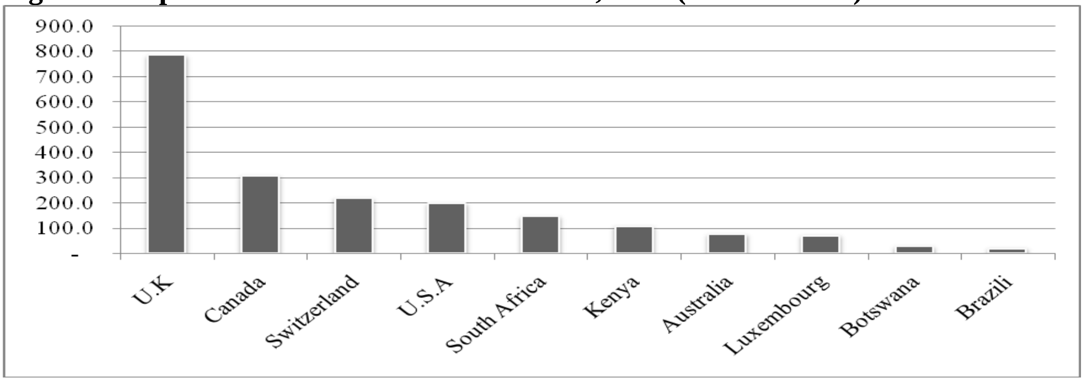
High FDI inflows in 2012 were driven by increased investments in extractive projects including oil and gas. The results are consistent with changing pattern of the global investment flows in which case developing economies have surpassed developed economies as recipients of FDI. Africa as a region for instance, recorded USD 50,041.0 million of FDI inflows in 2012 compared with USD 47,598.0 million reported in 2011 (WIR,2013)

II.1.3 Sources of Foreign Direct Investments

FDI inflows to Tanzania in 2012 originated from ten major countries. Inflows from the developed countries namely the United Kingdom, Canada, Switzerland, the USA and Luxemburg reached USD 1,586.1 million with UK remaining the leading source country since 2011. Most of the investments from these countries went to the mining and quarrying, manufacturing, finance and insurance, and wholesale and retail trade, and information and communication activities.

Inflows from emerging economies mainly originated from South Africa and Brazil while those from developing economies came from Kenya and Botswana. However, South Africa, which was the second largest source of FDI inflows in 2011, became the fifth following substantial investments in electricity and gas from other countries during that year

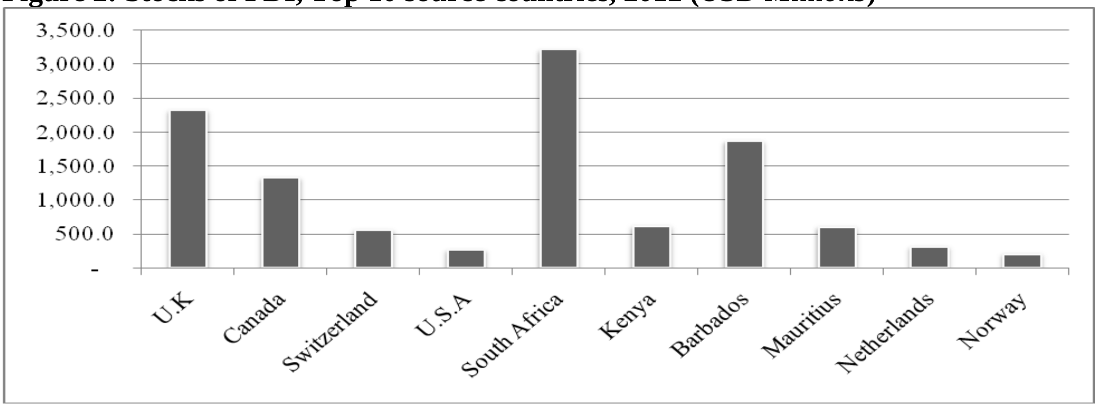
Figure 1: Top ten source countries of FDI flows, 2012 (*USD Millions*)



Source: Tanzania Investment report 2013

Despite the decline in inflows from South Africa in 2012, it remained the leading source country in terms of stock of FDI with USD 3,221.0 million compared to USD 3,072.7 million in 2011. During 2012, the top 5 source countries namely South Africa, United Kingdom, Barbados, Canada and Kenya reached USD 7,423.5 million being 58.2 percent of the total stock of FDI implying that FDI for Tanzania continue to originate from few source countries.

Figure 2: Stocks of FDI, Top 10 source countries, 2012 (*USD Millions*)



Source: Tanzania Investment report 2013

II.1.4 Balance of payment and development

During 2013/14 the overall balance of payments recorded a surplus of USD 268 million which was more than half the amount recorded in 2012/13. The decrease of the surplus was driven by widening of current account deficit by 12.9% to USD 4,790.2 million. This was on the account of increase in imports of goods and services relative to exports.

Table 4: Balance of payment Millions of USD

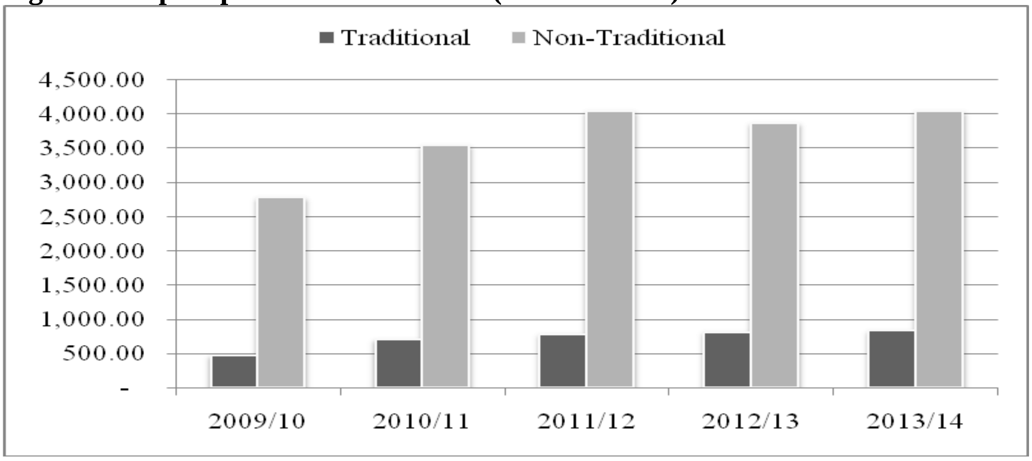
Description	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
A. Current account	-2,136	-2,235	-2,534	-4,652	-4,402	-5,281
Goods: exports f.o.b.	3,268	3,749	4,896	5,562	5,398	5,248
Goods: imports f.o.b.	-6,220	-6,596	-8,012	-10,609	-10,482	-11,347
Balance on Goods	-2,952	-2,847	-3,115	-5,047	-5,084	-6,099
Services: credit	1,842	1,954	2,160	2,425	2,943	3,341
Services: debit	-1,673	-1,804	-1,984	-2,337	-2,390	-2,619
Balance on Services	169	150	176	88	554	722
Balance on Goods and Services	-2,783	-2,698	-2,939	-4,959	-4,530	-5,377
Income: credit	125	160	199	153	123	124
Income: debit	-417	-581	-789	-771	-771	-772
Balance on Income	-292	-421	-590	-619	-648	-648
Balance on Goods, Services and Income	-3,076	-3,118	-3,529	-5,578	-5,179	-6,025
Current transfers	940	883	995	926	776	744
Current transfers: credit	1,006	955	1,079	1,037	853	800
Current transfer: debit	-67	-72	-84	-111	-76	-56
B. Capital account	386	514	563	820	608	748
Capital transfers credit	386	514	563	820	608	748
General government	324	451	499	756	545	684
Capital transfers: debit	0	0	0	0	0	0
Total, Groups A plus B	-1,750	-1,721	-1,971	-3,832	-3,794	-4,534
C. Financial account, excl. reserve and related items	2,102	2,386	2,853	3,363	4,688	4,296
Direct investment abroad	0	0	0	0	0	0
Direct investment in Tanzania	1,168	1,383	1,521	1,515	1,943	2,068
Portfolio investment	6	1	-4	16	1	6
Other investment	927	1,002	1,336	1,832	2,744	2,222
Assets	-9	-426	23	120	66	-176
Loans (banks)	-45	-19	-5	74	43	-57
Currency and deposits	36	-407	28	46	24	-119
Other assets	0	0	0	0	0	0
Liabilities	937	1,428	1,313	1,712	2,677	2,398
Trade credits	0	0	-2	0	0	0
Loans	1,064	1,445	1,248	1,694	2,419	2,451
Monetary Authority	0	249	0	0	0	0
General government	731	1,118	1,014	1,094	1,350	1,633
Banks	-7	-21	99	-97	63	137
Other sectors	340	100	135	697	1,007	681
Currency and deposits	-127	-18	67	18	258	-53
Total, Groups A through C	352	665	882	-469	894	-237
D. Net errors and omissions	-329	-187	-782	678	-442	506
Overall balance (Total, Groups A through D)	23	477	100	209	452	268

Source: Bank of Tanzania

II.1.5 Goods exports

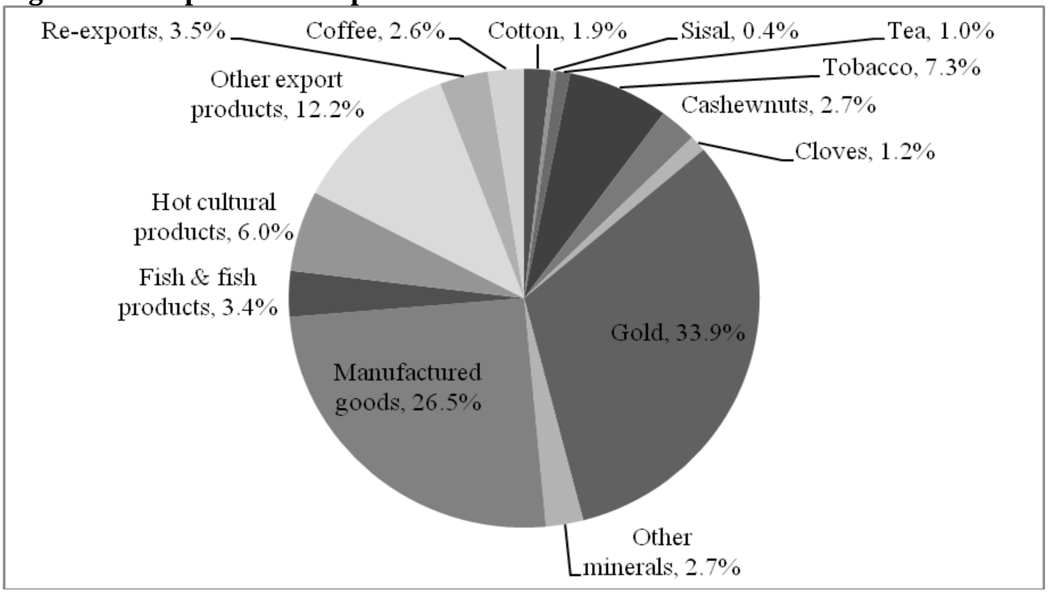
During the year 2013/14 the value of goods exported were USD 5,619.1 million equivalent to 4.1% higher than the value of export in the preceding year. Traditional and Non-traditional exports increased by USD 16.5 million and USD 175.7 million respectively. (Charts 3 Export performance 2013/14 and chart 4 Composition of export commodities 2013/14)

Figure 3: Export performance 2013/14 (Millions USD)



Source: Tanzania Revenue Authority data base and Bank of Tanzania

Figure 4: Composition of export commodities 2013/14

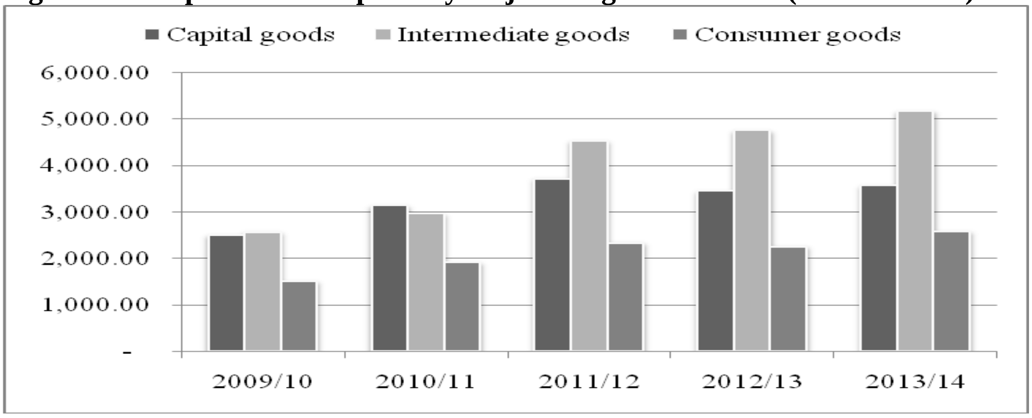


Source: Bank of Tanzania

II.1.6 Goods Imports

During the year 2013/14 the value of imports of goods increased by 8.3% to USD 11,347.1 million from the amount recorded in the preceding year. All import categories, namely; capital, intermediate and consumer goods increased. (Chart 5 Composition of imports by major categories 2013/14)

Figure 5: Composition of imports by major categories 2013/14 (Millions USD)



Source: Bank of Tanzania

II.1.7 Major trading partners 2013/14

During this period, the major trading partners were India, Switzerland, South Africa, China and the United Arabs Emirates. (Table 5 Trading partners 2013/14)

Table 5: Trading partners 2013/14

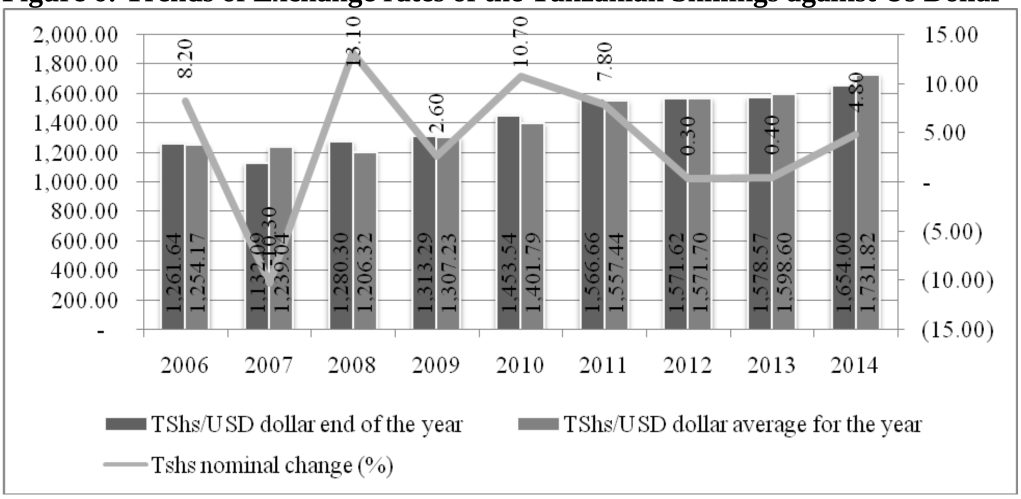
Exports by Country of destination		Imports by country of origin	
Country	**Percentage share**	**Country**	**Percentage share**
South Africa	17.3	India	18.4
India	17.0	Switzerland	12.9
Switzerland	9.2	China	12.2
China	7.0	United Arabs Emirates	9.5
Democratic Republic of Congo	5.4	South Africa	5.8
Kenya	5.2	Japan	4.1
Japan	5.0	Kenya	2.7
Germany	3.6	United Kingdom	2.2
Zambia	2.1	U.S.A	1.9
Belgium	2.0	Saudi Arabia	1.8
Others	26.2	Others	27.9

Source: Ministry of Finance Tanzania

II.1.8 Foreign Exchange

The Tanzania Shilling remained fairly stable though depreciating moderately against major currencies particularly US Dollar. The currency keeps on loosing value against US Dollar at an average of 4.1% every year reaching at TShs. 1,654 per Dollar in the year end 2014

Figure 6: Trends of Exchange rates of the Tanzanian Shillings against Us Dollar



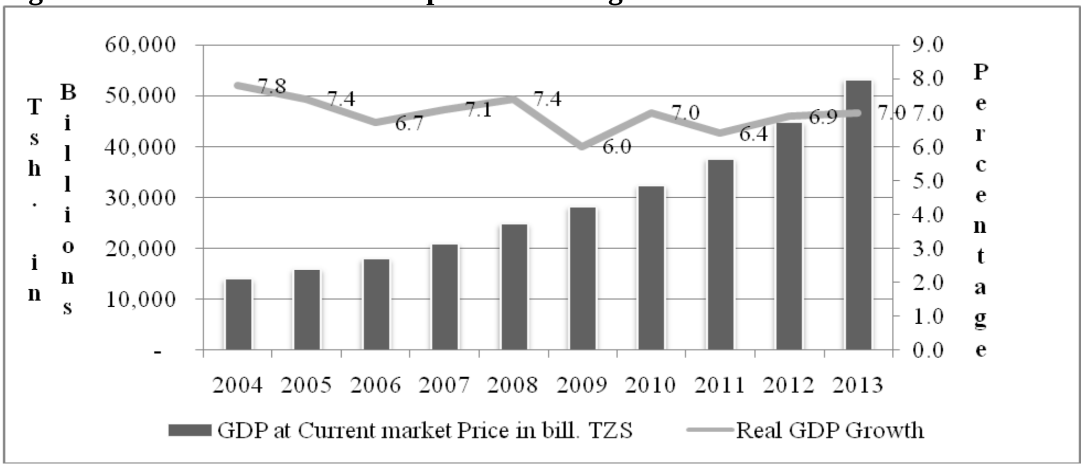
Source: Bank of Tanzania

II.2 Domestic Environment

II.2.1 Economic Growth

The economic growth of Tanzania remains strong as Gross Domestic Product (GDP) in 2013 grew by 7.0 percent in real terms compared with 6.9 percent in 2012. GDP at constant prices amounted to TZS 20.5 trillion compared with TZS 19.2 trillion in 2012. The strong economic performance was basically supported by communication, financial intermediation, construction, and trade and repairs activities. Medium-term prospects are favourable, with growth projected to remain above 7%, supported by public investments in infrastructure, particularly in the transport and energy sectors. Agriculture remains the mainstay of the economy, employing the majority of the workforce, but the sector is plagued by infrastructure gaps and low productivity. Despite Tanzania's impressive macroeconomic achievements, growth is not sufficiently broad based, and poverty levels remain high.

Figure 7: GDP at current market price and real growth

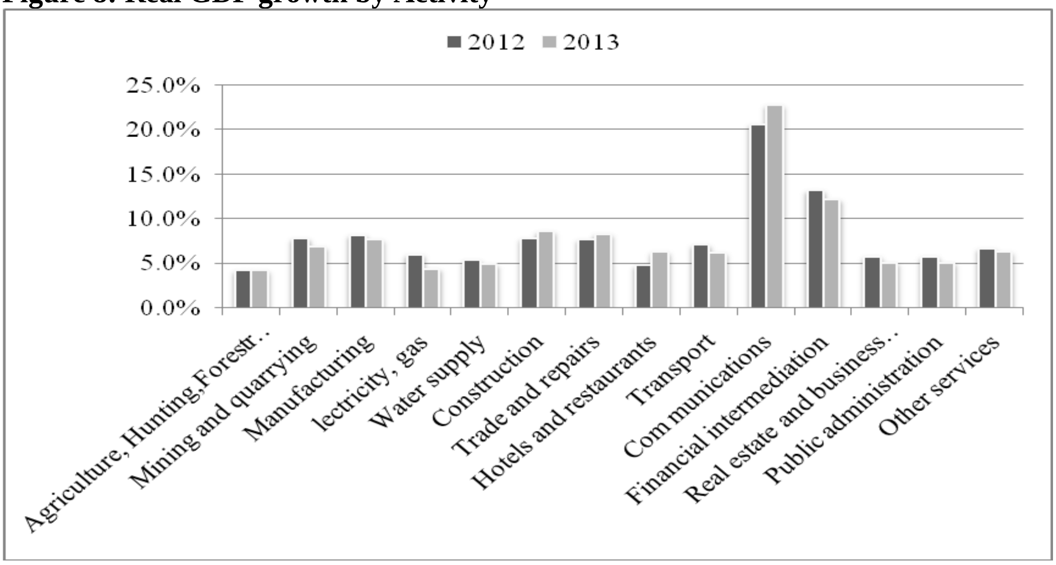


Source: Ministry of Finance Tanzania

II.2.2 Real GDP growth by Activity

In terms of share to GDP in 2013, agriculture, hunting, forestry and fishing activities had the largest share of 22.2 percent, followed by trade and repairs 15.0 percent, and real estates and business services 10.2 percent

Figure 8: Real GDP growth by Activity

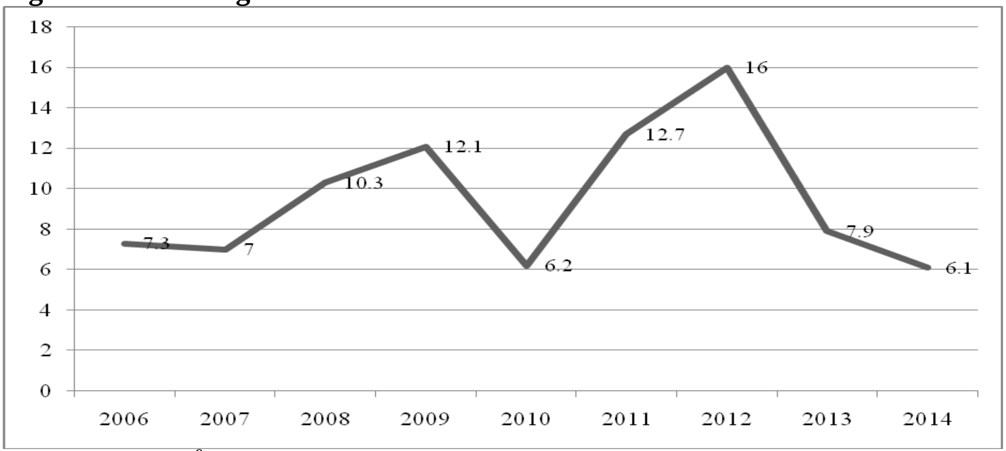


Source; National bureau of statistics and Bank of Tanzania

II.2.3 Inflation

For the past five years, Tanzania has experienced different patterns of annual average inflations rates for headline, food and non food items. The economy experienced low pace of speed increase for prices of commodities in 2010 and 2013 where the annual average headline inflation rate were 5.5 percent and 7.9 percent respectively. The highest price increase for goods and services was recorded in year 2012 with the annual average inflation rates of 16.0 percent while year 2010 recorded the lowest annual average inflation rates of 5.5 percent for the past five years. The decline in annual average headline inflation rates for 2013 is highly attributed to the decrease in prices for food items especially rice and other major cereals. This was attributed to favourable weather condition and concerted effort taken by the Government to increase the stock of food in the local market specifically provision of import permit for rice and sugar.

Figure 9: Percentage of CPI Inflation



Source: world Bank[9]

II.2.4 Monetary Policy

The Bank of Tanzania has continued to pursue a prudent monetary policy with the objective of supporting economic growth and maintaining price stability. A mix of monetary policy instruments is deployed: sale of government securities, foreign exchange operations, repurchase agreements, and stand-by facilities, namely, the discount window and Lombard facility.

Growth of money supply in the year ending November 2014 accelerated to 17.4%, up from 9.7% growth in the corresponding period in the previous year. The growth in money supply was driven by an increase in net domestic assets of the banking system due to an expansion in credit to the private sector and government. Private sector credit grew by 20.1% in the year ending November 2014, compared with 14.6% growth recorded in November 2013. The leading sectors in private-sector credit are trade, mining and manufacturing, agriculture and construction. Private-sector credit has increased significantly, to 22.4% of GDP in March 2014 from 16.3% of GDP in March 2012.

Net borrowing by the government from the banking system grew by 75% in the year ending November 2014, up from growth of 24.8% recorded in November 2013. The increase in net claims on the government stemmed from the government's decision to frontload domestic borrowing to finance development projects as a result of delays in the disbursement of concessional foreign funds to support the 2014/15 budget.

Prudent monetary policy, coupled with improved food supply and the recent decline in fuel prices, helped to bring down inflation to an annual average of 6.8% in 2014 from 7.9% in 2013. Food inflation has also declined, to an annual average of 7.7% in 2014 from 8.6% in 2013. Similarly, core inflation, which excludes food and energy, has declined significantly, to an annual average of 3.7% in 2014 from 6.2% in 2013.

Tanzania has continued to maintain a healthy external reserve position: at the end of November 2014, gross official reserves were sufficient to cover 4.1 months of imports of goods and services. Although the Tanzania shilling lost about 9% of its value against the US dollar, the exchange rate of

[9] http://data.worldbank.org/country/tanzania

the shilling against the major foreign currencies remained relatively stable overall in 2014. This stability is partly explained by good export performance, as well as the country's strong foreign reserves position.

II.2.5 Monetary Policy Implementation

During 2013/14, the Bank of Tanzania implemented monetary policy in line with the broad macroeconomic objectives of the Government through maintaining appropriate level of liquidity in the economy. In achieving the low and stable inflation, the Bank of Tanzania continued to use monetary targeting framework with reserve money as an operating target. During 2013/14, liquidity in the economy was modest as mirrored in the performance of reserve money and developments in the money markets. Reserve money was kept within the targets throughout the period under review, except for December 2013 due to seasonal demand for cash. Interest rates on Treasury bills averaged at 14.07 percent in 2013/14 while overall interbank cash market rate averaged at 8.03 percent. The peak of 11.56 percent was observed in January, following the seasonal demand for cash related to end of year festivals and end of quarter tax obligations.

II.2.6 Money Supply and Credit Developments

In line with the monetary policy stance for 2013/14, extended broad money supply (M3) increased by TZS 2,415.4 billion, translating into a growth rate of 15.8 percent compared with 14.9 percent recorded in 2012/13 and the projection of 15.0 percent. The increase in M3 was largely driven by increase in domestic credit and accumulation of foreign assets by the banking system. During the period, domestic credit grew by 25.4 percent compared with 21.1 percent recorded in the preceding year, mostly driven by credit to private sector. The private sector credit increased by TZS 2,036.4 billion compared with TZS 1,389.6 billion recorded in 2012/13. This represents an annual growth rate of 21.4 percent, higher than 17.1 percent recorded in 2012/13. The net foreign assets of the banking system increased by TZS 556.5 billion compared with TZS 186.0 billion recorded in 2012/13, following receipt of foreign inflows from capital gain tax

II.2.7 Interest Rates Developments

During the period 2013/14, overall time deposit rate declined to an average of 8.76 percent from 8.79 percent registered in 2012/13, while the overall lending rates increased to 16.14 percent from 15.84 percent. As a result, the spread between one year lending and deposits rates widened slightly to average of 2.84 percentage points in 2013/14 from 2.80 percentage points recorded in 2012/13

II.3 Fiscal Position

II.3.1 Fiscal Policy

Tanzania's fiscal position remains healthy as the government continues with measures to manage expenditure and keep the fiscal deficit within sustainable limits. In fiscal year 2013/14, domestic revenue fell short of target by about 10%, mainly because some of the planned revenue measures could not be implemented, notably a SIM-card tax, which was strongly challenged by mobile phone operators. The proposed SIM-card tax was replaced by an increase in excise tax on mobile services, but implementation was delayed and the ensuing gap could not be fully covered. But domestic revenue collection increased significantly by 31.7% to TZS 11.5 trillion (Tanzania shillings) in fiscal year 2013/14 from TZS 8.8 trillion in fiscal year 2012/13. This indicates that the revenue shortfall in 2013/14 resulted from an overly ambitious revenue target.

Domestic revenues were estimated at 17.4% of GDP in 2013/14, up from 16.8% of GDP in 2012/13. Total expenditures and net lending for 2013/14 were estimated at 24.5% of GDP, down from an estimated 27.7% of GDP in the previous fiscal year. Both the fiscal deficit of 3.8% of GDP in 2013/14 and expenditure levels are in line with those programmed by the International Monetary Fund (IMF). Net domestic financing remains capped at 1% of GDP to ensure non-inflationary financing of the deficit and to avoid crowding out private sector credit demand.

The government continues to implement measures to improve domestic revenue mobilisation by identifying new sources to widen the revenue base, by strengthening the administration of current sources and through proper management and reduction of tax exemptions. On the expenditure side, the government continues to focus on reducing recurrent expenditure in areas considered to be “non-priority”, among them seminars, domestic and foreign travel, exhibitions and trade fairs.

The 2014/15 budget aims to achieve medium-term growth objectives while maintaining single digit inflation. The level of total expenditures is expected to remain around 26% of GDP in the medium term. The wage bill is estimated at around 7% of GDP in the medium term, and the overall fiscal deficit is expected to remain around 5% of GDP. In line with the ceilings established under the IMF’s Policy Support Instrument (PSI) programme, non-concessional financing is budgeted at 2% of GDP. Implementation of the budget during the first half of 2014/15 was affected by financing uncertainties due to delayed disbursement of budget support funds by development partners. The funds were delayed because of governance concerns in the case involving Independent Power Tanzania Limited

II.3.2 Debt Policy

Tanzania’s total public debt has stabilised at around 42% of GDP for the past three years. The external debt stock is estimated at USD 13.7 billion as of November 2014, having increased by 5.3% from the level recorded in corresponding period in 2013. The most recent debt sustainability analyses, by the government in 2013, and jointly by the IMF and World Bank (WB) in 2014, indicate that Tanzania’s public debt remains sustainable in both the short and medium term. The risk of debt distress remains low due to the structure of debt, which is largely concessional, coupled with high-output growth forecast scenarios and ambitious revenue collection targets.

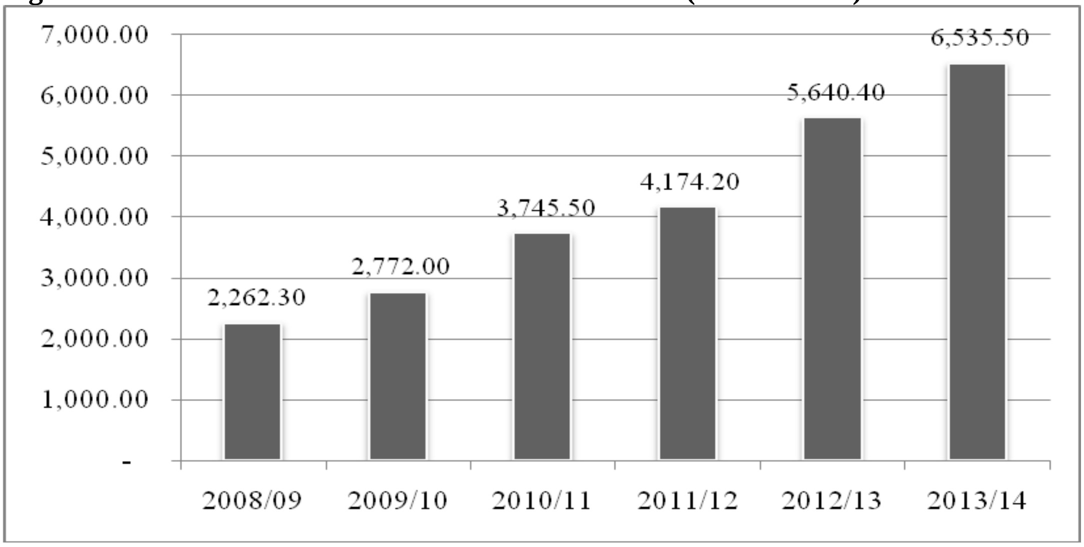
Tanzania’s borrowing and public debt policies are currently guided by the 2013 Medium-Term Debt Management Strategy, which aims to meet government financing requirements at the lowest possible cost with a prudent degree of risk, and to develop domestic financial markets. The government is required by law to conduct debt sustainability analysis (DSA) on an annual basis to assess the state of the country’s debt and its ability to service the debt in the short, medium and longer terms. According to the government’s recent DSA, in present value (PV) terms, external debt to GDP is 20% against a sustainability threshold of 50%; the ratio of debt service to revenue is 4 against a sustainability threshold of 35; and the ratio of PV of debt to exports of goods and services is 78 against a sustainability threshold of 200.

In line with the Medium-Term Debt Management Strategy, the government has continued to take measures to fine-tune debt management operations in order address co-ordination challenges. A particularly noteworthy development is the recent establishment of a separate department at the Ministry of Finance that will be responsible for government debt issues. The new department will consolidate and co-ordinate all government debt functions from analysis to contracting and recording. This arrangement will address the previous fragmentation in Tanzania African Economic Outlook © AfDB, OECD, UNDP 2015 government debt functions, which involved separate debt sections within the policy analysis department and accountant general’s office under the Ministry of Finance, as well as the financial markets department and the debt management department within the Bank of Tanzania.

II.3.3 Domestic Debt

The stock of domestic debt increased to TZS 6,535.5 billion at the end of 2013/14 from TZS 5,640.4 billion registered at the end of 2012/13. The increase was on account of large issuance of government securities compared to maturing obligations. The domestic debt stock was equivalent to 14.6 percent of GDP and 25.7 percent of the national debt stock. Government bonds accounted for 73.9 percent of the domestic debt stock, followed by Treasury bills and Government stocks which accounted for 22.1 percent and 3.9 percent, respectively.

Figure 10: Trend of Government Domestic Debt stock (TZS Billions)



Source: Bank of Tanzania

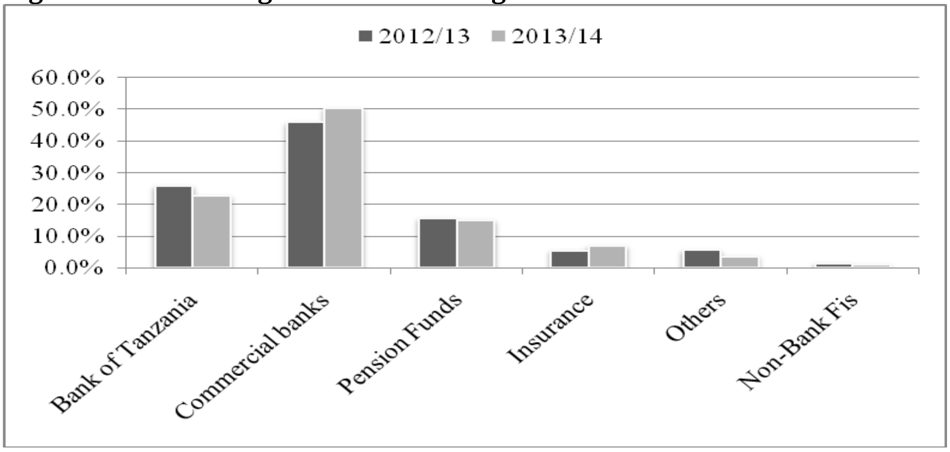
Table 6: Government Domestic debt by instrument (*TZS Billions*)

Instrument	2010/11	Percentage share	2011/12	Percentage share	2012/13	Percentage share	2013/14	Percentage share
Government securities	3,726.2	99.8	4,174.2	100.0	5,630.9	99.8	6,529.1	99.9
Treasury bills	586.3	15.7	849.0	20.3	1,195.8	21.2	1,444.1	22.1
Government stocks	257.1	6.9	257.1	6.2	257.1	4.6	257.1	3.9
Government bonds	2,882.8	77.2	3,068.0	73.5	4,177.9	74.1	4,827.8	73.9
Tax certificates	0.1	0.0	0.1	0.0	0.1	0.0	0.1	0.0
Non securitized debt	8.3	0.2	0.0	0.0	9.6	0.2	6.4	0.1
Mabibo hostel	8.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Other	0.0	0.0	0.0	0.0	9.6	0.2	6.4	0.1
Total domestic debt	3,734.5	100.0	4,174.2	100.0	5,640.5	100.0	6,535.5	100.0
Interest arrears	0.0	0.0	0.0	0.0	0.0	0.0		0.0
Total domestic debt stock	3,734.5	100.0	4,174.2	100.0	5,640.5	100.0	6,535.5	100.0

Source: Bank of Tanzania

In terms of holder category, commercial banks were the leading creditors, accounting for 50.5% of the domestic debt stock, followed by the Bank of Tanzania (22.8%) and pension funds (15.1%). Holding of domestic debt by the banking system increased from 71.8% in 2012/13 to 73.3% at the end of 2013/14. Commercial banks also dominated in holding long-term domestic debt, accounting for 44.0%

Figure 11: Percentage Share of Holding of Government Domestic Debt

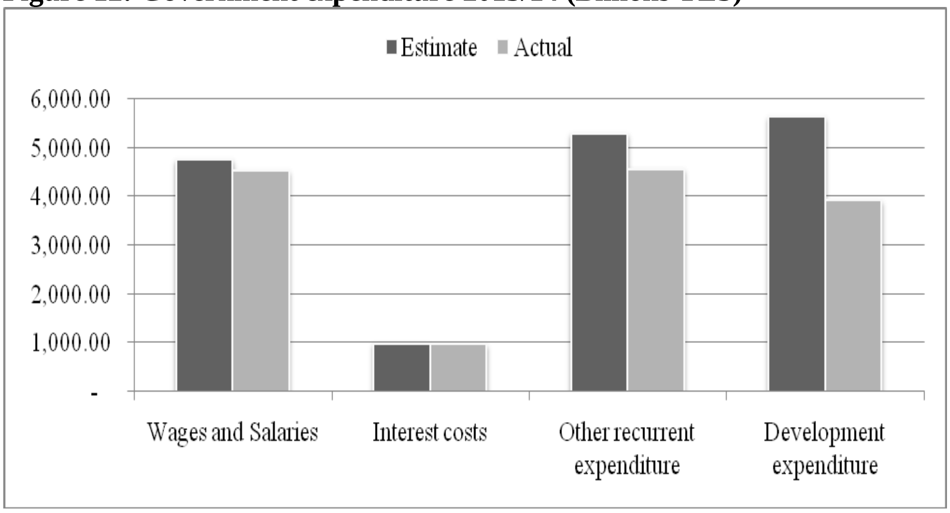


Source: Bank of Tanzania

II.3.4 Government Expenditure

The Government continued to accord priorities for programs outlined in the Development Plan 2012/13 with the aim of increasing pace of economic growth and reduction of poverty. In 2013/14, the Government spent a total amount of TZS 14,011.1 billion or 83.8 % of the budget and 25.2% of GDP. Out of this amount, recurrent expenditure was TZS 10,085.1 billion equivalent to 91.1% of the budget while development expenditure was TZS 3,926.0 billion equivalent to 69.5% of the budget, (Chart 11 Government expenditure 2013/14).

Figure 12: Government expenditure 2013/14 (Billions TZS)



Source: Ministry of Finance Tanzania

III. Tax system

Taxes in Tanzania are administered by Tanzania Revenue Authority (TRA) a semi autonomous government agency established by Act of Parliament No. 11 of 1995, and started its operations on 1st July 1996. Prior to establishment of Tanzania Revenue Authority tax collection had been a function of three revenue departments within the Ministry of Finance (MOF), and, as such, fell within the normal civil service framework. The rationale for the TRA's inception was; weaknesses in tax administration and tax policy formulation; widespread tax evasion; the desire to limit political interference and to free tax administration from civil service constraints. In carrying out its statutory functions, TRA is regulated by law, and is responsible for administering impartially various taxes of the Central Government.

The functions of the Authority are;

a) To assess, collect and account for all government revenue
b) To monitor, oversee, coordinate activities and ensure the fair, efficient and effective administration of revenue laws by revenue departments in the jurisdiction of the Union Government
c) To advise the Minister and other relevant organs on all matters pertaining to fiscal policy, the implementation of the policy and the constant improvement of policy regarding revenue laws and administration
d) To promote voluntary tax compliance to the highest degree possible
e) To take such measures as may be necessary to improve the standard of service given to taxpayers, with a view to improving the effectiveness of the revenue departments and maximising revenue collection
f) To determine the steps to be taken to counteract fraud and other forms of tax and other fiscal evasions
g) To produce trade statistics and publications on a quarterly basis
h) To perform such other functions as the Minister may determine.

Tanzania Revenue Authority, in performing its duties, has a responsibility of supervising the following tax laws;

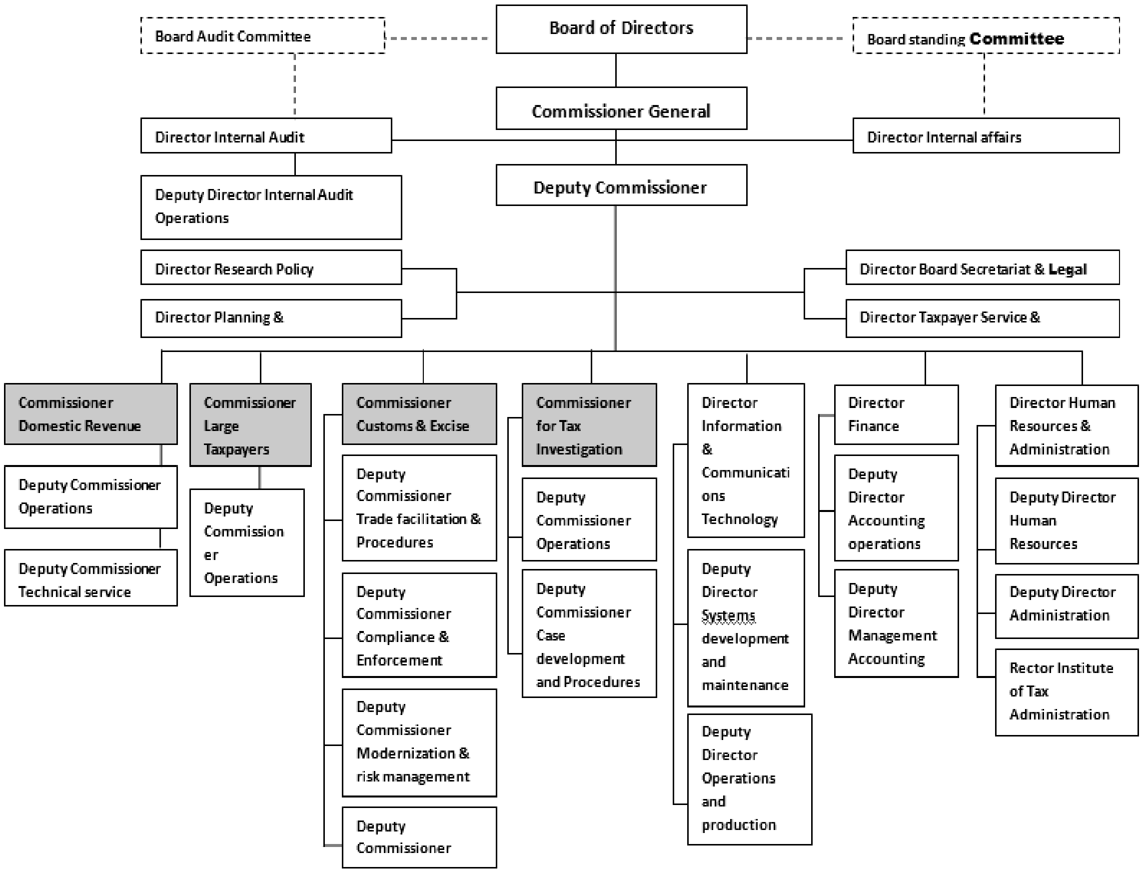
a) Tax administration Act 2015
b) Income tax Act 2004, Cap 332
c) The Value Added tax Act 2014
d) The Tax Revenue Appeals Act, Cap 408
e) The hotels Act, Cap 105
f) The ports service charges Act 1973, Cap 264
g) The Motor vehicle (Tax registration and transfer) Act 1972 Cap 124
h) The Airport service charges Act 1992, Cap 365
i) The road and fuel Act 1985, Cap 220
j) The stamp duty Act 1972, Cap 189
k) The East African Community customs management Act 2004
l) The Excise management and tariff Act, Cap 147

III.1 Tax Administration

TRA is under the direction and control of a Board of Directors as a governing board responsible in formulation and implementation of the policies of the Authority. It is also responsible for advising the Minister for Finance on the fiscal policy of the country and tax matters in particular. The board has a chairperson appointed by the President on the recommendation of the minister of Finance and various board members including; permanent secretary of the ministry of Finance of the Union Government, Principal secretary of the ministry of Finance of Zanzibar, Governor of the Bank of Tanzania, Commissioner General of the Authority, permanent secretary of the ministry of planning and four other members appointed by the minister with relevant professional knowledge, experience and competence in the relevant areas of finance, commerce or economics. The tenure of office for the members is three years and the non-ex-officio members can be re-appointed only once.

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

Figure 13: TRA Organizational structure (Top Management)



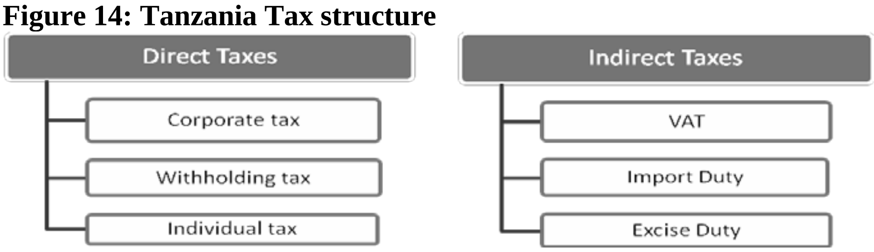
Source: Tanzania Revenue Authority

Basically there are four main departments responsible in tax administration and management (grey shaded) namely; Domestic revenue department, Large Taxpayers department, Customs & Excise department and Tax Investigation department. All the departments are manned by Commissioners who in turn report to the Commissioner General of the Authority.

III.2 Tax structure

Over the last two decades Tanzania Revenue Authority (TRA) has matured from a tax administration that provides tax type services for revenue collection to an efficient organisation that delivers one stop shop services for all types of taxes which has steered service delivery. Basically Taxation in Tanzania is in two types of taxes; that is direct and indirect taxes.

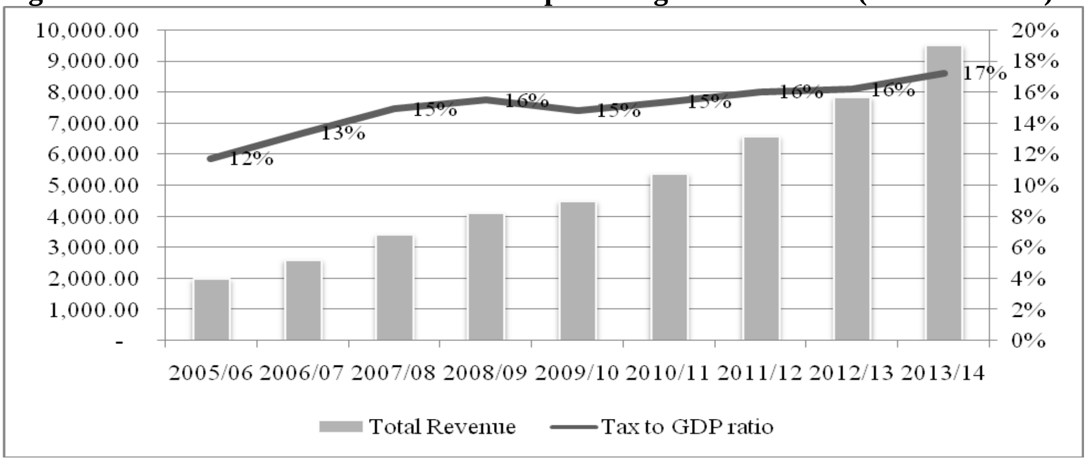
Figure 14: Tanzania Tax structure



III.3 Tax Revenue Collections

Since establishment of TRA in 1996, Tanzania has shown a positive growth of revenue collection of about 20% on average each year. From its establishment in the year 1996-97 total revenue collection grew from Tsh. 523,301.38 million to Tsh. 9,519,737.44 million in 2013-14 absolute values. Revenue yield has increased from 11% in the FY 2004/05 to 16% of GDP in the FY 2013/14. The increase in revenue collection has been associated with improved tax revenue collection. The current overall domestic revenue yield in Tanzania is pretty close to the average yield in non-fragile low income Sub-Saharan Africa countries which stands at 17.6% of GDP.

Figure 15: Total Tax Revenue collection as percentage to GDP ratio (TSHS Billions)



Source: Tanzania Revenue Authority data base

By tax type, Direct tax has being the major contributor to the total revenue collection contributing more than 40% on average of the total taxes collected (Domestic and International taxes). Indirect taxes collections; especially VAT has shown a downturn trend ranging from 15% to 13% average percentage share between 2010/11 and 2013/14. This has mainly been contributed by the structural weaknesses of the VAT Act, 1997 Cap 148. However the Act provided exemptions to huge number of items leading to erosion of tax base to a large extent. To improve VAT collections, the government replaced the VAT law with a new VAT Act, 2014 in which most of the structural weaknesses were addressed and number of exemptions was reduced.

Table 7: Percentage share to total tax revenue by tax items

Tax Item	2005/06	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14
Total Tax Revenue	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Direct Taxes	31.7	32.6	31.9	32.5	32.9	33.7	37.0	39.2	40.1
P.A.Y.E.	14.3	15.6	14.8	15.9	16.3	17.0	17.0	17.4	16.5
Corporation Tax	10.1	10.2	10.8	9.9	9.1	9.8	11.6	12.9	14.9
Individuals	1.6	1.2	1.1	1.0	1.1	1.1	1.0	0.9	0.9
Other Income Taxes	5.7	5.6	5.3	5.6	6.3	5.8	7.4	8.0	7.8
Consumption Taxes	24.3	23.9	24.0	25.2	24.4	23.2	23.4	23.5	22.8
Domestic Excises duty	6.6	6.6	6.3	6.8	6.6	5.9	6.7	6.9	7.5
Domestic VAT	16.2	15.8	15.6	16.4	15.7	14.9	14.5	14.2	13.1
Other Domestic Taxes & Charges	1.5	1.4	2.1	2.0	2.1	2.4	2.2	2.4	2.2
International Taxes	44.0	43.5	44.0	42.3	42.7	43.1	39.6	37.3	37.1
Import duty	9.0	9.6	9.0	9.0	8.5	8.7	7.9	7.4	7.7
Excises duty on Import	6.3	11.9	12.7	11.4	11.6	11.2	8.8	8.7	7.7
VAT on Import	24.9	17.8	16.0	15.5	16.7	16.7	16.4	15.2	13.7
Other Import charges	3.8	4.2	6.3	6.3	5.9	6.5	6.5	5.9	8.0

Source: Tanzania Revenue Authority Data base

III.4 Brief Overview of tax laws and taxes in Tanzania

III.4.1 Tax Administration Act, 2015

Tax Administration Act (TAA) is a new Act in Tanzania established in 2015 with the aim of creating a modern, effective, fair and transparent at administration by simplifying, unifying and harmonizing tax procedures from various tax laws in a single legislation with a view to promote voluntary tax compliance, fair tax governance, remove duplicate procedures and increase tax revenue.

TAA emphasises the use of information technology in tax administration to enhance modern tax administration, speedy and modified delivery of services to taxpayers with a view of minimizing corruption. To easy administration of tax procedures from various tax laws, new provisions that cater for all tax laws have been established in the TAA. Such provisions include; the powers of the Commissioner General to higher experts or use other public officers to assist him/her in the executing statutory functions, recognition of establishment of electronic system for e-filling, e-payment and furnishing of information to the authority, harmonised and simplified range of tax recovery measures, harmonised and streamlined penalties, interests and offences that caters for any tax law administered by TRA, powers to publish tax offenders

However the Act has a special feature of the use of currency point for determination of fines and penalties. Currency point means a value prescribed by a tax law for the purpose of protecting the value of the currency against the effects of inflation.

III.4.1 Income tax

III.4.1.1 Taxpayer registration

In Tanzania, registration is mandatory for all persons[10] doing business everywhere and for non resident persons who carries on business in the United Republic of Tanzania. For the purpose of identifying persons liable to tax such persons shall apply to the Commissioner and issued with a certificate of Taxpayer Identification Number (TIN). The registered person shall use the taxpayer identification number in all business transaction and tax records.

Income tax in Tanzania is charged under the Income Tax Act 2004 which came into operation on 1st July 2004 on the repeal of the Income Tax Act No. 33, of 1973. Income tax structure under this act is in three distinct heads of business, Investment and employment. The act provides rules of granting deductions in respect of various expenditures and reserves. In this act, anti-avoidance rules are well stipulated to minimize use of arrangements and transactions designed to avoid or reduce tax payable like income splitting provisions, transfer pricing adjustments for transactions between persons who are associated such that they comply with arm's length principle.

However the act counters the adverse effects of globalized economy on direct tax by providing clear rules on quantification, characterization and allocation of income from intra-group and cross border transactions. It provides rules for distinguishing between domestic and foreign sourced income payments and expenses. It clarifies the concept of residence with respect to a resident of the United Republic as applicable to individuals and entities.

III.4.1.2 Chargeable Income

Section 6 of the act provides the tax regime and scope of chargeable income under the act in respect of resident and non resident persons. In the case of a resident person, is the person's income irrespective of the source (worldwide) and in case of a non resident person is the income that has the source in the United republic of Tanzania.

III.4.1.3 Charge of income tax

Income tax is charged and is payable for each year of income by every person;

a) who has total income for the year of income or a corporation which has a perpetual unrelieved loss for the year of income and the previous two consecutive years of income attributable to tax incentives," (Amended by Finance Act No. 13 of 2008)

[10] "person" means an individual or an entity

b) Who has a domestic permanent establishment that has repatriated income for the year of income
c) Who receives a final withholding payment during the year of income

And the amount of income tax payable by a person for a year of income shall be equal to the sum of the income tax payable with respect to (a), (b) and (c).

The income tax rates applicable are stipulated under paragraph 1, 2 and 3 of the first schedule of the income tax Act 2004.

Table 8: Income tax rates applicable to various types of income[11]

Tax base	Rate
Income tax for individuals	See table 8
Presumptive income tax[12] for individuals	See table 9
Entities	30%
Corporation with perpetual unrelieved loss for five consecutive years attributable to tax incentives	0.3 percent of the turnover of the fifth year of perpetual unrelieved loss
Withholding taxes	Varies from 5% to 15%
Capital gain tax	10% for residents and 20% for non residents

Source: Tanzania Revenue Authority

III.4.1.4 Pay As You Earn (PAYE)

Employees pay their monthly income tax under PAYE system during the year of income (the calendar year) that starts on 1st January and ends on 31st December of every year. Employees' salaries and all other payments or benefits which are paid to him or her are subject to the PAYE tax scheme and the amount of tax withheld by employers is remitted to the TRA on or before the 7th day of the month following the month of deduction. The tax rates applicable are as per table 8 below. An employee whose income is wholly comprised of emoluments from the employment does not need to complete tax returns. However if he has other sources of income, the Income Tax Law requires him to file a return of income to the income tax office.

Table 9: Rate of income tax for individuals (who prepare audited accounts but also applicable to salary earner individuals)

Annual Taxable Income	Tax Rate
Where total income does not exceed TSHS. 2,040,000	NIL
Where total income exceeds TSHS. 2,040,000 but does not exceed TSHS. 4,320,000	11% of the amount in excess of TSHS. 2,040,000
Where total income exceed TSHS. 4,320,000 but does not exceeds TSHS. 6,480,000	TSHS. 250,800 plus 20% of the amount in excess of TSHS. 4,320,000
Where total income exceeds TSHS. 6,480,000 but does not exceeds TSHS. 8,640,000	TSHS. 682,800+25% of the amount in excess of TSHS. 6,480,000
Where total income exceeds TSHS. 8,640,000	TSHS. 1,222,800 +30% of the amount in excess of TSHS. 8,640,000

Source: Tanzania Revenue Authority

[11] Most of these rates change from time to time depending on how it has being decided during parliamentary budget review sessions. But currently these are the applicable rates

[12] This is a tax system where individuals are taxed based on their annual turnover (turnover of the business does not exceed the threshold **of TSHS 20 million**). The Taxpayers under this system are not obligated to prepare and submit audited accounts to the TRA. Tax payable is established basing on annual turnover shown by taxpayer’s records. In absence of complete records, annual turnover will be estimated based on the best judgment of the commissioner.

Table 10: Rates of tax under presumptive tax System

Annual Turnover (TSHS)	Tax Payable when records are incomplete(TSHS)	Tax Payable when records are complete(TSHS)
Not exceeding 4,000,000	NIL	NIL
Excess of 4,000,000 but not exceeding 7,500,000	150,000	3% of the turnover in excess of 4,000,000
Excess of 7,500,000 but not exceeding 11,500,000	318,000	135,000 plus 3.8% of the turnover in excess of 7,500,000
Excess of 11,500,000 but not exceeding 16,000,000	546,000	285,000 plus 4.5% of the turnover in excess of 11,500,000
Excess of 16,000,000 but not exceeding 20,000,000	862,500	487,000 plus 5.3% of the turnover in excess of 16,000,000

Source: Tanzania Revenue Authority

III.4.1.5 Filing of tax returns and payment of tax

a) **The statement of estimated tax payable**

The statement of estimated tax payable is a provisional return which a taxpayer is required to complete and file to the Commissioner within three months from the beginning of the year of income (which for individuals shall be calendar year).The taxpayer is supposed to pay the estimated tax in a maximum of four installments each falling due after three months that is on or before 31st March, 30th June, 30th September and 31st December of each year of income.

b) **Filing of Final returns**

A taxpayer must file a final tax return to TRA within **six months** after the end of each tax year. The taxpayer must file return in the period between 1st January and 30th June

Late payment of tax: Shall be charged interest at the prevailing statutory rate at the time of imposition plus 5% per annum

III.4.2 Value added tax (VAT)

The introduction of VAT in Tanzania has a long history back before it was effectively implemented. In December 1991 the Tax commission, appointed by the Government of Tanzania offered a proposal to reform the Tanzania's tax system by replacing the sales tax with VAT. On 1st July 1998 with the coming into operation of the VAT Act 1997, VAT was introduced and replace the Sales tax which was unable to generate sufficient revenue as it was narrowly based. Zanzibar has its own VAT Act and its administration, and the tax was introduced there on 1st January 1999.

However, various amendments to the VAT Act 1997 were being made by the governments in the process to enhance efficiency for better revenue yield. Due to structural weaknesses of the VAT Act 1997, the government in 2014 decided to change the law and replace it with a new VAT Act 2014. The major structural weaknesses of the previous VAT Act were; erosion of tax base due to large number of tax exemptions, the law failed to address new forms of trade in particular cross border transactions, law revenue generation (4.8% of GDP) that could not meet the target of 6% of GDP by 2013, deviation from the international best practice to mention but few.

The new VAT Act 2014 came with some different features different from the previous one. The Act assumes broad based VAT i.e. broad coverage in the sense that, every supply made in the furtherance of economic activity is taxable, The Act adopts the term economic activity which is wider than business and it includes:-business, profession, trade, manufacture, or undertaking of any kind whether or not the activity is undertaken for a profit or not and many other features.

III.4.2.1 Registration for VAT

All taxpayers in Tanzania are registered under the Taxpayer Identification System (TIN system). In addition, for VAT purposes a taxpayer must also be registered and only the registered taxpayers for VAT purposes are required to charge and collect VAT. The registration criterion is annual business turnover which at current is Tsh. 100,000,000. Any person with a turnover of Tsh. 100,000,000 or above must register for VAT. So the registered persons are called taxable persons in this case. Persons with turnover below Tsh. 100,000,000 are not required to be registered unless the Commissioner does so for the interest of the nation. Hence such persons are not allowed to charge, collect or pay VAT in their business transactions.

III.4.2.2 Tax rates

The VAT in Tanzania has mainly two types of tax rates; the standard rate 18% (for all taxable goods and services taxable at standard rate) and zero rate (0%) for immovable properties and exports of goods outside United Republic of Tanzania. At its introduction on 1st July 1998, VAT standard rate was 20% and on 31, June 2009 the government of Tanzania in its 2009/10 budget announced a reduced rate of 18% which came in to effect in 1st July 2009 to present.

III.4.2.3 Input tax Credit system

Tanzania uses Invoice system in tax credit whereby taxable persons are required to maintain records of all accounts, returns and other records relating to VAT for at least a period of Five years. In order for a taxable person to be credited for the input tax incurred the following three conditions must be met; (Section 68 (1) of the VAT Act 2014)

a) The goods and services, or immovable property on which the input tax was incurred were acquired, or imported in to main land Tanzania by the person in the course of the person's economic activity and for the purpose of making taxable supplies
b) In the case of a supply, the person paid, or is liable to pay a consideration the consideration for the supply and
c) In the case of an import, the person paid, or is liable to pay the value added tax imposed on the import

In case of imported services (Section 68 (2) of the VAT Act), the purchaser shall not be allowed an input tax credit for that supply unless he has accounted for output tax in the same Value added tax return in which the input tax credit is claimed. This means that the value added tax payable shall be the output tax and input tax of that person.

III.4.2.4 Tax period, Tax return, and Tax payment

a) Tax Period

According to the VAT Act 2014, tax period for VAT purposes means a calendar month beginning at the start of the first day of the month and ending at the last day of the month. This period is applicable to all type of taxpayers who are registered for VAT.

b) Tax return and tax payment

The Value Added Tax Act requires every taxable person to lodge a Value added tax return in the month after the end of the tax period to which it relates whether or not that person has a net amount of tax payable for that period. The amount of value added tax payable by the taxable person in relation to that tax period shall be calculated by adding all output tax that became payable by the person in that tax period, subtracting all input tax credit allowed in that tax period and adjusting the resulting amount by; adding all increasing adjustments required to be made in that tax period and subtracting all decreasing adjustments required in that tax period. Where the net amount for that tax period is negative, it shall be carried forward in to one or more subsequent tax periods unless an immediate refund is allowable.

III.4.3 Import Duties

The administration of Customs functions in East African countries is governed through the East Africa Customs Management Act – EAC CMA (2004) established by Article 39 of the Protocol for Establishment of the East African Customs Union of 2004. In all EAC Partner States customs is not a standalone department; for instance in Tanzania Customs is integral part of the Tanzania Revenue Authority and is assigned with annual revenue collection target like other taxation departments.

III.4.3.1 The EAC Customs Administration

The East African Community (EAC) Partner states adopted the Common External Tariff, East African Community customs management Act 2004, Custom regulations and rules of origin to administer Import Duty within the member states. The process of harmonization of customs administration has resulted into having Common External and Internal tariffs in respect of customs import duty within East Africa.

III.4.3.2 Single Customs Territory

The operationalization of Single Customs Territory along the Central corridor was launched in October, 2013 The Single Customs Territory (SCT) can be described as the stage for full attainment of the Customs union which is achieved by the removal of duties and other restrictive regulations and/or minimization of internal border customs controls on goods moving among Partner States with an ultimate realization of free circulation of goods.

Under Single Customs Territory, all five Partner States: Tanzania, Kenya, Uganda, Burundi and Rwanda are regarded as one Customs Territory which means there shall be only one Customs declaration that will be made in the Country at which goods are consigned. Such one declaration will replace the current system where imports to Rwanda, Burundi or Uganda requires multiple customs declarations; first in Tanzania as Transit Goods and then in Rwanda, Burundi or Uganda as Imports that ultimately involves two or more Customs Agents to clear the consignment. The overall benefit will be time and cost saving

III.4.3.3 Rules of Origin

These are rules for determining the place from which goods originate within the EAC Partner state. The purpose is to ensure that traders in the partner states are aware of the rules and there is uniformity with a view of transparency, accountability, fairness, predictability and consistency in the application of the rules of origin among East African Countries. Goods which meet the criteria will be granted a certificate of origin and imported free of duty within the partner states.

Most of goods which are imported to Tanzania are charged Import Duty at the rate of 25%. These are final consumer goods or finished goods. However, there are some sensitive items which attract Import duty of more than 25%, to mention but few such goods include; Maize (Corn) 50%, Rice 75%, Hard wheat 35%, sugar for industrial use 100%, cigarettes containing tobacco 35% and so on.

Other Import duty rates include 0% and 10%. Goods or items which are charged 0% Import Duty mainly covers raw materials, capital goods, pharmaceuticals, agricultural implements and others. Goods or items which are charged 10% Import Duty mainly covers semi-finished goods or inputs which are used in production such as wheat starch, maize starch, cotton seeds, trailers and semi trailers not mechanically propelled-assembled to mention but few.

III.4.4 Interest, Penalties and Offences for non compliance

Non-compliance is enforced through a number sanctions specified in Tax Administration Act 2015. As mentioned earlier, Tax Administration Act is a new law enacted in May 2015 for easy administration of tax procedures from various tax laws. It harmonised and streamlined penalties, interests and offences that cater for any tax law administered by TRA. Interests, penalties and fines imposed for different non compliance actions are as per table 11below.

Table 11: Interest, Penalties and Fines

Activity	Interests	Penalties	Fine Payable
Understating estimated tax payable	Statutory rate compounded monthly	N/A	N/A
Failure to Pay Tax	Statutory rate compounded monthly	N/A	N/A
Failure to Maintain Documents or File Statement or Return of Income	N/A	1 CP for Individuals and 10 CP corporations each month and part of a month	N/A
Failure to file tax return	N/A	2.5% of tax assesses less tax paid, 5 CP for Individuals, 15 CP for Corporations whichever is higher	N/A
Making False or Misleading Statements	N/A	50% of the tax - omission without reasonable excuse or 75% of the tax - knowingly or reckless omission	N/A
Aiding and Abetting	N/A	100% of the tax	<100 CP and >200 CP or imprisonment of < 1 year and > 2 years or both
Failure to comply with the law	N/A	N/A	<20 CP and >50 CP or imprisonment of > 6 months or both
Failure to Pay Tax	N/A	N/A	<25 CP and >100 CP or imprisonment <3 months or both
Failure to use Electronic fiscal device	N/A	N/A	<100 CP and >150 CP or imprisonment >3 years or both
Failure to apply for VAT registration	N/A	N/A	<100 CP and >200 CP or imprisonment <1 year and >2 years or both

Source: Tanzania Revenue Authority Tax Administration Act, 2015
*CP means Currency Point

III.4.5 Tax Appeals

In order to enhance taxpayers' rights, reduce tax avoidance and increase voluntary tax compliance, TRA administers Tax revenue appeals Act, Cap 408**.** For effective management of appeal cases in Tanzania, tax appeals go through various processes. The first stage is tax objection to Commissioner General of TRA whereby if a taxpayer is not satisfied with a tax assessment issued to him/her, the taxpayer should file a notice of tax objection within 30 days from the date the assessment was issued to him/her. If the taxpayer is aggrieved by the decision of the Commissioner at the first stage, the taxpayer may appeal to the Tax Appeal board for further determination within fort five days following the date on which the notice of final determination of assessment of tax is served on the appellant.

There after, any party who is aggrieved by the decision of the Board may appeal against the decision to the Tax Revenue Appeals Tribunal within thirty days from the date of the decision. The Board and the Tribunal shall respectively have the power to take evidence on oath, to resolve any complaint or appeal by mediation, conciliation or arbitration, to issue warrants of arrest for failure to comply with summons, to order payment of costs in relation to any matter referred to the Board or the Tribunal, to dismiss any matter before it and to adjourn the hearing of any proceedings before it.

Any person who is aggrieved by the decision of the Tribunal may prefer an appeal to the Court of Appeal. Appeal to the Court of Appeal shall lie on matters involving questions of law only and the provisions of the Appellate Jurisdiction Act and the rules made there under shall apply *mutatis mutandis* to appeals from the decision of the Tribunal.

III.4.6 Other Taxes

Together with the two major taxes described above, TRA collects revenue from other sources of income as listed hereunder;

a) The Hotels levy

The Hotels levy is charged under The Hotels Act, Cap 105. Section 26 of the Act imposes a levy on every owner of a hotel or guest house shall pay, in respect of every guest, a levy of twenty per centum of the hotel charges. However, any person who or body of persons which has been registered for VAT shall be exempted from the levy (Section 27 of the Act)

b) The Port Services charges

The Port Services charges are charged under The Port Services charges Act, Cap 264. The Act imposes a port service charge (Section 3 of the Act) to be paid by every passenger on each occasion on which he embarks on a ship or a ferry, at a port in Mainland Tanzania, for a journey to a destination within or outside the United Republic. In case of residents five hundred shillings and in case of non-residents five US Dollars or its equivalent in convertible currency. The charge shall be paid prior to embarkation to a collection agent. Exemptions (Section 4 of the Act) shall apply to any child under the age of two years, any passenger embarking at a port at which he is in transit, any passenger embarking on a ferry which plies at a distance of up to three kilometres from the port.

c) The Air Port Services charges

The Air Port Services charges are charged under The Air Port Services charges Act of 1973, Cap 365. Section 3 of the Act imposes a charge known as airport service charge of five thousand shillings to be paid by a passenger embarking on an aircraft at an airport within the United Republic who intends to travel to a destination within the United Republic and thirty United States dollars for passenger who intends to travel to a destination outside the United Republic whether or not a resident of the United Republic

d) The Motor Vehicles registration taxes

In Tanzania, taxes on motor vehicle registration are charged under The Motor Vehicles (Tax on registration and transfer) Act 1972, Cap 124. The rates of the charges are set out in the first schedule of the Act and the taxes are charged upon first registration of any motor vehicle, where in the case of any motor vehicle, registration tax has not been paid by reason of an exemption under section 6 upon the expiry of the exemption or upon transfer of the motor vehicle to a person not enjoying similar exemption, where subsequent to first registration of a motor vehicle to which the Act does not apply the motor vehicle is so adapted as to bring it within a category of motor vehicles to which the Act applies upon the adaptation.

However the Act charges tax on transfer (Section 8 of the Act) at the rate specified in the Second Schedule to this Act, upon the transfer of a motor vehicle by the owner to his or her spouse, upon the transfer of a motor vehicle to the personal representatives of a deceased owner and upon other cases as stipulated in the Act

e) The Stamp Duty tax

Stamp duty tax is administered under The Stamp Duty Act 1972, Cap 189**.** The Act imposes stamp duty charges (Section 5 of the Act) to instrument specified in the schedule which is executed in Tanganyika (Tanzania mainland) or if executed outside Tanganyika relating to any property or any matter or thing performed in Tanganyika, must be charged with duty of amount that is specified or calculated in the manner specified in the schedule in relation to such instrument unless it is exempted.

The Stamp Duty Act specifies the persons to pay stamp duty where in most cases it is payable by the person drawing, making, or executing the instrument. When a person is in doubt as to whether or not an instrument is required to be stamped or as to the amount of the Stamp Duty payable in respect of any instrument, he can refer the matter to the Stamp Duty Officer for adjudication.

f) **Excise Duty**

Excise Duty is a duty charged on specific goods and services manufactured locally or imported on varying rates. It is charged in both specific and ad valorem rates.

Items charged under specific rates include: Wine, spirits, beer, soft drinks, mineral water, fruit juices, Recorded DVD,VCD,CD and audio tapes, cigarettes, tobacco, petroleum products and Natural gas.

Items charged under ad-valorem rates include: Money transfer services, electronic communication services, pay to view television services, imported furniture, motor vehicles, plastic bags, specified aircrafts, firearms, specified cases, cosmetics and medicaments.
Ad-valorem rates are: 0%, 5%, 10%, 17%, 15%, 20%, 25%, 30% and 50%.

III.4.7 Tax reforms

Tax reforms in Tanzania dates back in 1960 but since the establishment of Tanzania Revenue Authority, as semi autonomous government agency which of course by itself was a major reform to enhance administration of taxes as a major source of government revenue, numerous reforms in the tax system have being and are being made for the purpose of boosting revenue collection. To improve efficiency in tax administration and collection, Tanzania Revenue Authority has being evolving from time to time. Some of the reforms carried out since the introduction of TRA include;

a) Integration of TRA operations to form revenue departments; Large Taxpayers Department, Domestic revenue department and Customs and Excise department. Before this integration, VAT and Income taxes were separately administered by different departments and so formation of domestic revenue department merged these two type of taxes to be administered under one department
b) Payment of taxes through banks
c) Use of ICT systems for tax operations
d) Governance and integrity by forming a special department (Internal Affairs Department)

III.4.7.1 Electronic Fiscal Devices (EFD)

Further, in the process to ensure high yield in revenue collection, Tanzania introduced Electronic Fiscal Device (EFD) to VAT registered traders in 2010 as a first phase under the The Value Added Tax Act (Electronic Fiscal Device) Regulation, 2010 with the main aim of enhancing VAT compliance in Tanzania. TRA's new EFD system became effective on July 1, 2010 (Finance Act, 2010). The system aims at allowing the taxman to get correct sales information from business people; reduce tax collection costs and helping business people to comply with the Value Added Tax (VAT) regulations among others in Tanzania.

However, after a successful implementation of the first phase, Tanzania Revenue Authority started to implement the second phase of Electronic Fiscal Devise (EFD) in 2013 under the The Income Tax Act, through the Income Tax (Electronic Fiscal Devices) Regulation, 2012 with the aim of boosting revenue collections and simplify tax administration. The Second Phase was intended to cover non VAT registered traders.

III.4.7.2 The new VAT Act 2014

Also in the process to enhance revenue collections, Tanzania adopted a new VAT Act 2014 which came into operation on 1st July 2015 replacing the existing one VAT Act 1997. Several reasons including poor revenue yield and structural weaknesses of the previous VAT Act forced Tanzania to change the law. Among other issues, tax exemption was the major issue addressed in this change.

IV. Country Specific Issues: Where We are and where We go

IV.1 Political context

The United Republic of Tanzania remains a stable and peaceful country. The most important recent development has been the writing of a new constitution, which will replace the existing 1977 constitution. The Constituent Assembly concluded its work in October 2014, tabling a proposed draft of the new constitution that preserves the current two-government union structure, with a Union government for the mainland and Zanzibar, and a separate government of Zanzibar. A national referendum to ratify the new constitution was planned for April 2015 and later postponed pending General election.

Although Tanzania continues to make progress in political and economic reforms, there are mixed results in the areas of governance and control of corruption in particular. According to Transparency International’s Corruption Perception Index 2014, Tanzania’s rank slipped to 119th out of 175 countries in 2014, with a score of 31, down from 111th out of 177 countries and a score of 33 in 2013. However, when benchmarked against its neighbours – Kenya (145th out of 175 countries), Uganda (142nd) and Burundi (157th) – the country is perceived to be performing better (Transparency International 2014). Tanzania ranked 15th out of 52 countries in the Mo Ibrahim Index of African Governance, with an overall score of 58.2 (out of 100) in 2014. This is higher than the African average of 51.7 and the regional average for East Africa (48.5).

IV.2 Underlying assumptions

The current Debt Sustainability Analysis (DSA) assumes gradual and modest fiscal consolidation in the medium term, supported by revenue efforts. The deficit is projected to temporarily increase to 4.2 percent of GDP, partly on account of arrears clearance (0.7 percent of GDP) before declining to 3 percent of GDP in 2016/17 and stay slightly below that level in the outer years, consistent with the convergence criterion agreed under the East African Monetary Union (EAMU) protocol. Domestic revenues (excluding grants) are projected to increase significantly in 2015/16 backed by tax measures (including the new VAT law and new levies on imports and oil products to finance railway development and rural electrification). The revenue ratio is projected to grow gradually as a share of GDP in the medium-term, reflecting further revenue mobilization efforts required to address Tanzania’s development needs in a context of a likely further decline in the aid to GDP ratio.

IV.2.1 External borrowings

The composition of external borrowing is assumed to gradually shift toward non concessional debt, consistent with a reduction in aid dependency as the economy matures. External non concessional borrowing (ENCB) has picked up in recent years (including 2014/15). ENCB would gradually become the more prominent financing source.

IV.2.2 Other macroeconomic assumptions

Long-term average GDP growth is slightly lower at 6.6 percent which reflects the lower historical average in the revised national accounts. The financing terms assumption are less favourable than in the previous DSA, to reflect a slightly faster transition towards market financing. With offshore natural gas exploration almost completed, net FDI inflows are expected to decrease as a share of GDP in 2014/15 (a downward revision from the last DSA) and to stabilize at about 4 percent of GDP in the medium term.

IV.3 Emerging macroeconomic policy issues

IV.3.1 The prospect of natural gas to Tanzania economy

Together with other mineral resources such as gold, diamonds, coal, iron, titanium, uranium, nickel, copper, soda ash etc, Tanzania's economy is projected to start accelerating at the rate of 15.3 per cent annually within the next 12 years, following massive off shore discovery of natural gas in the country. However, there is undue foreign dependency and also lack of the capacity to employ the appropriate technologies required in the exploration and development of mineral resource extraction ventures.

IV.3.2 Recent development in the gas sector

Recent natural gas discovery in deep sea and ongoing construction of natural gas pipeline from Madimba (Mtwara)[13] via Somanga Fungu (Lindi) to Dar es Salaam and processing plants at Madimba and Songo Songo are indications that oil and gas subsector is going to be a significant contributor to economic development of Tanzania. Natural gas has been discovered in areas of Songo Songo, Mnazi Bay, Mkuranga, Kiliwani, Ntorya and Deep Sea amounting to 46.5 TCF[14] of which Deep Sea (offshore) amounts to 38.5 TCF while that in onshore amounts to 8 TCF. The proven amount out of 46.5 is only 1.169 TCF all being the onshore gas distributed as follows: Songo Songo (880 BCF), Kiliwani (27 BCF) and Mnazi Bay (262 BCF). At the moment natural gas is only produced at Songo Song and Mnazi Bay while Kiliwani, Ntorya and Mkuranga fields are expected to start supplying gas early 2015. Other remaining fields (including offshore) are still in appraisal stage.

Gas production in Songo Songo field is about 100 mmscfd which is transported through the pipeline to Dar es Salaam and used to generate 320 MW of power as well as supplied to 37 industries. Also, part of gas from Songo Songo is used for cooking and for running motor vehicle whereby 70 households and 40 vehicles are now consuming natural gas. Gas production in the Mnazi Bay area is only 2 mmscfd which is used in electricity generation of 10 MW.

The Government is now implementing a project which involves construction of a pipeline from Mtwara to Dar es Salaam via Somanga Fungu and processing plants at Madimba and Songo Songo. The objective of the project is to bring gas to the market for power generation, industries, households and motor vehicles. The pipeline will have outlets along the way leave in Mtwara, Lindi, Kilwa, Somanga Fungu and Mkuranga. Currently, the biggest demand for gas is mainly for power generation. Based on the existing infrastructure, power generation consumes about 85% of the gas while industries, households and transport consume the remaining 15%.

IV.3.3 Natural Gas Policy Development

The Government finalized Natural Gas Policy in 2013 and is now drafting the Natural Gas Act which will govern the natural gas activities in the country. Also, the government is in preparation of the Petroleum Policy and Local Content Policy in Oil and Gas subsector. The major aim of the Petroleum policy is to govern petroleum upstream activities, midstream and downstream of oil while the local content policy in oil and gas will guide maximization of national benefit by promoting local value addition and ensure participation of Tanzanians in the oil and gas industry.

IV.3.4 Potentials of natural gas to the economy

Currently, Natural gas is used as alternative fuel for power generation, industries, institutions, households and vehicles. Power generated from Natural gas is about 320 MW and is expected to increase up to about 2,216 MW within the next four years. This is expected to reduce power crisis that Tanzania has been experiencing since 2006 and boost economic growth. On the revenue side, from the period when gas projects started to December 2013, the Government has been able to collect gas sales and VAT amounting to 232.8 Million USD for Songo Songo gas and 6.7 Million USD for Mnazi Bay. Further, gas activities have created employment to a number of Tanzanians. Besides government employment through TPDC[15], there have been a number of Tanzanians employed in the oil and gas subsector and service companies. Currently, there are 18 oil and gas exploration companies, estimated to employ an average of 40 Tanzanians each and the number magnifies according to the needs. Also, service companies in oil and gas have employed approximately 427 Tanzanians. In addition to that, everyday about 1,000 Tanzanian casual workers work in the new pipeline construction.

[13] One of the administrative regions in southern Tanzania
[14] Trillion Cubic feet
BCF is billion cubic feet
[15] Tanzania Petroleum Development Corporation

IV.3.5 Gas Sector challenges and the way forward

Gas sector is facing various challenges in implementing its programs. In order to realize the economic potential of Tanzania basing on its natural resources, several fundamental challenges will have to be addressed. To mention but few, the challenges include the following:

a) Piracy: Exploration activities in the deep sea are jeopardized by Somalian pirate. To address this challenge, the Tanzanian army in collaboration with the exploration companies is providing security to the exploration ships.

b) Exploration in the Conserved areas**:** Some of the exploration fields are located in the conserved areas; for example; Selous Game Reserve. Though TPDC holds the exploration and development license, it has not been allowed to undertake exploration 33 activities because those areas are protected under the international law. Ministry of Natural Resources and Tourism is preparing guidelines that will facilitate exploration activities in the protected areas.

c) Expertise: This challenge concerns requisite level of knowledge, competencies and experience to successfully exploit the natural resources and manage the flowing benefits thereof. The country is in a great need of skilled personnel to monitor and work in oil and gas sector In addressing this challenge, it is important to have professional human capital through overseas training in the field of gas. The government plans to employ more professions according to the demand and the government is providing academic sponsorship to more than 200 Tanzanians.

d) Public expectations: Gas discoveries in the country have raised numerous people's expectations. Gas infrastructure development takes five to seven years to be able to operate at a level that people anticipate. This has created a negative attitude towards the sector. In addressing this challenge, the government has introduced several public awareness programs to educate people more about the sector.

The challenges outlined above including others, are the main factors that constrain socioeconomic development in Tanzania. In other words, they hinder fruitful exploitation of the abundant natural resource endowment. Certain positive outcomes can be expected when the above constrains are addressed right from the beginning, for instance: enhanced investments, revenues, growth and employment.

V. Conclusion

Before independence Tanzania was colonized by Germany and British up to when it gained independence from the hands of British rulers in 1961. From Independence to date Tanzania has continued being stable politically and the relationship with other neighbouring and donor countries is warm. Tanzania is a union government formed of Tanganyika (currently Mainland Tanzania) and Zanzibar (26 April 1964) and thus united republic of Tanzania with two presidents; the president of the United republic of Tanzania and the president of Zanzibar. Basing on the strong social policies laid down by Mwl. Nyerere that forge political stability, the economy of Tanzania has positively being improving.

Looking at macroeconomic indicators of Tanzania, Tanzania has continued to maintain a healthy fiscal position, keeping the deficit at sustainable levels and managing expenditure growth in line with the broad objective of sustaining macroeconomic stability. Given its health fiscal position, Tanzania is striving to perceive with efforts at sustaining macroeconomic stability maintaining the fiscal deficit at around 5-6% of GDP and government expenditure and net lending at around 25% of GDP. The Medium-term prospects are favourable, with growth projected to remain above 7%. The strong economic performance is basically supported by communication, financial intermediation, construction, and trade.

During the year 2012, Tanzania attracted FDI inflows amounting to USD 1,799.6 million, 46.4 percent higher than the amount received in 2011. Despite this increase, the level of inflows in 2012 was still lower than the peak of USD 1,813.3 reached in 2010 as a result of recovery from the global financial crisis which coincided with new inflows to the electricity and gas activities. The annual average inflow between 2008 and 2012 was USD 1,435.7 million. However, during 2013/14 the overall balance of payments recorded a surplus of USD 268 million which was more than half the amount recorded in 2012/13. The decrease of the surplus was driven by widening of current account deficit by 12.9% to USD 4,790.2 million. This was on the account of increase in imports of goods and services relative to exports,

The economic growth of Tanzania remains strong as Gross Domestic Product (GDP) in 2013 grew by 7.0 percent in real terms compared with 6.9 percent in 2012. GDP at constant prices amounted to TZS 20.5 trillion compared with TZS 19.2 trillion in 2012. The strong economic performance was basically supported by communication, financial intermediation, construction, and trade and repairs activities. Medium-term prospects are favourable, with growth projected to remain above 7%, supported by public investments in infrastructure, particularly in the transport and energy sectors.

For the past five years, Tanzania has experienced different patterns of annual average inflations rates for headline, food and non food items. The economy experienced low pace of speed increase for prices of commodities in 2010 and 2013 where the annual average headline inflation rate were 5.5 percent and 7.9 percent respectively. The highest price increase for goods and services was recorded in year 2012 with the annual average inflation rates of 16.0 percent while year 2010 recorded the lowest annual average inflation rates of 5.5 percent for the past five years. The decline in annual average headline inflation rates for 2013 is highly attributed to the decrease in prices for food items especially rice and other major cereals. This was attributed to favourable weather condition and concerted effort taken by the Government to increase the stock of food in the local market specifically provision of import permit for rice and sugar.

The Bank of Tanzania has continued to pursue a prudent monetary policy with the objective of supporting economic growth and maintaining price stability. Growth of money supply in the year ending November 2014 accelerated to 17.4%, up from 9.7% growth in the corresponding period in the previous year. The growth in money supply was driven by an increase in net domestic assets of the banking system due to an expansion in credit to the private sector and government. Net borrowing by the government from the banking system grew by 75% in the year ending November 2014, up from growth of 24.8% recorded in November 2013. In line with the monetary policy stance for 2013/14, extended broad money supply (M3) increased by TZS 2,415.4 billion, translating into a growth rate of 15.8 percent compared with 14.9 percent recorded in 2012/13 and the projection of 15.0 percent. The increase in M3 was largely driven by increase in domestic credit and accumulation of foreign assets by the banking system

Tanzania's fiscal position remains healthy as the government continues with measures to manage expenditure and keep the fiscal deficit within sustainable limits. In fiscal year 2013/14, domestic revenue fell short of target by about 10%, mainly because some of the planned revenue measures could not be implemented. Domestic revenues were estimated at 17.4% of GDP in 2013/14, up from 16.8% of GDP in 2012/13. Total expenditures and net lending for 2013/14 were estimated at 24.5% of GDP, down from an estimated 27.7% of GDP in the previous fiscal year. The government continues to implement measures to improve domestic revenue mobilisation by identifying new sources to widen the revenue base, by strengthening the administration of current sources and through proper management and reduction of tax exemptions. On the expenditure side, the government continues to focus on reducing recurrent expenditure in areas considered to be "non-priority", among them seminars, domestic and foreign travel, exhibitions and trade fairs.

Tanzania's total public debt has stabilised at around 42% of GDP for the past three years. The external debt stock is estimated at USD 13.7 billion as of November 2014, having increased by 5.3% from the level recorded in corresponding period in 2013. In line with the Medium-Term Debt Management Strategy, the government has continued to take measures to fine-tune debt management operations in order address co-ordination challenges. A particularly noteworthy development is the recent establishment of a separate department at the Ministry of Finance that will be responsible for government debt issues. The stock of domestic debt increased to TZS 6,535.5 billion at the end of 2013/14 from TZS 5,640.4 billion registered at the end of 2012/13. The increase was on account of large issuance of government securities compared to maturing obligations. The domestic debt stock was equivalent to 14.6 percent of GDP and 25.7 percent of the national debt stock.

In the struggle to mobilize domestic revenues, Tanzania continues to make some tax policy reforms; notable ones include new VAT Act 2014 replacing the VAT Act 1997 to tackle the weaknesses of the previous act which yielded low revenue and the introduction of Electronic Fiscal Devices (EFD) system aimed at improving revenue collection by electronically tracking all business transactions by taxpayers in the system.

The countries specific issues have been the writing of a new constitution, which will replace the existing 1977 constitution, underlying assumptions that the deficit is projected to temporarily increase to 4.2 percent of GDP, partly on account of arrears clearance (0.7 percent of GDP) before declining to 3 percent of GDP in 2016/17 and stay slightly below that level in the outer years, Domestic revenues (excluding grants) are projected to increase significantly in 2015/16 and shifting the external borrowing to non concessional borrowing and gradually become the more prominent financing source.

However, Tanzania's economy is projected to start accelerating at the rate of 15.3 per cent annually within the next 12 years, following massive off shore discovery of natural gas in the country. Recent natural gas discovery amounting to 46.5 TCF[16] of which Deep Sea (offshore) amounts to 38.5 TCF while that in onshore amounts to 8 TCF is an indications that oil and gas subsector is going to be a significant contributor to economic development of Tanzania. The Government is now implementing a project which involves construction of a pipeline from Mtwara to Dar es Salaam via Somanga Fungu and processing plants at Madimba and Songo Songo. The objective of the project is to bring gas to the market for power generation, industries, households and motor vehicles. On top of that, the Government finalized Natural Gas Policy in 2013 and is now drafting the Natural Gas Act which will govern the natural gas activities in the country.

Together with the prospects of economic acceleration due to gas discoveries, the gas sectors face some challenges in which the government has planned the way forward in tackling them. To mention but few, the challenges include; piracy by Somalian pirates, Some of the exploration fields are located in the conserved areas, lack of expertise to exploit the natural resources, Public expectation. Development takes five to seven years to be able to operate at a level that people anticipate. This has created a negative attitude towards the sector. In addressing this challenges, the government of Tanzania will enhance security in the explorations sites, in collaboration with the Ministry of Natural Resources and Tourism the government will preparing guidelines that will facilitate exploration activities in the protected areas, employ more professions according to the demand and providing

[16] Trillion Cubic feet
BCF is billion cubic feet

academic sponsorship to more Tanzanians to train more experts and provide public awareness programs to educate people more about the sector.

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