



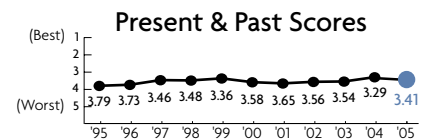
TANZANIA

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Rank: 109

Score: 3.41

Category: Mostly Unfree



QUICK STUDY

SCORES

Trade Policy	5
Fiscal Burden	3.6
Government Intervention	2.5
Monetary Policy	2
Foreign Investment	4
Banking and Finance	2
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Population: 35,181,000

Total area: 945,087 sq. km

GDP: \$7.2 billion

GDP growth rate: 6.3%

GDP per capita: \$207

Major exports: manufactured goods, minerals, tobacco, coffee

Exports of goods and services: \$1.37 billion

Major export trading partners: UK 18.4%, France 17.7%, India 15.4%, Japan 11.0%

Major imports: machinery and transportation equipment, crude oil

Imports of goods and services: \$2.6 billion

Major import trading partners: South Africa 11.2%, Japan 8.2%, India 6.3%, UK 5.6%

Foreign direct investment (net): \$333.6 million (2001)

2002 Data (in constant 1995 US dollars)

The United Republic of Tanzania is comprised of mainland Tanzania and the Zanzibar archipelago. President Benjamin Mkapa of the mainland governs the country, but Zanzibar has its own president and parliament and exercises some autonomy. The 2000 elections were considered free and fair in Tanzania but were marred by irregularities and political violence on Zanzibar. Religious tensions have increased in Zanzibar following a series of bomb attacks and violent crimes by Islamist radicals. The historically state-led economy is becoming more market-based, but it remains hindered by mismanagement, corruption, and poor infrastructure. Although the government has made strides in privatization, it is still involved in the economy through state-owned enterprises. The incidence of HIV/AIDS is high. Agriculture is the dominant sector of the economy, employing over 80 percent of the labor force and accounting for over 47 percent of GDP. Foreign investment in the mining sector in recent years has enabled Tanzania to become a significant producer of gold, the country's leading export. Drought caused a food shortage in 2003, and an estimated 3 million people required food aid in the early part of 2004, though that need is expected to decline quickly. Tanzania's fiscal burden of government score is 0.3 point better this year; however, its government intervention score is 0.5 point worse, and its capital flows and foreign investment score is 1 point worse. As a result, Tanzania's overall score is 0.12 point worse this year.



TRADE POLICY

Score: **5—Stable** (very high level of protectionism)

The World Bank reports that Tanzania's weighted average tariff rate in 2000 (the most recent year for which World Bank data are available) was 15.4 percent. (This figure has been revised upward from the 14.5 percent for 2000—also based on World Bank data—that was reported in the 2004 *Index*.) According to the U.S. Department of Commerce, "the customs department and the port authorities are the greatest hindrance to importers throughout Tanzania.... Corruption is a serious problem...."



FISCAL BURDEN OF GOVERNMENT

Score—Income Taxation: **3—Stable** (moderate tax rates)

Score—Corporate Taxation: **4—Stable** (high tax rates)

Score—Change in Government Expenditures: **3.5—Better** (low increase)

Final Score: **3.6—Better** (high cost of government)

Tanzania's top income tax rate is 30 percent. The top corporate tax rate is 30 percent. In 2002, according to the World Bank, government expenditures as a share of GDP increased 0.9 percentage point to 17.2 percent, compared to a 2.2 percentage point increase in 2001. On net, Tanzania's fiscal burden of government score is 0.3 point better this year.



GOVERNMENT INTERVENTION IN THE ECONOMY

Score: **2.5—Worse** (moderate level)

The World Bank reports that the government consumed 12.9 percent of GDP in 2002, up from 6.3 percent in 2001. As a result, Tanzania's government intervention score is 0.5 point worse this year. In the same year, based on data from the Ministry of Finance, Tanzania received 8.6 percent of its total revenues from state-owned enterprises and government ownership of property.



MONETARY POLICY

Score: **2–Stable** (low level of inflation)

From 1994 to 2003, Tanzania's weighted average annual rate of inflation was 4.68 percent.



CAPITAL FLOWS AND FOREIGN INVESTMENT

Score: **4–Worse** (high barriers)

Tanzania officially welcomes foreign investment under the investment regime established by the 1997 Tanzania Investment Act, which established the Tanzania Investment Center, identified investment priorities, overhauled the company registration process, and established investor rights and incentives. Investors must be licensed and must meet minimum capital requirements. "Politically," reports the Economist Intelligence Unit, "Tanzania is one of the most stable and safest countries in Sub-Saharan Africa. The main problem likely to confront most visitors and foreign business representatives is petty crime, fraud, red tape and corruption." According to the U.S. Department of Commerce, "Obstacles to foreign investment include bureaucratic intransigence, corruption, poor physical infrastructure, and a slow judiciary system." The International Monetary Fund reports that residents may hold foreign exchange accounts only with central bank approval and that accounts held abroad are subject to restrictions. Non-residents temporarily residing in Tanzania may hold foreign exchange accounts. The IMF reports that all transfers of foreign currency from residents to non-residents must be approved by the central bank. Most capital transactions face restrictions and reporting requirements. Foreign purchase of real estate must have the consent of the Commissioner for Lands. Based on the increasing evidence of unofficial barriers to foreign investment, Tanzania's capital flows and foreign investment score is 1 point worse this year.



BANKING AND FINANCE

Score: **2–Stable** (low level of restrictions)

Until 1991, private banks had been illegal in Tanzania for nearly 25 years; since then, the government has made great strides toward privatizing the sector. The Economist Intelligence Unit reports that 20 banks were licensed to operate in Tanzania as of September 2003 and that most international banks with a presence in Africa were represented. The government sold a majority stake in the National Commercial Bank to a South Africa banking group in March 2000 and has privatized the Cooperative and Rural Development Bank. The EIU also reports that privatization of the National Microfinance Bank is likely to take place in late 2004 or early 2005. There are 11 non-bank financial institutions. A stock exchange was launched in March 1998, but only five companies are listed.



WAGES AND PRICES

Score: **3–Stable** (moderate level of intervention)

According to the U.S. Department of Commerce, "The Tanzanian government has eliminated most price controls; however, the government still regulates the price of gasoline, diesel fuel and kerosene." The Economist Intelligence Unit reports that government subsidies to the energy sector are likely to increase. The government affects agricultural prices through marketing boards for its main export crops. Tanzania has a legal monthly minimum wage.



PROPERTY RIGHTS

Score: **4–Stable** (low level of protection)

"The Constitution provides for an independent judiciary," reports the U.S. Department of State; "however, the judiciary is corrupt, inefficient and subject to executive influence." In addition, "Clerks took bribes to decide whether or not to open cases and to hide or misdirect the files of those accused of crimes." The U.S. Department of Commerce reports that "the Government...established a Commercial Court (CC) in September 1999. The Commercial Court...in principle, provides a place for speedy, efficient and commercially aware litigation of commercial disputes." According to *The Economist*, the government recently established a "fast-track" court that "allows firms to pay a premium to have their cases processed in 3–4 months rather than the usual 2–3 years."



REGULATION

Score: **4–Stable** (high level)

Tanzania's bureaucracy is still burdensome, and corruption is reportedly widespread. According to the U.S. Department of Commerce, "Tanzania has an antiquated and burdensome [system of] regulations on trade, commerce, employment, and resource utilization. Many of these regulations date from the colonial era, or the post-independence socialist period and have yet to be adjusted to serve the needs of a liberal market-based economy." Despite specific investment incentives, reports the *Financial Times*, "businessmen continue to complain of endless daily bureaucratic obstacles, including petty corruption."



INFORMAL MARKET

Score: **4–Stable** (high level of activity)

Transparency International's 2003 score for Tanzania is 2.5. Therefore, Tanzania's informal market score is 4 this year.