

## 1

# Introduction



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

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

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

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

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

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

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

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

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

**Chapter 3 describes Tanzania’s current trade policy and trade performance,** highlighting the narrow commodity composition and relatively modest change in the share of intra-East African Community (EAC) trade. A review of the existing tariff schedules noting the high

levels of protection on a small number of sensitive products including sugar, rice, and textiles. The chapter also presents evidence from the new World Bank/UNESCAP database on trade costs.

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

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

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

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

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

Finally, **chapter 8 focuses on Zanzibar and looks more in-depth at the opportunities for expanding the key sectors of agriculture and tourism.** The scenic beauty

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

## Notes

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