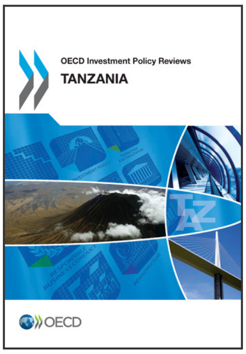

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Overview of progress and policy challenges in Tanzania

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Chapter 1

Overview of progress and policy challenges in Tanzania

Major economic reforms which have liberalised trade, enhanced the role of the private sector and led to the creation of Tanzania Investment Centre, have generated a steady GDP growth in Tanzania since 2000. Nevertheless, the regulatory framework for investment could be further improved, and investment incentives are not systematically evaluated. The investment regime could be further rationalised through strengthening of the Tanzania Investment Centre as a one stop shop to have full mandate for approval of investment permits. Tanzania still lacks adequate enabling infrastructure and the private sector does not actively participate in infrastructure development. Access to land can be a lengthy process for foreign and domestic investors alike, and land tenure remains insecure for smallholders. In addition, restrictions on agricultural trade hinder investment in agriculture. Informed by the subsequent chapters of this report, this overview provides policy options to address these challenges, in view of enabling Tanzania to attract higher investment and to potentially become a regional trade and investment hub.

This *Investment Policy Review* aims to provide timely inputs into Tanzania's current policy reform process, including the revision of the National Investment Promotion Policy of 1996 and the associated Tanzania Investment Act of 1997. The *Review* focuses on four policy areas selected by the Office of the Prime Minister of Tanzania, namely: investment policy; investment promotion and facilitation; infrastructure development; and agriculture.

First, this overview provides a short description of the policy context for investment in Tanzania. Second, it summarises investment trends over the last two decades. Third, it identifies the main policy challenges faced by Tanzania to attract investment across all economic sectors. Finally, it provides policy options to address these challenges and to optimise the benefits of domestic and foreign investment.

1.1. Policy context

Three phases of economic reform following independence

In the **first phase** from 1961 to 1967, Tanzania promoted the market economy it had inherited from colonial times. Economic policies considered the public sector as a source of support for private sector growth. To implement import substitution policies, investment programmes targeted capital intensive industrial sector and infrastructure projects and concentrated in urban areas. At the same time, government efforts focused on increasing agricultural productivity and raising living standards in rural areas. These policies had limited success, leading to a decline in foreign exchange reserves. The heavy focus on cash crops came at the expense of food crops and Tanzania became a food importing country.

The **second phase** from 1967 to 1983 started with the Arusha Declaration launching the African socialism programme ("Ujamaa"). Several major private companies were nationalised, decision-making processes centralised, prices and trade strictly controlled, and exports increasingly restricted. Two import-substitution industrialisation strategies were adopted to reduce trade dependency. In parallel, social services were highly subsidised and attracted heavy government investment

(Ngowi, 2009). On the downside, this socialist period encouraged a tenfold expansion of the number of parastatals, from 42 in 1967 to 425 in 1984, which captured considerable rents and stifled incentives for innovation and entrepreneurship. Although by 1993, public enterprises accounted for about 25% of non-agricultural employment, they were highly inefficient and only contributed to 13% of GDP (Cooksey, 2011). In 1981, the government introduced the National Economic Survival Plan to channel greater investment towards agriculture but it was short-lived and rapidly replaced by a structural adjustment programme in 1983 (Kent, 1996).

The **third phase** started in 1983 and continues today. The government liberalised trade under the second structural adjustment programme from 1986 to 1989. The Economic Recovery Programme and the Economic and Social Action Programme were devised with the IMF respectively in 1986 and 1998 and laid the groundwork for market reforms. Tanzania engaged in foreign exchange and investment deregulation, opening the country to international banks and introducing a "unified foreign exchange rate" over 1989-92. "Ujamaa" socialism was officially abandoned with the endorsement of the "Zanzibar Declaration" in 1991 and with the National Investment Promotion Policy and Investment Code of 1990 which established the Investment Promotion Centre (IPC, since replaced by the Tanzania Investment Centre). Entry restrictions were relaxed in most economic sectors. Import licensing and controls of foreign exchange rates, exchange rates, interest rates and prices were abolished (Cooksey, 2011).

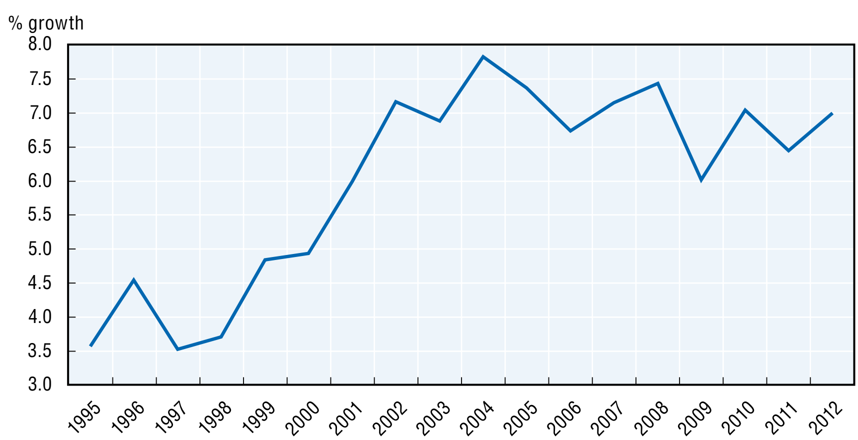
From 1993 onwards, the government undertook civil service and **parastatal reform, privatising state monopolies**. The Presidential Parastatal Sector Reform Programme, followed by a Privatisation Master Plan, resulted in the divestiture of 336 public enterprises by 2010 (NAO, 2011). These processes were facilitated by the Public Procurement Acts (PPA) of 2001 and 2004, among other legal instruments. However 176 enterprises currently remain parastatal and privatisation has not always been successful (NAO, 2012). The textile industry largely collapsed following privatisation, as newly privatised firms were unable to compete with international players in liberalised macro-economic conditions. Small-scale economic actors particularly suffered – for instance small farmers were hurt by the price hikes resulting from privatising fertilizers' production (AFRODAD, 2007). In addition, certain privatised companies – including many infrastructure providers and companies in strategic industries, such as the State Mining Corporation STAMICO – have been re-possessed by the government in recent years. Despite the enactment of updated legislation for private participation in the economy, Tanzania therefore still has a long way to go in terms of parastatal reform.

Nonetheless Tanzania's **current national strategies for economic reform** strongly emphasise the importance of encouraging private participation in the economy. Adopted in late 2010, the **Second National Strategy for Growth and Reduction in Poverty** (NSGRP) or MKUKUTA II (for the mainland), provides an operational framework for achieving the MDGs and Tanzania's Development Vision 2025 which aims to transform Tanzania into a middle-income country. It calls for enhancing the role of the private sector in generating economic growth and identifies agriculture as one of the central growth drivers (MoF, 2010). Since 2011 MKUKUTA has been complemented by the **National Five Year Development Plan I** (FYDP 2011/12 – 2015/16), the first of a series of three five-year plans which will attempt to address MKUKUTA implementation challenges. A salient feature of FYDP I is scaling up the role of the private sector in economic growth, by improving the business climate as well as investing in people and in infrastructure development.

Steady economic growth following the reforms

Between 2000 and 2008, Tanzania had one of the strongest growth rates of the non-oil-producing countries in Sub-Saharan Africa. Annual real GDP growth has exceeded 6% for ten consecutive years, with 7% and 7.2% projected for 2013 and 2014 respectively (GoT, 2013). While per-capita GDP remains low, it has also consistently increased alongside, from USD 650 in 1995 to USD 1 542 in 2012.

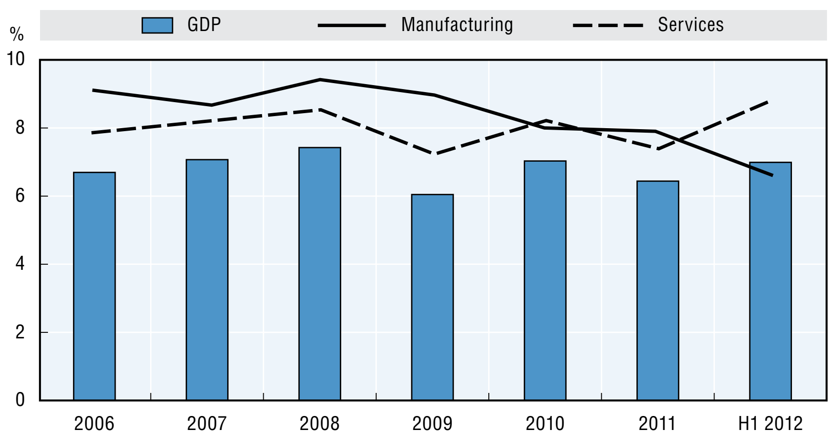
Figure 1.1. **Annual GDP growth, 1995-2012**



Source: World DataBank, 2013.

In 2012, services (including tourism) represented 47.6% of GDP, agriculture 26.8%, and industry and construction 24% (NBS, 2013). While textiles suffered greatly from liberalisation and international competition in the late 1980s, the manufacturing sector has somewhat recovered in recent years. As Figure 1.2 indicates, real GDP growth over 2006-2012 has thus been particularly upheld by **robust performance in manufacturing and services**. Over 2014 GDP growth is expected to be driven by manufacturing, transport, storage and communications, real estate, business activities, and financial intermediation (IMF, 2013).

Figure 1.2. **Strong performance of manufacturing and services in upholding real GDP growth, 2006-2012**



Source: International Monetary Fund (IMF), *IMF Country Report* No. 13/12, United Republic of Tanzania. 20 December 2012.

Agricultural production has increased over the last two decades, mainly driven by maize, paddy, sugar cane and meat production that almost doubled over this period. Although the contribution of agriculture to GDP has fallen from 27% in 1998 to 24.7% in 2012-2013 and agricultural growth has not exceeded 4-5% per year since 1998, the sector still accounts for over 70% of total employment today. As regards mining, Tanzania is Africa's fourth largest **gold** producer and is also beginning exploitation of other minerals and ores (including gemstones, nickel, cobalt, and coal). A boom in **gas** exploitation is also expected from 2013 onwards. Finally, Tanzania has attracted nearly 7 million **tourists** between 2001 and 2012 (with a record of 1 million tourists for 2012 alone), corresponding to total tourism revenues of TZS 615 billion or USD 380 million (Tanzania Invest, 2013).

Trade liberalisation and export diversification

Tanzania's **openness to international trade** has considerably increased over the last two decades, In recent years the sum of exports and imports has for instance risen from 45.6% (in 2009-2010) to 59.5% of GDP (in 2012-13)(IMF, 2013). Exports averaged 22% of GDP and imports and exports have increased respectively by 51% and 59.5% (AfDB, 2011). However the rise in imports reflects a risky energy dependence: in fiscal year 2011-12 Tanzania's total imports bill rose by 39.1% and the current account deficit more than doubled (to 16.2% of GDP), in large part due to increased oil imports. This situation is expected to improve as of 2014, following completion of a new pipeline destined to provide natural gas rather than imported fuel for electricity generation (IMF, 2012).

The structure of Tanzania's external sector has also become **more diversified** over the past decade. The dominance of foreign exchange earnings has shifted from traditional agricultural commodities to non-traditional exports, such as tourism, travel services and transportation, minerals and manufacturing products (BoT, 2010). Although the export value of cash crops is not negligible (traditional export crops, including coffee, tobacco, cashew nut and cotton, contributed to approximately 23% of total goods exports in 2011 and 2012), their export volume has therefore not markedly increased above 1990 levels (NBS, 2013). Meanwhile non-traditional primary export commodities today include gold (56.7% of the value of total non-traditional exports by May 2013), manufactured products (29.4%) and horticulture (5.3%) (BoT, 2013). Manufacturing has overtaken agriculture as the second largest export sector (traditional and non-traditional combined) after mining since 2007 (MIT, 2011). In part thanks to a surge in gold exports over 2009-2011, exports rose from 16.7% of GDP in 2009 to about 21% in 2012, with 23% expected by 2015-2016. Despite the more recent decline in the value of gold exports (over 2012-2013, mostly due to a drop in international gold prices), it is expected that these trends, together with the construction of the gas pipeline mentioned above, will reduce the current account deficit to 11.2% within the next three years (IMF, 2012).

In 2011, these exports were channelled towards the following main **export destinations**: Switzerland (19.4%); South Africa (18.1%); and China (14.3%). Trade with South Africa thus constituted the bulk of exports to the Southern African Development Community (SADC), which stood at 20% of total exports in 2010 (Australian Government, 2012). These destinations indicate that intra-regional trade with the other SADC countries, as well as with East African Community (EAC) countries, remains comparatively low. The recently launched EAC Common Market Protocol should widen domestic demand and stimulate further trade and capital flows within the region.

The government has identified **agriculture as one of the priority sectors** and envisions it as a modernised, commercial, highly productive and profitable sector relying on the active involvement of the private sector. The Agricultural Sector Development Strategy (ASDS), adopted in 2005 and implemented through the Agricultural Sector Development Programme (ASDP), provides the framework for agricultural policy. FDYP I also identifies as a core priority agricultural transformation for food self-sufficiency and export, with a focus on high value crops including horticulture and spices. In terms of agricultural investment, the most notable programme is the Agriculture First "**Kilimo Kwanza**" policy launched in 2009 with the objective of fostering a green revolution and transforming agriculture into a modern sector.

Another major initiative to enhance investment in agriculture is the **Southern Agricultural Growth Corridor of Tanzania** (SAGCOT), an international PPP aiming to catalyse large volumes of private investment to increase productivity and develop commercial agriculture in the southern corridor. While a SAGCOT Secretariat has been established and an Investment Blueprint developed, the initiative has only recently begun implementation. Finally, the Tanzania Agriculture and Food Security Investment Plan (TAFSIP) has been launched in 2011 in the context of the African Union's Comprehensive African Agriculture Development Programme (CAADP) but has not been fully implemented yet.

Investment regime

The **National Investment Promotion Policy of 1996** opened almost all sectors to foreign and private participation. The **Tanzania Investment Act of 1997** provides the backbone of the legal investment regime by making provisions related to: establishment of enterprises; investment benefits and guarantees; transfer of capital profits; guarantees against expropriation; dispute settlement; and employment of foreign staff. Separate legislation for investment in mining and petroleum and in Export Processing and Special Economic Zones (EPZs and SEZs) has also been introduced. The 1997 Act also establishes the Tanzania Investment Centre (TIC) as a "one-stop" office for investors. TIC provides information about land acquisition, taxes, and investment incentives in priority sectors, and spearheads investment promotion and facilitation efforts in the country.

The **institutional set-up** leading investment policy reform is composed of the National Investment Steering Committee (NISC, established in 2000 under chairmanship of the Prime Minister), and the Tanzania National Business Council (TNBC, set up in 2001 as the highest consultative organ between the private sector and the government). TNBC brings together government representatives and private sector umbrella organisations such as the Confederation of Tanzania Industries (CTI), the Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA) and the Tanzania Private Sector Foundation (TPSF). Twelve business councils have also been established at the regional level.

The existing **legal framework for investment** has played a significant role in enhancing domestic and foreign investment, but could be improved in certain aspects, especially as concerns land tenure, access regulations for foreign investors in some sectors, the award of investment incentives, and protection of intellectual property rights. Access to land for instance remains a challenge for investment in most economic sectors, particularly agriculture.

Partly due to these shortcomings in the legal framework for investment, Tanzania's **doing business performance** remains disappointing compared with other SADC and EAC members. Rankings for seven of the ten World Bank Doing Business indicators have worsened between 2009 and 2011, resulting in an overall slip from 125 to 128 out of 183 countries. To respond to these challenges, a Steering Committee of Permanent Secretaries and eight task forces were created in September 2009, which resulted in the development of a **Government Roadmap for Improvement of the Investment Climate**. The Roadmap's Action Plan highlights priority issues to be tackled in the short-, medium- and long-term, and synchronises other complementing business environment. The Roadmap also comprises interventions to upgrade enabling infrastructure, such as a Power Master Plan in the electricity sector and a National Transport Sector Investment Programme (Mapunjo, 2010).

The Medium-term Public Investment Plan (MPIP) developed in 2009, together with considerable budgetary increases for **infrastructure development**, demonstrates the increasing importance given to improving infrastructure networks. FYDP I also identifies large investments in energy, transport infrastructure, water and sanitation and ICT as one of its core areas of intervention. In addition and in alignment with the FYDP, since 2013 government has launched the **"Big Results Now"** (BRN) initiative which seeks to identify and resolve constraints to results delivery in the following

National Key Results Areas (NKRAs): energy, transport, agriculture, water, education and resource mobilisation. Ministers are to be assigned with score-cards of Key Performance Indicators (KPIs) for each NKRA, so as to accelerate delivery and improve monitoring of priority projects and reforms in these areas.

The regulatory framework to encourage private participation across infrastructure sectors has recently been enhanced with the **PPP Act 2010, the PPP Regulations 2011, and the Public Procurement Act 2011.** Government plans to review and improve these acts in 2013/2014, as announced in the June 2013 annual Budget (PMO, 2009). Such legal instruments could have a very positive impact across infrastructure sectors, especially if they are accompanied by high-capacity implementation by procurement entities and by Tanzania's PPP Unit (which in 2014 will be merged from the existing PPP Co-ordination and Finance Units).

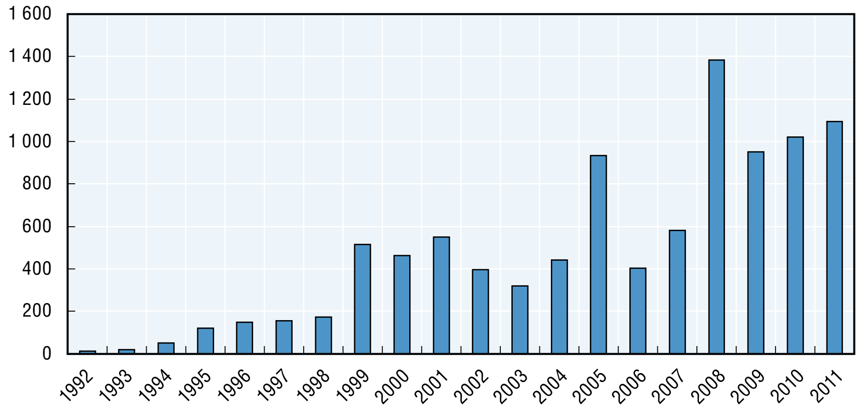
1.2. Foreign and domestic investment trends

Rise in both domestic and foreign investment over the past two decades

As a result of financial sector liberalisation in 1991, **domestic private investment** has risen in recent years. Private deposits in the banking system have increased, with financial sector assets expanding tenfold between 2001 and 2009 (FSSD, 2010). Over 2012 the financial sector contributed 1.8% of GDP growth rate (up from 1.7% in 2011) and grew by 13.2% (NBS, 2013). The number of domestic projects registered by the TIC has risen quite steadily between 1997 and 2012, rapidly overtaking the number of foreign and joint-venture projects registered with the Centre over that time. Investment growth is also reflected by a rise in tax revenue contributions from registered projects.

FDI was minimal prior to 1992 but has rapidly increased since then. After remaining below USD 200 million a year throughout the 1990s, net FDI inflows have especially accelerated since 2000, standing at USD 1 095 million by 2011 (Figure 1.3). Over 1990-2011, the leading **country source of FDI** was the United Kingdom, followed by India and Kenya (Table 1.1 below). In agriculture, the main investing countries include the EU, followed by Asia and in particular India, the Middle East, and Africa. These investment flows have been resilient following a plunge in 2009: FDI inflows into Tanzania maintained an annual growth of over 7% between 2009 and 2011.

Figure 1.3. **FDI Inflows into Tanzania, 1992-2011**



Source: World DataBank, 2013.

Table 1.1. **Ten leading countries having registered investments with TIC over 1990-2012**

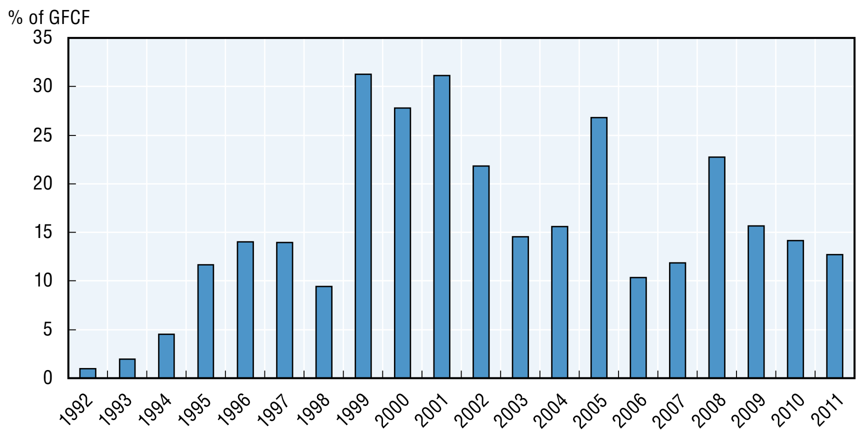
		Projects registered	Projected jobs	Projected value (USD million)
1	United Kingdom	898	258 855	4 720.45
2	India	341	50 224	1 828.81
3	Kenya	339	50 108	1 485.36
4	China	417	62 925	1 431.47
5	USA	208	42 358	948.53
6	Netherlands	155	13 475	927.42
7	South Africa	200	19 972	678.85
8	Canada	188	25 280	535.12
9	Germany	138	14 647	311.86
10	Oman	36	1 454	215.81

Source: Tanzania Investment Centre, August 2013 (projected data, based on investment registration statistics).

Despite the recent rise in investment, it must nonetheless be kept in mind that in absolute terms total FDI inflows (which peaked at 1 383 million in 2008) are rather modest. The scale of **FDI flows relative to the country's GDP** remains below 4.6% by 2011, which is low in comparison with many other African countries.

Beyond its contribution to GDP, FDI is also expected to factor significantly in domestic employment creation, fiscal revenue, business linkages, and **Gross Fixed Capital Formation** (GFCF*). This can be particularly important for capital accumulation given the small size of Tanzania's domestic savings. Yet the relative contribution of FDI within GFCF also remains low relative to domestic investment (Figure 1.4): FDI peaked at over 30% of GFCF in 1999 and 2002, but generally trends lower and has remained closer to 15% over 2009-2011. Regaining higher rates may therefore require a careful analysis of the transmission channels for capital accumulation from foreign investment flows in particular.

Figure 1.4. **FDI inflows as a percentage of Gross Fixed Capital Formation, 1990-2011**

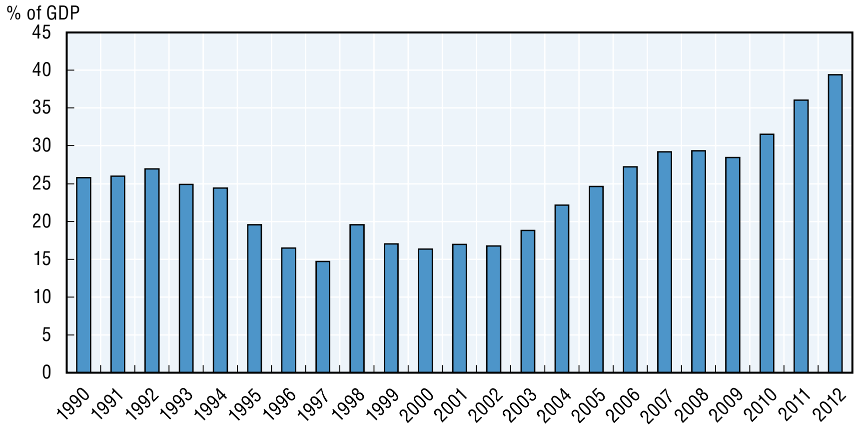


Source: World DataBank, 2013.

Overall GFCF has nonetheless been steadily increasing as a percentage of GDP – from 16% to 39% over the period 2000-11 (Figure 1.5). This rate is significantly above African standards of about 21-22%, as well as the standard for industrialised countries of 23-25%. Given Tanzania's strong growth rate since 2000, there is nonetheless room for further improving the contribution of GFCF to GDP. Fast-growing countries in East Asia have managed to reach GFCF shares of 40% of GDP.

* GFCF is the aggregate value of resident producers' investments, deducting disposals, in fixed assets during a given period (plus certain additions to the value of non-produced assets, such as major improvements in land productivity).

Figure 1.5. **Gross Fixed Capital Formation as a per cent of GDP, 1990-2012**



Source: World DataBank, 2013.

Foreign and domestic investment by sector

Despite some foreign participation in Tanzania's privatisation programme, green-field investment has made up about three-quarters of these FDI inflows. In 2008, mining (mostly in gold), manufacturing, and wholesale and retail trade (including tourism) represented respectively 27%, 23% and 15% of FDI while the agricultural sector attracted only 2% of FDI (*Tanzania Investment Report*, 2008). Likewise the evolution of investment projects registered with TIC (including foreign, domestic as well as joint-venture projects outside of the extractive industries) reflects an increasing emphasis on economic infrastructure and construction projects, whereas investment in most other sectors – energy, tourism and financial institutions in particular – has been more variable.

Investor interest in **extractive industries** (which do not fall under TIC purview) has risen substantially in recent years, especially with the discovery of new resources of gas, and of several minerals and ores in addition to gold. The current surge in world gold prices is expected to bolster positive GDP and investment trends, especially as only a small fraction of Tanzania's total gold reserves (estimated at over 2 000 tonnes) are being mined to date. Moreover Tanzania has so far discovered an estimated 40.7 tn cubic feet of recoverable natural gas reserves, which has begun generating considerable investor interest: the gas explorers BP Group and Statoil for instance intend to invest USD 500 million each in the sector in 2013. Growth of FDI in the gold sector should therefore be closely followed by a rise in natural gas investment in 2013.

By contrast **investment in agriculture** as registered by the TIC has followed an erratic trend since 1997. After a hike in 2005 and 2006, domestic and foreign investment decreased over 2007-2009 and then rose sharply in the following two years, reaching USD 666 million in 2011. Since 1997, most agricultural investments have targeted cash crops, followed by food crops, and livestock. Within cash crops, 85% of the investments were made in sugar, 6% in coffee, and 3% for cotton and sisal respectively, and 1% in tea. Within horticulture, 84% of investments targeted flower-growing. Within livestock, beef attracted 69% of the investment and poultry 12%. While interest for bio-fuel production has surged, investments in that sub-sector are increasing only slowly.

1.3. Main policy challenges

Inadequate regulatory framework for investment

Tanzania's framework for investment is to some extent overly complex and outdated. This has been recognised by the government, which plans to review the National Investment Promotion Policy of 1996 and the associated Tanzania Investment Act of 1997. Tanzania's investment climate could for instance be substantially improved by updating the framework for international commercial arbitration, and strengthening mechanisms for enforcing intellectual property rights. Clarity for investors is moreover limited by the fact that **foreign investment regulations** by sector and size threshold (as well as any special benefits for domestic investors) are dispersed over several different laws and regulations. They are for instance laid out in various sections of the Public Procurement Act, the Tanzania Investment Act, and sector-specific Acts (such as the Mining Act 2010 or the forthcoming Natural Gas Act), rather than combined within a single body of legislation.

Similarly, although the TIC Investment Guides and the TIC website summarise the main **investment incentives by industry**, these are not clearly laid out within a single legal document. The award of many incentives moreover remains discretionary. This is especially the case for projects which qualify for "strategic investor status": although the eligibility criteria for this status are not set out in quantifiable terms, the Tanzania Investment Act allows benefits over and above the incentives provided by the Act to be awarded to such strategic projects. For projects in the mining as well as petroleum and gas sectors, which generally have strategic status, investment incentives can be decided upon on a negotiation and case-by-case basis. This wide scope for discretion in the award of incentives reduces predictability and transparency for investors, and increases the risk that incentives overlap or work at cross-purposes. Administrative discretion in the management of incentives moreover seriously increases the risk of corruption and rent seeking.

The regulatory framework for investment also suffers from **inadequate co-ordination on investment policy within the civil service**. This challenge has been repeatedly noted upon by both government bodies and private sector agencies, including among others the ministries of transport, land and agriculture, the President's Office, Planning Commission (POPC), and the Tanzania Private Sector Foundation (TPSF). There is also some confusion and controversy among the different bodies that serve as intermediaries between the government and the private sector, such as the Tanzania National Business Council (TNBC) and the TPSF. This hampers their effectiveness for facilitating public-private dialogue and impacting investment policy design.

This lack of institutional coherence, which often leads to **ineffective implementation** of investment policies and regulations, partly stems from the **absence of an overarching national investment strategy**. Instead, the identification of key sectors towards which investment should be targeted remains fragmented across different strategy documents (such as Kilimo Kwanza for agriculture or the Integrated Industrial Development Strategy, IIDS 2025, for manufacturing). This limits opportunities for channelling investment trends towards the country's priority development and competitiveness objectives. Successful roll-out of FYDP I, which commits to a shift "from sector-based prioritisation to intervention prioritisation", will require clearly streamlining the priority sectors identified in other strategy documents and clarifying the strategic role that each sector is expected to play in long-term national development.

Insufficient evaluation of investment policies and incentives

Cost-benefit analysis and **regular impact evaluation of investment policies** and projects are scarce. The TIC "Growth and Impact" Report, while posing useful first steps for ex-post assessment of investment policy and investment flows, has not been updated since 2008. Moreover, feedback from investors and civil society is not systematically solicited in advance of major policy changes, thus impairing the achievement of policy objectives. In addition, **performance monitoring** of investment promotion agencies, including the TIC, is irregular and not fully incorporated into their management frameworks. The Big Results Now (BRN) initiative, adopted by government since 2013 and which has a strong focus on Key Performance Indicators across all ministries (see above) may hold potential for strengthening government ability and motivation to monitor and evaluate progress and impact of investment policy programmes and reforms on a regular basis.

More fundamentally, TIC bases most of its investment data on registered rather than realised investment projects. The fact that most of TIC's ex-post impact evaluation and investment policy advocacy is based on such projected data is concerning. For reasons of attrition, registration-based data often considerably overestimates the amount of investment on the ground. Likewise the impact of investment projects (in terms of employment creation and other socio-economic effects) is inaccurately captured in registration data as applicant investors tend to overstate the positive spill-overs of proposed projects.

Investment incentives also require far stronger and more systematic evaluation. While incentives may be excessive in some areas, other sectors might suffer from exceedingly high levels of taxation and cumbersome regulations. **Tax incentives in the mining sector** for instance reduce the scale of fiscal revenues which the government could derive from ongoing expansions in extractive investments (especially in gold, coal and gas). Conversely, while **the agricultural sector** is the least-taxed sector of the economy, taxation on small-scale producers may remain too high, with insufficiently supportive incentives. For instance, while large agricultural exporters are entitled to VAT reimbursement, small exporters are disadvantaged as they fall under the threshold to be registered for VAT and are thus not entitled to these reimbursements. Finally, the lack of **country-wide evaluation of investment incentives** to date limits the government ability to take stock of inter-sector discrepancies and to accurately assess possibilities for a more efficient allocation of fiscal resources.

Weakly defined strategies to promote business linkages

There is a growing concern, especially among civil society, that foreign investment has generated insufficient spill-overs (in terms of business linkages, employment creation, value addition, and poverty reduction among others) on the domestic economy. This wariness is particularly pronounced as concerns extractive industry investments, as mining and gas projects often suffer from enclave effects (they are located far from population centres, are capital intensive, import capital and labour, and often do not process extracted resources in host economies before exporting them). Spill-overs on the domestic economy are further reduced if these investment projects are located near ports.

As a result these sectors often have a much lower potential for local business generation than agriculture or manufacturing. Whereas network supplies of production inputs are about 80-90% locally sourced in agriculture and services for foreign, domestic investment and joint ventures alike, this figure drops to only 10% for the mining industry (TIC, 2008). Likewise of all TIC-registered projects over 2011-2012, the leading sectors in terms of job creation are construction (25% of projected jobs), production (24%), transport (19%) and agriculture (13%), only very distantly followed by investment in fuels and minerals and in natural resources which each contributed under 0.5% of projected jobs (NBS, 2013). Because of this low local employment generation and of the dependence on imported factors of production, especially oil, the contribution of gold to GDP was limited to only 3.3% in 2011 (AfDB, 2011).

The promotion of investment linkages is gaining attention in the government agenda, with increasing focus on possibilities for integrating SMEs in various industry supply chains. These **linkage programmes** remain incipient, however, and largely continue to depend on the goodwill and independent initiatives of large investing companies, particularly in the mining sector. In addition, supply-side pre-requisites, such as human resource development and enabling infrastructure, require targeted attention. The current framework for **Export Processing Zones**, expected to tackle some of these supply-side constraints and encourage more business linkages, has fallen short of its objectives so far despite ambitious plans for the expansion of such zones. Furthermore, their socio-economic impact remains insufficiently measured. Moreover the absence of an overarching national investment strategy with clearly prioritised strategic investment sectors makes it particularly difficult for the government to support business linkage development in promising industries, or for SMEs to gain awareness of sectors in which small-scale investment opportunities are greatest.

Poor enabling infrastructure

According to the TIC, high investment levels are necessary to trigger even mild increases in Tanzanian GDP, in large part due to a lack of complementary human skills and infrastructure that can enhance the productivity of invested capital (TIC, 2008). Tanzania ranks 134th out of

148 economies in the infrastructure dimension of the 2013-14 World Economic Forum's *Global Competitiveness Report*. The lack of adequate infrastructure discourages foreign and domestic private involvement. Enabling infrastructure for production, transport, processing and marketing is not **integrated in a multi-modal manner**, which reduces trade and value addition opportunities. **Electricity** appears to be the worst-performing infrastructure sub-sector (131st worldwide according to the 2013-2104 GCR), with frequent power outages generating heavy production losses for private companies. As regards agriculture, insufficient and poor quality infrastructure hinders access to markets and to agricultural inputs and generates significant losses, thereby reducing agricultural productivity. Around 50% of annual crops are spoiled due to the lack of processing capacities. Delayed transportation combined with the lack of cold chains for perishable products leads to substantial trade losses and high marketing margins. Given these infrastructure constraints, Tanzania has not been able so far to build on its geographic potential for serving as a competitive trade hub in the region.

A lack of adequate **public management and capacity** for infrastructure development – especially for encouraging and structuring private participation in infrastructure – is among the central causes of this infrastructure deficit. Public sector capacity in designing and negotiating infrastructure projects remains weak and communication and co-ordination across different government levels on infrastructure development strategies is relatively inefficient. In addition, performance management to meet end-user needs in infrastructure provision, and the role and independence of regulatory authorities (such as the Energy and Water Utilities Regulatory Authority, EWURA, and the Consolidated Holding Corporation, CHC), are irregular across infrastructure sectors.

While Government clearly acknowledges the strategic importance of improved infrastructure, the **dominance of parastatals** in infrastructure provision also limits opportunities for private investors to operate on an equal footing, and past attempts at PPP management and divestiture have rarely been successful. The Government stance on private participation in infrastructure is also contradictory at times, whereby policy support for private investment and infrastructure PPPs (as demonstrated, for example, by recent enabling legislation such as the updated 2011 Public Procurement Act or the 2010 PPP Act) contrasts with re-possessions of certain parastatals which had been charted for divestiture. These **ambivalent trends** send conflicting signals to private sector investors potentially interested in infrastructure provision.

Weak land tenure security for smallholders

Land registration rates remain very low, in particular due to weak incentives for registration. Only 3% of the land in Tanzania has been registered. Similarly, only around 7.7% of villages have developed land use plans. The registration process is complex, long and costly. In addition, land tenure security for those land rights that have been registered is often low. Although the governance structure should foster decentralised land administration, the central government continues to exercise significant authority over land through the Land Commissioner. The State retains land ownership with the President as trustee on behalf of citizens. The Commissioner of Lands has the power to transfer village land to general land even if complaints have been filed by affected local communities and land rights can be confiscated if the land is not developed as agreed in the certificate.

Furthermore, the **overlapping roles** of the Ministry of Lands and the Prime Minister's Office, Regional Administration and Local Government (PMO-RALG) and **weak governance** in land administration pose major risks for efficient and fair land rights. Governance in land administration at all levels, but particularly at the local level, remains weak due to limited financial and material resources, weak human capacity, complex procedures and multiple reporting lines. This reduces effective oversight and control, transparency and accountability within institutions, and provides space for corruption.

The number of **land conflicts** is increasing and existing institutions lack resources to solve them. Land conflicts between pastoralists and farmers and between horticultural investors and local communities are common, in particular because procedures to establish and manage group land rights are vague or non-existent in practice. Although land laws provide for a system of councils, tribunals and courts to settle land disputes, the system is complex and responsibility for establishing the prescribed councils, tribunals and courts is split among different ministries. Courts are considered competent but very slow, and the effectiveness of tribunals varies widely. As a result, the backlog in land conflicts is growing.

While land laws of 1999 have improved compensation provisions, in practice, **land expropriation** is often not conducted in accordance with legal requirements. Affected communities are often dissatisfied with the amount, the lack of transparency and the delays of compensation payments. Complaints on compensation usually do not succeed and projects have been implemented despite pending court cases. Smallholders take a risk when relinquishing land rights on village land as investors do not usually make payments before the land has been transferred to general land. In most instances, payments are yet to be made as they are contingent on obtaining formal rights of occupancy and only a few investing companies have finalised the process of receiving such rights. This situation contributes to generating wariness among the Tanzanian public with respect to the activities of foreign investors in the country.

Difficult access to land for large-scale agricultural investors

Existing land data is incomplete and biased and, consequently, investors have difficulty accessing information on land availability and quality. Furthermore, Tanzania lags behind its neighbours in terms of the number of procedures and the time required to register property. Foreign companies can obtain granted rights of occupancy or TIC derivative rights on general land only. If foreign investors are interested in village land, the land must first be transferred to general land before being allocated to them. While derivative rights may be easier to obtain than granted rights of occupancy, in practice, very little land is readily available in the TIC Land Bank where available land parcels are too few and small.

To accelerate registration, the government has amended the Land Act and developed a Strategic Plan for the Implementation of Land Laws (SPILL). Though SPILL was finalised in 2005, its implementation appears random and project-driven, partly due to insufficient funding.

Regulatory restrictions to agricultural trade

Semi-autonomous boards, appointed by the Ministry of Agriculture, Food Security and Cooperatives (MAFSC), issue agricultural licenses to administer the cashew nut, coffee, cotton, pyrethrum, sisal, sugar, tea and tobacco sub-sectors. They co-ordinate each sub-sector, enforce quality standards, provide inputs and facilitate Research and Development (R&D) funding. While they play a valuable role in convening stakeholders and monitoring quality, the regulatory restrictions to trade imposed by some boards may increase the costs and the uncertainty for investors. Agricultural trade is also hindered across borders because of long goods clearance at customs offices. In addition, periodic export bans on maize and rice can prohibit access to larger and often closer regional markets and may thus reduce farmers' incentives to increase production.

Limited access to finance in agriculture

While the financial sector has developed quickly over the last few years, it remains **highly concentrated** and dominated by over-liquid banking institutions. 56% of the population, and in particular small businesses in rural areas, remains excluded from any financial service. In 2011, only 8% of the rural population had access to formal financial institutions (banks and insurance companies). According to the Global Competitiveness Report 2013-14, access to financing is cited as the most problematic factor for doing business in Tanzania, closely followed by infrastructure (WEF, 2013).

Credit from commercial banks has increased significantly over the last five years but only **12% of this credit went to agriculture**. Only 8% of the domestic lending to agriculture went to agricultural production, with the rest channeled to agricultural trading. Despite the considerable support given to microfinance in recent years, the impact of microfinance on access to financial services has been negligible. Microfinance institutions have been lending at higher interest rates than commercial banks, averaging 30%. Savings and Credit Cooperative Societies (SACCOS) may have the greatest potential to expand credit supply to agriculture. While their number has been growing, it remains too limited to meet demand in rural areas. Furthermore, they remain largely unregulated, resulting in high variations in service quality and management practices. The lack of collateral represents a critical issue to access both formal and semi-formal credit. Commercial banks require a legal collateral covering 125% of the credit amount.

Efforts to facilitate access to credit have had limited impact (Msuya, 2007). The Tanzania Investment Bank has an agricultural window offering concessional loans and an agricultural input trust fund (AGITF) has been issuing short term soft loans since 1994, in particular to farmers and farmers' groups for farm machineries and to stockists for inputs. The Tanzania Agricultural Development Bank (TADB) is also being established. However, these schemes mainly target medium-scale farmers who have collateral, and do not reach most smallholders. Consequently, the informal financial sector remains the major source of financial service for smallholders, but its scope and coverage are limited.

1.4. Policy options to prioritise

Investment policy

Rationalise and make easily accessible investor rights and obligations: First, public and private stakeholders will need to define together the broad objectives and orientations of the updated investment policy and identify existing regulatory gaps. An interdepartmental taskforce, or a clear consultation and communication structure among existing policy advocacy bodies (such as the TNBC), could be established for this purpose. The forthcoming review of the Tanzania Investment Act 1997 notably provides an opportunity to consider ways of centralising all provisions for the protection and obligations of investors within a single body of law. Currently, these provisions are dispersed over several legal instruments, reducing transparency, openness and predictability in relation to investors. An expanded and clear law or an Investment Code grouping and referring to all relevant investment legislations under a single umbrella could serve this purpose. This legal document should also include or refer to a negative list of economic sectors in which foreign investment is restricted and/or domestic investors benefit from special preferences. Limits set on investment according to investor origin, capital thresholds, geographic location and sector should all be clearly stated in Regulations to the law. Such new legislation should be designed with strong co-ordination within the civil service, rely on mechanisms for regular updating and public consultation, and be accompanied by a TIC communication strategy and capacity-building to promote it.

Review special preferences of domestic investors and any regulations limiting the possibility or share of foreign ownership across all sectors of the economy: Currently, Acts and Regulations for a number of economic sectors (such as the Procurement Act, Tourism Act, Mining Act and EPZ law among others) grant special preferences to domestic investors. In the interest of openness and predictability, all restrictions for foreign investors should be clearly stated in one document (the negative list mentioned above). In the process of establishing the above negative list, the government should review regulations on foreign investment by project size and sector. Indeed, several sectors, including telecommunications, tourism and insurance, are not fully open to foreign equity ownership, and foreign investors face a higher threshold in project size to qualify for the TIC Certificate of Incentives. The rationale behind these regulations needs to be re-assessed with reference to practices in other countries and by considering alternative means to achieve similar socio-economic and empowerment objectives. Likewise, investment thresholds – including their purpose, costs and benefits, and means of phase-out – need to be carefully analysed. Having different thresholds for different sectors and projects brings confusion for investors and risks putting a premium on investment volumes at the expense of quality or potential for technological innovation.

Revise and evaluate investment incentives: Under the 1997 Investment Act, certain incentives for "major and strategic projects" can currently be granted on a case-by-case basis. Reviewing these provisions would reduce the discretionary nature of incentives and make them transparent. To ensure that incentives are effective in attracting more investment, they need to be systematically evaluated both *ex ante* and *ex post*. This will also help determine their impact on the national budget and on socio-economic goals, such as employment generation and domestic business linkages. These evaluations would need to be conducted not only by industry but also on a country-wide basis. Alternatives to incentives for attracting investment, such as redirecting the freed fiscal resources towards infrastructure and human resource development, could be relied on instead. Modernisation of the VAT regime over 2013 and 2014, which is expected to eliminate multiple exemptions and preferential treatments, could be a good step forward in this direction. Other promising revenue policies implemented in 2012-2013 have focused on improving procedures for assessment and collection of revenues, improving tax laws, minimizing tax incentives and exemptions, and harmonising tax rates and levies.

Strengthen institutional framework for monitoring and enforcing intellectual property rights (IPRs): Tanzania should move forward in the elaboration and roll-out of the National IPR Strategy (NIPS), including by strengthening available mechanisms for identifying and punishing IPR infringements, and by spreading awareness of the economic benefits of IP rights across the private sector. Government should consider establishing a single dedicated body for IPR policy and enforcement in the country, as currently scarce resources and staff are dispersed over several bodies (Office of the Registrar of Industrial Properties, Office of the Copyright Administrator, BRELA IP Division, COSOTA, Fair Competition Commission, Commission for Science and Technology, and the Registrar of Plant Breeders among others) with little formal co-ordination among them. Moreover existing laws do not provide for IP dispute settlement panels, which Tanzania could remedy by developing and strengthening the capacity of the judiciary on IP issues, and establishing a special IP division at the High Court.

International investment agreements: Tanzania could consider updating its investment treaty provisions and better reflecting some innovative practices in its future bilateral investment treaties (BITs). Although Tanzania's existing BITs already provide for the most important investment protection principles, they could go into further detail on issues such as investor-state dispute settlement (ISDS), or guarantee against unlawful expropriation. For example, future ISDS provisions should provide more detailed procedural guidance, in order to give Tanzania greater control over the conduct of the arbitral proceedings and the interpretation by arbitrators, of its international commitments. As Tanzania has already been involved in a few ICSID cases, it could also be the country's benefit to specify, in its future treaties, that the Most Favoured Nation treatment applies only to substantial rights and does not extend to procedural matters. The totality of BITs should be given full legal efficiency and should all be ratified following the signing phase. Lastly, Tanzania would be well advised to continue expanding its network of investment treaties with targeted partner countries.

Land policy

Revise the land legislation and strengthen land management decentralisation: Separate legislation on general land and village land should be preserved to continue tailoring land management to different local realities. However, the requirement to transfer village land to general land in order to allocate land to investors may be revised. This legislation is complex and as a result, foreign investors prefer circumventing it by sub-leasing from Tanzanian citizens instead of following the long process to receive official land rights that would provide them with higher land tenure security. Local authorities could deliver specific land rights for investment purposes for limited periods on village land without transferring it to general land. This would ensure more active participation of local authorities over land allocation, higher accountability in land management and facilitate the emergence of joint ventures. It would also facilitate transparent and inclusive consultations between local tenure holders and investors. In addition, the land granted to investors would be kept as village land owned by local communities once the investor leaves.

The land legislation could also be revised to reduce the significant authority of the central government over land allocation and land transfer across categories. In districts with strong governance, Local Government Authorities (LGAs) could be given the authority to issue granted rights of occupancy. If accompanied by capacity-building and appropriate budget, this would facilitate the involvement of local communities in the decision-making process and ensure more transparent land allocation decisions. To promote transparency, the decentralisation of land management should be accompanied by central government oversight. The Ministry of Lands and Human Settlements (MoL) could undertake ex-ante and ex-post assessments to ensure that land allocation follows a transparent and inclusive process while the TIC could continue issuing certificates of incentives to ensure quality monitoring of investments at the central level. Finally, legal requirements related to land development and the power to revocate land rights if these requirements are not respected could be replaced by regular environmental and social impact assessments of investments facilitated by the TIC.

Clarify and strengthen the land administration: While LGAs should be further empowered, their responsibilities versus the central government and village authorities should also be clarified. Various government bodies are competing over land management, including the MoL, the TIC, PMO-RALG and the MAFSC, which creates multiple reporting lines and reduces accountability and transparency. Land management should be streamlined within one central institution to enhance oversight and simplify land allocation procedures. A simpler institutional set-up associated with capacity building at all government levels would help ensure the effective implementation of land laws and strengthen land governance. Similarly, the complex system of councils, tribunals and courts to settle land disputes has been rather inefficient. Land dispute settlement could be undertaken by the existing judicial system to avoid duplication, and concentrate the capacity-building efforts on existing institutions.

Accelerate land rights registration: Land registration can effectively enhance land tenure security and thus increase agricultural investment and access to credit by both large-scale investors and smallholders. Land registration is all the more important as pressure on land is increasing and leads to a rising number of land conflicts. First, the complexity, the length, and the cost of the registration process should be reduced, in particular by implementing policy options mentioned above. Second, the payment of premiums and rents conditioned by land rights registration should be made fairer and more transparent. Finally, better equipment, in particular transportation and communication means and modern devices for land mapping, should be provided at all land administration levels to facilitate registration.

Land registration nonetheless poses a risk for smallholders benefiting from officially recognised land rights, in that it often raises the land value and can incentivise smallholders to rapidly sell their land to outsiders, thereby forfeiting their most secure source of livelihoods. Land registration should thus be associated with awareness-raising campaigns to mitigate such risks. Not only wealthy land owners but also marginalised segments of the population, in particular women and pastoralists, should benefit from land registration to ensure positive distributive impacts – this is even more important as women cannot usually own land under customary practices. Finally, as land registration is a long and costly process, it should first target areas where the lack of land titles is the most binding issue to higher investment in agriculture. SAGCOT provides an opportunity to pilot above-mentioned policy options and accelerate land registration in a specific region. Based on the lessons learned from this pilot project, these policies and programmes could be gradually expanded country-wide along with capacity building and awareness campaigns.

Infrastructure development

Clearly affirm the government stance with regards to private participation in infrastructure: In order to optimally implement and take full advantage of recent enabling legislation such as the 2011 Public Procurement Act or the 2010 PPP Act and 2011 Regulations, the government must moreover adopt a clear position on the role that State-Owned Enterprises (SOEs) will play across infrastructure sectors. A national policy statement explicitly identifying long-term privatisation, procurement and PPP commitments for different infrastructure markets could help appease investor uncertainty over the risk of re-appropriation of national infrastructure utilities by the government, and attract more private bidders to infrastructure PPP contracts.

Increase competition in infrastructure provision: Several parastatals, such as Tanzania Electric Supply Company (TANESCO) or Tanzania Telecommunications Company Limited (TTCL), are inefficient and extremely costly and depend on heavy government subsidisation. As rural electrification is still low, alternative energy providers should be actively promoted to provide electricity to the grid and off-grid. Forthcoming policies for renewable energy development could support this. Promoting further vertical and functional separation of infrastructure utilities (in electricity but also in other sectors such as water or rail) could also help to identify in which areas profits or losses are made, and therefore shed light on what operations each SOE is best-suited to shoulder, as opposed to the functions that would be best left to private actors. Functional separation and the associated efficiency gains can moreover better prepare these SOEs for potential competition once infrastructure sectors are liberalised, and can pave the way for privatisation in functions deemed better-suited for private sector provision.

Clarify performance and reporting standards across infrastructure regulators: Performance of regulatory authorities varies across infrastructure sub-sectors, with insufficient quality monitoring of infrastructure provision. Clear performance benchmarks for these regulatory authorities may improve their performance. In addition, their authority over public or private entities would need to be enhanced by increasing their independence and the capacity of their staff. The Consolidated Holding Corporation (CHC) should considerably revise its monitoring schedule and be given more clout to channel complaints raised by privatised bodies to higher government levels.

Agricultural trade

Assess the costs and benefits of regulatory restrictions to trade and of produce cess: The regulatory restrictions to trade imposed by some crop boards as well as the imposition of export bans on maize and rice may increase the costs and uncertainty for investors. Existing restrictions to trade should thus be closely analysed and monitored to ensure that they do not undermine investment and competitiveness in the sector. The introduction of new restrictions should rely on a careful analysis of the costs and benefits of such restrictions, in particular by considering other options that could help achieve the same objectives while minimising market disruptions. The introduction of new measures should follow inclusive policy debates and be based on thorough impact assessments. Similarly, a major complaint raised by agricultural producers and traders relates to the burden of produce cess and services levies. Produce cess does not consider whether buyers have made profit or loss and, in practice, this tax is often absorbed by the producers which represent a significant fiscal burden. As planned in the G8 Cooperation Framework to support the "New Alliance for Food Security and Nutrition" in Tanzania, the produce cess could be reduced or lifted.

1.5. Secondary policy options

Investment promotion and investment policy

Strengthen investment data collection and performance monitoring of investment policy: Investment policy is mostly evaluated on an ad-hoc and uncoordinated basis by various institutions and at irregular intervals. It is particularly concerning that the bulk of TIC investment data is based on registered (or projected) investment projects, rather than on the projects that have in fact been realised on the ground. This lack of accuracy considerably hinders any attempt for monitoring investment policy, the effectiveness of investment promotion agencies, and also the desirability of investment incentives, since the volume of foreign and domestic investment can often provide a key output measure for all of the latter.

The **statistical capacity of TIC** as well as other bodies (including Bank of Tanzania and the National Bureau of Statistics) must therefore be decisively improved. Clear yardsticks and indicators for the performance of investment agencies also need to be developed. In consultation with the private sector, NISC could hold TIC accountable to these performance measures, and could also collaborate with TIC and TNBC to reduce the proliferation of investment-related policies and strategies. This could help concentrate efforts on more effective implementation of existing policies. More generally, strengthening TIC to be a fully-mandated one stop-shop for approving investment permits would be an important step forwards in efforts to rationalise investment facilitation. Finally, efficient investment policy implementation and monitoring would benefit from a national investment strategy which identifies a limited number of sectors on which to focus investment efforts.

Strengthen consultations among TIC, government and investors: While several venues exist for facilitating dialogue among these three actors, their multiplicity creates confusion and may limit their impact. The roles of private sector bodies and dialogue platforms (including CTI, TCCIA, TPSF and the CEO Roundtable, as well as TNBC) could be streamlined or their links of authority more clearly defined. These bodies could also help regularly investigate policy impacts and calibrate these against investor and local stakeholder needs. Additionally, TIC remains mostly centralised in Dar es Salaam while many investors would need support at the local level. In particular, TIC could provide technical support and guidance to local government authorities to provide adequate services to investors at the local level.

Increase investment linkages and cater to the needs of SMEs: SME promotion efforts remain rather disjointed, with a multiplicity of SME-related funds, and would need rationalisation and clarification. TIC could reduce the size threshold and simplify the application process for the Certificate of Incentives for SMEs, and propose stronger intellectual property rights assistance for SMEs through institutions such as BRELA. Meanwhile, SME participation in infrastructure development and procurement can be facilitated by rendering the Public Procurement Act of 2011 more SME-friendly and addressing the possibility of sub-contracting within the PPP Act of 2010. Clearer supply-side policies for improving human resources and infrastructure in specific sectors eliciting investment linkages should also be considered, including in the design of EPZs. In agriculture, the lack of a clear definition of "smallholder" leads programmes to target medium rather than small-scale producers. A clear definition of smallholder would allow for better targeted programmes and policies.

Promote mutually beneficial business partnerships: Large-scale agricultural investors can reduce the risks of creating adverse social impacts by building partnerships with local communities, thus enhancing the sustainability of their investments. The legislation could enable local communities to use their land as equity in joint ventures with large investors. Such contracts between local communities and investors should be closely monitored to ensure they are fair and effectively enforced. Instead of accessing agricultural land, large investors may procure agricultural products by contracting with smallholders, thus reducing the risks of conflicts. Existing successful partnership models operating in Tanzania, such as out-grower models in horticulture, sugar and tea, should be promoted and replicated. In particular, crop boards could develop detailed guidance on partnership models and regulate such partnerships, building on peer learning between various boards. Pre-established guidance would provide more certainty to investors. As regards SAGCOT, the responsibilities of various entities involved, including TIC, MAFSC, MoL, LGAs, Rufiji Basin Development Authority (RUBADA) and crop boards, should be clarified to ensure that partnership models are regulated efficiently. Simultaneously, extension services should build capacities of local communities to negotiate with large-scale investors.

Infrastructure development

Increase the flexibility and scope of infrastructure financing options, particularly for LGAs: Long-term finance for infrastructure projects is difficult to access domestically given the short-term nature of government bonds and the shallowness and illiquidity of the domestic capital market. Additionally, Tanzania makes insufficient use of valuable financing sources developed locally, such as pension funds, and needs to further investigate modalities of innovative infrastructure financing and risk mitigation. Funding needs to be better aligned with responsibilities of LGAs to ensure they actively support infrastructure PPPs at the local level. In the medium term, LGAs should also expand their tax base instead of collecting heavy taxes from agricultural businesses and SMEs, and strengthen tax administration at village and district councils. Familiarising LGAs with the provisions of key regulations for public-private provision, such as the Public Procurement and PPP Acts, would also be necessary.

Build on existing regional dynamics within SADC and EAC: Tanzania has the potential to function as an economic hub in Eastern and Southern Africa, in part thanks to its port access and strategic geographic location. Cross-border infrastructure projects should rely on a harmonised framework of investment laws, such as a common PPP framework, the forthcoming SADC Regional Investment Policy Framework, and the EAC Common Market Protocol. Moreover, regional projects should develop clear benchmarks for the quality of infrastructure provision to exert competitive pressure on underperforming national infrastructure providers. More active Tanzanian participation in SADC-led activities and EAC efforts could further enhance the country's regional positioning. In areas where the nature of the different regional protocols may come into contradiction, policymakers will need to carefully consider how to best cater to the needs of Tanzanian citizens while benefiting the regional blocs at large.

Access to finance for small-scale agri-businesses

Strengthen the regulation of existing financial institutions in the agricultural sector: Financial institutions, in particular the SACCOS, have multiplied and provide different service qualities. The legislation should be strengthened to ensure that such financial institutions are sound financially, operate sustainably and have transparent management. To ensure their sustainability, the SACCOS should rely on a bottom-up approach while the government should provide technical advice. Repayment rates of government-subsidised loans are very low as these loans are often considered as grants. Strong incentives and monitoring mechanisms for repayment should be developed. Furthermore, a clear definition of smallholders would help design better targeted programmes to facilitate access to credit in rural areas.

Accelerate the establishment of a credit bureau and a collateral registry: The availability of reliable credit information can facilitate credit expansion by reducing credit risk, transaction costs, and reliance on collateral. The Bank of Tanzania (BoT) is working on delivering a credit reference bureau to help target reliable borrowers and provide them with long-term financing. In addition to credit information, this bureau should also register debtors' abilities, such as their entrepreneurial ability, to better assess the likelihood of loan repayment. If credit information is the only criteria used to screen potential debtors, it may lead to the exclusion of the SMEs – yet the latter are often the source of high-return investments driving innovation and agricultural growth. Microfinance institutions can help by testing new financial products and providing information on debtors' abilities. A bill on using movable assets as collateral has been drafted by BoT to facilitate access to credit by smallholders without land certificates to use as collateral. A collateral registry for movable property should then be set up. Finally, targeted programmes of financial literacy could help increase the demand for financial services as many smallholders do not access credit because of low financial literacy levels.

Agricultural services

Enhance the provision of extension services: The number of extension officers is insufficient to provide appropriate technical advice and trainings to agricultural producers and disseminate new technologies. Extension services should be strengthened by increasing the number of extension officers further and by providing them with the necessary logistical means to reach smallholders. The extension model of the Kilimanjaro Agricultural Training Centre (KATC) using farmers as trainers could be extended to other regions to encourage farmers' ownership of extension services and increase extension workers' accountability. Advice should bring a broad perspective on the farm as an agri-business unit, and extension officers should be trained to focus on market access, export opportunities, agro-processing, grading and standardisation to increase agricultural value addition. Farmers would thus be better linked to input and output markets, and gain in competitiveness.

Intensify agricultural research and development: Tanzania's research intensity ratio in agriculture is low compared to its neighbouring countries. Greater public funding could be provided to agricultural R&D to increase agricultural productivity and farmers' income. The private sector is already actively involved in R&D, and further involvement should be encouraged. Ongoing regional R&D programmes, such as the Agricultural Productivity Programme for Eastern Africa and the work conducted by the Association for Strengthening Agricultural Research in Eastern and Central Africa (ASARECA), should be continued to promote further collaboration in agriculture training and to facilitate the transfer of agricultural technology and knowledge across borders. Furthermore, efficient mechanisms should facilitate technology dissemination, in particular by strengthening the links between research and extension services.

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